2013 Comprehensive Annual Financial Report

2013

Fairfax County

Employees'

Retirement System

A Pension Trust Fund of Fairfax County, Virginia

For the Fiscal Year Ended June 30, 2013

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November 8, 2013

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, 2013. 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 Management's Discussion and Analysis provides further detail to the financial statements.

Background

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 14,011 active members, 670 in the Deferred Retirement Option Program (DROP) and 7,263 retirees participating in the System as of June 30, 2013.

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.

Capital Markets and Economic Conditions

In fiscal year 2013, the economy continued its gradual recovery from the global financial crisis of 2008 to the point where the Federal Reserve initiated discussions of tapering quantitative easing programs. The equity markets responded favorably, posted strong double digit results for the year, especially domestically and in developed international markets.

Equity returns in emerging markets were also positive for the year, but were down significantly in the last quarter of the year. Fixed income market returns were generally negative for the year with the exception of the higher yielding markets as Treasury interest rates rose. While portfolio returns lagged peers for the year due to a significant exposure to fixed income, the System still produced a solid portfolio return of 8.1% (7.6%, net of fees), ahead of the long term return target of 7.5%. This return was below the median public fund return of 12.4% and placed in the 88th percentile of the BNY Mellon universe of public funds. Returns compared more favorably over 3 years as investment returns for the three-year period were 13.5% per year, placing the fund in the 4th percentile of all other public funds in the BNY Mellon universe.

Additional details on the markets and the System's investments are provided in the Investment Section.

Internal and Budgetary Controls

The System's management is responsible for the financial information presented in this report in accordance with U.S. generally accepted accounting principles. Proper internal accounting controls exist to provide reasonable, but not absolute, assurance for both the safekeeping of assets and the fair presentation of the financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management.

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. Please see Footnote C in the financial section of this report for a description of this standard of care and details on the System's investment policies and strategies.

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 in the Investment Section prepared internally by staff using data from the System and investment managers.

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.

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 are calculated as a percentage of payroll, and are adjusted as necessary to accumulate sufficient assets to meet the costs of benefit payments when due. The valuation of the System performed as of July 1, 2012, indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits showed an increase from 70.7% to 71.6%. The actuarial section contains further information on the results of the July 1, 2012 valuation.

Based on the July 1, 2012, actuarial valuation, the employer contribution rate for 2014 following the adopted corridor-based funding policy was 18.70%, an increase of 0.21% over the 2013 rate of 18.49%. This increase in the rate is required to amortize the increase in unfunded liability from the fiscal year 2012 actuarial experience. During establishment of the fiscal year 2014 County budget, the Board of Supervisors adopted a higher contribution rate of 19.30%.

Major Initiatives

At the request of the Board of Supervisors, a review of post-retirement benefits was conducted by an external consulting firm. The review confirmed that provision of a defined benefit retirement plan continues to be the best vehicle for attracting and retaining employees and for providing career employees with retirement benefits. This review also noted that the "reporting of plan operations in the Comprehensive Annual Financial Reports (CAFR) is broad and thorough" and that "there is significant transparency regarding the System's policies and actions regarding plan investments." The study recommended several modifications to plan provisions for new hires. The Board of Supervisors approved amendments to the Code of the County of Fairfax in order to implement those changes effective January 1, 2013. The Code changes implemented for employees hired on or after January 1, 2013 include:

- Raising the minimum retirement age from 50 to 55 and changing retirement eligibility from a "rule of 80" (age plus service) to a "rule of 85".
- Limiting the use of accumulated sick leave in determining length of service for eligibility and in the calculation of benefits to a maximum of 2,080 hours.
- Excluding the pre-Social Security benefit from the amount credited to DROP accounts.

During the fiscal year, the IRS granted approval to the agency's request for a confirmation of the status of all three Retirement Agency System's as Qualified Retirement Plans conditional on several minor technical amendments to the County Code. These code changes were approved by the Board of Supervisor's following a public hearing on July 30, 2013.

Since the close of the fiscal year, we have had several senior level personnel changes. Larry Swartz, CIO for the Fairfax County Retirement Systems, retired in August 2013 after 17 years with the Systems. Following a search, Gregory Samay was hired as CIO to replace him. Greg was an internal promotion and was previously Investment Officer for the Employees' Retirement System. In October 2013, I retired as Executive Director for the Fairfax County Retirement Systems after 32 years of employment with Fairfax County. After conducting a national search, Jeffrey K. Weiler has been hired to replace me as Executive Director of the Retirement Systems. Following another national search, an additional investment officer was added to increase the investment team's depth and expertise.

Periodically as a best practice, an actuarial audit is conducted of the incumbent actuary's valuation reports. Gabriel, Roeder, Smith and Company (GRS) was engaged to audit the July 1, 2012 Actuarial Valuation Report prepared by CHEIRON. Their audit report indicates no material issues with CHEIRON's Valuation Report.

Finally, on the investment front, the Employees' System continued to focus on diversifying risks and maintaining a high quality group of investment managers. We added two international equity managers, First Eagle Investment Management and WCM Investment Management, to the lineup, replacing Artio Global Investors and our exposure to EAFE futures. Additionally, Dearborn Partners was removed and a PIMCO global macro fund was added to the lineup of Absolute Futures Return managers. This PIMCO fund was previously bundled within our PIMCO Commodity strategy. We also tactically reduced and repositioned our fixed income exposures by reducing both our TIPS investment and fixed income futures and made a funding commitment to the Czech Direct Lending Fund II, a second fund of an existing manager.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to The Fairfax County Employees' Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2012. This was the third consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Institutional Investor magazine recognized Larry Swartz, CIO of the Fairfax County Retirement Systems as the "2013 Small Public Plan Manager of the Year" for innovations in risk-based portfolio construction techniques. The Employees' System ranked as the top performing public pension fund for the 10 years ending June 30, 2012. Mr. Swartz was also nominated by the publication, Asset International's Chief Investment Officer magazine for a 2012 Industry Innovation award.

Other Information

Independent Audit and Actuarial Certifications

KPMG LLP performs a yearly audit of the financial statements of the plan to obtain reasonable assurance of compliance with government accounting, auditing and financial reporting standards. Additionally, CHEIRON performs an annual actuarial valuation to assess the plan's ability to meet future obligations. 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 that 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

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Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Fairfax County Employees' Retirement System, Virginia

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2012

Jeffrey R. Emer

Executive Director/CEO

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Board of Trustees

Robert C. Carlson
Chairman
Board of Supervisors Appointee
Term Expires: August 31, 2017

Phyllis C. Parjardo
Assistant Superintendent
Fairfax County Public Schools
Ex officio Trustee

Victor L. Garcia
Treasurer
Fairfax County Director of Finance
Ex officio Trustee

Randy R. Creller
Fairfax County Government
Elected Member Trustee
Term Expires: June 30, 2017

Gordon R. Trapnell, FSA
Board of Supervisors Appointee
Term Expires: June 30, 2015

Susan Woodruff
Fairfax County Director of
Human Resources
Ex officio Trustee

Jon A Miskell, Jr.
Board of Supervisors Appointee
Term Expires: July 31, 2014

Thomas M. Stanners
Board of Supervisors Appointee
Term Expires: July 31, 2016

Walter Leppin
Fairfax County Public Schools
Elected Member Trustee
Term Expires: June 30, 2015

John M. Yeatman
Vice Chairman
Elected Retiree Trustee
Term Expires: December 31, 2014

Administrative Organization

Administrative Staff

Robert L. Mears
Executive Director

Laurnz A. Swartz
Chief Investment Officer

Gregory A. Samay
Investment Officer

John P. Sahm
Retirement Administrator

Professional Services

Actuary
CHEIRON
Actuaries
McLean, VA

Auditor
KPMG LLP
Certified Public Accountants
Washington, DC

Investment Managers

BlackRock, Inc.
San Francisco, CA

Bridgewater Associates, LP.
Westport, CT

Brandywine Global Invest. Management, LLC
Philadelphia, PA

Czech Asset Management, LP
Old Greenwich, CT

The Clifton Group
Edina, MN

Cohen & Steers Capital Management, Inc.
New York, NY

ColumbiaWanger Asset Management, LLC
Chicago, IL

DePrince, Race & Zollo
Winter Park, FL

DoubleLine Capital, L.P.
Los Angeles, CA

Eagle Trading Systems, Inc.
Princeton, NJ

First Eagle Investment Management
New York, NY

Frontpoint Partners, LLC
Greenwich, CT

Gramercy Advisors, LLC
Greenwich, CT

INTECH Investment Management, LLC
Palm Beach Gardens, FL

Investment Managers
(continued)

JP Morgan Investment Management, Inc.
New York, NY

LSV Asset Management
Chicago, IL

MacKay Shields, LLC
New York, NY

Marathon Asset Management, LLP
London, UK

MW Post Advisory Group, LLC
Los Angeles, CA

PIMCO
Newport Beach, CA

Pzena Investment Management, LLC
New York, NY

Sands Capital Management, Inc.
Arlington, VA

Shenkman Capital Management, Inc.
Arlington, VA

Stark Investments
St. Francis, WI

Standish Mellon Assistant Management
Pittsburgh, PA

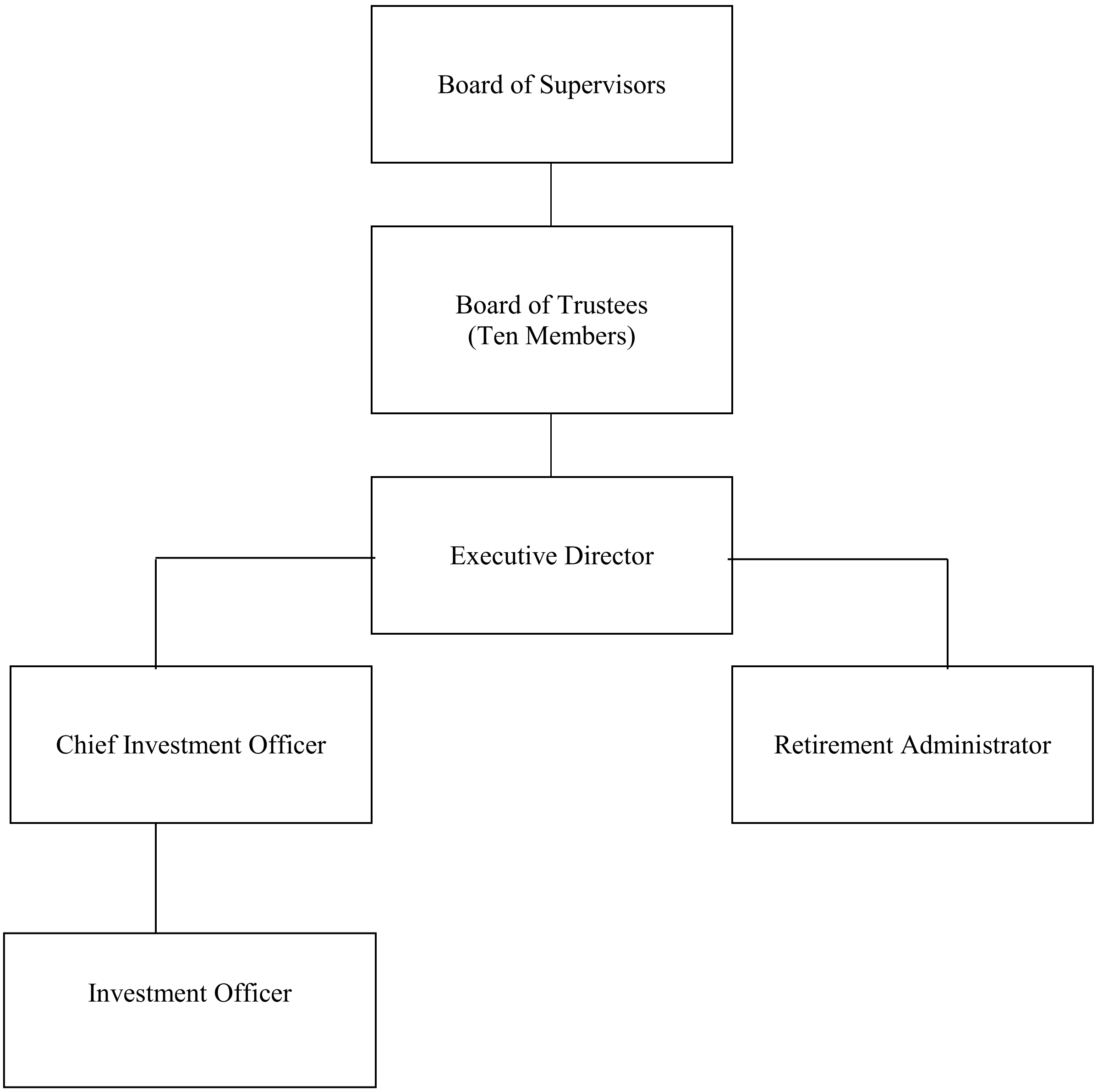
WCM Investment Management
Laguna Beach, CA

Trust Company of the West (TCW)
Los Angeles, CA

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 four Plans, A, B, C and D, which have different employee contribution rates and slightly different benefits. In all other respects, the Plans are identical. Effective on January 1, 2013 all new employees will be enrolled in either Plan C or D. The employee has the option to enroll in either Plan within 30 days of employment. This choice is irrevocable. Employees who make no election are automatically enrolled in Plan C.

The general provisions of the Employees' Retirement System follow:

Contribution Rates

Member:

Plan A: The contribution rate for Plan A is 4% of base salary up to the maximum Social Security wage base plus $5^1/_3$% of base salary over the wage base.

Plan B: The contribution rate for Plan B is $5^1/_3$% of base salary.

Plan C: The contribution rate for Plan C is 4% of base salary up to the maximum Social Security wage base plus $5^1/_3$% of base salary over the wage base.

Plan D: The contribution rate for Plan D is $5^1/_3$% of base salary.

Employer: The contribution rate for all four plans for Fiscal Year 2013 was19.05%.

Benefit

Plans A and C: The benefit is 1.8% of average final compensation (highest consecutive 78 pay periods) up to the Social Security Breakpoint times creditable service plus 2% of average final compensation which exceeds the Social Security Breakpoint times creditable service; and it 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 the age of eligibility for unreduced Social Security benefits.

Plans B and D: The benefit is 2% of average final compensation (highest consecutive 78 pay periods) times creditable service; and it is then increased by 3%.

Plans A, B, C & D: In addition to the above, 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; and it is then increased by 3%. This benefit will be payable until the member reaches the age of eligibility for unreduced Social Security benefits.

Types of Benefits - Plans A, B, C & D

Normal Retirement:

Plans A & B: A member is eligible for normal retirement at either age 65 with at least 5 years of creditable service or at least age 50 when the member's age plus creditable service totals 80 or more.

Summary of Plan Provisions
(continued)

Plans C & D: A member is eligible for normal retirement at either age 65 with at least 5 years of creditable service or at least age 55 when the member's age plus creditable service totals 85 or more.

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. For those in Plan C or D, the member does not receive the Pre-Social Security Benefit while in DROP.

Early Retirement:
For all 4 plans, a member is eligible for early retirement 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 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. The member also has the option to request a refund of member contributions and interest at any time prior to reaching age 65 or receiving retirement benefits.

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, less workers' compensation and 25% of the member's Social Security benefit.

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.

Summary of Plan Provisions
(continued)

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.

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 Metropolitan Statistical Area that includes Fairfax County.

Note: Detailed provisions may be found in the Employee Handbook:
http://www.fairfaxcounty.gov/retirement/pdfs/emphandbook.pdf

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

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

The Board of Trustees
Fairfax County Employees' Retirement System:

Report on the Financial Statements

We have audited the accompanying financial statements of the Fairfax County Employees' Retirement System (the System), a pension trust fund of the County of Fairfax, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the System's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial net position of Fairfax County Employees' Retirement System as of June 30, 2013, and the changes in net position for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 11-13 and the schedule of funding progress and the schedule of employer contributions on page 27, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The introductory section on pages 1-5, the additional supplementary information on page 28, the investment section on pages 29-39, the actuarial section on pages 41-61 and the statistical section on pages 63-64 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

KPMG LLP

November 8, 2013

Management's Discussion and Analysis (unaudited)

This section presents management's discussion and analysis of the Fairfax County Employees' Retirement System's ("System" or "Plan") financial performance and provides an overview of the financial activities for the fiscal year ended June 30, 2013. 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 Position and Statement of Changes in Plan Net Position as of June 30, 2013. 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 provide information regarding the System's funding progress and employer contributions. Additional Supplementary Information for administrative expense and investment and consultant expenses are added. The Required Supplementary Information and Additional Supplementary notes are immediately following the Notes to Financial Statements.

Financial Analysis

Plan Net Position. For fiscal year 2013 the net position of the Employees' Retirement System increased 5.7% resulting in a total net position value of $3.35 billion, reflecting an increase of $181.3 million over fiscal year 2012. The growth in net position was primarily due to investment gains of $245.4 million and $160.0 million in contributions offset by benefit payment deductions of $222.2 million and administrative expenses of $1.9 million.

The actuarial value of the assets as of the last valuation on July 1, 2012, was $3.05 billion while actuarial liabilities as of the same period were $4.26 billion. This resulted in a funding ratio of 71.6%.

The Plan's investments are exposed to various risks including interest rate, market and credit risks. These risks may be influenced by changes in economic conditions and market conditions. Therefore, it is reasonable to assume that there will be changes in the values of the investments held in trust which could materially affect the amounts reported in the financial statements. Detailed information on investment results are in the Investment Section of this report.

Additions and Deductions. The employer contributions for fiscal year 2013 increased by 11.1% due primarily to an increase in the employer contribution rate from 17.20% to 19.05% of salary. Employee contributions increased slightly due to a small increase in covered payroll. Investment returns were lower for fiscal year 2013 reflecting lower returns in the capital markets. Benefit payments increased due to a cost-of-living increase of 2.8%, an increase in the number of retirees and higher benefits for new retirees. Refunds of contributions declined as a result of lower employee turnover.

The following table details the Employees' Retirement System's net position for the current and prior fiscal years:

Fiscal Year	Ending Balances (millions)	Net Change in Dollars (millions)	Net Change in Percent
2012	$3,172.7	$187.8	6.3
2013	$3,353.9	$181.3	5.7

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 Position

Assets	**2013**	**2012**	**Difference**
Total cash and investments	$3,442,446,100	$3,278,335,953	$164,110,147
Total fixed assets	5,075	6,344	(1,269)
Total receivables	108,827,163	119,725,881	(10,898,718)
Total assets	3,551,278,338	3,398,068,178	153,210,160
Deferred Outflows of Resources			
Accumulated decrease in fair value of hedging derivatives	---	---	---
Total deferred outflows of resources	---	---	---
Total liabilities	197,346,235	225,415,582	(28,069,347)
Deferred Inflows of Resources			
Accumulated increase in fair value of hedging derivatives	---	---	---
Total deferred inflows of resources	---	---	---
Net position held in trust	**$3,353,932,103**	**$3,172,652,596**	**$181,279,507**

Summary of Additions and Deductions

Additions	**2013**	**2012**	**Difference**
Contributions			
Employer	$127,448,018	$114,682,538	$12,765,480
Plan Members	32,551,927	31,702,075	849,852
Total investment income	245,374,617	246,376,212	(1,001,595)
Total Additions	405,374,562	392,760,825	12,613,737
Direct Deductions			
Benefit payments	219,229,038	199,503,336	19,725,702
Refunds of contributions	2,988,397	3,781,497	(793,100)
Administrative expenses	1,877,620	1,687,040	190,580
Total deductions	224,095,055	204,971,873	19,123,182
Net increase/(decrease)	**$181,279,507**	**$187,788,952**	**($6,509,445)**

Statement of Plan Net Position

As of June 30, 2013

Assets		
Cash and short-term investments		
Equity in County's pooled cash and temporary investments	$4,696,362	
Cash collateral received for securities on loan	56,267,223	
Short-term investments	323,460,170	
Total cash and short-term investments		$384,423,755
Fixed Assets		
Equipment, net	5,075	
Total fixed assets		5,075
Receivables		
Accounts receivable	5,267,828	
Accrued interest and dividends	2,671,225	
Securities sold	100,888,110	
Total receivables		108,827,163
Investments, at fair value		
Common and preferred stock	1,142,772,251	
Fixed income		
Asset-backed securities	208,141,967	
Corporate and other bonds	493,803,311	
U.S. Government obligations	95,082,751	
Pooled and mutual funds	1,118,222,065	
Total investments		3,058,022,345
Total assets		3,551,278,338
Deferred Outflows of Resources		
Accumulated decrease in fair value of hedging derivatives	---	
Total deferred outflows of resources		---
Liabilities		
Purchase of investments	134,509,317	
Cash collateral received for securities on loan	56,267,223	
Accounts payable and accrued expenses	6,569,695	
Total liabilities		197,346,235
Deferred Inflows of Resources		
Accumulated increase in fair value of hedging derivatives	---	
Total deferred inflows of resources		---
Net position held in trust for pension benefits		**$3,353,932,103**

See accompanying notes to financial statements.

Statement of Changes in Plan Net Position

For the Year Ended June 30, 2013

Additions		
Contributions		
Employer	$127,448,018	
Plan members	32,551,927	
Total contributions		$159,999,945
Investment income from investment activities		
Net change in fair value of investments	207,643,073	
Interest	26,487,525	
Dividends	24,344,459	
Total investment income	258,475,057	
Investment activity expense		
Management fees	(12,665,860)	
Custodial fees	(127,836)	
Consulting fees	(72,300)	
Allocated administration expense	(848,000)	
Total investment expense	(13,713,996)	
Net income/(loss) from investment activities		244,761,061
Securities lending activities		
Securities lending income	891,808	
Securities lending expenses	(278,252)	
Net income from securities lending activities		613,556
Total net investment income		245,374,617
Total additions		405,374,562
Deductions		
Annuity benefits	206,701,293	
Disability benefits	7,926,931	
Survivor benefits	4,600,814	
Refunds of employee contributions	2,988,397	
Administrative expense	1,877,620	
Total deductions		224,095,055
Net increase		181,279,507
Net position held in trust for pension benefits		
Beginning of fiscal year		3,172,652,596
End of fiscal year		**$3,353,932,103**

See accompanying notes to financial statements.

Notes to the Financial Statements

As of and for the year ended June 30, 2013

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. 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 Position. 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. The market values of private investments and direct real estate are lagged by one quarter due to the timing of receipt of private market valuations and information.

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, 2013, 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. The County's investments are exposed to various risks such as interest rate risk, market and credit risks. Such risks, and the resulting investment security values, may be influenced by changes in economic conditions and market perceptions and expectations. Accordingly, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Implementation of New Accounting Pronouncements. In fiscal year 2013, the System implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, issued in June 2011.

B. Plan Description, Contribution Information, Plan's Funded Status, and Actuarial Methods and Assumptions

Membership. At July 1, 2012, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	6,888
Terminated plan members entitled to but not yet receiving benefits	1,542
Deferred Retirement Option Program (DROP) participants	629
Active plan members	14,107
Total	**23,166**

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, (b) for Plans A and B, attain the age of 50 with age plus years of service being greater than or equal to 80, or (c) for Plans C and D, attain the age of 55 with age plus years of service being greater than or equal to 85. 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 (maximum of 2,080 hours of sick leave service credit for Plans C & D). 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. Employees hired prior to January 1, 2013 are members of Plan A or Plan B. All eligible employees whose County or school board employment commenced by reporting to work on or after January 1, 2013 may elect to join Plan C or Plan D. Plans A and C require 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. Plans B and D require member contributions of 5.33 percent of compensation. The County is required to contribute at an actuarially determined rate; the rate for the year ended June 30, 2013, was 18.49% of annual covered payroll. The decision was made to commit additional funding and a rate of 19.05% was adopted for fiscal year 2013.

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

System's Funded Status Information. The actuarial valuation performed as of July 1, 2012, showed the System's funded status at 71.6%, an increase from the July 1, 2011, funded percentage of 70.7%. 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 Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability	Funded Ratio	Covered Payroll	Unfunded Percent of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
7/1/2011	$2,841,466,151	$4,018,924,133	$1,177,457,982	70.7%	$642,073,198	183.4%
7/1/2012	3,053,412,085	4,264,175,438	1,210,763,353	71.6%	642,638,926	188.4%

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

Actuarial Methods and Assumptions.

Valuation date	July 1, 2012
Actuarial cost method	Entry Age
Amortization method	Level percent open
Remaining amortization period	15 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	4.0% - 10.0%
* Includes inflation at	3%
Cost of living adjustments	2.75%

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 2011.

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, 2012, in accordance with the GASB methodology resulted in a contribution rate of 24.10% for fiscal year 2014, an increase of 0.46% over the fiscal year 2013 rate of 23.64%. Beginning with fiscal year 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 a rate of 18.70% for fiscal year 2014. The decision was made to commit additional funding for fiscal year 2014 and a rate of 19.30% was adopted, an increase of 0.25% over the fiscal year 2013 adopted rate of 19.05%.

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.* 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 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. The investment policy states that the securities of any one issuer shall not exceed 10.0% at market value. At June 30, 2013, 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 position 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 fixed income portfolio shall be, on average, comprised of high-quality issues and limits are imposed on investment manager's below-investment-grade holdings. Unless otherwise specified, if any security has a split rating, the higher of the two ratings is used for the purposes of meeting minimum quality standards.

The System's investment quality ratings at June 30, 2013, were as follows:

Type of Investment	Fair Value	Ratings	Percent of Fixed
U. S. Government obligations	$4,777,413	AAA	0.7%
	90,305,338	AA	11.3%
Corporate & other bonds	19,001,864	AAA	2.4%
	22,159,483	AA	2.8%
	39,977,681	A	5.0%
	10,857,828	BBB	1.4%
	79,192,490	BB	9.9%
	118,168,219	B	14.8%
	36,216,902	CCC	4.5%
	473,475	CC	0.1%
	888,552	D	0.1%
	166,866,817	Unrated	20.9%
Asset-backed securities	424,432	AAA	0.1%
	71,655,894	AA	9.0%
	2,506,501	A	0.3%
	6,158,800	BBB	0.8%
	4,988,599	BB	0.6%
	3,469,459	B	0.4%
	24,157,184	CCC	3.0%
	12,537,909	CC	1.6%
	47,758,734	D	6.0%
	34,484,455	Unrated	4.3%
Total fixed income	**$797,028,029**	**BBB**	100.0%
Short-term investments	$18,091,854	AA	
	373,062	A	
	304,995,254	Unrated	
	$323,460,170		

As of June 30, 2013, the fixed income portfolio, excluding pooled funds, exhibited an overall credit quality rating of "BBB", and approximately 41% of the total fixed income portfolio was invested in below-investment-grade securities and 25.2% was invested in unrated securities. The overall rating reflects the change in credit quality of U.S. Government Obligations to "AA".

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, 2013, follows:

Investment Type	Fair Value	Option- Adjusted Duration (yrs)	Percentage of Fixed
U.S. Government obligations	$ 95,082,751	6.0	11.9%
Corporate and other bonds	493,803,311	3.4	62.0%
Asset-backed securities	208,141,967	3.2	26.1%
Total fixed income	**$797,028,029**	3.6	100.0%
Short-term investments	**$323,460,170**	0.1	

As of June 30, 2013, duration of the System's overall fixed income portfolio excluding pooled funds was 3.6 years compared with the 5.5 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, 2013, held in currencies other than US dollars were as follows:

International Securities	Short Term Investments & other	Equity	Convertible & Fixed Income	Total
Euro Currency Unit	$744,237	$44,108,459	$11,022,628	$55,875,324
Japanese Yen	675,432	45,226,867	1,007	45,903,306
Pound Sterling	206,508	29,506,923	10,100,933	39,814,364
Australian Dollar	35,552	16,387,909	14,410,144	30,833,605
Mexican New Peso	379,916	2,024,263	21,365,009	23,769,188
Hong Kong Dollar	44,709	21,191,920	---	21,236,629
Swiss Franc	14	12,370,708	---	12,370,722
Singapore Dollar	---	8,776,699	---	8,776,699
Canadian Dollar	147,066	7,973,416	202,566	8,323,048
S African Comm Rand	28,550	2,302,634	4,699,090	7,030,274
Swedish Krona	76,785	6,796,732	---	6,873,517
South Korean Won	---	---	6,492,855	6,492,855
Malaysian Ringgit	---	---	6,441,167	6,441,167
Polish Zloty	---	---	6,272,563	6,272,563
Hungarian Forint	---	---	6,013,305	6,013,305
Danish Krone	---	5,413,018	---	5,413,018
New Zealand Dollar	---	---	4,514,383	4,514,383
New Turkish Lira	---	---	4,025,407	4,025,407
Brazil Real	---	---	3,659,959	3,659,959
Other Currencies	16,850	2,993,242	---	3,010,092
	$2,355,619	**$205,072,790**	**$99,221,016**	**$306,649,426**

*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 enhance return on investment and 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. Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates or financial indices. During fiscal year 2013, 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. Some traditional on balance sheet securities, such as structured notes, can have derivative-like characteristics where the return may be linked to one or more indexes. Asset-backed securities, such as collateralized mortgage obligations (CMOs), are sensitive to changes in interest rates and pre-payments. It should also be noted that the System also has exposure to derivatives indirectly through its ownership interests in certain hedge funds, mutual funds and commingled funds which may use, hold or write derivative financial instruments.

Derivative investments may involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the financial statements. Market risk results from fluctuations in interest rates, 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. Holders of futures contracts look to the exchange for performance under the contract and not to the other party holding the offsetting futures position. Accordingly, the amount at risk due to nonperformance of counterparties to futures contracts is minimal. For counterparties involving over the counter derivatives, the Board seeks to control this risk through counterparty credit evaluations, counterparty credit limits, and exposure monitoring procedures conducted by investment managers and staff. To address counterparty risk, the System instructs our investment managers who use swaps, forwards, and options to only enter into contracts with counterparties rated at investment grade of BBB or better by at least one nationally recognized rating agency.

At June 30, 2013, the System held the following four types of derivative financial instruments whose notional values are carried off balance sheet: futures, currency forwards, options and swaps. Futures, currency forwards, options, and swaps contracts provide the System with the opportunity to build passive benchmark positions, manage portfolio duration in relation to various benchmarks, adjust portfolio yield curve exposure, enhance returns, and gain market exposure to various indices in a more efficient way and at lower transaction costs. Credit risks depend on whether the contracts are exchange-traded or exercised over-the-counter. Market risks arise from adverse changes in market prices, interest rates and foreign exchange rates.

Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. Derivative instruments covered under the scope of GASB 53 are reported at fair value. The changes in fair value of derivative instruments that are used for investment purposes are reported within the investment revenue classification. Gains and losses on derivative securities are determined based upon fair market values as determined by our custodian and recorded in the Statement of Changes in Plan Net Position.

Futures. Futures contracts are contracts to deliver or receive securities at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges (exchange-traded) and typically require an initial margin (collateral) in the form of cash or marketable securities. The net change in the futures contract value is settled daily, in cash, with the exchanges. The net gains or losses resulting from the daily settlements are included in the System's financial statements. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures position. Accordingly, the amount at risk posed by nonperformance of counterparties to futures contracts is minimal. The notional value of the System's investment in futures contracts at June 30, 2013 is as follows.

Cash & Cash Equivalent Futures:	
Long	$87,077,523
Short	----
Equity Futures:	
Long	113,150,475
Short	----
Fixed Income Futures:	
Long	189,907,836
Short	(181,063)
Commodity Futures:	
Long	17,667,058
Short	(5,675,425)
Total Futures:	**$401,946,404**

Swaps. The System enters into several types of swap contracts, in which two counterparties agree to exchange one stream of payments for another over some agreed to period of time. Swaps are used to manage risk and enhance returns. All counterparties are rated A or better. The following is information on the System's swap contracts outstanding at June 30, 2013.

	Base Exposure	**Market Value**
Equity Swaps:		
Total Return Swaps	($2,620,881)	$11,962
Variance Swaps	3,130	3,130
Fixed Income Swaps:		
Credit Default Swaps	(29,275)	(27,900)
Inflation Swaps	51,833	51,833
Interest Rate Swaps	279,030	281,425
Total Return Swaps	(4,248,595)	(30,086)
Commodity Swaps:		
Commodity Swaps	4,896	4,896
Total	**($6,559,862)**	**$295,260**

Currency Forwards. Currency forwards represent foreign exchange contracts and are used to effect settlements and to protect the base currency value of portfolio assets denominated in foreign currencies against fluctuations in the exchange rates of those currencies or to gain exposure to the change in market value of a specific currency. A forward foreign currency exchange contract is a commitment to purchase or sell a foreign currency at a future date and at a negotiated price. The credit risk of currency contracts that are exchange-traded lies with the clearinghouse of the exchange where the contracts are traded. The credit risk of currency contracts traded over-the counter lies with the counterparty, and exposure usually is equal to the unrealized profit on in-the money contracts. All counterparties are rated A or better. The market risk in foreign currency contracts is related to adverse movements in currency exchange rates. The following is summary information on the System's currency forwards contracts at June 30, 2013.

Foreign Currency Contracts Purchased	**Notional (Local Currency)**	**Unrealized Gain/(Loss) ($US)**
Australian Dollar	(16,564,696)	$1,782,566
Canadian Dollar	(1,652,000)	58,605
Euro Currency Unit	(10,987,897)	111,143
Pound Sterling	(613,889)	12,190
Hong Kong Dollar	(298,129)	(14)
Indian Rupee	(42,374,690)	13,964
Japanese Yen	(90,785,557)	8,753
South Korean Won	(7,288,000,000)	205,546
Mexican New Peso	(4,232,560)	212
New Zealand Dollar	(5,680,000)	79,838
Philippines Peso	(4,838,317)	(180)
Russian Rubel (New)	(96,700,000)	98,688
Swedish Krona	(475,149)	392
Singapore Dollar	(419,626)	(80)
S African Comm Rand	(1,187,098)	11,078
		$2,382,701

Foreign Currency Contracts Sold	**Notional (Local Currency)**	**Unrealized Gain/(Loss) ($US)**
Australian Dollar	9,715	($127)
Brazil Real	7,434,515	(351,704)
Canadian Dollar	804,000	(25,596)
Chilean Peso	2,450,500,000	(102,518)
Euro Currency Unit	3,121,921	(73,213)
Pound Sterling	5,984,000	(218,123)
Indian Rupee	477,380,700	(256,850)
Japanese Yen	144,295,166	(36,246)
Mexican New Peso	11,490,853	(17,356)
Russian Rubel (New)	96,700,000	(114,927)
S African Comm Rand	130,500	162
		($1,196,498)

Net Unrealized Gain (Loss) on Foreign Currency Spot and Forward Contracts	**$1,186,,203**

Options. Option contracts may be exchanged traded or negotiated directly in over the counter transactions between two counterparties. Options holders have the right, but not the obligation, to purchase (call) or sell (put) a financial instrument at a future price and time. The System can both purchase and write options. Exchange traded options rely on the exchange for performance and the risk to non-performance of counterparties is minimal. All counterparties for over the counter options are rated A or better. The following table provides information on the System's option contracts at June 30, 2013.

	Cost/ (Proceeds)	Market Value	Unrealized Gain/(Loss)
Cash & Cash Equivalent Options:			
Call	$----	$----	$----
Put	(5,505)	(281)	5,224
Commodity Options:			
Call	(23,202)	(516,520)	(493,318)
Put	----	----	----
Equity Options:			
Call	(11,440)	17	11,457
Put	(13,660)	(5,384)	8,276
Fixed Income Options:			
Call	(20,197)	(8,457)	11,740
Put	(89,145)	(103,475)	(14,330)
Total	**(163,149)**	**($634,100)**	**(470,951)**

Securities Lending. Board of Trustee 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% and international securities of 105% 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. Securities received as collateral are not reported as assets and liabilities on balance sheet since the Retirement Administration Agency does not have the ability to pledge or sell the collateral securities absent borrower default. The following represents the balances relating to the securities lending transactions at June 30, 2013.

Securities Lent	Underlying Securities	Cash Collateral Investment Value	Securities Collateral Investment Value
Lent for cash collateral			
Corporate and other bonds	$6,059,643	$6,214,970	---
Common and preferred stock	48,058,251	49,668,838	
US Government securities	375,671	383,415	---
Lent for securities collateral			
US Government securities	57,182,560	---	$58,372,734
Common and preferred stock	145,013,168	---	159,514,468
Total	**$256,689,293**	**$56,267,223**	**$217,887,202**

The System did not impose any restrictions during fiscal 2013 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. Cash collateral is invested in the lending agent's collective investment pool which at June 30, 2013, had a weighted-average maturity of nine days. The maturities of the resulting investments generally match the maturities of the securities lending arrangements. While the System bears no credit risk from the failure of the borrower to return a borrowed security, it does bear risk from investing the collateral. As noted above, cash collateral is invested in the lending agent's collective investment pool. Should the collective investment pool experience a period of poor investment returns due to market turbulence or other reasons, the System can record unrealized losses on a mark-to-market basis or realized losses from the default of securities in the investment pool.

D. Income Taxes

The Internal Revenue Service issued the System a determination letter 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 (unaudited)

Ten-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 (in thousands)

Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded % of Covered Payroll ((b-a)/c)
7/1/2003	$ 1,903,970	$ 2,251,187	$ 347,217	84.6%	$ 530,216	65.5%
7/1/2004	2,030,539	2,411,135	380,596	84.2%	552,738	68.9%
7/1/2005	2,202,515	2,676,418	473,903	82.3%	565,063	83.9%
7/1/2006	2,363,844	2,881,780	517,936	82.0%	574,294	90.2%
7/1/2007	2,596,658	3,139,187	542,529	82.7%	579,075	93.7%
7/1/2008	2,752,874	3,328,901	576,027	82.7%	610,877	94.3%
7/1/2009	2,603,284	3,535,874	932,590	73.6%	628,481	148.4%
7/1/2010	2,636,052	3,771,060	1,135,008	69.9%	629,249	180.4%
7/1/2011	2,841,466	4,018,924	1,177,457	70.7%	642,073	183.4%
7/1/2012	3,053,412	4,264,175	1,210,763	71.6%	642,639	188.4%

Analysis of the dollar amounts of Plan Net Position, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing Plan Net Position 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 is, 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 is, the stronger the System.

Schedule of Employer Contributions

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
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%
2010	92,771,532	69%
2011	122,435,265	79%
2012	142,286,358	81%
2013	158,155,966	81%

Additional Supplementary Information

Schedule of Investment & Consultant Expenses

For the Year Ended June 30, 2013

Investment Activity Expenses		
Investment Manager Fees	$	12,665,860
Custodial Fees		127,836
Consultant Expenses		
Consultant Expenses*		72,300
Total Investment and Consulting Expenses	$	12,865,996

*Investment Manager Database and Transaction Analysis Services

Schedule of Administrative Expenses

For the Year Ended June 30, 2013

Personnel services		
Salaries and wages	$988,950	
Fringe benefits	392,802	
Total personnel services		1,381,752
Professional services		
Actuarial	41,912	
Audit	27,132	
Legal	14,937	
Total professional services		83,981
Communications		
Phone charges	12,713	
Printing, binding and copying	12,519	
Postage	31,490	
Total communications		56,722
Supplies		
Office supplies	19,660	
Total supplies		19,660
Other services and charges		
Board and staff travel and development	27,596	
Professional memberships	1,388	
Insurance	28,352	
Building rent	80,637	
Depreciation Expense	846	
Computer system	190,717	
Other operating	5,969	
Total other services and charges		335,505
Total Administrative Expenses		**$1,877,620**

Capital Markets and Economic Conditions (unaudited)

Fiscal Year 2013 Economic Environment

The 2013 fiscal year posted strong returns for higher risk asset classes even amidst a myriad of macroeconomic concerns. The year ending June 30, 2013 was largely dominated by headlines related to the European debt crisis, the fiscal cliff, reports of slowing economic growth in China and emerging markets, and the timing of the wind down of the Fed's quantitative easing program.

In the first half of 2013 fiscal year, domestic equities benefited from improved fundamentals including a more robust housing market, which resulted in gains even amidst the uncertainties surrounding the presidential election and the fiscal cliff. International equity markets outperformed domestic equities due to positive news flow within the Euro zone and stronger economic data from China. In the third quarter of 2013 fiscal year, the Federal Reserve continued to support equity markets with stimulative policy as market volatility was suppressed and markets shrugged off worries of fiscal spending cuts. Developed equities rose, with domestic equities posting the strongest quarter for equity returns over the fiscal year. The final quarter of the fiscal year proved to be a challenging environment. Treasury yields rose on expectations that the Federal Reserve would wind down quantitative easing. As a result of the sharp rise in interest rates, investors saw long duration fixed income assets struggle.

Domestic Equity Markets

U.S. equity markets surged for the 2013 fiscal year, producing positive returns across the board. Large cap stocks underperformed small cap stocks by +3.6% as the S&P 500 returned +20.6% and the Russell 2000 returned +24.2%. Large cap value outperformed large cap growth with the Russell 1000 Value up +25.3% compared to +17.1% for the Russell 1000 Growth. The same trend held true in smaller cap names as the Russell 2000 Value returned +24.8% as compared with the Russell 2000 Growth Index return of +23.7%.

International Markets

International equity markets rebounded from a negative fiscal year 2012 and posted strong returns. International developed market equities as measured by the MSCI EAFE Index returned +18.6% for the year as concerns out of Europe were offset by the market stabilizing actions of the European Central Bank. Emerging market investments struggled in comparison to developed based on reports of slowed growth and political turmoil. Emerging markets equities, as measured by the MSCI EME Index, returned just +2.9%, while the JPM GBI-EM Global Diversified, a key barometer for emerging market debt, returned +1.3% for the year.

Fixed Income Markets

For the fiscal year, U.S. Fixed Income returns were mixed. Fed policy was a key driver of investor sentiment. Early in the year, depressed treasury and mortgage yields pushed some investors out on the credit curve towards long duration credit assets, such as high yield bonds. That trade reversed in the final quarter of fiscal year 2013 following the Fed's 'tapering' announcement. In the fourth quarter of fiscal year 2013, the Barclays Aggregate Bond Index posted a -2.32% return as concerns rose over the timing of future Fed policy actions. For the fiscal year, the Barclays Aggregate Bond Index returned -0.7% while high yield bonds posted strong gains returning +9.5% for the one-year period ended June 30, 2013. The 10-Year U.S.

Treasury bond finished the fiscal year yielding 2.5%, up from 1.7% at the beginning of the fiscal year.

Employees' System

The Employees' Retirement System operates a sound and diversified investment program with disciplined asset re-balancing to achieve strategic long-term goals. This disciplined investment process has been effective in achieving a long-term record of consistent asset growth. The System follows a risk parity approach to diversify market risk exposures and returns. Using futures and other derivative instruments, the System increases the allocation to low risk and return assets classes and reduces the relative allocation to high risk, higher return asset classes. By using futures, the System's economic exposure to all asset classes commonly exceeds the 100% weighting of the capital value of the portfolio's assets.

For fiscal year 2013, investments provided a return of 8.1%, gross of fees (7.6%, net of fees). The System's annualized rates of return, gross of fees, were 13.5% (13.0%, net of fees) over the last three years and 7.1%, (6.6%, net of fees), over the last five years. These System returns ranked in the 88th percentile of The Bank of New York Mellon universe of public plans for 2013, in the 4th percentile for the latest 3-year period, and in the 5th percentile of public plans for the last 5 years.

During the past twelve months, we added two international equity managers, First Eagle Investment Management and WCM Investment Management to the lineup, replacing Artio Global Investors and our exposure to EAFE futures. Additionally, Dearborn Partners was removed and a PIMCO Global Macro Fund was added to the Absolute Return Manager lineup. This PIMCO fund was previously bundled with our PIMCO Commodity futures strategy. We also tactically reduced and repositioned our fixed income exposures by reducing our TIPS investment and fixed income futures and made a funding commitment to the Czech Direct Lending Fund II, a second fund of an existing manager.

Investments by Category and Investment Manager**

June 30, 2013

Asset Class Manager	Investment Style	Total Fair Market Values	% of Total Portfolio
Domestic Equities			
DePrince, Race & Zollo	Large Cap Value	$ 129,232,515	3.8%
Enhanced Inv. Technologies (INTECH)	Large Cap Growth	128,081,610	3.8%
Pzena Investment Management	Large Cap Value	121,892,497	3.6%
Sands Capital Management	Large Cap Growth	61,835,732	1.8%
Columbia Wanger Asset Management	Small/Mid Cap Core	193,949,227	5.8%
International Equities			
LSV Asset Management	Developed Markets Value	78,256,550	2.3%
First Eagle Investment Management*	Developed Markets	48,836,835	1.5%
WCM Investment Management	Developed Markets	75,874,367	2.3%
Marathon Asset Management*	Developed Markets	43,749,797	1.3%
BGI Emerging Markets	Emerging Markets Index	46,220,631	1.4%
TCW Worldwide Opportunity Fund*	Emerging Markets	42,041,378	1.2%
Fixed Income			
Bridgewater Associates	Enhanced TIPS Index	204,824,919	6.1%
Bridgewater Associates	Enhanced Multi-Asset Real Return	397,670,483	11.9%
Brandywine Asset Management	Global Bonds	152,559,595	4.5%
JPMorgan*	Fixed Income Opportunity Fund	24,745,620	0.7%
DoubleLine Capital	Mortgage-Backed Securities	214,681,999	6.4%
DoubleLine Capital	Special Mortage Credit	39,518,427	1.2%
Gramercy Distressed Opportunity Fund*	Distressed Opportunity	5,115,660	0.2%
Gramercy Argentina Debt*	Distressed Opportunity	9,498,642	0.3%
JPMorgan Global Maritime Fund*	Distressed Opportunity	1,734,300	0.1%
Pacific Investment Management Co. (PIMCO)*	Distressed Senior Credit	57,423,904	1.7%
Czech Asset Management	Direct Lending	28,994,597	0.9%
Post Advisory	High Yield Bonds	90,817,183	2.7%
MacKay Shields	High Yield Bonds	88,611,498	2.6%
Shenkman Capital Management	High Yield Bonds	83,994,996	2.5%
Real Estate and Commodity			
Cohen & Steers Capital Management	U.S. Real Estate Inv. Trusts	202,458,908	6.0%
Cohen & Steers Capital Management	Int'l Real Estate Securities	79,548,860	2.4%
Pacific Investment Management Co. (PIMCO)	Collateralized Commodity Futures	79,200,624	2.4%
Absolute Return			
BGI GlobalAlpha Fund*	Multi-Strategy Absolute Return Fund	102,969,450	3.1%
BGI Global Ascent Fund*	Global Macro Absolute Return Fund	53,707,754	1.6%
Deephaven Capital Management*	Multi-Strategy Absolute Return Fund	519,439	0.0%
Eagle Trading Systems*	Global Macro Absolute Return Fund	69,821,387	2.1%
FrontPoint Partners*	Multi-Strategy Absolute Return Fund	735,350	0.0%
Pacific Investment Management Co. (PIMCO)*	Global Macro Absolute Return Fund	81,938,461	2.4%
Pacific Investment Management Co. (PIMCO)*	Global Credit Opportunity Fund	89,797,713	2.7%
Short-term			
The Clifton Group	Policy Implementation Overlay	32,178,865	1.0%
BNY Mellon Cash Investment Strategies	Plan Level Cash Accounts	187,479,800	5.6%
Cash Held at County Treasurer	Operating Cash Account	4,709,322	0.1%
Total Investments		**$3,355,228,895**	**100.0%**

* Pooled fund

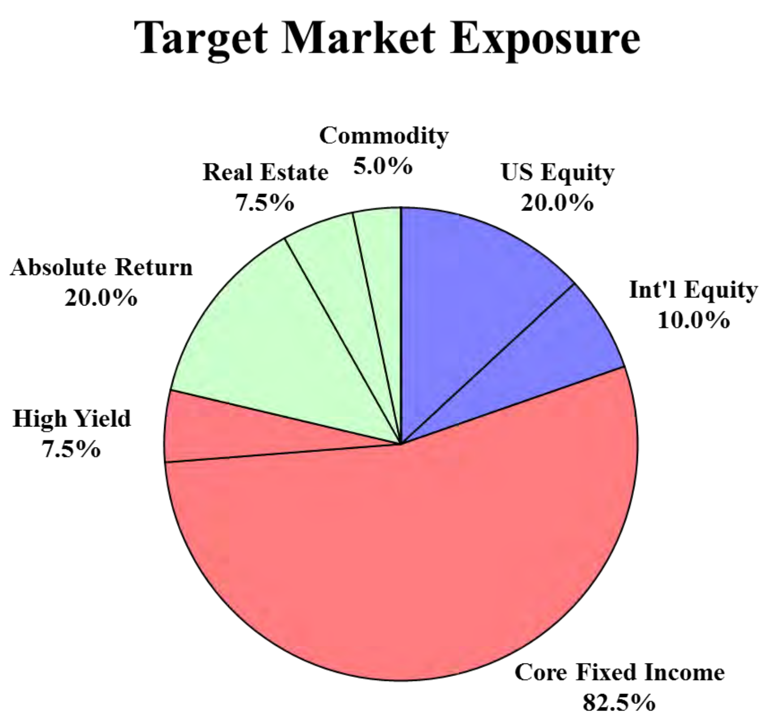
**See Pages 2-3 for complete listing of investment professionals.

Employees' Retirement System – Allocation of Market Exposures

Target Market Exposures

The asset structure shown below represents the Trustees' assessment of their optimal asset allocation as of June 30, 2013. The target asset allocation provides a reasonable expectation that the System's investment objectives can be achieved based on historical relationships of asset class performance.

The pie chart below details the target asset mix, consistent with the achievement of the long-term objectives of the System, as of June 30, 2013.



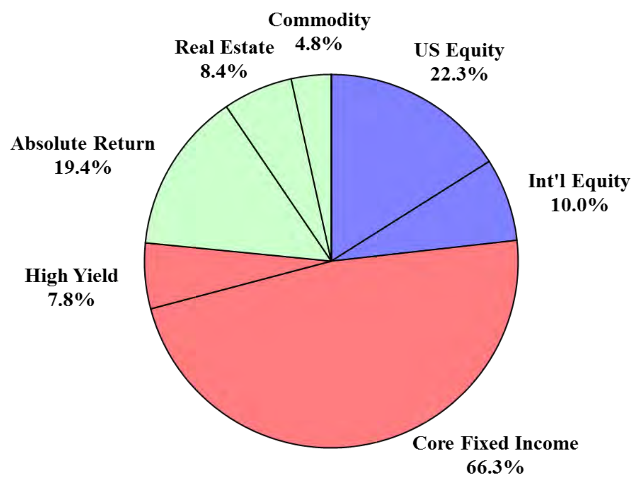
Total exposure exceeds 100% from the addition of futures and other derivative instruments

Actual Allocations as of June 30, 2013

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

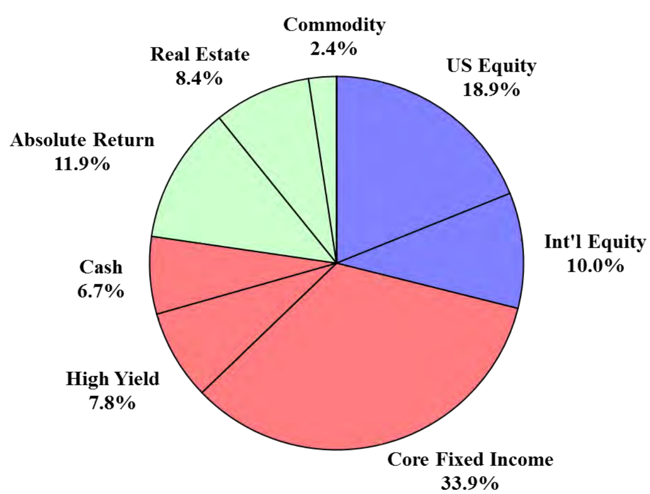
The pie chart below details the actual asset allocations as of June 30, 2013.

Actual Market Exposure



Total Exposure exceeds 100% from the use of futures

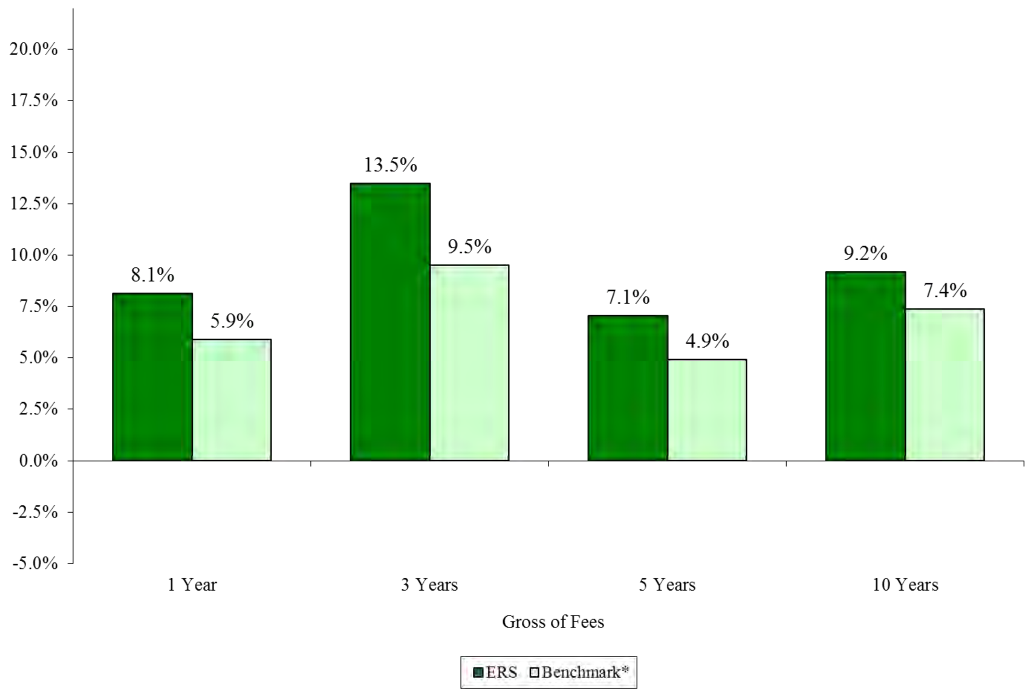
Actual Allocation of Capital



Investment Results

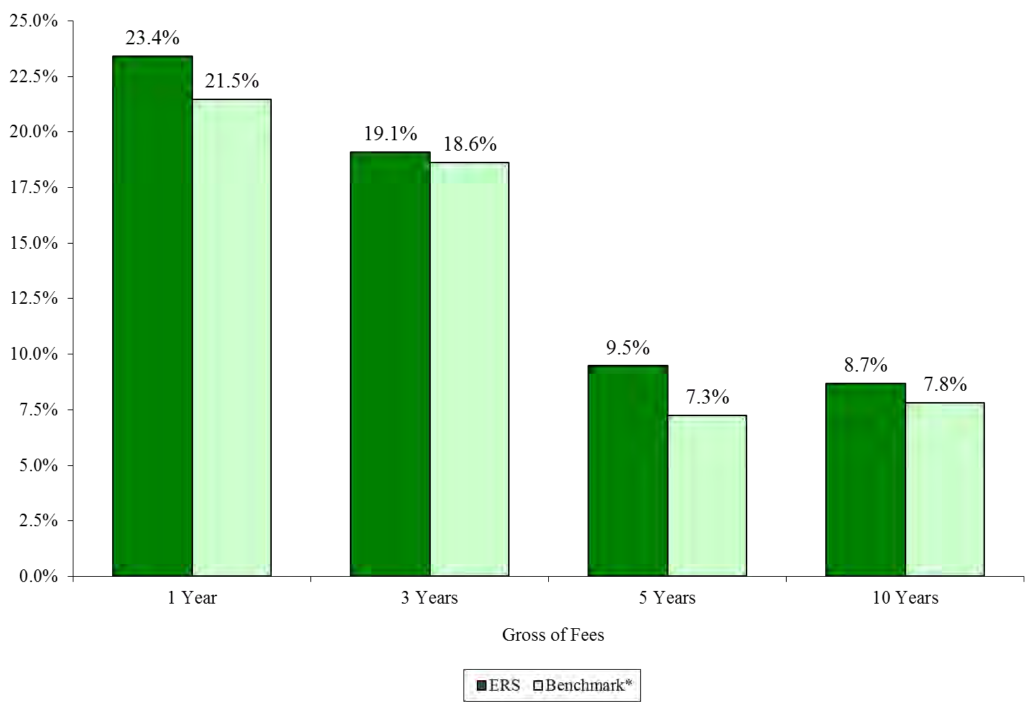
(Time weighted return, gross of fees)

Total Fund:



*Benchmark: 20% Russell 3000, 7% EAFE, 3% MSCI EMI, 3.75% CSFB High Yield, 3.75% ML High Yield Master, 50% Barclays Agg x 1.5 – 3 Month LIBOR x 0.5, 7.5% NAREIT, 5% DJ UBS Commodity

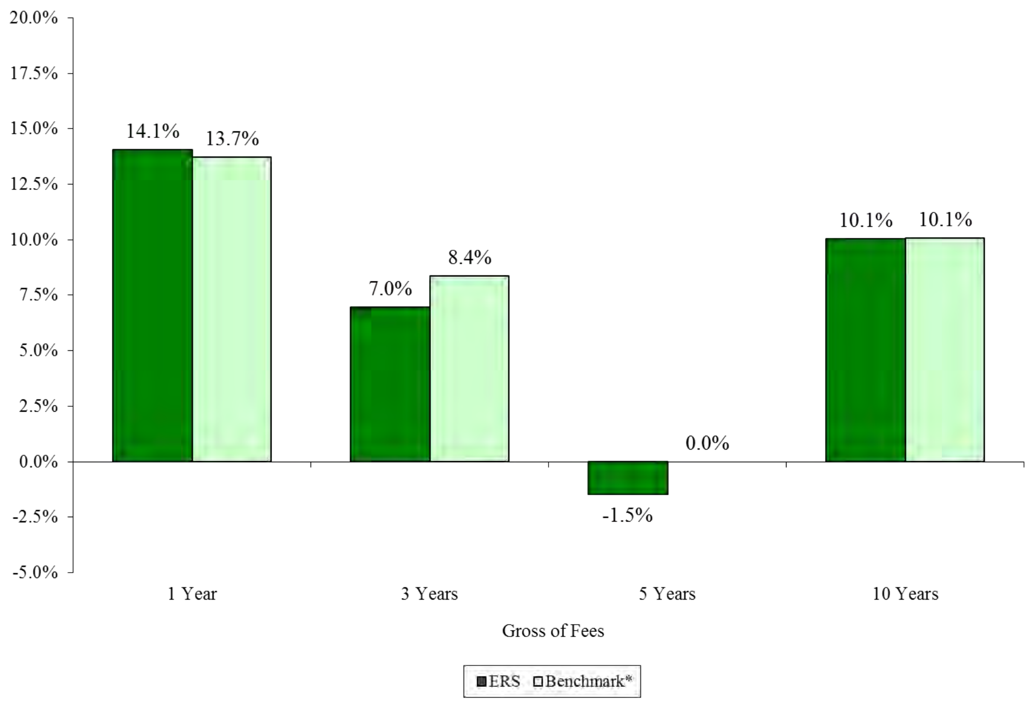
Domestic Equity:



*Benchmark: Russell 3000

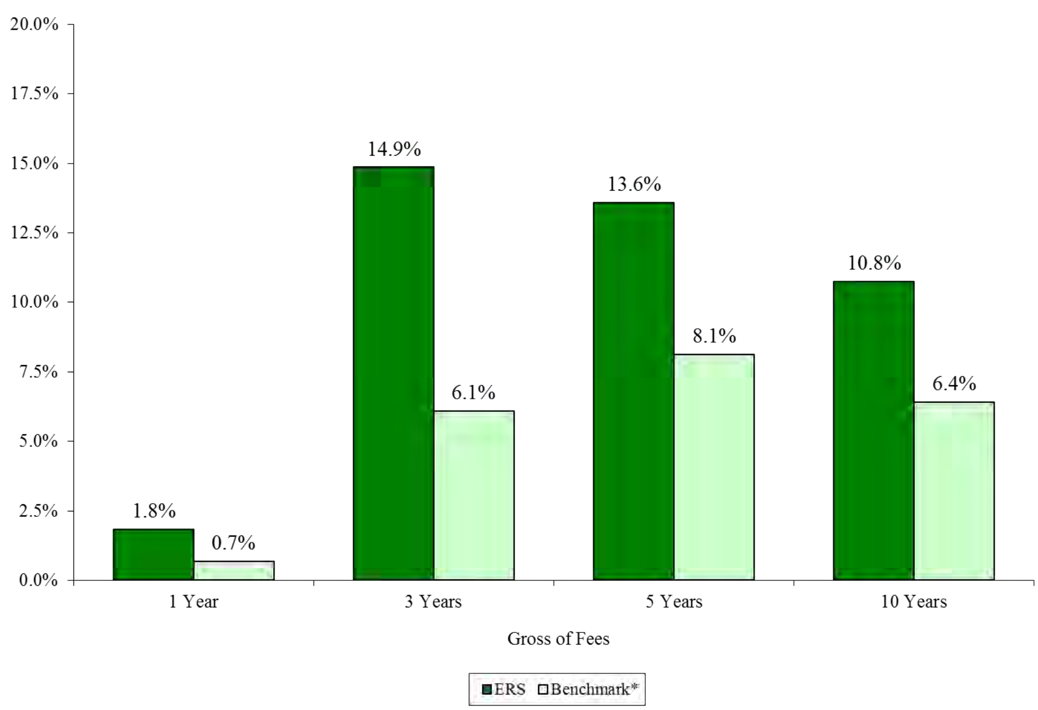
<u>Investment Results</u>
(Time weighted return, gross of fees)

International Equity:



*Benchmark: 67% MSCI EAFE, 33% MSCI EM

Fixed Income:

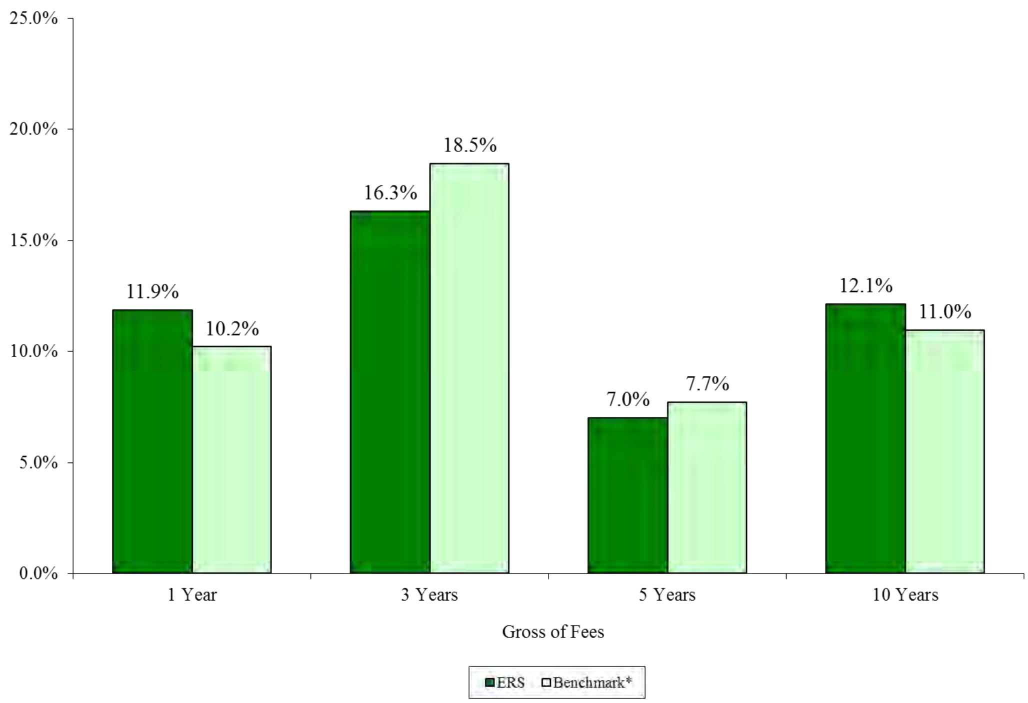


*Benchmark: 81.25% Barclays Agg x 1.5 – 3 Month LIBOR x 0.5, 9.375% CSFB High Yield, 9.375% ML High Yield Master

Investment Results

(Time weighted return, gross of fees)

Real Estate:



*Benchmark: NAREIT Equity Share Price Index

Schedule of Ten Largest Equity & Fixed Income Holdings

Ten Largest Equity Holdings

No. Shares	Description	Cost	Fair Value	% of Total Portfolio
146,072	Simon Property Group Inc	$13,795,791	$23,067,690	0.69%
144,018	Ventas Inc	8,107,189	10,003,490	0.30%
263,997	Prologis Inc	9,026,519	9,957,967	0.30%
107,842	Vornado Realty Trust	8,496,355	8,934,710	0.27%
149,124	Equity Residential	8,158,669	8,658,139	0.26%
129,119	Gealth Care REIT Inc	8,469,192	8,654,847	0.26%
47,142	Public Storage	5,512,483	7,228,283	0.22%
269,350	Hewlett-Packard Co	7,638,019	6,679,880	0.20%
251,136	UDR Inc	6,104,318	6,401,457	0.19%
320,823	General Growth Properties Inc	5,786,125	6,374,753	0.19%
	Total	**$81,094,660**	**$95,961,216**	**2.88%**

Ten Largest Fixed Income Holdings

Par Value (in local values)	Description	Cost (in U.S. Dollars)	Fair Value (in U.S. Dollars)	% of Total Portfolio
16,959,196	U.S. Treas-CPI Inflation Index, 1.250%, 07/15/2020	$19,421,327	$18,421,927	0.55%
6,970,000	United Kingdom Gilt, 2.250%, 03/07/2014	10,748,793	10,710,519	0.32%
7,920,000	Italy Buoni Poliennali Del Tes, 5.000%, 08/01/2039	8,805,162	10,345,462	0.31%
9,523,248	U.S. Treas-CPI Inflation Index, 0.125%, 04/15/2017	10,086,634	9,771,043	0.29%
9,235,753	U.S. Treas-CPI Inflation Index, 0.625%, 07/15/2021	10,088,116	9,531,574	0.28%
9,050,266	U.S. Treasury Bond, 0.125%, 07/15/2022	9,449,984	8,845,911	0.26%
8,635,000	New South Wales Treasury Corp, 6.000%, 04/01/2016	8,586,569	8,513,275	0.25%
93,020,000	Mexico Bonos, 8.500%, 05/31/2029	8,390,771	8,512,099	0.25%
5,260,127	U.S. Treas-CPI Inflation Index, 1.875%, 07/15/2015	5,788,810	5,591,778	0.17%
1,185,000,000	Hungary Government Bond, 5.500%, 02/12/2016	5,179,221	5,310,368	0.16%
	Total	**$96,545,387**	**$95,553,956**	**2.84%**

Schedule of Brokerage Commissions
ForYear Ended June 30, 2013

Broker Name	Base Volume	Total Shares	Base Commission	Commission Percentage
Citigroup Gbl Mkts/Salomon, New York	$ 6,021,301	2,190,250	$ 10,036	0.17%
Barclays Capital, London	10,249,414	475,263	15,042	0.15%
Raymond James & Assoc Inc, St Petersburg	4,385,731	158,206	5,260	0.12%
Credit Lyonnais Secs, Singapore	5,407,069	651,943	6,308	0.12%
Macquarie Securities (USA) Inc Jersey City	5,035,431	173,926	5,639	0.11%
Wells Fargo Securities Llc, Charlotte	9,078,685	416,479	10,092	0.11%
Stifel Nicolaus	10,343,113	492,992	11,437	0.11%
Kas Bank Nv, Amsterdam	4,277,448	288,125	4,609	0.11%
JPMorgan Secs Ltd, London	10,709,388	844,592	11,538	0.11%
National Finl Svcs Corp, New York	4,672,870	154,314	5,020	0.11%
Goldman Sachs & Co, NY	142,541,983	3,813,630	150,738	0.11%
UBS Warburg Asia Ltd, Hong Kong	9,900,810	3,232,993	10,080	0.10%
Merrill Lynch Intl London Equities	15,106,005	3,818,415	15,278	0.10%
KeyBanc Capital Markets Inc, New York	4,452,504	138,952	4,427	0.10%
Barclays Capital Le, Jersey City	21,443,455	702,197	21,016	0.10%
Barclays Capital Inc/Le, New Jersey	4,048,327	131,699	3,957	0.10%
RBC Dominion Secs Inc, Toronto	4,738,509	167,579	4,491	0.09%
G-Trade Services Ltd, Hamilton	104,551,249	9,753,585	98,105	0.09%
Green Street Advisors, Jersey City	12,198,949	332,218	11,407	0.09%
UBS Equities, London	5,081,063	289,646	4,703	0.09%
Pershing Llc, Jersey City	7,892,082	459,159	7,250	0.09%
BNY Convergex Group, New York	9,193,219	874,580	8,422	0.09%
Daiwa Secs Amer Inc, New York	10,019,981	1,370,207	9,047	0.09%
JPMorgan Clearing Corp, New York	14,693,790	2,324,724	36,344	0.09%
Citigroup Gbl Mkts Inc, New York	37,400,896	1,325,752	30,991	0.08%
Merrill Lynch Pierce Fenner, Wilmington	8,983,708	2,004,235	7,363	0.08%
Liquidnet Inc, Brooklyn	12,182,879	351,931	9,737	0.08%
JPMorgan Securities Inc, Brooklyn	5,567,837	214,093	4,430	0.08%
Morgan Stanley & Co Inc, NY	51,979,710	3,517,539	37,590	0.07%
Cantor Fitzgerald & Co Inc, New York	6,175,130	202,344	4,378	0.07%
BNY Convergex, New York	11,915,423	328,380	8,298	0.07%
RBC Capital Markets Llc, New York	10,296,374	326,968	7,089	0.07%
Deutsche Bk Secs Inc, NY	36,563,245	1,415,404	25,037	0.07%
Credit Suisse (Europe), London	6,669,188	363,768	4,288	0.06%
Merrill Lynch Pierce Fenner Smith Inc NY	71,847,386	2,180,212	45,978	0.06%
BNY Convergex/LJR, Houston	38,341,773	1,202,959	22,912	0.06%
Bloomberg Tradebook Llc, New York	21,928,338	855,475	12,834	0.06%
Goldman Sachs Execution & Clearing, NY	4,278,052	164,719	2,499	0.06%
UBS Securities Llc, Stamford	59,033,637	1,691,330	32,625	0.06%
Credit Suisse, New York	65,085,390	2,891,349	35,080	0.05%
Frank Russell Sec Inc, New York	48,289,786	1,270,868	25,730	0.05%
Bernstein Sanford C & Co, New York	27,902,330	499,107	14,163	0.05%
Cowen And Company Llc, New York	10,899,056	393,200	5,498	0.05%
Cap Instl Svcs Inc-Equities, Dallas	54,635,485	1,515,883	27,318	0.05%
Guzman & Company, Coral Gables	16,472,569	276,900	8,236	0.05%
Rosenblatt Securities Llc, Jersey City	50,797,789	916,442	25,399	0.05%
Weeden & Co, New York	42,984,444	846,049	21,377	0.05%
Instinet Corp, NY	18,557,156	329,075	9,037	0.05%
Jefferies & Co Inc, New York	47,870,610	1,281,437	23,133	0.05%
Sanford c Bernstein & Co Inc, London	10,527,378	2,342,218	4,896	0.05%
Other Brokers	117,064,601	24,469,312	155,435	0.13%
Total	**$1,330,292,546**	**86,432,623**	**$1,081,597**	**0.08%**

Investment Summary
(Based on Capital Allocation)

	As of June 30, 2012		As of June 30, 2013	
	Market Value	**% Market Value**	**Market Value**	**% Market Value**
Domestic Equities	$516,875,985	16.3%	$634,991,581	18.9%
International Equities	253,359,375	8.0%	334,979,558	10.0%
Fixed Income	1,491,282,424	46.9%	1,400,191,823	41.7%
Alternative Investments	426,169,512	13.4%	361,208,396	10.8%
Absolute Return	331,193,872	10.4%	399,489,550	11.9%
Short-term	159,638,907	5.0%	224,367,987	6.7%
Total	**$3,178,520,075**	**100.0%**	**$3,355,228,895**	**100.0%**

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CHEIRON Classic Values, Innovative Advice

February 14, 2013

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, 2012. 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 Employer 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 Employer.

Assumptions
The actuarial assumptions used in performing the July 1, 2012 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, 2010. 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 the underlying assumptions, the results would vary accordingly.

The assumptions and methods used in determining the assets, liabilities, and the annual required contributions of the employer as defined by the Government Accounting Standards Board (GASB) meet the parameters set by 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 on information (some oral and some written) supplied by the Retirement System. This information includes, but is not limited to, plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standards of Practice No. 23.

1750 Tysons Boulevard, Suite 1100, McLean, VA 22102 Tel: 703.893.1456 Fax: 703.893.2006 www.cheiron.us

February 14, 2013
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 2012 information in the Schedule of Funding Progress, Schedule of Employer Contributions and Notes to Trend Data shown in the Financial Section. All data shown prior to 2004 was prepared by the prior actuary.

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).

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.

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

Certification
We are consulting actuaries for Cheiron. We are also Members of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein.

We hereby certify that, to the best of our knowledge, this report and its contents, have 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. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinions contained herein.

Sincerely,
Cheiron

Fiona E. Liston, FSA
Principal Consulting Actuary

Christian E. Benjaminson, FSA
Principal Consulting Actuary

CHEIRON

Summary of Valuation Results

Overview

This report presents the results of the July 1, 2012 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 Employer for Fiscal Year 2014; and
- 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 employer 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 0.20% 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 employer 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 1.06% and the UAL rate has increased by 1.49%, the specific changes are summarized in the table on the next page:

Changes Since 2001	**Impact on Normal Cost Rate**	**Impact on 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%
2010 Assumption Changes	+ 0.96%	+ 0.02%
Total Increase	**+ 1.06%**	**+ 1.49%**

The basic corridor funding contribution is currently 8.60% 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, 2012 shows that the actuarial funded ratio of this System (including a credit for the amortization of prior benefit increases and assumption changes) remains outside of the corridor.

The employer contribution rate for FY 2014 will increase from 18.49% to 18.70% of payroll, on the basis of this year's valuation 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 System outperformed the investment assumption during the fiscal year ending in 2012, causing an actuarial gain on the asset side of the System. The actual return on a market value basis was approximately 8.34%. On an actuarial value basis, the assets returned 9.62% compared with an assumed rate of return of 7.50%. The gain recognized for funding purposes was $59.6 million.

The measurement of liabilities produced a loss this year in the amount of $74.5 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 4.2% for active participants who were in both the July 1, 2011 and July 1, 2012 valuations. This was greater than the expected salary growth based on the actuarial assumption (per the most recent experience study), which worked out to average 1.7%. This resulted in a loss of $26.8 million. The annual payroll was provided as of December 31, 2011 and adjusted to July 1, 2012. For County employees this included annualizing the 2.00% increase from September 2011 and applying the 2.18% increase effective July 1, 2012. For School employees this included annualizing the 1.00% increase from July 2011.

- The valuation assumed a 1% cost-of-living adjustment in 2012 for benefits in pay status (per the most recent experience study). The actual CPI-based COLA was 2.8% last year, creating a liability loss of $34.8 million.

- The 2012 valuation incorporates actual sick leave hours into both eligibility and projected benefits for active participants. The accrual of additional sick leave from 2011 to 2012 produced a loss of $1.2 million as we do not currently include an assumption regarding sick leave accrual.

- 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 $7.2 million to that number.

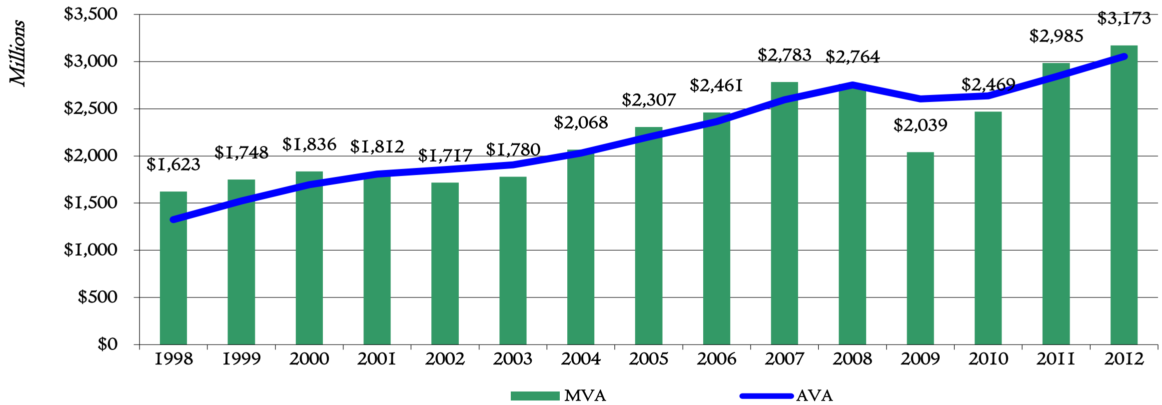
- There was a $47.5 million liability loss component that is made up of various other causes such as members terminating, dying or becoming disabled in a way contrary to the assumption.

- Finally, there was a change in the data processing this year which treated the unused sick leave balances in a fashion better suited to approximate actual benefit calculations. The impact of this alteration contributed to a $43.0 million gain for the year.

The combination of liability and investment experience over the last year led to the System's funding ratio (actuarial value of assets over actuarial accrued liability) increasing from 70.7% at July 1, 2011 to 71.6% at July 1, 2012. 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 County to pay for benefit increases and assumption changes. On this basis, the System's actuarial funded ratio increased from 72.5% at July 1, 2011 to 73.1% at July 1, 2012.

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 three pages we present a series of charts which display key factors in the valuations over the last 15 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.

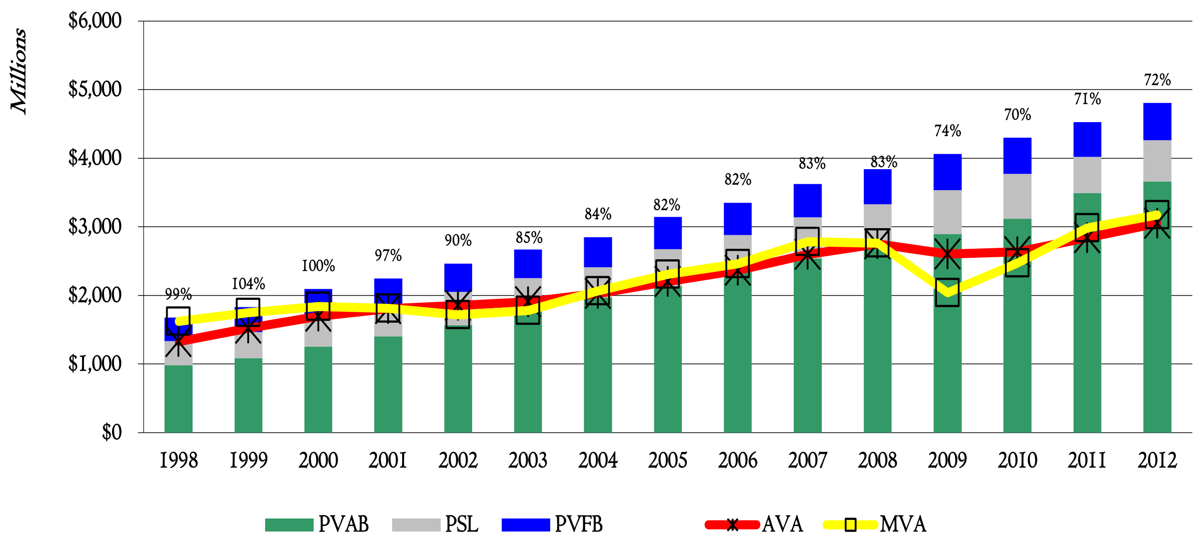
Growth in Assets



There was an increase in the market value of assets (MVA) over last year due to a return of 8.3%. The actuarial value of assets (AVA) increased slightly more than the MVA due to the delayed recognition of the previous two years' significant asset gains. Due to the significant market increases of the past three years, the System has $119 million in unrecognized gains that will be phased in over the next few years.

Over the period July 1, 1998 to June 30, 2012 the System's assets returned approximately 7.9% per year measured at actuarial value, compared to a valuation assumption of 7.5% per year.

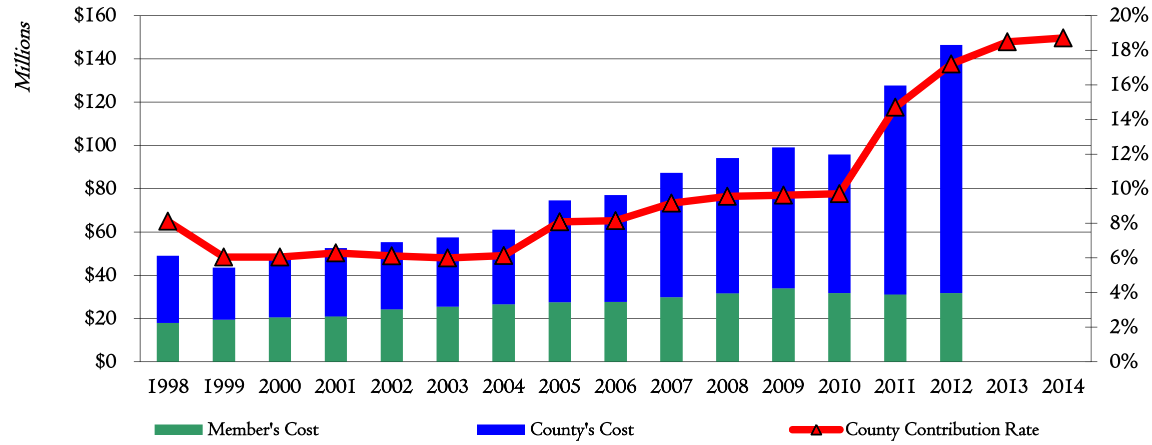
Assets and Liabilities



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.

Since 2007, the System's funded status has declined from 83% to 72% as a result of investment gains and losses, liability losses, and the underfunding inherent in the corridor method once it falls below 90%.

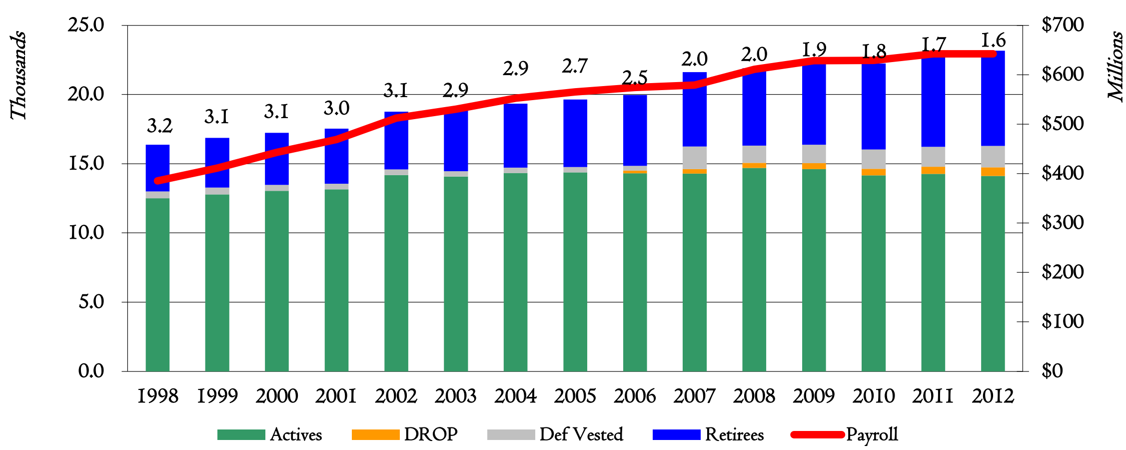
Contribution Rates



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

The member contribution rate is set by the County Ordinance. The County contribution rate is set by the actuarial process, as constrained by the corridor method. Note there is a lag in the rate shown. For example, the 2012 value is the rate prepared by the 2010 valuation and implemented for the period July 1, 2011 to June 30, 2012.

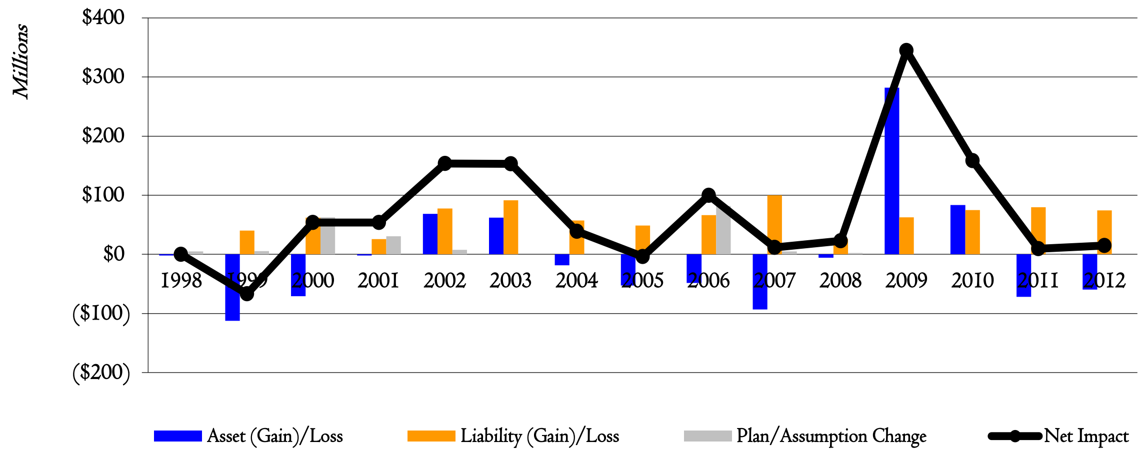
Participant Trends



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 1998 to 1.6 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.

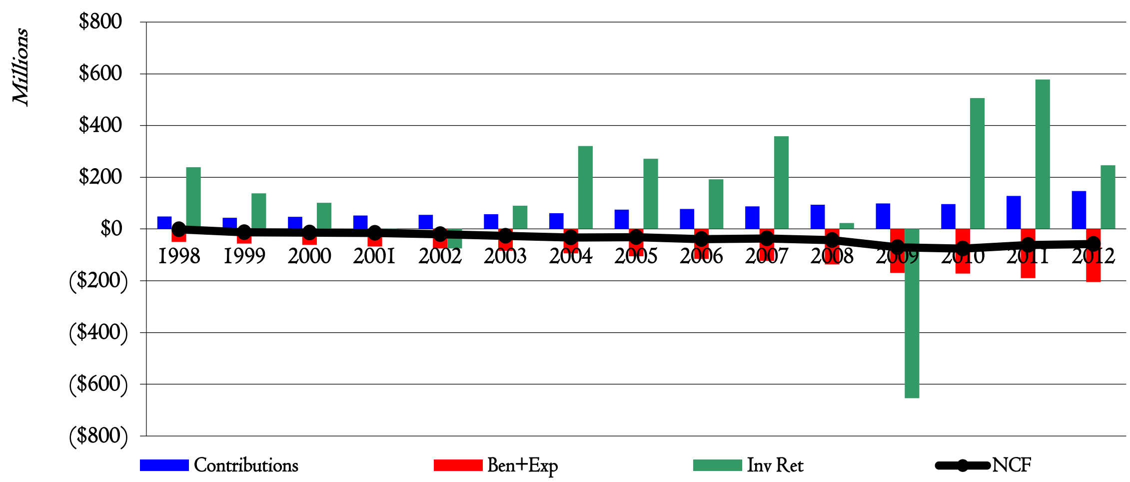
Starting in 2006, the chart also shows the number of DROP participants. Neither employer nor member contributions are made on their behalf, which leads to a slightly lower growth in effective covered payroll for this System.

Gains and Losses



This graph shows the annual gains and losses experienced by the System, along with the change in Unfunded Actuarial Liability (UAL) due to plan amendments and assumption changes. 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



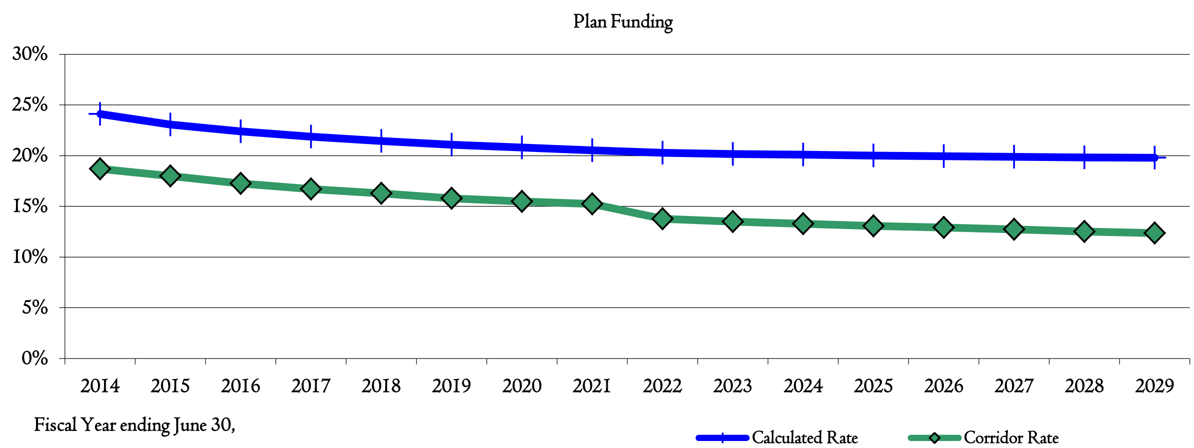
The graph shows the annual cash flows into and out of the System. The graph shows the magnitude of the investment returns on the market value (green bars) compared to the contributions (blue bars). The net cash flow (line) is comparing the contributions to benefits and expenses (red bar). Negative cash 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, there is less principal that is available to be reinvested during periods of favorable returns.

Future Outlook

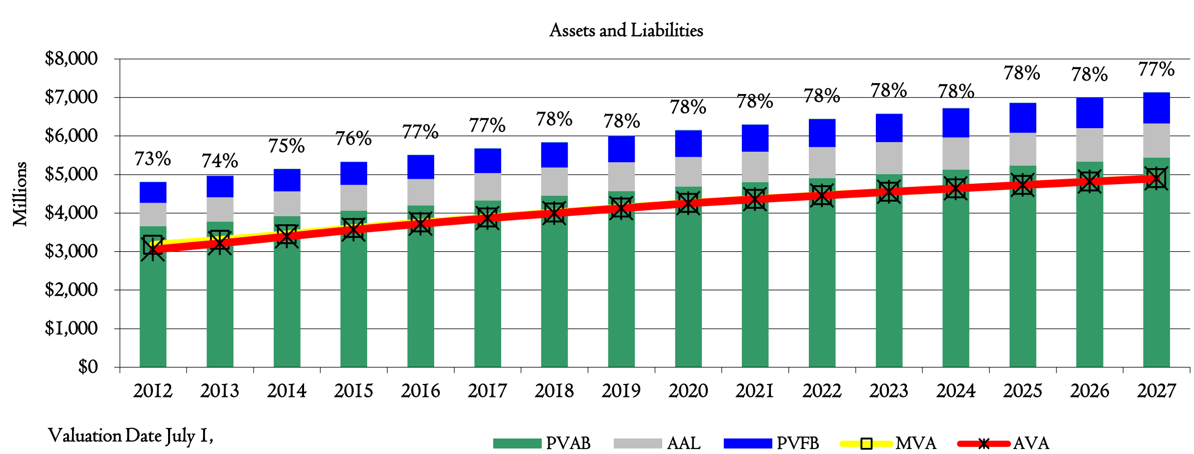
Base-line Projections

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 contribution rates declining, but the System does not re-enter the corridor (if all other actuarial assumptions are met as well as the 7.5% interest rate). The contribution rate decreases as the stored investment gains are fully phased-in and as plan change bases become fully amortized and drop out. The blue line shows the actuarially calculated rate if the corridor were not in place. Under this scenario, the corridor rate declines from 18.70% to 12.35% of payroll.



The "Assets and Liabilities" graph shows the projected funding status over the next 15 years. Note that the 2012 funded level differs from that shown in the historical graphs because the ratio used here reflects the corridor method. The corridor funded ratio will gradually increase in the short term as unrecognized investment gains and losses are incorporated in the actuarial value of assets. After that, the corridor method basically marks time and keeps the System around 78% funded.

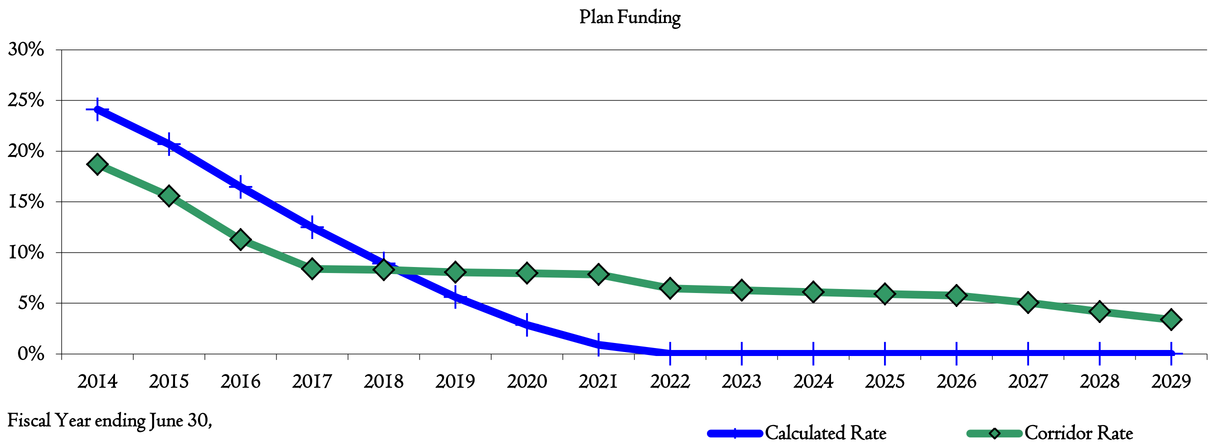


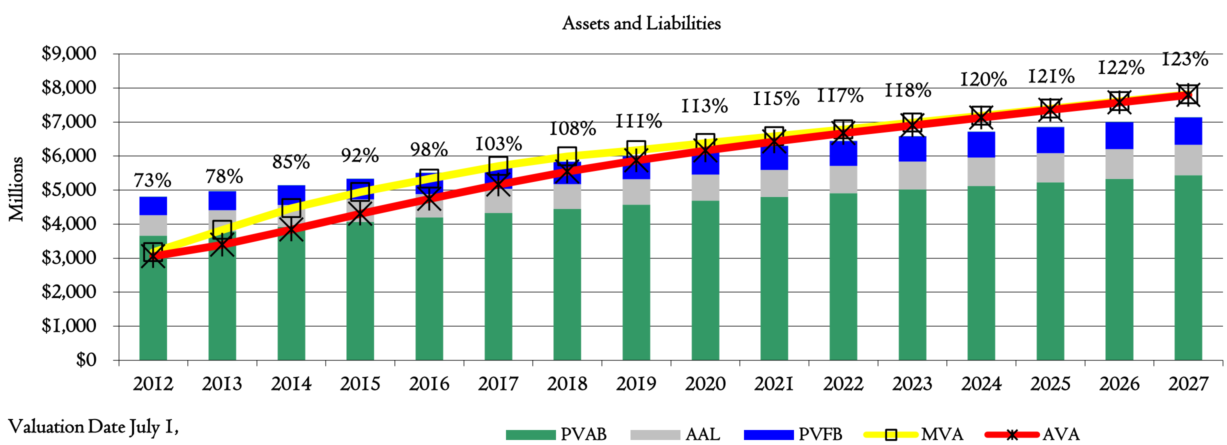
The future funding status of this System will be influenced by the investment earnings. The prior projection assumed the System would earn 7.5% each and every year, which is extremely unlikely.

In the projections that follow we show the risk to the System under volatile markets. Since 1980 the System has averaged 10.34% return per year, therefore, for this analysis we have created the following three scenarios that produce the same average return.

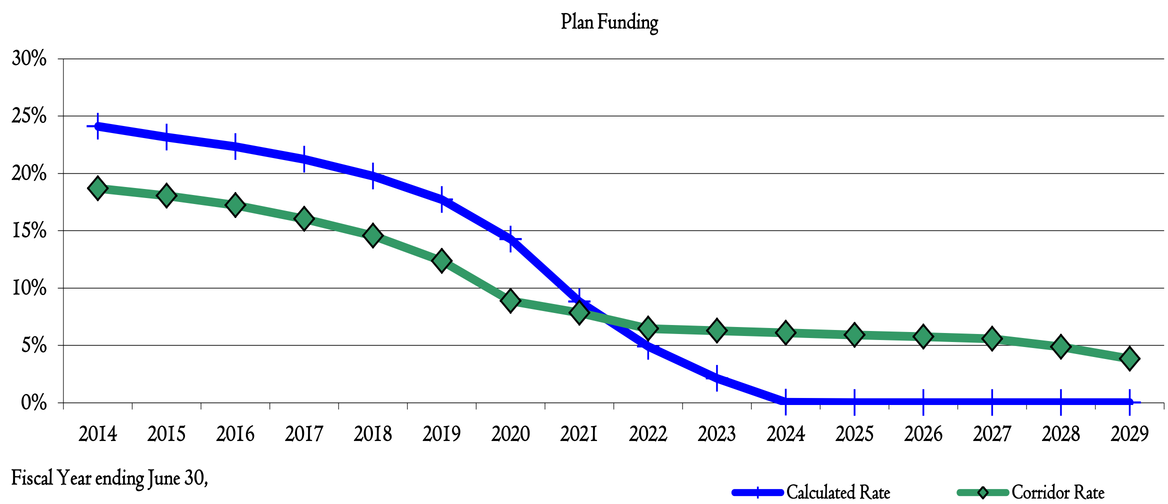
Fiscal Year Ending June 30,	Favorable Returns Early	Poor Returns Early	Random Returns
2013	24.40%	6.90%	24.52%
2014	19.90%	8.90%	4.80%
2015	13.90%	10.90%	2.75%
2016	11.90%	11.90%	12.50%
2017	10.90%	13.90%	4.90%
2018	8.90%	19.90%	11.39%
2019	6.90%	24.40%	16.84%
2020	7.50%	7.50%	22.62%
2021	7.50%	7.50%	6.19%
2022	7.50%	7.50%	7.15%
2023	7.50%	7.50%	6.17%
2024	7.50%	7.50%	16.90%
2025	7.50%	7.50%	7.44%
2026	7.50%	7.50%	-4.22%
2027	7.50%	7.50%	19.16%
Average	**10.34%**	**10.34%**	**10.34%**

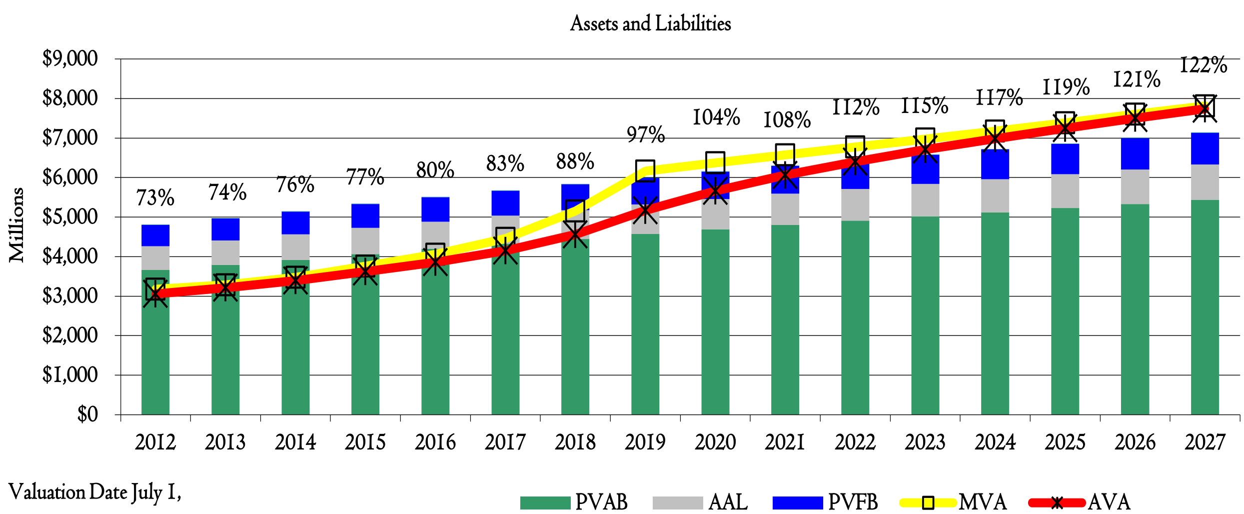
Alternative Projection -- with favorable returns early in the projection:
Under this scenario, the corridor contribution rate would decrease each year as the System experiences investment gains in the first five years. The System reaches 92% funded by 2015 (and re-enters the corridor) and then continuously increases to 123% funded by 2027.



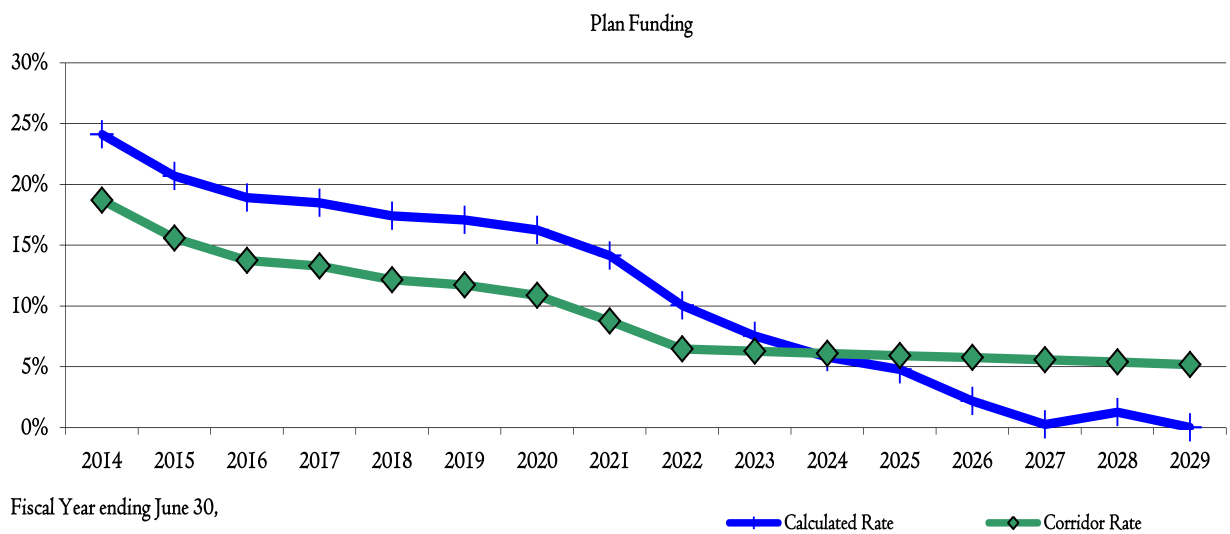


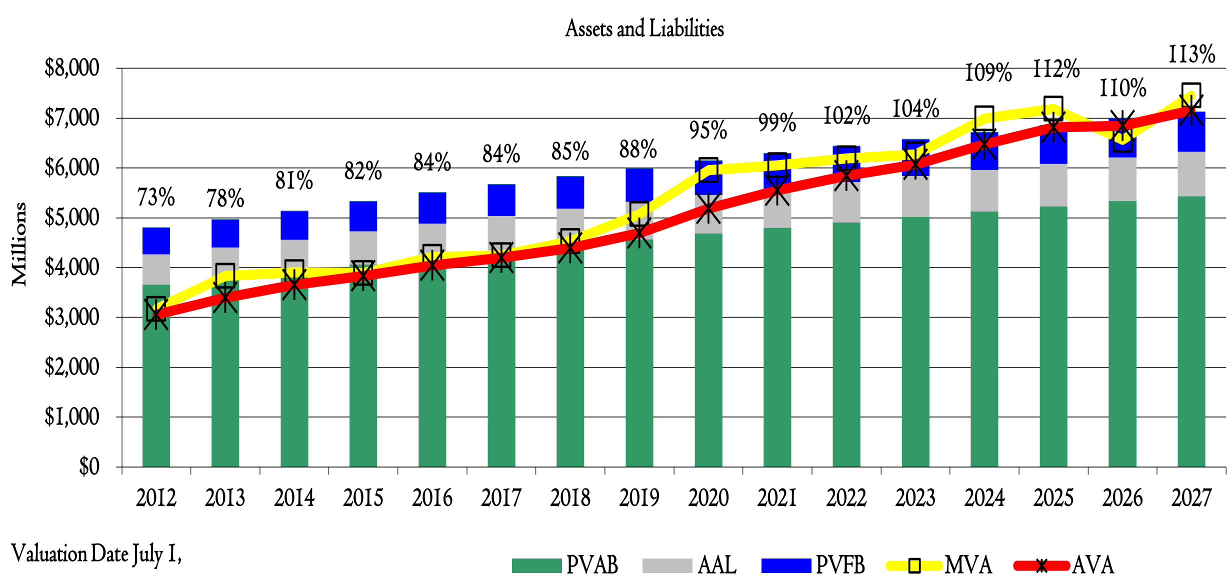
Alternative Projection -- with poor returns early in the projection:
Under this scenario, the corridor contribution rate still declines given the current amount of stored gains. The County would re-enter the corridor in 2019 and reach full funding in 2020.





Alternative Projection -- with random returns
Under this scenario, the corridor contribution rate declines each year until FY 2022 when the County re-enters the corridor. This scenario shows the System at 95% funded by 2020 and 113% funded at the end of the period.





Summary of Principal Plan Results

Valuation as of:	7/1/2011	7/1/2012	% Chg
Participant Counts			
Actives (excluding DROP)	14,256	14,107	-1.0%
DROPs	531	629	18.5%
Terminated Vesteds	1,427	1,542	8.1%
In Pay Status	6,568	6,888	4.9%
Total	22,782	23,166	1.7%
Annual Salaries of Active Members	$ 642,073,198	$ 642,638,926	0.1%
Annual Retirement Allowances for Retired Members and Beneficiaries (Base amount only – not supplements)	$ 147,312,901	$ 160,374,462	8.9%
Assets and Liabilities			
Actuarial Accrued Liability	$ 4,018,924,133	$ 4,264,175,438	6.1%
Assets for Valuation Purposes	2,841,466,151	3,053,412,085	7.5%
Unfunded Actuarial Liability	$ 1,177,457,982	$ 1,210,763,353	2.8%
Funding Ratio	70.7%	71.6%	
Present Value of Accrued Benefits	$ 3,492,728,033	$ 3,663.689.580	4.9%
Market Value of Assets	2,984,863,644	3,172,652,596	6.3%
Unfunded Accrued Liability (not less than $0)	$ 507,864,389	$ 491,036,984	-3.3%
Accrued Benefit Funding Ratio	85.5%	86.6%	
Contributions as a Percentage of Payroll	**Fiscal Year 2013**	**Fiscal Year 2014**	
GASB Method:			
Normal Cost Contribution	6.91%	6.91%	
Unfunded Actuarial Liability Contribution	16.53%	16.99%	
Administrative Expense	0.20%	0.20%	
Total Contribution	23.64%	24.10%	
Corridor Method:			
Normal Cost Contribution	6.91%	6.91%	
Increase Due to Amortized Changes	1.49%	1.49%	
Amortization of Amount Outside Corridor	9.89%	10.10%	
Administrative Expense	0.20%	0.20%	
Corridor Method	18.49%*	18.70%	

* The actual contribution rate being paid by the County in FY 2013 is 19.05%.

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 amortization of 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

Annual Deaths Per 10,000 Members RP 2000 Mortality Projected to 2015* Age	Male	Female
20	3	2
25	3	2
30	4	2
35	7	4
40	10	6
45	12	9
50	16	13
55	27	24
60	53	47
65	103	90
70	177	155
75	306	249
80	554	413
85	997	708
90	1,727	1,259
95	2,596	1,888
100	3,394	2,339
105	3,979	2,931

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

Annual Deaths Per 1,000 Disabled Members RP 2000 Mortality Projected to 2015 with Ages Set Forward 5 Years Age	Male	Female
45	16	13
50	27	24
55	53	47
60	103	90
65	177	155
70	306	249
75	554	413
80	997	708

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 terminate before the earlier of age 45 or 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	**Normal**
50	500
51	400
52	300
53	300
54	300
55	350
56	350
57	350
58	400
59	400
60	500
61	550
62	450
63	450
64	600
65	400
66	300
67	200
68	200
69	200
70	200

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

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

Service	Merit/Seniority Increase
0	7.00%
5	2.00
10	1.80
15	1.70
20	1.20
25	1.00
30	1.00

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 three years younger than the male spouse.

Sick Leave Credit

Unused sick leave balances as reported for each active member will be used as the unused sick leave balance throughout the remaining active period.

Economic Assumptions

Investment Return: 7.50% compounded per annum.

Rate of General Wage Increase: 3.00% compounded per annum.

Rate of Increase in Cost-of-Living: 2.75% compounded per annum.*

Total Payroll Increase (For amortization): 3.00% compounded per annum.

Administrative Expenses: 0.20% of payroll.

* Benefit increases are limited to 4% per year.

Changes Since Last Valuation

There have been no changes since the last valuation to the Actuarial Assumptions.

Analysis of Financial Experience

Gain and Loss in Accrued Liability During Years Ended June 30

Resulting from Differences Between Assumed Experience and Actual Experience

Type of Activity	2007	2008	2009	2010	2011	2012
Investment Income	$ 93,321,633	$ 5,501,407	$(282,116,118)	$ (83,485,934)	$ 71,698,746	$ 59,620,255
Combined Liability Experience	(99,929,651)	(26,428,258)	(62,427,360)	(74,720,305)	(79,444,131)	(74,547,089)
Gain (or Loss) During Year from Financial Experience	$ (6,608,018)	$ (20,926,851)	$(344,543,478)	$(158,206,239)	$ (7,745,385)	$ (14,926,834)
Non-Recurring Items	(2,056,768)	(1,446,483)	-	-	(1,602,061)	-
Composite Gain (or Loss) During Year	$ (8,664,786)	$ (22,373,334)	$(344,543,478)	$(158,206,239)	$ (9,347,446)	$ (14,926,834)

Schedule of Retirees and Beneficiaries
Added To and Removed From Rolls

Year Ended June 30,	Added to Rolls No.	Added to Rolls Annual Allowance	Removed From Rolls No.	Removed From Rolls Annual Allowance	On Rolls @ Yr. End No.	On Rolls @ Yr. End Annual Allowance	%Increase Allowance	Average Allowance
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
2009	533	14,697,864	187	3,032,662	5,931	145,132,570	8.74%	24,470
2010	450	14,483,584	163	2,748,741	6,218	156,867,413	8.09%	25,228
2011	518	18,345,093	168	2,885,600	6,568	172,326,906	9.86%	26,237
2012	472	17,441,822	152	2,971,259	6,888	186,797,469	8.40%	27,119

Solvency Tests

Aggregate Accrued Liabilities For

Valuation Date July 1,	(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)
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%
2009	312,357,412	1,813,482,907	1,410,033,226	2,603,283,631	100%	100%	34%
2010	329,166,585	1,985,373,546	1,456,519,392	2,636,051,959	100%	100%	22%
2011	339,170,151	2,177,027,867	1,502,726,115	2,841,466,151	100%	100%	22%
2012	332,723,684	2,411,862,623	1,519,589,131	3,053,412,085	100%	100%	20%

** Based on the Actuarial Value of Assets*

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Statistical Section (unaudited)

The Statistical Section presents historical information regarding the retirement plan. This information includes a ten-year analysis of the sources of change in plan net assets, benefit payments, the number of retired members and average monthly benefits. Sources of additions include employer and plan member contributions and net investment income; deductions include benefit payments to retirees and beneficiaries, refunds of employee contributions and administrative expenses. The amounts of benefits paid, the count of benefit recipients and the average benefit payments are provided by type of benefit, including service retirement annuities, service-connected and ordinary disability benefits and survivor benefits.

Schedule of Additions by Source

Fiscal Year	Plan Member Contributions	Employer Contributions	Employer Contributions % of Covered Payroll	Net Investment Income (loss)	Total Additions
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)
2010	31,733,516	64,069,102	9.71%	506,165,571	601,968,189
2011	31,041,076	96,607,535	14.70%	577,459,169	705,107,780
2012	31,702,075	114,682,538	17.20%	246,376,212	392,760,825
2013	32,551,927	127,448,018	19.05%	245,374,617	405,374,562

Schedule of Deductions by Type

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Transfers	Total Deductions
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
2010	166,271,110	4,075,162	1,593,223		171,939,495
2011	183,800,128	3,884,082	1,640,016		189,324,226
2012	199,503,336	3,781,497	1,687,040		204,971,873
2013	219,229,038	2,988,397	1,877,620		224,095,055

The transfer in FY 2006 was a transfer of assets supporting the future benefits for the employees of the Department of Public Safety Communications who elected to leave the Employees' Retirement System and transfer to the Fairfax County Uniformed Retirement System.

Schedule of Benefit Payments by Type

Fiscal Year	Service Annuity	Service-Connected Disability	Ordinary Disability	Survivor Benefit	Total
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
2010	155,512,982	3,232,803	3,939,896	3,585,429	166,271,110
2011	172,362,105	3,176,876	4,232,345	4,028,802	183,800,128
2012	187,702,064	3,187,892	4,353,983	4,259,397	199,503,336
2013	206,701,293	3,436,007	4,490,924	4,600,814	219,229,038

Schedule of Retired Members by Benefit Type

Fiscal Year	Service Annuity	Service-Connected Disability	Ordinary Disability	Survivor Benefit	Total
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
2010	5,392	157	389	280	6,218
2011	5,712	153	400	303	6,568
2012	6,030	152	396	310	6,888
2013	6,392	153	390	328	7,263

Schedule of Average Monthly Benefit Amounts

Fiscal Year	Service Annuity	Service-Connected Disability	Ordinary Disability	Survivor Benefit	Average
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
2010	2,250	1,708	872	1,193	2,102
2011	2,339	1,761	896	1,225	2,186
2012	2,409	1,857	935	1,247	2,260
2013	2,450	1,913	941	1,274	2,305

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