2014 Comprehensive Annual Financial Report

2014

Fairfax County

Employees'

Retirement System

A Pension Trust Fund of Fairfax County, Virginia

For the Fiscal Year Ended June 30, 2014

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County of Fairfax, Virginia

To protect and enrich the quality of life for the people, neighborhoods and diverse communities of Fairfax County

December 5, 2014

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, 2014. 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. In previous years, Fairfax County Employees' Retirement System reported the plan as a cost-sharing multiple employer defined benefit plan. With the implementation of GASB 67 this fiscal year ended June 30, 2014, the System is now considered as a single 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 13,862 active members, 705 in the Deferred Retirement Option Program (DROP) and 7,626 retirees participating in the System as of June 30, 2014. For calculations surrounding the Total Pension Liability and its components, Cheiron used rollforward techniques with the June 30, 2013, valuation as a starting point. As such, their results were based on the active, DROP, and retiree counts disclosed as of that date.

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 2014, the System benefited from strong performance in almost all asset classes. Equity markets were up strongly again in 2014 in the U.S. and internationally as well.

Retirement SYSTEMS EMPLOYEES' POLICE OFFICERS UNIFORMED

Fairfax County Retirement Systems
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Phone: 703-279-8200∗1-800-333-1633∗Fax: 703-273-3185
www.fairfaxcounty.gov/retirement/

Bond markets also performed well, particularly in high-yield bonds, leveraged loans, U.S. credit, and emerging market debt. The System achieved a solid portfolio return of 15.2% (14.9%, net of fees), ahead of the long term return target of 7.5%. This return was below the median public fund return of 17.2% and placed in the 81st percentile of the BNY Mellon universe of public funds. Returns compared more favorably over 5 years as investment returns for the five-year period were 16.2% per year, ranking the fund first among 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, 2013, indicated that the ratio of assets accumulated by the System to total actuarial accrued liabilities for benefits showed an increase from 71.6% to 72.9%. The actuarial section contains further information on the results of the July 1, 2013, valuation. For purposes of calculating the net pension liability as of June, 30, 2014, in accordance with Governmental Accounting Standards Board's (GASB) Statement Number 67, the System's funded status was 78.3%.

Based on the July 1, 2013, actuarial valuation, the employer contribution rate for 2015 following the adopted corridor-based funding policy was 18.32%, a decrease of 0.38% from the 2014 rate of 18.70%. This decrease in the rate is based on fiscal year 2013 actuarial experience. During establishment of the fiscal year 2015 County budget, however, the Board of Supervisors adopted a higher contribution rate of 20.18%. This was done to improve the funded level of the plan, accomplished by raising the target unfunded liability amortization level from 91% to 93%, and to fund an increase in service connected disability benefits (discussed further below).

Major Initiatives

This year's annual report has been revamped and updated to comply with the provisions of GASB Statement Number 67, Financial Reporting for Pension Plans, which specifically regards pension fund financial reporting. Its objective is to improve financial reporting by state and local government pension plans by providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The significant changes required by GASB 67 are explained in more detail in the Financial Section of this report.

Working in concert with the County's Chief Financial Officer, the System's actuary (Cheiron), and other County staff, efforts continue to improve the funded status of the Plan. As a result of this work, and as referenced above, the County has increased the employer contribution rate above what was required by the adopted corridor-based funding policy for 2014 and 2015. This was accomplished by increasing the target amortization level for the unfunded liability from 90% in prior years to 91% in 2014. This target was further increased to 93% for the County's 2015 adopted budget.

As part of their FY 2013 Carryover actions, the Board of Supervisors directed that staff reduce the social security offset for disability related retirements from 25% to 15%, effective January 1, 2014. The service-connected disability benefit is two-thirds (66 2/3%) of salary. Prior to this change, the benefit was reduced by 25% of Social Security disability benefits received at any age, or, at age 62, by 25% of the age-based Social Security benefit.

Finally, on the investment front, Quantitative Management Associates was added to the Emerging Markets Equity manager lineup replacing the TCW Worldwide Opportunities Fund. The Employees' System added two fixed income managers, Lazard Emerging Markets Debt Blend Fund and PIMCO BRAVO (Bank Recapitalization and Value Opportunities) Fund II to the lineup, replacing Gramercy Distressed Opportunities Fund and Gramercy Argentina Debt Fund. Additionally, PIMCO All Asset Fund was added to the Absolute Return Manager lineup.

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, 2013. This was the fourth consecutive year that the System 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.

Other Information

Independent Audit and Actuarial Certifications

KPMG LLP performed an annual audit of the financial statements of the System to obtain reasonable assurance about whether the financial statements are free from material misstatements, whether due to fraud or error. Additionally, Cheiron performed 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.

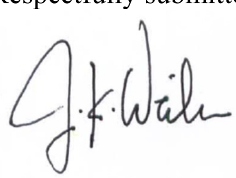
Acknowledgements

The annual report of the Employees' Retirement System was prepared by the System's staff under the leadership of the Board of Trustees, whom I have the privilege to serve. I must also acknowledge the entire Retirement Systems' team for their tireless work throughout the year to ensure we live up to our guiding principles:

- **Accountability** to the leaders and citizens of Fairfax County
- Accurate and timely **Benefits** for all current and future retirees
- Best-possible **Customer Service** for all members and retirees

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,



Jeffrey K. Weiler
Executive Director

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, 2013

Executive Director/CEO

Ten members serve on the Fairfax County Employees' Retirement System. Four of the members are citizens appointed by the Fairfax County Board of Supervisors. Three of the members are elected by Fairfax County Government Employees, Fairfax County Public Schools Employees, and Fairfax County Retirees respectively. The Director of Human Resources, the Director of Finance, and the Assistant Superintendent of Human Resources at the Fairfax County Public Schools also serve as Ex Officio members.

Board of Trustees

Administrative Organization

Administrative Staff

Jeffrey K. Weiler
Executive Director

Gregory A. Samay
Chief Investment Officer

Andrew J. Spellar
Senior Investment Officer

Christopher Colandene
Acting 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

Lazard Asset Management, LLC
New York, NY

LSV Asset Management
Chicago, IL

MacKay Shields, LLC
New York, NY

Marathon Asset Management, LLP
London, UK

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 Asset Management
Pittsburgh, PA

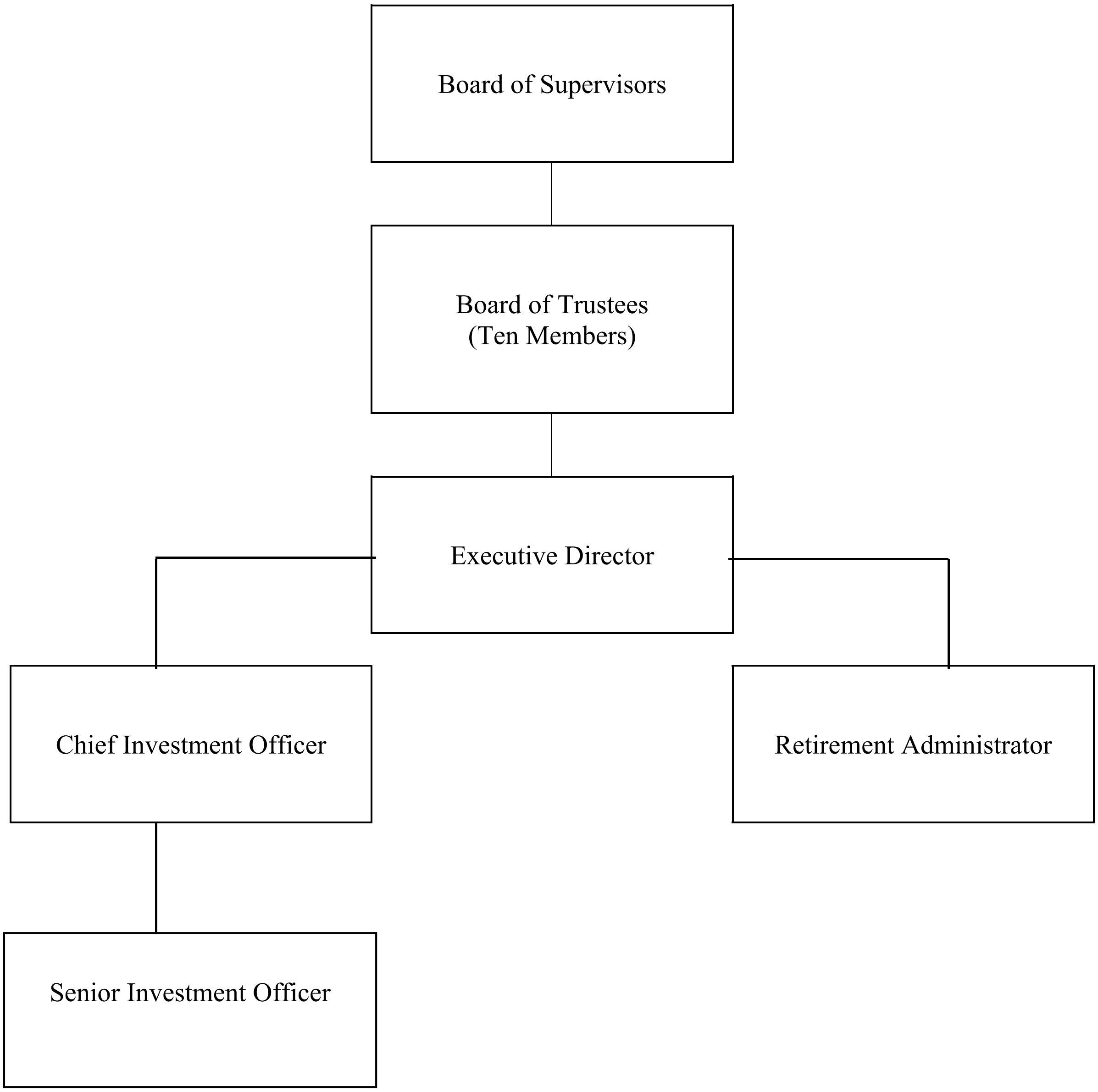
WCM Investment Management
Laguna Beach, CA

Quantitative Management Associates
Newark, NJ

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

The general provisions of the Employees' Retirement System follow:

Contribution Rates

Member:

Option A: The contribution rate for Option 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.
Option B: The contribution rate for Option B is $5^1/_3$% of base salary.
Option C: The contribution rate for Option 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.
Option D: The contribution rate for Option D is $5^1/_3$% of base salary.

Employer: The contribution rate for all four options for Fiscal Year 2014 was19.30%.

Benefit

Options 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.

Options 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%.

Options 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 - Options A, B, C & D

Normal Retirement:

Options 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)

Options 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. The maximum retirement service credit allowed for sick leave is 2080 hours.

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

Early Retirement:
For all 4 options, 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 15% 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 Retirement Handbook for Active Employees:
http://www.fairfaxcounty.gov/retirement/pdfs/emphandbook.pdf

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

Independent Auditor's Report

The Board of Supervisors
County of Fairfax, Virginia

The Board of Trustees
Fairfax County Employees' Retirement System:

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, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditor's Responsibility

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

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

The Board of Supervisors
County of Fairfax, Virginia

The Board of Trustees
Fairfax County Employees' Retirement System Fairfax County, VA

December 5, 2014
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 16-18, the schedule of changes in the net pension liability and related ratios on page 34, the schedule of net pension liability on page 35, the schedule of employer contributions on page 36, and the schedule of money weighted rate of return on page 36 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.

KPMG

The Board of Supervisors
County of Fairfax, Virginia

The Board of Trustees
Fairfax County Employees' Retirement System Fairfax County, VA

December 5, 2014
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Supplemental and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The introductory section on pages 1-12, the additional supplementary information on pages 37, the investment section on pages 39-50, the actuarial section on pages 51-72 and the statistical section on pages 73-75 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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

Washington, DC
December 5, 2014

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, 2014. 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 Fiduciary Net Position and Statement of Changes in Fiduciary Net Position as of June 30, 2014. 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 the Financial Statements. The Notes to the Financial Statements are an integral part of the financial statements and include additional information and schedules to provide a better understanding of the fiduciary fund financial statements. The Notes to the Financial Statements immediately follow the basic financial statements.

Required Supplementary Information. The Required Supplementary Information include the schedule of changes in net pension liability, schedule of net pension liability, schedule of contribution and the money weighted rate of investment returns. 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 2014 the net position of the Employees' Retirement System increased 12.3% resulting in a total net position value of $3.77 billion, reflecting an increase of $412.1 million over fiscal year 2013. The growth in net position was primarily due to strong investment performance that resulted to investment gains of $490.2 million. 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
2013	$3,353.9	$181.3	5.7
2014	$3,766.1	$412.1	12.3

Investment returns were higher for fiscal year 2014 reflecting higher returns in the capital markets. The total fiduciary assets as of June 30, 2014 were $3.98 billion, representing an increase of $427.5 million, or 12%, over the previous year. The main component of the increase were due primarily to the strong market conditions that resulted to a total investment of $3.64 billion in fiscal year 2014 as compared to $3.06 billion in fiscal year 2013.

The actuarial value of the assets as of the last valuation on July 1, 2013, was $3.26 billion while actuarial liabilities as of the same period were $4.47 billion. For purposes of funding, this resulted in a funding ratio of 72.9%. However, for purposes of GASB 67, the Total Pension

Liability as of July 1, 2013, was $4.62 billion compared to the Total Net Position of $3.35 billion, which results in a funding ratio of 72.6%.

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 2014 increased by 1.7% due primarily to an increase in the employer contribution rate from 19.05% to 19.30% of salary. Total contributions for the fiscal year ended June 30, 2014, amounted to $162.4 million. This was an increase of $2.4 million when compared with the activity of fiscal year 2013. Employee contributions increased slightly due to a small increase in covered payroll.

Deductions to the retirement system consist of the payments of benefits to retirees and beneficiaries, the refund of contributions to former members, and the cost of administering the retirement system. The total deductions for fiscal year 2014 were $240.4 million, an increase of $16.4 million, or 7.3%, over fiscal year 2013. Regular pension benefits has increased the number of retirees and beneficiaries receiving benefit payments to 7,263 from 6,888 in fiscal year 2013. Benefit payments increased due to a cost-of-living increase of 1.4%, an increase in the number of retirees and higher benefits for new retirees. Refunds reflected a 12.3% increase due to the higher employee turnover or separation in the fiscal year.

Summary Schedule of Plan Fiduciary Net Position

Assets	**2014**	**2013**	**Difference**
Total cash and investments	$3,815,298,551	$3,442,446,100	$372,852,451
Total fixed assets	3,806	5,075	(1,269)
Total receivables	163,462,101	108,827,163	54,634,938
Total assets	3,978,764,458	3,551,278,338	427,486,120
Total liabilities	212,704,793	197,346,235	15,358,558
Net position restricted for pension	**$3,766,059,665**	**$3,353,932,103**	**$412,127,562**

Summary Schedule of Additions and Deductions

Additions	**2014**	**2013**	**Difference**
Contributions			
Employer	$129,618,309	$127,448,018	$2,170,291
Plan Members	32,758,587	32,551,927	206,660
Total investment income	490,196,386	245,374,617	244,821,769
Total Additions	652,573,282	405,374,562	247,198,720
Deductions			
Benefit payments	235,204,611	219,229,038	15,975,573
Refunds of contributions	3,356,282	2,988,397	367,885
Administrative expenses	1,884,827	1,877,620	7,207
Total deductions	240,445,720	224,095,055	16,350,665
Net increase/(decrease)	**$412,127,562**	**$181,279,507**	**$230,848,055**

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/.

Statement of Fiduciary Net Position

As of June 30, 2014

Assets		
Cash and short-term investments		
Equity in County's pooled cash and temporary investments	$4,550,641	
Cash collateral received for securities on loan	39,803,388	
Short-term investments	135,148,368	
Total cash and short-term investments		$179,502,397
Fixed Assets		
Equipment, net	3,806	
Total fixed assets		3,806
Receivables		
Accounts receivable	4,935,820	
Accrued interest and dividends	10,981,723	
Investment proceeds and other receivables	147,544,558	
Total receivables		163,462,101
Investments, at fair value		
Common and preferred stock	1,418,920,216	
Fixed income		
Asset-backed securities	255,465,805	
Corporate and other bonds	460,041,691	
U.S. Government obligations	101,312,758	
Pooled and mutual funds	1,400,055,684	
Total investments		3,635,796,154
Total assets		3,978,764,458
Liabilities		
Investment purchases and other liabilities	165,763,981	
Cash collateral received for securities on loan	39,803,388	
Accounts payable and accrued expenses	7,137,424	
Total liabilities		212,704,793
Net position restricted for pensions		**$3,766,059,665**

See accompanying notes to financial statements.

Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2014

Additions		
Contributions		
Employer	$129,618,309	
Plan members	32,758,587	
Total contributions		$162,376,896
Investment income		
Net appreciation in fair value of investments	406,152,719	
Interest and other investment income	65,434,731	
Dividends	31,024,328	
Total investment income	502,611,778	
Investment activity expense		
Management fees	(11,754,030)	
Custodial fees	(127,836)	
Consulting fees	(71,387)	
Allocated administration expense	(869,342)	
Total investment expense	(12,822,595)	
Net income/(loss) from investment activities		489,789,183
Securities lending activities		
Securities lending income	620,513	
Securities lending expenses	(213,310)	
Net income from securities lending activities		407,203
Total net investment income		490,196,386
Total additions		652,573,282
Deductions		
Annuity benefits	222,547,552	
Disability benefits	7,828,824	
Survivor benefits	4,828,235	
Refunds of employee contributions	3,356,282	
Administrative expense	1,884,827	
Total deductions		240,445,720
Net increase		412,127,562
Net position restricted for pensions		
Beginning of fiscal year		3,353,932,103
End of fiscal year		**$3,766,059,665**

See accompanying notes to financial statements.

Notes to the Financial Statements

As of and for the year ended June 30, 2014

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 Fiduciary 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, 2014, the bank balance of the County's public deposits was either insured by the Federal Deposit Insurance Corporation or through the State Treasury Board pursuant to the provisions of the Security for Public Deposit Act. 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 2014, the System implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* issued in March 2012. The System adopted the statement during the fiscal year ended June 30, 2014. This statement establishes accounting and financial standards that reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources, deferred inflows of resources, or current period outflows and inflows. Upon careful review, it has been established that the System does not have any applicable reporting changes.

In fiscal year 2014, the System implemented GASB Statement No. 67, *Financial Reporting for Pension Plan* (GASB 67), issued in June 2012. The System adopted GASB 67 during the fiscal year ended June 30, 2014, which addresses the accounting and financial reporting requirements for pension plans. The requirements for GASB No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. Paragraph 8 of Statement 67 specifies that a primary government and its component units should be considered to be one employer for purposes of classifying a defined benefit pension plan. With the implementation of GASB 67, the System, which is a component of Fairfax County Government, is now recognized as a single employer defined benefit plan. This is a change from prior years when the System was reported as a multiple employer defined benefit plan.

B. Plan Description, Board Composition, Deferred Retirement Option Program, Contributions, and Deductions

Plan Description. The System is a single 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 Options A and B, attain the age of 50 with age plus years of service being greater than or equal to 80, or (c) for Options 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 Options C & D). Unused sick leave is also used to increase years of service for calculating benefits and determining retirement eligibility.

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.

Board of Trustees. Ten members serve on the Fairfax County Employees' Retirement System. Four of the members are citizens appointed by the Fairfax County Board of Supervisors. Three of the members are elected by Fairfax County Government Employees, Fairfax County Public Schools Employees, and Fairfax County Retirees respectively. The Director of Human Resources, the Director of Finance, and the Assistant Superintendent of Human Resources at the Fairfax County Public Schools also serve as Ex Officio members.

Membership. At July 1, 2013, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	7,263
Terminated plan members entitled to but not yet receiving benefits	1,576
Deferred Retirement Option Program (DROP) participants	670
Active plan members	14,011
Total	**23,520**

Deferred Retirement Option Program. Members eligible for normal retirement may elect to enter Deferred Retirement Option Program (DROP.) As a DROP member, he or she will continue to work and receive a salary for a maximum period of three years while an amount equal to what could have been received as a retirement benefit is credited to his or her DROP account. (No pre-Social Security Supplements are paid into DROP accounts for Plans C & D). The monthly benefit that will be credited to the DROP account is determined by the years of service and Average Final Compensation at the DROP entry date. During the DROP period, the retirement plan accumulates his or her accrued monthly benefit which is payable at the end of the DROP period. The DROP account balance is credited at an annual interest rate of 5%, compounded monthly. At the end of the DROP period, the DROP member must terminate employment with the Fairfax County Government and will begin receiving his or her monthly retirement benefit. Upon DROP exit, the retiree can elect to receive the balance of the DROP account in the form of a lump sum distribution, a rollover to another qualified plan (or IRA), or as an addition to the monthly retirement annuity. The DROP balance as of June 30, 2014, was $51,610,103.

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 Option A or Option 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 Option C or Option D. Options 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. Options 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, 2014, was 18.7% of annual covered payroll. The decision was made to commit additional funding and a rate of 19.30% was adopted for fiscal year 2014. Total contributions for the fiscal year ended June 30, 2014, amounted to $162.4 million.

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.

C. Investments

Investment Policy. 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 following was the System's adopted asset allocation policy as of June 30, 2014. Our asset allocation policy commonly exceeds 100% because we monitor the target exposures to both direct investments in asset classes plus notional exposure to asset classes through derivative positions such as Futures held at the portfolio level. We also commonly include notional exposures for select Investment Managers that have a mandate from the Board to provide the System with additional asset class exposure using leverage or derivatives.

Asset Class	Target Exposure
U.S. Equities	20.00%
International Equities	10.00%
Core Fixed Income	73.00%
High Yield	7.50%
Absolute Return	20.00%
Real Estate	7.50%
Commodity	5.00%

Concentrations. The investment policy states that the securities of any one issuer shall not exceed 10.0% at market value. At June 30, 2014, the System did not have investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one issuer that represents 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.

Rate of Return. For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 14.85%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The System's investment quality ratings at June 30, 2014, were as follows:

Type of Investment	Fair Value	Ratings	Percent of Fixed
U.S. Government obligations	$101,312,758	AA	12.5%
Corporate & other bonds	11,101,448	AAA	1.4%
	40,168,223	AA	4.9%
	49,348,468	A	6.0%
	19,185,446	BBB	2.4%
	93,271,985	BB	11.4%
	123,432,546	B	15.1%
	50,807,939	CCC	6.2%
	72,725,636	Unrated	8.9%
Asset-backed securities	312,472	AAA	0.0%
	85,356,221	AA	10.5%
	5,127,295	A	0.6%
	5,804,590	BBB	0.7%
	3,782,089	BB	0.5%
	2,669,936	B	0.3%
	29,608,676	CCC	3.6%
	4,483,115	CC	0.5%
	49,753,898	D	6.1%
	68,567,513	Unrated	8.4%
Total fixed income	**$816,820,254**		100.0%
Short-term investments	$521,898	AA	
	134,626,470	Unrated	
	$135,148,368		

As of June 30, 2014, the fixed income portfolio, excluding pooled funds, consisted of 39.6% invested in investment grade securities, 43.7% invested in below-investment-grade securities and 16.7% was invested in unrated securities.

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

The System's investments' sensitivity to interest rates at June 30, 2014, follows:

Investment Type	Fair Value	Option- Adjusted Duration (yrs)	Percentage of Fixed
U.S. Government obligations	$101,312,758	6.6	12.5%
Corporate and other bonds	460,041,691	4.7	56.3%
Asset-backed securities	255,465,805	3.7	31.2%
Total fixed income	**$816,860,254**	4.6	100.0%
Short-term investments	**$135,148,368**	0.1	

As of June 30, 2014, duration of the System's overall fixed income portfolio excluding pooled funds was 4.6 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, 2014, held in currencies other than US dollars were as follows:

International Securities	Short Term Investments & other	Equity	Convertible & Fixed Income	Total
Euro Currency Unit	$6,623,571	$53,750,735	$30,172,327	$90,546,633
Japanese Yen	1,204,898	50,019,742	19,754	51,244,394
Pound Sterling	103,762	36,774,189	10,975,387	47,853,338
Australian Dollar	130,193	19,041,880	20,225,179	39,397,252
Mexican New Peso	70	2,771,141	28,476,765	31,247,976
Hong Kong dollar	26,600	22,286,426		22,313,026
Canadian Dollar	310,380	13,899,316	208,384	14,418,080
Swizz Franc	5,029	13,749,815		13,754,844
Danish Krone	(8)	12,140,855		12,140,847
Singapore Dollar	180,400	8,500,046		8,680,446
Brazil Real			8,653,314	8,653,314
Swedish Krona	27,584	8,625,724		8,653,308
South Korean Won			8,591,805	8,591,805
S African Comm Rand	30	1,986,778	6,428,258	8,415,066
Polish zloty	49		8,340,376	8,340,425
New Zealand Dollar	26,481	347,067	6,968,152	7,341,700
Hungarian Forint	4		7,176,519	7,176,523
Indonesian Rupiah			4,157,838	4,157,838
Malaysian Ringgit			3,823,981	3,823,981
Other Currencies	90,542	3,747,330	2,605,051	6,442,923
	$8,729,585	**$247,641,044**	**$146,823,090**	**$403,193,719**

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 2014, 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 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, 2014, the System held the following four types of derivative financial instruments: 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 Fiduciary 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, 2014, is as follows.

Types of Futures	Base Exposure	Notional Cost
Cash and cash equivalents Futures		
Long	$113,276,780	$111,627,300
Commodity Futures		
Long	30,145,735	29,649,908
Short	(15,069,721)	(15,020,135)
Fixed income futures		
Long	335,128,776	332,528,690
Equity futures		
Short	(21,964,500)	(21,636,000)
Grand Total	**$441,517,070**	**$437,149,763**

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 the information on the System's swap contracts outstanding at June 30, 2014.

	Base Exposure	Market Value
Equity Swaps:		
Equity Index Swaps	($7,764)	($7,764)
Total Return Swaps	(9,055)	1,165
Variance Swaps	6,090	6,090
Fixed Income Swaps:		
Credit Default Swaps	100,553	98,735
Inflation Swaps	(3,488)	(3,488)
Interest Rate Swaps	43,826	47,139
Total Return Swaps	-	-
Commodity Swaps:		
Commodity Swaps	70,533	70,533
Total	**$200,695**	**$212,410**

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, 2014.

Foreign Currency Contracts Purchased	**Notional (Local Currency)**	**Unrealized Gain/(Loss) ($US)**
Australian Dollar	(11,092,000)	($152,221)
Brazil Real	(5,098,962)	(16,935)
Euro Currency Unit	(35,268,680)	108,431
Hungarian Forint	(121,564,350)	3,568
Japanese Yen	(383,600,000)	(12,290)
Mexican New Peso	(1,379,898)	(1,219)
New Zealand Dollar	(9,170,000)	(92,676)
Polish Zloty	(22,900,000)	(22,975)
Pound Sterling	(146,000)	(4,433)
		($190,750)

Foreign Currency Contracts Sold	**Notional (Local Currency)**	**Unrealized Gain/(Loss)($US)**
Brazil Real	7,648,443	$40,708
Chilean Peso	4,196,400,000	10,988
Euro Currency Unit	9,850,248	49,800
Indian Rupee	578,260,680	(110,168)
Japanese Yen	191,800,000	4,726
Mexican New Peso	11,974,773	(2,907)
New Zealand Dollar	1,305,000	7,261
Polish Zloty	1,071,262	1,787
		$2,195

Net Unrealized Gain (Loss) on Foreign Currency Spot and Forward Contracts	**($188,555)**

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, 2014.

Option Types	Position	Call/Put	Cost	Market Value	Unrealized Investment Gain/(Loss)
Commodity	Purchased	Call	$132,300	$2,940	($129,360)
	Written	Call	(142,454)	(10,058)	132,396
	Written	Put	(20,119)	(261)	19,858
Total Commodity			**(30,273)**	**(7,379)**	**22,894**
Equity	Written	Call	(11,440)	(393)	11,047
	Written	Put	(5,210)	(191)	5,019
Total Equity			**(16,650)**	**(584)**	**16,066**
Fixed Income	Purchased	Put	16,707	1,940	(14,767)
	Written	Put	(28,311)	(25,896)	2,415
Total Fixed Income			**(11,604)**	**(23,956)**	**(12,352)**
Grand Total			**($58,527)**	**($31,919)**	**$26,608**

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, 2014.

Securities Lent	Underlying Securities	Cash Collateral Investment Value	Securities Collateral Investment Value
Lent for cash collateral			
US Government securities	$1,214,863	$1,243,163	
Corporate and other bonds	7,081,477	7,243,629	
Common and preferred stock	30,324,757	31,316,596	
Lent for securities collateral			
US Government securities	21,534,954		$23,429,076
Corporate and other bonds	14,058,812		14,393,641
Common and preferred stock	230,457,894		255,685,972
Total	**$304,672,757**	**$39,803,388**	**$293,508,689**

The System did not impose any restrictions during fiscal 2014 on the amounts of loans the lending agent made on its behalf. At June 30, 2014, 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, 2014, had a weighted-average maturity of seven 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. Net Pension Liability, Actuarial Method and Assumptions

Net Pension Liability. The components of the net pension liability at June 30, 2014, were as follows:

Total pension liability	$4,807,873,661
Plan fiduciary net position	(3,766,059,665)
Net pension liability	$1,041,813,996
Plan fiduciary net position as a percentage of the total pension liability	78.3%

Actuarial Methods and Assumptions. The Total Pension Liability was determined by an actuarial valuation as of June 30, 2013, using the following actuarial assumptions, applied to all periods included in the measurement.

Discount rate, net of plan investment expenses	7.500%
Inflation	3.000%
Salary increases, including inflation	3.0% + merit
Investment rate of return, net of plan investment expenses	7.50%
Municipal bond rate	N/A
Projected period of unfunded benefit payments	None

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. In the Schedule of Changes in Net Pension Liability, the beginning of year amount differs from the actuarial accrued liability listed in the July 1, 2013, actuarial valuation report due to differences in the funding method and assumption changes. GASB Statement No. 67 requires the use of a very specific funding method, which was not used in the previous valuations. The actuary recommended and the Board of Trustees adopted refinements to the termination assumption and recognition of unused sick leave balances in the development of the TPL.

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 each 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 County is required to contribute at an actuarially determined rate; the rate for the year ended June 30, 2014, was 18.70 percent of annual covered payroll. The decision was made to commit additional funding and a rate of 19.30 percent was adopted for fiscal year 2014. Since the ERS's adjusted funded ratio (the ratio of the sum of the actuarial value of assets and commitments already made to fund changes to the actuarial accrued liability) has fallen below 90 percent, the contribution rate includes a margin to amortize this shortfall back to the 90 percent level. In fiscal year 2011 the target was increased to a 91 percent level and with the 2015 fiscal year contribution it will be increased again to 93 percent. The intent of the County is to continue increasing the amortization target until full actuarial funding has been restored. The goal is to reach an amortization to 100 percent in contributions at or before fiscal year 2022.

Mortality rates with adjustments for mortality improvements were based on the RP 2000 Mortality tables projected to 2015 using Scale AA.

For purposes of the GASB 67, the Total Pension Liability (TPL) was determined by applying standard update procedures to roll forward to the June 30, 2014, fiscal year-end, amounts from an actuarial valuation as of June 30, 2013.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the period July 1, 2005–June 30, 2010.

Long Term Expected Rate of Return. The long term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, are summarized below.

Asset Class	Long Term Expected Real Rate of Return
U.S. Equities	4.50%
International Equities	5.10%
Core Fixed Income	2.00%
High Yield	3.20%
Absolute Return	6.00%
Real Estate	5.30%
Commodity	4.50%

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

In making this determination, we assumed the outflows would equal the anticipated benefit payments from the 2013 actuarial valuation. The administrative expenses attributable to current actives were assumed to equal 0.20% of payroll. The inflows to the plan were assumed to continue at the average aggregate rate for the 2013 active population of 4.71% of payroll and County contributions were projected at 20.15% for fiscal years 2015 through 2036. After that time the County contribution was assumed to drop to the normal cost plus expenses (8.50%) since the unfunded actuarial liability is expected to be paid off by that time.

We also used the actual Fiduciary Net Position at June 30, 2014, in the projections.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the County, calculated using the discount rate of 7.5 percent, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1-percentage-pont lower (6.5 percent) or 1-percentage-higher (8.5 percent) than the current rate.

Sensitivity of Net Pension Liability to Changes in Discount Rate

	1% Decrease	**Discount Rate**	**1% Increase**
	6.50%	**7.50%**	**8.50%**
Total Pension Liability	$5,480,533,135	$4,807,873,661	$4,259,269,552
Plan Fiduciary Net Position	3,766,059,665	3,766,059,665	3,766,059,665
Net Pension Liability	$1,714,473,470	$1,041,813,996	$493,209,887
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.7%	78.3%	88.4%

E. 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)

Schedule of Changes in the Net Pension Liability and Related Ratios

For the fiscal year ending June 30, 2014

Total Pension Liability	
Service cost	$84,074,831
Interest	340,919,519
Changes in benefit terms	0
Differences between expected an actual experience	0
Changes in assumptions	0
Benefit payments, including refunds of member contributions	(238,560,893)
Net change in Total Pension Liability	186,433,457
Total Pension Liability - beginning	4,621,440,204
Total Pension Liability - ending (a)	$4,807,873,661
Plan Fiduciary Net Position	
Contributions - employer	$129,618,309
Contributions - member	32,758,587
Net investment income	490,196,386
Benefit payments, including refunds of member contributions	(238,560,893)
Administrative expenses	(1,884,827)
Net change in Plan Fiduciary Net Position	412,127,562
Plan Fiduciary Net Position - beginning	3,353,932,103
Plan Fiduciary Net Position - ending (b)	$ 3,766,059,665
Net Pension Liability (Asset) - ending (a)-(b)	$ 1,041,813,996
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.3%
Covered Employee Payroll	$671,597,456
Net Pension Liability as a Percentage of covered Employee Payroll	155.12 %

The total pension liability contained in this schedule was provided by Cheiron, the System's Actuary. The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the Employees' Retirement System.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Net Pension Liability

Date	6/30/2014
Total Pension Liability	$4,807,873,661
Plan Fiduciary Net Position	3,766,059,665
Net Pension Liability	$1,041,813,996
Plan Fiduciary Net Position as a Percentage of the Total Plan Liability	78.3%
Covered employee payroll	$671,597,456
Net pension Liability as a percentage of covered payroll	155.12%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Employer Contributions

Fiscal Year	Actuarial Determined Contribution	Contributions in relations to the Actuarial Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
2014	$129,618,309	$129,618,309	$-	$671,597,456	19.30%
2013	127,448,018	127,448,018	-	669,018,467	19.05%
2012	114,682,538	114,682,538	-	666,758,942	17.20%
2011	96,607,535	96,607,535	-	657,194,116	14.70%
2010	64,069,102	64,069,102	-	659,825,973	9.71%
2009	65,110,832	65,110,832	-	676,827,775	9.62%
2008	62,636,121	62,636,121	-	653,139,948	9.59%
2007	57,452,711	57,452,711	-	621,110,389	9.25%
2006	49,436,463	49,436,463	-	599,957,075	8.24%
2005	46,958,113	46,958,113	-	581,164,765	8.08%

Notes to Schedule

Valuation Date	6/30/2013
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year

Key Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age Normal
Asset valuation method	3-year smoothed market
Amortization method	Corridor method, amortize liability outside of 90% corridor over an open 15 year period with level % of payroll. In fiscal year 2011 through 2014 the target was increased to a 91% level.
Discount rate	7.50%
Amortization growth rate	3.00%
Price inflation	3.00%
Salary increases	3.00% plus merit component based on employee's years of service
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA

A complete description of the methods and assumptions used to determine contribution rates for the year ending June 30, 2014, can be found in the June 30, 2012, actuarial valuation report.

Schedule of Money-Weighted Rate of Return

Fiscal Year	Annual Money-Weighted Rate of Return, Net of Investment Expense
2014	14.85%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Additional Supplementary Information

Schedule of Investment & Consultant Expenses

For the Year Ended June 30, 2014

Investment Activity Expenses	
Investment manager fees	$11,754,030
Custodial fees	127,836
Consultant Expenses	
Consultant expenses	71,387
Total investment and consulting expenses	**$11,953,253**

Schedule of Administrative Expenses

For the Year Ended June 30, 2014

Personnel services		
Salaries and wages	$993,908	
Fringe benefits	411,328	
Total personnel services		$1,405,236
Professional services		
Actuarial	64,859	
Audit	35,516	
Legal	14,937	
Total professional services		115,312
Communications		
Phone charges	14,129	
Printing, binding and copying	8,692	
Postage	18,085	
Total communications		40,906
Supplies		
Office supplies	13,397	
Total supplies		13,397
Other services and charges		
Board and staff travel and development	19,251	
Professional memberships	2,542	
Professional subscriptions	1,320	
Insurance	31,986	
Building rent	82,541	
Depreciation Expense	846	
Computer system	151,994	
Other operating	19,496	
Total other services and charges		309,976
Total Administrative Expenses		**$1,884,827**

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County of Fairfax, Virginia

To protect and enrich the quality of life for the people, neighborhoods and diverse communities of Fairfax County

December 5, 2014

Dear Members of the Board of Trustees:

Fiscal year 2014 followed a strong 2013 and the System benefited from strong performance across almost all asset classes. Global equities and fixed income assets ended in the black and their gains came amidst startlingly low volatility. Investors embraced risk-on trades as the Federal Reserve focused on creating jobs and kept in place an accommodative monetary policy. Investors showed resilience to headline risks related to the government shutdown, uncertainty as to Bernanke's successor, a severe downward revision to U.S. GDP, a reduction in the Fed quantitative easing program, and geopolitical tensions arising from Russia and the Middle East.

As the 2013 calendar year came to a close, the U.S. economy appeared to be picking up steam with rising growth and falling unemployment even as the Fed began to modestly taper its monetary stimulus. Investor sentiment turned positive in September 2013 when Janet Yellen emerged as the favored candidate to serve as the chair of the Federal Reserve. The U.S. consumer was a key driver to the strengthening economy with consumption, income and retail sales all achieving all time highs in the last fiscal quarter of 2014. U.S. Federal public debt continues to grow and now exceeds 100% of GDP, however higher debt levels, here and across the Globe, prove to be manageable in what many fear is an artificially low interest rate environment. In the final quarter of the fiscal year, all major asset classes moved higher - overlooking a severe revision downward for the first quarter U.S. GDP growth to -1.0%, attributed to poor weather.

Macro policy and politics affected global markets with fears of a slowdown in China's growth, European debt woes, and slowing growth in emerging markets. Most of the world's leading central banks maintained their supportive monetary policies. Following a strong fiscal 2013, growth assets in developed markets continued their upward trajectory, while emerging market stocks and bonds rallied in the last fiscal quarter to offset the weak performance in the prior quarter. Markets mostly shrugged off the geopolitical tensions arising from Russia taking control of Crimea, and the sustained economic slowdown in emerging economies. Emerging market assets continued their recovery with large inflows pouring into equity and debt during the last quarter as investors dismissed balance of payment concerns.

Domestic Equity Markets

U.S. equity markets were up strongly in 2014 fiscal year, producing positive returns across the board and outpacing a strong 2013. Throughout the year, investors shrugged off the "fiscal cliff", the change in leadership at the Federal Reserve, the "taper tantrum", the government shutdown, and geopolitical tensions in the Middle East. Large cap stocks outperformed small cap stocks by

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Phone: 703-279-8200∗1-800-333-1633∗Fax: 703-273-3185
www.fairfaxcounty.gov/retirement/

+1.0% as the S&P 500 returned +24.6% for the fiscal year and finished the year by posting its 6th consecutive quarter of gains and the Russell 2000 returned +23.6% for the fiscal year. Large cap growth outperformed large cap value with the Russell 1000 Growth up 26.9% compared to +23.1% for the Russell 1000 Value. The same trend held true in smaller cap names as the Russell 2000 Growth returned +24.7 as compared with the Russell 2000 Value Index return of +22.5%.

Domestic Fixed Income Markets

Bond markets rallied for the fiscal year, with the star performers being high-yield bonds, leveraged loans, and U.S. credit. Credit spreads tightened significantly while the 10-Year U.S. Treasury bond yielding 2.5% finished the fiscal year essentially flat with the beginning of the year. For the fiscal year the Barclays Aggregate Bond Index returned +2.0% while high yield bonds posted strong gains returning +11.7%. Demand for floating-rate assets climbed through the year. With concern around rising interest rates, bank loans ended the year with gains of +5.6%, according to the S&P LSTA Loan Index. Despite record new supply, investment grade credit posted strong performance, with Barclays U.S. Credit gaining +7.4% for the one-year period ended June 30, 2014.

International Markets

International equity markets were boosted by improving economic data and lower debt yields in Europe, especially in some of the more troubled regions such as Greece, Italy, and Spain. International developed market equities as measured by the MSCI EAFE Index (a broad index of the international developed market equities) returned +24.1% for the year with the strongest contribution coming from Europe and the UK. Emerging market investments were bolstered by improving confidence in Latin America, positive election results in India, and better economic conditions in China. Emerging markets equities, as measured by the MSCI Emerging Markets Index, returned +14.7% for the year with the strongest results coming from Asia.

International fixed income markets were generally positive with the Barclay's Global Aggregate Bond Index up +7.4%. Emerging market debt was also a clear winner in the first half of 2014 following a challenging 2013. In addition to the accommodative action by the ECB, declining Treasury yields and economic stability in several emerging market countries provided a tailwind for the asset class. According to the JPM GBI-EM Global Diversified Index, emerging market debt had a stellar year, returning +11.6%.

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 balanced 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 2014, investments provided a return of 15.2%, gross of fees (14.9%, net of fees). The System's annualized rates of return, gross of fees, were 10.7% (10.3%, net of fees) over the last three years and 16.2%, (15.7%, net of fees), over the last five years. These System returns ranked in the 81st percentile of The Bank of New York Mellon universe of public plans for 2014, in the 24th percentile for the latest 3-year period, and in the 1st percentile of public plans for the last 5 years.

During the past twelve months, Quantitative Management Associates was added to the Emerging Markets Equity manager lineup replacing the TCW Worldwide Opportunities Fund. The Employees' System added two fixed income managers, Lazard Emerging Markets Debt Blend Fund and PIMCO BRAVO (Bank Recapitalization and Value Opportunities) Fund II to the lineup, and Gramercy Distressed Opportunities Fund and Gramercy Argentina Debt Fund were removed. PIMCO All Asset Fund was added to the Absolute Return Manager lineup.

Sincerely,

Gregory A. Samay
Chief Investment Officer

Investments by Category and Investment Manager**

June 30, 2014

Asset Class Manager	Investment Style	Total Fair Market Values	% of Total Portfolio
Domestic Equities			
Columbia Wanger Asset Management	Small/Mid Cap Core	$234,020,451	6.2%
DePrince, Race & Zollo	Large Cap Value	158,594,926	4.2%
Enhanced Inv. Technologies (INTECH)	Large Cap Growth	162,194,714	4.3%
Pzena Investment Management	Large Cap Value	148,262,037	3.9%
Sands Capital Management	Large Cap Growth	82,226,757	2.2%
International Equities			
BlackRock Emerging Markets	Emerging Markets Index	52,820,607	1.4%
First Eagle Investment Management*	Developed Markets	57,585,175	1.5%
LSV Asset Management	Developed Markets Value	100,423,683	2.7%
Marathon Asset Management*	Developed Markets	54,064,917	1.4%
Quantitative Management Associates*	Emerging Markets	61,416,231	1.6%
WCM Investment Management	Developed Markets	91,245,053	2.4%
Fixed Income			
Brandywine Asset Management	Global Bonds	189,239,781	5.0%
Bridgewater Associates	Enhanced Multi-Asset Real Return	476,413,630	12.6%
Bridgewater Associates*	TIPS Index	232,566,790	6.2%
Czech Asset Management*	Direct Lending	29,685,126	0.8%
DoubleLine Capital	Mortgage-Backed Securities	230,509,798	6.1%
DoubleLine Capital	Special Mortage Credit	43,055,694	1.1%
JPMorgan Global Maritime Fund*	Distressed Opportunity	8,958,776	0.2%
JPMorgan*	Fixed Income Opportunity Fund	10,173,394	0.3%
Lazard Asset Management*	Emerging Markets Debt	36,703,023	1.0%
MacKay Shields	High Yield Bonds	97,646,714	2.6%
Pacific Investment Management Co. (PIMCO)*	Bank Recapitalization/Value	13,484,033	0.4%
Pacific Investment Management Co. (PIMCO)*	Distressed Senior Credit	64,482,210	1.7%
Post Advisory	High Yield Bonds	102,173,461	2.7%
Shenkman Capital Management	High Yield Bonds	92,499,218	2.5%
Real Estate and Commodity			
Cohen & Steers Capital Management	Int'l Real Estate Securities	91,277,336	2.4%
Cohen & Steers Capital Management	U.S. Real Estate Inv. Trusts	232,173,432	6.2%
Pacific Investment Management Co. (PIMCO)	Collateralized Commodity Futures	93,951,067	2.5%
Absolute Return			
BGI Global Ascent Fund*	Global Macro Absolute Return Fund	50,443,414	1.3%
BGI GlobalAlpha Fund*	Multi-Strategy Absolute Return Fund	83,036,226	2.2%
Deephaven Capital Management*	Multi-Strategy Absolute Return Fund	61,134	0.0%
Eagle Trading Systems*	Global Macro Absolute Return Fund	58,555,344	1.6%
FrontPoint Partners*	Multi-Strategy Absolute Return Fund	343,411	0.0%
Pacific Investment Management Co. (PIMCO)*	Global Credit Opportunity Fund	92,953,339	2.5%
Pacific Investment Management Co. (PIMCO)*	Global Macro Absolute Return Fund	84,391,427	2.2%
Pacific Investment Management Co. (PIMCO)*	Multi-Strategy Absolute Return Fund	74,200,446	2.0%
Short-term			
BNY Mellon Cash Investment Strategies	Plan Level Cash Accounts	55,037,650	1.5%
Cash Held at County Treasurer	Operating Cash Account	4,562,036	0.1%
The Clifton Group	Policy Implementation Overlay	16,825,002	0.5%
Total Investments		**$3,768,257,463**	**100.0%**

* Pooled fund

**See Pages 7-8 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, 2014. 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.

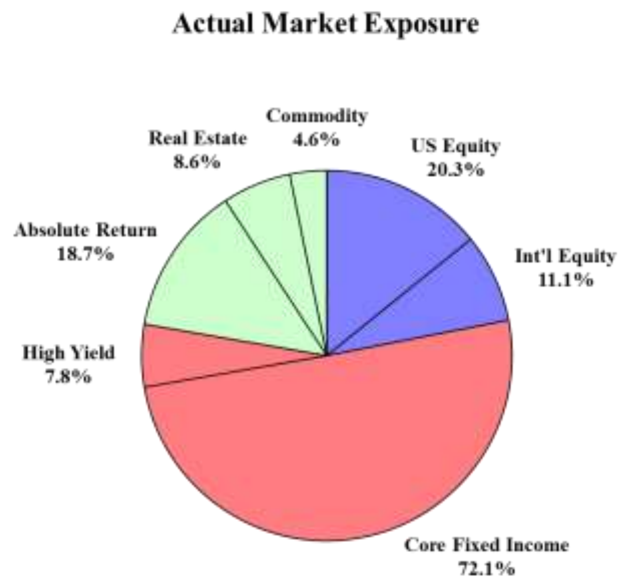
The pie chart below details the target asset mix, consistent with the achievement of the long-term objectives of the System, as of June 30, 2014.

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

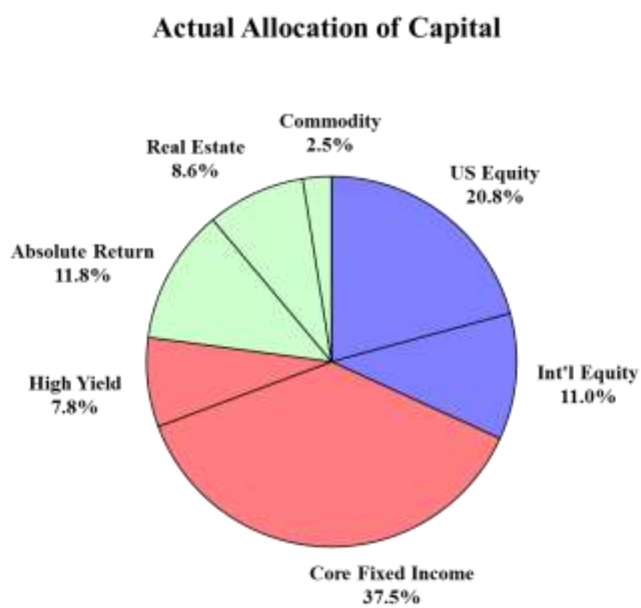
Actual Allocations as of June 30, 2014

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, 2014.

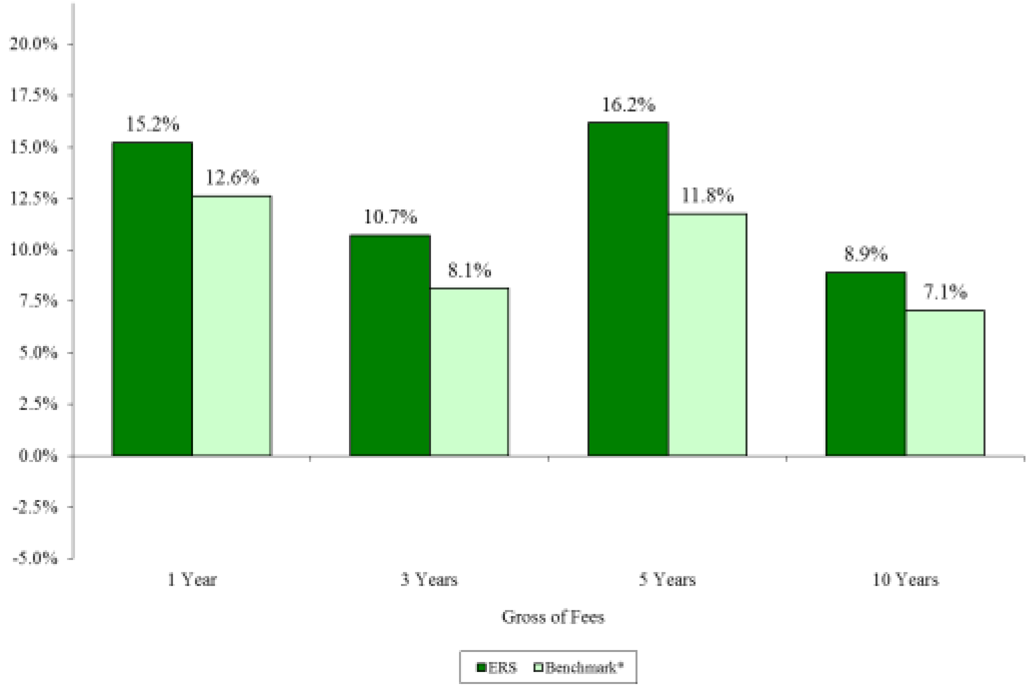


Total Exposure exceeds 100% from the addition of futures and other derivative instruments



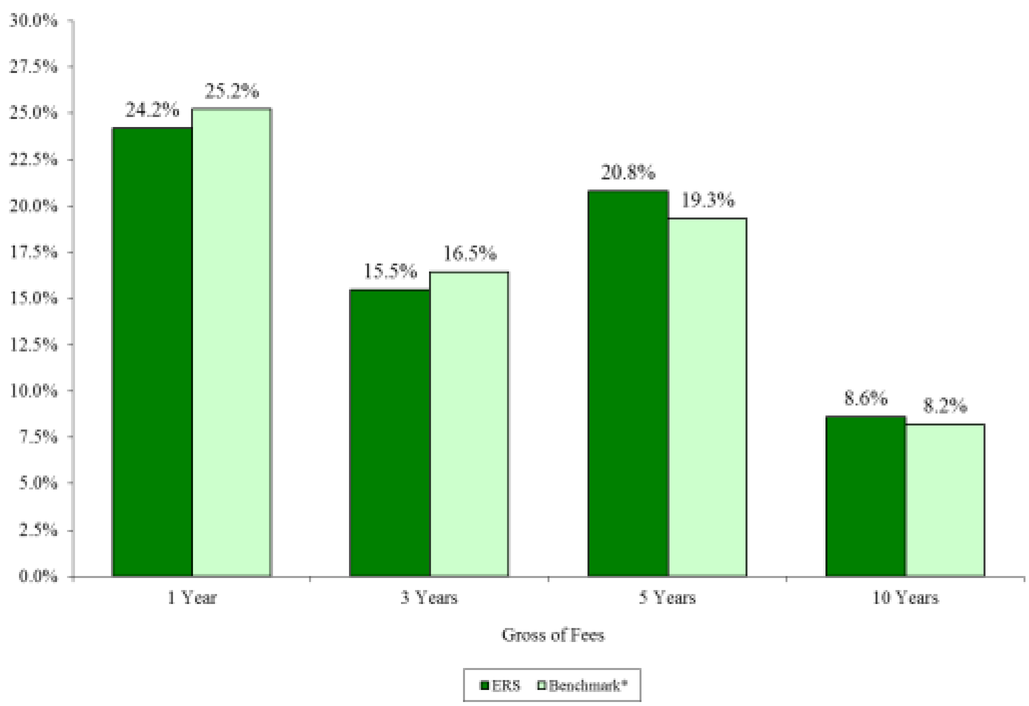
Investment Results
(Time weighted return, gross of fees)

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:

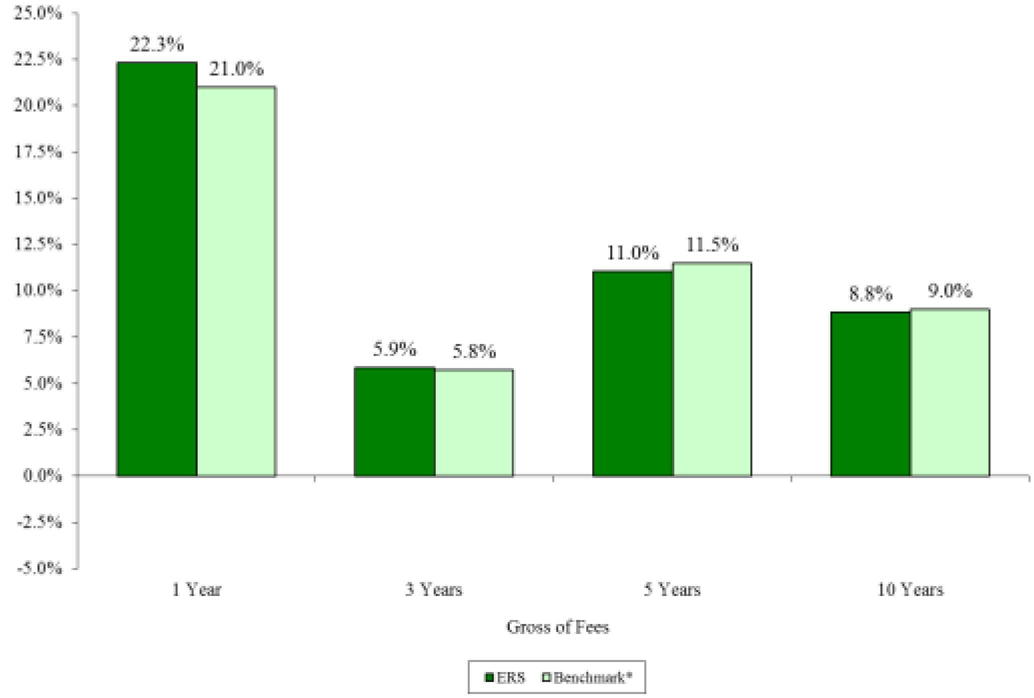


*Benchmark: Russell 3000

Investment Results

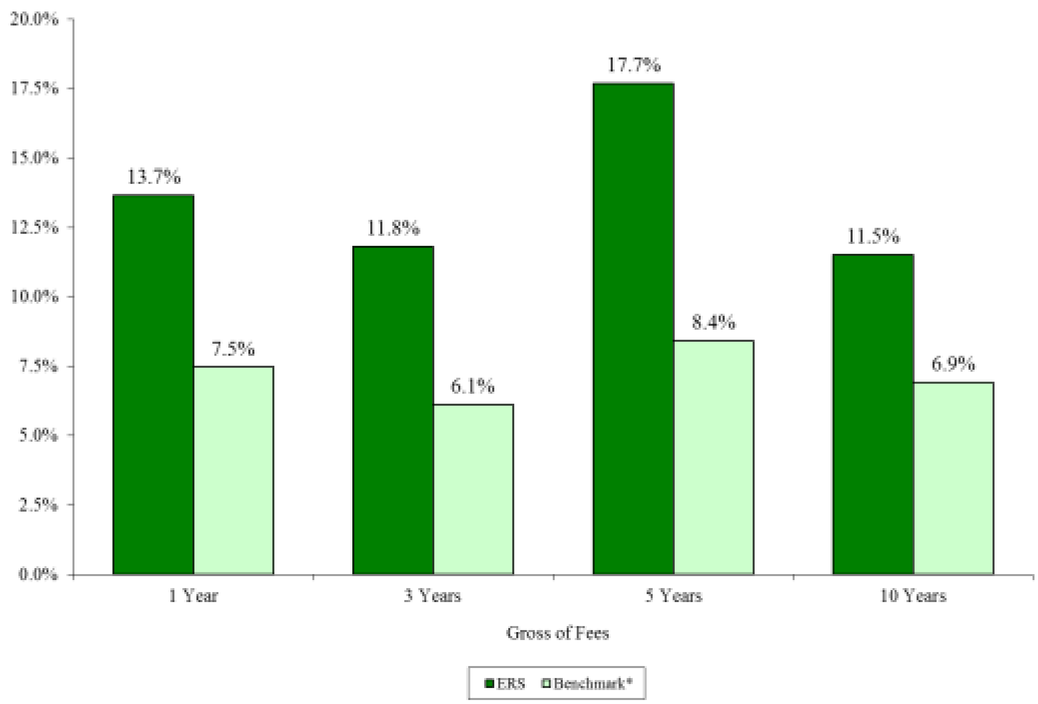
(Time weighted return, gross of fees)

International Equity:



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

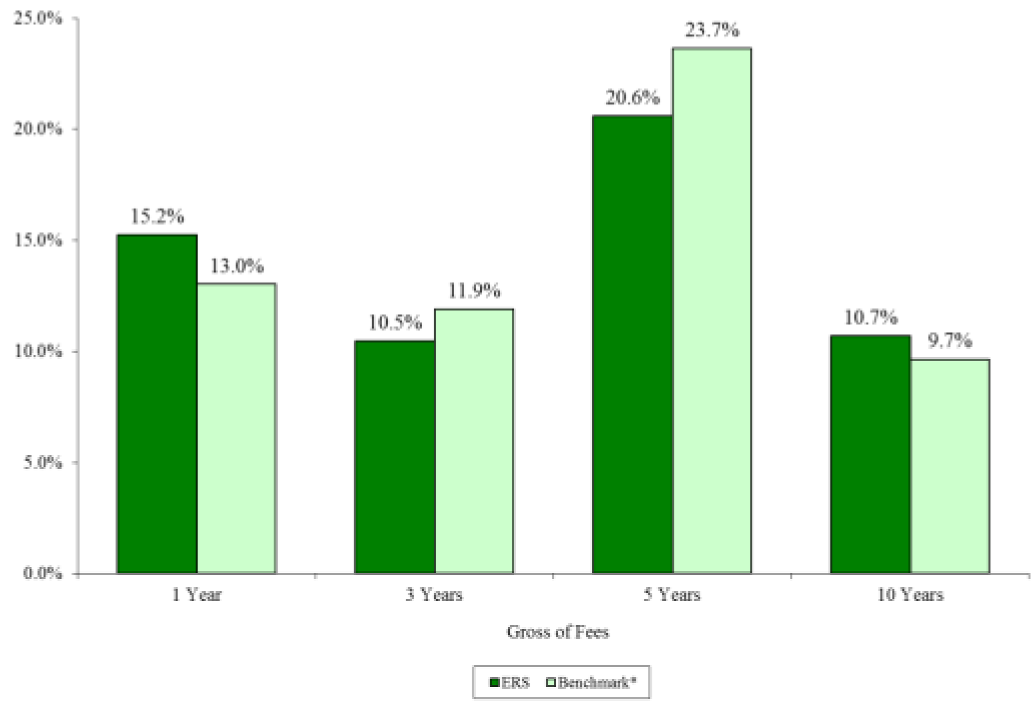
Fixed Income:



*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
147,784	Simon Property Group Inc	$15,044,556	$24,573,524	0.65%
200,470	Equity Residential	10,858,626	12,629,610	0.34%
286,046	Prologis Inc	9,943,116	11,753,630	0.31%
62,477	Public Storage	8,192,777	10,705,434	0.28%
154,953	Ventias Inc	8,789,425	9,932,487	0.26%
88,935	Sl Green Realty Corp	7,021,142	9,730,378	0.26%
87,838	Vornado Realty Trust	6,989,783	9,374,950	0.25%
303,970	UDR Inc	7,377,611	8,702,661	0.23%
211,325	Hewlett-Packard Co	5,992,591	7,117,426	0.19%
297,006	General Growth Properties Inc	5,725,454	6,997,461	0.19%
	Total	**$85,935,081**	**$111,517,561**	**2.96%**

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
17,282,346	U.S. Treas-CPI Inflat, 1.250%, 07/15/2020	$19,032,348	$18,948,537	0.50%
9,010,000	Italy Buoni Poliennali Del Tes, 5.000%, 08/01/2039	10,321,553	14,646,459	0.39%
6,195,000	United Kingdom Gilt, 2.750%, 01/22/2015	10,574,120	10,724,398	0.28%
10,280,000	New South Wales Treasury Corp, 5.000%, 08/20/2024	9,367,805	10,598,538	0.28%
106,180,000	Mexican Bonos, 8.500%, 11/18/2038	9,442,016	9,975,404	0.26%
9,413,073	U.S. Treas-CPI Inflat, 0.625%, 07/15/2021	10,275,206	9,915,355	0.26%
107,900,000	Mexican Bonos, 7.750%, 11/13/2042	9,205,295	9,418,531	0.25%
10,150,000	U.S. Treasury Bond, 2.875%, 05/15/2043	8,913,469	9,274,563	0.25%
93,020,000	Mexican Bonos, 8.500%, 05/31/2029	8,390,771	8,759,131	0.23%
7,800,020	U.S. Treas-CPI Inflat, 0.125%, 04/15/2018	7,956,696	8,060,853	0.21%
	Total	**$103,479,279**	**$110,321,769**	**2.91%**

*Full disclosure of holdings is available upon request.

Schedule of Brokerage Commissions
For Year Ended June 30, 2014

Broker Name	Base Volume	Total Shares	Base Commission	Commission Percentage
Nomura Secs Intl Inc, New York	$5,121,622	109,921	$ 7,684	0.15%
SMBC Securities, Inc New York	4,817,781	142,431	7,227	0.15%
Mizuho Securities USA Inc. New York	4,746,678	123,662	7,117	0.15%
Credit Lyonnais Secs (Asia), Hong Kong	4,660,590	2,532,281	6,386	0.14%
G-Trade Services Ltd, Hamilton	14,251,048	3,127,378	19,467	0.14%
Kas Bank Nv, Amsterdam	4,963,345	394,361	6,368	0.13%
Citigroup Gbl Mkts/Salomon, New York	6,972,716	2,799,463	8,899	0.13%
Goldman Sachs & Co, Ny	118,950,736	3,313,190	150,994	0.13%
Barclays Capital Inc, New York	5,261,149	210,787	6,658	0.13%
Abn Amro Clearing Bank N.V, Amsterdam	4,436,322	236,189	5,308	0.12%
Macquarie Equities Ltd, Sydney	4,039,266	1,626,156	4,813	0.12%
JPMorgan Secs Ltd, London	13,541,716	631,366	15,330	0.11%
UBS Warburg Asia Ltd, Hong Kong	10,419,868	3,715,757	11,362	0.11%
Leerink Swann & Co, Jersey City	4,304,961	156,286	4,689	0.11%
Citigroup Gbl Mkts Inc, New York	31,796,068	1,327,660	32,331	0.10%
Daiwa Secs Amer Inc, New York	6,092,253	737,451	6,192	0.10%
Merrill Lynch Intl London Equities	12,638,455	5,636,955	12,704	0.10%
Pershing Llc, Jersey City	14,211,094	396,291	13,668	0.10%
Barclays Capital, London	5,903,581	433,490	5,586	0.09%
Barclays Capital Le, Jersey City	17,342,719	582,733	14,613	0.08%
JPMorgan Securities Inc, Brooklyn	7,399,879	225,108	6,163	0.08%
Stifel Nicolaus	26,056,895	756,388	21,147	0.08%
Morgan Stanley & Co Inc, Ny	58,005,858	5,394,144	43,901	0.08%
Cantor Fitzgerald & Co Inc, New York	5,503,511	149,103	4,082	0.07%
J.P. Morgan Clearing Corp, New York	36,670,064	1,480,738	27,014	0.07%
Jonestrading Instl Svcs Llc, Westlake	8,858,107	360,843	6,460	0.07%
Deutsche Bk Secs Inc, Ny	54,972,236	3,384,249	37,192	0.07%
Liquidnet Inc, Brooklyn	11,594,916	270,900	7,751	0.07%
BNY Convergex, New York	32,575,953	983,020	20,235	0.06%
BNY Convergex/LJR, Houston	17,234,618	381,117	10,472	0.06%
Cowen and Company Llc, New York	26,480,734	678,503	15,613	0.06%
Credit Suisse (Europe), London	3,959,347	302,857	2,321	0.06%
Credit Lyonnais Secs, Singapore	11,143,324	629,650	6,517	0.06%
Keybanc Capital Markets Inc, New York	6,206,610	100,291	3,572	0.06%
Credit Suisse, New York	49,700,345	3,661,510	27,650	0.06%
Bernstein Sanford C & Co, New York	21,354,380	388,217	11,606	0.05%
UBS Securities Llc, Stamford	45,273,822	1,135,809	24,366	0.05%
ISI Group Inc, Ny	10,469,757	165,579	5,621	0.05%
Jefferies & Co Inc, New York	36,862,020	922,835	18,875	0.05%
Merrill Lynch Pierce Fenner Smith Inc Ny	84,049,182	2,174,076	42,243	0.05%
Rosenblatt Securities Llc, Jersey City	103,494,633	1,608,972	51,749	0.05%
Guzman & Company, Coral Gables	27,295,998	488,800	13,648	0.05%
Instinet Corp, Ny	95,072,123	1,758,858	47,535	0.05%
Cap Instl Svcs Inc-Equities, Dallas	39,854,949	678,800	19,927	0.05%
Rbc Capital Markets Llc, New York	9,697,594	224,566	4,751	0.05%
Weeden & Co, New York	36,312,456	659,409	17,373	0.05%
Bloomberg Tradebook Llc, New York	28,802,136	907,891	13,622	0.05%
Scotia Capital Mkts, Toronto	5,489,739	212,861	2,232	0.04%
Merrill Lynch Professional Clrg, Purchas	9,553,152	227,800	3,280	0.03%
Hsbc Bank Plc (Midland Bk)(Jac), London	5,097,093	1,201,010	1,558	0.03%
Other Brokers	102,172,148	16,212,515	111,042	0.11%
Total	**$1,311,685,547**	**75,960,227**	**$976,914**	**0.07%**

Investment Summary
(Based on Capital Allocation)

	As of June 30, 2013		As of June 30, 2014	
	Market Value	**% Market Value**	**Market Value**	**% Market Value**
Domestic Equities	$634,991,581	18.9%	$785,298,885	20.8%
International Equities	334,979,558	10.0%	417,555,666	11.0%
Fixed Income	1,400,191,823	41.7%	1,627,591,648	43.2%
Alternative Investments	361,208,396	10.8%	417,401,835	11.1%
Absolute Return	399,489,550	11.9%	443,984,741	11.8%
Short-term	224,367,987	6.7%	76,424,688	2.1%
Total	**$3,355,228,895**	**100.0%**	**$3,768,257,463**	**100.0%**

CHEIRON Classic Values, Innovative Advice

March 24, 2014

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, 2013. 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 and will fully fund the actuarially determined contribution. 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 includes an additional charge once the actuarial funded ratio falls below 90%. Originally this additional charge was designed to amortize the amount of underfunding to the 90% threshold. The actuary and Board have recommended and the Employer has taken steps to increase this target from 90% until it reaches a target of 100%.

Assumptions

The actuarial assumptions used in performing the July 1, 2013, 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

March 24, 2014
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 2013 information shown in historical sections of this report. 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

Fiona E. Liston, FSA
Principal Consulting Actuary

Christian Benjaminson

Christian E. Benjaminson, FSA
Principal Consulting Actuary

CHEIRON

Summary of Valuation Results

Overview

This report presents the results of the July 1, 2013, 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 System;
- Indicate trends in the financial progress of the System;
- Determine the contribution rate to be paid by the employer for Fiscal Year 2015; 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. The rate includes an additional charge once the actuarial funded ratio falls below 90%. Originally this additional charge was designed to amortize the amount of underfunding to the 90% threshold. The actuary and Board have recommended and the Employer has taken steps to increase this target from 90% until it reaches a target of 100%.

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 1.50%, 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%
2013 Reduce Disability Offset	N/A	+ 0.01%
Total Increase	**+ 1.06%**	**+ 1.50%**

The basic corridor funding contribution is currently 8.61% 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%, or other higher amounts) will be established based on a 15-year amortization equal to the amount necessary to re-enter the corridor.

The valuation as of July 1, 2013, 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 2015 as calculated under this method decreases from 18.70% to 18.32% of payroll, on the basis of this year's valuation results. The Employer's FY 2014 contribution was actually based on amortizing to reach 91% funded, rather than amortizing just to re-enter the corridor and in FY 2015 the actuary and Board have recommended the Employers contribute an amount to amortize to 93% funded. On that basis, the contribution in FY 2014 was 19.30% and for FY 2015 it will be 20.15%.

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 2013, causing an actuarial gain on the asset side of the System. The actual return on a market value basis was approximately 7.81%. On an actuarial value basis, the assets returned 9.02% compared with an assumed rate of return of 7.5%. The gain recognized for funding purposes was $46.0 million.

The measurement of liabilities produced a loss this year in the amount of $39.4 million. This loss was due to experience not meeting our assumptions about salary increases, retirement behavior, death, etc. Specific components of the loss include:

- The average salary increase was 6.1% for active participants who were in both the July 1, 2012, and July 1, 2013, valuations. This was greater than the expected salary growth based on the actuarial assumption, which worked out to average 4.7%. This resulted in a loss of $12.7 million. The annual payroll was provided as of December 31, 2012, and adjusted to July 1, 2013. For County employees this included annualizing the 2.18% increase as of July 1, 2012, and applying a 2.5% increase effective January 1, 2013. For School employees this included annualizing the 3.25% increase from July 1, 2012, applying a 3% increase as of July 1, 2013 and an additional 2% increase as of January 1, 2014.

- The valuation assumed a 2.75% cost-of-living adjustment in 2013 for benefits in pay status. The actual CPI-based COLA was 1.4% last year, creating a liability gain of $22.0 million.

- The 2013 valuation incorporates actual sick leave hours into both eligibility and projected benefits for active participants. The accrual of additional sick leave from 2012 to 2013 produced a loss of $3.9 million as we do not currently include an assumption regarding sick leave accrual.

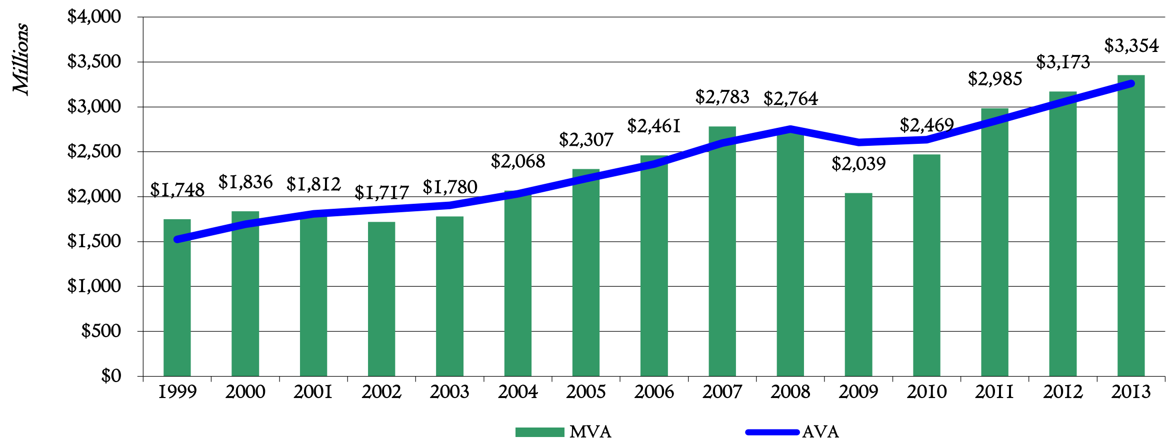
- An annual component of liability loss is the delayed recognition of new hires throughout the year. This does not contribute to an increase in the System’s unfunded liability because both the member and the employer make contributions from the date of hire. However, when we look only at the liability side, they are a component of the annual liability loss, and this year they contributed $6.7 million to that number.

- There was a $38.1 million liability loss component that is made up of various other causes such as members terminating, retiring, dying or becoming disabled in a way contrary to the assumption.

The combination of liability and investment experience and Employer plus member contributions over the last year led to the System’s funding ratio (actuarial value of assets over actuarial accrued liability) increasing from 71.6% at July 1, 2012, to 72.9% at July 1, 2013. For purposes of measuring whether the System remains within the funding corridor, an adjusted funding ratio is used. In this ratio, there is an additional asset recognized in the amount of the unfunded actuarial liability (UAL) payments being made by the Employer to pay for benefit increases and assumption changes. On this basis, the System’s actuarial funded ratio increased from 73.1% at July 1, 2012, to 74.2% at July 1, 2013.

It is important to take a step back from the latest results and view them in the context of the System’s recent history. On the next two pages, we present a series of charts which display key factors in the valuations over the last 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.

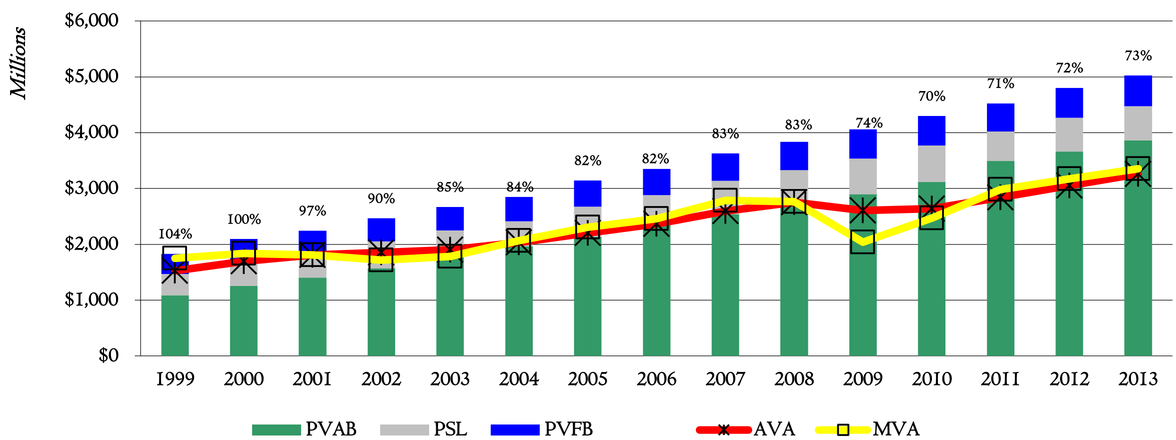
Growth in Assets



There was an increase in the market value of assets (MVA) over last year due to a return of 7.8%. The actuarial value of assets (AVA) increased slightly more than the MVA due to the continued recognition of recent asset gains. The System still has $92 million in unrecognized gains that will be phased in over the next few years.

Over the period July 1, 1999, to June 30, 2013, the System's assets returned approximately 7.5% per year measured at actuarial value, matching the valuation assumption of 7.5% per year.

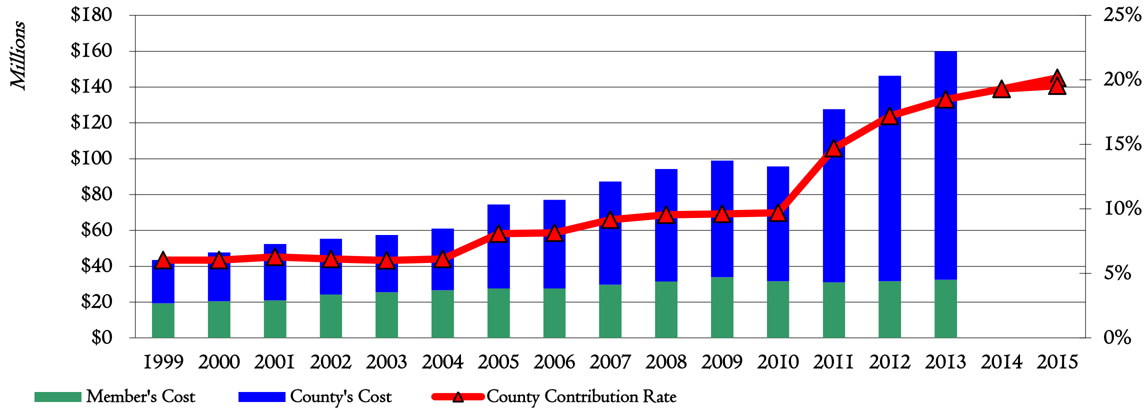
Assets and Liabilities



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 73% as a result of investment gains and losses, liability losses, and the underfunding inherent in the corridor method once it falls below 90%.

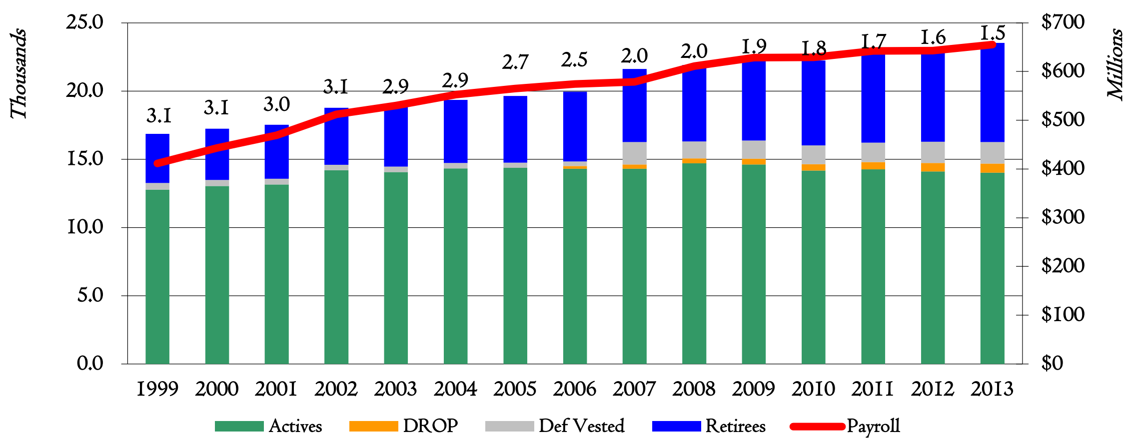
Contribution Rates



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

The member contribution rate is set by the County Ordinance. The Employer 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 2013 value is the rate prepared by the 2011 valuation and implemented for the period July 1, 2012, to June 30, 2013. For FY 2015, the graph shows both the basic corridor contribution rate and the anticipated rate using an "amortize to 93%" approach.

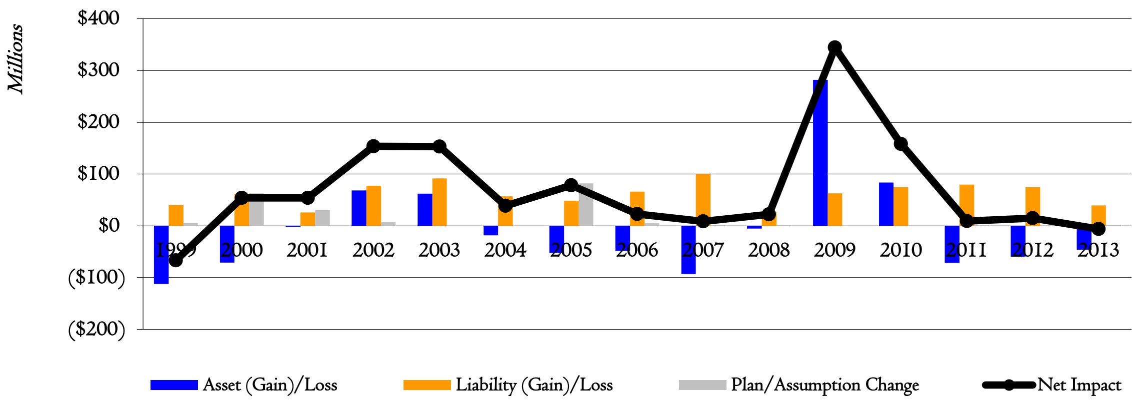
Participant Trends



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 3.1 actives to each inactive in 1999 to 1.5 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.

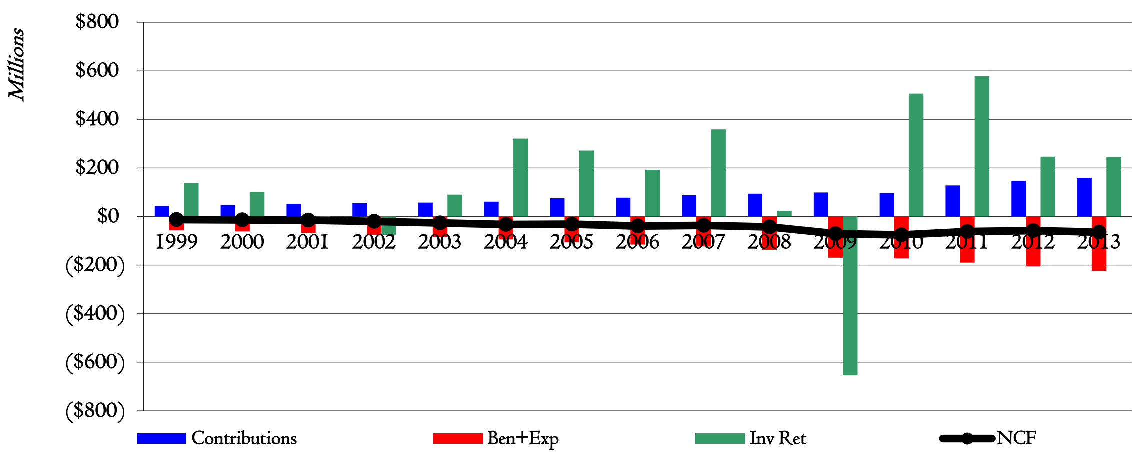
Starting in 2006, the chart also shows the number of DROP participants. Neither employer nor member contributions are made on their behalf, which leads to a slightly lower growth in effective covered payroll for this System.

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 changes in assumptions. The black line shows the net impact of all such changes in a given year. Positive numbers represent increases in the UAL, while negative numbers show reductions.

Cash Flow



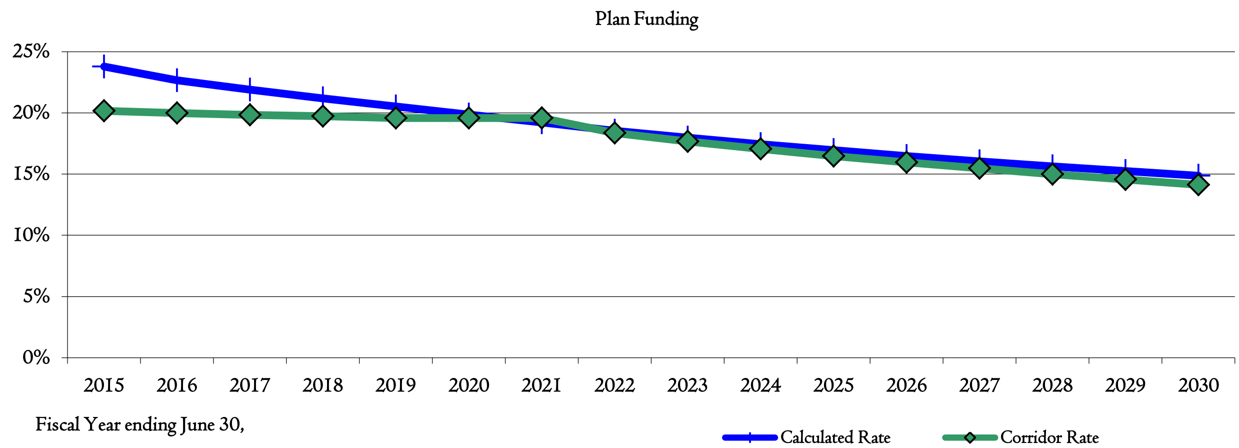
The graph shows the annual cash flows into and out of the System. The graph shows the magnitude of the investment returns on the market value (green bars) compared to the contributions (blue bars). The net cash flow (line) is comparing the contributions to benefits and expenses (red bar). Negative cash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

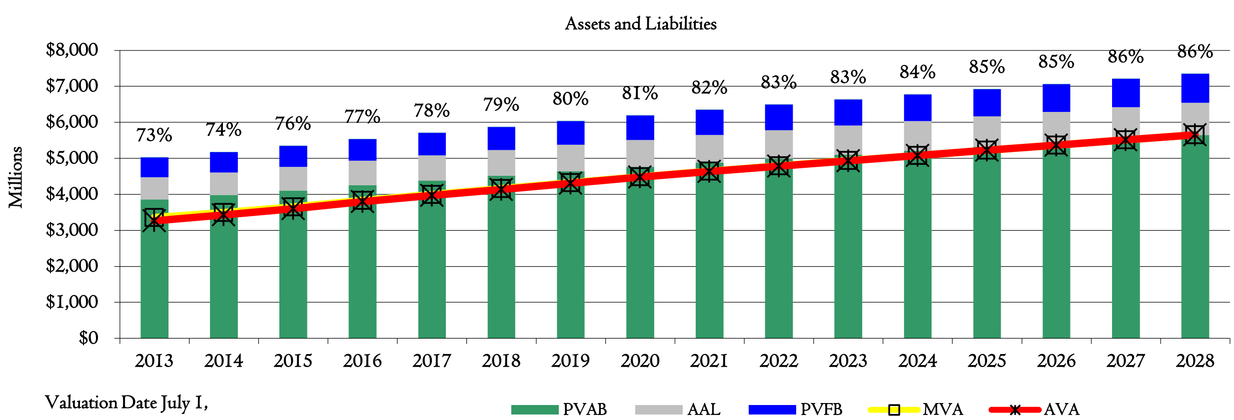
Future Outlook

Base-line Projections

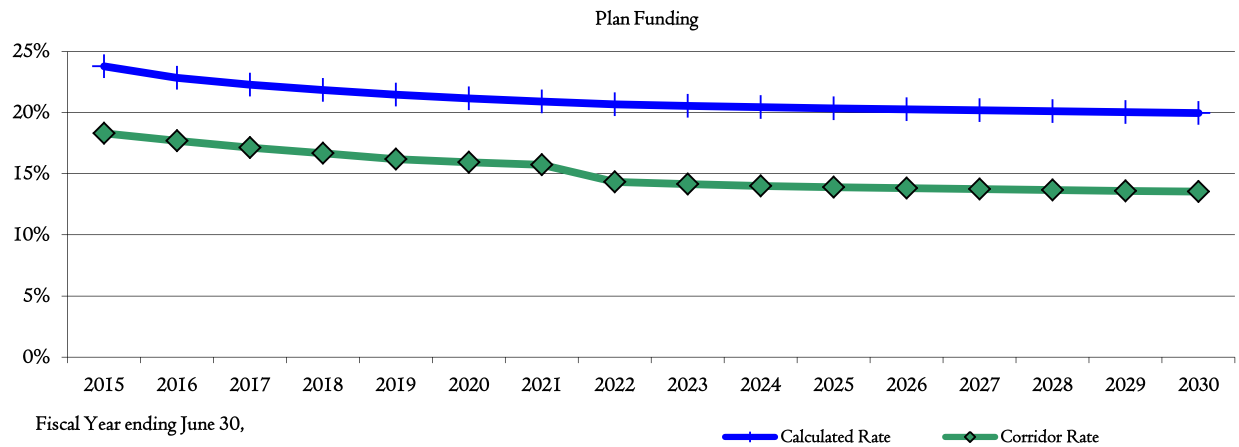
The two graphs below show the expected progress of the System over the next 15 years, assuming the System's assets earn 7.5% on their *market value.*

The graph entitled "Plan Funding" shows the projected contribution rates assuming the target corridor percent is increased each year from 93% to 100%. The Employer contribution rate is projected to decline over the period, 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, as plan change bases become fully amortized and drop out, and as more of the population is covered by Plans C & D. The blue line shows the actuarially calculated rate if the corridor were not in place.

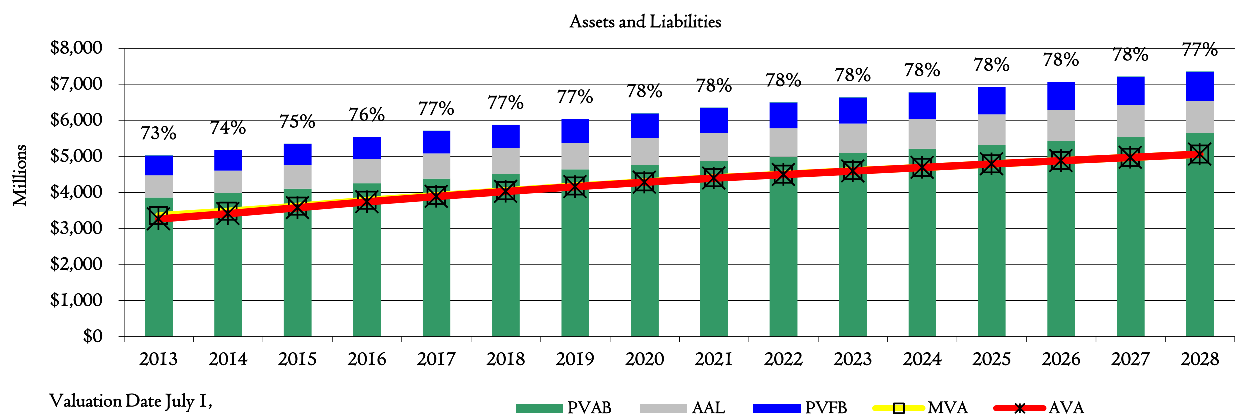




The System ordinance calls for amortizing to 90% of the corridor. The following graphs show the impact on Employer contributions and System funded status if the corridor target is not changed. Under these projections the Employer contribution decreases even more but at the expense of the System's funded ratio.



The "Assets and Liabilities" graph shows the projected funding status over the next 15 years. The 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.



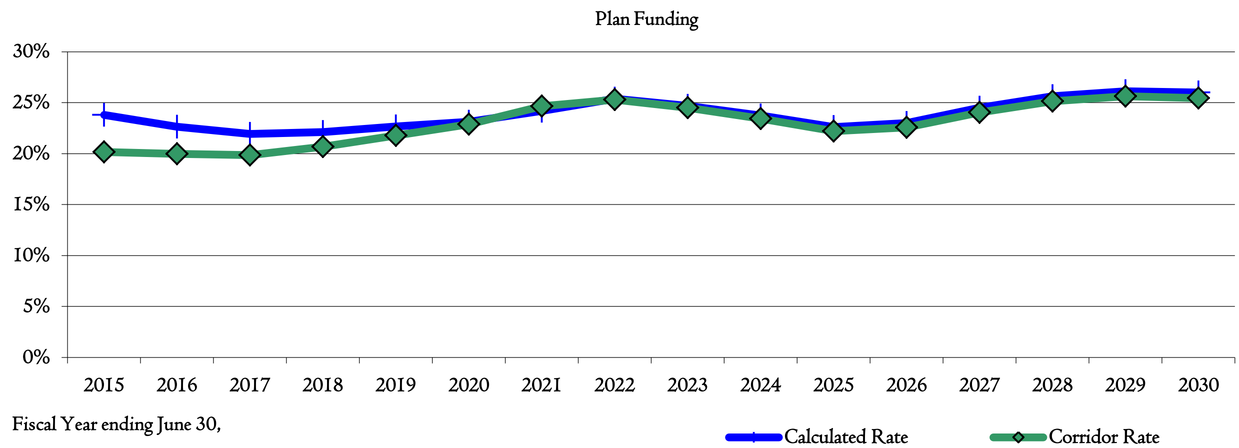
The future funding status of this System will be influenced by the investment earnings. The prior projection assumed the System would earn 7.5% each and every year, which is extremely unlikely.

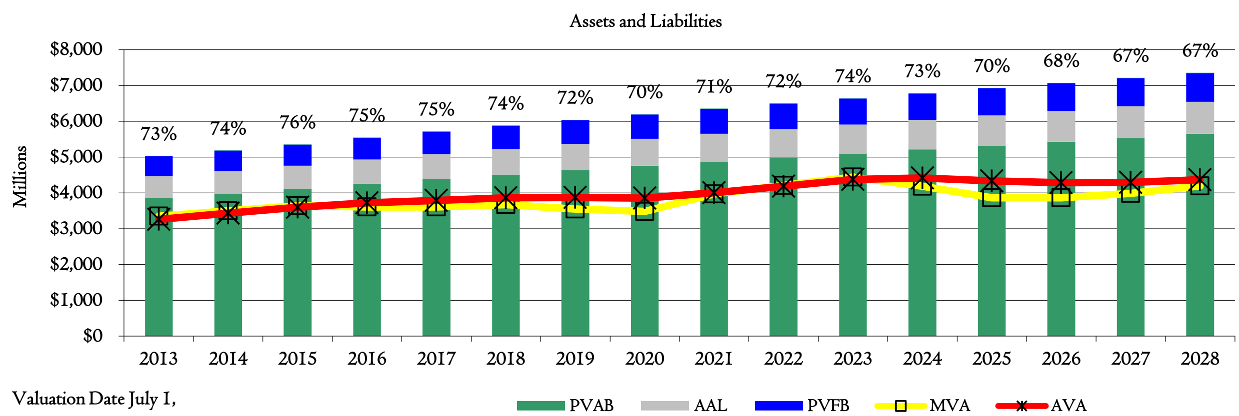
In the projections that follow, we show the risk to the System under volatile markets. Since 1980, the System has averaged a 10.3% return per year. In the following charts, we show results assuming returns over the next 15 years average 5.0%, 7.5%, and 10.0%. Different patterns of returns will produce different results from those shown here.

Fiscal Year Ending June 30,	Average 5.0%	Average 7.5%	Average 10.0%
2013	7.67%	2.34%	-5.85%
2014	7.05%	7.17%	4.54%
2015	1.67%	17.72%	18.15%
2016	2.98%	30.01%	32.56%
2017	5.16%	19.42%	-8.98%
2018	-0.19%	5.61%	12.47%
2019	1.48%	11.03%	17.81%
2020	17.59%	4.30%	-13.95%
2021	9.50%	15.60%	15.19%
2022	9.25%	-0.44%	14.83%
2023	-2.11%	2.05%	28.45%
2024	-3.75%	-8.37%	24.92%
2025	4.20%	4.65%	3.95%
2026	7.27%	-0.59%	7.37%
2027	9.17%	7.83%	10.22%
Average	**5.00%**	**7.50%**	**10.00%**

Alternative Projection -- with average return of 5.0% in the period

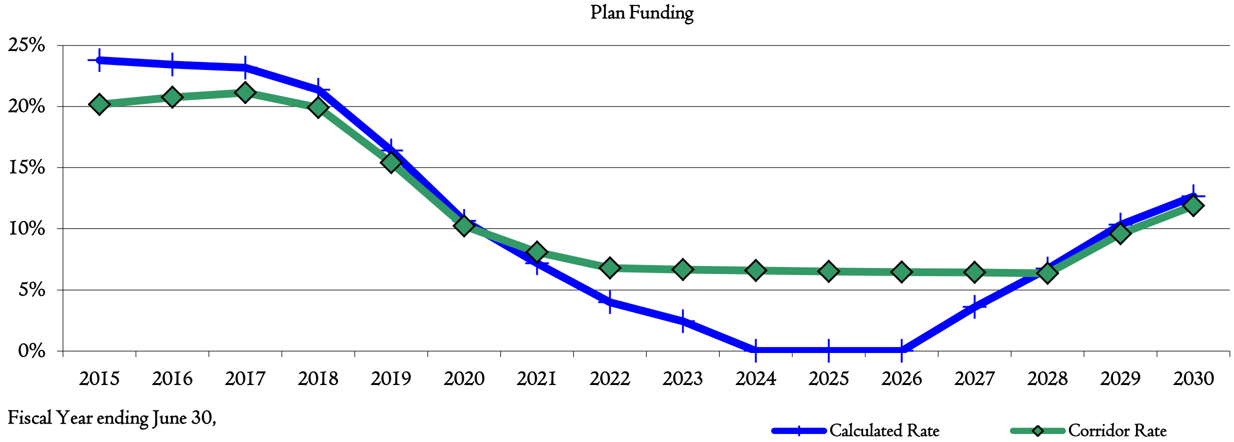
Under this scenario, the corridor contribution rate remains in the range of 20% to 25% of pay. The System funding drops to 67%, even with the ramping up of contributions from 93% of the corridor to 100%. This is a different pattern of returns than that shown earlier. The timing of the return pattern can significantly influence the projected funding ratios and contribution levels.

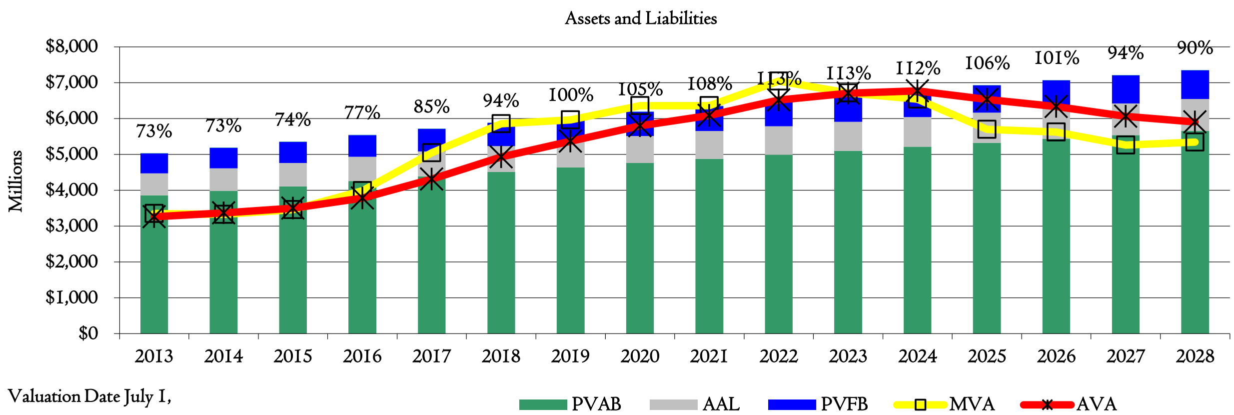




Alternative Projection – with average return of 7.5% in the period

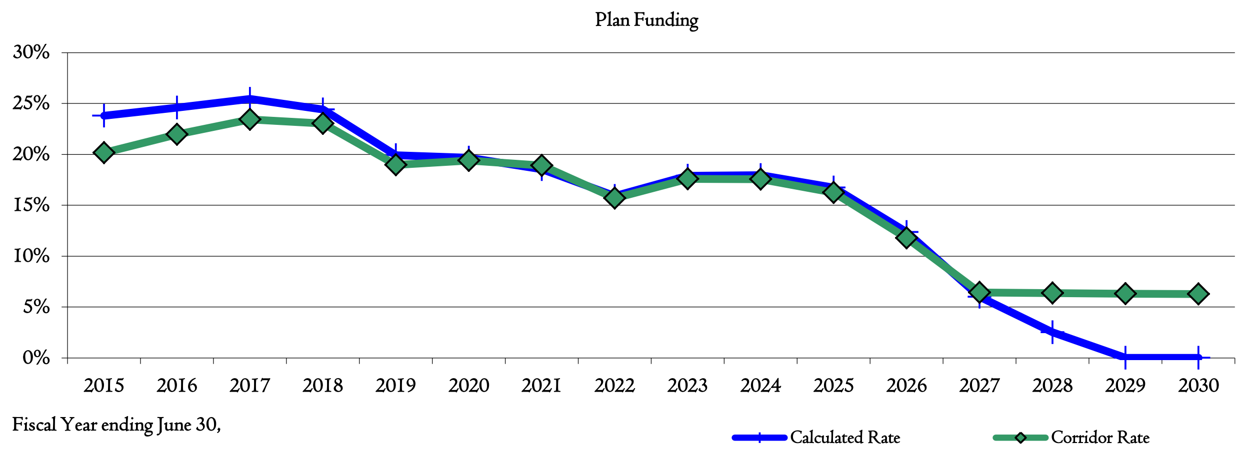
Under this scenario, the corridor contribution rate increases until the System re-enters the corridor in 2018 and reaches full funding in 2019.

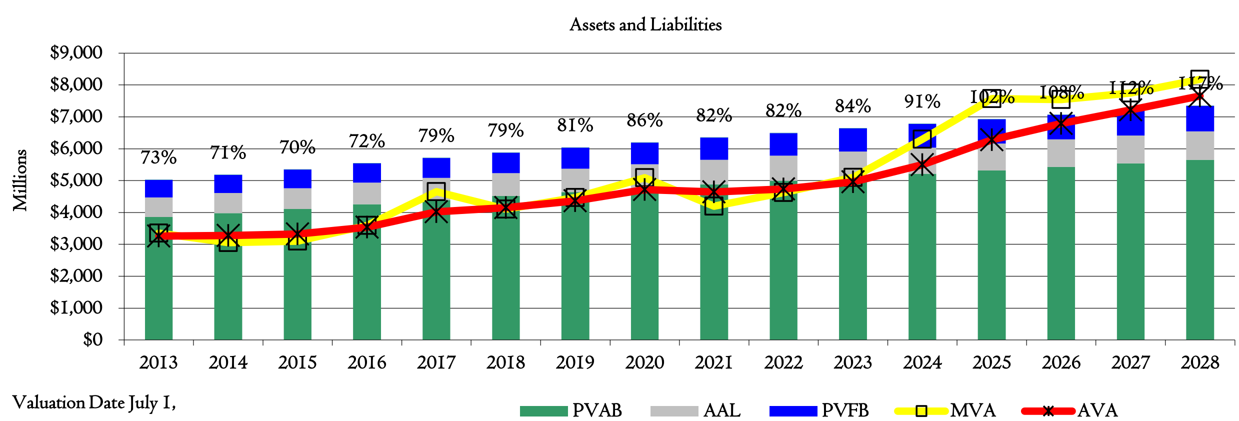




Alternative Projection -- with average return of 10.0% in the period

Under this scenario, the corridor contribution rate declines most years of the projection period until reaching the level of just paying normal cost by 2027.





Summary of Principal Plan Results **Valuation as of:**	**7/1/2012**	**7/1/2013**	**% Chg**
Participant Counts			
Actives (excluding DROP)	14,107	14,011	-0.7%
DROPs	629	670	6.5%
Terminated Vesteds	1,542	1,576	2.2%
In Pay Status	6,888	7,263	5.4%
Total	23,166	23,520	1.5%
Annual Salaries of Active Members	$ 642,638,926	$ 655,612,800	2.0%
Annual Retirement Allowances for Retired Members and Beneficiaries (Base amount only – not supplements)	$ 160,374,462	$ 173,400,323	8.1%
Assets and Liabilities			
Actuarial Accrued Liability	$ 4,264,175,438	$ 4,473,830,654	4.9%
Assets for Valuation Purposes	3,053,412,085	3,261,923,577	6.8%
Unfunded Actuarial Liability	$ 1,210,763,353	$ 1,211,907,077	0.1%
Funding Ratio	71.6%	72.9%	
Present Value of Accrued Benefits	$ 3,663,689,580	$ 3,862,092,452	5.4%
Market Value of Assets	3,172,652,596	3,353,932,103	5.7%
Unfunded Accrued Liability (not less than $0)	$ 491,036,984	$ 508,160,349	3.5%
Accrued Benefit Funding Ratio	86.6%	86.8%	
Contributions as a Percentage of Payroll	**Fiscal Year 2014**	**Fiscal Year 2015**	
GASB Method:			
Normal Cost Contribution	6.91%	6.91%	
Unfunded Actuarial Liability Contribution	16.99%	16.67%	
Administrative Expense	0.20%	0.20%	
Total Contribution	24.10%	23.78%	
Corridor Method:			
Normal Cost Contribution	6.91%	6.91%	
Increase Due to Amortized Changes	1.49%	1.50%	
Amortization of Amount Outside Corridor	10.10%	9.71%	
Administrative Expense	0.20%	0.20%	
Corridor Method	18.70%[1]	18.32%[2]	

[1] The actual contribution rate being paid by the Employer in FY 14 is 19.30%.
[2] Corridor Method based on amortization to 90% per current funding policy. Alternative rate calculations developed by amortizing to 93% is 20.15%.

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 July 1, 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 System, 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	**0-2**	**3-4**	**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	**0-2**	**3-4**	**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).

Deferred Retirement Option Program (DROP)

50% of retirees are assumed to enter DROP instead of immediate retirement. DROP participants are assumed to remain in DROP for three years and receive interest at 5% per annum on their DROP deferrals.

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.

* General Wage Increase assumption applies for projecting contributions and developing Social Security benefits.

** 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	2008	2009	2010	2011	2012	2013
Investment Income	$5,501,407	$(282,116,118)	$(83,485,934)	$71,698,746	$59,620,255	$46,004,262
Combined Liability Experience	(26,428,258)	(62,427,360)	(74,720,305)	(79,444,131)	(74,547,089)	(39,401,877)
Gain (or Loss) During Year from Financial Experience	**$(20,926,851)**	**$(344,543,478)**	**$(158,206,239)**	**$(7,745,385)**	**$(14,926,834)**	**$6,602,385**
Non-Recurring Items	(1,446,483)	0	0	(1,602,061)	0	(727,193)
Composite Gain (or Loss) During Year	**$(22,373,334)**	**$(344,543,478)**	**$(158,206,239)**	**$(9,347,446)**	**$(14,926,834)**	**$5,875,192**

Schedule of Retirees and Beneficiaries
Added To and Removed From Rolls

Year Ended	Added to Rolls		Removed From Rolls		On Rolls @ Yr. End		%Increase	Average
June 30,	No.	Annual Allowance	No.	Annual Allowance	No.	Annual Allowance	Allowance	Allowance
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
2013	559	17,469,060	184	3,336,404	7,263	200,930,125	7.57%	27,665

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)
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%
2013	355,254,873	2,587,007,980	1,531,567,801	3,261,923,577	100%	100%	21%

** 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
2005	$27,563,754	$446,958,113	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
2014	32,758,587	129,618,309	19.30%	490,196,386	652,573,282

Schedule of Deductions by Type

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Transfers	Total Deductions
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
2014	235,204,611	3,356,282	1,884,827		240,445,720

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
2014	222,547,552	3,416,714	4,412,110	4,828,235	235,204,611

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.

Please note, the following charts represent the same data as provided last year which is consistent with the underlying data used to determine the liability in both the financial and actuarial sections. Data for fiscal year 2014 will be updated next year.

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

Schedule of Average Monthly Benefits by Years of Service

Years of Credited Service*	2-4	5-9	10-14	15-19	20-24	25-29	30+
Period 7/1/2009 to 6/30/2010							
Average Monthly Benefit **	196	496	928	1,553	2,205	2,945	3,880
Average of Final Monthly Salaries	3,088	3,451	4,034	4,678	5,409	5,646	6,346
Number of Retirees	24	60	47	66	87	43	34
Period 7/1/2010 to 6/30/2011							
Average Monthly Benefit **	243	564	972	1,823	2,504	2,940	3,633
Average of Final Monthly Salaries	3,317	3,772	4,278	5,416	5,796	5,855	6,164
Number of Retirees	29	57	59	75	112	67	46
Period 7/1/2011 to 6/30/2012							
Average Monthly Benefit **	259	525	970	1,690	2,565	3,042	3,699
Average of Final Monthly Salaries	3,712	3,764	4,147	5,145	6,145	6,060	6,252
Number of Retirees	25	52	54	65	89	80	30
Period 7/1/2012 to 6/30/2013							
Average Monthly Benefit **	207	581	990	1,832	2,514	3,123	4,569
Average of Final Monthly Salaries	2,847	4,114	4,278	5,430	5,860	6,300	7,428
Number of Retirees	34	66	54	69	113	77	37

* The Years of Credited Service is the service used in the determination of benefits, which may be different than service for eligibility.

** Does not include supplements.

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Retirement SYSTEMS
EMPLOYEES' RETIREMENT SYSTEM
POLICE OFFICERS RETIREMENT SYSTEM
UNIFORMED RETIREMENT SYSTEM

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