



**ARLINGTON COUNTY, VIRGINIA
EMPLOYEES' RETIREMENT SYSTEM**

SUITE 504
2100 CLARENDON BOULEVARD
ARLINGTON, VIRGINIA 22201
TELEPHONES: (703) 228-3900
(800) 296-9510 FAX (703) 228-3902



BOARD OF TRUSTEES

Steven D. Ivins, President
Charles Berk, Vice President
Aaron McInturff, Secretary
Barbara Donnellan
Stephen Fisher
Warren Nelson
Nelson Rios, Treasurer

SUBSTITUTE TRUSTEES

Florence Hunt
Anthony Jones

ADMINISTRATOR

Bruce O. Kallos

October 22, 2002

To: The County and School Boards of Arlington County

Dear Board Members:

The Board of Trustees of the Arlington County Employees' Retirement System respectfully submits its annual report for the fiscal year ended June 30, 2002 as required in § 46-18 of the Arlington County Code.

The financial and actuarial information included in the report indicate that the Retirement System is financially sound and has no unfunded actuarial liability. Based on these reports, the System is well positioned to pay all retirement benefits when due.

A copy of this report will be available for inspection at the Retirement Office and at the County Central Library and on the Retirement web site. A summary of the report will be distributed to each member of the system.

Respectfully,

Steven D. Ivins



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Introductory Section



EMPLOYEES' RETIREMENT SYSTEM

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Arlington County
Employees' Retirement
System, Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Thomas A. Chave
President

Jeffrey L. Esder
Executive Director

Introductory Section



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ADMINISTRATOR

Bruce O. Kallos

October 22, 2002

To: The Board of Trustees of the Arlington County Employees' Retirement System

Dear Board Members:

The annual report of the Arlington County Employees' Retirement System (System) for the fiscal year ended June 30, 2002 is submitted herewith. Responsibility for both the accuracy of the financial information contained herein and for the completeness and fairness of the presentation rests with the staff and the Board of Trustees (Board).

As of June 30, 2002, the net assets of the System were \$1 billion, a decrease of \$80 million during the fiscal year. Investment return for the year was -3.7%. This Investment return, while disappointing on an absolute level, placed the System within the top quartile of the Master Trust universe and was 1.9% above the Benchmark return of -5.6%. The System is financially and actuarially sound. Simply put, retirees and employees of Arlington County need have no worries about their retirement benefits - the Retirement Fund (Fund) is sound and well positioned to pay retirement benefits as they are due.

This report consists of five sections: an **Introductory Section** which contains this letter of transmittal and organization charts; a **Financial Section** which contains the opinion of the independent auditors, the financial statements of the System and required supplemental information; an **Investment Section** which contains investment results and other information pertaining to investment policy and investment activities; an **Actuarial Section** which contains information from the most recent report from the System's independent actuary; and a **Statistical Section** which contains information pertaining to the membership of the System.

System History

The System was established as a defined benefit plan under authority of an act of the General Assembly of Virginia in Chapter 21 of the Code of the County (for Uniform and General Employees) as of December 21, 1953 and in Chapter 35 (for School Board Employees) as of January 1, 1969. System provisions were modified and all County employees hired on or after February 8, 1981 are covered by the provisions of Chapter 46 of the Code of the County. While different County employees have different benefits depending on their date of hire or type of employment, the System utilizes a single Fund for all participants and there is no segregation of assets for individual classes of employees. A formal Trust was adopted for the System during FY '02 and all assets are held in trust for the System.

Benefit Provisions

The System provides normal and early service retirement benefits for members who attain age and service requirements as specified in the County Code. 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 two years of service. Members are vested in the System after five years of service and are then eligible for benefits at their normal retirement date. However, Chapter 35, for VRS employees, permits vested benefit payments at an early retirement date.

The Retirement Office provides an annual benefit statement to each member. Throughout the year, the staff provides counseling to all benefit applicants and to others requesting counseling and makes presentations at new employee orientations and at various employee group meetings and training sessions. System members have access to and make use of retirement planning software available on the Retirement Office computers. All retirement handbooks and forms are available on the web.

Major Initiatives

During the year, the Retirement Board determined an overweight in value securities was no longer appropriate. Granahan Capital management was hired as a small cap growth manager to balance the existing small cap value position and Alliance Capital was hired as a large cap growth manager to balance the existing large cap value manager. In addition, the Retirement Board determined positions in convertible securities and a hedge fund would be beneficial to the Fund. Advent Capital and Oaktree Management were hired for these mandates respectively.

A Deferred Retirement Option Plan (DROP) was implemented as of January 1, 2002.

Financial Highlights

Accounting System. This report has been prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board (GASB). The accrual basis of accounting is used to record assets and liabilities and additions and deductions to plan net assets. The financial report has been prepared in accordance with GASB Statement 25, *Financial Reporting for Defined Benefit Plans*. The System implemented GASB Statement, No. 34, *Basic Financial Statements – Management Discussion and Analysis – for State and Local Governments* for the fiscal year ended June 30, 2002.

Internal and Budgetary Controls. System management is responsible for maintaining internal accounting controls to provide reasonable assurance that transactions are properly authorized and recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). The System's internal accounting controls in effect during the fiscal year ended June 30, 2002 adequately safeguard the System's invested assets and provide reasonable assurance regarding the proper recording of investment financial transactions.

The budget for the System is presented to and accepted by the Board of Trustees each year and expenses against the budget are reviewed at each monthly Board meeting.

Introductory Section

Additions and Deletions to Plan Net Assets. Employer and employee contributions, as well as investment income, provide the funds necessary to finance retirement benefits. Contributions and investment income for fiscal 2002 totaled \$49 million, over \$5 million below 2001 levels as a result of reductions in interest and dividends received. Market value depreciation resulted in further reductions in fair value.

	Fiscal 2001	Fiscal 2002	Increase / (Decrease)	
	<u>(thousands)</u>	<u>(thousands)</u>	<u>Amount</u>	<u>%</u>
Employer Contributions	\$6,418	\$6,150	(\$268)	-4.2%
Employee Contributions	8,348	8,954	606	7.3%
Investment Income	39,238	33,877	(5,361)	-13.7%
Purchase Service	190	23	(167)	-87.9%
Total Revenues	<u>\$54,194</u>	<u>\$49,004</u>	<u>(\$5,190)</u>	<u>-9.6%</u>
Net Depreciation in Fair Value	<u>(\$45,955)</u>	<u>(\$73,945)</u>	<u>(\$27,990)</u>	<u>60.9%</u>

The deductions from the System include the payment of retiree and beneficiary benefits, the refund of employee contributions to former members of the System and investment and administrative expenses. Expenditures for fiscal 2002 totaled approximately \$47 million.

	Fiscal 2001	Fiscal 2002	Increase / (Decrease)	
	<u>(thousands)</u>	<u>(thousands)</u>	<u>Amount</u>	<u>%</u>
Benefit Payments	\$37,830	\$40,173	\$2,343	6.2%
Refund of Contributions	1,851	1,243	(608)	-32.8%
Investment & Operating	6,352	5,491	(861)	-13.6%
Total Expenditures	<u>\$46,033</u>	<u>\$46,907</u>	<u>\$ 874</u>	<u>1.9%</u>

Funded Status

An actuarial valuation of the System to determine funding requirements is performed annually. The actuarial valuation used for this reporting period was completed with payroll data as of July 1, 2001. Information from this report is included in the Actuarial Section.

A retirement system is fully funded when there is enough money in reserve to meet all expected future obligations to participants. The greater the level of funding, the lower the unfunded actuarial accrued liability. The System has been fully funded since January 1, 1996 as the assets of the Fund are greater than the actuarial accrued liability.

Investments

The Code of the County requires that: the assets of the System shall be invested in accordance with a statement of investment policy adopted by the Board; at least twenty-five percent of the total market value of the fund shall be held in fixed income bearing investments; and no more than seventy-five percent of the fund may be invested in common stocks. The Board operates with the standard of care required in making investments as stated in the Code of Virginia §51.1-803 which states that "funds... shall be invested with the care, skill, prudence and diligence ... 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 Code allows for the engagement of professional investment managers.

The investment policy adopted by the Board establishes the investment goals, guidelines, constraints and performance standards the Trustees will use when exercising their fiduciary duties to manage the assets of the

System. Under the policy, the Board allocates System assets and hires investment managers to direct the investments of the Board. Each manager is given a specific category of investment responsibility and each manager agrees to specific guidelines for investment style, expected return, portfolio risk exposure, portfolio turnover and other investment parameters. Each investment manager has full discretion to direct the investment of that portion of the System's assets assigned to him, in accordance with the manager's guidelines, constrained only by limitations provided in the Code of the County, the investment policy and provisions of the contract with the Board.

In January 1997, the Board hired Ashford Capital Management as an investment consultant. With assistance from System staff and the investment consultant, the Board reviews total Fund and investment manager performance on at least a quarterly basis to ensure compliance with its stated objectives and policy. With assistance from the investment consultant, staff continuously monitors performance of the System and its investment managers and, when conditions warrant, makes recommendations for change to the Board.

For fiscal year 2002, investment return was -3.7% versus a benchmark return of -5.6%. The annualized rate of return for the past three years has been 0.8% and five-year return has been 5.5% with all returns better than benchmark. A summary of the Fund's asset allocation and historic returns can be found in the Investment Section of this report.

Securities of the System, except those held by pooled vehicles in which the Fund owns an interest, are held in depositories by the Bank of New York, the System's Master Custodian.

Other Information

Professional Services Professional consultants are appointed by the Board to perform professional services essential to the effective and efficient operation of the System. Opinions from the independent public accountants, Glifton Gunderson and the actuary, Milliman USA, are included in this report. Ashford Capital Management serves as investment consultant to the System.

Certificate of Achievement for Excellence in Financial Reporting The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Arlington County Employees' Retirement System for the fiscal year ended June 30, 2001. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual 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 comprehensive 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.

Acknowledgments This annual report was prepared by the System's staff under the leadership of the Board of Trustees. I would like to express sincere appreciation to the staff for their dedication, team focus and hard work throughout the past year to ensure the continued successful operation of the System.

This report is intended to provide complete and reliable information for determining the financial status of the System. It is herewith submitted to the Retirement Board and to other interested parties.

Respectfully submitted,



Bruce O. Kallos
Administrator

Introductory Section

ADMINISTRATIVE ORGANIZATION

TRUSTEES - as of June 30, 2002

Steven Ivins, President
Appointed by School Board
Term Expires 2/8/2005

Aaron McInturff
Elected by Members of V.R.S.
Term Expires 2/8/2003

Warren Nelson
Appointed by County Board
Term Expires 2/8/2005

Nelson Rios, Treasurer
Elected by General Employees
Term Expires 2/8/2005

Charles Berk, Vice President
Appointed by County Board
Term Expires 2/8/2005

Stephen Fisher
Elected by Uniformed Employees
Term Expires 2/8/2003

Barbara Donnellan
Appointed by County Manager
Term Expires 2/8/2003

SUBSTITUTE TRUSTEES

Anthony Jones
Elected by General Employees
Term Expires 2/8/2005

Florence Hunt*
Elected by Members of VRS
Term Expires 2/8/2003

* Ms. Hunt died on October 24, 2002

The Uniformed Employee Substitute Trustee
seat is vacant

CERTIFIED PUBLIC ACCOUNTANTS

Clifton Gundersen

CUSTODIAN BANK

Bank of New York

INVESTMENT CONSULTANT

Ashford Capital Management

CONSULTING ACTUARIES

Milliman USA

ADMINISTRATIVE STAFF

Bruce Kallos, Administrator
Pat Jackson, Asst. Administrator and
Secretary to the Board
Delores Davis, Admin. Asst.
Teresa Campbell, Admin. Asst.
Steve Rust, Computer Analyst

LEGAL ADVISOR

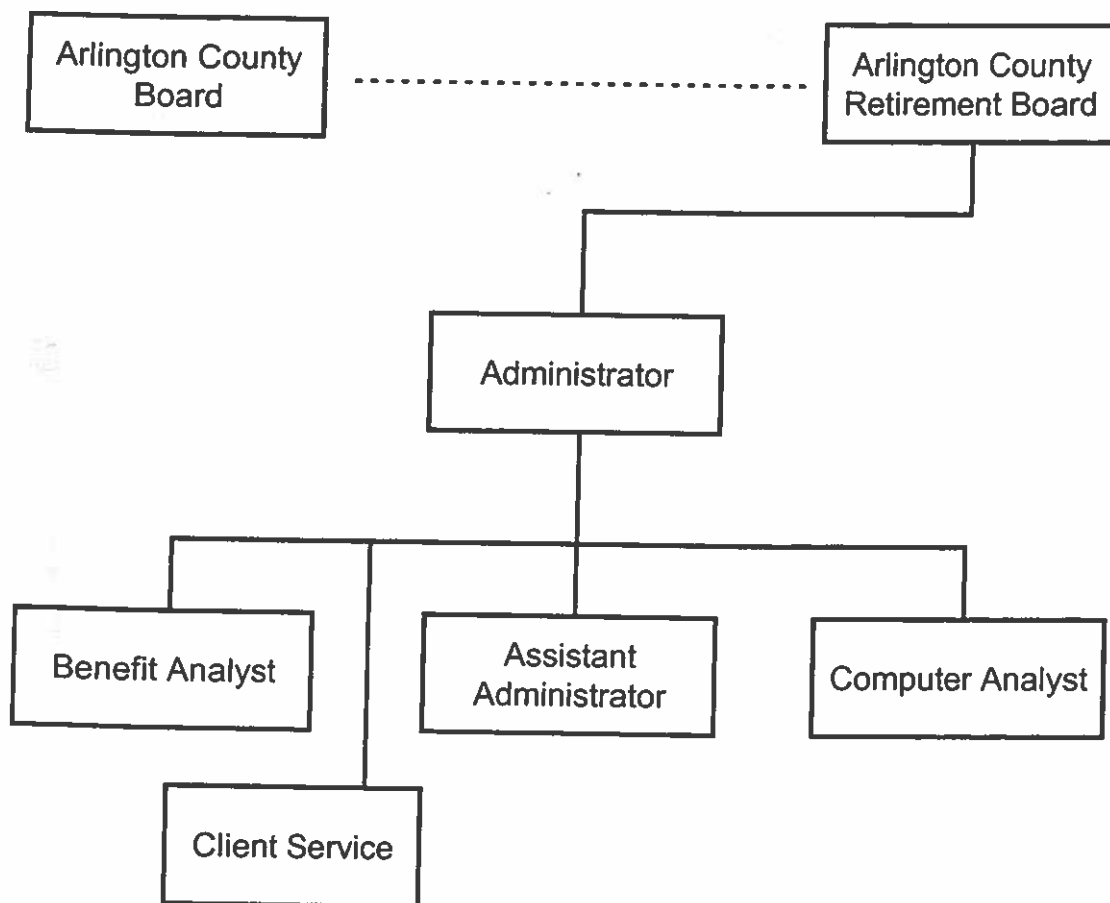
Peter Maier
Asst. County Attorney

INVESTMENT MANAGERS ¹

Advent Capital Management
Bank of New York
Credit Suisse
Fidelity Investment
Granahan
Invesco
Loomis-Sayles
Mellon Capital Management
Oaktree Capital
AllianceBernstein
Schroders
Sentinel Real Estate Corp.
Trinity Investment Management

¹ Investment manager assignments can be
found on page 26.

ORGANIZATIONAL CHART



Financial Section



EMPLOYEES' RETIREMENT SYSTEM



Independent Auditor's Report

Board of Trustees of the Arlington County
Employees' Retirement System

We have audited the statement of plan assets and statement of changes in plan net assets of the Arlington County Employees' Retirement System (Retirement System), a pension fund of Arlington County, Virginia, as of and for the year ended June 30, 2002, which collectively comprise the Retirement System's basic financial statements. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express opinions 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Arlington County Employees' Retirement System as of June 30, 2002, and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 5 to the basic financial statements, the retirement system has adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion for State and Local Governments during the year ended June 30, 2002.

The management's discussion and analysis, schedule of funding progress, actuarial assumptions and schedules of administrative expenses, investment expenses, other operating expenses and payments to consultants are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The introductory, investment, actuarial, and statistical sections listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Retirement System. The information included in these sections has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Clifton Gunderson LLP

Baltimore, Maryland
October 11, 2002

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Offices in 13 states and Washington, DC



MANAGEMENT'S DISCUSSION & ANALYSIS

This section presents management's discussion and analysis of the System's financial performance during the fiscal year ended June 30, 2002 and is presented as a narrative overview and analysis in conjunction with the Administrator's Letter of Transmittal included in the Introductory Section of this Comprehensive Annual Financial Report.

The System provides retirement benefits to Arlington County Uniformed and General employees and to certain School Board employees. The net assets held in trust for benefits at June 30, 2002 amounted to \$1.0 billion, a decrease of \$80 million from June 30, 2001. Additions to the net assets held in trust for benefits include County and member contributions as well as investment income. Contributions for the year were about equal to those of FY '01. A total of \$4.9 million was transferred to the Virginia Retirement System (VRS), a result of transferring responsibility for the benefits of certain School Board employees from Arlington to VRS and \$5.1 million was transferred to member self-directed "startup" accounts. For the 2002 fiscal year, investment income, including changes in portfolio market value, decreased from a loss of \$11.6 million in FY '01 to a loss of \$44.5 million, a result of continued deterioration in the financial markets. Despite the investment loss, Fund performance for the year was in the top quartile of the reporting universe.

Financial Highlights

- The net assets of the Fund decreased by over \$80 million. The decrease was primarily due to a downturn in world equity markets and the fact that retirement benefits significantly exceed Employer and Member contributions.
- As of June 30, 2001, the date of the most recent actuarial valuation, the System is actuarially funded at over 135%, slightly above the 129% funded ratio as of June 30, 2000. The System remains well positioned to continue to pay benefits promised System members.
- The Fund's rate of return on investments of -3.7% was below the FY '01 return of -0.6% but was substantially better than the benchmark return of -5.6%

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements, which include the following components:

- 1) Fund financial statements,
- 2) Notes to the financial statements,
- 3) Required supplementary information.

The information available in each of these sections is briefly summarized as follows:

- 1) **Fund Financial Statements.** A statement of fiduciary net assets and a statement of changes in fiduciary net assets are presented as of June 30, 2002. These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries as of year end, as well as changes in those resources during the year.
- 2) **Notes to the Basic Financial Statements.** The financial statement notes provide additional information that is essential to the full understanding of the data provided in the Fund Financial Statements. Information available in the notes to the financial statements includes:
 - Note 1 provides a description of the System and the funding policy as well as a description of member contributions and benefits.
 - Note 2 describes accounting policies.
 - Note 3 discusses System deposits and investments and includes a table showing investments categorized as to risk.
 - Note 4 explains the System's tax status.
 - Note 5 discloses adoption of GASB 34 for FY '02 reporting.
- 3) **Required Supplementary Information.** This information shows the System's funding progress, annual employer contributions as a percentage of required contributions, lists the various actuarial assumptions as well as provides detail regarding administrative and investment expenses.

Net Assets - Retirement Trust*(Dollars in Thousands)*

As of:	<u>June 30, 2001</u>	<u>June 30, 2002</u>
Cash, Cash Equivalents and Receivables	\$59.2	\$58.6
Investments	<u>1,027.7</u>	<u>948.2</u>
Total Assets	\$1,086.9	\$1,006.8
Total Liabilities	<u>\$6.8</u>	<u>\$8.3</u>
Total Net Assets	\$1,080.1	\$998.5

Changes in Net Assets – Retirement Trust

As of:	<u>June 30, 2001</u>	<u>June 30, 2002</u>
Additions		
Employer Contributions	6,418,294	6,150,158
Member Contributions	8,348,185	8,954,420
Investment Income (Loss)	(11,618,977)	(44,466,681)
Other Income	<u>190,304</u>	<u>23,184</u>
Total Additions	3,337,806	(29,338,919)
Deductions		
Retirement Benefits	37,830,165	40,173,220
Refund of Contributions (incl VRS Transfers)	17,386,216	11,268,074
Administrative Expenses	<u>1,170,688</u>	<u>787,422</u>
Total Deductions	<u>56,387,069</u>	<u>52,228,716</u>
Increase (Decrease) in Net Assets	(53,049,263)	(81,567,635)

FINANCIAL CONTACT

The System's financial statements are designed to present users with a general overview of the System's finances and to demonstrate the trustee's accountability. If you have any questions about the report or need additional financial information, contact the Administrator of the Arlington County Employees' Retirement System, 2100 Calrendon Boulevard, Suite 504, Arlington, VA 22201. Copies of the Comprehensive Annual Financial Report are available from the Retirement Office or at any County Library. The report may also be accessed at www.co.arlington.va.us/retirement.

ARLINGTON COUNTY EMPLOYEES' RETIREMENT SYSTEM

(A Pension Trust Fund of Arlington County, Virginia)

STATEMENT OF PLAN NET ASSETS

JUNE 30, 2002

ASSETS

Cash and Cash Equivalents	\$53,759,257
Contributions Receivable:	
Employer	293,874
Employee	350,952
Accrued Interest and Other Receivables	4,200,785
Investments, at Fair Value:	
Foreign, Municipal and U.S. Government Obligations, Including Fixed Instruments in Pooled Funds	72,146,104
Corporate Fixed Income Obligations	147,157,232
Domestic and Foreign Equities, Including Equities in Pooled Funds	597,460,625
Other Investments	71,850,679
Real Estate Funds and Notes	59,592,002
Total Assets	1,006,811,510

LIABILITIES

Accrued Expenses and Other Liabilities	8,277,622
Total Liabilities	8,277,622

NET ASSETS HELD IN TRUST FOR PLAN BENEFITS

Total Net Assets	\$998,533,888
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(A schedule of funding progress is presented on page 19)

See accompanying notes to financial statements

ARLINGTON COUNTY EMPLOYEES' RETIREMENT SYSTEM**(A Pension Trust Fund of Arlington County, Virginia)****STATEMENT OF CHANGES IN PLAN NET ASSETS****FOR THE YEAR ENDED JUNE 30, 2002****ADDITIONS**

Contributions

Employer	\$6,150,158
Employee	8,954,420
School Board Transfer to VRS	(4,903,025)
Other	23,184

Total Contributions	<u>10,224,737</u>
---------------------	-------------------

Investment Income

Interest and Dividends	33,877,042
Net Depreciation in Fair Value	(73,944,979)
Commission Recapture	76,454
Securities Lending	228,708
	<u>(39,762,775)</u>

Less: Investment Expense	<u>4,703,906</u>
--------------------------	------------------

Net Investment Income (Loss)	<u>(44,466,681)</u>
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Total Additions	(34,241,944)
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DEDUCTIONS

Members' Benefits	40,173,220
Refund of Members' Contributions	1,242,517
Administrative Expenses	336,339
Other Operating Expenses	451,083
Aetna 401a Start-up	5,122,532

Total Deductions	<u>47,325,691</u>
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Net Decrease	(81,567,635)
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Net Assets Held in Trust for Plan Benefits, Beginning of Year	<u>1,080,101,523</u>
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Net Assets Held in Trust for Plan Benefits, End of Year	<u>\$998,533,888</u>
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See accompanying notes to financial statements

ARLINGTON COUNTY EMPLOYEES' RETIREMENT SYSTEM
[A Pension Trust Fund of Arlington County, Virginia]
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

NOTE 1. THE RETIREMENT SYSTEM

The Arlington County Employees' Retirement System (the System) is a pension trust fund of the Arlington County, Virginia (County) financial reporting entity and is included in the County's comprehensive annual financial report. The accompanying financial statements present information only on the operations of the System in conformity with generally accepted accounting principles. Participants should refer to Chapters 21, 35 and 46 of the Arlington County Code for a more detailed description of the System.

System Description

The System is a single employer public employee defined benefit pension plan covering substantially all employees of the County. As of July 1, 2001, System membership consisted of the following:

	<u>General</u>	<u>Uniformed</u>	<u>School</u>	<u>Total</u>
<i>Active Employees:</i>				
Vested	1,843	576	1,530	3,949
Non-vested	<u>927</u>	<u>199</u>	<u>1,022</u>	<u>2,148</u>
Total	2,770	775	2,552	6,097
<i>Retirees and Beneficiaries</i>	1,219	524	1,188	2,931

System Administration

The System is administered by a Board of Trustees (the Retirement Board), which consists of seven members appointed or elected as follows:

- Two by the County Board
- One each by the County Manager and School Board
- One elected by each of three employee groups--police officers/fire fighters/deputy sheriffs, members of the Virginia Retirement System ("VRS"), and all employees not in the foregoing two groups. Each employee group also elects a substitute trustee to act in the trustee's absence.

The Trustees annually elect a President and a Vice-President from among their members, and appoint a Treasurer, who may or may not be a Trustee.

Funding Policy

The System is funded with both employee and employer contributions. Employer contributions are determined as the result of an annual actuarial valuation. The interim funding method is used to determine the employer contributions. The Retirement Board, after consultation with the actuary, recommends the contribution rate as a percent of payroll required for each employee group: General, Uniformed and School. The County Board accepted the Retirement Board recommendation of a rate of 3.5% for the County's blended payroll for FY '02, as opposed to the actuarial rate which would have been 0%. The Retirement Board continues to study recommendations for a minimum rate and will make a recommendation to the County Board during Fiscal '03.

All costs of administering the System are paid from the trust (the Fund).

ARLINGTON COUNTY EMPLOYEES' RETIREMENT SYSTEM
[A Pension Trust Fund of Arlington County, Virginia]
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

Member Contributions and Retirement Benefits

The System provides retirement benefits as well as death and disability benefits. All benefits vest after five years of credited service. If an employee leaves covered employment before 5 years of credited service, accumulated employee contributions plus interest are refunded to the employee or designated beneficiary. A description of member contribution rates, normal service retirement and average final compensation for the employees covered under the various Chapters of the Arlington County Code is summarized below.

Participants Covered Under Chapter

	<u>21</u>	<u>35</u>	<u>46</u>
	Before 2/8/81	Before 2/8/81	2/8/81 or After
Covers Employees Hired:			
Member Contribution Rates for the Respective Employee Groups:			
General	4 %	N/A	5%
School Board (Covered by VRS)	0 %	0%	0%
Uniformed Employees:			
- Management	5.62%	N/A	5%
- Non-Management	6.62%	N/A	5%
Normal Retirement Age:			
General County Employees	60	N/A	62
School Board Employees	60	62	62
Uniformed Employees	50	N/A	52
"Rule of 80" Applies	yes		yes
Retirement Benefit-Percentage of Average Final Compensation: (generally, the average of the employees' three highest compensation or contract years times years of creditable service with a 30-year maximum)	2 1/2% for each of the first 20 years plus 2% for each of the next 10 years	2 1/8% reduced by the VRS benefits under Formula A	1 1/2% reduced by actual VRS benefits
Refund of employee contributions on leaving County employment	Contributions plus interest	N/A	Contributions plus interest

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements reflect the transactions of the System only and not of VRS, which is administered by the State of Virginia. The financial statements of the System are presented on the accrual basis of accounting with additions to plan net assets recognized when earned and deductions from plan net assets recorded when liabilities are incurred. Member and employer contributions to the System are recognized in the period in which the contributions are due in accordance with the terms of the System. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

**[A Pension Trust Fund of Arlington County, Virginia]
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**

Investments

The System's investments are recorded at fair value.

Fair value is based on quoted market prices, except for investments in individual real estate notes which are stated at their remaining balance. Investment transactions are recorded as of the trade date. These transactions are not finalized until the settlement date. Unrealized appreciation and depreciation of investments is reflected in the Statement of Changes in Plan Net Assets for the year.

NOTE 3. DEPOSITS and INVESTMENTS

The System is authorized by Code of Virginia §51.1-803 to invest funds of the System in conformance with the prudent person rule. In addition, Arlington County Code mandates the Fund must maintain a minimum of 25% of total assets in fixed income investments such as bonds and cash equivalents*. For the year ended June 30, 2002, the System has operated in all material respects in accordance with these codes.

As of June 30, 2001, the System had cash deposits of \$318,972. This amount was insured by the Federal Deposit Insurance Corporation up to \$100,000 for each System participant.

As permitted by the Arlington County Code, the System invests in various derivative instruments on a limited basis in accordance with the System's investment policy. At June 30, 2002, the System held derivative securities valued at \$2.8 million, less than 0.3% of the total value of the Fund. During fiscal year 2002, the System invested directly in foreign currency forward contracts. The System entered into these investments either to increase earnings or to hedge against potential losses. Investments in foreign currency forward contracts generally contain market risk resulting from fluctuations in currency rates. The credit risk of these investments results from the creditworthiness of the counterparties to the contracts.

The foreign currency forward contracts held by the System never exceed the value of the respective foreign currency denominated stock held by the System. On average, approximately 20% of all foreign currency denominated stocks were hedged using foreign currency forward contracts, and any gains and/or losses on the contracts should substantially offset the gains and/or losses on the underlying stocks due to changes in the value of the U.S. dollar. As of June 30, 2002, approximately 30% of the foreign currency denominated assets (i.e., international equity and international fixed income investments) included within the County's portfolio were hedged using foreign currency forward contracts.

The System engages in securities lending transactions through the Bank of New York (BoNY). In accordance with the contract, BoNY may lend any securities held in the Fund. Maturity matched collateral of cash, cash equivalents or irrevocable letters of credit are held at the minimum rate of 102% for domestic securities and 105% for international. The collateral is maintained by BoNY and all securities on loan are callable at any time. The System does not have the ability to invest, pledge or sell the collateral.

* Cash equivalents are defined as investments with a duration of less than one year and similar to cash in liquidity and safety from market volatility.

ARLINGTON COUNTY EMPLOYEES' RETIREMENT SYSTEM
[A Pension Trust Fund of Arlington County, Virginia]
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

The System did not impose any restrictions during the period on the amounts of loans BoNY made on its behalf and BoNY indemnifies the System by agreeing to purchase replacement securities, or to remit the cash collateral held, in the event the borrower fails to return loaned securities. Credit risk is mitigated both by the collateral and by the credit of BoNY. There were no such failures by any borrower during the fiscal year nor were there any losses during the year resulting from a default of the borrower or lending agent. All securities on loan are carried at fair value and no collateral received for securities on loan is listed as an asset of the Fund. Securities on loan on June 30, 2002 totaled \$88.5 million. Earnings from securities lending activities for the fiscal year totaled \$228,708.

The System does not have investments, other than U.S. Government and U.S. Government guaranteed obligations, in any one organization in excess of 5% of the System's net assets held in trust for pension benefits. All investments are held by an unaffiliated custodian for the System. Investment decisions are made by the Board or by investment managers selected by the Board in accordance with the System's investment policy.

The following table presents the System's investments as of June 30, 2002, categorized to give an indication of the level of risk assumed by the System. The categories of risk are:

1. Insured or registered investments or securities held by the System or its agent in the System's name.
2. Uninsured or unregistered investments, with securities held by the counterparty's trust department or its agent in the System's name.
3. Uninsured and unregistered investments, with securities held by the counterparty in the System's name or held by the counterparty's trust department or agent but not in the System's name.

Investments not evidenced by securities are not categorized. Pooled investments represent those investments in which the System owns units of the pool rather than specific securities. As a result, such investments cannot be categorized as to risk. The fair value of the pooled holdings is exactly equal to the fair value of the pool shares. All pooled funds are managed by SEC registered advisers in SEC registered pools.

(Amounts in thousands of \$)	Summary of Risk			Not Subject to Classification
	Category <u>1</u>	<u>2</u>	<u>3</u>	
Corporate Obligations	\$147,157			
Government Obligations	29,079			
Domestic and Foreign Equities	395,857			
Pooled Equity and Fixed Income				\$398,698
Real Estate Funds and Notes				11,973
Cash			\$18,968	
TOTAL	\$572,093	0	\$18,968	\$410,671

NOTE 4. TAX STATUS

The System is a tax-exempt governmental plan qualified under Section 401 and exempt under Section 501(a) of the Internal Revenue Code.

ARLINGTON COUNTY EMPLOYEES' RETIREMENT SYSTEM
[A Pension Trust Fund of Arlington County, Virginia]
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

NOTE 5. NEW ACCOUNTING PRONOUNCEMENTS

In June, 1999 the GASB issued Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments* (GASB 34). In June 2001 the GASB issued Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, which amended certain provisions of GASB 34. The Retirement System elected to adopt the new pronouncement, as amended, for the year ended June 30, 2002. The adoption of GASB 34 required the presentation of Management's Discussion and Analysis (MD&A). The MD&A is considered to be required supplementary information and precedes the financial statements. The adoption of GASB 34 did not have any impact on the assets of the System.

REQUIRED SUPPLEMENTARY INFORMATION

Historical trend information about the System is presented herewith as required supplementary information. An actuarial valuation is currently performed annually at fiscal year end. Information from the five most recent valuations is presented below. This information is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

SCHEDULE OF FUNDING PROGRESS (\$ in millions)

Actuarial Valuation Date ¹	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/1996	\$646.2	\$635.3	\$(10.9)	101.7%	238.2	(4.6)%
01/01/1998	812.8	686.6	(124.2)	118.0%	252.2	(49.2)%
07/01/1999	974.5	747.2	(227.3)	130.4%	272.5	(83.4)%
07/01/2000	1,068.7	828.2	(240.5)	129.0%	282.9	(85.0)%
07/01/2001	1,129.6	832.5	(297.1)	135.7%	186.8	(159.0)%

¹ Prior to FY 1999, the actuarial valuation was performed biannually at calendar year end.

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

<u>Fiscal Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1997	22.5	100.0%
1998	19.0	102.7%
1999	14.6	144.4%
2000	14.0	111.3%
2001	6.4	100.0%
2002	0.0	not applicable

ACTUARIAL ASSUMPTIONS

The information presented in the preceding required supplementary schedules was determined as part of the actuarial valuation at the date indicated.

Valuation date	07/01/01
Actuarial cost method	Aggregate Entry Age (Interim)
Remaining amortization period	15 year rolling
Treated as a level percentage of payroll	
Asset valuation method	5 year, smoothed
Actuarial assumptions	
Investment rate of return ¹	8.0%
Projected salary increases ¹	4.5%
Cost of living adjustments	
Chapter 21	1.5%
Chapter 46	100% CPI-U increase to a maximum of 3% plus 1/2 CPI-U increase for next 9%. (max 7 1/2% increase for 12% increase in CPI-U)

¹ Includes inflation at 4.5%

ARLINGTON COUNTY EMPLOYEES' RETIREMENT SYSTEM
(A Pension Trust Fund of Arlington County, Virginia)
Schedule of Administrative Expenses
For the Year Ended June 30, 2002

Personal Services		
Staff Salaries	298,891	
Benefits	<u>37,448</u>	
Total Personal Services		\$336,339
Professional Services		
Independent Medical Examinations	20,139	
Actuarial	58,970	
Audit	26,806	
Legal Fees	<u>25,304</u>	
Total Professional Services		\$131,219
Communication		
Printing	2,660	
Telephone	5,884	
Postage and Shipping	<u>17,074</u>	
Total Communication		\$25,618
Data Processing		
OTIS Services	7,681	
Computer Equipment & Supplies	<u>11,170</u>	
Total Data Processing		\$18,851
Rent		
Office Space	<u>51,926</u>	
Total Rent		\$51,926
Miscellaneous		
Insurance	43,618	
Supplies & Equipment	23,167	
Maintenance	5,320	
Continuing Education	50,652	
Other Miscellaneous	<u>8,091</u>	
Total Miscellaneous		\$130,848
Total Administrative Expenses		<u>\$694,800</u>

ARLINGTON COUNTY EMPLOYEES' RETIREMENT SYSTEM
(A Pension Trust Fund of Arlington County, Virginia)
Schedule of Investment Expenses
For the Year Ended June 30, 2002

Investment Manager Fees	<u>4,603,197</u>	
Total Investment Expenses		\$4,603,197

Schedule of Other Operating Expenses
For the Year Ended June 30, 2002

Custody Fees	100,709	
Investment Consultant Fees	<u>111,580</u>	
Total Other Operating Expense		\$212,289

Schedule of Payments to Consultants
For the Year Ended June 30, 2002

Milliman & Robertson, Actuary	58,970	
KPMG LLP, Auditor	<u>26,806</u>	
Total Consultants		\$85,776

Investment Section



EMPLOYEES' RETIREMENT SYSTEM

Investment Performance, Policy, Statistics and Activity

For the fiscal year, the System return was -3.7% versus a benchmark return of -5.6%. Return data for the System was calculated in accordance with the standards of the Association for Investment Management & Research (AIMR), time weighted, by the System consultant, Ashford Capital Management (ACM). Valuations are based on published national securities exchange prices, where available, and all valuations are reconciled between the various investment managers and the custodian bank. For all functions other than return data, ACM is an advisory consultant. Comments on investment activity have been prepared by System staff.

In the investment of public funds, adequate funding of employee retirement benefits at a reasonable and affordable cost is a paramount concern. An appropriate balance must be struck between risks taken and returns sought to ensure the long term health of the System. The System has adopted an investment policy which works to control the extent of the downside risk to which assets are exposed while maximizing the potential for long term increase in the value of the assets.

Specific investment objectives are:

- To realize a return of 8% or 3% over the CPI-U, whichever is greater, over rolling 5 year periods.
- To manage portfolio risk so as to limit potential downside fluctuations in the value of the total Fund while providing the opportunity to capture a significant portion of upside opportunity.
- To realize as high a rate of total return as possible consistent with the above.

To achieve these objectives, the following investment policies are employed:

- Allocate a minimum of 25% of assets to fixed income investments such as bonds and cash equivalents.
- Maintain a well diversified portfolio so as to minimize the risk of overexposure to any one market sector or investment style.
- Closely monitor, with our investment consultant, the performance of all investment managers against specific absolute objectives and in relation to other managers investing with similar investment objectives and investment styles. Managers are visited, on site, at least once each year and managers report to the Board on a routine basis.
- Monitor Fund risk exposure, modify target risk as warranted and rebalance the Fund as necessary.

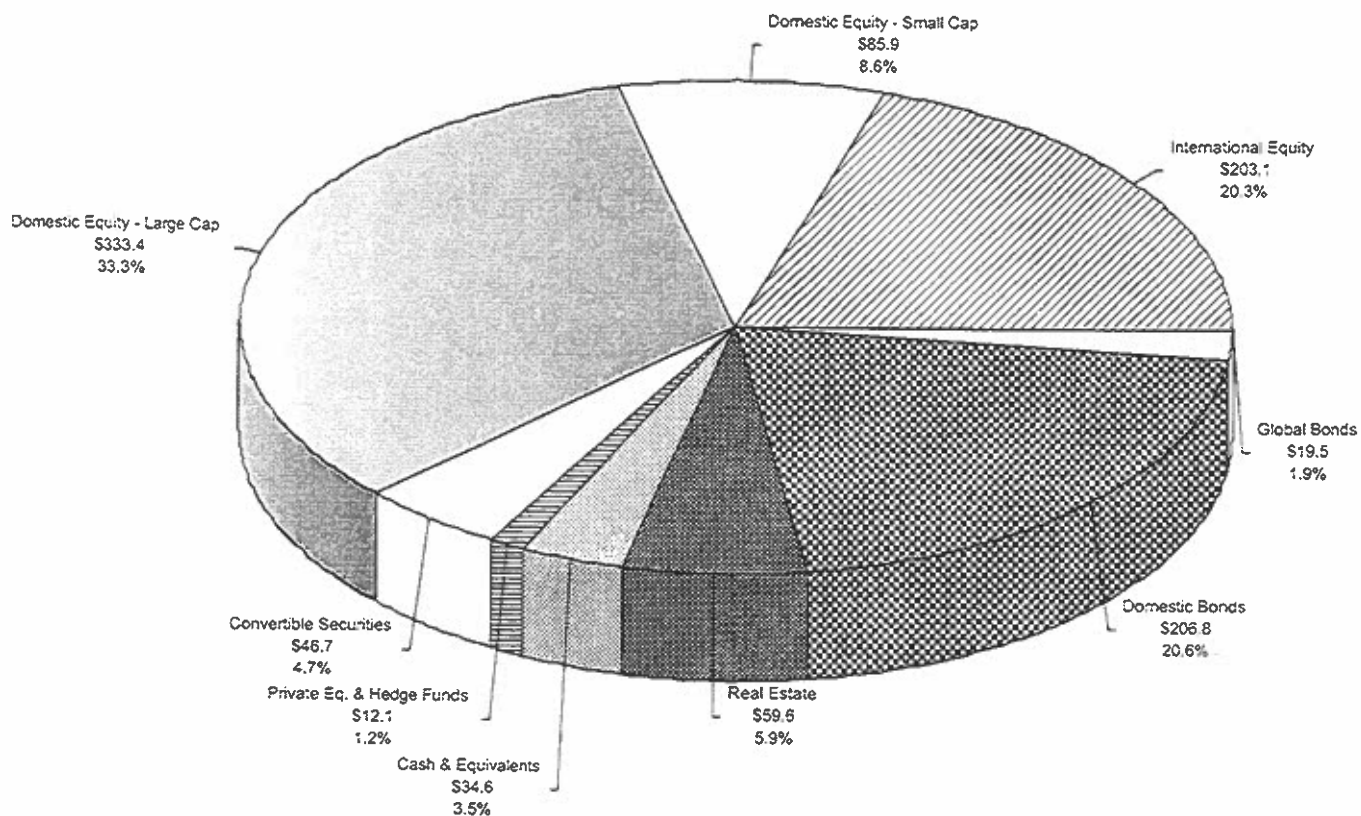
Charts and tables that follow show:

- Asset allocation
- Investment managers with assignments
- Investment performance for various periods
- List of largest assets held
- Broker commissions

During the year the Fund overweight to value equities was neutralized through the addition of a large cap growth assignment to Alliance Capital and a small cap value tilt assignment to Granahan Capital. A convertible assignment was given to Advent Capital and Oaktree Capital was given a hedge fund assignment.

Arlington County Employees' Retirement System

Asset Allocation by Asset Class - 6/30/02



Allocations are on a cash basis and do not include accruals

INVESTMENT MANAGERS and INVESTMENT ASSIGNMENTS

<u>Manager</u>	<u>Assignment</u>	<u>Year Hired</u>
Alliance Bernstein	Domestic Equities	1997
Trinity Investment Management	Domestic Equities	1997
Mellon Capital Management	Domestic TAA	1997
	Global TAA	1999
Advent Capital Management	Convertible Securities	2002
Invesco	International Equities	1989
Schroders	Emerging Market Equities	1997
Loomis Sayles	Domestic Fixed	1981
Sentinel Real Estate	Real Estate	1988
Fidelity Management Trust	REITs	2000
Oaktree Capital	Hedge Fund	2001
Abbott Capital	Private Equities	2001
Bank of New York	Cash Equivalents	1998

Investment Section

ARLINGTON COUNTY EMPLOYEES' RETIREMENT FUND

INVESTMENT PERFORMANCE SUMMARY

(All returns for periods greater than one year are annualized)

	5 Years 7/1/97 to 6/30/02	3 Years 7/1/99 to 6/30/02	1 Year Period Ending:						
			6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02
Total Fund									
Time Wtd % Return	5.6%	0.8%	16.2%	15.7%	15.7%	10.3%	6.9%	-0.6%	-3.7%
Minimum Objective	8.0%	8.0%							
Fund Benchmark	4.9%	-0.9%	14.9%	18.1%	17.4%	11.6%	8.7%	-5.3%	-5.6%
CPI	2.5%	2.9%	2.5%	2.3%	1.7%	2.0%	3.4%	3.2%	1.6%
Domestic Equities									
Time Wtd % Return	6.6%	-1.4%	19.8%	20.7%	24.5%	15.3%	6.5%	-0.9%	-9.1%
S & P 500	3.8%	-9.0%	26.0%	34.6%	30.2%	22.7%	7.8%	-14.8%	-18.0%
Domestic Fixed Income									
Time Wtd % Return	10.3%	11.6%	8.8%	12.8%	12.8%	4.2%	4.1%	11.6%	6.3%
Lehman Brothers Aggregate Index	7.6%	8.3%	5.0%	8.1%	10.5%	3.1%	4.6%	11.2%	7.8%

Note: The Fund also includes international equities, and other asset classes. Returns for these asset classes are included in the "Total Fund" returns but are not listed separately.

Investment Section

LIST OF LARGEST ASSETS DIRECTLY HELD (excludes investments in pooled vehicles)

As of June 20, 2002

EQUITIES			% of
	Shares	Market Value	Total Fund
BANK AMER CORP	66,400	\$4,671,904	0.47%
PFIZER INC COM	130,100	4,553,500	0.46%
KOHL'S CORP	63,700	4,464,096	0.45%
MBNA CORP	131,500	4,348,705	0.43%
CITIGROUP INC	112,200	4,347,750	0.43%
PHILLIPS PETROLEUM COMPANY COMMON	72,600	4,274,688	0.43%
MICROSOFT CORP COM	77,600	4,244,720	0.42%
WASHINGTON MUT INC COM	92,350	3,427,109	0.34%
ARLINGTON COUNTY ST MM FD	3,344,163	3,344,163	0.33%
GENERAL ELECTRIC CO	112,900	3,279,745	0.33%
HOME DEPOT INC USD 0.05	84,400	3,100,012	0.31%
NORFOLK SOUTHERN CORP	129,975	3,038,816	0.30%
NOVARTIS AG CHF 0.	64,000	2,815,432	0.28%
MAY DEPARTMENT STORES COMPANY COMMON	78,200	2,575,126	0.26%
HEWLETT PACKARD COMPANY	166,500	2,544,120	0.25%
UNITED HEALTH GROUP INC	27,600	2,526,780	0.25%
WACHOVIA CORP 2ND NEW	65,200	2,489,336	0.25%
AMERICAN ELECTRIC POWER CO INC	61,493	2,460,950	0.25%
OCCIDENTAL PETROLEUM CORPORATION COMMON	81,700	2,450,183	0.25%
SBC COMMUNICATIONS INC	79,800	2,433,900	0.24%
VIACOM INC CL B	54,100	2,400,417	0.24%
TENET HEALTHCARE CORP COM	33,300	2,382,615	0.24%
DOW CHEMICAL COMPANY COMMON	69,100	2,375,658	0.24%
PHILIP MORRIS COMPANIES INC	40,900	2,354,352	0.24%
LEHMAN BROTHERS HLDGS INC	37,500	2,344,500	0.23%
BANK ONE CORP	59,900	2,304,952	0.23%
ARLINGTON COUNTY ST MM FD	2,291,695	2,291,695	0.23%
NOKIA CORP ADR-A SHS	156,300	2,263,224	0.23%
CSX CORP COM	64,460	2,259,323	0.23%
NESTLE SA	9,500	2,215,688	0.22%
CARDINAL HEALTH INC COM	35,700	2,192,337	0.22%
TOTAL FINA ELF SA	13,500	2,192,217	0.22%
FLEETBOSTON FINL CORP	67,300	2,177,155	0.22%
FREDDIE MAC	35,300	2,160,360	0.22%
HSBC HOLDINGS PLC	185,500	2,133,533	0.21%
CHUBB CORPORATION COM	29,700	2,102,760	0.21%
NATIONAL AUSTRALIA	105,000	2,086,678	0.21%
Total for Equities		<u>\$105,628,497</u>	<u>10.56%</u>
FIXED INCOME			% of
		Market Value	Total Fund
FEDERAL HOME LN MTG CORP	10,260,000	\$10,696,050	1.07%
FEDERAL NATL MTG ASSN	1,850,000	10,004,988	1.00%
TIME WARNER INC	3,720,000	5,046,558	0.50%
SECURITY CAP GROUP INC	2,500,000	4,968,360	0.50%
BANGKOK BANK HK 144A	4,975,000	4,776,000	0.48%
LOEWS CORP CONV	5,100,000	4,443,375	0.44%
GEORGIA PAC CORP	1,950,000	4,217,902	0.42%
SOUTH AFRICA REP	4,000,000	4,180,000	0.42%
FORD MTR CO DEL	2,000,000	4,105,010	0.41%
PHILIP MORRIS	3,700,000	3,923,776	0.39%
ANALOG DEVICES INC	3,755,000	3,705,400	0.37%
GOV'T NAT'L MTG ASSN POOL# 569838	1,560,000	3,679,371	0.37%
COLUMBIA / HCA HEALTHCARE CORP	1,600,000	3,669,456	0.37%
TRANSOCEAN SEDCO FOREX INC	2,500,000	2,637,400	0.26%
FIRST INDL L P	2,500,000	2,586,750	0.26%
PULTE CORP SR NT	1,500,000	2,562,195	0.26%
SPRINT CAP CORP	3,275,000	2,550,748	0.26%
CIT GROUP INC	1,250,000	2,382,896	0.24%
MOTOROLA INC	810,000	2,270,443	0.23%
TRW INC	2,150,000	2,247,422	0.22%
BANGKO SENTRAL NG PILIPINAS	2,750,000	2,241,250	0.22%
SECURITY CAP INDL TR	2,000,000	2,228,060	0.22%
EOP OPER LTD PARTNERSHIP	2,250,000	2,161,283	0.22%
Total for Fixed		<u>\$91,284,692</u>	<u>9.13%</u>

Investment Section

Schedule of Broker Commissions

Broker selection is the responsibility of individual investment managers. Transactions and commission cost are monitored by System staff and by the investment consultant.

Following is a list of brokers who received commissions of \$10,000 or more during fiscal 2002. A complete schedule of all commissions paid is available from the Retirement Office.

<u>BROKER</u>	<u>NUMBER of SHARES</u>	<u>TOTAL COMMISSION</u>	<u>COMMISSION \$ Per SHARE</u>
BERNSTEIN, SANFORD C., & CO	2,145,806	\$116,794	\$0.054
MERRILL LYNCH PIERCE FENNER + SMITH	2,428,594	90,372	0.037
LEHMAN BROTHERS SECURITIES, NY	1,319,595	71,823	0.054
B-TRADE SERVICES LLC	3,509,500	70,190	0.020
ESI SECURITIES COMPANY	3,982,327	69,709	0.018
INVESTMENT TECHNOLOGY GROUP,	2,420,879	48,528	0.020
FRANK RUSSELL SECURITIES INC	887,694	44,385	0.050
CREDIT SUISSE FIRST BOSTON	997,520	43,186	0.043
SMITH BARNEY INC (SALOMON)	885,600	36,082	0.041
BEAR STEARNS SECURITIES CORP	682,289	34,135	0.050
GOLDMAN, SACHS & CO	465,535	24,200	0.052
CHARLES, SCHWAB & CO., INC	531,950	15,134	0.028
MORGAN STANLEY CO INC NEW YORK	308,000	13,841	0.045
VERITAS SECURITIES	506,100	12,653	0.025
SPEAR,LEEDS & KELLOGG CAP MKTS	559,362	11,319	0.020
BANC OF AMERICA SECURITIES LLC	275,150	11,192	0.041
CIBC WORLD MARKETS CORP	258,800	10,278	0.040

Actuarial Section



EMPLOYEES' RETIREMENT SYSTEM

A MILLIMAN GLOBAL FIRM



Milliman USA
Consultants and Actuaries

November 14, 2002

Board of Trustees
Arlington County Employees' Retirement System
2100 Clarendon Boulevard
Suite 504
Arlington, Virginia 22201

Re: Actuary's Certification Letter

Dear Trustees:

The purpose of this letter is to certify the following with respect to supporting schedules of the actuarial section of the comprehensive annual financial report (CAFR) for the fiscal year ending June 30, 2002:

1. The funding objective of the plan is to provide for the current cost of benefits (i.e., normal cost) as a level percent of payroll over time. However, because of favorable experience, the plan's assets, as measured on an actuarial value, exceed the liabilities of the plan. Therefore, the County is currently contributing a fixed 3.5% of pay.
2. The funding objective of the plan is currently being realized.
3. Actuarial valuations are performed annually as of July 1 of each year. The most recent valuation was performed as of July 1, 2001.
4. In preparing the actuarial valuation for each year, we have relied, without audit, on employee census and asset information provided by the Arlington County Employees' Retirement System. The data provided has been reviewed for reasonableness. If there are changes to the underlying data, the results of the actuarial valuation will change.
5. All of the supporting schedules in the Actuarial Section of the CAFR were prepared by Milliman USA, Inc., except for the descriptions of the plans provided by the Administrator.
6. Milliman USA, Inc. is responsible for the calculation of the Actuarial Accrued Liability (AAL), the Actuarial Value of Assets (AVA) and the Annual Required Contribution (ARC) for each year shown in the exhibits, based on the actuarial valuation.



Board of Trustees
Arlington County Employees' Retirement System
November 14, 2002
Page 2

7. The assumptions and methods used for funding purposes for FY 2002 meet the parameters as described under GASB Statement No. 25.
8. The actuarial assumptions used for funding were selected by the Board following the recommendations by the actuary.

The consulting actuary signing below is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

For additional information about the financial condition of the fund, please refer to our actuarial valuation report as of July 1, 2001.

Sincerely,

MILLIMAN USA

John L. Colberg, F.S.A.
Consulting Actuary

JLC/KJW/ARL/22
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Actuarial Assumptions and Methods and Summary of Valuation Results

Valuation Method and Asset Value

An actuarial valuation is performed once each year. As of July 1, 2001, the date of the actuarial valuation used for FY '02 reporting, the System had assets at market value of \$1,080 million, as compared to \$1,133 million as of July 1, 2000.

The market value of assets, representing the realizable value of assets on a particular day, is not a good measure of the System's ongoing ability to meet its obligations. Ongoing funding requirements established using market values are subject to significant variability because of the volatility of market values.

In order to produce a stable pattern of contribution rates, market values are adjusted so that some of the volatility is removed or dampened. The specific technique adopted sets the actuarial value of assets by projecting forward each of the four previous years' market values to the valuation date using actual cash flows (contributions less benefit payments and expenses) and assuming the Fund returned 8%, the actuarial assumption. The four projected market values plus the current market value are averaged to determine the actuarial value of assets.

The actuarial value of the Fund as of July 1, 2001, was \$1,130 million.

The ten-year projection of System assets indicates that contributions will be less than benefits for the entire ten-year period. This should not be cause for alarm. In fact, it is expected in a mature, well funded system. It does, however, impact investment decisions because some investment income will be needed to pay benefits.

Funding Method and System Liabilities

A fundamental principal in financing the liabilities of a retirement program is that the cost of its benefits should be related to the period in which benefits are earned, rather than to the period of benefits distribution. There are several methods currently used in making this determination.

The method used for this valuation is the aggregate entry age (interim) funding method. Under this method, the employer contribution has three components: the normal cost, the payment toward the unfunded actuarial liability (UAL), and the allowance for expenses. Each component is expressed as a percentage of payroll.

The normal cost rate is the percentage of pay which, along with member contributions, would be sufficient to fund the plan benefits if it were paid from each member's entry into the System until termination or retirement. The normal cost rate for each plan (Chapter) within each group is determined as the average (weighted by present value of future pay) of the normal cost rates of individual members.

Under the interim funding method, the normal cost rate used for each group is a weighted average of the normal cost rate for Chapter 21 or 35 benefits and the normal cost rate for Chapter 46 benefits. The weights for the two normal costs are obtained by determining the proportion of the present value of projected total payroll over the next 20 years attributable to participants in Chapters 21/35 and Chapter 46 respectively.

The unfunded actuarial accrued liability is the excess of the total value of projected benefits over the value of future normal cost payments, future member contributions and plan assets.

Actuarial Section

The actuarial liability is determined as the portion of the value of the projected benefit at retirement including future pay increases that will not be paid by future employer normal costs or member contributions.

The table below summarizes, as of July 1, 2001, the actuarial liabilities, both funded and unfunded, for each System and the combined Systems.

Liabilities (in millions of \$)

	<u>General</u>	<u>School Board</u>	<u>Uniformed</u>	<u>Total</u>
1. Present Value of Future Benefits				
Active Members	\$ 404.7	\$ 38.6	\$ 266.7	\$ 710.0
Retired Members and Beneficiaries	145.7	68.2	123.0	336.9
Disabled Members	22.6	2.0	51.4	76.0
Vested Deferred Members	<u>6.0</u>	<u>6.3</u>	<u>2.0</u>	<u>14.3</u>
Total	\$ 579.0	\$ 115.1	\$ 443.1	\$ 1,137.2
2. Blended Normal Cost Rate	9.0%	2.8%	20.3%	12.1%
3. Present Value of Future Payroll	\$ 1,240.2	\$ 57.0	\$ 524.1	\$ 1,821.3
4. Present Value of Future Employer Costs (2x3)	\$ 111.6	\$ 1.6	\$ 106.4	\$ 219.6
5. Present Value of Future Member	\$58.6	\$ 0.0	\$ 26.5	\$ 85.1
6. Actuarial Liability (1-4-5)	\$ 408.8	\$ 113.5	\$ 310.2	\$ 832.5
7. Actuarial Value of Assets.	\$ 572.6	\$ 115.1	\$ 441.9	\$1,129.6
8. Unfunded Actuarial Liability (6-7)	(\$163.8)	(\$ 1.6)	(\$ 131.7)	(\$297.1)

System Contributions

In 1981 the County adopted what was known as the "interim" funding method. Under this method, the employer contribution had three components: the normal cost, the payment (or credit) toward the unfunded actuarial liability (UAL), and the allowance for expenses. Each component was expressed as a percentage of payroll. Costs were developed separately for each employee group.

Under the Interim funding method used by the County, the County rate dropped dramatically when the System became fully funded and, beginning with the 7/1/01 valuation, it reached zero. However, under this method the County could be subject to significant volatility in the contribution rate in the future. Because the System is well funded, asset returns that deviate from the actuarial assumption of 8% will likely cause significant fluctuations in the County contribution rate. Returns near or above the assumption of 8% will likely cause the County contribution to remain at zero for a few years, but returns significantly lower than the actuarial rate could result in a sizeable County contribution increase.

Actuarial Section

As a result of the described volatility, the Retirement Board presented a recommendation, accepted by the County Board, to adopt a fixed rate of 3.5% for FY 2002 rather than drop the rate to 0%. Details of the fixed rate funding approach can be found in the Actuarial Valuation report.

The current policy does not address when the rate would increase. The alternatives reviewed by the Retirement Board would require an increase in the rate when the funded status (the ratio of actuarial assets to actuarial liabilities) falls below a given benchmark such as 90% or 100%. The funding status as of July 1, 2001 is 135.7%, well above any benchmark under consideration.

Effective with this valuation, the School Board has withdrawn Chapter 46 active participants from the fund. Assets for the School Board have been set to the present value of future benefits for the remaining participants. The remaining School Board participants are a closed group, and all future benefits are fully funded. Therefore, no employer contributions are required for this group.

Details of the derivation of County contribution rates are shown in the table below.

	Chapter	Employer Contribution Rate as a Percentage of Payroll			
		General		Uniformed	
				<u>21</u>	<u>46</u>
1. Normal Cost		12.1%	13.2%	23.5%	24.8%
2. Member Contribution Rate		4.0%	5.0%	5.8%	5.0%
Refund of Contributions		.5%	<u>21</u>	<u>46</u>	.7%
Net Member Contribution Rate		3.5%	4.1%	4.8%	4.3%
3. Employer Normal Cost		8.6%	9%	18.8%	20.4%
4. Weighting Factors		7%	93%	6%	94%
5. Blended Rate			9.0%		20.3%
6. Amortization of UAL or (Surplus)			(11.5)%		(25.1)%
7. Expenses			.3%		.3%
8. Total Required Employer Contribution			0.0%		0.0%

Plan Membership

The total active membership of the System as of July 1, 2001, the date of the actuarial evaluation, was 3,810, reduced from 6,097 as of July 1, 2000 primarily as a result of moving teachers, for whom the System provided a supplemental benefit, to VRS.

Tables showing distribution of employees among the plans and statistics on non-active members at year end are contained in the Statistical Section.

Tables showing Retirees and Beneficiaries added to and removed from the rolls are contained in the Statistical Section.

Analysis of Financial Experience

Actual financial experience will not coincide exactly with assumed financial experience because the future cannot be predicted with certainty. The System, by policy of the Retirement Board, completes an actuarial experience study once every five years to compare assumed and actual experience. Copies of the experience study reports are available in the Retirement Office. The most recent Experience Study was completed with data as of June 30, 2000.

Actuarial Assumptions

The assumptions used for the actuarial valuation were recommended by the actuary and adopted by the Board

Valuation date	July 1, 2001
Actuarial cost method	Aggregate Entry Age (Interim)
Remaining amortization period	15 year rolling
Asset valuation method	5 yr., smoothed
Investment rate of return	8.0%
Projected salary increases	4.5%
Inflation	4.5%
Cost of living adjustments	Per Plan documents
Mortality Tables	RP 2000

Tables of assumed retirement rates and rates for withdrawal from active service before age and service retirement assumptions can be found in Appendix C of the Actuarial Valuation Report as of July 1, 2001. Copies of the report can be found in the Retirement Office.

Summary of Plan Provisions

Arlington County has three Retirement Plans with Plan membership dependent on the date of hire and Plan provisions dependent on whether the employee is classified in the General, Uniformed or School Board employee group. A summary of the provisions for each of the Plans follows. A Deferred Retirement Option Plan (DROP) was added effective January 1, 2002. An employee is eligible for participation in the DROP when they are eligible for normal retirement. DROP participation is limited to 3 years.

Chapter 21 - General and Uniform Employees hired before February 8, 1981

Retirement benefits are funded by employee and employer contributions and by investment earnings.

The basic formula for calculating benefits is: $2.5\% \times \text{years of creditable service for up to 20 years} + 2.0\% \times \text{years of creditable service beyond 20 years} \times \text{average final salary} = \text{annual retirement benefit}$. There is a maximum benefit of 70% of the average final salary.

Normal retirement eligibility is age 60 for General employees, age 50 for Uniformed employees. Unreduced benefits are available for General employees at age 55 with 25 years of service or at age 57 with 20 years of service or when the sum of age and service is equal to 80.

Early retirement is available with a reduction in benefits.

Cost of living increases are equal to 1.5% of the benefit and are added to the benefit each July.

Retirement benefits are vested after 5 years of service.

Service Connected disability benefits are available regardless of length of service.

Ordinary disability benefits are available after five years of service.

Spousal survivor options are available to the spouse at the time of retirement with actuarial reductions to the benefit.

Chapter 35 - School Board or Department of Human Services Employees hired before 2/8/1981

Retirement benefits are funded by employer contributions and by investment earnings.

The basic formula for calculating benefits is: $2.125\% \times \text{credited service} \times \text{average final salary} = \text{annual retirement benefit}$. The calculated benefit is then reduced by the benefit calculated under Formula A of the Virginia Retirement System (VRS).

Normal retirement eligibility is age 62. Unreduced benefits are available at age 55 with 30 years of service.

Early retirement is available with a reduction in benefits.

Retirement benefits are vested after 5 years of service.

Ordinary disability benefits are available after five years of service.

Spousal survivor options are available to the spouse at the time of retirement with actuarial reductions to the benefit.

Chapter 46 - All Employees hired on or after February 8, 1981

Retirement benefits are funded by employee and employer contributions and by investment earnings.

The basic formula for calculating benefits is : $1.5\% \times \text{years of creditable service} \times \text{average final salary} = \text{annual retirement benefit}$ for general employees and, for Uniformed employees, the benefit formula uses a factor of 2.0% for all service until the retiree is eligible for full Social Security benefits. When the retiree begins to receive Social Security, the formula reverts to 1.5% for the first 10 years of service, 1.7% for the next 10 and 2.0% for the final 10 years.

Employees who are members of the Virginia Retirement System have their Arlington County benefit offset by the VRS benefit.

Normal retirement eligibility is age 62 for General employees, age 52 for Uniformed employees. Employees can qualify for an unreduced benefit when the sum of age plus service equals 80.

Early retirement is available with a reduction in benefits.

Cost of living increases are based on increases in the CPI-U and are added to the benefit each July.

Retirement benefits are vested after 5 years of service.

Service Connected disability benefits are available at any time prior to normal retirement age.

Ordinary disability benefits are available after two years of service.

Spousal survivor options are available to the spouse at the time of retirement with actuarial reductions to the benefit.

This information and description of plan provisions does not in any way change or modify Code of the County Chapters 21, 35 or 46. The Code always takes precedence in the event of questions or interpretations.

Trends

One of the best ways to measure or evaluate the financial condition of a pension plan, is to examine the historical trends that are evolving. Below, we present three charts which present trend information on the System's assets and liabilities, annual cash flows in an out of the fund, and the County contribution rate. Our comments on each follow.

Chart A: ASSETS / LIABILITIES

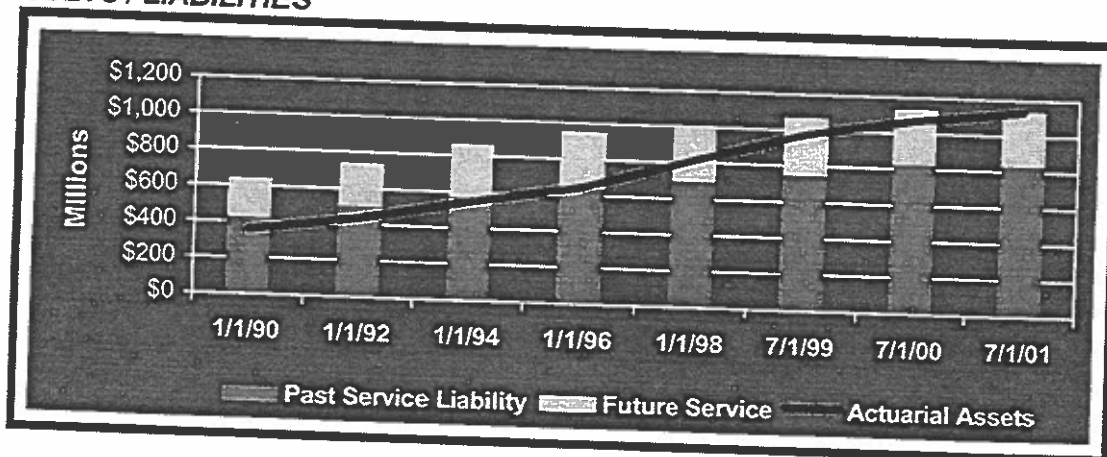


Chart B: CASH FLOWS

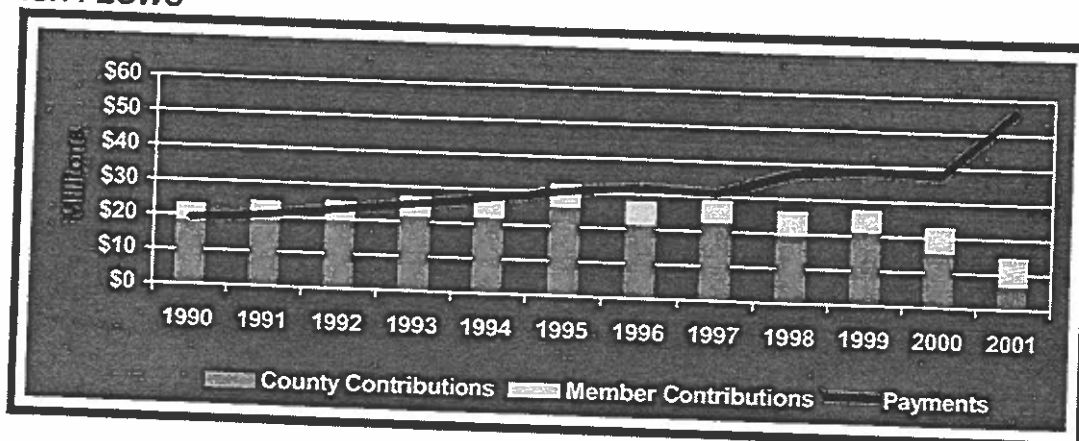
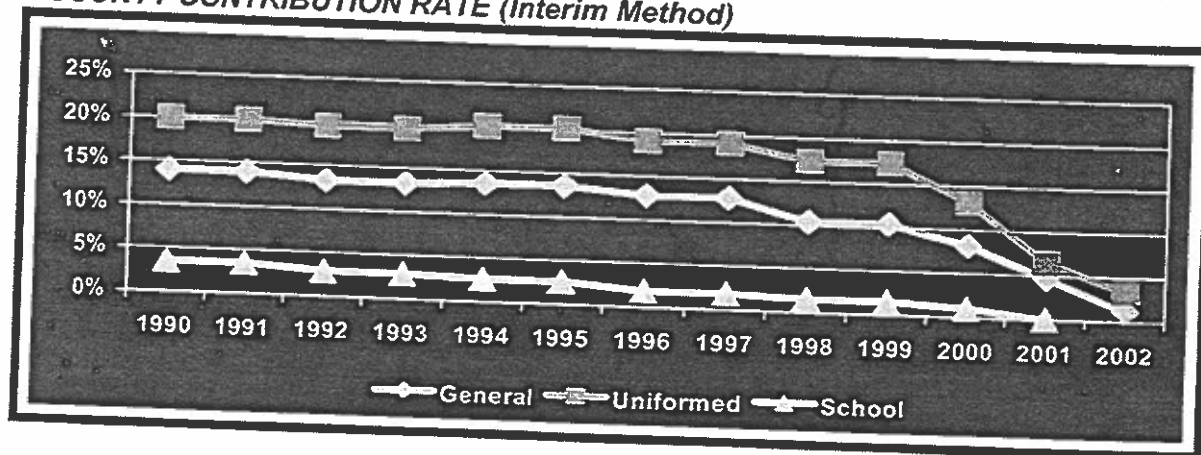


Chart C: COUNTY CONTRIBUTION RATE (Interim Method)



Comments

Chart A shows the magnitude of the investment performance over the past decade, which has dramatically improved the funding position. The ratio of actuarial assets to liabilities, which has continuously grown, not just over the period in the chart but since early 1980's, is, as of FY '02, the best ever for the County.

Chart B presents an emerging trend that will have investment implications. It is a trend being faced by many public retirement systems, with the aging of our baby boomer generations. Payments to retirees are on the increase. Cash into the fund, from County and member contributions, is stable or declining. This is not unanticipated, and essentially explains the past need for funding. (The sudden increase in 2001 represents the one-time withdrawal for defined contribution startup accounts.)

Finally, Chart C, looks only at the County contribution rate for the applicable fiscal year. It shows the impact of the past decade's sustained investment gains, a continuous lowering of the rate under the Interim Funding Method to zero for the upcoming fiscal year 2003. However, beginning in fiscal year 2002, the County began contributing a fixed 3.5% of pay.

Actuarial Section

Schedule of Active Member Valuation Data

Schedule of Active Member Valuation Data						
Group	Plan	Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
General Employees						
Chapter 21		07/01/01	318	\$17,773,072	\$55,890	5%
		07/01/00	350	18,631,711	53,233	12%
		07/01/99	389	18,470,007	47,481	-2%
		01/01/98	427	20,640,539	48,338	5%
		01/01/96	522	24,001,756	45,980	11%
		01/01/94	606	25,010,477	41,271	
Chapter 46		07/01/01	2,377	\$102,331,133	\$43,051	7%
		07/01/00	2,420	97,147,442	40,144	12%
		07/01/99	2,395	86,063,736	35,935	-1%
		01/01/98	2,331	84,189,249	36,117	6%
		01/01/96	2,289	78,359,712	34,233	11%
		01/01/94	2,056	63,326,584	30,801	
School Board Employees						
Chapter 35		07/01/01	316	\$22,259,045	\$70,440	6%
		07/01/00	352	23,332,882	66,287	7%
		07/01/99	414	25,741,001	62,176	3%
		01/01/98	454	27,312,245	60,159	6%
		01/01/96	541	30,705,487	56,757	9%
		01/01/94	585	30,523,616	52,177	
Chapter 46		07/01/01	0	NA	NA	NA
		07/01/00	2,200	\$99,343,798	45,156	8%
		07/01/99	2,042	85,599,585	41,919	5%
		01/01/98	2,017	80,215,457	39,770	7%
		01/01/96	1,747	65,039,713	37,229	16%
		01/01/94	1,529	49,234,515	32,200	
Uniformed Employees						
Chapter 21		07/01/01	98	\$7,022,187	\$71,655	-3%
		07/01/00	119	8,815,929	74,083	14%
		07/01/99	140	9,085,392	64,896	-2%
		01/01/98	161	10,620,385	65,965	6%
		01/01/96	205	12,790,346	62,392	12%
		01/01/94	236	13,168,003	55,797	
Chapter 46		07/01/01	701	\$37,379,721	\$53,323	-2%
		07/01/00	656	35,633,052	54,319	14%
		07/01/99	651	30,978,194	47,586	4%
		01/01/98	636	29,197,878	45,909	9%
		01/01/96	648	27,321,723	42,163	12%
		01/01/94	572	21,603,281	37,768	

SOLVENCY TEST

All \$ amounts are Millions of Dollars

Valuation Date	Aggregate Accrued Liability For:			Actuarial Liability	Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Value of Assets		
	(1) Active Employee Contrib.	(2) Inactive* Employees	(3) Active Employer Contrib.			(1)	(2)	(3)
1/1/1994	\$49.4	\$244.2	\$281.4	\$575.0	\$547.6	100%	100%	90%
1/1/1996	\$61.0	\$274.9	\$299.4	\$635.3	\$646.2	100%	100%	104%
1/1/1998	\$69.7	\$327.4	\$291.5	\$688.6	\$812.3	100%	100%	143%
7/1/1999	\$73.5	\$354.6	\$319.1	\$747.2	\$974.5	100%	100%	171%
7/1/2000	\$76.7	\$418.3	\$333.2	\$828.2	\$1,068.7	100%	100%	172%
7/1/2001	\$79.6	\$417.3	\$325.6	\$832.5	\$1,129.6	100%	100%	191%

* Retirees, Beneficiaries and Vested Deferred Members

RETIREEES and BENEFICIARIES ADDED TO and REMOVED FROM ROLLS

	Fiscal Year Ended	Additions	Deletions	Year-end Total	Annual Benefits	% Increase in Annual Benefits	Average Annual Benefit
Chapter 21	06/30/02	58	68	1,457	\$30,546,456	15.3%	\$20,965
	06/30/01	25	80	1,467	28,893,060	14.4%	19,695
	06/30/00	26	25	1,523	27,592,617	4.2%	18,117
	06/30/99	45	52	1,522	26,484,432	4.8%	17,401
	06/30/98	58	34	1,529	25,264,980	6.9%	16,524
	06/30/97	58	49	1,505	23,641,056	8.2%	15,708
Chapter 35	06/30/02	43	50	1,054	\$6,925,596	4.6%	\$6,571
	06/30/01	72	60	1,061	6,623,820	7.2%	6,243
	06/30/00	65	28	1,049	6,181,476	10.7%	5,893
	06/30/99	43	32	1,012	5,583,414	13.1%	5,517
	06/30/98	34	17	1,001	4,937,580	7.9%	4,933
	06/30/97	32	8	984	4,578,156	5.1%	4,653
Chapter 46	06/30/02	69	0	445	\$2,965,188	20.1%	\$6,663
	06/30/01	56	0	376	2,469,756	23.5%	6,569
	06/30/00	50	0	320	1,999,653	17.7%	6,249
	06/30/99	49	0	270	1,698,777	17.2%	6,292
	06/30/98	41	0	221	1,449,240	15.6%	6,558
	06/30/97	29	0	180	1,253,460	25.9%	6,964

Statistical Section



EMPLOYEES' RETIREMENT SYSTEM

**ACTIVE EMPLOYEE MEMBERSHIP IN
RETIREMENT SYSTEM AS OF June 30, 2002**

GROUP	CHAPTER 21	CHAPTER 35	CHAPTER 46	TOTAL MEMBERSHIP
COUNTY : GENERAL EMPLOYEES	242		2,185	2,427
POLICE OFFICERS	40		290	330
FIREFIGHTERS	35		237	272
DEPUTY SHERIFFS	7		189	196
SCHOOL BOARD EMPLOYEES	37	262	347	646
COURTS	0			0
HUMAN SERVICES		11	17	28
TOTALS	361	273	3,265	3,899

**HISTORY OF ACTIVE EMPLOYEE MEMBERSHIP IN RETIREMENT SYSTEM
YEAR ENDED JUNE 30**

	1996	1997	1998	1999	2000	2001	2002
CHAPTER 21							
GENERAL EMPLOYEES	401	377	349	326	299	279	242
POLICE OFFICERS	102	88	80	69	56	48	40
FIREFIGHTERS	83	69	64	58	50	44	35
DEPUTY SHERIFFS	12	10	10	10	8	8	7
SCHOOL BOARD	81	69	65	59	48	43	37
COURTS	4	3	1	1			
HUMAN SERVICES							
TOTAL	683	616	569	523	461	422	361
CHAPTER 35							
SCHOOL BOARD	477	445	410	366	310	299	262
HUMAN SERVICES	22	21	20	18	15	13	11
TOTAL	499	466	430	384	325	312	273
CHAPTER 46							
GENERAL EMPLOYEES	1,806	1,856	1,892	1,858	1,946	2,023	2,185
POLICE OFFICERS	262	264	274	268	263	275	290
FIREFIGHTERS	164	182	194	195	200	218	237
DEPUTY SHERIFFS	201	204	190	185	193	203	189
SCHOOL BOARD	2,002	2,178	2,404	2,520	2,658	3,124	347
HUMAN SERVICES	27	26	25	25	21	19	17
TOTAL	4,462	4,710	4,979	5,051	5,281	5,862	3,265
GRAND TOTAL	5,644	5,792	5,978	5,958	6,067	6,596	3,899

Note 1: Descriptions of Plan Provisions of the various Plans described as Chapter 21, Chapter 35 and Chapter 46 on these and other tables can be found on pages 35 and 36 of this report.

Note 2: During FY 2002, Chapter 46 Teachers (School Board Employees) were moved to the Virginia Retirement System

**RETIREMENTS GRANTED
DURING FISCAL YEAR 2002**

CHAPTERS 21 & 46	SERVICE RETIREMENTS	DEFERRED RETIREMENT OPTION PLAN (DROP)	ORDINARY DISABILITY	SERVICE CONNECTED DISABILITY	TOTAL
COUNTY GENERAL EMPLOYEES	51	19	4	2	76
POLICE OFFICERS	4	5			9
FIREFIGHTERS	4	4		1	9
DEPUTY SHERIFFS	2				2
SCHOOL BOARD EMPLOYEES	29		2		31
TOTALS	90	28	6	3	127

CHAPTER 35	SERVICE RETIREMENTS	DEFERRED RETIREMENT OPTION PLAN (DROP)	ORDINARY DISABILITY	SERVICE CONNECTED DISABILITY	TOTAL
	43	n/a	0	0	43

**HISTORY OF RETIREMENTS GRANTED
YEAR ENDED JUNE 30**

CHAPTERS 21 & 46	1996	1997	1998	1999	2000	2001	2002
SERVICE RETIREMENTS	56	72	76	70	34	58	61
DROP							31
ORDINARY DISABILITY	6	4	6	4	3	12	6
SERVICE CONNECTED DISABILITY	11	8	9	4	2	11	3
TOTAL	73	84	91	78	39	81	101
CHAPTER 35	1996	1997	1998	1999	2000	2001	2002
SERVICE RETIREMENTS	51	66	48	45	65	70	68
ORDINARY DISABILITY	1	2	1	0		2	1
TOTAL	52	68	49	45	65	72	69
GRAND TOTAL	125	152	140	123	104	153	170

Statistical Section

SUMMARY OF MONTHLY RETIREMENT ALLOWANCES [RETIREES AND SURVIVORS] AS OF 6/30/02

	Service Retirements		Deferred Retirement Option Plan (DROP)		Ordinary Disability		Service Connected Disability		Total	
	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount
<i>Chapter 21</i>										
County General Employees	673	\$1,005,667.86	15	\$45,045.33	47	\$53,758.32	39	\$53,464.46	774	\$1,157,935.97
Police Officers	169	473,014.88	3	11,564.51	7	9,901.81	48	104,325.22	227	\$598,806.42
Firefighters	127	341,718.52	4	19,974.54	2	1,971.90	83	171,567.67	216	\$535,232.63
Deputy Sheriffs	13	17,073.57			1	1,322.88	5	6,529.60	19	\$24,926.05
School Board Employees	191	201,037.03			23	20,839.02	7	6,761.13	221	\$228,637.18
<i>Total Chapter 21</i>	1,173	\$2,038,511.86	22	\$76,584.38	80	\$87,793.93	182	\$342,648.08	1,457	\$2,545,538.25
<i>Chapter 46</i>										
County General Employees	148	\$71,484.28	6	\$3,435.05	19	\$10,086.29	20	\$35,419.94	193	\$120,425.56
Police Officers	2	1,038.87	2	6,219.49	15	36,149.78			19	\$43,408.14
Firefighters	2	1,460.24					9	22,240.05	11	\$23,700.29
Deputy Sheriffs	9	7,129.46					14	31,142.31	23	\$38,271.77
School Board Employees	177	25,760.09			29	3,992.72	1	1,194.89	207	\$30,947.70
<i>Total Chapter 46</i>	338	\$106,872.94	8	\$9,654.54	63	\$50,228.79	44	\$89,997.19	453	\$256,753.46
<i>Total Chapter 35</i>	990	\$557,015.98			64	\$20,117.45			1,054	\$577,133.43

HISTORY OF MONTHLY RETIREMENT ALLOWANCES (In Thousands of Dollars) As Of YEAR END

Retirement Type	1997		1998		1999		2000		2001		2002	
	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount
Service	2,245	\$1,972	2,319	\$2,133	2,362	\$2,298	2,462	\$2,751	2,461	\$2,577	2,501	\$2,703
DROP											30	92
Ordinary Disability	203	116	200	114	199	113	198	112	201	126	207	126
Service Connected Disability	221	365	228	391	229	404	232	418	242	463	226	433
Total	2,669	\$2,453	2,747	\$2,638	2,790	\$2,814	2,892	\$3,281	2,904	\$3,165	2,964	\$3,353

INCOME & EXPENDITURES
(In Millions of Dollars)
YEAR ENDED JUNE 30

INCOME	1996	1997	1998	1999	2000	2001	2002
Contribution Total	28.3	29.2	26.5	27.9	23.2	14.8	15.1
Employer Contribution	21.4	22.5	19.4	20.3	15.6	6.5	6.2
Employee Contribution	6.9	6.7	7.1	7.6	7.6	8.3	8.9
School Board Transfer to VRS							-4.9
Income & Appreciation	103.1	121.4	142.0	99.7	73.0	-6.4	-39.7
Less Investment Expense	-3.2	-4.0	-3.7	-4.4	-4.5	-5.1	-4.7
TOTAL INCOME	128.2	146.6	164.8	123.2	91.7	3.3	-34.2
EXPENDITURES							
Benefit Payments	26.8	28.5	35.5	35.0	35.0	37.8	40.2
Refunds	1.2	1.7	1.1	0.6	1.8	1.9	1.2
Administrative Expenses	0.5	0.7	0.6	0.7	1.0	1.2	0.8
Transfers for 401a Start-up						15.5	5.1
TOTAL EXPENDITURES	28.5	30.9	37.2	36.3	37.8	56.4	47.3

PLAN NET ASSETS
(In Millions of Dollars)
YEAR ENDED JUNE 30

	1996	1997	1998	1999	2000	2001	2002
Fund Balance, Beginning of Year (At Market)	649.4	749.1	864.8	992.4	1,079.3	1,133.2	1,080.1
Income	128.2	146.6	164.8	123.2	91.7	3.3	-34.2
Expenses	28.5	30.9	37.2	36.3	37.8	56.4	47.3
Net Income	99.7	115.7	127.6	86.9	53.9	-53.1	-81.5
Fund Balance, Year End	749.1	864.8	992.4	1,079.3	1,133.2	1,080.1	998.6

Statistical Section

All \$ amounts are Millions of Dollars

CONTRIBUTION ANALYSIS YEAR ENDED JUNE 30

	<u>Group</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Estimated Covered Payroll		\$225.4	\$250.1	\$253.1	\$266.5	\$266.1	\$293.7	\$206.1
Employer Contribution:								
% of Payroll	A,C,D	12.8%	12.8%	10.4%	10.4%	8.3%	1.2%	1.2%
	B	19.1%	19.1%	17.4%	17.4%	13.2%	3.4%	3.4%
	E	1.8%	1.8%	1.5%	1.5%	1.0%	0.0%	0.0%
Total Employer Contribution		\$21.4	\$22.5	\$19.4	\$20.3	\$15.6	\$6.4	\$5.9
Employee Contribution:								
% of Payroll								
Chapter 21	A,D	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
	B	6.62%	6.62%	6.62%	6.62%	6.62%	6.62%	6.62%
	C	5.62%	5.62%	5.62%	5.62%	5.62%	5.62%	5.62%
Chapter 35	E	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Chapter 46	A,C,D	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
	B	5.0%	5.0%	5.0%	5.0%	5.0%	6.0%	6.0%
	E	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Employee Contribution		\$6.9	\$6.7	\$7.1	\$7.5	\$7.6	\$8.3	\$8.6
Ratio: Employer/Employee		3.1	3.4	2.7	2.7	2.1	0.8	0.7
Unfunded Actuarial Liability		\$0.0		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

Group Key

- | | |
|--------------------------|--------------------------------------|
| (A) General Employees | (D) School Board Employees - Non-VRS |
| (B) Uniformed Employees | (E) School Board Employees - VRS |
| (C) Managers - Uniformed | |

PARTICIPANT and INVESTMENT DATA and RATIO
YEAR ENDED JUNE 30

	1996	1997	1998	1999	2000	2001	2002
<i>Participant Data:</i>							
Active Employees (At YearEnd)	5,644	5,674	5,978	5,958	6,067	6,596	3,899
Retirees (At YearEnd)	2,607	2,699	2,747	2,790	2,892	2,904	2,956
Retirees as a % of Active Employees	46.2%	47.6%	46.0%	46.8%	47.7%	44.0%	75.8%
Retirement Benefits Paid, Million \$	\$26.8	\$28.5	\$35.5	\$35.0	\$35.0	\$37.8	\$40.2
Average Benefit Payment, \$/Month							
Chapter 21	\$1,216	\$1,309	\$1,377	\$1,450	\$1,510	\$1,641	\$1,747
Chapter 35 (Supplement)	\$378	\$387	\$411	\$460	\$491	\$520	\$548
Chapter 46*	\$550	\$580	\$557	\$553	\$521	\$547	\$555
<i>Investment Data:</i>							
Fund Balance, Market Value	\$749.1	\$864.8	\$992.4	\$1,079.3	\$1,133.2	\$1,080.1	\$998.5
Ratio: Fund Balance / Benefits Paid	28.0	30.3	28.0	30.8	32.4	28.6	24.8

*The data for Chapter 46 retirees are misleading as this Chapter is relatively new, disability retirees significantly affect the average and there is blending of VRS and non-VRS members' benefits.

Statistical Section

Chapter 21

Uniform & General Employees
Hired Before 2/8/81

Schedule of Average Benefit Payments

	Years of Credited Service					
	5-9	10-14	15-19	20-24	25-29	30+
<u>Period 7/1/96 to 6/30/97</u>						
Average Monthly Benefit	\$101.05	-	\$1,578.24	\$2,289.59	\$2,856.83	\$3,086.94
Average of Final Monthly Salaries	\$542.46	-	\$3,025.47	\$3,923.47	\$4,210.39	\$4,699.48
Number of Current Retirees	1	-	6	16	23	9
<u>Period 7/1/97 to 6/30/98</u>						
Average Monthly Benefit	\$377.75	-	\$1,437.07	\$2,474.10	\$3,234.12	\$3,017.92
Average of Final Monthly Salaries	\$1,997.50	-	\$3,291.00	\$4,357.84	\$5,142.02	\$4,273.02
Number of Current Retirees	3	-	10	10	11	17
<u>Period 7/1/98 to 6/30/99</u>						
Average Monthly Benefit	\$106.70	\$571.11	-	\$2,270.85	\$2,920.74	\$3,111.73
Average of Final Monthly Salaries	\$802.94	\$2,048.07	-	\$4,682.33	\$4,532.39	\$4,504.74
Number of Current Retirees	1	1	-	10	20	11
<u>Period 7/1/99 to 6/30/00</u>						
Average Monthly Benefit	\$204.05	\$764.47	\$2,130.11	\$2,011.84	\$3,331.93	\$3,200.04
Average of Final Monthly Salaries	\$1,159.40	\$2,479.01	\$4,277.85	\$4,108.51	\$5,256.26	\$4,694.98
Number of Current Retirees	1	2	1	11	21	19
<u>Period 7/1/00 to 6/30/01</u>						
Average Monthly Benefit	\$236.02	\$995.55	\$860.42	\$2,110.84	\$3,488.71	\$3,045.44
Average of Final Monthly Salaries	\$1,127.41	\$2,853.34	\$1,849.55	\$3,924.08	\$5,490.93	\$4,742.49
Number of Current Retirees	1	1	1	11	18	14
<u>Period 7/1/01 to 6/30/02</u>						
Average Monthly Benefit	\$745.40	-	-	\$2,546.99	\$3,551.06	\$3,019.28
Average of Final Monthly Salaries	\$3,505.68	-	-	\$4,797.59	\$5,597.97	\$4,628.20
Number of Current Retirees	2	-	-	13	20	22

Chapter 21

Schedule of Retired Members by Type of Benefit

Amount of Monthly Benefit	Number of Retirees	Type of Retirement										Spousal Benefit Option			
		1	2a	2b	3	4	5	6	7	8	9	Opt1	Opt2	Opt3	Opt4
Deferred	54	-	-	-	-	-	-	-	-	54	-	54	-	-	-
\$1 - 250	83	56	10	2	7	1	-	6	1	-	-	67	15	-	1
251 - 500	125	66	22	4	25	-	1	4	3	-	-	96	25	1	3
501 - 750	136	59	9	4	36	1	9	17	1	-	-	93	36	5	2
751 - 1,000	117	47	15	15	19	-	12	9	-	-	-	92	16	4	5
1001 - 1,250	131	49	21	15	14	-	22	10	-	-	-	99	26	1	5
1,251 - 1,500	135	42	19	30	7	1	23	10	2	-	1	89	35	5	6
1,501 - 1,750	108	41	15	15	2	-	28	6	-	-	1	74	27	1	6
1,751 - 2,000	109	45	17	24	-	-	20	2	-	-	1	69	27	3	10
Over 2,000	529	277	40	114	2	-	67	9	1	-	19	220	249	39	21
Totals	1527	682	168	223	112	3	182	73	8	54	22	953	456	59	59

1 - Normal retirement
2a - Early retirement with penalty
2b - Early retirement without penalty
3 - Survivor payment, retiree
4 - Survivor payment, death in service

Type of Retirement

5 - Duty disability retirement
6 - Non-duty disability retirement
7 - Survivor payment, disability retirement
8 - Vested benefit
9 - DROP

Spousal Option Selected

Opt1 - none
Opt2 -50%
Opt3 -66.7%
Opt4 -100%

Chapter 35**Schedule of Average Benefit Payments**

School Board and DHS Hired Before 2/8/81	Years of Credited Service					
	5-9	10-14	15-19	20-24	25-29	30+
Period 7/1/96 to 6/30/97						
Average Monthly Benefit	\$101.65	\$297.84	\$449.81	\$494.70	\$931.17	\$1,095.42
Average of Final Monthly Salaries	\$1,527.08	\$3,242.46	\$3,191.64	\$3,090.59	\$5,165.50	\$5,242.07
Number of Current Retirees	1	2	6	8	14	9
Period 7/1/97 to 6/30/98						
Average Monthly Benefit	-	\$273.82	\$172.57	\$595.36	\$973.59	\$1,077.54
Average of Final Monthly Salaries	-	\$2,460.93	\$1,580.40	\$3,559.58	\$4,925.47	\$5,593.50
Number of Current Retirees	-	2	2	8	21	9
Period 7/1/98 to 6/30/99						
Average Monthly Benefit	\$62.88	\$262.80	\$493.18	\$926.83	\$905.08	\$1,079.56
Average of Final Monthly Salaries	\$1,284.23	\$2,406.51	\$3,031.79	\$5,061.20	\$4,839.23	\$5,327.84
Number of Current Retirees	4	2	2	5	12	17
Period 7/1/99 to 6/30/00						
Average Monthly Benefit	-	\$453.56	\$522.16	\$750.18	\$878.48	\$1,060.25
Average of Final Monthly Salaries	-	\$3,701.39	\$3,507.70	\$4,231.64	\$4,684.33	\$5,667.23
Number of Current Retirees	-	1	5	9	23	26
Period 7/1/00 to 6/30/01						
Average Monthly Benefit	\$94.98	-	\$691.50	\$811.93	\$920.84	\$1,076.20
Average of Final Monthly Salaries	\$1,468.81	-	\$4,813.73	\$5,143.66	\$4,875.93	\$5,444.73
Number of Current Retirees	1	-	3	6	17	23
Period 7/1/01 to 6/30/02						
Average Monthly Benefit	\$55.88	\$441.49	-	\$762.28	\$982.19	\$1,050.64
Average of Final Monthly Salaries	\$1,336.89	\$5,282.98	-	\$4,230.95	\$5,075.42	\$5,542.02
Number of Current Retirees	1	1	-	11	13	18

Chapter 35**Schedule of Retired Members by Type of Benefit**

Amount of Monthly Benefit	Number of Retirees	Type of Retirement									Spousal Benefit Option			
		1	2a	2b	3	4	5	6	7	8	Opt1	Opt2	Opt3	Opt4
Deferred	97	-	-	-	-	-	-	-	-	97	97	-	-	-
\$1 - 250	298	155	107	1	4	2	-	28	1	-	281	9	1	7
251 - 500	266	142	87	13	4	1	-	18	1	-	232	19	4	11
501 - 750	172	66	57	34	2	-	-	13	-	-	132	22	4	14
751 - 1,000	189	56	62	67	2	-	-	2	-	-	145	18	11	15
1001 - 1,250	105	28	25	52	-	-	-	-	-	-	75	19	5	6
1,251 - 1,500	32	11	9	12	-	-	-	-	-	-	26	2	3	1
1,501 - 1,750	5	5	-	-	-	-	-	-	-	-	4	-	-	1
1,751 - 2,000	2	-	1	1	-	-	-	-	-	-	2	-	-	-
Over 2,000	1	1	-	-	-	-	-	-	-	-	1	-	-	-
Totals	1167	464	348	180	12	3	-	61	2	97	995	89	28	55

Type of Retirement

- 1 - Normal retirement
 2a - Early retirement with penalty
 2b - Early retirement without penalty
 3 - Survivor payment, retiree
 4 - Survivor payment, death in service

- 5 - Duty disability retirement
 6 - Non-duty disability retirement
 7 - Survivor payment, disability retirement
 8 - Vested benefit

Spousal Option Selected

- Opt1 - none
 Opt2 - 50%
 Opt3 - 66.7%
 Opt4 - 100%

Chapter 46

All Employees Hired
On or After 2/8/81

Schedule of Average Benefit Payments

	Years of Credited Service				
	2 - 5	5-9	10-14	15-19	20-24
<u>Period 7/1/96 to 6/30/97</u>					
Average Monthly Benefit	\$767.38	\$823.95	\$954.50	\$1,572.19	
Average of Final Monthly Salaries	\$1,901.28	\$4,140.05	\$3,271.72	\$54,859.89	
Number of Current Retirees	2	8	9	3	
<u>Period 7/1/97 to 6/30/98</u>					
Average Monthly Benefit	\$590.91	\$262.35	\$309.39	\$1,673.08	
Average of Final Monthly Salaries	\$1,972.65	\$3,236.77	\$3,881.78	\$3,435.16	
Number of Current Retirees	7	17	19	2	
<u>Period 7/1/98 to 6/30/99</u>					
Average Monthly Benefit	\$407.93	\$369.80	\$591.23	\$693.39	
Average of Final Monthly Salaries	\$2,387.35	\$2,755.09	\$3,619.00	\$3,159.31	
Number of Current Retirees	8	15	19	2	
<u>Period 7/1/99 to 6/30/00</u>					
Average Monthly Benefit	\$93.14	\$331.93	\$573.82	\$475.40	
Average of Final Monthly Salaries	\$2,074.49	\$3,590.53	\$3,322.28	\$4,190.04	
Number of Current Retirees	6	25	17	16	
<u>Period 7/1/00 to 6/30/01</u>					
Average Monthly Benefit	\$443.41	\$153.21	\$1,027.67	\$753.26	
Average of Final Monthly Salaries	\$2,440.42	\$3,288.79	\$3,782.11	\$4,215.83	
Number of Current Retirees	5	26	21	16	
<u>Period 7/1/01 to 6/30/02</u>					
Average Monthly Benefit	\$89.31	\$292.39	\$648.39	\$642.94	\$2,653.84
Average of Final Monthly Salaries	\$1,691.73	\$4,079.40	\$3,999.02	\$4,454.49	\$6,528.12
Number of Current Retirees	5	23	24	15	1

Chapter 46

Schedule of Retired Members by Type of Benefit

Amount of Monthly Benefit	Number of Retirees	Type of Retirement										Spousal Benefit Option			
		<u>1</u>	<u>2a</u>	<u>2b</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>Opt1</u>	<u>Opt2</u>	<u>Opt3</u>	<u>Opt4</u>
Deferred	105	-	-	-	-	-	-	-	-	105	-	105	-	-	-
\$1 - 250	137	31	82	1	7	-	-	13	2	-	1	127	6	-	4
251 - 500	110	54	23	-	15	1	-	10	5	-	2	95	11	-	4
501 - 750	62	31	9	-	12	1	-	6	1	-	2	49	8	1	4
751 - 1,000	28	12	3	-	9	-	1	2	1	-	-	21	4	-	3
1001 - 1,250	19	2	1	1	5	-	4	2	3	-	1	17	1	1	-
1,251 - 1,500	13	5	3	-	2	-	2	-	1	-	-	8	5	-	-
1,501 - 1,750	11	-	1	-	4	-	6	-	-	-	-	10	1	-	-
1,751 - 2,000	9	-	-	-	2	-	6	-	1	-	-	9	-	-	-
Over 2,000	44	-	-	-	4	-	38	-	-	-	2	35	7	1	1
Totals	538	135	122	2	60	2	57	33	14	105	8	476	43	3	16

Type of Retirement

- 1 - Normal retirement
- 2a - Early retirement with penalty
- 2b - Early retirement without penalty
- 3 - Survivor payment, retiree
- 4 - Survivor payment, death in service

- 5 - Duty disability retirement
- 6 - Non-duty disability retirement
- 7 - Survivor payment, disability retirement
- 8 - Vested benefit
- 9 - DROP

Spousal Option Selected

- Opt1 - none
- Opt2 -50%
- Opt3 -66.7%
- Opt4 -100%

