

# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

## **ARLINGTON COUNTY EMPLOYEES' RETIREMENT SYSTEM**

**A Pension Trust Fund of  
Arlington County, Virginia**

**PRESENTED BY THE BOARD OF TRUSTEES**

**For the Fiscal Year  
Ended June 30, 2012**

**Produced by the  
Arlington County Employees' Retirement System Office  
2100 Clarendon Boulevard  
Suite 504  
Arlington, Virginia 22201  
(703) 228-3321**



ARLINGTON COUNTY EMPLOYEES' RETIREMENT SYSTEM

Suite 504 2100 Clarendon Blvd. Arlington, VA 22201

TEL 703.228.3900 FAX 703.228.3902 TOLL FREE 800.296.9510 [www.arlingtonva.us/retirement](http://www.arlingtonva.us/retirement)

**Board of Trustees**

Michael E. Brunner,

President

Kenneth Dennis,

Vice President

Michelle Cowan,

Treasurer

Richard Alt

Wilfredo Calderon

Steven D. Ivins

Jonathan C. Kinney

December 6, 2012

To: The County and School Boards of Arlington County

**Substitute Trustees**

Jimmie Barrett, Assistant

Treasurer

Sandy DeGray, Secretary

Wayne Rhodes

Dear Board Members:

The Board of Trustees of the Arlington County Employees' Retirement System (ACERS) respectfully submits its annual report for the fiscal year ended June 30, 2012 as required in § 21-18, § 35-17 and § 46-18 of the Arlington County Code.

The Board's mission is to protect and preserve the assets of the Trust and provide prudent investment management and oversight. We act primarily in an investment capacity and have no role in setting benefit levels.

The financial and actuarial information included in the report show that the Retirement System is financially sound and has a funded ratio of actuarial assets to actuarial liabilities of 95.4%, a slight improvement over fiscal year 2011's funding ratio of 95.2%.

Investment performance was relatively flat this year as the system achieved a 0.6% return, underperforming the portfolio benchmark return of 2.3%. With \$1,516 million of assets at year end, the System remains positioned to meet future retirement obligations.

A copy of this report will be available for inspection at the Retirement Office, the County Central Library and on the Retirement Office web site. A summary of the report will be distributed to each participant in January 2013.

On behalf of the Board of Trustees and the ACERS staff, I would like to express our appreciation for your continued support and leadership.

Respectfully,

A handwritten signature in blue ink that reads "Michael E. Brunner".

Michael E. Brunner

President

## Table of Contents

<b>INTRODUCTORY SECTION .....</b>	<b>1</b>
Certificate of Achievement .....	1
Letter of Transmittal .....	2
Administrative Organization .....	7
Organizational Chart .....	8
<b>FINANCIAL SECTION .....</b>	<b>9</b>
Independent Auditors' Report .....	11
Management's Discussion and Analysis .....	12
Basic Financial Statements.....	15
Statement of Plan Net Assets .....	15
Statement of Changes in Plan Net Assets.....	16
Notes to Financial Statements.....	17
Required Supplementary Information .....	32
Schedule of Administrative Expense.....	33
Schedule of Investment & Consultant Expenses .....	34
<b>INVESTMENT SECTION .....</b>	<b>35</b>
Investment Performance, Policy, Statistics and Activity.....	37
Asset Allocation by Asset Class .....	41
Investment Managers and Investment Assignments .....	43
Investment Performance Summary .....	44
List of Largest Assets Directly Held .....	45
Schedule of Broker Commissions.....	46
<b>ACTUARIAL SECTION .....</b>	<b>47</b>
Actuary's Certification Letter .....	49
Actuarial Assumptions and Methods and Summary of Valuation Results .....	52
Valuation Method and Asset Value .....	52
Funding Method and System Liabilities.....	52
System Contributions.....	54
Plan Membership.....	55

Analysis of Financial Experience .....	55
Actuarial Assumptions .....	56
Summary of Plan Provisions.....	56
Trends .....	59
Schedule of Active Member Valuation Data .....	61
Solvency Test.....	62
Retirees and Beneficiaries Added To and Removed From Rolls .....	63
<b>STATISTICAL SECTION.....</b>	<b>64</b>
About the Statistical Section .....	65
Active Employee Membership in Retirement System .....	66
History of Active Employee Membership in Retirement System.....	66
Retirements Granted During Fiscal Year .....	67
History of Retirements Granted.....	67
Summary of Monthly Retirement Allowances.....	68
History of Monthly Retirement Allowances.....	68
Additions & Deductions .....	69
Plan Net Assets.....	69
Contribution Analysis .....	70
Participant and Investment Data and Ratio .....	71
Schedules of Average Benefit Payments .....	72
Schedules of Retired Members by Type of Benefit .....	75

# Introductory Section



## **ARLINGTON COUNTY 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, 2011

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.



*Linda C. Sanison*

President

*Jeffrey R. Emer*

Executive Director

# Introductory Section

---



## ARLINGTON COUNTY EMPLOYEES' RETIREMENT SYSTEM

Suite 504 2100 Clarendon Blvd. Arlington, VA 22201

TEL 703.228-3321 FAX 703.228.0646 TOLL FREE 800.296.9510 [www.arlingtonva.us/retirement](http://www.arlingtonva.us/retirement)

### Board of Trustees

Michael E. Brunner,  
President  
Kenneth Dennis,  
Vice President  
Michelle Cowan,  
Treasurer  
Richard Alt  
Wilfredo Calderon  
Steven D. Ivins  
Jonathan C. Kinney

November 30, 2012

### Substitute Trustees

Jimmie Barrett, Assistant  
Treasurer  
Sandy DeGray, Secretary  
Wayne Rhodes

### Executive Director

Daniel Zito

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

Dear Retirement Board Members:

The annual report of the Arlington County Employees' Retirement System (the System) for the fiscal year ended June 30, 2012 is enclosed. Responsibility for both the accuracy of the financial information contained herein and for the completeness and fairness of the presentation rests with System management.

The Retirement Board's primary responsibility is the sound management and investment of the System's assets. The Retirement Board has no role in determining the size and type of benefits.

As of June 30, 2012, the net assets of the System were \$1,517 million, a decrease of \$19 million during the fiscal year. The year's 0.6% investment return placed the System in the 60<sup>th</sup> percentile of the TUCS Public Plan universe and was 1.7% below the portfolio benchmark return of 2.3%. The System is financially and actuarially sound with a funding ratio of the actuarial value of assets to actuarial accrued liabilities of 95% as of July 1, 2011. Current employer contribution levels from the County are substantial and consistent with the funding guidelines provided for in the Arlington County Code.



## **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 County Code (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 such that all County employees hired on or after February 8, 1981 are covered by the provisions of Chapter 46 of the County Code. 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 as of December 2001 and all assets are now held under the Trust.

## **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 age.

Arlington County's Human Resources Department provides annual benefit statements to members. Additionally, counseling to all benefit applicants and others requesting it is provided, as are presentations at new employee orientations, various employee group meetings and training sessions. All retirement handbooks and forms are available in the Human Resources office and on the web. Contact information for both the Retirement Investment Office and the Retirement Benefits Office is below.

### **RETIREMENT INVESTMENT OFFICE**

2100 Clarendon Boulevard, Suite 504  
Arlington, VA 22201  
(703) 228-3321, Fax (703) 228-0646

### **RETIREMENT BENEFITS OFFICE**

2100 Clarendon Boulevard, Suite 511  
Arlington, VA 22201  
(703) 228-3900, Fax (703) 228-3902

## **Major Initiatives**

From an investment perspective, the Board took action at several points during the year to manage the portfolio's risk/return profile in light of developments in the capital markets. Notable changes included increasing exposures to bank loans and shorter term bonds and reducing the portfolio's international equity exposure. The *Investment Section* of this report includes details on the year's activity.

## **Other Post Employment Benefits**

In February 2009, the Retirement Board voted to act as Trustee with investment oversight for two trusts, one for County funds and one for School funds, invested to prefund Other Post Employment Benefits (OPEB) such as post retirement health care. Authority for a local retirement board to act as Trustee for OPEB assets is provided for in Virginia Code §15.2-1547. Additional funding of \$6.5 million and \$4.5 million for the County and School trusts, respectively, was made during fiscal year 2012. As of June 30, 2012, the County and School trusts had assets of \$43.4 million and \$19.9 million, respectively. These trusts are completely separate and independently managed from Retirement System assets. The OPEB trusts are managed in accordance with an Investment Policy Statement tailored to their needs.

# Introductory Section

---

Detailed financial reporting for the OPEB trusts is included in the County and School annual financial reports.

## **Accounting and Controls**

**Accounting.** This report has been prepared on the full accrual basis of accounting which is used to record assets and liabilities and additions and deductions to plan net assets.

System management is responsible to protect the system assets and to ensure the financial statements are prepared in conformity with generally accepted accounting principles (GAAP). Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition; and, the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived. We believe that the System's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The System's MD&A can be found immediately following the independent auditor's report, in the *Financial Section*.

**Budgetary Controls.** The budget for the System is presented to, and approved by, the Board of Trustees each year. A report of actual versus budgeted expenses is provided to the Board quarterly.

## **Funded Status**

An actuarial valuation of the System is performed annually to determine funding requirements. The actuarial valuation used for this reporting period was completed with payroll data as of July 1, 2011, the first day of fiscal year 2012.

A retirement system is fully funded when the actuarial value of the assets are adequate to meet the expected obligations to participants, or actuarial liabilities. While the System remains underfunded, the System's actual liability and investment experience result in a 95% funded ratio as of July 1, 2011, consistent with the July 1, 2010 ratio. The *Actuarial Section* of this document provides more details on the actuarial valuation report and the critical assumptions used in its preparation.

## **Investment Process and Performance**

The Board operates with the standard of care required in making investments as directed 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 County Code requires that the assets of the System be invested in accordance with a statement of investment policy adopted by the Board. County Code allows for the engagement of professional investment managers.

The Board adopted investment policy establishes investment objectives and a framework that allows sufficient flexibility to pursue investment opportunities while setting reasonable constraints and performance standards. Specifically, the policy establishes key risk parameters intended to minimize the risk of significant principal loss in the pursuit of the System's stated investment return objective. Additionally, the policy requires, with certain limited exceptions, a minimum of 20% of the total market value of System assets be held in fixed income investments and no more than 15% of assets be invested in illiquid investments. Derivative investments are limited such that no more than 15% of assets are subject to risk due to their use.

Under the policy, the Board allocates System assets and hires investment managers to direct the investments. Each manager is given a defined investment responsibility, agreeing to specific guidelines pertaining to investment style, expected return, portfolio risk exposure, portfolio turnover and other key metrics. Investment managers have full discretion to direct the assets assigned to them in accordance with the manager's guidelines, constrained only by limitations provided in the County Code, the investment policy and provisions of the manager's contract with the Board.

With assistance from System staff and the investment consultant, the Board reviews total Fund and investment manager performance at least quarterly to ensure compliance with stated objectives and policy. With assistance from the investment consultant, staff continuously monitors performance of the Fund and its investment managers and, when conditions warrant, makes recommendations for change to the Board. Authority to adopt these recommendations rests solely with the Board.

Securities of the System, except those held by pooled vehicles in which it owns an interest or in partnerships, are held by the Bank of New York Mellon, the System's master custodian.

For fiscal year 2012, the System's investment return of 0.6% compared to a 2.3% benchmark return. The annualized rates of return for the three and five-year periods were 11.9% and 2.4%, respectively. These compare to benchmark returns of 11.4% and 2.5% for the same periods, respectively. The annualized net return of 2.1% for the five year period failed to exceed the System's investment objective of achieving at least an 7.5% annual return, or 3% over the CPI-U, whichever is greater, over the rolling five-year period. The CPI-U plus 3% target objective was 5.0%. The System's net returns for the one and three-year periods were 0.3% and 11.5%, respectively. More details on the Fund's asset allocation and historic returns can be found in the *Investment Section* of this report.

### **Professional Services**

Professional consultants are appointed by the Board to perform services essential to the effective and efficient operation of the System. Ashford Consulting Group serves as investment consultant to the System. Opinions from the independent public accountants, CliftonLarsonAllen, LLP and the actuary, Cheiron, are included in this report.

### **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 (ACERS) for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This is the thirteenth consecutive year that ACERS has achieved this recognition. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently

## Introductory Section

---

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 this current comprehensive annual financial report meets the Certificate of Achievement Program's requirements and it will be submitted to the GFOA to determine its eligibility for certification.

### **Acknowledgments**

This annual report was prepared by the System's staff under the direction of the Retirement Board of Trustees. The administrative staff of Arlington County provided critical assistance in preparation of the *Statistical Section*, for which I am grateful. I would like to express sincere appreciation to the Board of Trustees for its confidence, guidance and dedication. I would also like to thank the County Board and the County Manager for their support and commitment to ensure the continued successful operation and funding of the System.

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

Respectfully,



Daniel Zito  
Executive Director & Chief Investment Officer

## ADMINISTRATIVE ORGANIZATION June 30, 2012

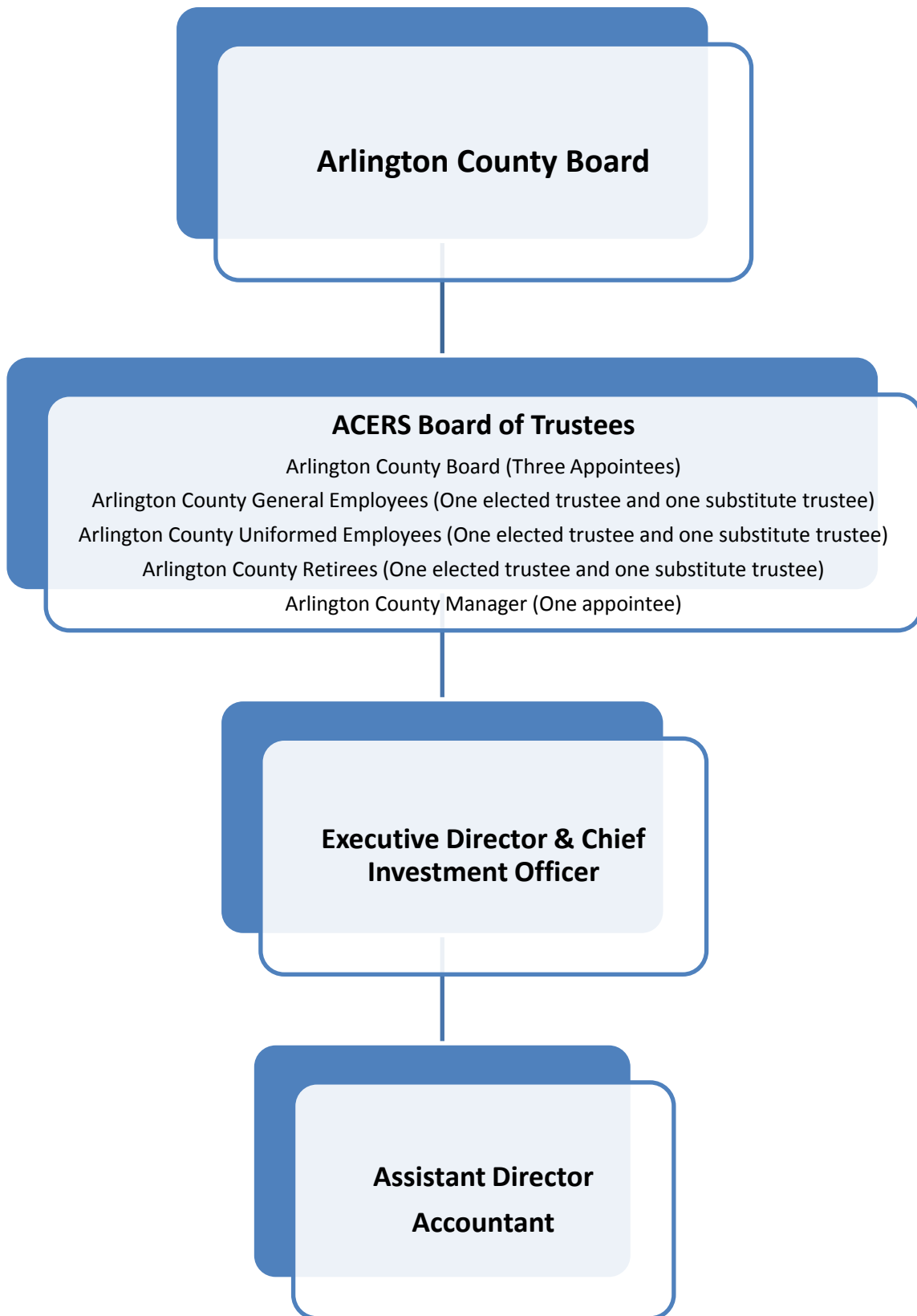
TRUSTEES	PROFESSIONAL STAFF
Michael Brunner, President <i>Appointed by County Board</i> <i>Term Expires 1/31/2013</i>	Daniel Zito, Executive Director & CIO Randee Stenroos, Assistant Director Susan Bomberg, Accountant
Kenneth Dennis, Vice President <sup>(1)</sup> <i>Uniformed Employee Representative</i> <i>Term Expires 1/31/2015</i>	<b>LEGAL ADVISOR</b> Robert Dawson, Deputy County Attorney
Michelle Cowan, Treasurer <i>Appointed by County Manager</i> <i>Term Expires 1/31/2015</i>	<b>INVESTMENT CONSULTANT</b> Ashford Consulting Group
Richard Alt <i>Elected by Retirees</i> <i>Term Expires 1/31/2015</i>	<b>CUSTODIAN BANK</b> The Bank of New York Mellon
Wilfredo Calderon <sup>(2)</sup> <i>General Employee Representative</i> <i>Term Expires 1/31/2013</i>	<b>CONSULTING ACTUARY</b> Cheiron
Steven Ivins <i>Appointed by County Board</i> <i>Term Expires 1/31/2013</i>	<b>CERTIFIED PUBLIC ACCOUNTANT</b> CliftonLarsonAllen LLP
Jonathan Kinney <i>Appointed by County Board</i> <i>Term Expires 1/31/2013</i>	<b>INVESTMENT MANAGERS<sup>(3)</sup></b> Abbott Capital Arsenal Real Estate Baillie Gifford The Bank of New York Mellon Daruma Asset Management Focused Investors Liquid Realty Partners Loomis Sayles Mellon Capital Management Oaktree Capital Management Sanderson Asset Management T. Rowe Price The Vanguard Group
SUBSTITUTE TRUSTEES	
Jimmie Barrett, Secretary & Asst. Treasurer <sup>(1)</sup> <i>Uniformed Employee Representative</i> <i>Term Expires 1/31/2015</i>	
Sandy DeGray <i>Elected by General Employees</i> <i>Term Expires 1/31/2013</i>	
Wayne Rhodes <sup>(1)</sup> <i>Retiree Representative</i> <i>Term Expires 1/31/2015</i>	

<sup>(1)</sup> Appointed by County Manager given absence of nominees for election

<sup>(2)</sup> As prior substitute trustee, Mr. Calderon filled position vacancy created by Ms. Cowan's appointment as the County Manager representative

<sup>(3)</sup> Investment manager assignments are on Page 43 and a schedule of broker commissions on Page 46

### ORGANIZATIONAL CHART



# Financial Section



## **ARLINGTON COUNTY EMPLOYEES' RETIREMENT SYSTEM**







CliftonLarsonAllen LLP  
www.cliftonlarsonallen.com

**Independent Auditor's Report**

Board of Trustees of the Arlington County  
Employees' Retirement System

We have audited the statement of plan net assets and statement of changes in plan net assets of the Arlington County Employees' Retirement System (the System), a pension fund of Arlington County, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the System's basic financial statements. These financial statements are the responsibility of the System's management. 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 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, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Schedules of Funding Progress and Employer Contributions be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the basic financial statements. 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 Schedule of Administrative Expenses and Schedule of Investment & Consultant Expenses are supplemental information and are presented for purposes of additional analysis and are not a required part of the financial statements. These supplemental schedules are the responsibility of management and have been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The Introductory, Investment, Actuarial and Statistical Sections have not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*CliftonLarsonAllen LLP*

Baltimore, Maryland  
November 7, 2012

# Financial Section

---

## **MANAGEMENT DISCUSSION & ANALYSIS**

The discussion and analysis presented in this section provides an overview of the Arlington County Employees' Retirement System's ("the System") financial activities for the fiscal year ended June 30, 2012. Please read this discussion and analysis in conjunction with the basic financial statements which follow and the letter from the Executive Director and Chief Investment Officer 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. Total net assets held in trust combined with consistent and significant County contributions leave the System well positioned to continue to meet its obligations to members.

### **Financial Highlights**

**Net Assets** System net assets at June 30, 2012 totaled \$1.517 billion, a decrease of \$19 million, or 1.2%, from June 30, 2011, primarily due to a decrease in the value of investments.

**Additions and Deductions to Net Assets** Additions to net assets include County and member contributions and interest and dividends on Fund investments; deductions to assets are primarily driven by benefit payments. For fiscal year 2012:

- Contributions increased to \$57.3 million from \$53.7 million in fiscal year 2011.
- Dividends and interest on investments decreased to \$38.5 million from \$41.2 million at June 30, 2011.
- Payments to members increased to \$78.8 million from \$76.3 million at June 30, 2011.

**Investment Gains and Losses** Investment gains and losses, which include realized and unrealized changes in investment portfolio market value, decreased by \$281.7 million to (\$30.5) million in fiscal year 2012 from \$251.2 million in fiscal year 2011.

- Fund investment returns of 0.6% for the year trailed the 2.3% average performance of a peer group of public funds. The Fund's investment results were largely driven by its overweight equities position in the 3<sup>rd</sup> quarter of calendar year 2011 and underperformance in its fixed income mandates. The System's investment portfolio is well diversified and strives to balance capital preservation in down markets with generating an adequate risk adjusted return over the long term.

**Funded Ratio** As of July 1, 2011, the System was actuarially funded at 95.4%, up from 95.2% as of July 1, 2010, due to fiscal 2011's 23.1% investment returns and the actuarial asset value calculation. See page 30 of this section for an explanation of how the actuarial asset value is calculated. Note, this funded ratio is a measurement as of the beginning of the fiscal year and does not reflect the impact of fiscal year 2012's 0.6% investment return.

**SUMMARY OF PLAN NET ASSETS AND CHANGES IN PLAN NET ASSETS**  
FOR THE YEARS ENDED JUNE 30, 2012 & 2011

**Summary of Plan Net Assets**

<b>Assets</b>	<b>June 30, 2012</b>	<b>(Decrease)</b>	<b>June 30, 2011</b>
Cash	\$ 21,672,487	\$ (2,896,649)	\$ 24,569,136
Receivables	9,809,398	\$ (515,476)	10,324,874
Investments	1,487,766,567	\$ (15,574,219)	1,503,340,786
Sec. Lending Collateral	20,964,949	\$ (2,006,072)	22,971,021
<b>Total Assets</b>	<b>\$ 1,540,213,401</b>	<b>\$ (20,992,416)</b>	<b>\$ 1,561,205,817</b>
<b>Liabilities</b>			
Accrued Expense	\$ 1,976,479	\$ (449,111)	\$ 2,425,590
Sec. Lending Obligations	20,963,654	\$ (1,997,425)	22,961,079
<b>Total Liabilities</b>	<b>\$ 22,940,133</b>	<b>\$ (2,446,536)</b>	<b>\$ 25,386,669</b>
<b>Total Net Assets</b>	<b>\$ 1,517,273,268</b>	<b>\$ (18,545,880)</b>	<b>\$ 1,535,819,148</b>

**Summary of Changes in Plan Net Assets**

<b>Additions</b>	<b>June 30, 2012</b>	<b>Increase (Decrease)</b>	<b>June 30, 2011</b>
Employer Contributions	\$ 46,262,448	\$ 3,047,381	\$ 43,215,067
Member Contributions	11,029,050	\$ 495,247	10,533,803
Dividends & Interest	38,467,987	\$ (2,757,414)	41,225,401
Investment Gains/(Losses)	(30,459,820)	\$ (281,695,483)	251,235,663
Other	227,655	\$ (3,254)	230,909
Investment Expense	(4,396,042)	\$ 540,894	(4,936,936)
<b>Total Additions</b>	<b>\$ 61,131,278</b>	<b>\$ (280,372,629)</b>	<b>\$ 341,503,907</b>
<b>Deductions</b>			
Retirement Benefits	\$ 77,892,789	\$ 2,859,271	\$ 75,033,518
Refund of Contributions	937,755	\$ (305,177)	1,242,932
Administrative Expense	846,614	\$ 84,415	762,199
<b>Total Deductions</b>	<b>\$ 79,677,158</b>	<b>\$ 2,638,509</b>	<b>\$ 77,038,649</b>
<b>Change in Net Assets</b>	<b>\$ (18,545,880)</b>	<b>\$ (283,011,138)</b>	<b>\$ 264,465,258</b>

# Financial Section

---

## Overview of Financial Statements

The System's basic financial statements, which follow, include:

- Basic financial statements
- Notes to the financial statements
- Required supplementary information

Summarizing the information available in each:

**Basic Financial Statements** These statements include a statement of plan net assets and a statement of changes in plan net assets, presented as of and for the year ended June 30, 2012, respectively. 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.

**Notes to the Basic Financial Statements** The financial statement notes provide additional information essential to fully understanding the data provided in the Fund Financial Statements. Specifically:

- Note 1** Provides a description of the System, the funding policy and member contributions and benefits and lists the various actuarial assumptions
- Note 2** Describes significant accounting policies
- Note 3** Discusses System deposits and investments and includes several tables categorizing investments by type while providing disclosure on interest rate, credit quality and currency related risks
- Note 4** Explains the System's tax status
- Note 5** Details the System's funded status and annual required contributions

**Required Supplementary Information** This information illustrates the System's funding progress and annual employer contributions as a percentage of required contributions.

Details regarding administrative and investment related expenses are also provided.

## Contact Information

The System's financial statements are designed to present users with a general overview of the System's finances and to demonstrate the prudent exercise of the Board's oversight. Please direct any questions or requests for further information to the Arlington County Employees' Retirement System, 2100 Clarendon Boulevard, Suite 504, Arlington, VA 22201. Copies of the Comprehensive Annual Financial Report are available from the Retirement Office or at the Central Public Library. The report may also be accessed at [www.arlingtonva.us/retirement](http://www.arlingtonva.us/retirement). A summary report will be issued to plan members in January 2013.

**ARLINGTON COUNTY EMPLOYEES' RETIREMENT SYSTEM***(A Pension Trust Fund of Arlington County, Virginia)***STATEMENT OF PLAN NET ASSETS**

JUNE 30, 2012

**ASSETS**

Cash and Cash Equivalents		\$21,672,487
Contributions Receivable:		
Employer		1,796,191
Employee		431,093
Accrued Interest and Other Receivables		7,582,114
Investments, at Fair Value:		
Foreign, Municipal and U.S. Government Obligations	38,263,366	
Corporate Fixed Income Obligations	152,715,658	
Domestic and Foreign Equities	328,622,581	
Private Equity	45,769,889	
Real Estate Funds	19,690,245	
Pooled Equity	464,372,483	
Pooled Fixed Income	291,147,345	
Convertibles	147,185,000	
Total Investments		1,487,766,567
Collateral on Loaned Securities	20,963,654	
Allowance for Unrealized Gain/(Loss)	1,295	
Total Collateral on Loaned Securities		20,964,949
<b>Total Assets</b>		<b>1,540,213,401</b>

**LIABILITIES**

Accrued Expenses and Other Liabilities	1,976,479
Obligations under Security Lending Program	20,963,654
<b>Total Liabilities</b>	<b>22,940,133</b>

**NET ASSETS HELD IN TRUST FOR PLAN BENEFITS**

<b>Total Net Assets</b>	<b>\$1,517,273,268</b>
-------------------------	------------------------

*See accompanying notes to financial statements*

## Financial Section

---

### 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, 2012

#### ADDITIONS

Contributions	
Employer	\$46,262,448
Employee	11,029,050
Service Credit Buybacks	37,672
Total Contributions	57,329,170
Investment Income:	
Interest and Dividends	38,467,987
Net Depreciation in Fair Value	(30,459,820)
Commission Recapture	12,373
Investment Income:	8,020,540
Less: Investment Expense	4,396,042
Net Investment Income	3,624,498
Securities Lending Activity:	
Security Lending Income	250,791
Bank Management Fees	(73,181)
Net Income From Security Lending	177,610
<b>Total Additions</b>	<b>61,131,278</b>

#### DEDUCTIONS

Members' Benefits	77,892,789
Refund of Member Contributions	937,755
Administrative Expenses	585,329
Other Consulting Expenses	261,285
<b>Total Deductions</b>	<b>79,677,158</b>
<b>Decrease in Net Assets</b>	<b>(18,545,880)</b>
<b>Net Assets Held in Trust for Plan Benefits, Beginning of Year</b>	<b>1,535,819,148</b>
<b>Net Assets Held in Trust for Plan Benefits, End of Year</b>	<b>\$1,517,273,268</b>

See accompanying notes to financial statements

**NOTES TO FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED JUNE 30, 2012

**NOTE 1. THE RETIREMENT SYSTEM**

The Arlington County Employees' Retirement System (the System) is a pension trust fund of the Arlington County, Virginia (the County) financial reporting entity and is included in the County's comprehensive annual financial report. The accompanying financial statements present information on the operations of the System in conformity with generally accepted accounting principles.

**System Description**

The System is a single employer public employee defined benefit pension plan covering substantially all employees of the County. At July 1, 2011, System membership consisted of the following:

	<u>General</u>	<u>Uniformed</u>	<u>School</u>	<u>Total</u>
<i>Active Employees:</i>				
Vested	1,726	611	66	2,403
Non-vested	<u>967</u>	<u>209</u>	<u>0</u>	<u>1,176</u>
Total Active Employees	2,693	820	66	3,579
 <i>Vested Deferred</i>	 167	 20	 90	 277
 <i>Retirees and Beneficiaries</i>	 1,849	 707	 1,106	 3,662

Please refer to Chapters 21, 35 and 46 of the Arlington County Code for a more detailed description of the System.

**System Administration**

On November 16, 2004, amendments to Arlington County Chapters 21, 35 and 46 were made to transfer the System's administrative responsibilities to the County Manager while leaving investment responsibility with the Board of Trustees (the Retirement Board).

The Retirement Board consists of seven voting and three substitute trustees as follows:

- Three appointed by the County Board
- One appointed by the County Manager
- One trustee and one substitute trustee elected by general employees
- One trustee and one substitute trustee elected by police officers, firefighters, and deputy sheriffs (uniform)
- One trustee and one substitute trustee elected by retired employees

If no eligible person is nominated for an elected position, the County Manager appoints an eligible person to serve as trustee.

## **NOTES TO FINANCIAL STATEMENTS**

FOR THE YEAR ENDED JUNE 30, 2012

In December 2007, the Arlington County Code was modified to require that the trustees elected by active employees be active employees and that the trustees elected by retired employees currently be receiving retirement benefits from the System.

The trustees annually elect a President, Vice-President and Secretary from among their members, and elect a Treasurer and Assistant Treasurer, who may or may not be a member of the Retirement Board.

The trustees annually approve a retirement office administrative budget. The retirement office's administrative expenses are funded from investment income.

### **Funding Policy**

The System is funded via both employee and employer contributions. Employer contributions are determined by an annual actuarial valuation. The Entry Age Normal funding method is currently used to determine the required employer contributions depending on the funded status of the System.

### **Member Contributions and Retirement Benefits**

The System provides retirement benefits as well as survivor and disability benefits. All normal retirement benefits vest after 5 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 summary of member contribution rates, normal service retirement and average final compensation for the employees covered under the various Chapters of the Arlington County Code for the period ending June 30, 2012 is provided on the following page.



**NOTES TO FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED JUNE 30, 2012

**Member Contributions and Retirement Benefits**

	<u><b>21</b></u>	<u><b>35</b></u>	<u><b>46</b></u>
	Before 2/8/81	Before 2/8/81	2/8/81 or After
Covers Employees Hired:			
Contribution Rates:			
<i>General Employees</i>	4%	N/A	4%
<i>School Board Employees</i>	0%	0%	0%
<i>(Covered by VRS)</i>			
<i>Uniformed Employees:</i>			
- Management	5.62%	N/A	5% through 1/3/09, 7.5% thereafter
- Non-Management	6.62%	N/A	5% through 1/3/09, 7.5% thereafter
Normal Retirement Age:			
<i>General County Employees</i>	60	N/A	62
<i>School Board Employees</i>	60	62	62
<i>Uniformed Employees</i>	50	N/A	52
<i>"Rule of 80" Applies</i>	Yes	No	Yes
Retirement Benefit:			<u><i>Retiring on/prior to 1/3/09</i></u>
Percentage of Average Final Salary (AFS) times years of creditable service subject to a 30 year maximum. AFS is generally the average of the three highest compensation years, including overtime. For Chapter 46 employees retiring on or after 1/4/09, the New AFS definition excludes overtime and most premium pays.	2.5% for each of the first 20 years plus 2% for each of the next 10 years	2.125% reduced by the VRS benefits under Formula A	General: 1.5% Uniform: 2.0% until Social Security Eligible then 1.5%, 1.7% & 2.0% for each 10 year increment
			<u><i>Retiring on/after 1/4/09</i></u>
			General: 1.7% New AFS OR 1.5% Prior AFS through 1/3/09 plus 1.7% New AFS thereafter Uniform: 2.5% through 1/3/09 plus 2.7% thereafter on New AFS OR 2.0% Prior AFS through 1/3/09 plus 2.7% New AFS thereafter until Social Security Eligible then 1.5%, 1.7% & 2.0% for each 10 year increment prior to 1/3/09
Employee contribution refund upon leaving County	Contributions plus interest	N/A	Contributions plus interest

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

### ACTUARIAL ASSUMPTIONS

The information presented in this report was determined as part of the actuarial valuation using the following assumptions at the date indicated:

Valuation date	07/01/11
Actuarial cost method	Entry Age Normal
Remaining amortization period	14.55 years
Amortization Method	Level Percent Open
Asset valuation method	5 year, smoothed
Actuarial assumptions	
Assumed inflation rate	4.0%
Investment rate of return	7.5%
Projected salary increases	4.0%
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 ½% increase for 12% increase in CPI-U)

**NOTES TO FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED JUNE 30, 2012

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The accompanying financial statements 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 plan as defined in the Arlington County Code.

The accounting and reporting policies of the system conform to accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions in plan net assets during the reporting period. Actual results could differ from those estimates.

**Investments**

The System's investments are recorded at fair value. Fair value is based on quoted market prices from national exchanges, when available. Investment transactions are recorded as of the trade date. These transactions are not finalized until the settlement date. For real estate and private equity investments, where no readily ascertainable market value exists, System management relies on the fair values for individual investments based on the most recent financial statements available from the investment managers. Unrealized appreciation and depreciation of investments is reflected in the Statement of Changes in Plan Net Assets for the year.

**Adoption of New Accounting Standard**

During the year ended June 30, 2012 the System adopted GASB Statement No. 59, *Financial Instruments Omnibus*, which was issued to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments.

**NOTE 3. DEPOSITS AND INVESTMENTS**

**a. Legal Provisions**

The System is authorized by the Code of Virginia §51.1-803 to invest funds of the System in conformance with the prudent person rule. Arlington County Code §21-23, §35-21, and §46-22 require that assets of the System be invested with care, skill, prudence, and diligence under 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 a like character and with like aims. Arlington County Code §21-24, §35-22, and §46-23 require that investments be diversified to minimize the risk of large losses unless under the circumstances it is clearly not prudent to do so.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

The System's written investment policy provides for investment in all major sectors of the capital markets in order to diversify and minimize total investment program risk. Such sectors include, but are not limited to:

- Common stocks, preferred stocks, convertible securities, warrants and similar rights of U.S. and non-U.S. companies.
- Private equity. The System invests in private equity through an experienced fund-of-funds manager to maximize diversification by vintage year and investment type. The commitment to private equity totals \$83 million, of which \$59.5 million had been funded at June 30, 2012.
- Open and closed end pooled real estate funds and real estate investment trust securities. The System has a \$50 million commitment to fund two real estate partnerships of which \$48.6 million had been funded at June 30, 2012.
- Fixed income obligations of the U.S. government and its agencies, mortgage-backed securities, corporate bonds, and asset backed securities. In addition, fixed income obligations of non-U.S. governments, companies and supernational organizations, in both developed and emerging markets. Limits on concentration, credit quality and duration are governed by each investment manager's contract.
- Foreign currency forwards. The Fund did not have a currency manager in place during fiscal year 2012. Had it, the credit risk of these investments would result from the credit worthiness of the counterparties to the contracts.

### **b. Investment Restrictions**

The following summarizes the primary investment restrictions included in the System's investment policy statement. Individual investment manager contracts typically include additional guidelines and limitations.

Fixed income investments must be at least 20% of the Fund's assets at market value. The Fund must be rebalanced if the market weight of fixed income investments falls below 20%, unless the Board, acting on the recommendation of staff or the investment consultant to defer rebalancing, determines that it would not be consistent with the Board's fiduciary responsibility to rebalance (increase fixed income) at that time.

No illiquid investment can be made that causes the allocation to illiquid investments to exceed 15% of the System's market value.

**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

Unless the Board grants prior authorization, the investment managers may not:

- Invest more than 10% of the market value of each portfolio in the securities of any one issuer, with the exception of the U.S. government and its agencies
- Hold more than 5% of the outstanding shares of a single company in each portfolio
- Hold unlisted equity securities that exceed 20% of the portfolio, exclusive of holdings in banks, utilities, and insurance companies
- Use leverage of any sort for any purpose beyond prudent industry standards
- Effect short sales of securities
- Pledge or hypothecate securities, except in approved security lending programs

Derivatives are allowed only in cases where their use reduces the cost of a desired transaction and/or improves the risk characteristics of the portfolio. The Board may, however, approve the use of derivatives to implement investment processes intended to add value in specifically-designated, risk-controlled applications, such as currency management. Any such value-added investment program shall be approved only where:

- The potential exposures have been well defined by the Board and provide for a downside risk range for the Fund within established limits
- The value of the designated Fund assets subject to risk due to the program does not exceed 15% of the Fund's assets
- In any program where an active overlay strategy combining derivatives with underlying portfolio assets is to be used, the gross amount of any long and short exposures taken on by the overlay shall not exceed the value of the designated Fund assets being overlaid

The System's Investment Policy provides external investment managers with discretion to take actions, within approved guidelines, regarding each portfolio's foreign currency exposures using forward currency contracts. These contracts are agreements to exchange one currency for another currency at an agreed upon price and date. Investment managers use such contracts primarily to settle pending trades at a future date. Key risks include counter party non-performance and currency fluctuations. As of June 30, 2012, the System had \$8,344 in open forward currency contracts.

**c. Cash and Cash Equivalents**

At June 30, 2012, the System had cash and cash equivalents of \$21,672,487. Cash deposits in bank accounts totaled \$276,261. This amount was insured by the Federal Deposit Insurance Corporation up to \$250,000 for each System participant. Cash totaling \$21,396,226 is invested in the custodian's Short-Term Investment Fund. This account is uninsured and uncollateralized.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

### d. Investments and Risk

The System's investments are recorded at fair value based on the methodology described in Note 2. Summary of Significant Accounting Policies, Investments, on page 21. The following table presents the fair value of investments by type at June 30, 2012:

#### SYSTEM INVESTMENTS

Investment Type (in \$ 000s)	Fair Value
Mortgage Backed Govt Pass Through	\$ 222
Corporate Bonds	115,080
Corporate Asset Backed	966
Private Placements	15,268
Municipal Bonds	2,638
Yankee Bonds	6,881
Supernationals	5,359
Non-US Developed Govt/Sovereign	36,025
Non-US Developed Corporate	11,841
Convertible Securities	148,140
US Equity	221,785
Non-US Equity	107,131
Alternative Investments	45,770
Real Estate	19,690
Pooled US Equity Funds	464,373
Pooled US Fixed Income Funds	312,109
Cash	2,957
<b>Total<sup>(1)</sup></b>	<b>\$ 1,516,235</b>

<sup>(1)</sup> Investment related accruals are reflected in the respective asset category; further, data on the Statement of Plan Net Assets (page 15) includes disbursement account cash and operating accruals not reflected in the data above.

**NOTES TO FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED JUNE 30, 2012

Interest Rate Risk

Interest rate risk is driven by changes in general interest rate levels. The price of a fixed income security generally moves in the opposite direction of the change in interest rates. Securities with long maturities are highly sensitive to interest rate changes. The System has interest rate exposure on \$342.4 million of directly owned fixed income securities and on \$312.1 million invested in four pooled US fixed income funds. The System's directly owned fixed income investments and maturities at June 30, 2012 are:

**INVESTMENT MATURITIES**

Investment Type (in \$ 000s)	Fair Value	Maturities (years)			
		Under 1	1-5	6-10	Over 10
Mortgage Backed Govt Pass Through	\$ 222	\$ -	\$ -	\$ -	\$ 222
Corporate Bonds	115,080	2,669	36,057	22,438	53,916
Corporate Asset Backed	966	-	-	-	966
Private Placements	15,268	15	5,055	4,455	5,742
Municipal Bonds	2,638	-	-	-	2,638
Yankee Bonds	6,881	-	379	148	6,354
Supnationals	5,359	3,698	1,661	-	-
Non-US Developed Govt/Sovereign	36,025	-	23,600	4,024	8,402
Non-US Developed Corporate	11,841	-	8,014	684	3,143
Convertible Securities	148,140	13,919	93,493	12,907	27,821
<b>Total</b>	<b>\$ 342,420</b>	<b>\$ 20,301</b>	<b>\$ 168,259</b>	<b>\$ 44,656</b>	<b>\$ 109,204</b>

## Financial Section

---

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

Interest rate sensitivity of a fixed income portfolio is best measured by effective duration which reflects the average percentage change in portfolio value due to a 1% change in interest rates. The effective duration for the System's directly held fixed income portfolio at June 30, 2012 is shown below:

#### INVESTMENT DURATIONS

<b>Investment Type</b> <b>(in \$ 000s)</b>	<b>Fair Value</b>	<b>Effective</b> <b>Duration (Yrs)</b>
Mortgage Backed Govt Pass Through	\$ 222	3.12
Corporate Bonds	115,080	6.51
Corporate Asset Backed	966	4.18
Private Placements	15,268	6.39
Municipal Bonds	2,638	7.02
Yankee Bonds	6,881	9.34
Supernationals	5,359	1.75
Non-US Developed Govt/Sovereign	36,025	4.97
Non-US Developed Corporate	11,841	5.35
Convertible Securities	148,140	7.79
<b>Total</b>	<b>\$ 342,420</b>	<b>6.81</b>

#### Custodial Credit Risk

In the event of counter-party failure, the System may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities held by the counterparty, or counterparty's trust department, are uninsured and are not registered in the name of the System. The System requires that all investments be clearly marked as to ownership, and to the extent possible, be registered in the name of the System.



**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

Concentration of Credit Risk

Per the System's investment policy, only U.S. Government and U.S. Government Agency obligations may exceed 5% of System assets. As of June 30, 2012, the System does not have investments in any one organization that exceed 5%.

The System's credit quality distribution for the System's directly held fixed income investments of \$342.4 million at June 30, 2012 is shown below:

**FIXED INCOME CREDIT QUALITY DISTRIBUTION**

Investment Type (in \$ 000s)	Credit Quality							
	AAA	AA	A	BBB	BB	B	Below B	Unrated
Mortgage Backed Govt Pass Through	\$ -	\$ 222	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Bonds	207	496	19,781	38,346	17,506	29,715	7,979	1,050
Corporate Asset Backed	-	-	-	730	-	-	-	236
Private Placements	-	-	4,281	4,089	4,168	632	141	1,957
Municipal Bonds	-	-	-	-	-	2,638	-	-
Yankee Bonds	-	-	-	6,881	-	-	-	-
Supranationals	3,540	-	-	-	-	-	-	1,819
Non-US Govt/Sovereign	19,892	1,809	2,436	11,254	426	-	-	209
Non-US Corporate	-	4,973	-	4,518	730	767	-	853
Convertible Securities	-	999	12,241	9,508	26,352	17,806	1,983	79,250
<b>Total</b>	<b>\$ 23,639</b>	<b>\$ 8,499</b>	<b>\$ 38,739</b>	<b>\$ 75,326</b>	<b>\$ 49,182</b>	<b>\$ 51,558</b>	<b>\$ 10,103</b>	<b>\$ 85,374</b>

Note: Ratings based on S&P Quality Ratings with the exception of Mortgage Backed Government Pass Through which has been assigned by the Bank of New York Mellon

# Financial Section

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

### Foreign Currency Risk

Foreign investments include equity and fixed income securities, including convertible securities and cash. The Board has authorized specific investment managers to invest in non-dollar denominated securities. These managers have the ability to hedge a portion of their portfolio's foreign currency exposure. The System's exposure to foreign currency risk at June 30, 2012 was as follows:

### FOREIGN CURRENCY EXPOSURE IN US DOLLARS

Currency (in \$ 000s)	Equity	Fixed Income & Convertible	Cash	Total
Australian Dollar	\$ 942	\$ 8,266	\$ 75	\$ 9,283
Brazilian Real	2,808	7,743	-	10,551
British Pound	13,542	2,875	1	16,418
Canadian Dollar	1,361	16,557	34	17,952
Danish Krone	2,189	-	-	2,189
Euro	18,544	20,414	2,198	41,156
Hong Kong Dollar	10,911	3,088	5	14,004
Indonesian Rupiah	2,071	1,819	3	3,893
Japanese Yen	1,071	2,921	2	3,994
Malaysian Ringgit	722	-	-	722
Mexican Peso	-	2,436	-	2,436
New Turkish Lira	1,952	-	-	1,952
New Zealand Dollar	-	8,442	-	8,442
Norwegian Krone	338	-	-	338
Philippines Peso	2,531	-	-	2,531
Singapore Dollar	695	-	-	695
South Korean Won	1,442	-	-	1,442
Swedish Krona	5,217	-	8	5,225
Swiss Franc	4,014	999	52	5,065
Thailand Baht	1,183	-	-	1,183
<b>Total</b>	<b>\$ 71,533</b>	<b>\$ 75,560</b>	<b>\$ 2,378</b>	<b>\$ 149,471</b>

**NOTES TO FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED JUNE 30, 2012

**e. Securities Lending**

Under authorization of the Board, the System engaged in a securities lending program through its custodian, the Bank of New York Mellon (BNYM), for securities held in separate accounts. In accordance with the contract, BNYM may lend any securities held in custody. 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 BNYM and all securities on loan are callable at any time. The System does not have the ability to pledge or sell the collateral.

All securities on loan are carried at fair value and the collateral received for securities on loan is listed in the financial statements as an asset of the System, offset by an accompanying security lending obligation.

In the event the borrower becomes insolvent and fails to return the securities, BNYM indemnifies the System by agreeing to purchase replacement securities, or to remit the cash collateral held. There were no such failures by any borrower during the fiscal year nor were there any losses during the year resulting from a borrower or lending agent default.

The System is exposed to credit risk in the investment of the cash collateral by BNYM in a separately managed account. An investment policy provides guidelines for the investment of this cash in high quality debt securities. During fiscal 2009, this policy was modified to allow only investments in reverse repurchase agreements collateralized by US Treasuries.

The program decreased from \$22.9 million at the beginning of the year to \$21.0 million at June 30, 2012.

The following table details the net income from securities lending for the fiscal year ended June 30, 2012:

Gross Income from Securities Lending	\$	250,791
Less Bank Management Fees		(73,181)
Net Income from Securities Lending	\$	<u>177,610</u>

## Financial Section

---

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

The following table presents the fair value of underlying securities and the value of the collateral pledged at June 30, 2012:

Type of Securities Lent	Fair Value	Value of Cash Collateral
Corporate Fixed Income	\$ 6,187,644	\$ 6,248,931
U.S. Equity	13,211,208	13,102,651
Non-U.S. Equity & Fixed	1,360,471	1,612,072
Total	\$ <u>20,759,323</u>	\$ <u>20,963,654</u>

None of the System's pooled fund investments have material realized or unrealized securities lending related losses.

#### f. Commission Recapture Program

The System participates in a commission recapture program with the Frank Russell Company. This program allows the System to recapture a portion of the commissions paid to broker/dealers by investment managers who participate in the program. All trades are placed subject to the requirement for best execution. Earnings credited to commission recapture income for the fiscal year ended June 30, 2012 were \$12,373.

#### 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. IRS qualification letters have been received.

#### NOTE 5. FUNDED STATUS AND ANNUAL REQUIRED CONTRIBUTIONS (ARC)

The most recent actuarial valuation, dated July 1, 2011, reflects that the System was 95% funded with actuarial accrued benefit liabilities of \$1,623 million and an actuarial asset value of \$1,548 million. This results in an unfunded accrued liability of \$75 million. The covered payroll of active members was \$226 million. The ratio of unfunded accrued liabilities to the covered payroll was 33.3%.

For the fiscal year ended June 30, 2012, the estimated ARC is \$46.3 million. The actual employer contribution was \$46.3 million resulting in a 100% contributed rate.

The actuarial valuation of assets is determined based on a 5 year smoothing calculation that projects the asset value for each of the prior 4 years forward, assuming an adequate risk adjusted return and adjusting for cash flows. The average of these projected values and the actual market value as of the valuation date determines the actuarial value of assets, subject to corridor limits of 80% (minimum) and

**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

120% (maximum) of market value. The table on page 20 details the actuarial methods and significant assumptions used by the System.

The investment loss experienced in the year ended June 30, 2009 may have a significant impact on the actuarial asset value and on the ratio of actuarial assets to actuarial accrued liabilities for the System in future years.

The Schedule of Funding Progress and the Schedule of Employer Contributions included as Required Supplementary Information on page 32 provide multiyear presentations of the System's funding status and ARC.

Historical trend information about the System is presented as required supplementary information. An actuarial valuation is performed annually as of July 1. Information from the six most recent valuations is presented below. This information is intended to help users assess the System's funding status on a going-concern basis, analyze progress made in accumulating assets to pay benefits when due and make comparisons with other public employee retirement systems.

The Plan evaluated subsequent events through November 7, 2012 the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2012, but prior to November 7, 2012 that provided additional evidence about conditions that existed at June 30, 2012, have been recognized in the financial statements for the year ended June 30, 2012. Events or transactions that provided evidence about conditions that did not exist at June 30, 2012, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2012.

# Financial Section

## REQUIRED SUPPLEMENTARY INFORMATION (Unaudited – See Accompanying Auditor’s Report)

### SCHEDULE OF FUNDING PROGRESS (\$ in millions)

Actuarial Valuation Date	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)
07/01/2006	\$1,234.7	\$1,230.3	\$(4.4)	100.4%	\$232.6	(1.9)%
07/01/2007	1,348.1	1,290.8	(57.3)	104.4	242.2	(23.7)
07/01/2008	1,449.2	1,380.5	(68.7)	105.0	224.1	(30.7)
07/01/2009	1,375.8	1,474.0	98.2	93.3	220.8	44.5
07/01/2010	1,503.7	1,580.1	76.4	95.2	224.5	34.0
07/01/2011	1,548.1	1,623.4	75.3	95.4	225.9	33.3

Analysis of the dollar amounts of plan net assets, actuarial accrued liability and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan 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 the Funded Ratio over time indicates whether the System is becoming financially stronger or weaker. Generally, the higher the Funded Ratio, 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 lower this percentage, the stronger the system.

### SCHEDULE OF EMPLOYER CONTRIBUTIONS (\$ in millions)

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Percentage Contributed
2007	\$24.5	100.0%
2008	28.4	100.0
2009	37.1	100.0
2010	42.9	100.0
2011	43.2	100.0
2012	46.3	100.0

**SUPPLEMENTAL INFORMATION**  
FOR THE YEAR ENDED JUNE 30, 2012

**SCHEDULE OF ADMINISTRATIVE EXPENSES**

Personnel Services		
Staff Salaries	\$302,167	
Benefits	<u>104,136</u>	
<b>Total Personnel Services</b>		<b>\$406,303</b>
Professional Services		
Actuarial	\$40,000	
Attorney	8,320	
Audit	<u>37,394</u>	
<b>Total Professional Services</b>		<b>85,714</b>
Communication		
Telephone	\$2,862	
Postage and Shipping	<u>1,761</u>	
<b>Total Communication</b>		<b>4,623</b>
Data Processing		
Printing	<u>\$7,260</u>	
<b>Total Data Processing</b>		<b>7,260</b>
Education		
Manager Meetings	\$4,620	
Conferences	9,896	
Subscriptions	<u>3,074</u>	
<b>Total Education</b>		<b>17,590</b>
Miscellaneous		
Insurance	\$43,000	
Supplies & Furniture	2,241	
Other Miscellaneous <sup>(1)</sup>	<u>18,598</u>	
<b>Total Miscellaneous</b>		<b><u>63,839</u></b>
<b>Total Administrative Expenses</b>		<b><u><u>\$585,329</u></u></b>

<sup>(1)</sup> Consists primarily of bank fees offset by OPEB management costs reimbursed by Arlington County and Arlington County Public Schools

**SUPPLEMENTAL INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**SCHEDULE OF INVESTMENT & CONSULTANT EXPENSES**

**Investment Expenses**

Investment Manager Fees	\$4,201,310
-------------------------	-------------

Custody Fees	<u>194,732</u>
--------------	----------------

<b>Total Investment Expenses</b>	<b><u>\$4,396,042</u></b>
----------------------------------	---------------------------

**Other Consultant Expenses**

<b>Total Other Consultant Expenses</b>	<b><u>\$261,285</u></b>
--	-------------------------



# Investment Section



## **ARLINGTON COUNTY EMPLOYEES' RETIREMENT SYSTEM**

## Investment Section

---

## Investment Presentation Basis and Policy

The report and commentary on investment performance and activity was prepared by the System's staff.

Return data for the System was calculated by the custodian, The Bank of New York Mellon, using time-weighted return methodology that was verified by the System's consultant, Ashford Consulting Group (ACG). Valuations are based on published national securities exchange prices, when available. Real estate and private equity investments are reported at appraised value which approximates fair value. Valuations are reconciled between the investment managers and the custodian bank. For all functions other than return data, ACG is an advisory consultant.

The primary objective in the investment of public funds is adequate funding of employee retirement benefits at a reasonable and affordable cost. To ensure the long term health of the System, an appropriate balance must be struck between risks taken and returns sought. The System's adopted investment policy seeks to control downside risk exposure while maximizing the potential for long term asset value appreciation.

Specific investment objectives are to:

- Return the greater of 8% or 3% over the CPI-U over rolling 5-year periods.
- Manage portfolio risk to limit potential downside fluctuations in the total asset value while providing the opportunity to capture a significant portion of upside opportunity.
- Realize as high a rate of total return as possible consistent with the above.

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

- Maintain a broadly diversified portfolio to minimize the risk of overexposure to any one market sector or investment style. Specific guidelines include:
  - A minimum 20% allocation to fixed income investments
  - A 15% cap on illiquid investment strategies restricting new commitments that would drive the Fund's total exposure to illiquid strategies above this ceiling
  - A maximum 15% exposure to derivative based strategies
- Evaluate and closely monitor, with the investment consultant, investment manager performance against specific, absolute objectives and in relation to other managers investing with similar investment objectives and styles.
- Monitor Fund risk exposure, modify target risk as warranted and rebalance the Fund as necessary.

Effective October 1, 2007, the Fund's policy benchmark was modified as follows:

	As of 10/1/07		Prior to 10/1/07	
<b>Equities</b>	<i>Russell 3000</i>	40.0%	<i>Russell 3000</i>	43.0%
	<i>MSCI ACWI ex-US</i>	17.5%	<i>EAFE</i>	14.0%
<b>Fixed Income</b>	<i>Barclays Universal</i>	39.0%	<i>Barclays Aggregate</i>	38.0%
	<i>Barclays TIPS</i>	1.5%		
<b>Cash</b>	<i>90 Day T-Bills</i>	2.0%	<i>90 Day T-Bills</i>	5.0%
		100.0%		100.0%

# Investment Section

---

## Investment Performance and Activity

### Overview

The financial markets performed below expectations during fiscal year 2012, setting the stage for the System to underperform its 8% investment objective. After a weak finish to fiscal year 2011, fiscal year 2012 started out very volatile as the markets grappled with the impact of escalating European sovereign debt and banking system issues, a spate of weaker than anticipated economic data in the US, the increasingly apparent impasse in Washington on all matters fiscal and concerns over how emerging market growth would react to tightening policies intended to keep inflation in check. Against this backdrop, risk assets retreated heavily. Equities started the fiscal year considerably lower due to weakening US economic data, European sovereign debt and banking crises and slower growth in emerging markets. While equities did rebound as concerns over the US economy and the European debt crises subsided, volatility returned due to a weak US labor market and EU bailout of Spain's banking system. In the fixed income markets, Treasury bonds remained a safe haven for investors despite the downgrade of the US credit rating by S&P.

For the fiscal year ended June 30, 2012 the System return of 0.6% compared to a benchmark return of 2.3%. This performance compared unfavorably to the 1.0% median return of the TUCS Public Plan Universe, placing the System in the 60<sup>th</sup> percentile (3<sup>rd</sup> Quartile) of public plans for the year. On a 3, 5 and 10 year basis, the System's performance ranked in the 39<sup>th</sup>, 32<sup>nd</sup> and 16<sup>th</sup> percentiles, respectively.

Principal detractors to the System's 1.7% underperformance relative to the overall policy benchmark included underweighted exposure to fixed income investments, the credit orientation of the fixed income mandates and weak active manager performance. The table below summarizes key drivers of the System's benchmark relative performance.

	Policy Benchmark	Sector Allocation	Style Selection	Active Management	Total Fund
<b>Investment Performance</b>	<b>2.3%</b>	<b>-1.3%</b>	<b>-0.2%</b>	<b>-0.2%</b>	<b>0.6%</b>
<b>Value Added or Lost</b>					
<i>Fixed Income</i>		-0.6%	0.7%	-0.9%	
<i>US Equity</i>		0.1%	-1.5%	0.1%	
<i>International Equity</i>		-0.9%	0.5%	0.3%	
<i>Other/Unallocated</i>		0.1%	0.1%	0.3%	

Source: Ashford Consulting Group

As of June 30, 2012, the System was in compliance with its investment policy guidelines as follows:

- Fixed income investments and cash equivalents totaled 33.9% of assets.
- The market value of illiquid investments, including limited partnerships, plus remaining funding commitments, totaled 6.0% of assets.
- Derivative strategies were not in use.

### **Investment Activity and Details**

From an investment perspective, the Board took action at several points during the year to manage the portfolio's risk/return profile in light of developments in the capital markets. Investment activity details by asset class are described more fully below.

#### **Equity**

As of June 30, 2012, the System had \$802.6 million, or 53.0% of the fund, in publicly traded equity investments. Seven actively managed mandates, three focused on domestic equities, one on international equities and three on global equities, totaled a combined \$471.3 million in separate accounts. The remaining \$331.3 million was invested in three domestically focused equity index funds via pooled investment vehicles.

Activity during the year included actively managing equity risk exposure. Specifically, in October, the Board approved the replacement of one active international manager. In December, the Board approved allocations to a domestic equity manager, a dividend growth fund and a MLP fund. These mandates were funded via a reallocation from both fixed income and equity investments.

For the fiscal year ended June 30, 2012 the domestic equity investments posted a 3.8% return, in aggregate, while international and global mandates returned -8.8% in aggregate. The Fund's blended equity benchmark return was -2.0% for the same time period.

#### **Fixed Income**

As of June 30, 2012, the System held \$513.9 million, or 33.9% of the fund, in fixed income securities and cash.

Activity during the year included increasing the allocation to the floating rate senior bank loan strategy utilizing a short term bond fund as the source. In December, the Board approved increased funding to the aggregate bond fund funded via a reallocation from the discretionary fixed income mandate. In February, the Board approved the consolidation of two aggregate bond mandates into one. Currently, the System utilizes the Vanguard Short Term Federal Fund as a source of operating funds for the year, withdrawing \$12.7 million for these purposes.

For the fiscal year ended June 30, 2012, the fixed income investments posted a 5.2% return, in aggregate. This compares to a blended fixed income benchmark return of 7.5% for the same time period.

# Investment Section

---

## Convertible Securities

The System had \$85.7 million invested in domestic convertible securities and \$48.6 million in international convertible securities as of June 30, 2012, both managed in separate accounts by Oaktree Capital Management. The international mandate was reduced during the year as part of the overall decrease in the Fund's European exposure. For the year, the domestic convertibles underperformed the benchmark by 0.1% while the international convertibles outperformed the benchmark by 0.7%

In aggregate, the convertible investments posted a -6.2% return for the fiscal year.

## Alternative Investments

- The alternative investment category includes real estate and private equity. The market value of illiquid investments, including limited partnerships, plus remaining funding commitments, totaled 6.0% of assets.

The System met its funding obligations to alternative investment managers during the year. At June 30, 2012, 81% of the System's total \$133 million in commitments were funded.

The following table summarizes the alternative investments as of June 30, 2012:

(millions)	Total Commitment	Funded	Remaining Commitment
Liquid Realty Partners	\$ 25.0	\$ 23.6	\$ 1.4
Arsenal Real Estate	25.0	25.0	0.0
Abbott ACE IV	50.0	47.0	3.0
Abbott ACE V	8.0	6.4	1.6
Abbott ACE VI	25.0	6.1	18.9
Total	\$ 133.0	\$ 108.1	\$ 24.9

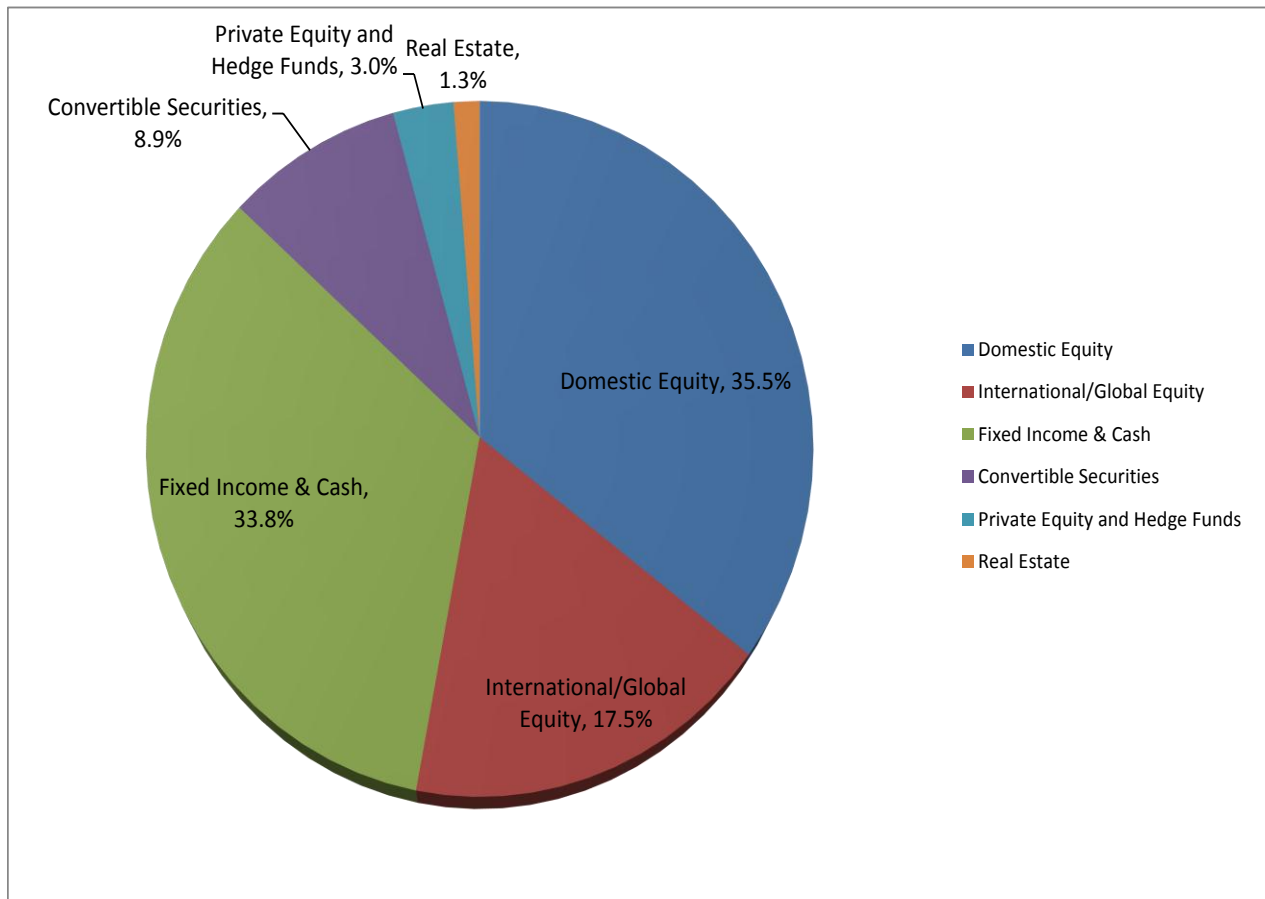
The System's remaining commitments to these alternative investments total \$1.4 million for real estate and \$23.5 million for private equity. The System has sufficient liquid assets to meet these funding commitments.

These alternative investments combined for a 7.7% return for the fiscal year.

### Arlington County Employees' Retirement System Asset Allocation (As of June 30, 2012)

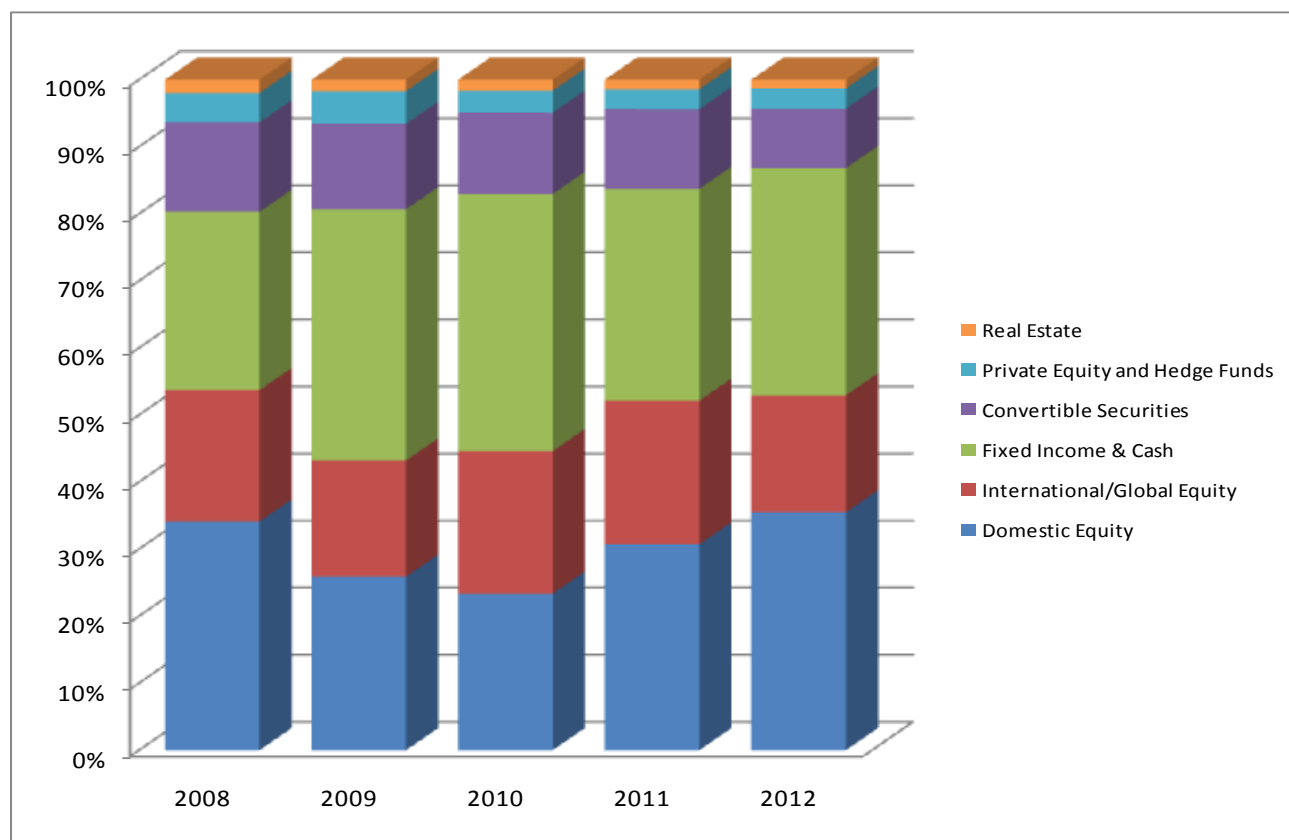
In an effort to achieve the System's stated investment objectives, funds are invested in a diverse set of asset classes, each with its own risk and return characteristics. The accompanying chart illustrates the portfolio's asset allocation as of June 30, 2012. The chart and table on page 42 show the trends in asset allocation over the past five years.

Note that investments in pooled vehicles are reflected in their respective asset classes and are different than the categories shown on pages 24 through 27 in the *Financial Section*. Further, fund balance data in the *Financial Section* includes operating accruals not reflected in this allocation data. Finally, residual cash held by investment managers is reflected in the total for each asset class.



# Investment Section

## Arlington County Employees' Retirement System Five Year Asset Allocation Comparison



	Fiscal Years Ended June 30				
(millions)	2008	2009	2010	2011	2012
Domestic Equity	\$474.3	\$296.6	\$297.1	\$471.4	\$537.9
International/Global Equity	\$272.3	\$198.6	\$270.3	\$329.1	\$264.6
Fixed Income & Cash	\$369.8	\$429.4	\$487.9	\$485.4	\$513.9
Convertible Securities	\$185.5	\$145.9	\$154.1	\$182.6	\$134.3
Private Equity and Hedge Funds	\$61.1	\$56.0	\$41.8	\$45.3	\$45.8
Real Estate	\$27.4	\$19.4	\$20.9	\$21.9	\$19.7
	\$1,390.4	\$1,145.9	\$1,272.1	\$1,535.7	\$1,516.2
Domestic Equity	34.1%	25.9%	23.4%	30.7%	35.5%
International/Global Equity	19.6%	17.3%	21.2%	21.4%	17.5%
Fixed Income & Cash	26.6%	37.5%	38.4%	31.6%	33.8%
Convertible Securities	13.3%	12.7%	12.1%	11.9%	8.9%
Private Equity and Hedge Funds	4.4%	4.9%	3.3%	3.0%	3.0%
Real Estate	2.0%	1.7%	1.6%	1.4%	1.3%
	100.0%	100.0%	100.0%	100.0%	100.0%

### Notes:

Fund balance data in the Financial Section includes operating accruals not included in this allocation data.  
Residual cash held by investment managers is included in the total for each asset class.



**Arlington County Employees' Retirement System  
Investment Managers and Assignments  
(As of June 30, 2012)**

<b>Manager</b>	<b>Assignment</b>	<b>Fiscal Year Retained</b>
<b>Domestic Equities</b>		
Daruma Asset Management	Small Cap Core	2010
Focused Investors	Large Cap Value	2011
Mellon Capital Management	Large Cap Value	2006
Mellon Capital Management	MLP	2011
The Vanguard Group	Large Cap Core	2009
The Vanguard Group	Large Cap Dividend	2011
<b>International and Global Equities</b>		
Baillie Gifford	Global Large Cap	2007
Sanderson Asset Management	Global Growth	2011
T. Rowe Price	Global Large Cap	2010
T. Rowe Price	Global Natural Resources	2004
<b>Convertibles</b>		
Oaktree Capital Management	International Convertibles	2003
Oaktree Capital Management	U.S. Convertibles	2007
<b>Alternatives</b>		
Abbott Capital	Private Equities	2001
Arsenal Real Estate	Opportunistic Real Estate	2006
Liquid Realty Partners	Secondary Real Estate	2004
<b>Fixed Income and Cash</b>		
Bank of New York Mellon	Cash Equivalents	1998
Loomis Sayles	Global Fixed Income	1981
T. Rowe Price	Bank Loans	2011
The Vanguard Group	Short Term Bonds	2010
The Vanguard Group	Core Bonds	2009

# Investment Section

## Arlington County Employees' Retirement System Investment Performance Summary (All returns for periods greater than one year are annualized)

Return data for the System is presented based on a time-weighted rate of return methodology as calculated by the custodian, The Bank of New York Mellon.

			Fiscal Year Ended June 30				
	5 Years	3 Years	2008	2009	2010	2011	2012
<b><u>Investment Performance</u></b>							
<b>Total Fund<sup>(1)</sup> (Benchmark)</b>	2.4%	11.9%	-4.7%	-15.7%	13.0%	23.1%	0.6%
<i>Domestic Equities (Russell 3000)</i>	-0.9%	16.6%	-17.6%	-26.7%	15.5%	32.1%	3.8%
<i>International/Global Equities (MSCI AC World ex-US)</i>	-2.5%	10.4%	-1.4%	-32.9%	9.2%	35.1%	-8.8%
<i>Fixed Income (Fixed Income)</i>	7.0%	10.6%	6.0%	-2.3%	17.7%	9.6%	5.2%
<i>Convertible Securities</i>	4.0%	9.5%	1.6%	-8.7%	12.1%	24.9%	-6.2%
<b><u>Benchmark Performance</u></b>							
<b>Total Fund<sup>(2)</sup></b>	2.5%	11.4%	-4.0%	-14.6%	12.8%	19.7%	2.3%
<i>Russell 3000</i>	0.4%	16.7%	-12.7%	-26.6%	15.7%	32.4%	3.8%
<i>MSCI AC World ex-US</i>	-5.1%	7.0%	-8.8%	-30.9%	10.4%	29.7%	-14.6%
<i>Fixed Income<sup>(4)</sup></i>	6.9%	7.6%	6.8%	4.7%	10.6%	4.9%	7.5%
<i>Blended Equities<sup>(3)</sup></i>	-1.2%	13.8%	-11.0%	-27.8%	14.2%	31.6%	-2.0%
CPI + 3%	5.0%	5.1%	7.5%	1.6%	4.1%	6.6%	4.7%
Investment Objective	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%

<sup>(1)</sup> Includes cash and alternative investment performance though returns for these asset classes are not listed separately

<sup>(2)</sup> 40% RU 3000, 17.5% MSCI AC World ex-US, 39% BC Universal, 1.5% BC TIPS & 2% 90 Day T-Bill

Prior to 10/1/07, 43% RU 3000, 14% EAFE, 38% BC Aggregate & 5% 90 Day T-Bill

<sup>(3)</sup> Weights equity benchmark components to 100%

<sup>(4)</sup> Weights fixed income benchmark components to 100%

**LARGEST ASSETS DIRECTLY HELD<sup>(1)</sup> (excludes investments in pooled vehicles)**

<b>Equities</b>	<b>Shares</b>	<b>Market Value (\$)</b>	<b>% of Fund</b>
APPLE INC	15,491	\$9,572,344	0.63%
AMAZON.COM INC	41,100	9,385,185	0.62%
BAIDU INC	70,400	8,094,592	0.53%
WALT DISNEY CO	17,300	6,072,612	0.40%
TESCO	193,512	5,331,804	0.35%
GOOGLE INC	8,703	5,048,349	0.33%
PEPSICO INC	71,000	5,016,860	0.33%
COCA-COLA CO	63,100	4,933,789	0.33%
MCDONALD'S CORP	55,600	4,922,268	0.32%
NESTLE SA	81,031	4,841,287	0.32%
EBAY INC	104,933	4,408,235	0.29%
AMERICAN EXPRESS CO	72,800	4,237,688	0.28%
PPR	29,551	4,209,565	0.28%
INTUITIVE SURGICAL INC	7,364	4,078,110	0.27%
ATLAS COPCO AB SER A NPV	185,964	3,998,183	0.26%
INDUSTRIA DE DISEÑO TEXTIL SA	37,093	3,837,851	0.25%
WILLIAMS COS INC	30,800	3,774,360	0.25%
DIAGEO PLC	35,600	3,669,292	0.24%
INTERNATIONAL BUSINESS MACHINE	18,400	3,598,672	0.24%
MICROSOFT CORP	110,900	3,392,431	0.22%
JOHNSON & JOHNSON	48,500	3,276,660	0.22%
JPMORGAN CHASE & CO	90,600	3,237,138	0.21%
SALESFORCE.COM INC	24,030	2,954,844	0.19%
CVS CAREMARK CORP	60,700	2,836,511	0.19%
TD AMERITRADE HOLDING CORP	31,600	2,769,844	0.18%
<b>Equities Total</b>		<b>\$ 117,498,473</b>	<b>7.74%</b>

<b>Fixed Income</b>	<b>Face Value (\$)</b>	<b>Market Value (\$)</b>	<b>% of Fund</b>
GOVERNMENT OF CANADA	\$13,000,000	\$13,499,895	0.89%
MORGAN STANLEY	7,865,000	7,768,992	0.51%
HCA INC	7,230,000	6,869,113	0.45%
NEW S WALES TREASURY	5,445,000	6,232,356	0.41%
GEN ELEC CAP CORP	6,195,000	5,382,927	0.35%
IRELAND GOVERNMENT BOND	4,425,000	5,109,486	0.34%
PULTEGROUP INC	5,915,000	4,957,250	0.33%
GEORGIA-PACIFIC LLC	3,272,000	4,048,696	0.27%
MERRILL LYNCH & CO INC	4,100,000	3,909,081	0.26%
BRAZILIAN GOVERNMENT INTERNATIONAL	6,155,000	3,802,564	0.25%
SPRINGLEAF FINANCE CORP	4,310,000	3,593,407	0.24%
INTERNATIONAL LEASE FINANCE	3,325,000	3,558,332	0.23%
INTER-AMERICAN DEVELOPMENT BK	3,717,000	3,475,734	0.23%
ALCOA INC	3,505,000	3,466,875	0.23%
QWEST CAPITAL FUNDING INC	3,505,000	3,379,241	0.22%
ARCELORMITTAL	3,235,000	3,097,195	0.20%
NEW ALBERTSONS INC	3,965,000	2,928,900	0.19%
LENNAR CORP	2,730,000	2,874,250	0.19%
HIGHWOODS REALTY LP	2,535,000	2,873,862	0.19%
ENERGY FUTURE HOLDINGS CORP	4,565,000	2,851,638	0.19%
ENDESA SA	2,300,000	2,832,059	0.19%
GOLDMAN SACHS GROUP INC	2,680,000	2,750,589	0.18%
ALLY FINANCIAL INC	2,493,000	2,749,630	0.18%
ISTAR FINANCIAL INC	2,581,000	2,494,399	0.16%
MEXICAN BONOS	270,000	2,431,460	0.16%
<b>Fixed Income Total</b>		<b>\$ 106,937,926</b>	<b>7.05%</b>

<sup>(1)</sup> The System maintains a complete list of portfolio holdings.

# Investment Section

---

## **Arlington County Employees' Retirement System Schedule of Broker Commissions**

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

The System participates in a commission recapture program with Frank Russell Company. This program allows the System to recapture a portion of the commissions paid to broker/dealers by investment managers who participate in the program. All trades are placed subject to the requirement for best execution. Earnings credited to commission recapture income for the fiscal year ended June 30, 2012, were \$12,373. Invesco, T. Rowe Price and Daruma participated in the program during the year.

Commissions paid on all trades totaled \$419,611 and the average commission rate paid was .008 cents per share. The following is a list of brokers who received commissions of \$10,000 or more during fiscal 2012. A complete schedule of all commissions paid is available from the Retirement Office.

Broker	Number of Shares	Total Commission	Commission Per Share
Instinet	8,144,020	65,472	0.008
UBS	10,517,230	60,684	0.006
Morgan Stanley	3,520,894	22,760	0.006
Merrill Lynch	2,143,189	21,822	0.010
Credit Suisse	6,290,892	20,915	0.003
Deutsche Bank	3,279,812	19,726	0.006
JP Morgan	2,232,792	19,237	0.009
Citigroup	1,679,521	14,762	0.009
Goldman Sachs & Co.	1,127,775	13,649	0.012
Credit Lyonnaise	4,339,950	11,975	0.003

# Actuarial Section



## **ARLINGTON COUNTY EMPLOYEES' RETIREMENT SYSTEM**





Classic Values, Innovative Advice

October 19, 2012

Board of Trustees  
Arlington County Employees' Retirement System  
2100 Clarendon Boulevard, Suite 511  
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, 2012:

1. The current funding objective of the plan is to provide for the current cost of benefits (i.e., normal cost under the Entry Age Normal Method) as a level percent of payroll over time, plus an amount which amortizes the actuarial liability for benefit changes over a 20-year period. The County is currently contributing 20.6% of pay for the 2012-13 plan year, which meets the funding objective for this fiscal year.
2. Actuarial valuations are performed annually as of July 1 of each year. For the fiscal year ending June 30, 2012, the most recent valuation was performed as of July 1, 2011.
3. 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. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23. If there are changes to the underlying data, the results of the actuarial valuation will change.
4. All of the supporting schedules in the Actuarial Section of the CAFR were prepared by the System using information in the Actuarial Valuation Report prepared by Cheiron, Inc. except for the descriptions of the plans and valuation results prior to July 1, 2003 which were provided by the System.
5. Cheiron, Inc. reviewed both the *Schedule of Funding Progress* and *Schedule of Employer Contributions* found in the Financial Section of the CAFR.
6. Cheiron, 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 valuation years 2003 and later as shown in the exhibits in the annual actuarial valuations.
7. The assumptions and methods used in determining the assets, liabilities, and the annual required contributions of the employer as defined by the Governmental Accounting Standards Board (GASB) meet our understanding of the parameters set by GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.



Board of Trustees  
Arlington County Employees' Retirement System  
October 19, 2012  
Page 2

8. The actuarial assumptions and methods used in performing this valuation have been recommended by the actuary and adopted by the Board of Trustees based on the actuary's most recent review of the System's experience completed simultaneously with the July 1, 2009 valuation. Concurrent with the July 1, 2010 valuation, the board elected to decrease the annual rate of investment from 8.0% to 7.5%, decrease the annual rate of growth in covered payroll from 4.5% to 4.0% and decrease the cost of living assumption from 3.75% to 3.50%. We believe the assumptions used, in the aggregate, reflect our best estimate of anticipated future experience of the Plan. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from these assumptions, the true cost of the plan could vary from our results.
9. Code of Virginia §51.1-800 requires that the benefits provided to a retiree at age 65 from a local retirement system equal or exceed two-thirds of the allowance to which the employee would be entitled under the provisions of the Virginia Retirement System (VRS). The Board of Trustees of the VRS is to determine whether a local system satisfies this condition, taking into account differences in member contributions between the local system and the VRS.

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

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

This certification and the July 1, 2011 valuation report were prepared for Arlington County Employees' Retirement System for the purposes described herein and for the use by the plan auditor in completing an audit related to the matters herein. This certification and the July 1, 2011 valuation report are not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

To the best of my 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 a credentialed actuary, I meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. I am not an attorney and our firm does not provide any legal services or advice.





Board of Trustees  
Arlington County Employees' Retirement System  
October 19, 2012  
Page 3

For additional information about the financial condition of the fund, please refer to our actuarial valuation report as of July 1, 2011.

Sincerely,  
Cheiron



Kevin J. Woodrich, FSA  
Consulting Actuary



## **Actuarial Assumptions, Methods and Summary of Valuation Results**

### **Valuation Method and Asset Value**

An actuarial valuation is performed annually. At July 1, 2011, the date of the actuarial valuation used for fiscal year 2012 reporting, the market value of System assets was \$1,536 million compared to \$1,271 million in assets at July 1, 2010.

As asset market value represents the realizable value of assets on a particular day it can be subject to significant variability due to market volatility. Thus, market value is not a good measure on which to base the calculations of future contributions to the System as they too would be subject to significant variability owing to financial market fluctuations.

To produce more consistent contribution rates, actual asset market values are adjusted to remove, or dampen, a degree of the variability associated with market movements. For the July 1, 2011 valuation, the specific technique adopted projects the market asset value for each of the prior four years forward to the valuation date using actual cash flows (contributions less benefit payments and expenses) and assuming the actuarial investment assumption in effect at such time. The average of these four projected asset values and the actual July 1, 2011 asset market value determines the actuarial value of assets, subject to corridor limits of 80% (minimum) and 120% (maximum) of market value.

Using the method described above, the actuarial value of assets at July 1, 2011 was \$1,548 million, reflecting 101% of market value.

The ten-year projection of System assets indicates contributions will be less than benefits for the entire period. This should not be cause for alarm and, in fact, 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 principle in financing the liabilities of a retirement program is that the cost of benefits should be related to the period in which benefits are earned, rather than to the period of benefits distribution. Several actuarial methods are acceptable for accomplishing this.

The aggregate entry age normal funding method employed in this valuation is a common method for valuing public sector plans. Under this method, the employer contribution is comprised of three components: the Normal Cost, the payment (or credit) toward the Unfunded Actuarial Liability (UAL) and the allowance for expenses. Each component is expressed as a percentage of covered payroll.

The employer 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. Separate rates are developed for general versus uniformed employees. Only Chapter 46 benefits are used to develop the normal cost because so few Chapter 21 active employees remain.

The Actuarial Liability is that portion of the present value of projected retirement benefits, including future pay increases, not covered by future employer normal costs or member contributions.

The Unfunded Actuarial Liability is the excess of the Actuarial Liability over the actuarial value of assets. The Unfunded Actuarial Liability was \$75 million as of July 1, 2011.

The table below summarizes, at July 1, 2011, the actuarial liabilities, both funded and unfunded, by employee type and for the total System.

	<b><u>Liabilities (in millions of \$)</u></b>			
	<b><u>General</u></b>	<b><u>School</u></b>	<b><u>Uniformed</u></b>	<b><u>Total</u></b>
Present Value of Future Benefits				
Active Members	\$636.2	\$12.3	\$541.9	\$1,190.4
Retired Members and Beneficiaries	355.0	79.1	219.7	653.8
Disabled Members	28.4	1.4	84.2	114.0
Vested Deferred Members	10.3	3.3	1.8	15.4
DROP Members	<u>49.6</u>	<u>0.0</u>	<u>52.8</u>	<u>102.4</u>
Total	\$1,079.5	\$96.1	\$900.4	\$2,076.0
Normal Cost Rate	12.8%	10.0%	29.8%	17.7%
Present Value of Future Payroll	\$1,418.9	\$1.0	\$575.1	\$1,995.0
Present Value of Future Employer Costs	\$181.6	\$0.1	\$171.4	\$353.1
Present Value of Future Member Contributions	\$56.5	\$0.0	\$43.0	\$99.5
Actuarial Liability	\$841.4	\$96.0	\$686.0	\$1,623.4
Actuarial Value of Assets.	\$802.9	\$90.6	\$654.6	\$1,548.1
Unfunded Actuarial Liability	\$38.5	\$5.4	\$31.4	\$75.3

Source: July 1, 2011 Actuarial Report- Table III-1

# Actuarial Section

---

## **System Contributions**

Under the County's prior funding method, the County contribution rate dropped dramatically when the System became fully funded. However, the County was also subject to significant fluctuations in future contribution rates should investment returns deviate from the actuarial assumption. In light of concern over significant fluctuations and a desire to smooth contribution levels, the Retirement Board recommended a funding formula for employer contributions to the County Board to achieve full normal cost funding over a multi-year transition period. The County Board accepted the recommendation and codified the formula in §46-33 of the County Code in fiscal year 2005. As a result, employer contributions as a percent of covered payroll became more predictable.

In October of 2008, the County adopted several retirement plan benefit changes effective January 4, 2009, contributing to an increase in the contribution rate to 19.9% for fiscal year 2010. This new contribution rate was applied to a lower total payroll based on a narrower definition of creditable compensation included as part of the plan changes.

The July 1, 2011 Actuarial Valuation reflects the County's contribution rate of 20.6% for fiscal year 2013. This contribution rate is comprised of a normal cost rate of 17.7% and a 20 year amortization of the increase in liabilities associated with the benefit changes of 2.9%. Further explanation of the funding approach is available in the current actuarial valuation report.

The table below details of the derivation of County normal cost contribution rates for fiscal year 2013:

	<u>Employer Contribution Rate as a Percentage of Payroll</u>	
	<u>General</u> <u>Chapter 46</u>	<u>Uniformed</u> <u>Chapter 46</u>
Normal Cost	16.8%	37.3%
Member Contribution Rate	4.0%	7.5%
Employer Normal Cost	12.8%	29.8%
Expense Loading as Percentage of Payroll	0.3%	0.3%
County Normal Cost Plus Expenses	13.1%	30.1%

Source: July 1, 2011 Actuarial Report- Table IV-1 and Table IV-2

The School Board withdrew Chapter 46 active participants from the fund in fiscal year 2002. 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.

### **Plan Membership**

The total active membership in the System at July 1, 2011, the date of the actuarial valuation, was 3,579, down slightly from 3,581 at July 1, 2010.

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 four or 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 at June 30, 2009.

During the fiscal year 2011, the financial markets performed above expectation. The actual net investment return, on a market value basis, was approximately 22.8% which exceeded the then actuarial rate of return assumption of 7.5%. The market value of System assets increased \$264.4 million in 2011. On an actuarial basis System assets increased \$44.4 million.

On the liability side, the System had a \$43.3 million increase in actuarial liabilities. Normal annual liability growth of \$89.3 million and a reduction of \$46.0 million, due to the System's actual experience, account for the change.

# Actuarial Section

---

## **Actuarial Assumptions**

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

Valuation date	July 1, 2011
Actuarial cost method	Entry Age Normal
Remaining amortization period	14.55 years
Amortization Method	Level percent open
Asset valuation method	5 year, smoothed
Investment rate of return	7.5%
Projected salary increases <sup>1</sup>	4.0%
Inflation	4.0%
Cost of living adjustments	Per plan documents
Mortality Tables	RP 2000 projected with scale AA to 2010

<sup>1</sup> Rate does not include annual rate of merit/seniority salary increase, which ranges from 1.35% to 6.50%.

Source: July 1, 2011 Actuarial Report, Table V-4 & Appendix C

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 at July 1, 2011. Copies of the report are available 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.

### **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.

Survivor options are available at the time of retirement with actuarial reductions to the benefit.

### **Chapter 35 - School Board and 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**

The County recently adopted several plan changes that became effective for January 4, 2009 that are reflected in the July 1, 2008 Actuarial Report. The benefit formulas were enhanced and the definition of creditable compensation changed to exclude overtime and most premium pays.

Effective January 4, 2009, the maximum benefit for General Employees is 51% and they have two options for calculating their normal retirement benefits:

1.  $1.7\% \times \text{all years of creditable service} \times \text{new average final salary}$ , OR
2.  $1.5\% \times \text{years of creditable service prior to January 3, 2009} \times \text{old average final salary} \text{ plus } 1.7\% \times \text{years of creditable service after January 3, 2009} \times \text{new average final salary}$ .

For Uniformed Employees, the maximum benefit is 81% and their benefit calculation options are:

1.  $2.5\% \times \text{years of creditable service prior to January 4, 2009} \times \text{new average final salary} \text{ plus } 2.7\% \times \text{years of creditable service on/after January 4, 2009} \times \text{new average final salary}$ , OR
2.  $2.7\% \times \text{years of creditable service on/after January 4, 2009} \times \text{new average final salary} \text{ plus old average final salary times } 2.0\% \text{ times years of service prior to January 4, 2009}$ . When the Uniformed employee retiree begins to receive Social Security, the latter half of the above formula reverts to the old three-tiered benefit formula (1.5% for the first 10 years of service, 1.7% for the second 10 years of service, 2.0% for the final 10 years of service) times old average final salary for years of service prior to January 4, 2009.

Prior to January 3, 2009, the basic formula for calculating benefits for general employees was:  $1.5\% \times \text{years of creditable service} \times \text{average final salary, including overtime} = \text{annual retirement benefit}$  with a maximum of 45% 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 with a maximum of 60%. When the retiree

## Actuarial Section

---

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 with a maximum of 52%.

Retirement benefits are vested after 5 years of service and 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. 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. All employees can qualify for an unreduced benefit when the sum of age plus service equals 80. General employees can also qualify for an unreduced benefit after 30 years of service and Public Safety after 25 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. Survivor options are available with actuarial reductions to the benefit.

### **Additional Information**

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.

A Deferred Retirement Option Program (DROP) was added effective January 1, 2002, for all Chapters. DROP is a voluntary program that provides a way for employees to continue to work for the County in their present or a similar capacity, earn a salary, and receive a portion of their retirement benefits at the same time. The portion is equal to the monthly retirement benefit an employee would be eligible for at the time they DROP. An employee is eligible for participation in the DROP upon reaching eligibility for unreduced benefits. DROP participation is limited to 3 years.

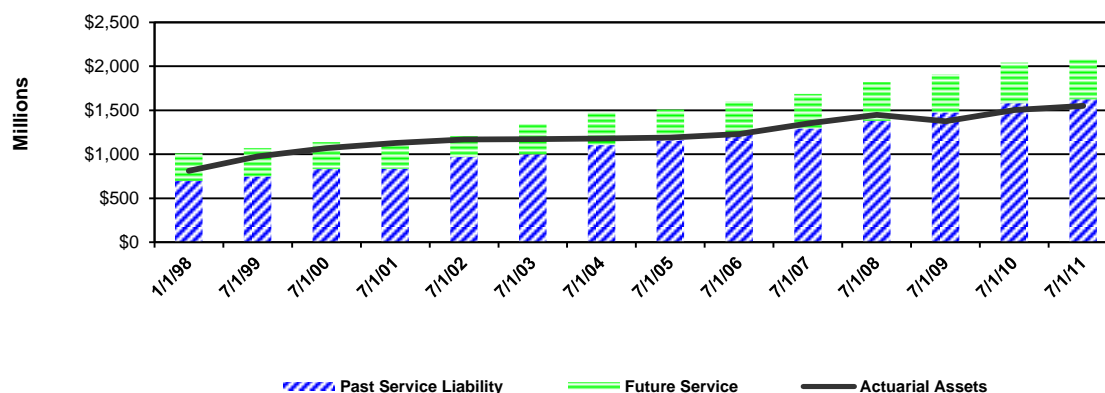


## Trends

One of the best ways to evaluate the financial condition of a pension plan is to examine the historical trends. The charts below present trend information on the System's assets and liabilities, annual cash flows and County contribution rate.

Chart A illustrates the System's assets and liabilities. At July 1, 2011, the ratio of actuarial assets to liabilities is 95.4%, up from 95.2% in the prior year's Actuarial Valuation due primarily to better than assumed investment performance.

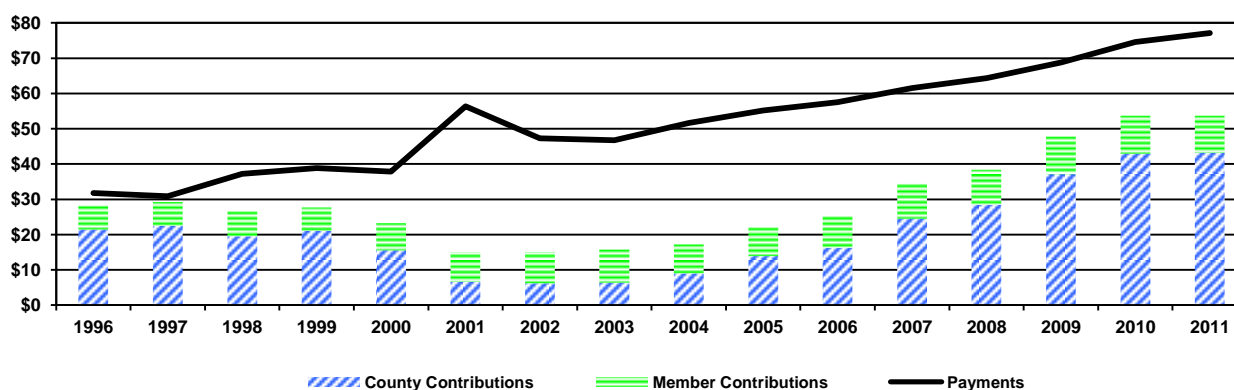
**Chart A: ASSETS / LIABILITIES**



Source: Actuarial Reports- Summary Results- Combined

Chart B shows payments to retirees and beneficiaries exceeding employer and employee contributions, typical of a well funded, mature system. The difference is made up by investment return on plan assets. The sudden increase in payments in 2001 represents the one-time withdrawal for defined contribution startup accounts.

**Chart B: CASH FLOWS (\$ in Millions)**

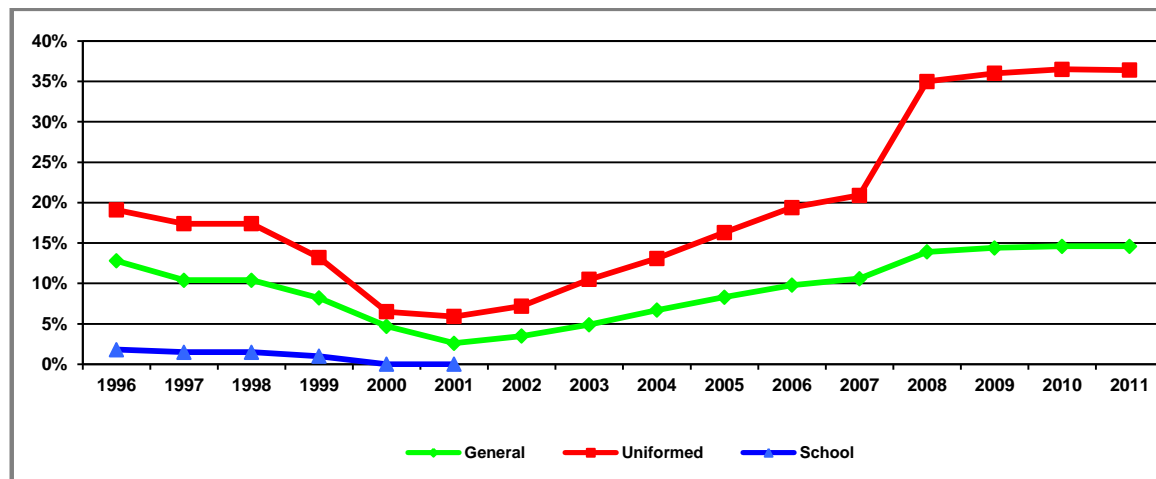


Source: Actuarial Reports- Assets, Table II-1

## Actuarial Section

Chart C plots the County (employer) contribution rate by employee group. Investment gains during the late 1990's resulted in lower contribution rates under the funding method in place through 2002. Beginning in 2003, the County contribution rate began to increase towards normal cost. The School Board withdrew active participants from Chapter 46 in fiscal year 2002 and no employer contributions are required for this group. Benefit enhancements and a change in the definition of creditable compensation explain the increase in 2008.

**Chart C: COUNTY CONTRIBUTION RATE**



Source: Actuarial Reports- Summary Results –General , Summary Results- Uniformed, Summary Results- School

Schedule of Active Member Valuation Data						
		<u>Valuation</u>			<u>Annual</u>	<u>% Increase in</u>
<u>Group</u>	<u>Plan</u>	<u>Date</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Average Pay</u>	<u>Average Pay</u>
<u>General Employees</u>						
Chapter 21		07/01/2011	17	1,270,758	74,750	17%
		07/01/2010	23	1,464,854	63,689	5%
		07/01/2009	39	2,375,681	60,915	-7%
		07/01/2008	58	3,817,757	65,823	-9%
		07/01/2007	86	6,234,540	72,495	-2%
		07/01/2006	103	7,585,441	73,645	2%
Chapter 46		07/01/2011	2,676	159,612,538	59,646	2%
		07/01/2010	2,659	155,915,941	58,637	2%
		07/01/2009	2,631	151,191,715	57,465	1%
		07/01/2008	2,656	150,590,779	56,698	-4%
		07/01/2007	2,606	153,734,290	58,992	6%
		07/01/2006	2,661	148,745,627	55,898	5%
<u>School Board Employees</u>						
Chapter 35		07/01/2011	66	5,537,332	83,899	-5%
		07/01/2010	87	7,650,907	87,941	-3%
		07/01/2009	92	8,329,038	90,502	3%
		07/01/2008	98	8,647,626	88,241	9%
		07/01/2007	115	9,317,383	81,021	1%
		07/01/2006	158	12,678,613	80,244	4%
<u>Uniformed Employees</u>						
Chapter 21		07/01/2011	3	371,618	123,873	38%
		07/01/2010	4	358,996	89,749	-20%
		07/01/2009	5	561,619	112,324	-1%
		07/01/2008	15	1,708,210	113,881	-9%
		07/01/2007	20	2,495,851	124,793	3%
		07/01/2006	27	3,280,166	121,488	7%
Chapter 46		07/01/2011	817	59,120,896	72,363	-1%
		07/01/2010	808	59,082,824	73,122	3%
		07/01/2009	824	58,366,184	70,833	0%
		07/01/2008	841	59,427,407	70,663	-14%
		07/01/2007	855	70,433,372	82,378	10%
		07/01/2006	804	60,320,261	75,025	9%

Source: Actuarial Reports- Appendix A, Table A-1

# Actuarial Section

## ARLINGTON COUNTY EMPLOYEES' RETIREMENT SYSTEM SOLVENCY TEST

All \$ amounts are millions

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)
7/1/2002	\$ 80.0	\$ 468.2	\$ 420.9	\$ 969.1	\$1,167.7	100%	100%	147%
7/1/2003	81.5	509.4	405.9	996.8	1,171.5	100%	100%	143%
7/1/2004	98.0	567.7	437.6	1,103.3	1,179.0	100%	100%	117%
7/1/2005	113.3	606.2	437.4	1,156.9	1,189.3	100%	100%	107%
7/1/2006	133.9	643.7	452.7	1,230.3	1,234.7	100%	100%	101%
7/1/2007	160.0	679.9	450.9	1,290.8	1,348.1	100%	100%	113%
7/1/2008	185.9	701.4	493.3	1,380.6	1,449.2	100%	100%	114%
7/1/2009	216.1	799.4	458.7	1,474.2	1,375.8	100%	100%	79%
7/1/2010	247.8	871.2	461.2	1,580.2	1,503.7	100%	100%	83%
7/1/2011	286.5	885.5	451.4	1,623.4	1,548.1	100%	100%	83%

\* Retirees, beneficiaries and vested deferred members

Source: July 1, 2011 Actuarial Report- Accounting Information, Table V-3

**RETIREMENT ALLOWANCES ADDED TO AND REMOVED FROM ROLLS**

**Retirement Allowances Added To and Removed From Rols**

Year Ended	Added to Rols No.	Annual Allowances <sup>1</sup>	Removed from Rols No.	Annual Allowances	Year-End Total	Annual Allowances	% Increase in Allowances	Average Annual Allowances
<b>Chapter 21</b>								
7/1/2011	36	\$933,830	54	\$1,118,969	1,514	\$47,048,725	-0.4%	\$31,076
7/1/2010	20	\$1,828,659	57	\$1,066,031	1,532	\$47,233,864	1.6%	\$30,832
7/1/2009	53	\$3,064,504	68	\$1,157,106	1,569	\$46,471,236	4.3%	\$29,618
7/1/2008	51	\$2,876,598	64	\$1,123,278	1,584	\$44,563,838	4.1%	\$28,134
7/1/2007	39	\$2,295,574	49	\$910,562	1,597	\$42,810,519	3.3%	\$26,807
7/1/2006	51	\$2,691,452	53	\$939,125	1,607	\$41,425,506	4.4%	\$25,778
<b>Chapter 35</b>								
7/1/2011	36	\$124,350	46	\$282,762	1,021	\$9,345,856	-1.7%	\$9,154
7/1/2010	10	\$522,164	29	\$153,964	1,031	\$9,504,268	4.0%	\$9,218
7/1/2009	22	\$295,253	40	\$266,920	1,050	\$9,136,069	0.3%	\$8,701
7/1/2008	10	\$137,180	53	\$240,916	1,068	\$9,107,736	-1.1%	\$8,528
7/1/2007	48	\$752,419	35	\$171,840	1,111	\$9,211,473	6.7%	\$8,291
7/1/2006	31	\$408,910	37	\$131,072	1,098	\$8,630,894	3.3%	\$7,861
<b>Chapter 46</b>								
7/1/2011	82	\$1,936,123	12	\$130,677	1,127	\$20,288,047	9.8%	\$18,002
7/1/2010	146	\$3,645,133	11	\$57,082	1,057	\$18,482,601	24.1%	\$17,486
7/1/2009	144	\$4,674,626	12	\$60,958	922	\$14,894,551	44.9%	\$16,155
7/1/2008	76	\$1,576,260	14	\$108,880	790	\$10,280,883	16.6%	\$13,014
7/1/2007	92	\$1,500,605	9	\$95,216	728	\$8,813,503	19.0%	\$12,106
7/1/2006	91	\$1,483,746	14	\$82,233	645	\$7,408,114	23.3%	\$11,485

<sup>1</sup> The amount added to the rolls includes additions and deletions due to COLAs, supplements, workers' compensation, etc. in addition to the annual allowance for new retirees.

Source: Supplemental Data Provided by Actuary

# Statistical Section



## **ARLINGTON COUNTY EMPLOYEES' RETIREMENT SYSTEM**



### About the Statistical Section

This section includes detailed information about the demographic and economic trends experienced by the System over the past ten years to assist the reader in assessing how the System's overall financial condition has changed over time. Specific information provided includes:

- Schedules of Active Employee Members present the number of employees by chapter and type
- Schedules of Retirements Granted present the number of retirements granted by chapter and type
- Schedules of Monthly Retirement Allowances show the number of retirees and payments, by chapter and type
- Schedules of Additions and Deductions and Plan Net Assets reflect payments made to and by the System and the impact on net assets
- Contribution Analysis by source
- Schedules of Average Benefit Payments present the average monthly benefit, by chapter
- Schedules of Retired Members by Type of Benefit identify number of retirees by retirement type for each chapter



## ACTIVE EMPLOYEE MEMBERSHIP IN RETIREMENT SYSTEM AS OF JUNE 30, 2012

GROUP	CHAPTER			TOTAL MEMBERSHIP
	21	35	46	
General County	14	-	2525	2539
Deputy Sheriffs	-	-	210	210
Firefighters	1	-	302	303
Police Officers	1	-	345	346
School	3	56	153	212
<b>TOTALS</b>	<b>19</b>	<b>56</b>	<b>3535</b>	<b>3610</b>

## HISTORY OF ACTIVE EMPLOYEE MEMBERSHIP IN RETIREMENT SYSTEM JUNE 30, 2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>CHAPTER 21</b>										
General County	179	150	131	102	77	56	31	17	14	14
Police Officers	30	21	30	13	11	10	3	3	2	1
Firefighters	29	24	2	13	14	11	2	1	1	1
Deputy Sheriffs	5	5	0	2	0	0	0	0	0	0
School	29	23	18	17	15	12	7	6	3	3
<b>TOTAL</b>	<b>272</b>	<b>223</b>	<b>181</b>	<b>147</b>	<b>117</b>	<b>89</b>	<b>43</b>	<b>27</b>	<b>20</b>	<b>19</b>
<b>CHAPTER 35</b>										
School	218	202	159	138	110	108	87	86	65	56
General County	11	11	7	5	4	3	3	1	1	0
<b>TOTAL</b>	<b>229</b>	<b>213</b>	<b>166</b>	<b>143</b>	<b>114</b>	<b>111</b>	<b>90</b>	<b>87</b>	<b>66</b>	<b>56</b>
<b>CHAPTER 46</b>										
General County	2,270	2,321	2,393	2,397	2,228	2,373	2,425	2,487	2,504	2,525
Police Officers	297	321	404	331	448	454	329	323	333	345
Firefighters	251	266	219	284	302	299	291	277	282	302
Deputy Sheriffs	199	206	171	200	263	276	205	208	203	210
School	308	292	269	234	210	200	187	172	167	153
<b>TOTAL</b>	<b>3,325</b>	<b>3,406</b>	<b>3,456</b>	<b>3,446</b>	<b>3,451</b>	<b>3,602</b>	<b>3,437</b>	<b>3,467</b>	<b>3,489</b>	<b>3,535</b>
<b>GRAND TOTAL</b>	<b>3,826</b>	<b>3,842</b>	<b>3,803</b>	<b>3,736</b>	<b>3,682</b>	<b>3,802</b>	<b>3,570</b>	<b>3,581</b>	<b>3,575</b>	<b>3,610</b>

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 56 - 58 of this report.

**RETIREMENTS GRANTED  
DURING FISCAL YEAR 2012**

<b>Chapters 21 &amp; 46</b>	<b>SERVICE RETIREMENTS</b>	<b>DEFERRED RETIREMENT OPTION PLAN (DROP)</b>	<b>ORDINARY DISABILITY</b>	<b>SERVICE CONNECTED DISABILITY</b>	<b>TOTAL</b>
General County	33	38	0	9	80
Deputy Sheriffs	2	4	0	2	8
Firefighters	1	6	0		7
Police Officers	1	6	0	1	8
School	12		0		12
<b>TOTAL</b>	<b>49</b>	<b>54</b>	<b>0</b>	<b>12</b>	<b>115</b>
<b>Chapter 35</b>					
General County		2	0	0	2
School	12		0	0	12
<b>TOTAL</b>	<b>12</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>14</b>

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

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>CHAPTERS 21 &amp; 46</b>										
Service Retirements	69	51	64	66	62	50	51	98	42	49
DROP	59	35	44	34	31	39	95	53	36	54
Ordinary Disability	4	5	9	7	3	2	1	1	4	0
Service Connected Disability	11	12	14	4	8	9	6	8	1	12
<b>TOTAL</b>	<b>143</b>	<b>103</b>	<b>131</b>	<b>111</b>	<b>104</b>	<b>100</b>	<b>153</b>	<b>160</b>	<b>83</b>	<b>115</b>
<b>CHAPTER 35</b>										
Service Retirements	50	34	37	26	26	26	14	16	20	12
DROP	0	0	3	2	0	1	0	0	0	2
Ordinary Disability	1	0	1	0	0	1	0	0	0	0
<b>TOTAL</b>	<b>51</b>	<b>34</b>	<b>41</b>	<b>28</b>	<b>26</b>	<b>28</b>	<b>14</b>	<b>16</b>	<b>20</b>	<b>14</b>
<b>GRAND TOTAL</b>	<b>194</b>	<b>137</b>	<b>172</b>	<b>139</b>	<b>130</b>	<b>128</b>	<b>167</b>	<b>176</b>	<b>103</b>	<b>129</b>

# Statistical Section

## SUMMARY OF MONTHLY RETIREMENT ALLOWANCES RETIREES AND SURVIVORS AS OF JUNE 30, 2012

	Service Retirements		DROP		Ordinary Disability		Service Connected Disability		Total	
	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount
<b>CHAPTER 21</b>										
General County	736	\$1,771,770	8	\$42,723	25	\$43,642	28	\$61,173	797	\$1,919,308
Police Officers	219	\$736,813	4	\$19,151	5	\$6,873	41	\$125,213	269	\$888,050
Firefighters	152	\$515,413	1	\$6,864	2	\$2,428	61	\$182,145	216	\$706,850
Deputy Sheriffs	23	\$77,638	0	-	0	-	5	\$9,165	28	\$86,803
School	177	\$279,588	1	\$4,385	9	\$12,548	6	\$9,240	193	\$305,761
<b>TOTAL</b>	<b>1,307</b>	<b>\$3,381,222</b>	<b>14</b>	<b>\$73,123</b>	<b>41</b>	<b>\$65,491</b>	<b>141</b>	<b>\$386,936</b>	<b>1,503</b>	<b>\$3,906,772</b>
<b>CHAPTER 46</b>										
General County	633	\$745,383	79	\$168,834	33	\$28,394	32	\$74,714	777	\$1,017,325
Police Officers	48	\$138,642	12	\$69,452	0	-	22	\$81,449	82	\$289,543
Firefighters	38	\$143,323	10	\$52,361	1	\$4,094	42	\$160,340	91	\$360,118
Deputy Sheriffs	40	\$86,538	6	\$30,494	2	\$1,393	18	\$54,247	66	\$172,672
School	194	\$75,932	4	\$3,262	23	\$9,216	1	\$1,784	222	\$90,194
<b>TOTAL</b>	<b>953</b>	<b>\$1,189,818</b>	<b>111</b>	<b>\$324,403</b>	<b>59</b>	<b>\$43,097</b>	<b>115</b>	<b>\$372,534</b>	<b>1,238</b>	<b>\$1,929,852</b>
<b>CHAPTER 35 TOTALS</b>	<b>980</b>	<b>\$771,265</b>	<b>2</b>	<b>\$1,192</b>	<b>41</b>	<b>\$15,856</b>	<b>0</b>	<b>-</b>	<b>1,023</b>	<b>\$788,313</b>
<b>GRAND TOTAL</b>	<b>3,240</b>	<b>\$ 5,342,305</b>	<b>127</b>	<b>\$ 398,718</b>	<b>141</b>	<b>\$ 124,444</b>	<b>256</b>	<b>\$ 759,470</b>	<b>3,764</b>	<b>\$ 6,624,937</b>

## HISTORY OF MONTHLY RETIREMENT ALLOWANCES YEAR ENDED JUNE 30

(\$ in thousands)		2003		2004		2005		2006		2007	
TYPE	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount	
Service	2,481	\$2,786	2,685	\$3,145	2,749	\$3,361	2,827	\$3,618	2,901	\$3,849	
DROP	88	\$255	99	\$294	105	\$323	97	\$305	93	\$306	
Ordinary Disability	173	\$123	165	\$121	162	\$141	168	\$132	160	\$125	
Service Connected Disability	249	\$496	251	\$538	263	\$587	255	\$588	263	\$651	
TOTAL	2,991	\$3,660	3,200	\$4,098	3,279	\$4,412	3,347	\$4,643	3,417	\$4,931	

		2008		2009		2010		2011		2012	
TYPE	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount	
Service	2,922	\$4,067	2,967	\$4,317	3,069	\$4,717	3,118	\$4,796	3,240	\$5,342	
DROP	100	\$370	153	\$560	164	\$580	192	\$583	127	\$399	
Ordinary Disability	158	\$125	151	\$123	148	\$126	126	\$119	141	\$124	
Service Connected Disability	264	\$694	267	\$737	266	\$775	268	\$773	256	\$759	
TOTAL	3,444	\$5,256	3,538	\$5,737	3,647	\$6,198	3,704	\$6,271	3,764	\$6,624	

**ADDITIONS & DEDUCTIONS**  
YEAR ENDED JUNE 30

<i>(millions)</i>	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>ADDITIONS</b>										
<b>Contribution Total</b>	<b>15.8</b>	<b>17.3</b>	<b>22.1</b>	<b>25.2</b>	<b>34.9</b>	<b>40.2</b>	<b>47.8</b>	<b>53.7</b>	<b>53.8</b>	<b>57.3</b>
Employer	6.4	9.0	13.9	16.3	24.8	30.0	37.1	42.9	43.2	46.3
Employee	9.4	8.3	8.2	8.9	10.1	10.2	10.7	10.8	10.6	11.0
<b>Net Investment Income</b>	<b>40.5</b>	<b>159.1</b>	<b>98.3</b>	<b>133.6</b>	<b>215.0</b>	<b>(73.9)</b>	<b>(222.8)</b>	<b>146.2</b>	<b>287.7</b>	<b>3.8</b>
Income & Appreciation	44.1	165.3	104.2	139.7	219.4	(68.8)	(219.5)	149.9	292.4	8.0
Less Investment Expense	(3.6)	(6.2)	(5.9)	(6.1)	(4.7)	(5.7)	(3.3)	(3.8)	(4.9)	(4.4)
Security Lending					0.3	0.6		0.1	0.2	0.2
<b>TOTAL ADDITIONS</b>	<b>56.3</b>	<b>176.4</b>	<b>120.4</b>	<b>158.8</b>	<b>249.9</b>	<b>(33.7)</b>	<b>(175.0)</b>	<b>199.9</b>	<b>341.5</b>	<b>61.1</b>
<b>DEDUCTIONS</b>										
<b>Benefit Payments<sup>(1)</sup></b>	<b>44.6</b>	<b>48.7</b>	<b>52.3</b>	<b>55.3</b>	<b>58.5</b>	<b>61.9</b>	<b>66.7</b>	<b>72.3</b>	<b>74.9</b>	<b>77.4</b>
Normal Retirement					26.7	29.2	31.7	34.6	36.9	41.1
Early Retirement					16.1	16.2	16.2	16.4	16.6	16.6
Death in Service										0.1
Duty Disability Retirement					7.7	8.2	8.7	9.3	9.1	9.0
Ordinary Disability					1.5	1.5	1.5	1.5	1.5	1.5
Survivor Payments					2.5	2.7	2.9	3.1	3.4	3.5
DROP					3.7	3.8	5.4	7.2	6.7	5.2
Other					0.3	0.3	0.3	0.3	0.7	0.4
<b>Refunds</b>	<b>1.1</b>	<b>1.6</b>	<b>1.8</b>	<b>1.5</b>	<b>2.1</b>	<b>1.6</b>	<b>1.3</b>	<b>1.4</b>	<b>1.3</b>	<b>1.5</b>
<b>Administrative Expenses</b>	<b>1.0</b>	<b>1.3</b>	<b>1.1</b>	<b>0.7</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>
<b>TOTAL DEDUCTIONS</b>	<b>46.7</b>	<b>51.6</b>	<b>55.2</b>	<b>57.5</b>	<b>61.5</b>	<b>64.3</b>	<b>68.8</b>	<b>74.5</b>	<b>77.0</b>	<b>79.7</b>

<sup>(1)</sup>Benefit Payment details breakdown not available prior to 2007

**PLAN NET ASSETS**  
YEAR ENDED JUNE 30

<i>At Market (millions)</i>	2003	2004	2005	2006	2007
<b>Beginning</b>	<b>\$ 998.6</b>	<b>\$ 1,008.2</b>	<b>\$ 1,132.9</b>	<b>\$ 1,198.1</b>	<b>\$ 1,299.4</b>
Additions	56.3	176.3	120.4	158.8	249.9
Deductions	46.7	51.6	55.2	57.5	61.5
Net Increase	9.6	124.7	65.2	101.3	188.4
<b>Year End</b>	<b>\$ 1,008.2</b>	<b>\$ 1,132.9</b>	<b>\$ 1,198.1</b>	<b>\$ 1,299.4</b>	<b>\$ 1,487.8</b>
	2008	2009	2010	2011	2012
<b>Beginning</b>	<b>\$ 1,487.8</b>	<b>\$ 1,389.8</b>	<b>\$ 1,146.0</b>	<b>\$ 1,271.4</b>	<b>\$ 1,535.8</b>
Additions	(33.6)	(175.0)	199.9	341.5	61.1
Deductions	64.3	68.9	74.6	77.0	79.7
Net Increase	(97.9)	(243.8)	125.4	264.4	(18.5)
<b>Year End</b>	<b>\$ 1,389.9</b>	<b>\$ 1,146.0</b>	<b>\$ 1,271.4</b>	<b>\$ 1,535.8</b>	<b>\$ 1,517.3</b>

# Statistical Section

## CONTRIBUTION ANALYSIS YEAR ENDED JUNE 30

(Dollars in millions)	Group	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Estimated Covered Payroll		\$215.4	\$229.9	\$217.5	\$222.6	\$237.3	\$242.2	\$224.1 <sup>(1)</sup>	\$220.8 <sup>(1)</sup>	\$224.5 <sup>(1)</sup>	\$225.2 <sup>(1)</sup>
Employer Contribution: (% of Payroll)	A, D	1.2%	3.5%	4.9%	6.4%	8.3%	9.8%	10.6%/13.9% <sup>(2)</sup>	14.4%	14.2%	14.2%
	B, C	3.4%	7.2%	10.5%	13.6%	19.4%	19.4%	20.9%/35.0% <sup>(2)</sup>	35.5%	35.5%	36.5%
	E	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Employer Contribution		\$6.4	\$9.0	\$13.9	\$16.3	\$24.8	\$30.0	\$37.1	\$42.9	\$43.2	\$46.3
Employee Contribution: (% of Payroll)											
Chapter 21	A,D	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
	B	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
	C	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%
Chapter 35	E	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Chapter 46	A, D	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
	B, C	6.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%/7.5% <sup>(2)</sup>	7.5%	7.5%	7.5%
	E	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Employee Contribution		\$9.4	\$8.3	\$8.2	\$8.9	\$10.0	\$10.2	\$10.7	\$10.8	\$10.5	\$11.0
Employer/Employee Contribution		0.7	1.1	1.7	1.8	2.5	2.9	3.5	4.0	4.1	4.2
Unfunded Actuarial Liability		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$98.2	\$76.4	\$75.3

### Group Key

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

<sup>(1)</sup> Under new payroll definition which excludes overtime

<sup>(2)</sup> Prior to January 4, 2009/After January 4, 2009

## PARTICIPANT AND INVESTMENT DATA AND RATIO YEAR ENDED JUNE 30

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Participant Data</b>										
Active Employees	3826	3842	3803	3736	3682	3802	3570	3581	3575	3610
Deferred Vested Members	255	245	255	255	236	235	229	264	277	326
Retirees	2991	3200	3279	3347	3417	3444	3538	3647	3725	3764
Retirees as a % of Active Employees	78.2%	83.3%	86.2%	89.6%	92.8%	90.6%	99.1%	101.8%	104.2%	104.3%
<b>Retirement Benefits Paid (millions)</b>	<b>\$44.6</b>	<b>\$48.6</b>	<b>\$52.3</b>	<b>\$55.3</b>	<b>\$58.5</b>	<b>\$61.9</b>	<b>\$66.7</b>	<b>\$72.3</b>	<b>\$75.0</b>	<b>\$77.4</b>
<b>Average Benefit Payment (\$/month)</b>										
Chapter 21	\$1,885	\$2,037	\$2,197	\$2,092	\$2,178	\$2,298	\$2,420	\$2,524	\$2,553	\$2,599
Chapter 35 (Supplement)	\$579	\$605	\$638	\$643	\$665	\$697	\$716	\$740	\$664	\$771
Chapter 46 <sup>(1)</sup>	\$606	\$753	\$902	\$852	\$954	\$1,060	\$1,274	\$1,442	\$1,383	\$1,559
<b>Investment Data</b>										
Net Assets, Market Value (millions)	\$1,008.2	\$1,133.0	\$1,198.1	\$1,299.4	\$1,487.7	\$1,389.8	\$1,146.0	\$1,271.4	\$1,535.8	\$1,517.3
Ratio: Net Assets/ Benefits Paid	22.6	23.3	22.9	23.5	25.4	22.5	17.2	17.6	20.5	19.6

<sup>(1)</sup>The averages for Chapter 46 retirees is impacted by several factors: This Chapter is relatively new ; disability retirees significantly affect the average and there is blending of VRS and non-VRS members' benefits.

# Statistical Section

## SCHEDULE OF AVERAGE BENEFIT PAYMENTS CHAPTER 21 EMPLOYEES

Uniform & General Employees Hired Before 2/8/81	Years of Credited Service						
	2-4	5-9	10-14	15-19	20-24	25-29	30+
<b><u>Period 7/1/05 to 6/30/06</u></b>							
Average Monthly Benefit	\$ -	\$ -	\$ 1,012	\$ 1,354	\$ 3,552	\$ 4,388	\$ 4,173
Average Final Monthly Salaries	\$ -	\$ -	\$ 2,151	\$ 3,193	\$ 6,185	\$ 6,695	\$ 5,902
Number of Current Retirees	0	0	3	2	1	18	14
<b><u>Period 7/1/06 to 6/30/07</u></b>							
Average Monthly Benefit	\$ -	\$ -	\$ 331	\$ 2,183	\$ -	\$ 5,602	\$ 5,318
Average Final Monthly Salaries	\$ -	\$ -	\$ 992	\$ 4,951	\$ -	\$ 8,646	\$ 7,508
Number of Current Retirees	0	0	1	4	0	16	8
<b><u>Period 7/1/07 to 6/30/08</u></b>							
Average Monthly Benefit	\$ -	\$ 169	\$ 1,383	\$ 1,408	\$ 1,246	\$ 4,221	\$ 5,589
Average Final Monthly Salaries	\$ -	\$ 1,178	\$ 4,329	\$ 3,878	\$ 2,250	\$ 6,423	\$ 7,988
Number of Current Retirees	0	1	2	1	1	21	8
<b><u>Period 7/1/08 to 6/30/09</u></b>							
Average Monthly Benefit	\$ -	\$ 466	\$ -	\$ -	\$ 2,779	\$ 4,956	\$ 5,065
Average Final Monthly Salaries	\$ -	\$ 2,726	\$ -	\$ -	\$ 5,374	\$ 7,188	\$ 7,337
Number of Current Retirees	0	3	0	0	3	21	11
<b><u>Period 7/1/09 to 6/30/10</u></b>							
Average Monthly Benefit	\$ -	\$ 560	\$ 662	\$ 1,056	\$ 2,154	\$ 4,627	\$ 4,292
Average Final Monthly Salaries	\$ -	\$ 3,684	\$ 2,149	\$ 2,375	\$ 5,640	\$ 6,960	\$ 6,347
Number of Current Retirees	0	1	2	1	1	3	12
<b><u>Period 7/1/10 to 6/30/11</u></b>							
Average Monthly Benefit	\$ -	\$ -	\$ 1,049	\$ -	\$ -	\$ 6,192	\$ 4,106
Average Final Monthly Salaries	\$ -	\$ -	\$ 3,054	\$ -	\$ -	\$ 9,555	\$ 6,027
Number of Current Retirees	0	0	1	0	0	1	6
<b><u>Period 7/1/11 to 6/30/12</u></b>							
Average Monthly Benefit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,963	\$ 4,961
Average Final Monthly Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,786	\$ 7,086
Number of Current Retirees	0	0	0	0	0	2	1

## SCHEDULE OF AVERAGE BENEFIT PAYMENTS CHAPTER 35 EMPLOYEES

School Board and DHS Hired Before 2/8/81	Years of Credited Service						
	2-4	5-9	10-14	15-19	20-24	25-29	30+
<b><u>Period 7/1/05 to 6/30/06</u></b>							
Average Monthly Benefit	\$ -	\$ 164	\$ -	\$ -	\$ 1,084	\$ 1,037	\$ 1,293
Average Final Monthly Salaries	\$ -	\$ 2,294	\$ -	\$ -	\$ 5,608	\$ 4,281	\$ 6,837
Number of Current Retirees	0	2	0	0	2	8	13
<b><u>Period 7/1/06 to 6/30/07</u></b>							
Average Monthly Benefit	\$ -	\$ -	\$ 242	\$ 750	\$ 1,347	\$ 1,191	\$ 1,411
Average Final Monthly Salaries	\$ -	\$ -	\$ 2,256	\$ 4,645	\$ 6,899	\$ 6,367	\$ 6,742
Number of Current Retirees	0	0	1	2	3	5	14
<b><u>Period 7/1/07 to 6/30/08</u></b>							
Average Monthly Benefit	\$ -	\$ 86	\$ -	\$ 1,090	\$ 1,153	\$ 1,385	\$ 1,502
Average Final Monthly Salaries	\$ -	\$ 1,666	\$ -	\$ 7,009	\$ 6,536	\$ 7,071	\$ 7,442
Number of Current Retirees	0	1	0	2	2	10	10
<b><u>Period 7/1/08 to 6/30/09</u></b>							
Average Monthly Benefit	\$ 53	\$ -	\$ -	\$ 340	\$ -	\$ 1,206	\$ 1,598
Average Final Monthly Salaries	\$ 1,195	\$ -	\$ -	\$ 3,567	\$ -	\$ 6,487	\$ 7,401
Number of Current Retirees	1	0	0	1	0	2	11
<b><u>Period 7/1/09 to 6/30/10</u></b>							
Average Monthly Benefit	\$ -	\$ 211	\$ -	\$ 545	\$ 755	\$ 751	\$ 1,469
Average Final Monthly Salaries	\$ -	\$ 7,695	\$ -	\$ 3,655	\$ 4,201	\$ 4,412	\$ 6,669
Number of Current Retirees	0	1	0	1	1	2	10
<b><u>Period 7/1/10 to 6/30/11</u></b>							
Average Monthly Benefit	\$ -	\$ 67	\$ -	\$ -	\$ -	\$ 1,314	\$ 1,900
Average Final Monthly Salaries	\$ -	\$ 1,347	\$ -	\$ -	\$ -	\$ 7,112	\$ 8,646
Number of Current Retirees	0	1	0	0	0	4	15
<b><u>Period 7/1/11 to 6/30/12</u></b>							
Average Monthly Benefit	\$ -	\$ 118	\$ -	\$ 594	\$ -	\$ 1,388	\$ 1,494
Average Final Monthly Salaries	\$ -	\$ 1,676	\$ -	\$ 4,798	\$ -	\$ 7,466	\$ 8,140
Number of Current Retirees	0	2	0	1	0	2	9



# Statistical Section

## SCHEDULE OF AVERAGE BENEFIT PAYMENTS CHAPTER 46 EMPLOYEES

All Employees Hired  
on or after 2/8/81

### Years of Credited Service

2-4      5-9      10-14      15-19      20-24      25-29      30+

#### Period 7/1/05 to 6/30/06

Average Monthly Benefit	\$ 150	\$ 620	\$ 1,513	\$ 1,440	\$ 1,731	\$ 2,425	\$ -
Average Final Monthly Salaries	\$ 2,608	\$ 4,073	\$ 4,827	\$ 4,429	\$ 5,193	\$ 6,364	\$ -
Number of Current Retirees	5	16	14	14	21	2	0

#### Period 7/1/06 to 6/30/07

Average Monthly Benefit	\$ 64	\$ 515	\$ 1,595	\$ 1,566	\$ 1,990	\$ 2,197	\$ -
Average Final Monthly Salaries	\$ 2,469	\$ 4,822	\$ 4,202	\$ 5,015	\$ 5,580	\$ 5,506	\$ -
Number of Current Retirees	1	19	16	23	20	3	0

#### Period 7/1/07 to 6/30/08

Average Monthly Benefit	\$ -	\$ 403	\$ 972	\$ 1,530	\$ 2,235	\$ 4,280	\$ -
Average Final Monthly Salaries	\$ -	\$ 4,263	\$ 5,130	\$ 4,993	\$ 5,493	\$ 8,004	\$ -
Number of Current Retirees	0	18	8	18	19	8	0

#### Period 7/1/08 to 6/30/09

Average Monthly Benefit	\$ 181	\$ 865	\$ 1,457	\$ 2,245	\$ 2,026	\$ 4,427	\$ 2,673
Average Final Monthly Salaries	\$ 2,995	\$ 4,768	\$ 5,663	\$ 6,378	\$ 5,528	\$ 7,663	\$ 5,158
Number of Current Retirees	2	13	18	17	39	44	1

#### Period 7/1/09 to 6/30/10

Average Monthly Benefit	\$ 1,060	\$ 754	\$ 969	\$ 1,874	\$ 2,375	\$ 3,474	\$ 3,069
Average Final Monthly Salaries	\$ 4,391	\$ 4,571	\$ 4,501	\$ 5,953	\$ 5,947	\$ 6,546	\$ 5,368
Number of Current Retirees	3	21	14	28	44	39	1

#### Period 7/1/10 to 6/30/11

Average Monthly Benefit	\$ 209	\$ 573	\$ 1,070	\$ 1,287	\$ 2,457	\$ 4,672	\$ 2,995
Average Final Monthly Salaries	\$ 2,843	\$ 4,039	\$ 5,932	\$ 5,394	\$ 5,852	\$ 8,178	\$ 4,703
Number of Current Retirees	1	17	17	7	20	15	1

#### Period 7/1/11 to 6/30/12

Average Monthly Benefit	\$ 1,236	\$ 632	\$ 1,167	\$ 1,135	\$ 2,420	\$ 4,322	\$ 4,508
Average Final Monthly Salaries	\$ 4,907	\$ 3,591	\$ 4,182	\$ 4,592	\$ 5,802	\$ 7,701	\$ 7,127
Number of Current Retirees	5	12	22	17	27	18	10

**SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT**  
**CHAPTER 21 EMPLOYEES**  
**YEAR ENDED JUNE 30, 2012**

**Chapter 21**

Amount of Monthly Benefit	Number of Retirees	Type of Retirement								Spousal Benefit Option			
		1	2	3	4	5	6	7	8	Opt1	Opt2	Opt3	Opt4
Deferred	16	-	-	-	-	-	16	-	-	16	-	-	-
\$1 - 250	41	29	8	2	-	2	-	-	-	38	2	-	1
251 - 500	79	37	13	26	-	3	-	-	-	74	4	-	1
501 - 750	75	29	5	37	-	3	-	-	1	69	2	1	3
751 - 1,000	88	22	14	37	5	7	-	-	3	76	6	2	4
1001 - 1,250	84	27	16	32	4	4	-	-	1	75	7	1	1
1,251 - 1,500	77	22	21	25	4	5	-	-	-	69	6	-	2
1,501 - 1,750	78	20	22	19	7	5	-	-	5	62	12	3	1
1,751 - 2,000	72	24	24	8	12	1	-	-	3	53	13	1	5
Over 2,000	909	553	197	24	109	11	-	14	1	446	325	62	76
Totals	1,519	763	320	210	141	41	16	14	14	978	377	70	94

Type of Retirement	
1 - Normal retirement	5 - Non-duty disability retirement
2 - Early retirement	6 - Vested benefit
3 - Survivor payment, retiree	7 - DROP
4 - Duty disability retirement	8 - Court Order

Spousal Option Selected
Opt 1 - 0%
Opt 2 - 50%
Opt 3 - 66.7%
Opt 4 - 100%

# Statistical Section

## SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT CHAPTER 35 EMPLOYEES YEAR ENDED JUNE 30, 2012

### Chapter 35

Amount of Monthly Benefit	Number of Retirees	Type of Retirement								Spousal Benefit Option			
		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>Opt1</u>	<u>Opt2</u>	<u>Opt3</u>	<u>Opt4</u>
Deferred	62	-	-	-	-	-	62	-	-	62	-	-	-
\$1 - 250	162	75	60	8	-	17	-	-	2	157	2	-	3
251 - 500	193	93	61	25	-	11	-	-	3	180	8	2	3
501 - 750	162	63	76	13	-	9	-	-	1	138	11	1	12
751 - 1,000	172	54	112	4	-	2	-	-	-	133	18	8	13
1001 - 1,250	164	39	118	5	-	1	-	1	-	133	16	4	11
1,251 - 1,500	93	36	56	-	-	1	-	-	-	76	6	5	6
1,501 - 1,750	41	33	8	-	-	-	-	-	-	33	3	1	4
1,751 - 2,000	17	11	6	-	-	-	-	-	-	14	1	1	1
Over 2,000	<u>13</u>	<u>11</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12</u>	<u>-</u>	<u>-</u>	<u>1</u>
Totals	1,079	415	497	57	0	41	62	1	6	938	65	22	54

<u>Type of Retirement</u>	
1 - Normal retirement	5 - Non-duty disability retirement
2 - Early retirement	6 - Vested benefit
3 - Survivor payment, retiree	7 - DROP
4 - Duty disability retirement	8 - Court Order

<u>Spousal Option Selected</u>
Opt 1 - 0%
Opt 2 - 50%
Opt 3 - 66.7%
Opt 4 - 100%

## SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT CHAPTER 46 EMPLOYEES YEAR ENDED JUNE 30, 2012

### Chapter 46

Amount of Monthly Benefit	Number of Retirees	Type of Retirement								Spousal Benefit Option			
		1	2	3	4	5	6	7	8	Opt1	Opt2	Opt3	Opt4
Deferred	247	-	-	-	-	-	247	-	-	247	-	-	-
\$1 - 250	176	76	80	5	-	13	-	-	2	162	6	-	8
251 - 500	161	88	48	13	-	9	-	2	1	137	12	-	12
501 - 750	131	74	31	8	-	12	-	6	-	101	21	4	5
751 - 1,000	123	72	25	7	2	10	-	7	-	87	21	5	10
1001 - 1,250	95	53	20	3	1	8	-	8	2	62	18	3	12
1,251 - 1,500	81	49	11	6	4	4	-	6	1	54	12	3	12
1,501 - 1,750	71	44	13	1	2	1	-	9	1	49	15	2	5
1,751 - 2,000	50	33	7	1	4	1	-	4	-	32	10	2	6
Over 2,000	<u>348</u>	<u>148</u>	<u>25</u>	<u>3</u>	<u>102</u>	<u>1</u>	<u>-</u>	<u>68</u>	<u>1</u>	<u>216</u>	<u>92</u>	<u>19</u>	<u>21</u>
Totals	1,483	637	260	47	115	59	247	110	8	1,147	207	38	91

Type of Retirement	
1 - Normal retirement	5 - Non-duty disability retirement
2 - Early retirement	6 - Vested benefit
3 - Survivor payment, retiree	7 - DROP
4 - Duty disability retirement	8 - Court Order

Spousal Option Selected
Opt 1 - 0%
Opt 2 - 50%
Opt 3 - 66.7%
Opt 4 - 100%