



# DCRB Report

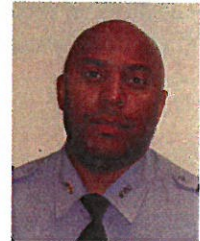
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## Twenty-five Years of Sound Investment Policy

November 17, 2004 marked the 25th anniversary of the Congressional legislation that created the D.C. Retirement Board. Looking back over that quarter century it is very reassuring how much progress has been made in establishing and maintaining an effective Board and a sound investment policy. From Funds that had very few assets and a large unfunded liability in 1979 we now have a fully funded Police and Firefighters Retirement Fund and Teachers Retirement Fund with over \$2.9 billion in combined assets as of March 31, 2005. Milestones include the landmark 1997 federal legislation under which US Treasury assumed responsibility for benefits earned before July 1, 1997 and the 2004 District legislation that gives the Board responsibility for administering benefits beginning on October 1, 2005.

### Chairman's Corner



Congratulations to Mary Collins, active teacher representative, George Suter, retired police officer representative, and Brian Lee, active firefighter representative, who were re-elected as Trustees for four-year terms beginning January 27, 2005. Welcome also to Michael Warren, who was appointed a Trustee by the DC Council, and to Thomas Tippet, who was chosen in a special election as retired firefighter Trustee replacing Michael McNally. Tom previously served a term as an active firefighter Trustee. Finally, the Board expresses its appreciation to Mr. McNally for his exemplary years of service on the Board.

In preparation for the assumption of responsibility for benefits administration all participants and beneficiaries were sent a letter asking for your input on how we can best serve you. Thank you all for your responses. Your ideas and suggestions will be very helpful to the staff and Board as we continue to plan for a smooth transition and as we do long range planning for the future. Please keep your comments coming by email to the Executive Director, [betty.ann.kane@dc.gov](mailto:betty.ann.kane@dc.gov) or by mail to Betty Ann Kane at DCRB, 1400 L Street NW, Suite 300, Washington, DC 20005. We will keep you up to date as the transition progresses, including notifying you of the new address and phone numbers later this summer.

The mission of the District of Columbia Retirement Board is to invest, control, and manage the assets of the Teachers' Retirement Fund and the Police Officers' and Firefighters' Retirement Fund.

### COLAS

Annual Cost of Living Increases for Retirees and Beneficiaries were included in the annuity payment made on April 1. The increases were:

Police and Firefighters hired before November 16, 1996	3.3%
Police and Firefighters hired November 16, 1996 or later	3.0%
Teachers hired before November 1, 1996	3.4%
Teachers hired November 1, 1996 or later	3.0%

Police and Firefighter retirees who are under equalization (retired before February 15, 1980) receive annuity increases based on pay increases granted to active members instead of COLAS.

# Fiscal Year 2004 Annual Report Summary and Schedules

As required by the Retirement Reform Act, the Board is pleased to provide participants and beneficiaries with the following summary report of activities and investment results for the fiscal year that ended on September 30, 2004. The detailed actuarial valuation and audited financial statements for the Funds for fiscal 2004 are posted to the Board's website at [www.dcrb.dc.gov](http://www.dcrb.dc.gov).

The Mission of the District of Columbia Retirement Board is to invest, control and manage the assets of the Teachers Retirement Fund and the Police Officers and Firefighters Retirement Fund in a fiscally sound manner in order to provide for the retirement benefits to which the District's teachers, police officers, and firefighters are entitled. In fiscal year 2004 (October 1, 2003 through September 30, 2004) the District of Columbia Retirement Board carried out its mission as follows:

## Investments

- Managed investment of the assets of the Teachers Retirement Fund and the Police Officers and Firefighters Retirement Fund to achieve a Total Fund return for the year of 11.9%

- Achieved a long term investment rate of return of 9.2% for the 10-year period ending September 30, 2004, exceeding its target actuarial rate of return of 7.25% by 195 basis points.

- Increased the Total Fund's assets to \$2.63 billion as of September 30, 2004, an increase of approximately 18% from the total asset value at the end of FY 2003.

- Recovered an additional \$420,000 through implementation of the Board's securities litigation policy.

- Conducted a quarterly review of all asset managers and undertook due diligence site visits to new and ongoing managers.

- Periodically rebalanced assets to remain within asset allocation targets.

- Continued to implement a diversified asset allocation plan by conducting searches and due diligence and selecting asset managers for allocations to private equity, an emerging manager fund of funds, core real estate, value real estate, small cap growth, small cap value, and mid cap growth investment categories.

- Conducted intensive Trustee education and staff development.

The Board's asset allocation targets remain the same as established in FY 2003 and are as follows:

U.S. Equities	40%
Fixed Income	25%
International Equities	20%
Private Equity	10%
Real Estate	5%

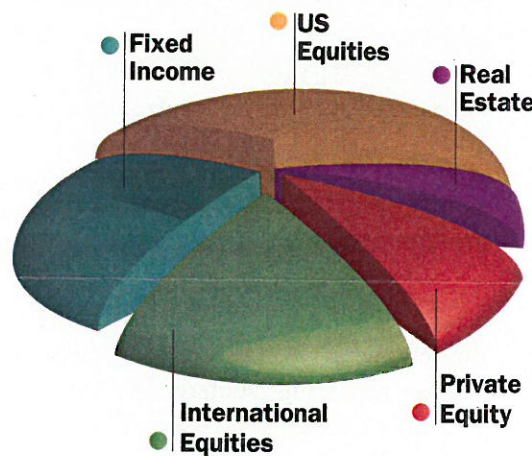
can be fully implemented during fiscal 2005. The Board also established a new Watch List Policy during FY 2004 in order to enhance its manager monitoring program for performance shortfall and organizational instability.

## Benefits and Members

Under the terms of the Revitalization Act of 1997, the US Treasury is responsible for payment of benefits earned before July 1, 1997 and the D.C. Retirement Funds support benefits earned after that date. In fiscal year 2004 the Board's share of benefits payments was \$16.5 million, consisting of \$8.6 million paid to retired teachers and their beneficiaries and \$7.9 million paid to retired police officers and firefighters and their beneficiaries, and US Treasury paid a total of \$462 million.

As of September 30, 2004 the number of active and retired members and beneficiaries for each plan are listed in the chart on the back page. The "District" column includes members who are both 100% a District responsibility and for whom the District and US Treasury share responsibility. The "Total" column adds in those for whom US Treasury has full responsibility.

## Strategic Asset Allocation



As of September 30, 2004, all asset classes were within their respective target allocation ranges, with the exception of private equity and real estate. Because of the time element involved in reaching full exposure to these two asset classes, U.S. public equities and fixed income will be used as proxies for exposure to private equity and real estate, respectively, until these strategies

## Planning for the Future

Beginning in October 2005 the District of Columbia Retirement Board will assume an additional responsibility, to administer the retirement benefits programs for the District's teachers, police officers and firefighters. This additional responsibility was established with the enactment by the DC Council of Title I B of the Fiscal Year 2005 Budget Support Emergency Act of 2004 and the Fiscal Year 2005 Budget Support Act of 2004 Act of 2004, entitled the Office of Financial Operations and Systems Reorganization Act of 2004. During 2004 the Board

undertook extensive strategic planning, in cooperation with the US Treasury Office of DC Pensions and the District's Office of Pay and Retirement Services, in preparation for a smooth transition to this new responsibility.

Initiatives undertaken during 2004 include:

- Analysis of the current concept of operations for benefits administration

- Review of best practices of other state and municipal retirement systems

- Development of an organizational and staffing design, position descriptions, and classification and compensation structure

- Analysis of physical facility needs and identification of an appropriate physical location to adequately accommodate the consolidated operations of the agency

- Adoption of a Memorandum of Understanding with US Treasury Office of DC Pensions for sharing of transition costs and development of a proposed cost

sharing methodology for future implementation phases

- Development of a proposed budget to support ongoing operations as well as potential improved customer services for active as well as retired members of the retirement programs.

Development of operational agreements with DC and federal agencies, identification of software and hardware needs, consultation with constituent organizations, and related tasks will continue into 2005.

**Financial Statements** The Board once again received a clean audit from its outside independent auditor for fiscal 2004. The following schedules show the audited fiscal 2004 financial statements compared with fiscal 2003.

**STATEMENTS OF NET ASSETS** as of September 30, 2004 and 2003 (\$000s)

	Teachers' Retirement Fund		Police Officers & Fire Fighters' Retirement Fund	
	2004	2003	2004	2003
<b>ASSETS</b>				
Investments & accrued interest	\$1,124,069	\$945,684	\$1,826,209	\$1,453,713
Benefit contributions receivable	1,816	1,548	1,564	1,312
Due from District	0	46	0	0
Total Assets	1,125,885	947,278	1,827,773	1,455,025
<b>LIABILITIES</b>				
Liabilities under securities lending transactions	122,064	66,667	199,633	102,367
Accounts payable - investment expenses	665	561	1,081	864
Due to Federal government	8,600	5,100	7,600	5,800
Due to District	267	292	433	449
Total liabilities	131,596	72,620	208,747	109,480
Net Assets Held in Trust for Pension Benefits	\$994,289	\$874,658	\$1,619,026	\$1,345,545

**STATEMENTS OF CHANGES IN NET ASSETS** Years Ended September 30, 2004 and 2003 (\$000s)

	Teachers' Retirement Fund		Police Officers & Fire Fighters' Retirement Fund	
	2004	2003	2004	2003
<b>Additions</b>				
Contributions:				
District	\$0	\$0	\$96,700	\$68,900
Employees	26,283	26,047	20,847	19,867
Total contributions	26,283	26,047	117,547	88,767
Investment income:				
Net appreciation (Depreciation) in fair value of investments	80,836	101,914	129,427	151,584
Interest and dividends, net of interest expense	24,546	21,375	40,013	32,209
Subtotal	105,382	123,289	169,440	183,793
Less:				
Investment expenses	2,492	1,963	4,066	3,003
Net investment income	102,890	121,326	165,374	180,790
Total Additions	129,173	147,373	282,921	269,557
<b>Deductions</b>				
Benefit Payments	8,600	5,100	7,903	6,091
Administrative expenses	942	978	1,537	1,501
Total Deductions	9,542	6,078	9,440	7,592
Net Increase (Decrease)	119,631	141,295	273,481	261,965
Net Assets Held in Trust for Pension Benefits:				
October 1	874,658	733,363	1,345,545	1,083,580
September 30	\$994,289	\$874,658	\$1,619,026	\$1,345,545

**Participants as of September 30, 2004**

Active Participants		Teachers		Police Officers		Fire Fighters	
Number		5,564		3,726		1,460	
Average Age		45.53		38.20		38.21	
Average Service		13.01		11.96		13.03	
Average Pay		\$60,587		\$56,952		\$58,185	
Inactive Participants							
Service Retired		District		Total*		District	
Number		1,639		4,802		489	
Average Age		62.33		71.04		53.72	
Average Benefit		\$5,273		\$35,497		\$5,996	
						\$43,228	
						\$8,006	
						\$50,762	
Beneficiaries		District		Total*		District	
Number		58		454		141	
Average Age		45.15		68.67		28.22	
Average Benefit		\$2,825		\$16,514		\$3,342	
						\$21,211	
						\$4,186	
						\$23,030	
Disabled		District		Total*		District	
Number		66		475		139	
Average Age		56.05		70.36		44.06	
Average Benefit		\$21,841		\$24,891		\$21,652	
						\$36,193	
						\$15,847	
						\$42,786	
Terminated Vested		District		Total*		District	
Number		166		191		0	
Average Age		49.57		48.34		N/A	
Average Benefit		\$6,045		\$16,168		N/A	
						\$31,590	
						N/A	
						\$14,734	

**Useful Numbers**

D. C. Public Schools  
Personnel Office **202-442-4080**

Metropolitan Police Department  
Personnel Office **202-727-4286**

Department of Fire and  
Emergency Medical Services  
Personnel Office **202-673-3335**

Office of Pay and Retirement  
Services **202-727-5851 or  
1-800-638-6182**

Office of D.C. Pensions,  
U.S. Treasury **202-622-0800**

**TRUSTEES**

Lyle Blanchard  
*Council Appointee*  
Barbara Davis Blum  
*Mayoral Appointee*  
Mary A. Collins  
*Elected Active Teacher*  
Shireen L. Dodson  
*Parliamentarian  
Council Appointee*

Brian K. Lee  
*Elected Active Firefighter*  
Judith C. Marcus  
*Secretary  
Elected Retired Teacher*  
Joan Parrott-Fonseca  
*Sergeant-at-Arms  
Mayoral Appointee*  
Darrick O. Ross  
*Chairman  
Elected Active Police Officer*

William H. Simons  
*Treasurer  
Mayoral Appointee*  
George R. Suter  
*Elected Retired Police Officer*  
Thomas N. Tippet  
*Elected Retired Firefighter*  
Michael J. Warren  
*Council Appointee*

**D.C. Retirement Board**

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Betty Ann Kane  
*Executive Director*

Annual Report to Members  
Inside DCRB Report this month:



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