



DCRB Report

FALL/WINTER 2003

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Resilient Strategy Yields Impressive Gains

Much like the period described in the classic Dickens novel *A Tale of Two Cities*, the American financial system is experiencing *the best of times and the worst of times*. According to third quarter (July-September) estimates released by the U.S. Bureau of Economic Analysis, a jump in real disposable income boosted consumer spending across the board, business investment stepped up, residential investment in single and multifamily construction posted its biggest increase in 11 years, exports and imports both contributed to an improved trade balance, and overall U.S. economic activity increased at an inflation-adjusted annual rate of 8.2 percent. In contrast to this good news, mounting securities fraud cases, escalating high profile money manager scandals, improper trading practices in the \$7 trillion U.S. mutual fund industry, and other alleged corporate malfeasance continues to dominate national headlines.

Chairman's Corner



Like the American economy, the D.C. Retirement Board's long-term investment strategy is remarkably resilient and firmly established on an upward path. As you will read in the *Investment News* section of this edition of the *DCRB Report*, the Board's investment strategy yielded impressive gains this year. In light of ongoing scandals that plague the financial markets however, the Retirement Board has continued to launch new offensive strategies that enhance our due diligence and monitoring efforts, and improvements in the rules of engagement for our money managers. While there is no fail-safe course of action to combat ethically deviant behavior, these new and improved strategies help the Board achieve its long-term investment objectives while providing additional protection for the funds that ensure a safe and sound retirement future for you.

Noteworthy events among Trustees and staff include the recent reappointment of Mayoral appointee **Barbara Davis Blum** to a second four year term. Ms. Blum has achieved praise and distinction in her role as Chairman of the Board's Investment Committee for the past 3 years. Congratulations are in order for Retired Firefighter **Michael J. McNally**, who was recently re-elected by his peers to a second four year term. As a demonstrably popular and dedicated executive officer of the Board, Mr. McNally, who currently serves as the Board's Secretary, was uncontested in his bid for reelection. On a solemn note, the Board offers sincere condolences to the family of former Trustee **William E. Better** who passed away in November. Mr. Better served with great commitment and devotion as a Council appointee from December 1996 to August 2001.

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.

At a Glance

The D.C. Retirement Funds support benefits earned on or after July 1, 1997. As of September 30, 2003 District of Columbia Retirement Funds provided retirement benefits for:

- 1,490 retired teachers and survivors
- 692 retired police officers and survivors
- 200 retired firefighters and survivors

Benefits earned before July 1, 1997 are funded by the US Treasury.





Investment News

The Police Officers and Firefighters' Retirement Fund and the Teachers Retirement Fund ("Total Fund") ended fiscal year 2003 on a very positive note. For the year ending September 30, 2003, the Total Fund earned 16.3%. This performance compares well to the Board's actuarial assumed rate of return of 7.25%. The actuarial assumed rate is the Board's target for long term investment results, and is calculated as the return which will keep the Funds fully funded.

As of September 30, 2003, the Total Fund's assets equaled \$2.23 billion, an increase of approximately 22% from the value of the Total Fund at the end of fiscal year 2002. Over the long-term, the Total Fund's performance has equaled that of the Total Fund Benchmark, with each returning an annualized 8.3% for the 10-year period ended September 30, 2003. Moreover, the Total Fund has exceeded the Board's actuarial assumed rate of return (7.25%) by approximately 100 basis points (or 1%) over this 10-year period.

The downturn in public equity markets that began in calendar 2000 reversed its course in 2003, as world stock markets rallied strongly. The Russell 3000 Index, a broad-based U.S. equity index, rose 25.9% during the period,

while the MSCI EAFE Index, representing non-U.S. equity markets, increased 26.0% during the 12-month period ended September 30, 2003. However, private equity investments continued to struggle, as the Cambridge Private Equity Index fell 4.3%.



The Total Fund ended fiscal year 2003 on a very positive note.

The recent stock market rally ended one of the worst bear markets in U.S. history, as the S&P 500 Index had declined 43.7% (cumulative) from April 2000 through September 2002. Despite declining for three straight years during this period, the U.S. public equity market, as represented by the Russell 3000 Index, increased an annualized 9.8% for the 10-year period ended September 30, 2003.

The fixed income segment continued to post positive returns

(9.1%) in fiscal year 2003, although the performance of the segment was overshadowed by the superior performance of the U.S. and international equity segments. Fixed income investments generally were aided by the continued low interest rate environment, and the Board's fixed income managers were able to add value through sector and security selection.

As of September 30, 2003, 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 can be fully implemented.

Going forward, the Board intends during fiscal year 2004 to conduct manager searches within the private equity and real estate segments in order to continue the implementation of the Board's strategic asset allocation policy. In addition, the Board plans to review the investment structure of the U.S. public equities segment and to conduct manager searches as appropriate in order to enhance the performance of the Total Fund.

FUNDING FACTS

The District's fiscal year 2004 contribution of \$96.2 million was timely received on October 31, deposited in the Police Officers' and Firefighters Retirement Fund, and was immediately put to work earning investment returns. The District contribution for fiscal year 2004 was calculated at 33.6% of payroll for Police Officers and 35.3% of payroll for Firefighters. While no contribution was required for the Teachers Fund in 2004, a contribution is expected for 2005. The amount of the required District contribution is based on an annual actuarial study that also takes into account the 7% or 8% of salary contributed by employees and the investment earnings of the Funds.

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

Congress Enacts Law Fixing Post 1956 Military Service Social Security Offset

The US Congress has enacted legislation which will allow District police officers and firefighters whose retirement annuity includes credit for military service performed after 1956 to have the option of avoiding a reduction in benefits payments when they reach eligibility for Social Security retirement. The District of Columbia Military Retirement Equity Act, Public Law 108-133, was signed by the President and became law on November 22, 2003.

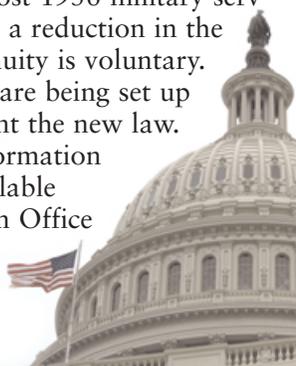
The Police Officers' and Firefighters' Retirement Plan allows members, who were not eligible for Social Security monthly old age benefits on their date of retirement, to count their military service performed after December 31, 1956 (post-1956 military service) as creditable service for benefit purposes. Members do not have to make contributions to the Plan to receive credit for military service. However, because post-1956 military service was subject to Social Security withholding, creditable service under the Plan must be recalculated to exclude post-1956 military service for retirees who: reach Social Security full retirement age (65+, depending on date of birth), are eligible for monthly old age Social Security benefits, and whose initial Plan benefit determination included credit for post-1956 military service.

In essence the 1956 law shifts

credit for the years of military service out of the DC annuity and onto the member's social security benefit, resulting in a reduction in the retired members' annuity when he or she reaches full Social Security retirement age.

The new law gives a member the option of avoiding this reduction by making a payment equal to 7% of basic military pay for the years of credited military service performed through November 1996, and a payment of 7% or 8% of basic military pay for credited military service performed after November 1996, depending on which tier the member is in. The effect of the law is retroactive. Current retired or active members may purchase credit for post-1956 military service interest-free until October 1, 2006. Newly hired police officers and firefighters will have two years from date of hire to purchase credit for military service interest free. After that interest will be charged at the rate earned by the Fund.

Participation in the purchase of credit for post 1956 military service to avoid a reduction in the District annuity is voluntary. Procedures are being set up to implement the new law. Further information will be available shortly from Office of Pay and Retirement Services.



A Message from the US Treasury, Office of DC Pensions:

New Pension and Payroll System for Retirees Goes Live

On October 1, 2003, the System to Administer Retirement (STAR) produced its first payments for annuitants covered by the District's police officers', firefighters' and teachers' retirement plans who retired on or before June 30, 1997. This achievement marks the completion of the second phase of a multi-phased project to implement a new pension and payroll system to support all annuitants in D.C.'s police officers', firefighters', teachers', and judges' retirement plans. STAR Release 1, implemented in December 2002, provided these services to the retired judges. STAR Release 2 expands coverage to approximately 11,000 police officers, firefighters, and teachers who retired on or before June 30, 1997. Future releases will bring the remainder of the retired police officers, firefighters, and teachers onto STAR.

Benefits of the new STAR system include:

- Quick access by examiners to information that allows for real-time annuitant customer service
- Automated determination of eligibility, calculation of pension benefits, and delivery of annuitant payments
- State-of-the art processing of annuitant pension, health elections, and other deductions

The District's Office of Pay and Retirement Services will continue to provide pension and payroll services to the annuitants covered by the police officers', firefighters' and teachers' retirement plans.

For Your Information

Updated summary plan descriptions ("SPDs") describing retirement plan benefits for teachers, police officers and firefighters were mailed to all active and retired members in the fall of 2002. New employees should receive a copy from their respective personnel office. If you need a copy, please contact your personnel office or the Board. Complete SPDs are also available on the Board's website, at www.dcrb.dc.gov.

Endnotes

A Reminder Regarding Portability of Retirement Plan Distributions

The D.C. Council has enacted legislation requested by the Board which allows the Retirement Plans for the District's police officers, firefighters and teachers to accept direct transfers or rollovers of funds from other qualified retirement plans, such as a 457 or 403(b) deferred compensation plan, a 401(k) plan, or a teacher or public safety retirement fund in another jurisdiction. Transfers and rollovers of distributions from other retirement plans can be used to purchase credit for prior service

where it is allowed under the District's plans. The new law implements authority to use the portability provisions of the federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and conforms to Internal Revenue Service requirements. Contact the Office of Pay and Retirement Services for details on how to take advantage of the rollover provisions.

Board Chairman Honored by Securities Professionals

Mary A. Collins, Chairman of the DC Retirement Board, was honored in November by the Nation-

al Association of Securities Professionals (NASP) as the 2003 "Trustee of the Year" for exhibiting exemplary execution of her fiduciary duties in the financial industry. Ms. Collins is also the 2003 recipient of the "Joyce Johnson Award" presented by NASP, which is given to those individuals whose best efforts exemplify the advancement of the ideals and principles of NASP. The mission of NASP is to expand the presence and influence of women and minorities in the securities industry. Ms. Collins was also recently elected to the Board of Directors of the Council of Institutional Investors, an organization of public, labor and corporate pensions funds.

TRUSTEES

Mary A. Collins
Chairman
Elected Active Teacher

Lyle Blanchard
Council Appointee

Barbara Davis Blum
Mayoral Appointee

Shireen L. Dodson
Treasurer
Council Appointee

Brian K. Lee
Parliamentarian
Elected Active Firefighter

Judith C. Marcus
Elected Retired Teacher

Michael J. McNally
Secretary
Elected Retired Firefighter

Joan Parrott-Fonseca
Mayoral Appointee

Darrick O. Ross
Elected Active Police Officer

William H. Simons
Mayoral Appointee

George R. Suter
Sergeant-At-Arms
Elected Retired Police Officer

[Vacant]
Council Appointee

N. Anthony Calhoun
Ex Officio, Non-Voting

STAFF

Betty Ann Kane
Executive Director

William Carr
Investment Analyst

Bruce Gamble
General Counsel

Florence Jones
Investment Assistant

Sheila Morgan-Johnson
Chief Investment Officer

Wendy Newkirk
Executive Assistant

Rhonda O'Neal
Senior Accountant

Denice Patterson
Receptionist

Michael Slavin
Director of Operations

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Accounting Technician

Valerie Wilkins
Office Manager

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Update on Benefit Changes
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