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VIA EMAIL AND USPS

September 6, 2007

Ms. Julie Wyne
Interim CEO/General Counsel
Orange County Employees Retirement System
2223 Wellington Avenue
Santa Ana, California 92701-3101

Re: Past Service Liabilities for the 3% at 50 Benefit Improvement for Law Enforcement

Dear Julie:

You have asked us to evaluate the liability impact of the past service portion (i.e., pre June 28, 2002) of the 3% at 50 Law Enforcement benefit improvement granted in 2002. The total actuarial accrued liability (AAL) impact, measured based on the October 1, 2007 date requested by OCERS, amounts to about \$187 million under the Entry Age Normal Method. Details on the estimated AAL impact by retired and active plus deferred vested membership status as of December 31, 2006 are provided later in this letter.

As part of this study, we were asked to verify whether the retirement age assumptions used in the calculation of the current employer contribution rates include the impact of earlier retirements of Law Enforcement members that are likely to occur as a result of the benefit increase. After reviewing the available experience, we have concluded that the retirement age assumptions used by Segal in the December 31, 2006 valuation are reasonably reflective of the post-improvement retirement experience of the Law Enforcement members. We provide the details later in this letter.

Results and Discussions

There are a few points worthy of mention regarding the above two results:

- The AAL of about \$187 million reflects the impact of the retroactive portion of the increase calculated based on the retirement age assumptions used by Segal in the December 31, 2006 valuation. If the past service portion of the 3% at 50 benefit were to be reduced back to the 2% at 50 pre-improvement level, members might not retire as early as predicted by the current retirement age assumptions used in the December 31, 2006 valuation. The AAL of \$187 million does not include any impact that receiving the past service portion might have on future retirement age patterns.

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- The AAL of \$187 million also does not take into account the higher benefit payments that have been paid by OCERS from the date of the benefit improvement on June 28, 2002 to the date of this calculation as of October 1, 2007.
- Some contributions would have been made since the 2002-2003 fiscal year to pay off part of the cost of the past service improvement; however, just as we have not calculated the benefit payments made by OCERS on the past service improvement from June 28, 2002, we have also not determined how much of the AAL is remaining unfunded as of October 1, 2007.
- In the original 2000 study of the 3% at 50 benefit improvement completed by OCERS' prior actuary, they included two alternative sets of retirement age assumptions to anticipate earlier retirements under the 3% at 50 benefit. The first set of alternative assumptions predicted earlier retirements at every age when compared to the then-current retirement age assumptions. The second set of alternative assumptions assumed an acceleration of retirements through about age 54.

The Segal assumptions used in the December 31, 2006 valuation and applied in this study are somewhat in between the then-current assumptions and either of the prior actuary's alternative assumptions at 50 and 51 but higher than either of the prior actuary's alternative assumptions at most other ages.

Liability Calculation

The following table provides a breakdown of the past service portion of the 3% at 50 improvement for Law Enforcement members measured as of October 1, 2007.

For this table, the liability is broken down by membership status as of December 31, 2006. For instance, the past service portion of the liability for a member who has retired since January 1, 2007 is included under the "Active and Deferred Vested" membership category. For members in the "Retiree" category, we have included the past service liability for all service retirements from June 28, 2002 plus those disability retirements indicated by the System as those whose benefits determined under the service retirement formula are greater than the disability retirement formula (e.g., 50% of final average salary for duty disability).

Also, this calculation is based on the same actuarial assumptions and demographic data used in preparing the December 31, 2006 actuarial valuation, except we have supplemented the data with the amount of past service that the Law Enforcement members have accrued under the 2% at 50 formula. Due to the lack of past service data for deferred vested members, we have estimated the liability for deferred vested members based on information provided for the December 31, 2006 valuation.

Membership Type	Past Service Liability for Service Before June 28, 2002 Determined As of October 1, 2007
Active and Deferred Vested	\$120 million
Retiree	\$67 million

Review of Retirement Experience

We have reviewed the retirement age assumptions by examining the number of Law Enforcement member retirements over the 2003 to 2006 calendar years. Experience for the 2002 calendar year (the first year the improvement was adopted for Law Enforcement) was not included to avoid reflecting the surge in retirements caused by members who may have delayed retiring in previous years in anticipation of the upcoming improvement. Following are the actual versus expected retirements for the four calendar years. Expected retirements are based on the same retirement age assumptions Segal used in the December 31, 2006 valuation.

Calendar Year	Actual Law Enforcement Retirements	Expected Law Enforcement Retirements
2003	46	43
2004	60	44
2005	28	42
2006	39	47
Total	173	176

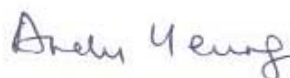
Based on these results, our conclusion is that the current Segal retirement assumptions reasonably anticipate future retirement experience under the 3% at 50 formula for Law Enforcement members. The retirement age assumptions will be reviewed in more detail at our December 31, 2007 triennial experience study.

Please let us know if you need any additional information.

Sincerely,



Paul Angelo, FSA, EA, MAAA, FSA
 Senior Vice President and Actuary



Andy Yeung, ASA, EA, MAAA
 Vice President and Associate Actuary

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