



RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1994



ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
ORANGE COUNTY, CALIFORNIA

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

**COMPREHENSIVE
ANNUAL
FINANCIAL REPORT**

FOR THE YEAR ENDED DECEMBER 31, 1994

Mary-Jean Hackwood
Administrator

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I. INTRODUCTORY SECTION



LETTER OF TRANSMITTAL



June 30, 1995

Board of Retirement
Orange County Employees Retirement System
2942 Daimler Street
Santa Ana, CA 92705

Dear Board Members:

This comprehensive annual financial report for the calendar year ending December 31, 1994, marks the 50th year that the Orange County Employees Retirement System (OCERS) has served employees.

In recognition of this anniversary year, the report contains a brief history of OCERS, including a chronology of key dates and benefit enhancements. The report also includes actuarial, statistical, and related information, as well as the required financial statements that have been prepared in accordance with the County Employees Retirement Law of 1937 and generally accepted accounting principles and reporting guidelines for government entities. The financial statements have been audited by Ernst & Young LLP, independent accountants. Management believes that the internal accounting control structure is adequate and that the accompanying statements, schedules, and tables are fairly presented.

The past year has been a challenging one for OCERS. The California economy — in particular, the Southern California economy — remains in a recession, although the outlook is generally positive. Investment performance was threatened by the volatility in international and domestic stock markets, increases in interest rates that affected the bond market, and repercussions from the County's bankruptcy, which was declared on December 6, 1994. At that point, OCERS had \$130 million invested in the Orange County Investment Pool (OCIP) which was managed by the Treasurer's Office. The bankruptcy resulted in a writedown of these assets and confusion about OCERS' relationship with the County, which led to a temporary loss of confidence on the part of securities lending agents. To combat this and other related concerns, in accordance with California law, OCERS confirmed its independence from the County in a resolution adopted in February 1995.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM • 2942 DAIMLER STREET, SANTA ANA, CA 92705
TELEPHONE 714 975-1962 • FAX 714 975-8413

LETTER OF TRANSMITTAL (continued)

Board of Retirement
June 30, 1995
Page 2

Despite this challenging environment, OCERS' investments turned in a solid performance. The assets grew from \$2.226 billion to \$2.498 billion. Most of OCERS' investments matched or outperformed the investments of other comparable public pension plans. OCERS' investment performance for calendar year 1994 was (2.29%). Approximately (1.25%) of the loss was due to the decrease in value suffered in the writedown of the OCIP assets. Over the 10-year period which ended December 31, 1994, the OCERS' portfolio earned an annualized return of 10.63%, which significantly exceeds the actuarially assumed return of 8%.

The fund received a total of \$488.4 million of which \$369.4 million was from net employer contributions, \$47.4 million was from employee contributions, and \$71.6 million was from investment income. This represents a 262% increase from 1993, largely due to the County funding its portion of the Unfunded Actuarial Accrued Liability offset by a decrease in investment income. Paid benefits and expenses equalled \$91.5 million, excluding investment manager fees. The benefit payments (\$79.9 million), refunds (\$7.4 million), and expenses (\$4.1 million) have steadily increased over time. A detailed presentation of revenues and expenses over the past 10 years is on page 46, Revenues by Source and Expenses by Type.

As of December 31, 1994, the Retirement System was 112.8% funded, with a Pension Benefit Obligation of \$2,214,161,000 and an Unfunded Actuarial Accrued Liability (UAAL) of \$372,386,000. The 1994 investment performance affected both the assets available for benefits and the progress towards achieving the funding levels. Management, however, is confident the funding levels will be met on a timely basis.

I want to be sure that the accomplishments of 1994 are not overshadowed by other events, so I have highlighted some of OCERS' successes below:

- As mentioned above, the funded status of OCERS improved significantly due to the County's contribution of \$318.3 million to fund its portion of the Unfunded Actuarial Accrued Liability. This payoff of the UAAL will result in lower County employer contributions in the future. This improved funded status has been only marginally threatened by the County bankruptcy.

LETTER OF TRANSMITTAL (continued)

Board of Retirement
June 30, 1995
Page 3

- Boatmen's Trust Company, master custodian for OCERS, replaced the County as paying agent, improving the confidence level of pension recipients, securities lending agents and other entities.
- OCERS' retired membership increased from 5,524 to 5,816; the active membership increased from 19,073 to 19,589; and the deferred membership increased from 903 to 908.
- The average monthly pension payment per member rose from \$1,047 to \$1,112.
- The number of retirees who had their pension checks electronically transferred into their bank accounts (which reduces OCERS' administrative cost and liability) increased from 40% to 56% during 1994.
- Communication to members was expanded this year through quarterly newsletters, 10 comprehensive pre-retirement seminars, and the addition of more information to annual benefits statements.
- OCERS issued its first annual report.

I would like to thank each member for their confidence in OCERS during the past year. Also, I want to thank the Board of Retirement, consultants and lawyers, and the entire staff for their commitment to OCERS throughout the year and for their efforts on this comprehensive annual financial report.

Sincerely,


Mary-Jean Hackwood
Administrator

**MEMBERS OF THE BOARD OF RETIREMENT
AS OF DECEMBER 31, 1994**

Regular Members:

Mary K. Abbott	Elected Member - General Orange County Employees Retirement System Term expires December 30, 1997
Michael J. Carmody	Elected Member - Safety Fire Department Term Expires June 30, 1997
Robert L. Citron	Ex-Officio Member County Treasurer
Keith L. Concannon	Elected Member - Retired Employees Vice Chairperson Term expires December 30, 1995
Thomas J. Lightvoet	Appointed Member Appointed by Board of Supervisors Term expires May 1, 1995
Mark L. Moehlman	Appointed Member Appointed by Board of Supervisors Term expires January 25, 1996
Robert A. Oman	Appointed Member Appointed by Board of Supervisors Term expires November 4, 1994
Sara E. Ruckle	Elected Member - General District Attorney Office Term expires December 30, 1995
Robert E. Thomas	Appointed Member Chairperson 1994 Appointed by Board of Supervisors Term expires September 13, 1996

Alternate Members:

Thomas N. Fox	Alternate for Safety Members (Alternate for all elected members) Elected by Safety Members (Sheriff) Term expires June 30, 1997
Matthew R. Raabe	Alternate for Ex-Officio Member Treasurer's Office

SUMMARY OF PLAN PROVISIONS

1. Plan Description and History

OCERS was established in 1945 by the Board of Supervisors under the provisions of the County Employees Retirement Law of 1937, and provides members with retirement, death, disability, and cost-of-living benefits. It is a cost-sharing, multiple-employer defined benefit pension plan governed by a nine-member Board of Retirement.

Members employed prior to September 21, 1979, are designated as Tier I members. The Board of Supervisors amended the plan by adopting certain sections of the Government Code for members entering the plan after September 20, 1979, who are designated as Tier II members. All regular full-time employees or part-time employees, scheduled to work 20 hours or more per week for the County or other participating employers become members of the plan upon employment.

2. Monthly Salary Base for Benefits

Highest one-year average for Tier I members; three-year average for Tier II members.

3. Service Retirement

A. Eligibility

10 years of service and age 50, or 30 years of service any age (20 years for safety members); age 70 with any service.

B. Benefit Formula per Year of Service

Tier I: $1/50 \times \text{Final Average Monthly Compensation} \times \text{Years of Service Credit} \times \text{Factor Based on Age at Retirement} = \text{Monthly Allowance}$.

Tier II: $1/60 \times \text{Final Average Monthly Compensation} \times \text{Years of Service Credit} \times \text{Factor Based on Age at Retirement} = \text{Monthly Allowance}$.

4. Non-Service Connected Disability

A. Eligibility

Five years of service.

B. Benefit Formula per Year of Service

Tier I: 1.8% x Years of Service Credit x Final Average Monthly Compensation. (If benefit is less than 1/3 of final average monthly compensation, years of service credit to age 62 can be added in order to pay up to a maximum of one-third of final average monthly compensation.)

Tier II: 1.5% x Years of Service Credit x Final Average Monthly Compensation. (If benefit is less than 1/3 of final average monthly compensation, years of service credit to age 65 can be added in order to pay up to a maximum of one-third of final average monthly compensation.)

5. Service Connected Disability

A. Eligibility

No age or service requirement.

B. Benefit

50% of final average monthly compensation.

6. Active Member Death Before Completion of Five Years of Service

Refund of employee contributions with interest plus one months' salary for each year of service to a maximum of six month's salary.

7. Active Member Death After Completion of at Least Five Years of Service

Qualified Surviving Spouse, or child, has the following options:

A. Refund of employee contributions with interest plus one month's salary for each year of service to a maximum of six months' salary; or

B. 60% of earned benefit payable to surviving eligible spouse; or

C. Combined benefit equal to a lump-sum payment plus a reduced monthly allowance.

If no eligible spouse or child exists, the named beneficiary receives refund of employee contributions with interest plus one month's salary for each year of service to a maximum of six months' salary.

8. Service-Connected Death

50% of final average monthly compensation payable to qualified spouse, or eligible child (if no qualified spouse).

9. **Death After Retirement**

A. **Non-Service Connected Disability Retirement**

60% of member's unmodified allowance continued to eligible spouse. (Member may elect a modified allowance at time of retirement.)

B. **Service-Connected Disability Retirement**

100% of member's allowance continued to eligible spouse or eligible child.

C. **\$1,000 Burial Benefit**

Payable to named beneficiary following death of original retiree.

10. **Withdrawal Benefits**

A. **Less than Five Years of Service**

Refund of accumulated employee contributions with interest.

B. **Five or More Years of Service**

If contributions are left on deposit, the member is entitled to the earned vested benefits commencing at any time after member would have been eligible to retire.

11. **Post-Retirement Cost-of-Living Benefits**

Based on changes in Consumer Price Index to a maximum of 3% per year; percentage in excess of 3% is "banked" for future increases.

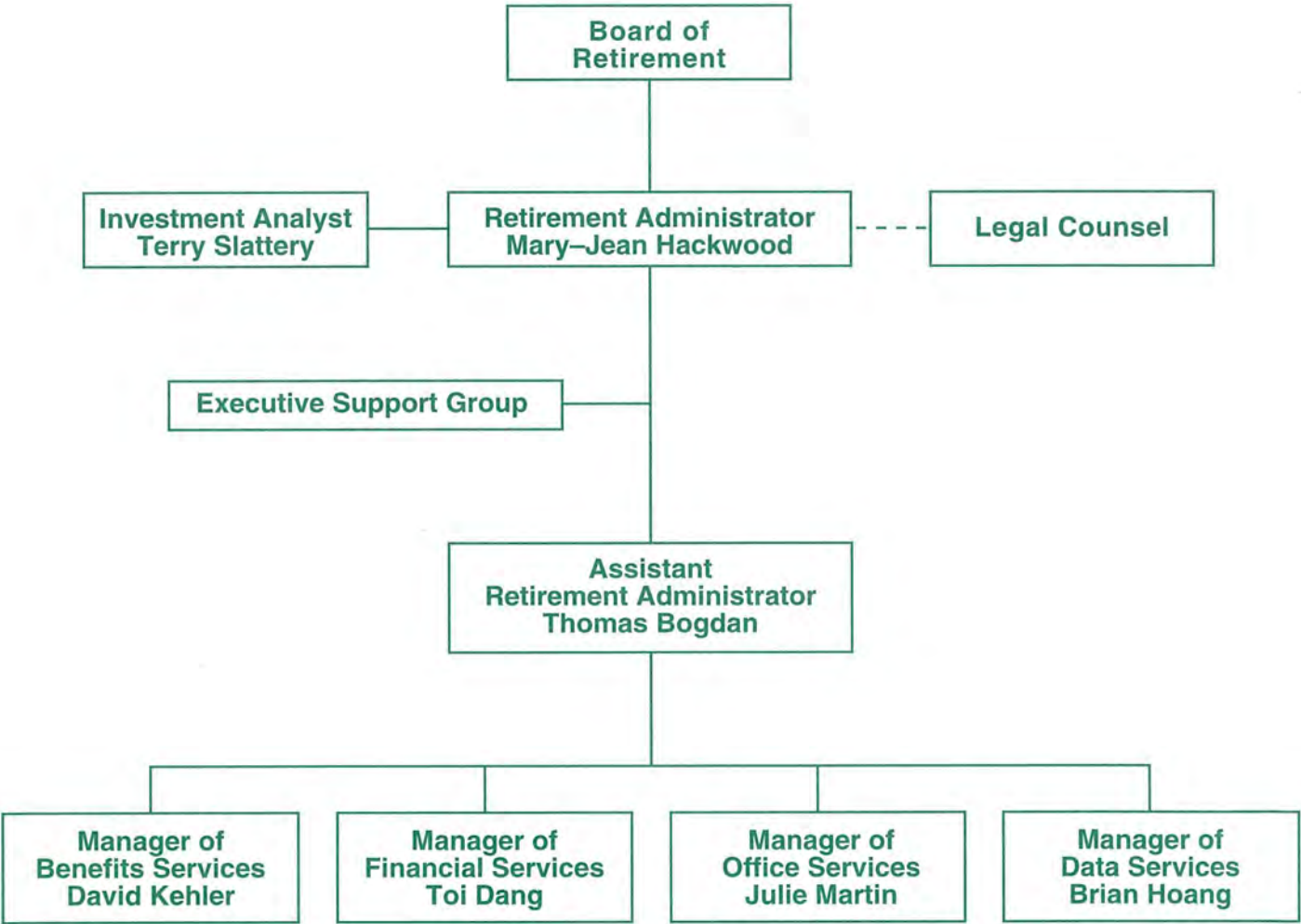
12. **County Contributions**

Determined by Projected Unit Credit funding method with a 30-year declining period amortization of Unfunded Actuarial Accrued Liability.

13. **Member Contributions - Tier I (Tier II in parentheses)**

Normal based on entry age, 1/200 (1/120) at 60 for General Members; 1/200 (1/100) at 50 for Safety Members. Cost-of-living contributions equal to percentage of normal: 45.51% (25.89%) of General; 78.67% (39.55%) of Safety.

ORGANIZATION CHART



ORGANIZATION OF OCERS

EXECUTIVE: The Executive Section is responsible for the administration of the Orange County Employees Retirement System, including the management of the investment program, in accordance with the policies, regulations, and general guidelines of the Board of Retirement. It is also responsible for the interface with investment managers, the investment consultant, the actuary, legal counsel, and the County, as well as any other consultants authorized by the Board.

BENEFITS: This Section is responsible for providing all benefit services to the members of the System. This includes benefit calculations, investigation of claims for disability retirement, preparation of data to support applications for retirement, preparation of the retiree payroll, and membership counseling.

ACCOUNTING: This Section is responsible for all of the financial records and reports including financial statements, control and balancing of payroll and members' contributions and reconciliation of investments. The Accounting Division also interfaces with the County Auditor-Controller and Treasurer's Office.

DATA SERVICES: Utilizing the HP 3000/937, this Section provides all of the computer and technical support for OCERS including production of the retiree payroll and Electronic Fund Transfer tapes.

OFFICE SERVICES: This Section is responsible for providing administrative and clerical support services for OCERS, as well as for the maintenance of membership records of all OCERS members. In addition, Office Services is responsible for purchasing, building management, and for the internal payroll and personnel functions of OCERS.

LEGAL: This Section is responsible for providing legal advice to the Board of Retirement, Administrator, and staff in order to ensure compliance with all local, state and federal laws governing investments, operating procedures, and personnel issues. This Section also represents OCERS in all legal proceedings. A Deputy County Counsel is responsible for this Section.

HISTORY OF OCERS

Serving Orange County Employees for Fifty Years

For the past 50 years, the Orange County Employees Retirement System (OCERS) has been providing retirement, death, disability, and cost-of-living benefits to employees of the County and certain districts. During that time, OCERS' membership has increased from less than 1,000 members in 1945 to 20,497 active and deferred members and 5,817 retired members as of December 31, 1994. Estimated employee and employer contributions were set at \$7,000 per month in 1945 (about \$84,000 a year), but now total about \$90 million per year.

OCERS' origins actually date back to the fall of 1944 when the Orange County Board of Supervisors called for the submission of a proposition to the people of Orange County. This proposition requested that the County accept the provisions of the County Employees Retirement Act of 1937. This proposition was approved by a majority of voters at the November 7, 1944, General Election, and as a result, OCERS was officially established on January 1, 1945.

Upon OCERS' creation, a Retirement Board consisting of five members (the County Treasurer, two active elected members, and two qualified electors of the County) was established to govern the plan. Today, there are nine Retirement Board members and an alternate.

Relationship to the County

During its 50-year history, OCERS has worked to define its changing relationship with Orange County. The Retirement System employees were considered part of the County Treasurer's Office from 1945 until 1973, when provisions were added to the Government Code to charge administrative costs for the Retirement System to the Retirement System's earnings. Employees of the Retirement Office continued to be considered Treasurer's Office employees, however, until February 1, 1989, when the Retirement System was established as a department separate from the Treasurer's Office. Since that time, the Administrator has reported only to the Retirement Board.

The next step was for OCERS to work toward complete separation from Orange County. The stage was set for this separation in 1992 when the California Pension Protection Act (Proposition 162) was passed. This act established that the Retirement Board had "plenary authority and fiduciary responsibility for investment of monies and administration of the system." Complete separation was finally declared by a Retirement Board Resolution in February 1995.

Membership

Membership requirements for OCERS have experienced significant change over the years. Existing officers and County employees became members of OCERS on the date the Retirement System began. After that, employees became members on the first of the month following the date they became regular employees. In 1967, the date of membership changed to the date the employee was hired in an eligible position. Part-time employees, who had been excluded from membership initially, were allowed to join the Retirement System provided they worked half-time or more. Outside public districts located within the county were allowed to join the Retirement System with the approval of the Retirement Board.

All members were initially considered general members. This changed on July 1, 1962, when active law enforcement members were classified as Safety Members and given different benefits with different retirement requirements. Job classifications considered to be Safety Members are defined by Retirement Law and the Board of Retirement.

Benefits and Contributions

The benefits offered to OCERS' members have changed over time as well. Generally, benefits are set by the Board of Supervisors in accordance with the California Government Code. In 1945, the benefit in effect was a "money purchase plan," which provided a benefit determined by the member's age at retirement and the total amount contributed, plus accumulated interest. The benefit changed to a "defined benefit plan" on June 1, 1962, and the benefit payable was determined by the member's age and one-sixtieth of his or her highest three-year average salary for each year of service. It also allowed a continuance to a spouse under the most valuable option. The benefit increased on July 3, 1973, to one-fiftieth of the member's highest one-year average salary, then was reduced on September 21, 1979, to one-sixtieth of the member's highest three-year average salary for those hired on or after that date (called Tier II members). These are the benefit formulas that remain in effect today.

To retire in 1945, members needed to be age 55 or older and have 10 or more years of service (service before January 1, 1945, counted). Members could retire after 30 years of service at any age or at 70 with no minimum service requirement. After 1962, Safety Members could retire at or after age 55 with 10 or more years of service or after 30 years of service regardless of age. For general members, mandatory retirement age was 70, while for Safety Members, it was age 60. The mandatory retirement age for General Members was lowered to 67 in the 1970s, then raised to 70, and finally repealed in 1983. Effective July 7, 1971, the minimum age to retire was lowered to age 50 and the average salary was changed to a one-year average for both General and Safety members. As of January 1, 1975, Safety Members were able to retire after 20 years of service, regardless of age.

In 1945 member contributions were determined by the member's age when they joined the Retirement System. Different rates were set by the actuary based on age and sex. Female members paid slightly higher rates; however, women's slightly higher age factors resulted in slightly higher benefits. Effective December 30, 1976, rates were standardized to equal rates for men and women. Contribution rates for Tier I, Tier II, General and Safety Members differ and are set by the Board of Retirement based upon provisions of the 1937 Act and actuarial data.

Conclusion

Throughout all these changes over the past 50 years, OCERS has remained committed to fulfilling its fiduciary responsibility for the assets and administration of the System in a manner that assures prompt delivery of benefits and related services to the participants and their beneficiaries.

Historical Timeline

Fall of 1944	Orange County Board of Supervisors calls for the submission of a proposition to the people of Orange County to accept provisions of the County Employees Retirement Act of 1937.
November 7, 1944	Proposition to accept provisions of the County Employees Retirement Act of 1937 approved by majority of voters in a General Election
January 1, 1945	OCERS is established with less than 1,000 General Members and five Retirement Board Members
June 1, 1962	Benefit changes from a money-purchase plan to a defined benefit plan
July 1, 1962	Safety Members are distinguished from General Members, and the Retirement Board increases to seven members
April 1973	Retirement Board increases to nine members
September 21, 1979	Members hired on or after this date earn lesser benefits and are designated as Tier II members
February 1, 1989	Board of Supervisors allows the Retirement Office to be a separate department from the Treasurer's Office
November 1992	The California Pension Protection Act of 1992 (Proposition 162) grants the Retirement Board "plenary authority and fiduciary responsibility for investment of monies and administration of the System"
February 1995	The Retirement Board declares itself to be a separate entity from the County in accordance with California law

Retirement Then and Now...

Requirements to retire have changed as follows:

<u>1945</u>	<u>1971</u>	<u>1975 (Safety)</u>
10 or more years of service and age 55 or more, or	10 or more years of service and age 50 or more, or	20 years of service and no age requirement
30 years of service at any age, or	30 years at any age, or	
age 70 with no minimum service requirement	mandatory age 60 (Safety)	

PROFESSIONAL SERVICES

CONSULTING SERVICES

ACTUARY

Towers Perrin

Timothy J. Marnell, ASA (M.A.A.A.)
Chicago, IL

INVESTMENT CONSULTANT

Callan Associates, Inc.

Michael J. O'Leary, Jr., CFA
Denver, CO

INDEPENDENT AUDITOR

Ernst & Young LLP (1994)

Riverside, CA

Orange County Auditor-Controller(1993)

Steven E. Lewis
Santa Ana, CA

LEGAL COUNSEL

County Counsel of Orange County

Santa Ana, CA

Bankruptcy Counsel

Katz, Hoyt, Seigel & Kapor

Los Angeles, CA

Fiduciary Counsel

Fatica, Boutwell & Behrendt

Irvine, CA

Independent Counsel

Steeffel, Levitt & Weiss

San Francisco, CA

Investment Counsel

Stradling, Yocca, Carlson & Rauth

Newport Beach, CA

INVESTMENT MANAGERS

DOMESTIC EQUITY

Amerindo Investment Advisors, Inc.

San Francisco, CA

Columbus Circle Investors

Stamford, CT

D.S. Kennedy & Co.

San Francisco, CA
(terminated 12/31/94)

Delaware Investment Advisers

Philadelphia, PA

Husic Capital Management

San Francisco, CA

Invesco Capital Management, Inc.

Atlanta, GA

Nelson, Benson & Zellmer, Inc.

Denver, CO

SunBank Capital Management, N.A.

Orlando, FL

Wells Fargo Nikko Investment Advisors

San Francisco, CA

GLOBAL FIXED INCOME

The Boston Company Asset Management, Inc.

Boston, MA

Delaware International Advisers, Ltd.

London, England

Kennedy Associates, Inc.

Seattle, WA

LaSalle Street Capital Management, Ltd.

Chicago, IL

Loomis, Sayles & Company

Boston, MA

Pacific Investment Management Company

Newport Beach, CA

INTERNATIONAL EQUITY

Capital Guardian Trust Company

Los Angeles, CA

PROFESSIONAL SERVICES (Continued)

INVESTMENT MANAGERS (Cont.)

Capital Guardian International, Inc.
Emerging Markets Growth Fund
Los Angeles, CA

**Schroder Capital Management
International**
London, England

**Schroder Capital Management
International**
Emerging Market Fund
London, England

REAL ESTATE

Domestic
American Realty Advisors
Glendale, CA

DA Management
Newport Beach, CA

Heitman/JMB Advisory Corporation
Chicago, IL

**Metric Institutional Realty
Advisors, LP**
Metric Apartment Co-Investment Trust
San Francisco, CA

PMRealty Advisors
PMRA III
Newport Beach, CA

Sentinel Real Estate Corporation
Sentinel Realty Partners II
New York, NY

International
GIM Capital Management, Inc.
Summit, NJ

**PRICOA Property Investment
Management, Ltd.**
London, England

Timberland
Hancock Timber Resource Group
Forestry 2 Fund
Forestry III Fund
Boston, MA

Prudential Timber Investments, Inc.
PruTimber Fund I, LP
PruTimber Fund II, LP
Boston, MA

NON-TRADITIONAL INVESTMENTS

Managers
Brinson Partners, Inc.
Chicago, IL

Hancock Venture Partners, Inc.
John Hancock Venture Capital LP II
John Hancock Venture Capital LP III
John Hancock Venture Capital LP IV
Hancock International Private
Equity Partners LP
Boston, MA

Limited Partnerships
American Industrial Partners
American Industrial Partners Capital
Fund, LP
American Industrial Partners Capital
Fund II, LP
San Francisco, CA

Castle Harlan, Inc.
Castle Harlan Partners II, LP
New York, NY

Energy Investors Fund
Energy Investors Fund II, LP
Mill Valley, CA

First Reserve Corporation
First Reserve Fund VI
Greenwich, CT

PROFESSIONAL SERVICES (Continued)

INVESTMENT MANAGERS (Cont.)

The Gordon + Morris Group

Gordon + Morris Investment
Partnership, LP
Newport Beach, CA

IMR General, Inc.

IMR Fund, LP
Minneapolis, MN

Prudential Equity Investors, Inc.

Prudential Private Equity Investors
III, LP
New York, NY

Schroder Venture Managers, Inc.

Asia Pacific Trust
Schroder Ventures International Life
Sciences Fund
New York, NY

TCW Asset Management Company

TCW Commingled Debt and Royalty
Fund IIIC
TCW Commingled Debt and Royalty
Fund IVB
Los Angeles, CA

Torch Energy Advisors, Inc.

TEAI VIII-B, LP
Houston, TX

CUSTODIAN

Boatmen's Trust Company

St. Louis, MO

II. FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS



■ Suite 600
3750 University Avenue
P.O. Box 1270
Riverside, California 92502

■ Phone: 909 276 7200
Fax: 909 787 8184

Report of Independent Auditors

Orange County Employee Retirement System
Board of Retirement

We have audited the accompanying general purpose financial statements of the Orange County Employees Retirement System (System) as of and for the year ended December 31, 1994, as listed in the table of contents. 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. The financial statements of the System for the year ended December 31, 1993, were audited by other auditors whose report dated May 26, 1994, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. 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 financial position of the Orange County Employees Retirement System at December 31, 1994, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying supplemental schedules included as "Other Supplementary Information," as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. These schedules have been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, are fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

June 9, 1995

Ernst & Young LLP

GENERAL PURPOSE FINANCIAL STATEMENTS



ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

(in thousands)

Assets	December 31	
	1994	1993
Investments, at Fair Value (Notes B and F)		
United States Government Debt		
Securities and Corporate Bonds	\$ 796,660	\$ 755,024
Foreign Bonds	51,595	43,389
Equity Securities	872,887	778,502
Real Estate	250,103	234,655
International Equity		
Securities (Note F)	192,973	207,747
Venture Capital and Limited Partnership Interests (Note F)	70,307	47,250
Total Investments	2,234,525	2,066,567
Cash and Cash Equivalents (Note G)	289,925	175,624
Receivables		
Forward Currency Contracts (Note H)	1,257	1,152
Investment Income	20,072	16,031
Employer/Employee Contributions	1,849	2,274
Total Receivables	23,178	19,457
Fixed Assets, Net (Note B)	337	444
Collateral Held for Securities Lent (Note F)	213,329	160,215
Total Assets	\$ 2,761,294	\$ 2,422,307
 Liabilities		
Collateral Held for Securities Lent (Note F)	213,329	160,215
Securities Purchases	32,929	19,554
Mortgages Payable (Note J)	5,475	5,701
Miscellaneous Liabilities	11,072	10,395
Total Liabilities	262,805	195,865
Net Assets Available for Benefits	\$ 2,498,489	\$ 2,226,442

See accompanying notes to financial statements.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(in thousands)

Additions	Years Ended December 31	
	1994	1993
Investment Income (Loss)		
Net Appreciation (Depreciation) in Fair Value of Investments (Note F)	\$ (124,842)	\$ 176,451
Interest on:		
Domestic and International Securities	64,817	59,145
Cash with County Treasurer (Note G)	313	703
Short Term Investment Fund (Note G)	1,478	2,271
Domestic Dividends	24,460	25,978
Rental Income	18,548	12,460
International Dividends	298	3,457
Venture Capital and Limited Partnership	5,637	3,551
Securities Lending Revenues	658	633
Total Investment Income (Loss)	(8,633)	284,649
Less Investment Counseling Fees	(8,508)	(8,401)
Loss on Orange County Treasurer's Pooled Investment	(36,146)	-0-
Net Investment Income (Loss)	(53,287)	276,248
Contributions (Note C)		
Employer	369,382	43,922
Employee	47,442	45,170
Total Contributions	416,824	89,092
Total Additions	363,537	365,340
Deductions		
Participants' Benefits	79,932	74,238
Member Withdrawals	7,426	5,928
Administrative Expenses (Note I)	4,132	3,854
Total Deductions	91,490	84,020
Increase in Net Assets Available	272,047	281,320
Net Assets Available for Benefits		
Beginning of Year	2,226,442	1,945,122
End of Year	\$ 2,498,489	\$ 2,226,442

See accompanying notes to financial statements.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF ACCUMULATED PLAN BENEFITS
(in thousands)

	December 31	
	1994	1993
Actuarial Present Value of Accumulated Plan Benefits		
Vested Benefits		
Retired	\$ 938,227	\$ 839,354
Terminated Vested	64,073	59,886
Active Vested	795,383	716,997
Total Vested Benefits	1,797,683	1,616,237
Nonvested Benefits	233,071	219,609
Actuarial Present Value of Accumulated Plan Benefits (Note B)	\$ 2,030,754	\$ 1,835,846

See accompanying notes to financial statements.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN ACCUMULATED PLAN BENEFITS

(in thousands)

	Years Ended December 31	
	1994	1993
Actuarial Present Value of Accumulated Plan Benefits as of January 1	\$ 1,835,846	\$ 1,681,489
Increase (Decrease) During the Year Attributable to:		
Additional Benefits Accumulated	138,893	100,693
Benefits Paid	(87,358)	(77,745)
Increase for Interest Due to Decrease in Discount Period	143,373	131,409
Net Increase	194,908	154,357
Actuarial Present Value of Accumulated Plan Benefits as of December 31 (Note B)	\$ 2,030,754	\$ 1,835,846

See accompanying notes to financial statements.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

DECEMBER 31, 1994

NOTES TO FINANCIAL STATEMENTS

A. Description of Plan

The following is a brief description of the Orange County Employees Retirement System (OCERS). Participants should refer to their Summary Plan Description for more complete information.

- 1. General.** OCERS is a cost-sharing multiple-employer, defined benefit pension plan covering substantially all employees of the County of Orange and of the following agencies: Orange County Transportation Authority, Department of Education, City of San Juan Capistrano, UCI Medical Center, Foothill/Eastern Transportation Corridor Agency, San Joaquin Hills Transportation Corridor Agency, Cypress Recreation and Park District, County Sanitation Districts of Orange County, Capistrano Valley Water District, Orange County Cemetery District, Santiago Library System, Orange County Vector Control District, and Orange County Law Library.

The participating entities share proportionally in all risks and costs, including benefit costs. One actuarial valuation is performed for OCERS as a whole, and the same contribution rates apply to each participating entity.

OCERS was established in 1945 under the provisions of the County Employees Retirement Law of 1937, and provides members with retirement, death, disability, and cost-of-living benefits. OCERS is a related organization of the County of Orange, California. The Board of Retirement consists of nine members of which four are appointed by the County's Board of Supervisors, four are elected by the members of OCERS, and the County Treasurer is an ex-officio member. The County of Orange is not financially accountable for OCERS. During 1994, OCERS obtained a 100% interest in a subsidiary, OCRS Holding Corporation, which has been blended in these financial statements.

The Board of Supervisors adopted certain sections of the Government Code for members employed after September 20, 1979, designated as Tier II members. The establishment of Tier II resulted in reduced allowances to those members. Members employed prior to September 21, 1979, are designated as Tier I members. The differences between Tier I and Tier II benefits are discussed below.

- 2. Retirement Allowances.** An employee with ten or more years of service is entitled to an annual retirement allowance beginning at age 50. The amount of the retirement allowance is based upon the member's age at retirement, the member's "final compensation" as defined in Section 31462 of the Retirement Law of 1937, and the total years of service under OCERS.

Retirement allowances for Tier I members are calculated using a fixed formula which will provide an allowance equal to 2 percent of the member's "final compensation" for each full year of service credit at age 57. Retirement allowances for Tier II members are calculated using a fixed formula which will provide the same allowance at approximately age 61½.

NOTES TO FINANCIAL STATEMENTS (Continued)

If an employee terminates before rendering five years of service, the employee forfeits the right to receive benefits and is entitled to withdraw the employee contributions made, together with accumulated interest, unless the member enters a reciprocal retirement system and elects to keep these monies on deposit with OCERS.

If an employee terminates after five years of service, the employee may elect to leave the accumulated deposits in the retirement fund and be granted a deferred retirement allowance at the time the member would have been entitled to the allowance if service had been continued.

- 3. Death and Disability Benefits.** Upon the death of an active employee, a death benefit, equal to the deceased member's accumulated contributions, plus 1/12 of the annual compensation earnable by the deceased member during the 12 months immediately preceding death, multiplied by the number of completed years of service under OCERS, but not exceeding six months compensation, is paid the employee's beneficiary. Upon the death of any member of OCERS who would have been entitled to retirement, the surviving spouse, as an option, may receive an annual allowance equal to 60 percent of the retirement allowance to which the deceased member would have been entitled as of the date of death. The death of a member due to service-connected injury or disease entitles the decedent's surviving spouse or child under 18 years of age to receive an annual allowance equal to one-half the member's "final compensation." In addition, the beneficiary of any member who dies before retirement with at least ten years of service under OCERS, or after retirement while receiving a retirement allowance from OCERS, is paid a death benefit of \$750 or \$1000, respectively.

An active employee who becomes totally disabled as a result of a service-connected injury or disease is paid an annual disability allowance equal to the larger of 50 percent of the employee's "final compensation" or the normal retirement benefits accumulated by the member as of the date the member became disabled. An active employee who becomes totally disabled as a result of nonservice-connected disease or injury is paid an annual allowance up to one-third of the employee's "final compensation," or the normal retirement benefits accumulated by the member as of the date of disability, whichever is the larger amount.

- 4. Active and Retired Members.** The following is a summary of OCERS' membership composition at December 31, 1994 and 1993:

NOTES TO FINANCIAL STATEMENTS (Continued)

Active Personnel
(unaudited)

	<u>December 31</u>	
	<u>1994</u>	<u>1993</u>
<u>General Members</u>		
County and Agencies Paid by		
County Payroll	14,546	14,233
Outside Agencies	2,539	2,522
Pending (Retirement or Withdrawal)	<u>209</u>	<u>122</u>
Subtotal-General Members	<u>17,294</u>	<u>16,877</u>
 <u>Safety Members</u>		
County and Agencies Paid by		
County Payroll	2,288	2,190
Pending (Retirement or Withdrawal)	<u>7</u>	<u>6</u>
Subtotal-Safety Members	<u>2,295</u>	<u>2,196</u>
 <u>Deferred (General & Safety) Members</u>		
Regular	388	381
Employment with Other Agencies (Reciprocity)	<u>520</u>	<u>522</u>
Subtotal-Deferred Members	<u>908</u>	<u>903</u>
 Total Active Personnel	<u><u>20,497</u></u>	<u><u>19,976</u></u>

At December 31, 1994 and 1993, 11,737 and 11,131 active members, respectively, had more than 5 years of service and were vested.

Retired Personnel Receiving Benefits
(unaudited)

	<u>December 31, 1994</u>			<u>December 31, 1993</u>		
	<u>Gen.</u>	<u>Safety</u>	<u>Total</u>	<u>Gen.</u>	<u>Safety</u>	<u>Total</u>
Service Retirements	4,055	286	4,341	3,867	273	4,140
Continuances	<u>434</u>	<u>32</u>	<u>466</u>	<u>410</u>	<u>29</u>	<u>439</u>
Subtotal-Service Retirements	<u>4,489</u>	<u>318</u>	<u>4,807</u>	<u>4,277</u>	<u>302</u>	<u>4,579</u>
Service-Connected Disability	330	174	504	308	158	466
Continuances	<u>32</u>	<u>12</u>	<u>44</u>	<u>32</u>	<u>10</u>	<u>42</u>
Subtotal-Service Disability	<u>362</u>	<u>186</u>	<u>548</u>	<u>340</u>	<u>168</u>	<u>508</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

Retired Personnel (cont.)
(unaudited)

	<u>December 31, 1994</u>			<u>December 31, 1993</u>		
	<u>Gen.</u>	<u>Safety</u>	<u>Total</u>	<u>Gen.</u>	<u>Safety</u>	<u>Total</u>
Nonservice-Connected						
Disability	213	10	223	212	9	221
Continuances	<u>229</u>	<u>9</u>	<u>238</u>	<u>207</u>	<u>9</u>	<u>216</u>
Subtotal-Nonservice Disability	<u>442</u>	<u>19</u>	<u>461</u>	<u>419</u>	<u>18</u>	<u>437</u>
Total Retired Personnel	<u>5,293</u>	<u>523</u>	<u>5,816</u>	<u>5,036</u>	<u>488</u>	<u>5,524</u>

5. Employees Purchased Annuities

OCERS provides accounts for additional member contributions as allowed under Government Code Section 31627. Contributions plus accumulated interest at the actuarial interest rate less 50 basis points are held in individual member accounts.

B. Summary of Significant Accounting Policies

- 1. Basis of Accounting.** OCERS' financial statements are prepared on the accrual basis of accounting in accordance with Financial Accounting Standards No. 35. Contributions from employers and members are recognized as revenue in the period in which employees provide services. Investment income is recognized as revenue when earned. The net appreciation (depreciation) in fair value of investments held by OCERS is recorded as an increase (decrease) to investment income based on the valuation of investments at year end.

The accompanying financial statements include the accounts of OCERS and its wholly-owned subsidiary OCRS Holding Corp., incorporated March 1994. All intercompany accounts and transactions have been eliminated in consolidation.

Certain 1993 amounts have been reclassified to conform to the 1994 presentation.

In November 1994, the Governmental Accounting Standards Board (GASB) issued Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. This Statement establishes financial reporting standards for defined benefit plans and for the notes to the financial statements of defined contribution plans of state and local government entities. This Statement is effective for periods beginning after June 15, 1996. OCERS has elected not to early adopt this Statement as of December 31, 1994, and has not completed all of the complex analyses required to estimate the full impact of this new Statement.

In May 1995 the GASB issued Statement No. 28, Accounting and Financial Reporting for Securities Lending Transactions. This Statement establishes accounting and financial report-

NOTES TO FINANCIAL STATEMENTS (Continued)

ing standards for securities lending transactions. Statement No. 28 is effective for periods beginning after December 15, 1995. OCERS has elected to early adopt this Statement as of December 31, 1994, and the impact of the Statement did not result in material changes.

- 2. Fixed Assets.** Fixed assets are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method with a 5 year useful life for computer software, 5 to 15 years for equipment and furniture, and 10 years for building improvements. The cost and accumulated depreciation of fixed assets at December 31, 1994 and 1993, were as follows:

	<u>1994</u>	<u>1993</u>
Furniture and Equipment	\$ 700,179	\$ 666,085
Computer Software	654,015	640,181
Building Improvements	52,823	52,823
Total Fixed Assets (at cost)	<u>1,407,017</u>	<u>1,359,089</u>
Less Accumulated Depreciation	<u>(1,070,045)</u>	<u>(915,410)</u>
Total Fixed Assets-Net of Depreciation	<u>\$ 336,972</u>	<u>\$ 443,679</u>

- 3. Valuation of Investments.** Quoted market prices are used to value United States Government securities, corporate and foreign bonds and debentures, and domestic and international common stocks. Mortgage notes are valued at an amount equal to the unpaid principal balance of the loans. Interest rates on the mortgage notes, discounted to reflect prepayment probabilities, do not differ significantly from market rates. Real estate equity investments are stated at market value, determined by independent appraisals performed on the properties held. The venture capital funds and limited partnership investments were determined by the investment managers based on the underlying financial statements and performance of the investments and acceptable valuation methodologies. At December 31, 1994, OCERS had investments in U.S. Treasury bonds and notes and in the Wells Fargo Equity Index Fund which individually represented more than 5 percent of OCERS' net assets available for benefits.

- 4. Actuarial Present Value of Accumulated Plan Benefits.** Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable, under OCERS' provisions, to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees and their beneficiaries; (b) beneficiaries of employees who have died; and (c) present employees and their beneficiaries. Benefits under OCERS are based on employees' "final compensation." For Tier I members, a one-year average is used to calculate benefits, while for Tier II members, a three-year average is used to calculate benefits. The accumulated plan benefits for active employees are based on their average compensation. Benefits payable under all circumstances (retirement, death, disability, and termination of employment) are included to the extent they are deemed attributable to employee service rendered to the valuation date.

The actuarial present value of accumulated plan benefits is determined by the actuary and is that amount which results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by

NOTES TO FINANCIAL STATEMENTS (Continued)

means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. Some of the actuarial assumptions used for financial statement purposes differ from those used for plan funding purposes. Such differences result from preparing the financial statements in accordance with the requirements of Statement of Financial Accounting Standards No. 35. The significant actuarial assumptions as of December 31, 1994, were:

- a. Life expectancy of participants at December 31, 1994, and at December 31, 1993, is based on the 1983 Group Annuity Mortality Table.
- b. Retirement, disability, turnover, and mortality assumptions are based on OCERS' actual experience.
- c. The investment return, net of administrative expense, is assumed to be 8 percent at December 31, 1994, and at December 31, 1993.
- d. Retirees' benefits are assumed to increase 3 percent annually, once retired, in accordance with OCERS' cost-of-living provisions.
- e. Prior service cost is amortized over an initial 30-year period. The remaining period, as of December 31, 1994, was 13 years.
- f. Salaries are assumed to remain at current levels in future years.

C. Contributions Required and Contributions Made

As a condition of participation, employees are required to contribute a percentage of their annual compensation to OCERS. For Tier I members, the normal rate of contribution is based on the member's age of entry into OCERS, and is calculated to provide an annual annuity equal to 1/200 of the member's "final compensation" for each year of service rendered at age 60 for General Members, and at the age of 50 for Safety Members. For Tier II General Members, the rate of contribution is calculated to provide an annual annuity equal to 1/120 of the member's "final compensation" for each year of service rendered at age 60. For Tier II Safety Members, the rate of contribution is calculated to provide an annual annuity equal to 1/100 of the member's "final compensation" for each year of service rendered at age 50.

Present employees' accumulated contributions at December 31, 1994 and 1993, were \$432,299,843 and \$387,419,061, respectively, including interest credited at an interest rate of 5 percent per annum. Interest is credited as of June 30 on the balance of the members' accounts as of the prior December 31, and as of December 31 on the balance of the members' accounts as of the prior June 30. (Three percent, the balance of the assumed interest rate of 8 percent, is credited to the County Advance Reserve.)

NOTES TO FINANCIAL STATEMENTS (Continued)

The County's and participating agencies' funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employees' contributions and with investment income, will fully provide for all employees' benefits by the time they retire.

Contributions for 1994 and 1993 total \$98,524,000 (\$51,082,000 employer and \$47,442,000 employee) and \$89,092,000 (\$43,922,000 employer and \$45,170,000 employee), respectively. In addition the County contributed \$318,300,000 in 1994 to fund its portion of the Unfunded Actuarial Accrued Liability. These contributions consisted of:

	<u>1994</u>	<u>1993</u>
Normal Cost	\$ 81,785,610	\$ 73,559,345
Amortization of		
Unfunded Actuarial		
Accrued Liability	16,738,616	15,532,655
Funding of County's Portion of		
Unfunded Actuarial Accrued Liability	<u>318,300,000</u>	<u>-0-</u>
 Total	 <u>\$ 416,824,226</u>	 <u>\$ 89,092,000</u>

The contributions to OCERS for 1994 and 1993 were made in accordance with the actuarially determined requirements as follows:

	<u>Percent of Employees' Payroll</u>			
	<u>Jul '94-Jun '95</u>		<u>*Jul '92-Jun '94</u>	
	<u>Gen.</u>	<u>Safety</u>	<u>Gen.</u>	<u>Safety</u>
Employer				
Contributions:				
Normal Cost	3.38%	6.20%	2.40%	4.15%
Amortization of				
Unfunded Actuarial				
Accrued Liability	<u>0.53%</u>	<u>18.56%</u>	<u>0.15%</u>	<u>13.78%</u>
 Total	 <u>3.91%</u>	 <u>24.76%</u>	 <u>2.55%</u>	 <u>17.93%</u>

	<u>1994</u>		<u>1993</u>	
	<u>Amount</u>	<u>Percent of Employees' Payroll</u>	<u>Amount</u>	<u>Percent of Employees' Payroll</u>
Employee Contributions	<u>\$ 47,441,879</u>	<u>6.17%</u>	<u>\$ 45,169,782</u>	<u>6.23%</u>
Employer Contributions	<u>\$ 51,082,347</u>	<u>6.63%</u>	<u>\$ 43,922,051</u>	<u>6.06%</u>

* Employer rates of contributions for normal cost and amortization of Unfunded Actuarial Accrued Liability remained constant between the period of July 1992 through June 1994. The Board of Retirement did not recommend rate changes in 1993.

NOTES TO FINANCIAL STATEMENTS (Continued)

D. Funding Status and Progress

The amount shown in the following schedule as "pension benefit obligation" is a standardized disclosure measure of the actuarial present value of credited projected benefits adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employees retirement systems. The measure is that used for the Analysis of Funding Progress on page 45 and is independent of the actuarial funding method used to determine contributions to OCERS. Ten-year historical trend information designed to provide information about OCERS' progress made in accumulating sufficient assets to pay benefits when due is presented on page 45.

The pension benefit obligation also differs from the present value of accumulated plan benefits (see Note B.4), used in the financial statements, which does not project future salary increases. The projections at December 31, 1994 and 1993, were determined using an 8 percent discount rate. The significant actuarial assumptions used to compute actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation.

Year-end balances of the overfunded pension benefit obligation were as follows:

	December 31	
	1994	1993
	(in thousands)	
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 1,002,300	\$ 899,240
Active participants:		
Provided by employee contributions including allocated investment income	413,058	369,199
Provided by employer contributions		
- Vested benefits	382,325	347,798
- Nonvested benefits	<u>416,478</u>	<u>384,306</u>
Total pension benefit obligation	2,214,161	2,000,543
Net assets available for benefits, at market value	<u>2,498,489</u>	<u>2,226,442</u>
Overfunded pension benefit obligation	<u>\$ 284,328*</u>	<u>\$ 225,899*</u>

* This is based on GASB Statement No. 5 projected benefit obligations. The System continues to have an Unfunded Actuarial Accrued Liability.

NOTES TO FINANCIAL STATEMENTS (Continued)

E. Plan Termination

There are no plan termination provisions under the County Employees Retirement Law of 1937 which govern the operation of OCERS.

F. Investments

1. Investments Authorized

Government Code Section 31595 authorizes OCERS to invest in any form or type of investment deemed prudent in the informed opinion of the Retirement Board, except as otherwise expressly restricted by California Constitution or by law.

2. Credit Risk

OCERS' investments are categorized below to give an indication of the level of risk assumed by OCERS at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by OCERS or by its agent in its name. Category 2 includes insured and unregistered investments for which the securities are held by Boatmen's trust department or agents in OCERS' name. Category 3 includes uninsured and unregistered investments for which the securities are held by broker-dealer or by Boatmen's, but not in OCERS' name.

The investment values (in thousands) are summarized as follows:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Cost</u>	<u>Total Market Value (Carrying Value)</u>
U.S. Government Debt Securities	\$ 136,868			\$ 136,868	\$ 131,674
Corporate Debt Securities	483,652			483,652	460,402
U.S. Government Bonds	188,884			188,884	192,488
Foreign Bonds	52,566			52,566	51,595
Common Stock	565,850			565,850	613,754
International Equity Securities	<u>136,213</u>			<u>136,213</u>	<u>166,826</u>
	<u>\$ 1,564,033</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	1,564,033	1,616,739

NOTES TO FINANCIAL STATEMENTS (Continued)

Amounts not subject to categorization:

Orange County Treasurer's Pooled Investment	100,039	100,039
Collateralized Mortgage Obligations	27,110	12,096
Real Estate Investments	297,217	250,103
Domestic Equity Index Fund	191,415	259,133
International Pooled Equity Funds	21,734	26,147
Non-Traditional Investments in Venture Capital and Limited Partnership Interests	55,136	70,307
	2,256,684	2,334,564
Less: Orange County Treasurer's Pooled Investment	100,039	100,039
Total Investments	\$ 2,156,645	\$ 2,234,525

A detailed report of the investment holdings is available for review at the OCERS location.

3. Net Appreciation

Investments in securities were held by Boatmen's Trust Company as custodian. During 1994 and 1993, OCERS' investments (including investments bought and sold, as well as held during each year) depreciated in value by \$124,842,028 and appreciated in value by \$176,451,378, respectively, as follows:

	Years Ended December 31	
	1994	1993
	(in thousands)	
Net Appreciation (Depreciation) in Fair Value as Determined by Quoted Market Prices:		
Equity Securities	\$ (28,637)	\$ 71,061
United States Government Debt Securities, Corporate & Foreign Bonds & Debentures	(96,084)	61,550
International	(3,085)	49,632
Subtotal	(127,806)	182,243

NOTES TO FINANCIAL STATEMENTS (Continued)

Net Appreciation (Depreciation)
in Fair Value as Determined by
Estimated Fair Value:

Real Estate	(5,939)	(11,295)
Non-Traditional	<u>8,903</u>	<u>5,503</u>
Total Net Appreciation (Depreciation)	<u>\$ (124,842)</u>	<u>\$ 176,451</u>

4. Financial Futures Contracts Held for Purposes Other than Trading

The net changes in market value of these contracts comprised \$10,938,729 of net depreciation and \$11,055,612 of the net appreciation during 1994 and 1993, respectively. As of December 31, 1994 and 1993, OCERS had open contracts of \$107,788,031 and \$91,586,000, respectively, for the purchase of U.S. Treasury bonds and notes, with delivery at specified future dates. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in securities values and interest rates.

OCERS is required to maintain a deposit with the broker as collateral to support open futures contracts. As of December 31, 1994 and 1993, OCERS had collateral deposits of \$2,688,265 and \$1,192,274, respectively, in cash equivalents and U.S. Treasury bills and notes.

5. Securities Lending Contracts

Included in the investment accounts for United States Government securities, international securities, corporate bonds and debentures, foreign bonds and debentures, and common stocks at December 31, 1994 and 1993 were securities with market values of \$212,308,709 and \$159,780,258, respectively, which had been lent by OCERS, through a securities lending agent, to various securities brokers in return for cash collateral equal to 102 percent (105 percent for international investments) of the market value (priced daily) of the securities lent.

OCERS invested the cash collateral in short-term securities, which included certificates of deposit and commercial paper from certain domestic banks and savings and loans, repurchase agreements through certain brokers, and certain money market funds. Collateral investments are held by Boatmen's Trust Company and Bankers Trust Company (subcustodian) in separate collateral accounts. The risks involved in a security lending program generally include: borrower bankruptcy, collateral deficiencies, problems with settlements, corporate actions, and dividends and interest.

Gross security lending revenue for 1994 and 1993 are \$658,593 and \$632,840, respectively. The costs of securities lending transactions are reported as expenses in the accompanying financial statements.

OCERS' securities lending agents are responsible for monitoring the market value of the securities lent to ensure that the value of the collateral equals or exceeds 100 percent of the market value of the securities lent as of the valuation date. At December 31, 1994 and 1993, OCERS held broker collateral with market values totaling \$213,328,689 and \$160,214,726, respectively.

NOTES TO FINANCIAL STATEMENTS (Continued)

6. International Investments

Specific investments in international securities are held by Bankers Trust Company, in accordance with a subcustodial agreement with Boatmen's Trust Company, and managed by two investment managers. Other investments are held in four pooled funds, all of which are invested in equities of companies located in international emerging markets.

7. Non-Traditional Investments

OCERS' non-traditional investments represent investments made in private debt and equity securities through limited partnership and venture capital arrangements. OCERS has employed two investment methods. One method is the use of investment management firms to invest OCERS' assets in limited partnerships as well as direct private placements. OCERS has made five separate commitments of funds to two investment management firms. The second method of investment is OCERS' participation as a limited partner in limited partnership funds. To date, OCERS has made commitments of \$54,864,374 in 13 limited partnerships as of December 31, 1994. These limited partnerships are diversified between venture capital, corporate finance, buyout, energy, and oil and gas investments.

8. Derivative Holdings Held for Trading Purposes

Of the total investments in OCERS' fixed income portfolio of \$848,255,000 as of December 31, 1994, approximately \$245,839,000 are classified as derivative securities. The approximate annual income derived by OCERS from these securities is \$19,000,000. These holdings include asset-backed securities, mortgage-backed securities, collateralized mortgage obligations, zero coupon bonds and variable rate securities. These derivative securities offer favorable yields and advantageous risk/reward profiles with the vast majority of the holdings being guaranteed by either the U.S. Government or one of its agencies.

G. Cash and Cash Equivalents

OCERS' investments may not be entirely invested in securities at a given time. Those funds not in the form of securities are invested in short-term money market funds and cash equivalents, including the Orange County Investment Pool. At December 31, 1994, OCERS had money market funds of \$189,886,000, which were uninsured and uncollateralized, and pooled cash in the County of Orange Treasurer's Investment Pool of \$100,039,000. Interest in the Orange County Investment Pool is computed monthly on an average daily balance.

On December 6, 1994, the County of Orange and the Orange County Investment Pool (OCIP) filed for bankruptcy under Chapter 9 of the United States Bankruptcy Code. OCERS had three cash accounts invested in the OCIP which consisted of \$130,352,323 in principal and \$1,829,134 in unpaid accrued interest at December 6, 1994. As a result of the County's and OCIP's bankruptcies and based on subsequent information, the Board of Retirement has valued the cash invested in the pool as of December 31, 1994, at 73% of its original principal. As of June 9, 1995, OCERS does not know the ultimate realization of the monies invested in the Orange County Investment Pool but anticipates that it will be at least 73%. Through the Settlement Agreement with the County of Orange, OCERS has \$4,771,347 in recovery notes; \$12,569,285 in Settlement Secured Claims; and \$13,785,337 in Repayment Claims. Revenue associated with these notes will be recorded as received.

NOTES TO FINANCIAL STATEMENTS (Continued)

H. Forward Currency Contracts

OCERS' international investment managers invest in forward currency contracts. These are agreements to exchange different currencies at specified rates and settlement dates. Differences between the contract and market exchange rates at settlement result in gains or losses. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in exchange and interest rates. OCERS' balances for the forward currency receivable and payable accounts are based upon the currencies' contract exchange rates in relation to their market exchange rates at December 31, 1994 and 1993. An accounts receivable balance that is greater than the payable balance represents a net gain on the contracts. An accounts receivable balance that is less than the payable balance indicates a net loss.

I. Administrative Expenses

Section 31596.1 of the Government Code allows certain costs to be excluded from administrative expenses which are subject to statutory limitation. The following costs are not subject to the statutory limitation and are not budgetary items, but are included in the amounts classified as administrative expenses for OCERS' financial statements:

	<u>Years Ended December 31</u>	
	<u>1994</u>	<u>1993</u>
Commingled Interest Cost	\$ 1,470	\$ 5,352
Actuarial Costs	92,936	90,483
Custodian Services	881,363	863,465
Legal Costs	137,396	232,156
Additional Death Benefit Costs	70,812	-0-
	<u>1,183,977</u>	<u>1,191,456</u>
Total	<u>\$ 1,183,977</u>	<u>\$ 1,191,456</u>

J. Mortgages Payable

OCERS had mortgages payable at December 31, 1994, for two investment properties:

- La Sierra property, \$4,094,107 payable in equal monthly installments of \$42,671, at interest of 10% per annum, and maturing on May 1, 2001.
- North Torrance Shopping Center, \$1,381,236 in two notes payable due in equal monthly installments of \$15,240 and \$909 at interest rates of 8.875 and 10 percent, per annum, and maturing on August 1, 2007, and September 1, 2004, respectively.

K. Additional Retiree Benefit Account

The Additional Retiree Benefit Account results from a Memorandum of Understanding (MOU) with the County of Orange in which \$176,232,077 was used in 1993 to reduce the Unallocated

Fund Balance (UAB). By the terms of the MOU, 75 percent (\$125,844,140) was transferred to the County Advance Reserve. The remaining 25 percent (\$50,387,937) was transferred to the Additional Retiree Benefit Account (ARBA). The amounts maintained in the ARBA are to be applied to health insurance or other supplemental benefits for OCERS' retirees.

L. Subsequent Events

On February 14, 1995, the OCERS' Board of Retirement adopted a resolution pursuant to the California Pension Protection Act of 1992, declaring that the Retirement System was independent of the County of Orange. Statutes enacted prior to the Pension Protection Act of 1992 required the Retirement System to conduct check writing through the County of Orange, and checks issued by the County on behalf of the Retirement System for the retirement payroll had to clear through the County Treasurer's Office.

OCERS subsequently elected to remove the check writing function from the Auditor-Controller's Office to OCERS' custodian bank. Check clearing was removed from the Orange County Treasurer's Office to OCERS' custodian bank.

REQUIRED SUPPLEMENTARY INFORMATION



ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
ANALYSIS OF FUNDING PROGRESS
FOR THE LAST TEN YEARS
(in thousands)

<u>Year</u>	<u>Net Assets Available for Benefits</u>	<u>Pension Benefit Obligation</u>	<u>% Funded</u>	<u>Unfunded (Overfunded) Pension Benefit Obligation</u>	<u>Annual Covered Payroll</u>	<u>Unfunded (Overfunded) Benefit As % of Covered Payroll</u>
1985	\$ 714,383	\$ 962,998	74.2	\$ 248,615	\$ 369,555	67.3
1986	886,688	1,103,480	80.4	216,792	416,030	52.1
1987	973,537	1,209,127	80.5	235,590	440,496	53.5
1988	1,142,190	1,255,075	91.0	112,885	481,919	23.4
1989	1,392,567	1,416,041	98.3	23,474	545,251	4.3
1990	1,452,337	1,564,142	92.9	111,805	624,088	17.9
1991	1,809,386	1,495,584	121.0	(313,802)	677,957	(46.3)
1992	1,945,122	1,844,738	105.5	(100,384)	701,526	(14.4)
1993	2,226,442	2,000,543	111.3	(225,899)	725,193	(31.2)
1994	2,498,489	2,214,161	112.8	(284,328)	769,175	(37.0)

Analysis of the dollar amounts of net assets available for benefits, pension obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing net assets available for benefits as a percentage of pension benefit obligation provides one indication of OCERS' funding status on a going concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Trends in unfunded (overfunded) pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded (overfunded) pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of OCERS' progress made in accumulating sufficient assets to pay benefits when due.

Note: The pension benefit obligation for all years has been computed in accordance with GASB Statement No. 5.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
REVENUES BY SOURCE AND EXPENSES BY TYPE
FOR THE LAST TEN YEARS
(in thousands)

Revenues By Source

<u>Year</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>	<u>Investment* Income</u>	<u>Total Revenues</u>
1985	\$ 20,786	\$ 59,116	\$ 75,000	\$ 154,902
1986	23,591	66,551	79,792	169,934
1987	25,825	71,645	54,117	151,587
1988	28,476	77,854	61,679	168,009
1989	32,004	61,728	74,217	167,949
1990	37,700	84,466	83,143	205,309
1991	41,536	92,598	93,239	227,373
1992	42,349	59,664	85,837	187,850
1993	45,170	43,922	99,797	188,889
1994	47,442	369,382**	71,555	488,379

Expenses By Type

<u>Year</u>	<u>Benefits Paid</u>	<u>Admin. Expenses</u>	<u>Withdrawals</u>	<u>Total Expenses</u>
1985	\$ 28,155	\$ 798	\$ 4,266	\$ 33,219
1986	31,505	913	4,218	36,636
1987	34,128	1,258	5,409	40,795
1988	39,889	1,566	6,209	47,664
1989	44,254	2,200	7,124	53,578
1990	52,050	2,921	7,509	62,480
1991	58,249	3,283	5,679	67,211
1992	64,130	3,681	5,681	73,492
1993	74,238	3,854	5,928	84,020
1994	79,932	4,132	7,426	91,490

Contributions made in accordance with actuarially determined contribution requirements.

* Net of investment manager fees. Does not include net appreciation in fair market value.

** Employer contributions include \$318,300,000 representing the County's funding of its portion of the unfunded actuarial accrued liability.

OTHER SUPPLEMENTARY INFORMATION



COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF ADMINISTRATIVE EXPENSES
 FOR THE YEARS ENDED DECEMBER 31, 1994 AND 1993

	<u>1994</u>	<u>1993</u>
Personnel Services:		
Board Member Allowance	\$ 10,900	\$ 12,900
Salaries & Employee Benefits Includes Retirement and Insurance	<u>1,758,513</u>	<u>1,293,443</u>
Total Personnel Services	1,769,413	1,306,343
 Office Operating Expenses:		
Operating Expenses	388,032	406,839
Professional Services	1,640,672	1,747,391
Rent/Leased Real Property	179,019	168,271
Depreciation/Amortization	<u>154,549</u>	<u>225,246</u>
Total Operating Expenses	<u>2,362,272</u>	<u>2,547,747</u>
 TOTAL ADMINISTRATIVE EXPENSES	 <u>\$ 4,131,685</u>	 <u>\$ 3,854,090</u>

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
INVESTMENT SUMMARY
(in thousands)

Type of Investment	December 31, 1993				December 31, 1994		% of Total Market Value
	Book Value	Market Value	Purchases	Sales and Redemption	Book Value	Market Value	
U.S. Treasury Securities	\$ 106,292	\$ 138,923	\$ 260,066	\$ 229,490	\$ 136,868	\$ 131,674	5.89%
Corporate Bonds	473,675	479,968	547,026	537,049	483,652	460,402	20.61%
U.S. Government Bonds	126,383	111,723	441,790	379,289	188,884	192,488	8.62%
Foreign Bonds	42,246	43,389	107,140	96,820	52,566	51,595	2.30%
Collateralized Mortgage Obligations	29,410	24,410	11,685	13,985	27,110	12,096	0.54%
Common Stocks	621,749	778,502	607,589	472,073	757,265	872,887	39.06%
Real Estate	277,726	234,655	32,303	12,812	297,217	250,103	11.19%
International Equity	163,268	207,747	73,614	78,935	157,947	192,973	8.64%
Non-Traditional	<u>40,982</u>	<u>47,250</u>	<u>20,873</u>	<u>6,719</u>	<u>55,136</u>	<u>70,307</u>	<u>3.15%</u>
Total Investments	<u>\$1,881,731</u>	<u>\$2,066,567</u>	<u>\$2,102,086</u>	<u>\$1,827,172</u>	<u>\$2,156,645</u>	<u>\$2,234,525</u>	<u>100.00%</u>

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 1994
 (in thousands)

Cash Balance at Beginning of Year	\$ <u>175,624</u>
<u>Receipts:</u>	
Employee Contributions	47,442
Employer Contributions	369,382
Investments Matured and Sold	1,827,172
Investment Income	67,223
Miscellaneous	<u>5,166</u>
Total Cash Receipts	<u>2,316,385</u>
 <u>Disbursements:</u>	
Benefit Payments	79,932
Refunds to Terminated Members	7,426
Administrative Expenses	4,132
Investments Purchased	2,102,086
Investment Expenses	<u>8,508</u>
Total Cash Disbursements	<u>2,202,084</u>
Cash Balance at End of Year	<u><u>\$ 289,925</u></u>

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF FEES AND OTHER INVESTMENT EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 1994

Equity:	
Domestic	\$ 2,867,773
International	1,018,902
Global Fixed Income	1,602,860
Real Estate	1,132,942
Venture Capital	654,203
Other Alternative Investments	<u>1,231,038</u>
Total Fees & Other Investment Expenses	<u>\$ 8,507,718</u>

III. ACTUARIAL SECTION

ACTUARY CERTIFICATION LETTER

Timothy J. Marnell, ASA
Principal

200 West Madison Street, Suite 3300
Chicago, IL 60606-3414
312 609-9461
Fax: 312 609-9839

Towers Perrin

June 9, 1995

Members of the Board:

The financing objective of the plan has been to reduce the unfunded actuarial accrued liability to zero over a 30-year period commencing December 31, 1977 while maintaining contribution rates that remain approximately the same from generation to generation. The progress being made toward the realization of the financing objectives through December 31, 1994 is illustrated in the attached Exhibits I and II.

An actuarial investigation is performed every three years, during which an analysis is made of the appropriateness of all economic and noneconomic assumptions. Recommendations for changes are presented to the Board for consideration. The last triennial investigation was performed as of December 31, 1992, at which time changes to the noneconomic assumptions were recommended to the Board. The next triennial investigation will be performed as of December 31, 1995. Regular valuations are performed every year to comply with GASB requirements, to adjust contribution rates, and to monitor the plan's funded status.

The asset value used in determining employer contribution rates (the actuarial value of assets) is a five-year moving average of book and market values (Exhibit V). The data used in the actuarial valuation and investigation were provided by the Board. We have enclosed a summary of the employee data used in performing actuarial valuations over the past several years (Exhibits III and IV).

The actuarial assumptions used in the December 31, 1994 valuation are summarized in the attachments. All assumptions were determined by the actuary and were adopted by the Board. The employee census data and asset information were provided by the Retirement Office. The census data was reviewed, compared against the prior year and appeared to be reasonable. The asset information was accepted without further audit.

On the basis of the December 31, 1994 valuation, it is our opinion that OCERS continues to be in sound condition in accordance with the actuarial principles of level cost financing.

Respectfully submitted,



Timothy J. Marnell, A.S.A., M.A.A.A.
Principal

Orange County Employees Retirement System
HISTORY OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
(In Thousands)

Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability	Ratio of Assets to Actuarial Accrued Liability	Annual Active Member Compensation	Ratio of Unfunded Actuarial Accrued Liability to Active Compensation
12/31/85	\$1,075,984	\$613,863	\$462,121	57.05%	\$369,555	125.05%
12/31/86	1,220,915	713,506	507,409	58.44%	416,030	121.96%
12/31/87	1,343,982	821,884	522,098	61.16%	440,496	118.53%
12/31/88	1,453,858	985,030	468,828	67.75%	481,919	97.28%
12/31/89	1,651,988	1,136,210	515,778	68.78%	545,251	94.59%
12/31/90	1,840,915	1,297,575	543,340	70.49%	624,088	87.06%
12/31/91	1,763,894	1,567,131	196,763	88.84%	677,957	29.02%
12/31/92	2,140,081	1,807,319	332,763	84.45%	701,596	47.43%
12/31/93	2,305,019	2,024,447	280,572	87.83%	725,193	38.69%
12/31/94	2,550,059	2,177,673 *	372,386	85.40%	769,175	48.41%

Notes:

- 12/31/91 valuation included a change in funding method from Entry Age Normal to Projected Unit Credit, a change in asset accounting concerning the unallocated fund balance, and changes in discount rate from 7.5% to 8.0%, salary scale from 5.5% to 6.0%, and payroll increases from 4.5% to 5.0%.
- 12/31/88 interest rate increased from 7.25% to 7.50%, salary scale from 5% to 5.5%, and payroll from 4.0% to 4.5%. Asset method changed from book to five-year-average of book and market.

* Excludes \$311,002,000 of the County’s unamortized 1994 funding of its portion of the Unfunded Actuarial Accrued Liability, which funding is being amortized over a fourteen year period beginning July 1, 1994.

Orange County Employees Retirement System
HISTORY OF EMPLOYER CONTRIBUTION RATES

Employer Contribution Rate

Valuation Date				Valuation Date				Valuation Date				Valuation Date			
12/31/85				12/31/88				12/31/91				12/31/94			
General				General				General				General			
Normal	7.32%			Normal	5.06			Normal	2.40			Normal	3.68		
UAAL	6.63			UAAL	5.57			UAAL	0.15			UAAL	1.71		
Total	13.95			Total	10.63			Total	2.55			Total	5.39		
Safety				Safety				Safety				Safety			
Normal	14.28			Normal	15.13			Normal	4.15			Normal	6.58		
UAAL	16.12			UAAL	14.95			UAAL	13.78			UAAL	21.85		
Total	30.40			Total	30.08			Total	17.93			Total	28.43		
12/31/86				12/31/89				12/31/92							
General				General				General							
Normal	7.21			Normal	5.04			Normal	3.56			Normal	3.68		
UAAL	6.52			UAAL	5.77			UAAL	1.30			UAAL	1.71		
Total	13.73			Total	10.81			Total	4.86			Total	5.39		
Safety				Safety				Safety				Safety			
Normal	14.05			Normal	15.26			Normal	6.42			Normal	6.58		
UAAL	15.82			UAAL	14.03			UAAL	17.92			UAAL	21.85		
Total	29.87			Total	29.29			Total	24.34			Total	28.43		
12/31/87				12/31/90				12/31/93							
General				General				General							
Normal	7.13			Normal	4.75			Normal	3.38			Normal	3.68		
UAAL	6.59			UAAL	4.60			UAAL	0.53			UAAL	1.71		
Total	13.72			Total	9.35			Total	3.91			Total	5.39		
Safety				Safety				Safety				Safety			
Normal	14.28			Normal	13.91			Normal	6.20			Normal	6.58		
UAAL	15.97			UAAL	10.42			UAAL	18.56			UAAL	21.85		
Total	30.25			Total	24.33			Total	24.76			Total	28.43		

Orange County Employees Retirement System
SUMMARY OF ACTIVE MEMBERSHIP

Valuation Date	Number	Annual Salary	Annual Average Salary	% Increase in Average Salary
12/31/85				
General	12,493	\$318,389,792	\$25,485	N/A
Safety	1,494	51,165,634	34,247	N/A
Total	13,987	\$369,555,426	\$26,421	N/A
12/31/86				
General	13,060	\$354,930,242	\$27,177	6.64%
Safety	1,687	61,099,766	36,216	5.75
Total	14,747	\$416,030,008	\$28,211	6.78
12/31/87				
General	13,147	\$371,715,434	\$28,274	4.04%
Safety	1,853	68,780,426	37,118	2.49
Total	15,000	\$440,495,860	\$29,366	4.09
12/31/88				
General	13,839	\$407,356,604	\$29,435	4.11%
Safety	1,904	74,562,254	39,161	5.50
Total	15,743	\$481,918,858	\$30,612	4.24
12/31/89				
General	14,587	\$459,324,832	\$31,489	6.98%
Safety	1,985	85,926,444	43,288	10.54
Total	16,572	\$545,251,276	\$32,902	7.48
12/31/90				
General	15,969	\$523,453,762	\$32,779	4.10%
Safety	2,214	100,633,832	45,453	5.00
Total	18,183	\$624,087,594	\$34,323	4.32
12/31/91				
General	16,426	\$571,527,088	\$34,794	6.15%
Safety	2,175	106,429,952	48,933	7.66
Total	18,601	\$677,957,040	\$36,447	6.19
12/31/92				
General	16,432	\$590,453,256	\$35,933	3.27%
Safety	2,144	111,142,980	51,839	5.94
Total	18,576	\$701,596,236	\$37,769	3.63
12/31/93				
General	16,611	\$610,095,632	\$36,728	2.21%
Safety	2,186	115,097,702	52,652	1.57
Total	18,797	\$725,193,334	\$38,580	2.15
12/31/94				
General	17,084	\$645,117,097	\$37,761	2.81%
Safety	2,289	124,058,327	54,198	2.94
Total	19,373	\$769,175,424	\$39,703	2.91

Orange County Employees Retirement System
SUMMARY OF RETIRED MEMBERSHIP

Year	Number of Members			At End of Year	Annual Allowance (In Thousands)	% Increase in Annual Allowance	Average Monthly Allowance
	At Beginning of Year	Added During Year	Removed During Year				
1/85 to 12/85	3,227	N/A	N/A	3,714	\$28,782,537	N/A	\$646
1/86 to 12/86	3,714	N/A	N/A	3,870	31,667,019	10.02%	682
1/87 to 12/87	3,870	N/A	N/A	4,138	35,890,628	13.34	723
1/88 to 12/88	4,138	N/A	N/A	4,355	40,000,809	11.45	765
1/89 to 12/89	4,355	N/A	N/A	4,565	44,295,200	10.74	809
1/90 to 12/90	4,565	371	(158)	4,778	49,560,031	11.89	864
1/91 to 12/91	4,778	400	(149)	5,029	54,804,848	10.58	908
1/92 to 12/92	5,029	326	(51)	5,304	61,805,646	12.77	971
1/93 to 12/93	5,304	267	(59)	5,512	69,241,800	12.03	1,047
1/94 to 12/94	5,512	504	(200)	5,816	77,629,436	12.11	1,112

Orange County Employees Retirement System
DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS
 As of December 31, 1994

Plan Year Ending	Market Value	Book Value	Ratio of Market Value to Book Value
1994	\$2,083,065,523	\$2,016,613,313	1.031695
1993	2,029,589,351	1,848,968,933	1.097687
1992	1,797,613,093	1,666,184,666	1.078880
1991	1,684,781,216	1,451,690,065	1.160565
1990	1,236,634,507	1,200,027,142	1.030505
1989	1,167,859,578	1,055,077,979	1.106894

(1) Average ratio in five years preceding December 31, 1994	1.079866
(2) Book value on December 31, 1994	\$2,016,613,313
(3) Actuarial value of assets: (1) x (2)	\$2,177,672,959

Orange County Employees Retirement System

SHORT-TERM SOLVENCY TEST

(\$ Amounts in Thousands)

Valuation Date	(1) Active Member Contributions	(2) Liability for Inactive Participants	(3) Liability for Active Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liability Covered by Valuation Assets		
					(1)	(2)	(3)
12/31/85	\$133,453	\$409,272	\$533,259	\$613,863	100%	100%	57.05%
12/31/86	154,045	449,928	616,942	713,506	100	100	58.44
12/31/87	173,793	511,586	658,603	821,884	100	100	61.15
12/31/88	194,642	555,494	703,722	985,030	100	100	67.75
12/31/89	217,796	625,449	808,743	1,136,210	100	100	68.78
12/31/90	245,591	674,000	903,324	1,279,575	100	100	70.19
12/31/91	292,868	650,365	820,661	1,567,131	100	100	88.84
12/31/92	327,402	807,213	1,005,467	1,807,319	100	100	84.45
12/31/93	369,199	899,240	1,036,580	2,024,447	100	100	87.83
12/31/94	413,058	1,002,300	1,134,701	2,177,673	100	100	85.40

Orange County Employees Retirement System
ACTUARIAL METHODS AND ASSUMPTIONS

The Projected Unit Credit method was used in conjunction with the following actuarial assumptions:

1. *Interest:* 8% per annum.
2. *Salary scale:* 6% per annum per individual; the aggregate salary increase assumed for the entire system is 5.00% per annum. The number of active employees is assumed not to increase.
3. *Consumer Price Index:* Increase of 4.5% per annum subject to tier maximums.
4. *Spouses and dependents:* 80% of male employees with 50% of female employees assumed married at retirement, with wives assumed four years younger than husbands.
5. *Rehire of former employees:* Assumed not to be rehired.
6. *Asset valuation:* Asset values taken directly from statements furnished by OCERS. See Exhibit V for a description of the development of the actuarial value of assets.
7. *Rates of termination of employment:* As shown in Table I, which follows.
8. *Expectation of life after retirement:* As shown in Table II.
9. *Expectation of life after disability:* As shown in Table III.

The above assumptions were adopted effective December 31, 1991. Actuarial gains and losses are included in the unfunded actuarial accrued liability and amortized as a level percent of increasing pay over a declining period.

Orange County Employees Retirement System

PROBABILITY OF OCCURRENCE

(Includes Eligibility)

Age Nearest	Ordinary Withdrawal	Vested Withdrawal	Ordinary Death	Ordinary Disability	Service Retire.	Service Disability	Service Death
General Members – Male							
20	0.2500	0.0000	0.0001	0.0000	0.0000	0.0000	0.0000
30	0.1110	0.0028	0.0003	0.0001	0.0000	0.0004	0.0000
40	0.0540	0.0097	0.0007	0.0004	0.0000	0.0010	0.0000
50	0.0330	0.0068	0.0010	0.0011	0.0460	0.0022	0.0000
60	0.0000	0.0000	0.0011	0.0052	0.0840	0.0050	0.0000
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000
General Members – Female							
20	0.2090	0.0000	0.0001	0.0000	0.0000	0.0000	0.0000
30	0.1280	0.0033	0.0002	0.0001	0.0000	0.0000	0.0000
40	0.0790	0.0102	0.0004	0.0006	0.0000	0.0000	0.0000
50	0.0450	0.0062	0.0009	0.0015	0.0390	0.0003	0.0000
60	0.0270	0.0000	0.0016	0.0026	0.0950	0.0000	0.0000
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000
Safety Members							
20	0.1376	0.0000	0.0004	0.0000	0.0000	0.0011	0.0002
30	0.0454	0.0026	0.0005	0.0001	0.0000	0.0013	0.0006
40	0.0099	0.0052	0.0010	0.0004	0.0000	0.0066	0.0005
50	0.0000	0.0029	0.0036	0.0023	0.1230	0.0174	0.0030
60	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000

Orange County Employees Retirement System

EXPECTATION OF LIFE**Age and Service Retirees**

1983 Group Annuity Mortality

Age	Male	Female
20	57.86	64.15
30	48.11	54.29
40	38.46	44.52
50	29.19	34.92
60	20.64	25.67
70	13.18	17.13
80	7.64	10.20
90	4.28	5.41
100	2.28	2.36

Orange County Employees Retirement System

EXPECTATION OF LIFE

Disabled Retirees

1981 Disabled Mortality

Age	General	Safety
20	38.73	49.29
30	31.98	40.36
40	26.21	31.77
50	21.08	23.59
60	16.37	16.64
70	11.70	11.70
80	7.00	7.00
90	4.09	4.09
100	2.20	2.20

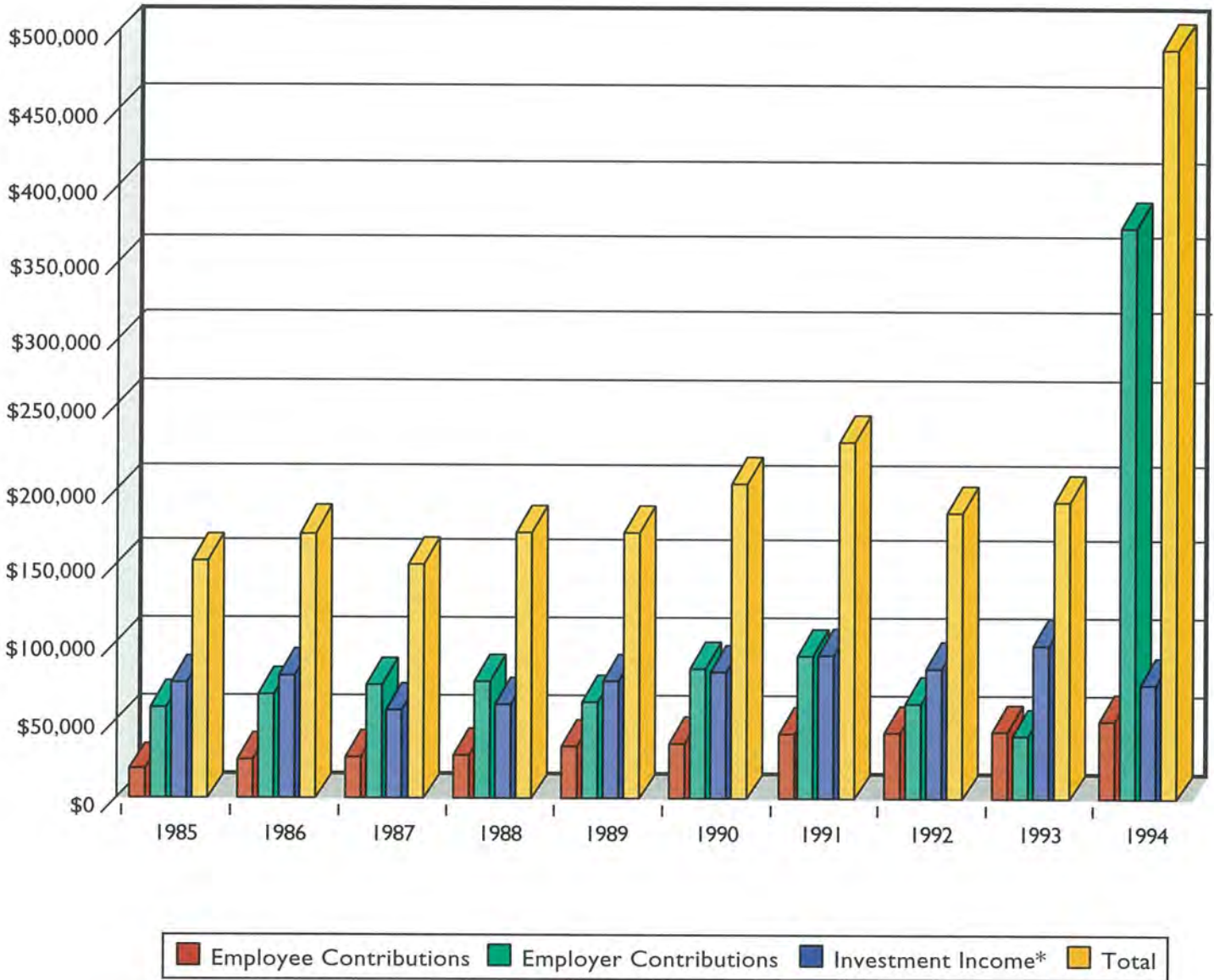


IV. STATISTICAL SECTION



Revenues by Source

(in thousands)



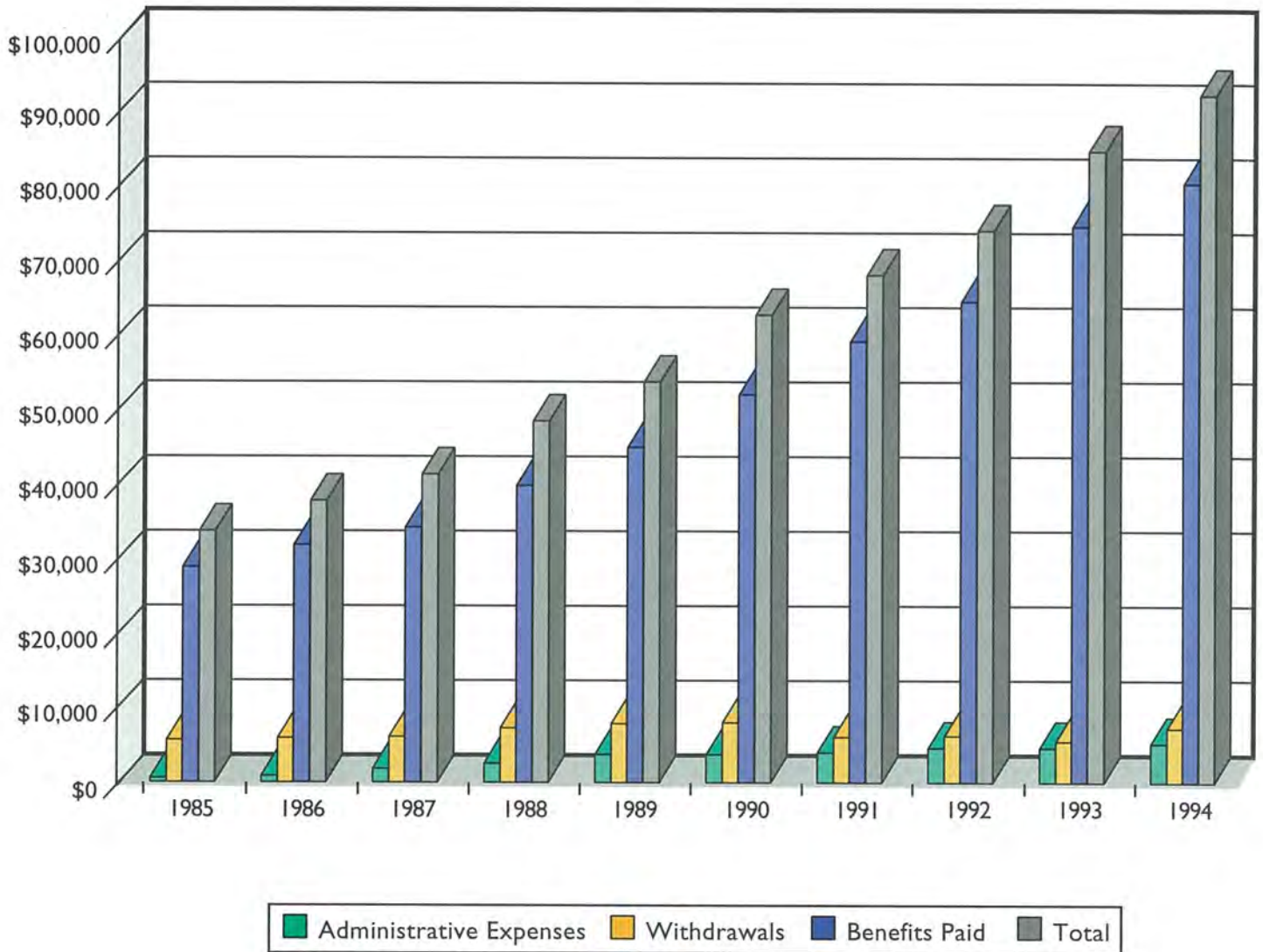
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Employee Contributions	\$20,786	\$23,591	\$25,825	\$28,476	\$32,004	\$37,700	\$41,536	\$42,349	\$45,170	\$47,442
Employer Contributions	\$59,116	\$66,551	\$71,645	\$77,854	\$61,728	\$84,466	\$92,598	\$59,664	\$43,922	\$369,382
Investment Income*	\$75,000	\$79,792	\$54,117	\$61,679	\$74,217	\$83,143	\$93,239	\$85,837	\$99,797	\$71,555
Total	\$154,902	\$169,934	\$151,587	\$168,009	\$167,949	\$205,309	\$227,373	\$187,850	\$188,889	\$488,379

* Net of investment manager fees. Does not include net appreciation fair market value.



Expenses by Type

(in thousands)



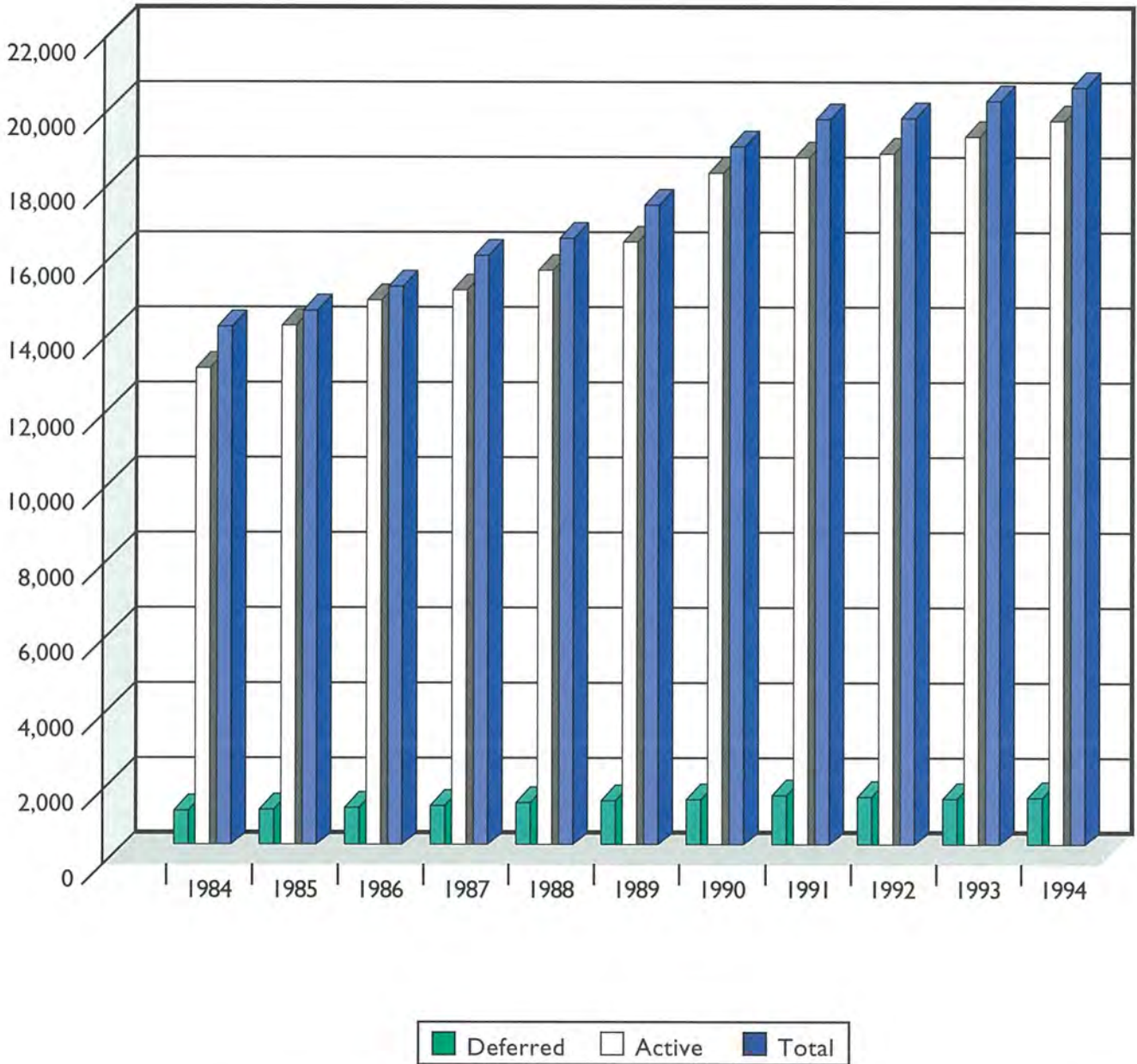
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Administrative Expenses	\$798	\$913	\$1,258	\$1,566	\$2,200	\$2,921	\$3,283	\$3,681	\$3,854	\$4,132
Withdrawals	\$4,266	\$4,218	\$5,409	\$6,209	\$7,124	\$7,509	\$5,679	\$5,681	\$5,928	\$7,426
Benefits Paid	\$28,155	\$31,505	\$34,128	\$39,889	\$44,254	\$52,050	\$58,249	\$64,130	\$74,238	\$79,932
Total	\$33,219	\$36,636	\$40,795	\$47,664	\$53,578	\$62,480	\$67,211	\$73,492	\$84,020	\$91,490



MEMBERSHIP INFORMATION



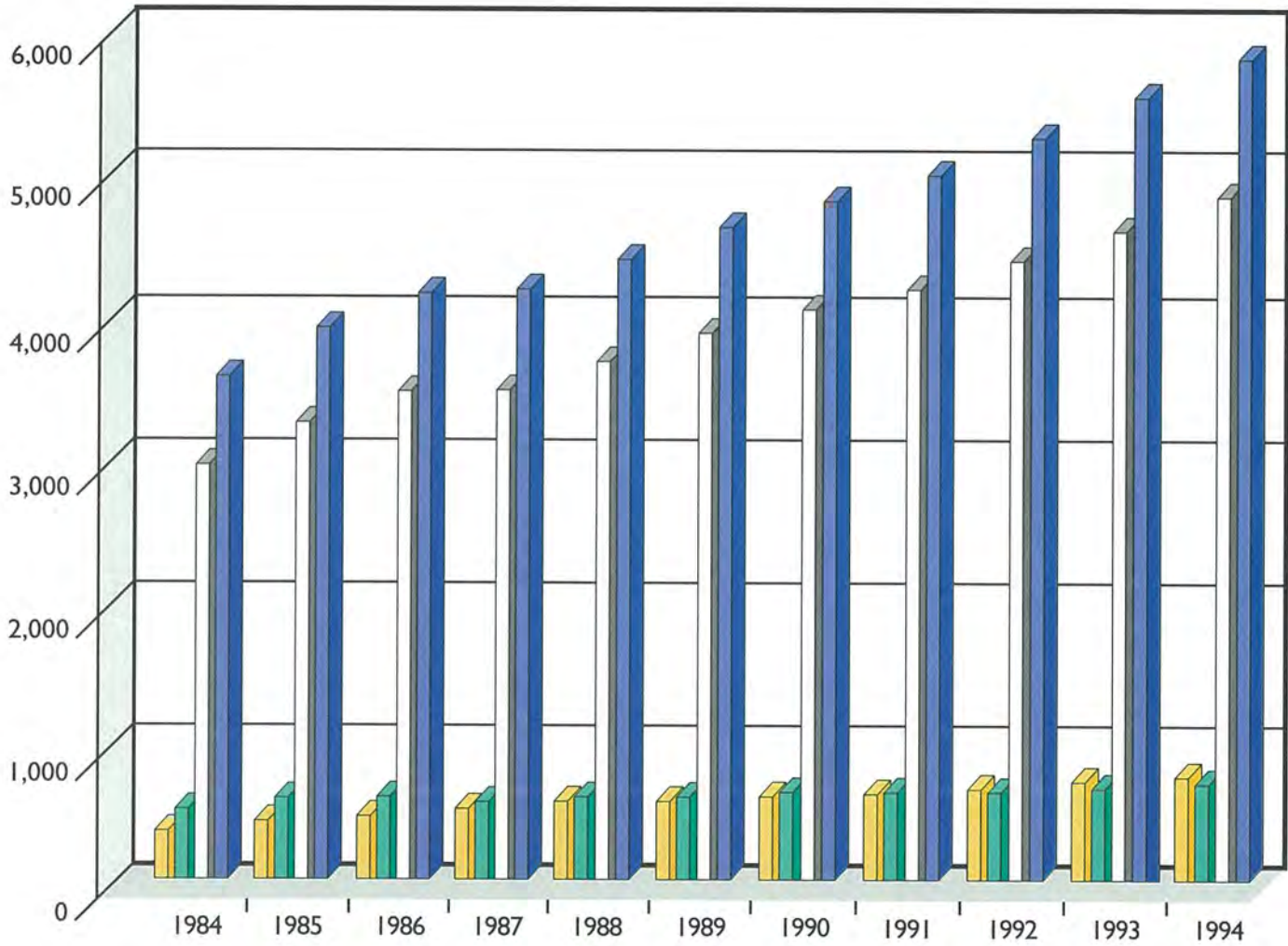
Membership History 1984-1994 (Active and Deferred)



	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Deferred	581	610	643	689	748	797	798	936	932	903	908
Active	13,322	13,988	14,820	15,050	15,744	16,573	18,066	18,702	18,735	19,073	19,589
Total	13,903	14,598	15,463	15,739	16,492	17,370	18,864	19,638	19,667	19,976	20,497



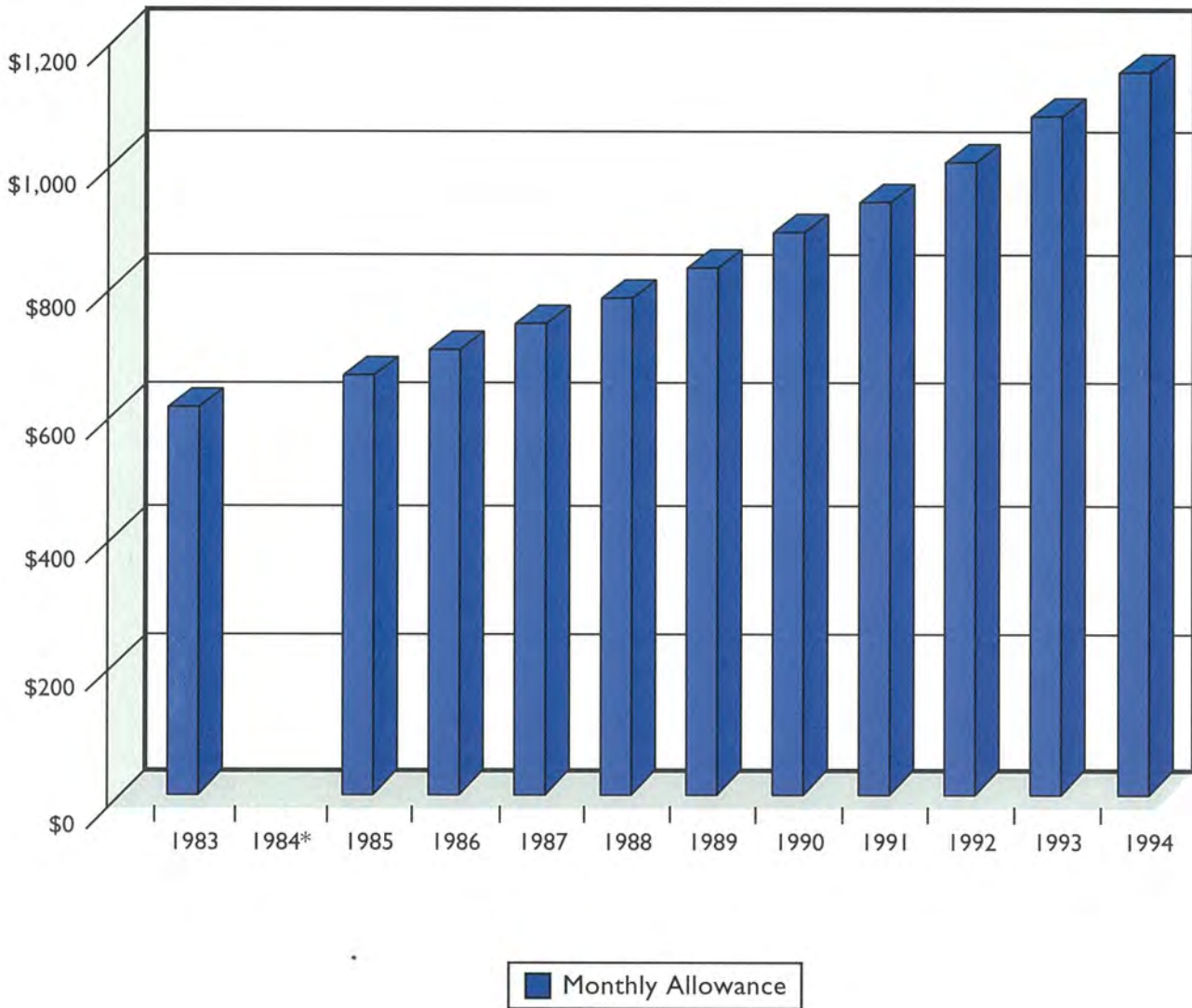
Membership History 1984-1994 (Retired)



Serv. Conn. Disab.
 Non-Serv. Conn. Disab.
 Service
 Total

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Serv. Conn. Disab.	260	280	308	335	354	366	400	424	487	508	548
Non-Serv. Conn. Disab.	352	379	390	374	376	391	398	400	411	437	461
Service	2,940	3,232	3,448	3,464	3,661	3,852	4,001	4,149	4,354	4,579	4,807
Total	3,552	3,891	4,146	4,173	4,391	4,609	4,799	4,973	5,252	5,524	5,816

Average Monthly Retirement Benefits

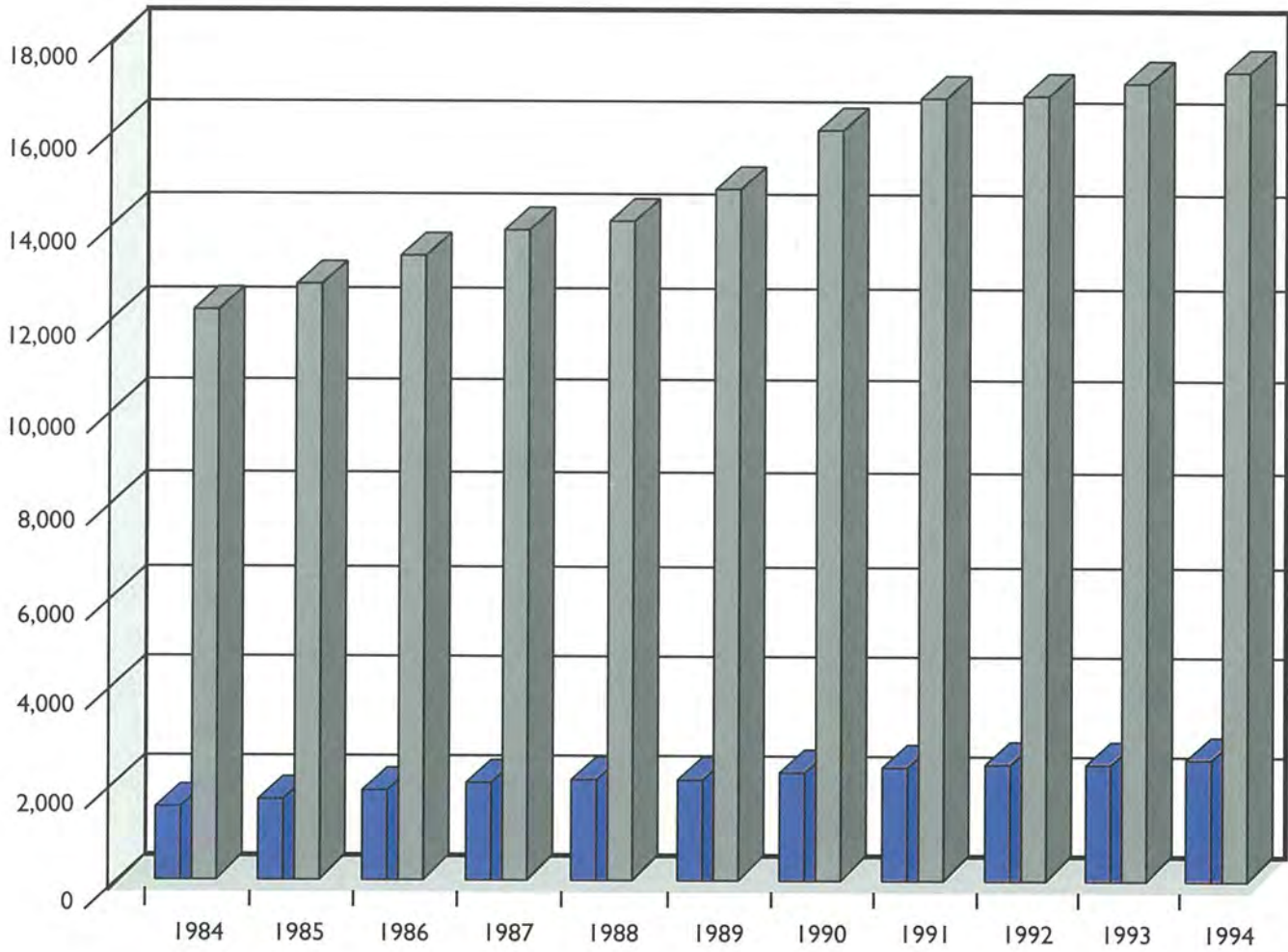


	1983	1984*	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Monthly Allowance	\$585		\$646	\$682	\$723	\$765	\$809	\$864	\$908	\$971	\$1,047	\$1,112

* Information unavailable



Membership Classification



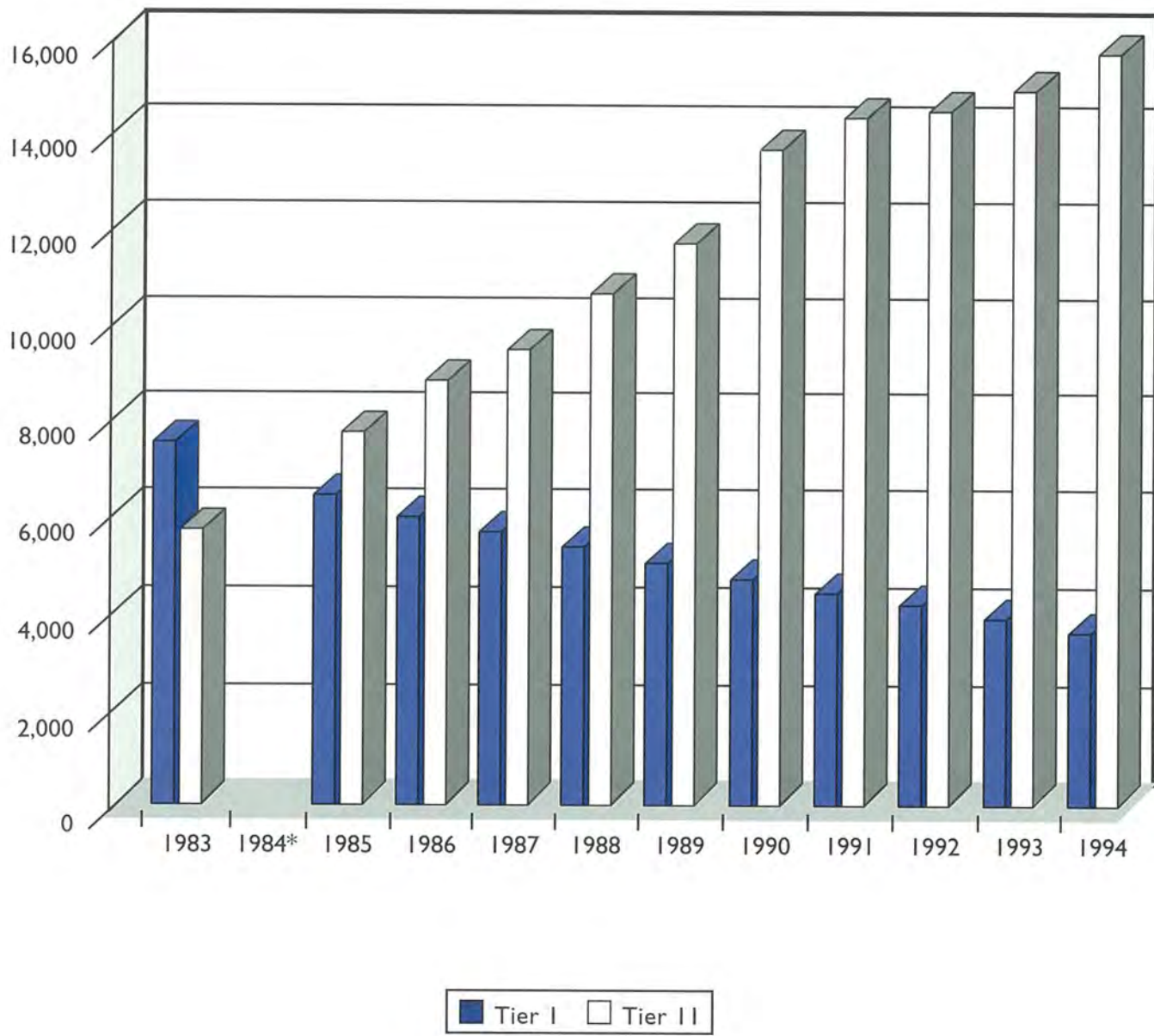
■ Safety
 ■ General

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Safety	1,386	1,493	1,688	1,853	1,903	2,015	2,200	2,188	2,153	2,196	2,289
General	11,936	12,495	13,132	13,197	13,841	14,558	15,866	16,514	16,582	16,877	17,084



Membership By Tier

(Active Members)

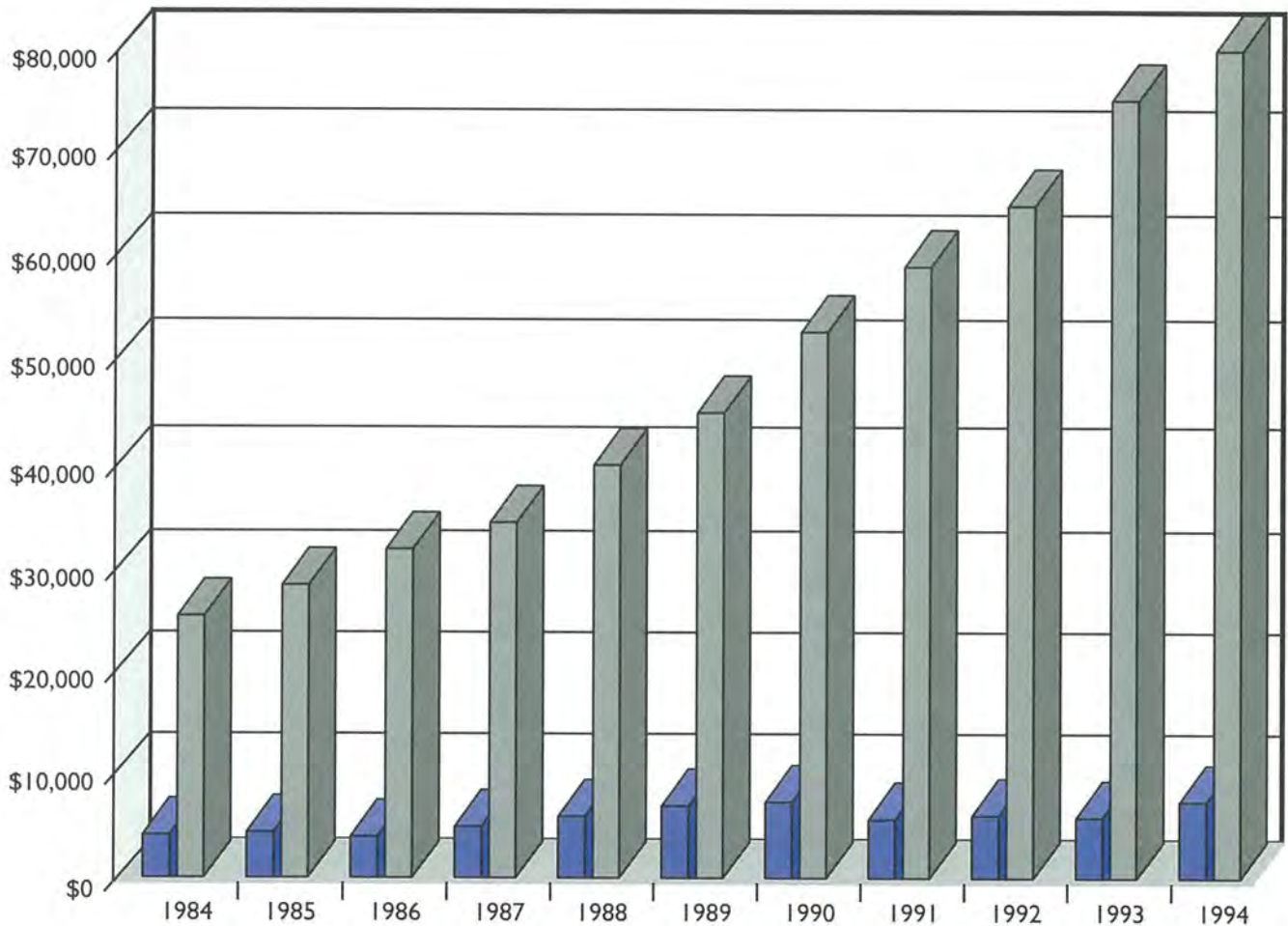


	1983	1984*	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Tier I	7,369		6,376	6,042	5,650	5,269	4,973	4,702	4,399	4,265	3,948	3,714
Tier II	5,574		7,611	8,705	9,350	10,474	11,599	13,481	14,202	14,311	14,849	15,659

* Information unavailable

Benefits and Withdrawals Paid

(in thousands)



■ Withdrawals ■ Benefits Paid

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Withdrawals	\$3,925	\$4,266	\$4,218	\$5,409	\$6,209	\$7,124	\$7,509	\$5,679	\$5,681	\$5,928	\$7,426
Benefits Paid	\$24,834	\$28,155	\$31,505	\$34,128	\$39,889	\$44,254	\$52,050	\$58,249	\$64,130	\$74,238	\$79,932



INVESTMENT INFORMATION

INVESTMENT CONSULTANT'S STATEMENT



CALLAN ASSOCIATES INC.

San Francisco, New York, Chicago, Atlanta, Denver

MICHAEL J. O'LEARY, JR.

Executive Vice President

June 19, 1995

Ms. Mary-Jean Hackwood
Administrator
Orange County Retirement System
2942 Daimler Street
Santa Ana, CA 92705

Dear Mary-Jean:

Calendar year 1994 was an exceedingly difficult year for investors and particularly challenging for the Orange County Employees Retirement System.

The bond market suffered the poorest returns observed in modern history. Domestic stocks achieved meager returns and international stocks posted very modest gains. The Standard & Poors 500 Stock Index returned less than 1.3% for the year. Investment grade bonds, as measured by the Lehman Government/Corporate Bond Index declined more than 3.5%. Long-term government bonds, measured by the Lehman Long-Term Government Bond Index, lost 7.7% for the year. The median international stock manager in Callan's Non-U.S. Equity Style Group achieved a modest 2.47% return.

The Orange County Employees Retirement System, in addition to dealing with this difficult environment, also was confronted with the direct impact of the well publicized bankruptcy of Orange County and the Treasurer's pool.

For the full year, OCERS registered a negative return of 2.29%. This return includes a direct impact of 1.4% attributable to an estimated 27% value adjustment for OCERS investments in the Treasurer's pool. This result compares to a median return of negative .99% for the Callan Plan Sponsor database. Thus, were it not for the bankruptcy, OCERS would have achieved slightly better than median results for the year.

We regularly compare OCERS Total Fund performance to a Policy Benchmark Index. The Benchmark is comprised of market indices weighted in the same proportion as OCERS long-term strategic asset allocation policy. After outperforming this target index in each of the preceding four years, OCERS underperformed in 1994. Nonetheless, for cumulative 3, 5 and 7 year

550 East 8th Avenue, Denver, CO 80203 • 303 / 832-8109 • Fax 303 / 832-8230

INVESTMENT CONSULTANT'S STATEMENT (continued)

Ms. Mary-Jean Hackwood
Page Two
June 19, 1995

periods, the System has continued to outperform the target. For example, Total Fund results for the 7 years ended 12/31/94 were 9.49% compounded annually versus the Policy Benchmark's return of 9.12% for the same period.

Importantly, the System's overall diversification plan is sound. The System's domestic equity managers, while underperforming the S&P 500 in 1994, have outperformed the market over trailing 2 and 5 year periods. Similarly, the System's International Equity managers have outperformed both the Morgan Stanley Capital International EAFE Stock Index and the median international manager for the trailing 2 and 5 year periods. The System's bond managers slightly underperformed the Lehman Government/Corporate Bond Index in 1994 (negative 3.76% versus negative 3.51%), but have significantly outperformed the bond market for all other cumulative periods.

In sum, OCERS ended 1994 in a strong, well diversified position. The System's diversification plan and manager structure withstood a difficult market environment and your managers believe that the System's portfolios are well positioned for 1995 and beyond.

Sincerely,



Michael J. O'Leary, Jr., CFA
Executive Vice President

MJO:dsb

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES
ADOPTED BY THE BOARD OF RETIREMENT MAY 11, 1992

General

This statement is intended to set forth the factors involved in the management of investment assets for the retirement system. The responsibility of the Board (with the participation of its Investment Committee, Staff and Advisors) is to establish broad investment policy, guidelines and objectives for the total fund and its component parts, to select independent investment managers and to monitor the activities of the investment managers. The responsibility of each investment manager is to develop and implement management strategies in accordance with the stated investment policies, guidelines and objectives, in a manner consistent with the "prudent man" rule for similar funds, i.e., with care, skill, prudence and diligence, with full discretion subject to the guidelines and applicable statutes. The investment manager is responsible for administration of the investment program within parameters established.

Strategic Asset Allocation Policy and Maintenance

The Board periodically undertakes strategic asset allocation studies. Such studies define the targeted level of diversification among the various major asset classes and the range in which they are permitted to fluctuate. When significant changes are made to the plan, a transition plan is adopted.

In normal circumstances, asset levels are permitted to fluctuate around targeted levels, and cash inflows are administered by staff in a manner that is consistent with maintenance of the desired level of diversification. When asset fluctuations and/or external cash flows take actual allocation outside the accepted range, cash inflows shall be directed toward the underallocated asset categories and cash outflows shall be directed from the overallocated asset classes.

Should expected external flows be judged by staff to be insufficient to bring the plan within permitted ranges within a 12 month period, staff shall inform the Investment Committee. The Investment Committee then will formulate a recommendation to shift assets that will be presented to the full Board.

Program Administration and Manager Structure

For each major asset class, the System shall diversify assets by employing managers with demonstrated skills in their particular areas of expertise. The System will retain managers who utilize varied investment approaches and allocate assets in a manner that is consistent with the overall strategic plan. So, for example, the sum of all domestic equity managers should exhibit characteristics that are similar, but not necessarily identical, to the overall equity market. When asset fluctuation causes the asset class to exhibit characteristics that are dissimilar from the plan, staff shall direct cash flows to or from the various managers so that actual characteristics are consistent with the plan. Should unusual circumstances create a significant imbalance that cannot be corrected through the routine allocation of external cash flows, the Investment Committee shall formulate a recommendation for Board consideration.

TARGET ASSET ALLOCATION RANGES

As of December 31, 1994

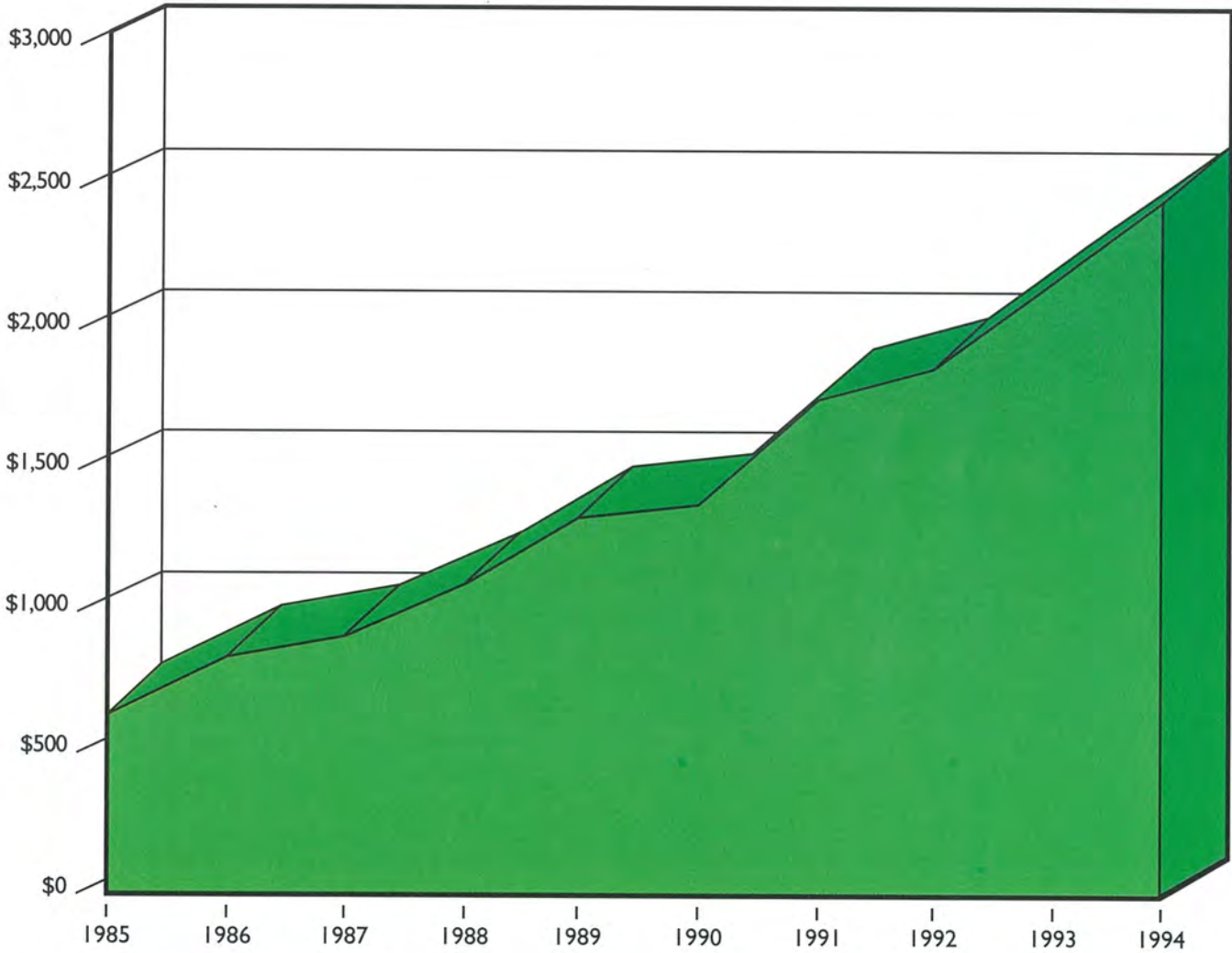
	<u>Lower End</u>	<u>Target As a % of Total Assets</u>	<u>Upper End</u>
Domestic Equity	<u>33%</u>	<u>40%</u>	<u>47%</u>
Core	13%	15%	18%
Growth	5%	10%	15%
Value	5%	10%	15%
Non-traditional	3%	5%	7%

Non-traditional suballocation based on commitments, not actual investments.

International Equity	<u>7%</u>	<u>10%</u>	<u>13%</u>
Growth	3%	5%	8%
Value	3%	5%	8%
Fixed Income	<u>29%</u>	<u>35%</u>	<u>41%</u>
Core	12%	18%	24%
Yield	4%	7%	10%
Intermediate	3%	5%	7%
International	3%	5%	7%
Real Estate	<u>12%</u>	<u>15%</u>	<u>18%</u>

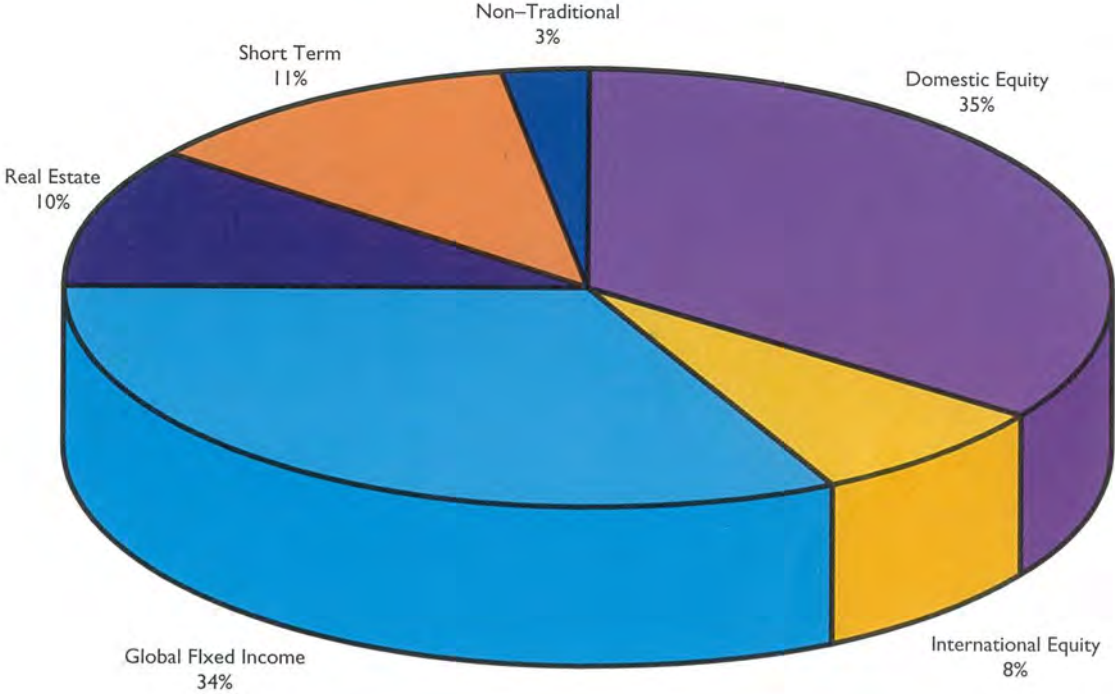


**Orange County Employees Retirement System
Market Value Growth of System Assets
For Ten Years Ended December 31, 1994
(in Millions of Dollars)**





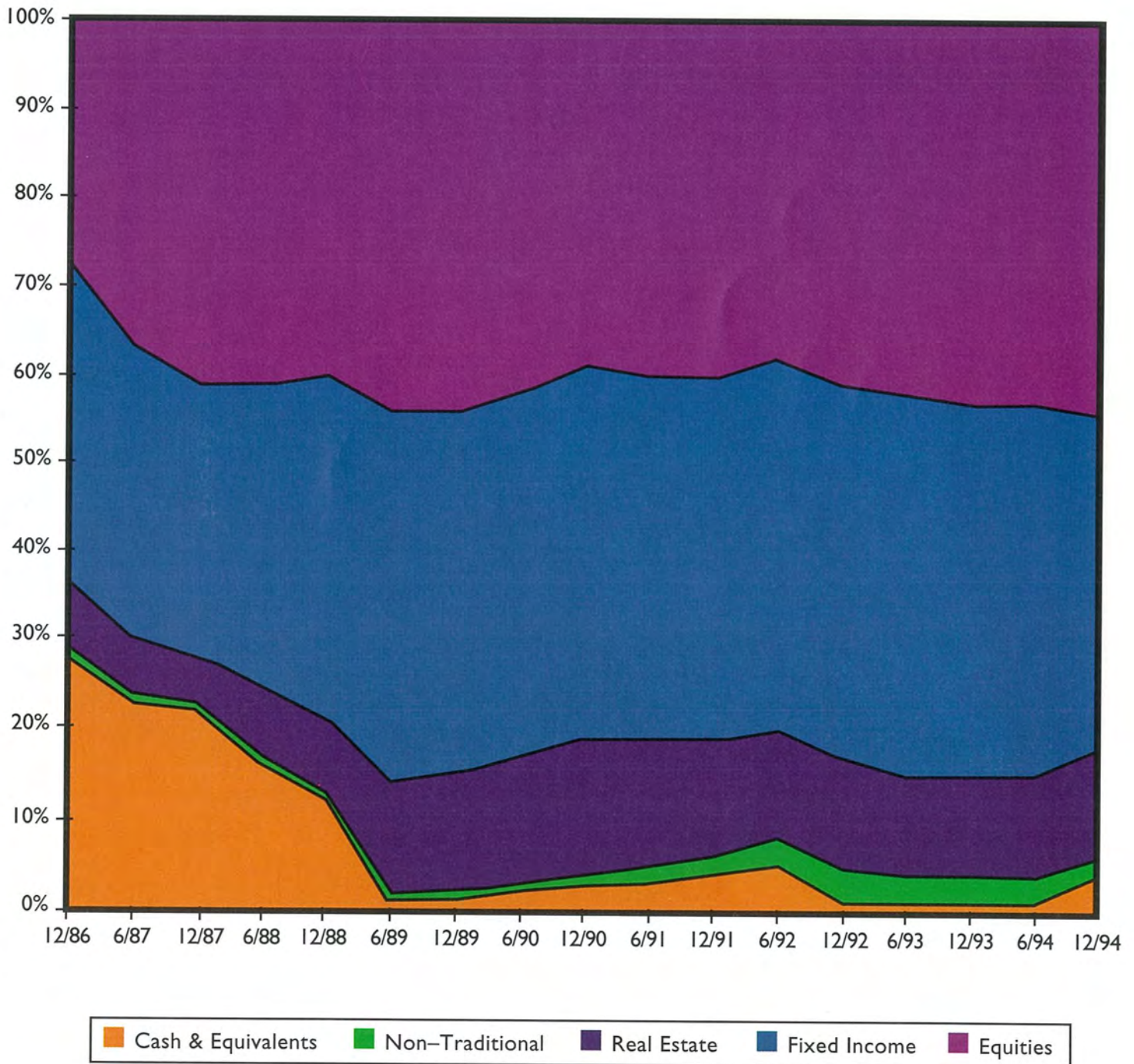
Orange County Employees Retirement System Asset Diversification December 31, 1994



	Market (000's)
Domestic Equity	\$872,887
International Equity	192,973
Global Fixed Income	848,255
Real Estate	250,103
Short Term	289,925
Non-Traditional	70,307
Total	\$2,524,450

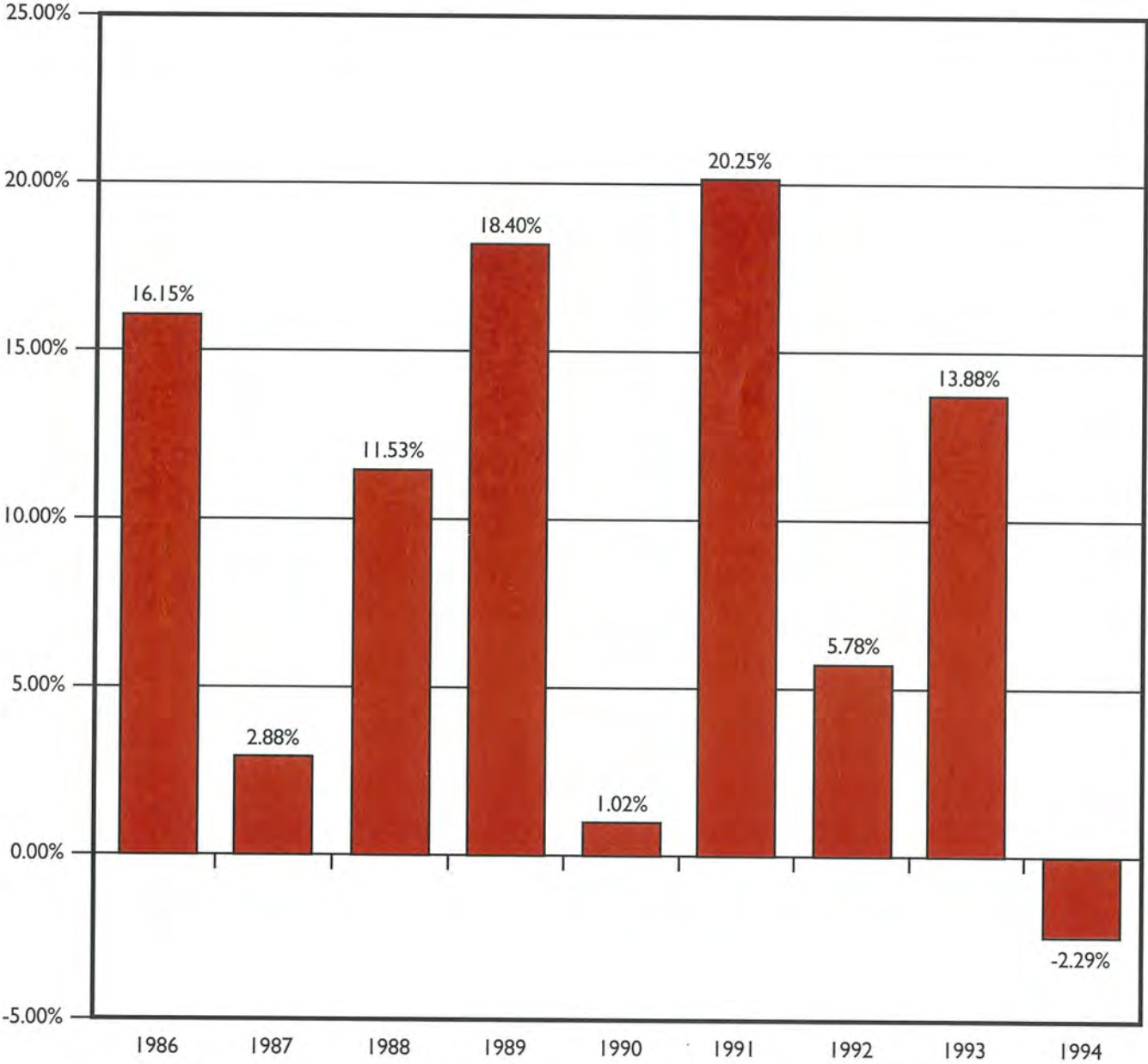
Note: The numbers included in this chart were obtained from the audited financial reports. The short term investments indicated above include all cash under the discretion of investment managers.

Orange County Employees Retirement System Historical Asset Allocation (Actual) December, 1986 – December, 1994





Orange County Employees Retirement System History of Performance For Calendar Years 1986 – 1994



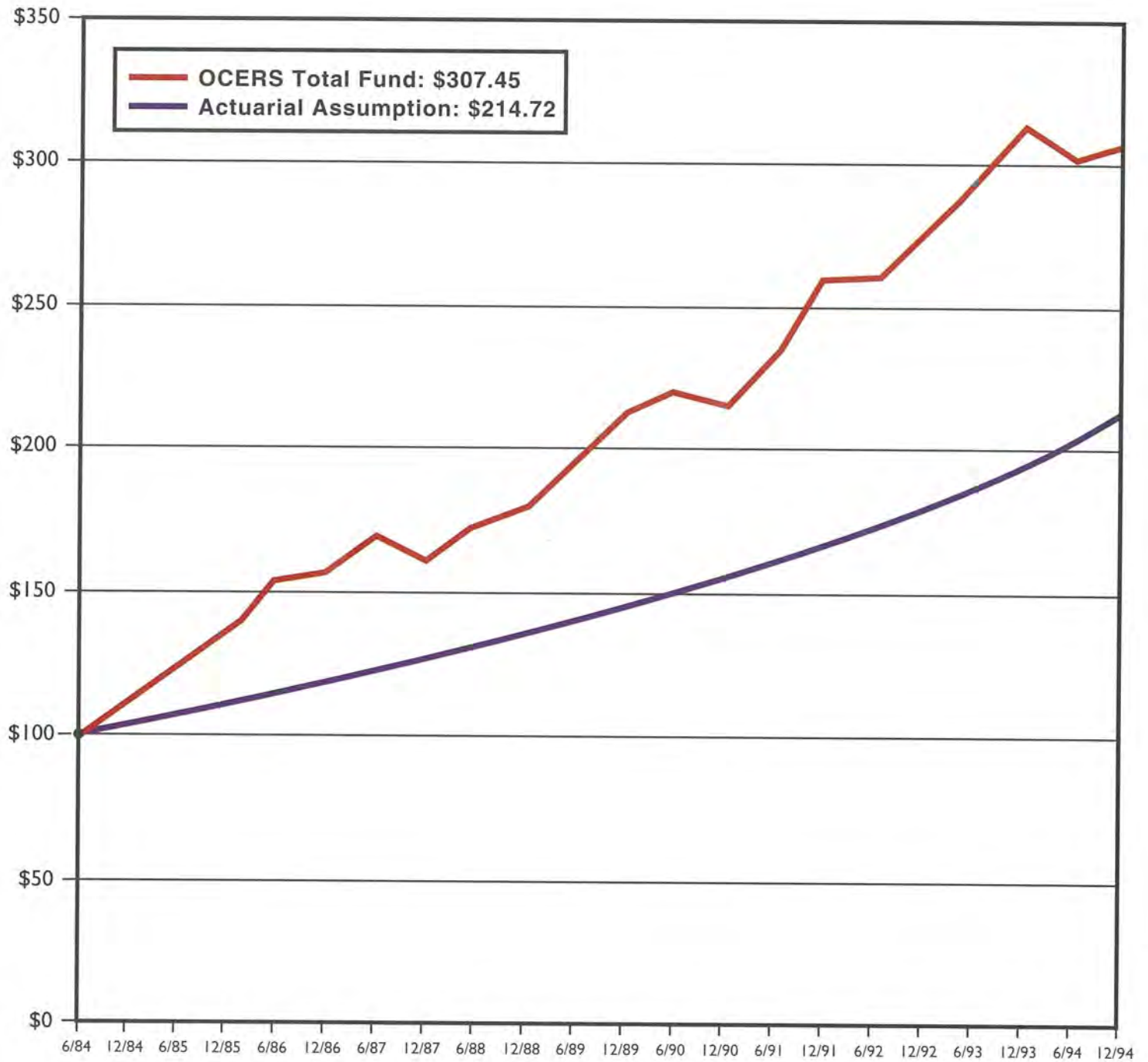
HISTORY OF EMPLOYER CONTRIBUTION RATES BY EFFECTIVE DATE

<u>Effective Date</u>	<u>Recommended Rates</u>		<u>Implemented Rates</u>	
	<u>General</u>	<u>Safety</u>	<u>General</u>	<u>Safety</u>
7/1/84 *	14.40%	28.74%	14.40%	28.74%
7/1/85	14.40%	28.74%	14.40%	28.74%
7/1/86	13.95%	30.40%	13.95%	30.40%
7/1/87	13.73%	29.87%	13.73%	29.87%
7/1/88	13.72%	30.25%	13.72%	30.25%
7/1/89	11.48%	31.39%	11.48%	31.39%
7/1/90	10.81%	29.29%	10.81%	29.29%
7/1/91	10.80%	27.77%	10.80%	27.77%
12/1/91	9.35%	24.33%	9.35%	24.33%
7/1/92	2.55%	17.93%	2.55%	17.93%
7/1/93 **	4.86%	24.34%	2.55%	17.93%
7/1/94	3.91%	24.76%	3.90%	24.76%

* Actuarial Study was not conducted for 1984; 1983 rates used through 7/1/85.

** Recommended Contribution Rates for 1993 were not implemented.

Orange County Employees Retirement System Growth of Fund vs. Actuarial Assumption Rate* For Period June, 1984 — December, 1994



* Actuarial Assumption Rate was 7.25% through 6/89; 7.5% through 6/91 and 8% thereafter. An assumed basis of \$100 as of June 30, 1984 was adopted for the purpose of comparing the growth of the fund to the assumed actuarial rate.



ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
HISTORY OF ACTUARIAL ASSUMPTION RATES
 FOR THE PERIOD JANUARY, 1945 - DECEMBER, 1994

The table shown below is a comprehensive history of the interest rate assumption and the salary assumption rates corresponding to the Orange County Employees Retirement System since the inception of the system. These rates are adopted by the Board of Retirement and used by the consulting actuary in the creation of the actuarial valuation of the system.

Specifically, the interest rate assumption estimates the rate at which the funds of the system's investment portfolio will realize earnings over many years into the future. The salary assumption rate estimates the relative increases in the salary of a member from the date of the valuation to the estimated date of separation of the member from active service.

HISTORY OF OCERS ACTUARIAL ASSUMPTION RATES

<u>EFFECTIVE DATE</u>	<u>INTEREST RATE</u>	<u>SALARY ASSUMPTION RATE</u>
1/01/45	2.50%	0.00%
7/01/62	3.50%	0.00%
12/31/65	4.00%	0.00%
7/01/69	4.50%	0.00%
6/30/70	5.00%	0.00%
8/31/73	5.75%	0.00%
7/01/75	6.00%	0.00%
7/01/81	7.25%	5.00%
7/01/89	7.50%	5.50%
7/01/91	8.00%	6.00%

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF BENEFIT EXPENSES BY TYPE**

(in thousands)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Retirement Benefits	\$27,982	\$31,397	\$33,863	\$39,655	\$44,005	\$51,749	\$57,910	\$64,035	\$73,544	\$79,280
Death Benefits	173	108	265	234	249	301	339	95	694	652
Withdrawals and Refunds	<u>\$ 4,266</u>	<u>\$ 4,218</u>	<u>\$ 5,409</u>	<u>\$ 6,209</u>	<u>\$ 7,124</u>	<u>\$ 7,509</u>	<u>\$ 5,679</u>	<u>\$ 5,681</u>	<u>\$ 5,928</u>	<u>\$ 7,426</u>
Total	\$32,421	\$35,723	\$39,537	\$46,098	\$51,378	\$59,559	\$63,928	\$69,811	\$80,166	\$87,358

Note: Beginning with calendar year 1995, OCERS' system will accumulate the detail retirement benefits payments to include Service Retirement, Service Connected Disability Retirement, and Non-Service Connected Disability Retirement.

LIST OF PARTICIPATING EMPLOYERS

County of Orange

Orange County Transportation Authority

Orange County Department of Education (closed to new members)

City of San Juan Capistrano

UCI Medical Center (closed to new members)

Foothill/Eastern Transportation Corridor Agency

San Joaquin Hills Transportation Corridor Agency

Cypress Recreation and Park District

Sanitation Districts of Orange County

Capistrano Valley Water District

Capistrano Beach Sanitation District

Orange County Cemetery District

Santiago Library System

Orange County Vector Control District

Orange County Law Library

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Orange County Employees Retirement System
2942 Daimler Street
Santa Ana, CA 92705
(714) 975-1962
