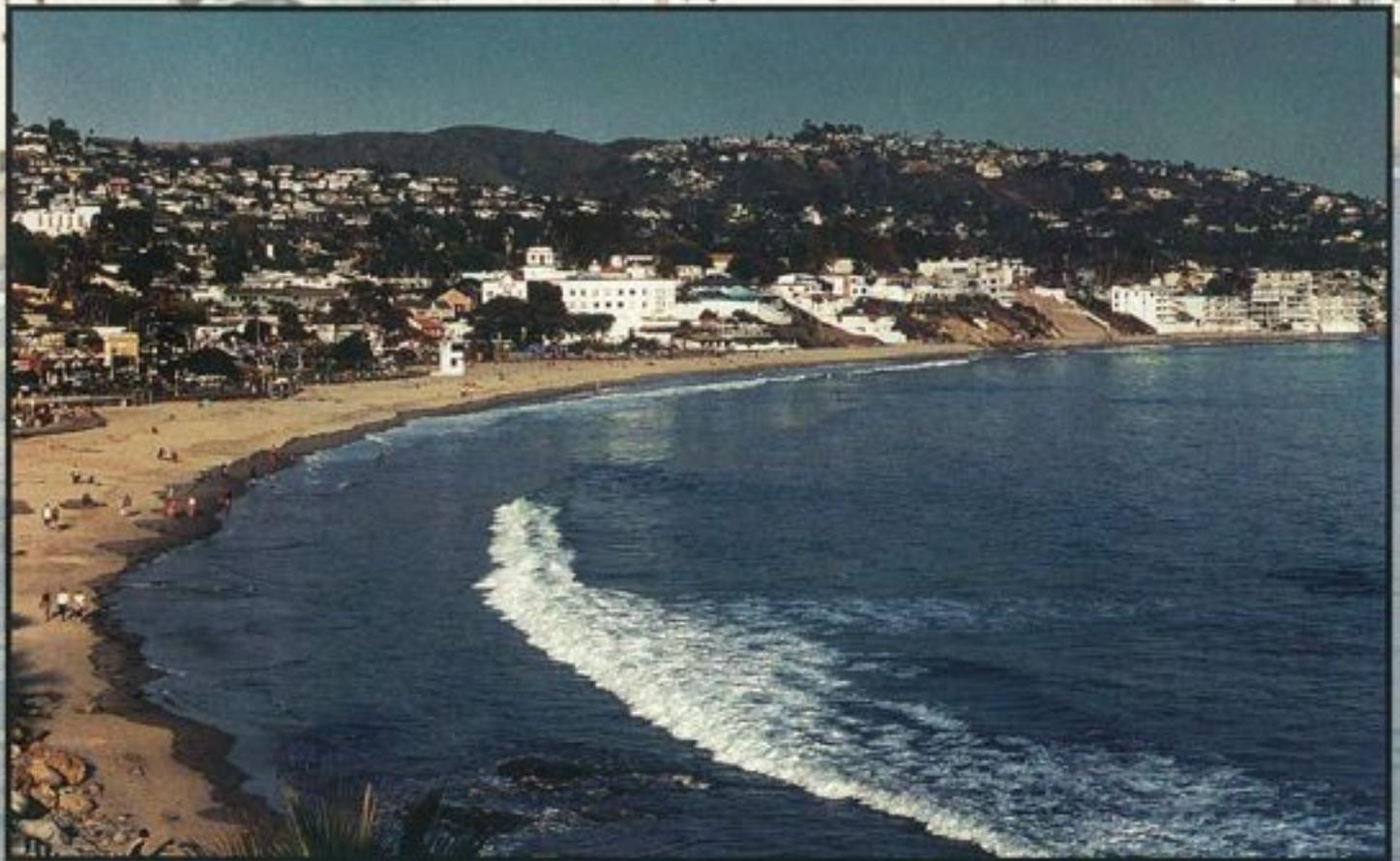


COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1998



**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
ORANGE COUNTY, CALIFORNIA**



ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

**COMPREHENSIVE
ANNUAL FINANCIAL
REPORT**

FOR THE YEAR ENDED DECEMBER 31, 1998

**RAYMOND A. FLEMING
ADMINISTRATOR**

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I. INTRODUCTORY SECTION



Serving the Active and Retired Members of

June 4, 1999

CAPSTRAND BEACH
SANITATION DISTRICT

CITY OF SAN JUAN
CAPSTRAND
(INCLUDES CAPSTRAND
VALLEY WATER
DISTRICT)

COUNTY OF ORANGE

CYPRESS RECREATION AND
PARK DISTRICT

FOOTHILL/EASTERN/
SAN JOAQUIN HILLS
TRANSPORTATION
CORRIDOR AGENCY

ORANGE COUNTY
CEMETARY DISTRICT

ORANGE COUNTY
EMPLOYEES
RETIREMENT SYSTEM

ORANGE COUNTY FIRE
AUTHORITY

ORANGE COUNTY LAW
LIBRARY

ORANGE COUNTY
TRANSPORTATION
AUTHORITY

ORANGE COUNTY VECTOR
CONTROL DISTRICT

SANITATION DISTRICTS OF
ORANGE COUNTY

SANTIAGO LIBRARY
SYSTEM

ORANGE COUNTY
DEPARTMENT OF
EDUCATION
(closed to new
members)

UCI MEDICAL CENTER
(closed to new
members)

Board of Retirement
Orange County Employees Retirement System
2223 Wellington Avenue
Santa Ana, CA 92701

Dear Board Members:

It is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) of the Orange County Employees Retirement System (OCERS) for the calendar year ended December 31, 1998, the System's 54th year of operation. Information contained in this report is designed to provide a complete and accurate review of the year's operations and is the responsibility of the OCERS' management.

Structure of the Report

This report is presented in five sections:

- The Introductory Section describes the System's management and organizational structure, a summary of the plan provisions and a listing of the professional services used.
- The Financial Section contains the opinion of the independent auditors, Ernst & Young LLP, and the general purpose financial statements of the System.
- The Investment Section contains the investment Consultant's statement produced by Callan Associates, OCERS' investment consulting firm, along with graphs and schedules regarding asset allocation, asset diversification, and history of performance.
- The Actuarial Section includes the certification letter produced by the independent actuary, Towers Perrin, along with supporting schedules and information.
- The Statistical Section contains graphs and schedules with comparative data related to active and deferred membership, retired membership, average monthly retirement benefits, revenues and expenses, and participating employers.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM • 2223 Wellington Avenue, Santa Ana, CA 92701
Telephone (714) 558-6200 Fax (714) 558-6236

Board of Retirement
June 4, 1999
Page 2

Accounting System and Reports

This CAFR was prepared in conformity with generally accepted accounting principles and reporting guidelines set forth by the Government Accounting Standards Board (GASB) in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributions Plans*, and the County Employees Retirement Law of 1937.

The accompanying financial statements are prepared using the accrual basis of accounting. Contributions from employers and members are recognized in the period in which members provide services. Investment income is recognized as revenue when earned. Expenses are recorded when corresponding liabilities are incurred, regardless of when payment is due.

Ernst & Young LLP, independent auditors, have audited the general purpose financial statements. Management believes that internal control is adequate and that the accompanying statements, schedules and tables are fairly presented.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to OCERS for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 1997. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA for evaluation.

Additions to Plan Net Assets

The total additions to plan net assets for 1998, including net appreciation in fair value of investments and net of investment management fees, were \$562,025,000. This amount includes member and employer contributions of \$68,534,000 and net investment income of \$493,491,000. Net investment income represented a decrease of \$34,118,000 over prior year; this decrease was attributable mainly to lower net appreciation in fair value of investments. Details of the components of the additions to

Board of Retirement
June 4, 1999
Page 3

plan net assets are included in the Statements of Changes in Plan Net Assets on page 19.

Deductions to Plan Net Assets

Deductions for 1998, excluding investment management and security lending fees, were \$156,155,000 which represented an increase of \$32,055,000 over prior year. This increase was the result of higher retirement benefits payments due to the implementation of California Supreme Court Decision – Ventura County and an increase in the number of retirees. The components of the total deductions are payments of retirement benefits of \$142,457,000, refunds of contributions and interest to terminated members of \$7,848,000 and administrative expenses of \$5,850,000.

Changes in System Memberships

OCERS' membership increases for the calendar year 1998 were as follows:

	<u>1998</u>	<u>1997</u>	<u>Increase (Decrease)</u>	<u>Change</u>
Active Members	19,432	18,693	739	3.95%
Retired Members	7,244	6,912	332	4.80%
Deferred Members	1,179	1,184	(5)	(.42%)
Pending Status	571	312	259	83.01%

Financial and Economic Summary

The past year has been a prosperous year for OCERS. Growth in the economy has come mainly from the construction, whole trade, engineering, and management services, software, biotechnology, business services, and entertainment, while various other industries also seem to be making progress. Tax revenues for the State of California have increased and it is anticipated that additional revenues will be made available to Counties, Cities and Special Districts.

Unemployment rates have trended down statewide and in Orange County as well. The unemployment rates in Orange County continued to be below the national average. Specifically, California added an estimated 454,000 jobs during 1998; this is a healthy growth rate of 3.5%. Orange County added an estimated 61,000 jobs during 1998. Two-thirds of all new full-time jobs paid more than the U.S. median wage and employment in low-paid service jobs was falling. Orange County's housing demand continued to strengthen during 1998, driven by active job growth, low mortgage rates and healthy consumer confidence.

Board of Retirement
June 4, 1999
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Investment Summary

OCERS' investments turned in a solid performance during 1998. For the 1998 year, the portfolio earned a total return of 12.77%, well above the actuarial earnings assumption. Over long-term periods, the portfolio has earned total annualized returns of 14.36% over the past three years, and 12.50% over the past five years. On a fair value basis, the total plan net assets grew from \$3,840,723,000 to \$4,246,593,000.

Funding

OCERS' funding objective is to meet long-term benefit obligations through contributions and investment income. As of December 31, 1998, the funding ratio of the System was approximately at 95.17%; a six-year history of OCERS' funding progress is presented on page 35. For 1998, OCERS experienced an increase of \$405,870,000 in plan net assets. Details of the components of this increase are included in the Statement of Changes in Plan Net Assets on page 19.

Conclusion

I would like to take this opportunity to thank the members of the System for their confidence in OCERS during the past year. I also want to express my thanks to the Board of Retirement for its dedicated effort in supporting the System through this past year. Likewise, I thank the consultants and staff for their commitment to OCERS and for their diligent work to assure the System's continued successful operation.

Respectfully submitted,


Raymond A. Fleming
Administrator


Toi Dang
Manager, Financial Services

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Orange County Employees
Retirement System,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 1997

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Douglas R. Ellsworth
President

Jeffrey L. Essler
Executive Director

MEMBERS OF THE BOARD OF RETIREMENT
AS OF DECEMBER 31, 1998

Regular Members:

Mary K. Abbott	Elected Member - General Orange County Employees Retirement System Term expires December 30, 2000
Keith L. Concannon	Elected Member - Retired Employees Term expires December 30, 2001
Thomas N. Fox	Elected by Safety Members (Sheriff) Chairperson 1998-1999 Term expires June 30, 2000
Thomas J. Lightvoet	Appointed Member Vice-Chair 1999 Appointed by Board of Supervisors Term expired May 1, 1998 Until re-appointed or replaced
Frank E. Eley	Elected Member - General Public Facilities & Resources Department Term expires December 30, 2001
John M.W. Moorlach	Ex-Officio Member County Treasurer-Tax Collector Term expires December 31, 2002
George W. Jeffries	Appointed Member Appointed by Board of Supervisors Term expires September 15, 2001
Charles H. Simons	Appointed Member Appointed by Board of Supervisors Term expires January 12, 2001
Reed L. Royalty	Appointed Member Appointed by Board of Supervisors Term Expires September 15, 2001

Alternate Member:

Michael J. Carmody	Elected Member – Safety (Alternate for Safety Members) Alternate for all Elected Members Fire Department Term expires June 30, 2000
---------------------------	---

SUMMARY OF PLAN PROVISIONS

1. Plan Description and History

OCERS was established in 1945 by the County of Orange (County) 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 and 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: $1.8\% \times \text{Years of Service Credit} \times \text{Final Average Monthly Compensation}$.
(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.)

SUMMARY OF PLAN PROVISIONS (continued)

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 months' 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.)

SUMMARY OF PLAN PROVISIONS (continued)

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.

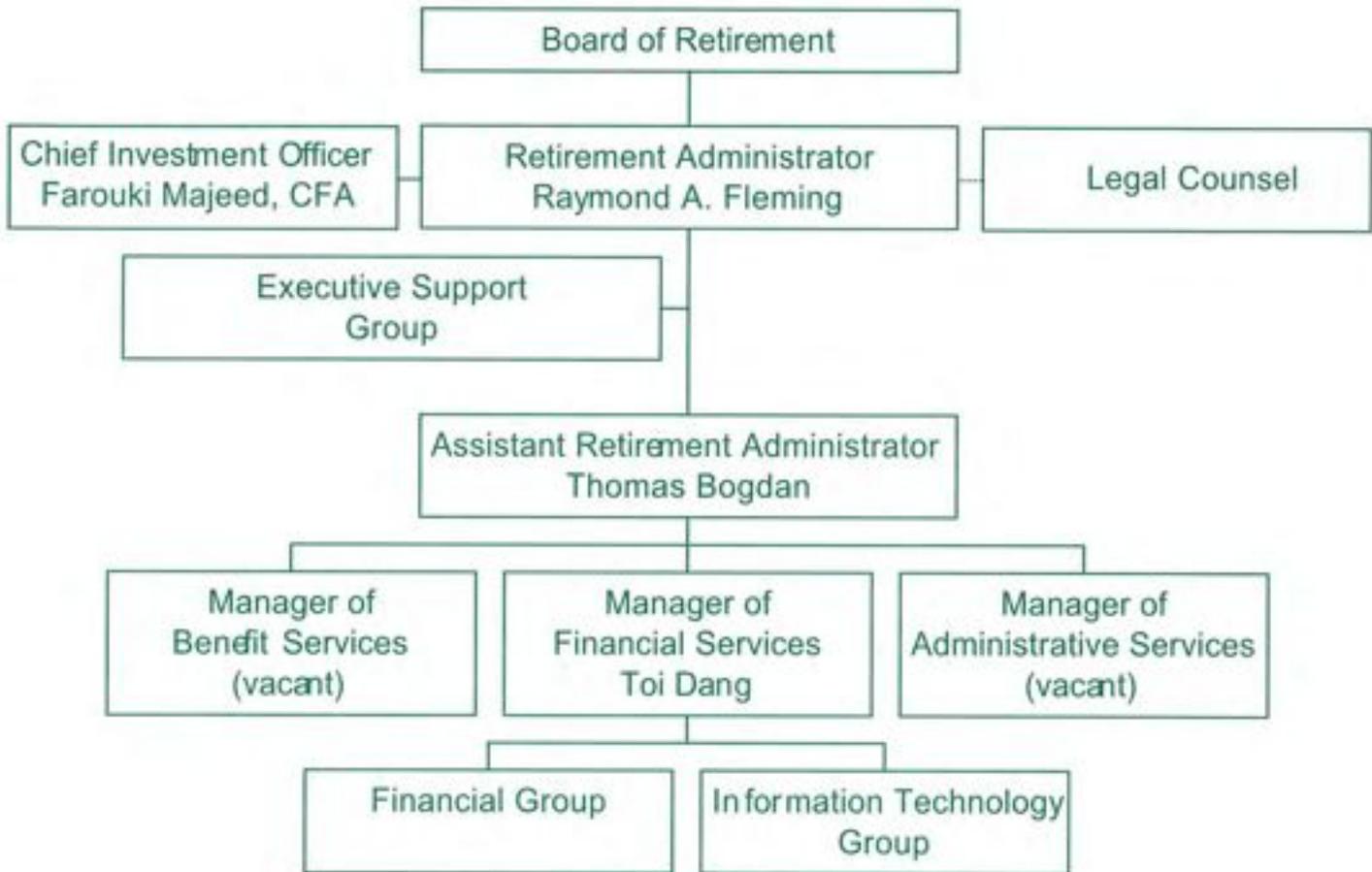
12. County Contributions

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: 45.40% (25.89%) of General; 83.53% (41.80%) of Safety.

ORGANIZATION CHART



As of May 1, 1999

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 SERVICES: 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.

FINANCIAL SERVICES DIVISION: 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 Financial Services Division also interfaces with the County Auditor-Controller and Treasurer's Office.

INFORMATION TECHNOLOGY DIVISION: 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.

ADMINISTRATIVE 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, Administrative 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 and the law firm of Steefel Levitt & Weiss are responsible for this Section.

PROFESSIONAL SERVICES

As of May 1, 1999

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

Irvine, CA

LEGAL COUNSEL

County Counsel of Orange County

Santa Ana, CA

INVESTMENT COUNSEL

Stradling, Yocca, Carlson & Rauth

Newport Beach, CA

GENERAL COUNSEL

Steeffel Levitt & Weiss

San Francisco, CA

INVESTMENT MANAGERS

DOMESTIC EQUITY

BGI S&P Index

San Francisco, CA

Cadence Capital Management

Boston, MA

Dodge & Cox

San Francisco, CA

Delaware Investment Advisers

Philadelphia, PA

Pilgrim Baxter Value Investors, Inc.

Wayne, PA

Siphron Capital Management, Inc.

Beverly Hills, CA

STI Capital Management

Orlando, FL

GLOBAL FIXED INCOME

Boston Partners Asset Management

Company, LP

Boston, MA

Delaware International Advisers, Ltd.

London, England

Kennedy Associates, Inc.

Seattle, WA

Loomis, Sayles & Company

Boston, MA

Pacific Investment Management Company

(PIMCO)

Newport Beach, CA

INTERNATIONAL EQUITY

Capital Guardian Trust Company

Los Angeles, CA

Capital Guardian International, Inc.

Los Angeles, CA

Schroder Capital Management International

London, England

PROFESSIONAL SERVICES (continued)

As of May 1, 1999

INVESTMENT MANAGERS (Cont.)

REAL ESTATE

Domestic

American Realty Advisors
Glendale, CA

DA Management
Newport Beach, CA

SSR Realty Advisors
San Francisco, CA

PMRealty Advisors
PMRA III
Newport Beach, CA

Sentinel Real Estate Corporation
New York, NY

International

GIM Capital Management, Inc.
Summit, NJ

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

NON-TRADITIONAL INVESTMENTS

Managers

Brinson Partners, Inc.
Chicago, IL

HabourVest Partners, LLC
Boston, MA

Limited Partnerships

TCW Asset Management Company
Los Angeles, CA

Whippoorwill Associates, Inc.
White Plains, NY

Timberland

Hancock Timber Resource Group
Boston, MA

Prudential Timber Investments, Inc.
Boston, MA

CUSTODIAN

State Street California
Alameda, CA

II. FINANCIAL SECTION



■ 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 Employees 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 years ended December 31, 1998 and 1997, as listed in the table of contents. These general purpose financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the plan net assets of the Orange County Employees Retirement System at December 31, 1998 and 1997, and the changes in its plan net assets for the years then ended, in conformity with generally accepted accounting principles.

The supplementary information on pages 34-36 is not a required part of the general purpose financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). We did not audit and do not express an opinion on the information on pages 34-36. We have applied limited procedures to the information on pages 35-36, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we were unable to apply to the year 2000 information on page 34 certain procedures prescribed by professional standards because disclosure criteria specified by GASB Technical Bulletin No. 98-1 as amended are not sufficiently specific to permit us to perform procedures that would provide meaningful results. In addition, we do not provide assurance that the System is or will become year 2000 compliant, that the System's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the System does business are or will become year 2000 compliant.



Our audits were made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying supplemental information included as "Other Supplementary Information," as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the System. Such information has been subjected to the auditing procedures applied in our audits of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Ernst + Young LLP

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GENERAL PURPOSE FINANCIAL STATEMENTS

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF PLAN NET ASSETS

(in thousands)

	December 31	
	1998	1997
Assets		
Cash and Short-Term Investments		
Cash and Cash Equivalents (Note E)	\$ 135,750	\$ 334,474
Collateral Held for Securities Lent (Note E)	206,740	185,418
Total Cash and Short-Term Investments	342,490	519,892
Receivables		
Forward Currency Contracts, Net (Note F)	925	300
Investment Income	40,416	34,514
Securities Sales	18,328	42,324
Employer/Employee Contributions	6,613	6,284
Total Receivables	66,282	83,422
Investments, at Fair Value (Notes B and E)		
United States Government Debt		
Securities and Corporate Bonds	1,595,495	1,294,082
Foreign Bonds	176,528	138,390
Domestic Equity Securities	1,411,357	1,235,616
International Equity Securities (Note E)	535,226	380,245
Real Estate	330,533	367,096
Venture Capital and Limited Partnership Interest (Note E)	177,231	179,379
Total Investments	4,226,370	3,594,808
Fixed Assets, Net (Note B)	851	559
Total Assets	4,635,993	4,198,681
Liabilities		
Collateral Held for Securities Lent (Note E)	206,740	185,418
Securities Purchased	165,393	155,150
Mortgages Payable	-	1,181
Other	17,267	16,209
Total Liabilities	389,400	357,958
Net Assets Held in Trust for Pension Plan Benefits	\$ 4,246,593	\$ 3,840,723
(A schedule of funding progress is presented on page 35.)		

See accompanying notes to financial statements.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
(in thousands)

	Years Ended December 31	
	1998	1997
Additions		
Contributions (Note C)		
Employer	\$ 17,977	\$ 17,570
Employee	50,557	47,011
Total Contributions	68,534	64,581
Investment Income:		
Net Appreciation in Fair Value of Investments (Note E)	276,965	355,986
Interest on:		
Domestic and International Securities	103,274	91,585
Cash with County Treasurer (Note E)	37	82
Short-Term Investment Fund (Note E)	1,512	1,929
Domestic Dividends	48,692	48,274
Rental Income	33,080	14,726
International Dividends	9,590	5,311
Venture Capital and Limited Partnership	35,974	23,777
Securities Lending Revenues (Note E)	1,386	1,453
Total Investment Income	510,510	543,123
Less Investment Expenses	(16,540)	(14,933)
Less Securities Lending Fees (Note E)	(479)	(581)
Net Investment Income	493,491	527,609
Total Additions	562,025	592,190
Deductions		
Participants' Benefits	142,457	109,660
Member Withdrawals	7,848	9,048
Administrative Expenses (Note G)	5,850	5,392
Total Deductions	156,155	124,100
Net Increase	405,870	468,090
Net Assets Held in Trust for Pension Plan Benefits		
Beginning of Year	3,840,723	3,372,633
End of Year	\$ 4,246,593	\$ 3,840,723

See accompanying notes to financial statements.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

DECEMBER 31, 1998

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 (County) and of the following agencies: Orange County Transportation Authority, 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 Employees Retirement System, Orange County Cemetery District, Santiago Library System, Orange County Vector Control District, Orange County Fire Authority, 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 (County Retirement Law), 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. Subsequent to year-end, OCRS Holding Corporation was dissolved on January 31, 1999.

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 61.

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 to 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 \$1,000, 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, 1998 and 1997:

	Active Personnel	
	(unaudited)	
	December 31	
	1998	1997
<u>General Members</u>		
County and Agencies Paid by County Payroll	14,514	13,838
Outside Agencies	2,462	2,428
Subtotal - General Members	16,976	16,266
<u>Safety Members</u>		
County and Agencies Paid by County Payroll	1,716	1,673
Outside Agencies	740	754
Subtotal - Safety Members	2,456	2,427
Total Active Members	<u>19,432</u>	<u>18,693</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

Active Personnel (cont.)
(unaudited)

	<u>December 31</u>	
	<u>1998</u>	<u>1997</u>
<u>Deferred (General & Safety) Members</u>		
Regular	537	555
Employment with Other Agencies (Reciprocity)	642	629
Subtotal - Deferred Members	<u>1,179</u>	<u>1,184</u>
<u>Pending - Retirement or Withdrawal Members</u>		
General	554	300
Safety	17	12
	<u>571</u>	<u>312</u>
Total Active, Deferred, and Pending	<u><u>21,182</u></u>	<u><u>20,189</u></u>

At December 31, 1998 and 1997, 13,349 and 13,320 active members, respectively, had more than 5 years of service and were vested.

Retired Personnel Receiving Benefits
(unaudited)

	<u>December 31, 1998</u>			<u>December 31, 1997</u>		
	<u>Gen.</u>	<u>Safety</u>	<u>Total</u>	<u>Gen.</u>	<u>Safety</u>	<u>Total</u>
Service Retirements	4,997	362	5,359	4,762	346	5,108
Continuances	584	48	632	543	47	590
Subtotal-Service Retirements	<u>5,581</u>	<u>410</u>	<u>5,991</u>	<u>5,305</u>	<u>393</u>	<u>5,698</u>
Service-Connected						
Disability	447	235	682	430	220	650
Continuances	34	13	47	33	13	46
Subtotal-Service Disability	<u>481</u>	<u>248</u>	<u>729</u>	<u>463</u>	<u>233</u>	<u>696</u>
Nonservice-Connected						
Disability	412	23	435	408	20	428
Continuances	89	0	89	90	0	90
Subtotal-Nonservice Disability	<u>501</u>	<u>23</u>	<u>524</u>	<u>498</u>	<u>20</u>	<u>518</u>
Total Retired Personnel	<u><u>6,563</u></u>	<u><u>681</u></u>	<u><u>7,244</u></u>	<u><u>6,266</u></u>	<u><u>646</u></u>	<u><u>6,912</u></u>

NOTES TO FINANCIAL STATEMENTS (Continued)

5. **Employee 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.
6. **Federal Income Tax Status.** The Plan has received a determination letter from the Internal Revenue Service dated August 14, 1985, stating that the Plan is qualified, in form, under Section 401 (a) of the Internal Revenue Code (the "Code") and, therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Board of Retirement believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan is qualified and the related trust is tax exempt.

B. Summary of Significant Accounting Policies

1. **Basis of Accounting.** OCERS' financial statements are prepared on the accrual basis of accounting. Contributions from employers and members are recognized as revenue in the period in which members 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. Expenses are recorded when corresponding liabilities are incurred, regardless of when payment is due. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, OCERS has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

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.

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.

2. **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, which approximates fair value as 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 fair value, determined by independent appraisals performed on the properties held. The values of 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.
3. **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, 1998 and 1997, were as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

	<u>1998</u>	<u>1997</u>
Furniture and Equipment	\$ 1,441,000	\$ 1,087,000
Computer Software	832,000	779,000
Building and Building Improvements	53,000	53,000
Total Fixed Assets (at cost)	<u>2,326,000</u>	<u>1,919,000</u>
Less Accumulated Depreciation	<u>(1,475,000)</u>	<u>(1,360,000)</u>
Total Fixed Assets - Net of Depreciation	<u>\$ 851,000</u>	<u>\$ 559,000</u>

In 1997, OCERS transferred \$2,324,000, the cost of its office building purchased in 1996, to its real estate investment portfolio.

4. **Reclassification of Prior Year Amounts.** Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation.

C. Contributions Required and Contributions Made

As a condition of participation under the provisions of the County Employees Retirement Law of 1937, members 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 members' accumulated contributions at December 31, 1998 and 1997, were \$602,948,000 and \$554,353,000, respectively, including interest credited at an interest rate of 8 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.

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

In September 1994, the County of Orange issued \$320 million in Pension Obligation Bonds (POB) of which \$318.3 million in proceeds were paid to OCERS to fund the County's portion of the Unfunded Actuarial Accrued Liability (UAAL). The proceeds received were recorded as employer contributions in calendar year 1994.

For accounting purposes, OCERS maintains the proceeds for the POB's in the County Investment Account (Investment Account). County Counsel, OCERS legal counsel, had previously issued an opinion which requires OCERS to charge all participating agencies the same employer contribution rate based upon type of membership, i.e., general, safety. Therefore, OCERS and the County of Orange, a single participating district, entered into an agreement which provides an offsetting credit based upon an amount actuarially determined to deplete the County Investment Account over the then remaining UAAL amortization period.

NOTES TO FINANCIAL STATEMENTS (Continued)

In 1995, the Board of Retirement of OCERS and the County of Orange, entered into an agreement modifying the previous agreement for the use of the Investment Account. The modification provided, that for the year 1995, the employer contributions for the County of Orange would be paid entirely from the Investment Account.

Subsequently, in 1996, the Board of Retirement and the County of Orange entered into an agreement for the use of the Investment Account over a new funding period of 20 years. The agreement provides that the Investment Account will be used to fund the County's employer contribution and in a decreasing percentage each year. In 1997, the Investment Account funded approximately 90% of the County's employer contribution and the County made cash contributions for the remaining 10%. For each subsequent year the funding by the Investment Account will decrease by 5% annually, while the County of Orange employer cash contribution will increase by a corresponding amount. As of December 31, 1998 and 1997, the County Investment Account had a remaining balance, including interest earnings, of \$302,909,000 and \$322,333,000, respectively.

Contributions for 1998 and 1997 approximate \$68,534,000 (\$17,977,000 employer and \$50,557,000 member) and \$64,581,000 (\$17,570,000 employer and \$47,011,000 member), respectively, consisting of:

	<u>1998</u>	<u>1997</u>
Normal Cost	\$ 63,722,000	\$ 54,953,000
Amortization of Unfunded Actuarial Accrued Liability	<u>4,812,000</u>	<u>9,628,000</u>
Total	<u>\$ 68,534,000</u>	<u>\$ 64,581,000</u>

The contributions to OCERS for 1998 and 1997 were made in accordance with the actuarially determined requirements as follows:

	Percent of Members' Payroll					
	<u>Sep '98 - Dec '98</u>		<u>Oct '97 - Aug '98</u>		<u>Jul '96 - Sep '97</u>	
	<u>Gen.</u>	<u>Safety</u>	<u>Gen.</u>	<u>Safety</u>	<u>Gen.</u>	<u>Safety</u>
Employer Contributions:						
Normal Cost	3.77%	6.79%	3.38%	5.77%	3.33%	5.59%
Amortization of Unfunded Actuarial Accrued Liability	<u>(1.91%)</u>	<u>19.65%</u>	<u>(1.06%)</u>	<u>17.77%</u>	<u>(0.97%)</u>	<u>18.34%</u>
Subtotal	1.86%	26.44%	2.32%	23.54%	2.36%	23.93%
Additional Contribution	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.50%</u>	<u>0.50%</u>
Total	<u>1.86%</u>	<u>26.44%</u>	<u>2.32%</u>	<u>23.54%</u>	<u>2.86%</u>	<u>24.43%</u>

The Memorandum of Understanding (MOU) between OCERS and the County of Orange requires that Employer Contributions must increase by the lesser of .50% of pay and the amount necessary to increase OCERS' Unallocated Fund Balance (UFB) to 3% of OCERS' total assets. At December 31, 1995, OCERS' UFB fell below 3% of OCERS' total assets. Therefore, the contribution rate increased by .50% effective with the pay period ending after June 30, 1996. The .50% employer additional contribution is credited to the Unallocated Fund Balance.

D. Plan Termination

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

E. Investments

1. Investments Authorized

Investments in securities are held by the plan's custodian. Effective October 1, 1998, State Street California became the successor custodian to Bankers Trust Company.

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

2. Investment Concentration

At December 31, 1998 and 1997, OCERS had investments in the Wells Fargo Nikko Equity Index Fund which individually represented 14.60% and 9.87%, respectively; of OCERS' plan net assets. No other investments exceeded 5% of the System's net assets.

3. 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, 1998, OCERS had money market funds of \$135,633,000, which were uninsured and uncollateralized, and pooled cash in the County of Orange Treasurer's Investment Pool of \$117,000. Interest in the Orange County Investment Pool is computed monthly on an average daily balance.

4. Credit Risk

OCERS' investments are categorized below to give an indication of the level of risk assumed by OCERS at year-end. The categories are:

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, of which OCERS has none, includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in OCERS' name.

Category 3, of which OCERS has none, includes uninsured and unregistered investments for which the securities are held by broker-dealers or by other counterparties, but not in OCERS' name.

Investments not evidenced by securities are not categorized. The investment values (in thousands) at December 31, 1998 are summarized as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

	<u>Cost</u>	<u>Fair Value</u>
<u>Category 1 Classification</u>		
U.S. Government Debt Securities	\$ 540,478	\$ 544,602
Corporate Debt Securities	859,443	814,066
U.S. Government Bonds	192,880	197,876
Foreign Bonds	167,605	172,490
Domestic Equity Securities	479,541	631,836
International Equity Securities	421,781	504,579
Subtotal	<u>2,661,728</u>	<u>2,865,449</u>
<u>Amounts Not Subject to Classification</u>		
Investments Held by Broker-Dealers Under Securities Loans with Cash Collateral:		
Corporate Debt Securities	3,588	3,845
U.S. Government Debt Securities	33,926	35,106
Domestic Equity Securities	133,959	159,535
Foreign Bonds	4,007	4,038
Orange County Treasurer's Pooled Investment	117	117
Real Estate Investments	288,912	330,533
Domestic Equity Index Fund	289,211	619,986
International Pooled Equity Funds	35,593	30,647
Nontraditional Investment in Venture Capital and Limited Partnership	173,118	177,231
Subtotal	<u>962,431</u>	<u>1,361,038</u>
Less: Orange County Treasurer's Pooled Investment	<u>(117)</u>	<u>(117)</u>
Total Investments	<u>\$ 3,624,042</u>	<u>\$ 4,226,370</u>

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

5. Net Appreciation

During 1998 and 1997, OCERS' investments (including investments bought and sold, as well as held during each year) appreciated in values by \$276,965,000 and by \$355,986,000, respectively, as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

	<u>Years Ended December 31</u>	
	<u>1998</u>	<u>1997</u>
	(in thousands)	
Net Appreciation (Depreciation) in Fair Value as Determined by Quoted Market Prices:		
Domestic Equity Securities	\$ 246,229	\$ 280,810
United States Government Debt Securities, Corporate & Foreign Bonds & Debentures	(4,840)	28,455
International Equity Securities	<u>46,345</u>	<u>24,950</u>
Subtotal	287,734	334,215
Net Appreciation (Depreciation) in Fair Value as Determined by Estimated Fair Value:		
Real Estate	17,104	14,256
Nontraditional	<u>(27,873)</u>	<u>7,515</u>
Total Net Appreciation	<u>\$ 276,965</u>	<u>\$ 355,986</u>

6. 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, 1998 and 1997 were securities with fair values of \$202,524,000 and \$176,098,000, 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 fair value (priced daily) of the securities lent, and additional collateral has to be provided by the next day if its value falls to less than 100 percent of the fair value of the securities lent. OCERS invests the cash collateral in short-term securities that cannot be pledged or sold by OCERS unless the borrower defaults. Securities on loan at year-end are presented as unclassified in the preceding schedule of custodial credit risk. In lending of both domestic and international securities, the term to maturity of the securities lent is matched with the term to maturity of the investment of collateral. Such matching existed at year-end. There are no restrictions on the amount of securities that can be lent at one time. There were no violations of the security lending provisions that occurred during 1998.

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. Investments purchased with cash collateral are held by State Street California in separate collateral accounts. The contract with State Street California requires it to indemnify OCERS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent). The risks involved in a security lending program generally include: borrower bankruptcy, collateral deficiencies, problems with settlements, corporate actions, and dividends and interest. OCERS had no losses on securities lending transactions resulting from the default of a borrower or the lending agents for the years ended December 31, 1998 and 1997.

NOTES TO FINANCIAL STATEMENTS (Continued)

Gross security lending revenues for 1998 and 1997 were \$1,386,000 and \$1,453,000, respectively. The costs of securities lending transactions are reported as investment expenses in the accompanying financial statements.

OCERS' securities lending agents are responsible for monitoring the fair value of the securities lent to ensure that the value of the collateral equals or exceeds 100 percent of the fair value of the securities lent as of the valuation date. At December 31, 1998 and 1997, OCERS held broker collateral with fair values totaling \$206,740,000 and \$185,418,000, respectively.

7. International Investments

Investments in international securities are managed by three investment managers. Other investments are held in four pooled funds, all of which are invested in equities of companies located in international emerging markets.

8. Nontraditional Investments

OCERS' nontraditional 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. The second method of investment is OCERS' participation as a limited partner in limited partnership funds. To date, OCERS has made commitments of \$68,872,000 in 12 nontraditional investments. These investments are diversified between venture capital, corporate finance, buyout, energy, and oil and gas investments.

9. Derivative Holdings Held for Trading Purposes

Of the total investments in OCERS' domestic fixed income portfolio of \$1,595,495,000 as of December 31, 1998, approximately \$620,807,000 are classified as derivative securities in accordance with the GASB definition (see note F.2 for other derivative investments). These holdings include asset-backed securities, mortgage-backed securities, zero coupon bonds, variable rate securities, fixed income options, and interest rate caps. The investment objective of these derivative securities is to achieve 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. Details of these derivative securities are as follows:

<u>Securities</u>	<u>1998</u>
FHA	\$ 27,977,000
FHLMC	156,412,000
FNMA	83,532,000
GNMA	300,110,000
Mortgage Backed Issued by Financial Institutions	23,864,000
Fixed Income Options Interest Rate Caps	9,043,000
Others	19,869,000
Total Derivative Securities	<u>\$ 620,807,000</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

F. Financial Investments with Off-Balance Sheet Risk

1. 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 receivables and payable accounts are based upon the currencies' contract exchange rates in relation to their market exchange rates at December 31, 1998 and 1997. 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. At December 31, 1998 and 1997, OCERS had net forward currency contract receivables of \$925,000 and \$300,000, respectively.

2. Financial Futures Contracts Held for Purposes Other than Trading

The net changes in fair value of financial futures contracts held for purposes other than trading comprised \$10,533,000 and \$6,093,000 of net appreciation during 1998 and 1997, respectively. As of December 31, 1998 and 1997, OCERS had open contracts of \$155,310,000 and \$164,216,000, respectively, for the purchase of U.S. Treasury notes and Financial Future Euro Dollars with delivery at specified future dates. Risks arise 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, 1998 and 1997, OCERS had collateral deposits of \$6,701,000 and \$2,069,000, respectively, in cash equivalents, U.S. Treasury bills and notes.

G. Administrative Expenses

Section 31596.1 of the Government Code allows certain costs to be excluded from administrative expenses that are subject to statutory limitation. The excluded costs 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>1998</u>	<u>1997</u>
Expenses Subject to Statutory Limitation:		
Personnel Services:		
Board Members' Allowance	\$ 13,000	\$ 20,000
Employee Salaries and Benefits	2,573,000	2,307,000
Total Personnel Services	2,586,000	2,327,000
Office Operating Expenses:		
Operating Expenses	632,000	428,000
Professional Services	1,242,000	922,000
Rent/Leased Real Property	230,000	153,000
Depreciation/Amortization	116,000	68,000
Total Office Operating Expenses	2,220,000	1,571,000
Total Expenses Subject to Statutory Limitation	4,806,000	3,898,000

NOTES TO FINANCIAL STATEMENTS (Continued)

Expenses Not Subject to Statutory Limitation:

Commingled Interest Cost	1,000	2,000
Actuarial/Fund Evaluation Costs	503,000	298,000
Custodian Services	327,000	880,000
Legal Costs	133,000	201,000
Additional Death Benefit Costs	80,000	113,000
Total Expenses Not Subject to Statutory Limitation	<u>1,044,000</u>	<u>1,494,000</u>
Total Administrative Expenses	<u>\$ 5,850,000</u>	<u>\$ 5,392,000</u>

H. Reserve Accounts

The plan net assets of \$4,246,593,000 as of December 31, 1998 includes reserves of \$3,175,285,000 and unreserved net assets of \$1,071,308,000. The unreserved net assets include the Investment Account of \$302,909,000 and the Unallocated Fund Balance (UFB) of \$161,532,000.

The reserve balances as of December 31, 1998 are as follows (in thousands):

Active Members Reserves	Retired Members Reserves	Employer Advanced Reserves	ARBA Reserves	Officers' Liability Reserve	Earthquake Reserve	Death Benefits Reserve	Total Reserves
<u>\$ 602,947</u>	<u>\$1,495,764</u>	<u>\$ 946,220</u>	<u>\$ 109,752</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 602</u>	<u>\$ 3,175,285</u>

The Additional Retiree Benefit Account (ARBA) results from a Memorandum of Understanding (MOU) with the County of Orange in which \$176,232,000 was used in 1993 to reduce the UFB. By the terms of the MOU, \$125,844,000 was transferred to the County Advance Reserve, which is included in Employer Advanced Reserves. The remaining \$50,388,000 was transferred to the ARBA. In 1998, OCERS transferred from the UFB \$40,037,000 and \$23,573,000 to Employer Advance Reserve and ARBA, respectively. The amounts maintained in the ARBA are to be applied to health insurance or other supplemental benefits for OCERS' retirees.

I. California Supreme Court Decision – Ventura County

On August 14, 1997, the Supreme Court of the state of California issued a decision in a case entitled Ventura County Deputy Sheriffs Association vs. Board of Retirement of Ventura County Employees' Retirement Association, Case No. S055682. On October 1, 1997, the decision of the California Supreme Court became final. The Supreme Court held that a County Retirement System operating under the provisions of the County Employees Retirement Law of 1937 must include certain types of cash incentive payments and additional pay elements, received by an employee, within the employee's "compensation earnable" and "final compensation" when calculating the employee's retirement benefits.

On February 6, 1998 the Board of Retirement of Orange County Employees Retirement System adopted Resolution No. 98-001 to include certain cash incentive payments and additional pay elements in the definition of compensation earnable to comply with the Supreme Court decision. The Board's Resolution is applicable retroactively to October 1, 1994. On May 4, 1998 the Board of Retirement adopted Resolution No. 98-009 to transfer approximately \$209,205,000 from Unallocated Fund Balance, the balance of excess earnings over the actuarially assumed rates, to Employer Advanced Reserve accounts to defray the retroactive cost of implementing the Supreme Court decision as of December 31, 1997.

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REQUIRED SUPPLEMENTARY INFORMATION

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
IMPACT OF YEAR 2000

Some of OCERS' older computer programs were written using two digits rather than four to define the applicable year. As a result, those computer programs have time-sensitive software that recognize a date using "00" as the year 1900 rather than the year 2000. This could cause a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, posting members' contributions, processing retirement payroll and paying invoices.

OCERS' management and staff have given top priority to OCERS' Plan to ensure that its systems will remain operational in light of "Year 2000" concerns. OCERS' plan, the OCERS "Year 2000 Remediation Plan," is consistent with federal regulators' guidelines.

OCERS' Year 2000 Remediation Plan consists of an inventory and risk assessment of all systems, renovation and testing of systems, and implementation of updated systems where necessary, including interfaces with systems outside of OCERS. In addition, OCERS has developed contingency plans that will be put into effect if unforeseen problems arise.

The primary focus of OCERS' Year 2000 effort is on production of the retiree payroll. OCERS has completed the awareness and assessment stage. The remediation stage of this system has been underway since mid-1998; the validation/testing stage is scheduled for completion in June 1999.

At this time, OCERS is not aware of any circumstances that would impede achievement of its Year 2000 Remediation Plan, nor does it anticipate that the cost of addressing the Year 2000 issue will have a material adverse impact on its financial condition, results of operation, or cash flows. OCERS recognizes, however, its limitations in influencing third parties (e.g. vendors, financial institutions, power sources). OCERS cannot ensure that such third parties will cause their systems to be Year 2000 compliant in a timely manner or that any failure of third parties to do so will not have a material adverse effect on OCERS' financial conditions, results of operations, or cash flows.

OCERS has received Year 2000 Statements and reports from its investment managers, financial brokers, custodian and supporting banks and will continue to monitor their Year 2000 remediation plans. In addition, OCERS has contacted all outside agencies whose retirement plans are supported by OCERS' systems and is working with these agencies to ensure compliance. The total Year 2000 project cost is estimated to be less than \$500,000.

The accompanying notes are an integral part of the Required Supplementary Information.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION - TREND INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE YEARS ENDED DECEMBER 31

(in thousands)

	Valuation Year					
	1998	1997	1996	1995	1994	1993
Actuarial Value of Assets ¹ (a)	\$3,504,708	\$3,128,132	\$2,675,632	\$2,434,406	\$2,177,673	\$2,024,447
Actuarial Accrued Liability (b)	\$3,682,686	\$3,332,967	\$2,851,894	\$2,633,884	\$2,550,059	\$2,305,019
Total Unfunded Actuarial Accrued Liability (UAAL) (a-b=c)	\$ 177,978	\$ 204,835	\$ 176,262	\$ 199,478	\$ 372,386	\$ 280,572
Funded Ratio (a/b)	95.17%	93.85%	93.82%	92.43%	85.40%	87.83%
Covered Payroll (d)	\$ 863,199	\$ 781,890	\$ 758,897	\$ 727,768	\$ 769,175	\$ 725,193
UAAL as a Percentage of Covered Payroll (c/d)	20.62%	26.20%	23.23%	27.41%	48.41%	38.69%

Notes:

- The 12/31/94, 12/31/95, 12/31/96, 12/31/97, and 12/31/98 actuarial value of assets exclude \$311,022,000, \$329,064,000, \$313,250,000, \$322,333,000, and \$302,909,000, respectively, of the County's unamortized 1994 funding of its portion of the Unfunded Actuarial Accrued Liability, which funding for 1995 is being amortized over a 14-year period beginning July 1, 1994 and for 1996 and later is being amortized over a 28-year period beginning July 1, 1996.

SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR THE YEARS ENDED DECEMBER 31

(in thousands)

	1998	1997	1996	1995	1994 ⁽¹⁾	1993
Annual Required Contribution ⁽²⁾	\$ 17,977	\$ 17,570	\$ 16,463	\$ 20,814	\$ 369,382	\$ 43,922
Percentage Contributed	100%	100%	100%	100%	100%	100%

Notes:

- In September 1994 the County of Orange issued \$320 million in Pension Obligation Bonds (POB) of which \$318.3 million in proceeds were paid to OCERS, which was recorded as employer contribution in 1994. For accounting purposes, the proceeds were put into the County Investment Account (the Investment Account). Subsequent agreements between the Board of Retirement and the County provide that the Investment Account will be used to fund the County's employer contribution in decreasing percentage each year. In 1995, 1996, 1997, and 1998, the Investment Account funded approximately 90% of the County's employer contribution.
- Employer contributions for 1998, 1997, 1996, 1995, and 1994 excluded \$42,020,000, \$40,807,000, \$53,393,000, \$49,250,000, and \$2,894,000, respectively, of funds transferred from the Investment Account to pay for the County's employer's contribution.

The accompanying notes are an integral part of the Required Supplementary Information.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION - TREND INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1 - Description

The historical trend information about the Orange County Employees Retirement System is presented as required supplementary information. The information is intended to help users assess the funding status of the fund on a going-concern basis and to assess progress made in accumulating assets by paying benefits when due.

Note 2 - Actuarial Assumptions and Method

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/1998.
Actuarial cost method	Projected Unit Credit.
Amortization method	Level dollar.
Remaining amortization period	25
Asset valuation method	5-year moving average of the ratio of market value to book value multiplied by the current year's book value.
Actuarial assumptions	
Investment rate of return	8%
Projected Salary Increases	3.5% per annum through year 2000, 5.5% per annum thereafter.
Includes inflation at	4.5% subject to Tier maximum.
Cost-of-living adjustments	3% per annum with excess banked.

Note 3 - Significant Factors Affecting Trends in Actuarial Information

1998 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

Reduced termination rates.
Moved retirement age slightly older.
Changed Pre-retirement Mortality Table from 1971 GAM to 1983 GAM.

1997 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

No significant changes in Plan provisions.

1996 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

Salary scale changed from 2.5% to 3.5% per annum per individual through the year 2000, and 5.5% thereafter.

1995 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

Salary scale changed from 6.0% to 2.5% per annum per individual.

1994 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

No significant changes in Plan provisions.

1993 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

Changed Mortality Table from 1971 GAM (for regular retirement) to 1983 Group Annuity. Changed Expectations of Life After Disability from 80% of Mortality Table to 60%.

OTHER SUPPLEMENTARY INFORMATION

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

(in thousands)

	1998	1997
Expenses Subject to Statutory Limitation		
Personnel Services:		
Board Members' Allowance	\$ 13	\$ 20
Employee Salaries and Benefits	2,573	2,307
Total Personnel Services	2,586	2,327
Professional Services:		
Legal Fees	556	158
Compensation Study	-	30
Financial Audit	70	66
Internal Audit	33	60
Information Technology Consultant	48	31
Hearing Officers/Medical Consultants	255	300
Pre-retirement Seminars	6	44
Miscellaneous	274	233
Total Professional Services	1,242	922
Other Operating Expenses:		
Telephone and Communication	34	17
Maintenance	168	68
Printing and Duplicating	82	81
Building and Equipment Leases	230	153
Transportation and Travel	209	134
Postage Expense	67	77
Office Supplies and Expenses	72	51
Depreciation Expenses	116	68
Total Other Operating Expenses	978	649
Total Expenses Subject to Statutory Limitation	4,806	3,898
Expenses Not Subject to Statutory Limitation		
Fund Evaluation Cost	150	141
Custodian Services	327	880
Commingled Interest Cost	1	2
Actuarial Cost	353	157
Legal Costs	133	201
Additional Death Benefits Cost	80	113
Total Expenses Not Subject to Statutory Limitation	1,044	1,494
Total Administrative Expenses	\$ 5,850	\$ 5,392

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF PAYMENTS TO CONSULTANTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

(in thousands)

<u>Name of Firms</u>	<u>Type of Services</u>	<u>1998</u>	<u>1997</u>
Professional Expenses Subject to Statutory Limitation			
Jeffer, Mangles, Butler & Marmaro, LLP	Legal Services	\$ 75	\$ -
Silvas & Eaton	Legal Services	10	45
Katz, Hoyt, Siegal & Kapor	Legal Services	5	15
Steeffel, Levitt & Weiss	Legal Services	464	54
Others	Legal Services	2	32
Harley Bjelland	Legal Counsel	-	12
Hayhurst & Associates	Compensation Study	-	30
Ernst & Young, LLP	Financial Audit	70	66
Ernst & Young, LLP	Internal Audit & Program	-	50
Link, Murrel & Company	Internal Audit	33	-
Carolyn Ford & Associates	Information Technology	48	31
Various Firms	Disability/Medical Hearing	255	300
Deloitte & Touche, LLP	Pre-retirement Seminars	6	44
Various Professional Firms	Other Services	274	243
Total Professional Expense Subject to Limitation		1,242	922
Professional Expenses Not Subject to Statutory Limitation			
Callan Associates, Inc.	Performance Evaluation	150	141
State Street California/Bankers Trust	Master Trust Custody	327	880
County of Orange	Commingled Interest Cost	1	2
Towers Perrin	Actuarial Services	353	157
Stradling, Yocca, Carlson & Rauth	Legal Counsel	133	201
Additional Death Benefits Cost	Member Benefits	80	113
Total Professional Expenses Not Subject to Limitation		1,044	1,494
Total All Professional Fees		\$ 2,286	\$ 2,416

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF FEES AND OTHER INVESTMENT EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

(in thousands)

	<u>1998</u>	<u>1997</u>
Domestic Equity	\$ 3,674	\$ 3,622
International Equity	2,150	1,918
Global Fixed Income	3,393	2,745
Real Estate	3,477	3,994
Venture Capital	2,386	1,083
Other Alternative Investments	1,460	1,571
Total Fees & Other Investment Expenses	\$ 16,540	\$ 14,933

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III. INVESTMENT SECTION

CALLAN ASSOCIATES^{INC.}

June 3, 1999

MICHAEL J. O'LEARY, JR., CPA
EXECUTIVE VICE PRESIDENT

SAN FRANCISCO

NEW YORK

CHICAGO

ATLANTA

DENVER

Mr. Ray A. Fleming
Administrator
Orange County Employees Retirement
2223 Wellington Avenue
Santa Ana, California 92701-3101

Dear Mr. Fleming:

This letter reviews the investment performance of the Orange County Employees Retirement System (OCERS) for the calendar year ended December 31, 1998.

The System's custodians during the calendar year, Bankers Trust Company and State Street Bank and Trust Company, independently prepared the underlying performance data. The performance calculations were made in compliance with AIMR Performance Presentation Standards. Callan Associates Inc. serves as OCERS' independent investment consultant and evaluates the System's performance in relation to market benchmarks, appropriate manager peer groups and other public pension funds.

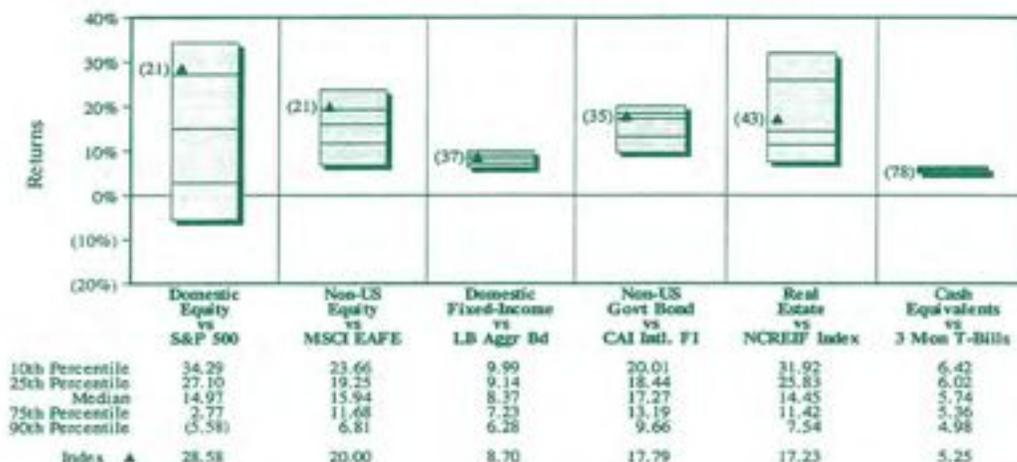
OCERS' primary investment objective is to prudently and expertly invest the System's assets, in accordance with governing law and industry practices, in a manner that will ensure the System's ability to pay promised benefits to participants and their beneficiaries. In pursuit of this objective, OCERS' Board periodically evaluates the System's liabilities, expected contributions and potential earnings. This analysis is used to evaluate alternative investment policies. The Board selects a strategic investment policy that balances growth potential and acceptable risk. A policy benchmark index is constructed that mirrors the System's strategic asset allocation policy. This policy benchmark is a custom market index comprised of stock, bond and real estate indices weighted in the same proportions as the System's investment policy.

Financial markets were very volatile in calendar 1998. Stocks, particularly very large growth oriented companies, posted exceptionally strong returns. Stocks of domestic based smaller companies achieved mixed, and in many cases, negative returns. International stocks, on balance, achieved very respectable absolute results but the results varied significantly by geographic region. Developed European markets behaved similarly to the U.S. market while Asian and emerging markets experienced significant weakness.

550 EAST 8TH AVENUE, DENVER, COLORADO 80203 TELEPHONE 303.861.1900 FACSIMILE 303.832.8230

The graph below depicts the 1998 performance of Callan's large manager database by asset category. The performance of major market indices are also plotted. Review of the graph demonstrates that the median active domestic equity, international equity and bond manager underperformed popular market benchmarks in 1998.

Range of Separate Account Manager Returns by Asset Class
One Year Ended December 31, 1998



For the calendar year, OCERS' total fund had a time-weighted total return of 12.77%. This return, while well in excess of the System's actuarial earnings assumption of 8.00%, trailed the System's policy benchmark target of 17.77%. The policy benchmark is comprised of the following indices in the percentages as indicated: S&P 500 (34%); MSCI-EAFE (12%); MSCI-Emerging Markets Free (2%); Lehman Aggregate Bond Index (38%); Callan Real Estate Index (9%); and Salomon Non-\$ Bond Index (5%). Over longer-term periods, the System's total return narrowly lags the policy index. For example, the five-year return of 12.50% was only 141 basis points behind the policy benchmark. The cumulative shortfall is primarily attributable to the 1998 results.

OCERS' U.S. equity composite rose 25.01% in 1998. This lagged the S&P 500 index return of 28.58% but was well in excess of the median equity manager in the Callan Equity database. The median manager achieved a 14.97% return in 1998. A similar pattern was evident in longer-term periods where OCERS trailed the S&P 500 but outperformed the median manager.

The System's international equity composite also trailed the international market index in 1998. Unlike domestic equities, however, over longer-term periods the composite of the System's developed market managers has outpaced the MSCI-

EAFE index (a developed market benchmark). Similarly, the System's emerging markets managers have outperformed the MSCI-Emerging Markets Free index.

OCERS domestic bond managers in aggregate have achieved excellent long-term returns. This long-term pattern persists despite meaningful underperformance in calendar 1998. For the year, the domestic fixed income composite returned 6.47% which was well below the Lehman Aggregate Bond Index return of 8.70%. The result also was below the database median. Over the trailing 5 years, the domestic bond composite compound annual return of 8.24% was well above the target benchmark of 7.13% and the median manager's 7.19% result. OCERS' international bond portfolio exhibited a similar pattern with 1998 results below the market, and longer-term performance better than market and median.

Results by major asset category for multiple periods are presented in the attached table. OCERS results, market indices and peer group medians are illustrated for each major asset category.

In summary, 1998 was a difficult year yet one in which results were well in excess of the System's actuarial earnings assumption. Importantly, results in all major asset categories were consistent with longer-term expectations. Domestic and international equity returns were very competitive. Bond returns, while below target and peers, were consistent with the longer term spread product orientation inherent in OCERS' management structure. This structure has produced superior long run returns. In addition, the restructuring of the System's real estate program has been substantially completed.

Sincerely,



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

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
INVESTMENT MANAGER RETURNS

The table below details the rates of return for the System's investment managers over various time periods ended December 31, 1998. Negative returns are shown in brackets. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

Returns for Periods Ended December 31, 1998

	<u>Last Year</u>	<u>Last 3 Years</u>	<u>Last 5 Years</u>
Domestic Equity	25.01%	24.51%	21.07%
Domestic Equity Database	14.97%	21.70%	19.72%
Standard & Poor's 500	28.58%	28.23%	24.06%
Callan Broad Market Index	24.90%	25.93%	22.08%
Russell 2000	(2.55%)	11.59%	11.87%
International Equity (Total)	11.82%	10.57%	8.84%
MSCI AC Wld ex US Free	14.46%	7.60%	7.87%
Developed Intl. Managers	16.48%	12.14%	10.48%
MSCI EAFE Index - USD	20.00%	9.01%	9.20%
Non-US Style	15.94%	11.21%	9.42%
Emerging Markets Managers	(24.00%)	(2.99%)	(3.58%)
Emerging Markets Free	(25.34%)	(11.21%)	(9.27%)
Emerging Markets Database	(24.79%)	(5.44%)	(6.07%)
Domestic Fixed-Income	6.47%	8.15%	8.24%
Domestic Fixed-Income Database	8.37%	7.24%	7.19%
Lehman Brothers Aggr	8.70%	7.29%	7.27%
Target Index ⁽¹⁾	8.70%	7.04%	7.13%
International Fixed-Income	9.20%	10.62%	9.93%
Non-U.S. Fixed-Income Style	17.27%	6.85%	8.15%
S/B Non-US Hedged Govt	11.54%	11.45%	9.40%
Real Estate	11.75%	10.25%	8.01%
CAI Real Estate Funds	13.49%	11.99%	10.23%
NCREIF Classic Index	17.29%	14.33%	11.69%
Total Fund	12.77%	14.36%	12.50%
Composite Benchmark	17.77%	15.31%	13.91%

⁽¹⁾ Target Index reflects Lehman Govt/Corp through 12/96 and Lehman Aggregate thereafter.

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 Orange County Employees Retirement System (the 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.

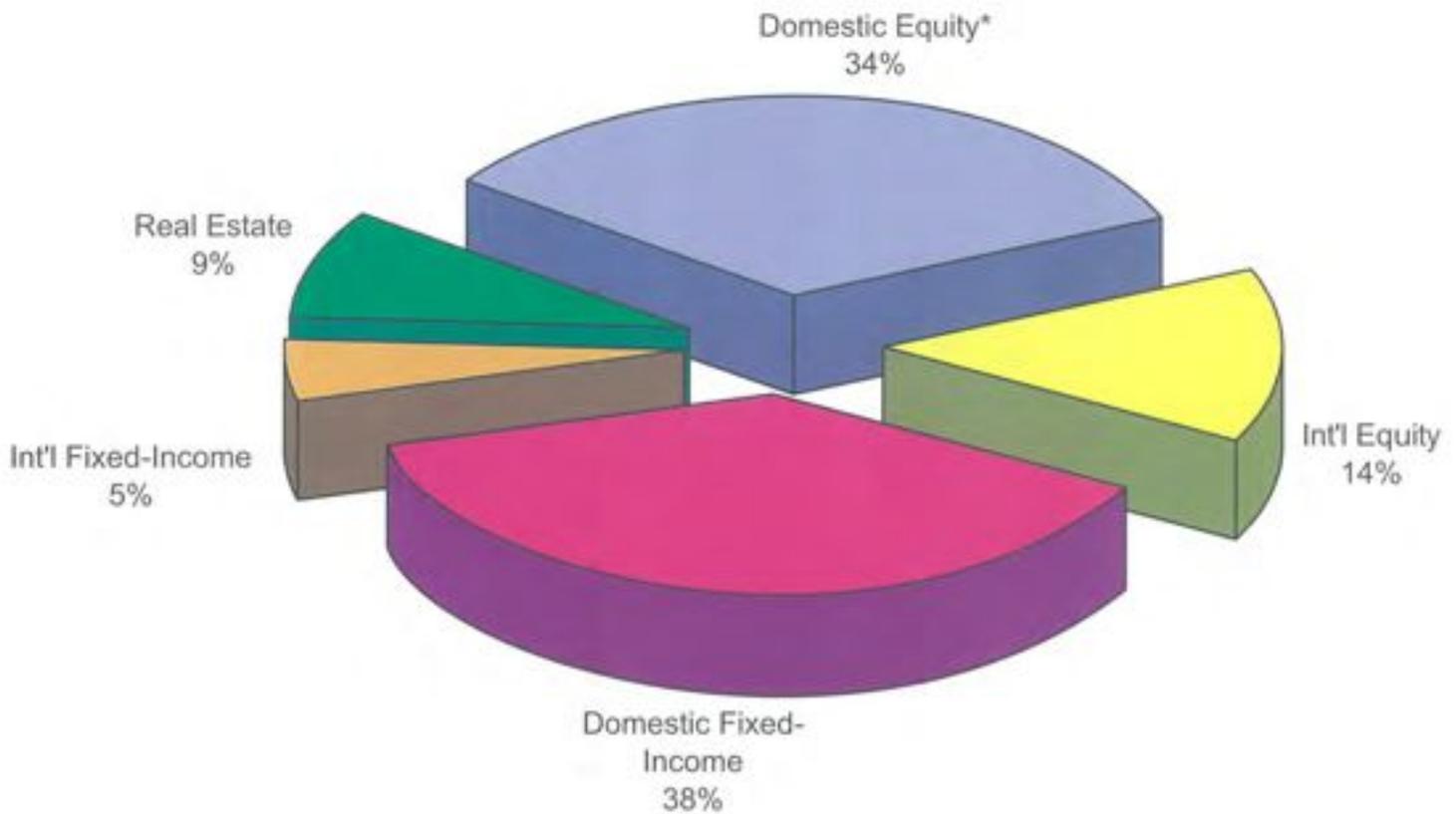
In normal circumstances, asset levels are permitted to fluctuate around targeted levels, and cash inflows are administered by staff in a manner that is consistent with maintenance of the desired level of diversification. When asset fluctuations and/or external cash flows take actual allocation outside 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

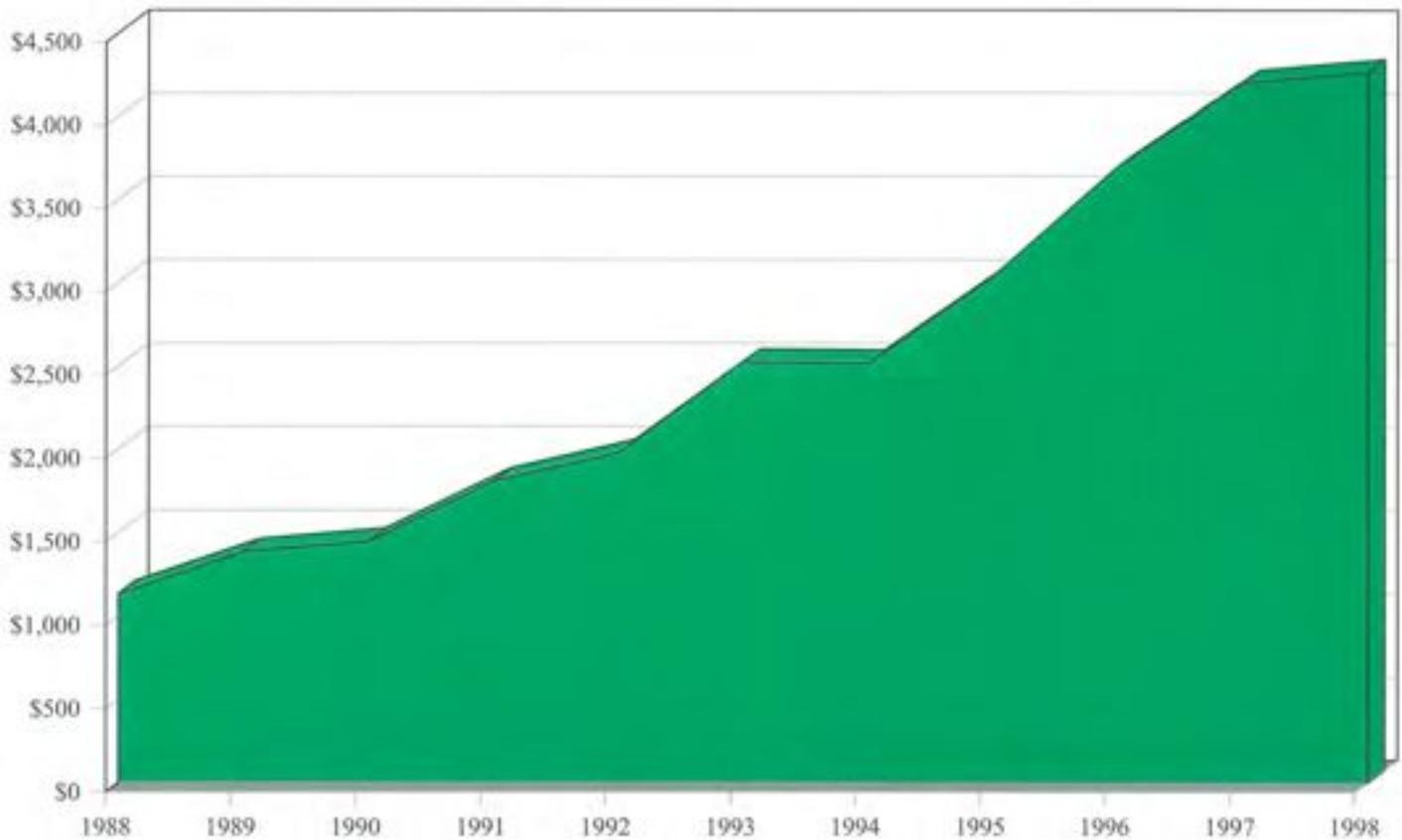
For each major asset class, the System shall diversify assets by employing managers with demonstrated skill in their particular areas of expertise. The System will retain managers who utilize varied investment approaches and allocate assets in a manner that is consistent with the overall strategic plan. 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.

Orange County Employees Retirement System Target Asset Allocation As of December 31, 1998



* Nontraditional investments are parts of domestic equity allocation.

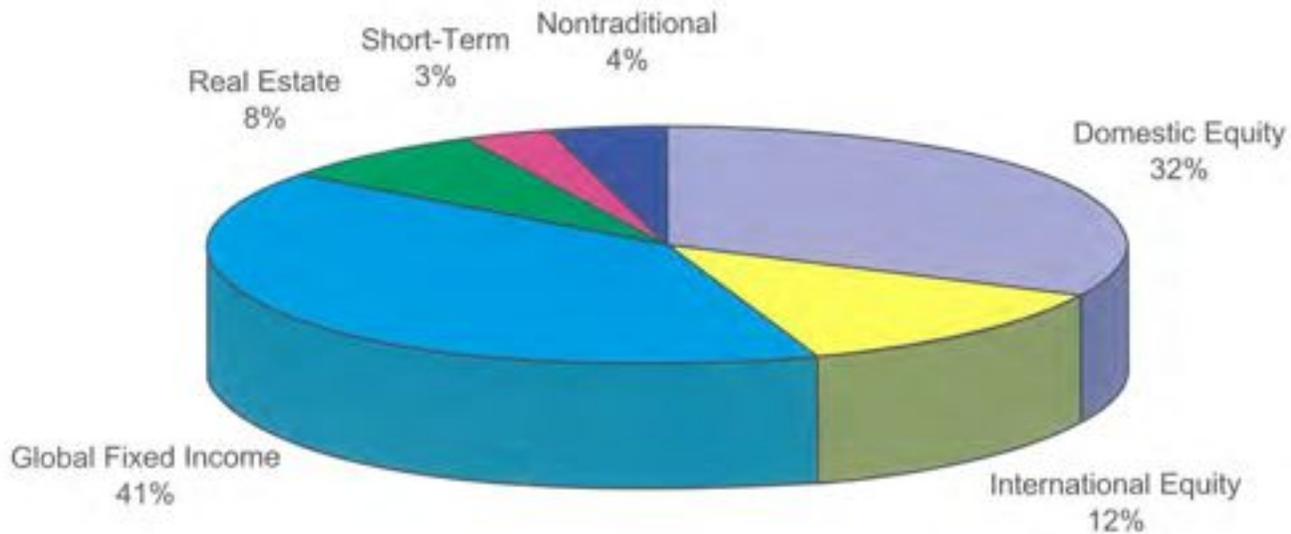
**Orange County Employees Retirement System
Growth of System Assets at Fair Value
For Ten Years Ended December 31, 1998
(in Millions of Dollars)**



Orange County Employees Retirement System

Actual Asset Diversification

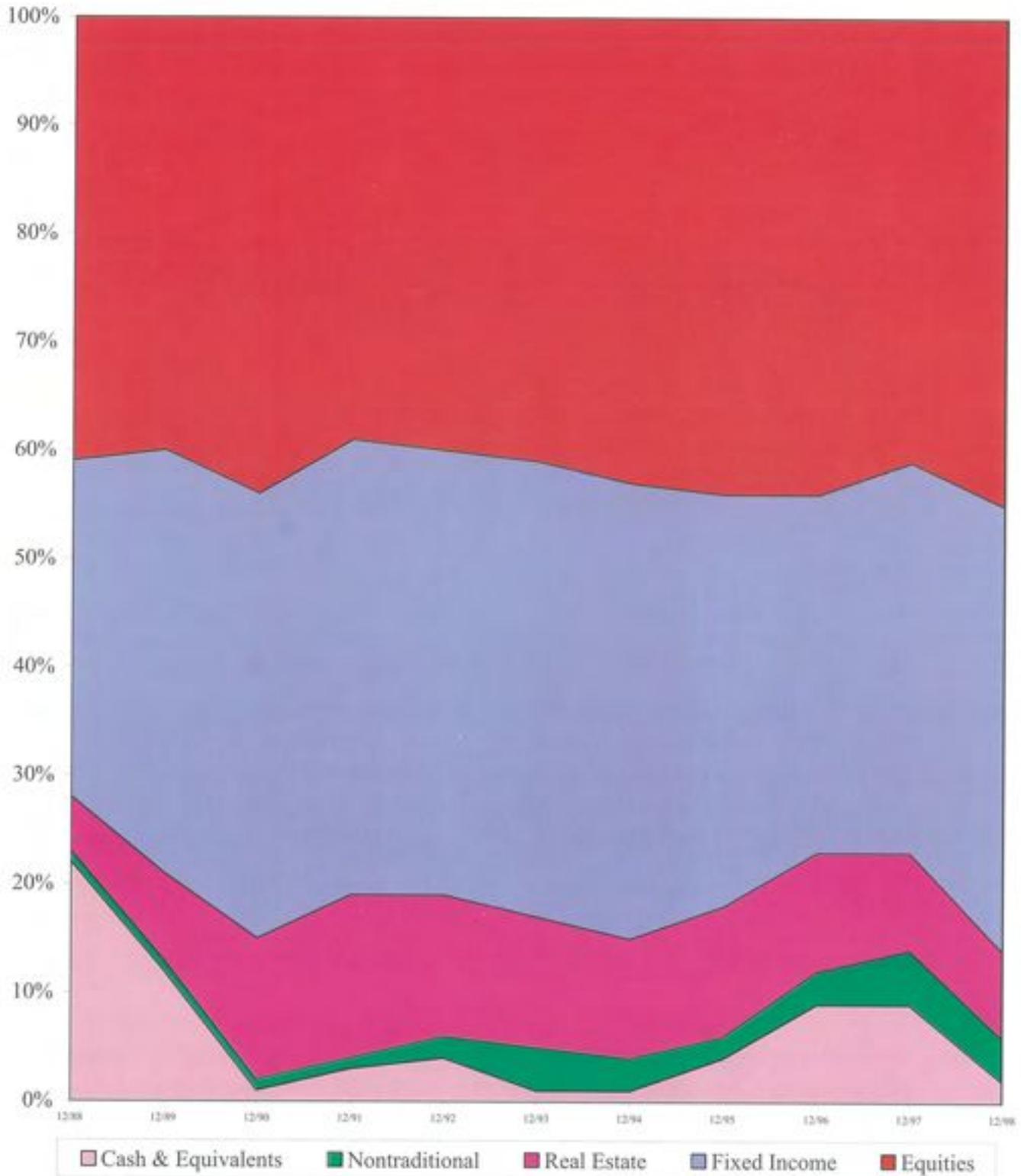
December 31, 1998



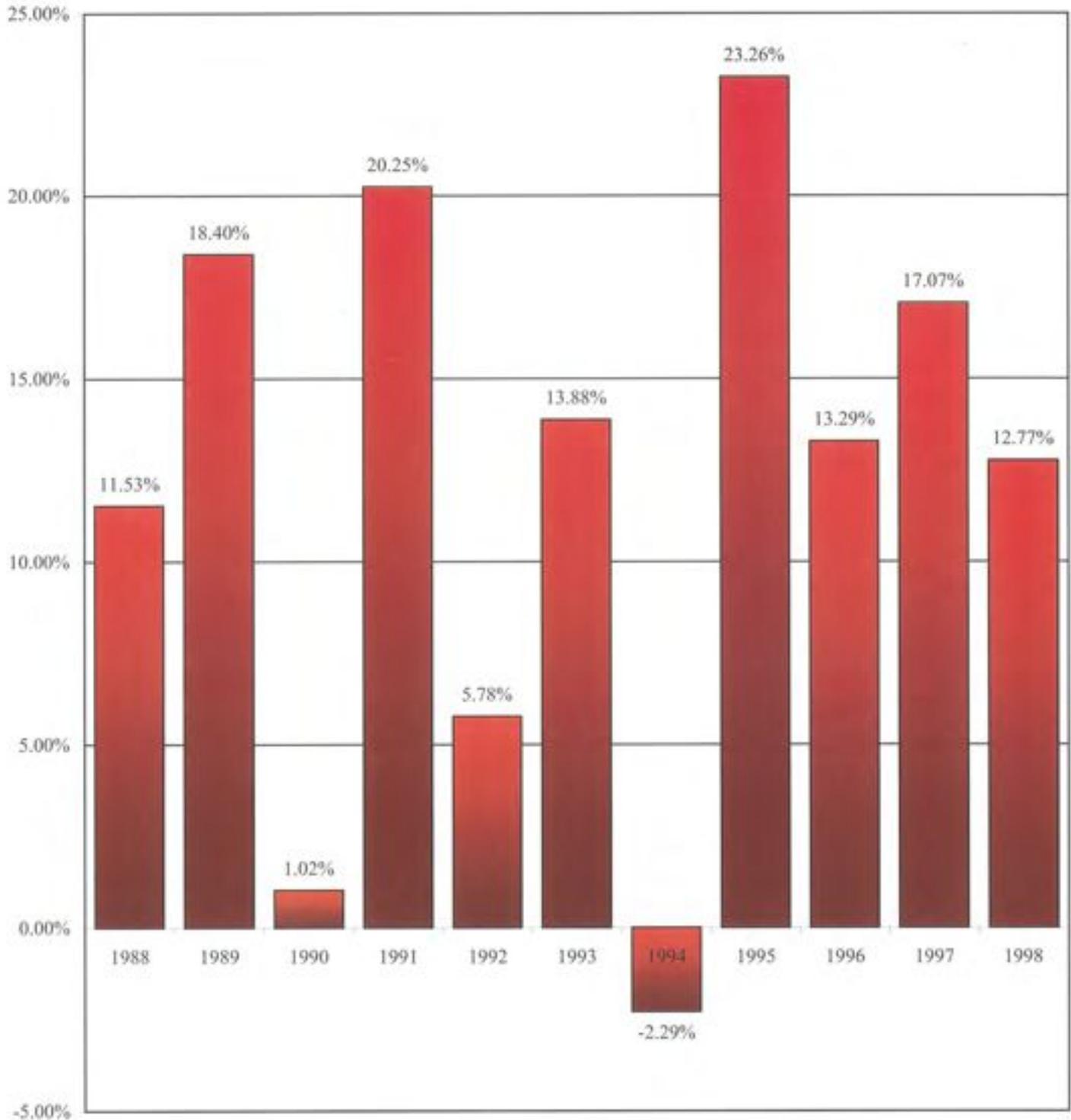
	Fair (000's)
Domestic Equity	\$1,411,357
International Equity	535,226
Global Fixed Income	1,772,023
Real Estate	330,533
Short-Term	135,750
Nontraditional	177,231
Total	\$4,362,120

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, amounts invested in the Orange County Investment Pool and amounts deposited at Wells Fargo Bank to fund monthly benefit payments.

Orange County Employees Retirement System Historical Asset Allocation (Actual) December 1988 - December 1998



Orange County Employees Retirement System History of Performance (Based on Fair Value)



**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF COMMISSIONS
FOR THE YEAR ENDED DECEMBER 31, 1998**

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Total Commission</u>	<u>Commission Per Share</u>
ABEL NOSER CORP.	1,913,450	\$ 24,023	\$ 0.0126
ABN AMRO SECURITIES	289,923	17,403	0.0600
ADAMS HARKNESS & HILL; INC	400	20	0.0500
ALBERT E SHARP	57,000	68	0.0012
ALEX, BROWN + SONS, INC.	4,500	114	0.0253
ALFRED BERG LTD.	169,570	6,265	0.0369
ALLEN & CO INC.	10,000	500	0.0500
ALPHA MANAGEMENT INC	475,204	28,512	0.0600
AMIVEST CORPORATIONS	227,600	13,656	0.0600
BANCAMERICA ROBERTSON STEPHENS	237,200	14,111	0.0595
BANCO SANTANDER S.A./BUENOS AIRES	12,930	1,358	0.1050
BANK AM BELLEVUE /ZURICH	270	1,539	5.7000
BANK J. VONTOBEL UND CO. AG /ZURICH	893	5,183	5.8040
BANK JULIUS BAER/FRANKFURT	88,000	8,417	0.0956
BANK LABOUCHERE/AMSTERDAM	4,386	755	0.1721
BANKERS TRUST	365,469	9,875	0.0270
BANQUE PARIBAS	67,430	5,701	0.0845
BARCLAYS DE ZOETE WEDD	81,400	3,781	0.0464
BAUM GEORGE K. + COMPANY	1,700	85	0.0500
BEAR STEARNS & CO. INC.	706,800	41,264	0.0584
BERNSTEIN S & CO.	373,300	22,016	0.0590
BLAIR, WILLIAM, AND COMPANY	17,800	1,032	0.0580
BRADFORD J C & CO.	4,600	230	0.0500
BRIDGE TRADING	403,200	22,804	0.0566
BROADCORT CAPITAL CORP.	127,200	7,239	0.0569
BROWN BROTHERS HARRIMAN & CO.	52,200	3,132	0.0600
BSN S A SOCIEDAD DE VALORES	8,000	1,246	0.1558
BT ALEX BROWN INCORPORATED	766,369	46,918	0.0612
C.J.LAWRENCE/DEUTSCHE BANK SECURITIES	1,700	85	0.0500
CANTOR FITZGERALD & CO INC.	591,444	34,952	0.0591
CAPEL, JAMES HSBC SECURITIES INC.	85,800	5,144	0.0600
CAPITAL INSTITUTIONAL SERVICES	2,115,057	126,896	0.0600
CARNEGIE FOND KOMMISSION AB/STOCKHOLM	7,900	1,051	0.1330
CAZENOVE + CO	500,475	13,054	0.0261
CHARLES SCHWAB & CO., INC.	43,200	2,160	0.0500
CHARTERHOUSE TILNEY	97,800	3,239	0.0331
CHEVEREAUX DE VIRIEUX	137,100	8,671	0.0632
CHICAGO CORP.	44,800	2,432	0.0543
CITATION GROUP (THE)	73,100	4,386	0.0600
CONNING & CO.	5,600	280	0.0500

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF COMMISSIONS
FOR THE YEAR ENDED DECEMBER 31, 1998**

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Total Commission</u>	<u>Commission Per Share</u>
CORRESPONDENT SERVICES CORP.	7,900	474	0.0600
COUNTY NATWEST SECS AUSTRALIA LTD	396,700	5,629	0.0142
COWEN & CO.	142,600	7,882	0.0553
CREDIT LYONNAIS SECURITIES	141,000	1,390	0.0099
CREDITO ITALIANO INTERNATIONAL	181,830	2,691	0.0148
CS FIRST BOSTON	3,332,256	123,060	0.0369
DAIN BOSWORTH INC.	21,500	1,075	0.0500
DAIN RAUCHSER INC.	7,000	350	0.0500
DAVIDSON (D.A.) & CO INC.	2,200	110	0.0500
DEAN WITTER REYNOLDS INC.	50,000	2,800	0.0560
DEUTSCHE MORGAN GRENFELL	391,230	10,546	0.0270
DEWAAY; SERVAIS AND CIE S.C.S./BRUSSELS	1,272	714	0.5613
DOMINION SECURITIES/ AMES INC.	61,700	3,702	0.0600
DONALDSON, LUFKIN + JENRETTE	119,400	6,685	0.0560
DRESDNER KLEINWORT BENSONS	21,000	1,240	0.0590
EDWARDS A.G. & SONS INC	4,400	220	0.0500
ENSKILDA SECURITIES	35,310	4,005	0.1134
EQUITABLE SECURITIES CORP.	3,600	180	0.0500
ERNST & CO.	74,600	4,476	0.0600
ESI SECURITIES COMPANY	70,500	3,658	0.0519
EUROCLEAR OPERATIONS CENTRE	47,700	2,269	0.0476
EUROMOBILIARE MILAN	24,150	443	0.0183
EXANE PARIS	26,500	10,439	0.3939
EXECUTION SERVICES; INC.	176,100	2,956	0.0168
FACTSET DATA SYSTEMS	111,700	6,702	0.0600
FIDELITY CAPITAL MARKETS	347,321	19,975	0.0575
FIRST ANALYSIS SECURITIES CORP	2,700	135	0.0500
FIRST MARATHON SECURITIES LTD	48,300	2,113	0.0437
FLEMING MARTIN LTD.	15,000	1,417	0.0945
FOX PITT KELTON INC	367,900	22,000	0.0598
FRANK RUSSELL	10,100	606	0.0600
FREIMARK BLAIR + COMPANY, INC.	11,800	708	0.0600
FURMAN,SELZ,MAGERDIETZ + BIRNEY	715,800	42,485	0.0594
GERARD KLAUER MATTISON + CO	87,000	5,204	0.0598
GIUBERGIA WARBURG	59,000	5,711	0.0968
GOLDMAN SACHS & CO.	2,315,160	79,943	0.0345
HAMBRECHT & QUIST INC.	42,300	2,490	0.0589
HANIFEN IMHOFF INC.	3,700	185	0.0500
HOARE GOVETT SECURITIES LIMITED	826,613	22,039	0.0267
HOENIG + CO.	300	15	0.0500

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF COMMISSIONS
FOR THE YEAR ENDED DECEMBER 31, 1998**

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Total Commission</u>	<u>Commission Per Share</u>
HSBC INVESTMENT BANK PLC	999,050	25,958	0.0260
HSBC JAMES CAPEL LIMITED	48,920	3,524	0.0720
IBER SECURITIES	7,600	953	0.1254
INDOSUEZ WI CARR SECURITIES LTD	18,000	930	0.0517
INFERENTIAL FOCUS	36,000	2,160	0.0600
ING BARING SECURITIES	29,100	948	0.0326
INSTINET CORP.	295,600	9,953	0.0337
INTERMOBILIARE SECURITIES SIM SPA	71,000	1,136	0.0160
INTERSEC RESEARCH	4,300	215	0.0500
INTERSTATE SECURITIES CORP	46,000	2,748	0.0597
INTERSTATE/JOHNSON LANE CORP	64,500	3,863	0.0599
INVESTMENT TECHNOLOGY GROUP INC.	40,200	1,483	0.0369
ISI GROUP INC.	92,500	5,550	0.0600
J B WERE + SON PLACEMENT	102,358	1,634	0.0160
J P MORGAN SECURITIES	314,100	17,329	0.0552
JAMES CAPEL LTD.	2,111,408	56,285	0.0267
JANNEY MONTGOMERY SCOTT INC.	194,300	11,401	0.0587
JARDINE FLEMING SECURITIES	1,051,810	16,024	0.0152
JB WERE AND SON	57,500	2,632	0.0458
JEFFERIES & COMPANY INC.	502,100	28,660	0.0571
JOHN HANCOCK CLEARING CORP	1,700	85	0.0500
JONES + ASSOCIATES	16,700	835	0.0500
JP MORGAN SECURITIES LIMITED	274,922	32,161	0.1170
KEEFE BRUYETTE & WOODS INC.	285,300	16,860	0.0591
KINNARDJOHN G.+ CO.	1,200	60	0.0500
KLEINWORTBENSON SECURITIES LIMITED	1,210,862	26,595	0.0220
KNIGHT SECURITIES; L.P.	54,200	3,252	0.0600
LADENBURGTHALMAN + CO	1,400	70	0.0500
LAKE VIEW SECURITIES	21,100	1,266	0.0600
LAZARD FRERES & CO.	28,900	1,463	0.0506
LEGG MASON WOOD WALKER INC.	45,100	2,706	0.0600
LEHMAN BROS INC.	578,505	15,897	0.0275
LEWCO SECS AGENT FOR HAMBRECHT+QUIST	4,900	245	0.0500
LEWCO SECS AGENT FOR WERTHEIM SHCRODER	650,025	36,713	0.0565
LOMBARD; ODIER AND CIE	1,870	3,339	1.7856
LYNCH JONES & RYAN	3,405,550	194,117	0.0570
MACQUARIE EQUITIES LTD.	103,000	976	0.0095
MCDONALD + CO	9,200	460	0.0500
MERRILL LYNCH PIECE FENNER & SMITH	4,878,744	151,721	0.0311
MESIROW	600	30	0.0500

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF COMMISSIONS
FOR THE YEAR ENDED DECEMBER 31, 1998**

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Total Commission</u>	<u>Commission Per Share</u>
MIDLAND WALWYN CAPITAL INC.	25,500	1,081	0.0424
MIDWOOD SECURITIES	23,300	1,398	0.0600
MOORS + CABOT INC	1,400	70	0.0500
MORGAN GRENFELL	879,874	34,291	0.0390
MORGAN KEEGAN & COMPANY INC	1,800	90	0.0500
MORGAN STANLEY & CO INC.	3,061,147	137,801	0.0450
NATIONSBANC MONTGOMERY SECURITIES	411,125	23,756	0.0578
NATWEST SECURITIES CORP	634,374	13,372	0.0211
NCB STOCKBROKERS	132,640	4,572	0.0345
NEEDHAM & CO INC	3,900	195	0.0500
NESBITT BURNS	15,000	580	0.0387
NEUBERGER & BERMAN	299,200	17,952	0.0600
NIKKO SECURITIES	88,493	2,533	0.0286
NOMURA INTERNATIONAL PLC	508,800	11,760	0.0231
O'NEIL; WILLIAM AND CO INC	209,500	12,270	0.0586
OPPENHEIMER & CO.	185,300	10,189	0.0550
ORD MINNETT /MELBOURNE	50,000	1,002	0.0200
PACIFIC CREST SECURITIES	3,600	180	0.0500
PAINE WEBBER JACKSON & CURTIS	405,000	22,459	0.0555
PARKER/HUNTER, INC.(CLRS THRU 443)	3,600	180	0.0500
PASFIN SECURITIES SIM	24,000	288	0.0120
PCS SECURITIES INC	75,700	4,542	0.0600
PERSHING DIVISION OF DONALDSON LUFKIN	1,210,209	71,121	0.0588
PETERCAM S.A.; SOCIETE DE BOURSE	427	742	1.7377
PHILEO ALLIED SECURITIES	141,000	3,498	0.0248
PIPER JAFFRAY & HOPWOOD INC.	46,000	2,760	0.0600
POSIT	1,300	26	0.0200
POTTER WARBURG SECURITIES LTD.	100,000	2,381	0.0238
PRUDENTIAL BACHE SECURITIES	553,975	31,248	0.0564
RAGEN MACKENZIE INCORPORATED	600	30	0.0500
RAYMOND JAMES & ASSOCIATES INC.	18,200	926	0.0509
RBC DOMINION SECURITIES CORPORATION	53,300	2,826	0.0530
RIADA	27,810	364	0.0131
ROBERT FLEMING + CO LTD	401,350	5,599	0.0140
ROBERT W BAIRD & CO., INCORPORATED	117,500	6,734	0.0573
ROBINSON HUMPHREY CO.	23,700	1,185	0.0500
ROCHDALE SECURITIES CORP. (CLS THRU 443)	3,484,341	207,754	0.0596
S E I FUNDS EVALUATION	30,200	1,812	0.0600
SALOMON BROTHERS INC.	2,021,718	33,685	0.0167
SBC WARBURG DILLION READ INC	3,896,562	103,590	0.0266

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF COMMISSIONS
FOR THE YEAR ENDED DECEMBER 31, 1998**

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Total Commission</u>	<u>Commission Per Share</u>
SBCI FINANCE ASIA LIMITED	9,000	328	0.0364
SCHRODER SECURITIES LTD	182,990	5,312	0.0290
SCOTIA MCLEOD	15,000	654	0.0436
SG COWEN SECURITIES CORP	12,100	605	0.0500
SHEARSON LEHMAN BROTHERS INC.	625,400	37,106	0.0593
SKANDINAVISKA ENSKILDA BANKEN	35,760	3,873	0.1083
SMITH BARNEY & CO	1,312,138	77,179	0.0588
SMITH NEW COURT SECURITIES LIMITED	420,950	4,330	0.0103
SOCIETE GENERALE	106,752	7,660	0.0718
SOUNDVIEW FINANCIAL GROUP	36,800	1,840	0.0500
SOUTH TRUST BANK	3,100	155	0.0500
SOUTHCOAST CAPITAL L.L.C.	6,800	340	0.0500
SPEAR, LEEDS & KELLOGG	352,200	21,132	0.0600
STANDARD & POORS	413,945	24,837	0.0600
STATE STREET BROKERAGE SERVICES	9,509	207	0.0218
STEPHENS INC.	8,400	420	0.0500
SUTRO & CO INC.	5,000	250	0.0500
SVENSKA HANDELSBANKEN	100,400	2,093	0.0208
SWEDBANK STOCKHOLM	11,800	894	0.0758
SWISS BANK CORP WARBURG	168,800	7,458	0.0442
THOMSON	52,300	2,615	0.0500
TORONTO DOMINION SECURITIES INC	6,800	263	0.0387
TUCKER, ANTHONY + R.L. DAY, INC	5,900	295	0.0500
UBS SECURITIES INC	144,476	4,145	0.0287
UNION BANK OF SWITZERLAND	200,030	5,830	0.0291
US CLEARING INSTITUTIONAL TRADE	500	25	0.0500
VERIENS UND WESTBANK /HAMBURG	925	1,636	1.7686
VOLPE WELTY + COMPANY	3,900	195	0.0500
VPA STOCKHOLM	26,500	1,256	0.0474
W.I. CARR	1,021,000	18,682	0.0183
WEEDEN & CO INC.	299,500	17,047	0.0569
WESTLB NEW YORK	21,000	166	0.0079
WESTMINSTER	126,600	7,596	0.0600
WHEAT FIRST SECURITIES INC.	150,900	9,049	0.0600
WILLIAMS DE BROE	6,000	45	0.0075
WILSHIRE ASSOCIATES	182,300	10,938	0.0600
WOOD GUNDY	59,800	2,514	0.0420
TOTAL	<u>63,448,156</u>	<u>2,636,092</u>	

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF LARGEST STOCK HOLDINGS (By Fair Value)
December 31, 1998**

<u>Stock</u>	<u>Fair Value</u>
Bestfoods	\$ 11,379,525
Merk + Co Inc.	11,342,750
Microsoft Corp.	11,219,819
American Home Products Co.	11,043,863
Kimberly Clark Corp.	10,785,550
Xerox Corp.	10,738,000
Home Depot Inc.	9,991,919
McGraw Hill Co Inc.	9,504,938
CISCO System Inc.	9,448,313
American Express Co.	9,245,500

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF LARGEST BOND HOLDINGS (By Fair Value)
December 31, 1998**

<u>Bonds</u>		<u>Fair Value</u>
FHLMC TBA Jan 30 Gold Single 6.00% due 12/01/2099 Rating AAA	6% 01 Dec 2099	\$ 67,566,204
FHLMC TBA Jan 30 Gold Single 6.50% due 12/01/2099 Rating AAA	6.5% 01 Dec 2099	45,239,639
U.S. Treasury Bonds 8.125% due 08/15/2021 Rating AAA	8.125% 15 Aug 2021	39,186,250
U.S. Treasury Bonds 7.125% due 02/15/2023 Rating AAA	7.125% 15 Feb 2023	36,892,563
U.S. Treasurer Notes 3.625% due 07/15/2002 Rating AAA	3.625% 15 Jul 2002	25,406,263
Tele Communication Inc., 8.25% due 01/15/2003 Rating BA1	8.25% 15 Jan 2003	21,948,000
Ford Motor Credit Company 1.00% due 02/13/2003 Rating A1	1% 13 Feb 2003	21,473,986
First Bank System Inc., Medium T, 5.5667% due 11/17/1999 Rating A1	5.5667% 17 Nov 1999	20,031,600
U.S. Treasurer Notes 5.375% due 07/31/2000 Rating AAA	5.375% 31 Jul 2000	19,207,860
GNMA TBA Jan 30 Single Family, 6.00% due 12/15/2099 Rating AAA	6% 15 Dec 2099	18,833,750

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IV. ACTUARIAL SECTION

Timothy J. Marnell, ASA
Principal

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Chicago, IL 60606-3414
312 609-9461
Fax: 312 609-9829

Towers Perrin

May 28, 1999

Members of the Board:

The financing objective of the plan has been to reduce the unfunded actuarial accrued liability (UAAL) to zero over a 28-year period commencing December 31, 1995, while maintaining contribution rates that remain approximately the same from generation to generation. Emerging gains and losses are amortized separately over individual 15-year periods. Other changes to the UAAL, created by assumption changes or plan amendments, are amortized over periods established by the Board. The progress being made toward the realization of the financing objectives through December 31, 1998, 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. A regularly scheduled investigation was performed as of December 31, 1998, at which time changes to certain demographic assumptions were recommended to, and adopted by, the Board. A triennial investigation will again be performed as of December 31, 2001. 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). We have enclosed a summary of the employee data used in performing actuarial valuations over the past several years (Exhibits III and IV). Exhibit VII provides a summary of plan provisions.

The actuarial assumptions used in the December 31, 1998, valuation are summarized in the attachments. All assumptions were determined by the actuary and were adopted by the Board. The actuarial assumptions and methods used for funding purposes satisfy the disclosure requirements of GASB 25.

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.

We did not prepare any of the schedules presented in the Financial Section. It is our understanding, however, that OCERS staff used information contained in our actuarial valuation reports to prepare the trend schedules presented in that section.

On the basis of the December 31, 1998, 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.

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
12/31/89	\$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%
12/31/95	2,633,884	2,434,406*	199,478	92.43%	727,768	27.41%
12/31/96	2,851,894	2,675,632*	176,262	93.82%	758,897	23.23%
12/31/97	3,332,967	3,128,132*	204,835	93.85%	781,890	26.20%
12/31/98	3,682,686	3,504,708*	177,978	95.17%	863,199	20.62%

Notes:

- The 12/31/98 valuation included changes to the assumed withdrawal rates, the assumed preretirement mortality and the assumed retirement rates. These changes increased both general member and employer contribution rates.
- The 12/31/97 valuation included an increase in plan benefits to reflect the impact of the California Supreme Court decision in the Ventura County case regarding compensation earnable.
- The 12/31/95 valuation included a change in the salary scale from 6.0% to 3.5% per annum through the year 2000, and 5.5% thereafter. The aggregate payroll increase assumption was also changed from 5.0% to 4.5% per annum.
- The 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%.
- The 12/31/94, 12/31/95, 12/31/96, 12/31/97 and 12/31/98 assets exclude \$311,022,000, \$329,064,000, \$313,250,000, \$322,333,000 and \$302,909,000, respectively, of the County's unamortized 1994 funding of its portion of the Unfunded Actuarial Accrued Liability, which funding for 1995 is being amortized over a fourteen year period beginning July 1, 1994 and for 1996 and later is being amortized over a 28-year period beginning July 1, 1996.

Orange County Employees Retirement System
HISTORY OF EMPLOYER CONTRIBUTION RATES

Employer Contribution Rate (% of pay)

Valuation Date		Valuation Date		Valuation Date	
12/31/89		12/31/92		12/31/95	
General		General		General	
Normal	5.04	Normal	3.56	Normal	3.33
UAAL	5.77	UAAL	1.30	UAAL	(0.47)
Total	10.81	Total	4.86	Total	2.86
Safety		Safety		Safety	
Normal	15.26	Normal	6.42	Normal	5.59
UAAL	14.03	UAAL	17.92	UAAL	18.84
Total	29.29	Total	24.34	Total	24.43
12/31/90		12/31/93		12/31/96	
General		General		General	
Normal	4.75	Normal	3.38	Normal	3.38
UAAL	4.60	UAAL	0.53	UAAL	(1.06)
Total	9.35	Total	3.91	Total	2.32
Safety		Safety		Safety	
Normal	13.91	Normal	6.20	Normal	5.77
UAAL	10.42	UAAL	18.56	UAAL	17.77
Total	24.33	Total	24.76	Total	23.54
12/31/91		12/31/94		12/31/97	
General		General		General	
Normal	2.40	Normal	3.68	Normal	3.77
UAAL	0.15	UAAL	1.71	UAAL	(1.91)
Total	2.55	Total	5.39	Total	1.86
Safety		Safety		Safety	
Normal	4.15	Normal	6.58	Normal	6.79
UAAL	13.78	UAAL	21.85	UAAL	19.65
Total	17.93	Total	28.43	Total	26.44
				12/31/98	
				General	
				Normal	4.35
				UAAL	(2.35)
				Total	2.00
				Safety	
				Normal	8.00
				UAAL	16.41
				Total	24.41

Orange County Employees Retirement System
SUMMARY OF ACTIVE MEMBERSHIP

Valuation Date	Number	Annual Salary	Annual Average Salary	% Increase in Average Salary
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
12/31/95				
General	15,658	\$597,800,535	\$38,179	1.11%
Safety	2,351	129,967,110	55,282	2.00
Total	18,009	\$727,767,645	\$40,411	1.78
12/31/96				
General	15,736	\$623,682,535	\$39,634	3.81%
Safety	2,354	135,214,811	57,440	3.90
Total	18,090	\$758,897,346	\$41,951	3.81
12/31/97				
General	16,266	\$643,115,556	\$39,537	(0.24%)
Safety	2,427	138,774,560	57,179	(0.45)
Total	18,693	\$781,890,116	\$41,828	(0.29)
12/31/98				
General	16,976	\$706,507,935	\$41,618	5.26%
Safety	2,456	156,691,236	63,799	11.58
Total	19,432	\$863,199,171	\$44,422	6.20

Excludes Deferred and Pending members.

Orange County Employees Retirement System
SUMMARY OF RETIRED MEMBERSHIP

Year	Number of Members				Annual Allowance	% Increase in Annual Allowance	Average Monthly Allowance
	At Beginning of Year	Added During Year	Removed During Year	At End of Year			
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
1/95 to 12/95	5,816	690	(147)	6,359	92,332,920	18.94	1,210
1/96 to 12/96	6,359	426	(154)	6,631	99,751,438	8.03	1,254
1/97 to 12/97	6,631	505	(224)	6,912	109,661,326	9.93	1,322
1/98 to 12/98	6,912	547	(215)	7,244	\$125,439,610	14.39	1,443

Orange County Employees Retirement System
DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS
 As of December 31, 1998

Plan Year Ending	Fair Value	Book Value	Ratio of Fair Value to Book Value
1998	\$3,643,078,679	\$3,045,622,732	1.196169
1997	3,263,314,979	2,765,715,751	1.179917
1996	2,829,039,344	2,408,673,997	1.174521
1995	2,573,558,176	2,197,035,693	1.171377
1994	2,080,529,097	2,016,613,313	1.031695

(1) Average ratio in five years preceding December 31, 1998	1.150736
(2) Book value on December 31, 1998	\$3,045,622,732
(3) Actuarial value of assets: (1) x (2)	\$3,504,707,720

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)
12/31/89	\$217,796	\$625,449	\$808,743	\$1,136,210	100%	100%	36.22%
12/31/90	245,591	674,000	903,324	1,279,575	100	100	39.85
12/31/91	292,868	650,365	820,661	1,567,131	100	100	76.02
12/31/92	327,402	807,213	1,005,467	1,807,319	100	100	66.90
12/31/93	369,199	899,240	1,036,580	2,024,447	100	100	72.93
12/31/94	413,058	1,002,300	1,134,701	2,177,673	100	100	67.18
12/31/95	438,949	1,201,057	993,878	2,434,406	100	100	79.93
12/31/96	484,451	1,295,334	1,072,109	2,675,632	100	100	83.56
12/31/97	523,770	1,554,017	1,255,180	3,128,132	100	100	83.68
12/31/98	567,932	1,632,708	1,482,047	3,504,708	100	100	87.99

Orange County Employees Retirement System
ACTUARIAL METHODS AND ASSUMPTIONS

The Projected Unit Credit method was used with gains and losses being amortized over a 15-year period from the date first identified. The following actuarial assumptions were also used:

1. *Interest:* 8% per annum.
2. *Salary scale:* 3.5% per annum per individual through year 2000, 5.5% per annum thereafter; the aggregate salary increase assumed for the entire system is 4.50% 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 and 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.

Certain of the above assumptions were changed effective December 31, 1998. The unfunded actuarial accrued liability (UAAL) as of December 31, 1995, is amortized as a level dollar amount over 28 years. Actuarial gains and losses for each year are amortized over separate 15-year periods on a level dollar basis. Changes in the UAAL arising from assumption changes and plan amendments are amortized over periods determined by the Board.

Orange County Employees Retirement System
PROBABILITY OF OCCURRENCE
 (Includes Eligibility)

Age Nearest	Ordinary Withdrawal	Vested Withdrawal	Pre-retirement Death	Ordinary Disability	Service Retire.	Service Disability
General Members - Male						
20	0.2000	0.0000	0.0004	0.0000	0.0000	0.0000
30	0.0890	0.0028	0.0006	0.0001	0.0000	0.0004
40	0.0430	0.0097	0.0012	0.0004	0.0000	0.0010
50	0.0260	0.0068	0.0039	0.0011	0.0371	0.0022
60	0.0000	0.0000	0.0092	0.0052	0.0744	0.0050
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000
General Members - Female						
20	0.1570	0.0000	0.0002	0.0000	0.0000	0.0000
30	0.0960	0.0033	0.0003	0.0001	0.0000	0.0000
40	0.0590	0.0102	0.0007	0.0006	0.0000	0.0000
50	0.0340	0.0062	0.0016	0.0015	0.0293	0.0003
60	0.0000	0.0000	0.0042	0.0026	0.0721	0.0000
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000
Safety Members						
20	0.0890	0.0000	0.0004	0.0000	0.0000	0.0011
30	0.0300	0.0026	0.0006	0.0001	0.0000	0.0013
40	0.0060	0.0052	0.0012	0.0004	0.0000	0.0066
50	0.0000	0.0029	0.0039	0.0023	0.0664	0.0174
60	0.0000	0.0000	0.0092	0.0000	0.5769	0.0000
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000

Orange County Employees Retirement System
EXPECTATION OF LIFE
Age and Service Retirees
1983 Group Annuity Mortality

Age	Male	Female
20	57.85	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

Orange County Employees Retirement System
**Assumptions Specific To The
Ventura County Ruling**

The Ventura County Ruling changed the definition of compensation earnable, a key variable in the determination of benefits payable from the Orange County Employees Retirement System. Because many of the elements of compensation and certain information about member contribution account balances were unavailable, assumptions needed to be made to complete the December 31, 1998 actuarial valuation. The following describes the key assumptions that were made and the rationale behind the assumptions. Overall, the assumptions used in the actuarial valuation are conservative but not overly conservative. As more information becomes available, changes to these assumptions will be considered.

Compensation Earnable

Data on premium pay for individual members was included in the participant data supplied by OCERS. This information compared favorably to estimates made for the December 31, 1997 actuarial valuation.

Compensation earnable also includes vacation, sick time and compensatory time that is earned and can be cashed out in the measurement period. The amount of these items that are included in final compensation will change over time as members learn the impact that these items can have on their retirement benefits. For the purpose of this valuation, it was assumed that members would cash out the maximum amount available.

Percent of Retired Members Electing a Recalculation of Retirement Benefits

Benefits for the majority of retirees have already been adjusted for the Ventura County Ruling. Ninety percent of the remaining retirees will ask to have their pension benefits recalculated.

Payments to Retirees

Retirees whose benefits were not yet recalculated were assumed to have the same increase in compensation earnable as active members. This likely overstates the increase in benefits for retirees. Monthly benefit payments for retirees increased effective July 1, 1998.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

SUMMARY OF MAJOR PLAN PROVISIONS

1. **Membership Requirements**

Date of employment.

2. **Monthly Salary Base for Benefits**

Highest one-year average (three-year average for Tier II members).

3. **Service Retirement**

A. **Eligibility**

10 years of service and age 50, or 30 years of service.

B. **Benefit Formula per Year of Service**

1/50. (1/60 for Tier II General Members).

Reduced for retirement before age 57 (50 for Safety Members) and increased for retirement after age 57 (50 for Safety Members). Tier II General Plan Factors are found in Section 31676.1.

4. **Ordinary Disability**

A. **Eligibility**

Five years of service.

B. **Benefit Formula per Year of Service**

For Tier I members, 1.8% per year of service (in most cases a minimum of one-third salary). Tier II members receive 1.5% per year of service.

5. **Line-of-Duty Disability**

A. **Eligibility**

No age or service requirement.

B. **Benefit**

50% of salary.

6. **Ordinary Death Before Eligible to Retire**

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

7. **Ordinary Death After Eligible to Retire for Service or Ordinary Disability**

60% of earned benefit payable to surviving eligible spouse. *Exhibit VII*

8. **Line-of-Duty Death**

50% of salary payable to spouse.

9. **Death After Retirement**

A. **Service or Ordinary Disability Retirement**

60% of member's unmodified allowance continued to eligible spouse.

B. **Line-of-Duty Disability**

100% of member's allowance continued to spouse.

C. **\$1,000 Lump Sum**

10. **Withdrawal Benefits**

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

Refund of accumulated employee contributions with interest.

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

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

11. **Postretirement Cost-of-Living Benefits**

Based on changes in Consumer Price Index to maximum of 3% per year; excess "banked."

12. **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: 45.40% (25.89%) of General; 83.53% (41.80%) of Safety.

Orange County Employees Retirement System
Analysis of Financial Experience
\$000

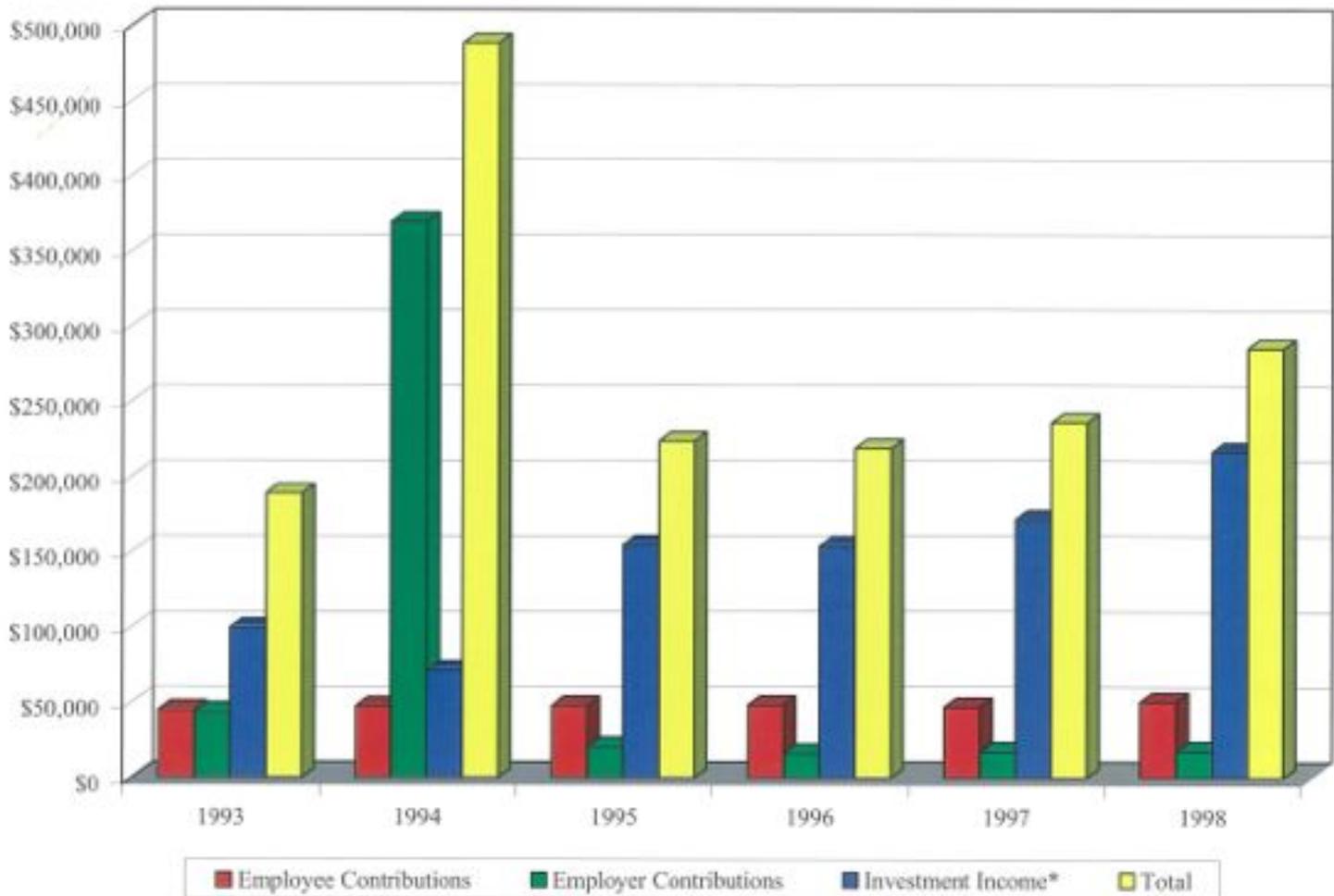
Gains & Losses in Accrued Liabilities During Years Ended December 31, Resulting from Differences Between Assumed Experience & Actual Experience				
Type of Activity	Gains (or Losses) Per Year			
	1995	1996	1997	1998
Retirements	\$(84,430)	\$(64,134)	\$(31,804)	\$(34,552)
Disabilities	16,031	15,718	13,706	18,431
Withdrawal From Employment	(8,887)	(19,198)	(25,076)	(7,697)
Pay Increases	66,315	31,163	41,129	(21,705)
Investment Income	71,714	36,047	204,470	141,642
Mortality	(17,580)	(13,805)	(12,124)	23,996
Other	<u>(14,776)</u>	<u>19,406</u>	<u>(10,742)</u>	<u>(15,635)</u>
Gain (or Loss) During Year From Financial Experience	\$28,387	\$5,197	\$179,559	\$104,480
Non Recurring Items. Adjustment for plan amendments, assumption changes, etc.	<u>138,619</u>	-	<u>(208,767)</u>	<u>(71,574)</u>
Composite Gain (or Loss) During Year	\$167,006	\$5,197	\$(29,208)	\$32,906

V. STATISTICAL SECTION

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Schedule and Graph of Revenues by Source (in thousands) 1993 - 1998

	1993	1994	1995	1996	1997	1998
Employee Contributions	\$45,170	\$47,442	\$47,953	\$48,461	\$47,011	\$50,557
Employer Contributions	\$43,922	†\$369,382	†\$20,814	†\$16,463	†\$17,570	†\$17,977
Investment Income*	\$99,797	\$71,555	\$154,753	\$153,822	\$171,623	\$216,526
Total	\$188,889	\$488,379	\$223,520	\$218,746	\$236,204	\$285,060

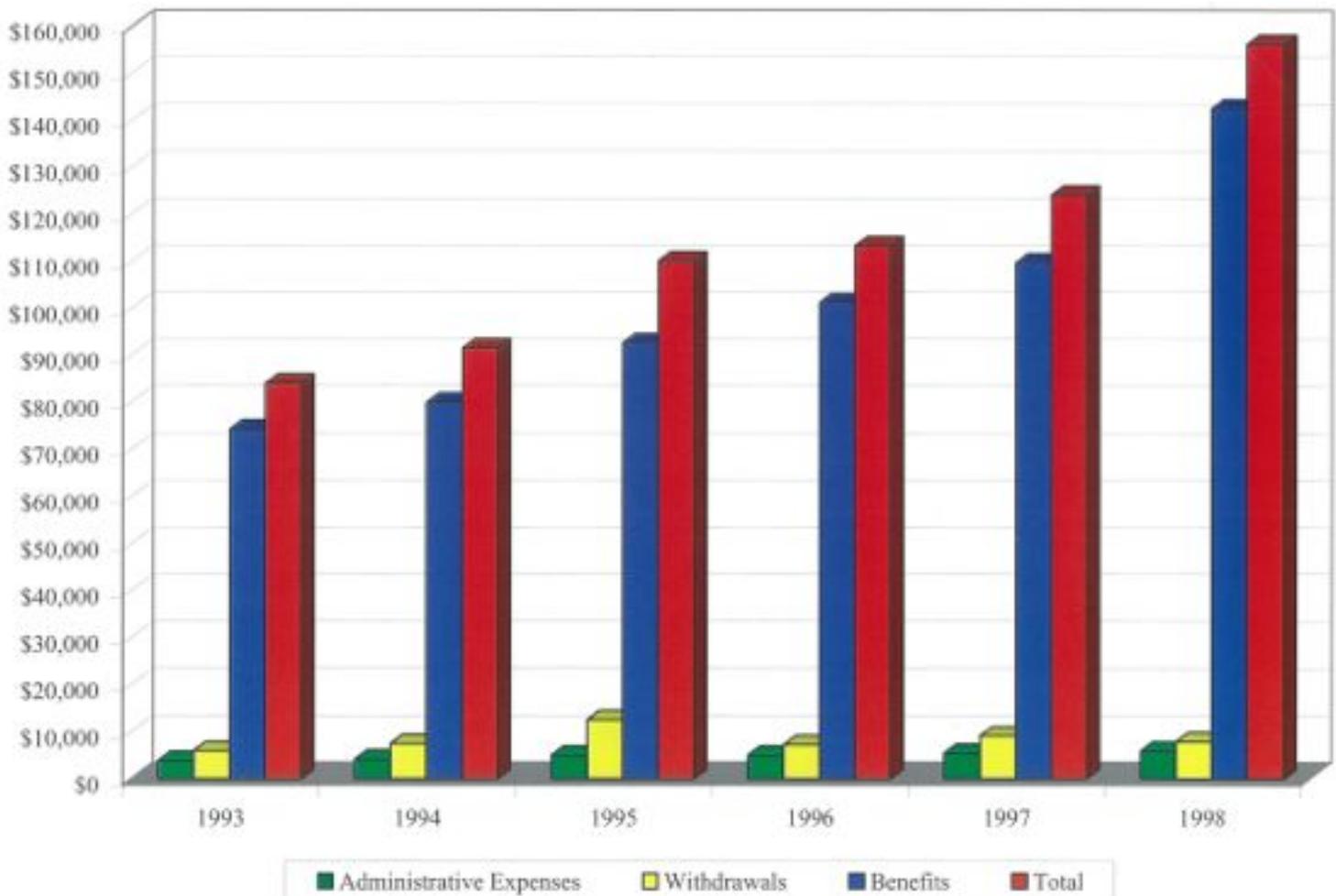


* Net of investment manager fees. Does not include net appreciation in fair market value.

† Employer contribution for 1994 include \$318,300,000 of County's funding of its portion of the Unfunded Actuarial Accrued Liability. In subsequent years, agreements between OCERS and the County provided that the 1994 contribution would reduce subsequent required employer cash contributions.

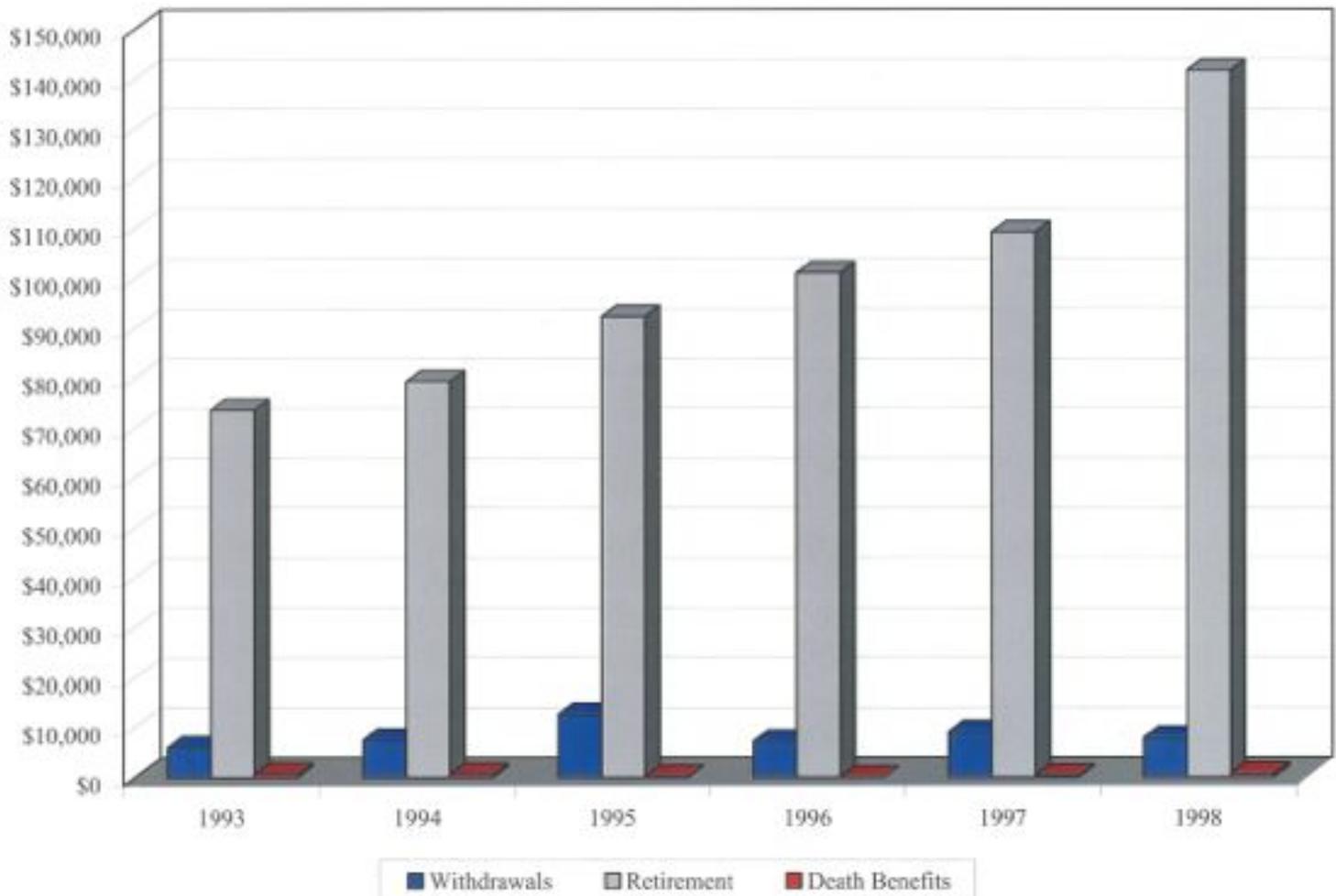
Schedule and Graph of Expenses by Type (in thousands) 1993 - 1998

	1993	1994	1995	1996	1997	1998
Administrative Expenses	\$3,854	\$4,132	\$4,971	\$4,987	\$5,392	\$5,850
Withdrawals	\$5,928	\$7,426	\$12,523	\$7,166	\$9,048	\$7,848
Benefits	\$74,238	\$79,932	\$92,582	\$101,125	\$109,660	\$142,457
Total	\$84,020	\$91,490	\$110,076	\$113,278	\$124,100	\$156,155



Schedule and Graph of Benefit Expenses by Type (in thousands) 1993 - 1998

	1993	1994	1995	1996	1997	1998
Withdrawals	\$5,928	\$7,426	\$12,523	\$7,166	\$9,048	\$7,848
Retirement	\$73,544	\$79,280	\$92,335	\$101,074	\$109,206	\$141,629
Death Benefits	\$694	\$652	\$247	\$51	\$454	\$828



ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF PARTICIPATING EMPLOYERS

Capistrano Beach Sanitation District

Capistrano Valley Water District

City of San Juan Capistrano

County of Orange

Cypress Recreation and Park District

Foothill/Eastern Transportation Corridor Agency

Orange County Cemetery District

Orange County Employees Retirement System

Orange County Fire Authority

Orange County Law Library

Orange County Transportation Authority

Orange County Vector Control District

San Joaquin Hills Transportation Corridor Agency

Sanitation Districts of Orange County

Santiago Library System

Orange County Department of Education (closed to new members)

UCI Medical Center (closed to new members)

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT
As of December 31, 1998

Amount of Monthly Benefit	No. of Retirants	Type of Retirement							Option Selected				Total	
		1	2	3	4	5	6	7	Unmodified	Option 1	Option 2	Option 3		Option 4
\$1-250	1,030	698	209	-	2	32	47	42	994	16	12	3	5	1,030
\$251-500	1,265	892	197	-	27	53	36	60	1,243	6	15	1	-	1,265
\$501-750	1,136	856	95	3	64	59	18	41	1,125	2	8	1	-	1,136
\$751-1,000	838	620	46	1	87	55	12	17	826	3	7	2	-	838
1,250	691	496	22	2	135	15	9	12	679	3	8	1	-	691
1,500	495	345	16	-	114	10	6	4	486	3	6	-	-	495
1,750	389	294	13	1	63	9	4	5	381	1	7	-	-	389
2,000	274	217	8	1	42	2	-	4	267	-	4	2	1	274
Over \$2,000	1,126	947	23	1	138	10	3	4	1,094	3	20	6	3	1,126
Total	7,244	5,365	629	9	672	245	135	189	7,095	37	87	16	9	7,244

Definition of Terms:

Eligible Spouse - A member's spouse is considered eligible if the member has been married for at least one year at the time of retirement and remains married throughout the member's retirement.

Eligible Child - An eligible child is an unmarried child under the age of 18, or under the age of 22 if a full-time student.

Type of Retirement

- 1 - Normal Retirement for age and service.
- 2 - Survivor Payment - normal retirement.
- 3 - Survivor Payment - death in the line of duty.
- 4 - Service Connected Disability Retirement.
- 5 - Non-service Connected Disability Retirement.
- 6 - Survivor Payment - disability retirement.
- 7 - Survivor Payment - active member who died and was eligible to retire.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT (continued)

Option Selected

Unmodified Option:

This option provides the member with the maximum allowance available to the member. It also provides a continuation of 60 percent of the member's allowance to the member's eligible spouse or eligible children upon the member's death. If the member retired under the Service Connected Disability status, the continuance percentage is 100 percent instead of the normal 60 percent. If the member does not have an eligible spouse or any eligible child at the time of death, the member's designated beneficiary will receive a refund of the member contributions with interest, less the sum of the monthly allowances paid to the member during the member's lifetime.

Option 1 - Cash Refund Annuity:

This option provides the member with a reduced monthly allowance for the member's lifetime. At the member's death, the member's designated beneficiary will receive the member's remaining contributions, if any.

Option 2 - 100 Percent Joint and Survivor Annuity:

This option provides the member with a reduced monthly allowance for the member's lifetime. At the member's death, the member's designated beneficiary will receive the same monthly allowance for the rest of his or her lifetime.

Option 3 - 50 Percent Joint and Survivor Annuity:

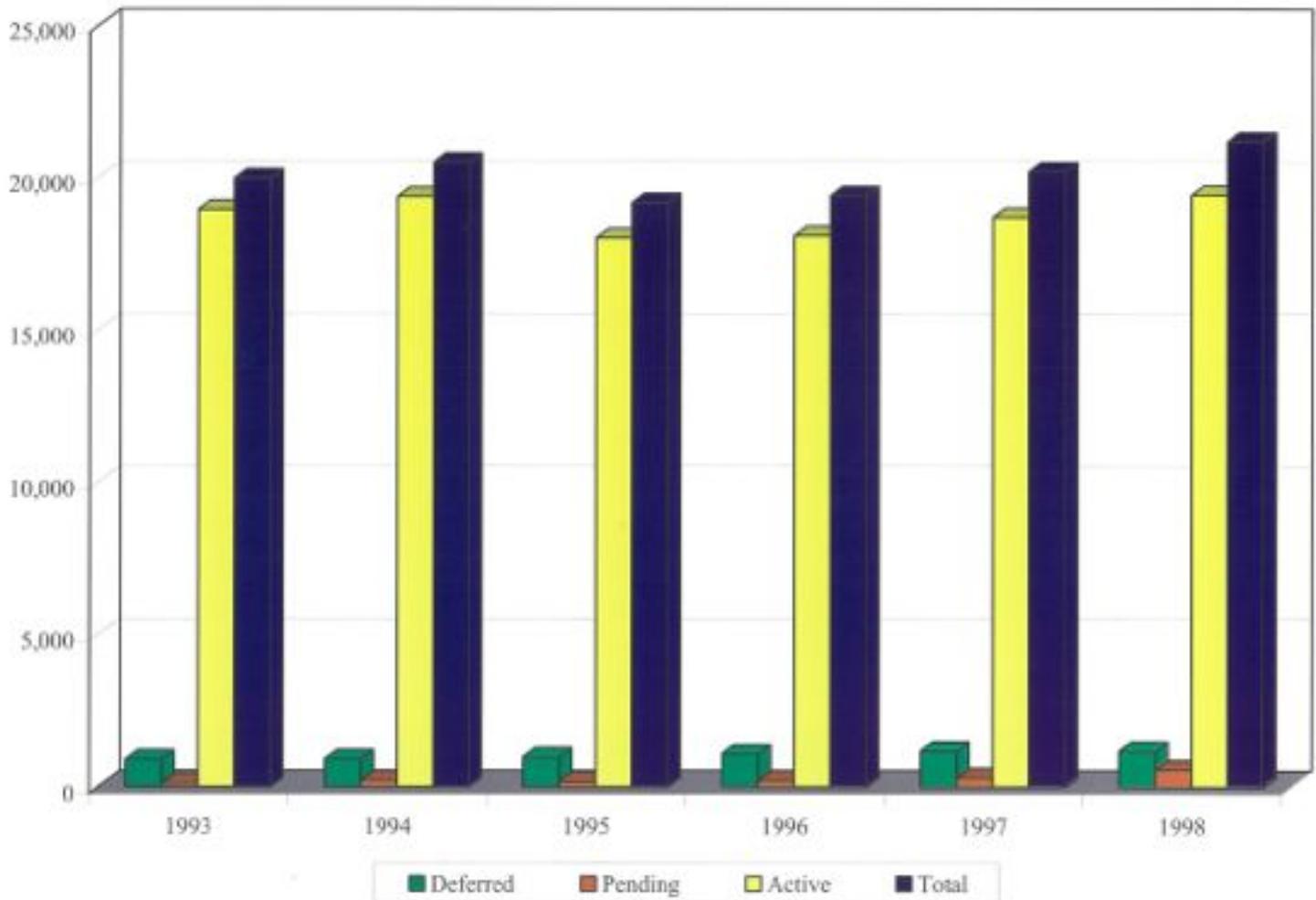
This option provides the member with a reduced monthly allowance for the member's lifetime. At the member's death, the member's designated beneficiary will receive half of the member's monthly allowance for the rest of his or her lifetime.

Option 4 - Other Options:

Other options allow members to designate multiple beneficiaries and other survivor percentages. The member must obtain approval from the Retirement Board.

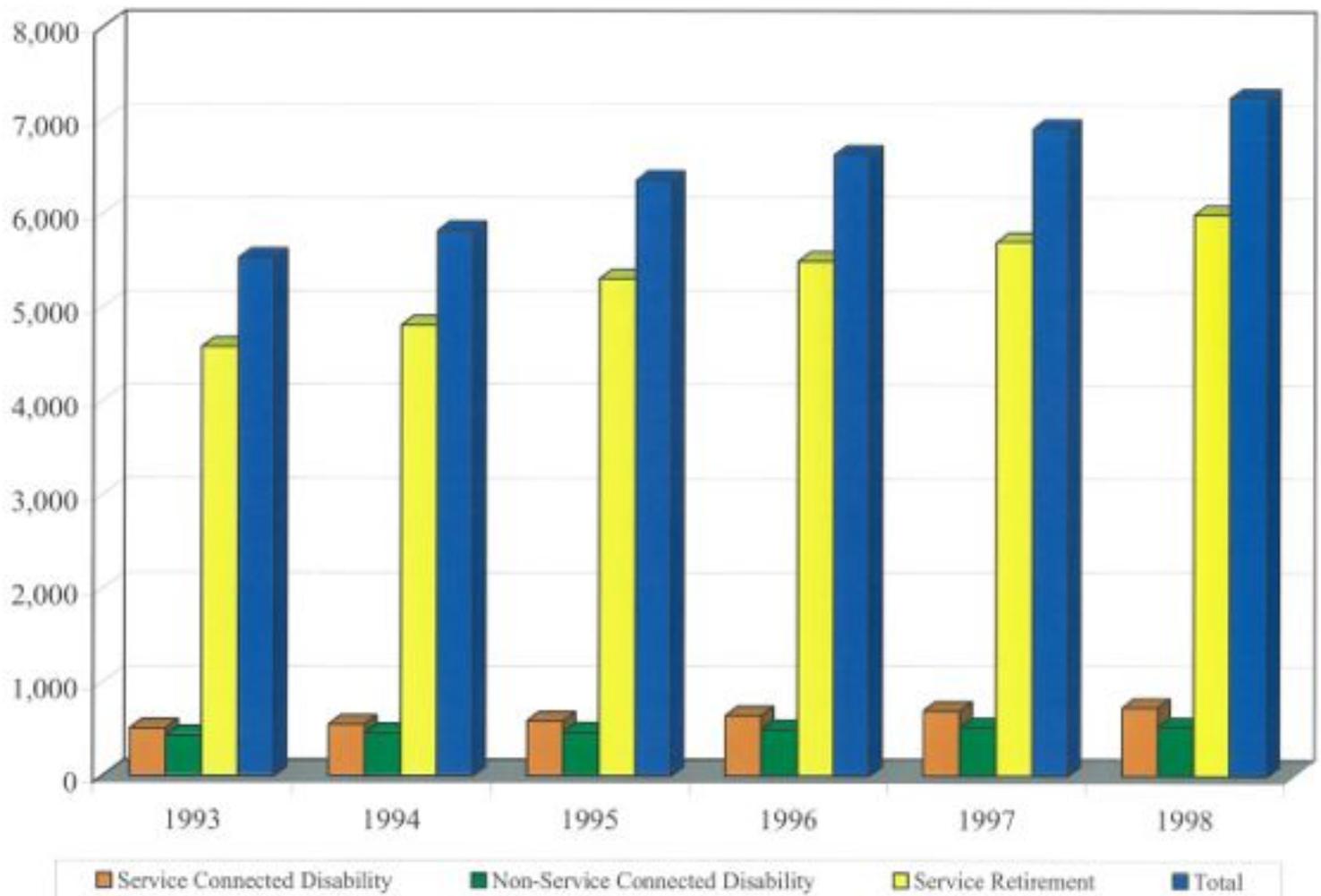
Schedule and Graph of Active, Pending, and Deferred Members 1993 - 1998

	1993	1994	1995	1996	1997	1998
Deferred	903	908	979	1,087	1,184	1,179
Pending	128	216	191	225	312	571
Active	18,945	19,373	18,009	18,090	18,693	19,432
Total	19,976	20,497	19,179	19,402	20,189	21,182



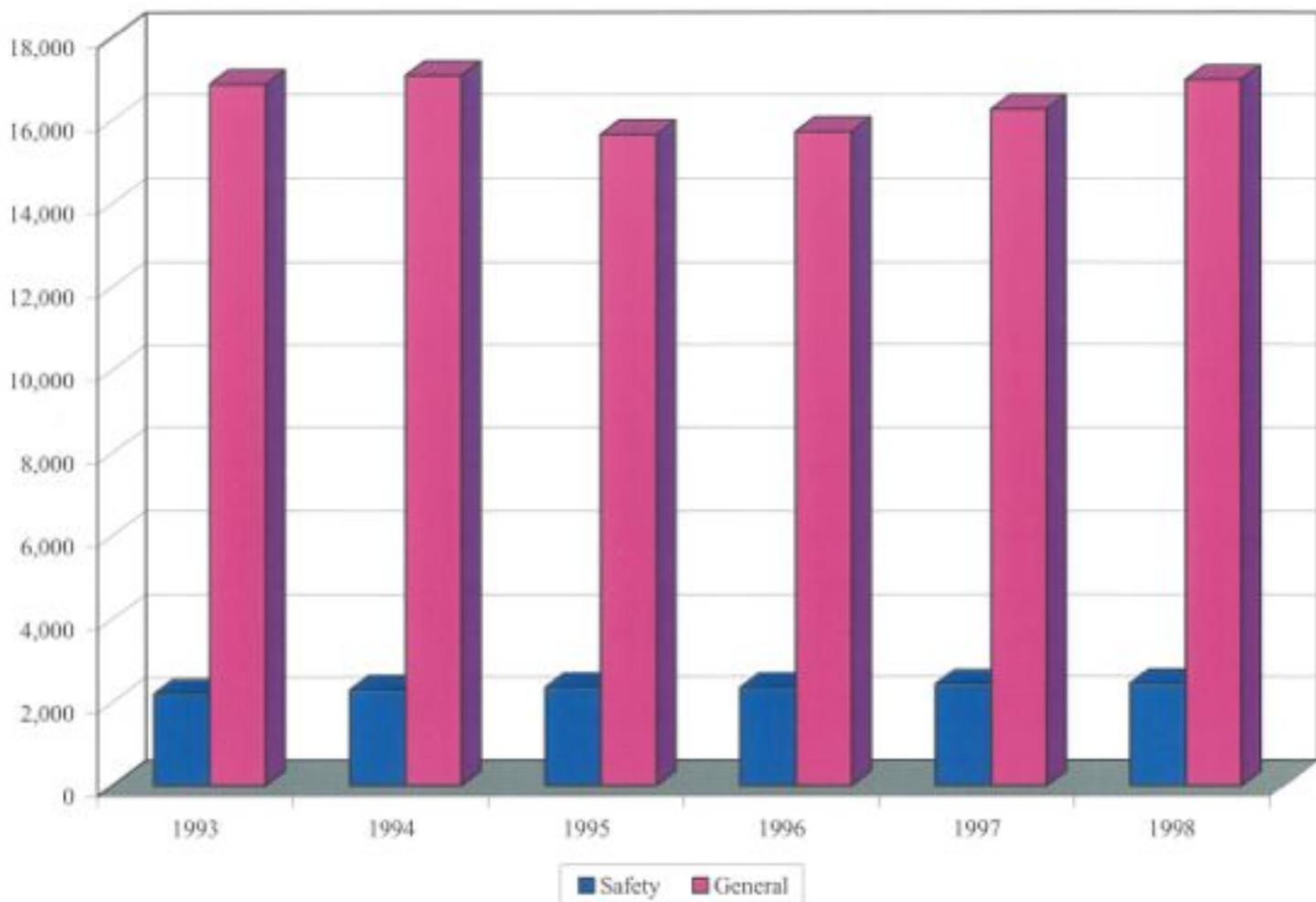
Schedule and Graph of Retired Members 1993 - 1998

	1993	1994	1995	1996	1997	1998
Service Connected Disability	508	548	588	644	696	729
Non-Service Connected Disability	437	461	468	497	518	524
Service Retirement	4,579	4,807	5,303	5,490	5,698	5,991
Total	5,524	5,816	6,359	6,631	6,912	7,244



Schedule and Graph of Active Members by Membership Classification* 1993 - 1998

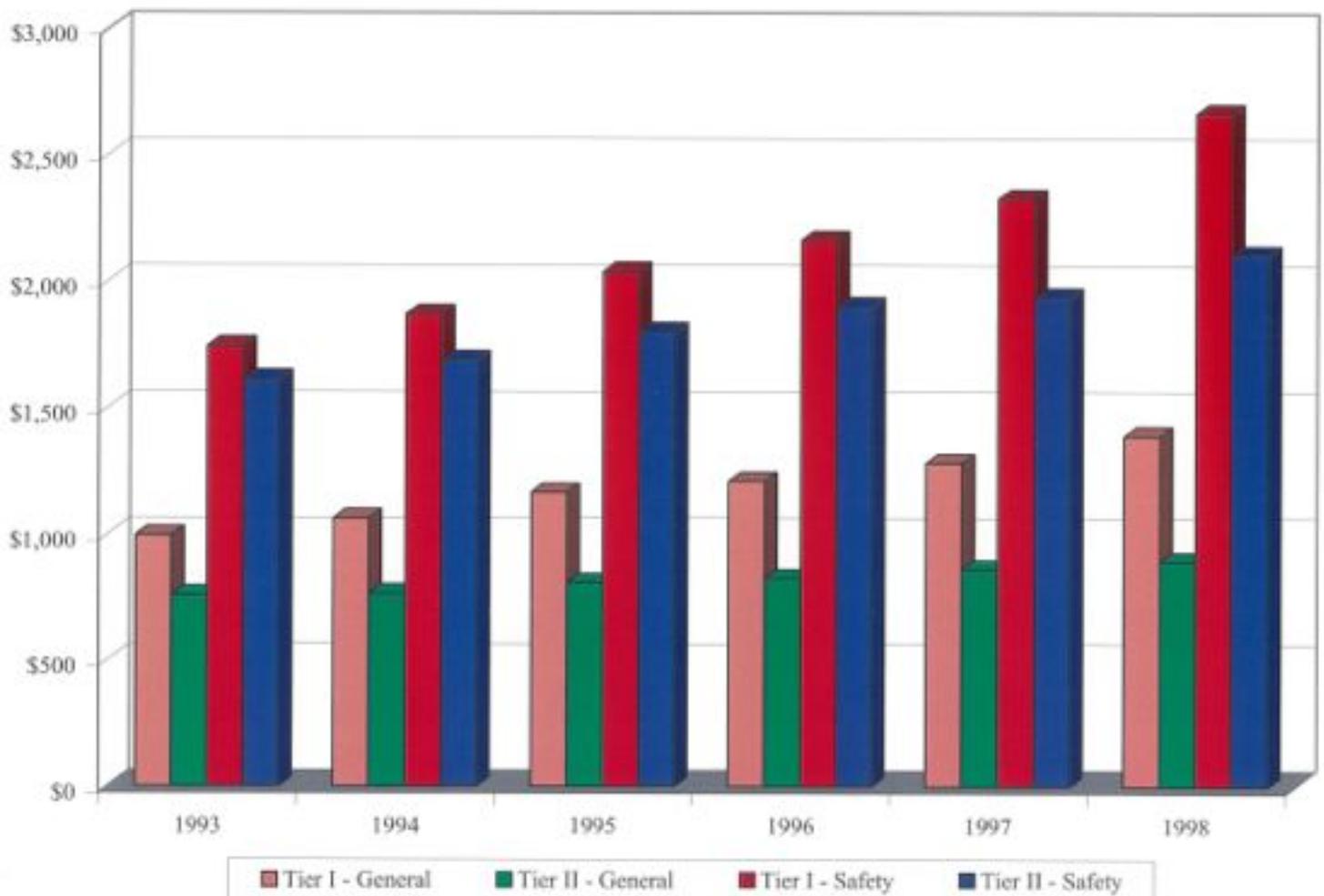
	1993	1994	1995	1996	1997	1998
Safety	2,196	2,288	2,351	2,354	2,427	2,456
General	16,877	17,085	15,658	15,736	16,266	16,976



* Excludes members with Pending Status.

Schedule and Graph of Average Monthly Retirement Benefits (by Tier and Membership Classification) 1993 - 1998

	1993	1994	1995	1996	1997	1998
Tier I - General	\$994	\$1,061	\$1,164	\$1,210	\$1,281	\$1,388
Tier II - General	\$756	\$764	\$807	\$824	\$859	\$891
Tier I - Safety	\$1,744	\$1,869	\$2,039	\$2,163	\$2,328	\$2,666
Tier II - Safety	\$1,612	\$1,688	\$1,801	\$1,901	\$1,937	\$2,107



ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
HISTORY OF ACTUARIAL ASSUMPTION RATES
FOR THE PERIOD JANUARY, 1945 - DECEMBER, 1998

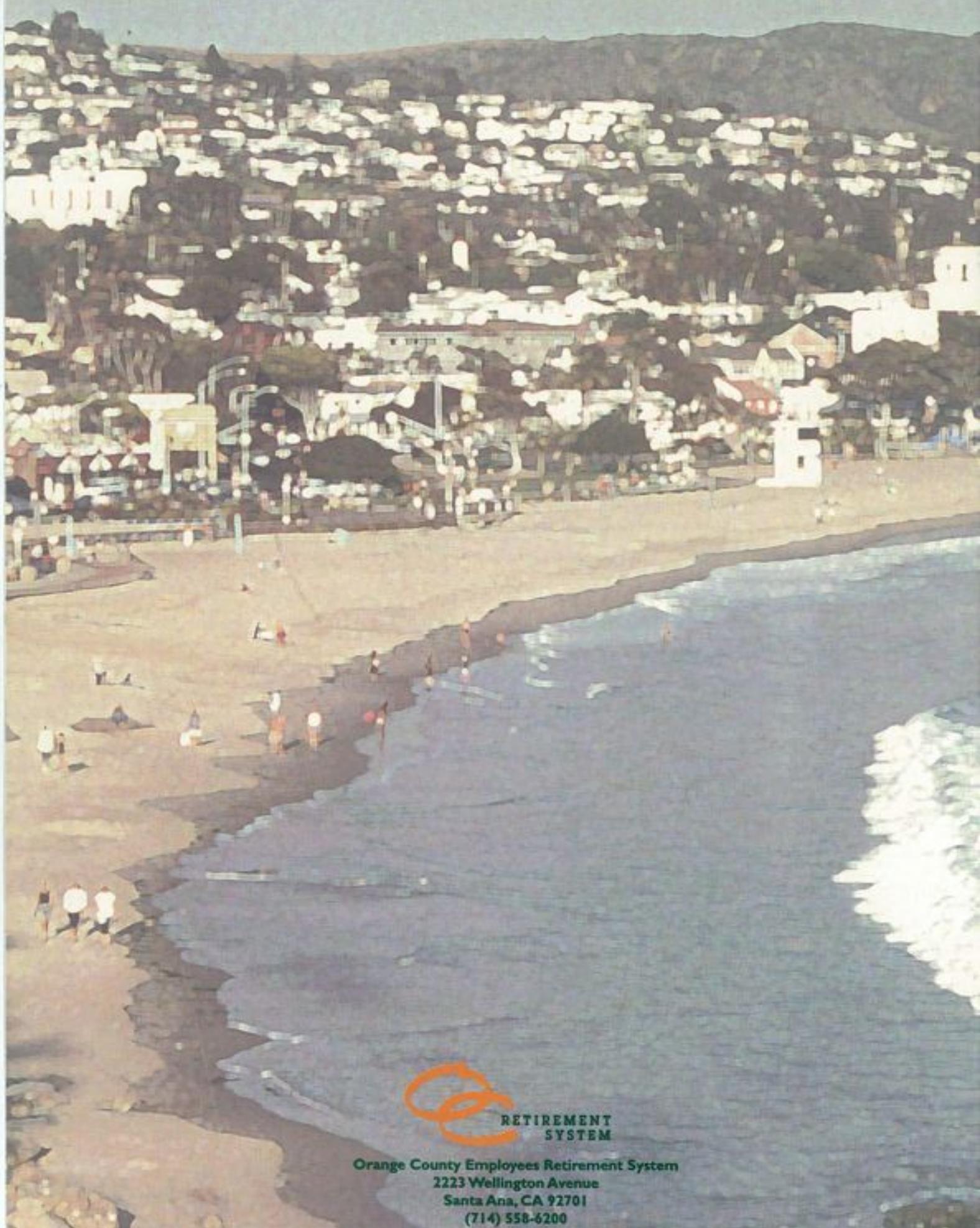
The table shown below is a comprehensive history of the interest rate assumption and the salary assumption rates corresponding to the Orange County Employees Retirement System since the inception of the system. These rates are adopted by the Board of Retirement and used by the consulting actuary in the 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>
1/1/45	2.50%	0.00%
7/1/62	3.50%	0.00%
12/31/65	4.00%	0.00%
7/1/69	4.50%	0.00%
6/30/70	5.00%	0.00%
8/31/73	5.75%	0.00%
7/1/75	6.00%	0.00%
7/1/81	7.25%	5.00%
7/1/89	7.50%	5.50%
7/1/91	8.00%	6.00%
7/1/96	8.00%	3.50%

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**RETIREMENT
SYSTEM**

**Orange County Employees Retirement System
2223 Wellington Avenue
Santa Ana, CA 92701
(714) 558-6200**