



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1999

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

**Raymond A. Fleming
Executive Director**

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I. INTRODUCTORY SECTION

LETTER OF TRANSMITTAL



Serving the Active and Retired Members of:

CITY OF SAN JUAN
CAPITRANS
(includes Capitrans
Valley Water District)

COUNTY OF ORANGE

CITRUS RECREATION
AND PARK DISTRICT

FOOTHILL/EASTSIDE/
SAN JOAQUIN HILLS
TRANSPORTATION
CORRIDOR AGENCY

ORANGE COUNTY
COURTNEY DISTRICT

ORANGE COUNTY
EMPLOYEES
RETIREMENT SYSTEM

ORANGE COUNTY FIRE
AUTHORITY

ORANGE COUNTY LAW
LIBRARY

ORANGE COUNTY
TRANSPORTATION
AUTHORITY

ORANGE COUNTY VICTIM
CONTROL DISTRICT

SENIATION DISTRICT OF
ORANGE COUNTY

ORANGE COUNTY
DEPARTMENT OF
EDUCATION
(closed to new
members)

UCI Medical Center
(closed to new
members)

June 5, 2000

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

Dear Board Members:

It is with great pleasure that we submit the Comprehensive Annual Financial Report (CAFR) of the Orange County Employees Retirement System (OCERS) for the calendar year ended December 31, 1999, the System's 55th 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 Chief Investment Officer's letter, 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

Accounting System and Reports

This CAFR was prepared in conformity with generally accepted accounting principles and reporting guidelines set forth by the Governmental 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, 1998. 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 1999, including net appreciation in fair value of investments and net of investment management fees, were \$758,462,000. This amount includes member and employer contributions of \$73,284,000 and net investment income of \$685,178,000. Net investment income represented an increase of \$192,227,000 over prior year; this increase was attributable mainly to higher net appreciation in fair value of investments. Details of the components of the additions to plan net assets are included in the Statements of Changes in Plan Net Assets on page 19.

Deductions to Plan Net Assets

Deductions for 1999, excluding investment management and security lending fees, were \$153,343,000, which represented a decrease of \$2,812,000 over prior year. This decrease was the result of lower retirement benefits payments, lower refunds of contributions and interest to members, and lower administrative expenses. The components of the total deductions are payments of retirement benefits of \$140,736,000, refunds of contributions and interest to terminated members of \$6,513,000 and administrative expenses of \$6,094,000.

Changes in System Memberships

OCERS' membership increases for the calendar year 1999 were as follows:

	<u>1999</u>	<u>1998</u>	<u>Increase (Decrease)</u>	<u>Change</u>
Active Members	20,357	19,432	925	4.76%
Retired Members	7,537	7,244	293	4.04%
Deferred Members	1,376	1,179	197	16.71%
Pending Status	177	571	(394)	(69.00%)

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 industries, while various other industries also seem to be making progress. The California state economy should continue to outpace growth in the rest of the nation. 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.

The rate of job growth declined in 1999 for the first time since the recession ended in 1991. Job growth dipped from 5% in 1998 to 3.2% in 1999, but that is still higher than job growth in the U.S. (2.2%) and other California counties. Orange County added an estimated 39,000 jobs during 1999, as compared to 61,000 jobs added in 1998. Gross county product for 1999 was \$112.6 billion as compared to \$100.1 billion for 1998. Orange County's housing demand continued to strengthen during 1999.

Investment Summary

OCERS' investments turned in a solid performance during 1999. For the 1999 year, the portfolio earned a total return of 15.68%, well above the actuarial earnings assumption. Over long-term periods, the portfolio has earned total annualized returns of 16.35% over the past five years, and 13.06% over the past seven years and one-half years. On a fair value basis, the total plan net assets grew from \$4,246,593,000 to \$4,851,712,000.

Funding

OCERS' funding objective is to meet long-term benefit obligations through contributions and investment income. As of December 31, 1999, the funding ratio of the System was approximately at 97.87%; a six-year history of OCERS' funding progress is presented on page 34. For 1999, OCERS experienced an increase of \$605,119,000 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

We would like to take this opportunity to thank the members of the System for their confidence in OCERS during the past year. We also want to express our thanks to the Board of Retirement for its dedicated effort in supporting the System through this past year. Likewise, we 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
Executive Director



Toi Dang
Chief Financial Officer

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, 1998

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.



Cary Brueck
President

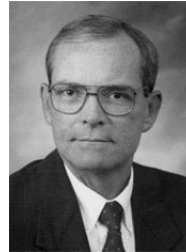
Jeffrey L. Esser
Executive Director

MEMBERS OF THE BOARD OF RETIREMENT
AS OF DECEMBER 31, 1999

Regular Members:



Mary K. Abbott
Elected Member - General
Orange County Employees
Retirement System
Term expires December 30, 2000



Thomas J. Lightvoet
Appointed Member
Vice-Chair 1999
Appointed by Board of Supervisors
Term expired May 1, 1998, or
until re-appointed or replaced



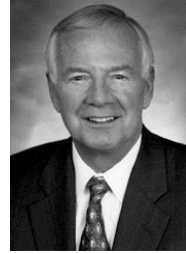
Keith L. Concannon
Elected Member - Retired Employees
Term expires December 30, 2001



John M.W. Moorlach
Ex-Officio Member
County Treasurer-Tax Collector
Term expires December 31, 2002



Frank E. Eley
Elected Member - General
Public Facilities &
Resources Department
Term expires December 30, 2001



Reed L. Royalty
Appointed Member
Appointed by Board of Supervisors
Term Expires September 15, 2001



Thomas N. Fox
Elected by Safety Members (Sheriff)
Chairperson 1998-1999
Term expires June 30, 2000



Charles H. Simons
Appointed Member
Appointed by Board of Supervisors
Term expires January 12, 2001

Alternate Member:



George W. Jeffries
Appointed Member
Appointed by Board of Supervisors
Term expires September 15, 2001



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
AS OF DECEMBER 31, 1999**

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.)

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.)

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.

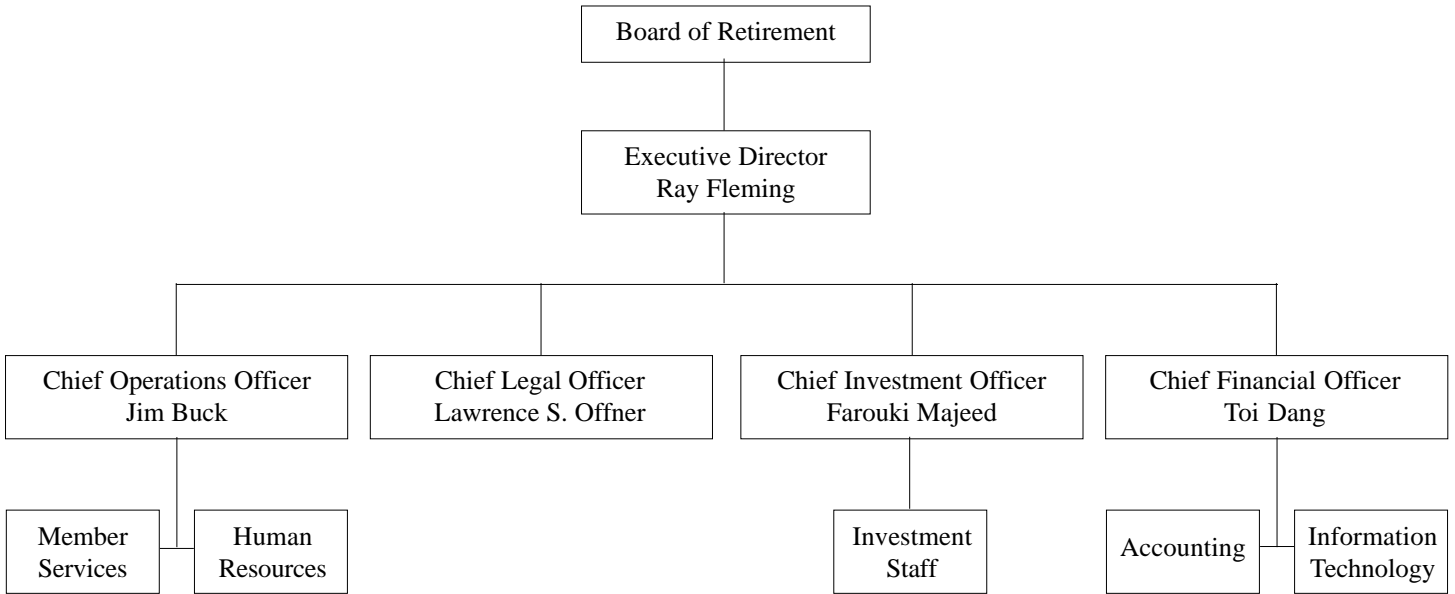
12. **County Contributions**

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.

Orange County Employees Retirement System
ORGANIZATION CHART
As of December 31, 1999



Orange County Employees Retirement System
ORGANIZATION

INVESTMENT DIVISION: This division is responsible for the administration and management of the investment program, in accordance with policies, regulations, and guidelines set forth by the Board of Retirement. It is responsible for the interface with investment managers, including monitoring investment performance objectives, adherence to investment guidelines, conducting due diligence visits to investment managers' sites, and interviewing prospective investment managers. The division is also responsible for the interface with outside investment consultants in reviewing and evaluating all investment managers' performance and quarterly investment manager fees.

OPERATIONS DIVISION: This division is comprised of the Member Services and Human Resources Departments. The Member Services Department is responsible for providing all benefit services to the members of the System. This includes benefit calculations, evaluation of claims for disability retirement, preparation of data to support applications for retirement, preparation of the retiree payroll, membership counseling, and communications to all active, retired, and deferred members through publications, newsletters, and our web site. The Human Resources Department 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, the Human Resources Department is responsible for purchasing, building management, and for the internal payroll and personnel functions of OCERS.

FINANCE DIVISION: This division is comprised of the Accounting Department and the Information Technology Department. The Accounting Department is responsible for all the financial records and reports including financial statements, control and balancing of payroll, members' contributions, and reconciliation of investments. The Information Technology Department is responsible for providing computer and technical support for OCERS including the maintenance of membership data on the HP 3000/937, the production of the retiree payroll, and Electronic Fund Transfer tapes. In addition, this Department is also responsible for OCERS' Local Area Network (LAN) and personal computers.

LEGAL DIVISION: The Legal Division provides legal advice and representation to the Board of Retirement and the Orange County Employees Retirement System on a wide variety of issues affecting OCERS. Among other things, this includes issues involving disability retirements, investments, legislation, vendor contracts, and family law.

PROFESSIONAL SERVICES

As of December 31, 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

GENERAL COUNSEL

Lawrence S. Offner

Chief Legal Officer
Orange County Employees Retirement System
Santa Ana, CA

INVESTMENT COUNSEL

Stradling, Yocca, Carlson & Rauth

Newport Beach, CA

FIDUCIARY COUNSEL

Steefel Levitt & Weiss

San Francisco, CA

TAX COUNSEL

Jeffer, Mangels, Butler & Marmaro

Los Angeles, CA

INVESTMENT MANAGERS

DOMESTIC EQUITY

Artisan Partners

Atlanta, GA

Barclays Global Investors

San Francisco, CA

Cadence Capital Management

Boston, MA

Dodge & Cox

San Francisco, CA

Delaware Investment Advisers

Philadelphia, PA

Geewax Terker

Phoenixville, 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

INVESTMENT MANAGERS (Cont.)

INTERNATIONAL EQUITY

Capital Guardian Trust Company
Los Angeles, CA

Schroder Capital Management International
London, England

REAL ESTATE

Domestic
American Realty Advisors
Glendale, CA

DA Management
Newport Beach, CA

SSR Realty Advisors
San Francisco, CA

PMRealty Advisors
Newport Beach, CA

Sentinel Real Estate Corporation
New York, NY

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

NON-TRADITIONAL INVESTMENTS

Managers
Brinson Partners, Inc.
Chicago, IL

HarbourVest Partners, LLC
Boston, MA

Limited Partnerships
TCW Asset Management Company
Los Angeles, CA

Whippoorwill Associates, Inc.
White Plains, NY

Timber
Hancock Timber Resource Group
Boston, MA

Prudential Timber Investments, Inc.
Boston, MA

CUSTODIAN

State Street California
Alameda, CA

II. FINANCIAL SECTION



■ Suite 800
18400 Von Karman Avenue
Irvine, California 92612-1551

■ Phone: 949 794 2300

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, 1999 and 1998, 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, 1999 and 1998, and the changes in its plan net assets for the years then ended, in conformity with generally accepted accounting principles.

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.

May 19, 2000

Ernst & Young LLP is a member of Ernst & Young International, Ltd.

GENERAL PURPOSE FINANCIAL STATEMENTS

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF PLAN NET ASSETS

(in thousands)

	December 31	
	1999	1998
Assets		
Cash and Short-Term Investments		
Cash and Cash Equivalents (Note E)	\$ 144,499	\$ 135,750
Collateral Held for Securities Lent (Note E)	230,029	206,740
Total Cash and Short-Term Investments	374,528	342,490
Receivables		
Forward Currency Contracts, Net (Note F)	-	925
Investment Income	27,633	40,416
Securities Sales	15,105	18,328
Employer/Employee Contributions	7,103	6,613
Total Receivables	49,841	66,282
Investments, at Fair Value (Notes B and E)		
United States Government Debt		
Securities and Corporate Bonds	1,605,021	1,595,495
Foreign Bonds	177,202	176,528
Domestic Equity Securities	1,645,702	1,411,357
International Equity Securities (Note E)	870,593	535,226
Real Estate	311,441	330,533
Venture Capital and Limited Partnership Interest (Note E)	287,980	177,231
Total Investments	4,897,939	4,226,370
Fixed Assets, Net (Note B)	878	851
Total Assets	5,323,186	4,635,993
Liabilities		
Collateral Held for Securities Lent (Note E)	230,029	206,740
Securities Purchased	222,874	165,393
Other	18,571	17,267
Total Liabilities	471,474	389,400
Net Assets Held in Trust for Pension Plan Benefits	\$ 4,851,712	\$ 4,246,593
(A schedule of funding progress is presented on page 34.)		

See accompanying notes to financial statements.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS

(in thousands)

	Years Ended December 31	
	1999	1998
Additions		
Contributions (Note C)		
Employer	\$ 17,591	\$ 17,977
Employee	55,693	50,557
Total Contributions	73,284	68,534
Investment Income:		
Net Appreciation in		
Fair Value of Investments (Note E)	491,992	276,965
Interest on:		
Domestic and International Securities	120,315	103,274
Cash with County Treasurer (Note E)	26	37
Short-Term Investment Fund (Note E)	-	1,512
Domestic Dividends	14,709	48,692
Rental Income	26,981	33,080
International Dividends	8,251	9,590
Venture Capital and Limited Partnership	37,725	35,974
Securities Lending Revenues (Note E)	1,541	1,386
Total Investment Income	701,540	510,510
Less Investment Expenses	(15,890)	(16,540)
Less Securities Lending Fees (Note E)	(472)	(479)
Net Investment Income	685,718	493,491
Total Additions	758,462	562,025
Deductions		
Participants' Benefits	140,736	142,457
Member Withdrawals	6,513	7,848
Administrative Expenses (Note G)	6,094	5,850
Total Deductions	153,343	156,155
Net Increase	605,119	405,870
Net Assets Held in Trust for Pension Plan Benefits		
Beginning of Year	4,246,593	3,840,723
End of Year	\$ 4,851,712	4,246,593

See accompanying notes to financial statements.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

DECEMBER 31, 1999

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. 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 61½.

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

- 3. Death and Disability Benefits.** Upon the death of an active employee, a death benefit, equal to the deceased member's accumulated contributions, plus 1/12 of the annual compensation earnable by the deceased member during the 12 months immediately preceding death, multiplied by the number of completed years of service under OCERS, but not exceeding six months compensation, is paid 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, 1999 and 1998:

Active Personnel
(unaudited)

	December 31	
	1999	1998
<u>General Members</u>		
County and Agencies Paid by County Payroll	15,322	14,514
Outside Agencies	2,479	2,462
Subtotal - General Members	17,801	16,976
<u>Safety Members</u>		
County and Agencies Paid by County Payroll	1,802	1,716
Outside Agencies	754	740
Subtotal - Safety Members	2,556	2,456
Total Active Members	20,357	19,432

NOTES TO FINANCIAL STATEMENTS (Continued)

Active Personnel (cont.)
(unaudited)

	<u>December 31</u>	
	<u>1999</u>	<u>1998</u>
<u>Deferred (General & Safety) Members</u>		
Regular	729	537
Employment with Other Agencies (Reciprocity)	<u>647</u>	<u>642</u>
Subtotal - Deferred Members	<u>1,376</u>	<u>1,179</u>
 <u>Pending - Retirement or Withdrawal Members</u>		
General	171	554
Safety	<u>6</u>	<u>17</u>
	<u>177</u>	<u>571</u>
 Total Active, Deferred, and Pending	<u><u>21,910</u></u>	<u><u>21,182</u></u>

At December 31, 1999 and 1998, 13,602 and 13,349 active members, respectively, had more than 5 years of service and were vested.

Retired Personnel Receiving Benefits
(unaudited)

	<u>December 31, 1999</u>			<u>December 31, 1998</u>		
	<u>Gen.</u>	<u>Safety</u>	<u>Total</u>	<u>Gen.</u>	<u>Safety</u>	<u>Total</u>
Service Retirements	5,165	410	5,575	4,997	362	5,359
Continuances	<u>658</u>	<u>76</u>	<u>734</u>	<u>584</u>	<u>48</u>	<u>632</u>
Subtotal-Service Retirements	<u>5,823</u>	<u>486</u>	<u>6,309</u>	<u>5,581</u>	<u>410</u>	<u>5,991</u>
 Service-Connected						
Disability	465	204	669	447	235	682
Continuances	<u>64</u>	<u>42</u>	<u>106</u>	<u>34</u>	<u>13</u>	<u>47</u>
Subtotal-Service Disability	<u>529</u>	<u>246</u>	<u>775</u>	<u>481</u>	<u>248</u>	<u>729</u>
 Nonservice-Connected						
Disability	291	12	303	412	23	435
Continuances	<u>109</u>	<u>41</u>	<u>150</u>	<u>89</u>	<u>0</u>	<u>89</u>
Subtotal-Nonservice Disability	<u>400</u>	<u>53</u>	<u>453</u>	<u>501</u>	<u>23</u>	<u>524</u>
 Total Retired Personnel	<u><u>6,752</u></u>	<u><u>785</u></u>	<u><u>7,537</u></u>	<u><u>6,563</u></u>	<u><u>681</u></u>	<u><u>7,244</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 January 1999, the OCRS Holding Corporation was dissolved.

2. **Valuation of Investments.** Quoted market prices are used to value United States Government and agency securities, corporate and foreign bonds and debentures, and domestic and international common stocks. 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, 1999 and 1998, were as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

	<u>1999</u>	<u>1998</u>
Furniture and Equipment	\$ 1,589,000	\$ 1,441,000
Computer Software	848,000	832,000
Building and Building Improvements	53,000	53,000
Total Fixed Assets (at cost)	<u>2,490,000</u>	<u>2,326,000</u>
Less Accumulated Depreciation	<u>(1,612,000)</u>	<u>(1,475,000)</u>
Total Fixed Assets - Net of Depreciation	<u>\$ 878,000</u>	<u>851,000</u>

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, 1999 and 1998, were \$658,890,000 and \$602,948,000, 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 prior legal counsel, had previously issued an opinion that 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, 1999 and 1998, the County Investment Account had a remaining balance, including interest earnings, of \$286,139,000 and \$302,909,000, respectively.

Contributions for 1999 and 1998 approximate \$73,284,000 (\$17,591,000 employer and \$55,693,000 member) and \$68,534,000 (\$17,977,000 employer and \$50,557,000 member), respectively, consisting of:

	<u>1999</u>	<u>1998</u>
Normal Cost	\$ 72,749,000	\$ 63,722,000
Amortization of Unfunded Actuarial Accrued Liability	<u>535,000</u>	<u>4,812,000</u>
Total	<u>\$ 73,284,000</u>	<u>\$ 68,534,000</u>

The contributions to OCERS for 1999 and 1998 were made in accordance with the actuarially determined requirements as follows:

	Percent of Members' Payroll					
	<u>Sep '99 - Dec '99</u>		<u>Sep '98 - Aug '99</u>		<u>Oct '97 - Aug '98</u>	
	<u>Gen.</u>	<u>Safety</u>	<u>Gen.</u>	<u>Safety</u>	<u>Gen.</u>	<u>Safety</u>
Employer Contributions:						
Normal Cost	4.35%	8.00%	3.77%	6.79%	3.38%	5.77%
Amortization of Unfunded Actuarial Accrued Liability	<u>(2.35%)</u>	<u>16.41%</u>	<u>(1.91%)</u>	<u>19.65%</u>	<u>(1.06%)</u>	<u>17.77%</u>
Subtotal	2.00%	24.41%	1.86%	26.44%	2.32%	23.54%
Additional Contribution	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total	<u>2.00%</u>	<u>24.41%</u>	<u>1.86%</u>	<u>26.44%</u>	<u>2.32%</u>	<u>23.54%</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.

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, 1999 and 1998, OCERS had investments in Barclays Global Investors S&P500 Index Fund which individually represented 14.04% and 14.60%, 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, 1999, OCERS had money market funds of \$144,437,000, which were uninsured and uncollateralized, and pooled cash in the County of Orange Treasurer's Investment Pool of \$62,000. 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, 1999 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	\$ 495,716	\$ 479,999
Corporate Debt Securities	934,843	892,722
U.S. Government Bonds	140,689	135,128
Foreign Bonds	192,175	175,188
Domestic Equity Securities	770,245	914,992
International Equity Securities	451,749	728,987
Subtotal	<u>2,985,417</u>	<u>3,327,016</u>
<u>Amounts Not Subject to Classification</u>		
Investments Held by Broker-Dealers Under Securities Loans with Cash Collateral:		
Corporate Debt Securities	16,034	15,250
U.S. Government Debt Securities	85,017	81,922
Domestic Equity Securities	39,731	49,519
International Equity Securities	37,054	70,978
Foreign Bonds	2,003	2,014
Orange County Treasurer's Pooled Investment	62	62
Real Estate Investments	256,572	311,441
Domestic Equity Index Fund	262,471	681,191
International Pooled Equity Funds	46,597	70,628
Alternative Investment in		
Venture Capital and Limited Partnership	205,393	287,980
Subtotal	<u>950,934</u>	<u>1,570,986</u>
Less: Orange County Treasurer's Pooled Investment	<u>(62)</u>	<u>(62)</u>
Total Investments	<u>\$ 3,936,289</u>	<u>\$ 4,897,939</u>

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

- 5. Net Appreciation.** During 1999 and 1998, OCERS' investments (including investments bought and sold, as well as held during each year) appreciated in values by \$491,992,000 and by \$276,965,000, respectively, as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

	<u>Years Ended December 31</u>	
	<u>1999</u>	<u>1998</u>
	(in thousands)	
Net Appreciation (Depreciation) in Fair Value as Determined by Quoted Market Prices:		
Domestic Equity Securities	\$ 189,586	\$ 246,229
United States Government Debt Securities, Corporate & Foreign Bonds & Debentures	(99,061)	(4,840)
International Equity Securities	<u>320,659</u>	<u>46,345</u>
Subtotal	411,184	287,734
Net Appreciation (Depreciation) in Fair Value as Determined by Estimated Fair Value:		
Real Estate	8,718	17,104
Alternative	<u>72,090</u>	<u>(27,873)</u>
Total Net Appreciation	<u>\$ 491,992</u>	<u>\$ 276,965</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, 1999 and 1998 were securities with fair values of \$219,683,000 and \$202,524,000, 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 1999.

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, 1999 and 1998.

NOTES TO FINANCIAL STATEMENTS (Continued)

Gross security lending revenues for 1999 and 1998 were \$1,541,000 and \$1,386,000, 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, 1999 and 1998, OCERS held broker collateral with fair values totaling \$230,029,000 and \$206,740,000, 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. Alternative Investments.** OCERS' alternative 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. As of December 31, 1999, OCERS has approximately \$93,443,000 of open commitments in seven alternative 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 \$1,605,021,000 as of December 31, 1999, approximately \$681,580,000 are classified as derivative securities in accordance with the GASB definition (see note F 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>1999</u>	<u>1998</u>
FHA	\$ 9,160,000	\$ 27,977,000
FHLMC	124,937,000	156,412,000
FNMA	98,188,000	83,532,000
GNMA	269,124,000	300,110,000
CMO	96,443,000	23,864,000
Others	83,728,000	28,912,000
Total Derivative Securities	\$ <u>681,580,000</u>	<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, 1999 and 1998. 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, 1999 and 1998, OCERS had net forward currency contract receivables of \$0 and \$925,000, 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 (\$4,846,000) and \$10,533,000 of net (depreciation) and net appreciation during 1999 and 1998, respectively. As of December 31, 1999 and 1998, OCERS had open contracts of \$370,581,000 and \$457,386,000, 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, 1999 and 1998, OCERS had collateral deposits of \$5,296,000 and \$6,701,000, 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.

	Years Ended December 31	
	1999	1998
Expenses Subject to Statutory Limitation:		
Personnel Services:		
Board Members' Allowance	\$ 16,000	\$ 13,000
Employee Salaries and Benefits	2,376,000	2,573,000
Total Personnel Services	2,392,000	2,586,000
Office Operating Expenses:		
Operating Expenses	542,000	632,000
Professional Services	1,527,000	1,242,000
Rent/Leased Real Property	593,000	230,000
Depreciation/Amortization	136,000	116,000
Total Office Operating Expenses	2,798,000	2,220,000
Total Expenses Subject to Statutory Limitation	5,190,000	4,806,000

NOTES TO FINANCIAL STATEMENTS (Continued)

Expenses Not Subject to Statutory Limitation:

Commingled Interest Cost	1,000	1,000
Actuarial/Fund Evaluation Costs	514,000	503,000
Custodian Services	253,000	327,000
Legal Costs	50,000	133,000
Additional Death Benefit Costs	86,000	80,000
Total Expenses Not Subject to Statutory Limitation	<u>904,000</u>	<u>1,044,000</u>
Total Administrative Expenses	<u>\$ 6,094,000</u>	<u>\$ 5,850,000</u>

H. Reserve Accounts

The plan net assets of \$4,851,712,000 as of December 31, 1999 includes reserves of \$3,432,319,000 and unreserved net assets of \$1,419,393,000. The unreserved net assets include the Investment Account of \$286,139,000 and the Unallocated Fund Balance (UFB) of \$109,204,000.

The reserve balances as of December 31, 1999 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>\$ 658,890</u>	<u>\$1,607,695</u>	<u>\$1,010,035</u>	<u>\$ 135,005</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 694</u>	<u>\$ 3,432,319</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 1999, OCERS transferred from the UFB \$33,227,000 and \$22,864,000 to the Employer Advanced Reserves and ARBA reserves, 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

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

After the Board of Retirement implemented the Supreme Court decision, litigation arose in Orange County and in most other counties with retirement systems governed by the County Employees Retirement Law of 1937, challenging the various retirement boards' actions to implement the decision. In December 1998, the cases were coordinated into a single proceeding in the San Francisco County Superior Court, to resolve the many disputes that have arisen. The proceedings are pending and no final decision of the Court has been issued. The ultimate outcome of these proceedings and the financial impact on OCERS cannot be determined.

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					
	1999	1998	1997	1996	1995	1994
Actuarial Value of Assets ¹ (a)	\$3,931,744	\$3,504,708	\$3,128,132	\$2,675,632	\$2,434,406	\$2,177,673
Actuarial Accrued Liability (b)	\$4,017,279	\$3,682,686	\$3,332,967	\$2,851,894	\$2,633,884	\$2,550,059
Total Unfunded Actuarial Accrued Liability (UAAL) (a-b=c)	\$ 85,535	\$ 177,978	\$ 204,835	\$ 176,262	\$ 199,478	\$ 372,386
Funded Ratio (a/b)	97.87%	95.17%	93.85%	93.82%	92.43%	85.40%
Covered Payroll (d)	\$ 912,490	\$ 863,199	\$ 781,890	\$ 758,897	\$ 727,768	\$ 769,175
UAAL as a Percentage of Covered Payroll (c/d)	9.37%	20.62%	26.20%	23.23%	27.41%	48.41%

Notes:

1. The 12/31/94, 12/31/95, 12/31/96, 12/31/97, 12/31/98, and 12/31/99 actuarial value of assets exclude \$311,022,000, \$329,064,000, \$313,250,000, \$322,333,000, \$302,909,000, and \$286,139,000, 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)

	1999	1998	1997	1996	1995	1994 ⁽¹⁾
Annual Required Contribution ⁽²⁾	\$ 17,591	\$ 17,977	\$ 17,570	\$ 16,463	\$ 20,814	\$ 51,082
Percentage Contributed	100%	100%	100%	100%	100%	100%

Notes:

1. 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 the Investment Account funded approximately 90% of the County's employer contribution. In 1998 and 1999 the Investment Account funded approximately 85% and 80% of the County's employer contribution, respectively.
2. Employer contributions for 1999, 1998, 1997, 1996, 1995, and 1994 excluded \$47,129,000, \$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	12/31/1999.
Actuarial cost method	Projected Unit Credit.
Amortization method	Level dollar.
Remaining amortization period	24 years
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

1999 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

No significant changes in Plan provisions.

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%.

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OTHER SUPPLEMENTARY INFORMATION

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

(in thousands)

	1999	1998
Expenses Subject to Statutory Limitation		
Personnel Services:		
Board Members' Allowance	\$ 16	\$ 13
Employee Salaries and Benefits	2,376	2,573
Total Personnel Services	2,392	2,586
Professional Services:		
Legal Fees	539	556
Financial Audit	136	70
Internal Audit	22	33
Tax Filing	3	-
Information Technology Consultant	123	48
Team Building Consultant	38	-
Hearing Officers/Medical Consultants	356	255
Pre-retirement Seminars	10	6
Miscellaneous	300	274
Total Professional Services	1,527	1,242
Other Operating Expenses:		
Telephone and Communication	36	34
Maintenance	101	168
Printing and Duplicating	65	82
Building and Equipment Leases	593	230
Transportation and Travel	164	209
Postage Expense	95	67
Office Supplies and Expenses	81	72
Depreciation Expenses	136	116
Total Other Operating Expenses	1,271	978
Total Expenses Subject to Statutory Limitation	5,190	4,806
Expenses Not Subject to Statutory Limitation		
Fund Evaluation Cost	150	150
Custodian Services	253	327
Commingled Interest Cost	1	1
Actuarial Cost	364	353
Legal Costs	50	133
Additional Death Benefits Cost	86	80
Total Expenses Not Subject to Statutory Limitation	904	1,044
Total Administrative Expenses	\$ 6,094	\$ 5,850

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF PAYMENTS TO CONSULTANTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

(in thousands)

<u>Name of Firms</u>	<u>Type of Services</u>	<u>1999</u>	<u>1998</u>
Professional Expenses Subject to Statutory Limitation			
PMW Associates	Team Building Workshop	\$ 38	\$ -
Carolyn Ford and Associates	Information Technology	123	48
Haynie and Company	Tax Filing	3	-
Jeffer, Mangles, Butler & Marmaro, LLP	Legal Services	22	75
Silvas & Eaton	Legal Services	-	10
Katz, Hoyt, Siegal & Kapor	Legal Services	-	5
Steeffel, Levitt & Weiss	Legal Services	490	464
Barbara Evans	Legal Services	27	-
Others	Legal Services	-	2
Link, Murrel & Company	Internal Audit	22	33
Ernst & Young LLP	Financial Audit/Advisory	136	70
Various Firms	Disability/Medical Hearing	356	255
Financial Management Group	Pre-retirement Seminars	10	6
Various Professional Firms	Other Services	<u>300</u>	<u>274</u>
Total Professional Expense Subject to Limitation		1,527	1,242
Professional Expenses Not Subject to Statutory Limitation			
Callan Associates, Inc.	Performance Evaluation	150	150
State Street California	Master Trust Custody	253	327
County of Orange	Commingled Interest Cost	1	1
Towers Perrin	Actuarial Services	364	353
Stradling, Yocca, Carlson, & Rauth	Legal Counsel	50	133
Additional Death Benefits Cost	Member Benefits	<u>86</u>	<u>80</u>
Total Professional Expenses Not Subject to Limitation		904	1,044
Total All Professional Fees		\$ 2,431	\$ 2,286

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF FEES AND OTHER INVESTMENT EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

(in thousands)

	1999	1998
Domestic Equity	\$ 3,239	\$ 3,674
International Equity	3,320	2,150
Global Fixed Income	2,951	3,393
Real Estate	1,797	3,477
Venture Capital	2,989	2,386
Other Alternative Investments	1,594	1,460
Total Fees & Other Investment Expenses	\$ 15,890	\$ 16,540

III. INVESTMENT SECTION

CHIEF INVESTMENT OFFICER'S STATEMENT



Serving the Active and Retired Members of:

CITY OF SAN JUAN
CAPSTRAND
(Includes Capistrano
Valley Water District)

COUNTY OF ORANGE

CYPRESS RECREATION
AND PARK DISTRICT

FOOTHILL/EASTERN/
SAN JOAQUIN HILLS
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 VICTIM
CONTROL DISTRICT

SANITATION DISTRICT OF
ORANGE COUNTY

ORANGE COUNTY
DEPARTMENT OF
EDUCATION
(closed to new
members)

UCI MEDICAL CENTER
(closed to new
members)

June 5, 2000

To the Members of the Retirement System

I am pleased to initiate the first report on investments from the Chief Investment Officer. This report will focus primarily on the management of the investment program.

The plan net assets grew from \$4.25 billion at the end of 1998 to \$4.85 billion as of December 31, 1999. Net investment income for 1999 was \$685.7 million.

Performance:

The fund experienced superior investment results in 1999. Total fund performance for the year was 15.68%, which exceeded all of the following investment objectives set by the Board of Retirement (Board):

- 1) actuarial interest rate assumption of 8%
- 2) real return (actual return minus inflation) target of 3.5%, and
- 3) composite policy benchmark return, which was 13.25% in 1999.

Investment returns for asset classes and total fund are shown on page 47. Total fund returns for three and five year periods exceeded the 8% interest rate assumption and the real return target of 3.5% but were marginally below the composite policy benchmark.

International equity was the best performing asset class in 1999 with a return of 55.58%, well above the 31.79% return of the MSCI All Country World ex-U.S benchmark. Alternative assets, primarily consisting of private equity and venture capital, had a return of 27.71%. The domestic equity return of 14.80% was disappointing compared with the Russell 3000 Index return of 20.90%. The under-performance of the domestic equity asset class for 1999 and longer periods was due to lagging performance of the active managers combined. The Board and investment staff will continue to monitor closely the performance of these managers and make appropriate changes to the investment strategy to improve performance in domestic equities. The rising interest rate environment contributed to weak performance of domestic and international bonds. Real estate had a return of 11.17% for the year.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM • 2225 Wellington Avenue, Santa Ana, CA 92701
Telephone (714) 558-6200 Fax (714) 558-6236

Asset Allocation and Investment Structure:

The Board approved changes to the asset allocation policy resulting in an increase of 4% in domestic equity target from 29% to 33% and a corresponding decrease in domestic fixed income. This reversed a decision made by the Board in 1997 to temporarily deviate from the strategic asset allocation. The asset allocation change in 1999 did not result in transfer of funds from fixed income to domestic equity, since the actual exposure was close to the new targets. In terms of investment strategy, the Board approved changes to the domestic equity manager structure resulting in an increase in the indexed component within domestic equities to 40% and an allocation to small cap, growth sector. Domestic fixed income structure was modified to improve the quality of the portfolio and reduce risk. The exposure to high yield securities was reduced and tighter investment guidelines were specified for managers. 10% of fixed income was allocated to a new passive bond index portfolio.

The Board adopted broader market benchmarks for the major asset classes to measure performance of the diversified investment strategies employed. The domestic equity benchmark was changed from the S&P 500 index to the Russell 3000 index. International equity benchmark was changed from the MSCI EAFE Index to the MSCI All Country World Ex-US Index and the domestic fixed income benchmark was changed from the Lehman Aggregate Index to the Lehman Universal Bond Index.

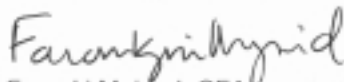
In 1999 Artisan Partners was hired to manage a small cap, value portfolio replacing Pilgrim Baxter who was terminated due to organizational concerns. Geewax Terker was hired to manage a small cap, growth portfolio and PM Realty Associates was hired to manage a separate account real estate portfolio.

Investment Fees:

Investment fees were reduced from \$16.54 million in 1998 to \$15.89 million in 1999, despite the growth in assets. As a percentage of total assets, fees declined from 0.41% in 1998 to 0.35% in 1999. The fee savings of \$650,000 were achieved mainly due to higher allocation to low fee indexed funds in equities, negotiated fee reductions from some active managers and a lower real estate exposure.

The system has achieved attractive investment results in the recent years due to highly favorable equity markets both in the U.S and abroad. Such high returns are not likely to be sustained in the future. The investment staff will continue to monitor the asset allocation, portfolio risk and manager performance routinely to achieve the Board's performance objectives with controlled risk.

Respectfully Submitted,



Farouki Majeed, CFA
Chief Investment Officer

CALLAN ASSOCIATES.

April 28, 2000

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



SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

Mr. Ray A. Fleming
Executive Director
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, 1999.

The System's custodian during the calendar year, 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.

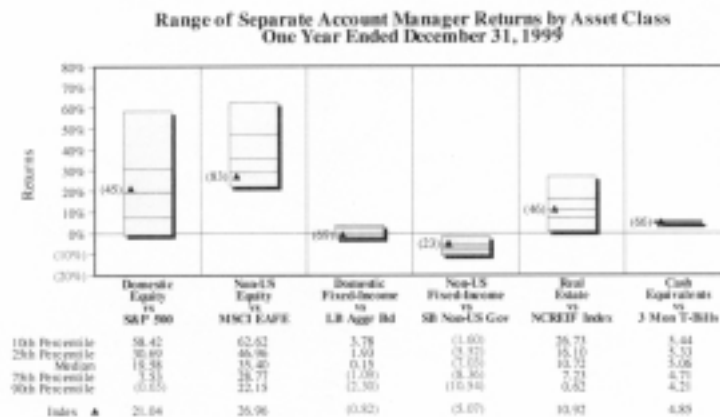
OCERS' primary investment objective is to prudently and expertly invest the System's assets, in accordance with governing law and industry practices, in a manner that will ensure the System's ability to pay promised benefits to participants and their beneficiaries. In pursuit of this objective, OCERS' 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 again were very volatile in calendar 1999. Stocks, particularly growth-oriented companies involved in technology, media or telecommunications (TMT), posted exceptionally strong returns. So called "old economy" companies, in many cases, posted negative returns while both small and large companies with a "new economy" orientation achieved lofty results. International stocks, on balance, outpaced domestic stocks. Developed European markets behaved similarly to the U.S. market while Asian and emerging markets experienced huge recoveries from the prior year's negative returns.

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

Interest rates rose substantially throughout the year causing bond market values to decline and produced negative total returns for most bond portfolios.

The graph below depicts the 1999 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 outperformed popular market benchmarks in 1999. This was a reversal of the pattern observed in 1998.



For the calendar year, OCERS' total fund had a time-weighted total return of 15.68%. When compared to Callan's Public Fund Database, OCERS ranked in the 29th percentile despite having a more conservative than average asset policy. On an asset allocation adjusted basis, the result ranked in the 3rd percentile. The return also was well in excess of the System's actuarial earnings assumption of 8.00%, and above the System's policy benchmark target of 13.25%. The policy benchmark was modified during the year and is currently comprised of the following indices in the percentages as indicated: Russell 3000 (33%); MSCI-All Countries World ex-U.S. (14%); Lehman Brothers U.S. Universal Bond Index (34%); Callan Real Estate Index (9%); Non-traditional assets (5%) and Salomon Non-S Bond Index (5%). Over longer-term periods, the System's total return narrowly lags the policy index. For example, the five-year return of 16.35% was only 12 basis points behind the policy benchmark.

OCERS' U.S. equity composite rose 14.8% in 1999. This trailed the equity market target return of 22.0% and was significantly below the median equity manager in the Callan Equity database. The median manager achieved a 19.58% return in 1999. While the System's Growth managers outperformed the System's Value oriented managers,

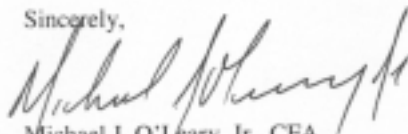
they lagged peers. Importantly, the underperformance in 1999 did not result in longer term results falling below median. Over the trailing two, three and five year periods ended December 31, 1999, OCERS' Domestic Equity Composite ranked slightly above median (48th percentile).

The System's international equity composite registered exceptional results in 1999. In aggregate, the System's international equity investments returned 55.58%. This compares very favorably to the MSCI-All Countries ex-U.S. Index return of 31.79% and the median manager return of 35.4%. Over longer-term periods, the System's international composite also demonstrates similar performance results, well above market indices and peers.

OCERS' domestic bond managers in aggregate have achieved excellent long-term returns. Fortunately, this pattern persisted in 1999. In aggregate, OCERS' domestic bond managers produced a positive return of 1.91%. This compared very favorably with the median Fixed Income Manager return of .15% and the Lehman Universal Bond Index return of .18. Over the trailing five years, the domestic bond composite's compound annual return of 9.48% was well above the target benchmark of 7.8% and the median manager's 7.65% result. OCERS' international bond portfolio also did well relative to peers in 1999. That component of the portfolio enjoyed a positive return of 2.04% while the median International Non-Dollar bond manager returned a negative 5.75%.

In summary, 1999 was an excellent year for the fund. Importantly, results in all major asset categories were consistent with longer-term expectations. Domestic bond and international equity returns were very strong. While domestic equities had a substandard year relative to market indices and peers, the absolute results were attractive and the performance generally consistent with market conditions. OCERS' investment program, in our judgement, is well diversified and prudently structured.

Sincerely,



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

Orange County Employees Retirement System
INVESTMENT RETURNS

The table below details the annualized rates of return for the different asset categories over various time periods ended December 31, 1999. The returns for each asset class represents the composite returns of all the manager portfolios within that asset class. All returns are gross of fees.

	1 Year	3 Year	5 Year
Domestic Equity	<u>14.80%</u>	<u>22.59%</u>	<u>24.70%</u>
<i>Russell 3000 Index</i>	20.90%	25.53%	26.94%
International Equity	55.58%	22.87%	18.28%
<i>MSCI AC World Ex US Index</i>	31.79%	15.22%	-
<i>MSCI Eafe Index</i>	26.96%	15.75%	12.83%
Domestic Fixed	1.91%	6.67%	9.48%
<i>Lehman Bros Universal Index</i>	0.18%	5.67%	7.86%
International Fixed Income	2.04%	6.30%	10.51%
<i>S/B Non-US Hedged Govt. Index</i>	2.88%	8.42%	10.93%
Cash & Equivalents	6.99%	7.76%	6.71%
Real Estate	11.17%	11.45%	9.79%
<i>NCREIF Classic Property Index</i>	12.55%	14.39%	12.43%
Alternative Investments	27.71%	16.27%	20.37%
Total Fund	15.68%	15.16%	16.35%
<i>Composite Policy Benchmark</i>	13.25%	15.73%	16.47%

* Policy Benchmark = 33% Russell 3000 + 34% LB US Universal Index + 9% CAI Real Estate Funds + 5% OCERS Non-Traditional + 14% MSCI All Country World Ex USA + 5% Salomon Hedged.

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.

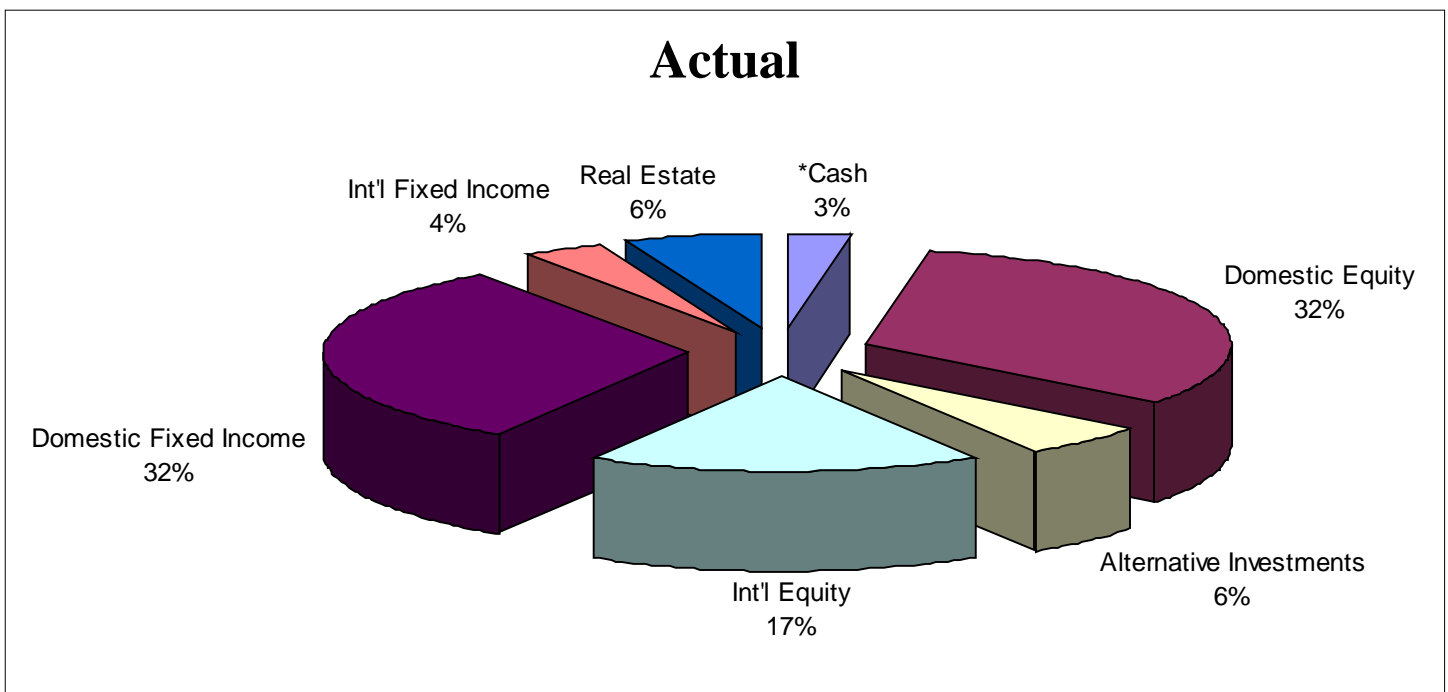
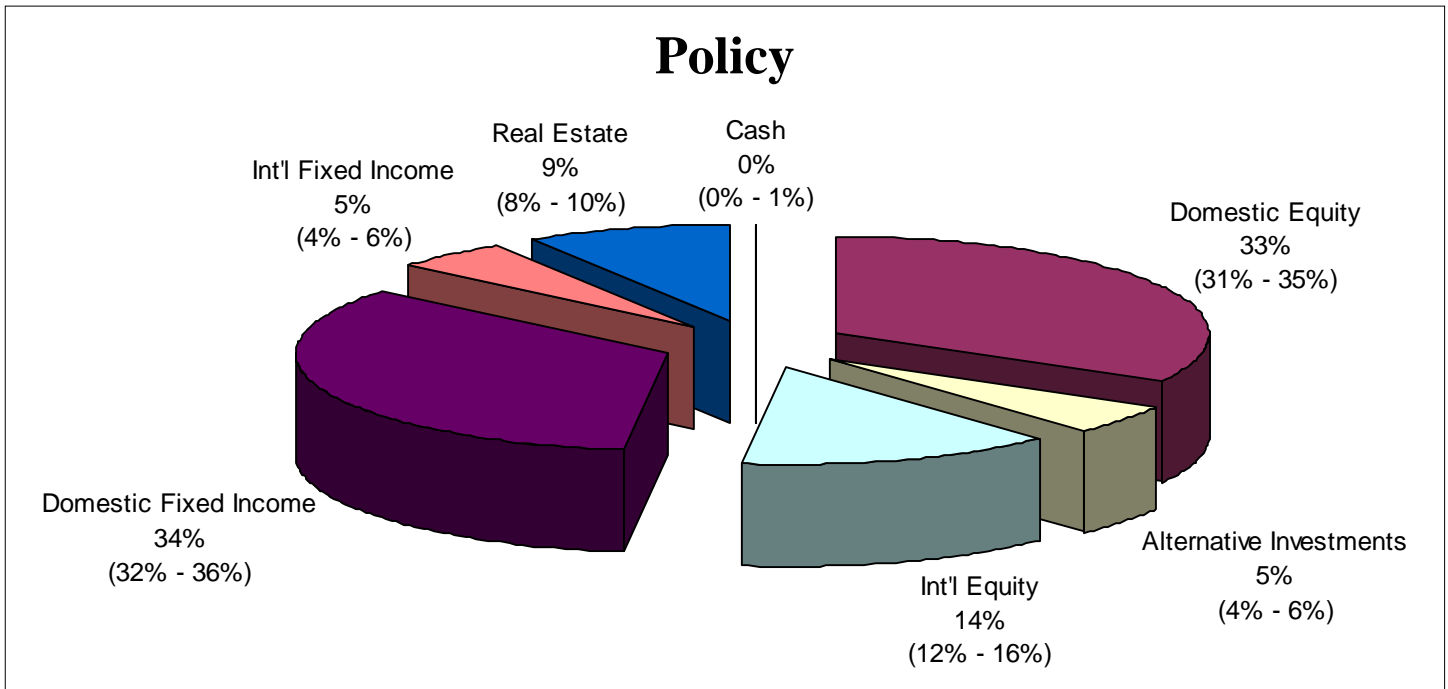
Program Administration and Manager Structure

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

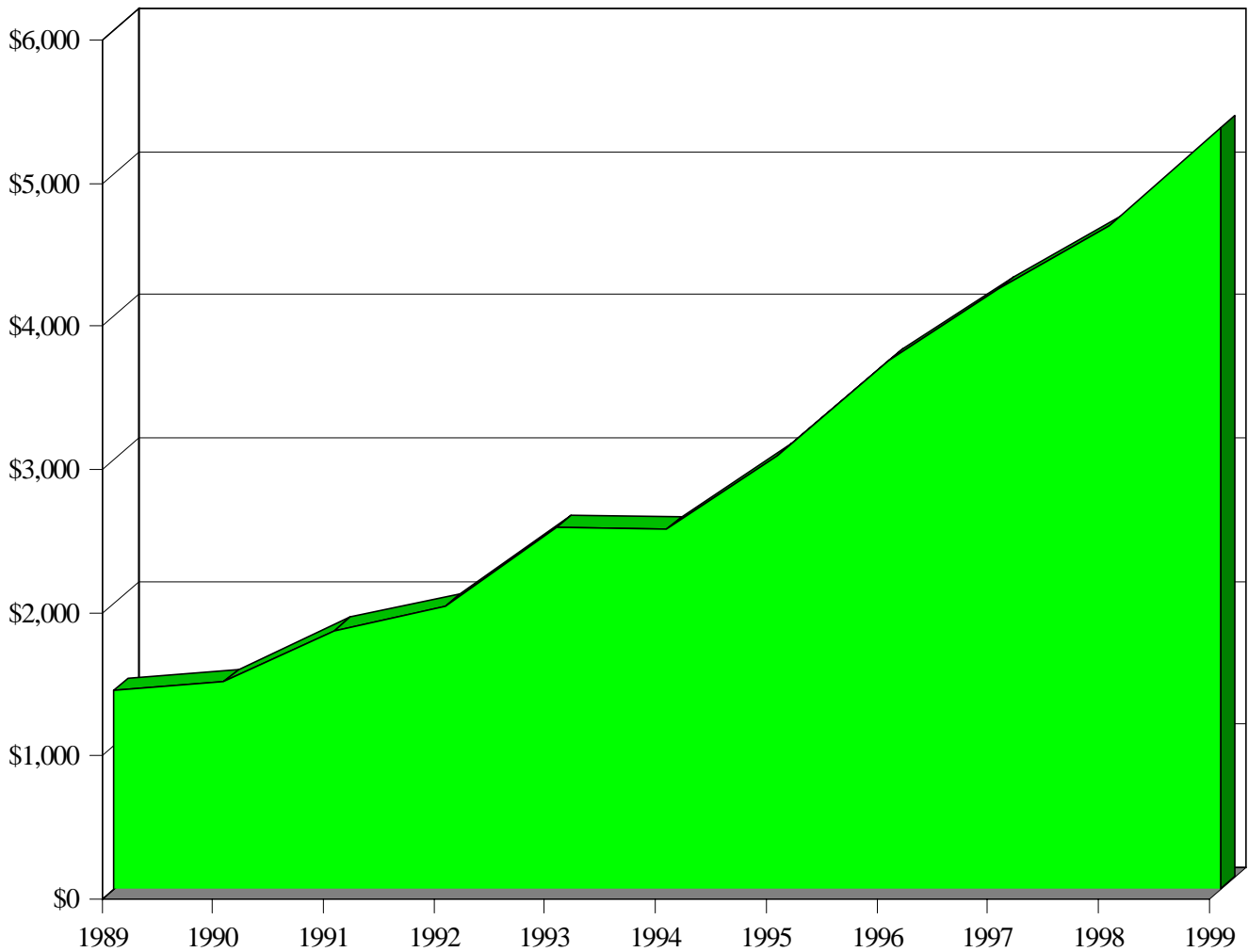
Asset Diversification

December 31, 1999

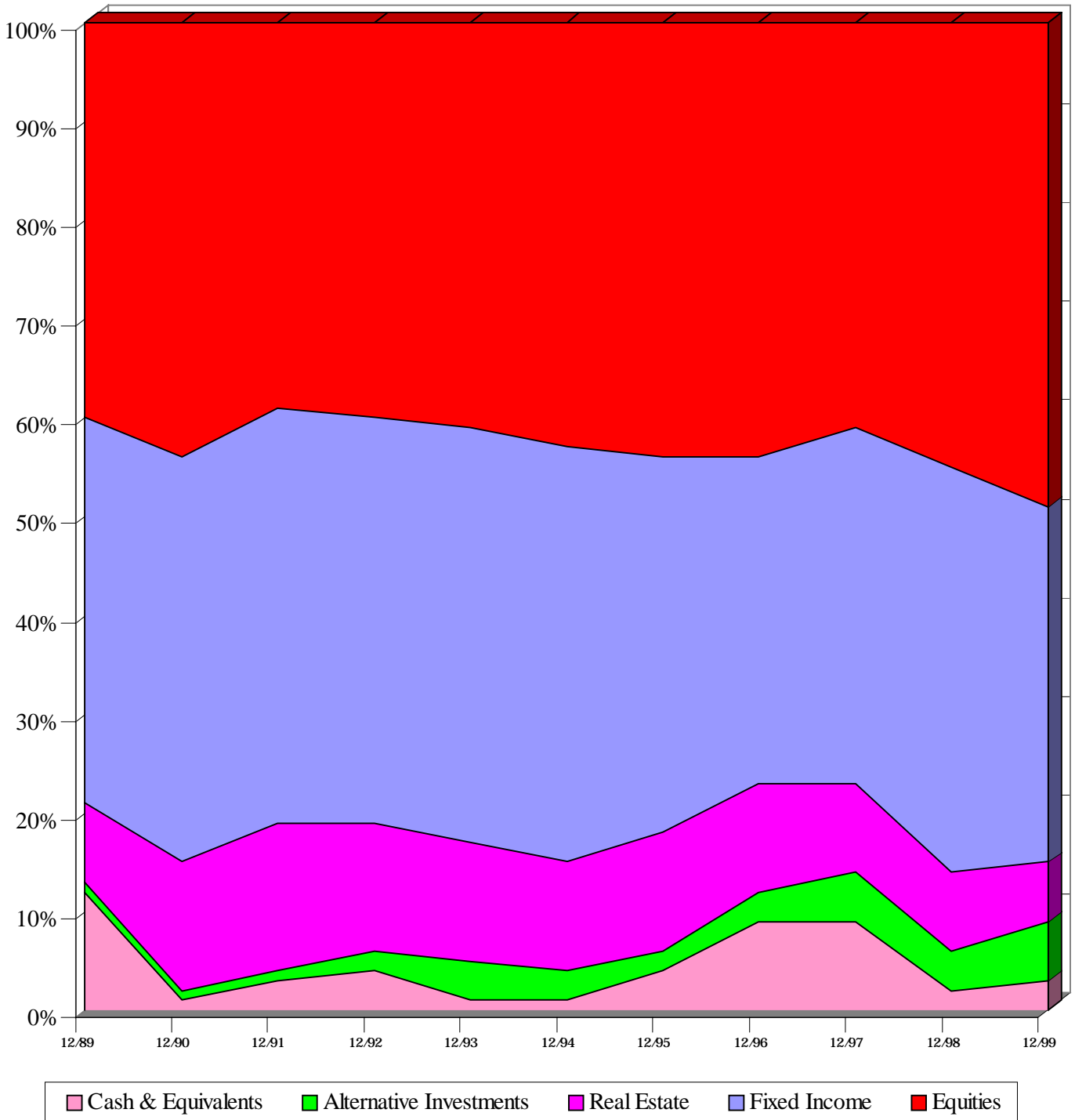


* Includes cash equivalents held by investment managers.

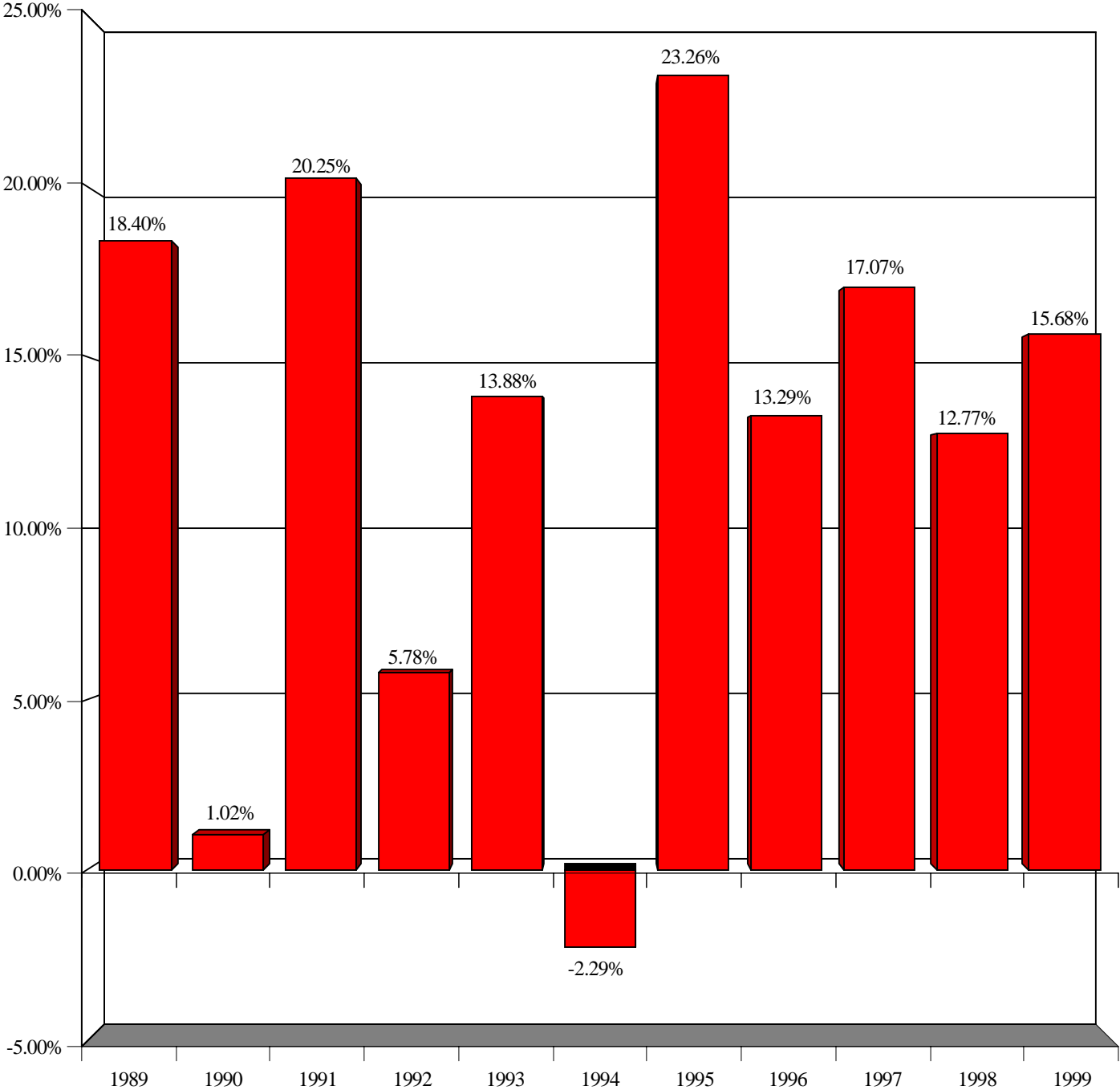
Orange County Employees Retirement System Growth of System Assets at Fair Value For Ten Years Ended December 31, 1999 (in Millions of Dollars)



Orange County Employees Retirement System Historical Asset Allocation (Actual) December 1989 - December 1999



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, 1999**

<u>Brokerage Firms</u>	<u>Number Of Shares Traded</u>	<u>Total Commission</u>	<u>Commission Per Share</u>
Abel Noser Corporation	730,633	\$ 41,495	\$ 0.0568
Abn Amro Securities	3,272,344	89,151	0.0272
Adams Harkness & Hill, Inc.	2,600	130	0.0500
Advest, Inc.	8,000	400	0.0500
Albert E Sharp	12,580	166	0.0132
Alfred Berg-London	83,030	6,150	0.0741
Autranet, Inc.	10,000	500	0.0500
Baird, Robert W & Co.	3,400	204	0.0600
Bank Of NY/James Capel and Co.	14,000	710	0.0507
Banc America Security LLC Montgomery	14,900	757	0.0508
Bancamerica Robertson Stephens	53,300	3,180	0.0597
Bancboston Robertson Stephens	175,000	10,387	0.0594
Banco Santander (GBL)	9,740	570	0.0585
Bank Am Bellevue Zurich	541	1,610	2.9760
Bank J.Vontobel Und Co. AG	490	458	0.9347
Bank Julius Bar Frankfurt	8,700	4,265	0.4902
Bank Of America Securities LLC	174,500	10,465	0.0600
Bankers Trust Company	132,544	2,822	0.0213
Banque Nationale De Paris	2,192	1,551	0.7076
Banque Paribas	36,300	1,366	0.0376
Baring Securities (Hong Kong)	117,000	1,466	0.0125
Baum George K. & Company	400	20	0.0500
Bear, Stearns Securities Corp.	722,647	40,502	0.0560
Bernstein Sanford C & Co. Inc.	385,080	21,937	0.0570
Blair, William, and Company	4,300	215	0.0500
BNY ESI & Co. - Alpha Division	163,400	9,804	0.0600
Boston Institutional Services	1,100	66	0.0600
Bradford, J.C. & Co.	70,000	4,200	0.0600
Bridge Trading	1,171,314	42,358	0.0362
Broadcort Capital (Thru MI)	46,200	2,772	0.0600
Brown Brothers Harriman & Co.	30,400	1,803	0.0593
BT Alex Brown	193,000	11,457	0.0594
B-Trade Services LLC	8,200	167	0.0204
Buckingham Research Group	72,900	4,115	0.0564
C.L.King & Associates	13,500	810	0.0600
Canadian Imperial Bank Of Commerce	23,040	939	0.0408
Cantor Fitzgerald & Co., Inc.	1,057,500	52,841	0.0500
Capel, James HSBC Securities Inc.	64,000	3,810	0.0595
Capital Institutional Services	1,808,228	108,494	0.0600
Carnegie Bank	6,540	880	0.1346
Cazenove & Co.	426,786	8,603	0.0202
CCF Securities	2,320	1,319	0.5685
Charles Schwab & Co., Inc.	12,200	610	0.0500

Orange County Employees Retirement System
SCHEDULE OF COMMISSIONS
FOR THE YEAR ENDED DECEMBER 31, 1999

Brokerage Firms	Number Of Shares Traded	Total Commission	Commission Per Share
Charles, Akar & Associates Inc.	26,200	\$ 1,572	\$ 0.0600
Charterhouse Tilney Securities Ltd.	72,033	1,233	0.0171
Cheuvreuxde Virieu	25,300	2,022	0.0799
Cheveaux, J. Paris	86,000	3,005	0.0349
Chevreux De Virieu Nordic Ab	16,460	590	0.0359
CIBC Oppenheimer & Co.	40,500	2,307	0.0570
Cibc World Markets Corp.	167,800	9,937	0.0592
CIS Client Directed	20,000	1,200	0.0600
Citation Group	54,500	3,270	0.0600
Collins Stewart	41,300	566	0.0137
Commerzbank AG	180,510	1,828	0.0101
Conning & Co.	8,900	445	0.0500
Correspondent Services, Inc.	124,103	4,027	0.0324
County Natwest Securities Ltd.	100,700	3,433	0.0341
Credit Agricole Indosuez Cheuvreux	7,400	2,823	0.3815
Credit Lyonnais Securities	1,645,300	11,734	0.0071
Credit Research & Trading LLC	32,750	983	0.0300
Credit Suisse	122,191	601	0.0049
CS First Boston Corporation	3,615,597	161,477	0.0447
D E Shaw Securities	479,310	9,586	0.0200
Dain Rauchser Inc.	86,600	4,554	0.0526
Daiwa SB Capital	7,000	31	0.0045
Davy (J&E)	21,800	496	0.0228
DB Clearing Services	845,200	30,165	0.0357
Deutsche Morgan Grenfell	336,185	15,001	0.0446
Donaldson Lufkin & Jenrette	1,294,120	60,595	0.0468
Doyle Paterson Brown	281,200	2,612	0.0093
Dresdner Kleinwort Bensons	349,223	3,334	0.0095
Edwards Ag & Sons Inc.	3,000	150	0.0500
Enskilda Securities	25,000	907	0.0363
Ernst & Co.	35,000	2,070	0.0591
ESI Securities Company	258,007	9,666	0.0375
Euromobiliare Sim S.P.A.	60,200	402	0.0067
Everen Securities	852	43	0.0505
Exane	139,804	21,170	0.1514
Factset Data Systems	48,500	2,850	0.0588
Fidelity Capital Markets	598,105	35,295	0.0590
First Albany Corp.	72,100	4,141	0.0574
First Analysis Securities Corp.	3,000	150	0.0500
First Union Capital Markets	694,000	41,287	0.0595
Fiserv Correspondent Services Inc.	1,600	80	0.0500
Fox Pitt Kelton Inc.	57,600	3,386	0.0588
Freimark Blair & Company, Inc.	26,300	1,578	0.0600

Orange County Employees Retirement System
SCHEDULE OF COMMISSIONS
FOR THE YEAR ENDED DECEMBER 31, 1999

Brokerage Firms	Number Of Shares Traded	Total Commission	Commission Per Share
Furman,Selz,Magerdietz & Birney	492,300	\$ 28,665	\$ 0.0582
G.K.Goh Stockbrokers Pte Ltd.	50,000	2,563	0.0513
Genesis Merchant Group Securities	5,200	260	0.0500
Goldman Sachs & Co.	5,145,369	132,447	0.0257
Gruntal &Co.	3,600	180	0.0500
Hoare Govett Securities Ltd.	870,280	25,789	0.0296
Hoefffer &Arnett	66,700	4,002	0.0600
Hoenig & Co.	16,400	968	0.0590
HSBC Investment Bank PLC	5,144,564	91,671	0.0178
Illinois Securities Co.	2,600	156	0.0600
Indosuez Wi Carr Securities Limited	211,000	4,968	0.0235
Ing Barings Sec Ltd.	272,651	4,256	0.0156
Instinet Corp.	2,814,461	77,683	0.0276
Interstate/Johnson Lane Corp.	83,591	4,952	0.0592
Investment Technology Group Inc.	2,576,153	59,536	0.0231
ISI Group Inc.	2,400	120	0.0500
ITG Posit	56,000	1,120	0.0200
J B Were and Son	240,409	3,532	0.0147
J Cheuvreaux	9,900	2,401	0.2426
James Capel Pacific Ltd., Tokyo	72,204	4,518	0.0626
Janney Montgomery Scott	223,380	12,576	0.0563
Jardine Fleming Securities Ltd.	983,143	10,440	0.0106
JB Were Capital Markets	94,800	2,825	0.0298
Jefferies& Co.	1,499,056	62,948	0.0420
Jones & Associates	65,600	3,294	0.0502
Keefe Bruyette & Woods Inc.	183,000	10,910	0.0596
Kinnard John G.& Co.	1,600	80	0.0500
Kleinwort Benson Securities Limited	2,275,278	64,859	0.0285
Knight Securities L.P.	13,300	798	0.0600
Ladenburghthalman & Co.	2,400	120	0.0500
Lakeview Securities Corp.	25,000	1,500	0.0600
Lazard Freres & Co.	41,000	2,081	0.0508
Legg Mason Wood Walker Inc.	338,969	19,965	0.0589
Lehman Brothers Inc.	2,009,943	88,399	0.0440
Levesque Beaubien Geoffrion	7,800	318	0.0408
Lewco Secs Agent For Hambrecht&Quist	90,000	5,185	0.0576
Lewco Secs Agent For Wertheim Schroder	330,400	18,157	0.0550
Lynch Jones and Ryan Inc.	1,288,000	74,996	0.0582
Macquarieinvestment	95,000	1,790	0.0188
Maxus Corp.	3,900	195	0.0500
McDonald & Co.	16,600	830	0.0500
Merrill Lynch Pierce Fenner & Smith	5,120,253	195,958	0.0383
Miller Tabak Hirsch	402,650	26,797	0.0666

Orange County Employees Retirement System
SCHEDULE OF COMMISSIONS
FOR THE YEAR ENDED DECEMBER 31, 1999

Brokerage Firms	Number Of Shares Traded	Total Commission	Commission Per Share
Montgomery Correspondent Services	122,000	\$ 7,305	\$ 0.0599
Monument Derivatives	344,066	2,067	0.0060
Morgan Grenfell and Co. Limited	1,278,631	40,716	0.0318
Morgan Keegan & Co. Inc.	5,700	342	0.0600
Morgan Stanley Securities Limited	4,265,812	178,478	0.0418
JP Morgan Securities Limited	1,160,314	57,189	0.0493
Mutual Service Corp.	93,700	5,622	0.0600
Nationsbank Montgomery Securities	200,400	11,816	0.0590
Natwest Securities Corp.	383,100	25,399	0.0663
Nesbitt Burns	338,827	13,596	0.0401
Neuberger& Berman	452,500	26,912	0.0595
Nomura Securities Co., Ltd.	631,252	11,710	0.0186
Nutmeg Securities	29,900	1,495	0.0500
O'Neil, William and Co. Inc./BCC CLRG	49,700	2,982	0.0600
Ord Minnett Ltd.	94,100	4,091	0.0435
Pacific Crest Securities	1,100	55	0.0500
Paine Webber Incorporated	519,976	28,443	0.0547
Panmure Gordon & Co. Ltd.	15,294	189	0.0124
Paribas Corp.	255,380	8,759	0.0343
Parker/Hunter Incorp	5,400	270	0.0500
Paulsen, Dowling Securities Inc.	25,900	1,464	0.0565
PCS Securities Inc.	26,250	1,469	0.0559
Phileo Allied Securities	262,000	3,653	0.0139
Piper Jaffray Inc.	70,800	4,142	0.0585
Prudential Securities Incorporated	251,450	14,623	0.0582
Ragen Mackenzie Incorporated	1,400	70	0.0500
Raida Stockbrokers	3,190	172	0.0538
Raymond James and Associates Inc.	24,700	1,306	0.0529
RBC Dominion Securities Inc.	58,845	3,501	0.0595
Realty Securities	4,300	258	0.0600
Reuschel and Co.	2,630	434	0.1649
Reynders, Gray & Company, Inc.	64,500	2,900	0.0450
Robert Fleming & Co. Ltd.	377,105	8,947	0.0237
Robert W Baird & Co., Incorporated	372,800	22,253	0.0597
Robinson Humphrey	293,350	16,975	0.0579
Robotti & Company	87,700	5,262	0.0600
Rochdale Sec Corp. (Cls Thru 443)	8,545,768	273,680	0.0320
Russell Frank Securities Inc.	25,715	1,424	0.0554
Ryan Beck& Co.	7,300	365	0.0500
S G Warburg Securities Corporation	575,572	10,047	0.0175
Salomon Smith Barney, Inc.	7,266,199	218,009	0.0300
Santanderinvestment Securities Inc.	8,140	470	0.0578
SBC Warburg	3,030,229	54,557	0.0180

Orange County Employees Retirement System
SCHEDULE OF COMMISSIONS
FOR THE YEAR ENDED DECEMBER 31, 1999

<u>Brokerage Firms</u>	<u>Number Of Shares Traded</u>	<u>Total Commission</u>	<u>Commission Per Share</u>
Schroder Securities Ltd.	198,600	\$ 4,473	\$ 0.0225
Scotia Capital Markets Inc.	4,300	174	0.0405
SG Cowen Securities Corp.	339,900	13,687	0.0403
Skandinaviska Enskilda Banken London	2,520	883	0.3504
Smith Barney Inc.	22,400	1,269	0.0567
Societe Generale Securities Corp.	321,978	12,465	0.0387
Soundviewfinancial Group	19,700	985	0.0500
Southcoast Capital L.L.C.	9,900	495	0.0500
Spear, Leeds & Kellogg	302,600	18,156	0.0600
Standard & Poors Securities	220,800	13,248	0.0600
State Street Brokerage Services	2,800	140	0.0500
Status Securities	5,200	218	0.0419
Stephens, Inc.	10,408	543	0.0522
Suntrust Equitable Securities Corp.	3,000	150	0.0500
Svenska Handelsbanken	16,260	770	0.0474
Thomas Weisel Partners	60,100	3,595	0.0598
Thomson Institutional Service	28,900	1,734	0.0600
Toronto Dominion Securities Inc.	2,000	79	0.0395
Troster Singer Stevens Rothchild Corp.	800	40	0.0500
Tucker, Anthony & R.L. Day, Inc.	213,100	12,128	0.0569
U S Clearing Institutional Trading	113,147	6,005	0.0531
UBS Securities, Inc.	196,329	3,432	0.0175
Wachovia Securities Ins	38,500	2,157	0.0560
Warburg Dillon Reed LLC	2,400,924	52,196	0.0217
Weeden & Co.	434,700	24,355	0.0560
Weiss Peck and Greer	118,600	5,437	0.0458
West LB Securities	68,000	1,661	0.0244
Westminster Research Associates	134,600	8,076	0.0600
Wheat, First Securities, Inc.	126,500	7,590	0.0600
Wilshire Associates	7,500	450	0.0600
	<u>93,560,014</u>	<u>\$ 3,282,943</u>	

Orange County Employees Retirement System
SCHEDULE OF LARGEST STOCK HOLDINGS (By Fair Value)*
DECEMBER 31, 1999

<u>Stock</u>	<u>Security Description</u>	<u>Fair Value</u>
Mannesmann AG	Common Stock-REG SHS	\$ 32,520,673
Sony Corp.	Common Stock-JPY50	25,341,388
Nokia AB OY	Common Stock-EURO.24	24,001,717
Murata Mfg. Co..	Common Stock-JPY50	19,955,004
NTT Mobile Communications	Common Stock-NPV	17,299,228
Tokyo Electron	Common Stock-VPY50	15,762,497
Ericsson (LM) Tel	Common Stock-SEK2.50 SER B	13,840,387
Home Depot Inc.	Common Stock	12,942,188
Taiwan Semiconductor Mfg. Co. Ltd.	Depository Receipt-SPONSORED ADR	12,780,090
Kimberly Clarke Corp.	Common Stock	12,346,838

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF LARGEST BOND HOLDINGS (By Fair Value)*
DECEMBER 31, 1999

<u>Bonds</u>	<u>Moody's Quality Rating</u>	<u>Fair Value</u>
FHLMC TBA Jan 30 Gold Single 6.00% due 12/01/2099	Rating AAA	\$ 53,637,166
U.S. Treasurer Notes 3.625% due 07/15/2002	Rating AAA	36,371,840
GNMA I TBA Jan 30 Single Family, 6.50% due 12/15/2099	Rating AAA	27,421,217
U.S. Treasury Bonds 7.125% due 02/15/2023	Rating AAA	25,045,502
Ford Motor Credit Company 5.565% due 02/13/2003	Rating A1	21,702,826
Tele Communication Inc., 8.25% due 01/15/2003	Rating A2	20,695,800
Germany (Fed. Rep. of) 4.00% due 07/04/2009	Rating AAA	18,188,705
FNMA TBA Jan 30 Single Family 5.50% due 12/31/2099	Rating AAA	17,743,750
GNMA I TBA Jan 30 Single Family 6.00% due 12/15/2099	Rating AAA	17,278,220
Golden West Financial Corp. Del. 7.00% due 01/15/2000	Rating A3	16,528,305

* A complete listing of portfolio holdings is available for review at the OCERS' office.

IV. ACTUARIAL SECTION

Timothy J. Marnell, ASA
Principal

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Chicago, IL 60606-3414
312 609-9481
Fax: 312 609-9839

Towers Perrin

May 12, 2000

Retirement Board
Orange County Retirement System
2223 Wellington Avenue
Santa Ana, CA 92701-3101

Members of the Board:

The financing objective of the system 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, 1999 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, 1999 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.

Towers Perrin _____

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.

All of the schedules in the Actuarial Section were prepared under my direction, including:

- History of Unfunded Actuarial Accrued Liability
- History of Employer Contribution Rates
- Summary of Active Membership
- Summary of Retired Membership
- Development of Actuarial Value of Assets
- Short-Term Solvency Test
- Actuarial Methods and Assumptions, including the attached Tables
- Summary of Major Plan Provisions
- Analysis of Financial Experience

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, 1999 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
12/31/90	\$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%
12/31/99	4,017,279	3,931,744*	85,535	97.87%	912,490	9.37%

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 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, 12/31/98 and 12/31/99 assets exclude \$311,022,000, \$329,064,000, \$313,250,000, \$322,333,000, \$302,909,000 and \$286,139,000, 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	
12/31/90	
General	
Normal	4.75
UAAL	4.60
Total	9.35
Safety	
Normal	13.91
UAAL	10.42
Total	24.33
12/31/91	
General	
Normal	2.40
UAAL	0.15
Total	2.55
Safety	
Normal	4.15
UAAL	13.78
Total	17.93
12/31/92	
General	
Normal	3.56
UAAL	1.30
Total	4.86
Safety	
Normal	6.42
UAAL	17.92
Total	24.34

Valuation Date	
12/31/93	
General	
Normal	3.38
UAAL	0.53
Total	3.91
Safety	
Normal	6.20
UAAL	18.56
Total	24.76
12/31/94	
General	
Normal	3.68
UAAL	1.71
Total	5.39
Safety	
Normal	6.58
UAAL	21.85
Total	28.43
12/31/95	
General	
Normal	3.33
UAAL	(0.47)
Total	2.86
Safety	
Normal	5.59
UAAL	18.84
Total	24.43

Valuation Date	
12/31/96	
General	
Normal	3.38
UAAL	(1.06)
Total	2.32
Safety	
Normal	5.77
UAAL	17.77
Total	23.54
12/31/97	
General	
Normal	3.77
UAAL	(1.91)
Total	1.86
Safety	
Normal	6.79
UAAL	19.65
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
12/31/99	
General	
Normal	4.56
UAAL	(3.60)
Total	0.96
Safety	
Normal	8.27
UAAL	13.95
Total	22.22

Orange County Employees Retirement System
SUMMARY OF ACTIVE MEMBERSHIP

Valuation Date	Number	Annual Salary	Annual Average Salary	% Increase in Average Salary
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
12/31/99				
General	17,801	\$738,956,477	\$41,512	(0.25%)
Safety	2,556	173,533,473	67,893	6.42
Total	20,357	\$912,489,950	\$44,824	0.90

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			
1/90 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
1/99 to 12/99	7,244	549	(256)	7,537	137,542,880	9.65	1,521

Orange County Employees Retirement System
DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS
As of December 31, 1999

Plan Year Ending	Fair Value	Book Value	Ratio of Fair Value to Book Value
1999	\$4,183,305,471	\$3,277,313,800	1.276443
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

(1) Average ratio in five years preceding December 31, 1999	1.199685
(2) Book value on December 31, 1999	\$3,277,313,800
(3) Actuarial value of assets: (1) x (2)	\$3,931,744,206

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)
12/31/90	\$245,591	\$674,000	\$903,324	\$1,297,575	100%	100%	41.84%
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
12/31/99	618,463	1,782,432	1,616,383	3,931,744	100	100	94.71

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

Orange County Employees Retirement System
EXPECTATION OF LIFE
Disabled Retirees
 1981 Disabled Mortality

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

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, 1999 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 both the December 31, 1997 and December 31, 1998 actuarial valuations.

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 vast majority of retirees have already been adjusted for the Ventura County Ruling. No further adjustments were assumed.

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.

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. \$750 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: 46.46% (27.82%) of General; 75.35% (38.47%) of Safety.

Orange County Employees Retirement System
ANALYSIS OF FINANCIAL EXPERIENCE
(in thousands)

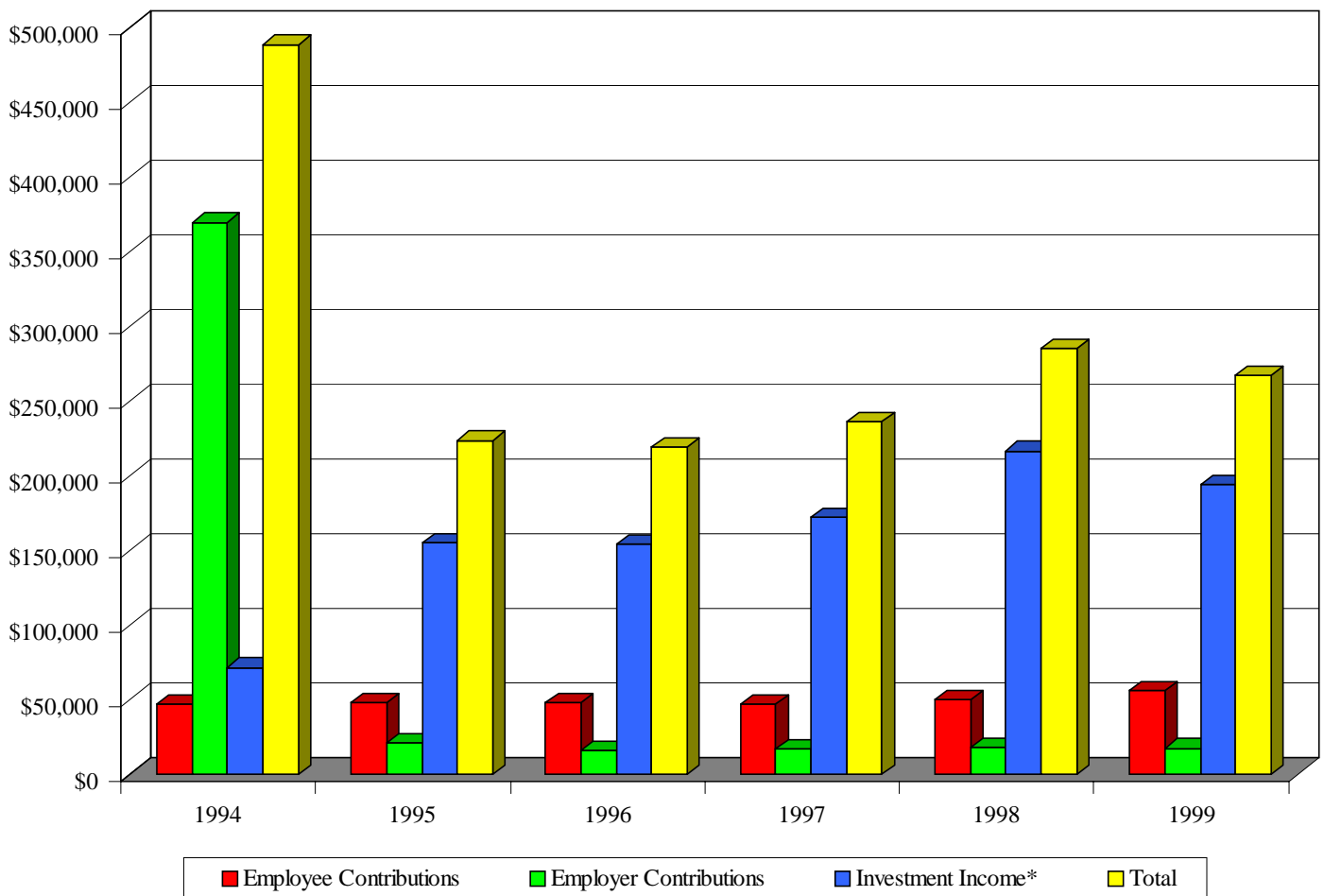
Gains & Losses in Accrued Liabilities During Years Ended December 31, Resulting from Differences Between Assumed Experience & Actual Experience					
Type of Activity	Gains (or Losses) Per Year				
	1995	1996	1997	1998	1999
Retirements	\$(84,430)	\$(64,134)	\$(31,804)	\$(34,552)	\$(60,138)
Disabilities	16,031	15,718	13,706	18,431	13,197
Withdrawal From Employment	(8,887)	(19,198)	(25,076)	(7,697)	(23,003)
Pay Increases	66,315	31,163	41,129	(21,705)	(1,890)
Investment Income	71,714	36,047	204,470	141,642	163,736
Mortality	(17,580)	(13,805)	(12,124)	23,996	24,804
Other	<u>(14,776)</u>	<u>19,406</u>	<u>(10,742)</u>	<u>(15,635)</u>	<u>(17,803)</u>
Gain (or Loss) During Year From Experience	\$28,387	\$5,197	\$179,559	\$104,480	98,903
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	\$98,903

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V. STATISTICAL SECTION

Schedule and Graph of Revenues by Source (in thousands) 1994 - 1999

	1994	1995	1996	1997	1998	1999
Employee Contributions	\$47,442	\$47,953	\$48,461	\$47,011	\$50,557	\$55,693
Employer Contributions	†369,382	†\$20,814	†\$16,463	†\$17,570	†\$17,977	\$17,591
Investment Income*	\$71,555	\$154,753	\$153,822	\$171,623	\$216,526	\$193,726
Total	\$118,997	\$223,520	\$218,746	\$236,204	\$285,060	\$267,010

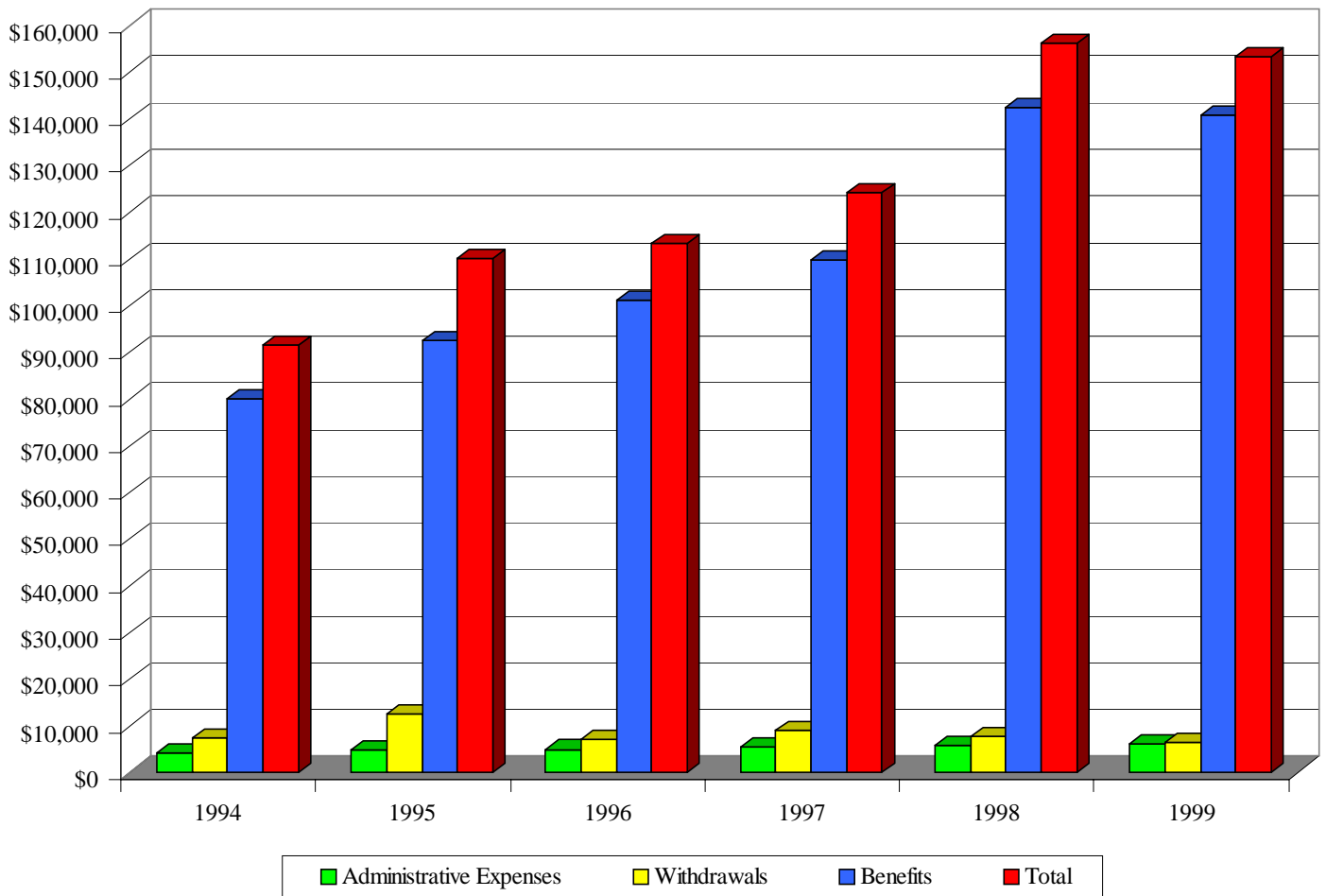


* Net of investment manager fees. Does not include net appreciation in fair market value.

† Employer contributions 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.

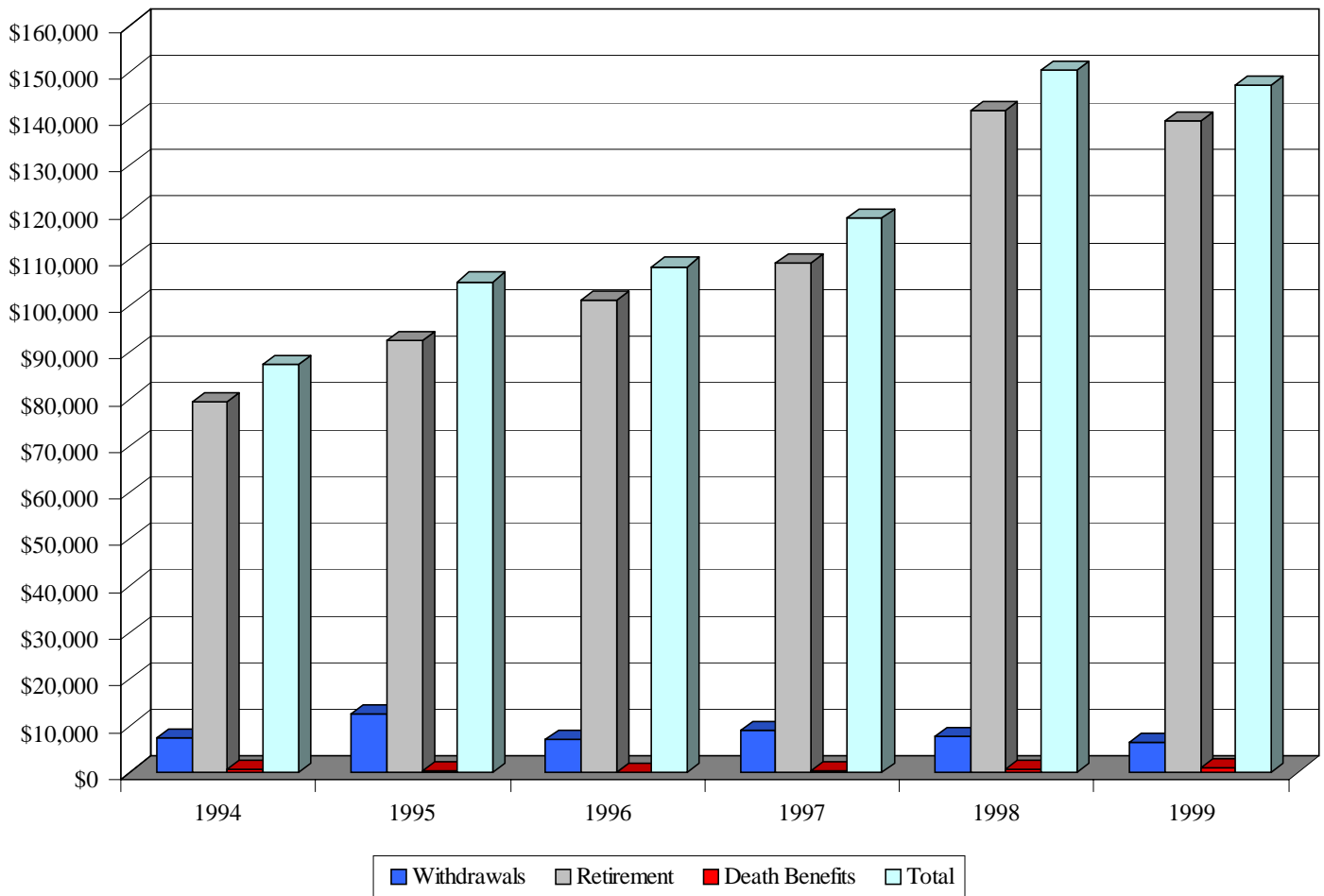
Schedule and Graph of Expenses by Type (in thousands) 1994 - 1999

	1994	1995	1996	1997	1998	1999
Administrative Expenses	\$4,132	\$4,971	\$4,987	\$5,392	\$5,850	\$6,094
Withdrawals	\$7,426	\$12,523	\$7,166	\$9,048	\$7,848	\$6,513
Benefits	\$79,932	\$92,582	\$101,125	\$109,660	\$142,457	\$140,736
Total	\$91,490	\$110,076	\$113,278	\$124,100	\$156,155	\$153,343



Schedule and Graph of Benefit Expenses by Type (in thousands) 1994 - 1999

	1994	1995	1996	1997	1998	1999
Withdrawals	\$7,426	\$12,523	\$7,166	\$9,048	\$7,848	\$6,513
Retirement	\$79,280	\$92,335	\$101,074	\$109,206	\$141,629	\$139,611
Death Benefits	\$652	\$247	\$51	\$454	\$828	\$1,125
Total	\$87,358	\$105,105	\$108,291	\$118,708	\$150,305	\$147,249



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, 1999

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	1,056	678	256	-	2	28	51	41	1,019	9	17	4	7	1,056
\$251-500	1,263	887	195	2	27	56	38	58	1,237	6	18	2	-	1,263
\$501-750	1,138	861	96	1	60	59	19	42	1,124	3	10	1	-	1,138
\$751-1,000	870	652	46	2	85	53	13	19	855	3	11	1	-	870
\$1,001-1,250	720	519	23	-	139	20	8	11	708	3	9	-	-	720
\$1,251-1,500	521	356	19	-	120	16	8	2	508	6	7	-	-	521
\$1,501-1,750	417	308	10	2	70	14	4	9	409	1	5	2	-	417
\$1,751-2,000	271	215	6	1	45	1	-	3	263	1	4	3	-	271
Over \$2,000	1,281	1,083	21	2	155	9	6	5	1,246	3	23	7	2	1,281
Total	7,537	5,559	672	10	703	256	147	190	7,369	35	104	20	9	7,537

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:

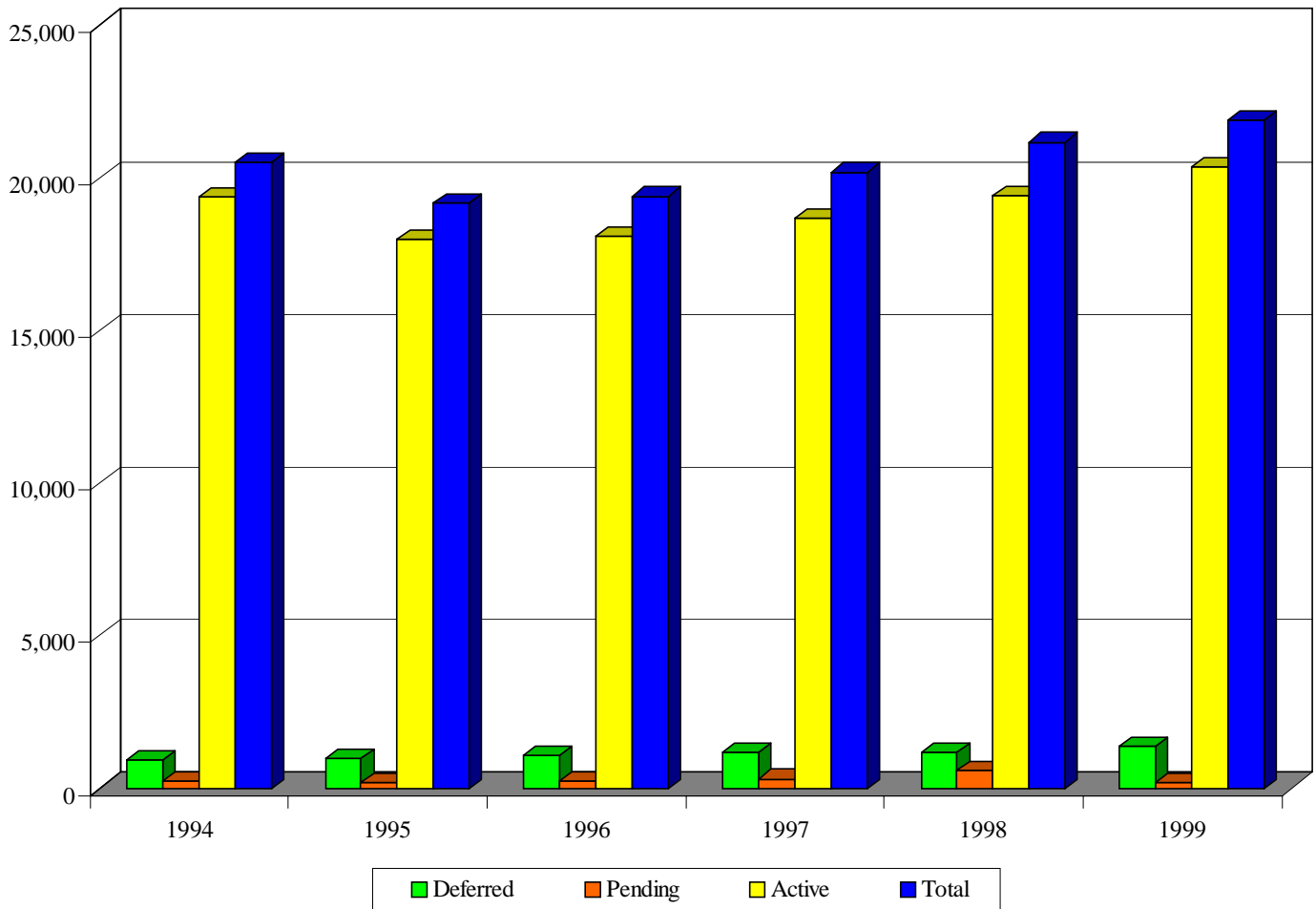
This option provides the member with a reduced monthly allowance for the member's lifetime. At the member's death, the member's designated beneficiary will receive half of the member's monthly allowance for the rest of his or her lifetime.

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.

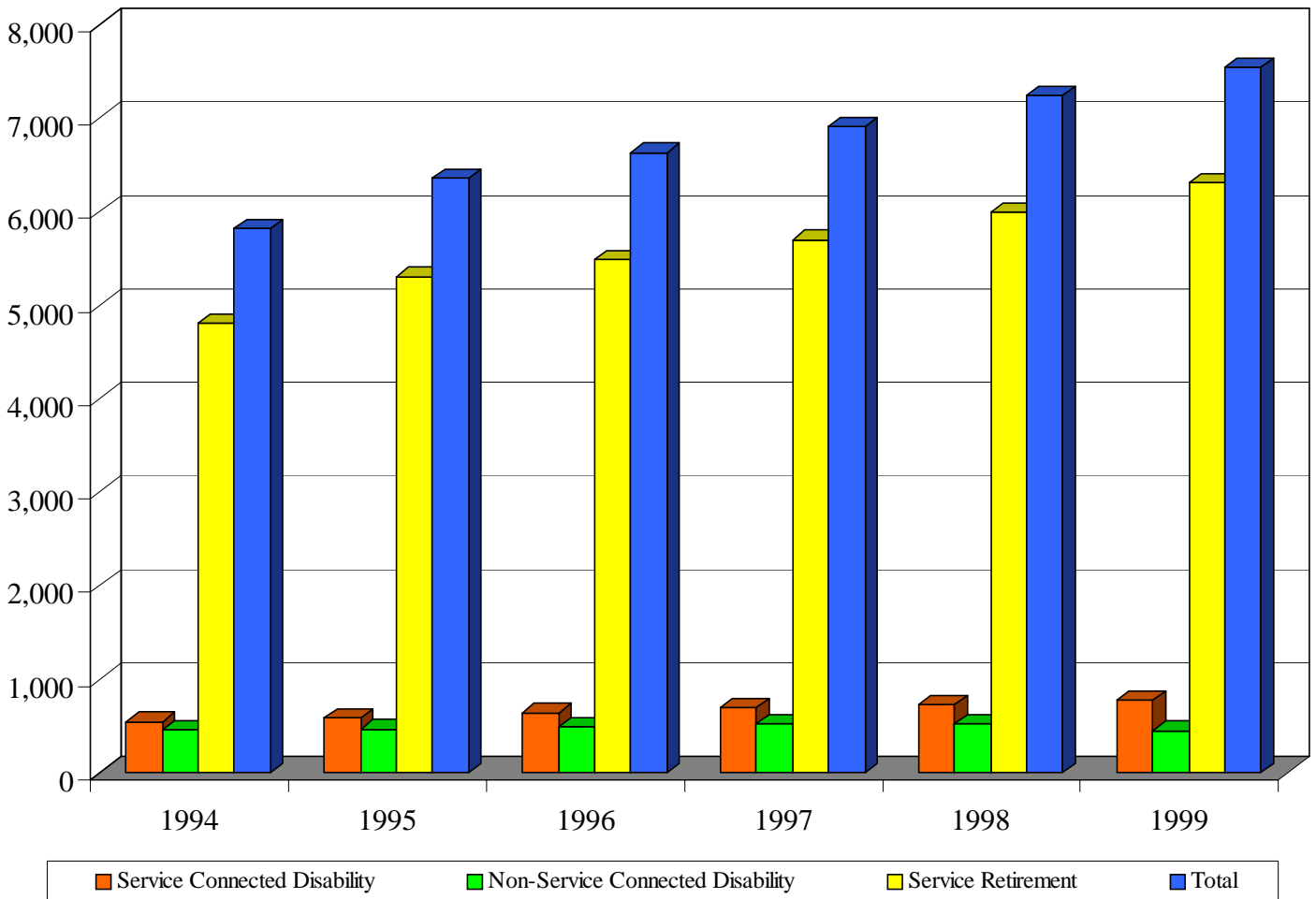
Schedule and Graph of Active, Pending, and Deferred Members 1994 - 1999

	1994	1995	1996	1997	1998	1999
Deferred	908	979	1,087	1,184	1,179	1,376
Pending	216	191	225	312	571	177
Active	19,373	18,009	18,090	18,693	19,432	20,357
Total	20,497	19,179	19,402	20,189	21,182	21,910



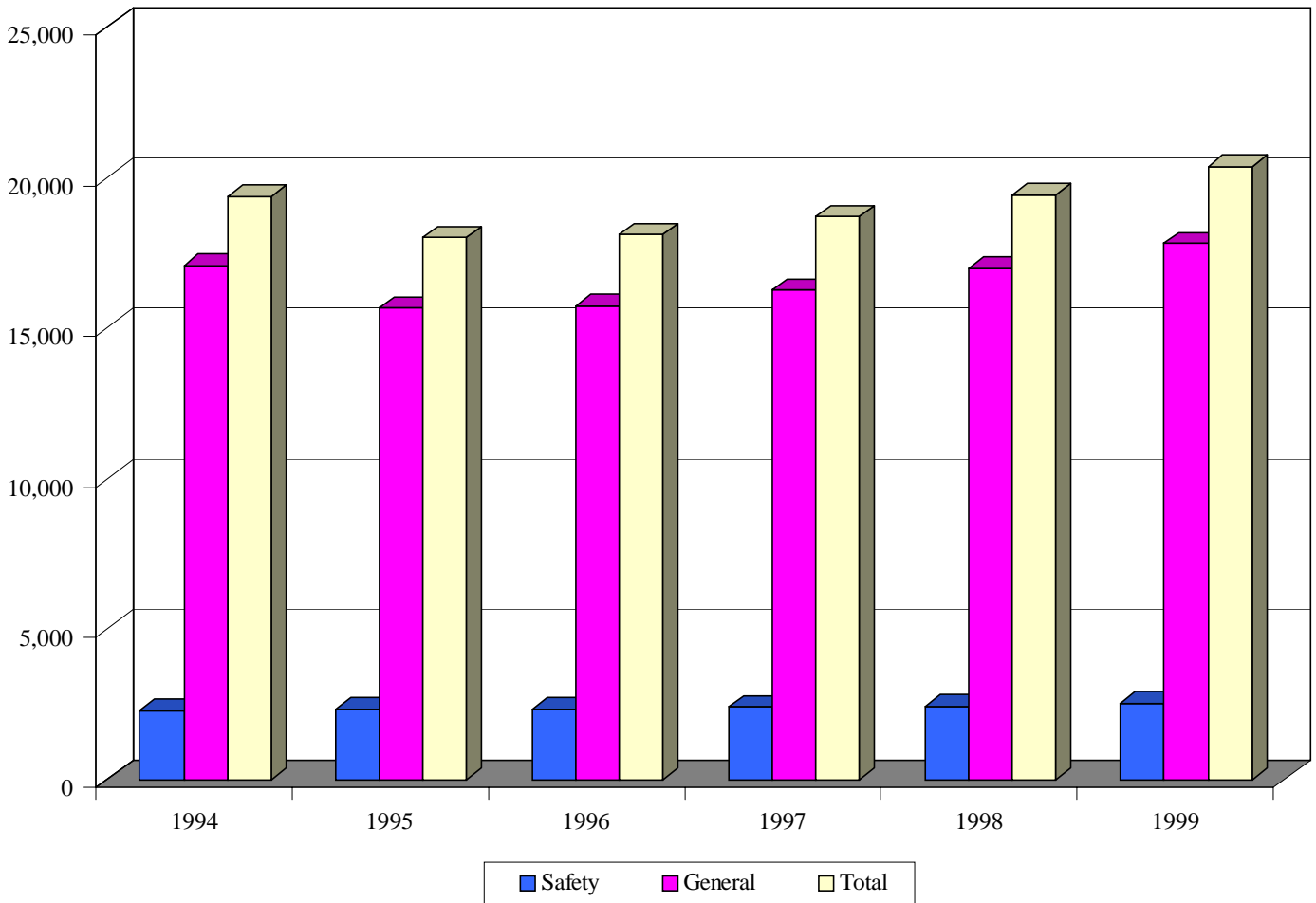
Schedule and Graph of Retired Members 1994 - 1999

	1994	1995	1996	1997	1998	1999
Service Connected Disability	548	588	644	696	729	775
Non-Service Connected Disability	461	468	497	518	524	453
Service Retirement	4,807	5,303	5,490	5,698	5,991	6,309
Total	5,816	6,359	6,631	6,912	7,244	7,537



Schedule and Graph of Active Members by Membership Classification* 1994 - 1999

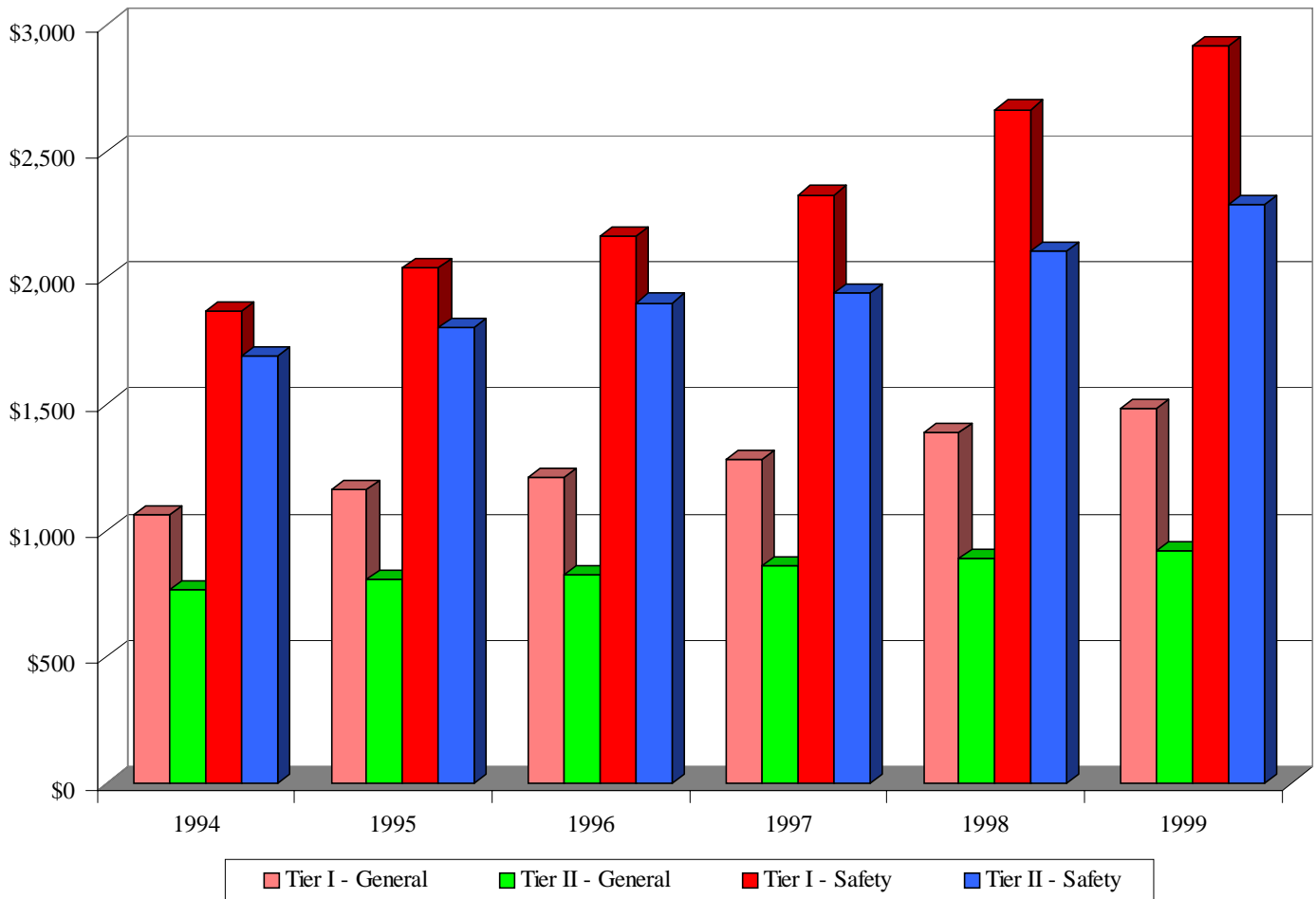
	1994	1995	1996	1997	1998	1999
Safety	2,288	2,351	2,354	2,427	2,456	2,556
General	17,085	15,658	15,736	16,266	16,976	17,801
Total	19,373	18,009	18,090	18,693	19,432	20,357



* Excludes members with Pending Status.

Schedule and Graph of Average Monthly Retirement Benefits (by Tier and Membership Classification) 1994 - 1999

	1994	1995	1996	1997	1998	1999
Tier I - General	\$1,061	\$1,164	\$1,210	\$1,281	\$1,388	\$1,484
Tier II - General	\$764	\$807	\$824	\$859	\$891	\$919
Tier I - Safety	\$1,869	\$2,039	\$2,163	\$2,328	\$2,666	\$2,917
Tier II - Safety	\$1,688	\$1,801	\$1,901	\$1,937	\$2,107	\$2,287



Orange County Employees Retirement System
HISTORY OF ACTUARIAL ASSUMPTION RATES
 FOR THE PERIOD JANUARY, 1945 - DECEMBER, 1999

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%