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COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2000

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
ORANGE COUNTY, CALIFORNIA



RETIREMENT
SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2000

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

**Keith Bozarth
Chief Executive Officer**

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I. INTRODUCTORY SECTION

LETTER OF TRANSMITTAL



*Serving the Active and
Retired Members of:*

CITY OF SAN JUAN
CAPISTRANO
(includes Capistrano
Valley Water District)

COUNTY OF ORANGE

CYPRESS RECREATION
AND PARK DISTRICT

FOOTBALL/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 VECTOR
CONTROL DISTRICT

SANITATION DISTRICT OF
ORANGE COUNTY

ORANGE COUNTY
DEPARTMENT OF
EDUCATION
(closed to new
members)

UCI MEDICAL CENTER
(closed to new
members)

May 25, 2001

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, 2000, the System's 56th 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, Link, Murrell & Co., 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

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, 1999. This was the fifth consecutive year that OCERS has achieved this prestigious award. 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.

Financial and Economic Summary

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

Major fluctuations in the domestic and international equity markets resulted in a record-setting volatility, especially during the second half of year 2000.

The rate of job growth was relatively flat in 2000, as it dipped slightly from 3.2% in 1999 to 3.1% in 2000, but that is still higher than job growth in the U.S. (1.41%) and other California counties. Orange County added an estimated 41,150 jobs during 2000, as compared to 39,000 jobs added in 1999. Estimated gross county product for 2000 was \$125 billion as compared to \$112.6 billion for 1999. Orange County's housing demand continued to strengthen during 2000.

Major Initiative

OCERS embarked on the installation of the new Membership Accounting Record System (MARS), commonly known as PensionGold, which is a product of Levy, Ray & Shoup, Inc. This new system will be operational by the third quarter of year 2001.

Additional Retirees Benefit Account (ARBA)

Due to large realized gains, resulting from the repositioning of equity investments in the year 2000, the ARBA account was credited with approximately \$245,006,000. The balance of the ARBA account at December 31, 2000 was approximately \$384,217,000.

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.

Link, Murrell & Co., 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.

Additions to Plan Net Assets

The total additions to plan net assets for 2000, including net depreciation in fair value of investments and net of investment management fees, were \$122,024,000. This amount includes member and employer contributions of \$76,740,000, net investment income of \$26,739,000, and the settlement proceeds from the Orange County Treasurer's Investment Pool bankruptcy litigation of \$18,545,000. Net investment income, excluding the settlement, represented a decrease of \$658,439,000 over the prior year; this decrease was attributable mainly to \$219,879,000 net depreciation 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 2000, excluding investment management and security lending fees, were \$165,612,000, which represented an increase of \$12,269,000 over prior year. This increase was the result of higher retirement benefits payments that included COLA adjustments and the inclusion of Ventura pay elements, higher refunds of contributions and interest to terminated members, higher administrative expenses and increase in the number of retirees. The components of the total deductions are payments of retirement benefits of \$150,466,000, refunds of contributions and interest to terminated members of \$8,515,000 and administrative expenses of \$6,631,000.

Changes in System Memberships

OCERS' membership increases (decreases) for the calendar year 2000 were as follows:

	<u>2000</u>	<u>1999</u>	<u>Increase (Decrease)</u>	<u>Change</u>
Active Members	20,987	20,357	630	3.09%
Retired Members	7,915	7,537	378	5.02%
Deferred Members	1,325	1,376	(51)	(3.71%)
Pending Status Members	960	177	783	442.37%

At December 31, 2000, there were 960 members who terminated membership with OCERS but had not selected an option regarding the management of their balances. Subsequently, all of these Pending Status Members either withdrew their funds or left them on deposit with OCERS, thus becoming Deferred Members.

Investment Summary

For the 2000 year, OCERS' portfolio earned a total return of 3.28%, which is 4.72% below the actuarial earnings assumption. Over long-term periods, the portfolio has earned total annualized returns of 12.31% over the past five years, and 11.86% over the past eight and one-half years. On a fair value basis, the total plan net assets decreased from \$4,851,712,000 to \$4,808,124,000.

Funding

OCERS' funding objective is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2000, the funding ratio of the System was approximately at 103.70%; a six-year history of OCERS' funding progress is presented on page 34. For 2000, OCERS experienced a decrease of \$43,588,000 in plan net assets. Details of the components of this decrease 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,



Keith Bozarth
Chief Executive Officer



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, 1999

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.



Anne Spray Kinney
President

Jeffrey L. Esler
Executive Director

MEMBERS OF THE BOARD OF RETIREMENT
AS OF DECEMBER 31, 2000

Regular Members:



Keith L. Concannon
Elected Member - Retired Employees
Term expires December 31, 2001



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



Frank E. Eley, Vice-Chairman
Elected Member - General
Public Facilities &
Resources Department
Term expires December 31, 2001



Sharon Neebe
Elected Member - General
County Treasurer-Tax Collector
Term expires December 31, 2003



Thomas N. Fox
Elected Members - Safety
Sheriff-Coroner Department
Term expires June 30, 2003



Reed L. Royalty
Appointed Member
Appointed by Board of Supervisors
Term Expires September 14, 2001



George W. Jeffries, Chairman
Appointed Member
Appointed by Board of Supervisors
Term expires September 14, 2001



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

Alternate Member:



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



David Thompson
Elected Member – Safety
(Alternate for Safety Members)
Alternate for all Elected Members
Orange County Fire Authority
Term expires June 30, 2003

**SUMMARY OF PLAN PROVISIONS
AS OF DECEMBER 31, 2000**

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.

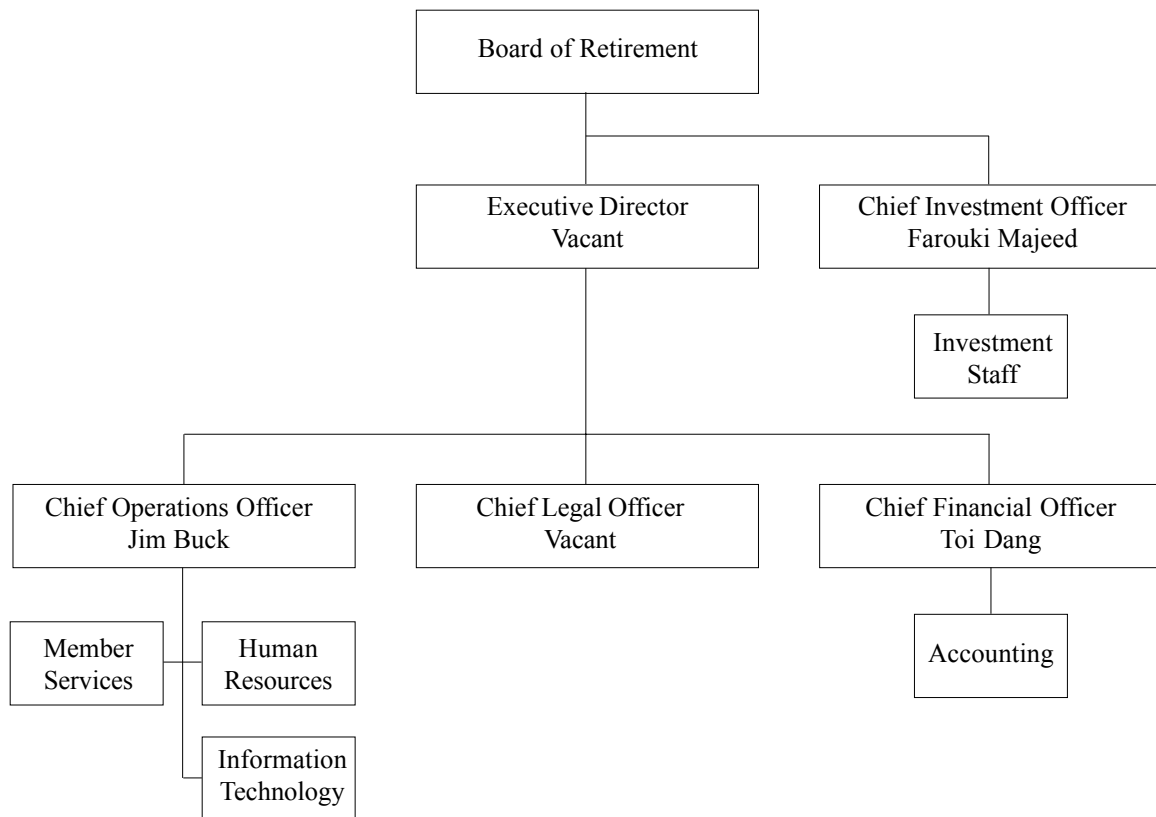
13. **Member Contributions - Tier I (Tier II in parentheses)**

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, 2000



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, Human Resources and Information Technology 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. 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.

FINANCE DIVISION: This division is comprised of the Accounting 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.

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, 2000

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

Link, Murrell & Co.

Irvine, 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

DOMESTIC FIXED INCOME

Boston Partners Asset Management Company, LP

Boston, MA

Loomis, Sayles & Company

Boston, MA

Pacific Investment Management Company (PIMCO)

Newport Beach, CA

INTERNATIONAL EQUITY

Capital Guardian Trust Company

Los Angeles, CA

Marvin & Palmer International

Wilmington, DE

Schroder Capital Management International

London, England

Sit/Kim International

Minneapolis, MN

INTERNATIONAL FIXED INCOME

Delaware International Advisers, Ltd.

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

Adams Street Partners
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

Link, Murrel & Company

A PARTNERSHIP IN THE CITY OF IRVINE, CALIFORNIA

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 year ended December 31, 2000, 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. The general purpose financial statements of the System as of December 31, 1999 were audited by other auditors whose report dated May 19, 2000 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides 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, 2000, and the changes in its plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was 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 audit 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.

Link, Murrel & Co.

May 7, 2001
Irvine, California

GENERAL PURPOSE FINANCIAL STATEMENTS

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

	December 31	
	2000	1999
Assets		
Cash and Short-Term Investments		
Cash and Cash Equivalents (Note E-3)	\$ 132,567	\$ 144,499
Collateral Held for Securities Lent (Note E-6)	344,380	230,029
Total Cash and Short-Term Investments	476,947	374,528
Receivables		
Forward Currency Contracts, Net (Note F-1)	759	-
Investment Income	24,150	27,633
Securities Sales	42,339	15,105
Employer/Employee Contributions	7,103	7,103
Total Receivables	74,351	49,841
Investments, at Fair Value (Notes B-2 and E)		
United States Government Debt		
Securities and Corporate Bonds	2,087,889	1,605,021
Foreign Bonds	194,616	177,202
Domestic Equity Securities	1,542,377	1,645,702
International Equity Securities	665,920	870,593
Real Estate	339,568	311,441
Venture Capital and Limited Partnership Interests	267,858	287,980
Total Investments	5,098,228	4,897,939
Fixed Assets, Net (Note B-3)	2,148	878
Total Assets	5,651,674	5,323,186
Liabilities		
Collateral Held for Securities Lent (Note E-6)	344,380	230,029
Securities Purchased	478,320	222,874
Other	20,850	18,571
Total Liabilities	843,550	471,474
Net Assets Held in Trust for Pension Plan Benefits	\$ 4,808,124	\$ 4,851,712
(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	
	2000	1999
Additions		
Contributions (Note C)		
Employer	\$ 15,561	\$ 17,591
Employee	61,179	55,693
Total Contributions	76,740	73,284
Investment Income:		
Net (Depreciation) Appreciation in		
Fair Value of Investments (Note E-5)	(219,879)	491,992
Interest on:		
Domestic and International Securities	123,794	120,315
Cash with County Treasurer (Note E-3)	44	26
Domestic Dividends	13,887	14,709
Rental Income	34,088	26,981
International Dividends	7,409	8,251
Venture Capital and Limited Partnership	87,027	37,725
Securities Lending Revenues (Note E-6)	1,317	1,541
Total Investment Income	47,687	701,540
Less Investment Expenses	(20,556)	(15,890)
Less Securities Lending Fees (Note E-6)	(392)	(472)
Net Investment Income	26,739	685,178
Settlement Proceeds on Orange County Treasurer		
Investment Pool (Note E-10)	18,545	-
Total Additions	122,024	758,462
Deductions		
Participants' Benefits	150,466	140,736
Member Withdrawals	8,515	6,513
Administrative Expenses (Note G)	6,631	6,094
Total Deductions	165,612	153,343
Net Increase (Decrease)	(43,588)	605,119
Net Assets Held in Trust for Pension Plan Benefits		
Beginning of Year	4,851,712	4,246,593
End of Year	\$ 4,808,124	\$ 4,851,712

See accompanying notes to financial statements.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

DECEMBER 31, 2000

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, 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, 2000 and 1999:

Active Personnel (unaudited)

	December 31	
	2000	1999
General Members		
County and Agencies Paid by County Payroll	15,778	15,322
Outside Agencies	2,604	2,479
Subtotal - General Members	18,382	17,801
Safety Members		
County and Agencies Paid by County Payroll	1,859	1,802
Outside Agencies	746	754
Subtotal - Safety Members	2,605	2,556
Total Active Members	20,987	20,357

NOTES TO FINANCIAL STATEMENTS (Continued)

Active Personnel (cont.) (unaudited)

	December 31	
	2000	1999
Deferred (General & Safety) Members		
Regular	660	729
Employment with Other Agencies (Reciprocity)	665	647
Subtotal - Deferred Members	1,325	1,376
Pending - Retirement or Withdrawal Members		
General	476	171
Safety	484	6
Subtotal - Pending Members	960	177
Total Active, Deferred, and Pending	23,272	21,910

At December 31, 2000 and 1999, 13,418 and 13,602 active members, respectively, had more than 5 years of service and were vested.

Retired Personnel Receiving Benefits (unaudited)

	December 31, 2000			December 31, 1999		
	Gen.	Safety	Total	Gen.	Safety	Total
Service Retirements	5,404	444	5,848	5,165	410	5,575
Continuances	604	49	653	658	76	734
Subtotal-Service Retirements	6,008	493	6,501	5,823	486	6,309
Service-Connected						
Disability	518	273	791	465	204	669
Continuances	45	17	62	64	42	106
Subtotal-Service Disability	563	290	853	529	246	775
Nonservice-Connected						
Disability	448	13	461	291	12	303
Continuances	84	16	100	109	41	150
Subtotal-Nonservice Disability	532	29	561	400	53	453
Total Retired Personnel	7,103	812	7,915	6,752	785	7,537

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, 2000 and 1999, were as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

	<u>2000</u>	<u>1999</u>
Furniture and Equipment	\$ 1,702,000	\$ 1,589,000
Computer Software	2,190,000	848,000
Building and Building Improvements	-	53,000
Total Fixed Assets (at cost)	<u>3,892,000</u>	<u>2,490,000</u>
Less Accumulated Depreciation	<u>(1,744,000)</u>	<u>(1,612,000)</u>
Total Fixed Assets - Net of Depreciation	<u>\$ 2,148,000</u>	<u>\$ 878,000</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, 2000 and 1999, were \$714,084,000 and \$658,890,000, 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. The offsetting credits for years 2000, 1999, 1998, 1997, 1996 and 1995 were \$48,555,000, \$47,129,000, \$42,020,000, \$40,807,000, \$53,393,000 and \$49,250,000, respectively.

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, 2000 and 1999, the County Investment Account had a remaining balance, including interest earnings, of \$272,789,000 and \$286,139,000, respectively.

Contributions for 2000 and 1999 approximate \$76,740,000 (\$15,561,000 employer and \$61,179,000 member) and \$73,284,000 (\$17,591,000 employer and \$55,693,000 member), respectively, consisting of:

	<u>2000</u>	<u>1999</u>
Normal Cost	\$ 85,517,000	\$ 72,749,000
Amortization of Unfunded Actuarial Accrued Liability	<u>(8,777,000)</u>	<u>535,000</u>
Total	<u>\$ 76,740,000</u>	<u>\$ 73,284,000</u>

The contributions to OCERS for 2000 and 1999 were made in accordance with the actuarially determined requirements as follows:

	Percent of Members' Payroll					
	<u>Jul '00 - Dec '00</u>		<u>Sep '99 - Jun '00</u>		<u>Sep '98 - Aug '99</u>	
	<u>General</u>	<u>Safety</u>	<u>General</u>	<u>Safety</u>	<u>General</u>	<u>Safety</u>
Employer Contributions:						
Normal Cost	4.56%	8.27%	4.35%	8.00%	3.77%	6.79%
Amortization of Unfunded Actuarial Accrued Liability	<u>(3.60%)</u>	<u>13.95%</u>	<u>(2.35%)</u>	<u>16.41%</u>	<u>(1.91%)</u>	<u>19.65%</u>
Subtotal	0.96%	22.22%	2.00%	24.41%	1.86%	26.44%
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>0.96%</u>	<u>22.22%</u>	<u>2.00%</u>	<u>24.41%</u>	<u>1.86%</u>	<u>26.44%</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, State Street California.

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, 2000 and 1999, OCERS had investments in Barclays Global Investors Russell 1000 Index and S&P 500 Index Fund which individually represented 16.97% and 14.04%, respectively; of OCERS' plan net assets. In addition, OCERS had investments in Barclays Global Investors Fixed Income Index that represented 7.02% of the System's 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, 2000, OCERS had money market funds of \$132,504,000, which were uninsured and uncollateralized, and pooled cash in the County of Orange Treasurer's Investment Pool of \$63,000. 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, 2000 are summarized as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

	<u>Cost</u>	<u>Fair Value</u>
Category 1 Classification		
U.S. Government Debt Securities	\$ 623,805	\$ 618,478
Corporate Debt Securities	752,794	719,200
U.S. Government Bonds	214,736	224,111
Foreign Bonds	208,709	190,798
Domestic Equity Securities	617,885	692,711
International Equity Securities	438,495	511,444
Subtotal	<u>2,856,424</u>	<u>2,956,742</u>
Amounts Not Subject to Classification		
Investments Held by Broker-Dealers Under Securities Loans with Cash Collateral:		
Corporate Debt Securities	15,306	16,477
U.S. Government Debt Securities	161,533	172,881
Domestic Equity Securities	33,567	33,593
International Equity Securities	107,304	107,033
Foreign Bonds	2,989	2,966
Orange County Treasurer's Pooled Investment	63	63
Real Estate Investments	291,034	339,568
Domestic Equity Index Fund	920,894	816,121
International Pooled Equity Funds	46,743	47,443
Domestic Pooled Fixed Income	309,121	337,546
Alternative Investment in		
Venture Capital and Limited Partnership	222,708	267,858
Subtotal	<u>2,111,262</u>	<u>2,141,549</u>
Less: Orange County Treasurer's Pooled Investment	<u>(63)</u>	<u>(63)</u>
Total Investments	<u>\$ 4,967,623</u>	<u>\$ 5,098,228</u>

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

- 5. Net Appreciation (Depreciation).** During 2000 and 1999, OCERS' investments (including investments bought and sold, as well as held during each year) (depreciated) appreciated in values by (\$219,879,000) and by \$491,992,000, respectively, as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

	Years Ended December 31	
	2000	1999
	(in thousands)	
Net Appreciation (Depreciation) in Fair Value as Determined by Quoted Market Prices:		
Domestic Equity Securities	\$ (54,858)	\$ 189,586
United States Government Debt Securities, Corporate & Foreign Bonds & Debentures	21,990	(99,061)
International Equity Securities	(143,240)	320,659
Subtotal	(176,108)	411,184
Net Appreciation (Depreciation) in Fair Value as Determined by Estimated Fair Value:		
Real Estate	(6,334)	8,718
Alternative	(37,437)	72,090
Total Net (Depreciation) Appreciation	<u>\$ (219,879)</u>	<u>\$ 491,992</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, 2000 and 1999 were securities with fair values of \$332,950,000 and \$219,683,000, 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 2000.

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, 2000 and 1999.

NOTES TO FINANCIAL STATEMENTS (Continued)

Gross security lending revenues for 2000 and 1999 were \$1,317,000 and \$1,541,000, 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, 2000 and 1999, OCERS held broker collateral with fair values totaling \$344,380,000 and \$230,029,000, respectively. At year end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System.

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, 2000, 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 \$2,087,889,000 as of December 31, 2000, approximately \$846,441,000 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:

Securities	Fair Value 2000	Fair Value 1999
FHA	\$ 22,662,000	\$ 9,160,000
FHLMC	74,199,000	124,937,000
FNMA	74,918,000	98,188,000
GNMA	589,325,000	269,124,000
CMO	48,138,000	96,443,000
Others	37,199,000	83,728,000
Total Derivative Securities	<u>\$ 846,441,000</u>	<u>\$ 681,580,000</u>

10. As a result of the County's successful litigation against certain brokerage firms relating to the 1994 bankruptcy matters, the System received \$18,545,000 in settlement proceeds from the County of Orange. The System does not expect to receive additional settlement proceeds in the future.

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, 2000 and 1999. 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, 2000 and 1999, OCERS had net forward currency contract receivables of \$759,000 and \$0, 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 (\$2,000,000) and (\$4,846,000) of net depreciation during 2000 and 1999, respectively. As of December 31, 2000 and 1999, OCERS had open contracts of \$95,026,000 and \$370,581,000, 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, 2000 and 1999, OCERS had collateral deposits of \$3,717,000 and \$5,296,000, respectively, in cash equivalents, U.S. Treasury bills and notes.

G. Administrative Expenses

Section 31580.2 of the Government Code limits the annual administrative expenses of the retirement system to eighteen-hundredths of 1 percent (18 basis points) of the total assets of the retirement system. Total administrative expenses for the year ended December 31, 2000 were \$5,869,000 or approximately 10.4 basis points. As of December 31, 2000, 18 basis points of the total assets of the System was approximately \$10,173,000. Additionally, 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	
	2000	1999
Expenses Subject to Statutory Limitation:		
Personnel Services:		
Board Members' Allowance	\$ 16,000	\$ 16,000
Employee Salaries and Benefits	2,949,000	2,376,000
Total Personnel Services	2,965,000	2,392,000
Office Operating Expenses:		
Operating Expenses	659,000	542,000
Professional Services	1,397,000	1,527,000
Rent/Leased Real Property	663,000	593,000
Depreciation/Amortization	185,000	136,000
Total Office Operating Expenses	2,904,000	2,798,000
Total Expenses Subject to Statutory Limitation	5,869,000	5,190,000

NOTES TO FINANCIAL STATEMENTS (Continued)

Expenses Not Subject to Statutory Limitation:

Commingled Interest Cost	1,000	1,000
Actuarial/Fund Evaluation Costs	345,000	514,000
Custodian Services	309,000	253,000
Legal Costs	14,000	50,000
Additional Death Benefit Costs	93,000	86,000
Total Expenses Not Subject to Statutory Limitation	<u>762,000</u>	<u>904,000</u>
Total Administrative Expenses	<u>\$ 6,631,000</u>	<u>\$ 6,094,000</u>

H. Reserve Accounts

The plan net assets of \$4,808,124,000 as of December 31, 2000 includes reserves of \$4,230,893,000 and unreserved net assets of \$577,231,000. The unreserved net assets include the Investment Account of \$272,789,000 and the Unallocated Fund Balance (UFB) of \$169,351,000.

The reserve balances as of December 31, 2000 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>\$ 714,084</u>	<u>\$1,759,224</u>	<u>\$1,352,563</u>	<u>\$ 384,217</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 805</u>	<u>\$ 4,230,893</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 2000, OCERS transferred from the UFB \$319,629,000 and \$245,006,000 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					
	2000	1999	1998	1997	1996	1995
Actuarial Value of Assets ¹ (a)	\$4,497,362	\$3,931,744	\$3,504,708	\$3,128,132	\$2,675,632	\$2,434,406
Actuarial Accrued Liability (b)	\$4,335,025	\$4,017,279	\$3,682,686	\$3,332,967	\$2,851,894	\$2,633,884
Total Unfunded Actuarial Accrued Liability (UAAL) (a-b=c)	(\$162,337)	\$85,535	\$177,978	\$204,835	\$176,262	\$199,478
Funded Ratio (a/b)	103.70%	97.87%	95.17%	93.85%	93.82%	92.43%
Covered Payroll (d)	\$994,437	\$912,490	\$863,199	\$781,890	\$758,897	\$727,768
UAAL as a Percentage of Covered Payroll (c/d)	(16.30%)	9.37%	20.62%	26.20%	23.23%	27.41%

Notes:

1. The 12/31/95, 12/31/96, 12/31/97, 12/31/98, 12/31/99, and 12/31/00 actuarial value of assets exclude \$329,064,000, \$313,250,000, \$322,333,000, \$302,909,000, \$286,139,000, and \$272,789,000 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.

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

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION - TREND INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR THE YEARS ENDED DECEMBER 31
(in thousands)

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
Annual Required Contribution ⁽²⁾	\$ 15,561	\$ 17,591	\$ 17,977	\$ 17,570	\$ 16,463	\$ 20,814
Percentage Contributed	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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, and 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. In year 2000 the amortization of the UAAL was negative and, on a percentage basis, exceeded the required normal cost funding requirement. Therefore, the County contribution is absorbed 100% by the County Investment Account.
2. Employer contributions for 2000, 1999, 1998, 1997, 1996, and 1995 excluded \$48,555,000, \$47,129,000, \$42,020,000, \$40,807,000, \$53,393,000, and \$49,250,000, 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	12/31/2000.
Actuarial cost method	Projected Unit Credit.
Amortization method	Level dollar.
Remaining amortization period	23 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

2000 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

No significant changes in Plan provisions.

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%.

OTHER SUPPLEMENTARY INFORMATION

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999
(in thousands)

	<u>2000</u>	<u>1999</u>
Expenses Subject to Statutory Limitation		
Personnel Services:		
Board Members' Allowance	\$ 16	\$ 16
Employee Salaries and Benefits	2,949	2,376
Total Personnel Services	<u>2,965</u>	<u>2,392</u>
Professional Services:		
Legal Fees	611	539
Financial Audit	79	136
Internal Audit	8	22
Tax Filing	5	3
Information Technology Consultant	30	123
Team Building Consultant	2	38
Hearing Officers/Medical Consultants	244	356
Pre-retirement Seminars	14	10
Miscellaneous	404	300
Total Professional Services	<u>1,397</u>	<u>1,527</u>
Other Operating Expenses:		
Telephone and Communication	48	36
Maintenance	126	101
Printing and Duplicating	141	65
Building and Equipment Leases	663	593
Transportation and Travel	173	164
Postage Expense	81	95
Office Supplies and Expenses	90	81
Depreciation Expenses	185	136
Total Other Operating Expenses	<u>1,507</u>	<u>1,271</u>
Total Expenses Subject to Statutory Limitation	<u>5,869</u>	<u>5,190</u>
Expenses Not Subject to Statutory Limitation		
Fund Evaluation Cost	150	150
Custodian Services	309	253
Commingled Interest Cost	1	1
Actuarial Cost	195	364
Legal Costs	14	50
Additional Death Benefits Cost	93	86
Total Expenses Not Subject to Statutory Limitation	<u>762</u>	<u>904</u>
Total Administrative Expenses	<u><u>\$ 6,631</u></u>	<u><u>\$ 6,094</u></u>

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF PAYMENTS TO CONSULTANTS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999
(in thousands)

<u>Name of Firms</u>	<u>Type of Services</u>	<u>2000</u>	<u>1999</u>
Professional Expenses Subject to Statutory Limitation			
PMW Associates	Team Building Workshop	\$ 2	\$ 38
Carolyn Ford and Associates	File Struc./Disaster Recovery	30	123
Haynie and Company	Tax Filing	5	3
Jeffer, Mangles, Butler & Marmaro, LLP	Legal Services	-	22
Steefel, Levitt & Weiss	Legal Services	521	490
Buchalter, Nemer, Fields & Younger	Legal Services	2	-
Barbara Evans	Legal Services	68	27
Foley & Lardner	Legal Services	20	-
Link, Murrel & Company	Internal Audit	8	22
Ernst & Young LLP	Financial Audit	79	136
Various Firms	Disability/Medical Hearings	244	356
Financial Management Group	Pre-retirement Seminars	14	10
Various Professional Firms	Other Services	404	300
Total Professional Expense Subject to Limitation		\$ 1,397	\$ 1,527
Professional Expenses Not Subject to Statutory Limitation			
Callan Associates, Inc.	Performance Evaluation	150	150
State Street California	Master Trust Custody	309	253
County of Orange	Commingled Interest Cost	1	1
Towers Perrin	Actuarial Services	195	364
Stradling, Yocca, Carlson, & Rauth	Legal Counsel	14	50
Additional Death Benefits Cost	Member Benefits	93	86
Total Professional Expenses Not Subject to Limitation		762	904
Total All Professional Fees		\$ 2,159	\$ 2,431

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF FEES AND OTHER INVESTMENT EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999
(in thousands)

	2000	1999
Domestic Equity	\$ 4,691	\$ 3,239
International Equity	3,789	3,320
Global Fixed Income	2,994	2,951
Real Estate	3,120	1,797
Venture Capital	3,158	2,989
Other Alternative Investments	2,804	1,594
Total Fees & Other Investment Expenses	\$ 20,556	\$ 15,890

III. INVESTMENT SECTION

CHIEF INVESTMENT OFFICER'S STATEMENT



May 31, 2001

*Serving the Active and
Retired Members of:*

CITY OF SAN JUAN
CAPITANO
(includes Capitano
Valley Water District)

COUNTY OF ORANGE

CYPRESS RECREATION
AND PARK DISTRICT

FOOTHILL/EASTERN/
SAN JOAQUIN HILLS
TRANSFORMATION
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

SANITATION DISTRICT OF
ORANGE COUNTY

ORANGE COUNTY
DEPARTMENT OF
EDUCATION
(closed to new
members)

UCI MEDICAL CENTER
(closed to new
members)

To the Members of the Retirement Board

The plan net assets declined from \$4.85 billion at the end of 1999 to \$4.81 billion as of December 31, 2000. The decline was due to total expenses including benefit payments exceeding investment income by approximately \$43.6 million. The last time expenses exceeded investment income was in 1994.

Performance:

The total fund return of 3.28% for the year 2000 appears lackluster compared to the double digit returns of prior years. However, the 3.28% return exceeded the policy benchmark by 0.66% and ranked in the top quartile (better than 75% of other funds) in the Callan Public Plan Sponsor Database. More importantly, longer term performance continues to meet the Board's objectives. The fund had a five year return of 12.31% which exceeded the 8% interest rate assumption, the composite policy benchmark return of 12.24% and ranked above the median (better than 50% of other funds) in the same universe.

Investment returns for total fund and asset classes are shown on page 47.

Equity markets in the US and overseas experienced a difficult year in 2000. Both markets had negative returns in 2000 following a seven year period of consistent positive returns. The last time both equity markets had negative returns was in 1990.

On a relative basis OCERS domestic equity returns, though negative, was 4.89% higher than the Russell 3000 Stock Index due to the value orientation of the portfolio and lower exposure to technology stocks. This significant outperformance has improved the longer term domestic equity performance relative to the Russell 3000 benchmark. International equity return was below the benchmark for 2000 but longer term returns are significantly higher than the benchmark.

Domestic fixed income return was below benchmark for the year due to higher weighting in high yield corporates. Longer term returns for domestic fixed income are higher than the benchmark.

Real estate returns continue to trail the NCREIF index which was adopted in 1999 as the new benchmark. The OCERS real estate portfolio needs restructuring in terms of diversification and asset quality. The Board has initiated a search for a real estate consultant to be hired in 2001 to assist in this effort.

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

Alternative investments, primarily consisting of venture capital and private equity, produced the highest return in 2000 at 58.89%. Longer term returns are also the highest for this asset class consistent with its high risk. The recent high returns in the venture capital/private equity category are expected to moderate as current valuations are factored in.

Asset Allocation and Investment Structure:

The Board adopted a new Investment Policy Statement in early 2000 incorporating changes made to asset allocation, manager structure and benchmarks over the past three years. These changes embody a tighter asset allocation and investment structure designed to control active risk relative to benchmarks. Accordingly, in early 2000, more than 2% of total assets was transferred from equities to fixed income to rebalance the asset allocation.

During the year STI Capital Management, a large cap growth manager was terminated due to organizational issues and the funds were invested in the index fund pending search for a replacement. Schroder Capital, an international equity manager was terminated for the EAFE assignment due to performance reasons. Sit/Kim International and Marvin and Palmer were hired to replace Schroder.

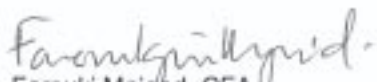
In the real estate portfolio repositioning activity continued with \$28.3 million in property dispositions and \$54.0 million in acquisitions.

Investment Fees:

Total fees payable to investment managers, on an accrued basis, increased from \$16.68 million in 1999 to \$19.42 million in 2000. The increase was mainly due to higher portfolio values in alternative assets and real estate, which incur higher fees. Included in the total are fees deducted at source by commingled or limited partnership investments in real estate and alternative assets. Since reported returns are net of these fees the fees for calculating net of fee returns was \$13.91 million for 2000 and \$12.18 million in 1999. As a percentage of assets, this amounts to 0.29% in 2000 and 0.27% in 1999. The level of fees appear reasonable considering OCERS' asset allocation with nearly 15% in private markets.

In summary, the fund experienced superior investment performance in 2000 relative to benchmarks and peers. As we had cautioned in the last report the double digit returns of prior years was not sustained in 2000. However, we believe the fund is well diversified and appropriately structured to achieve the Board's long term objectives.

Respectfully Submitted,



Farouki Majed, CFA
Chief Investment Officer

CALLAN ASSOCIATES_{SM}

May 10, 2001

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

SAN FRANCISCO

NEW YORK

CHICAGO

ATLANTA

DENVER

Board of Retirement
Orange County Employees Retirement System
2223 Wellington Avenue
Santa Ana, California 92701-3101

Dear Board Members:

This letter reviews the investment performance of the Orange County Employees Retirement System (OCERS) for the calendar year ended December 31, 2000.

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.

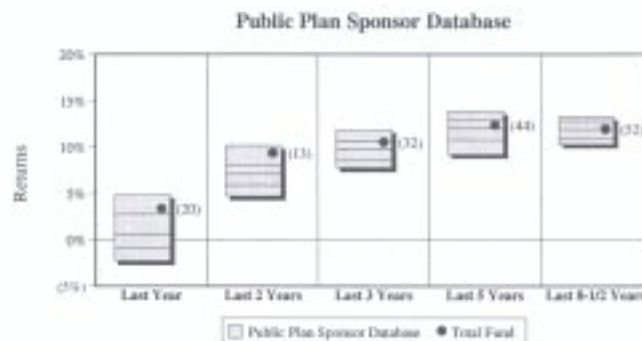
The stock market, as measured by the Russell 3000 Stock Index, registered its first calendar year decline (7.46%) in more than ten years. Stocks, particularly those of growth-oriented companies involved in technology, media or telecommunications (TMT), fell dramatically after an initial strong first quarter. This marked a dramatic reversal of the patterns observed in prior years. So called "old economy" companies, that had in many cases posted negative returns in 1999, actually achieved slightly positive results. International stocks, on balance, mirrored domestic stocks. Developed European markets behaved similarly to the U.S. market while Asian and emerging markets experienced larger declines. Interest rates declined substantially throughout the

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year causing bond market values to increase and produced very attractive total returns for most high quality bond portfolios

For the calendar year, OCERS' total fund had a time-weighted total return of 3.28%. When compared to Callan's Public Fund Database, OCERS ranked in the 20th percentile largely attributable to the System having a more conservative than average asset policy. On an asset allocation adjusted basis, the result ranked in the 10th percentile. The return also exceeded the System's strategic policy benchmark target return of 2.62%. The policy benchmark is 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-\$ Bond Index Hedged (5%). Over longer-term periods, the System's total return now exceeds the policy index. For example, the five-year return of 12.31% was 7 basis points above the policy benchmark's 12.24% annualized return.

The graph below depicts the Total Fund relative to Callan's Total Public Fund Database for cumulative periods ended December 31, 2000.



OCERS' U.S. equity composite declined a modest 2.57% in 2000. This was significantly better than the equity market target return of negative 7.46%. It, however, was below the median equity manager in the Callan Equity database and placed in the 55th percentile. The improvement in domestic equity performance relative to the stock market resulted in the trailing three-year return now exceeding the Russell 3000 Stock Index (11.82% vs. 11.57%). The trailing five-year result continues to lag the market return (16.64% vs. 17.40%). The System's alternative investments program contributed importantly to overall strong Total Fund returns as did the System's disciplined rebalancing program which is designed to maintain actual asset allocation within a narrow range around the strategic targets.

The System's international equity composite registered comparatively weak results in 2000 after posting exceptional results in 1999. In aggregate, the System's international equity investments lost 17.77%. This trailed the MSCI-All Countries ex-U.S. Index return of negative 15.04% and the median manager return of negative 13.26%. Over longer-term periods, the System's international composite also demonstrates significantly better than market index returns and better than median results when compared with peers.

OCERS' domestic bond managers in aggregate have achieved excellent long-term returns. In calendar 2000 results were behind the System's bond market target (10.06% vs. 10.82%). Over the trailing five years, the domestic bond composite's compound annual return of 7.45% was well above the market index return of 6.43% and the median manager's 6.41% result. OCERS' international bond portfolio did well relative to peers in 2000. That component of the portfolio enjoyed a positive return of 5.61% while the median International Non-Dollar bond manager returned a negative 1.27%.

In summary, calendar 2000 was a challenging but, on balance, very positive year for the fund. Importantly, results in all major asset categories were consistent with longer-term expectations. Better than market domestic equity returns combined with a lower than average total equity allocation contributed importantly to the System's very competitive overall return. Similarly, the System's broad diversification including meaningful exposure to alternative investments and real estate helped smooth total fund returns in a very difficult market environment. Finally, the System's adherence to a disciplined rebalancing program designed to ensure that actual asset allocations are close to target enhanced overall results. OCERS' investment program, in our judgement, is well diversified and prudently structured.

Sincerely,



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

INVESTMENT RETURNS

The table below details the annualized rates of return for the different asset categories over various time periods ended December 31, 2000. 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 except for alternative assets and real estate, where some of the fees are deducted at source.

	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>
Domestic Equity	-2.57%	11.82%	16.64%
<i>Russell 3000 Index</i>	-7.46%	11.57%	17.40%
International Equity	-17.77%	12.68%	11.57%
<i>MSCI AC World Ex US Index</i>	-15.04%	8.51%	6.74%
<i>MSCI Eafe Index</i>	-14.17%	9.35%	7.13%
Domestic Fixed	10.06%	6.10%	7.25%
<i>Lehman Bros Universal Index</i>	10.82%	6.01%	6.43%
International Fixed Income	5.61%	5.58%	7.85%
<i>S/B Non-US Hedged Govt. Index</i>	9.64%	7.96%	9.32%
Cash & Equivalents	6.46%	7.38%	6.73%
Real Estate	8.54%	10.48%	10.09%
<i>NCREIF Property Index</i>	12.07%	13.21%	12.76%
Alternative Investments	58.89%	27.69%	26.86%
Total Fund	3.28%	10.45%	12.31%
<i>Composite Policy Benchmark</i>	2.62%	11.02%	12.24%

* 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

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

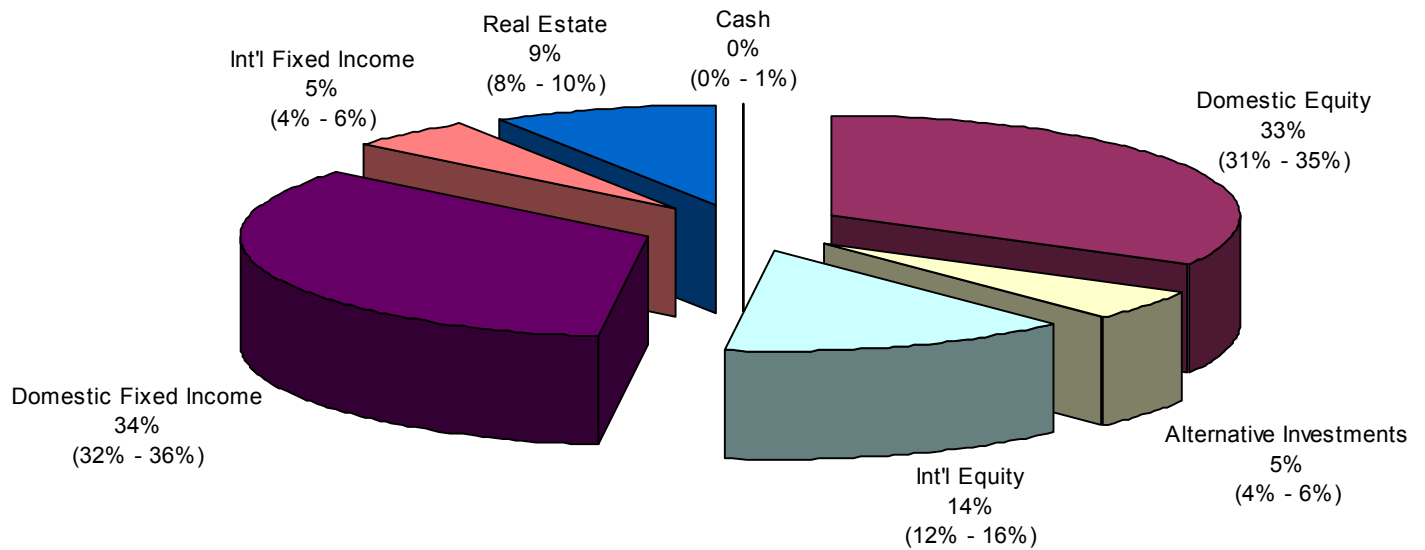
For each major asset class, the System shall diversify assets by employing managers with demonstrated skill in their particular areas of expertise. The System will retain managers who utilize varied investment approaches and allocate assets in a manner that is consistent with the overall strategic plan.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

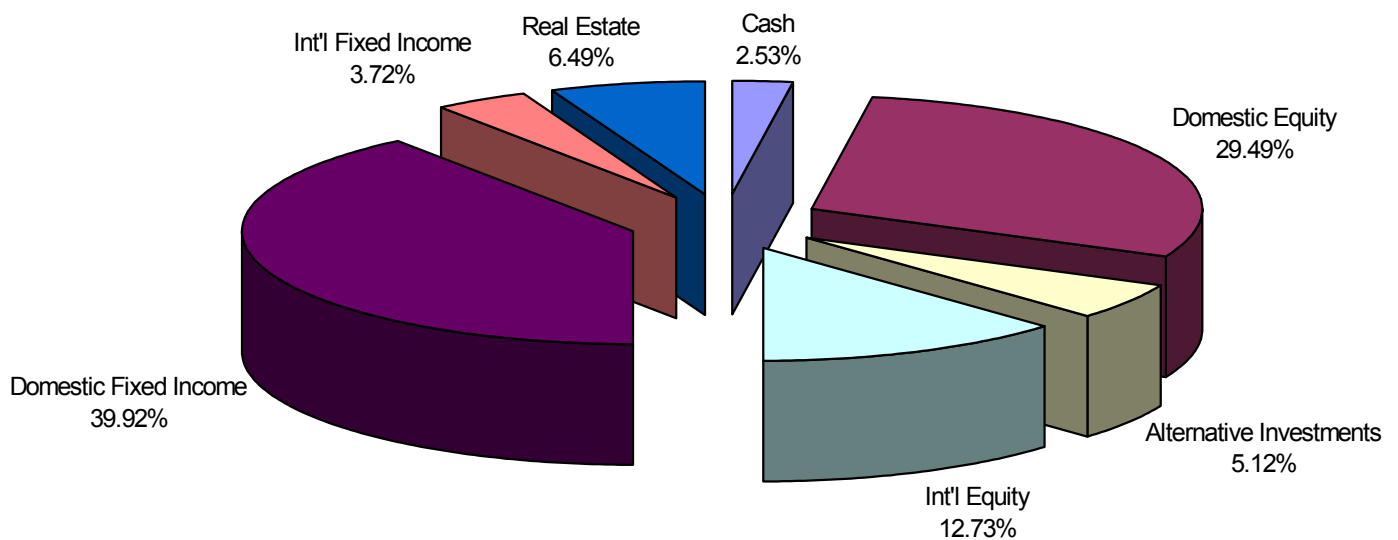
Asset Diversification

December 31, 2000

Policy

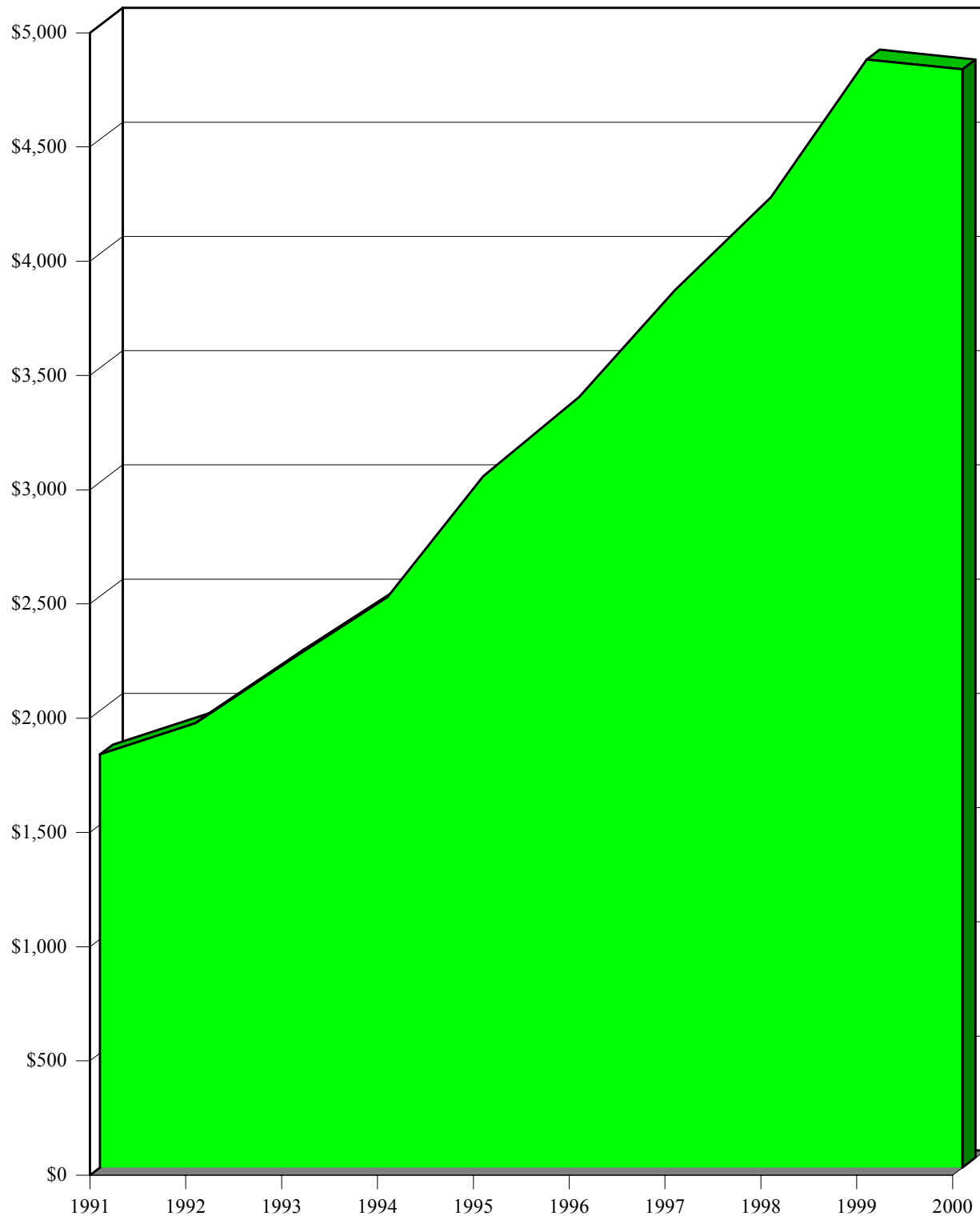


Actual



* Includes cash equivalents held by investment managers.

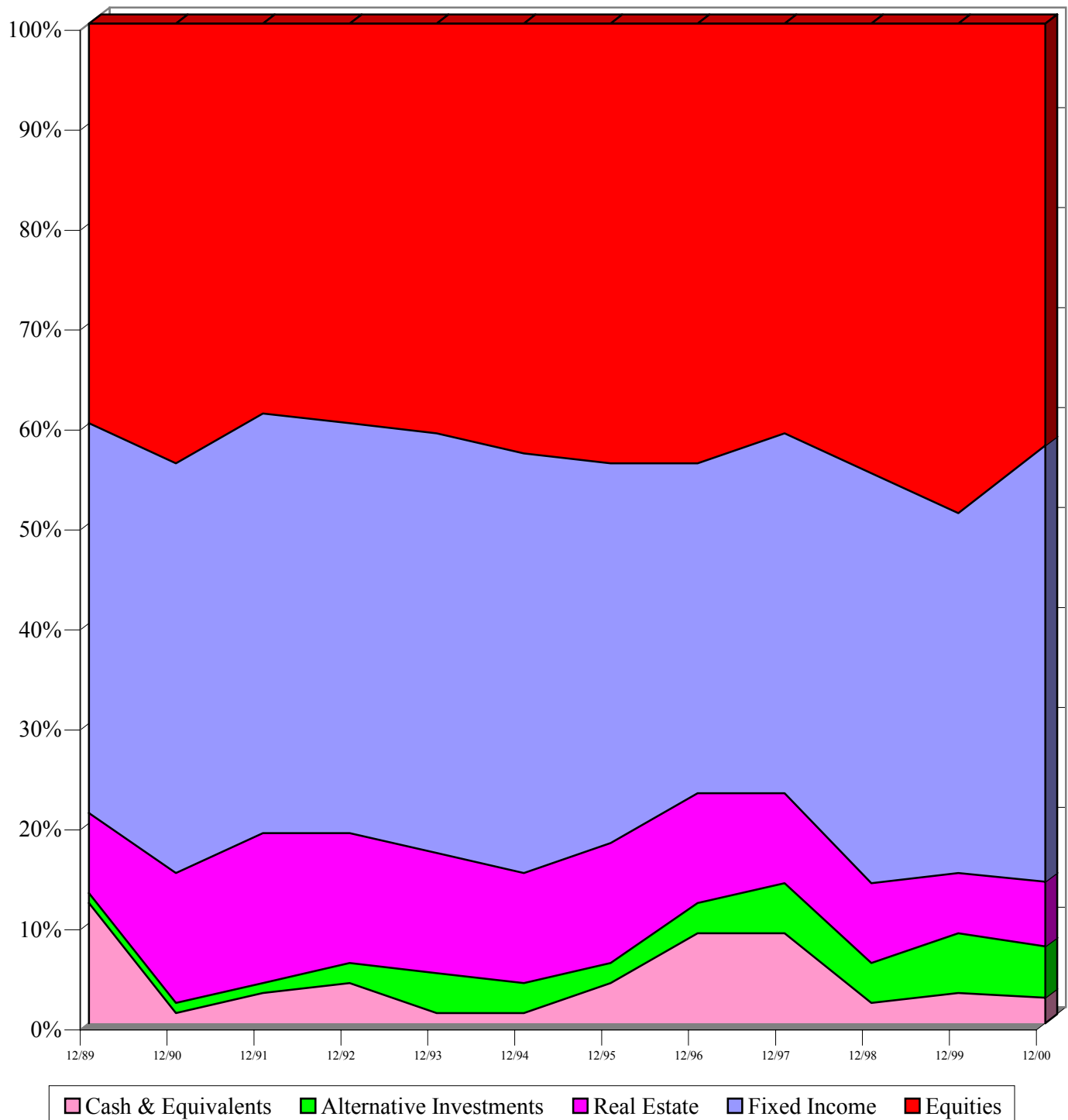
**Orange County Employees Retirement System
Growth of System Net Assets at Fair Value
For Ten Years Ended December 31, 2000
(in Millions of Dollars)**



Orange County Employees Retirement System

Historical Asset Allocation (Actual)

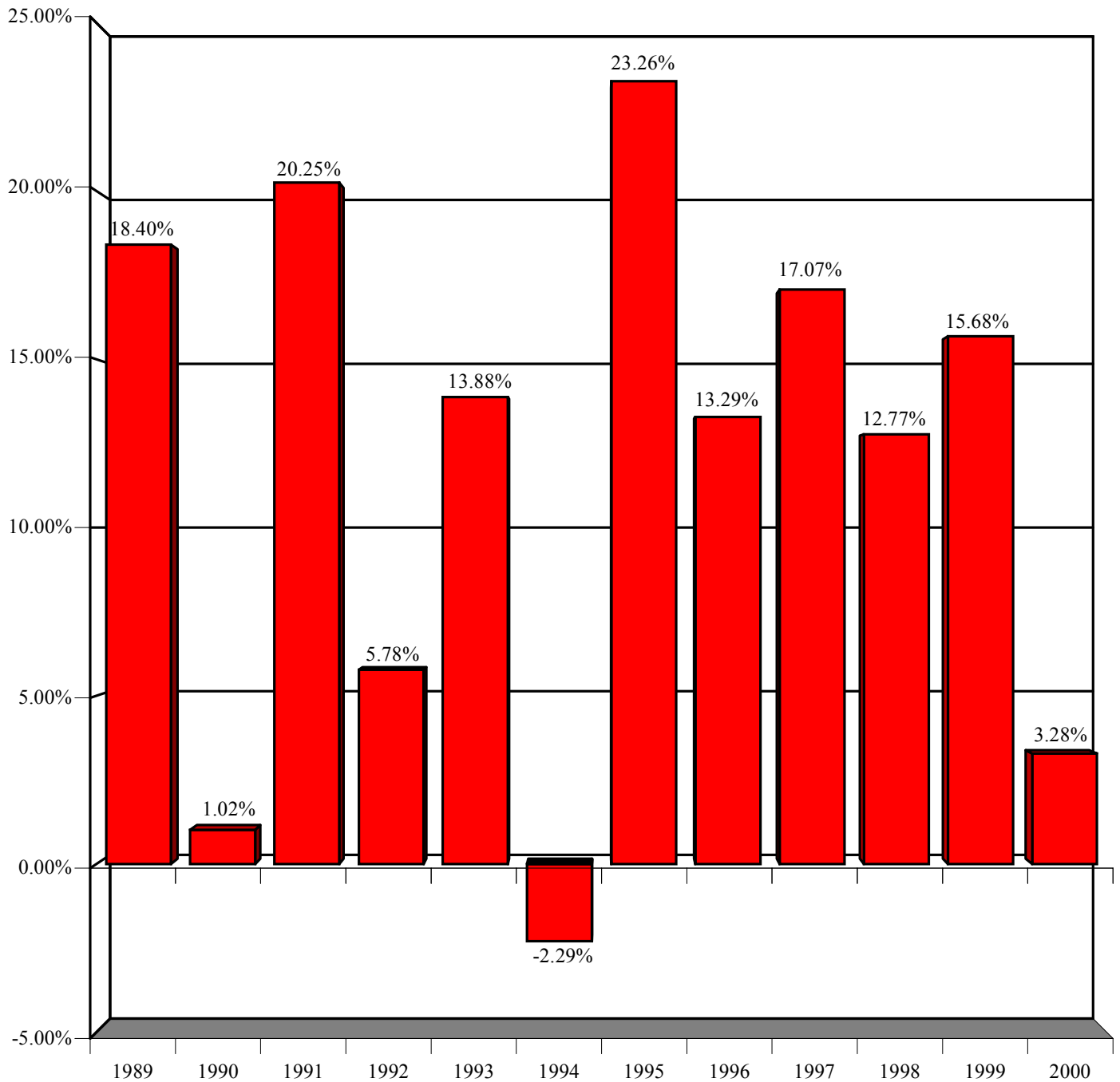
December 1989 - December 2000



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, 2000

Brokerage Firms	Number Of Shares Traded	Total Commission	Commission Per Share
Abel Noser Corporation	1,517,150	44,696	0.0295
ABG Securities AS (Stockholm)	23,800	1,235	0.0519
Abn Amro Securities	1,647,977	49,374	0.0300
Adams Harkness & Hill, Inc.	300	15	0.0500
Argentina International Secutities	396,972	21,398	0.0539
Autranet, Inc.	1,000	50	0.0500
Banc America Security LLC Montgomery Div.	184,280	9,587	0.0520
Bancboston Robertson Stephens	6,600	330	0.0500
Banco Santander De Negocios(GBL)	52,133	2,586	0.0496
Bank Julius Bar Frankfurt	54,374	8,080	0.1486
Bankers Trust Company	8,000	480	0.0600
Barclay's Global Investors, N.A.	2,529,380	15,176	0.0060
Baring Securities (Hong Kong)	39,411	1,189	0.0302
Baum George K. & Company	18,200	910	0.0500
Bear, Stearns Securities Corporation	698,082	40,054	0.0574
Bernstein Sanford C & Co., Inc.	274,400	14,065	0.0513
BHF Securities Corporation	2,900	145	0.0500
BNY ESI &Co. - Alpha Division	888,906	22,749	0.0256
BOE Securities, Inc.	22,600	1,356	0.0600
Bridge Trading	830,043	26,856	0.0324
Broadcort Capital (Thru MI)	4,700	282	0.0600
Brockhouse & Cooper, Inc., Montreal	136,700	4,578	0.0335
Brown Brothers Harriman & Co.	111,100	6,248	0.0562
Buckingham Research Group	46,800	2,709	0.0579
Bunting Warburg, Inc.	26,100	1,070	0.0410
C.L.King & Associates	81,400	2,925	0.0359
Canadian Imperial Bank Of Commerce	76,400	3,055	0.0400
Cantor Fitzgerald & Co., Inc.	500,800	22,759	0.0454
Capital Institutional Services, Inc.	2,717,085	74,853	0.0275
Capital International	9,700	3,414	0.3520
Carnegie Bank	4,530	1,114	0.2460
Cazenove & Co.	447,386	14,950	0.0334
CCF Securities	2,010	1,176	0.5850
Charles Schwab & Co., Inc.	35,700	1,782	0.0499
Charterhouse Tilney Securities Ltd.	651,700	7,207	0.0111
Chevreur De Virieu Nordic, London	271,628	18,710	0.0689
Chevreur Virieu, Paris	81,642	4,281	0.0524
CI Nordic Securities AB	17,300	1,912	0.1105
Cibc World Markets Corporation	169,700	9,031	0.0532

Orange County Employees Retirement System
SCHEDULE OF COMMISSIONS
FOR THE YEAR ENDED DECEMBER 31, 2000

Brokerage Firms	Number Of Shares Traded	Total Commission	Commission Per Share
Citation Group	184,500	11,070	0.0600
CitiBank, N.A.	89,920	4,765	0.0530
County Natwest Securities Ltd.	161,000	483	0.0030
Commerz Secutieis (Japan) Co.	31,400	1,308	0.0417
CommerzBank AG	200,336	5,318	0.0265
CommerzBank Capital Markets Corporation	9,630	2,003	0.2080
Conning & Co.	400	20	0.0500
Correspondent Services, Inc.	67,713	2,742	0.0405
Credit Agricole Indosuez Cheuvreux	217,506	15,764	0.0725
Credit Lyonnais Securities	2,801,859	5,131	0.0018
CS First Boston Corporation	4,508,040	109,542	0.0243
D E Shaw Securities	87,623	1,752	0.0200
Dain Rauchser, Inc.	65,900	3,545	0.0538
Daiwa SB Capital	185,300	2,659	0.0144
Davy (J&E)	93,400	2,245	0.0240
DB Clearing Services	836,045	31,239	0.0374
Den Danske Bank	2,000	498	0.2490
Deutsche Bank Securities, Inc.	3,489,348	158,323	0.0454
Direct Invest Non-Cash	5,211,434	61,590	0.0118
Donaldson, Lufkin & Jenrette Securities	1,922,995	49,585	0.0258
Dresdner Kleinwort Bensons	62,809	2,135	0.0340
Edwards Ag & Sons, Inc.	21,900	1,095	0.0500
Ernst & Co.	3,000	90	0.0300
ESI Securities Company	90,878	4,635	0.0510
Exane S.A.	25,400	4,046	0.1593
Factset Data Systems (Thru Bear Stearns)	179,400	9,179	0.0512
Ferris, Baker Watts, Inc.	13,400	804	0.0600
Fidelity Capital Markets	120,356	6,518	0.0542
First Albany Corporation	11,900	595	0.0500
First Analysis Securities Corporation	5,100	255	0.0500
First Pacific Securities Corporation	129,000	387	0.0030
First Union Capital Markets	53,100	2,942	0.0554
Fleetboston Robertson Stephens, Inc.	27,200	1,475	0.0542
Fleming Martin Securities Ltd.	59,500	1,033	0.0174
Fox Pitt Kelton, Inc.	155,900	8,924	0.0572
Frank Russell	19,500	1,170	0.0600
Friedman Billings & Ramsey	15,500	775	0.0500
Furman, Selz, Magerdietz, & Birney	14,700	882	0.0600
Gerard Klauer Mattison & Company	2,200	110	0.0500

Orange County Employees Retirement System
SCHEDULE OF COMMISSIONS
FOR THE YEAR ENDED DECEMBER 31, 2000

Brokerage Firms	Number Of Shares Traded	Total Commission	Commission Per Share
Glazer C.L. & Company	16,650	833	0.0500
Goldman Sachs & Company	5,397,159	219,728	0.0407
Goodbody Stockbrokers	249,834	4,297	0.0172
Gruntal & Co.	18,700	935	0.0500
Henderson Crosthwait Institutional Broker Ltd.	15,100	287	0.0190
Hoak Securities	13,500	675	0.0500
Hoare Govett Securities	957,425	19,713	0.0206
Howard, Weil, Labouisse, Friedrichs	9,300	558	0.0600
HSBC Investment Bank PLC	5,398,427	107,867	0.0200
Ing Barings Securities	241,295	10,723	0.0444
Instinet	2,970,813	73,825	0.0249
Investec Ernst & Company	20,900	1,045	0.0500
Investment Technology Group, Inc.	1,406,530	29,120	0.0207
ISI Group, Inc.	28,100	1,511	0.0538
J B Were and Son	327,600	4,854	0.0148
James Capel Pacific Ltd., Tokyo	126,700	3,737	0.0295
Janney Montgomery, Scott	200,300	10,087	0.0504
Jardine Fleming Securities Ltd.	1,487,250	22,847	0.0154
Jefferies & Co.	1,377,773	47,331	0.0344
Johnson Rice & Co.	19,500	1,128	0.0578
Jones & Associates	37,100	1,798	0.0485
JP Morgan Securities Limited	799,896	14,648	0.0183
Julius Baer Securities	5,600	405	0.0723
Keefe Bruyette & Woods, Inc.	5,800	290	0.0500
Kleinwort Benson Securities Limited	2,954,355	80,867	0.0274
Knight Securities L.P.	87,000	5,197	0.0597
Lazard Freres & Co.	159,800	7,990	0.0500
Leerink Swann & Co.	6,800	340	0.0500
Legg Mason Wood Walker, Inc.	921,705	47,575	0.0516
Lehman Brothers, Inc.	3,244,536	93,533	0.0288
Levesque Beaubien Geoffrion	12,300	504	0.0410
Lewco Securities Agent/Chase H&Q	101,275	5,064	0.0500
Lombard, Odier and Cie	2,300	3,064	1.3320
Lynch Jones and Ryan, Inc.	1,666,500	37,649	0.0226
Macquarie Investment	542,131	5,250	0.0097
Mcdonald & Co.	88,500	4,646	0.0525
Merrill Lynch Pierce Fenner & Smith	7,761,291	231,265	0.0298
Metzler Nederland B V	24,900	2,010	0.0807
Midas Securities	3,553	139	0.0390

Orange County Employees Retirement System
SCHEDULE OF COMMISSIONS
FOR THE YEAR ENDED DECEMBER 31, 2000

Brokerage Firms	Number Of Shares Traded	Total Commission	Commission Per Share
Midwest Research Maxxus Group	7,600	380	0.0500
Miller Tabak Hirsch	203,940	10,197	0.0500
Moors & Cabot, Inc.	8,600	430	0.0500
Morgan Grenfell and Co. Limited	807,968	32,038	0.0397
Morgan Keegan & Co., Inc.	11,400	596	0.0523
Morgan Stanley & Co., Inc.	8,649,505	243,690	0.0282
Morgan, J.P. Securities, Inc.	437,733	16,081	0.0367
National Financial Services Corporation	37,200	1,880	0.0505
Nesbitt Burns Securities, Inc.	128,400	5,320	0.0414
Neuberger & Berman	5,100	187	0.0367
Nibstrating Financial Markets	23,064	3,292	0.1427
Nikko Securities Co., Ltd.	69,300	574	0.0083
Nomura Securities Co., Ltd.	17,646,979	13,551	0.0008
Nutmeg Securities	75,400	2,262	0.0300
Ord Minnett Ltd.	499,100	8,521	0.0171
Paine Webber, Inc.	177,705	7,271	0.0409
Panmure Gordon & Co. Ltd.	21,800	2,022	0.0927
Paribas Corporation	5,500	682	0.1240
Paulsen, Dowling Securities, Inc.	7,500	375	0.0500
PCS Securities, Inc.	69,600	3,480	0.0500
Piper Jaffray, Inc.	37,323	1,866	0.0500
Prudential Securities, Inc.	337,400	19,200	0.0569
Putnum Lovell Securities, Inc.	4,200	210	0.0500
Quaker Securities, Inc.	67,097	3,337	0.0497
Raymond James and Associates, Inc.	35,200	1,887	0.0536
RBC Dominion Securities, Inc.	256,900	11,092	0.0432
Reynders, Gray & Company, Inc.	9,100	546	0.0600
Robert Fleming & Co. Ltd.	378,300	11,829	0.0313
Robert W Baird & Co., Inc.	146,600	8,088	0.0552
Roberson Stephens & Co. L.P.	58,700	2,935	0.0500
Robinson Humphrey	53,000	2,997	0.0565
Robotti & Company	78,600	4,716	0.0600
Rochdale Security Corporation (Cls Thru 443)	3,477,200	55,914	0.0161
Russell Frank Securities, Inc.	90,253	4,513	0.0500
Salomon Smith Barney, Inc.	5,107,302	160,354	0.0314
Samsung Securities Co. Ltd.	13,050	587	0.0450
Sanders Morris Mundy	43,800	1,376	0.0314
SBC Warburg	606,815	30,377	0.0501
Schroder Securities Ltd. (SSL)	94,500	3,741	0.0396

Orange County Employees Retirement System
SCHEDULE OF COMMISSIONS
FOR THE YEAR ENDED DECEMBER 31, 2000

Brokerage Firms	Number Of Shares Traded	Total Commission	Commission Per Share
Scotia Capital Markets, Inc.	142,800	6,029	0.0422
Scott & Stringfellow	76,200	2,550	0.0335
SG Cowen Securities Corporation	202,900	15,030	0.0741
Simmons & Company International	26,000	1,300	0.0500
Skandinaviska Enskilda Banken London	79,800	6,446	0.0808
Societe Generale Securities Corporation	201,553	6,792	0.0337
Soundview Technology Group, Inc.	40,787	2,039	0.0500
Southcoast Capital L.L.C.	36,900	1,845	0.0500
Spear, Leeds & Kellogg	130,560	6,471	0.0496
Standard & Poors Securities, Inc.	168,200	10,092	0.0600
State Street Brokerage Services	20,600	1,030	0.0500
Suntrust Equitable Securities Corporation	8,400	420	0.0500
Svenska Handelsbanken	14,700	2,588	0.1760
Thomas Weisel Partners	79,200	3,960	0.0500
Thomson Institutional Service	5,800	348	0.0600
TIR Securities, Inc.	7,100	741	0.1044
Tokyo - Mitsubishi	129,000	1,315	0.0102
Tucker, Anthony Cleary Gull	655,500	21,235	0.0324
U S Clearing Institutional Trading	64,260	3,375	0.0525
UBS Warburg LLC	1,698,405	93,216	0.0549
W I Carr (Far East) Limited	8,730	458	0.0525
Wachovia Securities Ins	25,200	1,260	0.0500
Wagner Stott & Co.	29,700	1,277	0.0430
Warburg Dillon Reed LLC	752,652	22,853	0.0304
Weeden & Co.	101,100	5,055	0.0500
Weiss Peck and Greer	119,000	5,646	0.0474
Westminster Research Associates	163,990	9,839	0.0600
Williams Capital Group (The)	8,870	444	0.0500
Wilshire Associates	10,400	611	0.0588
	<u>119,271,220</u>	<u>2,975,013</u>	

Orange County Employees Retirement System

INVESTMENT SUMMARY

DECEMBER 31, 2000

(in thousands)

Investment	Fair Value	Percentage
Domestic Equity	\$ 1,542,377	29.49%
Domestic Fixed Income	2,087,889	39.92%
International Equity	665,920	12.73%
International Fixed Income	194,616	3.72%
Alternative Investments	267,858	5.12%
Real Estate	339,568	6.49%
Cash and Cash Equivalents	132,567	2.53%
Total	\$ 5,230,795	100.00%

SCHEDULE OF LARGEST STOCK HOLDINGS (By Fair Value)*

DECEMBER 31, 2000

Stock	Security Description	Fair Value
Best Foods	Common Stock	\$ 11,379,525
MERCK & Company, Inc.	Common Stock	11,342,750
Microsoft Corporation	Common Stock	11,219,819
American Home Products Company	Common Stock	11,043,863
Kimberly Clarke Corporation	Common Stock	10,785,550
XEROX Corporation	Common Stock	10,738,000
Home Depot, Inc.	Common Stock	9,991,919
McGraw Hill Company, Inc.	Common Stock	9,504,938
CISCO Systems, Inc.	Common Stock	9,448,313
American Express Company	Common Stock	9,245,500

SCHEDULE OF LARGEST BOND HOLDINGS (By Fair Value)*

DECEMBER 31, 2000

Bonds	Moody's Quality Rating	Fair Value
FHLMC TBA Jan 30 Gold Single 6.000% due 12/01/2099	Rating AAA	\$ 67,566,204
FHLMC TBA Jan 30 Gold Single 6.500% due 12/01/2099	Rating AAA	45,239,639
United States Treasurer Bonds 8.125% due 08/15/2021	Rating AAA	39,186,250
United States Treasurer Bonds 7.125% due 02/15/2023	Rating AAA	36,892,563
United States Treasurer Bonds 3.625% due 07/15/2002	Rating AAA	25,406,263
Telecommunications, Inc., 8.250% due 01/15/2003	Rating BA1	21,948,000
Ford Motor Credit 1.000% due 02/13/2003	Rating A1	21,473,986
First Bank Sys., Inc. Medium T 5.667% due 11/17/99	Rating A1	20,031,600
United States Treasurer Notes 5.375% due 07/31/2000	Rating AAA	19,207,860
GNMA I TBA Jan 30 Single Family 6.00% due 12/15/2099	Rating AAA	18,833,750

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

IV. ACTUARIAL SECTION

Timothy J. Marnell, ASA
Principal

200 West Madison Street, Suite 3100
Chicago, IL 60606-3414
312 606-9481
Fax: 312 609-9838

Towers Perrin

May 25, 2001

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, 2000 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, 2000 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, 2000 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
12/31/91	\$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%
12/31/00	4,335,025	4,497,362*	(162,337)	103.74%	994,669	(16.32%)

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, 12/31/99 and 12/31/00 assets exclude \$311,022,000, \$329,064,000, \$313,250,000, \$322,333,000, \$302,909,000, \$286,139,000 and \$272,789,000, respectively, of the County's unamortized 1994 funding of its portion of the Unfunded Actuarial Accrued Liability, which funding for 1995 is being amortized over a fourteen year period beginning July 1, 1994 and for 1996 and later is being amortized over a 28-year period beginning July 1, 1996.

Orange County Employees Retirement System
HISTORY OF EMPLOYER CONTRIBUTION RATES

Employer Contribution Rate (% of pay)

Valuation Date		Valuation Date		Valuation Date	
12/31/91		12/31/94		12/31/97	
General		General		General	
Normal	2.40	Normal	3.68	Normal	3.77
UAAL	0.15	UAAL	1.71	UAAL	(1.91)
Total	2.55	Total	5.39	Total	1.86
Safety		Safety		Safety	
Normal	4.15	Normal	6.58	Normal	6.79
UAAL	13.78	UAAL	21.85	UAAL	19.65
Total	17.93	Total	28.43	Total	26.44
12/31/92		12/31/95		12/31/98	
General		General		General	
Normal	3.56	Normal	3.33	Normal	4.35
UAAL	1.30	UAAL	(0.47)	UAAL	(2.35)
Total	4.86	Total	2.86	Total	2.00
Safety		Safety		Safety	
Normal	6.42	Normal	5.59	Normal	8.00
UAAL	17.92	UAAL	18.84	UAAL	16.41
Total	24.34	Total	24.43	Total	24.41
12/31/93		12/31/96		12/31/99	
General		General		General	
Normal	3.38	Normal	3.38	Normal	4.56
UAAL	0.53	UAAL	(1.06)	UAAL	(3.60)
Total	3.91	Total	2.32	Total	0.96
Safety		Safety		Safety	
Normal	6.20	Normal	5.77	Normal	8.27
UAAL	18.56	UAAL	17.77	UAAL	13.95
Total	24.76	Total	23.54	Total	22.22
				12/31/00	
				General	
				Normal	4.94
				UAAL	(3.98)
				Total	0.96
				Safety	
				Normal	8.57
				UAAL	0.16
				Total	8.73

Orange County Employees Retirement System
SUMMARY OF ACTIVE MEMBERSHIP

Valuation Date	Number	Annual Salary	Annual Average Salary	% Increase in Average Salary
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
12/31/00				
General	18,382	\$809,054,612	\$44,016	6.04%
Safety	2,605	185,614,420	71,256	4.95
Total	20,987	\$994,669,032	\$47,400	5.76

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			
1/91 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
1/00 to 12/00	7,537	618	(240)	7,915	149,002,518	8.33	1,569

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
2000	\$4,015,261,166	\$3,826,675,630	1.049282
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

(1) Average ratio in five years preceding December 31, 2000	1.175266
(2) Book value on December 31, 2000	\$3,826,675,630
(3) Actuarial value of assets: (1) x (2)	\$4,497,361,761

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)
12/31/91	\$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
12/31/00	671,152	1,911,328	1,752,545	4,497,362	100	100	100

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: 5.5% per annum; the aggregate salary increase assumed for the entire system is 4.5% 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.

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. All amortization periods are considered closed (i.e., level dollar amortization with a fixed end date).

Certain of the rates of termination of employment were changed effective December 31, 1998. The interest rate has been used since December 31, 1990. The salary increase assumption was last changed December 31, 1995.

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

Age Nearest	Ordinary Withdrawal	Vested Withdrawal	Pre-retirement Death	Ordinary Disability	Service Retirement	Service Disability
General Members X 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 X 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, 2000 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

Compensation earnable 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)

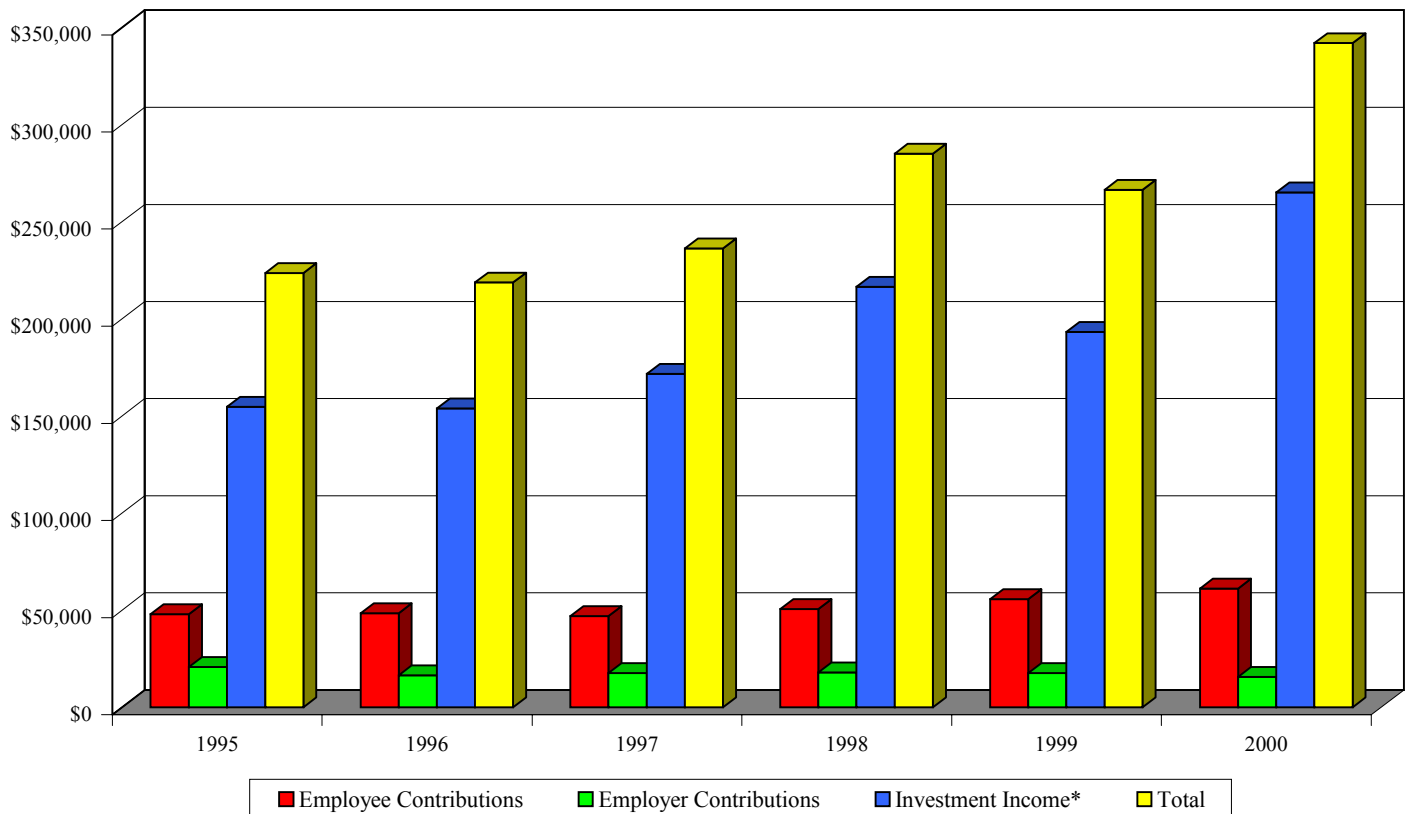
Gains & Losses in Accrued Liabilities During Years Ended December 31, Resulting from Differences Between Assumed Experience & Actual Experience					
Type of Activity	Gains (or Losses) Per Year				
	1996	1997	1998	1999	2000
Retirements	\$(64,134)	\$(31,804)	\$(34,552)	\$(60,138)	\$(29,367)
Disabilities	15,718	13,706	18,431	13,197	16,780
Withdrawal From Employment	(19,198)	(25,076)	(7,697)	(23,003)	(4,633)
Pay Increases	31,163	41,129	(21,705)	(1,890)	(24,585)
Investment Income	36,047	204,470	141,642	163,736	286,267
Mortality	(13,805)	(12,124)	23,996	24,804	28,836
Other	<u>19,406</u>	<u>(10,742)</u>	<u>(15,635)</u>	<u>(17,803)</u>	<u>(20,775)</u>
Gain (or Loss) During Year From Experience	\$5,197	\$179,559	\$104,480	\$98,903	\$252,523
Non Recurring Items. Adjustment for Plan Amendments, Assumption Changes, etc.	<u>0</u>	<u>(208,767)</u>	<u>(71,574)</u>	<u>0</u>	<u>0</u>
Composite Gain (or Loss) During Year	\$5,197	\$(29,208)	\$32,906	\$98,903	\$252,523

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V. STATISTICAL SECTION

Schedule and Graph of Revenues by Source (in thousands) 1995 - 2000

	1995	1996	1997	1998	1999	2000
Employee Contributions	\$47,953	\$48,461	\$47,011	\$50,557	\$55,693	\$61,179
Employer Contributions	\$20,814	\$16,463	\$17,570	\$17,977	\$17,591	\$15,561
Investment Income*	\$154,753	\$153,822	\$171,623	\$216,526	\$193,186	\$265,163
Total	\$223,520	\$218,746	\$236,204	\$285,060	\$266,470	\$341,903

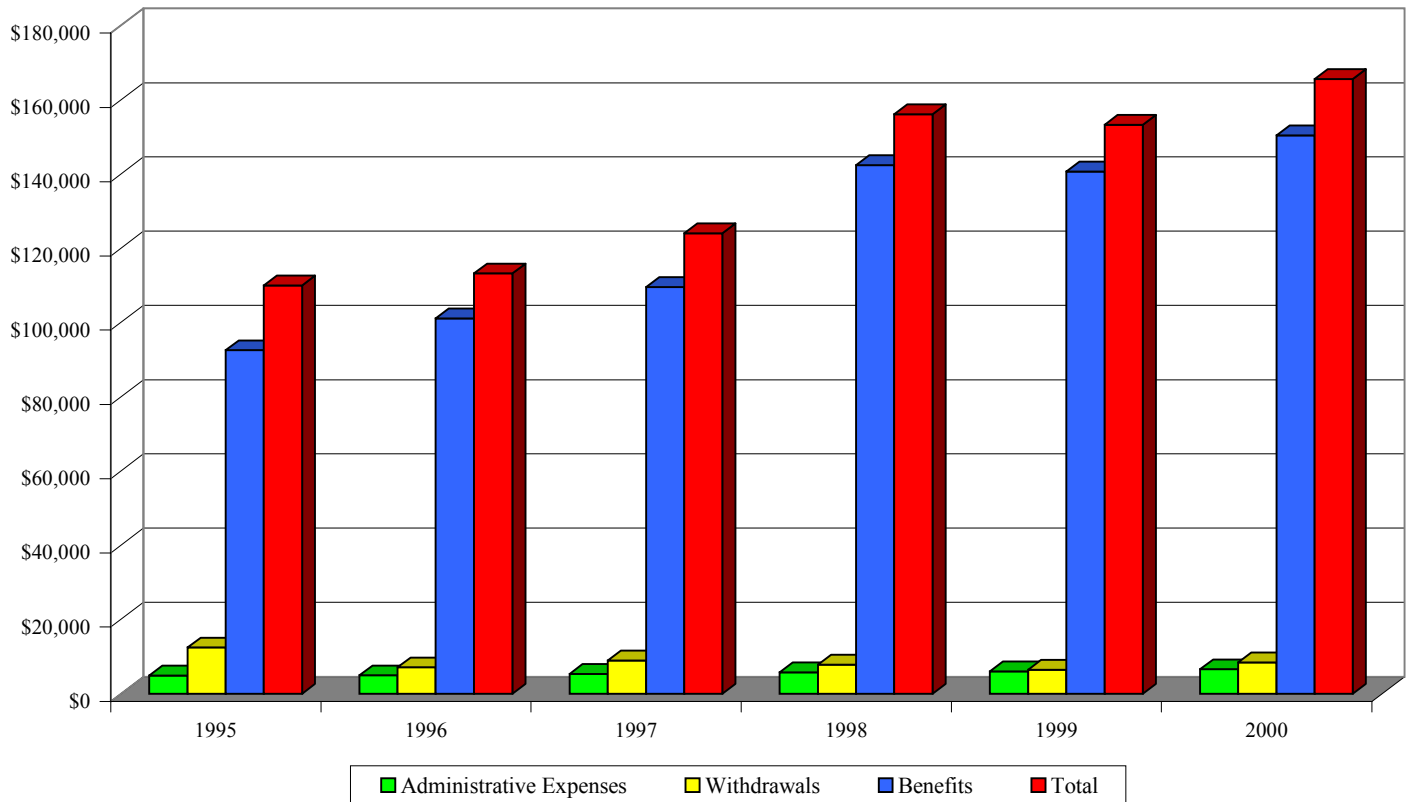


* Net of investment manager fees. Does not include net appreciation in fair market value.

† 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.

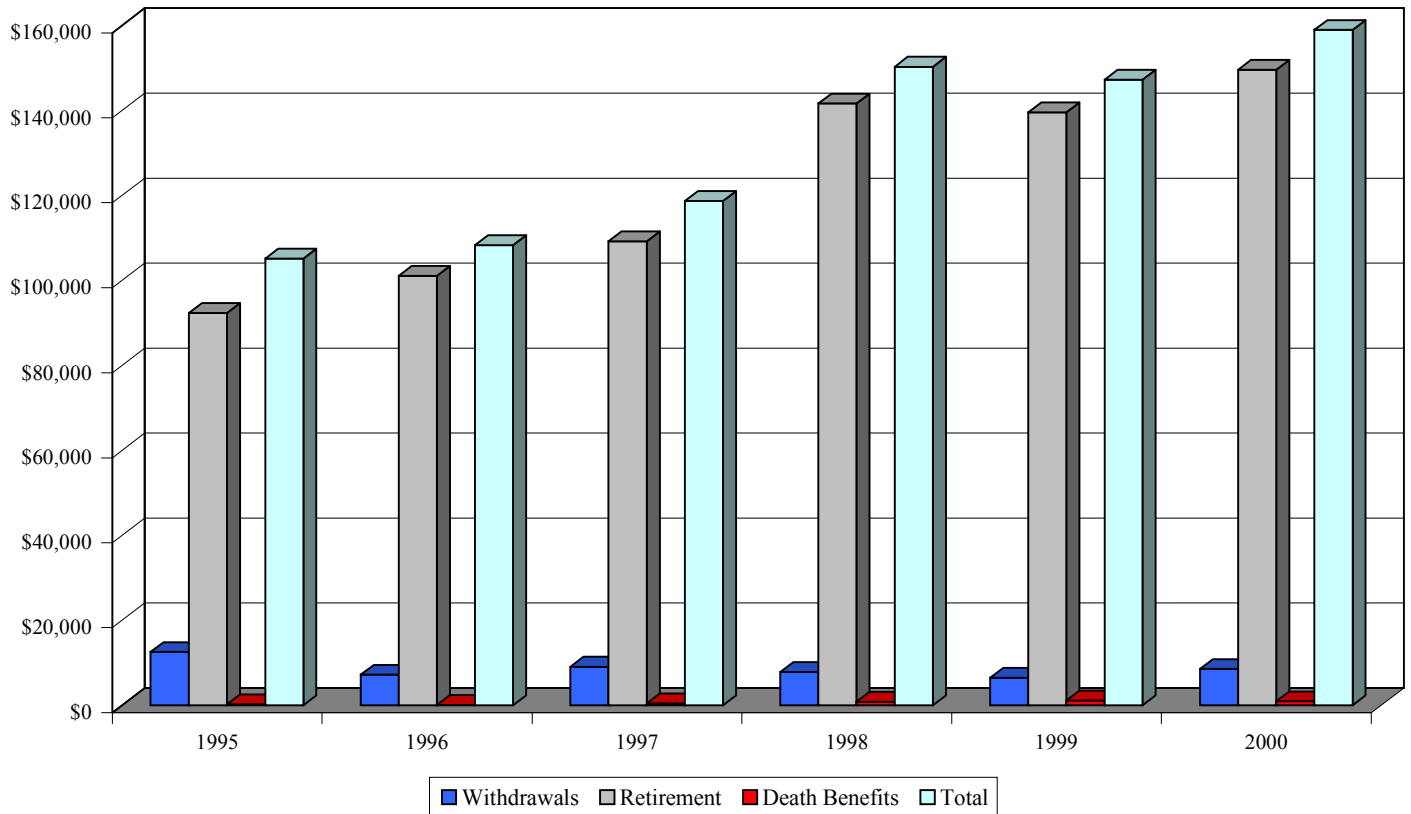
Schedule and Graph of Expenses by Type (in thousands) 1995 - 2000

	1995	1996	1997	1998	1999	2000
Administrative Expenses	\$4,971	\$4,987	\$5,392	\$5,850	\$6,094	\$6,631
Withdrawals	\$12,523	\$7,166	\$9,048	\$7,848	\$6,513	\$8,515
Benefits	\$92,582	\$101,125	\$109,660	\$142,457	\$140,736	\$150,466
Total	\$110,076	\$113,278	\$124,100	\$156,155	\$153,343	\$165,612



Schedule and Graph of Benefit Expenses by Type (in thousands) 1995 - 2000

	1995	1996	1997	1998	1999	2000
Withdrawals	\$12,523	\$7,166	\$9,048	\$7,848	\$6,513	\$8,515
Retirement	\$92,335	\$101,074	\$109,206	\$141,629	\$139,611	\$149,555
Death Benefits	\$247	\$51	\$454	\$828	\$1,125	\$911
Total	\$105,105	\$108,291	\$118,708	\$150,305	\$147,249	\$158,981



Orange County Employees Retirement System
SCHEDULE OF PARTICIPATING EMPLOYERS

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, 2000

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	993	666	206	-	5	30	46	40	967	7	12	2	5	993
\$251-500	1,305	897	219	2	29	57	39	62	1,272	6	25	2	-	1,305
\$501-750	1,196	907	111	1	58	56	19	44	1,178	3	14	1	-	1,196
\$751-990	890	660	56	2	87	48	16	21	870	4	11	5	-	890
\$991-1,250	747	549	29	-	118	29	9	13	733	3	10	1	-	747
1,500	574	393	26	-	126	14	10	5	560	5	9	-	-	574
1,750	468	320	18	2	102	13	4	9	456	1	9	2	-	468
2,000	297	233	8	1	49	2	-	4	288	1	4	3	1	297
Over \$2,000	1,445	1,205	32	2	184	9	7	6	1,404	4	27	7	3	1,445
Total	7,915	5,830	705	10	758	258	150	204	7,728	34	121	23	9	7,915

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:

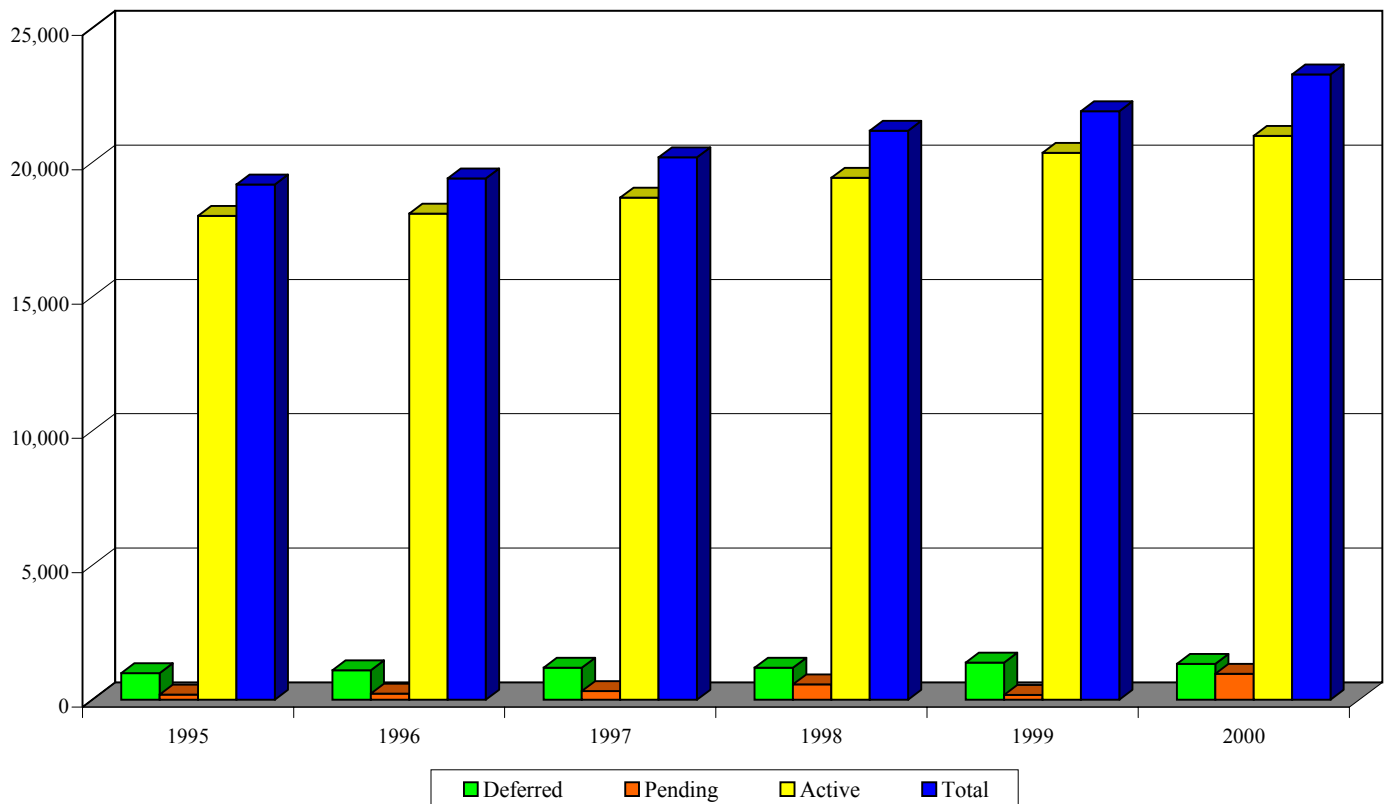
This option provides the member with a reduced monthly allowance for the member's lifetime. At the member's death, the member's designated beneficiary will receive half of the member's monthly allowance for the rest of his or her lifetime.

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.

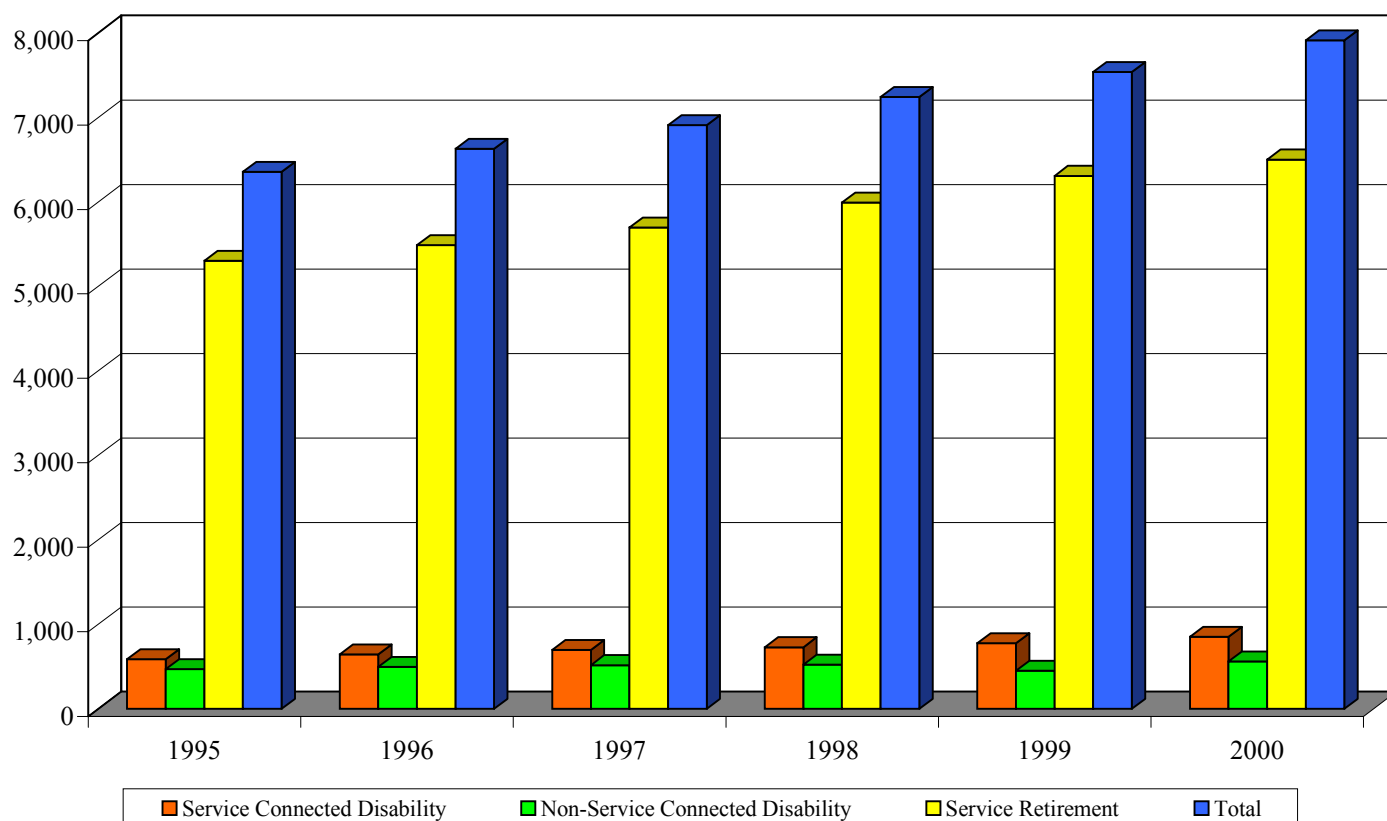
Schedule and Graph of Active, Pending, and Deferred Members 1995 - 2000

	1995	1996	1997	1998	1999	2000
Deferred	979	1,087	1,184	1,179	1,376	1,325
Pending	191	225	312	571	177	960
Active	18,009	18,090	18,693	19,432	20,357	20,987
Total	19,179	19,402	20,189	21,182	21,910	23,272



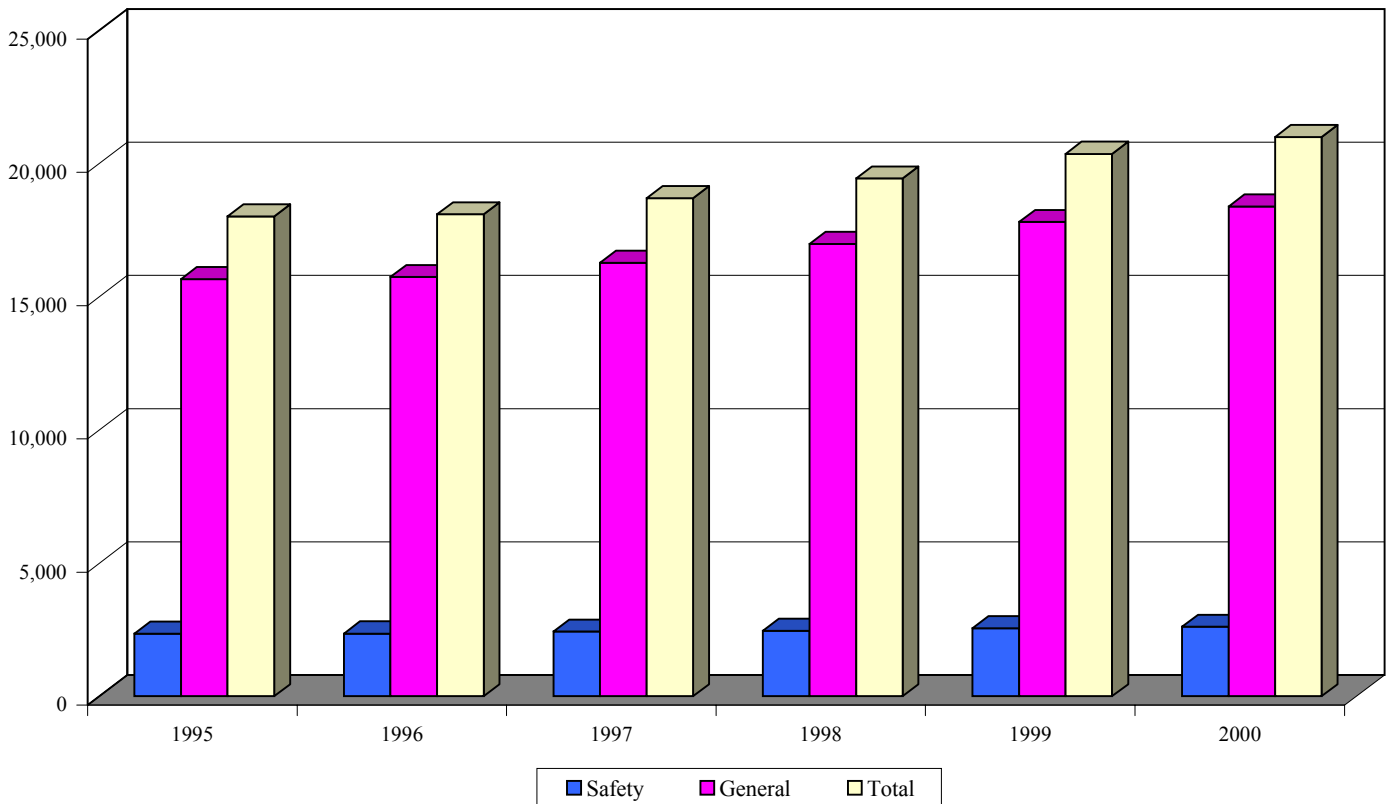
Schedule and Graph of Retired Members 1995 - 2000

	1995	1996	1997	1998	1999	2000
Service Connected Disability	588	644	696	729	775	853
Non-Service Connected Disability	468	497	518	524	453	561
Service Retirement	5,303	5,490	5,698	5,991	6,309	6,501
Total	6,359	6,631	6,912	7,244	7,537	7,915



Schedule and Graph of Active Members by Membership Classification* 1995 - 2000

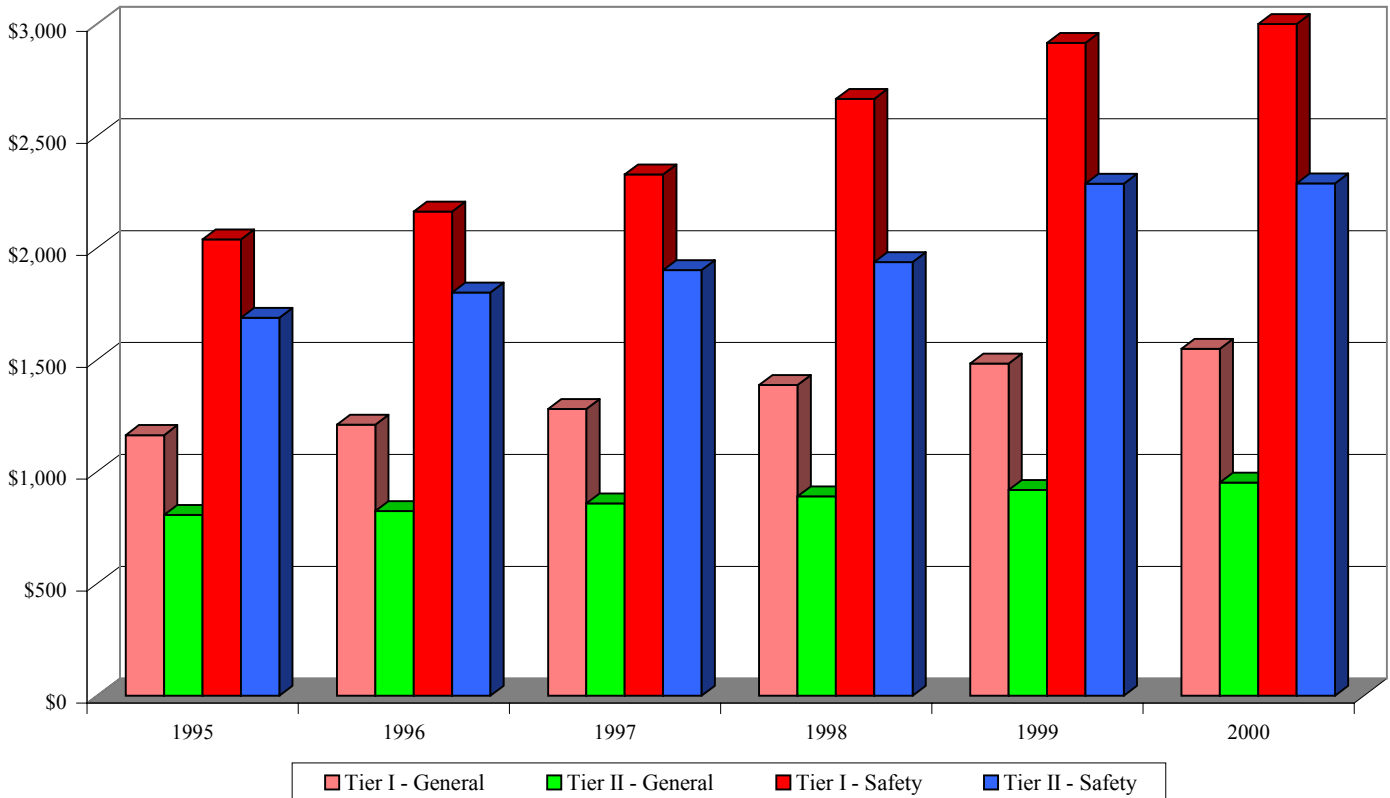
	1995	1996	1997	1998	1999	2000
Safety	2,351	2,354	2,427	2,456	2,556	2,605
General	15,658	15,736	16,266	16,976	17,801	18,382
Total	18,009	18,090	18,693	19,432	20,357	20,987



* Excludes members with Pending Status.

Schedule and Graph of Average Monthly Retirement Benefits (by Tier and Membership Classification) 1995 - 2000

	1995	1996	1997	1998	1999	2000
Tier I - General	\$1,164	\$1,210	\$1,281	\$1,388	\$1,484	\$1,549
Tier II - General	\$807	\$824	\$859	\$891	\$919	\$951
Tier I - Safety	\$2,039	\$2,163	\$2,328	\$2,666	\$2,917	\$3,000
Tier II - Safety	\$1,688	\$1,801	\$1,901	\$1,937	\$2,287	\$2,289



Orange County Employees Retirement System
HISTORY OF ACTUARIAL ASSUMPTION RATES
FOR THE PERIOD JANUARY, 1945 - DECEMBER, 2000

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

EFFECTIVE DATE	INTEREST RATE	SALARY ASSUMPTION RATE
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%