

**Orange County Employees  
Retirement System  
Orange County, California**

**COMPREHENSIVE  
ANNUAL FINANCIAL  
REPORT**

**For the Year Ended December 31, 2005**



Orange County Employees Retirement System  
Orange County, California

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 2005

The Orange County Employees Retirement System (OCERS) pledges to provide secure retirement and disability benefits, quality information concerning those benefits, and prompt, professional and courteous service that meets the highest standards of excellence. In carrying out that role, the Board of Retirement and staff are committed to act for the exclusive benefit of the plan and its participants, manage assets of the plan prudently, and administer benefits with impartiality.

**ISSUED BY:**

Keith Bozarth  
*Chief Executive Officer*

**PREPARED BY:**

Stephen Cadena  
*Assistant Chief Executive Officer*

Walter Lauzon  
*Finance Director*

Robert Kinsler  
*Public Relations Analyst*

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*Photography courtesy of Peggy Delaney (Fire Authority), and OCERS' various Plan Sponsors*

*Cover photo: Robert Kinsler (OCERS)*



# > CONTENTS

## SECTION 1 | INTRODUCTION

Letter of Transmittal .....	2
Certificate of Achievement .....	5
Members of the Board of Retirement .....	6
Organization of OCERS .....	7
Administrative Organization Chart .....	8
Professional Services and Investment Managers .....	9

## SECTION 2 | FINANCIAL

Independent Auditor's Report .....	14
Management's Discussion and Analysis .....	16

### BASIC FINANCIAL STATEMENTS

Statement of Plan Net Assets .....	21
Statement of Changes in Plan Net Assets .....	22
Notes to the Basic Financial Statements .....	23

### Required Supplementary Information

Schedule of Funding Progress .....	39
Schedule of Employer Contributions .....	39
Latest Actuarial Valuations Methods and Assumptions .....	40

### Other Supplementary Information

Schedule of Administrative Expenses .....	43
Schedule of Investment Expenses .....	44
Schedule of Payments for Professional Services .....	45

## SECTION 3 | INVESTMENT

Investment Consultant's Statement .....	48
Investment Returns .....	51
Statement of Investment Objectives and Policies .....	52
Asset Diversification .....	53
Growth of System Net Assets at Fair Value .....	54
Historical Asset Allocation - Actual .....	54
History of Performance - Based on Fair Value .....	55

Schedule of Commissions .....	56
Investment Summary .....	61
Schedule of Largest Equity Holdings .....	61
Schedule of Largest Fixed Income Holdings .....	61

## SECTION 4 | ACTUARIAL

Actuary's Certification Letter .....	64
History of Unfunded Actuarial Accrued Liability .....	66
History of Employer Contribution Rates .....	69
Summary of Active Membership .....	71
Summary of Retired Membership .....	72
Development of Actuarial and Valuation Value of Assets .....	73
Short-term Solvency Test .....	74
Actuarial Methods and Assumptions .....	75
Summary of Major Plan Provisions .....	81
Experience Analysis .....	88
Schedule of Funding Progress .....	89

## SECTION 5 | STATISTICAL

Schedule and Graph of Revenues by Source .....	92
Schedule and Graph of Expenses by Type .....	93
Schedule and Graphs of Benefit Expenses by Type .....	94
Schedule and Graph of Average Monthly Pension Check .....	95
Schedule of Benefit Recipients by Type of Benefit .....	96
Schedule of Benefit Recipients by Option Selected .....	97
Schedule and Graph of Active and Deferred Members .....	98
Schedule and Graphs of Benefit Recipients .....	99
Schedule and Graph of Active Members by Membership Classification .....	100
History of Actuarial Assumption Rates .....	101



SECTION

1



# > INTRODUCTION

# LETTER OF TRANSMITTAL



April 28, 2006

*Serving the Active and Retired Members of:*

CITY OF RANCHO SANTA MARGARITA

CITY OF SAN JUAN CAPISTRANO

COUNTY OF ORANGE

ORANGE COUNTY CEMETERY DISTRICT

ORANGE COUNTY CHILDREN & FAMILIES COMMISSION

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

ORANGE COUNTY FIRE AUTHORITY

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

ORANGE COUNTY PUBLIC LAW LIBRARY

ORANGE COUNTY SANITATION DISTRICT

ORANGE COUNTY TRANSPORTATION AUTHORITY

ORANGE COUNTY VECTOR CONTROL DISTRICT

SUPERIOR COURT OF CALIFORNIA, COUNTY OF ORANGE

TRANSPORTATION CORRIDOR AGENCIES

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, 2005, the System's 61<sup>st</sup> 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. Please review the basic financial statements in conjunction with the Management's Discussion and Analysis pages 16-20.

### Formal Transmittal:

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 Independent Auditor's Report, Management's Discussion and Analysis, Statement of Plan Net Assets and the Statement of Changes in Plan Net assets, and the Notes to the Basic Financial Statements.
- The Investment Section contains the Investment Consultant's statement produced by Callan Associates, OCERS' investment consulting firm, along with graphs and schedules regarding asset allocation, asset diversification, and history of performance.
- The Actuarial Section includes the certification letter produced by the independent actuary, The Segal Company, 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.

The CAFR was prepared in conformity with accounting principles generally accepted in the United States of America and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB) and the County Employees Retirement Law of 1937.

Brown Armstrong Accountancy Corp., independent auditors, has audited the basic financial statements. Management believes that internal control is adequate and that the accompanying statements, schedules and tables are fairly presented.

Board of Retirement  
April 28, 2006

**Profile of OCERS:**

The Orange County Employees Retirement System (OCERS) provides retirement benefits for employees of the County and certain districts. The role of the Orange County Employees Retirement System is to provide secure retirement and disability benefits, quality information concerning those benefits, and prompt, professional and courteous service that meets the highest standards of excellence. In carrying out that role, the Board of Retirement and staff are committed to act for the exclusive benefit of the plan and its participants, manage assets of the plan prudently, and administer benefits with impartiality.

**OCERS Economic Condition:**

OCERS' funding objective is to meet long-term benefit obligations through contributions and investment income. For the year of 2005 the funding ratio of the System was 71.53%. A six-year history of OCERS' funding progress is presented on page 39. For year 2005, OCERS experienced an increase of \$520,772,990 in plan net assets. Details of the components of this increase are included in the Statement of Changes in Plan Net Assets on page 22.

In 2005, the economic environment was challenging. The Federal Reserve continued to raise rates and at the end of the year, the Fed Funds Rate was at 4.25%, up from 2% from the previous year. The economy was also impacted by devastating hurricanes, a significant increase in the cost of oil, and an unexpected rise in the dollar.

For the year, OCERS fund was up 8.83% exceeding the actuarial earnings assumption rate of 7.75%. Over the three-year period, the fund was up 13.26% while the five-year return was at 5.86%. During the year, there were positive returns in both domestic and international equities. For the year, the S & P 500 index was up 4.91%, while MSCI EAFE index was up 13.54%. Domestic bonds were in positive territory despite continued tightening by the Federal Reserve. Returns in the real estate and alternatives asset classes were strong.

Due to improved market conditions during 2005, the total additions to plan net assets, including net appreciation in fair value of investments, were \$795,653,355. This amount includes member and employer contributions of \$333,673,237, net investment gains of \$460,431,356, net security lending income of \$1,425,286 and net commission recapture income of \$123,476. Net investment gain, excluding net security lending income and net commission recapture income, was \$107,595,913 less than the prior year. This difference was attributable mainly to a \$132,924,443 decrease in net appreciation in fair value of investments over the prior year. Details of the additions to plan net assets are included in the Statement of Changes in Plan Net Assets on page 22.

Deductions for 2005, excluding investment management and security lending fees, were \$274,880,365 which represented an increase of \$26,888,191 over the prior year. This increase was the result of higher retirement benefit payments, an increase in the number of retirees and an increase in refunds/withdrawals to terminated members.

Board of Retirement  
April 28, 2006

**Awards and Acknowledgements:**

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, 2004 (page 6).

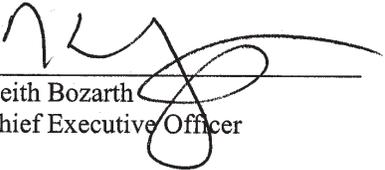
This was the eleventh consecutive year that OCERS has achieved this prestigious award. The Certificate of Achievement is a national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

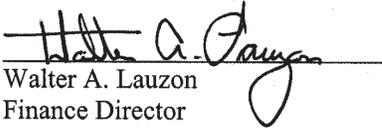
In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such basic financial statements must satisfy both accounting principles generally accepted in the United States of America 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.

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

  
\_\_\_\_\_  
Walter A. Lauzon  
Finance Director

# 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, 2004

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.



*Carla E. Perry*

President

*Jeffrey R. Emmer*

Executive Director

## MEMBERS OF THE BOARD OF RETIREMENT

As of December 31, 2005



**Thomas J. Lightvoet**  
*Chair*  
*Appointed by the*  
*Board of Supervisors*



**Richard A. White, Jr.**  
*Vice-Chair*  
*Elected by*  
*Safety Members*



**Lisa Welch Silbar**  
*Appointed by the*  
*Board of Supervisors*



**Frank E. Eley**  
*Elected by*  
*General Members*



**Reed L. Royalty**  
*Appointed by the*  
*Board of Supervisors*



**George W. Jeffries**  
*Appointed by the*  
*Board of Supervisors*



**David J. Thompson**  
*Alternate*  
*Elected by*  
*Safety Members*



**Russell Baldwin**  
*Elected by*  
*General Members*



**John M.W. Moorlach**  
*Ex-Officio Member*  
*Treasurer-Tax Collector*  
*County of Orange*



**Robert A. Griffith**  
*Elected by*  
*Retired Members*

## ORGANIZATION OF OCERS

### Board of Retirement

The Board of Retirement is responsible for establishing policies governing the administration of the retirement plan, disability determinations, assuring benefit payments, establishing investment policy for the system and monitoring execution of its policies. The Board of Retirement consists of nine members and one alternate. Four members of the Board of Retirement are appointed by the Board of Supervisors of the County; four members are elected by active members of the system of which one is the alternate member; one member is elected by the retirees; and the Treasurer of the County is an ex-officio member.

### Executive

This department consists of the Chief Executive Officer (CEO) who implements and executes policies promulgated by the Board of Retirement. Two assistant CEOs, Senior Internal Auditor, General Counsel and the Chief Investment Officer (CIO) assist the CEO in the daily operations of the system.

### Investment Department

This department 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. This department is also responsible for the interface with outside investment consultants in reviewing and evaluating all investment managers' performance and quarterly investment manager fees.

### External Operations Department

This department is comprised of the following divisions: Member Services, Disabilities and Communications.

The Member Services Division is responsible for providing all benefit services to the members of the system. This includes benefit calculations, preparation of data to support applications for retirement, preparation of the retiree payroll, membership counseling and pre-retirement seminars.

The Disability Division is responsible for reviewing claims and medical records; interviewing applicants and witnesses; preparing written reports of findings and recommendations; and making presentations to the Retirement Board regarding the disposition of cases.

The Communications Division is responsible for producing publications such as the Comprehensive Annual Financial Report, a quarterly news magazine and brochures, as well as producing content for the Web site and Board of Retirement Extranet. The Communications division also conducts Financial Strategy seminars for upwards of 420 members annually.

### Internal Operations Department

This department is comprised of the following divisions: Finance, Information Technology and Administrative Services.

The Finance Division is responsible for all the financial records and reports of OCERS. This includes the preparation of the Comprehensive Annual Financial Report, monthly and quarterly financial statements and the annual operating budget. The Finance Division also maintains OCERS' system of internal control; balances retirement payroll, refunds of contribution and interest to members; process transmittals and balances members' contributions, reconciles investment portfolios and processes all invoices for goods received and services rendered.

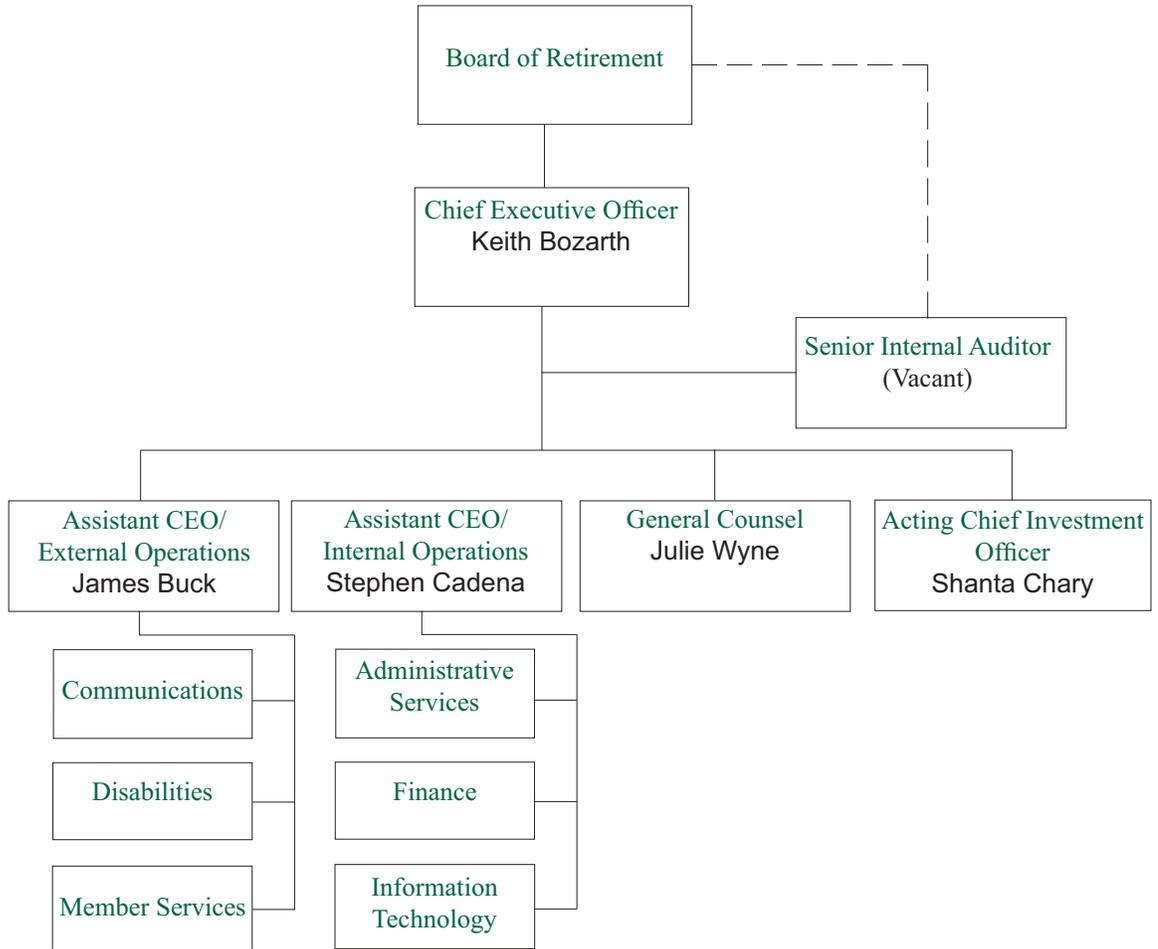
The Information Technology Division is responsible for OCERS' network systems, personal computers and Web site, while providing programming and technical support to our Benefits Administration System. In addition, this division is responsible for the production of retiree payroll and administering all audio/visual services.

The Administrative Services Division is responsible for providing the contract administration, purchasing, and human resources functions of OCERS.

### Legal Department

This department 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.

### Administrative Organization Chart As of December 31, 2005



## Professional Services

As of December 31, 2005

### Actuary

The Segal Company

### Investment Consultant

Callan Associates, Inc.

### Real Estate Consultant

The Townsend Group

### Independent Auditor

Brown Armstrong Accountancy Corp.

### Investment Counsel

Stradling, Yocca, Carlson & Rauth

### Fiduciary Counsel

Steeffel Levitt & Weiss

### Tax Counsel

Foley & Lardner

### Custodian

State Street California

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## Investment Managers

As of December 31, 2005

### Domestic Equity

Artisan Partners

Barclays Global Investors

Cadence Capital Management

Capital Guardian Trust Company

Dodge & Cox

Peregrine Capital Management

Washington Capital

### Domestic Fixed Income

Barclays Global Investors

Loomis, Sayles & Company

Pacific Investment Management Company (PIMCO)

### International Equity

Alliance Bernstein

AXA Rosenberg International

Barclays Global Investors

Capital Guardian Trust Company

Globeflex Capital

### International Fixed Income

Mondrian Investment Partners, Ltd.

State Street Global Advisors

### Pure Alpha

Bridgewater Associates

## Investment Managers

As of December 31, 2005

(Continued)

### Real Estate

#### Domestic

American Realty Advisors

CB Richard Ellis

Sentinel Real Estate Corporation

#### International

Rockspring Property Investment Managers, Ltd.

### Non-Traditional Investments

#### Managers

Adams Street Partners

HarbourVest Partners, LLC

#### Limited Partnerships

TCW Asset Management Company

Vega Partners

#### Timber

Hancock Timber Resource Group

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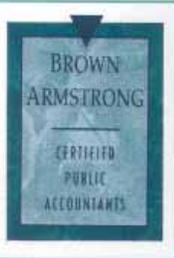


SECTION

2



> FINANCIAL



**BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK THORNBURGH & KEETER**  
Certified Public Accountants

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Natalie M. Arduain, CPA  
Amanda Fedewa, CPA

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Retirement of the  
Orange County Employees Retirement System

We have audited the accompanying statement of plan net assets of the Orange County Employees Retirement System (OCERS) as of December 31, 2005 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of management of OCERS. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Orange County Employees Retirement System as of December 31, 2005 and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, in 2005 OCERS adopted the provisions of GASB Statement No. 40, Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3.

The management's discussion and analysis and the schedules designated as required supplementary information in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information designated as other supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of OCERS. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other data included in this report, designated as the investment, actuarial and statistical sections in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on such data.

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK THORNBURGH & KEETER  
ACCOUNTANCY CORPORATION



Bakersfield, California  
April 28, 2006

## Management's Discussion and Analysis

OCERS management is pleased to provide this overview and the analysis of the financial activities of the Orange County Employees Retirement System (OCERS) for the year ended December 31, 2005. Please review it in conjunction with the Letter of Transmittal (starting on page 2) and the Basic Financial Statements beginning on page 21.

### Financial Highlights:

- Net Assets Held in Trust for Pension Plan Benefits, as reported in the Statement of Plan Net Assets, totaled \$6,077,768,385 an increase of \$520,772,990 or 9.37% from the prior year, primarily as a result of the increases in the fair market values of investments and increases in contributions.
- Total Additions, as reported in the Statement of Changes in Plan Net Assets were \$795,653,355 the major components of which are the appreciation in the fair value of investments and the increases in contributions.
- Total Deductions, as reported in the Statement of Changes in Plan Net Assets, were \$274,880,365. This represents an increase of \$26,888,191 over the prior year primarily as a result of the increases in benefit payments.
- The Segal Company is OCERS' actuary. The latest actuarial valuation completed as of December 31, 2005 indicates that the funding status (the ratio of system assets to system liabilities) is 71.53%.

### Overview of Financial Statements:

This section serves as an introduction to the Basic Financial Statements that are comprised of these components:

1. Statement of Plan Net Assets (page 21): This is a snapshot of account balances at the end of the calendar year. This statement reflects assets available for future payments to members and their beneficiaries and any current liabilities that are owed.
2. Statement of Changes in Plan Net Assets (page 22): This report reflects all of the financial activities that occurred during the calendar year and shows the impact of those activities as Additions to or Deductions from the Plan.
3. Notes to Basic Financial Statements (pages 23-37): The Notes are an integral part of the financial reports; they provide detailed discussion to key policies, programs and activities that occurred during the year.
4. Required Supplementary Information (pages 38-41): This section includes the Schedule of Funding Progress that shows the historical trend for the actuarial funding status of the Plan; the Schedule of Employer Contributions shows the annual required contributions, the percentage of contributions made and the list of significant factors affecting trends in actuarial information.

The Other Supplementary Information (pages 42-45), the Investment Section (pages 46-61), the Actuarial Section (pages 62-89) and the Statistical Section (pages 90-101) provide additional detailed financial, investment, actuarial, and statistical data supporting information reported in the Basic Financial Statements.

**Plan Net Assets:**

	December 31			Increase/ (Decrease) Amount	Increase/ (Decrease) Amount	Increase/ (Decrease) Amount
	2005	2004	2003	2005-2004	2005-2003	2004-2003
	Current Assets	\$869,352,668	\$1,143,083,811	\$874,188,052	(\$273,731,143)	(\$4,835,384)
Investments	\$6,072,342,982	\$5,356,914,386	\$4,421,845,031	\$715,428,596	\$1,650,497,951	\$935,069,355
Capital Assets	\$3,105,062	\$3,558,420	\$4,230,873	(\$453,358)	(\$1,125,811)	(\$672,453)
<b>Total Assets</b>	<b>\$6,944,800,712</b>	<b>\$6,503,556,617</b>	<b>\$5,300,263,956</b>	<b>\$441,244,095</b>	<b>\$1,644,536,756</b>	<b>\$1,203,292,661</b>
<b>Total Liabilities</b>	<b>\$867,032,327</b>	<b>\$946,561,222</b>	<b>\$340,638,315</b>	<b>(\$79,528,895)</b>	<b>\$526,394,012</b>	<b>\$605,922,907</b>
<b>Total Plan Net Assets</b>	<b>\$6,077,768,385</b>	<b>\$5,556,995,395</b>	<b>\$4,959,625,641</b>	<b>\$520,772,990</b>	<b>\$1,118,142,744</b>	<b>\$597,369,754</b>
	Increase/ (Decrease) Amount	Increase/ (Decrease) Amount	Increase/ (Decrease) Amount	Increase/ (Decrease) Amount	Increase/ (Decrease) Amount	Increase/ (Decrease) Amount
	2005-2004	2005-2003	2004-2003	2005-2004	2005-2003	2004-2003
Current Assets	(\$273,731,143)	(\$4,835,384)	\$268,895,759	-23.95%	-0.55%	30.76%
Investments	\$715,428,596	\$1,650,497,951	\$935,069,355	13.36%	37.33%	21.15%
Capital Assets	(\$453,358)	(\$1,125,811)	(\$672,453)	-12.74%	-26.61%	-15.89%
<b>Total Assets</b>	<b>\$441,244,095</b>	<b>\$1,644,536,756</b>	<b>\$1,203,292,661</b>	<b>6.78%</b>	<b>31.03%</b>	<b>22.70%</b>
<b>Total Liabilities</b>	<b>(\$79,528,895)</b>	<b>\$526,394,012</b>	<b>\$605,922,907</b>	<b>-8.40%</b>	<b>154.53%</b>	<b>177.88%</b>
<b>Total Changes</b>	<b>\$520,772,990</b>	<b>\$1,118,142,744</b>	<b>\$597,369,754</b>	<b>9.37%</b>	<b>22.54%</b>	<b>12.04%</b>

**Revenues – Additions to Plan Net Assets:**

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through interest credited to the reserves. Total contributions for 2005, excluding prepaid employer contributions, were \$333,673,237. Investment gains, including net appreciation in fair market value of investments, net securities lending income, net commission recapture income and net of investment expenses for the year ended December 31, 2005, totaled \$461,980,118. (See page 22).

Overall additions to plan net assets were \$795,653,355 due primarily to investment gains and an increase in overall contributions.

**Additions to Plan Net Assets:**

	Years Ended December 31			Increase/ (Decrease) Amount	Increase/ (Decrease) Amount	Increase/ (Decrease) Amount
	2005	2004	2003	2005-2004	2005-2003	2004-2003
	Employer Contributions	\$226,129,626	\$194,430,021	\$124,242,669	\$31,699,605	\$101,886,957
Employee Contributions	\$107,543,611	\$81,930,032	\$81,581,266	\$25,613,579	\$25,962,345	\$348,766
Investment Gains (Losses)	\$461,980,118	\$569,000,875	\$789,086,137	(\$107,020,757)	(\$327,106,019)	(\$220,085,262)
<b>Total Additions</b>	<b>\$795,653,355</b>	<b>\$845,360,928</b>	<b>\$994,910,072</b>	<b>(\$49,707,573)</b>	<b>(\$199,256,717)</b>	<b>(\$149,549,144)</b>
	<b>Increase/ (Decrease) Amount</b>	<b>Increase/ (Decrease) Amount</b>	<b>Increase/ (Decrease) Amount</b>	<b>Increase/ (Decrease) %</b>	<b>Increase/ (Decrease) %</b>	<b>Increase/ (Decrease) %</b>
	<b>2005-2004</b>	<b>2005-2003</b>	<b>2004-2003</b>	<b>2005-2004</b>	<b>2005-2003</b>	<b>2004-2003</b>
Employer Contributions	\$31,699,605	\$101,886,957	\$70,187,352	16.30%	82.01%	56.49%
Employee Contributions	\$25,613,579	\$25,962,345	\$348,766	31.26%	31.82%	0.43%
Investment Gains (Losses)	(\$107,020,757)	(\$327,106,019)	(\$220,085,262)	-18.81%	-41.45%	-27.89%
<b>Total Changes</b>	<b>(\$49,707,573)</b>	<b>(\$199,256,717)</b>	<b>(\$149,549,144)</b>	<b>-5.88%</b>	<b>-20.03%</b>	<b>-15.03%</b>

**Expenses – Deductions from Plan Net Assets:**

OCERS was created to provide lifetime retirement annuities, survivor benefits and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments as designated by the Plan, refund of contributions to terminated employees and the cost of administering the system. Deductions for the year ended December 31, 2005, totaled \$274,880,365 (see page 22).

**Deductions from Plan Net Assets :**

	Years Ended December 31			Increase/ (Decrease) Amount	Increase/ (Decrease) Amount	Increase/ (Decrease) Amount
	2005	2004	2003	2005-2004	2005-2003	2004-2003
	Benefits Paid	\$257,928,554	\$230,684,018	\$210,273,180	\$27,244,536	\$47,655,374
Withdrawals/Refunds	\$6,998,941	\$7,844,738	\$6,412,156	(\$845,797)	\$586,785	\$1,432,581
Administrative Expenses	\$9,952,870	\$9,463,418	\$8,847,791	\$489,452	\$1,105,079	\$615,627
<b>Total Deductions</b>	<b>\$274,880,365</b>	<b>\$247,992,174</b>	<b>\$225,533,127</b>	<b>\$26,888,191</b>	<b>\$49,347,238</b>	<b>\$22,459,047</b>
	<b>Increase/ (Decrease) Amount</b>	<b>Increase/ (Decrease) Amount</b>	<b>Increase/ (Decrease) Amount</b>	<b>Increase/ (Decrease) %</b>	<b>Increase/ (Decrease) %</b>	<b>Increase/ (Decrease) %</b>
	<b>2005-2004</b>	<b>2005-2003</b>	<b>2004-2003</b>	<b>2005-2004</b>	<b>2005-2003</b>	<b>2004-2003</b>
Benefits Paid	\$27,244,536	\$47,655,374	\$20,410,838	11.81%	22.66%	9.71%
Withdrawals/Refunds	(\$845,797)	\$586,785	\$1,432,581	-10.78%	9.15%	22.34%
Administrative Expenses	\$489,452	\$1,105,079	\$615,627	5.17%	12.49%	6.96%
<b>Total Changes</b>	<b>\$26,888,191</b>	<b>\$49,347,238</b>	<b>\$22,459,047</b>	<b>10.84%</b>	<b>21.88%</b>	<b>9.96%</b>

**Reserves:**

OCERS' reserves are established from contributions and the amount of interest credited to reserve accounts at the actuarially assumed rate of 7.5% on a bi-annual basis. The Active Members Reserve account was credited with an interest rate of 5.0% on a bi-annual basis; the remaining 2.5% was credited to the Employer Advanced Reserve, also on a bi-annual basis. Reserve balances are as follows:

**Reserve Analysis:**

	Years Ended December 31		
	2005	2004	2003
Active Members Reserve	\$1,075,609,561	\$1,007,575,995	\$927,970,557
Retired Members Reserve	\$2,987,743,608	\$2,655,783,489	\$2,503,127,719
Employer Advanced Reserve	\$1,470,964,580	\$1,422,783,343	\$1,268,602,101
Retired Members Benefit Account	\$10,629,690	\$9,820,069	\$20,421,588
Unclaimed Reserves	\$1,202,293	\$0	\$0
Unrealized Gains	\$531,618,653	\$461,213,499	\$239,504,186
Sub-total	<u>\$6,077,768,385</u>	<u>\$5,556,995,395</u>	<u>\$4,959,626,151</u>
Less: Accounts Receivable for Interest Credited to Reserves	<u>(\$301,176,798)</u>	<u>(\$301,183,788)</u>	<u>(\$122,922,316)</u>
<b>Net Total Reserve</b>	<b><u>\$5,776,591,587</u></b>	<b><u>\$5,255,811,607</u></b>	<b><u>\$4,836,703,835</u></b>

**Investment and Economic Summary:**

In 2005, the economic environment was challenging. The Federal Reserve continued to raise rates and at the end of the year, the Fed Funds Rate was at 4.25%, up from 2% from the previous year. The economy was also impacted by devastating hurricanes, a significant increase in the cost of oil, and an unexpected rise in the dollar.

For the year, OCERS fund was up 8.83% exceeding the actuarial earnings assumption rate of 7.5%. Over the three year period, the fund was up 13.26% while the five year return was at 5.86%. During the year, there were positive returns in both domestic and international equities. For the year, the S & P 500 index was up 4.91%, while MSCI EAFE index was up 13.54%. Domestic bonds were in positive territory despite continued tightening by the Federal Reserve. Returns in the real estate and alternatives asset classes were strong.

**Capital Assets:**

OCERS' investment in capital assets decreased from \$3,558,420 to \$3,105,062 (net of accumulated depreciation). This investment in capital assets includes equipment, furniture and computer system installation. The total decrease in OCERS' investment in capital assets for the current year was (12.74%) over 2005. The decrease is mainly due to the adjustment of fully depreciated and obsolete equipment.

**Changes In OCERS' Plan Net Assets:**

Positive market returns and increases in contributions were the primary factors in an increase in net assets by \$520,772,990, thereby accounting for an increase of 9.37% over the prior year. Key elements of this increase are described in the section that follows:

**Changes In Plan Net Assets:**

	<b>Years Ended December 31</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Contributions Received	\$333,673,237	\$276,361,053	\$205,823,935
Net Investment Gains (Losses)	\$460,431,356	\$568,027,269	\$788,036,023
Net Securities Lending Income and Other Income	\$1,548,762	\$973,606	\$1,050,191
Participants' Benefits	(\$257,928,554)	(\$230,684,018)	(\$210,273,014)
Withdrawals and Refunds	(\$6,998,941)	(\$7,844,738)	(\$6,412,161)
Administrative Expenses	(\$9,952,870)	(\$9,463,418)	(\$8,847,791)
<b>Increases (Decreases) in Plan Net Assets</b>	<b>\$520,772,990</b>	<b>\$597,369,754</b>	<b>\$769,377,183</b>

**OCERS' Fiduciary Responsibilities:**

OCERS' Board and management members are fiduciaries of the pension trust fund. Under the California Constitution, the assets can be used only for the benefit of plan participants and their beneficiaries and reasonable expenses of operation.

**Requests for Information:**

This financial report is designed to provide the Board of Retirement, members, beneficiaries, taxpayers, investment managers, and participating employers with a general overview of OCERS' financial condition. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

**OCERS**

**Attention: Walter Lauzon**  
**2223 Wellington Avenue**  
**Santa Ana, CA 92701**

  
 \_\_\_\_\_  
 Walter Lauzon  
 Finance Director

## Statement of Plan Net Assets

	Years Ended December 31	
	2005	2004
<b>ASSETS</b>		
Cash and Short-Term Investments		
Cash and Cash Equivalents (Note E)	\$ 187,238,274	\$ 286,788,211
Collateral Held for Securities Lent (Note F)	627,056,237	809,189,577
<b>Total Cash and Short-Term Investments</b>	<b>814,294,511</b>	<b>1,095,977,788</b>
Receivables		
Forward Currency Contracts, Net (Note F)	39,750	288,145
Investment Income	18,932,869	20,265,710
Securities Sales	16,690,150	10,739,304
Employer/Employee Contributions	19,395,388	15,812,864
<b>Total Receivables</b>	<b>55,058,157</b>	<b>47,106,023</b>
Investments, at Fair Value (Notes B-2 and F)		
United States Government Debt Securities and Corporate Bonds	1,868,540,675	2,087,534,363
Foreign Bonds	472,432,213	377,156,141
Domestic Equity Securities	1,479,275,968	1,172,805,424
International Equity Securities	1,638,303,493	1,226,986,625
Real Estate	\$473,453,797	341,029,478
Venture Capital and Limited Partnership Interests	140,336,836	151,402,355
<b>Total Investments</b>	<b>6,072,342,982</b>	<b>5,356,914,386</b>
Capital Assets, Net (Note B-3)	3,105,062	3,558,420
<b>Total Assets</b>	<b>6,944,800,712</b>	<b>6,503,556,617</b>
<b>LIABILITIES</b>		
Collateral Held for Securities Lent (Note F)	627,056,237	809,189,577
Securities Purchased	162,407,066	111,513,643
Other**	29,881,588	25,858,002
Deferred Rev/Prepaid Employer Contributions (Note C)	47,687,436	-
<b>Total Liabilities</b>	<b>867,032,327</b>	<b>946,561,222</b>
<b>Net Assets Held in Trust for Pension Plan Benefits*</b>	<b>\$ 6,077,768,385</b>	<b>\$ 5,556,995,395</b>

\*See Schedule of Funding Progress on page 39.

(See accompanying notes to financial statements beginning on page 23.)

\*\*Unclaimed Monies of \$1,202,293 has been moved from Other Liabilities beginning in 2005 and recorded with the Reserve Accounts (see page 37).

## Statement of Changes in Plan Net Assets

	Years Ended December 31	
	2005	2004
<b>ADDITIONS</b>		
Contributions (Note C)*		
Employer	\$ 226,129,626	\$ 194,430,021
Employee	107,543,611	81,931,032
<b>Total Contributions</b>	<b>333,673,237</b>	<b>276,361,053</b>
Investment Income:		
Net Appreciation in Fair Value of Investments (Note F)	326,004,647	458,929,090
Interest on:		
Domestic and International Securities	73,854,867	61,205,807
Cash with County Treasurer (Note E)	417,350	235,583
Domestic Dividends	10,483,148	14,997,937
Real Estate Income	26,869,115	16,907,531
International Dividends	13,492,789	11,800,344
Venture Capital and Limited Partnership	27,321,680	21,343,673
<b>Total Investment Income</b>	<b>478,443,596</b>	<b>585,419,965</b>
Less Investment Expenses	(18,012,240)	(17,392,696)
<b>Net Investment Income</b>	<b>460,431,356</b>	<b>568,027,269</b>
Securities Lending Revenue (Note F)	1,780,852	1,203,204
Less Securities Lending Fees (Note F)	(355,566)	(346,420)
<b>Net Securities Lending Income</b>	<b>1,425,286</b>	<b>856,784</b>
Income from Commission Recapture-Net	123,476	116,822
<b>Total Additions</b>	<b>795,653,355</b>	<b>845,361,928</b>
<b>DEDUCTIONS</b>		
Participants' Benefits	257,396,816	230,224,617
Death Benefits	531,738	459,401
Member Withdrawals and Refunds	6,998,941	7,844,738
Administrative Expenses (Note H)	9,952,870	9,463,418
<b>Total Deductions</b>	<b>274,880,365</b>	<b>247,992,174</b>
<b>NET INCREASE</b>	<b>520,772,990</b>	<b>597,369,754</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION PLAN BENEFITS</b>		
Beginning of Year	5,556,995,395	4,959,625,641
<b>End of Year</b>	<b>\$ 6,077,768,385</b>	<b>\$ 5,556,995,395</b>

\* Employer contributions reflect cash payments only. Please see Note C on page 27 for amounts transferred from the County Investment Account.

(See accompanying notes to financial statements beginning on page 23.)

## A. Description and History 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:

- City of Rancho Santa Margarita
- City of San Juan Capistrano
- Orange County Cemetery District
- Orange County Children and Families Commission
- Orange County Department of Education (closed to new members)
- Orange County Employees Retirement System
- Orange County Fire Authority (OCFA)
- Orange County In-Home Supportive Services Public Authority
- Orange County Local Agency Formation Commission
- Orange County Public Law Library
- Orange County Sanitation District
- Orange County Superior Court
- Orange County Transportation Authority (OCTA)
- Orange County Vector Control District
- Transportation Corridor Agencies
- University of California, Irvine Medical Center and Campus (closed to new members)

The participating entities share proportionally in all risks and costs, including benefit costs. One actuarial valuation is performed for OCERS as a whole, and contribution rates vary among participating entities.

Following an effort by the employees of Orange County, a proposition was submitted to the people of Orange County. As a result of the General Election, OCERS was established in 1945 under the provisions of the County Employees Retirement Law of 1937 (County Retirement Law). OCERS provides members with retirement, death, disability, and cost-of-living benefits. OCERS is a related organization of the County of Orange, California.

The Retirement Board consists of nine members of which four are appointed by the County's Board of Supervisors, four are elected by the members of OCERS, the County Treasurer is an ex-officio member and an alternate member is elected by the safety members. The County of Orange is not financially accountable for OCERS.

The Board of Supervisors adopted certain sections of the Government Code for members employed after September 20, 1979. These members are designated as Tier II members. The established formula for Tier II members produces reduced allowances. Members employed prior to September 21, 1979, are designated as Tier I members. The specific differences between Tier I and Tier II are discussed below.

### 2. Membership

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.

### 3. Monthly Salary Base for Benefits

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

### 4. Service Retirement

a. Eligibility: Ten years of service and age 50, or 30 years of service and any age (20 years for safety members), or age 70 with any service.

b. Benefit Formula per Year of Service:

Firefighters, Law Enforcement and Probation Safety – 3%

City of Rancho Santa Margarita – 2%

City of San Juan Capistrano – 2%

County of Orange, except AFSCME bargaining unit – 2%

Orange County Fire Authority General – 2%

Orange County Local Agency Formation Commission – 2%

Orange County Public Law Library – 2%

Orange County Sanitation District – 2%

Orange County Superior Court – 2%

Orange County Employees Retirement System – 2%

Transportation Corridor Agencies – 2%

All other General members: Tier I – 2%      Tier II – 1.6667%

Benefits are reduced or increased for retirement ages according to the following sections of the County Employees Retirement Law of 1937:

Firefighters	31664.1
Law Enforcement	31664.1
Probation Safety	31664.1
City of San Juan Capistrano	31676.19
Orange County Fire Authority General	31676.19
OCERS	31676.19
County of Orange, except those in the AFSCME bargaining unit	31676.19
Orange County Superior Court	31676.19
Orange County Local Agency Formation Commission	31676.19
Orange County Public Law Library	31676.18
City of Rancho Santa Margarita	31676.18
Orange County Sanitation District	31676.18
Transportation Corridor Agencies	31676.16
All other General members:	
• Tier I	31676.12
• Tier II	31676.1

**5. Non-Service Connected Disability**

- a. Eligibility: Five years of service.
- b. Benefit Formula per Year of Service:

**Tier I**

1.8% x Years of Service Credit x Final One Year Average Monthly Compensation. (If benefit is less than 1/3 of final average monthly compensation, the number of years to age 62 can be added to the years of service credit 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 Three Year Average Monthly Compensation. (If benefit is less than 1/3 of final average monthly compensation, the number of years to age 65 can be added to the years of service credit in order to pay up to a maximum of one-third of final average monthly compensation.)

**6. Service Connected Disability**

- a. Eligibility: No age or service requirement.
- b. Benefit: 50% of final average monthly compensation, or service retirement if the benefits are higher.

**7. Active Member Death**

- a. If a member with less than five years of service dies in a non-work related incident, the spouse/Qualified Domestic Partner or dependent children will receive the member's refundable retirement contributions plus interest. In addition, the beneficiary will receive one month's salary for each completed year that the member served to a maximum of six months.
- b. If the member was eligible for a service retirement or a non-service connected disability retirement at the time of death, the qualified surviving spouse/Qualified Domestic Partner or child has the following options:
  - Refund of employee contributions with interest plus one month's salary for each year of service to a maximum of six months' salary;
  - or
  - 60% of earned benefit payable to surviving eligible spouse/Qualified Domestic Partner;
  - or
  - Combined benefit equal to a lump-sum payment plus a reduced monthly allowance.

If no eligible spouse/Qualified Domestic Partner 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.

- c. Service Connected Death:
 

If a member dies in a job-related incident, the spouse/Qualified Domestic Partner or qualified child is eligible for a monthly allowance equal to 50 percent of the member's final average salary.
- d. \$750 Burial Benefit:
 

A burial allowance of \$750 is payable to deceased member's beneficiary or estate if the member had 10 years of service with the County or district at the time of the member's death.
- e. If a safety member dies in the line of duty, the spouse/Qualified Domestic Partner may be eligible for an additional 25% of the service connected death allowance for each qualified child, from the County or district contributions and a one-time lump sum payment to the spouse/Qualified Domestic Partner equal to the annual compensation earnable of the deceased member at the rate of pay when the member died.

**8. Death After Retirement**

- a. Non-Service Connected Disability Retirement:
- 60% of member's unmodified allowance continued to eligible spouse/Qualified Domestic Partner or eligible child. (Member may elect a modified allowance at time of retirement.)
- b. Service Connected Disability Retirement:
- The continuance is 100% to the eligible spouse/Qualified Domestic Partner or eligible child if the member retired with a service connected disability.
- c. \$1,000 Burial Benefit:
- A burial allowance of \$1,000 is payable to the deceased retiree's beneficiary or estate.
- d. Service Retirement:
- Benefit depends upon option chosen.

**9. Termination of Employment**

Members may elect a refund of accumulated contributions and interest. Contributions left on deposit continue to draw interest regardless of the amount of service the member has earned. Terminating members who decide to leave their contributions on deposit and have at least five years of service are eligible for benefits at retirement age.

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

The annual Cost-of-Living Adjustment (COLA) is intended to increase retirement payments to account for inflation. The COLA applies to all retired members who retired on or before April 1 of that year. Retirees receive an increase equal to the actual U.S. Department of Labor Consumer Price Index (CPI) as it relates to the Orange County area, which includes Orange, Los Angeles and Riverside counties. The COLA is limited to a maximum of 3% per year. Amounts in excess of 3% are "banked" for the future and may be applied to a future year in which the change is less than 3%. In addition to the annual Cost-of-Living Adjustment (COLA), the Board of Retirement may grant a STAR (Supplemental Targeted Adjustment for Retirees) COLA for eligible retirees who have lost more than 20% of their purchasing power to inflation since retirement. The adjustment allows retirees to keep at least 80% of their purchasing power, regardless of how many years they have been retired.

**11. Employer Contributions**

Determined by Entry Age Normal with level percent of pay amortization of Unfunded Actuarial Accrued Liability.

**12. Member Contributions**

Articles 6 and 6.8 of the 1937 Act define the methodology to be used in the calculation of member basic contribution rates for General members and Safety members, respectively. The basic contribution rate is determined so that the accumulation of a member's basic contributions made in a given year until a certain age will be sufficient to fund an annuity at that age that is equal to:

- 1/200 of Final Average Salary for General Plan A;
- 1/120 of Final Average Salary for General Plan B;
- 1/100 of Final Average Salary for General Plans G, H, I, and J;
- 1/120 of Final Average Salary for General Plans M and N ;
- 1/200 of Final Average Salary for Safety Plan E and;
- 1/100 of Final Average Salary for Safety Plan F.

The Annuity age is 60 for General Plans A, B, M, and N; 55 for Plans G, H, I, and J; and 50 for Safety Plans E and F. It is assumed that contributions are made annually at the same rate, starting at entry age. In addition to their basic contributions, members pay one-half of the total normal cost necessary to fund their cost-of-living benefits. Accumulation includes semi-annual crediting of interest at the assumed investment earning rate.

### 13. Active and Retired Members

The following is a summary of OCERS' membership composition at December 31, 2005 and 2004:

	<b>Active and Deferred Personnel</b> (unaudited)	
	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
<u>General Members</u>		
County and Agencies Paid by County Payroll	15,657	15,760
Outside Agencies	3,155	3,175
Subtotal - General Members	18,812	18,935
<u>Safety Members</u>		
County and Agencies Paid by County Payroll	2,852	2,776
Outside Agencies	801	791
Subtotal - Safety Members	3,653	3,567
<b>Total Active Members</b>	<b>22,465</b>	<b>22,502</b>
<u>Deferred (General &amp; Safety) Members</u>		
Regular	1,720	1,817
Employment with Other Agencies (Reciprocity)	689	93
Subtotal - Deferred Members	2,409	1,910
<b>Total Active and Deferred Personnel</b>	<b>24,874</b>	<b>24,412</b>

	<b>Benefit Recipients</b> (unaudited)					
	<b>General</b>	<b>December 31, 2005</b>			<b>December 31, 2004</b>	
		<b>Safety</b>	<b>Total</b>	<b>General</b>	<b>Safety</b>	<b>Total</b>
Service Retirement	6,920	879	7,799	6,118	788	6,906
Survivors	824	79	903	606	55	661
Alternate Payees QDRO	118	30	148	102	26	128
Subtotal	7,862	988	8,850	6,826	869	7,695
Service Connected Disability	604	349	953	585	333	918
Survivors	48	21	69	47	18	65
Alternate Payees QDRO	6	16	22	5	17	22
Subtotal	658	386	1,044	637	368	1,005
Non-Service Connected Disability	256	13	269	244	14	25
Survivors	287	18	305	77	1	78
Alternate Payees QDRO	4	0	4	3	0	3
Subtotal	547	31	578	324	15	339
Active Death Survivors	16	0	16	359	35	394
<b>Total Recipients</b>	<b>9,083</b>	<b>1,405</b>	<b>10,488</b>	<b>8,146</b>	<b>1,287</b>	<b>9,433</b>

## 14. Employee Purchased Annuities

OCERS formerly provided accounts for additional member contributions as allowed under Government Code Section 31627.

On December 16, 2002 the Board of Retirement adopted resolution 02-005 to terminate the Employee Purchased Annuities program with an effective date of December 31, 2002. Members receiving a monthly distribution were given the choice of continuing to receive that distribution or receiving a lump sum payout of their balance as of December 31, 2002. Members who were not receiving a monthly distribution were given the choice of receiving a lump sum payout of their balance as of December 31, 2002 or having their balances rolled over to a qualified plan or IRA.

## 15. Federal Income Tax Status

The Internal Revenue Service has ruled that plans such as OCERS' qualify under Section 401 (a) of the Internal Revenue Code and are not subject to tax under present income tax laws. Accordingly, no provision for income tax has been made in the accompanying basic financial statements, as the Plan is exempt from federal and state income taxes under the provisions of the Internal Revenue Code, Section 401, and the California Revenue and Taxation Code, Section 23701, respectively.

## 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 when due pursuant to formal commitments, as well as statutory requirements; benefits and refunds are recognized when payable in accordance with the provisions of the plan. Investment income is recognized as revenue when earned. The net appreciation (depreciation) in fair value of assets 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.

### 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. Capital Assets

Capital assets are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method with a 10 year useful life for computer software, and 5 to 15 years for equipment and furniture. The cost and accumulated depreciation of capital assets at December 31, 2005 and 2004, were as follows:

	2005	2004
Furniture and Equipment	\$ 1,161,234	\$ 1,161,234
Computer Software	4,087,266	4,087,266
<b>Total Capital Assets (at cost)</b>	<b>5,248,500</b>	<b>5,248,500</b>
Less Accumulated Depreciation	(2,143,438)	(1,690,080)
<b>Total Capital Assets</b>		
<b>Net of Depreciation</b>	<b>\$ 3,105,062</b>	<b>\$ 3,558,420</b>

Depreciation expense for the year ended 2005 and 2004 was \$453,358 and \$478,447, respectively.

## 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, 2005 and 2004, were \$1,075,609,561 and \$1,007,575,995, respectively, including interest credited. Interest was credited at an interest rate of 5.0% per annum with 2.5% credited as of June 30, on the balance of the members' accounts as of the prior December 31 and 2.5% credited as of December 31 on the balance of the members' accounts as of the prior June 30. The incremental difference between the 5% that is credited to employee contributions and the actuarially then-assumed rate of 7.5% is credited to the Employer Reserve account.

The County and participating agencies' funding policy is to make periodic contributions to OCERS in amounts 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). OCERS and the County of Orange, a single participating district, entered into an agreement which provided 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 2005, 2004, 2003, 2002, 2001 and 2000 were \$9,675,306, \$3,579,000, \$26,209,000, \$65,180,000, \$41,319,000 and \$48,555,000, respectively.

The County determines annually how the account will be applied to contribution requirements.

### Combined Employer and Employee Contributions Received

	2005	2004	2003
Normal Cost	\$ 204,553,221	\$ 183,339,000	\$ 172,353,000
Amortization of Unfunded Actuarial Accrued Liability	\$ 129,120,016	\$ 93,022,000	\$ 33,471,000
<b>Total</b>	<b>\$ 333,673,237</b>	<b>\$ 276,361,000</b>	<b>\$ 205,824,000</b>

The Orange County Employees Retirement System (OCERS), as an employer, has also participated in the program. On an annual basis, OCERS has made contributions to the System in accordance with the actuarially-determined rates. For the years ended December 31, 2005 and 2004, OCERS contributed \$607,833 and \$430,632, respectively.

During the year, contributions totaled \$333,673,237 which included \$226,129,626 in employer contributions and \$107,543,611 in employee contributions. Government Code Section 31582(b) allows the Board of Supervisors to authorize advance payment of all or part of the county's estimated annual contribution to the retirement fund. Code Section 31585 makes the same advance payment option available to the other sponsors. Participating employers have made advance payments in 2005 of the employers estimated annual contributions discounted by the assumed interest rate in effect. At the end of the fiscal year, a "true up" is completed and employers are either billed for an underpayment or apply their overpayment towards the following year contributions. At the end of the 2005 calendar year, a total of \$47,687,436 remained as prepayments for the sponsors to be applied in 2006.

The contributions to OCERS for 2005 and 2004 were made in accordance with the actuarially-determined requirements as follows:

	07/05-12/05	07/04-06/05	07/03-06/04	07/02-06/03
<b>Percent of Members' Payroll</b>				
<u>Employer Contributions - General - County of Orange and Others *</u>				
Normal Cost	5.56%	5.56%	5.44%	5.04%
Amortization of Unfunded Actuarial Accrued Liability	6.56%	6.56%	3.21%	0.12%
Subtotal	12.12%	12.12%	8.65%	5.16%
Additional Contribution	0.00%	0.50%	0.50%	0.50%
<b>Total</b>	<b>12.12%</b>	<b>12.62%</b>	<b>9.15%</b>	<b>5.66%</b>
<u>Employer Contributions - OCTA</u>				
Normal Cost	4.41%	4.41%	4.36%	4.20%
Amortization of Unfunded Actuarial Accrued Liability	6.54%	6.54%	3.37%	0.27%
Subtotal	10.95%	10.95%	7.73%	4.47%
Additional Contribution	0.00%	0.50%	0.50%	0.50%
<b>Total</b>	<b>10.95%</b>	<b>11.45%</b>	<b>8.23%</b>	<b>4.97%</b>
<u>Employer Contributions - City of Rancho Santa Margarita 2.5%</u>				
Normal Cost	1.77%	1.77%	1.69%	N/A
Amortization of Unfunded Actuarial Accrued Liability	2.93%	2.93%	3.40%	N/A
Subtotal	4.70%	4.70%	5.09%	N/A
Additional Contribution	0.00%	0.05%	0.00%	N/A
<b>Total</b>	<b>4.70%</b>	<b>5.20%</b>	<b>5.09%</b>	<b>N/A</b>
<u>Employer Contributions - City of San Juan Capistrano 2.7%</u>				
Normal Cost	7.22%	7.22%	5.44%	5.04%
Amortization of Unfunded Actuarial Accrued Liability	10.46%	10.46%	7.65%	0.12%
Subtotal	17.68%	17.68%	13.09%	5.16%
Additional Contribution	0.50%	0.50%	0.50%	0.50%
<b>Total</b>	<b>18.18%</b>	<b>18.18%</b>	<b>13.59%</b>	<b>5.66%</b>
<u>Employer Contributions - General - Orange County Fire Authority</u>				
Normal Cost	5.77%	5.56%	5.44%	5.04%
Amortization of Unfunded Actuarial Accrued Liability	9.97%	6.56%	3.21%	0.12%
Subtotal	15.74%	12.12%	8.65%	5.16%
Additional Contribution	0.00%	0.50%	0.50%	0.50%
<b>Total</b>	<b>15.74%</b>	<b>12.62%</b>	<b>9.15%</b>	<b>5.66%</b>
<u>Employer Contributions - General - County of Orange (2.7% @ 55)</u>				
Normal Cost	6.07%	5.56%	5.44%	5.04%
Amortization of Unfunded Actuarial Accrued Liability	10.20%	6.56%	3.21%	0.12%
Subtotal	16.27%	12.12%	8.65%	5.16%
Additional Contribution	0.00%	0.50%	0.50%	0.50%
<b>Total</b>	<b>16.27%</b>	<b>12.62%</b>	<b>9.15%</b>	<b>5.66%</b>

\* After July 2005 these rates apply to non-2.7% @ 55 County General members, Cemetery District, UCI, Dept. of Education and OCTA.

**Percent of Members' Payroll  
(Continued)**

	07/05-12/05	07/04-06/05	07/03-06/04	07/02-06/03
<u>Employer Contributions - General - Orange County Employees Retirement System</u>				
Normal Cost	7.48%	5.56%	5.44%	5.04%
Amortization of Unfunded				
Actuarial Accrued Liability	6.56%	6.56%	3.21%	0.12%
Subtotal	14.04%	12.12%	8.65%	5.16%
Additional Contribution	0.00%	0.50%	0.50%	0.50%
<b>Total</b>	<b>14.04%</b>	<b>12.62%</b>	<b>9.15%</b>	<b>5.66%</b>
<u>Employer Contributions - General - Orange County Public Law Library</u>				
Normal Cost	5.16%	5.56%	5.44%	5.04%
Amortization of Unfunded				
Actuarial Accrued Liability	6.56%	6.56%	3.21%	0.12%
Subtotal	11.72%	12.12%	8.65%	5.16%
Additional Contribution	0.00%	0.50%	0.50%	0.50%
<b>Total</b>	<b>11.72%</b>	<b>12.62%</b>	<b>9.15%</b>	<b>5.66%</b>
<u>Employer Contributions - General - Transportation Corridor Agencies</u>				
Normal Cost	6.56%	5.56%	5.44%	5.04%
Amortization of Unfunded				
Actuarial Accrued Liability	6.92%	6.56%	3.21%	0.12%
Subtotal	12.57%	12.12%	8.65%	5.16%
Additional Contribution	0.00%	0.50%	0.50%	0.50%
<b>Total</b>	<b>12.57%</b>	<b>12.62%</b>	<b>9.15%</b>	<b>5.66%</b>
<u>Employer Contributions - General - Orange County Sanitation District</u>				
Normal Cost	5.16%	5.56%	5.44%	5.04%
Amortization of Unfunded				
Actuarial Accrued Liability	9.65%	6.56%	3.21%	0.12%
Subtotal	14.18%	12.12%	8.65%	5.16%
Additional Contribution	0.00%	0.50%	0.50%	0.50%
<b>Total</b>	<b>14.18%</b>	<b>12.62%</b>	<b>9.15%</b>	<b>5.66%</b>
<u>Employer Contributions - General - Superior Court of the State of California, County of Orange</u>				
Normal Cost	6.48%	5.56%	5.44%	5.04%
Amortization of Unfunded				
Actuarial Accrued Liability	10.63%	6.56%	3.21%	0.12%
Subtotal	14.18%	12.12%	8.65%	5.16%
Additional Contribution	0.00%	0.50%	0.50%	0.50%
<b>Total</b>	<b>17.11%</b>	<b>12.62%</b>	<b>9.15%</b>	<b>5.66%</b>
<u>Employer Contributions - General - Orange County Local Agency Formation Commission</u>				
Normal Cost	6.07%	5.56%	5.44%	5.04%
Amortization of Unfunded				
Actuarial Accrued Liability	6.56%	6.56%	3.21%	0.12%
Subtotal	12.63%	12.12%	8.65%	5.16%
Additional Contribution	0.00%	0.50%	0.50%	0.50%
<b>Total</b>	<b>12.63%</b>	<b>12.62%</b>	<b>9.15%</b>	<b>5.66%</b>

**Percent of Members' Payroll  
(Continued)**

	07/05-12/05	07/04-06/05	07/03-06/04	07/02-06/03
<u>Employer Contributions - Safety - Law Enforcement</u>				
Normal Cost	16.86%	16.86%	16.53%	15.87%
Amortization of Unfunded				
Actuarial Accrued Liability	22.03%	22.03%	20.84%	8.65%
Subtotal	38.89%	38.89%	37.37%	24.52%
Additional Contribution	0.00%	0.50%	0.50%	0.50%
<b>Total</b>	<b>38.89%</b>	<b>39.39%</b>	<b>37.87%</b>	<b>25.02%</b>
<u>Employer Contributions - Safety - Firefighters</u>				
Normal Cost	17.98%	17.98%	17.85%	10.30%
Amortization of Unfunded				
Actuarial Accrued Liability	14.90%	14.90%	16.31%	1.39%
Subtotal	32.88%	32.88%	34.16%	11.69%
Additional Contribution	0.00%	0.50%	0.50%	0.50%
<b>Total</b>	<b>32.88%</b>	<b>33.38%</b>	<b>34.66%</b>	<b>12.19%</b>
<u>Employer Contributions - Safety - Probation</u>				
Normal Cost	6.57%	4.02%	4.38%	5.04%
Amortization of Unfunded				
Actuarial Accrued Liability	8.23%	8.23%	3.69%	0.12%
Subtotal	14.80%	12.25%	8.07%	5.16%
Additional Contribution	0.00%	0.50%	0.50%	0.50%
<b>Total</b>	<b>14.80%</b>	<b>12.75%</b>	<b>8.57%</b>	<b>5.66%</b>

The Memorandum of Understanding (MOU) between OCERS and certain participating employers required that Employer Contributions must increase by the lesser of .50% of pay or the amount necessary to increase OCERS' Unallocated Fund Balance (UFB) to 3% of OCERS' adjusted total assets. Those sponsors paying the additional contributions are listed in the table above for reference.

#### D. Plan Termination

There are no Plan termination provisions available to the County under the Employees Retirement Law of 1937. Special Districts may terminate their participation if a majority of the members in their Plan vote in the affirmative to do so.

#### E. Cash and Cash Equivalents

At any given time, OCERS' investment portfolios may contain funds not yet invested in securities. These funds are invested in short-term money market funds including the Orange County Treasurer's Investment Pool. In addition, OCERS maintains an operating cash balance at a local financial institution that is used for retirement payroll and other operational expenses. On December 31, 2005,

OCERS had money market funds of \$143,819,374 invested with OCERS' master trust custodian bank, State Street California, \$27,739,129 invested with Wells Fargo Bank and \$15,679,771 invested with the Orange County Treasurer's Investment Pool. All of the cash invested is uninsured and uncollateralized; interest on the money market funds and in the Orange County Treasurer's Investment Pool are computed on an average daily balance. The total amount of Cash and Cash Equivalents as of December 31, 2005 was \$187,238,274.

#### F. Investments

OCERS is in conformance with the "County Employees Retirement Law of 1937" and the California Government Code. California law follows the "prudent person" rule for investing by retirement systems.

For the 2005 fiscal year, OCERS has implemented the Governmental Accounting Standards Board Statement 40. In accordance with GASB 40, OCERS discloses investments that are subject to certain risks: Custodial Credit Risk, Concentration of Credit Risk, Interest Rate Risk, and Foreign Currency Risk. The GASB 40 disclosures replace the investments risk categories table included in the 2004 OCERS Comprehensive Annual Financial Report.

## Credit Risk

Credit Risk is the risk that an issuer or other party to an investment will not fulfill its obligations. OCERS seeks to maintain a diversified portfolio of fixed income instruments to obtain the highest total return for the fund at an acceptable level of risk.

## Fixed Income Securities

Most fixed income securities are rated by one or more corporate credit rating agencies such as Moody's, Standard and Poors, or Fitch IBCA. These ratings help potential investors determine the risk associated with investing in a specific company, investing instrument or market. Presented below are two tables listing fair values of fixed income investments categorized by rating as of December 31, 2005.

Investment Type	AAA	AA	AA+	AA-	A	A-	A+	BBB	BBB-	BBB+
Corporate Bonds	47,678,943	195,874	-	2,301,659	610,730	3,642,765	1,755,332	10,812,035	9,855,986	1,399,614
Int'l Corp. Bonds	47,332,821	-	-	-	-	-	-	-	-	-
CMO	12,536,803	-	-	-	-	-	-	-	-	-
Government Issues	848,952,758	7,477,625	-	231,051,652	4,903,950	-	-	5,934,360	903,120	-
Int'l Govt. Issues	206,621,589	-	-	121,157,685	-	-	-	-	-	-
FHLMC/FNMA	270,506,330	-	-	-	-	-	-	-	-	-
Convertible Bonds	-	-	-	-	-	-	-	-	-	1,532,700
Other Asset	9,538,960	-	-	-	-	1,335,212	-	-	567,392	802,514
Int'l Other Asset	-	-	-	-	-	-	-	-	-	-
Municipals	2,106,290	303,528	1,772,760	-	-	-	226,948	5,871,518	-	-
STIF	-	-	-	-	-	-	-	-	-	-
International STIF	-	-	-	-	-	-	-	-	-	-
Short term	-	-	-	-	-	-	-	-	-	-
<b>Domestic Fixed</b>	<b>1,191,320,084</b>	<b>7,977,027</b>	<b>1,772,760</b>	<b>233,353,311</b>	<b>5,514,680</b>	<b>4,977,977</b>	<b>1,982,280</b>	<b>22,617,913</b>	<b>11,326,498</b>	<b>3,734,828</b>
<b>Int'l Fixed</b>	<b>253,954,410</b>	<b>-</b>	<b>-</b>	<b>121,157,685</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Grand Totals</b>	<b>1,445,274,494</b>	<b>7,977,027</b>	<b>1,772,760</b>	<b>354,510,996</b>	<b>5,514,680</b>	<b>4,977,977</b>	<b>1,982,280</b>	<b>22,617,913</b>	<b>11,326,498</b>	<b>3,734,828</b>

Investment Type	BB	BB+	BB-	B	B+	B-	CCC& Below	Not Rated	A+/P1*	Total Fair Value
Corporate Bonds	16,277,892	6,667,363	20,587,688	17,612,488	9,636,538	18,226,974	3,984,750	26,264,378	2,295,856	<b>199,806,865</b>
Int'l Corp. Bonds	-	-	-	-	-	-	-	-	-	<b>47,332,821</b>
CMO	-	-	-	-	-	-	-	-	-	<b>12,536,803</b>
Government Issues	238,500	-	14,825,185	165,246	81,742	1,116,711	-	-	53,538	<b>1,115,704,387</b>
Int'l Govt. Issues	-	-	-	-	-	-	-	-	-	<b>327,779,274</b>
FHLMC/FNMA	-	-	-	-	-	-	-	-	-	<b>270,506,330</b>
Convertible Bonds	-	217,264	-	731,175	-	2,625,000	1,684,625	998,588	5,046,280	<b>12,835,632</b>
Other Asset	-	1,716,900	-	-	-	-	-	10,678,648	394,612	<b>25,034,238</b>
Int'l Other Asset	-	-	-	-	-	-	-	-	94,948,730	<b>94,948,730</b>
Municipals	-	-	-	-	-	-	-	159,771	-	<b>10,440,815</b>
STIF	-	-	-	-	-	-	-	-	116,978,399	<b>116,978,399</b>
International STIF	-	-	-	-	-	-	-	-	2,371,388	<b>2,371,388</b>
Short term	-	-	-	-	-	-	-	-	104,697,206	<b>104,697,206</b>
<b>Domestic Fixed</b>	<b>16,516,392</b>	<b>8,601,527</b>	<b>35,412,873</b>	<b>18,508,909</b>	<b>9,718,280</b>	<b>21,968,685</b>	<b>5,669,375</b>	<b>38,101,385</b>	<b>229,465,891</b>	<b>1,868,540,675</b>
<b>Int'l Fixed</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>97,320,118</b>	<b>472,432,213</b>
<b>Grand Totals</b>	<b>16,516,392</b>	<b>8,601,527</b>	<b>35,412,873</b>	<b>18,508,909</b>	<b>9,718,280</b>	<b>21,968,685</b>	<b>5,669,375</b>	<b>38,101,385</b>	<b>326,786,009</b>	<b>2,340,972,888</b>

\* Fixed Income Investments listed as A+/P1 are the highest rated categories but not compatible with the rating scale on this table.

### Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that in the event of a financial institution's failure, OCERS would not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. OCERS' deposits are not exposed to custodial credit risk as its deposits are eligible for and covered by "pass-through insurance" in accordance with applicable law and FDIC rules and regulations. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, OCERS would not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. OCERS' investment securities are not exposed to custodial credit risk because all securities are held by OCERS' custodial bank in OCERS' name.

### Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This type of risk is directly associated with the possibility of a reduction in the fair value of a security, especially bonds, resulting from a rise in market interest rates. Investments become more sensitive to interest rate risk as maturity dates are extended. Exposure to this type of risk is managed by purchasing a combination of shorter-term and longer-term investments and by timing cash flows over time to provide liquidity needed for operations. The table below provides a summary of exposure as expressed in years to maturity as of December 31, 2005.

Investment Type	Less than 1 year	1 year to 5 years	6 years to 10 years	More than 10	Total Fair Value
Corporate Bonds	6,212,687	67,891,194	47,214,698	78,488,286	199,806,865
Int'l Corporate Bonds	-	-	47,332,821	-	47,332,821
CMO	-	-	-	12,536,803	12,536,803
Government Issues	30,677,279	360,818,030	528,356,128	195,852,950	1,115,704,387
Int'l Government Issues	-	301,570,319	121,157,685	-	422,728,004
FHLMC	-	-	-	8,272,541	8,272,541
FNMA	-	-	127,852	257,550,805	257,678,657
GNMA I	-	-	-	4,555,132	4,555,132
Convertible Bonds	-	6,289,180	5,013,752	1,532,700	12,835,632
Other Asset Backed	-	917,489	1,348,054	22,768,695	25,034,238
Municipals	-	-	540,840	9,899,975	10,440,815
STIF	116,978,399	-	-	-	116,978,399
Int'l STIF	2,371,388	-	-	-	2,371,388
Short term	104,697,206	-	-	-	104,697,206
Domestic Totals	258,565,571	435,915,893	582,601,324	591,457,887	1,868,540,675
International Totals	2,371,388	301,570,319	168,490,506	-	472,432,213
<b>Grand Total</b>					<b>2,340,972,888</b>

### Concentration of Credit Risk

Concentration Risk is the risk of financial loss that results from investing too much from the total portfolio in any one investment. Investments in mutual funds help limit exposure to concentration risk because these investment types represent a collection or grouping of individual investments. The table below represents the 10 largest investments by OCERS as of December 31, 2005. OCERS did not invest in any single issue of security totaling more than five percent of the System's net assets. Three of the largest investments total more than five percent, however these investments are mutual funds and do not represent a single issue of a specific security.

CUSIP	Security Name	Base Market Value	Asset Class	Investment Type Name	Percent of Total Plan
055996961	BGI EAFE Equity Index Fund	675,929,704	Equity	Mutual Funds	10.89%
055996987	BGI US Debt Index	611,323,513	Equity	Mutual Funds	9.85%
056994981	BGI Russell 1000 Index Fund	507,631,676	Equity	Mutual Funds	8.18%
40699X935	International Emerging Mkt Fund	193,472,738	Equity	Non-Secy Asset-Stock	3.12%
108991910	Bridgewater St Inv Fd LLC	166,237,582	Equity	Mutual Funds	2.68%
55499V921	MSCI Emg Mkts Free	126,159,014	Equity	Mutual Funds	2.03%
18299E911	Bridgewater Pure Alpha	107,200,251	Equity	Non-Secy Asset-Stock	1.73%
90199K917	US TIPS Fund	105,963,520	Equity	Non-Secy Asset-Stock	1.71%
912828BW9	United States Treas NTS	101,635,519	Fixed Income	Government Issues	1.64%
702993981	Pass Wrld Gov Bond SI CTF	94,948,730	Equity	Mutual Funds	1.53%

### Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The table below displays the extent of exposure to Foreign Currency Risk by market value in US Dollars as of December 31, 2005.

Local Currency	Common Stock	Foreign Currency	Depository Receipts	Government Issues	Corporate Bond	Preferred Stock	Total
Australian Dollar	16,757,112	181,285	888,061	11,219,534	0	0	29,045,991
Brazilian Real	0	0	0	0	1,992,378	0	1,992,378
Canadian Dollar	28,196,155	528,323	0	16,473,959	1,950,635	0	47,149,071
Danish Krone	2,679,400	6,265	0	0	0	0	2,685,664
Euro Currency	179,197,352	11,187,984	1,279,340	163,936,834	20,444,643	102,134	376,148,286
Hong Kong Dollar	9,200,150	210,986	0	0	0	0	9,411,136
Indonesian Rupiah	538,711	0	0	0	0	0	538,711
Japanese yen	208,132,798	1,540,077	0	121,157,6850	28,837,478	0	359,668,038
Mexican Peso	0	270,893	0	6,230,699	0	0	6,501,593
New Zealand Dollar	212,338	7,681	0	0	7,485,269	0	7,705,288
Norwegian Krone	3,833,068	163,112	0	1,498,813	0	0	5,494,993
Pound Sterling	89,305,999	62,812	0	114,323	1,325,717	0	90,808,850
Singapore Dollar	6,096,139	30,480	0	3,801,592	2,925,385	0	12,853,596
South African Rand	5,799,543	0	0	0	0	0	5,799,543
South Korean Won	6,654,867	1	0	0	0	0	6,654,867
Swedish Krona	14,641,456	178,977	393,059	33,499,099	0	0	48,712,592
Swiss Franc	50,521,791	85,253	0	0	0	0	50,607,044
Thailand Baht	0	0	0	0	4,947,305	0	4,947,305
TOTALS*	621,766,877	14,454,128	2,560,459	69,908,809	102,134	102,134	1,066,724,947

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

\* Foreign currency is embedded in the total values for International Fixed Income, International Equity, and Cash & Equivalents. (See page 21)

## Net Appreciation

During 2005 and 2004, OCERS' investments (including investments bought and sold, as well as held during each year) appreciated in value by \$326,004,647 and by \$458,929,090, respectively.

	Years Ended December 31	
	2005	2004
Net Appreciation in Fair Value as Determined by Quoted Market Prices:		
Domestic Equity Securities	\$ 71,194,896	\$ 160,159,217
United States Government Debt Securities, Corporate & Foreign Bonds & Debentures	(27,603,443)	96,077,185
International Equity Securities	241,082,668	171,189,163
Subtotal	284,674,121	427,425,565
Net Appreciation (Depreciation) in Fair Value as Determined by Estimated Fair Value:		
Real Estate	37,853,907	26,605,417
Alternative	3,476,619	4,898,108
<b>Total Net Appreciation</b>	<b>\$ 326,004,647</b>	<b>\$ 458,929,090</b>

## Securities Lending and Custodial Risk

OCERS' investment policy permits the pension trust fund to participate in a securities lending program. Domestic and international equities as well as domestic and international fixed income securities are loaned to brokers who provide collateral in the form of cash. This collateral must equal 102 percent of the fair market value for domestic loans and 105 percent of the fair market value for international loans and the values are priced daily. OCERS invests the collateral in short-term securities that cannot be pledged or sold by OCERS unless the borrower defaults. Income is also realized from the securities lending fees paid by the broker-borrower. OCERS' practice is to match the term to maturity of the securities lent with the term to maturity of the collateral investment. There are no restrictions on the amount of securities that can be lent at any one time. OCERS experienced no violations of its securities lending provisions in 2005. Securities on loan at year-end to various securities brokers for 2005 and 2004, at fair market values were \$607,697,410 and \$789,361,298 respectively.

State Street California serves as OCERS' broker for its securities lending program. State Street California holds securities purchased with collateral for OCERS in a separate collateral account. State Street California, OCERS' custodial bank, provides indemnification against dealer default. OCERS experienced no losses on its securities lending program for the years ended December 31, 2004 and 2005.

Gross security lending revenue for 2005 and 2004 were \$1,780,852 and \$1,203,204 respectively. At December 31, 2005 and 2004, OCERS held broker collateral with fair values totaling \$627,056,237 and \$809,189,577. 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.

## International Investments

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

## Alternative Investments

OCERS has utilized two different methods of investing in alternatives. The first is to employ a management firm to invest in both limited partnerships and direct private placements. The second method is for OCERS to participate as a limited partner in a limited partnership fund. As of December 31, 2005, OCERS had approximately \$39,128,580 of open commitments in four alternative investments. Alternative investments may include venture capital, corporate finance, buyout, energy, oil and gas.

### Derivative Holdings Held for Trading Purposes

OCERS may hold derivatives in its domestic fixed income portfolio (See note F for other derivative investments). The investment objective of holding derivative securities is to achieve favorable yields and advantageous risk/reward profiles. The U.S. Government guarantees the majority of these securities.

Securities	Fair Value 2005	Fair Value 2004
FHLMC	\$ 8,272,541	\$ 11,100,000
FNMA	257,678,657	51,061,000
GNMA	4,555,132	6,254,000
CMO	12,536,803	9,955,000
Others	25,034,238	28,870,000
<b>Total Derivative Securities</b>	<b>\$ 308,077,371</b>	<b>\$ 107,240,000</b>

### G. Financial Investments with Off Balance Sheet Risk

#### 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, 2005 and 2004. 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, 2005 and 2004, OCERS had net forward currency contract receivables of \$39,750 and \$288,145, respectively.

#### Financial Futures Contracts Held for Purposes Other than Trading

On December 31, 2005 and 2004, OCERS held open contracts of \$104,736,789 and \$196,269,000, respectively, for the purchase of Treasury notes and Financial Future Euro Dollars with delivery at specified

future dates. Risks associated with holding Financial Futures contracts include movements in security values and/or interest rates. OCERS realized a net appreciation in 2005 of \$1,020,329 and a net depreciation in 2004 of \$1,319,460.

OCERS is required to maintain a deposit with the broker as collateral to support open futures contracts. On December 31, 2005 and 2004, OCERS had collateral deposits of \$4,680,000 and \$3,376,000, respectively.

### H. Administrative Expenses

Section 31580.2 of the Government Code limits the annual administrative expenses of the retirement system to 18/100 (18 basis points) of the total assets of the retirement system. Total administrative expenses subject to the statutory limitation for the years ended December 31, 2005 and 2004 were \$8,445,952 and \$8,117,659, respectively. The total administrative expenses were under the 18 basis points limitation which were \$10,939,983 and \$10,002,592, respectively. These expenses are financed by investment income. Additionally, Section 31596.1 of the Government Code allows certain costs to be excluded from the statutory limitation. The excluded costs are included in the amounts classified as administrative expenses for OCERS' financial statements.

	Years Ended December 31	
	2005	2004
Expenses Subject to the Statutory Limitation:		
Personnel Services:		
Board Members' Allowance	\$ 13,100	\$ 11,900
Employee Salaries and Benefits	4,821,842	4,630,735
Total Personnel Services	4,834,942	4,642,635
Office Operating Expenses:		
Operating Expenses	860,799	903,770
Professional Services	1,452,669	1,221,112
Rent/Leased Real Property	844,184	871,695
Depreciation/Amortization	453,358	478,447
Total Office Operating Expenses	3,611,010	3,475,024
Total Expenses Subject to the Statutory Limitation	8,445,952	8,117,659
Expenses Not Subject to the Statutory Limitation:		
Commingled Interest Cost	14,946	19,392
Actuarial Fees	400,090	161,774
Fund Evaluation Costs	320,300	330,809
Custodian Services	180,000	288,529
Investment Department Expenses	572,689	540,959
Legal Costs	18,893	4,296
Total Expenses Not Subject to the Statutory Limitation	1,506,918	1,345,759
<b>Total Administrative Expenses</b>	<b>\$ 9,952,870</b>	<b>\$ 9,463,418</b>

## I. Reserve Accounts

The plan net assets of \$6,077,768,385 as of December 31, 2005 include reserves of \$5,546,149,732 and unreserved net assets of \$531,618,653. The unreserved net assets include the County Investment Account. The reserve balances as of December 31, 2005 are as follows:

	Active Members Reserve	Retired Members Reserve	Employer Advanced Reserve	RMBR Reserve	Unclaimed Reserve	Unrealized Gains	Total Plan Net Assets
General Ledger Balance	\$1,075,609,561	\$2,987,743,608	\$1,470,964,580	\$10,629,690	\$1,202,293	\$531,618,653	\$ 6,077,768,385
Less: Accounts Receivable for Interest Credited to Reserves	(38,987,939)	(151,769,012)	(110,419,847)	-	-	-	(301,176,798)
<b>Net Reserves</b>	<b>\$1,036,621,622</b>	<b>\$2,835,974,596</b>	<b>\$1,360,544,733</b>	<b>\$10,629,690</b>	<b>\$1,202,293</b>	<b>\$531,618,653</b>	<b>\$ 5,776,591,587</b>

The Additional Retiree Benefit Account (ARBA) results from a Memorandum of Understanding (MOU) with the County of Orange and subsequently with all employers. The amounts maintained in the ARBA are to be applied to health insurance or other supplemental benefits for OCERS' retirees. There were no transfers to the ARBA accounts in years 2005 and 2004 because the UFB was zero; the remaining balance of ARBA account was used to credit interest to other reserves.

The Retirement Board adopted the creation of the Retired Members Benefit Reserve (RMBR) for OCERS' retirees in

the year 2002 to ensure the continued funding of the retiree supplemental benefits for three years. All participating agencies could transfer a projected three year benefit payment to the RMBR balance that was created as a sub-account of the Employer Advanced Reserve Account. The RMBR account will be used to pay additional benefits to retirees in lieu of payments out of the ARBA balance in circumstances where the ARBA balance is depleted. The RMBR balance will not receive the bi-annual interest credit and it will be funded on a three year rolling method. The balance of the RMBR at year-end was approximately \$10,629,690.

## Required Supplementary Information

**Schedule of Funding Progress**  
(Dollars in Thousands)

Actuarial Valuation Date December 31	Actuarial Value (\$) of Plan Assets (a)	Actuarial Accrued Liability (\$) (b)	Total Unfunded Actuarial Accrued Liability (UAAL) (\$) (b-a=c)	Funded Ratio (%) (a/b)	Covered Payroll (\$) (d)	UAAL as a Percentage (%) of Covered Payroll (c/d)
2000	4,497,362	4,335,025	(162,337)	103.74%	994,669	-16.32%
2001	4,586,844	4,843,899	257,055	94.69%	1,122,763	22.89%
2002	4,695,675	5,673,754	978,079	82.76%	1,242,348	78.73%
2003	4,790,099	6,099,433	1,309,334	78.53%	1,243,964	105.25%
2004*	5,245,821	7,403,972	2,158,151	70.85%	1,257,085	171.68%
2005	5,786,617	8,089,627	2,303,010	71.53%	1,276,764	180.38%

\*Effective December 31, 2004 the actuarial valuation of plan assets was changed to a 5-year smoothing methodology based on market value rather than a rolling 5-year modified book value. Restated per Segal's report dated December 31, 2005.

**Note:**

- The 12/31/00, 12/31/01, 12/31/02, 12/31/03, 12/31/04 and 12/31/05 actuarial value of assets exclude \$272,789,000, \$221,643,000, \$143,675,000, \$143,744,000, \$155,245,000 and \$158,218,736 of the County Investment Account balances respectively.

**Schedule of Employer Contributions**

	2005	2004	2003	2002	2001	2000
Annual Required Contribution*	\$227,892,000	\$194,430,000	\$124,243,000	\$13,289,000	\$12,060,000	\$15,561,000
Percentage Contributed**	100%	100%	100%	100%	100%	100%

\* Employer contributions reflect cash payments only. Please see note C on page 27 for amounts transferred from the County Investment Account.

\*\* Annual Required Contributions do not reflect discounts provided due to interest awarded on prepayments.

### Latest Actuarial Valuation Methods and Assumptions

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 status of the fund on a going-concern basis and to evaluate the progress made in accumulating assets for paying benefits when due.

#### 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	12/31/2005
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll.
Remaining amortization period	29 years for Firefighters and Law Enforcement personnel
Remaining amortization period	29 years for others
Asset valuation method	5 year smoothing between the actual market value and the expected (currently at 7.75%) return on market value
Actuarial assumptions	
Investment rate of return	7.75%
Projected Salary Increases	3.50% per annum
Includes inflation at	3.50% subject to Tier maximum
Cost-of-living adjustments	3.00% per annum with excess banked

### Significant Factors Affecting Trends in Actuarial Information

#### 2005 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

The Investment rate of return was increased to 7.75% effective December 31, 2004.

The Actuarial Cost method was changed to Entry Age Normal effective December 31, 2005.

Salary scale changed from 4.5% to 3.5% per annum per individual.

Reset amortization period for all members to 30 years.

Retirement formula for General Members of the County of Orange, (except for AFSCME bargaining unit) changed to 2.7% at 55 effective July 1, 2005.

Retirement formula for the Orange County Superior Court changed to 2.7% at 55 effective July 1, 2005.

Retirement formula for the Sanitation District changed to 2.5% at 55 effective July 1, 2005.

Retirement formula for the Transportation Corridor Agencies changed to 2% at 55 effective July 1, 2005.

Retirement formula for the Orange County Public Law Library changed to 2.5% at 55 (future service only) effective July 1, 2005.

Retirement formula for LAFCO was changed to 2.7% at 55 (future service only) effective July 1, 2005.

Retirement formula for the Children and Families Commission of Orange County changed to 2.7% at 55 (future service only) effective December 23, 2005.

Retirement formula for OCERS' management changed to 2.7% at 55 (future service only) effective July 1, 2005.

Retirement formula for probation officers changed to 3% at 50 (future service only) effective June 10, 2005.

#### 2004 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

Effective January 1, 2004, the actuarial value of assets will be calculated by smoothing the difference between the actual and the expected (currently 7.5% per annum) return on market value.

Retirement formula for General Members of the Orange County Fire Authority changed to 2.7% at 55 effective July 1, 2004.

#### 2003 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

The City of Rancho Santa Margarita adopted a 2.5% at 55.

Retirement formula for the City of San Juan Capistrano changed to 2.7% at 55.

**Significant Factors Affecting Trends in Actuarial Information (Continued)**

**2002 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year**

Retirement formula for Fire Authority personnel changed to 3% at 50.

All probation officers' status changed from General to Safety with a retirement formula of 2% at 50 effective June 28, 2002.

Interest rate assumption changed from 8.0% to 7.5%.

Salary scale changed from 5.5% to 4.5%.

Reset amortization period to 30 years except for actuarial gains and losses related to Fire Authority and Law Enforcement personnel.

**2001 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year**

Retirement formula for Law Enforcement personnel changed to 3% at 50.

**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 California Supreme Court Decision - Ventura County**

Expanded the definition of compensation earnable.

**1995 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year**

Salary scale changed from 6.0% to 3.5% per annum per individual through the year 2000, and 5.5% thereafter.

**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

**Schedule of Administrative Expenses**  
**Years Ended December 31, 2005 and 2004**

	2005	2004
<b>Expenses Subject to the Statutory Limitation</b>		
Personnel Services:		
Board Members' Allowance	\$ 13,100	\$ 11,900
Employee Salaries and Benefits	4,821,842	4,630,735
<b>Total Personnel Services</b>	<b>4,834,942</b>	<b>4,642,635</b>
Professional Services:		
Benchmarking Services	-	30,000
Legal Fees	223,112	122,926
Financial and Internal Audits	111,841	102,705
Mortality Verification	3,772	3,731
Information Technology Consultant	465,509	412,653
Hearing Officers/Medical Consultants	446,743	406,168
Financial Strategy Seminars	20,716	11,180
Miscellaneous	180,976	131,749
<b>Total Professional Services</b>	<b>1,452,669</b>	<b>1,221,112</b>
Other Operating Expenses:		
Telephone	44,515	73,925
Maintenance	284,573	262,600
Printing Services	103,704	141,084
Building and Equipment Leases	844,184	871,695
Transportation, Travel and Training	105,051	92,830
Postage Expense	115,143	167,173
Office Expense	207,813	166,158
Depreciation Expense	453,358	478,447
<b>Total Other Operating Expenses</b>	<b>2,158,341</b>	<b>2,253,912</b>
<b>Total Expenses Subject to the Statutory Limitation*</b>	<b>8,445,952</b>	<b>8,117,659</b>
<b>Expenses Not Subject to the Statutory Limitation</b>		
Fund Evaluation Cost	320,300	330,809
Custodian Services	180,000	288,529
Commingled Interest Cost	14,946	19,392
Actuarial Cost, net	400,090	161,774
Legal Costs	18,893	4,296
Investment Department Expenses	572,689	540,959
<b>Total Expenses Not Subject to the Statutory Limitation</b>	<b>1,506,918</b>	<b>1,345,759</b>
<b>Total Administrative Expenses</b>	<b>\$ 9,952,870</b>	<b>\$ 9,463,418</b>

(\*Please see note H on page 36.)

**Schedule of Investment Expenses  
For the Years Ended December 31, 2005 and 2004**

	2005	2004
<b>Investment Expense by Category</b>		
Domestic/Global Fixed Income	\$3,411,195	\$2,857,974
Domestic Equity	\$4,017,036	\$4,168,175
Real Estate	\$3,556,711	\$3,801,121
Limited Partnership	\$674,831	\$848,170
Venture Capital	\$3,058,850	\$2,989,461
International Equity	\$3,293,617	\$2,727,795
<b>Subtotal</b>	<b>\$18,012,240</b>	<b>\$17,392,696</b>
<b>Security Lending Fees</b>		
Security Lending Fees	\$355,566	\$346,420
<b>Total Investment Expenses</b>	<b>\$18,367,806</b>	<b>\$17,739,116</b>

**Schedule of Payments for Professional Services  
Years Ended December 31, 2005 and 2004**

Name of Firms	Type of Services	2005	2004
<b>Professional Expenses Subject to the Statutory Limitation</b>			
County of Orange	Board Elections	\$ 48,019	\$ 4,834
County of Orange	Data Services	25,875	22,172
County of Orange	Cost Allocation (CWCAP)	17,505	17,730
CEM, Inc.	Benchmarking Services	-	30,000
Netifice Communication, Inc.	Internet Usage	17,182	32,945
Manpower, Inc.	Temporary Personnel	42,465	38,274
Select Personnel Services	Temporary Personnel	15,504	-
E-Partners	System Consulting	3,526	-
Hanson Bridgett	Legal Services	8,938	15,727
Foley & Lardner	Legal Services	3,616	1,916
Steeffel, Levitt & Weiss	Legal Services	192,558	87,284
Schott & Lites Advocates	Legislative Counseling	18,000	18,000
Link, Murrel & Company	Audit Services	111,841	102,705
The Berwyn Group	Mortality Verification	3,772	3,731
Various Firms	Disability/Medical Hearings	446,743	406,168
Financial Management Specialists	Financial Strategy Seminars	20,716	11,180
Iron Mountain	Offsite Data Storage	5,350	4,806
Linea Solutions	System Consulting	345,101	341,308
Levi, Ray, & Shoup, Inc.	System Improvement	99,700	38,400
Various Professional Firms	Other Services	26,258	43,932
<b>Total Professional Expenses Subject to the Statutory Limitation</b>		<b>\$ 1,452,669</b>	<b>\$ 1,221,112</b>
<b>Professional Expenses Not Subject to the Statutory Limitation</b>			
Callan Associates, Inc./ The Townsend Group	Performance Evaluation	282,000	282,509
Informa Investment Solutions (Effron Enterprises, Inc.)	Performance Evaluation	800	800
G. Shilling	Board and Staff Education	5,000	5,000
ISI Group	Performance Evaluation	25,000	25,000
Douglas Gillespie	Performance Evaluation	2,500	2,500
Zephyr Associates, Inc.	Performance Evaluation	5,000	15,000
State Street Bank and Trust Company	Custodian Services	180,000	288,529
County of Orange	Commingled Interest Cost	14,946	19,392
Towers Perrin	Actuarial Services	5,920	119,274
The Segal Company	Actuarial Services	394,170	42,500
Stradling, Yocca, Carlson, & Rauth	Legal Counsel	18,893	4,296
Investment Department Expenses	Investment Expenses	572,689	540,959
<b>Total Professional Expenses Not Subject to the Statutory Limitation</b>		<b>1,506,918</b>	<b>1,345,759</b>
<b>Total All Professional Expenses</b>		<b>\$ 2,959,587</b>	<b>\$ 2,566,870</b>



SECTION

3



# > INVESTMENTS

# CALLAN ASSOCIATES<sup>INC.</sup>



SAN FRANCISCO

NEW YORK

CHICAGO

ATLANTA

DENVER

May 12, 2006

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, 2005.

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 using a time-weighted return methodology based upon market values. 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.

For the third consecutive year, the domestic equity markets extended their positive total returns but in a modest manner. The S&P 500 rose 4.91%, the Dow was up a modest 1.72% and the NASDAQ advanced only 2.13%.

Despite solid earnings and economic growth, escalating oil prices and the Iraq war plagued US markets all year. Not surprisingly, energy was the best performing sector of the S&P 500 for 2005.

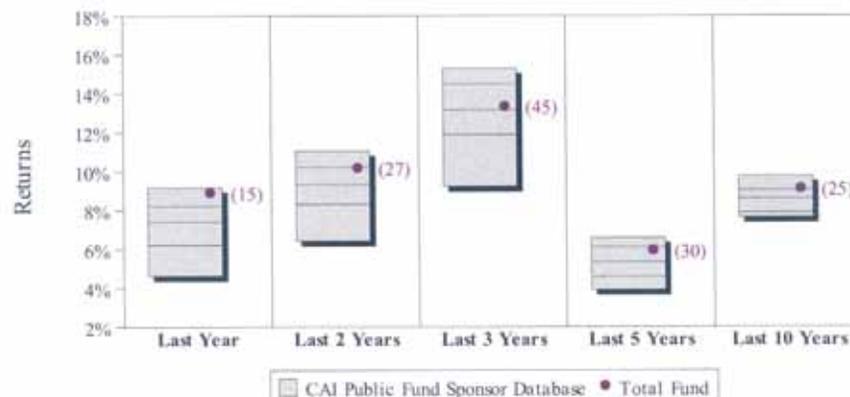
Within the fixed income market, the Lehman Aggregate posted a return of only 2.43% for the year. Credit bonds (1.96%) trailed government bonds (2.65%) as interest rates, particularly at the shorter end of the maturity spectrum, rose sharply through the year.

The resurgence in the overseas stock markets that began in the 2003 continued through 2004 and 2005. Measured in U.S. dollar terms, international stocks outperformed domestic stock indices by a wide margin despite the fact that the dollar appreciated in value. The MSCI-EAFE advanced 13.54% for the year. Measured in local currency terms, the EAFE index gained only a very strong 29.00%. Emerging markets continued to surge as evidenced by the MSCI-Emerging Markets Index that advanced 34.54%.

For the calendar year, OCERS' total fund had a time-weighted total return of 8.83%. The return essentially matched the System's strategic policy benchmark target return of 8.85% and ranked in the 15<sup>th</sup> percentile of Callan's Public Fund database. The policy benchmark was modified during the year to reflect the introduction of an "absolute return" component. The total fund target is currently comprised of the following indices in the percentages as indicated: Lehman Brothers U.S. Universal Bond Index (19%); MSCI-EAFE (18%); Russell 3000 (18%); NCREIF Total Index (10%); Lehman US TIPS (10%); Citigroup Non-\$ Government Bond Index Hedged (3.6%); Citigroup Non-US World Gov't Bond Index (6.4%); OCERS Non-traditional (5%); MSCI-Emerging Markets Index (5%); and the 3-month Treasury Bill + 7% (5%). Over the trailing 3-year period, a span that includes three years of recovering equity market returns, OCERS has achieved an annualized return of 13.26%. This return is handsomely above the System's actuarial earnings target and better than the database median. Over longer-term periods, the System's total return also has been strong particularly when evaluated on a risk-adjusted basis. For example, the ten and thirteen and one-half year return (the longest for which Callan has performance data) of 9.04% and 9.60% respectively exceeded the median public fund. These results were achieved while experiencing lower than median level of volatility.

The graph below depicts the Total Fund relative to Callan's Total Public Fund Database for cumulative periods ended December 31, 2005.

**CAI Public Fund Sponsor Database**



The System's well-diversified and comparatively conservative allocation strategy was the primary driver in the achievement of strong relative performance results for all periods that include the difficult bear market of 2000-2002. OCERS' active stock and bond managers added value in 2005 and in the vast majority of longer cumulative periods ended 2005.

OCERS' domestic bond component again outperformed its target index for the year (+3.13% versus +2.71% for the Lehman U.S. Universal Bond Index). The outperformance for the year was largely attributable to OCERS managers' emphasis on credit bonds. Over the long-term, OCERS' aggregate bond composite continues to outperform market indices and peers. For the thirteen and one-half years ended 12/31/05, OCERS' bond composite ranks in the fifth percentile of the Public Fund database. The 8.19% annualized return exceeds the target index return of 6.89%.

OCERS' U.S. equity composite gained 7.90% in 2005. This result was better than the Russell 3000 Stock Index return of 6.12% and also better than the Callan Public Fund Domestic Equity peer group median. Over all cumulative periods considered, OCERS' domestic equity composite has achieved very strong comparative returns. For example, the trailing three-year return of 17.41% ranked in the 26th percentile and exceeded the target benchmark return of 15.90% annualized.

OCERS' international equities achieved an unusually attractive absolute composite return of 18.95%. This result exceeded the MSCI-AC World Index ex US return of 17.11% and the Public Fund database median of 14.96%.

In summary, calendar 2005 was another strong year that has helped extend OCERS' strong long-term record of very competitive returns.

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, 2005. The returns for each asset class represent 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. The method of computation of investment return is time-weighted approximation.

	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>
Domestic Equity	7.90%	17.41%	4.00%
<i>Russell 3000 Index</i>	6.12%	15.90%	1.58%
International Equity	18.95%	24.37%	4.72%
<i>MSCI AC World Ex US Index</i>	17.11%	26.20%	6.66%
<i>MSCI EAFE Index</i>	13.54%	23.68%	4.55%
Domestic Fixed	3.09%	6.71%	7.23%
<i>Lehman Bros Universal Index</i>	2.72%	4.49%	6.26%
TIPS	3.29%	N/A	N/A
<i>Lehman Bros TIPS Index</i>	2.84%	6.54%	8.75%
International Fixed Income	-3.31%	3.98%	6.52%
<i>Intl Fixed Income Target Index*</i>	-1.96%	2.80%	4.26%
Cash & Equivalents	3.24%	1.96%	2.67%
Real Estate	21.15%	13.10%	10.39%
<i>NCREIF Property Index</i>	19.19%	13.04%	10.95%
Non - Traditional	15.17%	2.29%	4.44%
Total Fund	8.83%	13.26%	5.86%
<i>Composite Policy Benchmark**</i>	8.85%	13.35%	5.76%

\* Intl Fixed Income Target Index = Citi Non-US Govt Hedged Index through 3/31/04 and 50% Citi Non-US Govt Bond and 50% Citi Non-US Govt Hedged thereafter.

\*\* Policy Benchmark = 19.0% LB US Universal Index + 18.0% MSCI EAFE Index + 18.0% Russell 3000 + 10.0% NCREIF Total Index + 10.0% LB US TIPS Index + 3.6% Citi Non-US Govt Hedged + 6.4% Citi Non-US Govt Bond Index + 5.0% OCERS-Non Traditional + 5.0% MSCI Emerging Markets + 5.0% 3-month Treasury Bill + 7%.

## 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.

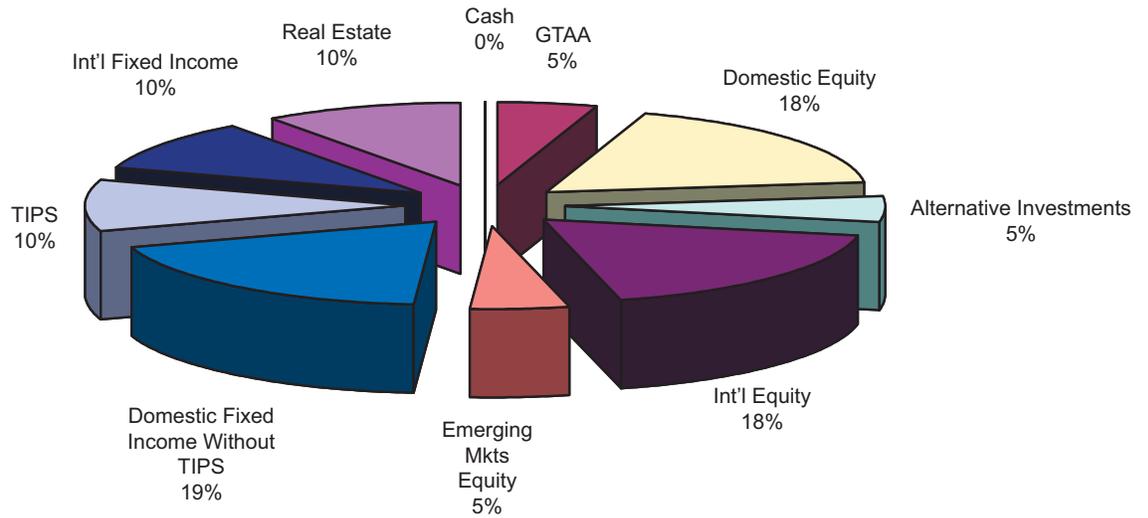
Should expected external flows be judged by staff to be insufficient to bring the plan within permitted ranges within a 12 month period, staff shall inform the Investment Committee. The Investment Committee then will formulate a recommendation to shift assets that will be presented to the full Board.

### Program Administration and Manager Structure

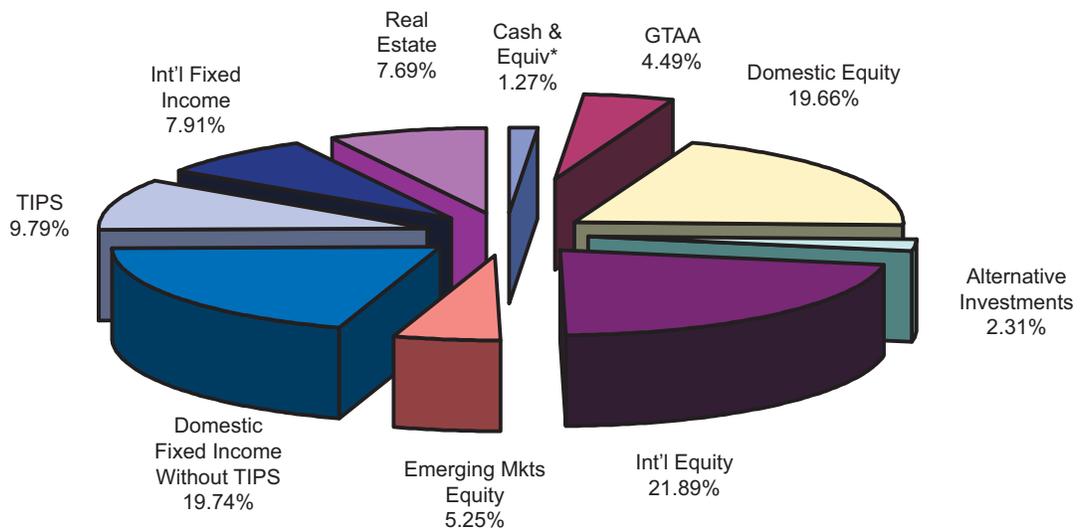
For each major asset class, the System shall diversify assets by employing managers with demonstrated skill in their particular areas of expertise. The System will retain managers who utilize varied investment approaches and allocate assets in a manner that is consistent with the overall strategic plan.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

## Asset Diversification December 31, 2005

### Policy

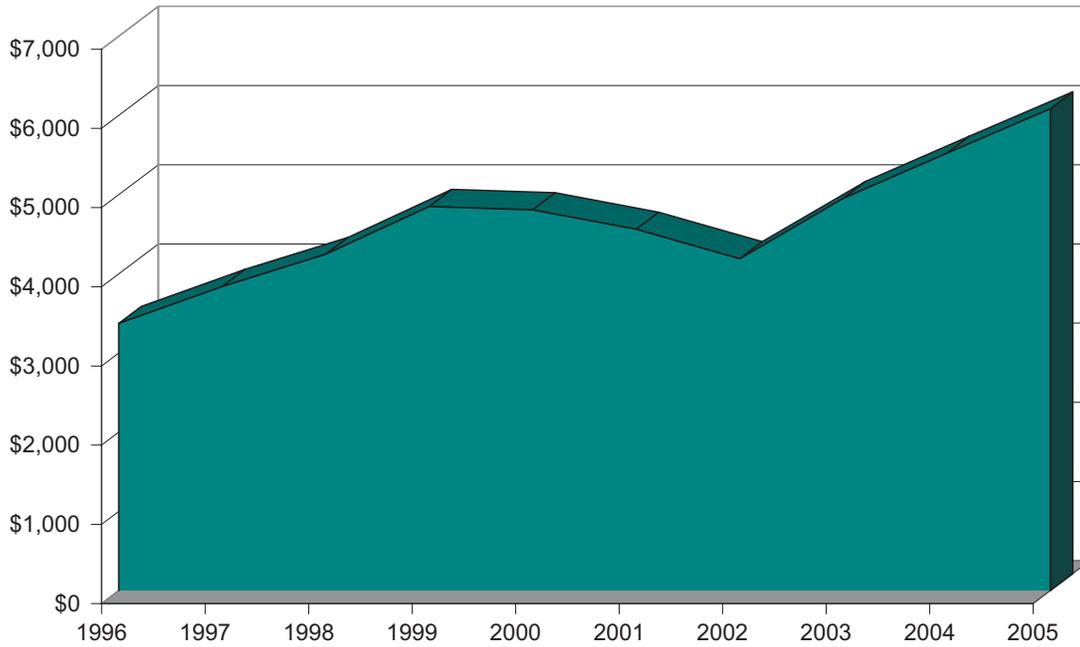


### Actual

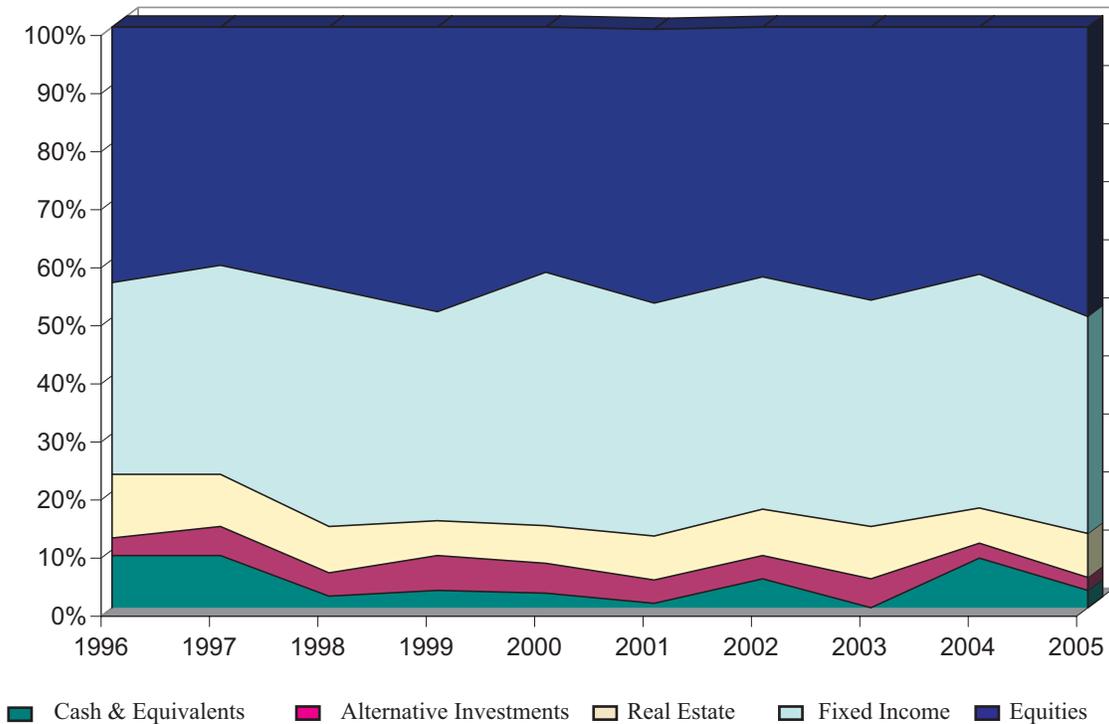


\*Does not include OCERS operating cash accounts

**Growth of System Net Assets at Fair Value  
for Ten Years Ended December 31, 2005**  
(in Millions of Dollars)

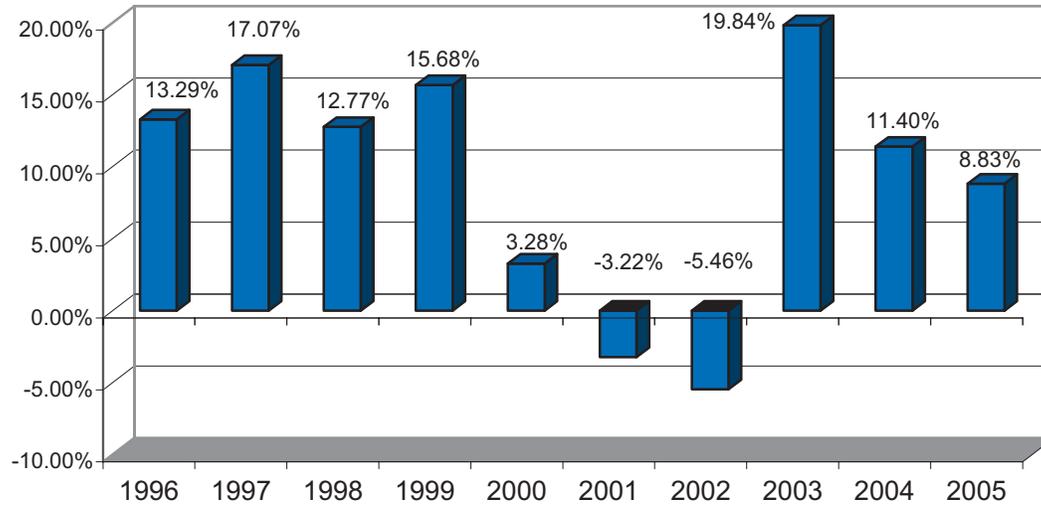


**Historical Asset Allocation  
(Actual)**  
**December 1996 – December 2005**



■ Cash & Equivalents    
 ■ Alternative Investments    
 ■ Real Estate    
 ■ Fixed Income    
 ■ Equities

**History of Performance**  
(Based on Fair Value)  
**December 1996 – December 2005**



## COMMISSION RECAPTURE PROGRAM

OCERS implements a direct brokerage program where investment managers are encouraged to trade with four brokerage firms, Abel Noser, Capital Institutional Services, Rochdale Securities, and Alfa, Inc. For domestic equity, OCERS recaptures about 75% of the commission, 60% for fixed income and 50% for international equity. For the year ended December 31, 2005 the System generated \$123,476 in Commission Recapture dollars.

### Schedule of Commissions for the Year Ended December 31, 2005

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Total Commission</u>	<u>Commission Per Share</u>
ABEL NOSER CORPORATION	772,581	16,157	0.02091
ABG SECURITIES AS (STOCKHOLM)	60,100	2,284	0.03800
ABN AMRO ASIA LIMITED	32,000	5	0.00016
ABN AMRO BANK NV	500,530	10,144	0.02027
ABN AMRO BANK NV HONG KONG BRANCH	68,476	24	0.00035
ABN AMRO EQUITIES UK LTD LONDON	99,500	3,480	0.03497
ADAMS HARKNESS + HILL,INC	38,499	1,869	0.04853
ADP CLEARING + OUTSOURCING SERVICES, INC	3,900	137	0.03500
AMERICA'SGROWTH CAPITAL LLC	105,500	5,095	0.04830
ARNHOLD S BLEICHROEDER INC	59,770	3,035	0.05078
BAIRD, ROBERT W., & COMPANY INCORPORATED	104,401	4,872	0.04667
BANC/AMERICA SECUR.LLC MONTGOMEY DIV	271,555	9,606	0.03537
BANK J.VONTOBEL UND CO. AG	789	756	0.95787
BANK JULIUS BAER AND CO.LTD.	297	322	1.08444
BANK OF NEW YORK	5,100	102	0.02000
BAYERISCHE HYPO UND VEREINSBANK AG	43,200	3,723	0.08617
BEAR STEARNS + CO INC	483,366	22,236	0.04600
BEAR STEARNS ASIA LTD	106,400	934	0.00878
BEAR STEARNS SECURITIES CORP	1,664,252	112,381	0.06753
BEAR STEARNS SECURITIES CORP.	4,309	20	0.00457
BNY BROKERAGE INC	3,049,880	61,658	0.02022
BREAN MURRAY	8,350	418	0.05000
BRIDGE TRADING	54,740	2,765	0.05051
BRIDGE TRADING COMPANY	65,680	3,382	0.05150
B-TRADE SERVICES LLC	1,612,355	64,502	0.04000
BURNHAM SECURITIES	4,430	222	0.05000
C.E. UNTERBERG, TOWBIN	3,780	199	0.05271
CANTOR FITZ EUR 2	1,676,698	2,289	0.00137
CANTOR FITZGERALD + CO.	435,050	20,193	0.04642
CANTOR FITZGERALD AND CO	8,900	457	0.05138
CAPEL, JAMES HSBC SECURITIES INC.	41,600	1,470	0.03534
CAZENOVE + CO	24,700	930	0.03765
CDC IXIS SECURITIES	1,700	91	0.05349
CIBC WORLD MARKETS CORP	362,652	17,526	0.04833
CIBC WORLD MKTS INC	14,800	546	0.03691
CITIGROUPGLOBAL MARKETS ASIA LIMITED	274,980	26	0.00009
CITIGROUPGLOBAL MARKETS AUSTRALIA PTR	9,233	72	0.00783
CITIGROUPGLOBAL MARKETS INC	840,933	31,304	0.03723
CITIGROUPGLOBAL MARKETS INC.	2,402,793	13,895	0.00578
CITIGROUPGLOBAL MARKETS INC/SALOMON BRO	4,463	5,472	1.22609
CITIGROUPGLOBAL MARKETS LIMITED	3,671,862	27,393	0.00746
COLLINS STEWART INC.	24,816	892	0.03595

<b><u>Brokerage Firms</u></b>	<b><u>Number of Shares Traded</u></b>	<b><u>Total Commission</u></b>	<b><u>Commission Per Share</u></b>
COMPASS POINT RESEARCH AND TRADING	506,620	21,150	0.04175
CREDIT AGRICOLE INDOSUEZ CHEUVREUX	491,306	12,697	0.02584
CREDIT LYONNAIS SECURITIES	53,189	1,654	0.03109
CREDIT LYONNAIS SECURITIES (USA) INC	181,000	3,156	0.01744
CREDIT SUISSE FIRST BOSTON (EUROPE) LTD	1,047,639	22,751	0.02172
CREDIT SUISSE FIRST BOSTON CORPORATION	1,081,646	24,663	0.02280
CS FIRST BOSTON (HONG KONG) LIMITED	1,040,521	9,593	0.00922
CSFB AUSTRALIA EQUITIES LTD	162,622	1,763	0.01084
DAIWA SBCM EUROPE	45,731	1,728	0.03778
DAIWA SECURITIES AMERICA INC	82,405	490	0.00595
DAVIDSON D.A. + COMPANY INC.	37,257	1,500	0.04026
DAVIS, MENDEL AND REGENSTEIN	3,400	175	0.05159
DBS VICKERS SECURITIES (SINGAPORE)	195,000	238	0.00122
DEUTSCHE BANK AG LONDON	1,062,872	19,252	0.01811
DEUTSCHE BANK ALEX BROWN	4,037	196	0.04857
DEUTSCHE BANK SECURITIES INC	205,390	7,535	0.03669
DEUTSCHE MORGAN GRENFELL SECS	391,960	2,096	0.00535
DEUTSCHE SECURITIES ASIA LIMITED	340,000	100	0.00029
DEUTSCHE SECURITIES NEW ZEALAND	38,984	10	0.00026
EDWARDS AG SONS INC	68,939	3,245	0.04707
ENSKILDA SECURITIES AB	145,000	4,361	0.03007
EXANE S.A.	25,100	1,486	0.05920
FIDELITY CAPITAL MARKETS	7,200	371	0.05151
FIRST ALBANY CAPITAL INC.	146,410	7,340	0.05013
FIRST ANALYSIS SECURITIES CORP	17,880	732	0.04091
FOX PITT KELTON INC	28,890	1,445	0.05000
FRIEDMAN BILLINGS + RAMSEY	29,000	1,267	0.04369
FULCRUM GLOBAL PARTNERS LLC	69,520	3,413	0.04910
GLOBAL EQUITIES	4,375	25	0.00570
GOLDMAN SACHS + CO	1,156,555	60,639	0.05243
GOLDMAN SACHS + COMPANY	55	149	2.70818
GOLDMAN SACHS EXECUTION + CLEARING	8,600	172	0.01995
GOLDMAN SACHS INTERNATIONAL LONDON	1,118,338	12,774	0.01142
GORDON HASKETT	33,100	1,569	0.04740
HARBORSIDE SECURITIES	9,700	311	0.03209
HARRIS NESBITT CORP.	46,800	2,045	0.04369
HIBERNIA SOUTHCOAST CAPITAL INC	22,500	1,125	0.05000
HONGKONG AND SHANGHAI BANKING CORP	299,213	746	0.00249
HOWARD WEIL DIVISION LEGG MASON	28,840	1,442	0.05000
HSBC BANKPLC	108,800	5,878	0.05402
HSBC SECURITIES INC (JAMES CAPEL)	1,600	3	0.00186
HSBC SECURITIES(ASIA)LIMITED	115,500	2,064	0.01787
INSTINET	2,300	25	0.01085
INSTINET CLEARING SERVICES INC	868,105	9,697	0.01117
INSTINET U.K. LTD	200,203	436	0.00218
INVESTEC SECURITIES	2,000	92	0.04609
INVESTMENT TECHNOLOGY GROUP INC.	75,413	1,367	0.01813
INVESTMENT TECHNOLOGY GROUP LTD	691,716	3,556	0.00514
ISI GROUPEQUITIES	5,215	214	0.04109
ITG AUSTRALIA LTD.	86,210	63	0.00073
ITG CANADA	26,900	1,347	0.05007
ITG INC	4,163,800	41,785	0.01004

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Total Commission</u>	<u>Commission Per Share</u>
ITG SECURITIES (HK) LTD	784,741	145	0.00018
IXIS SECURITIES	8,776	177	0.02011
J B WERE AND SON	386,202	2,169	0.00562
J P MORGAN SECURITIES INC	264,547	15,004	0.05672
J.P. MORGAN SECURITIES LIMITED	54,200	2,079	0.03837
JANNEY MONTGOMERY, SCOTT INC	79,240	3,875	0.04890
JEFFERIES+ COMPANY INC	720,912	26,819	0.03720
JEFFERIESCOMPANY INC	23,700	831	0.03506
JOH BERENBERG GOSSLER AND CO	94,694	892	0.00942
JOHNSON RICE + CO	17,324	664	0.03836
JONES & ASSOCIATES INC	70,400	2,447	0.03476
JP MORGANSECURITIES AUSTRALIA LTD	101,746	3,801	0.03736
JP MORGANSECURITIES LIMITED	220,058	12,781	0.05808
JPMORGAN CHASE BANK	397	1,402	3.53086
JPMORGAN SECURITIES(ASIA PACIFIC)LTD	1,671,049	3,095	0.00185
KBC FINANCIAL PRODUCTS UK LTD	83,203	2,938	0.03531
KEEFE BRUYETTE + WOODS INC	34,775	1,674	0.04813
KING, CL,& ASSOCIATES, INC	29,600	1,512	0.05106
KLEINWORTBENSON SECURITIES LIMITED	1,124,961	18,154	0.01614
KNIGHT SECURITIES Total	29,270	1,137	0.03884
LA BRANCHE FINANCIAL #2	654,810	24,736	0.03778
LAZARD CAPITAL MARKETS LLC	82,145	4,186	0.05096
LAZARD FRERES & CO.	19,000	950	0.05000
LEERINK SWANN AND COMPANY	205,200	10,415	0.05076
LEGG MASON WOOD WALKER INC	121,616	6,114	0.05027
LEHMAN BROTHERS INC	601,962	26,549	0.04410
LEHMAN BROTHERS INTERNATIONAL (EUROPE)	891,086	12,455	0.01398
LEHMAN BROTHERS SECS (ASIA)	494,394	8,353	0.01690
LIQUIDNETINC	152,990	3,312	0.02165
LYNCH JONES AND RYAN INC	2,036,430	102,099	0.05014
M M WARBURG	5,100	357	0.07004
MACQUARIEEQUITIES LIMITED (SYDNEY)	171,620	544	0.00317
MACQUARIEEQUITIES NEW ZEALAND	19,788	4	0.00022
MACQUARIEINVESTMENT	8,386	847	0.10098
MACQUARIESECURITIES LIMITED	153,800	1,010	0.00657
MAINFIRSTBANK DE	11,400	897	0.07870
MCDONALD AND COMPANY SECURITIES, INC.	13,200	633	0.04795
MERRILL LYNCH + CO INC	26,339	987	0.03749
MERRILL LYNCH INTERNATIONAL	632,679	9,103	0.01439
MERRILL LYNCH PEIRCE FENNER AND S	3,000,803	13,215	0.00440
MERRILL LYNCH PROFESSIONAL CLEARING CORP	578,400	27,890	0.04822
MERRILL LYNCH,PIERCE,FENNER + SMITH, INC	926,057	39,493	0.04265
MIDWEST RESEARCH SECURITIES	178,930	9,220	0.05153
MILLER TABAK + COMPANY, LLC	29,100	1,520	0.05224
MIZUHO SECURITIES USA INC	771,736	6,594	0.00854
MOORS + CABOT INC	24,770	1,264	0.05105
MORGAN KEEGAN & CO INC	93,723	3,750	0.04001
MORGAN STANLEY AND CO. INTERNATIONAL	1,224,007	26,076	0.02130
MORGAN STANLEY CO INCORPORATED	2,162,788	31,861	0.01473
MORGAN STANLEY SECURITIES LIMITED	61,401	131	0.00214
NATIONAL FINANCIAL SERVICES CORP.	27,150	1,134	0.04178
NATIONAL INVESTOR SERVICES CORP	1,600	56	0.03500

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Total Commission</u>	<u>Commission Per Share</u>
NEEDHAM +COMPANY	41,300	1,260	0.03051
NEONET SECURITIES AB	2,056	27	0.01336
NESBITT BURNS	122,000	4,526	0.03710
NOMURA INTERNATIONAL (HONG KONG) LTD	180,375	80	0.00045
NOMURA INTERNATIONAL PLC	264,020	380	0.00144
NOMURA SECURITIES INTERNATIONAL INC	8,492,788	101,487	0.01195
NYFIX CLGCORP	300	4	0.01207
NYFIX TRANSACTION SERVICES #2	22,040	233	0.01056
OPPENHEIMER & ASSOCIATES (CLS THRU 443)	1,198	48	0.04000
OPPENHEIMER & CO. INC.	179,700	9,264	0.05155
PACIFIC GROWTH EQUITIES	41,271	1,985	0.04810
PERSHING DLJ S L	298,300	14,823	0.04969
PERSHING LLC	65,800	2,223	0.03378
PERSHING SECURITIES LIMITED	243,849	10,858	0.04453
PETRIE PARKMAN & CO INC	22,960	1,205	0.05246
PICKERINGENERGY PARTNERS INC	49,210	2,515	0.05110
PIPER JAFFRAY	400	16	0.03958
POLCARI/WEICKER DIV OF GARBAN CORP	15,300	308	0.02013
PRINCETONSECURITIES	78,980	3,339	0.04228
PRITCHARDCAPITAL PARTNERS LLC	14,960	782	0.05227
PRUDENTIAL EQUITY GROUP	454,631	22,091	0.04859
RABOBANK NETHERLAND	22,200	862	0.03883
RBC CAPITAL MARKETS	387,430	19,546	0.05045
RBC DAIN RAUSCHER INC	19,311	775	0.04013
RBC DOMINION SECURITIES	10,500	391	0.03728
REDBURN PARTNERS LLP	3,200	104	0.03265
ROBBINS AND HENDERSON	14,380	471	0.03275
S.G. COWEN & CO., LLC	651,638	31,900	0.04895
SALOMON SMITH BARNEY KOREA LTD	979	105	0.10746
SANDERS MORRIS MUNDY	19,200	682	0.03553
SANDLER ONEILL + PART LP	128,930	6,586	0.05108
SANFORD C. BERNSTEIN LTD	3,000	98	0.03270
SANFORD CBERNSTEIN CO LLC	688,440	32,856	0.04772
SANTANDERCENTRAL HISPANO BOLSA	20,900	787	0.03765
SANTANDERINVESTMENT SECURITIES INC	62,000	2,407	0.03882
SCOTIA CAPITAL (USA) INC	140,800	5,081	0.03609
SCOTT & STRINGFELLOW, INC	31,547	1,276	0.04045
SG AMERICAS SECURITIES, LLC	43,000	1,178	0.02739
SG SECURITIES HK	9,800	5	0.00050
SIMMONS +COMPANY INTERNATIONAL	99,771	4,849	0.04860
SMITH BARNEY NEW YORK EMM	3,804	154	0.04040
SOCIETE GENERALE LONDON BRANCH	3,088	296	0.09593
STANFORD GROUP CO	21,070	1,054	0.05000
STANLEY (CHARLES) + CO LIMITED	7,103	30	0.00419
STATE STREET BANK AND TRUST CO BOSTON	4,500	17	0.00388
STATE STREET BROKERAGE SERVICES	30,860	1,535	0.04974
STEPHENS, INC.	180,940	7,844	0.04335
STERNE, AGEE & LEACH, INC.	23,160	1,214	0.05242
SUNTRUST CAPITAL MARKETS, INC.	4,950	248	0.05000
SVENSKA HANDELSBANKEN LONDON BRANCH	14,700	337	0.02295
THINKEQUITY PARTNERS LLC	6,000	210	0.03500
THOMAS WEISEL PARTNERS	214,101	8,367	0.03908

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Total Commission</u>	<u>Commission Per Share</u>
THOMAS WEISSEL PARTNERS SF	2,482	126	0.05076
TORONTO DOMINION SECURITIES	12,000	439	0.03659
TULLET LIBERTY SECURITIES INC.	59,100	3,002	0.05080
U S CLEARING INSTITUTIONAL TRADING	390,310	19,367	0.04962
U.S. BANCORP PIPER JAFFRAY INC	75,000	2,922	0.03897
UBS AG	1,683,506	31,021	0.01843
UBS AG LONDON	500,908	643	0.00128
UBS AG/CUST LDN BRAN	23,600	116	0.00491
UBS SECURITIES CANADA INC	1,000	38	0.03823
UBS SECURITIES LLC	1,131,410	35,425	0.03131
UBS WARBURG (HONG KONG) LIMITED	189,000	26	0.00014
UBS WARBURG LLC	4,400	66	0.01500
UOB KAY HIAN (HONG KONG) LTD	290,000	47	0.00016
UOB KAY HIAN PRIVATE LIMITED	22,000	32	0.00148
WACHOVIA CAPITAL MARKETS, LLC	47,860	2,215	0.04628
WARBURG DILLION READ (ASIA) LTD	1,303,909	11,602	0.00890
WEEDEN + CO.	383,790	19,201	0.05003
WESTMINSTER RESEARCH ASSOCIATES INC	8,400	430	0.05123

**Investment Summary**  
**December 31, 2005**  
(Dollars in Thousands)

Investment	Fair Value	Percentage
Domestic Equity	\$ 1,196,227	19.66%
International Equity	1,331,783	21.89%
International Emerging Market	319,632	5.25%
Domestic Fixed Income	1,200,622	19.74%
Global TIPS	595,338	9.79%
International Fixed Income	480,990	7.91%
Cash and Cash Equivalents	77,453	1.27%
Real Estate	468,061	7.69%
Alternative Investments	140,375	2.31%
GTAA	273,438	4.49%
<b>Total *</b>	<b>\$ 6,083,919</b>	<b>100.0%</b>

\* The table above is provided directly from State Street and does not reflect funds held at Wells Fargo Bank, accounts receivable, accounts payable, depreciation or capital assets. (see page 21)

**Schedule of Largest Equity Holdings (by Fair Value)\***  
**December 31, 2005**

Stock	Security Description	Fair Value
Softbank Corporation	Common Stock	\$ 15,075,438
Sumitomo Mitsui Group	Common Stock	13,979,496
Vodafone Group	Common Stock	13,570,831
Mitsubishi UFJ Financial Group, Inc.	Common Stock	13,501,652
PIMCO Funds	Common Stock	12,153,302
Royal Bank Scot Group	Common Stock	11,081,432
Mitsubishi Estate	Common Stock	10,976,531
Royal Dutch Shell	Common Stock	10,829,788
Goldman Sachs Group, Inc.	Common Stock	9,782,586
BNP Paribas	Common Stock	9,279,619

**Schedule of Largest Fixed Income Holdings (by Fair Value)\***  
**December 31, 2005**

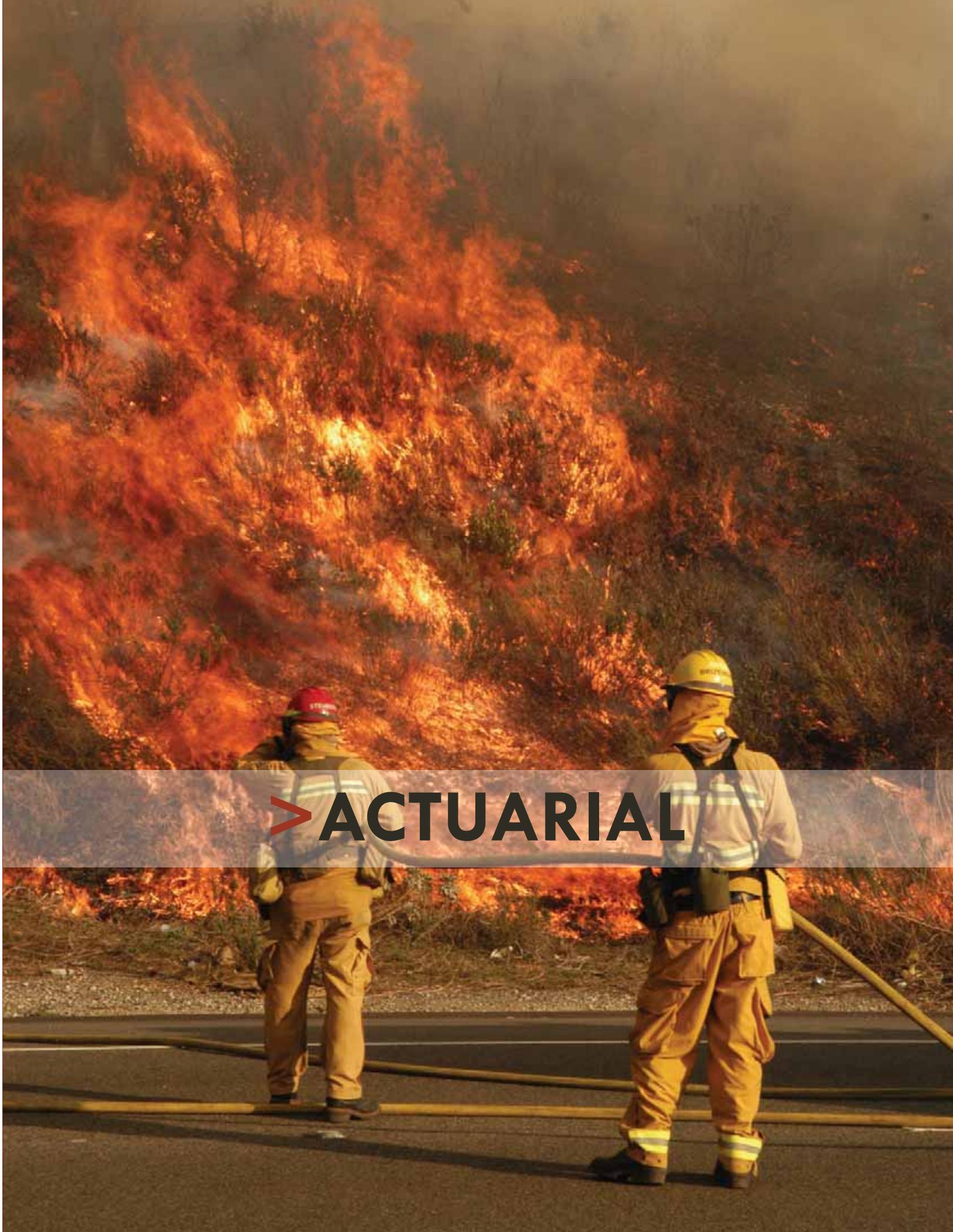
Bonds	Moody's Quality Rating	Fair Value
United States Treasury Notes 2.000%, 15 Jan. 2014	AAA	\$ 101,635,519
United States Treasury Notes 3.000%, 15 July 2012	AAA	59,432,250
United States Treasury Notes 2.000%, 15 July 2014	AAA	51,940,466
United States Treasury Bonds 3.625%, 15 Apr. 2028	AAA	47,081,335
United States Treasury Notes 4.25%, 15 Jan. 2010	AAA	44,291,183
United States Treasury Bonds 2.375%, 15 Jan. 2025	AAA	42,155,654
United States Treasury Bonds 3.875%, 15 Apr. 2029	AAA	38,957,089
FNMA Pool 5.06%, 01 Feb. 2020	AAA	29,431,810
United States Treasury Notes 3.875%, 15 Jan. 2009	AAA	26,806,951
Germany (Federal Republic), 3.750%, 04 July 2013	AAA	24,444,992

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



SECTION

4



> ACTUARIAL



THE SEGAL COMPANY  
120 Montgomery Street, Suite 500 San Francisco, CA 94104-4308  
T 415.263.8200 F 415.263.8290 www.segalco.com

June 28, 2006

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

Dear Members of the Board:

The Segal Company (Segal) prepared the December 31, 2005 actuarial valuation of the Orange County Employees Retirement System. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

The funding method used by the System is called the Entry Age Normal Actuarial Cost Method. The funding objective of the system is to reduce the outstanding balance of the December 31, 2004 unfunded actuarial accrued liability (UAAL) to zero over a 30-year period commencing December 31, 2004. Any increases or decreases in UAAL that arise in future years due to actuarial gains or losses will be amortized over separate 15-year periods. The progress being made toward the realization of the financing objectives through December 31, 2005 is illustrated in the attached Exhibits I, II and X.

As part of the December 31, 2005 actuarial valuation, Segal conducted an examination of all participant data for reasonableness. Summaries of the employee data used in performing the actuarial valuations are provided in our valuation report. We did not audit the System's financial statements. For actuarial valuation purposes, Plan assets are valued at actuarial value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the actual and expected return on market value over a five-year period. The development of the actuarial value as of December 31, 2005 is provided in Exhibit V.

A listing of supporting schedules Segal prepared for inclusion in the actuarial, statistical and financial sections of the System's CAFR is as follows:

**Benefits, Compensation and HR Consulting** ATLANTA BOSTON CALGARY CHICAGO CLEVELAND DENVER HARTFORD HOUSTON LOS ANGELES  
MINNEAPOLIS NEW ORLEANS NEW YORK PHILADELPHIA PHOENIX PRINCETON RALEIGH SAN FRANCISCO TORONTO WASHINGTON, D.C.



**Multinational Group of Actuaries and Consultants** BARCELONA BRUSSELS DUBLIN GENEVA HAMBURG JOHANNESBURG LONDON MELBOURNE  
MEXICO CITY OSLO PARIS

Board of Retirement  
Orange County Employees Retirement System  
June 28, 2006  
Page 2

1. History of Unfunded Actuarial Accrued Liability (Exhibit I);
2. History of Employer Contribution Rates (Exhibit II);
3. Summary of Active Membership (Exhibit III);
4. Summary of Retired Membership (Exhibit IV);
5. Development of Actuarial and Valuation Value of Assets (Exhibit V);
6. Short-Term Solvency Test (Exhibit VI);
7. Actuarial Methods and Assumptions (Exhibit VII);
8. Summary of Major Plan Provisions (Exhibit VIII);
9. Experience Analysis (Exhibit IX); and
10. Schedule of Funding Progress (Exhibit X).

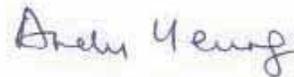
The valuation assumptions used in this valuation were included in the Actuarial Section. Those assumptions were adopted by the Retirement Board on February 21, 2006. It is our opinion that the assumptions used in the December 31, 2005 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The next experience analysis is due to be performed as of December 31, 2007.

In the December 31, 2005 valuation, the ratio of the valuation value of assets to actuarial accrued liabilities increased from 70.85% to 71.53%. The aggregate employer rate (average of the County and all special districts rates combined) has increased from 24.07% of payroll to 24.30% of payroll. The employee's rate has decreased from 10.39% of payroll to 10.34% of payroll. The employer's rate developed in the December 31, 2005 and December 31, 2004 valuations reflect the first and the second year of a 3-year phase-in of the rate increase for OCTA.

Sincerely,



Paul Angelo, FSA, MAAA, FCA, EA  
Vice President & Actuary



Andy Yeung, ASA, MAAA, EA  
Associate Actuary

HEM/bqb:hy  
Enclosures

## Orange County Employees Retirement System

*Exhibit I*

### HISTORY OF UNFUNDED ACTUARIAL ACCRUED LIABILITY

(In Thousand Dollars)

Valuation Date	Actuarial Accrued Liability	Valuation 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
12/31/96	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%)
12/31/01	4,843,899	4,586,844	257,055	94.69%	1,122,763	22.89%
12/31/02	5,673,754	4,695,675	978,079	82.76%	1,242,348	78.73%
12/31/03	6,099,433	4,790,099	1,309,334	78.53%	1,243,964	105.25%
12/31/04	7,403,972	5,245,821	2,158,151	70.85%	1,257,085	171.68%
12/31/05	8,089,627	5,786,617	2,303,010	71.53%	1,276,764	180.38%

Notes:

- The 12/31/05 valuation included the following changes:

Assumption Changes:

The System has provided us with salary, years of service and eligibility for reciprocal benefit data for terminated vested members. Their benefits are now calculated using those data elements. In the December 31, 2004 valuation, the following assumption was used to estimate their benefits.

Liability for a current deferred vested member is estimated at 3.35 times the member's total basic plus COLA member contribution account balance.

- The 12/31/04 valuation included the following changes:

Methodology and procedure changes:

The differences between Segal and the prior actuary's valuation system and procedures increased the UAAL by \$107 million.

Assumption changes:

Changes in salary scale, withdrawal and retirement assumptions in the December 31, 2004 triennial experience study increased the UAAL by \$580 million.

Changes in inflation assumption, funding method and investment return assumption decreased UAAL by \$183 million.

Benefit changes:

Certain employers improved benefits that increased the UAAL by \$365 million. The improvements were:

Probation adopted 3.0% of final average pay at age 50 on service earned after June 30, 2005.

Transportation Corridor Agency adopted 2% of final average salary at age 55 for all service.

## Orange County Employees Retirement System

### HISTORY OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (Cont.)

The Orange County Sanitation District adopted 2.5% of final average pay at age 55 on all service. Law Library adopted the same formula but for future service only.

The Orange County General, with the exception of bargaining unit AFSCME, Orange County Superior Court and Orange County Fire Authority adopted 2.7% of final average pay at age 55 on all service.

The Orange County Local Agency Formation Commission and Orange County Employees Retirement System (management employees) adopted 2.7% of final average pay at age 55 on service earned after June 30, 2005.

- The 12/31/03 valuation included the following benefit changes:

The City of San Juan Capistrano adopted a new benefit formula, which produces benefits of 2.7% of final average pay at age 55.

The City of Rancho Santa Margarita adopted a new benefit formula, which produces benefits of 2.5% of final average pay at age 55.

- The 12/31/02 valuation included changes to the interest rate and salary increase assumptions. The interest rate changed from 8.0% to 7.5% and the salary increase assumption from 5.5% to 4.5%. These changes increased employer rates and generally decreased member contribution rates slightly. The retirement benefit for Firefighters was changed to a 3% per year of service benefit payable unreduced at age 50. Probation Officers became Safety Members with a portion of service for Tier II members converted to Safety Member service at less than one-for-one.
- The 12/31/01 valuation included changes to the assumed withdrawal rates, the assumed termination rates, the assumed service connected disability rates and the assumed retirement rates. These changes increased both member and employer contribution rates. The retirement benefit for Law Enforcement was changed to a 3% per year of service benefit payable unreduced at age 50.
- 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.

## Orange County Employees Retirement System

### HISTORY OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (Cont.)

\* Each year's assets exclude an amount as shown in the following table of the County's unamortized 1994 funding of its portion of the Unfunded Actuarial Accrued Liability, which funding for 1995 was being amortized over a 14-year period beginning July 1, 1994 and for 1996 and later was being amortized over a 28-year period beginning July 1, 1996. Beginning July 1, 2003, the County can utilize this amount at its discretion to fund any portion of the employer contribution.

Valuation Date	Amount Excluded from Assets
12/31/96	\$313,250,000
12/31/97	\$322,333,000
12/31/98	\$302,909,000
12/31/99	\$286,139,000
12/31/00	\$272,789,000
12/31/01	\$221,643,000
12/31/02	\$143,675,000
12/31/03	\$143,744,000
12/31/04	\$155,245,000
12/31/05	\$158,219,000*

\*Please note that for the December 31, 2005 valuation, we also excluded an additional \$45,925,00 in prepaid employer contributions

**Orange County Employees Retirement System**

*Exhibit II*

**HISTORY OF EMPLOYER CONTRIBUTION RATES**  
**Employer Contribution Rate (% of pay)**

Valuation Date	GENERAL				SAFETY																																					
	12/31/1996	Normal	3.38	UAAL	(1.06)	Total	2.32	Normal	5.77	UAAL	17.77	Total	23.54																													
12/31/1997	Normal	3.77	UAAL	(1.91)	Total	1.86	Normal	6.79	UAAL	19.65	Total	26.44																														
12/31/1998	Normal	4.35	UAAL	(2.35)	Total	2.00	Normal	8.00	UAAL	16.41	Total	24.41																														
12/31/1999	Normal	4.56	UAAL	(3.60)	Total	0.96	Normal	8.27	UAAL	13.95	Total	22.22																														
12/31/2000	Normal	4.94	UAAL	(3.98)	Total	0.96	Normal	8.57	UAAL	0.16	Total	8.73																														
	<i>Non-OCTA</i>		<i>OCTA</i>		<i>Rancho Santa Margarita</i>	<i>San Juan Capistrano</i>	<i>Law Enforcement</i>	<i>Fire Authority</i>		<i>Probation</i>																																
12/31/2001	Normal	5.04	UAAL	0.62*	Total	5.66	Normal	4.20	UAAL	0.77*	Total	4.97	N/A	Normal	5.04	UAAL	0.62*	Total	5.66	Normal	15.87	UAAL	9.15*	Total	25.02	Normal	10.30	UAAL	1.89*	Total	12.19	Normal	5.04	UAAL	0.62*	Total	5.66					
12/31/2002	Normal	5.44	UAAL	3.71*	Total	9.15	Normal	4.36	UAAL	3.87*	Total	8.23	N/A	Normal	5.44	UAAL	3.71*	Total	9.15	Normal	16.53	UAAL	21.34*	Total	37.87	Normal	17.85	UAAL	16.81*	Total	34.66	Normal	4.38	UAAL	4.19*	Total	8.57					
12/31/2003**	Normal	5.56	UAAL	7.07*	Total	12.63	Normal	4.41	UAAL	7.05*	Total	11.46	Normal	1.77	UAAL	3.43*	Total	5.20	Normal	7.22	UAAL	10.96*	Total	18.18	Normal	16.86	UAAL	22.53*	Total	39.39	Normal	17.98	UAAL	15.40*	Total	33.38	Normal	4.02	UAAL	8.73*	Total	12.75

	<i>General (Non-OCTA)</i>		<i>General (2.7% @ 55)</i>		<i>General (OCTA)</i>		<i>General (2.5% @ 55, non-RSM)</i>		<i>General (Rancho Santa Margarita)</i>		<i>General (2.0% @ 55)</i>		<i>Law Enforcement</i>		<i>Fire Authority</i>		<i>Probation</i>	
<b>12/31/2004</b> ***,****	Normal	9.55	Normal	11.74	Normal	11.71	Normal	10.80	Normal	10.53	Normal	11.45	Normal	20.43	Normal	20.33	Normal	21.37
	UAAL	<u>6.08</u>	UAAL	<u>10.49</u>	UAAL	<u>1.39</u>	UAAL	<u>9.35</u>	UAAL	<u>2.30</u>	UAAL	<u>7.09</u>	UAAL	<u>17.22</u>	UAAL	<u>13.52</u>	UAAL	<u>12.04</u>
	Total	15.63	Total	22.23	Total	13.10	Total	20.15	Total	12.83	Total	18.54	Total	37.65	Total	33.85	Total	33.41
<b>12/31/2005</b> ***,****	Normal	9.33	Normal	11.46	Normal	11.36	Normal	10.54	Normal	10.81	Normal	11.49	Normal	20.15	Normal	20.04	Normal	20.76
	UAAL	<u>5.00</u>	UAAL	<u>11.10</u>	UAAL	<u>3.60</u>	UAAL	<u>10.33</u>	UAAL	<u>1.92</u>	UAAL	<u>5.87</u>	UAAL	<u>17.18</u>	UAAL	<u>13.98</u>	UAAL	<u>11.18</u>
	Total	14.33	Total	22.56	Total	14.96	Total	20.87	Total	12.73	Total	17.36	Total	37.33	Total	34.02	Total	31.94

- \* Includes an additional 0.50% of pay as required under an agreement between OCERS and the County.
- \*\* Excludes the cost of benefit improvements for certain employers adopted after December 31, 2003.
- \*\*\* After reflecting three-year phase-in of the total rate increase calculated in the 2004 and 2005 valuations for OCTA.
- \*\*\*\*Excludes contributions to RMBR/ABRA, if applicable.

**Orange County Employees Retirement System**

*Exhibit III*

**SUMMARY OF ACTIVE MEMBERSHIP**

<b>Valuation Date</b>	<b>Number</b>	<b>Annual Salary</b>	<b>Annual Average Salary</b>	<b>Increase in Average Salary (%)</b>
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
12/31/01				
General	19,653	\$921,057,200	\$46,860	6.46
Safety	2,676	201,705,606	75,372	5.78
Total	22,329	\$1,122,762,806	\$50,280	6.08
12/31/02				
General	19,002	\$976,660,649	\$51,398	9.68
Safety	3,721	265,638,289	71,389	(5.28)
Total	22,723	\$1,242,348,938	\$54,674	8.74
12/31/03				
General	19,023	\$985,534,535	\$51,808	0.80
Safety	3,649	258,429,279	70,822	(0.79)
Total	22,672	\$1,243,963,814	\$54,868	0.35
12/31/04				
General	18,928	\$1,003,061,000	\$52,993	2.29
Safety	3,574	254,024,000	71,076	0.36
Total	22,502	\$1,257,085,000	\$55,866	1.82
12/31/05				
General	18,816	\$1,011,214,000	\$53,742	1.41
Safety	3,651	265,550,000	72,733	2.25
Total	22,467	\$1,276,764,000	\$56,828	1.72

Excludes Deferred and Pending members.

## Orange County Employees Retirement System

*EXHIBIT IV*

### SUMMARY OF RETIRED MEMBERSHIP

Plan Year Ending	At Beginning of Year	Added to Rolls		Removed from Rolls		At End of Year	Annual Allowance (in 000's)	% Increase in Annual Allowance	Average Monthly Allowance
		Number	Annual Allowance (in 000's)*	Number	Annual Allowance (in 000's)				
1996	6,359	426	--	(154)	--	6,631	\$ 99,751	8.03	\$1,254
1997	6,631	505	--	(224)	--	6,912	109,661	9.93	1,322
1998	6,912	547	--	(215)	--	7,244	125,440	14.39	1,443
1999	7,244	549	--	(256)	--	7,537	137,543	9.65	1,521
2000	7,537	618	--	(240)	--	7,915	149,003	8.33	1,569
2001	7,915	606	--	(305)	--	8,216	162,553	9.09	1,649
2002	8,216	727	--	(255)	--	8,688	186,286	14.60	1,787
2003	8,688	793	--	(402)	--	9,079	210,913	13.22	1,936
2004	9,079	638	\$26,663	(284)	(\$4,715)	9,433	232,861	10.41	2,057
2005	9,433	1,024	56,669	(239)	(4,081)	10,218	285,449	22.58	2,328

\* Includes COLA granted during the plan year.

Note: Annual allowances exclude RMBR and STAR COLA.

**Orange County Employees Retirement System**

*Exhibit V*

**DEVELOPMENT OF ACTUARIAL AND VALUATION VALUE OF ASSETS**

**As of December 31, 2005**

<b>Plan Year Ending</b>	<b>Total Actual Market Return (net)</b>	<b>Expected Market Return (net)</b>	<b>Investment Gain/(Loss)</b>	<b>Deferred Factor</b>	<b>Deferred Return</b>
2004	\$544,457,000	\$362,744,000	\$181,713,000	0.6	\$109,028,000
2005	\$441,178,000	\$421,743,000	\$19,435,000	0.8	\$15,548,000

(1) Total Deferred Return	\$124,576,000
(2) Net Market Value of Assets (Excludes \$158,219,000 in County Investment Account and \$45,925,000 in Prepaid Employer Contributions)	\$5,923,112,000
(3) Actuarial Value of Assets (2) – (1)	\$5,798,536,000
(4) Non-valuation Reserves	
(a) Unclaimed member deposit	\$1,202,000
(b) Medicare medical insurance reserve	\$87,000
(c) Retired member benefit reserve (RMBR)	<u>\$10,630,000</u>
(d) Subtotal	\$11,919,000
(5) Valuation Value of Assets (3) - (4)(d)	\$5,786,617,000

**Orange County Employees Retirement System**

*Exhibit VI*

**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 Value of Assets	Portion of Accrued Liability Covered by Valuation Assets (%)		
					(1)	(2)	(3)
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	100.00
12/31/01	739,084	2,085,697	2,019,118	4,586,844	100	100	87.27
12/31/02	858,121	2,496,133	2,319,500	4,695,675	100	100	57.83
12/31/03	852,016	2,843,236	2,404,180	4,790,099	100	100	45.54
12/31/04	949,528	3,137,714	3,316,730	5,245,821	100	100	34.93
12/31/05	1,002,279	3,723,611	3,363,737	5,786,617	100	100	31.53

**Orange County Employees Retirement System**

*Exhibit VII*

**ACTUARIAL METHODS AND ASSUMPTIONS**

**Section 1 – Post-Retirement Mortality Rates**

**Healthy:** For General Members and Beneficiaries: 1994 Group Annuity Mortality Table set forward one year.

For Safety Members and Beneficiaries: 1994 Group Annuity Mortality Table set forward one year.

**Disabled:** For General Members and Safety members: 1994 Group Annuity Mortality Table set forward five years.

**Employee Contribution Rates and Optional Benefits:**

For General members, 1994 Group Annuity Mortality Table set forward one year weighted 40% male and 60% female.

For Safety and Probation members, 1994 Group Annuity Mortality Table set forward one year weighted 80% male and 20% female.

**Section 2 - Termination Rates Before Retirement:**

**Healthy Mortality:**

Age	Rate (%) Mortality			
	General		Safety	
	Male	Female	Male	Female
25	0.07%	0.03%	0.07%	0.03%
30	0.08	0.04	0.08	0.04
35	0.09	0.05	0.09	0.05
40	0.12	0.08	0.12	0.08
45	0.17	0.10	0.17	0.10
50	0.29	0.16	0.29	0.16
55	0.49	0.26	0.49	0.26
60	0.90	0.51	0.90	0.51
65	1.62	0.97	1.62	0.97

All pre-retirement deaths are assumed to be non-service connected.

## Orange County Employees Retirement System

### ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

#### Section 2 - Termination Rates Before Retirement (continued):

##### Disability Incidence Rates:

Age	Rate (%)			
	Disability			
	General all other <sup>(1)</sup>	General OCTA <sup>(2)</sup>	Safety – Law & Fire <sup>(3)</sup>	Safety - Probation <sup>(4)</sup>
20	0.00%	0.00%	0.03%	0.00%
25	0.03	0.00	0.08	0.06
30	0.08	0.03	0.16	0.16
35	0.13	0.08	0.32	0.20
40	0.18	0.28	0.52	0.20
45	0.20	0.58	0.72	0.20
50	0.23	0.76	0.98	0.20
55	0.31	0.92	2.24	0.20
60	0.41	1.30	3.60	0.08

(1) 60% of General all other disabilities are assumed to be duty disabilities. The other 40% are assumed to be ordinary disabilities.

(2) 70% of General - OCTA disabilities are assumed to be duty disabilities. The other 30% are assumed to be ordinary disabilities.

(3) 85% of Safety – Law Enforcement and Fire disabilities are assumed to be duty disabilities. The other 15% are assumed to be ordinary disabilities.

(4) 85% of Safety - Probation disabilities are assumed to be duty disabilities. The other 15% are assumed to be ordinary disabilities.

**Orange County Employees Retirement System**

**ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)**

**Section 2 - Termination Rates Before Retirement (continued):**

**Withdrawal Rates:**

Rate (%)				
Withdrawal (< 5 Years of Service)				
Years of Service	General all other	General OCTA	Safety – Law & Fire	Safety - Probation
0	10.0%	10.0%	3.0%	11.0%
1	8.0	7.0	2.0	10.0
2	6.0	6.0	2.0	8.0
3	6.0	5.0	1.0	6.0
4	5.0	4.0	1.0	5.0
Withdrawal (5+ Years of Service) <sup>(1)</sup>				
Age	General all other	General OCTA	Safety – Law & Fire	Safety – Probation
20	5.0%	3.0%	1.0%	5.0%
25	5.0	3.0	1.0	5.0
30	5.0	3.0	1.0	5.0
35	4.4	3.0	0.9	4.4
40	3.7	3.0	0.6	3.7
45	2.9	3.0	0.5	2.9
50	2.2	2.7	0.2	2.2
55	1.4	1.9	0.0	1.4
60	0.4	0.6	0.0	0.4

<sup>(1)</sup> 15% of all terminated vested members will choose a refund of contributions and 85% will choose a deferred vested benefit.

## Orange County Employees Retirement System

### ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

#### Retirement Rates:

Age	Rate (%)		
	General	Safety – Law and Fire <sup>(1)</sup>	Safety – Probation <sup>(1)</sup>
50	3.0%	10.0%	4.0%
51	3.0	15.0	6.0
52	3.0	20.0	8.0
53	3.0	20.0	10.0
54	3.0	20.0	15.0
55	4.0	25.0	20.0
56	5.0	25.0	25.0
57	6.0	30.0	25.0
58	7.0	30.0	30.0
59	9.0	40.0	30.0
60	11.0	100.0	40.0
61	13.0	100.0	50.0
62	15.0	100.0	60.0
63	17.0	100.0	100.0
64	19.0	100.0	100.0
65	25.0	100.0	100.0
66	20.0	100.0	100.0
67	20.0	100.0	100.0
68	20.0	100.0	100.0
69	20.0	100.0	100.0
70	100.0	100.0	100.0

<sup>(1)</sup> Retirement rate is 100% after a member accrues a benefit of 100% of final average earnings.

#### Retirement Age and Benefit for Deferred Vested Members:

For current deferred vested members, we make the following retirement assumption:

General Age:	57
Safety Age:	53

We assume that 40% of future General Safety deferred vested members are reciprocal. For reciprocals, we assume 5.10% compensation increases per annum.

**Orange County Employees Retirement System**

**ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)**

**Liability Calculation for Current Deferred Vested Members:**

Liability for a current deferred vested member is calculated based on salary, service, and eligibility for reciprocal benefit as provided by the Retirement System. For those members without salary and/or service information, we assumed a refund of account balance.

**Future Benefit Accruals:**

1.0 year of service per year of employment. There is no assumption to anticipate conversion of unused sick leave at retirement.

**Unknown Data for Members:**

Same as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male.

**Percent Married:**

80% of male members; 50% of female members are assumed to be married at retirement or time of pre-retirement death.

**Age of Spouse:**

Female (or male) spouses are four years younger (or older) than their spouses.

**Net Investment Return:**

7.75%; net of investment and administrative expenses.

**Employee Contribution Crediting Rate:**

5.00%, compounded semi-annually.

**Consumer Price Index:**

Increase of 3.50% per year, retiree COLA increases due to CPI subject to a 3.0% maximum change per year.

**Salary Increases:**

Annual Rate of Compensation Increase (%)		
Inflation: 3.50%, plus the following Merit and Promotional		
Age	General	Safety
20	7.0%	6.0%
25	5.2	5.1
30	3.4	3.6
35	2.2	1.8
40	1.7	0.7
45	1.6	0.5
50	1.4	0.5
55	0.9	0.5
60	0.6	0.0
65+	0.6	

There are assumed to be no “across the board” salary increases (other than inflation).

## Orange County Employees Retirement System

### ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

**Annual Payoffs Assumptions:** Additional payoffs are expected to be received during a member's final average earnings period. The percentages used in this valuation are:

	<u>Final</u> <u>One Year Salary</u>	<u>Final</u> <u>Three Year Salary</u>
General Members	4.50%	2.10%
Safety-Probation	4.50%	2.10%
Safety-Law	9.30%	6.30%
Safety-Fire	5.10%	2.40%

Please note that the annual payoffs assumptions are the same for service and disability retirements.

**Actuarial Value of Assets:** Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual and the expected return on a market value basis, and is recognized over a five-year period.

**Valuation Value of Assets:** The Valuation Value of Assets is the Actuarial Value of Assets reduced by the value of the non-valuation reserves.

**Actuarial Cost Method:** Entry Age Normal Actuarial Cost Method. Entry Age is the current age minus Vesting Credit. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salaries, with Normal Cost determined as a level percentage of individual salary, as if the current benefit accrual rate had always been in effect. The outstanding balance of the December 31, 2004 unfunded Actuarial Accrued Liability is amortized over a declining 29-year period. Any increases or decreases in unfunded actuarial accrued liability that arise in future years due to actuarial gains or losses will be amortized over separate 15-year periods.

Please note that for Probation members who have prior benefit service in another General OCERS plan, the normal cost rate for the current plan is calculated assuming their Entry Age is the date they entered service with their current plan.

## Orange County Employees Retirement System

*Exhibit VIII*

### SUMMARY OF MAJOR PLAN PROVISIONS

This section summarizes the major provisions of OCERS included in the valuation. It is not intended to be, nor should it be interpreted as, a complete statement of all plan provisions.

<b>Membership Eligibility:</b>	Membership with OCERS begins with the day of employment in an eligible position by the County or a participating employer.
<b>General Plans</b>	
2.5% @ 55 Plans	<i>(City of Rancho Santa Margarita, Orange County Sanitation District and Law Library<sup>(1)</sup>)</i>
Plan G	General members hired before September 21, 1979.
Plan H	General members hired on or after September 21, 1979.
2.7% @ 55 Plans	<i>(City of San Juan Capistrano, Orange County Employees except bargaining unit AFSCME members, Orange County Superior Court, Orange County Local Agency Formation Commission<sup>(1)</sup>, Orange County Employees Retirement System<sup>(2)</sup>, Children and Family Commission<sup>(3)</sup> and Orange County Fire Authority)</i>
Plan I	General members hired before September 21, 1979.
Plan J	General members hired on or after September 21, 1979.
	<sup>(1)</sup> Improvement is prospective only for service after June 23, 2005.
	<sup>(2)</sup> Improvement for management employees is prospective only for service after June 30, 2005.
	<sup>(3)</sup> Improvement is prospective only for service after December 22, 2005.
2.0% @ 55 Plans	<i>(Transportation Corridor Agency)</i>
Plan M	General members hired before September 21, 1979.
Plan N	General members hired on or after September 21, 1979.
<i>All Other General Employers</i>	
Plan A	General members hired before September 21, 1979.
Plan B	General members hired on or after September 21, 1979.
<b>Safety Plans</b>	
<i>Law Enforcement, Fire Protection and Probation Members</i>	
Plan E	Safety members hired before September 21, 1979.
Plan F	Safety members hired on or after September 21, 1979.

## Orange County Employees Retirement System

### SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

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**Final Compensation for  
Benefit Determination:**

*Plans A, E, G, I and M*                      Highest consecutive twelve months of compensation earnable.  
(§31462.1) (FAS1)

*Plans B, F, H, J and N*                      Highest consecutive thirty-six months of compensation earnable.  
(§31462) (FAS3)

**Service:**                                      Years of service. (Yrs)

---

**Service Retirement Eligibility:**

*General*                                      Age 50 with 10 years of service, or age 70 regardless of service, or after  
30 years, regardless of age. (§31672)

*Safety*                                      Age 50 with 10 years of service, or after 20 years, regardless of age.  
(§31663.25)

All part time employees over age 55 with 10 years of employment may  
retire with 5 years of service.

---

**Benefit Formula:**
**General Plans**

<i>2.5% @ 55</i>	<b>Retirement Age</b>	<b>Benefit Formula</b>
<i>Plan G (§31676.18)</i>	50	(2.00% x FAS1 x Yrs)
<i>Tier 1</i>	55	(2.50% x FAS1 x Yrs)
	60	(2.50% x FAS1 x Yrs)
	62	(2.62% x FAS1 x Yrs)*
	65	(2.62% x FAS1 x Yrs)*
 <i>Plan H (§31676.18)</i>	 50	 (2.00% x FAS3 x Yrs)
<i>Tier 2</i>	55	(2.50% x FAS3 x Yrs)
	60	(2.50% x FAS3 x Yrs)
	62	(2.50% x FAS3 x Yrs)
	65	(2.50% x FAS3 x Yrs)

\* Reflects benefit factors from Plan A as they provide a better benefit than those under 2.5% @ 55.

<i>2.7% @ 55</i>	<b>Retirement Age</b>	<b>Benefit Formula</b>
<i>Plan I (§31676.19)</i>	50	(2.00% x FAS1 x Yrs)
<i>Tier 1</i>	55	(2.70% x FAS1 x Yrs)
	60	(2.70% x FAS1 x Yrs)
	62	(2.70% x FAS1 x Yrs)
	65	(2.70% x FAS1 x Yrs)

**Orange County Employees Retirement System**

**SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)**

<i>Plan J (§31676.19)</i>	50	(2.00% x FAS3 x Yrs)
<i>Tier 2</i>	55	(2.70% x FAS3 x Yrs)
	60	(2.70% x FAS3 x Yrs)
	62	(2.70% x FAS3 x Yrs)
	65	(2.70% x FAS3 x Yrs)

<i>2.0% @ 55</i>	<b>Retirement Age</b>	<b>Benefit Formula</b>
<i>Plan M (§31676.16)</i>	50	(1.43% x FAS1 x Yrs)
	55	(2.00% x FAS1 x Yrs)
	60	(2.34% x FAS1 x Yrs)**
	62	(2.62% x FAS1 x Yrs)**
	65	(2.62% x FAS1 x Yrs)**
<i>Plan N (§31676.16)</i>	50	(1.43% x FAS3 x Yrs)
	55	(2.00% x FAS3 x Yrs)
	60	(2.26% x FAS3 x Yrs)
	62	(2.37% x FAS3 x Yrs)
	65	(2.43% x FAS3 x Yrs)***

\*\* Reflects benefit factors from Plan A as they provide a better benefit than those under 2.0% @ 55.

\*\*\* Reflects benefit factors from Plan B as they provide a better benefit than those under 2.0% @ 55.

<i>All Other General Members</i>	<b>Retirement Age</b>	<b>Benefit Formula</b>
<i>Plan A (§31676.12)</i>	50	(1.34% x FAS1 x Yrs)
	55	(1.77% x FAS1 x Yrs)
	60	(2.34% x FAS1 x Yrs)
	62	(2.62% x FAS1 x Yrs)
	65	(2.62% x FAS1 x Yrs)
<i>Plan B (§31676.1)</i>	50	(1.18% x FAS3 x Yrs)
	55	(1.49% x FAS3 x Yrs)
	60	(1.92% x FAS3 x Yrs)
	62	(2.09% x FAS3 x Yrs)
	65	(2.43% x FAS3 x Yrs)

## Orange County Employees Retirement System

### SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

#### Safety Plans

	Retirement Age	Benefit Formula
<i>Plan E</i> (§31664.1)	50	(3.00% x FAS1 x Yrs)
<i>Tier 1</i>	55	(3.00% x FAS1 x Yrs)
	60	(3.00% x FAS1 x Yrs)
<i>Plan F</i> (§31664.1)	50	(3.00% x FAS3 x Yrs)
<i>Tier 2</i>	55	(3.00% x FAS3 x Yrs)
	60	(3.00% x FAS3 x Yrs)

**Maximum Benefit:** 100% of Highest Average Compensation.  
(§31676.1, §31676.12, §31676.16, §31676.18, §31676.19, §31664.1)

#### Ordinary Disability:

##### General Plans

*Plans A, B, G, H, I, J, M and N*

*Eligibility* Five years of service. (§31720)

*Benefit Formula*

Plans A, G, I, and M:

1.8% per year of service, and if the benefit does not exceed one-third of Final Compensation, the service is projected to 62, but the total benefit cannot be more than one-third of Final Compensation. (§31727.2)

Plans B, H, J and N:

1.5% per year of service, and if the benefit does not exceed one-third of Final Compensation, the service is projected to 65, but the total benefit cannot be more than one-third of Final Compensation. (§31727.1)

##### Safety Plans

*Plans E and F*

*Eligibility* Five years of service. (§31720)

*Benefit Formula*

1.8% per year of service. If the benefit does not exceed one-third of Final Compensation, the service is projected to 55, but the total benefit cannot be more than one-third of Final Compensation (§31727).

For all members, 100% of the service retirement benefit will be paid, if greater.

**Orange County Employees Retirement System**

**SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)**

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**Line-of-Duty Disability:**

*All Members*

*Eligibility*

No age or service requirements. (§31720)

*Benefit Formula*

50% of the Final Compensation or 100% of Service Retirement benefit, if greater. (§31727.4)

---

**Pre-Retirement Death:**

*All Members*

*Eligibility*

None.

*Benefit*

Refund of employee contributions with interest plus one month's compensation for each year of service to a maximum of six month's compensation. (§31781) A lump sum benefit in the amount of \$1,000 is payable upon death of a member (with 10 years of service) to his/her eligible beneficiary. (§31790)

*Death in line of duty*

50% of Final Compensation or 100% of Service Retirement benefit, if greater, payable to spouse or minor-children. (§31787).

OR

*Vested Members*

*Eligibility*

Five years of service.

*Benefit*

60% of the greater of Service or Ordinary Disability Retirement benefit payable to eligible surviving spouse (§31765.1, §31781.1), in lieu of §31781.

---

**Death After Retirement:**

*All Members*

*Service or*

*Ordinary Disability Retirement*

60% of member's unmodified allowance continued to eligible spouse. (§31760.1) A lump sum benefit in the amount of \$1,000 is payable upon death of a member (with 10 years of service) to his/her eligible beneficiary. (§31790) An eligible spouse is a surviving spouse who was married to the member at least one year prior to the date of retirement. (§31760.1)

*Line-of-Duty Disability*

100% of member's allowance continued to eligible spouse. (§31786) A lump sum benefit in the amount of \$1,000 is payable upon death of a member (with 10 years of service) to his/her eligible beneficiary. (§31790)

## Orange County Employees Retirement System

### SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

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**Withdrawal Benefits:**

*Less than Five Years of Service*      Refund of accumulated employee contributions with interest or earned benefit at age 70 (§31628). Effective January 1, 2003, A member may also elect to leave their contributions on deposit in the retirement fund. (§31629.5)

*Five or More Years of Service*      If contributions left on deposit, entitled to earned benefits commencing at any time after eligible to retire. (§31700)

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**Post-retirement**
**Cost-of-Living Benefits:**

Future changes based on Consumer Price Index to a maximum of 3% per year, excess "banked." (§31870.1)

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**Supplemental Benefit:**

Non-vested supplemental COLA and medical benefits are also paid by the System to eligible retirees and survivors. These benefits have been excluded from this valuation.

---

**Member Contributions:**
**General Plans:**
*Plan A*

*Basic*      Provide for an average annuity at age 60 equal to 1/200 of FAS1. (§31621.5)

*Cost-of-Living*      Provide for one-half of future Cost-of-Living costs.

*Plan B*

*Basic*      Provide for an average annuity at age 60 equal to 1/120 of FAS3. (§31621)

*Cost-of-Living*      Provide for one-half of future Cost-of-Living costs.

*Plans G, H, I and J*

*Basic*      Provide for an average annuity at age 55 equal to 1/100 of FAS3 (FAS1 for Plans G and I). (§31621.8)

*Cost-of-Living*      Provide for one-half of future Cost-of-Living costs.

*Plan M*

*Basic*      Provide for an average annuity payable at age 60 equal to 1/120 of FAS1. (§31621).

*Cost of Living*      Provide for one-half of future Cost-of-Living costs.

## Orange County Employees Retirement System

### SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

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*Plan N*

<i>Basic</i>	Provide for an average annuity payable at age 60 equal to 1/120 of FAS3. (§31621).
<i>Cost of Living</i>	Provide for one-half of future Cost-of-Living costs.

**Safety Plans:**

*Plans E*

<i>Basic</i>	Provide for an average annuity at age 50 equal to 1/200 FAS1. (§31639.5)
<i>Cost-of-Living</i>	Provide for one-half of future Cost-of-Living costs.

*Plans F*

<i>Basic</i>	Provide for an average annuity at age 50 equal to 1/100 of FAS3. (§31639.25)
<i>Cost-of-Living</i>	Provide for one-half of future Cost-of-Living costs.

**Other Information:**

Safety members with 30 or more years of service are exempt from paying member contributions. The same applies for General members hired on or before March 7, 1973.

**NOTE:** The summary of major plan provisions is designed to outline principle plan benefits as interpreted for purposes of the actuarial valuation. If the System should find the plan summary not in accordance with the actual provisions, the System should alert the actuary so they can both be sure the proper provisions are valued.

**Orange County Employees Retirement System**

*Exhibit IX*

**EXPERIENCE ANALYSIS  
(\$000)**

<b>Gains &amp; Losses in Actuarial Accrued Liabilities During Years Ended December 31, Resulting from Differences Between Assumed Experience &amp; Actual Experience</b>					
<b>Type of Activity</b>	<b>Gains (or Losses) Per Year</b>				
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Retirements	\$(48,490)	\$(82,392)	\$(119,420)	--	--
Disabilities	17,696	(8,012)	24,833	--	--
Withdrawal From Employment	(13,932)	(15,328)	(1,962)	--	--
Pay Increases	(40,448)	(91,887)	103,234	\$41,647	\$(16,544)
Investment Income	(221,192)	(220,329)	(287,828)	50,536	39,536
Mortality	(3,021)	(7,422)	7,574	--	--
Other	<u>(20,534)</u>	<u>(18,001)</u>	<u>(35,343)</u>	<u>(61,019)</u>	<u>(65,468)</u>
Gain (or Loss) During Year From Experience	<b>\$(329,921)</b>	<b>\$(443,371)</b>	<b>\$(308,912)</b>	<b>\$31,164</b>	<b>\$(42,476)</b>
<i>Nonrecurring Items:</i>					
Method and Procedure Changes				(106,630)	15,335
Plan Amendments and Assumption Changes	<u>(85,395)</u>	<u>(238,027)</u>	<u>(2,338)</u>	<u>(762,372)</u>	<u>0</u>
Composite Gain (or Loss) During Year	<b>\$(415,316)</b>	<b>\$(681,398)</b>	<b>\$(311,250)</b>	<b>\$(837,838)</b>	<b>\$(27,141)</b>

*Exhibit X*

**Orange County Employees Retirement System**

**SCHEDULE OF FUNDING PROGRESS**

<b>Actuarial Valuation Date December 31</b>	<b>Valuation Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)</b>	<b>Funded Ratio (a) / (b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c)</b>
2000	\$4,497,362,000	\$4,335,025,000	\$ -162,337,000	103.74%	\$ 994,669,000	-16.32%
2001	4,586,844,000	4,843,899,000	257,055,000	94.69%	1,122,763,000	22.89%
2002	4,695,675,000	5,673,754,000	978,079,000	82.76%	1,242,348,000	78.73%
2003	4,790,099,000	6,099,433,000	1,309,334,000	78.53%	1,243,964,000	105.25%
2004	5,245,821,000	7,403,972,000	2,158,151,000	70.85%	1,257,085,000	171.68%
2005	5,786,617,000	8,089,627,000	2,303,010,000	71.53%	1,276,764,000	180.38%

197875/05794.002



SECTION

5



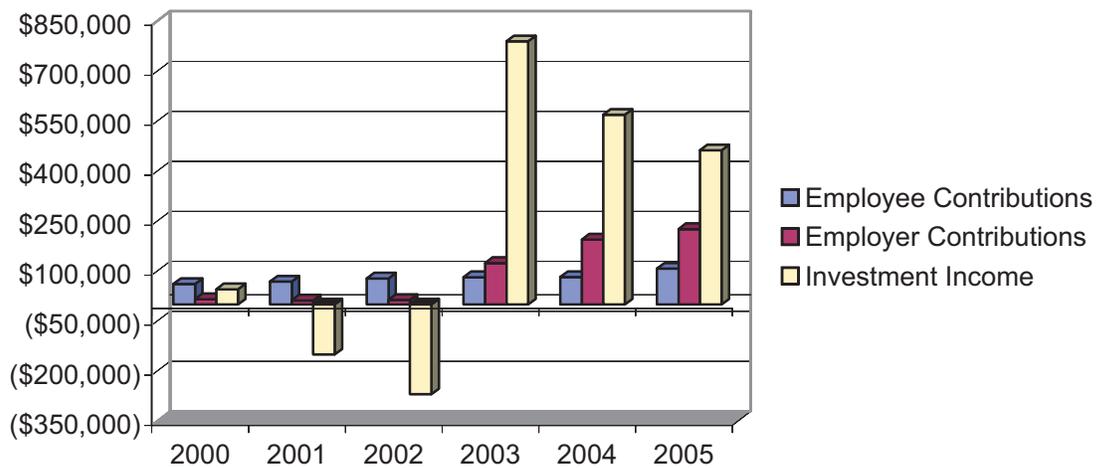
> STATISTICAL

## Schedule and Graph of Revenues by Source

(Dollars in Thousands)

### 2000 – 2005

Years Ended December 31	2000	2001	2002	2003	2004	2005
<b>Employee Contributions</b>	\$61,179	\$68,635	\$77,917	\$81,581	\$81,931	\$107,544
<b>Employer Contributions</b>	\$15,561	\$12,060	\$13,289	\$124,243	\$194,430	\$226,130
<b>Investment Income*</b>	\$45,284	(\$149,858)	(\$269,188)	\$789,086	\$569,000	\$461,980
<b>Total</b>	\$122,024	(\$69,163)	(\$177,982)	\$994,910	\$845,361	\$795,654



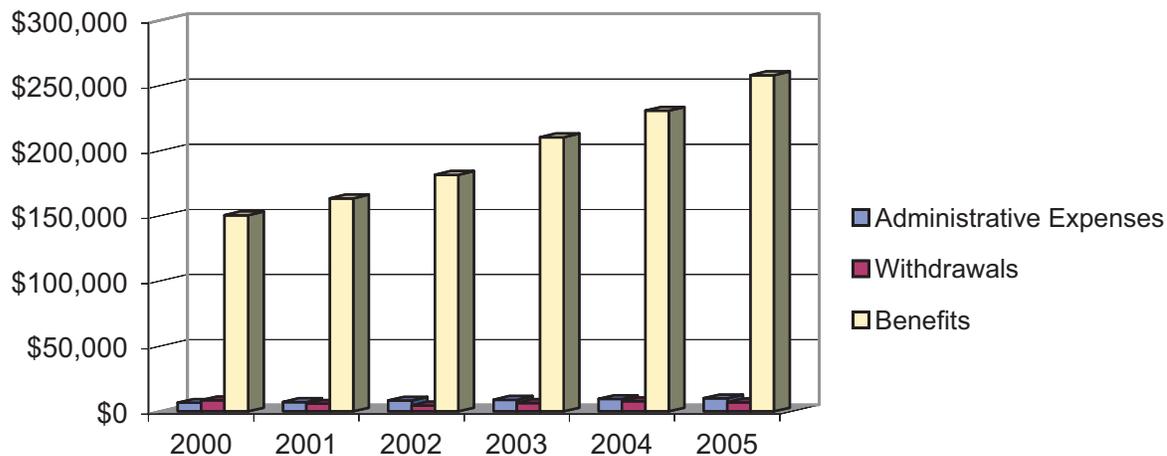
\* Includes net appreciation (depreciation) less investment manager fees and security lending fees.

## Schedule and Graph of Expenses by Type

(Dollars in Thousands)

### 2000 – 2005

Years Ended December 31	2000	2001	2002	2003	2004	2005
<b>Administrative Expenses</b>	\$6,631	\$7,146	\$8,279	\$8,848	\$9,463	\$9,953
<b>Withdrawals</b>	\$8,515	\$5,896	\$4,482	\$6,412	\$7,845	\$6,999
<b>Benefits</b>	\$150,466	\$163,378	\$181,549	\$210,273	\$230,684	\$257,929
<b>Total</b>	\$165,612	\$176,420	\$194,310	\$225,533	\$247,992	\$274,881

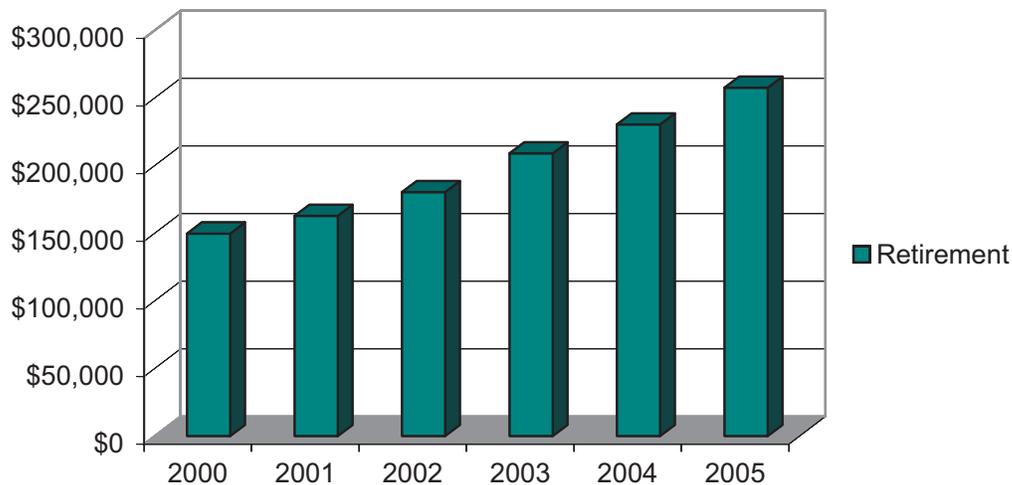
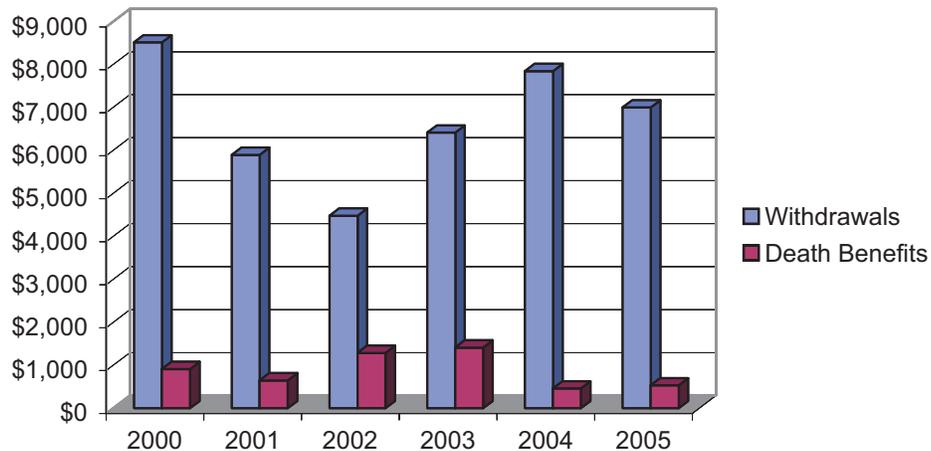


## Schedule and Graphs of Benefit Expenses by Type

(Dollars in Thousands)

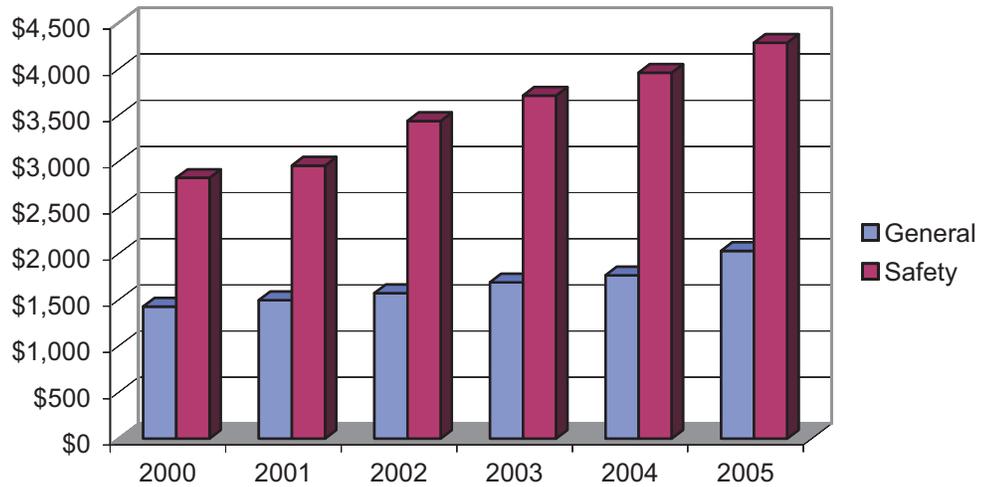
### 2000 – 2005

Years Ended December 31	2000	2001	2002	2003	2004	2005
<b>Withdrawals</b>	\$8,515	\$5,896	\$4,482	\$6,412	\$7,845	\$6,999
<b>Retirement</b>	\$149,555	\$162,732	\$180,263	\$208,861	\$230,225	\$257,397
<b>Death Benefits</b>	\$911	\$646	\$1,286	\$1,412	\$459	\$532
<b>Total</b>	\$158,981	\$169,274	\$186,031	\$216,685	\$238,529	\$264,928



## Schedule and Graph of Average Monthly Pension Check 2000 – 2005

	2000	2001	2002	2003	2004	2005
<b>General Members</b>	\$1,429	\$1,498	\$1,572	\$1,691	\$1,766	\$2,031
<b>Safety Members</b>	\$2,822	\$2,955	\$3,438	\$3,713	\$3,959	\$4,283



## Schedule of Benefit Recipients by Type of Benefit December 31, 2005

Monthly Benefit	1	2	3	4	5	6	7	Total
\$0-500	720	197	5	16	51	63	6	1,058
\$501-1,000	1,187	292	4	72	135	42	7	1,739
\$1,001-1,500	1,220	172	79	111	73	21	2	1,678
\$1,501-2,000	929	91	247	37	48	26	0	1,378
\$2,001-2,500	698	63	217	19	27	8	0	1,032
\$2,501-3,000	579	30	140	6	17	4	0	776
\$3,001-3,500	432	21	134	5	8	5	1	606
\$3,501-4,000	355	16	48	2	5	4	0	430
\$4,001-4,500	333	10	28	0	4	1	0	376
\$4,501-5,000	243	2	17	0	0	0	0	262
\$5,001-5,500	223	3	10	0	3	0	0	239
\$5,501-6,000	162	1	4	0	1	0	0	168
\$6,001-6,500	154	3	1	0	1	0	0	159
\$6,501-7,000	136	1	2	0	0	0	0	139
Over \$7,000	428	1	17	1	1	0	0	448
<b>Total</b>	<b>7,799</b>	<b>903</b>	<b>953</b>	<b>269</b>	<b>374</b>	<b>174</b>	<b>16</b>	<b>10,488</b>

### 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 Benefit

1. Normal Retirement for age and service
2. Survivor Payment - normal retirement
3. Service Connected Disability Retirement
4. Non-Service Connected Disability Retirement
5. Survivor Payment - disability retirement
6. QDRO's (retirees, alternate payees)
7. Active Deaths

## Schedule of Benefit Recipients by Option Selected December 31, 2005

Monthly Benefit	JSURV	SL100	SL60	SLIFE	SLR60	UNMJS	Total Payees*
\$0-500	99	0	2	107	0	850	1,058
\$501-1,000	156	0	9	194	3	1,377	1,739
\$1,001-1,500	162	1	3	175	1	1,336	1,678
\$1,501-2,000	144	0	1	141	0	1,092	1,378
\$2,001-2,500	131	0	2	80	0	819	1,032
\$2,501-3,000	101	1	1	74	0	599	776
\$3,001-3,500	98	0	0	53	0	455	606
\$3,501-4,000	70	1	0	52	0	307	430
\$4,001-4,500	82	1	0	38	0	255	376
\$4,501-5,000	78	0	0	34	0	150	262
\$5,001-5,500	74	0	0	45	0	120	239
\$5,501-6,000	51	0	1	22	0	94	168
\$6,001-6,500	48	0	0	26	0	85	159
\$6,501-7,000	45	0	0	11	0	83	139
Over \$7,000	157	0	0	38	0	253	448
Total	1,496	4	19	1,090	4	7,875	10,488

### Definition of Options

**JSURV:** Contingent joint survivor.

**SL100:** Single life with 100% joint survivor adjustment.

**SL60:** Single life with 60% adjustment.

**SLIFE:** Lifetime payment.

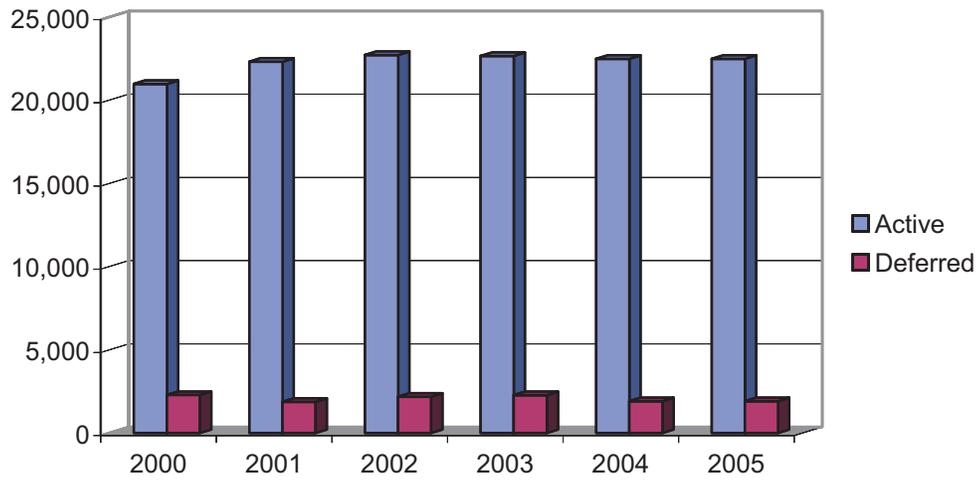
**SLR60:** Single life with 60% adjustment with reduction.

**UNMJS:** Unmodified with joint survivor.

\* Total payees includes 174 Qualified Domestic Relations Orders (QDRO) payees and 16 Active Death Survivors.

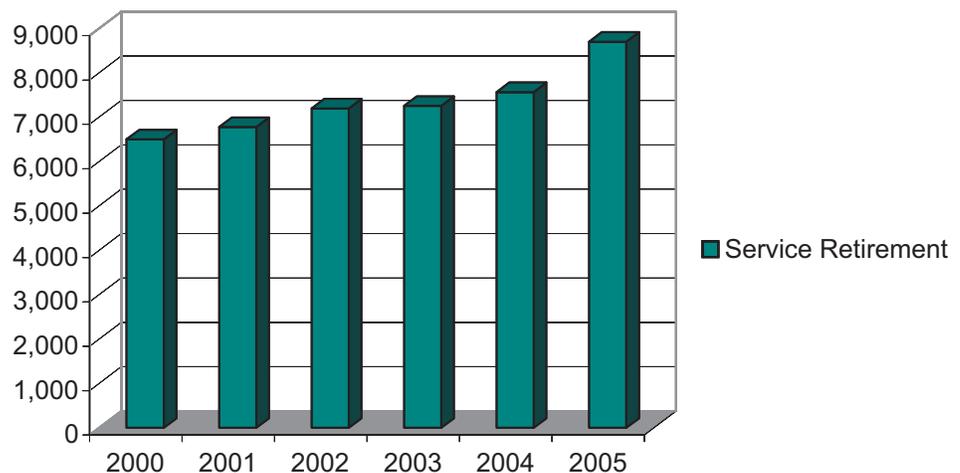
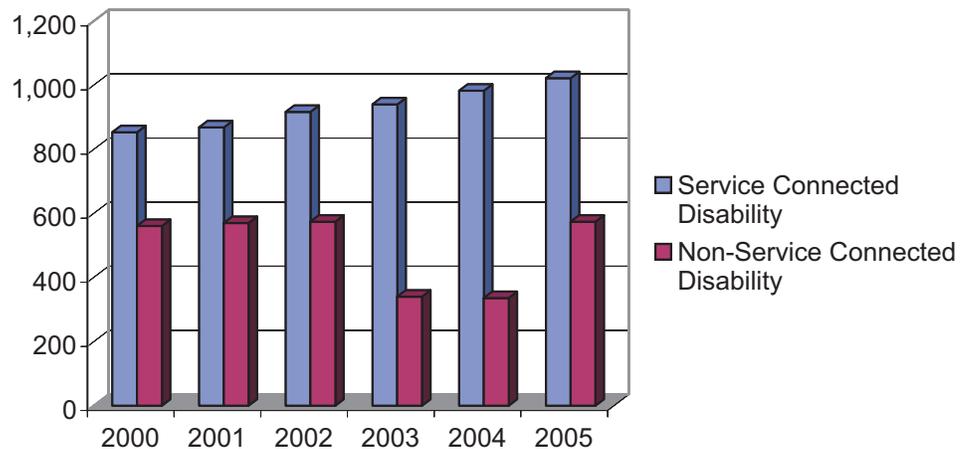
### Schedule and Graph of Active and Deferred Members 2000 – 2005

Years Ended December 31	2000	2001	2002	2003	2004	2005
<b>Active</b>	20,987	22,329	22,723	22,672	22,502	22,465
<b>Deferred</b>	2,285	1,872	2,177	2,278	1,910	2,409
<b>Total</b>	23,272	24,201	24,900	24,950	24,412	24,874



## Schedule and Graphs of Benefit Recipients 2000 – 2005

Years Ended December 31	2000	2001	2001	2003	2004	2005
Service Connected Disability	853	868	917	940	983	1,022
Non-Service Connected Disability	561	570	574	340	336	574
Service Retirement	6,501	6,778	7,197	7,255	7,567	8,702
<b>Total</b>	<b>7,915</b>	<b>8,216</b>	<b>8,688</b>	<b>8,535<sup>1</sup></b>	<b>8,886<sup>2</sup></b>	<b>10,298<sup>3</sup></b>



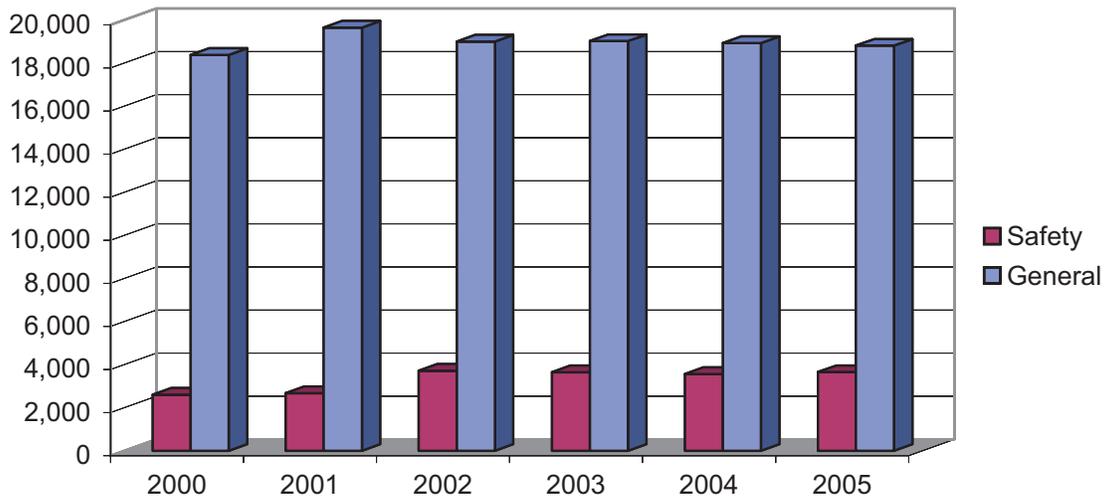
<sup>1</sup>Excludes 129 Qualified Domestic Relations Orders (QDRO) payees and 399 Active Death Survivors.

<sup>2</sup>Excludes 153 Qualified Domestic Relations Orders (QDRO) payees and 394 Active Death Survivors.

<sup>3</sup>Excludes 174 Qualified Domestic Relations Orders (QDRO) payees and 16 Active Death Survivors.

### Schedule and Graph of Active Members by Membership Classification\* 2000 – 2005

Years Ended December 31	2000	2001	2002	2003	2004	2005
<b>Safety</b>	2,605	2,676	3,721	3,649	3,567	3,653
<b>General</b>	18,382	19,653	19,002	19,023	18,935	18,812
<b>Total</b>	20,987	22,329	22,723	22,672	22,502	22,465



\* Excludes members with Deferred Status

## History of Actuarial Assumption Rates for the Period January, 1945 – December, 2005

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 Retirement Board and used by the consulting actuary in the creation of the actuarial valuation of the system.

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

### History of OCERS Actuarial Assumption Rates

<u>Effective Date</u>	<u>Interest Rate</u>	<u>Salary Assumption Rate</u>
1/1/45	2.50%	0.00%
7/1/62	3.50%	0.00%
12/31/65	4.00%	0.00%
7/1/69	4.50%	0.00%
6/30/70	5.00%	0.00%
8/31/73	5.75%	0.00%
7/1/75	6.00%	0.00%
7/1/81	7.25%	5.00%
7/1/89	7.50%	5.50%
7/1/91	8.00%	6.00%
7/1/96	8.00%	3.50%
7/1/00	8.00%	5.50%
7/1/03	7.50%	4.50%
12/31/05	7.75%	3.50%





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