

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2007



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

Orange County Employees Retirement System  
Orange County, California

# Comprehensive Annual Financial Report

For the Year Ended December 31, 2007

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:**

Steve Delaney  
*Chief Executive Officer*

**PREPARED BY:**

Stephen Cadena  
*Assistant Chief Executive Officer*

Michelle Williamson, PhD  
*Director of Finance*

Orange County Employees Retirement System  
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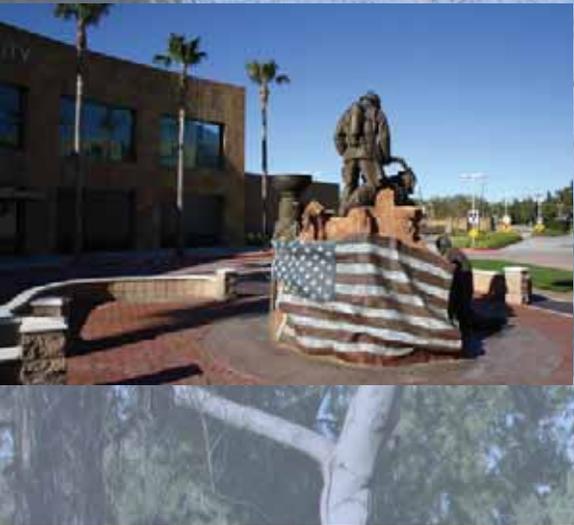
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SECTION

1



# > INTRODUCTION

# LETTER OF TRANSMITTAL



*Serving the Active and Retired Members of:*

- 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
- SUPERIOR COURT OF  
CALIFORNIA, COUNTY  
OF ORANGE
- TRANSPORTATION  
CORRIDOR AGENCIES

June 30, 2008

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, 2007, the System's 63<sup>rd</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 on pages 14-17.

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.

**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 2007 the funding ratio of the System was 72.92%. A history of OCERS' funding progress is presented on page 34.

In 2007, OCERS experienced an increase of \$906,930,981 in plan net assets. Details of the components of this increase are included in the Statement of Changes in Plan Net Assets on page 19.

Board of Retirement  
June 30, 2007

**Funding Goal:**

One of the goals of OCERS' funding policies is to establish contributions which fully fund the System's liabilities and which, as a percentage of payroll, remain as level as possible for each generation of active members. Annual actuarial valuations measure the progress toward this goal, as well as test the adequacy of the contribution rates.

Following the negative investment markets from early in the decade, major revisions in OCERS' actuarial regimen and various benefit changes, OCERS funded ratio declined requiring an increase in contributions. In the four years since those changes occurred the actuary's valuations have shown stable contribution requirements and gradually improving funding. The 2007 funded ratio did decline slightly as a result of new actuarial assumptions adopted by the OCERS Board to better reflect recent and expected experience. These assumptions should produce more stable contributions going forward, consistent with this basic financial goal.

Due to improved market conditions during 2007, the total additions to plan net assets, including net appreciation in fair value of investments, were \$1,271,173,102. This amount includes member and employer contributions of \$486,211,978, net investment income of \$779,736,069, net security lending income of \$3,451,533 and net commission recapture income and other of \$1,773,522. Net investment income, excluding net security lending income and net commission recapture income, was \$48,411,119 less than the prior year. This difference was attributable mainly to a \$140,940,727 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 19.

Deductions for 2007, excluding investment management and security lending fees, were \$364,242,121 which represented an increase of \$35,976,351 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.

**Internal Controls:**

OCERS maintains a system of internal controls designed to provide reasonable assurance that assets are properly protected from loss, theft, misuse and financial statements are reliable. Responsibility for the accuracy and completeness rests with OCERS. Our independent external auditors, Brown Armstrong Accountancy Corp., have conducted an audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America, performing such tests and other procedures as they deem necessary to express an opinion in their report to the Board. Our internal auditor provides a continuing review of the internal controls and operations of OCERS, and regularly reports to the Audit Committee of the OCERS Board.

**Major Initiatives:**

During 2007 OCERS continued to make modest modifications in its investment program to enhance diversification and the prospects for incremental return. The system diversified its real estate portfolio, absolute return strategies and made additional commitments to private equity.

Board of Retirement  
June 30, 2007

In 2007 OCERS completed the installation of an image system for all member records. The ability of members to access personal account information on-line was enhanced as were opportunities to conduct transactions, including the retirement application, on-line. At the same time OCERS conducted a record number of retirement planning and other seminars for members, maintaining our dual focus on quality 'in-person' service, along with better electronic capabilities.

In an effort to assist plan sponsors and members to address the need to fund other post employment benefit (OPEB) obligations, OCERS began providing investment services for OPEB funds. This service provides higher returns and lower costs for the plan sponsors. OCERS provides this service as a third-party administrator. OPEB reporting will remain the responsibility of the individual plan sponsor.

**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, 2006 (page 5).

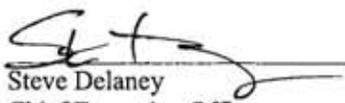
This was the thirteenth consecutive year that OCERS has achieved this prestigious award. The Certificate of Achievement is a national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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,

  
Steve Delaney  
Chief Executive Officer

  
Michelle Williamson  
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, 2006

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.



*Charles S. Cox*  
President

*Jeffrey R. Emen*  
Executive Director

## MEMBERS OF THE BOARD OF RETIREMENT

As of December 31, 2007



**Reed L. Royalty**  
Vice-Chair  
*Appointed by the  
Board of Supervisors*



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



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



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



**Arthur Hidalgo**  
*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*



**Chriss W. Street**  
*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 (one of whom is also General Counsel), a Senior Internal Auditor, 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 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 retirement seminars. The Disability section of Member Services is responsible for reviewing claims and medical records; interviewing applicants and witnesses; preparing written reports of findings and recommendations; and making presentations to the Board of Retirement regarding the disposition of cases.

The Communications Division is responsible for producing publications such as the Comprehensive Annual Financial Report, Popular Annual Financial Report, a quarterly news magazine and brochures, as well as producing content for the Web site and Board of Retirement Extranet.

### 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.

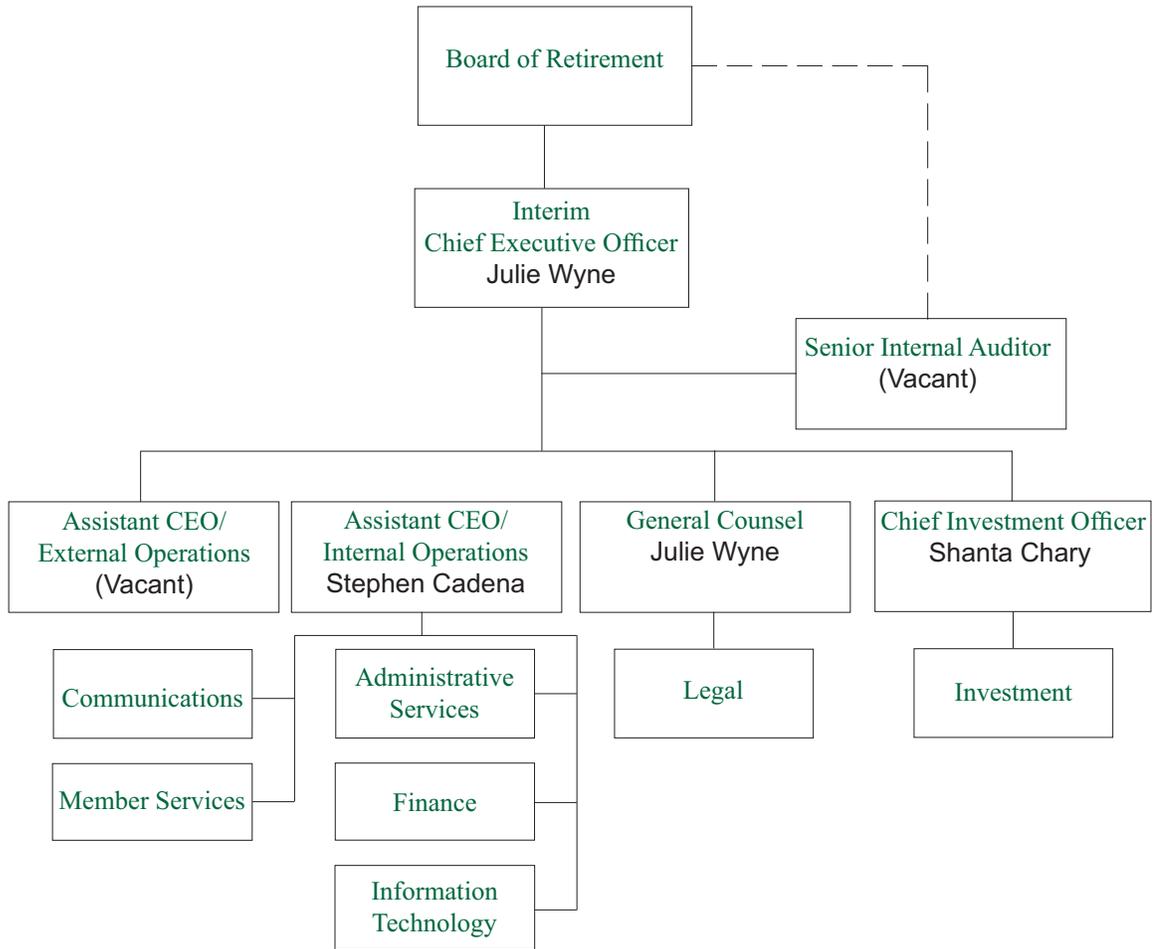
The Administrative Services Division is responsible for providing the contract administration, purchasing, and human resources functions of OCERS.

### 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. Among other things, this includes issues involving disability retirements, investments, legislation, vendor contracts, and family law.

## Administrative Organization Chart

As of December 31, 2007



## **List of Professional Consultants**

As of December 31, 2007

### **Actuary**

The Segal Company

### **Investment Consultant**

Callan Associates, Inc.

### **Real Estate Consultant**

Callan Associates, Inc.

### **Independent Auditor**

Brown Armstrong Accountancy Corporation

### **Investment Counsel**

Stradling, Yocca, Carlson & Rauth

### **Fiduciary Counsel**

Reed Smith, LLP

### **Tax Counsel**

Foley & Lardner

### **Custodian**

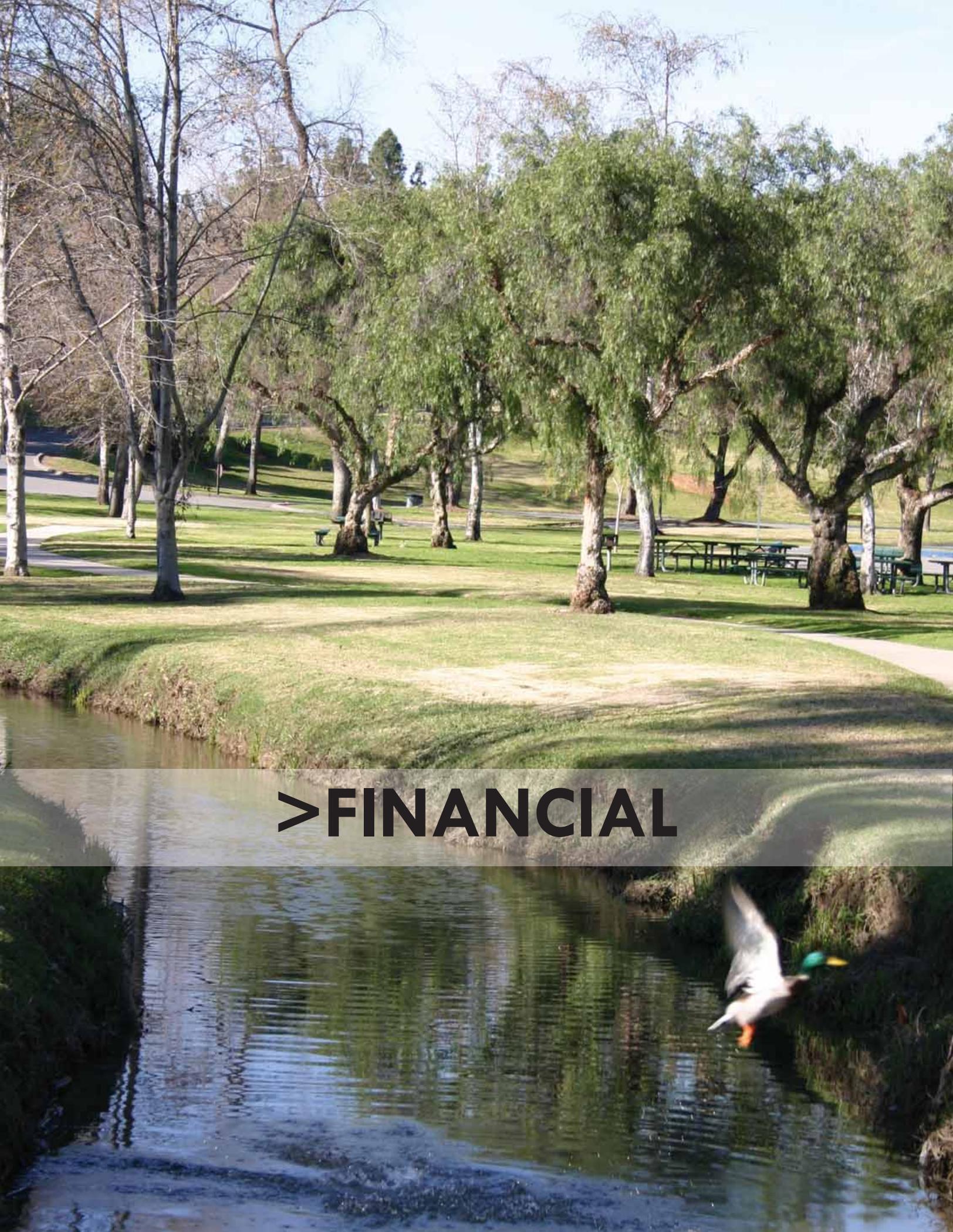
State Street California

Note: List of Investment Managers is located on page 59 of the Investment Section of this report.

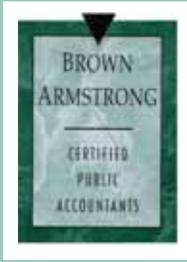


SECTION

2



**> FINANCIAL**



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

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Burton H. Armstrong, CPA, MST  
Harvey J. McCown, CPA  
Steven R. Starbuck, CPA  
Aileen K. Keeter, CPA  
Chris M. Thornburgh, CPA  
Eric H. Xin, MBA, CPA  
Richard L. Halle, CPA, MST

**INDEPENDENT AUDITOR'S REPORT**

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

Lynn R. Krausse, CPA, MST  
Rosalba Flores, CPA  
Connie M. Perez, CPA  
M. Sharon Adams, CPA, MST  
Diana H. Branthoover, CPA  
Thomas M. Young, CPA  
Alicia Brunetti, CPA, MBA  
Matthew R. Gilligan, CPA  
Hanna J. Sheppard, CPA  
Ryan L. Nielsen, CPA  
Jian Ou-Yang, CPA  
Ryan S. Johnson, CPA  
Jialan Su, CPA  
Ariadne S. Prunes, CPA  
Samuel O. Newland, CPA  
Brooke N. DeCuir, CPA  
Craig A. Rickett, CPA  
Kenneth J. Witham, CPA

We have audited the accompanying statement of plan net assets of the Orange County Employees' Retirement System (OCERS) as of December 31, 2007 and 2006 and the related statement of changes in plan net assets for the years 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, 2007 and 2006 and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (MD&A) 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2008, on our consideration of OCERS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK THORNBURGH & KEETER  
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "Audrey J. Paulden", is written over the printed name of the auditor.

Bakersfield, California  
June 25, 2008

## 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, 2007. Readers are encouraged to consider the information presented in this Management Discussion and Analysis in conjunction with the Letter of Transmittal (starting on page 2) and the Basic Financial Statements beginning on page 18. In addition, please refer to the Notes to the Financial Statements beginning on page 20, Required Supplementary Information beginning on page 34, and the Other Supplemental Information beginning on page 38.

### Financial Highlights:

- Net Assets Held in Trust for Pension Plan Benefits, as reported in the Statement of Plan Net Assets, totaled \$7,894,038,104, an increase of \$906,930,981 or 11.49% from the prior year, primarily as a result of the increases in the fair market value of investments and increases in contributions.
- Total Additions, as reported in the Statement of Changes in Plan Net Assets for 2007 were \$1,271,173,102. The major significant portions of the additions are the appreciation in the fair value of investments, investment gains, and the increases in contributions.
- Total Deductions, as reported in the Statement of Changes in Plan Net Assets, were \$364,242,121. This represents an increase of \$35,976,351 over the prior year primarily as a result of the increases in benefit payments.
- OCERS' funding objective is to meet its long-term benefit obligations through contributions and investment income. The Segal Company is OCERS' actuary. The latest actuarial valuation completed as of December 31, 2007 indicates that the funding status (the ratio of system assets to system liabilities) is 72.92%.

### 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 18): 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 19): 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. Other factors, such as market conditions, should also be considered in measuring the System's overall health.
3. Notes to Basic Financial Statements (pages 20-32): The Notes are an integral part of the financial reports; they provide a detailed discussion to key policies, programs and activities that occurred during the year.
4. Required Supplementary Information (pages 34-36): 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 showing the annual required contributions and the percentage of contributions made. In addition, this section provides information on the Latest Actuarial Valuation

Methods and Assumptions and the list of Significant Factors Affecting Trends in Actuarial Information.

5. The Other Supplementary Information (pages 38-40), the Investment Section (pages 44-59), the Actuarial Section (pages 62-89) and the Statistical Section (pages 92-103) 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
	2007	2006	2005	2007-2006	2006-2005
	Current Assets	\$1,217,235,852	\$1,029,229,082	\$869,352,668	\$188,006,770
Investments	8,202,224,207	6,985,545,129	6,072,342,982	1,216,679,078	913,202,147
Capital Assets	2,877,877	2,672,298	3,105,062	205,579	(432,764)
<b>Total Assets</b>	<b>\$9,422,337,936</b>	<b>\$8,017,446,509</b>	<b>\$6,944,800,712</b>	<b>\$1,404,891,427</b>	<b>\$1,072,645,797</b>
<b>Total Liabilities</b>	<b>\$1,528,299,832</b>	<b>\$1,030,339,386</b>	<b>\$867,032,327</b>	<b>\$497,960,446</b>	<b>\$163,307,059</b>
<b>Total Plan Net Assets</b>	<b>\$7,894,038,104</b>	<b>\$6,987,107,123</b>	<b>\$6,077,768,385</b>	<b>\$906,930,981</b>	<b>\$909,338,738</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 2007, including prepaid employer contributions, were \$486,211,978. 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, 2007, totaled \$784,961,124. (See page 19).

Overall additions to plan net assets were \$906,930,981 due primarily to an increase in overall contributions.

**Additions to Plan Net Assets:**

	Years Ended December 31			Increase/ (Decrease) Amount	Increase/ (Decrease) Amount
	2007	2006	2005	2007-2006	2006-2005
	Employer Contributions	\$326,736,357	\$277,368,459	\$226,129,626	\$49,367,898
Employee Contributions	159,475,621	137,581,505	107,543,611	21,894,116	30,037,894
Investment Gains (Losses)	784,961,124	830,200,011	461,980,118	(45,238,887)	368,219,893
<b>Total Additions</b>	<b>\$1,271,173,102</b>	<b>\$1,245,149,975</b>	<b>\$795,653,355</b>	<b>\$26,023,127</b>	<b>\$449,496,620</b>

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

OCERS was created to provide lifetime retirement pensions, 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, 2007, totaled \$364,242,121. (See page 19).

**Deductions from Plan Net Assets :**

	Years Ended December 31			Increase/ (Decrease) Amount	Increase/ (Decrease) Amount
	2007	2006	2005	2007-2006	2006-2005
Benefits Paid	\$345,061,652	\$309,696,154	\$257,928,554	\$35,365,498	\$51,797,600
Withdrawals/Refunds	8,799,409	8,969,775	6,998,941	(170,366)	1,970,834
Administrative Expenses	10,381,060	9,599,841	9,952,870	781,219	(353,029)
Prepaid Unearned Contributions	0	7,545,467	0	0	0
<b>Total Deductions</b>	<b>\$364,242,121</b>	<b>\$335,811,237</b>	<b>\$274,880,365</b>	<b>\$35,976,351</b>	<b>\$53,385,405</b>

**Reserves:**

OCERS' reserves are established from contributions and the amount of interest credited to reserve accounts at the actuarially assumed rate of 7.75% on the balances as of 6/30/07 and 12/31/07 on a bi-annual basis.

Reserve balances are as follows:

**Reserve Analysis:**

	Years Ended December 31		
	2007	2006	2005
Active Members Reserve	\$1,320,031,006	\$1,174,367,567	\$1,075,609,561
Retired Members Reserve	4,024,122,404	2,977,689,920	2,987,743,608
Employer Advanced Reserve	1,300,215,459	1,889,517,683	1,470,964,580
Retired Members Benefit Account	1,984,281	6,580,845	10,629,690
Unclaimed Reserves	1,225,418	1,317,031	1,202,293
Unreserved Net Assets	1,246,459,536	937,634,076	531,618,653
Sub-total	\$7,894,038,104	\$6,987,107,123	\$6,077,768,385
Less: Accounts Receivable for Interest Credited to Reserves	(\$248,060,032)	(\$365,336,114)	(\$301,176,798)
<b>Net Total Reserve</b>	<b>\$7,645,978,072</b>	<b>\$6,621,771,009</b>	<b>\$5,776,591,587</b>

**Investment and Economic Summary:**

In 2007, the economic environment was challenging. The challenges in the mortgage markets spilled over into the world wide economies. The Federal Reserve ended the year closely watching the Fed Funds Rate. (During January 2008, the Federal Reserve cut the Fed Funds rate by an aggressive 75 basis points.) Rumors of major financial institution problems created a difficult investment environment. The economy was also impacted by a significant increase in the cost of oil, and the value of the dollar.

For calendar year 2007, OCERS' fund was up 10.75%. Over the trailing three-year period, the fund was up 11.03%, while the five-year return was at 12.81% exceeding the actuarial earnings assumption rate of 7.75%. During calendar year 2007, there were positive returns in both domestic and international equities. For 2007, the Russell 3000 index was up 5.14%, while MSCI EAFE index was up 11.17%. Domestic bonds were in positive territory due to continued supply of liquidity by the Federal Reserve. Returns in the real estate and alternatives asset classes were strong.

**Capital Assets:**

OCERS' capital assets increased from \$2,672,298 to \$2,877,877 (net of accumulated depreciation and amortization). This investment in capital assets includes equipment, furniture and computer imaging system installation. The current year depreciation was \$3,175,163 (see page 24).

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

Positive market returns and increases in contributions were the primary factors in an increase in net assets by \$906,930,981 thereby accounting for an increase over the prior year. A 10-year history of the Changes in Plan Net Assets can be found in the Statistical section of this CAFR on page 92. Key elements of this increase in the Changes in Plan Net Assets are described in the section that follows:

Changes In Plan Net Assets:	Years Ended December 31		
	2007	2006	2005
Contributions Received	\$502,632,369	\$414,949,964	\$333,673,237
Net Investment Gains (Losses)	779,736,069	828,147,188	460,431,356
Net Securities Lending Income and Other Income	5,225,055	2,052,823	1,548,762
Participants' Benefits and Death Benefits	(345,061,652)	(309,696,154)	(257,928,554)
Withdrawals and Refunds	(8,799,409)	(8,969,775)	(6,998,941)
Admin Expenses and Prepaid Unearned Contributions	(26,801,451)	(17,145,308)	(9,952,870)
<b>Increases (Decreases) in Plan Net Assets</b>	<b>\$906,930,981</b>	<b>\$909,338,738</b>	<b>\$520,772,990</b>

The Board of Retirement approves OCERS' annual budget. The 1937 Act limits OCERS' annual administrative expenses to 0.18% of the System's total assets. OCERS' administrative expenses have historically been below the limitation. For the year ended December 31, 2007 the administrative expenses were below the budget established by the Board of Retirement and were 0.11% of the year's total assets.

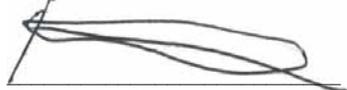
**OCERS' Fiduciary Responsibilities:**

OCERS' Board and management members are fiduciaries of the pension trust fund. Under the California Constitution and California state law, the net 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, participating employers, and other stakeholders with a general overview of OCERS' financial condition. Copies of this report are available at the address below and on the System's Web site at [www.ocers.org](http://www.ocers.org). Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

**OCERS**  
**Attention: Dr. Michelle Williamson**  
**2223 Wellington Avenue**  
**Santa Ana, CA 92701**



Michelle Williamson  
 Director of Finance

## Statement of Plan Net Assets

	Years Ended December 31	
	2007	2006
<b>ASSETS</b>		
Cash and Short-Term Investments		
Cash and Cash Equivalents (Note E)	\$ 335,281,124	\$ 237,237,264
Collateral Held for Securities Lent (Note F)	778,390,772	719,456,688
<b>Total Cash and Short-Term Investments</b>	<b>1,113,671,896</b>	<b>956,693,952</b>
Receivables		
Investment Income	29,223,212	22,309,517
Securities Sales	66,088,615	12,784,604
Employer/Employee Contributions	7,583,074	37,078,867
Other Receivables	669,055	362,142
<b>Total Receivables</b>	<b>103,563,956</b>	<b>72,535,130</b>
Investments, at Fair Value (Notes B-2 and F)		
United States Government Debt Securities and Corporate Bonds	2,783,944,623	2,076,853,725
Foreign Bonds	792,705,590	610,675,026
Domestic Equity Securities	1,807,503,474	1,704,672,978
International Equity Securities	2,048,736,844	1,902,510,425
Real Estate	623,071,198	541,570,830
Venture Capital and Limited Partnership Interests	146,262,478	149,262,145
<b>Total Investments</b>	<b>8,202,224,207</b>	<b>6,985,545,129</b>
Capital Assets, Net (Note B-3)	2,877,877	2,672,298
<b>Total Assets</b>	<b>9,422,337,936</b>	<b>8,017,446,509</b>
<b>LIABILITIES</b>		
Collateral Held for Securities Lent (Note F)	778,390,772	719,456,688
Securities Purchased	594,103,281	207,431,026
Prepaid Unearned Contributions (Note C)	108,301,236	70,940,574
Retiree Payroll Payable	29,534,548	22,486,790
Other	17,969,995	10,024,308
<b>Total Liabilities</b>	<b>1,528,299,832</b>	<b>1,030,339,386</b>
<b>Net Assets Held in Trust for Pension Plan Benefits*</b>	<b>\$ 7,894,038,104</b>	<b>\$ 6,987,107,123</b>

\*See Schedule of Funding Progress on page 34.

(See accompanying notes to financial statements beginning on page 20.)

## Statement of Changes in Plan Net Assets

	Years Ended December 31	
	2007	2006
<b>ADDITIONS</b>		
Contributions (Note C)*		
Employer	\$ 326,736,357	\$ 277,368,459
Employee	159,475,621	137,581,505
<b>Total Contributions</b>	<b>486,211,978</b>	<b>414,949,964</b>
Investment Income:		
Net Appreciation in Fair Value of Investments (Note F)	523,549,803	664,490,530
Interest on:		
Domestic and International Securities	146,287,497	81,732,842
Cash with County Treasurer (Note E)	1,874,995	870,058
Domestic Dividends	28,406,695	10,032,597
Real Estate Income	34,577,653	35,924,197
International Dividends	56,359,808	33,379,895
Venture Capital and Limited Partnerships	18,791,786	20,154,977
<b>Total Investment Income</b>	<b>809,848,237</b>	<b>846,585,096</b>
Less Investment Expenses	(30,112,168)	(18,437,908)
<b>Net Investment Income</b>	<b>779,736,069</b>	<b>828,147,188</b>
Securities Lending Revenue (Note F)	4,157,378	1,660,288
Less Securities Lending Fees (Note F)	(705,845)	(343,363)
<b>Net Securities Lending Revenue</b>	<b>3,451,533</b>	<b>1,316,925</b>
Income from Commission Recapture-Net/Other	1,773,522	735,898
<b>Total Additions</b>	<b>1,271,173,102</b>	<b>1,245,149,975</b>
<b>DEDUCTIONS</b>		
Participants' Benefits	344,321,004	309,102,051
Death Benefits	740,648	594,103
Member Withdrawals and Refunds	8,799,409	8,969,775
Administrative Expenses (Note G)	10,381,060	9,599,841
Prepaid Unearned Contributions (Note G)	NA	7,545,467
<b>Total Deductions</b>	<b>364,242,121</b>	<b>335,811,237</b>
<b>NET INCREASE</b>	<b>906,930,981</b>	<b>909,338,738</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION PLAN BENEFITS</b>		
Beginning of Year	6,987,107,123	6,077,768,385
<b>End of Year</b>	<b>\$ 7,894,038,104</b>	<b>\$ 6,987,107,123</b>

\* Employer contributions reflect cash payments only. Please see Note C on page 25 for amounts transferred from the County Investment Account.

(See accompanying notes to financial statements beginning on page 20.)

## 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 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)
- 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. Each year an actuarial valuation is performed for OCERS as a whole and contribution rates then 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 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. 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 San Juan Capistrano – 2%  
 County of Orange, except AFSCME bargaining unit – 2%  
 Orange County Cemetery District – 2%  
 Orange County Children & Families Commission – 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 Cemetery District	31676.16
Orange County Children & Families Comm	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
Orange County Sanitation District	31676.18
Transportation Corridor Agencies	31676.16
All other General members:	
• Tier I	31676.12
• Tier II	31676.1

**5. Nonservice-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 nonservice-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. Nonservice-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, 2007 and 2006:

**Active and Deferred Personnel**

	December 31	
	2007	2006
<u>Active General Members</u>		
County and Agencies Paid by County Payroll	16,672	15,981
Outside Agencies	3,131	3,120
Subtotal - Active General Members	19,803	19,101
<u>Active Safety Members</u>		
County and Agencies Paid by County Payroll	2,991	2,834
Outside Agencies	824	815
Subtotal - Active Safety Members	3,815	3,649
<b>Total Active Members</b>	<b>23,618</b>	<b>22,750</b>
<u>Deferred (General &amp; Safety) Members</u>		
Regular	2,816	2,442
Employment with Other Agencies (Reciprocity)	830	736
Subtotal - Deferred Members	3,646	3,178
<b>Total Active and Deferred Personnel</b>	<b>27,264</b>	<b>25,928</b>

**Benefit Recipients**

	December 31, 2007			December 31, 2006		
	General	Safety	Total	General	Safety	Total
Service Retirement	7,580	1,056	8,636	7,430	973	8,403
Survivors	715	68	783	854	78	932
Alternate Payees QDRO	144	48	192	133	43	176
Subtotal	8,439	1,172	9,611	8,417	1,094	9,511
Service-connected Disability	601	385	986	617	369	986
Survivors	58	25	83	50	22	72
Alternate Payees QDRO	7	18	25	5	18	23
Subtotal	666	428	1,094	672	409	1,081
Nonservice-connected Disability	244	13	257	256	13	269
Survivors	78	2	80	287	19	306
Alternate Payees QDRO	4	0	4	4	0	4
Subtotal	326	15	341	547	32	579
Active Death Survivors	339	35	374	9	2	11
<b>Total Recipients</b>	<b>9,770</b>	<b>1,650</b>	<b>11,420</b>	<b>9,645</b>	<b>1,537</b>	<b>11,182</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 3 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, 2007 and 2006, were as follows:

	2007	2006
Furniture and Equipment	\$ 1,239,727	\$ 1,161,234
Computer Software	4,813,313	4,087,266
<b>Total Capital Assets (at cost)</b>	<b>6,053,040</b>	<b>5,248,500</b>
Less Accumulated Depreciation	(3,175,163)	(2,576,202)
<b>Total Capital Assets Net of Depreciation</b>	<b>\$ 2,877,877</b>	<b>\$ 2,672,298</b>

Depreciation expense for the year ended 2007 and 2006 was \$598,961 and \$432,764, respectively.

#### 4. Implementation of New Accounting Pronouncements

OCERS implemented GASB Statement No. 44, Economic Condition Reporting: The Statistical Section, effective for the year ended December 31, 2006. The Statistical Section has been expanded to include ten years of trend information, plus Financial Trend Information regarding changes in plan net assets.

#### 5. Subsequent Events

Additional Portfolio Activity –

January: The Board approved \$5.25 million additional funding of the PIMCO Distressed Mortgage Fund. \$22.21 million in net contributions transferred from cash, including a \$24.2 million purchase of the Rivergate Shopping Center in Charlotte, North Carolina, a CB Richard Ellis acquisition. \$1.14 million in net distributions transferred to cash, including additional funding of \$350,000 to Adam Street 2008 Direct Fund L.P., \$250,000 to Adam Street 2008 US Fund, and \$200,000 to Adam Street 2008 Non-US Fund.

February: \$35 million transferred from PIMCO TIPS to fund the PIMCO Commodities PLUS account. \$7 million additional funding of the PIMCO Distressed Mortgage Fund. An additional funding of \$200,000 to Adam Street 2007 Direct Fund L.P. and \$357,500 to Adam Street 2007 US Fund.

March: Liquidated \$100 million from the BGI US Debt Index Fund, \$15 million from the BGI TIPS Index Fund and \$85 million from the PIMCO TIPS portfolio for the initial funding of Blackrock with \$50 million, PAAMCO with \$25 million, Schroder Commodity Portfolio with \$25 million, Wellington DIH with \$15 million and Hancock Timber with \$50 million.

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 2007, 2006, 2005, 2004, 2003 and 2002 were \$11,000,000, \$11,000,000, \$9,675,306, \$3,579,000, \$26,209,000, and \$65,180,000, respectively.

**C. Contributions Required and Contributions Made**

**1. Authority**

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. See page 22 article 12 for the methodology used to compute member contributions.

**2. Member Contributions**

Present members’ accumulated contributions at December 31, 2007 and 2006, were \$1,320,031,006 and \$1,174,367,567, 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 7.75% is credited to the Employer Reserve account.

**3. Funding Objective**

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.

**4. Pension Obligation Bonds**

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

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

**5. Combined Employer and Employee Contributions Received**

	2007	2006	2005
Normal Cost	\$ 267,416,588	\$ 274,046,804	\$ 204,553,221
Amortization of Unfunded Actuarial Accrued Liability	218,795,390	140,903,160	129,120,016
<b>Total</b>	<b>\$ 486,211,978</b>	<b>\$ 414,949,964</b>	<b>\$ 333,673,237</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, 2007, 2006 and 2005, OCERS contributed \$741,497, \$584,123, and \$607,833, respectively. 100% of the required contributions were paid each year.

During the year, contributions totaled \$486,211,978 which included \$326,736,357 in employer contributions and \$159,475,621 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 2007 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 2007 calendar year, a total of \$108,301,236 remained as prepayments for the sponsors to be applied in 2008.

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.

## 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. On January 4, 2007 Orange County Vector Control District terminated their participation in OCERS.

## 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, 2007, OCERS had money market funds of \$73,270,440 invested with OCERS' master trust custodian bank, State Street California, \$33,627,919 invested with Wells Fargo Bank and \$8,369,326 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, 2007 was \$335,281,124.

## 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.

Beginning with 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 previous OCERS Comprehensive Annual Financial Reports.

### 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. OCERS utilizes external investment managers to manage both its active and passive portfolios. OCERS investment policy specifies the guidance to our fixed income managers of the security types, credit rating and targeted durations versus a benchmark. OCERS portfolio diversification minimize overall market and credit risk, while allowing for maximization of higher investment returns.

### Fixed Income Securities

Most fixed income securities are rated by one or more corporate credit rating agencies such as Moody's, Standard and Poor's, or Fitch IBCA. These ratings help potential investors determine the risk associated with investing in a specific company, investing instrument or market. A non-rated (NR/NA) security does not necessarily indicate a lower quality security. Presented below is a table listing fair values of fixed income investments categorized by rating as of December 31, 2007.

	TOTAL	Aaa	Aa	A	Baa	Ba	B	Caa	NR/NA	Duration
COLLATERALIZED MORTGAGE OBLIGATIONS	\$135,896,149	\$64,542,773		\$538,161	\$1,790,789				\$69,024,426	3.09
CONVERTIBLE BONDS	\$13,577,438				\$1,101,348	\$2,819,667	\$255,850	\$2,581,918	\$6,818,655	1.12
CORPORATE BONDS	\$460,738,205	\$79,989,421	\$93,756,161	\$63,147,697	\$75,610,058	\$34,951,760	\$51,089,176	\$14,474,901	\$47,719,031	5.01
FEDERAL HOME LOAN MORTGAGE CORP	\$68,303,671	\$81,105,286							-\$12,801,615	3.13
FEDERAL NATIONAL MORTGAGE ASSN	\$501,256,424	\$413,918,367							\$87,338,057	4.49
GOVERNMENT ISSUES	\$2,338,697,515	\$2,124,028,669	\$847,191	\$173,094,868	\$21,920,957	\$13,441,197			\$5,364,633	8.56
GOVERNMENT NATIONAL MORTGAGE ASSN I	\$13,135,623	\$13,135,623								16.33
GOVERNMENT NATIONAL MORTGAGE ASSN II	\$2,717,730	\$2,717,730								4.95
MUNICIPALS	\$16,787,847	\$5,118,542	\$1,323,477		\$8,774,346				\$1,571,482	10.35
NON-SECURITY ASSETS	\$2,303,241								\$2,303,241	4.13
OTHER ASSET - BACKED SECURITIES	\$25,307,537	\$12,102,007	\$1,808,262		\$655,496	\$2,192,629		\$23,300	\$8,525,842	2.03
INTEREST RATE SWAP	-\$2,071,169								-\$2,071,169	0.00
<b>GRAND TOTALS</b>	<b>\$3,576,650,213</b>	<b>\$2,796,658,419</b>	<b>\$97,735,091</b>	<b>\$236,780,726</b>	<b>\$109,852,994</b>	<b>\$53,405,254</b>	<b>\$51,345,026</b>	<b>\$17,080,119</b>	<b>\$213,792,583</b>	<b>5.74 AVG</b>

**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. OCERS' policy is to attempt to achieve its investment return objective with an appropriate level of risk using an efficient combination of investable assets. OCERS does not have a formal risk policy specific to interest rate risk. OCERS manages total fund level risk by setting portfolio level guidelines for each investment manager.

**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, 2007. OCERS did not invest in any single issue of security totaling more than five percent of the System's net assets.

**Schedule of Largest Equity Holdings (by Market Value)  
December 31, 2007**

<b>Common Stock</b>	<b>Shares</b>	<b>Market Value</b>	<b>% of Composite</b>
Mobil Corp	270,556	\$ 25,348,390	1.26
General Electric Co	494,118	18,316,966	0.91
Potash Corp	112,600	16,370,610	0.40
Barrick Gold Corp	379,300	15,949,565	0.39
Microsoft Corp	394,224	14,034,376	0.70
BAE Systems	1,360,500	13,486,895	0.33
Softbank Corp	624,200	12,906,969	0.32
Goldman Sachs	58,300	12,537,415	0.31
AT&T Inc	296,115	12,306,532	0.61
Procter & Gamble Co	151,233	11,103,554	0.55

**Schedule of Largest Fixed Income Holdings (by Market Value)  
December 31, 2007**

<b>Asset</b>	<b>CPN/Maturity</b>	<b>Market Value</b>	<b>% of Composite</b>
U. S. Treas Bds	2.375/1-15-2025	\$114,286,301	4.52
U. S. Treas Nt	2.00/TIPS	97,578,330	3.86
U. S. Treas Bds	3.625/4-15-2028	81,871,784	3.24
FNMA	5.50	62,728,458	2.48
U. S. Treas Nt	1.875/TIPS	60,530,283	2.39
U. S. Treas Nt	1.625/TIPS	54,943,947	2.17
U. S. Treas Nt	2.00/TIPS	50,683,683	2.00
U. S. Treas Nt	0.875/TIPS	43,236,251	1.71
U. S. Treas Nt	2.50/TIPS	42,282,197	1.67
U. S. Treas Bds	3.875/4-15-2029	40,022,807	1.58

### 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. OCERS recognizes that some level of risk must be assumed to achieve the system's long term investment objectives. OCERS' policy is to attempt to achieve its investment return objective with an appropriate level of risk using an efficient combination of investable assets. OCERS does not have a formal risk policy specific to foreign currency risk. OCERS manages total fund level risk by setting portfolio level guidelines for each investment manager.

#### Currency Exposure as of December 31, 2007

Currency	Market Value
Australian Dollar	\$78,247,900
Brazilian Real	\$3,088,473
Canadian Dollar	\$79,438,685
Danish Krone	\$4,530,711
Euro Currency	\$583,912,397
Hong Kong Dollar	\$31,438,713
Iceland Krona	\$3,453,314
Indonesian Rupiah	\$3,110,732
Japanese Yen	\$453,568,053
Mexican Peso	\$22,402,533
New Zealand Dollar	\$9,906,924
Norwegian Krone	\$11,005,810
Polish Zloty	\$217,362
Pound Sterling	\$190,780,313
Singapore Dollar	\$19,970,424
South African Rand	\$2,141,803
South Korean Won	\$7,436,048
Swedish Krona	\$16,880,435
Swiss Franc	\$85,794,533
Thailand Baht	\$3,070,146

### Net Appreciation

During 2007 and 2006, OCERS' investments (including investments bought and sold, as well as held during each year) appreciated in value by \$523,549,803 and by \$664,490,530, respectively.

	Years Ended December 31	
	2007	2006
Net Appreciation in Fair Value as Determined by Quoted Market Prices:		
Domestic Equity Securities	\$ 86,340,713	\$ 178,580,127
United States Government Debt Securities, Corporate & Foreign Bonds & Debentures	111,225,695	36,088,855
International Equity Securities	257,041,926	380,227,240
Subtotal	454,608,334	594,896,222
Net Appreciation (Depreciation) in Fair Value as Determined by Estimated Fair Value:		
Real Estate	45,933,920	45,379,480
Alternative	23,007,549	24,214,828
<b>Total Net Appreciation</b>	<b>\$ 523,549,803</b>	<b>\$ 664,490,530</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 2007. Securities on loan at year-end to various securities brokers for 2007 and 2006, at fair market values were \$778,390,772 and \$719,456,688, 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, 2007 and 2006.

Gross security lending revenue for 2007 and 2006 was \$4,157,378 and \$1,660,288, respectively. At year end, the system has no credit risk exposure to borrowers because the amounts the system owes the borrowers exceed the amounts the borrowers owe the system.

### International Investments

Investments in international securities are managed by investment managers. Other investments are held in 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, 2007, OCERS had approximately \$146,262,478 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 I 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 and like agencies guarantee the majority of these securities.

Securities	Fair Value 2007	Fair Value 2006
FHLMC	\$ 68,303,671	\$ 8,776,977
FNMA	501,256,424	272,115,719
GNMA	15,853,353	3,480,747
CMO	135,896,150	21,956,807
Others	25,539,609	2,041,155
<b>Total Derivative Securities</b>	<b>\$ 746,849,207</b>	<b>\$ 308,371,405</b>

### G. Administrative Expenses and Prepaid Unearned Contributions

The total administrative expenses for the years ended December 31, 2007 and 2006 were \$10,381,060 and \$9,599,841, respectively. 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. Additionally, Section 31596.1 of the Government Code allows certain costs to be excluded from the statutory limitation. The limitations for the years ended December 31, 2007 and 2006 were \$14,209,269 and \$13,001,008, respectively. Administrative expenses subject to the statutory limitation for the years ended December 31, 2007 and 2006 were \$9,146,145 and \$8,204,444, respectively. These expenses are financed mostly by investment income. The excluded costs are included in the amounts classified as administrative expenses for OCERS' financial statements.

The deductions for 2007 and 2006 include a discount on Prepaid Unearned Contributions of \$16,420,391 and \$7,545,467, respectively.

## H. Reserve Accounts

The plan net assets of \$7,894,038,104 as of December 31, 2007 include reserves of \$6,647,578,568 and unreserved net assets of \$1,246,459,536. The unreserved net assets include the County Investment Account. The reserve balances as of December 31, 2007 are as follows:

	Active Members Reserve	Retired Members Reserve	Employer Advanced Reserve	RMBR Reserve	Unclaimed Reserve	Unreserved Net Assets	Total Plan Net Assets
General Ledger Balance	\$1,320,031,006	\$4,024,122,404	\$1,300,215,459	\$1,984,281	\$1,225,418	\$1,246,459,536	\$7,894,038,104
Less: Accounts Receivable for Interest Credited to Reserves	(31,096,597)	(138,464,642)	(78,498,793)	-	-	-	(248,060,032)
<b>Net Reserves</b>	<b>\$1,288,934,409</b>	<b>\$3,885,657,762</b>	<b>\$1,221,716,666</b>	<b>\$1,984,281</b>	<b>\$1,225,418</b>	<b>\$1,246,459,536</b>	<b>\$7,645,978,072</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 2007 and 2006 because the Unallocated Fund Balance (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 on December 31, 2007 was approximately \$1,984,281. The County of Orange terminated their RMBR agreement on December 31, 2006 and all others terminated by December 31, 2007.

## I. Summary of Derivative Financial Instruments

### Futures Contracts

A futures contract represents an agreement to buy (long position) or sell (short position) an underlying asset at a specified future date for a specified price. Payment for the transaction is delayed until a future date, which is referred to as the settlement or expiration date. Futures contracts are standardized contracts traded on organized exchanges.

*As of December 31, 2007, OCERS had the following futures contracts:*  
(Dollars in thousands)

Description	Contracts	Notional Par	Market Value
Futures Long	7,304	\$1,730,561,050	\$1,645,332,966.61
Futures Short	-2,420	-\$207,334,170	-\$260,279,083.39

**FX Forward Contracts**

Forward contracts represent an agreement to buy or sell an underlying asset at a specified date in the future at a specified price. Payment for the transaction is delayed until the settlement or expiration date. A forward contract is a non-standardized contract that is tailored to each specific transaction. Forward contracts are privately negotiated and are intended to be held until the settlement date. Currency forward contracts are used to control currency exposure and facilitate the settlement of international security purchase and sale transactions.

*As of December 31, 2007, OCERS had the following FX forward contracts:*  
(Dollars in thousands)

<b>Description</b>	<b>Contracts</b>	<b>Market Value</b>
FX Contracts Purchased	23	\$46,603,148
FX Contracts Sold	34	\$48,821,825
FX Cross deal	2	-\$26,505

**Option Contracts**

An option contract is a type of derivative security in which a buyer (purchaser) has the right, but not the obligation, to buy or sell a specified amount of an underlying security at a fixed price by exercising the option before its expiration date. The seller (writer) has an obligation to buy or sell the underlying security if the buyer decides to exercise the option.

*As of December 31, 2007, OCERS had the following option contracts:*  
(Dollars in thousands)

<b>Description</b>	<b>Contracts</b>	<b>Market Value</b>
Options Purchased – Calls	146,000,000	\$3,027,310
Options Written – Calls	-90,674,000	-\$4,529,934
Options Written – Puts	-33,613,000	-\$626,299

**Swap Agreements**

A swap is an agreement between two or more parties to exchange a sequence of cash flows over a period of time in the future. No principal is exchanged at the beginning of the swap. The cash flows that the counterparties exchange are tied to a “notional” amount. A swap agreement specifies the time period over which the periodic payments will be exchanged.

*As of December 31, 2007, OCERS had the following swap agreements:*  
(Dollars in thousands)

<b>Description</b>	<b>Notional Value – U. S. Dollar</b>
Swaps – Long	\$398,301,235
Swaps – Short	-\$497,073,320

**J. Post Employment Health Care Benefits**

Beginning in 2007, the Orange County Fire Authority and Orange County entered into an agreement with OCERS establishing health care fund accounts pursuant to Section 401 (h) and Section 115 of the Internal Revenue Code.

Section 401 (h) permits the establishment of a separate account to fund retiree health care benefits. 401 (h) limits the contributions to the 401 (h) account to 25% of aggregate contributions to OCERS.

Section 115 allows for the purpose of funding all or a portion of the benefits payable pursuant to a plan.

Under the agreements OCERS administers the health care program for the retired members and their eligible dependents. The Boards of all of the interested parties reserves the right to amend or revise these plans and programs at any time. OCERS' role in regard to the program is limited to collecting the monies, investing the funds and upon direction from Orange County or the Orange County Fire Authority make payment of premiums when due.

**K. Reclassification of Financial Statement Presentation**

Certain reclassifications have been made to the 2006 financial statements to conform with the 2007 financial statement presentation. Such reclassifications had no effect on net increase in net plan assets as previously reported.

## 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)
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%
2006	6,466,085	8,765,045	2,298,960	73.77%	1,322,952	173.78%
2007	7,288,900	9,996,211	2,707,311	72.92%	1,457,159	185.79%

\* 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.

\*\* Please see Letter of Transmittal, page 3 [Funding goal] for a detailed explanation.

**Note:**

- The 12/31/02, 12/31/03, 12/31/04, 12/31/05 12/31/06 and 12/31/07 actuarial value of assets exclude \$143,675,000, \$143,744,000, \$155,245,000 \$158,218,736, \$168,223,633 and \$174,348,137 of the County Investment Account balances respectively.

**Schedule of Employer Contributions**

	Annual Required Contribution*	Percentage Contributed**
2002	\$13,289,000	100%
2003	\$124,243,000	100%
2004*	\$194,430,000	100%
2005***	\$227,892,000	100%
2006	\$277,368,000	100%
2007	\$326,736,000	100%

\* Employer contributions reflect cash payments only. Please see note C on page 25 for amounts transferred from the County Investment Account.

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

\*\*\* The difference between the annual required contribution and the actual contribution (page 19) is the prepaid discount.

**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	12/31/2007
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll
Remaining amortization period	30-year closed amortization with 27 years remaining
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**

**2007 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year**

Vector Control District terminated their participation in OCERS effective January 4, 2007.

Retirement formula for the Orange County Cemetery District changed to 2% at 55 effective December 7, 2007.

**2006 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year**

The City of Rancho Santa Margarita terminated their participation in OCERS effective December 31, 2006.

**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.

(Continued)

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

**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.

**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	
	2007	2006
<b>Expenses Subject to the Statutory Limitation:</b>		
Personnel Services:		
Board Members' Allowance	\$ 12,500	\$ 12,900
Employee Salaries and Benefits	5,263,570	4,659,673
Total Personnel Services	5,276,070	4,672,573
Office Operating Expenses:		
Operating Expenses	1,014,283	1,153,710
Professional Services	1,305,771	1,057,035
Rent/Leased Real Property	951,060	888,362
Depreciation/Amortization	598,961	432,764
Total Office Operating Expenses	3,870,075	3,531,871
Total Expenses Subject to the Statutory Limitation*	9,146,145	8,204,444
<b>Expenses Not Subject to the Statutory Limitation:</b>		
Commingled Interest Cost	34,411	20,333
Actuarial Fees	146,776	427,456
Consulting/Research Fees	355,934	342,846
Investment Department Expenses	635,152	546,734
Legal Costs	62,642	58,028
Total Expenses Not Subject to the Statutory Limitation	1,234,915	1,395,397
<b>Total Administrative Expenses</b>	<b>\$ 10,381,060</b>	<b>\$ 9,599,841</b>

(\*Please see note G on page 29.)

## Schedule of Investment Expenses

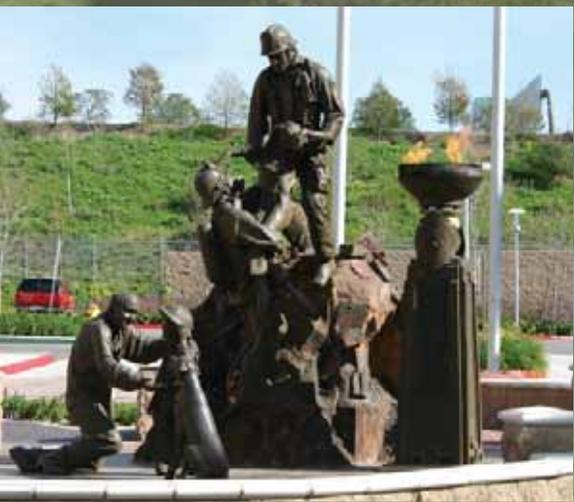
Years Ended December 31

	2007	2006
<b>Investment Expense by Category</b>		
Domestic/Global Fixed Income	\$ 4,482,765	\$ 3,868,510
Domestic Equity	6,063,589	4,214,285
Real Estate	8,461,765	3,074,454
Limited Partnership	254,143	1,105,995
Venture Capital	3,491,533	1,351,076
International Equity	7,358,373	4,823,588
Subtotal	30,112,168	18,437,908
<b>Security Lending Fees</b>		
Security Lending Fees	705,845	343,363
<b>Total Investment Expenses</b>	<b>\$ 30,818,013</b>	<b>\$ 18,781,271</b>

**Schedule of Payments for Professional Services  
For the Years Ended December 31, 2007 and 2006**

Name of Firms	Type of Services	2007	2006
<b>Professional Expenses Subject to the Statutory Limitation</b>			
County of Orange	Various Services	\$ 67,007	\$ 54,147
Netifice Communication, Inc.	Internet Usage	-	10,920
Megapath Networks Inc.	Internet Usage	17,443	-
Manpower, Inc.	Temporary Personnel	60,500	18,768
Select Personnel Services	Temporary Personnel	4,050	72,210
Talent Tree Crystal , Inc.	Temporary Personnel	22,959	-
E-Partners	System Consulting	-	1,781
Hanson Bridgett	Legal Services	22,465	38,007
Foley & Lardner	Legal Services	782	4,014
Reed Smith	Legal Services	291,488	114,752
Steeffel, Levitt & Weiss	Legal Services	-	50,965
Schott & Lites Advocates	Legislative Counseling	18,000	18,000
Link, Murrel & Company	Audit Services	-	33,532
The Berwyn Group	Mortality Verification	2,487	3,420
Brown Armstrong	Audit Services	92,600	95,470
Management Specialists	Financial Strategy Seminars	11,250	10,500
Iron Mountain	Off-site Data Storage	9,192	5,621
Linea Solutions	System Consulting	92,777	256,174
Levi, Ray, & Shoup, Inc.	System Improvement	-	55,850
Novanis	System Consulting	18,216	-
Various Professional Firms	Other Services	574,555	212,904
<b>Total Professional Expenses Subject to the Statutory Limitation</b>		<b>\$ 1,305,771</b>	<b>\$ 1,057,035</b>
<b>Professional Expenses Not Subject to the Statutory Limitation</b>			
Callan Associates, Inc./ The Townsend Group	Performance Evaluation	307,387	287,046
IRSS Inc.	Performance Evaluation	25,000	-
Informa Investment Solutions (Effron Enterprises, Inc.)	Performance Evaluation	800	800
ISI Group	Performance Evaluation	-	25,000
State Street Bank and Trust Company	Custodian Services	180,000	177,958
County of Orange	Commingled Interest Cost	34,411	20,333
The Segal Company	Actuarial Services	146,776	427,456
Stradling, Yocca, Carlson, & Rauth	Legal Counsel	62,642	-
Davis, Mendel & Regenstein	Performance Evaluation	22,500	30,000
Investment Department Expenses	Investment Expenses	455,399	426,804
<b>Total Professional Expenses Not Subject to the Statutory Limitation</b>		<b>1,234,915</b>	<b>1,395,397</b>
<b>Total All Professional Expenses</b>		<b>\$ 2,540,686</b>	<b>\$ 2,452,432</b>

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SECTION

3



**> INVESTMENTS**

# CALLAN ASSOCIATES<sup>INC</sup>



SAN FRANCISCO

NEW YORK

CHICAGO

ATLANTA

DENVER

April 22, 2008

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, 2007.

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

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

### **Market Environment**

For the fifth consecutive year, the domestic equity markets extended their positive total returns with a modest gain. The S&P 500 rose 5.49%, and the Russell 3000 Stock Index was up 5.14%. Unlike most of the prior recovery years, large capitalization stocks outperformed smaller capitalization stocks and "growth" oriented stocks outpaced "value" oriented stocks.

Within the fixed income market, the Lehman Aggregate Bond Index posted a return of 6.97% for the year. The attractive overall return masks the extremes evident within the bond market. U.S. Government securities returned an extraordinary 8.66% while

investment grade credit securities returned 5.11%. Long dated government instruments enjoyed a 9.65% return while asset backed securities returned only 2.21%. Turmoil in the money and bond markets, particularly in the second half of the year, combined with aggressive actions by the Federal Reserve to lower short-term interest led to significant volatility. These trends have continued into 2008. Investors literally ran to quality provided by government securities while avoiding securities with any credit risk.

The resurgence in the overseas stock markets that began in 2003 continued strongly in 2007. Measured in U.S. dollar terms, international stocks outperformed domestic stock indices by a wide margin. The difference was largely attributable to the weakness of the U.S. dollar. The MSCI EAFE Index advanced 11.17% for the year. Measured in local currency terms, the EAFE Index gained only 3.54%. Emerging markets continued to surge as evidenced by the MSCI Emerging Markets Index, which advanced 39.78%.

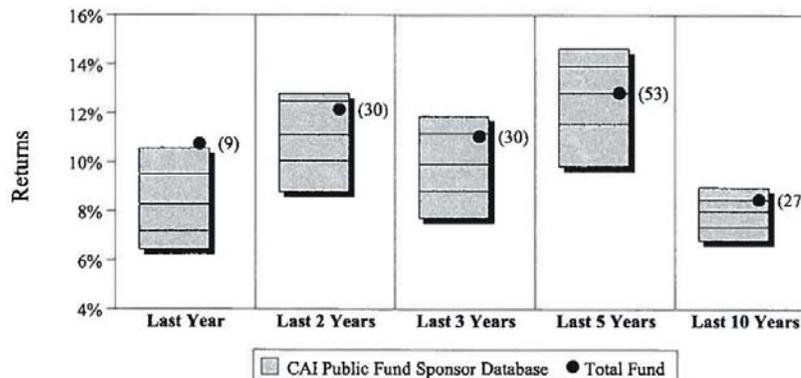
**Performance**

For the calendar year, OCERS' total fund had a time-weighted total return of 10.75%. While this return lagged the System's strategic policy benchmark target return of 11.59%, it ranked in the 9th percentile of Callan's Public Fund database. Returns for trailing 2, 3, and 10-year periods all rank at or above the 30<sup>th</sup> percentile. The System's risk adjusted return ranked in the top quartile of Callan's Public Fund Database.

OCERS' Strategic Policy Benchmark Index 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 (9%); 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%); 3-month Treasury Bill + 7% (5%); and Real Estate Investors Index (1%).

The graph below depicts the Total Fund relative to Callan's Total Public Fund Database for cumulative periods ended December 31, 2007.

**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 domestic stock managers, in aggregate, outpaced appropriate market benchmarks in 2007. Similarly, the System's active bond managers added value in 2007. OCERS' stock and bond managers also have added value in the vast majority of longer cumulative periods ended 2007.

OCERS' domestic bond component again outperformed the bond market for the year (+8.26% versus +6.50% for the Lehman U.S. Universal Bond Index). The outperformance for the year was largely attributable to OCERS' largest bond manager, PIMCO, correctly anticipating major bond market developments including declining interest rates and government securities. Over the long-term, OCERS' aggregate bond composite continues to outperform market indices and peers. For the fifteen and one-half years ended 12/31/07, OCERS' bond composite ranks in the first percentile of the Public Fund database. The 7.95% annualized return exceeds the target index return of 6.72%.

OCERS' U.S. equity composite gained 5.84% in 2007. This result was slightly greater than both the Russell 3000 Stock Index return of 5.14% and the Callan Public Fund Domestic Equity peer group median. Over almost all cumulative periods considered, OCERS' domestic equity composite has achieved very strong comparative returns. For example, the trailing five-year return of 14.27% ranked in the 35th percentile and exceeded the target benchmark return of 13.63% annualized.

OCERS' international equities achieved an absolute composite return of 16.06%. This result lagged the MSCI-AC World Index ex US return of 17.12% but outperformed the Public Fund database median of 15.27%.

In summary, calendar 2007 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, 2007. 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.

	1 Year	3 Year	5 Year
Domestic Equity	5.84%	9.11%	14.27%
Russell 3000 Index	5.14%	8.89%	13.63%
International Equity	16.06%	20.35%	23.04%
MSCI AC World Ex US Index	17.12%	20.37%	24.52%
MSCI EAFE Index	11.17%	16.83%	21.59%
Domestic Fixed	7.27%	5.40%	6.60%
Lehman Bros. Universal Index	6.50%	4.72%	4.99%
TIPS	11.03%	4.99%	N/A
Lehman Bros TIPS Index	11.63%	4.85%	6.27%
International Fixed Income	8.73%	3.54%	5.23%
Intl Fixed Income Target Index*	8.15%	3.66%	4.30%
Absolute Return	9.55%	N/A	N/A
Absolute Return Target Index**	12.00%	N/A	N/A
Cash & Equivalents	7.29%	5.36%	3.75%
Real Estate	13.71%	17.79%	14.31%
NCREIF Property Index	15.85%	17.49%	15.14%
Alternative Investments	29.03%	23.54%	17.25%
Total Fund	10.75%	11.03%	12.81%
Composite Policy Benchmark***	11.59%	11.45%	13.12%

\* 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

\*\* Absolute Return Target Index = 3-month Treasury Bill + 7%

\*\*\* Policy Benchmark = 19.0% LB US Universal Index + 18.0% MSCI EAFE Index + 18.0% Russell 3000 + 9.0% NCREIF Total Index + 1% Real Estate Investors 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.

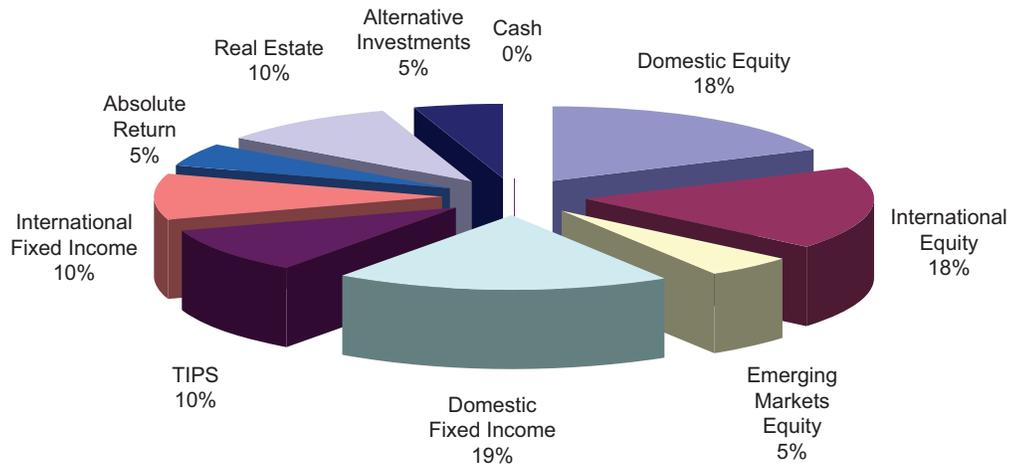
In normal circumstances, asset levels are permitted to fluctuate around targeted levels, and cash inflows are administered by staff in a manner that is consistent with maintenance of the desired level of diversification. When asset fluctuations and/or external cash flows take actual allocation outside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

### Program Administration and Manager Structure

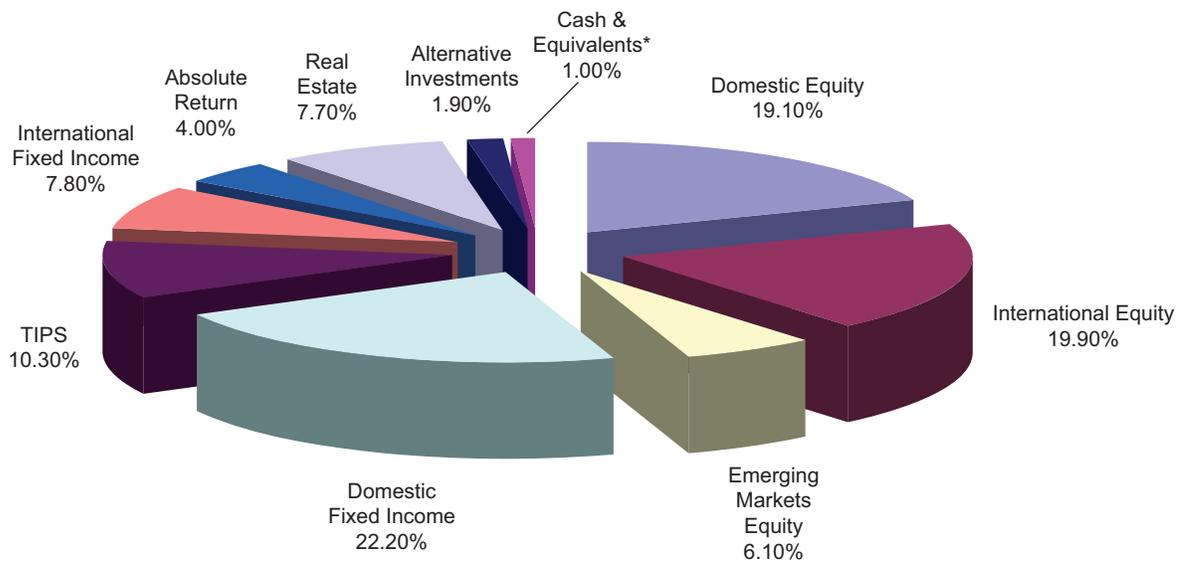
For each major asset class, the System shall diversify assets by employing managers with demonstrated skill in their particular areas of expertise. The System will retain managers who utilize varied investment approaches and allocate assets in a manner that is consistent with the overall strategic plan.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

## Asset Diversification December 31, 2007

### Policy

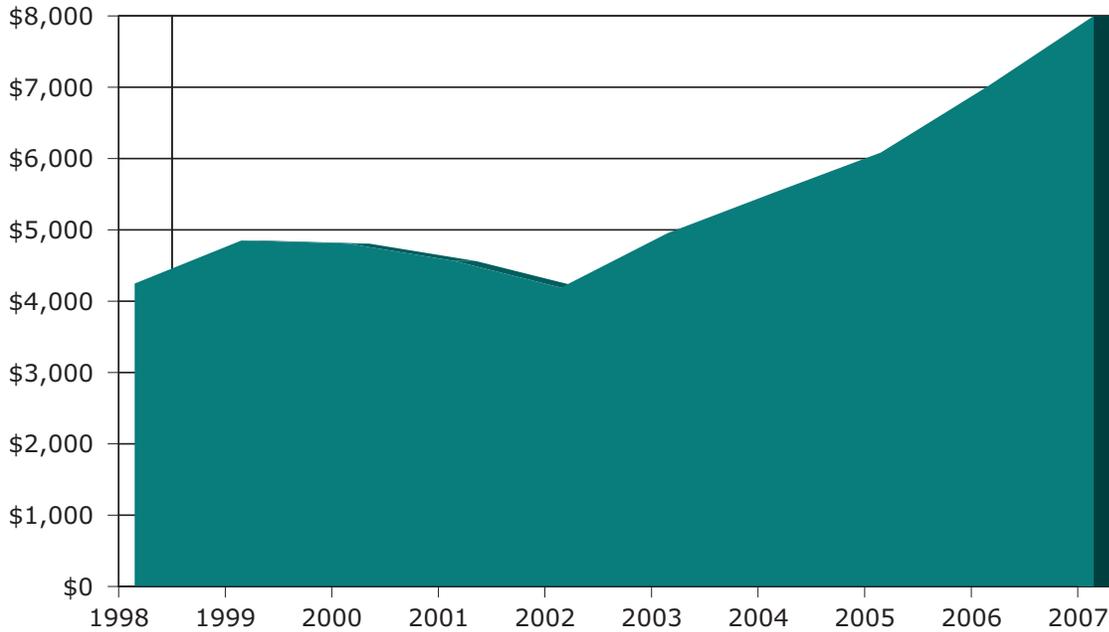


### Actual

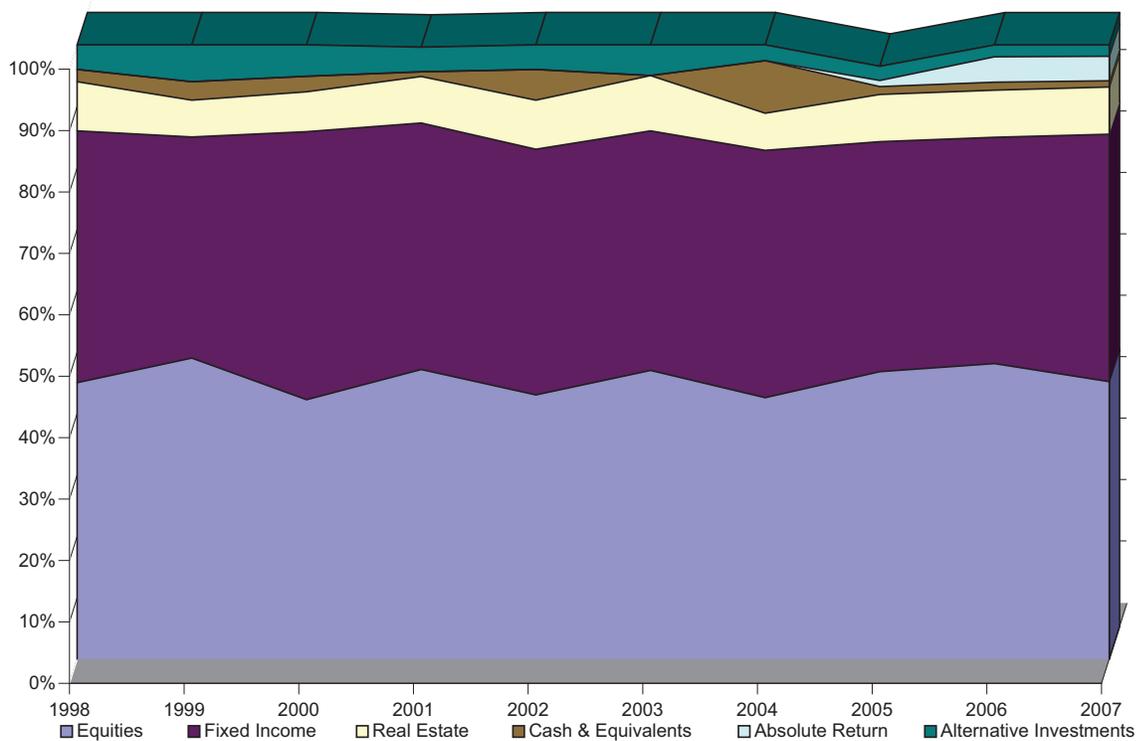


\*Does not include OCERS operating cash accounts

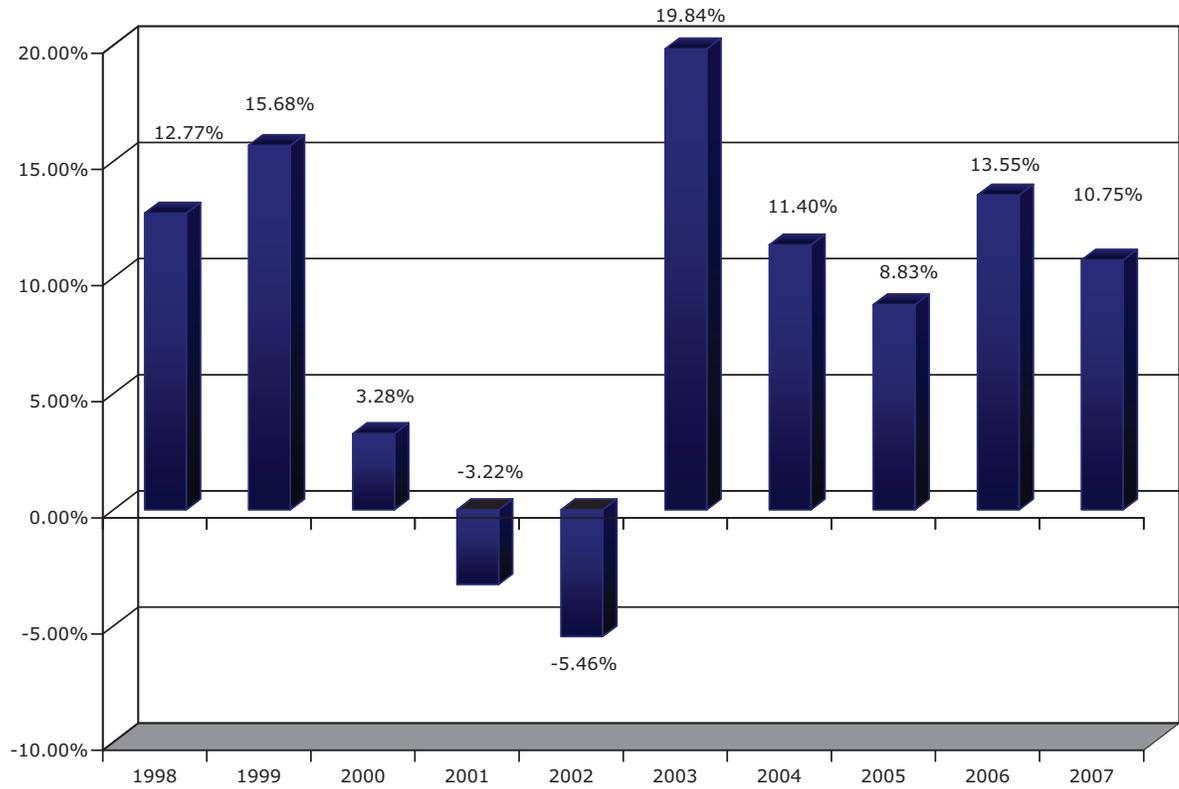
**Growth of System Net Assets at Fair Value  
for Ten Years Ended December 31, 2007**  
(in Millions of Dollars)



**Historical Asset Allocation  
(Actual)**  
**December 1998 – December 2007**



**History of Performance**  
(Based on Fair Value)  
**December 1998 – December 2007**



## COMMISSION RECAPTURE PROGRAM

OCERS implements a direct brokerage program where investment managers are encouraged to trade with five brokerage firms, Abel Noser, Capital Institutional Services, Rochdale Securities, LJR Recapture Services and Alfa, Inc. OCERS recaptures about 75% of the domestic equity commission, 60% for fixed income and 50% for international equity. For the year ended December 31, 2007 the System generated \$70,140 in Commission Recapture dollars.

### Schedule of Commissions for the Year Ended December 31, 2007

<b>Broker Name</b>	<b>Shares/ Par Value</b>	<b>Commission (Base)</b>	<b>Commission Per Share</b>
ABEL NOSER CORPORATION	626,260	22,436	0.03583
ABG SECURITIES	232,841	5,144	0.02209
ABN AMRO ASIA LIMITED	138,000	12	0.00009
ABN AMRO AUSTRALIA LIMITED	52,300	425	0.00813
ABN AMRO BANK N. V. HONG KONG	766,600	3,596	0.00469
ABN AMRO BANK NV	856,454	15,077	0.01760
ABN AMRO BANK NV HONG KONG BRANCH	193,098	134	0.00069
ABN AMRO SECURITIES (USA) INC	2,100	3,835	1.82613
ADP CLEARING & OUTSOURCING SERVICES, INC	500	15	0.03000
AVONDALE PARTNERS LLC	6,000	300	0.05000
ROBERT W. BAIRD, & COMPANY INCORPORATED	254,515	11,718	0.04604
BANC OF AMERICA SECURITIES LLC	333,021	11,426	0.03431
BANK OF AMERICA INTL NY (UNITED STATES)	27,300	1,338	0.04901
BANCO ESPIRITO SANTO DE INVEST	46,875	177	0.00377
BANCO ESPIRITO SANTO DE INVESTIMENT	3,169	39	0.01244
BANCO ESPIRITO SANTO INVESTMENTO SUCURSA	12,598	193	0.01532
BANCO SANTANDER CENTRAL HISPANO	36,400	2,074	0.05699
BANK AM BELLEVUE	17,572	3,248	0.18483
BANK JULIUS BAER AND CO. LTD.	1,183	228	0.19275
BARNARD JACOBS MELLETT AND CO (PTY)	6,100	257	0.04213
BAYPOINT TRADING LLC	81,800	2,169	0.02652
BBVA SECURITIES	8,500	370	0.04356
BEAR STEARNS & CO INC	272,023	9,353	0.03438
BEAR STEARNS SECURITIES CORP. CLEARING	3,080,654	69,784	0.02265
BEAR STEARNS SECURITIES CORP.	183,344	3,582	0.01954
BLEY INVESTMENT GROUP	5,300	265	0.05000
BNP PARIBAS PEREGRINE SECURITIES	965,957	15,966	0.01653
BNP PARIBAS SECURITIES SVCS FR	4,300	126	0.02937
BNY BROKERAGE INC	1,466,189	30,981	0.02113
BROADCORT CAPITAL	229,970	7,037	0.03060
BROWN BROTHERS HARRIMAN & CO	400	20	0.05000
B-TRADE SERVICES LLC	2,838,981	40,939	0.01442
C.E. UNTERBERG, TOWBIN	41,310	1,239	0.03000
IB INVESTMENT BANK AG	19,900	1,545	0.07762
CANACCORD CAPITAL CORP	41,800	1,699	0.04064
CANADIAN IMPERIAL BANK OF COMMERCE	8,000	227	0.02839
CANTOR FITZGERALD (EUROPE)	2,506,045	4,275	0.00171
CANTOR FITZGERALD & CO	106,142	4,343	0.04092
CANTOR FITZGERALD & CO	375,700	13,805	0.03674
CARNEGIE SOUTH AMERICA	43,000	1,551	0.03606
CARNEGIE INTERNATIONAL	60,400	3,087	0.05111
CAZENOVE & CO	507,749	12,090	0.02381

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Commission (Base)</u>	<u>Commission Per Share</u>
CAZENOVE & CO. LTD	171,267	5,172	0.03020
CEDEL BANK	20,799	71	0.00340
CENKOS SECURITIES LTD	29,300	189	0.00646
CHAPDELAINE INSTITUTIONAL	135,640	4,069	0.03000
CHASE SECURITIES INC	130,700	1,307	0.01000
CHINA INTRTNL CAP CORP HK SECS LTD	129,500	639	0.00493
CIBC WOODGUNDY	46,800	1,638	0.03500
CIBC WORLD MARKETS CORP	341,300	12,082	0.03540
CIBC WORLD MKTS INC	30,500	1,094	0.03587
CITIGROUP GLOBAL MARKETS ASIA LIMITED	6,000	0	0.00004
CITIGROUP GLOBAL MARKETS AUSTRALIA PTR	73,700	1,798	0.02439
CITIGROUP GLOBAL MARKETS AUSTRALIA PTY	73,000	3,781	0.05179
CITIGROUP GLOBAL MARKETS INC	1,108,090	40,813	0.03683
CITIGROUP GLOBAL MARKETS INC SALOMON BRO	4,300	20,176	4.69206
CITIGROUP GLOBAL MARKETS INC	2,332,564	28,502	0.01222
CITIGROUP GLOBAL MARKETS LIMITED	3,919,173	33,516	0.00855
CJS SECURITIES	10,400	520	0.05000
CLSA SECURITIES KOREA LTD.	24,300	5,992	0.24660
COLLINS STEWART INC	24,280	728	0.03000
COMPASS POINT RESEARCH AND TRADING	168,090	5,043	0.03000
COWEN & CO., LLC	9,100	319	0.03500
COWEN & COMPANY, LLC	99,800	3,975	0.03983
COWEN & COMPANY, LLC	113,000	3,798	0.03361
CREDIT AGRICOLE INDOSUEZ	3,220	485	0.15068
CREDIT AGRICOLE INDOSUEZ CHEUVREUX	640,363	19,665	0.03071
CREDIT AGRICOLE SECURITIES INC	17,000	1,816	0.10681
CREDIT LYONNAIS SECURITIES	310,331	10,780	0.03474
CREDIT LYONNAIS SECURITIES (USA) INC	373,000	3,030	0.00812
CREDIT SUISSE FIRST BOSTON (EUROPE)	1,220	1,514	1.24135
CREDIT SUISSE FIRST BOSTON (EUROPE) LTD	313,068	6,446	0.02059
CREDIT SUISSE SECURITIES (EUROPE) LTD	1,253,508	15,926	0.01270
CREDIT SUISSE SECURITIES (USA) LLC	918,766	23,830	0.02594
CS FIRST BOSTON (HONG KONG) LIMITED	1,249,970	11,130	0.00890
CSFB AUSTRALIA EQUITIES LTD	321,529	3,379	0.01051
CSFB EUROPE LTD	48,600	3,845	0.07911
DAIWA SBCM EUROPE	39,002	2,614	0.06703
DAIWA SECURITIES AMERICA INC	446,382	3,324	0.00745
DAVENPORT & CO. OF VIRGINIA, INC	6,000	300	0.05000
D.A. DAVIDSON & COMPANY INC	10,490	315	0.03000
DAVY (J & E)	61,200	2,207	0.03606
DBS VICKERS SECURITIES (SINGAPORE)	541,850	153	0.00028
DEN DANSKE BANK	8,000	534	0.06670
DEUTSCHE BANK AG LONDON	1,409,017	29,126	0.02067
DEUTSCHE BANK ALEX BROWN	6,772	271	0.04000
DEUTSCHE BANK SECURITIES INC	3,895,600	24,560	0.00630
DEUTSCHE MORGAN GRENFELL SECS	362,055	1,013	0.00280
DEUTSCHE SECURITIES ASIA LIMITED	1,308,500	3,097	0.00237
DEUTSCHE SECURITIES ASIA LTD	10,377	4,548	0.43824
DIRECT INVESTMENT	1,463,898	29,058	0.01985
DOWLING & PARTNERS	1,400	70	0.05000
E TRADE SECURITIES, INC	7,400	259	0.03500
A.G. EDWARDS & SONS, INC	74,130	2,312	0.03119

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Commission (Base)</u>	<u>Commission Per Share</u>
A.G. EDWARDS & SONS, INC	10,800	540	0.05000
EMP RESEARCH PTRNS	19,000	950	0.05000
ENSKILDA SECURITIES AB	100,200	4,494	0.04485
ENSKILDA SECURITIES ASA	5,901	111	0.01879
EUROMOBILIARE SIM S.P.A.	136,178	1,302	0.00956
EXANE S.A.	31,393	2,288	0.07287
EXECUTION (HONG KONG) LIMITED	20,500	20	0.00097
FECHTOR DETWILER CO INC	5,300	212	0.04000
FERRIS BAKER WATTS INC	121,740	5,718	0.04697
FIDELITY CAPITAL MARKETS	24,440	360	0.01471
FIDENTIIS	51,300	4,021	0.07838
FIRST ALBANY CAPITAL INC.	3,700	185	0.05000
FORTIS BANK (NEDERLAND) N.V.	582	30	0.05235
FOX PITT KELTON INC	82,700	2,587	0.03128
FOX-PITT KELTON LTD	18,300	1,802	0.09848
FRIEDMAN BILLINGS & RAMSEY	129,388	4,514	0.03488
G TRADE SERVICES LTD	5,330	33	0.00626
GLOBAL EQUITIES	3,118	16	0.00526
GOLDMAN SACHS	26,630	260	0.00976
GOLDMAN SACHS & CO	3,447,636	83,151	0.02412
GOLDMAN SACHS EXECUTION & CLEARING	161,386	1,944	0.01204
GOLDMAN SACHS INTERNATIONAL	1,609,553	16,102	0.01000
GOODBODY STOCKBROKERS	71,500	2,082	0.02912
GORDON HASKETT	12,510	375	0.03000
GREEN STREET ADVISORS	40,808	1,878	0.04602
GREEN STREET ADVISORS, INC	6,800	340	0.05000
HARRIS NESBITT CORP	55,370	1,822	0.03291
HEFLIN & CO LLC	36,100	1,264	0.03500
HEFLIN & CO LLC	31,200	945	0.03029
HIBERNIA SOUTHCOAST CAPITAL INC	40,670	1,354	0.03329
HONG KONG AND SHANGHAI BANKING CORP	3,680	874	0.23744
HOWARD WEIL DIVISION LEGG MASON	53,640	2,123	0.03958
HSBC BANK, PLC	226,140	2,628	0.01162
HSBC BROKERAGE	1,300	46	0.03500
ICAP SECURITIES LTD	2,637	235	0.08907
ING BANK N.V.	216,645	3,831	0.01769
ING FINANCIAL MARKETS LLC	40,900	1,227	0.03000
INSTINET	251,370	8,467	0.03368
INSTINET, FRANCE S.A.	892	2	0.00234
INSTINET, PACIFIC LIMITED	83	497	5.98771
INSTINET, U.K. LTD	1,120,838	14,049	0.01253
INSTINET, LLC	57,000	1,172	0.02057
INTERMONTE SEC SIM SPA	3,400	201	0.05916
INVESTMENT TECHNOLOGY GROUP INC	2,008,444	38,005	0.01892
INVESTMENT TECHNOLOGY GROUP LTD	1,764,890	16,179	0.00917
ISI GROUP EQUITIES	8,500	425	0.05000
ISI GROUP INC.	12,890	467	0.03621
ITG AUSTRALIA LTD	383,324	449	0.00117
ITG CANADA	32,200	1,236	0.03839
ITG EUROPE LIMITED	41,400	1,416	0.03419
ITG INC	784,125	10,978	0.01400
ITG INC	882	35	0.04000

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Commission (Base)</u>	<u>Commission Per Share</u>
ITG SECURITIES (HK) LTD	1,703,600	326	0.00019
IXIS SECURITIES	172,503	436	0.00253
J. B. WERE AND SON	104,133	2,834	0.02721
J.P. MORGAN SECURITIES INC	541,253	26,143	0.04830
J.P. MORGAN SECURITIES LIMITED	73,200	2,793	0.03815
JANNEY MONTGOMERY, SCOTT INC	106,710	3,201	0.03000
JEFFERIES & COMPANY INC	2,524,774	53,330	0.02112
JMP SECURITIES	146,890	6,195	0.04218
JOH BERENBERG GOSSLER AND CO	252,897	1,473	0.00582
JOHNSON RICE & CO	26,100	1,305	0.05000
JONES & ASSOCIATES INC	79,400	2,755	0.03470
JONES TRADING INSTITUTIONAL SERVICES LLC	34,970	1,690	0.04834
J.P. MORGAN SECURITIES LIMITED	726,526	20,571	0.02831
J.P. MORGAN (FAR EAST) LTD SEOUL	544	685	1.25871
J.P. MORGAN SECURITIES (ASIA PACIFIC) LTD	2,472,331	7,665	0.00310
KAS-ASSOCIATIE N.V.	131,027	2,036	0.01554
KBC FINANCIAL PRODUCTS UK LTD	194,250	2,890	0.01488
KBC PEEL HUNT LTD	538,392	15,525	0.02884
KEEFE BRUYETTE & WOODS INC	46,500	1,673	0.03598
KEMPEN & CO, N.V.	274,254	4,691	0.01711
KEMPEN & CO	9,010	984	0.10927
KEPLER EQUITIES	11,740	38	0.00324
C.L., KING & ASSOCIATES, INC	11,260	413	0.03668
KLEINWORT BENSON SECURITIES LIMITED	687,425	24,551	0.03571
KNIGHT SECURITIES	122,770	4,230	0.03445
KNIGHT SECURITIES L.P.	29,600	888	0.03000
LA BRANCHE FINANCIAL	233,400	7,002	0.03000
LAZARD CAPITAL MARKETS LLC	226,683	7,595	0.03350
LEERINK SWANN AND COMPANY	64,511	1,977	0.03065
LEHMAN BROTHERS	55,400	389	0.00702
LEHMAN BROTHERS INC	1,034,297	35,710	0.03453
LEHMAN BROTHERS INTERNATIONAL	16,600	70	0.00423
LEHMAN BROTHERS INTERNATIONAL (EUROPE)	7,116,736	56,666	0.00796
LEHMAN BROTHERS INTL (EUROPE) SEOUL BR	13,640	1,829	0.13412
LEHMAN BROTHERS (ASIA)	533,300	11,728	0.02199
LIQUIDNET EUROPE LIMITED	364,631	7,061	0.01936
LIQUIDNET INC	798,079	16,108	0.02018
LYNCH JONES AND RYAN INC	1,369,680	43,684	0.03189
M M WARBURG	18,985	2,139	0.11266
MACQUARIE	169,000	1,073	0.00635
MACQUARIE BANK LIMITED	52,000	47	0.00091
MACQUARIE EQUITIES LIMITED (SYDNEY)	867,417	5,340	0.00616
MACQUARIE EQUITIES NEW ZEALAND	143,548	58	0.00041
MACQUARIE SECURITIES (SINGAPORE)	21,120	99	0.00471
MACQUARIE SECURITIES LIMITED	4,547,201	24,299	0.00534
MACQUARIE SECURITIES LTD SEOUL	10,751	2,210	0.20558
MAIN FIRST BANK, DE	1,600	733	0.45782
MCDONALD CO., SECURITIES, INC.	11,200	513	0.04580
MERRILL LYNCH & CO INC	51,700	2,276	0.04402
MERRILL LYNCH INTERNATIONAL	873,169	27,077	0.03101
MERRILL LYNCH PEIRCE FENNER AND SMITH	2,390,844	22,495	0.00941
MERRILL LYNCH PROFESSIONAL CLEARING CORP	818,880	24,552	0.02998

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Commission (Base)</u>	<u>Commission Per Share</u>
MERRILL LYNCH PIERCE FENNER & SMITH, INC	868,374	50,034	0.05762
MIDWEST RESEARCH SECURITIES	108,670	3,260	0.03000
MILLER TABAK & COMPANY, LLC	13,820	415	0.03000
MIZUHO SECURITIES USA INC	152,555	4,573	0.02997
MORGAN (J.P.) SECURITIES INC., SL	4,000	340	0.08510
MORGAN KEEGAN	3,000	150	0.05000
MORGAN KEEGAN & CO INC	25,400	1,270	0.05000
MORGAN STANLEY AND CO. INTERNATIONAL	2,261	2,841	1.25639
MORGAN STANLEY AND CO. INTERNATIONAL	2,760,908	35,593	0.01289
MORGAN STANLEY CO. INCORPORATED	9,616,952	83,629	0.00870
MORGAN STANLEY SECURITIES LIMITED	5,266	45	0.00849
NATEXIS BLEICHROEDER INC	80,930	2,428	0.03000
NATIONAL FINANCIAL SERVICES CORP	528	21	0.04000
NEEDHAM & COMPANY	41,380	1,241	0.03000
NEONET SECURITIES AB	63,816	16	0.00025
NESBITT BURNS	122,200	5,268	0.04311
NOMURA INTERNATIONAL (HONG KONG) LTD	308,000	34	0.00011
NOMURA INTERNATIONAL PLC	501,078	1,506	0.00301
NOMURA SECURITIES INTERNATIONAL INC	8,414,315	58,401	0.00694
NUMIS SECURITIES LIMITED	8,800	71	0.00802
NYFIX CLEARING CORP	1,504	15	0.01000
NYFIX TRANSACTION SERVICES	66,761	668	0.01000
OPPENHEIMER & CO. INC	87,270	3,334	0.03820
PACIFIC GROWTH EQUITIES, LLC	65,470	1,964	0.03000
PENSON FINANCIAL SERVICES INC	4,100	325	0.07919
DLJ, PERSHING SEC LTD	2,109,500	34,889	0.01654
PERSHING LLC	44,300	1,845	0.04164
PERSHING SECURITIES LIMITED	410,514	11,641	0.02836
PETERCAM BRUSSELS	3,480	39	0.01135
PETERCAM S.A.	12,812	1,501	0.11719
PICKERING ENERGY PARTNERS, INC	29,390	882	0.03000
PIPELINE TRADING SYSTEMS LLC	177,018	5,887	0.03325
PIPER JAFFRAY	98,722	3,480	0.03525
PIPER JAFFRAY & HOPWOOD	10,800	540	0.05000
PORTALES PARTNERS LLC	9,720	292	0.03000
PRITCHARD CAPITAL PARTNERS LLC	27,300	1,365	0.05000
PRUDENTIAL EQUITY GROUP	250,946	9,106	0.03629
RABOBANK NETHERLAND	13,297	839	0.06310
RAYMOND JAMES AND ASSOCIATES INC	23,156	907	0.03918
RAYMOND JAMES TRUST COMPANY	122,300	6,103	0.04990
RBC CLEARING CORP.	4,500	128	0.02839
RBC CAPITAL MARKETS	353,402	13,352	0.03778
RBC DOMINION SECURITIES	13,200	559	0.04233
RBC DOMINION SECURITIES INC.	60,500	1,713	0.02832
REDBURN PARTNERS LLP	48,703	1,537	0.03156
RIDGE CLEARING & OUTSOURCING SOLUTIONS,	300	11	0.03500
RIDGE CLEARING & OUTSOURCING SOLUTIONS	900	32	0.03500
ROBINSON-HUMPHREY CO	19,700	985	0.05000
SALOMON SMITH BARNEY (KOREA) LTD	3,150	386	0.12259
SANDERS MORRIS MUNDY	6,600	231	0.03500
SANDLER ONEILL & PART LP	200,070	6,236	0.03117
SANFORD C. BERNSTEIN LTD	261,399	10,344	0.03957

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Commission (Base)</u>	<u>Commission Per Share</u>
SANFORD C. BERNSTEIN CO., LLC	539,580	14,403	0.02669
SCOTIA CAPITAL (USA) INC	107,500	3,310	0.03079
SCOTT & STRINGFELLOW, INC	20,480	614	0.03000
SCOTT AND STRINGFELLOW FINANCIAL	10,100	505	0.05000
SG AMERICAS SECURITIES, LLC	10,000	300	0.03000
SIDOTI & COMPANY LLC	26,000	780	0.03000
SIMMONS & COMPANY INTERNATIONAL	28,110	843	0.03000
SIS SEGAINTERSETTLE AG	14,850	2,122	0.14288
SOCIETE GENERALE (LONDON) BRANCH	110,001	6,030	0.05482
STANFORD GROUP COMPANY	27,150	815	0.03000
STATE STREET BANK & TRUST CO (LONDON)	24,203	669	0.02764
STATE STREET BANK AND TRUST	997	46	0.04657
STATE STREET BANK AND TRUST CO (BOSTON)	15,310	609	0.03980
STATE STREET BROKERAGE SERVICES	21,940	1,072	0.04884
STEPHENS, INC.	114,000	4,610	0.04044
STERNE, AGEE & LEACH, INC	11,912	596	0.05000
STIFEL NICOLAUS & CO INC	197,858	7,274	0.03676
SUNTRUST CAPITAL MARKETS, INC	10,100	453	0.04480
SVENSKA HANDELSBANKEN (LONDON) BRANCH	23,797	929	0.03906
SWISS AMERICAN SECURITIES, INC	49,066	564	0.01149
THOMAS WEISEL PARTNERS LLC	275,699	10,853	0.03937
TOKYO-MITSUBISHI SECURITIES (USA)	595,072	6,110	0.01027
TORONTO DOMINION SECURITIES	248,800	9,602	0.03859
U S CLEARING INSTITUTIONAL TRADING	152,520	5,184	0.03399
UBS	1,721,500	6,446	0.00374
UBS AG	3,611,419	69,402	0.01922
UBS AG (LONDON)	227,076	3,659	0.01611
UBS SECURITIES (ASIA) LTD	5,141,588	36,040	0.00701
UBS SECURITIES (CANADA) INC	22,000	930	0.04225
UBS SECURITIES LLC	1,675,334	10,449	0.00624
UBS WARBURG (HONG KONG) LIMITED	1,239,500	3,234	0.00261
UBS CLEARING	5,400	270	0.05000
UOB KAY HIAN (HONG KONG) LTD	13,000	9	0.00072
UOB KAY HIAN PRIVATE LIMITED	644,000	265	0.00041
US CLEARING CORP./PRIME BROKER/CNS	20,700	1,035	0.05000
VERITAS SECURITIES	384,000	9,600	0.02500
WACHOVIA SECURITIES, LLC	1,700	51	0.03000
WACHOVIA CAPITAL MARKETS, LLC	38,999	1,586	0.04067
WARBURG DILLON READ SECURITIES LTD	8,356	2,548	0.30488
WEDBUSH MORGAN SECURITIES INC	28,760	863	0.03000
WEEDEN & COMPANY	1,163,020	26,859	0.02309
WESTMINSTER	63,900	3,114	0.04873
WILLIAM BLAIR & COMPANY, L.L.C	304,620	9,265	0.03041

**Investment Summary**  
**December 31, 2007**  
(Dollars in Thousands)

Investment	Fair Value	Percentage
Domestic Equity	\$ 1,527,664	19.10%
International Equity	1,594,844	19.94%
International Emerging Market	490,057	6.13%
Domestic Fixed Income	1,778,849	22.24%
Global TIPS	821,914	10.27%
International Fixed Income	621,651	7.77%
Cash and Cash Equivalents	81,907	1.02%
Real Estate	616,281	7.70%
Alternative Investments	148,756	1.86%
Absolute Return	317,923	3.97%
<b>Total *</b>	<b>\$ 7,999,846</b>	<b>100.00%</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 18)

**Schedule of Largest Equity Holdings (by Market Value)\*\***  
**December 31, 2007**

Common Stock	Shares	Market Value	% of Composite
Mobil Corp	270,556	\$ 25,348,390	1.26
General Electric Co	494,118	18,316,966	0.91
Potash Corp	112,600	16,370,610	0.40
Barrick Gold Corp	379,300	15,949,565	0.39
Microsoft Corp	394,224	14,034,376	0.70
BAE Systems	1,360,500	13,486,895	0.33
Softbank Corp	624,200	12,906,969	0.32
Goldman Sachs	58,300	12,537,415	0.31
AT&T Inc	296,115	12,306,532	0.61
Procter & Gamble Co	151,233	11,103,554	0.55

**Schedule of Largest Fixed Income Holdings (by Market Value)\*\***  
**December 31, 2007**

Asset	CPN/Maturity	Market Value	% of Composite
U. S. Treas Bds	2.375/1-15-2025	\$ 114,286,301	4.52
U. S. Treas Nt	2.00/TIPS	97,578,330	3.86
U. S. Treas Bds	3.625/4-15-2028	81,871,784	3.24
FNMA	5.50	62,728,458	2.48
U. S. Treas Nt	1.875/TIPS	60,530,283	2.39
U. S. Treas Nt	1.625/TIPS	54,943,947	2.17
U. S. Treas Nt	2.00/TIPS	50,683,683	2.00
U. S. Treas Nt	0.875/TIPS	43,236,251	1.71
U. S. Treas Nt	2.50/TIPS	42,282,197	1.67
U. S. Treas Bds	3.875/4-15-2029	40,022,807	1.58

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

## List of Investment Managers

As of December 31, 2007

### Domestic Equity

Artisan Partners

Barclays Global Investors

Cadence Capital Management

Capital Guardian Trust Company

Dodge & Cox

Peregrine Capital Management

Washington Capital Management, Inc.

### Domestic Fixed Income

Aberdeen Asset Management, Inc.

Barclays Global Investors

Loomis, Sayles & Company

Pacific Investment Management Company (PIMCO)

### International Equity

AllianceBernstein

AQR Capital Management, LLC

AXA Rosenberg Investment Management, LLC

Barclays Global Investors

Capital Guardian Trust Company

GlobeFlex Capital, L.P.

Mercator Asset Management

William Blair & Co.

### International Fixed Income

Mondrian Investment Partners, Ltd.

State Street Global Advisors

### Absolute Return

Bridgewater Associates, Inc.

### Real Estate

#### Domestic

American Realty Advisors

AEW Capital Management

CB Richard Ellis Investors

Fidelity Management Trust Co.

#### International

Rockspring Property Investment Managers, Ltd.

#### Global Real Estate Securities

LaSalle Investment Management

### Non-Traditional Investments

#### Managers

Abbott Capital

Adams Street Partners

HarbourVest Partners, LLC

Mesirow Financial Private Equity

#### Limited Partnerships

Pacific Investment Management Company (PIMCO)

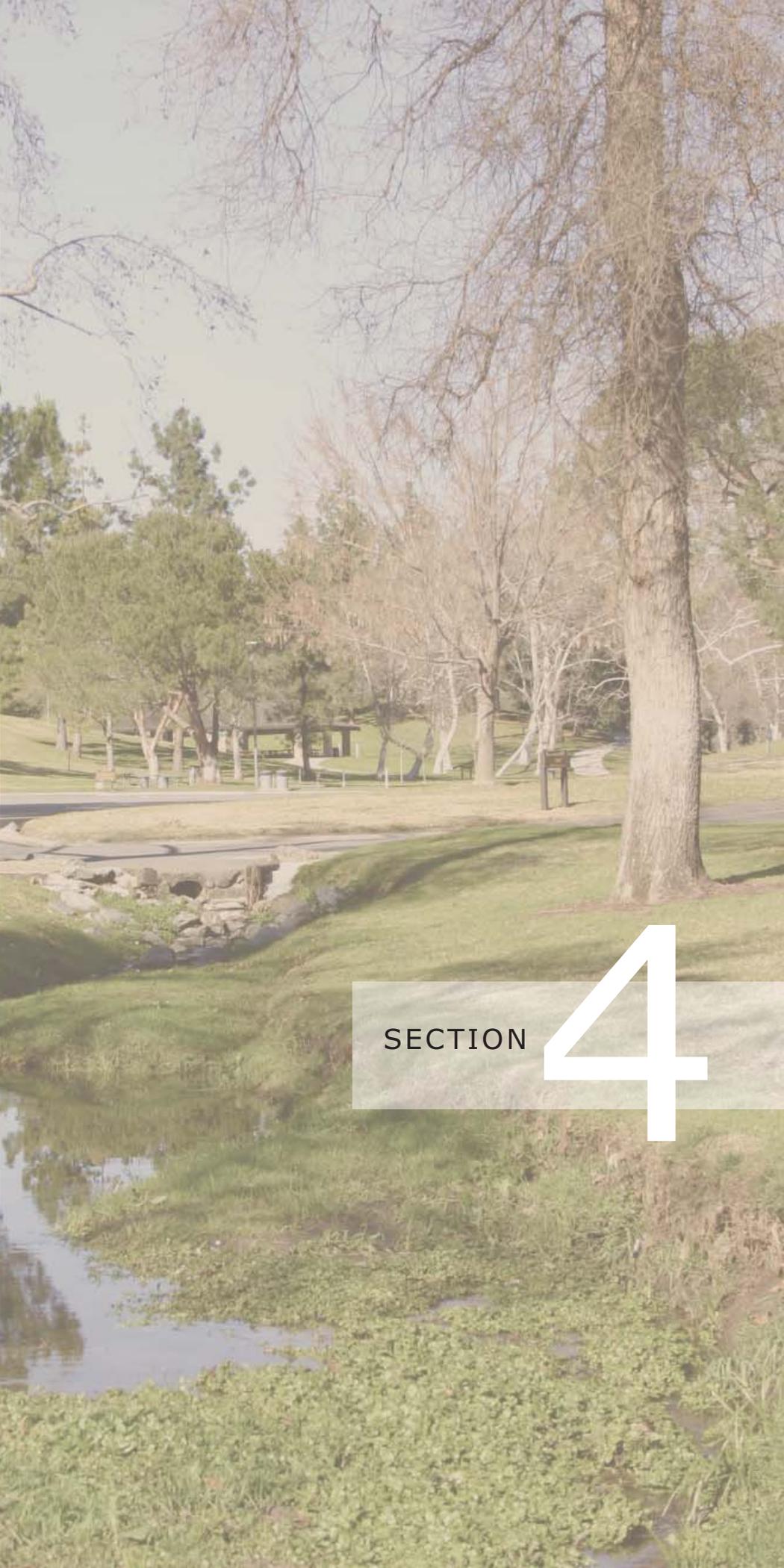
TCW Asset Management Company

#### Timber

Hancock Timber Resource Group

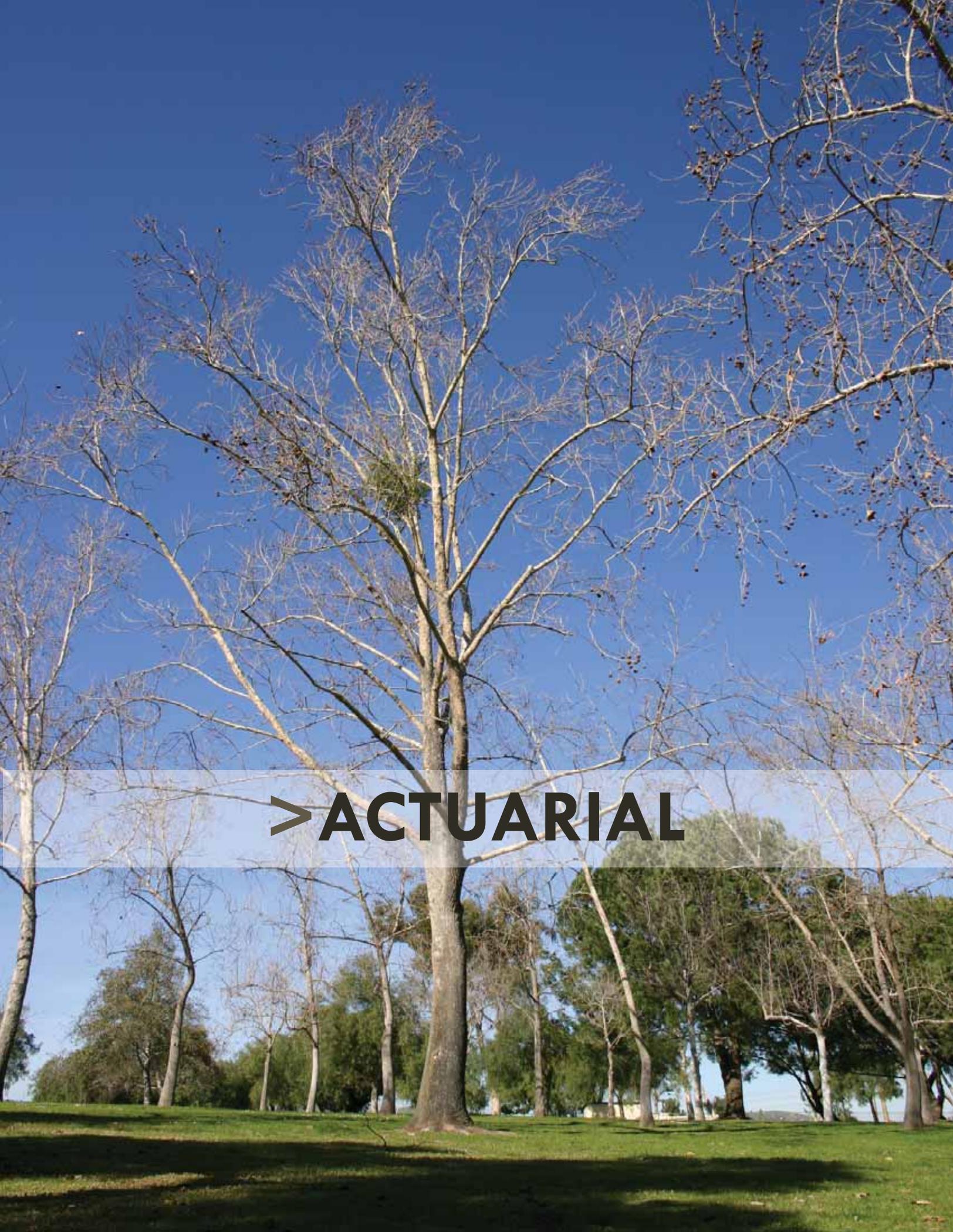
### Securities Lending Program

State Street Corporation



SECTION

4

A large, leafless tree stands prominently in the center of a park. The tree's branches are bare and intricate against a clear, bright blue sky. The ground is a lush green lawn, and other trees, some with green leaves and some without, are visible in the background. The overall scene is bright and clear, suggesting a sunny day in late autumn or winter.

**> 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 26, 2008

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, 2007 annual 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. One of the funding objectives 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. Increases or decreases due to assumption changes will be amortized over separate 30-year periods. The progress being made toward the realization of the financing objectives through December 31, 2007 is illustrated in the attached Exhibits I, II and X.

As part of the December 31, 2007 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, 2007 is provided in Exhibit V.

**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 26, 2008  
Page 2

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

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 from the December 31, 2007 experience study. It is our opinion that the assumptions used in the December 31, 2007 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, 2010.

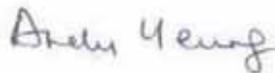
In the December 31, 2007 valuation, the ratio of the valuation value of assets to actuarial accrued liabilities decreased from 73.77% to 72.92%. The aggregate employer rate (average of the County and all special districts rates combined) has increased from 24.04% of payroll to 25.44% of payroll. The aggregate employee's rate has increased from 10.40% of payroll to 10.78% of payroll.

Sincerely,



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



---

Andy Yeung, ASA, MAAA, EA  
Vice President & Associate Actuary

HEM/kek  
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
12/31/98	\$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%
12/31/06	8,765,045	6,466,085	2,298,960	73.77%	1,322,952	173.78%
12/31/07	9,996,211	7,288,900	2,707,311	72.92%	1,457,159	185.79%

Notes:

- The 12/31/07 valuation included the following changes:

Assumption Changes:

Changes in mortality, disability, termination, retirement, salary scale, and annual payoff assumptions in the December 31, 2007 triennial experience study increased the UAAL by \$395 million.

Benefit changes:

There is a new Rate Group #11, for Cemetery District, that adopted a 2% of final average salary at age 55 for future service only effective December 7, 2007. Vector Control District terminated its participation at OCERS as of January 4, 2007.

- The 12/31/06 valuation included the following changes:

There is a new Rate Group #10, for General members of Orange County Fire Authority (OCFA) (previously with members in Rate Group #2). City of Rancho Santa Margarita (RSM), Rate Group #4, withdrew from OCERS effective November 26, 2006.

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

Assumption Changes:

The System has provided Segal 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.

## Orange County Employees Retirement System

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

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.

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.
- 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.

## Orange County Employees Retirement System

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

Valuation Date	Amount Excluded from Assets
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*
12/31/06	\$168,224,000**
12/31/07	\$174,348,000***

\* Please note that for the December 31, 2005 valuation, we also excluded an additional \$45,925,000 in prepaid employer contributions.

\*\* For the December 31, 2006 valuation, we also excluded an additional \$70,941,000 in prepaid employer contributions.

\*\*\* For the December 31, 2007 valuation, we also excluded an additional \$108,301,000 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									
	12/31/1998			NC 4.35%		NC 8.00%								
			UAAL <u>(2.35)</u>		UAAL <u>16.41</u>									
			Total 2.00%		Total 24.41%									
12/31/1999			NC 4.56%		NC 8.27%									
			UAAL <u>(3.60)</u>		UAAL <u>13.95</u>									
			Total 0.96%		Total 22.22%									
12/31/2000			NC 4.94%		NC 8.57%									
			UAAL <u>(3.98)</u>		UAAL <u>0.16</u>									
			Total 0.96%		Total 8.73%									
	Non-OCTA		OCTA		Rancho Santa Margarita		San Juan Capistrano		Law Enforcement		Fire Authority		Probation	
12/31/2001	NC 5.04%		NC 4.20%		N/A		NC 5.04%		NC 15.87%		NC 10.30%		NC 5.04%	
	UAAL <u>0.62*</u>		UAAL <u>0.77*</u>				UAAL <u>0.62*</u>		UAAL <u>9.15*</u>		UAAL <u>1.89*</u>		UAAL <u>0.62*</u>	
	Total 5.66%		Total 4.97%				Total 5.66%		Total 25.02%		Total 12.19%		Total 5.66%	
12/31/2002	NC 5.44%		NC 4.36%		N/A		NC 5.44%		NC 16.53%		NC 17.85%		NC 4.38%	
	UAAL <u>3.71*</u>		UAAL <u>3.87*</u>				UAAL <u>3.71*</u>		UAAL <u>21.34*</u>		UAAL <u>16.81*</u>		UAAL <u>4.19*</u>	
	Total 9.15%		Total 8.23%				Total 9.15%		Total 37.87%		Total 34.66%		Total 8.57%	
12/31/2003**	NC 5.56%		NC 4.41%		NC 1.77%		NC 7.22%		NC 16.86%		NC 17.98%		NC 4.02%	
	UAAL <u>7.07*</u>		UAAL <u>7.05*</u>		UAAL <u>3.43*</u>		UAAL <u>10.96*</u>		UAAL <u>22.53*</u>		UAAL <u>15.40*</u>		UAAL <u>8.73*</u>	
	Total 12.63%		Total 11.46%		Total 5.20%		Total 18.18%		Total 39.39%		Total 33.38%		Total 12.75%	

**Orange County Employees Retirement System  
HISTORY OF EMPLOYER CONTRIBUTION RATES (Cont.)  
Employer Contribution Rate (% of pay)**

	<i>General (Non-OCTA)</i>	<i>General (2.7% @ 55)</i>	<i>General (OCTA)</i>	<i>General (2.5% @ 55)</i>	<i>General (Rancho Santa Margarita)</i>	<i>General (2.0% @ 55, TCA)</i>	<i>General (2.0% @ 55 Cemetery, future service)</i>	<i>General (2.7% @ 55, OCFA)</i>
<b>12/31/2004</b> ***,****	NC 9.55% UAAL <u>6.08</u>	NC 11.74% UAAL <u>10.49</u>	NC 11.71% UAAL <u>1.39</u>	NC 10.80% UAAL <u>9.35</u>	NC 10.53% UAAL <u>2.30</u>	NC 11.45% UAAL <u>7.09</u>	See General (Non-OCTA)	See General (2.7% @ 55)
	Total 15.63%	Total 22.23%	Total 13.10%	Total 20.15%	Total 12.83%	Total 18.54%		
<b>12/31/2005</b> ***,****	NC 9.33% UAAL <u>5.00</u>	NC 11.46% UAAL <u>11.10</u>	NC 11.36% UAAL <u>3.60</u>	NC 10.54% UAAL <u>10.33</u>	NC 10.81% UAAL <u>1.92</u>	NC 11.49% UAAL <u>5.87</u>	See General (Non-OCTA)	See General (2.7% @ 55)
	Total 14.33%	Total 22.56%	Total 14.96%	Total 20.87%	Total 12.73%	Total 17.36%		
<b>12/31/2006</b> ****,*****	NC 9.19% UAAL <u>5.31</u>	NC 11.36% UAAL <u>10.84</u>	NC 11.25% UAAL <u>4.77</u>	NC 10.55% UAAL <u>10.79</u>	N/A	NC 12.03% UAAL <u>6.01</u>	NC 10.31% UAAL <u>5.00</u>	NC 11.43% UAAL <u>12.81</u>
	Total 14.50%	Total 22.20%	Total 16.02%	Total 21.34%		Total 18.04%	Total 15.31%	Total 24.24%
<b>12/31/2007</b>	NC 8.92% UAAL <u>5.25</u>	NC 12.02% UAAL <u>11.42</u>	NC 11.26% UAAL <u>3.76</u>	NC 11.26% UAAL <u>12.36</u>	N/A	NC 13.00% UAAL <u>6.32</u>	NC 10.96% UAAL <u>4.78</u>	NC 12.28% UAAL <u>12.15</u>
	Total 14.17%	Total 23.44%	Total 15.02%	Total 23.62%		Total 19.32%	Total 15.74%	Total 24.43%

	<i>Safety Law Enforcement</i>	<i>Safety Fire Authority</i>	<i>Safety Probation</i>
<b>12/31/2004</b> ***,****	NC 20.43% UAAL <u>17.22</u>	NC 20.33% UAAL <u>13.52</u>	NC 21.37% UAAL <u>12.04</u>
	Total 37.65%	Total 33.85%	Total 33.41%
<b>12/31/2005</b> ***,****	NC 20.15% UAAL <u>17.18</u>	NC 20.04% UAAL <u>13.98</u>	NC 20.76% UAAL <u>11.18</u>
	Total 37.33%	Total 34.02%	Total 31.94%
<b>12/31/2006</b> ****	NC 20.19% UAAL <u>15.86</u>	NC 19.93% UAAL <u>13.50</u>	NC 20.61% UAAL <u>11.64</u>
	Total 36.05%	Total 33.43%	Total 32.25%
<b>12/31/2007</b>	NC 21.27% UAAL <u>18.25</u>	NC 21.02% UAAL <u>17.22</u>	NC 20.49% UAAL <u>10.90</u>
	Total 39.52%	Total 38.24%	Total 31.39%

- \* 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.
- \*\*\*\*\* Starting 12/31/2006, General (2.7% @ 55) excludes OCFA

**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>
12/31/98				
General	16,976	\$706,507,935	\$41,618	5.26
Safety	<u>2,456</u>	<u>156,691,236</u>	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	<u>2,556</u>	<u>173,533,473</u>	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	<u>2,605</u>	<u>185,614,420</u>	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	<u>2,676</u>	<u>201,705,606</u>	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	<u>3,721</u>	<u>265,638,289</u>	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	<u>3,649</u>	<u>258,429,279</u>	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	<u>3,574</u>	<u>254,024,000</u>	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	<u>3,651</u>	<u>265,550,000</u>	72,733	2.25
Total	22,467	\$1,276,764,000	\$56,828	1.72
12/31/06				
General	19,129	\$1,049,095,000	\$54,843	2.05
Safety	<u>3,662</u>	<u>273,857,000</u>	74,783	2.82
Total	22,791	\$1,322,952,000	\$58,047	2.15
12/31/07				
General	19,803	\$1,156,684,000	\$58,410	6.50
Safety	<u>3,815</u>	<u>300,475,000</u>	78,761	5.32
Total	23,618	\$1,457,159,000	\$61,697	6.29

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)				
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
2006	10,218	965	46,950	(268)	(5,580)	10,915	326,819	14.49	2,495
2007	10,915	817	41,552	(311)	(6,596)	11,421	361,775	10.70	2,640

\* 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, 2007

Plan Year Ending	Total Actual Market Return (net)	Expected Market Return (net)	Investment Gain/(Loss)	Deferred Factor	Deferred Return
2004	\$544,457,000	\$362,744,000	\$181,713,000	0.2	\$36,343,000
2005	\$441,178,000	\$421,743,000	\$19,435,000	0.4	\$7,774,000
2006	\$787,330,000	\$463,198,000	\$324,132,000	0.6	\$194,479,000
2007	\$769,613,000	\$533,502,000	\$236,111,000	0.8	\$188,889,000

(1)	Total Deferred Return	\$427,485,000
(2)	Net Market Value of Assets (Excludes \$174,348,000 in County Investment Account and \$108,301,000 in Prepaid Employer Contributions)	\$7,719,690,000
(3)	Actuarial Value of Assets (2) – (1)	\$7,292,205,000
(4)	Non-valuation Reserves	
	(a) Unclaimed member deposit	\$1,225,000
	(b) Medicare medical insurance reserve	\$95,000
	(c) Retired member benefit reserve (RMBR)	<u>\$1,985,000</u>
	(d) Subtotal	\$3,305,000
(5)	Valuation Value of Assets (3) – (4)(d)	\$7,288,900,000
(6)	Deferred Return Recognized in Each of the Next 4 Years	
	(a) Amount recognized on 12/31/2008	\$152,278,583
	(b) Amount recognized on 12/31/2009	115,935,583
	(c) Amount recognized on 12/31/2010	112,048,583
	(d) Amount recognized on 12/31/2011	<u>47,222,250</u>
	(e) Subtotal (may not total exactly due to rounding)	\$427,485,000

## 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)
12/31/98	\$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
12/31/06	1,087,804	4,274,829	3,402,412	6,466,085	100	100	32.43
12/31/07	1,215,825	4,803,585	3,976,801	7,288,900	100	100	31.92

**Orange County Employees Retirement System**

*Exhibit VII*

**ACTUARIAL METHODS AND ASSUMPTIONS**

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

*Healthy:* For General Members and all Beneficiaries: RP-2000 Combined Healthy Mortality Table set back one year.  
 For Safety Members: RP-2000 Combined Healthy Mortality Table set back two years.

*Disabled:* For General Members: RP-2000 Combined Healthy Mortality Table set forward three years.  
 For Safety Members: RP-2000 Combined Healthy Mortality Table set forward two years.

*Employee Contribution Rates:* For General Members: RP-2000 Combined Healthy Mortality Table set back one year, weighted 40% male and 60% female.  
 For Safety Members: RP-2000 Combined Healthy Mortality Table set back two years, weighted 80% male and 20% female.

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

Age	Rate (%)			
	Mortality			
	General		Safety	
	Male	Female	Male	Female
25	0.04	0.02	0.04	0.02
30	0.04	0.02	0.04	0.02
35	0.07	0.04	0.06	0.04
40	0.10	0.06	0.10	0.06
45	0.14	0.10	0.13	0.09
50	0.20	0.16	0.19	0.14
55	0.32	0.24	0.29	0.22
60	0.59	0.44	0.53	0.39
65	1.13	0.86	1.00	0.76

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>(3)</sup>
20	0.00	0.00	0.03	0.00
25	0.00	0.00	0.08	0.06
30	0.03	0.03	0.16	0.16
35	0.08	0.08	0.32	0.20
40	0.13	0.28	0.52	0.20
45	0.17	0.49	0.72	0.20
50	0.19	0.64	0.98	0.20
55	0.23	0.88	2.24	0.20
60	0.34	1.30	3.60	0.08

<sup>(1)</sup> 50% of General All Other disabilities are assumed to be service connected disabilities. The other 50% are assumed to be non-service connected.

<sup>(2)</sup> 70% of General - OCTA disabilities are assumed to be service connected disabilities. The other 30% are assumed to be non-service connected.

<sup>(3)</sup> 100% of Safety – Law Enforcement, Fire and Probation disabilities are assumed to be service connected disabilities.

**Orange County Employees Retirement System**

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

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

**Termination Rates:**

Years of Service	Rate (%)			
	Termination (< 5 Years of Service)			
	General All Other <sup>(1)</sup>	General OCTA <sup>(1)</sup>	Safety – Law & Fire <sup>(1)</sup>	Safety - Probation <sup>(1)</sup>
0	13.0	17.0	4.0	17.0
1	9.0	9.0	3.0	10.0
2	8.0	8.0	2.0	8.0
3	7.0	7.0	2.0	6.0
4	5.0	6.0	1.0	5.0

Age	Termination (5+ Years of Service)			
	General All Other <sup>(2)</sup>	General OCTA <sup>(2)</sup>	Safety – Law & Fire <sup>(3)</sup>	Safety – Probation <sup>(2)</sup>
20	5.0	4.0	1.0	5.0
25	5.0	4.0	1.0	5.0
30	5.0	4.0	1.0	4.6
35	4.4	4.0	0.9	3.8
40	3.7	4.0	0.6	3.1
45	2.9	3.4	0.5	2.5
50	2.2	2.7	0.2	2.0
55	1.4	1.9	0.0	1.3
60	0.4	0.6	0.0	0.4

<sup>(1)</sup> 75% of all terminated members will choose a refund of contributions and 25% will choose a deferred vested benefit.

<sup>(2)</sup> 20% of all terminated members will choose a refund of contributions and 80% will choose a deferred vested benefit.

<sup>(3)</sup> 10% of terminated members will choose a refund of contributions and 90% will choose a deferred vested benefit.

## Orange County Employees Retirement System

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

#### Retirement Rates:

Rate (%)					
Age	General - Enhanced	General – Non-Enhanced	Safety - Law <sup>(1)</sup>	Safety – Fire <sup>(1)</sup>	Safety – Probation <sup>(1)</sup>
50	3.0	3.0	15.0	10.0	4.0
51	3.0	3.0	15.0	12.0	4.0
52	3.0	3.0	15.0	14.0	4.0
53	3.0	3.0	20.0	15.0	7.0
54	4.0	3.0	20.0	17.0	10.0
55	8.0	4.0	20.0	25.0	20.0
56	10.0	5.0	20.0	25.0	20.0
57	12.0	6.0	20.0	30.0	20.0
58	13.0	7.0	25.0	30.0	25.0
59	14.0	9.0	30.0	40.0	30.0
60	15.0	11.0	100.0	100.0	35.0
61	16.0	13.0	100.0	100.0	45.0
62	17.0	15.0	100.0	100.0	60.0
63	18.0	17.0	100.0	100.0	100.0
64	20.0	19.0	100.0	100.0	100.0
65	25.0	25.0	100.0	100.0	100.0
66	25.0	20.0	100.0	100.0	100.0
67	25.0	20.0	100.0	100.0	100.0
68	25.0	20.0	100.0	100.0	100.0
69	25.0	20.0	100.0	100.0	100.0
70	100.0	100.0	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.

## Orange County Employees Retirement System

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

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

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

General Age:        57

Safety Age:         52

We assume that 30% of future General and Safety deferred vested members are reciprocal. For reciprocals, we assume 4.50% compensation increases per annum.

**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 and 50% of female members are assumed to be married at retirement or time of pre-retirement death.

**Age of Spouse:**

Female (or male) four years younger (or older) than spouse.

**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.

## Orange County Employees Retirement System

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

**Salary Increases:**

Annual Rate of Compensation Increase (%)		
Inflation: 3.50% per year, plus the following merit and promotion increases:		
Years of Service	General	Safety
Less than 1	8.00%	10.00%
1	7.00	8.00
2	6.00	7.00
3	5.00	6.00
4	4.00	4.00
5	3.00	3.00
6	2.00	2.00
7	1.75	1.75
8	1.50	1.50
9	1.25	1.25
10	1.25	1.00
11	1.25	1.00
12	1.25	1.00
13	1.25	1.00
14	1.25	1.00
15	1.25	1.00
16	1.00	1.00
17	1.00	1.00
18	1.00	1.00
19	1.00	1.00
20 & over	1.00	1.00

**Annual Payoffs Assumptions:**

Additional compensation amounts are expected to be received during a member's final average earnings period. The percentages used in this valuation are:

	<u>Final One Year Salary</u>	<u>Final Three Year Salary</u>
General Members	4.50%	2.60%
Safety - Probation	4.80%	2.70%
Safety - Law	8.20%	5.60%
Safety - Fire	4.00%	3.60%

The annual payoffs assumptions are the same for service and disability retirements.

**Orange County Employees Retirement System****ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)**

<b>Actuarial Value of Assets:</b>	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return in equal to the difference between the actual and the expected return on a market value basis, and is recognized over a five-year period.
<b>Valuation Value of Assets:</b>	The Valuation Value of Assets is the Actuarial Value of Assets reduced by the value of the non-valuation reserves.
<b>Actuarial Cost Method:</b>	<p>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 27-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. Any increases or decreases in UAAL due to changes in actuarial assumptions are amortized over a separate 30-year period.</p> <p>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.</p>

## 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>(Orange County Sanitation District and Law Library<sup>(1)</sup>)</i>
<i>Plan G</i>	General members hired before September 21, 1979.
<i>Plan H</i>	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>
<i>Plan I</i>	General members hired before September 21, 1979.
<i>Plan J</i>	General members hired on or after September 21, 1979.
	<sup>(1)</sup> <i>Improvement is prospective only for service after June 23, 2005.</i>
	<sup>(2)</sup> <i>Improvement for management employees is prospective only for service after June 30, 2005.</i>
	<sup>(3)</sup> <i>Improvement is prospective only for service after December 22, 2005.</i>
2.0% @ 55 Plans	<i>(Transportation Corridor Agency, Cemetery District - future service effective December 7, 2007)</i>
<i>Plan M</i>	General members hired before September 21, 1979.
<i>Plan N</i>	General members hired on or after September 21, 1979.
<i>All Other General Employers</i>	
<i>Plan A</i>	General members hired before September 21, 1979.
<i>Plan B</i>	General members hired on or after September 21, 1979.
<b>Safety Plans</b>	
<i>Law Enforcement, Fire Protection and Probation Members</i>	
<i>Plan E</i>	Safety members hired before September 21, 1979.
<i>Plan F</i>	Safety members hired on or after September 21, 1979.

**Orange County Employees Retirement System**

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

**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)
<b>2.0% @ 55</b>	<b>Retirement Age</b>	<b>Benefit Formula</b>
<i>Plan M (§31676.16)</i>	50	(1.43% x FAS1 x Yrs)
<i>Tier 1</i>	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)
<i>Tier 2</i>	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)
<i>Tier 1</i>	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)
<i>Tier 2</i>	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**

	<b>Retirement Age</b>	<b>Benefit Formula</b>
<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. 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. 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)

---

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

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

---

**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 50% 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 50% 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 50% 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 50% of future Cost-of-Living costs.

## Orange County Employees Retirement System

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

---

*Plan N*

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

*Cost of Living* Provide for 50% of future Cost-of-Living costs.

**Safety Plans:**

*Plans E*

*Basic* Provide for an average annuity at age 50 equal to 1/200 FAS1. (\$31639.5)

*Cost-of-Living* Provide for 50% of future Cost-of-Living costs.

*Plans F*

*Basic* Provide for an average annuity at age 50 equal to 1/100 of FAS3. (\$31639.25)

*Cost-of-Living* Provide for 50% 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.

**Plan Amendments:**

Effective December 7, 2007, General members of the Cemetery District have been granted a benefit improvement for future service only under 2.0% @ 55. Also, Vector Control District terminated its participation as of January 4, 2007.

**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>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Retirements	\$(119,420)	--	--	--	--
Disabilities	24,833	--	--	--	--
Withdrawal From Employment	(1,962)	--	--	--	--
Pay Increases	103,234	\$41,647	\$(16,544)	\$(21,679)	\$(136,417)
Investment Income	(287,828)	50,536	39,536	112,612	176,681
Mortality	7,574	--	--	--	--
Other	<u>(35,343)</u>	<u>(61,019)</u>	<u>(65,468)</u>	<u>(39,155)</u>	<u>(43,538)</u>
Gain (or Loss) During Year From Experience	<b>\$(308,912)</b>	<b>\$31,164</b>	<b>\$(42,476)</b>	<b>\$51,778</b>	<b>\$(3,274)</b>
<i>Nonrecurring Items:</i>					
Method and Procedure Changes	--	(106,630)	15,335	--	--
Plan Amendments and Assumption Changes	<u>(2,338)</u>	<u>(762,372)</u>	<u>---</u>	<u>---</u>	<u>(394,672)</u>
Composite Gain (or Loss) During Year	<b>\$(311,250)</b>	<b>\$(837,838)</b>	<b>\$(27,141)</b>	<b>\$51,778</b>	<b>\$(397,946)</b>

**Orange County Employees Retirement System**

*Exhibit X*

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date December 31	Valuation Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c)
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%
2006	6,466,085,000	8,765,045,000	2,298,960,000	73.77%	1,322,952,000	173.78%
2007	7,288,900,000	9,996,211,000	2,707,311,000	72.92%	1,457,159,000	185.79%

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SECTION

5



> STATISTICAL

## Schedule of Changes in Plan Net Assets

### 1998 – 2007

Years Ended December 31	1998	1999	2000	2001	2002
<b>Additions</b>					
Employer Contributions	\$17,977,000	\$17,591,000	\$15,561,000	\$12,060,000	\$13,289,000
Member Contributions	\$50,557,000	\$55,693,000	\$61,179,000	\$68,635,000	\$77,917,000
Net Investment Income	\$492,584,000	\$684,649,000	\$25,814,000	\$(151,438,000)	\$(270,654,000)
Net Securities Lending	\$907,000	\$1,069,000	\$925,000	\$1,580,000	\$1,119,000
Miscellaneous			\$18,545,000		\$347,000
<b>Total Additions</b>	<b>\$562,025,000</b>	<b>\$759,002,000</b>	<b>\$122,024,000</b>	<b>\$(69,163,000)</b>	<b>\$(177,982,000)</b>
<b>Deductions</b>					
Total Benefit Expenses	\$150,305,000	\$147,249,000	\$158,981,000	\$169,274,000	\$186,031,000
Administrative Expenses	\$5,850,000	\$6,094,000	\$6,631,000	\$7,146,000	\$8,279,000
<b>Total Deductions</b>	<b>\$156,155,000</b>	<b>\$153,343,000</b>	<b>\$165,612,000</b>	<b>\$176,420,000</b>	<b>\$194,310,000</b>
<b>Change in Plan Net Assets</b>	<b>\$405,870,000</b>	<b>\$605,659,000</b>	<b>\$(43,588,000)</b>	<b>\$(245,583,000)</b>	<b>\$(372,292,000)</b>

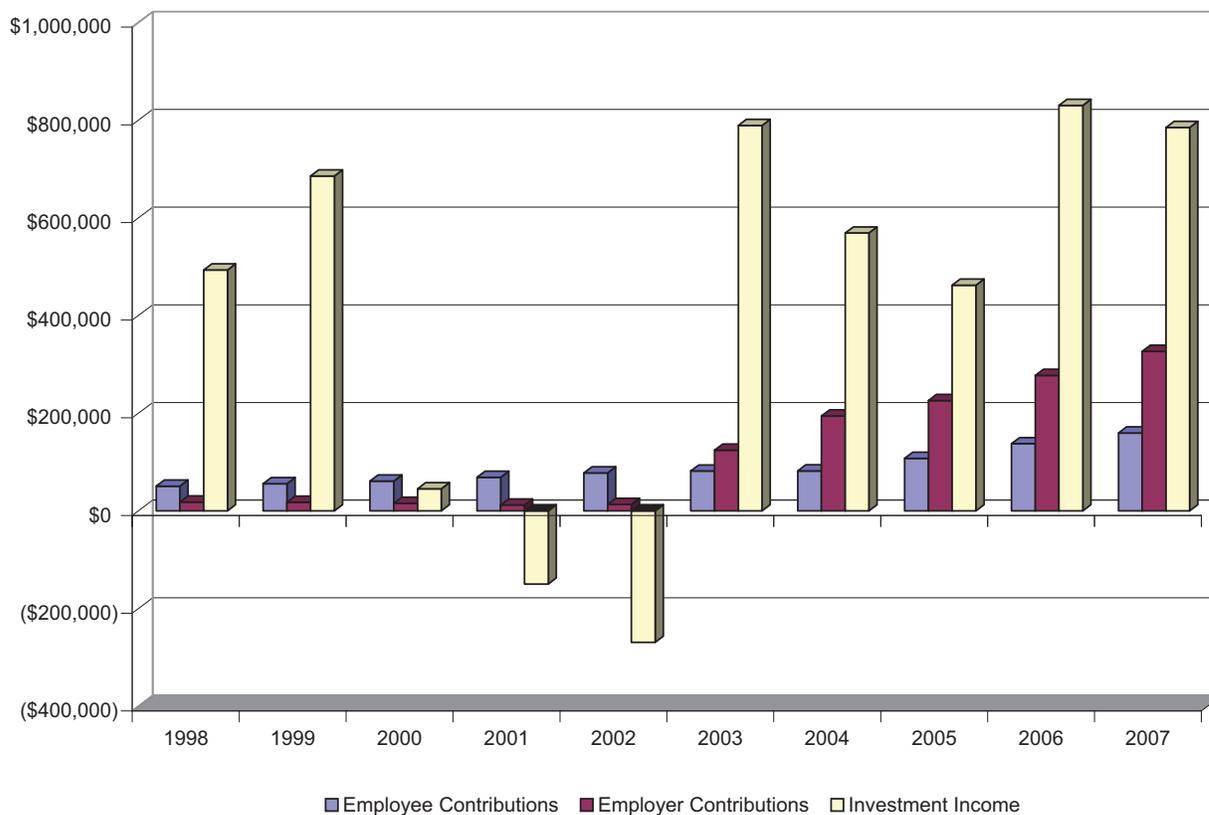
Years Ended December 31	2003	2004	2005	2006	2007
<b>Additions</b>					
Employer Contributions	\$124,243,00	\$194,430,000	\$226,129,626	\$277,368,459	\$326,736,357
Member Contributions	\$81,581,000	\$81,931,000	\$107,543,611	\$137,581,505	\$159,475,621
Net Investment Income	\$788,036,000	\$568,027,000	\$460,431,356	\$828,147,188	\$779,736,069
Net Securities Lending	\$872,000	\$857,000	\$1,425,286	\$1,316,925	\$3,451,533
Miscellaneous	\$178,000	\$116,000	\$123,476	\$735,898	\$1,773,522
<b>Total Additions</b>	<b>\$994,910,000</b>	<b>\$845,361,000</b>	<b>\$795,653,355</b>	<b>\$1,245,149,975</b>	<b>\$1,271,173,102</b>
<b>Deductions</b>					
Total Benefit Expenses	\$216,685,000	\$238,529,000	\$264,927,495	\$318,665,929	\$353,861,061
Administrative Expenses	\$8,848,000	\$9,463,000	\$9,952,870	\$17,145,308	\$10,381,060
<b>Total Deductions</b>	<b>\$225,533,000</b>	<b>\$247,992,000</b>	<b>\$274,880,365</b>	<b>\$335,811,237</b>	<b>\$364,242,121</b>
<b>Change in Plan Net Assets</b>	<b>\$769,377,000</b>	<b>\$597,369,000</b>	<b>\$520,772,990</b>	<b>\$909,338,738</b>	<b>\$906,930,981</b>

## Schedule and Graph of Revenues by Source

(Dollars in Thousands)

### 1998 – 2007

Years Ended December 31	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Employee Contributions</b>	\$50,557	\$55,693	\$61,179	\$68,635	\$77,917	\$81,581	\$81,931	\$107,544	\$137,582	\$159,476
<b>Employer Contributions</b>	\$17,977	\$17,591	\$15,561	\$12,060	\$13,289	\$124,243	\$194,430	\$226,130	\$277,368**	\$326,736
<b>Investment Income*</b>	\$493,491	\$685,718	\$45,284	(\$149,858)	(\$269,188)	\$789,086	\$569,000	\$461,980	\$830,200	\$784,961
<b>Total</b>	\$562,025	\$759,002	\$122,024	(\$69,163)	(\$177,982)	\$994,910	\$845,361	\$795,654	\$1,245,150	\$1,271,173



\* Investment Income includes net appreciation (depreciation) less investment manager fees and security lending fees.

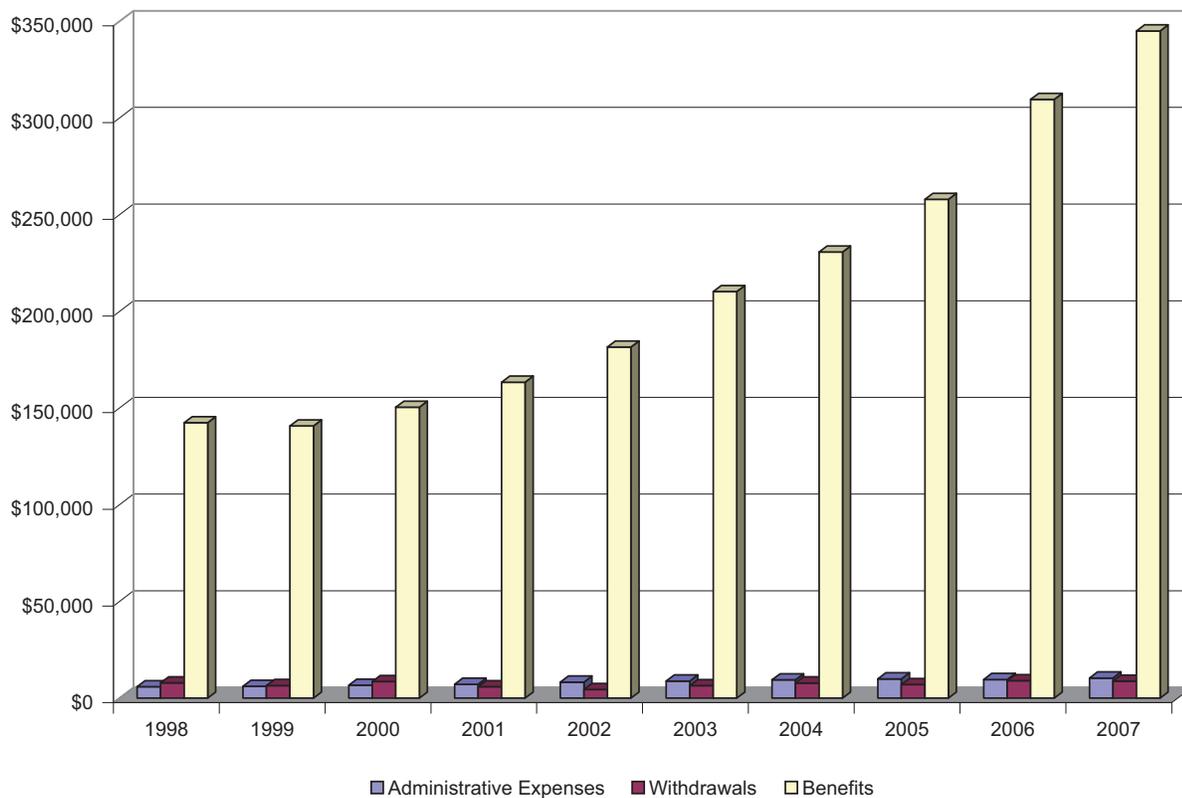
\*\* Prepaid Unearned Contribution not netted (Note G)

## Schedule and Graph of Expenses by Type

(Dollars in Thousands)

1998 – 2007

Years Ended December 31	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Administrative Expenses</b>	\$5,850	\$6,094	\$6,631	\$7,146	\$8,279	\$8,848	\$9,463	\$9,953	\$9,600	\$10,381
<b>Withdrawals</b>	\$7,848	\$6,513	\$8,515	\$5,896	\$4,482	\$6,412	\$7,845	\$6,999	\$8,970	\$8,799
<b>Benefits</b>	\$142,457	\$140,736	\$150,466	\$163,378	\$181,549	\$210,273	\$230,684	\$257,929	\$309,696	\$345,062
<b>Total</b>	\$156,155	\$153,343	\$165,612	\$176,420	\$194,310	\$225,533	\$247,992	\$274,881	\$328,266	\$364,242

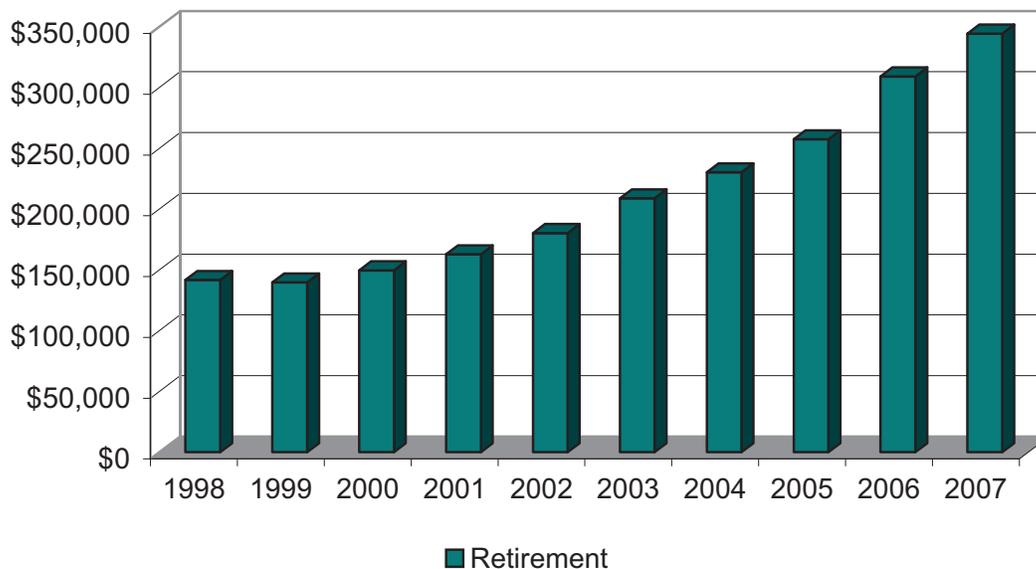
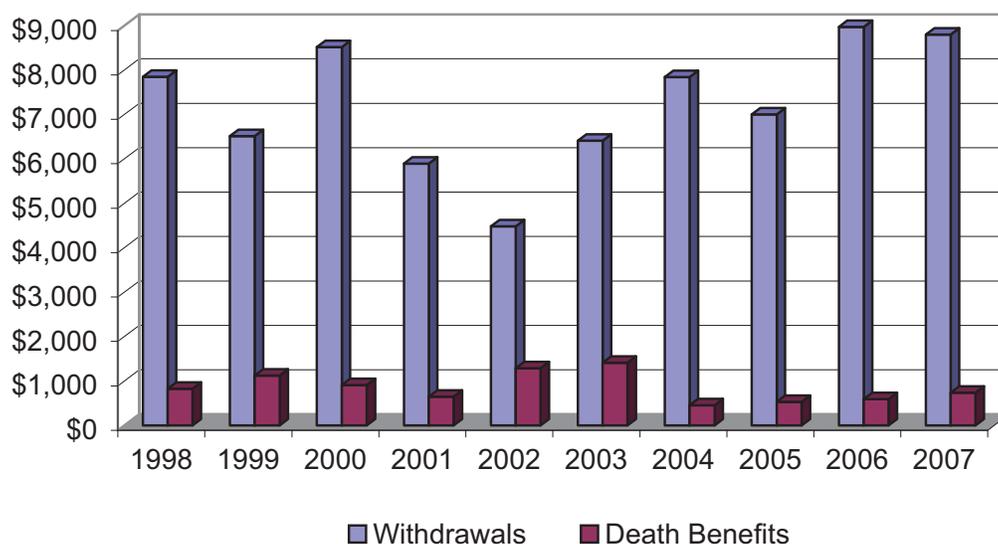


## Schedule and Graphs of Benefit Expenses by Type

(Dollars in Thousands)

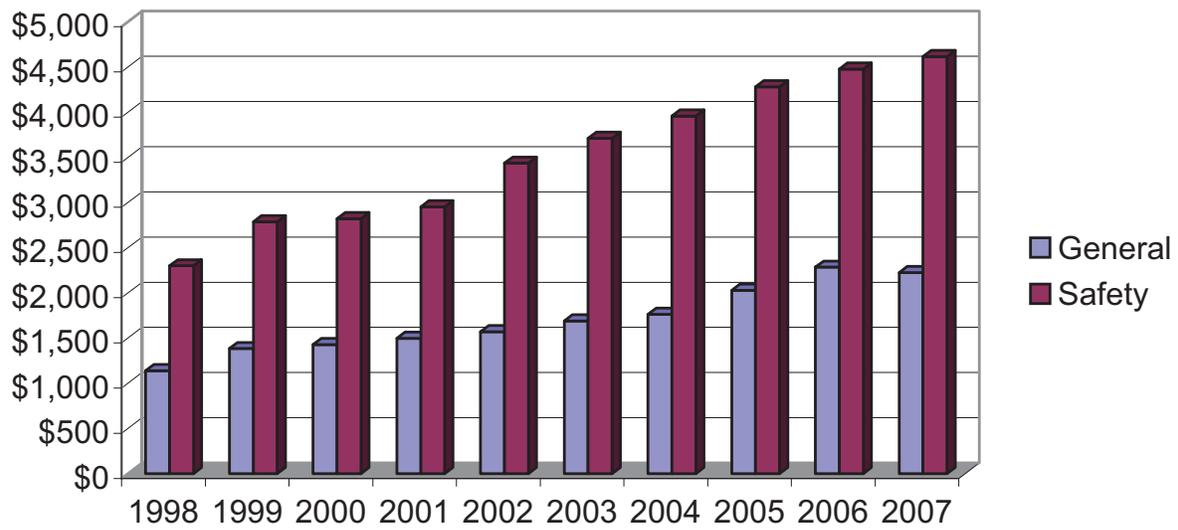
### 1998 – 2007

Years Ended December 31	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Withdrawals</b>	\$7,848	\$6,513	\$8,515	\$5,896	\$4,482	\$6,412	\$7,845	\$6,999	\$8,970	\$8,799
<b>Retirement</b>	\$141,629	\$139,611	\$149,555	\$162,732	\$180,263	\$208,861	\$230,225	\$257,397	\$309,102	\$344,321
<b>Death Benefits</b>	\$828	\$1,125	\$911	\$646	\$1,286	\$1,412	\$459	\$532	\$594	\$741
<b>Total</b>	\$150,305	\$147,249	\$158,981	\$169,274	\$186,031	\$216,685	\$238,529	\$264,928	\$318,666	\$353,861



## Schedule and Graph of Average Monthly Pension Check 1998 – 2007

Years Ended December 31	1998	1999	2000	2001	2002	2003	2004	2005	2006*	2007
General Members	\$1,140	\$1,385	\$1,429	\$1,498	\$1,572	\$1,691	\$1,766	\$2,031	\$2,286	\$2,228
Safety	\$2,302	\$2,788	\$2,822	\$2,955	\$3,438	\$3,713	\$3,959	\$4,283	\$4,479	\$4,618



\*Year 2006 includes health grant

## Schedule of Average Pension Benefit Payments By Years of Service

Retirement Effective Dates	Years of Service						
	0-4	5-9	10-14	15-19	20-24	25-29	30 & Over
<b>PERIOD 1/1/98 –12/31/98</b>							
Average Monthly Pension Benefits	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	NA	NA	NA	NA	NA	NA	NA
Number of Retired Members	NA	NA	NA	NA	NA	NA	NA
<b>PERIOD 1/1/99 –12/31/99</b>							
Average Monthly Pension Benefits	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	NA	NA	NA	NA	NA	NA	NA
Number of Retired Members	NA	NA	NA	NA	NA	NA	NA
<b>PERIOD 1/1/00 –12/31/00</b>							
Average Monthly Pension Benefits	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	NA	NA	NA	NA	NA	NA	NA
Number of Retired Members	NA	NA	NA	NA	NA	NA	NA
<b>PERIOD 1/1/01 –12/31/01</b>							
Average Monthly Pension Benefits	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	NA	NA	NA	NA	NA	NA	NA
Number of Retired Members	NA	NA	NA	NA	NA	NA	NA
<b>PERIOD 1/1/02 –12/31/02</b>							
Average Monthly Pension Benefits	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	NA	NA	NA	NA	NA	NA	NA
Number of Retired Members	NA	NA	NA	NA	NA	NA	NA
<b>PERIOD 1/1/03 –12/31/03</b>							
Average Monthly Pension Benefits	\$457	\$599	\$1,109	\$1,695	\$2,566	\$4,136	\$5,628
Average Final Average Salary	\$3,123	\$3,476	\$4,160	\$4,453	\$4,821	\$5,636	\$6,311
Number of Retired Members	14	28	92	88	106	100	116
<b>PERIOD 1/1/04 –12/31/04</b>							
Average Monthly Pension Benefits	\$328	\$811	\$1,134	\$1,793	\$3,075	\$4,550	\$6,183
Average Final Average Salary	\$2,086	\$3,697	\$4,267	\$4,536	\$5,451	\$6,188	\$7,064
Number of Retired Members	19	37	77	69	70	61	87
<b>PERIOD 1/1/05 –12/31/05</b>							
Average Monthly Pension Benefits	\$503	\$731	\$1,496	\$2,316	\$3,101	\$4,760	\$5,877
Average Final Average Salary	\$3,253	\$4,181	\$4,585	\$5,223	\$5,227	\$6,374	\$6,567
Number of Retired Members	19	43	129	125	150	169	282
<b>PERIOD 1/1/06 –12/31/06</b>							
Average Monthly Pension Benefits	\$448	\$788	\$1,608	\$2,389	\$3,368	\$4,898	\$6,112
Average Final Average Salary	\$3,770	\$4,031	\$4,952	\$5,198	\$5,668	\$6,474	\$6,789
Number of Retired Members	15	46	129	167	129	174	155
<b>PERIOD 1/1/07 –12/31/07</b>							
Average Monthly Pension Benefits	\$368	\$817	\$1,593	\$2,407	\$3,366	\$5,626	\$6,401
Average Final Average Salary	\$2,213	\$4,206	\$5,065	\$5,239	\$5,714	\$7,219	\$7,223
Number of Retired Members	16	45	110	111	100	145	104

NA: Detailed information not available.

## Schedule of Benefit Recipients by Type of Benefit December 31, 2007

Monthly Benefit	1	2	3	4	5	6	7	Total
\$0-500	661	127	5	11	18	65	56	943
\$501-1,000	1,091	237	3	52	40	54	151	1,628
\$1,001-1,500	1,159	134	59	104	23	33	84	1,596
\$1,501-2,000	965	109	183	44	22	31	32	1,386
\$2,001-2,500	784	62	245	22	19	15	17	1,164
\$2,501-3,000	661	45	169	11	16	10	12	924
\$3,001-3,500	541	24	121	6	8	4	5	709
\$3,501-4,000	437	17	83	4	4	6	8	559
\$4,001-4,500	371	11	37	0	4	3	3	429
\$4,501-5,000	329	4	27	1	1	0	3	365
\$5,001-5,500	284	4	12	1	2	0	0	303
\$5,501-6,000	246	3	11	0	2	0	1	263
\$6,001-6,500	208	0	8	0	0	0	2	218
\$6,501-7,000	197	3	3	0	2	0	0	205
Over \$7,000	702	3	20	1	2	0	0	728
<b>Total</b>	<b>8,636</b>	<b>783</b>	<b>986</b>	<b>257</b>	<b>163</b>	<b>221</b>	<b>374</b>	<b>11,420</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. Nonservice-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, 2007

Monthly Benefit	JSURV	SL100	SL60	SLIFE	SLR60	UNMJS	Total Payees
\$0-500	125	0	2	135	1	680	943
\$501-1,000	204	0	12	261	7	1,144	1,628
\$1,001-1,500	204	1	10	248	3	1,130	1,596
\$1,501-2,000	215	0	3	235	0	933	1,386
\$2,001-2,500	199	1	1	179	0	784	1,164
\$2,501-3,000	184	0	2	143	0	595	924
\$3,001-3,500	184	3	0	94	0	428	709
\$3,501-4,000	126	2	0	90	0	341	559
\$4,001-4,500	116	0	0	77	0	236	429
\$4,501-5,000	129	1	0	50	0	185	365
\$5,001-5,500	126	0	0	55	0	122	303
\$5,501-6,000	108	0	0	59	0	96	263
\$6,001-6,500	102	0	1	41	0	74	218
\$6,501-7,000	89	0	0	34	0	82	205
Over \$7,000	325	0	0	97	0	306	728
Total	2,436	8	31	1,798	11	7,136	11,420

### Definition of Options

**JSURV:** Contingent joint survivor.

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

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

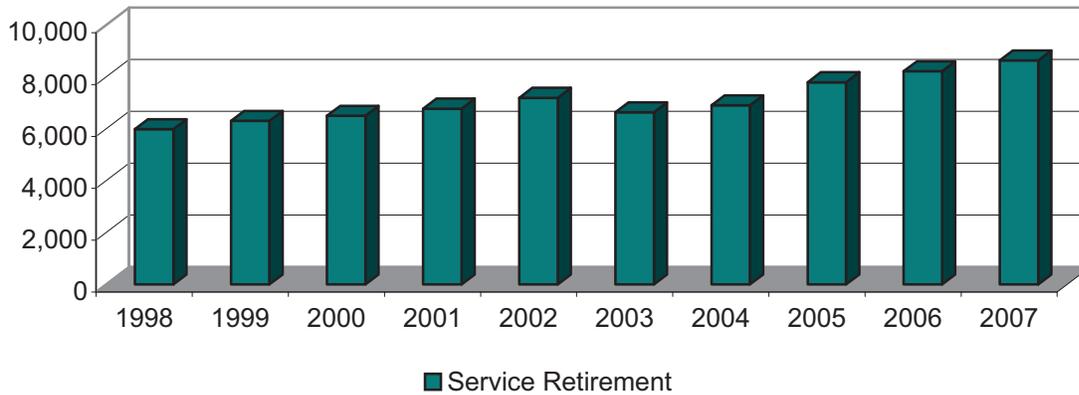
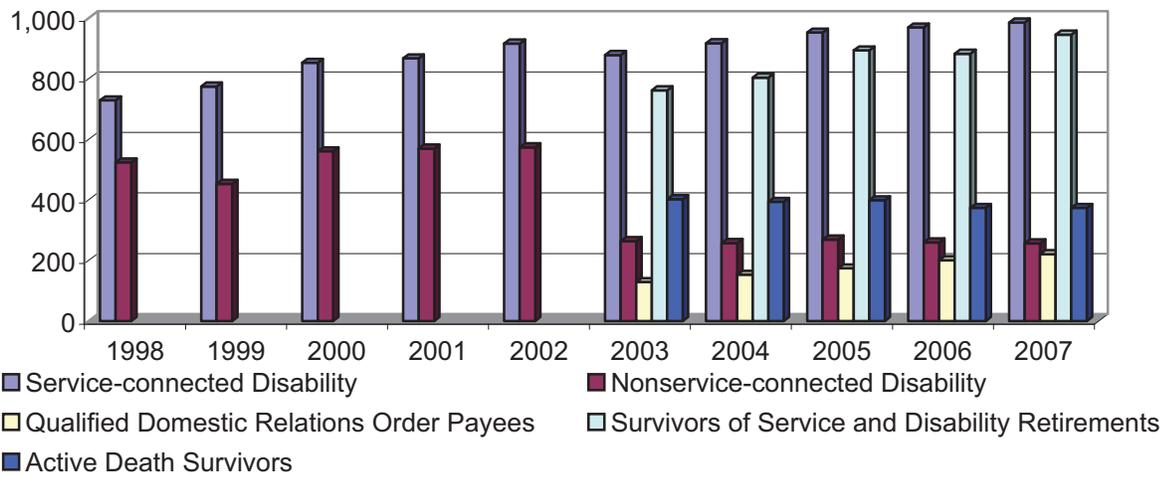
**SLIFE:** Lifetime payment.

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

**UNMJS:** Unmodified with joint survivor.

## Schedule and Graphs of Benefit Recipients 1998 – 2007

Years Ended December 31	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Service-connected Disability	729	775	853	868	917	879	918	953	986	986
Nonservice-connected Disability	524	453	561	570	574	264	258	269	269	257
Service Retirement	5,991	6,309	6,501	6,778	7,197	6,642	6,906	7,799	8,403	8,636
Survivors of Service and Disability Retirements	N/A	N/A	N/A	N/A	N/A	762	804	894	1,310	946
Qualified Domestic Relations Orders	N/A	N/A	N/A	N/A	N/A	129	153	174	203	221
Active Death Survivors	N/A	N/A	N/A	N/A	N/A	403	394	399	11	374
<b>Total*</b>	<b>7,244</b>	<b>7,537</b>	<b>7,915</b>	<b>8,216</b>	<b>8,688</b>	<b>9,079</b>	<b>9,433</b>	<b>10,488</b>	<b>11,182</b>	<b>11,420</b>



N/A: Detailed information not available. Payment amounts were included in Service Retirement Benefits.  
 \* Certain reclassifications have been made.

## Schedule of Average Retirement Age 1998 – 2007

Years Ended December 31	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General	N/A	N/A	N/A	N/A	N/A	60.68	61.06	60.03	60.31	60.71
Safety	N/A	N/A	N/A	N/A	N/A	56.02	54.56	55.20	54.17	54.60

## Schedule of Average Years of Service at Retirement 1998 – 2007

Years Ended December 31	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General	N/A	N/A	N/A	N/A	N/A	22.29	22.11	24.79	22.67	21.85
Safety	N/A	N/A	N/A	N/A	N/A	25.74	24.55	24.01	23.63	25.62

## Schedule of Beneficiaries Receiving a Pension 1998 – 2007

Years Ended December 31	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General	N/A	N/A	N/A	N/A	N/A	1,068	1,089	1,175	1,200	1,190
Safety	N/A	N/A	N/A	N/A	N/A	97	109	118	121	130
Total	N/A	N/A	N/A	N/A	N/A	1,165	1,198	1,293	1,321	1,320

## Schedule of Active and Deferred Members 1998 – 2007

Years Ended December 31	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>General</b>										
Active	N/A	N/A	N/A	N/A	N/A	19,006	18,935	18,812	19,101	19,803
Deferred	N/A	N/A	N/A	N/A	N/A	1,546	1,763	2,213	2,911	3,353
<b>Safety</b>										
Active	N/A	N/A	N/A	N/A	N/A	3,645	3,567	3,653	3,649	3,815
Deferred	N/A	N/A	N/A	N/A	N/A	119	147	196	267	293
Total	N/A	N/A	N/A	N/A	N/A	24,316	24,412	24,874	25,928	27,264

N/A: Detailed information not available.

## Schedule of Participating Employers 2003 – 2007\*

Years Ended December 31		Total	Orange County	OCTA	Superior Court	Fire Authority	Sanitation District	City of San Juan Capistrano	Transportation Corridor Agency	All Other Sponsors
<b>1998</b>	Number of Covered Employees	19,432	-	-	-	-	-	-	-	-
	Percentage to Total System	100.00%	-	-	-	-	-	-	-	-
<b>1999</b>	Number of Covered Employees	20,357	-	-	-	-	-	-	-	-
	Percentage to Total System	100.00%	-	-	-	-	-	-	-	-
<b>2000</b>	Number of Covered Employees	20,987	-	-	-	-	-	-	-	-
	Percentage to Total System	100.00%	-	-	-	-	-	-	-	-
<b>2001</b>	Number of Covered Employees	22,329	-	-	-	-	-	-	-	-
	Percentage to Total System	100.00%	-	-	-	-	-	-	-	-
<b>2002</b>	Number of Covered Employees	22,723	-	-	-	-	-	-	-	-
	Percentage to Total System	100.00%	-	-	-	-	-	-	-	-
<b>2003</b>	Number of Covered Employees	(note 2) 22,651	18,538	2,021	(note 1)	1,057	572	94	115	254
	Percentage to Total System	100.00%	81.84%	8.92%	-	4.67%	2.53%	0.41%	0.51%	1.13%
<b>2004</b>	Number of Covered Employees	22,502	16,908	2,048	1,458	1,061	593	102	92	240
	Percentage to Total System	100.00%	75.14%	9.10%	6.48%	4.72%	2.64%	0.45%	0.41%	1.07%
<b>2005</b>	Number of Covered Employees	22,465	16,776	1,976	1,617	1,066	602	90	94	244
	Percentage to Total System	100.00%	74.68%	8.80%	7.20%	4.75%	2.68%	0.40%	0.42%	1.09%
<b>2006</b>	Number of Covered Employees	22,750	16,971	1,940	1,726	1,092	603	91	86	241
	Percentage to Total System	100.00%	74.60%	8.53%	7.59%	4.80%	2.65%	0.40%	0.38%	1.06%
<b>2007</b>	Number of Covered Employees	23,618	17,702	2,012	1,845	1,116	598	93	86	166
	Percentage to Total System	100.00%	74.95%	8.52%	7.81%	4.73%	2.53%	0.39%	0.36%	0.70%

Note 1 Orange County Superior Court became a separate agency in 2004.

Note 2 Includes Active & Inactive members.

\* Data for years 1998 to 2002 is not available in our current system.

## History of Actuarial Assumption Rates for the Period January, 1945 – December, 2007

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.

<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%
12/31/04	7.75%	3.50%





ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

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