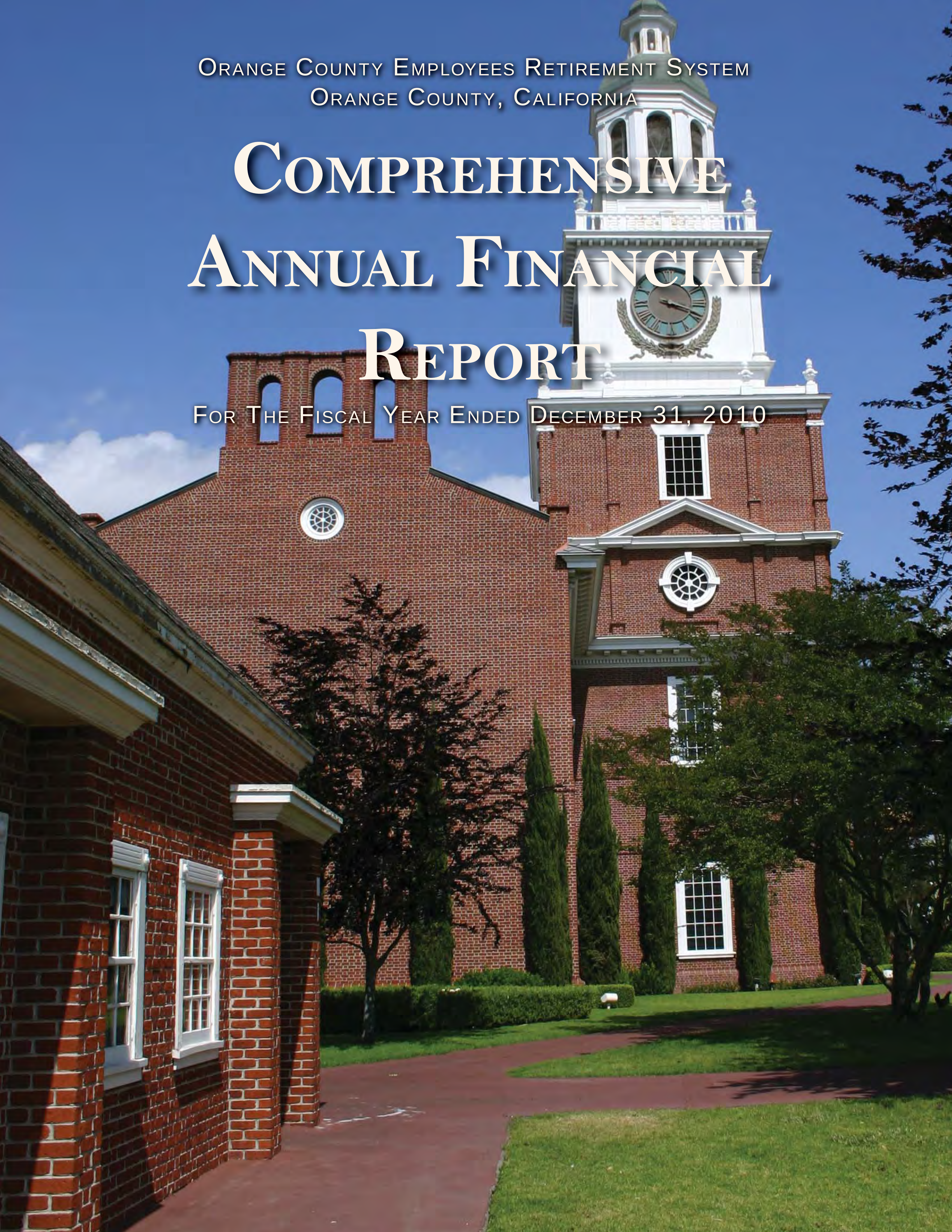
Orange County Employees Retirement System
Orange County, California

Comprehensive Annual Financial Report

For The Fiscal Year Ended December 31, 2010



Orange County Employees Retirement System
Orange County, California

Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2010

Prepared by: The Accounting Department of the Orange County Employees Retirement System

Issued by: Steve Delaney, Chief Executive Officer

Orange County Employees Retirement System
2223 E. Wellington Ave., Ste. 100
Santa Ana, CA 92701-3161

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Web site: www.ocers.org

Photography courtesy of Peggy Delaney, Orange County Fire Authority
Robert Kinsler, Orange County Employees Retirement System

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ORCHARDS
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> INTRODUCTION

LETTER OF TRANSMITTAL

ORANGE COUNTY
OCERS
EMPLOYEES RETIREMENT SYSTEM

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 Department of Education (closed to new members)

Orange County Employees Retirement System

Orange County Fire Authority

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 Transportation Authority

Superior Court of California, County of Orange

Transportation Corridor Agencies

UCI Medical Center and Campus (closed to new members)

December 29, 2011

Board of Retirement
Orange County Employees Retirement System
2223 East Wellington Avenue, Suite 100
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) as of and for the year ended December 31, 2010, the System's 66th year of operation.

Please read this letter of transmittal in conjunction with the Management's Discussion and Analysis, which provides a narrative overview and analysis of financial activities.

OCERS

Administered by the Board of Retirement, OCERS provides service retirement, disability, death and survivor benefits in accordance with the County Employees Retirement Law of 1937 (Government Code Section 31450, et seq.). The Board of Retirement and OCERS staff members 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.

MANAGEMENT RESPONSIBILITY OF FINANCIAL REPORTING

OCERS management is responsible for the completeness and fairness of the financial information presented in the CAFR. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present both the financial position and OCERS operating results.

MAJOR INITIATIVES AND SIGNIFICANT EVENTS

Several major initiatives were undertaken during the year including:

- The multi-year implementation of a new Pension Administration System
- The application for an Internal Revenue Service Tax Determination Letter
- The expansion of OCERS website capabilities
- The review and update of OCERS Governance Structure and Policies

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM ◆ *2223 E. Wellington Avenue, Suite 100, Santa Ana, CA 92701*
Telephone (714) 558-6200 Fax (714) 558-6234

ACCOUNTING SYSTEMS AND REPORTS

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

OCERS management is responsible for establishing a system of internal control to safeguard assets and for the presentation of the accompanying basic financial statements. Oversight is provided by OCERS' internal auditing staff and OCERS' Audit Committee. Macias Gini & O'Connell LLP, OCERS' independent auditor, audited the accompanying basic financial statements.

INVESTMENT ACTIVITIES

The Board of Retirement, in accordance with state statutes, adopts a strategic asset allocation policy designed to achieve OCERS' long-term investment objectives. During 2010, the OCERS investment portfolio returned 11.70%. Annualized returns over the last three and five years have been 1.63% and 5.71%, respectively.

ACTUARIAL FUNDING STATUS

OCERS maintains a funding goal to establish contributions that fully fund the System's liabilities, and that, as a percentage of payroll, remain as level as possible for each generation of active members. Actuarial valuations are performed annually with actuarial experience investigations conducted triennially in accordance with state statute.

At December 31, 2010, OCERS funding status was 69.8% with an Unfunded Actuarial Accrued Liability (UAAL) of $3.753 billion. Average employer and employee contribution rates for the year ended December 31, 2010, were 27.30% and 10.74%, respectively.

AWARDS AND ACHIEVEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement to OCERS for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2009.

This was the sixteenth 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 financial reports.

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

ACKNOWLEDGEMENTS

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

Respectfully submitted,

Steve Delaney
Chief Executive Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Orange County Employees Retirement System California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2009

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.

President

Executive Director

PPCC

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2010

Presented to

Orange County Employees Retirement System

In recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Alan H. Winkle
Program Administrator

MEMBERS OF THE BOARD OF RETIREMENT

As of December 31, 2010

Robert A. Griffith
Chair
Elected by
Retired Members

Patti Gorczyca
Vice Chair
Appointed by the
Board of Supervisors

Russell Baldwin
Elected by
General Members

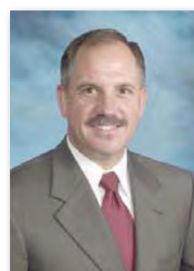
Tony Bedolla
Alternate
Elected by
Safety Members

Frank E. Eley
Elected by
General Members

Thomas E. Flanigan
Appointed by the
Board of Supervisors

Reed L. Royalty
Appointed by the
Board of Supervisors

Chriss W. Street
Ex-Officio Member
Treasurer-Tax Collector
County of Orange



Richard A. White, Jr.
Elected by
Safety 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), an Internal Auditor, and the Managing Director of Investments (MDI) 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, processing transmittals, 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.

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 and refunds of contributions and interest to members; 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.

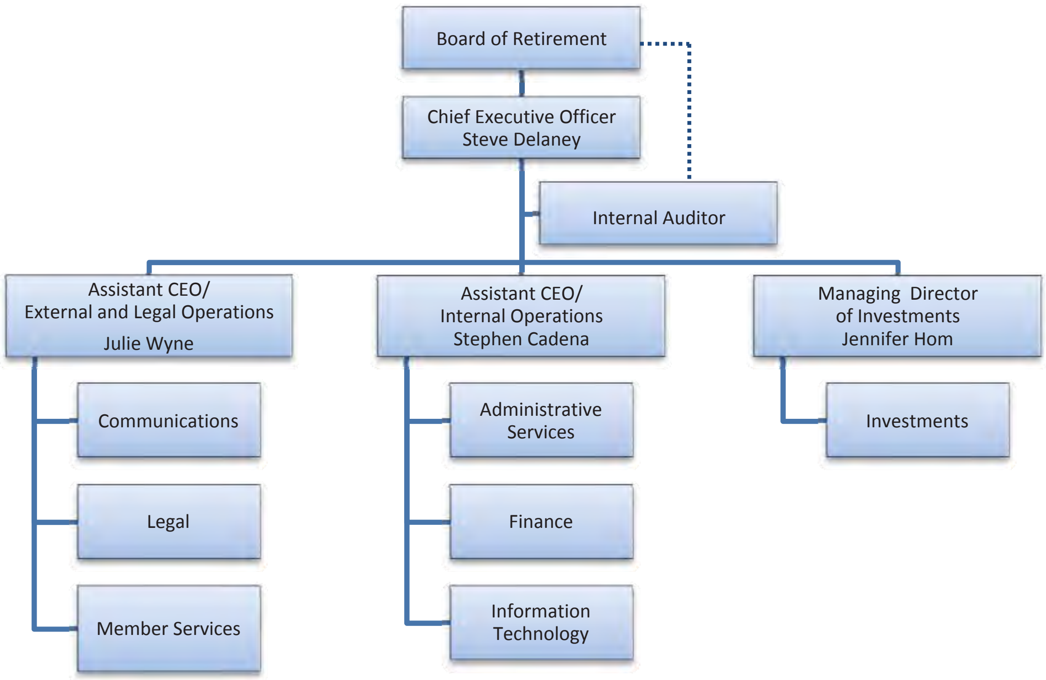
The Administrative Services Division is responsible for providing the contract administration, purchasing, and human resources functions of OCERS.

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, 2010



List of Professional Consultants

As of December 31, 2010

Actuary

The Segal Company

Investment Consultant

Callan Associates, Inc.

Real Estate Consultant

Callan Associates, Inc.

Independent Auditor

Macias Gini and O'Connell, LLP

Investment Counsel

Foley and Lardner, LLP

Fiduciary Counsel

Reed Smith, LLP

Tax Counsel

Hanson Bridgett, LLP

Custodian

State Street California

Note: List of Investment Managers is located on pages 75 and 76 of the Investment Section of this report.

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SECTION 2

>FINANCIAL

MGO **Certified Public Accountants.**

Sacramento • Walnut Creek • Oakland • Los Angeles/Century City • Newport Beach • San Diego

mgocpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Retirement of the
Orange County Employees' Retirement System
Santa Ana, California

We have audited the accompanying statement of fiduciary net assets of the Orange County Employees' Retirement System (the System), as of December 31, 2010, and the related statement of changes in fiduciary net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2009 financial statements which were audited by other auditors and whose report thereon dated June 9, 2010 expressed an unqualified opinion.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 fiduciary net assets of the Orange County Employees' Retirement System as of December 31, 2010, and the changes in fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note B, effective January 1, 2010, the System adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

As described in Note L, based on the most recent actuarial valuation of the pension plan as of December 31, 2010, the System's independent actuary determined that, at December 31, 2010, the value of the System's actuarial accrued liability exceeded the actuarial value of its assets by $3.8 billion. The most recent actuarial value of assets as of December 31, 2010 does not reflect the remaining deferred investment losses that will be recognized in the future.

As described in Note M, the actuarial value of assets for the County of Orange and Orange County Fire Authority health care plans include certain assets held outside of the related health care trusts administered by the System.

3000 S Street
Suite 300
Sacramento
CA 95816

2121 N. California Blvd.
Suite 750
Walnut Creek
CA 94596

505 14th Street
5th Floor
Oakland
CA 94612

2029 Century Park East
Suite 500
Los Angeles
CA 90067

4675 MacArthur Ct.
Suite 600
Newport Beach
CA 92660

225 Broadway
Suite 1750
San Diego
CA 92101

In accordance with *Government Auditing Standards*, we have issued our report dated December 29, 2011, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts 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.

The Management's Discussion and Analysis, the Schedules of Funding Progress and the Schedules of Employer Contributions, as listed in the table of contents, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental 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.

Macias Gini & O'Connell LLP

Sacramento, California
December 29, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to present Management's Discussion and Analysis of the financial activities of the Orange County Employees Retirement System (OCERS) as of and for the fiscal year ended December 31, 2010. We believe the information presented here, in conjunction with the Chief Executive Officer's Letter of Transmittal found in the Introductory Section, provides the financial statement reader with a clear picture of the System's overall financial status.

FINANCIAL HIGHLIGHTS

- Fiduciary net assets held in trust, representing assets available to pay current and future member pension and health care benefits, increased $967.6 million after prior period adjustments for changes in OPEB health care financial reporting and the underreporting of OPEB Health Care Fund investments. The increase in fiduciary net assets during 2010 is primarily attributable to the growth in the OCERS investment portfolio.
- Total additions to fiduciary net assets decreased 10.0% in 2010 to $1.467 billion. Investment income declined 16.8% to $898.5 million. Contributions received from employers and employees totaled $568.6 million, an increase of 3.4%.
- Total deductions from fiduciary net assets increased $27 million in 2010 to $499.5 million. Member pension benefit payments increased $36.1 million during the year due to an increase in the number of OCERS retired members and an increase in the average benefit paid.
- OCERS funding status for the pension plan, as measured by the ratio of the actuarial value of assets to the actuarial value of liabilities, increased to 69.79%.
- As of June 30, 2010, the funded status for the County of Orange's Health Care plan was 20.64%
- As of July 1, 2010, the funded status for the Orange County Fire Authority Health Care plan was 14.59%.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis serves as an introduction to the basic financial statements that include:

The Statement of Fiduciary Net Assets - presents major categories of assets and liabilities at fiscal year end. The difference between assets and liabilities, "Net Assets Held in Trust for Pension Plan and Other Postemployment Benefits", represents funds available to pay benefits. The Statement of Fiduciary Net Assets includes prior year-end balances for comparative purposes. Increases and decreases in Net Assets Held in Trust for Pension Plan and Other Postemployment Benefits, when analyzed over time, may serve as an indicator of whether OCERS' financial position is improving or deteriorating.

The Statement of Changes in Fiduciary Net Assets – provides information on the financial activities that increased and decreased Plan Net Assets. For comparative purposes, prior year-end balances are also provided.

The Notes to the Financial Statements – are an integral part of the basic financial statements and provide background and detailed information regarding OCERS' policies, programs and activities.

The Required Supplemental Information – contains supporting schedules pertaining to OCERS' Pension and Health Care Plan's actuarial methods, assumptions, funded status and annual required contributions.

Other supplemental information – includes schedules pertaining to administrative expenses, investment expenses, and a schedule of changes for the agency funds.

Prior Period Adjustments

In 2010, OCERS management reexamined the OPEB Health Care Administrative Services and Investment Agreements (Plan Documents), the Internal Revenue Code sections applicable to the OPEB Health Care Plans and the reporting standards of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and concluded that a modification in financial reporting was required. Under the OPEB Health Care Plan Documents, OCERS provides certain administrative and investment services to the County of Orange and the Orange County Fire Authority pursuant to section 401(h) of the Internal Revenue Code (Code) with investment related services being provided to the Orange County Transportation Authority and the Orange County Fire Authority in accordance with section 115 of the Code. In 2009, OCERS reported all OPEB Health Care plan "net assets" as being held in trust, but concluded, after completing the reexamination of Plan Documents, that OCERS was trustee only for the two OPEB Health Care Plans administered under section 401(h) and was not trustee for the OPEB Health Care Plans administered pursuant to section 115. Accordingly, the December 31, 2010 financial statements were modified to report individual trust accounts for the two OPEB Health Care plans administered under the 401(h) provisions with the two plans administered pursuant to section 115 combined into one Agency Fund on the Statement of Fiduciary Net Assets. The December 31, 2010 reporting change required OCERS to adjust the balance of "Net Assets Held in Trust for Pension and Health Care Benefits" as of December 31, 2009.

In addition to the financial reporting change described above, OCERS also identified and corrected the cumulative underreporting of $1.36 million in OPEB Health Care plan assets administered under section 115 as of December 31, 2009. The effect on "Net Assets Held in Trust for Pension and Health Care Benefits" of the financial reporting change and the asset valuation adjustment is detailed below:

Increase in "Agency Fund Assets" related to the underreporting of OPEB assets at 12/31/09	$ 1,360,672
Decrease in "Net Assets" related to changes in OPEB Fund Reporting (Trust to Agency Fund)	(19,661,108)
Prior-Period Adjustment as Reported on the Statement of Changes in Fiduciary Net Assets for the year ended 12/31/10	$ (18,300,436)

FINANCIAL ANALYSIS

Tables #1 and #2 compare and summarize OCERS' financial activity for the current and prior fiscal years.

Table #1: Fiduciary Net Assets
As of December 31, 2010 and 2009
(Dollars in Thousands)

	12/31/2010	12/31/2009	Increase/ (decrease)	Percentage Change
Assets				
Cash & Cash Equivalents	$ 303,820	$ 462,438	$ (158,618)	-34.3%
Securities Lending Collateral	461,489	1,148,890	(687,401)	-59.8%
Receivables	99,392	765,903	(666,511)	-87.0%
Investments	8,429,231	7,189,701	1,239,530	17.2%
Capital Assets	3,289	1,761	1,528	86.8%
Total Assets	**9,297,221**	**9,568,693**	**(271,472)**	**-2.8%**
Liabilities				
Obligations Under Securities Lending Program	461,489	1,148,890	(687,401)	-59.8%
Securities Purchased	159,810	733,925	(574,115)	-78.2%
Other	112,006	71,276	40,730	57.1%
Total Liabilities	**733,305**	**1,954,091**	**(1,220,786)**	**-62.5%**
Net Assets Held in Trust for Pension and Health Care Benefits before adjustment in OPEB reporting	8,563,916	7,614,602	949,314	12.5%
Less: 2009 Prior Period Adjustment		18,300	(18,300)	
Net Assets Held in Trust for Pension and Health Care Benefits after adjustment in OPEB reporting	**$ 8,563,916**	**$ 7,596,302**	**$ 967,614**	**12.7%**

As of December 31, 2010, OCERS held net assets of $8.56 billion in trust for pension and health care benefits. During the year, OCERS' investment portfolio increased in excess of $1.2 billion, or 17.2%, as several asset classes, including equity and fixed income, within the portfolio benefited from improving economic conditions worldwide. Capital assets increased $1.5 million as OCERS initiated the implementation of a new Pension Administration System (V-3). Collateral and obligations for securities lending were significantly lower at December 31, 2010 due to the identification, and subsequent correction, of an internal process that resulted in a $357.2 million overstatement of the securities lending collateral and obligations at December 31, 2009. The overstatement of securities lending collateral and obligations had no impact on Net Assets Held in Trust as of December 31, 2009 because both the securities lending asset and corresponding liability were overstated by an equal amount. The balance of the reduction in securities lending collateral and obligations is due to a lower total of loaned securities outstanding at December 31, 2010.

Table #2: Changes in Fiduciary Net Assets
As of December 31, 2010 and 2009
(Dollars in Thousands)

	12/31/2010	12/31/2009	Increase/ (decrease)	Percentage Change
Additions				
Employer Pension Contributions	$372,437	$338,387	$34,050	10.1%
Employer Health Care Contributions	18,216	39,589	(21,373)	-54.0%
Employee Pension Contributions	177,929	171,928	6,001	3.5%
Net Investment Income	896,612	1,076,073	(179,461)	-16.7%
Net Securities Lending Income	1,870	3,989	(2,119)	-53.1%
Total Additions	**1,467,064**	**1,629,966**	**(162,902)**	**-10.0%**
Deductions				
Participant Benefits - Pension	448,099	411,959	36,140	8.8%
Participant Benefits - Health Care	27,672	39,858	(12,186)	-30.6%
Death Benefits	838	661	177	26.8%
Member Withdrawals and Refunds	10,446	9,052	1,394	15.4%
Administrative Expenses - Pension	12,368	10,947	1,421	13.0%
Administrative Expenses - Health Care	27		27	
Total Deductions	**499,450**	**472,477**	**26,973**	**5.7%**
Increase/(decrease) in Net Assets Held in Trust for Pension and Health Care Benefits	**$967,614**	**$1,157,489**	**($189,875)**	**-16.4%**
Net Assets Held in Trust for Pension and Health Care Benefits				
Beginning of the Year	$7,614,602	$6,457,113		
Prior Period Adjustment	(18,300)			
End of Year	$8,563,916	$7,614,602		

Additions to Fiduciary Net Assets

Additions to fiduciary net assets declined 10.0% in 2010 as investment income fell by 16.8%. Employer and employee pension contributions increased during the year by 10.1% and 3.5%, respectively as both average employer and employee contribution rates increased relative to the prior year. Employer OPEB contributions fell $21.4 million. The decline in investment income is attributable to a decrease in investment returns during 2010 when directly compared to 2009. OCERS' investment portfolio returned 18.5% in 2009, while 2010 investment returns totaled 11.7%. Consequently, the OCERS investment portfolio did not generate the level of investment income in 2010 as in the prior year. OCERS long term actuarially assumed investment rate of return is 7.75%.

Deductions from Fiduciary Net Assets

Deductions from fiduciary net assets increased 5.7% due to the continued and anticipated growth in member pension benefit payments. During the year, the total number of OCERS retired members increased 4.2% and the average benefit received increased 4.7%. These increases were anticipated given that members added to the retiree payroll in 2010 received a higher average benefit than those removed from the retiree payroll. Participant health care plan benefits declined $12.2 million. Pension plan withdrawal payments increased 15.4%. Pension plan administrative expenses averaged $11.7 million over the past two fiscal years, and 2010 administrative expenses increased 13% primarily due to the implementation of a new pension administration system.

INVESTMENT AND ECONOMIC SUMMARY

The 2010 economic climate for institutional investors was defined by distinct periods of optimism and skepticism. Early in the year optimism reigned as most major asset classes posted gains under very favorable economic conditions as business profits increased, inflation levels remained in check and interest rates fell to historic lows. However, as the year progressed, economic pressures such as near defaults within the European Union, weakness in domestic employment and both natural and man-made disasters gave rise to investor skepticism. Markets remained generally unsteady until late summer when the Federal Reserve announced a second round of quantitative easing. The Federal Reserve's announcement brought a spirit of optimism back to the market and most equity markets worldwide prospered throughout the balance of year.

OCERS investment returns fluctuated throughout the year with the overall market conditions. Investment returns during the favorable economic climate of the first quarter were a solid 2.25%, but the returns on the investment portfolio fell through the mid-year period as market conditions turned less favorable. Investment returns for the third quarter alone were 8.6% as markets rallied off mid-year lows and OCERS ended 2010 with an investment return of 11.7%.

The rate of return on OCERS investment portfolio is an integral component of the annual additions to the pension plan as total investment income is typically the largest contributor to the plan's annual additions to retirement plan assets. The investment portfolio has added $1.972 billion to plan assets over the past two years.

PREMIUM PAY

In 2009, OCERS identified and began correcting the underreporting of certain member compensation pay elements (“Premium Pay”) to the plan actuary. The process continued in 2010 as OCERS worked with plan sponsors, consultants and the actuary to reallocate contributions and benefit payments retroactively to 2004. The reallocation of contributions and benefit payments did not impact contribution rates for OCERS as a whole, but did result in contribution rate increases for certain plan sponsors and decreases in contribution rates for others.

REQUEST FOR FINANCIAL INFORMATION

This Comprehensive Annual Financial Report is designed to provide the Board of Retirement, plan members, taxpayers and investment managers with a general overview of OCERS finances and to demonstrate OCERS’ accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional information to:

Orange County Employees’ Retirement System
2223 East Wellington Avenue
Santa Ana, CA 92701

Statement of Fiduciary Net Assets

As of December 31, 2010 (with summarized comparative amounts for December 31, 2009)

	Pension Trust	Health Care Fund–County	Health Care Fund–OCFA	OPEB 115 Agency Fund	Total Fund	Comparative Totals 2009
ASSETS						
Cash and Short-Term Investments						
Cash and Cash Equivalents	$300,210,719	$2,934,353	$501,760	$172,960	$303,819,792	$462,437,643
Securities Lending Collateral	456,267,032	4,459,696	762,586		461,489,314	1,148,890,268
Total Cash and Short-Term Investments	**756,477,751**	**7,394,049**	**1,264,346**	**172,960**	**765,309,106**	**1,611,327,911**
Receivables						
Investment Income	22,424,299	219,182	37,479		22,680,960	21,615,277
Securities Sales	32,479,250	317,462	54,285		32,850,997	256,213,432
Contributions	37,177,071				37,177,071	19,346,438
Foreign Currency Forward Contracts (Net)	5,317,498	51,975	8,887		5,378,360	
Other Receivables	1,289,495	12,604	2,155		1,304,254	468,727,478
Total Accounts Receivable	**98,687,613**	**601,223**	**102,806**		**99,391,642**	**765,902,625**
Investments at Fair Value						
Domestic Equity Securities	1,853,478,724	18,116,479	3,097,829	8,390,203	1,883,083,235	1,755,594,773
International Equity Securities	2,188,482,044	21,390,905	3,657,740	4,497,824	2,218,028,513	1,930,814,936
Domestic Bonds	2,341,722,703	22,888,727	3,913,860	8,875,457	2,377,400,747	1,762,918,032
Foreign Bonds	509,378,026	4,978,820	851,354		515,208,200	547,884,057
Real Estate	721,555,222	7,052,706	1,205,978		729,813,906	550,495,609
Alternative Investments	697,710,898	6,819,644	1,166,126		705,696,668	623,693,424
Medical Trust Investment – 115						18,300,436
Total Investments	**8,312,327,617**	**81,247,281**	**13,892,887**	**21,763,484**	**8,429,231,269**	**7,189,701,267**
Capital Assets, Net	3,251,587	31,782	5,435		3,288,804	1,761,280
Total Assets	**9,170,744,568**	**89,274,335**	**15,265,474**	**21,936,444**	**9,297,220,821**	**9,568,693,083**
LIABILITIES						
Obligations Under Securities Lending Program	456,267,032	4,459,696	762,586		461,489,314	1,148,890,268
Securities Purchased	158,001,764	1,544,358	264,078		159,810,200	733,925,065
Unearned Contributions	29,544,909				29,544,909	20,026,863
Retiree Payroll Payable	37,063,783	3,331,129	159,907		40,554,819	38,377,517
Other	19,743,531	192,979	32,999		19,969,509	12,871,645
Due to Employers				21,936,444	21,936,444	
Total Liabilities	**700,621,019**	**9,528,162**	**1,219,570**	**21,936,444**	**733,305,195**	**1,954,091,358**
Net Assets Held in Trust For Pension and Other Postemployment Benefits	**$8,470,123,549**	**$79,746,173**	**$14,045,904**		**$8,563,915,626**	**$7,614,601,725**

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Fiduciary Net Assets

For the Year Ended December 31, 2010 (with summarized comparative amounts for December 31, 2009)

	Pension Trust	Health Care Fund	Health Care Fund–County	Health Care Fund–OCFA	Total Fund	Comparative Totals 2009
ADDITIONS						
Contributions:						
Employer	$372,437,106		$14,582,711	$3,633,550	$390,653,367	$377,975,938
Employee	177,929,228				177,929,228	171,927,619
Total Contributions	**550,366,334**		**14,582,711**	**3,633,550**	**568,582,595**	**549,903,557**
Investment Income:						
Net Appreciation in Fair Value of Investments	774,427,977		7,477,268	1,186,083	783,091,328	889,565,573
Interest on:						
Domestic and Foreign Bonds	74,277,655		717,167	113,761	75,108,583	88,201,409
Cash with County Treasurer	21,442		207	33	21,682	37,534
Domestic Dividends	12,729,134		122,903	19,495	12,871,532	9,974,126
International Dividends	33,296,115		321,481	50,995	33,668,591	31,937,938
Real Estate Income	41,796,872		403,558	64,015	42,264,445	36,003,007
Alternative Investments	9,950,431		96,074	15,240	10,061,745	53,011,796
Less Investment Expenses	(60,931,122)		(588,303)	(93,320)	(61,612,745)	(34,819,023)
Securities Lending Revenue	2,263,495		21,855	3,467	2,288,817	4,863,911
Less Securities Lending Fees	(414,650)		(4,004)	(635)	(419,289)	(874,621)
Net Securities Lending Revenue	**1,848,845**		**17,851**	**2,832**	**1,869,528**	**3,989,290**
Commission Recapture-Net/Other	1,124,707		10,859	1,723	1,137,289	2,160,623
Net Investment Income	**888,542,056**		**8,579,065**	**1,360,857**	**898,481,978**	**1,080,062,273**
Total Additions	**1,438,908,390**		**23,161,776**	**4,994,407**	**1,467,064,573**	**1,629,965,830**
DEDUCTIONS						
Participant Benefits	448,099,453		25,514,028	2,157,853	475,771,334	451,816,912
Death Benefits	837,980				837,980	660,963
Member Withdrawals and Refunds	10,445,738				10,445,738	9,051,853
Administrative Expenses	12,368,464		17,858	8,862	12,395,184	10,947,419
Total Deductions	**471,751,635**		**25,531,886**	**2,166,715**	**499,450,236**	**472,477,147**
NET INCREASE/(DECREASE)	**967,156,755**		**(2,370,110)**	**2,827,692**	**967,614,337**	**1,157,488,683**
Net Assets Held in Trust for Pension and Other Postemployment Benefits Beginning of Year As Previously Reported	7,502,966,794	111,634,931			7,614,601,725	6,457,113,042
Prior Period Adjustments		(111,634,931)	82,116,283	11,218,212	(18,300,436)	
Net Assets Held in Trust For Pension and Other Postemployment Benefits Beginning of Year As Restated	7,502,966,794		82,116,283	11,218,212	7,596,301,289	6,457,113,042
ENDING NET ASSETS	**$8,470,123,549**		**$79,746,173**	**$14,045,904**	**$8,563,915,626**	**$7,614,601,725**

The accompanying notes are an integral part of these financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE A – PLAN DESCRIPTIONS

The Orange County Employees Retirement System (OCERS) was established in 1945 under the provisions of the County Employees Retirement Law of 1937 (CERL). OCERS is governed by a ten-member Board of Retirement, nine voting members and one alternate member. Board membership consists of four members appointed by the County of Orange Board of Supervisors, five members elected by the members of the system, including an alternate, and the County of Orange Treasurer Tax-Collector who serves as an Ex-Officio member.

OCERS operates as a cost sharing multi-employer defined benefit plan for the County of Orange, City of San Juan Capistrano, and thirteen special districts: Orange County Cemetery District, Orange County Children and Families Commission, Orange County Department of Education, Orange County Employees Retirement System, Orange County Fire Authority, Orange County In-Home Supportive Services Public Authority, Orange County Local Agency Formation Commission, Orange County Law Library, Orange County Sanitation District, Orange County Superior Court, Orange County Transportation Authority, Transportation Corridor Agencies and the University of California, Irvine Medical Center and Campus. The Orange County Department of Education and the University of California, Irvine Medical Center and Campus are closed to new member participation.

Pension Plan Membership

OCERS provides retirement, disability and death benefits to its active general and safety members. Safety membership includes those members serving in active law enforcement, fire suppression and as probation officers. General membership applies to all other occupations. Plan retirement benefits are tiered based upon date of OCERS membership. All regular employees scheduled to work 20 hours or more per week become members of the plan upon commencing employment.

Additional information regarding the pension plan's benefit structure is included in the Summary Plan Description that is available by contacting OCERS.

OCERS Membership

As of December 31, 2010

Membership	2010
Active Members	
Vested	16,965
Non-vested	4,777
Total Active Members	21,742
Retired Members & Beneficiaries	12,762
Terminated Vested (Deferred)	4,308
(Entitled to receive benefits in the future)	
Total Membership	38,812

Member Retirement Benefits

Members with ten or more years of service are entitled to receive a retirement allowance beginning at age 50. Members attaining age 70 are eligible to retire regardless of credited service. Benefits received are determined by member rate group or benefit classification. Member Rate Groups and Benefit Plans as of December 31, 2010 are as follows:

Rate Group	Plan Type	Benefit Formula per Year of Service	Sponsoring Agencies Include
#1	General	1.77%@55 & 1.49%@55	County of Orange OC Sanitation District
#2	General	2.7%@55 & 1.62%@65	County of Orange OC Superior Court
#3	General	2.5% @55 & 1.64%@57	OC Sanitation District OC Law Library
#5	General	1.77%@55 & 1.49%@55	OC Transportation Authority
#6	Safety	3.0%@50	County of Orange (Probation)
#7	Safety	3.0%@50 & 3.0%@55	County of Orange (Law Enforcement)

#8	Safety	3.0%@50 & 3.0%@55	OC Fire Authority
#9	General	2.0%@55	Transportation Corridor Agency
#10	General	2.0% @ 55 & 2.7%@55	OC Fire Authority
#11	General	2.0%@55	OC Cemetery

Members vest in OCERS after earning/accumulating five years of creditable service.

Disability Benefits

Members found by the Board of Retirement to be permanently incapacitated are eligible for disability retirement benefits. A disability retirement benefit may either be service-connected or nonservice-connected. Members applying for nonservice connected disability must have five or more years of retirement service credit. There are no service credit requirements for members applying for service-connected disability benefits.

Death Benefits

Death benefits are payable to eligible beneficiaries of OCERS members. Eligible beneficiaries of retired members may receive a percentage of a deceased member's retirement allowance based upon the retirement option selected by the member at the time of retirement. The beneficiary of a retired member will also receive a $1,000 burial allowance.

Survivor benefits for members who die prior to retirement are dependent upon a number of factors including whether or not the member was vested in OCERS at the time of death and whether the death was job related. The eligible beneficiary of a non-vested member is eligible to receive the member's accumulated contributions plus one month's salary for each year of creditable service, subject to a maximum of six month's salary. The eligible beneficiary of a vested member, in lieu of the benefit described above, may elect to receive a monthly retirement allowance equal to 60% of the monthly allowance the member would have received for a non-service connected disability as of the date of death. The eligible beneficiary of a member whose death is service related receives a monthly allowance equal to 50% of the member's monthly compensation.

Cost-of-Living Adjustments

Retired member monthly allowances will be adjusted annually in accordance with changes in the cost-of-living, as determined by the average annual change in the Consumer Price Index (CPI) for the prior calendar year. The cost-of-living adjustment is limited to a maximum increase or decrease of 3 percent per year as established by the Board of Retirement. The 2010 cost-of-living adjustment was -1.0%.

STAR COLA

Retired members and eligible beneficiaries who have lost more than 20% of their original retirement benefit's purchasing power due to inflation are eligible to receive the STAR COLA (Supplemental Targeted Adjustment for Retirees Cost of Living Adjustment). STAR COLA benefits are reviewed annually by the Board of Retirement and currently only those members retired prior April 1, 1981 are eligible to receive the STAR COLA benefit.

Postemployment Health Care Plans

OCERS serves as trustee for the County of Orange and Orange County Fire Authority (OCFA) postemployment health care plan trusts established under Internal Revenue Code section 401(h) and are reported as other postemployment benefit trust funds in OCERS annual financial statements. Health care assets for the 401(h) plans are commingled with pension trust assets for investment purposes and are used exclusively to pay health allowances to eligible retired members of the County of Orange and the OCFA.

In order to be eligible for the County of Orange's Health Care Plan, retired County of Orange members must have completed at least 10 years of continuous County service, be enrolled in a County sponsored health care plan and/or Medicare and be eligible to receive a monthly retirement benefit from OCERS. In 2010, retired County of Orange members received $18.22 per year of County service, with the maximum monthly benefit equaling $455.50 for 25 or more years of credited service. Retired County of Orange members represented by the AFSCME (American Federation of State, County and Municipal Employees) received $19.30 per year of County service, with the maximum monthly benefit equaling $482.50 for 25 or more years of credited service.

Postemployment Health Care Plan Membership - County of Orange

	June 30, 2009
Active Participants	
General Members	
AFSCME	1,072
Non-AFSCME	14,684
Safety Members	
Probation	981
AOCDS	1,875
LEM	71
Total	18,683

Retired Participants	
General Members	
AFSCME	127
Non-AFSCME	5,930
Safety Members	
Probation	284
AOCDS	649
LEM	110
Total	7,100
Total Plan Participants	25,783

Membership count based upon latest actuarial valuation

All retirees and full-time employees hired prior to January 1, 2007, are eligible to participate in the OCFA health care plan. Eligible employees who are credited with at least one year of service are eligible to receive Plan benefits upon retirement. Participants must be covered under a qualified health plan, Medicare or a recognized health insurance plan. In 2010, retired OCFA members received $19.09 per year of creditable service, with a maximum monthly benefit of $477.25 based upon 25 or more year of creditable service.

Postemployment Health Care Plan Membership - OCFA

	July 1, 2010
Active Participants	896
Retired Participants	381
Surviving Spouses	7
Total Plan Participants	1,284

Membership count based upon latest actuarial valuation

Assets are allocated on the Statement of Fiduciary Net Assets between the Pension Plan and the two 401(h) Health Care Plans based upon pro-rata shares after balances and transactions specific to the respective plans are assigned. Contributions and benefit payment information for the Pension Plan and individual Health Care Plans are readily identified; however, investment income must be allocated and is based upon the individual Health Care Plan's pro-rata share of total fund assets.

In addition to serving as Trustee for the two 401(h) health care plans, OCERS also provides investment advisory services to the Orange County Transportation Authority (OCTA) and the OCFA Health Care Plans pursuant to agreements established in accordance with Internal Revenue Code section 115 (115 Plans). The OCTA 115 plan provides postemployment health care benefits to retired members with at least ten years of OCTA service. The OCFA 115 plan was established, in part, to provide OCFA with an option to add contributions to its employer health care plan in excess of the contribution subordination limit described in section 401(h). Investments for the two section 115 plans are not commingled with those of the pension plan and 401(h) plan trusts, but rather are invested in separately managed index funds.

An Agency Fund is used to account for Health Care Plan assets held by OCERS in an investment capacity with the assets reported being offset by a liability for the resources held on behalf of the Orange County Fire Authority and Orange County Transportation Authority. Additional information regarding the OCTA and OCFA Health Care Plans is available by contacting the respective agencies.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis and in accordance with accounting principles generally accepted in the United States. Member and employer contributions are recognized in the period in which contributions are due, and benefits and refunds are recognized when due and payable in accordance with plan terms. Unearned contributions represent pre-paid employer contributions that will be recognized as an addition to plan net assets in future periods. Investment income is recognized as revenue when earned. The net appreciation/ (depreciation) in the fair value of investments is recorded as an increase/ (decrease) to investment income based upon investment valuations, which includes both realized and unrealized gains and losses on investments.

New Accounting Pronouncements

OCERS implemented the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* January 1, 2010 and the impact to OCERS of the GASB Statement No. 51 implementation is described in the Capital Assets section of this note.

OCERS also implemented on January 1, 2010, the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* GASB Statement No. 53 addresses the recognition, measurement and disclosure of derivative financial instruments (derivatives). OCERS considers all derivatives to be investments and not hedges for accounting purposes. All OCERS investments, including derivatives, have been reported at fair value in prior fiscal years, thus, the implementation of GASB Statement No. 53 does not have a significant impact on the financial statements for the fiscal year ending December 31, 2010. Derivative disclosures may be found in Note C.

Investment Valuation

State Street Bank and Trust (State Street) maintains custody of the majority of OCERS investments held as of December 31, 2010. Investments are authorized by state statute and OCERS investment policy and consist of domestic and international fixed income, domestic, international, global and emerging market equities, private equity, real return strategies, absolute return strategies, opportunistic strategies and real estate. Investments are reported at fair value and the overall valuation process and information sources by major asset classification are as follows:

Cash and Short-Term Investments

Cash and short-term investments represent funds held in operating accounts with State Street, Wells Fargo Bank and include deposits held in a pooled account with the County of Orange Treasurer. Short-term investments are expected to be utilized within 30-90 days and are reported at fair value. Deposits held in the Orange County Investment Pool (OCIP) are invested in the Orange County Money Market Fund and the Extended Fund. The OCIP is an external investment pool and is not registered with the Securities and Exchange Commission (SEC). At December 31, 2010 the OCIP had a weighted average maturity of 357 days. The Orange County Money Market Fund is rated AAAm by Standard & Poor's. The Extended Fund is not rated. The deposits in the OCIP are reported at amortized cost which approximates fair value. For further information regarding the OCIP, refer to the County of Orange Comprehensive Annual Financial Report.

Equities

The majority of OCERS domestic and international securities, including those traded in emerging markets, are actively traded on major security exchanges, or over-the-counter. Fair value for exchange traded securities is determined as of the close of the trading date in the primary market or agreed upon exchange. The last known price is used for listed securities that did not trade on a particular date. Fair value is obtained from third party pricing sources for securities traded over-the-counter.

Debt Securities

Actively traded debt instruments such as those securities issued by the U.S. Treasury, Federal Agencies and corporate issuers are reported at fair value as of the close of the trading date. Fair values of irregularly traded debt securities are obtained from pricing vendors who employ modeling techniques in determining security values. Inputs typically employed by pricing vendors include cash flows, maturity and credit rating.

Real Estate

OCERS holds real estate assets directly and in commingled real estate funds. Real estate investments owned directly are appraised annually by independent third party appraisers in accordance with the Uniform Standards of Professional Appraisal Practice. Properties held in commingled pools are subject to regular internal appraisals by investment management firms/general partners with independent third party appraisals accomplished at regular intervals. Primary determinants of fair value include market and property type specific information which typically involve a degree of expert judgment.

OCERS engages real estate management firms to assist in the day to day operations of the real estate portfolio. At December 31, 2010, the estimated fair value of OCERS' real estate portfolio was $729.8 million net of outstanding debt of $80.8 million. The chart below details the repayment of real estate debt obligations.

Real Estate Debt Obligations

As of December 31, 2010

(Dollars in Thousands)

Property	Original Loan Balance	Loan Balance Outstanding	Interest Rate	Debt Structure	Maturity Date	Other
#1	$ 26,375	$ 26,375	5.22%	Fixed interest only through 2/2013. Amortizing 30 years until 2/2015	2/1/2015	
#2	5,400	5,400	6.18%	Interest Only	11/15/2012	
#3	16,500	16,500	4.79%	Interest Only	4/1/2013	
#4	12,500	12,496	.95% > LIBOR	Interest Only through 11/1/2011 with $1K annual principal pay down	11/1/2036	Lender has option to declare loan due w/6 month's prior notice.
#5	20,000	20,000	5.60%	Interest Only to 12/1/12	12/1/2017	

The OCERS Board has approved a maximum fifty percent (50%) leverage limit for the total real estate portfolio at the time of financing. Additionally, leverage targets are established for each investment style based on the risk/return profile of the underlying investment. Established leverage limits by investment style are as follows:

Core Real Estate: limited to 50% of the individual asset market value at the time of financing with leverage limits at the portfolio level of 40%.

Value-Added Real Estate: accessed through commingled funds that have pre-specified leverage limits in offering documents and are limited to 75% of the market value of the commingled funds, at the time of financing.

High Return: accessed through commingled funds that have pre-specified leverage limits, or maximums, specified in offering documents. Leverage limits for High Return funds will be evaluated within the parameters of total portfolio leverage limits.

Alternative Investments

OCERS invests in a variety of alternative strategies including private equity, real return, absolute return and opportunistic strategies. The fair value of OCERS alternative investments depends upon the nature of the investment and the underlying business. Typically, alternative investments are illiquid and subject to redemption restrictions. Fair value is determined either quarterly or semi-annually with valuations conducted by general partners, management and valuation specialists. Valuation techniques vary by investment type and involve expert judgment.

Included in the real return strategy are dedicated allocations to inflation linked debt, commodities and timber resources. Fair value for inflation linked debt securities and commodities are determined by quoted market prices. Fair value for timberland is determined in a manner similar to other alternative investments and involves a degree of expert judgment.

Capital Assets

Capital assets consist of furniture, equipment and intangible assets, including computer software and are recorded at cost and depreciated over their estimated useful lives, ranging from 5 to 15 years for furniture and equipment and 3 years for computer software. OCERS utilizes the straight-line depreciation method for all capital assets.

Capital Assets	12/31/10
Furniture & Equipment	$1,239,727
Computer Software	6,939,216
Total Capital Assets (at cost)	$8,178,943
Less Accumulated Depreciation	(4,890,139)
Total Capital Assets-Net of Depreciation/Amortization	$3,288,804

GASB Statement No. 51 requires OCERS to identify and capitalize costs incurred for the development of internally generated software. According to GASB Statement 51, there are three stages in the development and installation of internally generated software: (1) Preliminary Project Stage, (2) Application and Development Stage, and (3) Post-Implementation/Operation Stage. All outlays related to the Application and Development Stage must be capitalized.

OCERS began implementing and developing a new Pension Administration System (System) in 2010 and $2.1 million in expenses related to the new System were capitalized in the current fiscal year. Intangible assets are included as Capital Assets in the Statement of Fiduciary Net Assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of net assets held in trust.

Reclassifications

Certain reclassifications have been made as of December 31, 2010 to the comparative totals as of and for the year ended December 31, 2009, in order to conform to the presentation as of December 31, 2010.

Comparative Totals

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with OCERS' financial statements for the year ended December 31, 2009, for which the summarized information was derived.

NOTE C – INVESTMENTS

OCERS may invest, in accordance with state statutes, in any form or type of investment deemed prudent by the Board of Retirement. Pension and 401(h) Health Care Plan assets are held in trust for the exclusive purposes of providing benefits to plan participants and defraying reasonable expenses of administering the plans. The Board of Retirement may invest, or delegate the authority to invest, the assets of the funds through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction. Agency fund assets, held pursuant to section 115 of the Internal Revenue Code, are separately invested in domestic equity, international equity and domestic bond index funds in accordance with the respective OCFA and OCTA Third-Party Administrative and Investment Management Agreements.

In accordance with GASB Statement No. 40, OCERS discloses investments that are subject to custodial credit risk, interest rate risk, credit risk, foreign currency risk and concentration of credit risk.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of a counterparty failure, OCERS will not be able to recover the value of its investments or collateral securities that are in the possession of counterparties. OCERS deposits are covered by depository insurance or are collateralized by securities held with financial institution trust departments in OCERS' name. OCERS deposits and securities are not exposed to custodial credit risk. There were no uncollateralized deposits as of December 31, 2010. OCERS does not maintain any general policies regarding custodial credit risk.

Credit Risk

By definition, credit risk measures the risk that an issuer or counterparty will not fulfill its obligations. OCERS investment guidelines require, in managing credit risk, that individual fixed income portfolios maintain an overall credit rating of AA. Standard & Poor's defines investment grade as those fixed income securities with ratings between AAA and BBB. OCERS investment policy permits, on an opportunistic basis, the investment in fixed income securities rated below investment grade. The credit ratings for individual OCERS fixed income portfolios are monitored regularly.

At December 31, 2010, the credit ratings of the OCERS fixed income portfolio were as follows:

Credit Risk Schedule
As of December 31, 2010
(Dollars in Thousands)

Category	Credit Rating											
	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR	NA	TOTAL
Treasuries												$415,566	$415,566
Agency	$19,303											164,893	184,196
Corporates		$29,066	$111,525	$128,303	$81,846	$107,278	$20,086		$392	$2,485	$10,141	6,999	498,121
Mortgages	62,455	12,493	14,426	1,148	4,416	422	2,725	198			14,889	70,198	183,370
International	82,142	225,779	110,384	21,630	5,446	177					26,368	43,282	515,208
Pooled		981,513					38,647						1,020,160
Asset-backed	14,370		2,309	621			428					6,107	23,835
Municipal	1,434	10,493	7,342		2,513							8,956	30,738
Swaps												4,149	4,149
Other												145	145
Total	$179,704	$1,259,344	$245,986	$151,702	$94,221	$107,877	$61,886	$198	$392	$2,485	$51,398	$720,295	$2,875,488

Included in the domestic and foreign bonds categories on the Statement of Fiduciary Net Assets are $17.1 million of non-fixed income securities.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk is managed through OCERS' investment policies requiring that the effective durations of fixed income portfolios remain within a defined range of the benchmark's effective duration.

OCERS invests in a variety of fixed income instruments including asset backed securities, corporate obligations and commercial mortgage backed securities. The value, liquidity and income of these securities are sensitive to changes in overall economic conditions and the fair value of these securities may be affected by changes in interest rates, default rates and the value of the underlying securities.

Interest Rate Risk Schedule
As of December 31, 2010
(Dollars in Thousands)

Category	Amount	Duration (in Years)	Percent
Treasuries	$415,566	5.87	15%
Agency	184,196	3.74	7%
Corporates	498,121	5.61	17%
Mortgages	183,370	2.88	6%
International	515,208	4.40	18%
Pooled	1,020,160	3.99	35%
Asset-backed	23,835	2.57	1%
Municipal	30,738	10.00	1%
Swaps	4,149	49.50	0%
Other	145	3.51	0%
Total	$2,875,488	4.65	100%

Included in the domestic and foreign bonds categories on the Statement of Fiduciary Net Assets are $17.1 million of non-fixed income securities.

The duration of the Barclays Aggregate Index was 4.54 years as of December 31, 2010.

Foreign Currency Risk

The value of deposits or investments denominated in foreign currency may be adversely affected by changes in currency exchange rates. OCERS investment policy permits investment in international securities with a current overall investment target of 26% that includes investments in international equity securities, emerging market equity securities and foreign bonds. Investment managers monitor currency exposures daily.

Foreign Currency Risk Schedule

As of December 31, 2010

(Dollars in Thousands)

Currency - in USD	Cash	Equities	Fixed Income	Swaps	Forwards	Total
Australian Dollar	$ 281	$ 61,209	$ 23,969	$ 64	$ 1,049	$ 86,572
Brazilian Real		1,952	4,282	1,278	104	7,616
British Pound Sterling	147	196,604	1,867	(11)	(7)	198,600
Canadian Dollar	68	42,809	26,239		76	69,192
China Yuan Renminbi					(134)	(134)
Danish Krone	93	12,504			(19)	12,578
Euro Currency	15,534	300,112	147,158	73	3,154	466,031
Hong Kong Dollar	583	74,344			8	74,935
Iceland Krona	68		1,929			1,997
Indonesian Rupiah		1,318	4,183		(3)	5,498
India Rupee					41	41
Israeli Shekel	10	4,028			45	4,083
Japanese Yen	694	216,263	209,323		(232)	426,048
Korean Won					(63)	(63)
Malaysian Ringgit		894			3	897
Mexican Peso	230		5,830		38	6,098
New Zealand Dollar	3	208	11,280			11,491
Norwegian Krone	358	12,377	2,805		580	16,120
Philippine Peso					(1)	(1)
Polish Zloty		1,580	14,803		337	16,720
Singapore Dollar	101	21,512	3,942		12	25,567
South African Rand		796				796
South Korean Won		24,757				24,757
Swedish Krona	245	18,389	22,758		758	42,150
Swiss Franc	38	98,257			(395)	97,900
Taiwan New Dollar					27	27
Thailand Baht		3,550				3,550
Amount Exposed to Foreign Currency Risk	$ 18,453	$ 1,093,463	$ 480,368	$ 1,404	$ 5,378	$ 1,599,066

The foreign currency amounts above are included within the cash and cash equivalents, international equity, and fixed income allocations on the Statement of Fiduciary Net Assets as of December 31, 2010. Swaps and Forwards are included in the international equity, bond, and alternative investment allocations.

Concentration of Credit Risk

By policy, OCERS did not hold investments in any one issuer that would represent five percent (5%) or more of plan net assets. Investments issued or explicitly guaranteed by the U.S. Government and any pooled investments are excluded from this policy requirement.

Derivative Instruments

As of December 31, 2010, all derivative instruments held by OCERS are considered investments and not hedges for accounting purposes. Any reference to the term hedging in these financial statements references an economic activity and not an accounting method. All gains and losses associated with these activities are recognized as incurred in the Statement of Changes in Plan Net Assets.

The financial derivative instruments discussed below are included in the Investment Risk Schedules that immediately precede this discussion.

Listing of Derivative Instruments

The table below presents the related net appreciation/(depreciation) in fair value, the fair value amounts and the notional amounts of derivative instruments outstanding at December 31, 2010.

Derivative Instruments
As of December 31, 2010
(Dollars in Thousands)

	Changes in Fair Value		Fair Value at December 31, 2010		
Investment Derivatives	**Classification**	**Amount**	**Classification**	**Amount**	**Notional**
Credit Default Swaps	Investment Income/(Loss)	$620	Domestic/Foreign Bonds	$2,223	$109,446
Interest Rate Swaps	Investment Income/(Loss)	(1,780)	Domestic/Foreign Bonds	1,274	137,800
Total Return Swaps Bond	Investment Income/(Loss)	8,671	Domestic/Foreign Bonds	651	59,847
Total Return Swaps Bond/Equity	Investment Income/(Loss)	29	Domestic/Foreign Bonds	1	100
Fixed Income Options Bought	Investment Income/(Loss)	29	Domestic/Foreign Bonds	58	7,320
Fixed Income Options Written	Investment Income/(Loss)	770	Domestic/Foreign Bonds	(4,600)	(377,350)
FX Forwards	Investment Income/(Loss)	(3,888)	Receivables	5,378	482,950
Rights	Investment Income/(Loss)	866	Equities	75	55,500 shares
Total Investment Derivatives		**$5,317**		**$5,060**	

Valuation of Derivative Instruments

Non-exchange traded instruments, such as Swaps, are valued using similar methods as those described for debt securities.

Futures contracts are traded on exchanges and typically derive their value from underlying indices and are marked to market daily. All gains and losses associated with changes in the value of futures contracts also settle on a daily basis and result in the contracts themselves having no fair value at the end of any trading day, including December 31, 2010. Future variation margin accounts also settle daily and are recognized in the financial statements under net appreciation (depreciation) in the fair value of the investment as incurred.

In general, option values are dependent upon a number of different factors, including the current market price of the underlying security, the strike price of the option, costs associated with holding a position in the underlying security including interest and dividends, the length of time until the option expires and an estimate of the future price volatility of the underlying security relative to the time period of the option.

Foreign currency forward contracts are agreements to buy or sell a currency at a specified exchange rate on a specified date. The fair value of a foreign currency forward is determined by the difference between the specified exchange rate and the closing exchange rate at December 31, 2010.

Counterparty Credit Risk

The table below illustrates the counterparty credit ratings for OCERS non-exchange traded derivatives outstanding and subject to loss at December 31, 2010.

Counterparty Credit Risk Schedule
As of December 31, 2010
(Dollars in Thousands)

S & P Ratings	FX Forwards	Credit Default Swaps	Interest Rate Swaps	Total Return Swaps Bond	Total Return Swaps Bond/Equity	Total
A	$ 257	$ 523	$ 404	$ 21		$ 1,205
A+	4,160	1,026	377	634		6,197
AA	55	125	69	1	$1	251
AA-	3,701	600	369	8		4,678
Not Rated		241	253			494
Subtotal of Derivatives in Asset Position	$ 8,173	$ 2,515	$ 1,472	$ 664	$ 1	$12,825
Derivatives in Liability Position	(2,795)	(292)	(198)	(13)	-	(3,298)
Total Derivatives in Asset/(Liability) Position	**$ 5,378**	**$ 2,223**	**$ 1,274**	**$ 651**	**$ 1**	**$ 9,527**

Custodial Credit Risk

In accordance with GASB Statement No. 40, all investments in derivative instruments are held in OCERS name and are not exposed to custodial credit risk as of December 31, 2010.

Interest Rate Risk

At December 31, 2010, OCERS is exposed to interest rate risk on its investments in various swap arrangements. The table below illustrates the maturity periods of these investments.

Interest Rate Risk Schedules
As of December 31, 2010
(Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities		
		1-5 years	6-10 Years	More than 10 years
Credit Default Swaps	$2,223	$2,286	($63)	
Interest Rate Swaps	1,274	1,284		($10)
Total Return Swaps - Bond	651	651		
Total Return Swaps - Bond/Equity	1	1		
Total	**$4,149**	**$4,222**	**($63)**	**($10)**

Derivative Instruments Highly Sensitive to Interest Rate Changes

Investment Type	Reference Rate	Fair Value	Notional Value
Interest Rate Swaps	Receive variable 3-month LIBOR, Pay Fixed 4.25%	($10,063)	$1,800,000

Foreign Currency Risk

At December 31, 2010, OCERS is exposed to foreign currency risk on investments in equity rights and forward currency contracts denominated in foreign currencies.

Foreign Currency Risk Schedule
As of December 31, 2010
(Dollars in Thousands)

		Forward Contracts		
Currency Name	**Equities**	**Net Receivables**	**Net Payables**	**Total Exposure**
Australian Dollar		$ 1,211	$ (162)	$ 1,049
Brazilian Real		104		104
British Pound Sterling		208	(215)	(7)
Canadian Dollar	$75	76		151
China Yuan Renminbi		2	(136)	(134)
Danish Krone		1	(20)	(19)
Euro Currency		4,089	(935)	3,154
Hong Kong Dollar		9	(1)	8
Indonesian Rupiah		9	(12)	(3)
India Rupee		50	(9)	41
Israeli Shekel		46	(1)	45
Japanese Yen		221	(453)	(232)
Korea Won (South)		24	(87)	(63)
Malaysian Ringgit		3		3
Mexican Peso		38		38
Norwegian Krone		684	(104)	580
Philippine Peso		10	(11)	(1)
Polish Zloty		351	(14)	337
Singapore Dollar		13	(1)	12
Swedish Krona		775	(17)	758
Swiss Franc		217	(612)	(395)
Taiwan New Dollar		32	(5)	27
Total	**$ 75**	**$ 8,173**	**$ (2,795)**	**$ 5,453**

Securities Lending

OCERS is authorized by investment policy and state law to lend its investment securities including domestic and international equities and bonds to broker/dealers in exchange for collateral in the form of either cash or securities. Lent domestic and international securities are collateralized at 102% and 105% of fair value, respectively. There are no restrictions on the amount of securities that can be lent at one time. State Street Bank serves, in accordance with a Securities Lending Authorization Agreement, as OCERS' agent to loan domestic and international securities.

Cash collateral received on loaned securities is invested together with the cash collateral of other qualified tax-exempt investors in a collective investment fund managed by State Street. The collective investment fund is not rated. During 2010 the collective investment fund was divided into separate investment pools: 1) a liquidity pool and 2) a duration pool. As of December 31, 2010, the liquidity pool had an average duration of 26 days and an average weighted maturity of 32 days. The duration pool had an average duration of 35 days and an average weighted maturity of 477 days. Because loans are terminable at will, the duration of the loans did not generally match the duration of the investments made with the cash collateral. At December 31, 2010, the credit risk to OCERS was minimal because OCERS held greater amounts of collateral than the security amounts borrowed. Additionally, the Securities Lending Agreement requires State Street to indemnify OCERS if the broker/dealer fails to return any borrowed securities. During 2010, there were no failures to return loaned securities or to pay distributions by the borrowers. Furthermore, there were no losses due to borrower defaults. The total collateral held and the fair market value of securities on loan as of December 31, 2010 was $461,489,314 and $450,144,666, respectively. The fair values of the securities on loan, by asset class, are as follows:

SECURITIES ON LOAN

as of December 31, 2010

Security Lent for Cash Collateral	Value of OCERS Security Lent	Collateral Received
Domestic Corporate Bonds and Equity	$178,848,307	$183,266,416
U.S. Government Bonds	222,464,336	227,024,277
International Equity	39,086,701	41,257,951
Foreign Bonds	9,745,322	9,940,670
TOTAL	**$450,144,666**	**$461,489,314**

NOTE D – FUNDING POLICY - PENSION PLAN

Employer and employee/member pension plan contribution requirements are determined as a percentage of plan sponsor payrolls. In determining contributions, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. The covered payroll for all OCERS' plan sponsors for the year ending December 31, 2010 was $1.579 billion. Employer contribution rates are determined using the entry age normal actuarial cost method based upon a level percentage of payroll. The employer contributions provide for both a normal cost and a contribution to amortize any unfunded or overfunded actuarial accrued liabilities. By definition, the normal cost is the annual contribution rate that, if paid annually from a member's first year of membership through the year of retirement, would accumulate to the amount necessary to fully fund the member's retirement benefit. For the year ending December 31, 2010, employer contribution rates ranged from 16.05% of payroll to 43.34% depending upon the benefit plan type. Employer contributions were $372.4 million for the year ended December 31, 2010 of which approximately $271.1 and $45.9 million were made by the County of Orange and the Orange County Fire Authority, respectively.

Employee contributions are determined by state statutes and vary based upon employee age at the time of entering OCERS membership. OCERS received $177.9 million in employee contributions for the year ended December 31, 2010. Average employee contribution rates for the year ended December 31, 2010 ranged between 7.18% and 12.75%.

NOTE E – PREMIUM PAY ADJUSTMENT

In 2009, OCERS identified and began correcting the underreporting of certain member compensation pay elements ("Premium Pay") to the plan actuary. The reporting of the "Premium Pay" compensation elements to OCERS' actuary in 2009 resulted in a $228 million increase in the pension plan's unfunded accrued actuarial liability (UAAL). The corrective processes continued in 2010 as OCERS worked with plan sponsors, consultants and its actuary to reallocate contributions and benefit payments retroactively to 2004. The reallocation of contributions and benefit payments did not impact contribution rates for OCERS as a whole, but did result in contribution rate increases for certain plan sponsors and decreases in contribution rates for others. OCERS continues to review all internal control procedures and other processes designed to prevent a reoccurrence, including the implementation of a new pension administrative system.

NOTE F – FUNDING POLICY – HEALTH CARE PLANS

County of Orange Plan: Employer contributions are determined by actuarial valuations. Contribution rates range from 0.6% of pay to 4.5% based upon individual employee labor group and totaled $14.6 million for the year ending December 31, 2010. The County's annual contributions are calculated based on the annual required contribution to the Retiree Medical Plan and is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period not to exceed 30 years.

In determining the annual required contribution, plan actuaries also include, within the actuarial value of assets, funds held in the County of Orange's Internal Revenue Code Section 115 Trust. These assets are separate and distinct from the plan assets reported by OCERS in the County of Orange Health Care fund. The County of Orange is trustee for the 115 Trust.

Orange County Fire Authority Plan: Current, active employees received pay increases pursuant to collective bargaining agreements in order to contribute 4% of pay to the OCFA for post employment {retirement} coverage. OCERS classifies plan contributions as being employer made due to the collective bargaining arrangement. The OCFA periodically remits Plan contributions to the OCERS administered trust in amounts authorized by the OCFA Board of Directors. Contributions totaled $3.6 million for the year ending December 31, 2010.

Similar to the County of Orange, OCFA's plan actuaries include, within the actuarial value of assets, funds held in a separate Internal Revenue Code Section 115 Trust in determining the plan's annual required contribution. OCFA is trustee for the 115 Trust.

NOTE G – PLAN RESERVES

Employer and employee contributions are deposited into various legally-required reserve accounts established on a book value basis. Set forth below are the descriptions of OCERS' various reserve accounts:

- **Employee Contribution Reserve**
  Employee contribution reserve represents the balance of member contributions. Additions include member contributions and interest credited. Deductions include member refunds and transfers to fund retirement benefits.

- **Employer Contribution Reserve**
  Employer contribution reserve represents the balance of employer contributions for future active member retirement benefits. Additions include employer contributions and interest credited. Deductions include transfers to retiree reserves in order to fund retirement benefits and death benefits.

- **Annuity Reserve**
  Annuity reserve represents funding set aside for retirement payments derived from contributions made by members. Additions include transfers from the member contribution reserve and interest credited. Deductions include benefit payments made to retired members.

- **Pension Reserve**
  Pensions reserve represents funding set aside for retirement payments derived from employer contributions. Additions include transfers from the employer contribution reserve and interest credited. Deductions include benefit payments made to retired members.

- **STAR COLA Reserve**
  STAR COLA reserve represents employer contributions designated for use to fund the Supplemental Targeted Adjustment for Retirees Cost-of-Living benefit. Additions include employer contributions. Deductions include benefit payments made to eligible retired members.

- **RMBR (Retired Member Benefits) Reserve**
  RMBR reserve represents funding originally set aside in 2002 to ensure the funding of retiree supplemental benefits.

- **Unclaimed Fund Reserve**
  Unclaimed fund reserve represents contributions from terminated non-vested members who left employment prior to December 31, 2002 and whose funds remain on deposit with OCERS.

- **EPA (Employee Paid Annuity) Reserve**
  EPA reserve represents additional employee contributions made by members pursuant to Government Code section 31627 for the purpose of providing additional benefits.

- **County Investment Account Reserve**
  County investment account represents the remaining proceeds from the County of Orange's 1994 Pension Obligation Bond issuance. The remaining proceeds are utilized, in accordance with a long standing agreement between OCERS and the County of Orange, to offset a portion of the annual actuarially-determined contribution rate for the County of Orange. In 2010, $11 million of the remaining proceeds were utilized to offset the actuarially determined contributions for the County of Orange.

- **Market Stabilization Reserve**
  Market stabilization reserve represents the cumulative difference between assets held at book value versus fair value.

- **Health Care Plan Reserves**
  Health care plan reserves represent assets held to pay medical benefits for eligible retirees of the 401(h) and 115 health care plans. Additions include employer contributions and investment earnings. Deductions include medical payments.

Reserve Description	Balance at 12/31/10 (Dollars in thousands)
Employee Contribution Reserve	$ 1,803,940
Employer Contribution Reserve	178,676
Annuity Reserve	567,384
Pension Reserve	4,895,681
STAR COLA Reserve	-
RMBR Reserve	6
Unclaimed Reserve	778
EPA Reserve	109
County Investment Reserve	108,531
Market Stabilization Reserve	915,019
Health Care Reserve	93,792
Net Assets – Total Fund	$ 8,563,916

NOTE H – PRIOR PERIOD ADJUSTMENTS

In 2010, OCERS management reexamined the OPEB Health Care Administrative Services and Investment Agreements (Plan Documents), the Internal Revenue Code sections applicable to the OPEB Health Care Plans and the reporting standards of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension*

Plans, and concluded that a modification in financial reporting was required. Under the OPEB Health Care Plan Documents, OCERS provides administrative and investment services to the County of Orange and the Orange County Fire Authority pursuant to section 401(h) of the Internal Revenue Code (Code) with investment related services being provided to the Orange County Transportation Authority and the Orange County Fire Authority in accordance with section 115 of the Code. OCERS also provides investment related services in connection with the Section 115 Trusts established and funded by the Orange County Transportation Authority and Orange County Fire Authority. In 2009, OCERS reported all OPEB Health Care plan "net assets" as being held in trust, but concluded, after completing the reexamination of Plan Documents, that OCERS is trustee only for the two OPEB Health Care Plans administered under section 401(h) and is not trustee for the Section 115 Trusts. Accordingly, the December 31, 2010 financial statements were modified to report individual trust funds for the two OPEB Health Care plans administered under the 401(h) provisions with the Section 115 investments combined into one Agency Fund on the Statement of Fiduciary Net Assets. The December 31, 2010 reporting change required OCERS to adjust the balance of "Net Assets Held in Trust for Pension and Health Care Benefits" as of December 31, 2009.

In addition to the financial reporting change described above, OCERS also identified and corrected the cumulative underreporting of $1.36 million in Section 115 investments as of December 31, 2009. The effect on "Net Assets Held in Trust for Pension and Health Care Benefits" of the financial reporting change and the asset valuation adjustment is detailed below:

Increase in "Agency Fund Assets" related to the underreporting of OPEB assets at 12/31/09	$1,360,672
Decrease in "Net Assets" related to changes in OPEB Fund Reporting (Trust to Agency Fund)	(19,661,108)
Prior-Period Adjustment as Reported on the Statement of Changes in Fiduciary Net Assets for the year ended 12/31/10	$(18,300,436)

NOTE I – ADMINISTRATIVE EXPENSES - Pension

As permitted by Government Code (Code) Section 31580.2, the Board of Retirement adopts an annual budget, financed from investment income, covering the entire expenses of Plan administration. The Code provides that administrative expenses incurred in any year are not to exceed eighteen one hundredths of one percent (0.18%) of the Plan's total assets. Government code section 31580.3 provides an exception to the limitation described in section 31580.2 and allows through January 1, 2013 the maximum expense to be twenty-three one hundredths of one percent (0.23%) of the total assets of the system in order to allow for additional expenditures for software, hardware, and computer technology. Administrative expenses incurred in calendar year 2010 were within the limits established by the Codes. The administrative budget for the year ending December 31, 2010 was as follows:

2010 Administrative Expense Compared to Asset Base	
Asset Base at Fair Value	$ 8,563,915,626
Maximum Allowed For Administrative Expense (Asset Base * 0.18%)	15,415,048
Actual Administrative Expense[1]	10,278,770
Excess of Allowed Over Actual Expense	$5,136,278
Actual Administrative Expense as a Percentage of Asset Base	0.12%
1) Administrative Expense Reconciliation	
Administrative expense per CAFR Stmt of Changes Plan Net Assets	$12,368,464
Less administrative expense not considered per CERL section 31596.1	2,089,694
Administrative Expense allowable under CERL section 31580.2	$ 10,278,770

NOTE J – COMMITMENTS

At December 31, 2010, OCERS had outstanding commitments of $605.9 million to various limited partnerships investment portfolios. The following table details, by asset class, the unfunded commitments.

Asset Class	Unfunded Commitments (Dollars in thousands)
Private Equity	$536,305
Real Estate	69,687
Total Outstanding	$605,992

NOTE K – CONTINGENCIES

At December 31, 2010, OCERS was involved in various litigation matters. In management's opinion, and after consultation with legal counsel, the outcome of these matters is not expected to have a material adverse effect on OCERS' financial position.

NOTE L – PENSION DISCLOSURES

The Schedule of Funding Progress immediately following the Notes to the Basic Financial Statements presents trend information regarding the pension plan's actuarial value of assets, liabilities and funding status on a multi-year basis.

Actuarial Valuation Date December 31	Valuation Value of Assets*	Actuarial Accrued Liability (AAL)	Unfunded/ (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2010	$ 8,672,592,000	$ 12,425,873,000	$ 3,753,281,000	69.79%	$ 1,579,239,000	237.66%

* The valuation value of assets is the actuarial valuation of assets reduced by the value of non valuation reserves in the amount of $881,000.

The following summarizes the actuarial assumptions and methods used in the most recent actuarial valuation of December 31, 2010, and the December 31, 2007 and 2008 valuations, which were used to determine 2010 contributions.

Actuarial Information:	**2010**	**2008**	**2007**
Valuation Date	December 31, 2010	December 31, 2008	December 31, 2007
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Remaining Amortization Period	24 years closed (declining)	26 years closed (declining)	27 years closed (declining)
Asset Valuation Method	Market Value of Assets less Unrecognized returns in each of last five years	Market Value of Assets less Unrecognized returns in each of last five years	Market Value of Assets less Unrecognized returns in each of last five years

Actuarial Assumptions:	**2010**	**2008**	**2007**
Investment Rate of Return	7.75%	7.75%	7.75%
Inflation Rate	3.50%	3.50%	3.50%
Projected Salary Increases	4.5% to 11.5% for General members; 4.5% to 13.5% for Safety members based upon service	4.5% to 11.5% for General members; 4.5% to 13.5% for Safety members based upon service	4.5% to 11.5% for General members; 4.5% to 13.5% for Safety members based upon service
Cost of Living Adjustments	3.00%	3.00%	3.00%

Highlights of the December 31, 2010 valuation include:

- The ratio of pension plan valuation assets to actuarial accrued liabilities increased to 69.79% from 68.77%.
- The unfunded actuarial accrued liability (UAAL) increased from $3,704 million to $3,753 million at December 31, 2010 due to lower than expected investment earnings.
- Aggregate employer contributions for the period July 1, 2012 to June 30, 2013 will increase, on average, from 30.11% to 31.01% due to lower than expected earnings that were offset in part by other plan actuarial experience gains.
- The aggregate member contribution rate will decrease marginally from 10.81% to 10.80% due to changes in member demographics.
- As of December 31, 2010, the total investment loss to be recognized in future valuation periods totaled $315.6 million and will offset investment gains earned after December 31, 2010.
- If investment losses were recognized immediately as of December 31, 2010, then the pension plan's funded status would decrease from 69.79% to 67.3%.

NOTE M – HEALTH CARE PLAN DISCLOSURES

The Schedules of Funding Progress immediately following the Notes to the Basic Financial Statements present trend information regarding the County of Orange and Orange County Fire Authority Health Care plans' actuarial value of assets, liabilities and funding status on a multi-year basis.

County of Orange Health Care Plan

Actuarial Valuation Date June 30	Actuarial Value of Assets*	Actuarial Accrued Liability (AAL)	Unfunded/ (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2009	$94,110,000	$456,005,000	$361,895,000	20.64%	$1,267,427,000	28.55%

* Includes assets held in separate 115 Trust that are not reported as part of 401(h) OPEB plan in OCERS' financial statements.

Actuarial Information:	
Valuation Date	June 30, 2009
Actuarial Cost Method	Entry Age Normal Actuarial Cost method
Remaining Amortization Period	28 years
Asset Valuation Method	Market value

Actuarial Assumptions:	
Investment Rate of Return	7.75%
Inflation Rate	3.50%
Projected Salary Increases	4.5% to 11.5% for General members; 4.5% to 13.5% for Safety members based on service.
Medical Cost Trend Rate	9.3% trending down to 4.5% over 7 years.

Highlights of the June 30, 2009 valuation include:

- The June 30, 2009 valuation determined the annual required contribution for 2009/2010 fiscal year to be $35,148,000

Orange County Fire Authority Health Care Plan

Actuarial Valuation Date July 1	Actuarial Value of Assets*	Actuarial Accrued Liability (AAL)	Unfunded/ (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2010	$21,549,574	$147,709,326	$126,159,752	14.59%	$81,391,495	155.00%

* Includes assets held in separate 115 Trust that are not reported as part of 401(h) OPEB plan in OCERS' financial statements.

Actuarial Information:

Valuation Date	July 1, 2010
Actuarial Cost Method	Entry Age Normal
Remaining Amortization Period	26 years
Asset Valuation Method	Market Value

Actuarial Assumptions:

Investment rate of return	5.50% (7.75% for periods prior to July 1, 2010)
Inflation Rate	N/A, amortization method is based on level dollar payment
Projected Salary Increases	N/A, amortization method is based on level dollar payment
HMO Trend Rate:	
Blue Cross	8.75% in 2010/2011, graded down to 5.0% ultimate rate over 8 years
California Care	8.75% in 2010/2011, graded down to 5.0% ultimate rate over 8 years
Kaiser	4.50% in 2010/2011, then 8.25% in 2011/2012 graded down to 5.0% ultimate rate over 7 years.

Highlights of the July 1, 2010 valuation include:

- In the prior valuation, 100% of the ARC was funded and the discount rate was set equal to the long-term investment return expected to be earned by the plan assets.
- In 2009 and 2010, contributions represented 48% and 50% of the ARC (calculated at 7.75% discount rate) respectively. For this valuation, the discount rate is based on a partially funded plan. The discount rate is a blended rate that reflects the proportionate amounts of plan and employer assets expected to be used.

NOTE N – SUBSEQUENT EVENT

Standard & Poor's reduced the AAA credit rating on United States Government debt to AA-plus in early August 2011. Concerns surrounding the federal government's budget deficit and rising debt burdens warranted the downgrade, according to Standard & Poor's. The likely effect of the credit rating downgrade will be to eventually increase the borrowing costs for the government, companies and consumers.

Required Supplemental Information

Schedule of Funding Progress – Pension Plan

Actuarial Valuation Date December 31	Valuation Value of Assets*	Actuarial Accrued Liability (AAL)	Unfunded/ (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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	9,838,686,000	2,549,786,000	74.08%	1,457,159,000	174.98%
2008	7,748,380,000	10,860,715,000	3,112,335,000	71.34%	1,569,764,000	198.27%
2009	8,154,687,000	11,858,578,000	3,703,891,000	68.77%	1,618,491,000	228.85%
2010	8,672,592,000	12,425,873,000	3,753,281,000	69.79%	1,579,239,000	237.66%

* The valuation value of assets is the actual valuation of assets reduced by the value of non valuation reserves.

Schedule of Employer Contributions – Pension Plan

Plan Year Ended December 31	Annual Required Contribution	Percentage Contributed
2005	$227,892,000	100.0%
2006	277,368,000	100.0%
2007	326,736,000	100.0%
2008	359,673,000	100.2%*
2009	337,496,000	100.3%*
2010	372,437,000	100.0%

* The Orange County Fire Authority made additional contributions toward the reduction of their UAAL.

Schedule of Funding Progress – OPEB: Orange County Fire Authority

Actuarial Valuation Date July 1	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded/ (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2006	$7,435,632	$60,807,597	$53,371,965	12.23%	$95,608,358	55.82%
2008	21,525,051	94,124,900	72,599,849	22.87%	80,624,028	90.05%
2010	21,549,574	147,709,326	126,159,752	14.59%	81,391,495	155.00%

Schedule of Employer Contributions – OPEB: Orange County Fire Authority

Plan Year Ended July 1	Annual Required Contributions	Percentage Contributed
2008	$6,529,769	54.0%
2009	8,844,871	48.4%
2010	8,794,983	50.9%

Schedule of Funding Progress – OPEB: County of Orange

Actuarial Valuation Date July 1	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded/ Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2007	$0	$408,322,000	$408,322,000	0.00%	$1,157,642,000	35.27%
2009	94,110,000	456,005,000	361,895,000	20.64%	1,267,427,000	28.55%

Schedule of Employer Contributions - OPEB: County of Orange
(Dollars in thousands)

Plan Year Ended July 1	Annual Required Contributions	Percentage Contributed
2008	$30,654	355.1%
2009	25,900	139.2%
2010	35,148	91.5%

Significant Factors Affecting Trends in Actuarial Information

2010 Changes in Pension Plan Provisions and Actuarial Assumptions

Effective October 1, 2010, the Orange County Sanitation District implemented Plan B (1.64% at 57) for some future hires.

General Member employees within the County Manager unit may elect, effective August 17, 2010, in lieu of General Plan I/J (2.7% at 55), the optional General Member Plan O/P (1.62% at 65). LAFCO General Member employees became eligible for the same election on July 1, 2010.

Effective July 1, 2011, new General Member employees of the OCFA will be covered under General Member Plan M/N (2% at 55).

New Executive Safety Member employees employed as Executive Managers by the OCFA will be covered under Safety Plan Q/R (3% at 55) effective July 1, 2011.

2009 Changes in Pension Plan Provisions and Actuarial Assumptions

Adjustments to correct the under-reporting of certain premium pay items in prior years' pensionable salary data resulted in a $228 million increase in UAAL.

County and the Courts adopted optional 1.62% at 65 formula for General Member Employees entering OCERS after May 7, 2010.

County Law Enforcement Members adopted 3% at 55 formula for Safety Members entering OCERS after April 8, 2010.

2008 Changes in Pension Plan Provisions and Actuarial Assumptions

Individual salary increase assumptions are changed from age based to service based.

Annual leave payoff assumptions were increased for General Members.

2007 Changes in Pension Plan Provisions and Actuarial Assumptions

Vector Control District discontinued its participation in OCERS effective January 4, 2007.

The benefit formula for Orange County Cemetery District members was changed to 2% at 55 effective December 7, 2007.

Demographic assumptions changed based on triennial experience study.

2006 Changes in Pension Plan Provisions and Actuarial Assumptions

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

2005 Changes in Pension Plan Provisions and Actuarial Assumptions

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

The actuarial cost method was changed from Projected Unit Credit to Entry Age Normal effective December 31, 2005.

The salary assumption was reduced from 4.5% to 3.5%.

The retirement benefit formula for a majority of General Member employees was changed to 2.7% at 55. Plan sponsors adopting the change included the County of Orange, Orange County Sanitation District, Transportation Corridor Agencies, LAFCO and Children and Families Commission.

Retirement formula for County of Orange Probation safety members changed to 3% at 50.

Other Supplemental Information

Schedule of Pension Plan Administrative Expenses
For the Year Ended December 31, 2010

		2010
Expenses Subject to the Statutory Limitation:		
Personnel Services:		
Board Members' Allowance	$	13,300
Employee Salaries and Benefits		5,948,176
Total Personnel Services		5,961,476
Office Operating Expenses:		
Operating Expenses		1,302,431
Professional Services		1,552,041
Rent/Leased Real Property		864,443
Depreciation/Amortization		598,379
Total Office Operating Expenses		4,317,294
Total Expenses Subject to the Statutory Limitation		10,278,770
Expenses Not Subject to the Statutory Limitation:		
Commingled Interest Cost		22,545
Actuarial Fees		378,768
Consulting/Research Fees		282,354
Investment Department Expenses		1,122,603
Legal Costs		283,424
Total Expenses Not Subject to the Statutory Limitation		2,089,694
Total Administrative Expenses	**$**	**12,368,464**

Schedule of Investment Management and Security Lending Fees
For the Year Ended December 31, 2010

Investment Management Fees		
Domestic Equity	$	17,788,221
International Equity		5,770,728
Domestic Fixed Income		5,184,889
International Fixed Income		942,728
Real Estate		5,298,701
Venture Capital		557,241
Absolute Return		496,944
Limited Partnership		519,852
Real Return		3,089,925
Total Investment Management Fees *		**39,649,229**
Security Lending Activity		
Security Lending Fees		419,289
Total Security Lending Activity Fees		**419,289**
Total Investment Management and Security Lending Fees	**$**	**40,068,518**

* Investment management fees is a component of investment expenses listed on the Statement of Changes in Fiduciary Net Assets.

Schedule of Payments for Professional Services
For the Year Ended December 31, 2010

Type of Services	2010
Professional Expenses Subject to the Statutory Limitation	
Legal Services	$ 384,510
Temporary Personnel	191,903
Professional Services	975,628
Total Professional Expenses Subject to the Statutory Limitation	**$ 1,552,041**
Professional Expenses Not Subject to the Statutory Limitation	
Actuarial Services	$ 378,768
Consulting/Research Services	282,354
Custodian Services	275,210
Commingled Interest Cost	22,545
Legal Services	283,424
Investment Expenses	847,393
Total Professional Expenses Not Subject to the Statutory Limitation	**$ 2,089,694**
Total Payments for Professional Services	**$ 3,641,735**

Statement of Changes in Assets and Liabilities – OPEB Agency Fund
For the Year Ended December 31, 2010

	Balance December 31, 2009	Additions	Deductions	Balance December 31, 2010
ASSETS				
Cash	$158,994	$927,035	$913,069	$172,960
Domestic Equity Securities	7,143,626	3,078,477	1,831,900	8,390,203
International Equity Securities	4,132,641	1,634,735	1,269,552	4,497,824
Domestic Bonds	8,225,847	990,446	340,836	8,875,457
Total Assets	**$19,661,108**	**$6,630,693**	**$4,355,357**	**$21,936,444**
LIABILITIES				
Due to Employers	19,661,108	6,630,693	4,355,357	21,936,444
Total Liabilities	**$19,661,108**	**$6,630,693**	**$4,355,357**	**$21,936,444**

SECTION 3

>INVESTMENT

CALLAN ASSOCIATES

SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

May 12, 2011

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, 2010.

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

The U.S. equity market continued where 2009 left off and gave investors strong returns. The broad U.S. equity market, as represented by the Russell 3000 Index, gained 16.9% during the year, which includes a negative return of -11.3% in the second quarter of 2010. This loss was followed by two straight quarterly gains of over 11.5%. The Russell 1000 Index, a large cap U.S. equity benchmark, returned 16.1% during the calendar period considerably behind small cap stocks (+26.9%) as represented by the Russell 2000 Index. Midcap stocks performed almost as well as small caps (Russell Midcap Index: +25.5%). The difference between growth and value stocks in the year was very small as the Russell 3000 Growth index (+17.6%) slightly exceeded the Russell 3000 Value index (+16.2%).

Within the fixed income market, the Barclays Capital Aggregate Bond Index posted a return of 6.5% for the year, outpacing 2009's return of 5.9%. Yield spreads continued to narrow and risk aversion subsided further which helped returns across the board. U.S. Government securities returned 5.5% for the year while investment grade credit securities gained 8.5%. Longer dated government instruments did very well, posting a positive 9.4% return. Asset backed securities (+5.9%), Commercial mortgage backed securities (+20.8%), and mortgage backed securities (+5.4%) continued to benefit from government stimulus programs in the year. The Federal Open Market Committee kept rates between 0 and 0.25% during calendar year 2010.

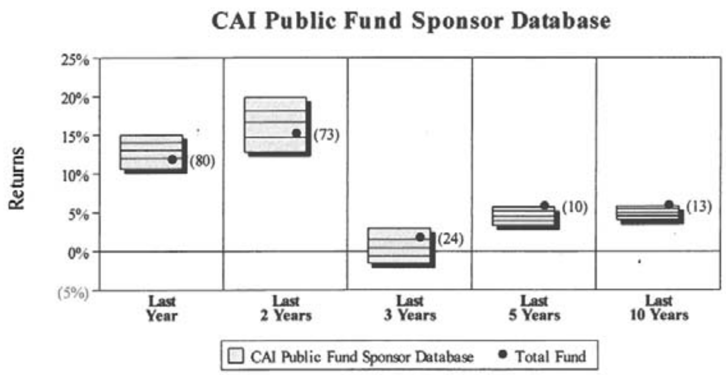
The Non–U.S. developed markets, as measured by the MSCI EAFE Index, was the worst international market for the calendar year, gaining only 7.8%. Similar to the domestic equity market, value (MSCI EAFE Value +3.2%) was outperformed by growth (MSCI EAFE Growth +12.2%) overseas in 2010. Developed non-U.S. small cap stocks exceeded their large cap counterparts, gaining 22.0% as measured by the MSCI EAFE Small Cap Index for the year. After gaining an outstanding 79.0% in 2009, Emerging Markets, as measured by MSCI Emerging Markets Index, cooled but still gained 19.2% in 2010.

Performance

For the calendar year, OCERS' total fund had a strong time-weighted total return of 11.70%. This return outpaced the System's strategic policy benchmark target return of 11.63%. It did rank below Callan's Public Fund database median. However, returns for longer-term periods continue to exceed peers. For example, trailing 3, 5 and 10-year periods all rank in the top quartile. The System's risk adjusted return ranked in the top quartile of Callan's Public Fund Database for the trailing 3, 5, 7 and 10-year periods.

OCERS' Strategic Policy Benchmark Index is currently comprised of the following indices in the percentages as indicated: Barclays Capital U.S. Universal Bond Index (19%); MSCI EAFE (16%); Russell 3000 (16%); NCREIF Total Index (9%); Barclays Capital U.S. TIPS (9%); 3-Month Treasury Bills + 5.0% (7.0%); Non Traditional Composite (5.0%); MSCI Emerging Markets (5.0%); MSCI World Index (4.0%); Citi Non-U.S. Government Hedged (2.5%); Citi World Government Bond Non-U.S. (2.5%); NCREIF Timberland (2.0%); EPRA/NAREIT Developed REIT (1.0%); DJ UBS Commodity (0.7%); Schroder Commodity Custom Index (0.7%); CPI-W + 5.0% (0.5%).

The graph on the following page depicts the Total Fund return relative to Callan's Total Public Fund Database for cumulative periods ended December 31, 2010.



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 extreme bear market of 2007-2008. OCERS' domestic stock composite had trailed the market benchmark in 2010. In contrast to this, the System's active bond managers enjoyed strong returns in comparison to their target indices. OCERS' active stock and bond managers have added value in the majority of cumulative periods longer than 5-years.

OCERS' U.S. equity composite rose 15.90% in 2010. This result was lower than both the Russell 3000 Stock Index return of 16.93% and the Callan Public Fund Domestic Equity peer group median. However, over the cumulative 10-year period, the total domestic equity composite return of 3.13% exceeded both the peer median and the policy benchmark (2.16% annualized).

OCERS' significant international allocation performed well in 2010. The System's total international allocation returned 13.14% for the year. This result was significantly helped by the emerging markets component of the portfolio (+19.18%). With these attractive returns the total international component outpaced the combined international benchmark return (MSCI ACWI ex-U.S.) of 11.60%. This put the international allocation in the 28th percentile when ranked against other public funds.

In summary, calendar year 2010 was a very good year, and has, with the help of 2009, overcome 2008's extreme market weakness. OCERS' broad diversification helped moderate the widespread value declines in the 2007-2008 bear market while still providing sufficient growth exposure to participate handsomely in the market recovery.

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, 2010. 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 (%)	15.90	-2.41	2.27
Russell 3000 Index (%)	*16.93*	*-2.01*	2.74
Global Equity (%)	N/A	N/A	N/A
MSCI World Index (%)	*N/A*	*N/A*	*N/A*
International Equity (%)	11.24	-6.04	2.70
MSCI AC World Ex US Index (%)	*11.60*	*-4.58*	*5.29*
MSCI EAFE Index (%)	*7.75*	*-7.02*	*2.46*
Emerging Markets Equity (%)	19.18	-2.31	10.94
MSCI EMF Index (%)	*19.20*	*-0.03*	*13.11*
Domestic Fixed (%)	9.64	7.67	7.23
Barclays Capital Universal Index (%)	*7.16*	*6.01*	*5.90*
International Fixed Income (%)	4.54	7.18	7.17
International Fixed Income Target Index (1) (%)	*3.95*	*5.53*	*5.95*
Absolute Return (%)	15.77	7.37	7.55
Absolute Return Target Index (2) (%)	*5.85*	*6.66*	*8.87*
Real Return (%)	7.28	2.79	4.01
Real Return Target Index (3) (%)	*6.54*	*6.19*	*6.06*
Cash & Equivalents (%)	2.36	1.97	3.73
Real Estate (%)	12.41	-4.01	3.59
Real Estate Target Index (4) (%)	*7.39*	*-4.08*	*3.72*
Alternative Investments (%)	11.25	-1.06	8.88
Opportunistic Investing (%)	48.19	5.54	N/A
Total Fund (%)	11.70	1.63	5.71
Composite Policy Benchmark (5) (%)	*10.44*	*1.21*	*5.69*

(1) Intl Fixed Income Target Index = Citigroup Non-US Government Hedged Index through 3/31/04. Thereafter, the index is 50% Citigroup Non-US World Government Bond Index Unhedged + 50% Citigroup Non-US World Government Bond Index Hedged

(2) Absolute Return Target Index = 3-month Treasury Bill + 7% through 3/31/08, 3-month Treasury Bill + 5 5/7% through 6/30/10, and 3-month Treasury Bill + 5% thereafter

(3) Real Return Target Index = BC US TIPS Index through 2/29/08 and 60% BC US TIPS Index + 40% (CPI + 5%) thereafter

(4) Real Estate Target Index = NCREIF Total Index through 9/30/07 and 90% NCREIF Total Index + 10% FTSE EPRA/NAREIT Global Real Estate Index thereafter

(5) Policy Benchmark = 19.0% BC US Universal Index + 16.0% MSCI EAFE Index + 16.0% Russell 3000 + 9.0% NCREIF Total Index + 1.0% EPRA/NAREIT Global Index + 9.0% BC US TIPS Index + 7.0% (3-month Treasury Bill + 5%) + 4.0% MSCI World Index + 2.5% Citi Non-US Government Hedged + 2.5% Citi Non-US Government Bond Index + 5.0% OCERS-Non Traditional + 5.0% MSCI Emerging Markets + 2.0% NCREIF Timberland Index + 0.7% DJ UBS Commodity Index + 0.7% Schroder Commodity Custom Index + 0.5% (CPI + 5%)

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.

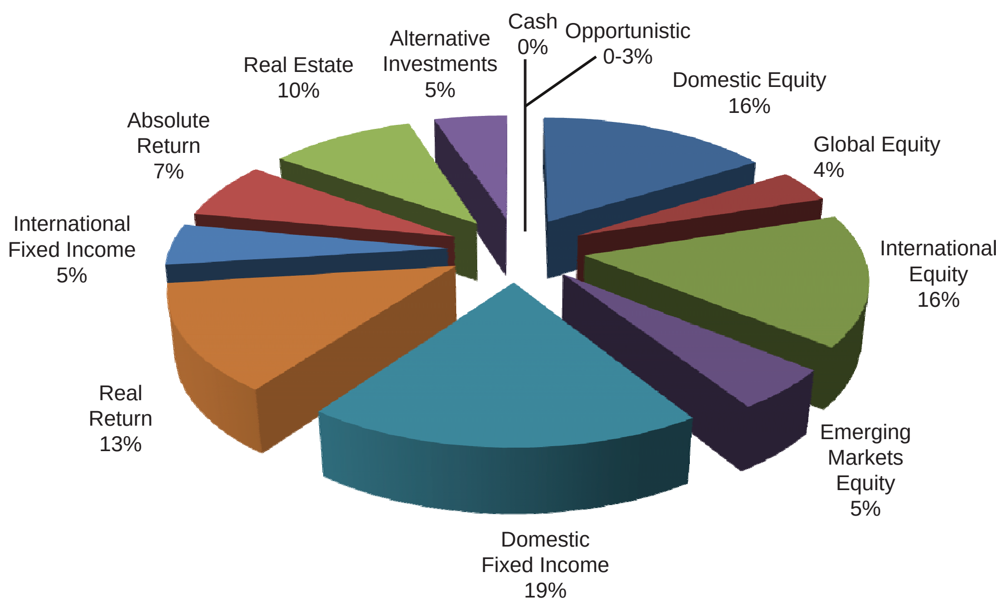
In normal circumstances, asset levels are permitted to fluctuate around targeted levels, and cash inflows are administered by staff in a manner that is consistent with maintenance of the desired level of diversification. When asset fluctuations and/or external cash flows take actual allocation outside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

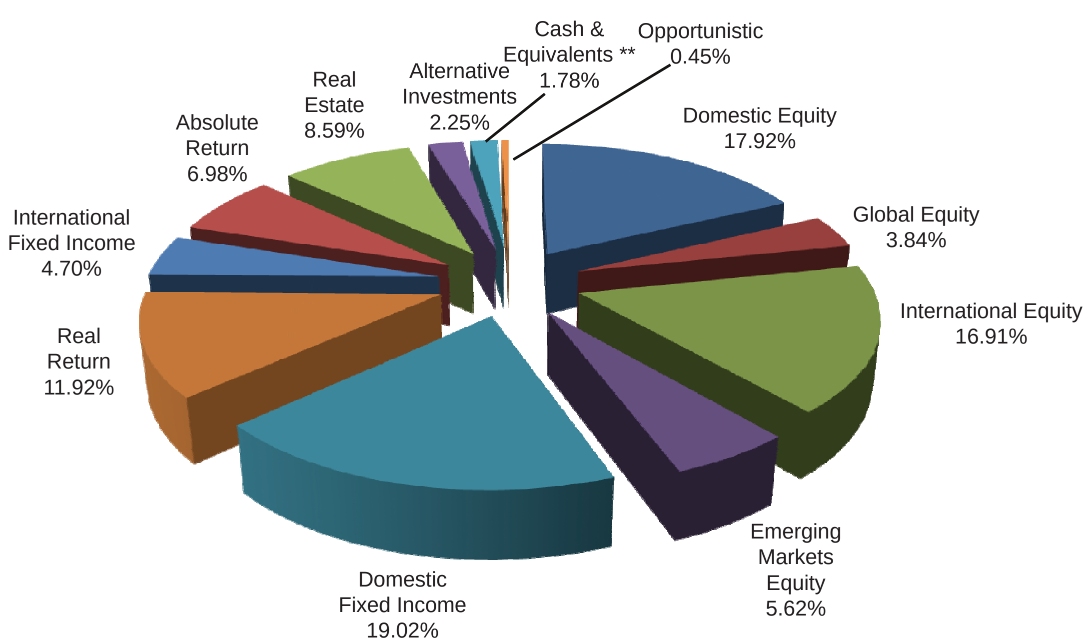
For each major asset class, the System shall diversify assets by employing managers with demonstrated skill in their particular areas of expertise. The System will retain managers who utilize varied investment approaches and allocate assets in a manner that is consistent with the overall strategic plan. 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, 2010

Policy



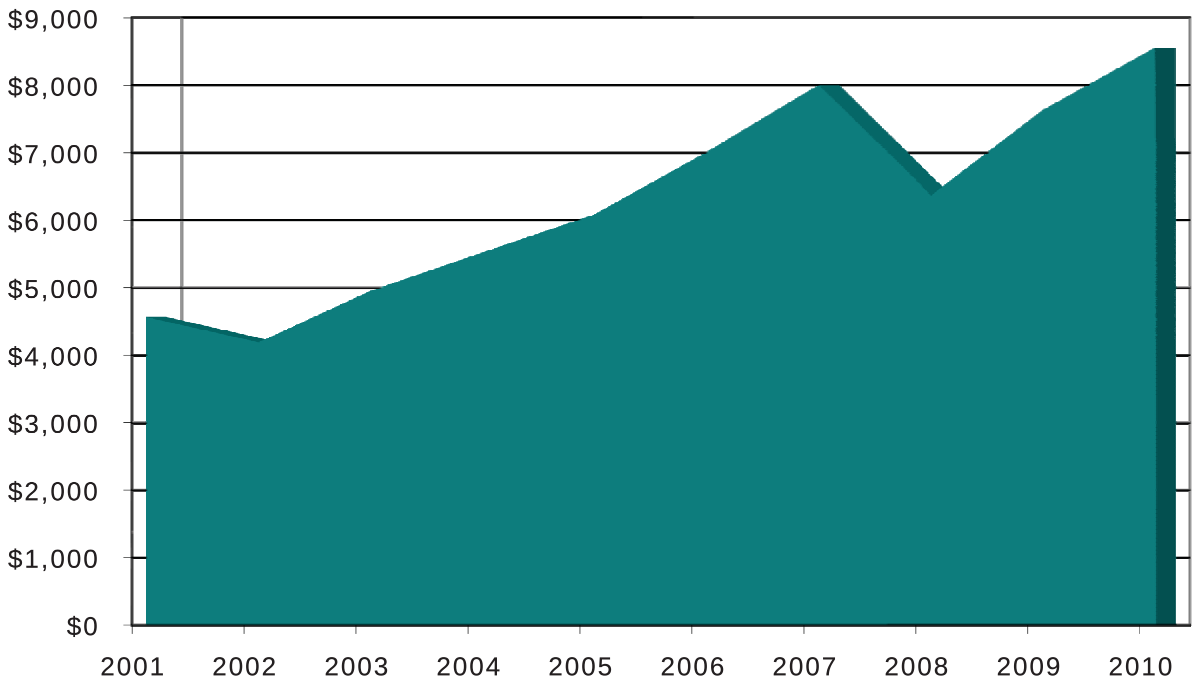
Actual*



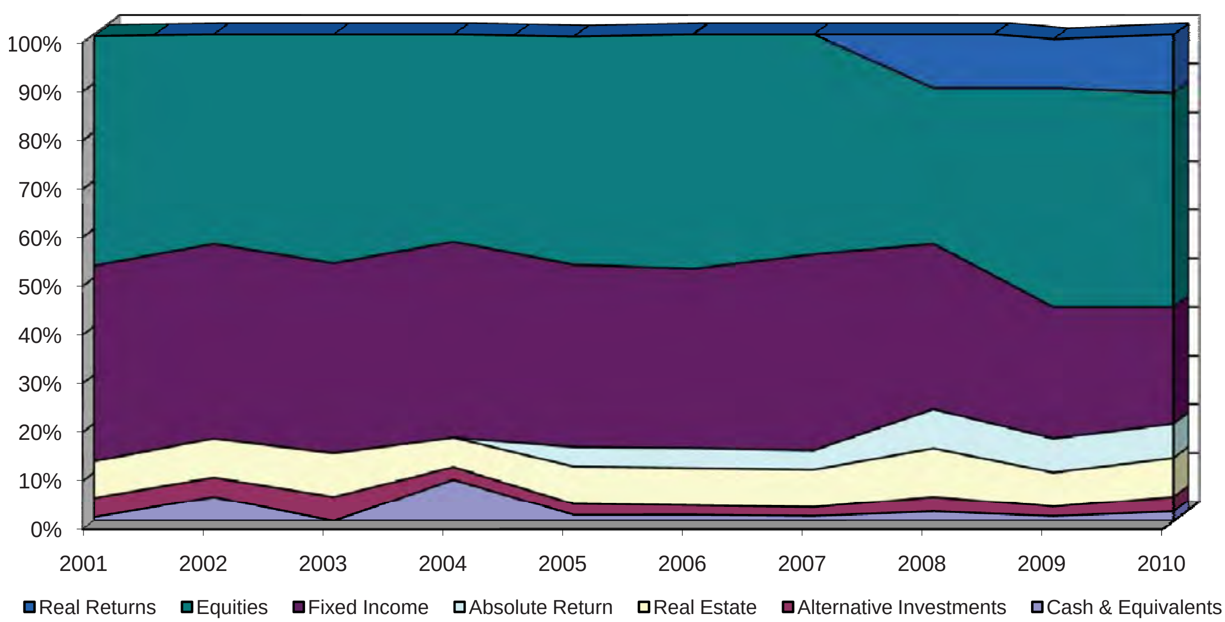
* Asset class percentages represent holding per the custodian bank. It does not reflect adjustments made at year end (as reflected in the financial statements) to asset classes that lag in the reporting of values.

** Does not include OCERS operating cash accounts

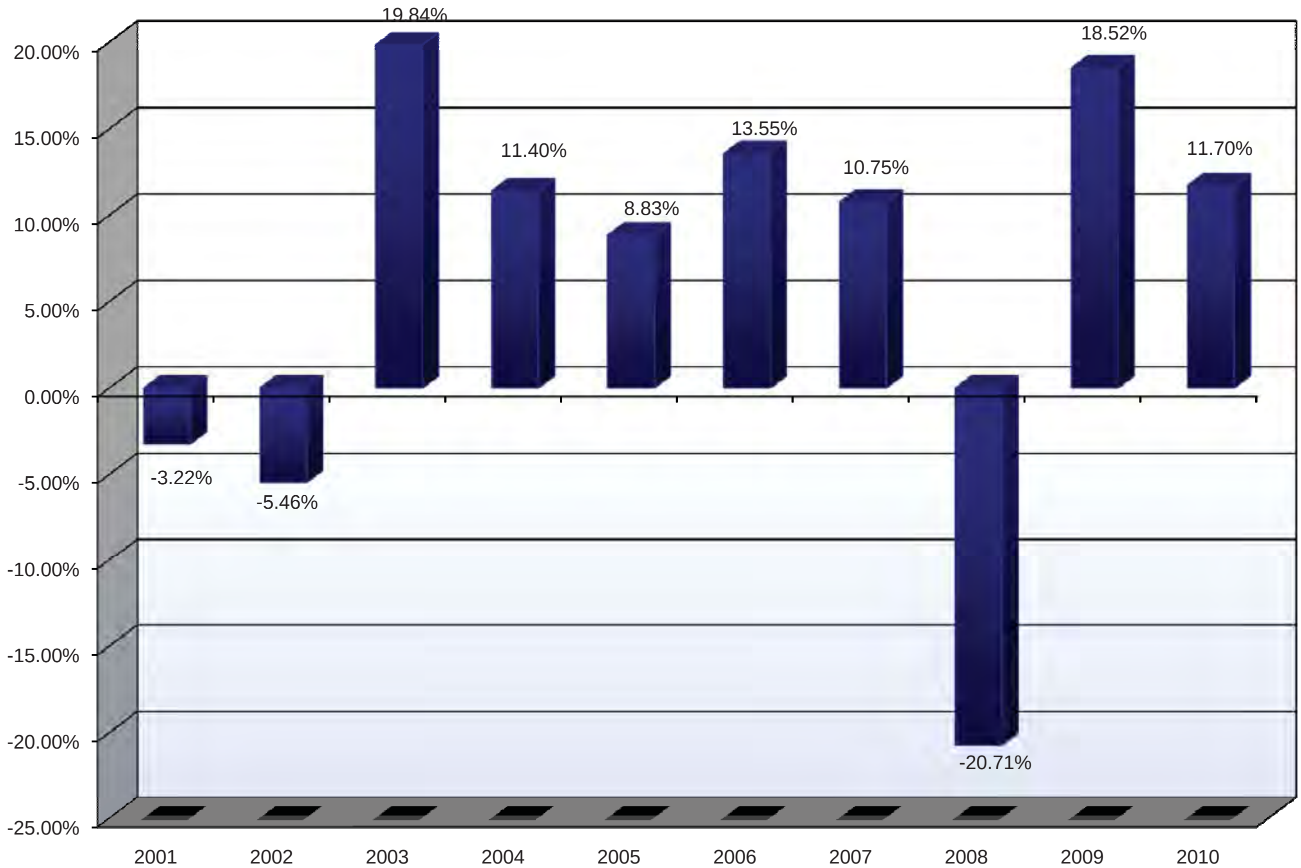
Growth of System Net Assets at Fair Value
for Ten Years Ended December 31, 2010
(in Millions of Dollars)



Historical Asset Allocation
(Actual)
December 2001 – December 2010



History of Performance
(Based on Fair Value)
December 2001 – December 2010



SCHEDULE OF COMMISSIONS

Broker Name	Number of Shares Traded	Commission
ABEL NOSER CORPORATION	2,307,456	$ 54,019
BAIRD ROBERT W. & COMPANY, INC.	317,133	13,143
BARCLAYS CAPITAL	4,776,398	56,670
BLOOMBERG TRADEBOOK, LLC	839,656	10,020
BNP PARIBAS	2,530,313	11,918
BNY CONVERGEX	4,670,939	54,451
CANTOR FITZGERALD AND CO.	2,478,192	30,004
CITIGROUP GLOBAL MARKETS, INC.	9,066,241	76,504
CLSA	1,579,449	11,848
CREDIT AGRICOLE	3,534,309	57,395
CREDIT LYONNAIS SECURITIES	5,547,677	14,345
CREDIT SUISSE	4,069,391	58,819
DAIWA SECURITIES	2,576,657	26,599
DEUTSCHE BANK	13,687,827	47,961
GOLDMAN SACHS	26,264,354	146,564
INSTINET	4,574,621	24,073
INVESTMENT TECHNOLOGY GROUP, INC.	2,670,733	27,450
J.P. MORGAN SECURITIES	18,999,222	118,460
JEFFERIES AND COMPANY, INC.	3,893,129	41,221
LIQUIDNET, INC.	4,426,377	38,146
MACQUARIE	11,000,689	51,620
MERRILL LYNCH AND CO., INC.	18,178,704	134,645
MITSUBISHI UFJ SECURITIES	1,889,606	10,300
MIZUHO SECURITIES, INC.	1,542,400	15,108
MORGAN STANLEY & CO. INCORPORATED	43,577,987	145,899
NOMURA SECURITIES INTERNATIONAL, INC.	15,168,566	58,991
PERSHING, LLC	2,497,193	22,682
RAFFERITY CAPITAL MARKETS, LLC	414,170	16,502
RBC CAPITAL MARKETS	878,057	34,114
RIDGE CLEARING & OUTSOURCING SOLUTIONS	4,683,867	42,155
SANFORD C. BERNSTEIN LTD.	2,967,849	39,211
SOCIETE GENERALE LONDON BRANCH	1,364,551	13,039
STIFEL NICOLAUS AND CO., INC.	327,014	12,251
THE ROYAL BANK OF SCOTLAND	688,758	12,622
UBS	17,441,735	121,231
OTHER[1]	22,495,392	299,718
TOTAL	**263,926,612**	**$ 1,949,698**

1) Other includes approximately 157 additional firms that comprise roughly 15% of total commissions and 9% of the total number of shares traded.

Commission Recapture Program

OCERS implements a direct brokerage program where investment managers are encouraged to trade with specific brokerage firms for the purpose of reducing trading commissions. The brokerage firms utilized for these services are Abel Noser, BNY Convergex, Capital Institutional Services, and State Street Bank.

Schedule of Investment Management and Security Lending Fees
For the Year Ended December 31, 2010

Investment Management Fees

Domestic Equity	$	17,788,221
International Equity		5,770,728
Domestic Fixed Income		5,184,889
International Fixed Income		942,728
Real Estate		5,298,701
Venture Capital		557,241
Absolute Return		496,944
Limited Partnership		519,852
Real Return		3,089,925
Total Investment Management Fees *		**39,649,229**

Security Lending Activity

Security Lending Fees		419,289
Total Security Lending Activity Fees		**419,289**
Total Investment Management and Security Lending Fees	**$**	**40,068,518**

* Investment management fees is a component of investment expenses listed on the Statement of Changes in Fiduciary Net Assets.

Investment Summary as of December 31, 2010

Investment	Fair Value	Percentage
Domestic Equity	$ 1,531,999,817	17.92%
Global Equity	328,554,985	3.84%
International Equity	1,445,825,978	16.91%
Emerging Markets Equity	480,169,230	5.62%
Domestic Fixed Income	1,625,870,182	19.02%
International Fixed Income	401,964,292	4.70%
Absolute Return	597,067,193	6.98%
Real Return	1,019,336,280	11.92%
Cash and Cash Equivalents	152,022,093	1.78%
Real Estate	734,000,064	8.59%
Alternative Investments	192,508,213	2.25%
Opportunistic	38,646,840	0.45%
Total *	**$ 8,547,965,167**	**100.00%**

* The table above reflects market values per State Street as of December 31, 2010. The table does not reflect funds held at other institutions, accounts receivable, accounts payable, and year-end adjustments made to non-publicly traded investments held at State Street to reflect fair value at December 31, 2010.

Schedule of Largest Equity Holdings (by Market Value)*
December 31, 2010

Common Stock	Shares	Market Value	% of Composite
Exxon Mobil Corp	297,735	$ 21,770,350	0.41
Apple Inc.	53,157	17,146,467	0.33
Softbank Corporation	426,700	14,788,900	0.28
Microsoft Corporation	447,466	12,493,260	0.24
General Electric Company	623,714	11,407,724	0.22
Hewlett Packard Company	270,000	11,367,000	0.22
Roche Holding AG-Genusschein	76,918	11,305,403	0.21
International Business Machines Corporation	74,914	10,994,352	0.21
Procter and Gamble Company	168,242	10,822,997	0.21
Pernod Ricard SA	113,907	10,751,854	0.20

Schedule of Largest Fixed Income Holdings (by Market Value)*
December 31, 2010

Asset	CPN/Maturity	Market Value	% of Composite
FNMA	4.500/12-01-2040	$ 48,241,270	1.78
JAPAN (GOVT OF)	1.900/03-21-2022	37,647,444	1.39
UNITED STATES TREAS BDS	2.375/01-2027	37,249,842	1.38
UNITED STATES TREAS NTS	3.3750/TIPS/12-01-2015	36,449,759	1.35
UNITED STATES TREAS BDS	3.875/04-15-2029	28,192,402	1.04
JAPAN (GOVT OF)	1.200/09-12-2020	27,598,506	1.02
UNITED STATES TREAS BDS	3.625/04-15-2028	23,563,914	0.87
UNITED STATES TREAS NTS	3.000/TIPS/07-15-2012	22,480,894	0.83
FNMA	4.500/03-01-2040	22,408,327	0.83
UNITED STATES TREAS BDS	2.375/01-15-2025	22,207,379	0.82

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

List of Investment Managers
As of December 31, 2010

Domestic Equity

Artisan Partners

BlackRock Institutional Trust Company

Cadence Capital Management

Dodge & Cox

Eagle Asset Management

Waddell & Reed Asset Management Group

Domestic Fixed Income

BlackRock Institutional Trust Company

Loomis, Sayles & Company

Pacific Investment Management Company (PIMCO)

Global Equity

Franklin Templeton Institutional

Grantham, Mayo, Van Otterloo & Company, LLC

J.P. Morgan Asset Management

International Equity

AllianceBernstein

AQR Capital Management, LLC

AXA Rosenberg Investment Management, LLC

BlackRock Institutional Trust Company

Capital Guardian Trust Company

Mercator Asset Management

Mondrian Investment Partners, Ltd.

Pyramis Global Advisors

William Blair & Co.

International Fixed Income

Mondrian Investment Partners, Ltd.

Absolute Return

BlackRock Alternative Advisors

Bridgewater Associates, Inc.

Pacific Alternative Asset Management Company

Real Return

BlackRock Institutional Trust Company

EnerVest, Ltd.

Hancock Timber Resource Group

Pacific Investment Management Company (PIMCO)

RMK Timberland Group

Schroder Investment Management

Wellington Management

Real Estate

Domestic

AEW Capital Management

CB Richard Ellis Investors

Fidelity Management Trust Co.

Morgan Stanley

(Continued on next page)

List of Investment Managers
As of December 31, 2010
(Continued)

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)

Timber

Hancock Timber Resource Group

Cash Overlay

The Clifton Group

Securities Lending Program

State Street Corporation

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SECTION 4

>ACTUARIAL

SEGAL

THE SEGAL COMPANY
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December 16, 2011

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

Re: Certification for Pension Plan

Dear Members of the Board:

The Segal Company (Segal) prepared the December 31, 2010 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, it is our understanding that 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 outstanding balance of the UAAL established in the December 31, 2009 valuation as a result of including additional premium pay items as pensionable salary and the new UAAL established in the December 31, 2010 valuation as a result of reallocating contributions and benefit payments among Rate Groups are also amortized over a 24-year period, in the December 31, 2010 valuation. The progress being made toward the realization of the financing objectives through December 31, 2010 is illustrated in the attached Exhibits I, II and X.

As part of the December 31, 2010 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, 2010 is provided in Exhibit V.

Benefits, Compensation and HR Consulting Offices throughout the United States and Canada

M G A C Founding Member of the Multinational Group of Actuaries and Consultants, a global affiliation of independent firms

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Orange County Employees Retirement System
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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) – for inclusion in Actuarial Section of CAFR;
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) – for inclusion in Financial Section of CAFR.

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, except for the General member retirement probabilities for those plans with improved benefit formulas. For those plans, the Board adopted the proposed retirement rates shown in our April 10, 2009 letter to the System. 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 and any changes in assumptions that result will be reflected in the December 31, 2011 valuation.

In the December 31, 2010 valuation, the ratio of the valuation value of assets to actuarial accrued liabilities increased from 68.77% to 69.79%. The aggregate employer rate (average of the County and all special districts rates combined) has increased from 30.11% of payroll to 31.01% of payroll. The aggregate employee's rate has decreased from 10.81% of payroll to 10.80% of payroll.

In the December 31, 2010 valuation, the actuarial value of assets included $316 million in unrecognized investment losses, which represented 4% of the market value of assets. If these deferred investment losses were recognized immediately in the actuarial value of assets, the funded percentage would decrease from 69.8% to 67.3% and the aggregate employer contribution rate, expressed as a percent of payroll, would increase from 31.0% to about 32.8%.

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The undersigned are Members of the American Academy of Actuaries and meet the qualification requirements to render the actuarial opinion contained herein.

Sincerely,

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

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

MYM/hy
Enclosures

Orange County Employees Retirement System

Exhibit I

HISTORY OF UNFUNDED ACTUARIAL ACCRUED LIABILITY

(In Thousand Dollars)

Valuation Date	Actuarial Accrued Liability	Valuation Value of Assets*	Unfunded Actuarial Accrued Liability	Ratio of Assets to Actuarial Accrued Liability	Annual Active Member Compensation	Ratio of Unfunded Actuarial Accrued Liability to Active Compensation
12/31/01	$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	9,838,686(1)	7,288,900	2,549,786(1)	74.08%(1)	1,457,159	174.98%(1)
12/31/08	10,860,715	7,748,380	3,112,335	71.34%	1,569,764	198.27%
12/31/09	11,858,578	8,154,687	3,703,891	68.77%	1,618,491	228.85%
12/31/10	12,425,873	8,672,592	3,753,281	69.79%	1,579,239	237.66%

(1) Revised due to the Board's adoption of revised retirement rates for General plans with improved benefit formulas.

Notes:

- The 12/31/10 valuation included the following benefit changes:

  LAFCO adopted an optional 1.62% of final average salary at age 65 for members hired on or after July 1, 2010.

  County Managers unit adopted an optional 1.62% of final average salary at age 65 for members hired on or after August 17, 2010.

  Sanitation District adopted a 1.64% of final average salary at age 57 for members within Supervisors and Professional unit hired on or after October 1, 2010.

  OCFA adopted a 3.00% of final average salary at age 55 for Safety members within the Executive Management unit hired on or after July 1, 2011 and for all Safety members hired on or after July 1, 2012.

  OCFA adopted a 2.00% of final average salary at age 55 for General members hired on or after July 1, 2011.

- The 12/31/09 valuation included the following benefit changes:

  General County OCEA and Superior Court adopted an optional 1.62% of final average salary at age 65 for members hired on or after May 7, 2010.

  Law Enforcement adopted a 3.0% of final average salary at age 55 for members hired on or after April 9, 2010.

- The 12/31/08 valuation included the following assumption changes:

  Changes in service retirement rates for General members with improved benefit formulas increased the UAAL by $116 million.

- 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 $237 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.

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Orange County Employees Retirement System

HISTORY OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (Cont.)

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

  <u>Methodology and procedure changes:</u>

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

  <u>Assumption changes:</u>

  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.

  <u>Benefit changes:</u>

  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.

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Orange County Employees Retirement System

HISTORY OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (Cont.)

- Each year's assets exclude an amount as shown in the following table of the County's unamortized 1994 funding of its portion of the Unfunded Actuarial Accrued Liability, which funding for 1995 was being amortized over a 14-year period beginning July 1, 1994 and for 1996 and later was being amortized over a 28-year period beginning July 1, 1996. Beginning July 1, 2003, the County can utilize this amount at its discretion to fund any portion of the employer contribution.
- Each year since December 31, 2005 the assets also exclude prepaid employer contributions.

	Amount Excluded from Assets	
Valuation Date	**County Investment Account**	**Prepaid Employer Contributions**
12/31/01	$221,643,000	$0
12/31/02	$143,675,000	$0
12/31/03	$143,744,000	$0
12/31/04	$155,245,000	$0
12/31/05	$158,219,000	$45,925,000
12/31/06	$168,224,000	$70,941,000
12/31/07	$174,348,000	$108,301,000
12/31/08	$126,683,000	$24,345,000
12/31/09	$108,324,000	$20,027,000
12/31/10	$108,531,000	$29,545,000

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Orange County Employees Retirement System

Exhibit II

HISTORY OF EMPLOYER CONTRIBUTION RATES

Employer Contribution Rate (% of pay)

Valuation Date		*General (Non-OCTA)*	*General (OCTA)*	*General (Rancho Santa Margarita)*	*General (San Juan Capistrano)*	*Safety Law Enforcement*	*Safety Fire Authority*	*Safety Probation*
12/31/2001	NC	5.04%	4.20%	N/A	5.04%	15.87%	10.30%	5.04%
	UAAL	0.62*	0.77*		0.62*	9.15*	1.89*	0.62*
	Total	5.66%	4.97%		5.66%	25.02%	12.19%	5.66%
12/31/2002	NC	5.44%	4.36%	N/A	5.44%	16.53%	17.85%	4.38%
	UAAL	3.71*	3.87*		3.71*	21.34*	16.81*	4.19*
	Total	9.15%	8.23%		9.15%	37.87%	34.66%	8.57%
12/31/2003**	NC	5.56%	4.41%	1.77%	7.22%	16.86%	17.98%	4.02%
	UAAL	7.07*	7.05*	3.43*	10.96*	22.53*	15.40*	8.73*
	Total	12.63%	11.46%	5.20%	18.18%	39.39%	33.38%	12.75%

Orange County Employees Retirement System

HISTORY OF EMPLOYER CONTRIBUTION RATES (Cont.)

Employer Contribution Rate (% of pay)

	General (Non-OCTA, Non-OCSD)	*General (1.62% @ 65, Non-OCTA)*	*General (2.7% @ 55)*	*General (OCTA)*	*General (2.5% @ 55)*	*General (1.64% @ 57, OCSD)*	*General (Rancho Santa Margarita)*	*General (2.0% @ 55, TCA)*
12/31/2004 ***,****	NC 9.55% UAAL 6.08 Total 15.63%	N/A	NC 11.74% UAAL 10.49 Total 22.23%	NC 11.71% UAAL 1.39 Total 13.10%	NC 10.80% UAAL 9.35 Total 20.15%	N/A	NC 10.53% UAAL 2.30 Total 12.83%	NC 11.45% UAAL 7.09 Total 18.54%
12/31/2005 ***,****	NC 9.33% UAAL 5.00 Total 14.33%	N/A	NC 11.46% UAAL 11.10 Total 22.56%	NC 11.36% UAAL 3.60 Total 14.96%	NC 10.54% UAAL 10.33 Total 20.87%	N/A	NC 10.81% UAAL 1.92 Total 12.73%	NC 11.49% UAAL 5.87 Total 17.36%
12/31/2006 ****	NC 9.19% UAAL 5.31 Total 14.50%	N/A	NC 11.36% UAAL 10.84 Total 22.20%	NC 11.25% UAAL 4.77 Total 16.02%	NC 10.55% UAAL 10.79 Total 21.34%	N/A	N/A	NC 12.03% UAAL 6.01 Total 18.04%
12/31/2007	NC 8.92% UAAL 5.25 Total 14.17%	N/A	NC 11.24% UAAL 10.59 Total 21.83%	NC 11.26% UAAL 3.76 Total 15.02%	NC 10.54% UAAL 11.41 Total 21.95%	N/A	N/A	NC 12.60% UAAL 6.13 Total 18.73%
12/31/2008	NC 8.99% UAAL 7.06 Total 16.05%	N/A	NC 11.79% UAAL 13.00 Total 24.79%	NC 11.32% UAAL 5.94 Total 17.26%	NC 11.19% UAAL 13.01 Total 24.20%	N/A	N/A	NC 13.02% UAAL 5.72 Total 18.74%
12/31/2009 ******	NC 8.69% UAAL 10.43 Total 19.12%	NC 3.69% UAAL 15.50 Total 19.19%	NC 11.61% UAAL 15.50 Total 27.11%	NC 11.11% UAAL 9.28 Total 20.39%	NC 10.93% UAAL 14.75 Total 25.68%	NC 10.14% UAAL 14.75 Total 24.89%	N/A	NC 12.59% UAAL 7.05 Total 19.64%
12/31/2010 *******	NC 8.59% UAAL 8.26 Total 16.85%	NC 5.10% UAAL 16.84 Total 21.94%	NC 11.55% UAAL 16.84 Total 28.39%	NC 10.96% UAAL 10.00 Total 20.96%	NC 10.92% UAAL 16.55 Total 27.47%	NC 10.14% UAAL 16.55 Total 26.69%	N/A	NC 12.56% UAAL 8.41 Total 20.97%

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Orange County Employees Retirement System

HISTORY OF EMPLOYER CONTRIBUTION RATES (Cont.)

Employer Contribution Rate (% of pay)

	General (2.0% @ 55, Cemetery, future service)	*General (2.7% @ 55, OCFA)*	*General (2.0% @ 55, OCFA)*	*Safety Law Enforcement (3% @ 50)*	*Safety Law Enforcement (3% @ 55)*	*Safety Fire Authority (3% @ 50)*	*Safety Fire Authority (3% @ 55)*	*Safety Probation*
12/31/2004 *****,******	See General (Non-OCTA)	See General (2.7% @ 55)	N/A	NC 20.43% UAAL 17.22 Total 37.65%	N/A	NC 20.33% UAAL 13.52 Total 33.85%	N/A	NC 21.37% UAAL 12.04 Total 33.41%
12/31/2005 *****,******	See General (Non-OCTA)	See General (2.7% @ 55)	N/A	NC 20.15% UAAL 17.18 Total 37.33%	N/A	NC 20.04% UAAL 13.98 Total 34.02%	N/A	NC 20.76% UAAL 11.18 Total 31.94%
12/31/2006 ********	NC 10.31% UAAL 5.00 Total 15.31%	NC 11.43% UAAL 12.81 Total 24.24%	N/A	NC 20.19% UAAL 15.86 Total 36.05%	N/A	NC 19.93% UAAL 13.50 Total 33.43%	N/A	NC 20.61% UAAL 11.64 Total 32.25%
12/31/2007	NC 10.79% UAAL 4.36 Total 15.15%	NC 11.48% UAAL 11.53 Total 23.01%	N/A	NC 21.27% UAAL 18.25 Total 39.52%	N/A	NC 21.02% UAAL 17.22 Total 38.24%	N/A	NC 20.49% UAAL 10.90 Total 31.39%
12/31/2008	NC 10.85% UAAL 7.05 Total 17.90%	NC 12.03% UAAL 12.59 Total 24.62%	N/A	NC 21.39% UAAL 21.95 Total 43.34%	N/A	NC 21.16% UAAL 21.94 Total 43.10%	N/A	NC 20.15% UAAL 12.03 Total 32.18%
12/31/2009 **********	NC 11.24% UAAL 6.92 Total 18.16%	NC 11.98% UAAL 14.55 Total 26.53%	NC 11.11% UAAL 14.55 Total 25.66%	NC 21.13% UAAL 25.26 Total 46.39%	NC 20.38% UAAL 25.26 Total 45.64%	NC 21.31% UAAL 27.22 Total 48.53%	NC 18.30% UAAL 27.22 Total 45.52%	NC 20.17% UAAL 13.90 Total 34.07%
12/31/2010 ***********	NC 10.90% UAAL 6.86 Total 17.76%	NC 11.85% UAAL 16.14 Total 27.99%	NC 11.11% UAAL 16.14 Total 27.25%	NC 21.05% UAAL 26.40 Total 47.45%	NC 20.38% UAAL 26.40 Total 46.78%	NC 21.54% UAAL 23.92 Total 45.46%	NC 18.30% UAAL 23.92 Total 42.22%	NC 20.07% UAAL 16.22 Total 36.29%

* *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.*

****** *The UAAL established as a result of including additional premium pay items is amortized over a 25-year period.*

******* *The UAAL established as a result of reallocating contributions and benefit payments among Rate Groups is amortized over a 24-year period.*

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Exhibit III

SUMMARY OF ACTIVE MEMBERSHIP

Valuation Date	Number	Annual Salary	Annual Average Salary	Increase in Average Salary (%)
12/31/01				
General	19,653	$921,057,200	$46,860	6.46
Safety	2,676	201,705,606	75,372	5.78
Total	22,329	$1,122,762,806	$50,280	6.08
12/31/02				
General	19,002	$976,660,649	$51,398	9.68
Safety	3,721	265,638,289	71,389	(5.28)
Total	22,723	$1,242,348,938	$54,674	8.74
12/31/03				
General	19,023	$985,534,535	$51,808	0.80
Safety	3,649	258,429,279	70,822	(0.79)
Total	22,672	$1,243,963,814	$54,868	0.35
12/31/04				
General	18,928	$1,003,061,000	$52,993	2.29
Safety	3,574	254,024,000	71,076	0.36
Total	22,502	$1,257,085,000	$55,866	1.82
12/31/05				
General	18,816	$1,011,214,000	$53,742	1.41
Safety	3,651	265,550,000	72,733	2.33
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	3,662	273,857,000	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	3,815	300,475,000	78,761	5.32
Total	23,618	$1,457,159,000	$61,697	6.29
12/31/08				
General	19,795	$1,238,077,000	$62,545	7.08
Safety	3,925	331,687,000	84,506	7.29
Total	23,720	$1,569,764,000	$66,179	7.26
12/31/09				
General	18,873	$1,258,558,000	$66,686	6.62
Safety	3,760	359,933,000	95,727	13.28
Total	22,633	$1,618,491,000	$71,510	8.06
12/31/10				
General	18,155	$1,232,657,000	$67,896	1.81
Safety	3,587	346,582,000	96,622	0.93
Total	21,742	$1,579,239,000	$72,635	1.57

Excludes Deferred and Pending members.

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EXHIBIT IV

SUMMARY OF RETIRED MEMBERSHIP

Plan Year Ending	At Beginning of Year	Added to Rolls: Number	Added to Rolls: Annual Allowance (in 000's)*	Removed from Rolls: Number	Removed from Rolls: Annual Allowance (in 000's)	At End of Year	Annual Allowance (in 000's)	% Increase in Annual Allowance	Average Monthly Allowance
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
2008	11,421	658	38,298	(301)	(6,426)	11,778	393,647	8.81	2,785
2009	11,778	744	32,435	(279)	(6,829)	12,243	419,253	6.50	2,854
2010	12,243	851	46,736	(332)	(8,334)	12,762	457,655	9.16	2,988

* *Includes COLA granted during the plan year.*

Note: Annual allowances exclude RMBR and STAR COLA.

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Exhibit V

DEVELOPMENT OF ACTUARIAL AND VALUATION VALUE OF ASSETS

As of December 31, 2010

Plan Year Ending	Total Actual Market Return (net)	Expected Market Return (net)	Investment Gain/(Loss)	Deferred Factor	Deferred Return
2007	$769,613,000	$533,502,000	$236,111,000	0.2	$47,222,000
2008	$(1,617,791,000)	$603,959,000	$(2,221,750,000)	0.4	$(888,700,000)
2009	$1,092,660,000	$489,051,000	$603,609,000	0.6	$362,165,000
2010	$787,215,000	$582,621,000	$204,594,000	0.8	$163,675,000

(1)	Total Deferred Return	$(315,638,000)
(2)	Net Market Value of Assets (Excludes $108,531,000 in County Investment Account and $29,545,000 in Prepaid Employer Contributions)	$8,357,835,000
(3)	Actuarial Value of Assets (2) – (1)	$8,673,473,000*
(4)	Non-valuation Reserves	
	(a) Unclaimed member deposit	$778,000
	(b) Medicare medical insurance reserve	$97,000
	(c) Retired member benefit reserve (RMBR)	$6,000
	(d) Subtotal	$881,000
(5)	Valuation Value of Assets (3) – (4)(d)	$8,672,592,000
(6)	Deferred Return Recognized in Each of the Next 4 Years	
	(a) Amount recognized on 12/31/2011	$(235,487,367)
	(b) Amount recognized on 12/31/2012	(282,709,567)
	(c) Amount recognized on 12/31/2013	161,640,134
	(d) Amount recognized on 12/31/2014	40,918,800
	(e) Subtotal (may not total exactly due to rounding)	$(315,638,000)

* Ratio of Actuarial Value of Assets to Net Market Value of Assets is 104% ((3) / (2)).

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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)
12/31/01	$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	3,819,276[1]	7,288,900	100	100	33.24[1]
12/31/08	1,376,514	5,211,893	4,272,308	7,748,380	100	100	27.15
12/31/09	1,536,849	5,680,031	4,641,698	8,154,687	100	100	20.20
12/31/10	1,680,401	6,107,350	4,638,122	8,672,592	100	100	19.08

[1] Revised due to the Board's adoption of revised retirement rates for General plans with improved benefit formulas.

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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:

	Rate (%) Mortality			
	General		Safety	
Age	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.

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Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Section 2 - Termination Rates Before Retirement (Continued):

Disability Incidence Rates:

	Rate (%)			
	Disability			
Age	General All Other[1]	General OCTA[2]	Safety - Law & Fire[3]	Safety - Probation[3]
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

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

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

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

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Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Section 2 - Termination Rates Before Retirement (Continued):

Termination Rates:

	Rate (%)			
	Termination (< 5 Years of Service)			
Years of Service	General All Other[1]	General OCTA[1]	Safety – Law & Fire[1]	Safety - Probation[1]
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

	Termination (5+ Years of Service)			
Age	General All Other[2]	General OCTA[2]	Safety – Law & Fire[3]	Safety – Probation[2]
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

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

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

(3) *10% of terminated members will choose a refund of contributions and 90% will choose a deferred vested benefit.*

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Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Retirement Rates:

	Rate (%)						
Age	General – Enhanced	General – Non-Enhanced[1]	Safety – Law (3% @ 50)[2]	Safety – Law (3% @ 55)[2]	Safety – Fire (3% @ 50)[2]	Safety – Fire (3% @ 55)[2]	Safety – Probation[2]
50	2.5	3.0	15.0	11.5	10.0	8.0	4.0
51	2.5	3.0	15.0	12.0	12.0	10.0	4.0
52	2.5	3.0	15.0	12.7	14.0	11.0	4.0
53	2.5	3.0	20.0	17.9	15.0	12.0	7.0
54	5.0	3.0	20.0	18.8	17.0	14.0	10.0
55	15.0	4.0	20.0	30.7	25.0	24.0	20.0
56	8.0	5.0	20.0	20.0	25.0	23.0	20.0
57	8.0	6.0	20.0	20.0	30.0	27.0	20.0
58	10.0	7.0	25.0	25.0	30.0	27.0	25.0
59	10.0	9.0	30.0	30.0	40.0	36.0	30.0
60	13.0	11.0	100.0	100.0	100.0	100.0	35.0
61	13.0	13.0	100.0	100.0	100.0	100.0	45.0
62	15.0	15.0	100.0	100.0	100.0	100.0	60.0
63	15.0	17.0	100.0	100.0	100.0	100.0	100.0
64	20.0	19.0	100.0	100.0	100.0	100.0	100.0
65	20.0	25.0	100.0	100.0	100.0	100.0	100.0
66	24.0	20.0	100.0	100.0	100.0	100.0	100.0
67	24.0	20.0	100.0	100.0	100.0	100.0	100.0
68	24.0	20.0	100.0	100.0	100.0	100.0	100.0
69	24.0	20.0	100.0	100.0	100.0	100.0	100.0
70	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(1) *This includes Plans A, B, O and P.*

(2) *Retirement rate is 100% after a member accrues a benefit of 100% of final average earnings.*

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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 age assumptions:

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.

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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:

	Final One Year Salary	Final Three Year Salary
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.

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Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Actuarial Value of Assets: 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.

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

Actuarial Cost Method: Entry Age Normal Actuarial Cost Method. Entry Age is the current age minus Vesting Credit. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salaries, with Normal Cost determined as a level percentage of individual salary, as if the current benefit accrual rate had always been in effect. The outstanding balance of the December 31, 2004 unfunded Actuarial Accrued Liability is amortized over a declining 24-year period. The outstanding balance of the UAAL established in the December 31, 2009 valuation as a result of including additional premium pay items as pensionable salary and the new UAAL established in the December 31, 2010 valuation as a result of reallocating contributions and benefit payments among Rate Groups are also amortized over a 24-year period, in the December 31, 2010 valuation. 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 separate 30-year periods.

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

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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.

Membership Eligibility:	Membership with OCERS begins with the day of employment in an eligible position by the County or a participating employer.
General Plans	
2.5% @ 55 Plans	*(Orange County Sanitation District and Law Library[(1)])*
Plan G	General members hired before September 21, 1979.
Plan H	General members hired on or after September 21, 1979.
	(Sanitation District members within Supervisors and Professional unit hired on or after October 1, 2010 are in Plan B)
2.7% @ 55 Plans	*(City of San Juan Capistrano, Orange County Employees except bargaining unit AFSCME members, Orange County Superior Court, Orange County Local Agency Formation Commission[(1)], Orange County Employees Retirement System[(2)], Children and Family Commission[(3)] and Orange County Fire Authority)*
Plan I	General members hired before September 21, 1979.
Plan J	General members hired on or after September 21, 1979.
	[(1)] *Improvement is prospective only for service after June 23, 2005.*
	[(2)] *Improvement for management employees is prospective only for service after June 30, 2005.*
	[(3)] *Improvement is prospective only for service after December 22, 2005.*
2.0% @ 55 Plans	*(Transportation Corridor Agency, Cemetery District - future service effective December 7, 2007 and General OCFA employees effective July 1, 2011)*
Plan M	General members hired before September 21, 1979.
Plan N	General members hired on or after September 21, 1979.
1.62% @ 65 Plans	*(Orange County Employees, Orange County Superior Court, Orange County Local Agency Formation Commission and Orange County Managers Unit)*
Plan O	County OCEA members and Superior Court members rehired on or after May 7, 2010, LAFCO members rehired on or after July 1, 2010 and County Managers unit members rehired on or after August 17, 2010 and not electing to rejoin Plan I.
Plan P	County OCEA members and Superior Court members hired on or after May 7, 2010, LAFCO members hired on or after July 1, 2010 and County Managers unit members hired on or after August 17, 2010 and not electing Plan J.

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Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

All Other General Employers	
Plan A	General members hired before September 21, 1979.
Plan B	General members hired on or after September 21, 1979 and Sanitation District members within Supervisors and Professional unit hired on or after October 1, 2010.
Safety Plans	
3% @ 50 Plans	*(Law Enforcement, Fire Protection and Probation)*
Plan E	Safety members hired before September 21, 1979.
Plan F	Safety members hired on or after September 21, 1979 and before April 9, 2010 for Law Enforcement, before July 1, 2011 for Safety employees of OCFA Executive Management, and before July 1, 2012 for other OCFA Safety employees.
3% @55 Plans	*(Law Enforcement and Fire Protection)*
Plan Q	Safety Law Enforcement members rehired on or after April 9, 2010, Safety employees of OCFA Executive Management rehired on or after July 1, 2011, and other OCFA Safety employees rehired on or after July 1, 2012 and previously in Plan E.
Plan R	Safety Law Enforcement members hired on or after April 9, 2010, Safety employees of OCFA Executive Management hired on or after July 1, 2011, and other OCFA Safety employees hired on or after July 1, 2012.
Final Compensation for Benefit Determination:	
Plans A, E, G , I, M, O and Q	Highest consecutive twelve months of compensation earnable. (§31462.1) (FAS1)
Plans B, F, H, J, N, P and R	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.

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Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Benefit Formula:

General Plans

2.5% @ 55	**Retirement Age**	**Benefit Formula**
Plan G (§31676.18)	50	(2.00% x FAS1 x Yrs)
Tier 1	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)*
Plan H (§31676.18)	50	(2.00% x FAS3 x Yrs)
Tier 2	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.*

2.7% @ 55	**Retirement Age**	**Benefit Formula**
Plan I (§31676.19)	50	(2.00% x FAS1 x Yrs)
Tier 1	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)
Plan J (§31676.19)	50	(2.00% x FAS3 x Yrs)
Tier 2	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)

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Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

2.0% @ 55	**Retirement Age**	**Benefit Formula**
Plan M (§31676.16)	50	(1.43% x FAS1 x Yrs)
Tier 1	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)**
Plan N (§31676.16)	50	(1.43% x FAS3 x Yrs)
Tier 2	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.*

1.62% @ 65	**Retirement Age**	**Benefit Formula**
Plan O (§31676.01)	50	(0.79% x FAS1 x Yrs)
Tier 1	55	(0.99% x FAS1 x Yrs)
	60	(1.28% x FAS1 x Yrs)
	62	(1.39% x FAS1 x Yrs)
	65	(1.62% x FAS1 x Yrs)
Plan P (§31676.01)	50	(0.79% x FAS3 x Yrs)
Tier 2	55	(0.99% x FAS3 x Yrs)
	60	(1.28% x FAS3 x Yrs)
	62	(1.39% x FAS3 x Yrs)
	65	(1.62% x FAS3 x Yrs)

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Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

All Other General Members	**Retirement Age**	**Benefit Formula**
Plan A (§31676.12)	50	(1.34% x FAS1 x Yrs)
Tier 1	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)
Plan B (§31676.1)	50	(1.18% x FAS3 x Yrs)
Tier 2	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)

Safety Plans

3% @ 50	**Retirement Age**	**Benefit Formula**
Plan E (§31664.1)	50	(3.00% x FAS1 x Yrs)
Tier 1	55	(3.00% x FAS1 x Yrs)
	60	(3.00% x FAS1 x Yrs)
Plan F (§31664.1)	50	(3.00% x FAS3 x Yrs)
Tier 2	55	(3.00% x FAS3 x Yrs)
	60	(3.00% x FAS3 x Yrs)

3% @ 55	**Retirement Age**	**Benefit Formula**
Plan Q (§31664.2)	50	(2.29% x FAS1 x Yrs)
Tier 1	55	(3.00% x FAS1 x Yrs)
	60	(3.00% x FAS1 x Yrs)
Plan R (§31664.2)	50	(2.29% x FAS3 x Yrs)
Tier 2	55	(3.00% x FAS3 x Yrs)
	60	(3.00% x FAS3 x Yrs)

Maximum Benefit: 100% of Highest Average Compensation.
(§31676.01, §31676.1, §31676.12, §31676.16, §31676.18, §31676.19, §31664.1, §31664.2)

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Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Ordinary Disability:

General Plans

Plans A, B, G, H, I, J, M, N, O and P

Eligibility	Five years of service. (§31720)
Benefit Formula	Plans A, G, I, M, and O: 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. (§31727.1) Plans B, H , J, N and P: 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)

Safety Plans

Plans E, F, Q and R

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 (§31727.2). For all members, 100% of the service retirement benefit will be paid, if greater.

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)

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Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

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)
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)

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Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

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 and O	
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.
Plan N and P	
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.

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Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Safety Plans:

Plans E and Q	
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 and R	
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.

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.

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Orange County Employees Retirement System

Exhibit IX

EXPERIENCE ANALYSIS
($000)

Gains & Losses in Actuarial Accrued Liabilities During Years Ended December 31, Resulting from Differences Between Assumed Experience & Actual Experience

Type of Activity	Gains (or Losses) Per Year				
	2006	**2007**	**2008**	**2009**	**2010**
Retirements	--	--	$(54,911)	--	--
Pay Increases	$(21,679)	$(136,417)	(97,561)	$77,858	$215,936
Investment Income	112,612	176,681	(257,752)	(322,523)	(224,044)
Other	(39,155)	(43,538)	(17,159)	(14,931)	63,174
Gain (or Loss) During Year From Experience	**$51,778**	**$(3,274)**	**$(427,383)**	**$(259,596)**	**$55,066**
Nonrecurring Items:					
Method and Procedure Changes	--	--	--	--	--
Plan Amendments and Assumption Changes	--	(237,147)	(115,764)	--	--
Correction to Include All Premium Pay Items	--	--	--	(228,051)	--
Composite Gain (or Loss) During Year	**$51,778**	**$(240,421)**	**$(543,147)**	**$(487,647)**	**$55,066**

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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)
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	9,838,686,000(1)	2,549,786,000(1)	74.08%(1)	1,457,159,000	174.98%(1)
2008	7,748,380,000	10,860,715,000	3,112,335,000	71.34%	1,569,764,000	198.27%
2009	8,154,687,000	11,858,578,000	3,703,891,000	68.77%	1,618,491,000	228.85%
2010	8,672,592,000	12,425,873,000	3,753,281,000	69.79%	1,579,239,000	237.66%

(1) Revised due to the Board’s adoption of revised retirement rates for General plans with improved benefit formulas.

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SECTION 5

> STATISTICAL

Statistical Section Review

The Statistical Section of the Comprehensive Annual Financial Report provides additional information in order to promote a more comprehensive understanding of the financial statements, note disclosures and supplemental information.

The Governmental Accounting Standards Board (GASB) established five categories of information to be provided in the Statistical Section: Financial Trends, Revenue and Expenses, Demographic and Economic, and Operating Information.

This section provides multi-year trend information to facilitate an understanding of how OCERS as an organization has changed over time.

Schedule of Changes in Fiduciary Net Assets

2001 – 2010

Years Ended December 31	2001	2002	2003	2004	2005
Additions					
Employer Contributions	$12,060,000	$13,289,000	$124,243,000	$194,430,000	$226,129,626
Employee Contributions	$68,635,000	$77,917,000	$81,581,000	$81,931,000	$107,543,611
Investment Income	$(151,438,000)	$(270,654,000)	$788,036,000	$568,027,000	$460,431,356
Net Securities Lending	$1,580,000	$1,119,000	$872,000	$857,000	$1,425,286
Commission Recapture-Net/Other		$347,000	$178,000	$116,000	$123,476
Total Additions	**$(69,163,000)**	**$(177,982,000)**	**$994,910,000**	**$845,361,000**	**$795,653,355**
Deductions					
Benefits	$169,274,000	$186,031,000	$216,685,000	$238,529,000	$264,927,495
Administrative Expenses	$7,146,000	$8,279,000	$8,848,000	$9,463,000	$9,952,870
Total Deductions	**$176,420,000**	**$194,310,000**	**$225,533,000**	**$247,992,000**	**$274,880,365**
Change in Fiduciary Net Assets	**$(245,583,000)**	**$(372,292,000)**	**$769,377,000**	**$597,369,000**	**$520,772,990**

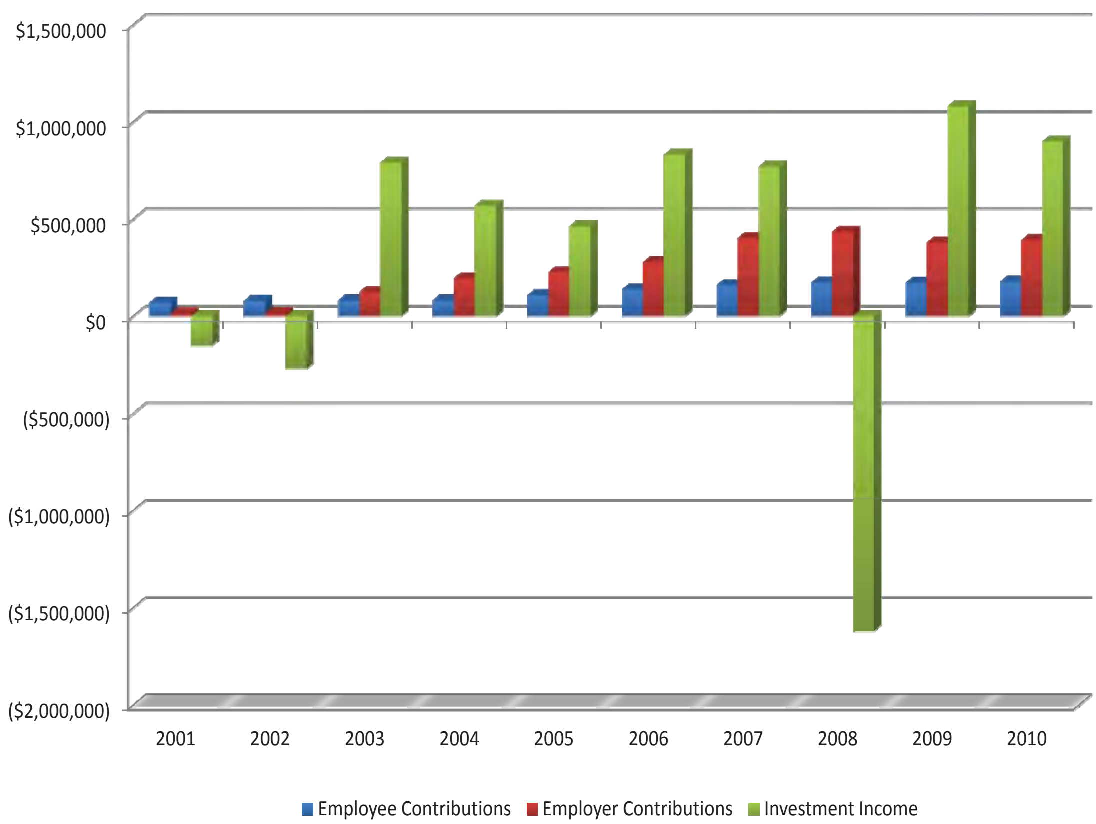
Years Ended December 31	2006	2007	2008	2009	2010
Additions					
Employer Contributions	$277,368,459	$401,037,097	$433,911,069	$377,975,938	$390,653,367
Employee Contributions	$137,581,505	$159,475,621	$172,290,680	$171,927,619	$177,929,228
Investment Income	$828,147,188	$763,117,288	$(1,627,177,419)	$1,073,912,360	$895,475,161
Net Securities Lending	$1,316,925	$3,451,533	$6,145,253	$3,989,290	$1,869,528
Commission Recapture-Net/Other	$735,898	$1,773,522	$1,249,441	$2,160,623	$1,137,289
Total Additions	**$1,245,149,975**	**$1,328,855,061**	**$(1,013,580,976)**	**$1,629,965,830**	**$1,467,064,573**
Deductions					
Benefits	$318,665,929	$353,861,061	$419,501,905	$461,529,728	$487,055,052
Administrative Expenses	$17,145,308	$10,381,060	$11,006,229	$ 10,947,419	$12,395,184
Total Deductions	**$335,811,237**	**$364,242,121**	**$430,508,134**	**$472,477,147**	**$499,450,236**
Change in Fiduciary Net Assets	**$909,338,738**	**$964,612,940**	**$(1,444,089,110)**	**$1,157,488,683**	**$967,614,337**

Schedule and Graph of Fiduciary Revenues by Source

(Dollars in Thousands)

2001 – 2010

Years Ended December 31	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Employee Contributions	$68,635	$77,917	$81,581	$81,931	$107,544	$137,582	$159,476	$172,291	$171,928	$177,929
Employer Contributions	$12,060	$13,289	$124,243	$194,430	$226,130	$277,368	$401,037	$433,911	$377,976	$390,653
Investment Income*	$(149,858)	$(269,188)	$789,086	$569,000	$461,980	$830,200	$768,342	$(1,619,782)	$1,080,062	$898,482
Total	$(69,163)	$(177,982)	$994,910	$845,361	$795,654	$1,245,150	$1,328,855	$(1,013,580)	$1,629,966	$1,467,064



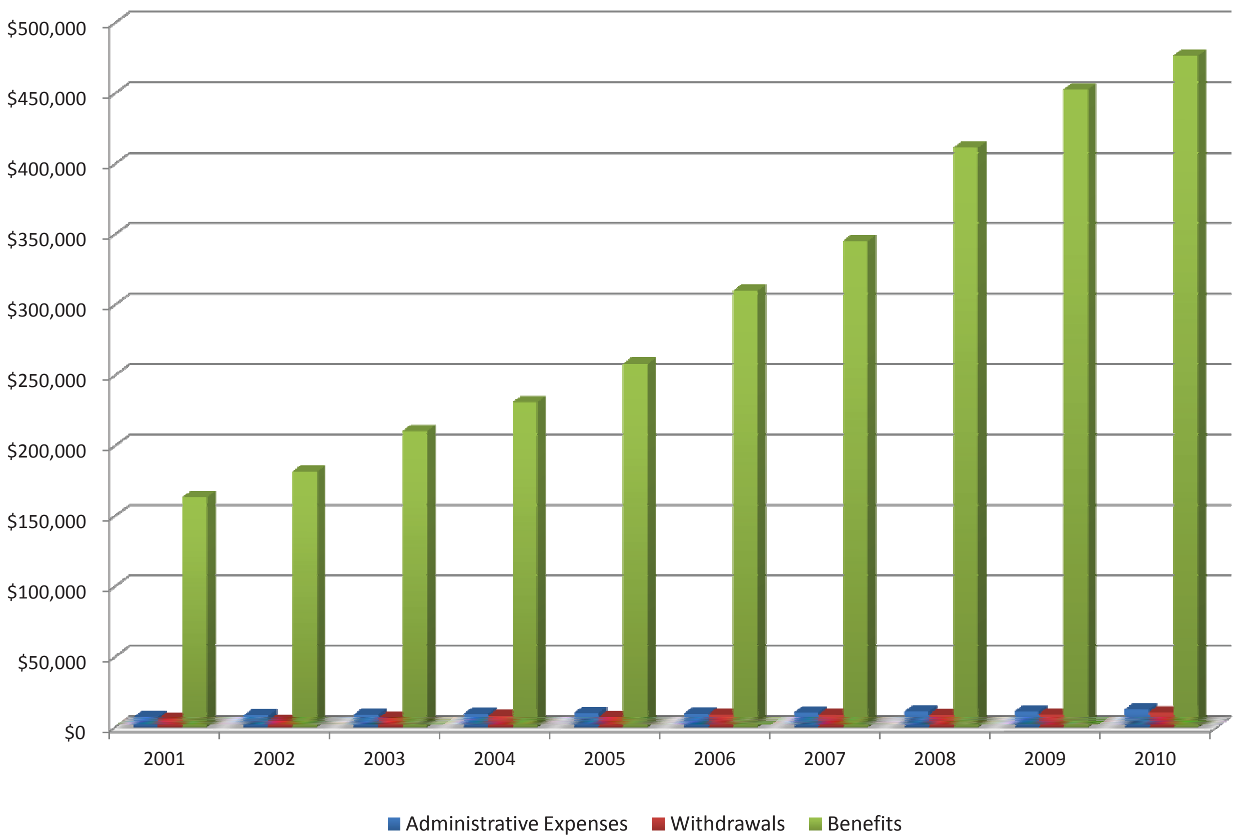
* Investment Income includes net appreciation (depreciation) less investment manager fees, security lending fees and commission recapture.

Schedule and Graph of Expenses by Type

(Dollars in Thousands)

2001 – 2010

Years Ended December 31	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Administrative Expenses	$7,146	$8,279	$8,848	$9,463	$9,953	$9,600	$10,381	$11,006	$10,947	$12,395
Withdrawals	$5,896	$4,482	$6,412	$7,845	$6,999	$8,970	$8,799	$8,359	$9,052	$10,446
Benefits	$163,378	$181,549	$210,273	$230,684	$257,929	$309,696	$345,062	$411,143	$452,478	$476,609
Total	$176,420	$194,310	$225,533	$247,992	$274,881	$328,266	$364,242	$430,508	$472,477	$499,450

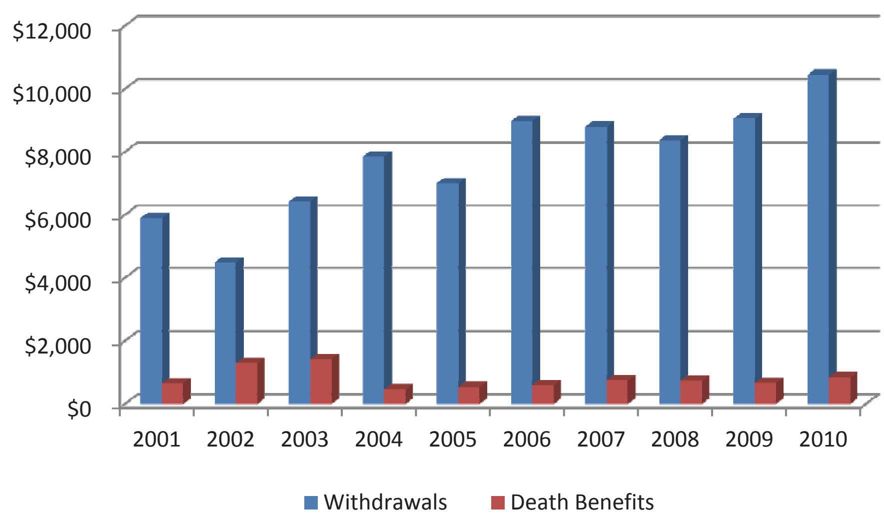


Schedule and Graphs of Benefit Expenses by Type

(Dollars in Thousands)

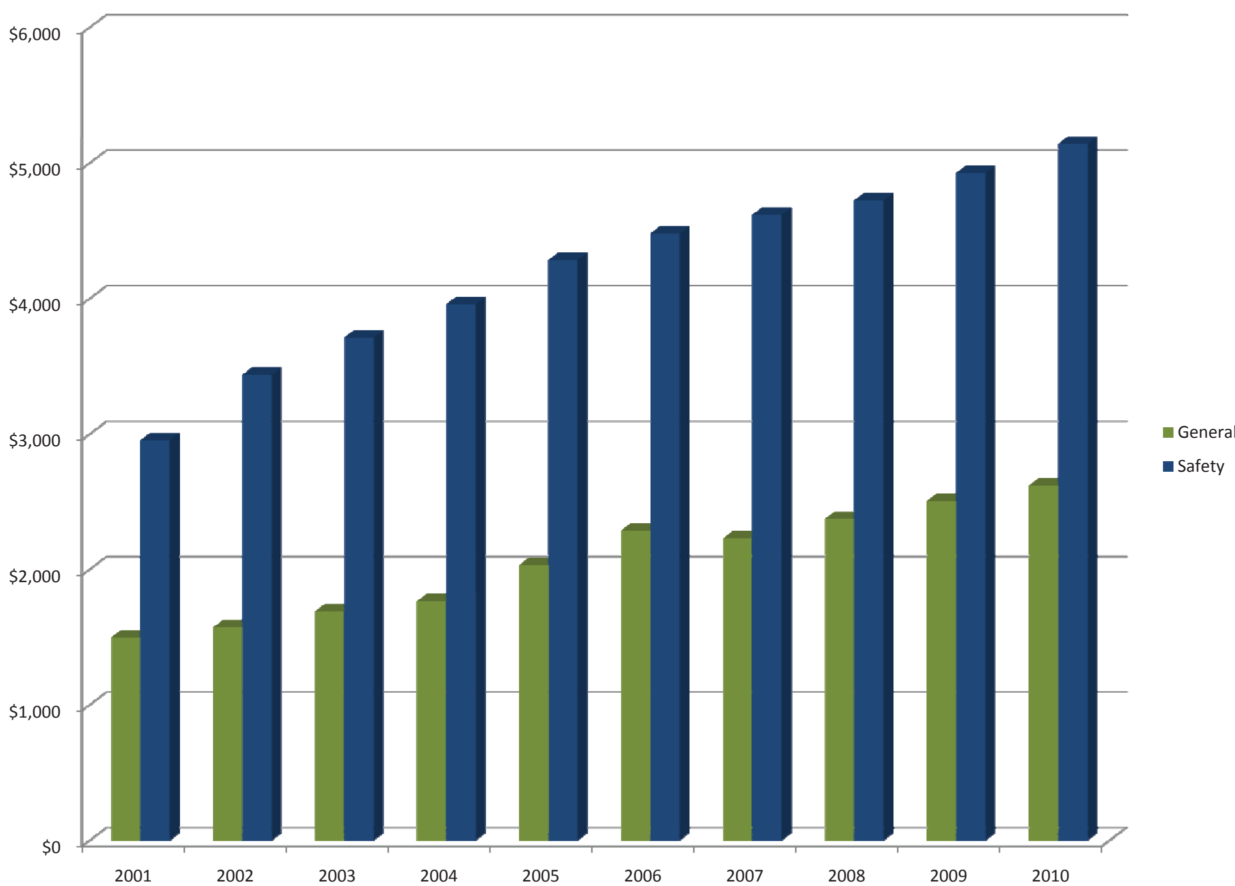
2001 – 2010

Years Ended December 31	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Withdrawals	$5,896	$4,482	$6,412	$7,845	$6,999	$8,970	$8,799	$8,359	$9,052	$10,446
Retirement / Health Care	$162,732	$180,263	$208,861	$230,225	$257,397	$309,102	$344,321	$410,417	$451,817	$475,771
Death Benefits	$646	$1,286	$1,412	$459	$532	$594	$741	$726	$661	$838
Total	$169,274	$186,031	$216,685	$238,529	$264,928	$318,666	$353,861	$419,502	$461,530	$487,055



Schedule and Graph of Average Monthly Pension Check 2001 – 2010

Years Ended December 31	2001	2002	2003	2004	2005	2006*	2007	2008	2009	2010
General	$1,498	$1,572	$1,691	$1,766	$2,031	$2,286	$2,228	$2,373	$2,508	$2,621
Safety	$2,955	$3,438	$3,713	$3,959	$4,283	$4,479	$4,618	$4,724	$4,926	$5,141



* Year 2006 includes health grant
Source: OCERS' Pension Gold Information System

Schedule of Average Pension Benefit Payments By Years of Service

Service Retirement Effective Dates	0-5	5-10	10-15	15-20	20-25	25-30	30 & Over
	Years of Service						
PERIOD 1/1/01 –12/31/01							
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
PERIOD 1/1/02 –12/31/02							
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
PERIOD 1/1/03 –12/31/03							
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
PERIOD 1/1/04 –12/31/04							
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
PERIOD 1/1/05 –12/31/05							
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
PERIOD 1/1/06 –12/31/06							
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
PERIOD 1/1/07 –12/31/07							
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
PERIOD 1/1/08 –12/31/08							
Average Monthly Pension Benefits	$321	$876	$1,784	$2,451	$3,793	$5,323	$7,687
Average Final Average Salary	$2,539	$4,166	$5,512	$5,330	$6,484	$6,864	$8,424
Number of Retired Members	19	31	83	90	78	91	97
PERIOD 1/1/09 –12/31/09							
Average Monthly Pension Benefits	$381	$950	$1,821	$2,716	$3,711	$5,852	$7,467
Average Final Average Salary	$3,766	$4,228	$5,564	$6,006	$6,417	$7,669	$8,378
Number of Retired Members	26	45	102	87	110	106	124
PERIOD 1/1/10 –12/31/10							
Average Monthly Pension Benefits	$587	$986	$1,855	$2,929	$4,046	$5,922	$6,856
Average Final Average Salary	$3,666	$4,800	$5,537	$6,291	$6,962	$7,764	$7,741
Number of Retired Members	23	45	108	106	130	127	129

NA: Detailed information not available. Source: OCERS' Pension Gold Information System

Schedule of Pension Benefit Recipients by Type of Benefit
December 31, 2010

Monthly Benefit	1	2	3	4	5	6	7	Total
$001-500	615	109	3	6	18	62	37	850
$501-1,000	1,021	228	1	39	41	72	143	1,545
$1,001-1,500	1,168	157	41	93	27	41	87	1,614
$1,501-2,000	988	121	118	60	14	42	37	1,380
$2001-2,500	892	86	265	27	33	21	21	1,345
$2,501-3,000	701	61	160	10	18	14	10	974
$3,001-3,500	644	33	126	8	11	7	6	835
$3,501-4,000	503	25	121	1	11	5	4	670
$4,001-4,500	427	21	56	3	6	5	7	525
$4,501-5,000	414	13	40	0	4	3	4	478
$5,001-5,500	373	10	25	4	0	0	3	415
$5,501-6,000	341	8	11	1	2	0	0	363
$6,001-6,500	286	3	10	0	2	0	2	303
$6,501-7,000	226	2	12	0	1	0	1	242
Over $7,000	1,168	7	38	2	7	0	1	1,223
Total	9,767	884	1,027	254	195	272	363	12,762

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. DRO (Domestic Relations Order payees)
7. Active Deaths

Source: OCERS' Pension Gold Information System

Schedule of Pension Benefit Recipients by Option Selected
December 31, 2010

Monthly Benefit	JSURV	SL100	SL60	SLIFE	SLR60	UNMJS	Total Payees
$001-500	166	0	3	201	1	479	850
$501-1,000	287	0	17	359	11	871	1,545
$1,001-1,500	275	1	17	356	4	961	1,614
$1,501-2,000	298	0	5	316	2	759	1,380
$2,001-2,500	310	0	4	323	0	708	1,345
$2,501-3,000	238	1	2	207	0	526	974
$3,001-3,500	245	1	0	161	0	428	835
$3,501-4,000	220	3	0	127	0	320	670
$4,001-4,500	148	1	1	128	0	247	525
$4,501-5,000	176	1	0	101	0	200	478
$5,001-5,500	182	1	0	93	0	139	415
$5,501-6,000	170	0	0	84	0	109	363
$6,001-6,500	145	0	1	72	0	85	303
$6,501-7,000	125	0	0	47	0	70	242
Over $7,000	648	1	0	205	0	369	1,223
Total	3,633	10	50	2,780	18	6,271	12,762

Definition of Options

JSURV: Contingent joint survivor.

SL100: Single life with 100% joint survivor adjustment.

SL60: Single life with 60% adjustment.

SLIFE: Lifetime payment.

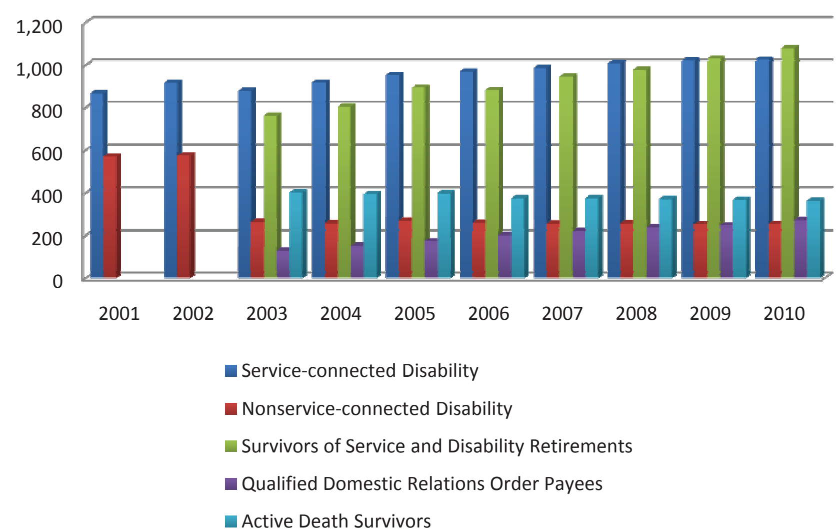
SLR60: Single life with 60% adjustment with reduction.

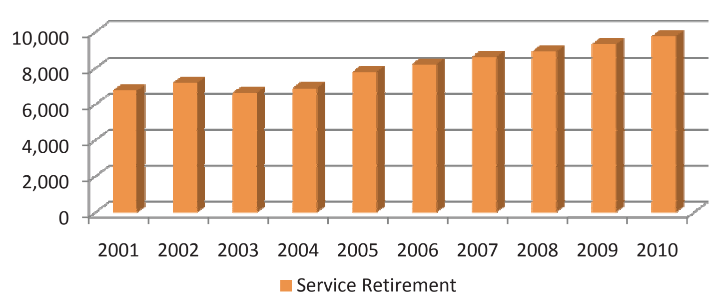
UNMJS: Unmodified with joint survivor.

Source: OCERS' Pension Gold Information System

Schedule and Graphs of Pension Benefit Recipients 2001 – 2010

Years Ended December 31	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Service-connected Disability	868	917	879	918	953	986	986	1,009	1,022	1,027
Nonservice-connected Disability	570	574	264	258	269	269	257	258	252	254
Service Retirement	6,778	7,197	6,642	6,906	7,799	8,403	8,636	8,924	9,322	9,767
Survivors of Service and Disability Retirements	N/A	N/A	762	804	894	1,310	946	978	1,031	1,079
Qualified Domestic Relations Orders	N/A	N/A	129	153	174	203	221	238	248	272
Active Death Survivors	N/A	N/A	403	394	399	11	374	371	368	363
Total*	8,216	8,688	9,079	9,433	10,488	11,182	11,420	11,778	12,243	12,762





Source: OCERS' Pension Gold Information System

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

Schedule of Average Retirement Age
2001 – 2010

Years Ended December 31	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General	N/A	N/A	59.99	60.28	59.69	59.83	60.07	59.82	60.31	60.55
Safety	N/A	N/A	55.17	54.53	54.95	54.12	54.47	54.03	54.98	54.18

Schedule of Average Years of Service at Retirement
2001 – 2010

Years Ended December 31	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General	N/A	N/A	20.93	19.59	23.59	21.17	20.04	20.44	20.79	20.53
Safety	N/A	N/A	25.13	23.52	22.94	23.09	24.66	23.77	22.63	23.91

Schedule of Beneficiaries Receiving a Pension
2001 – 2010

Years Ended December 31	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General	N/A	N/A	1,068	1,089	1,175	1,200	1,190	1,214	1,253	1,286
Safety	N/A	N/A	97	109	118	121	130	135	146	156
Total	N/A	N/A	1,165	1,198	1,293	1,321	1,320	1,349	1,399	1,442

Schedule of Active and Deferred Members
2001 – 2010

Years Ended December 31	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General										
Active	N/A	N/A	19,006	18,935	18,812	19,101	19,803	19,795	18,873	18,155
Deferred	N/A	N/A	1,546	1,763	2,213	2,911	3,353	3,560	3,707	3,905
Safety										
Active	N/A	N/A	3,645	3,567	3,653	3,649	3,815	3,925	3,760	3,587
Deferred	N/A	N/A	119	147	196	267	293	321	387	403
Total	N/A	N/A	24,316	24,412	24,874	25,928	27,264	27,601	26,727	26,050

N/A: Detailed information not available. Source: OCERS' Pension Gold Information System

Schedule of Participating Employers – Pension Plan
2003 – 2010*

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
2001	Number of Covered Employees	22,329	-	-	-	-	-	-	-	-
	Percentage to Total System	100.00%	-	-	-	-	-	-	-	-
2002	Number of Covered Employees	22,723	-	-	-	-	-	-	-	-
	Percentage to Total System	100.00%	-	-	-	-	-	-	-	-
2003	Number of Covered Employees **(note 1)**	22,651	18,538	2,021	**(note 2)**	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%
2004	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%
2005	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%
2006	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%
2007	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%
2008	Number of Covered Employees	23,720	17,798	2,022	1,812	1,121	615	93	93	166
	Percentage to Total System	100.00%	75.03%	8.52%	7.64%	4.73%	2.59%	0.39%	0.39%	0.70%
2009	Number of Covered Employees	22,633	17,021	1,836	1,711	1,114	611	88	92	160
	Percentage to Total System	100.00%	75.20%	8.11%	7.56%	4.92%	2.70%	0.39%	0.41%	0.71%
2010	Number of Covered Employees	21,742	16,486	1,639	1,635	1,064	594	87	79	158
	Percentage to Total System	100.00%	75.83%	7.54%	7.52%	4.89%	2.73%	0.40%	0.36%	0.73%

Note 1 Includes Active & Inactive members.
Note 2 Orange County Superior Court became a separate agency in 2004.
* Data for years 2001 and 2002 is not available in our current system.

Source: OCERS' Pension Gold Information System

History of Actuarial Assumption Rates for the Period January 1945 – December 2010

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.

Effective Date	Interest Rate	Salary Assumption Rate
1/1/45	2.50%	0.00%
7/1/62	3.50%	0.00%
12/31/65	4.00%	0.00%
7/1/69	4.50%	0.00%
6/30/70	5.00%	0.00%
8/31/73	5.75%	0.00%
7/1/75	6.00%	0.00%
7/1/81	7.25%	5.00%
7/1/89	7.50%	5.50%
7/1/91	8.00%	6.00%
7/1/96	8.00%	3.50%
7/1/00	8.00%	5.50%
7/1/03	7.50%	4.50%
12/31/04	7.75%	3.50%*
12/31/07	7.75%	3.50%**

* inflation per year plus merit and promotion increases ranging from .6% to 7%
** inflation per year plus merit and promotion increases ranging from 1% to 10%

Source: The Segal Company

SECTION 6

>GLOSSARY

ACCUMULATED PLAN BENEFITS: Benefits attributable under the provisions of a pension plan to employees for services rendered to the benefit information date.

ACTUARIAL ASSUMPTIONS: Assumptions used in the actuarial valuations process as to the occurrence of future events affecting pension costs, such as mortality, withdrawal, disablement and retirement; changes in compensation and national pension benefits; rates of investments earnings and asset appreciation of depreciation: procedures used to determine the actuarial value of assets; characteristics of future entrants for open group actuarial cost methods and others relevant items.

ACCRUAL BASIS: The recording of the financial effects on a government of transactions and other events and circumstances that have cash consequences for the government in the periods in which those transactions, events and circumstances occur, rather than only in the periods in which cash is received or paid by the government.

ACTUARIAL ACCRUED LIABILITY: The portion, as determined by a particular cost method, of the total present value of benefits that is attributable to past service credit.

ACTUARIAL GAIN (LOSS): A measure of the difference between actuarial and expected experience based upon a set of actuarial assumptions. Examples include higher than expected salary increases (decreases) and a higher return on fund assets than anticipated gain.

ACTUARIAL PRESENT VALUE: The discounted value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions.

AMORTIZATIONS: (1) the portion of the cost of a limited-life or intangible asset charged as an expense during a particular period. (2) The reduction of debt by regular payments of principal and interest sufficient to retire the debt by maturity.

AUDITOR'S REPORT: In the context of a financial audit, a statement by the auditor describing the scope of the audit and the auditing standards applied in the examination, and setting forth the auditor's opinion on the fairness of presentation of the financial information in conformity with GAAP or some other comprehensive basis of accounting.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report of a government. It includes (a) the combined financial statements in the combined statements – overview and their related notes and (b) combining statements by fund type and individual fund and account group financial statements prepared in conformity with GAAP and organized into a financial reporting pyramid. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provision, required supplementary information, extensive introductory material and a detailed statistical section.

ENTRY AGE ACTUARIAL COST METHOD: A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on the level basis over the earnings or services of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal cost is called the actuarial accrued liability.

NORMAL COST: The ongoing annual cost allocated to the system by a particular actuarial cost methods for providing benefits (future cost). Normal cost payments are made during the working lifetime of the member.

PENSION CONTRIBUTION: The amount paid into a pension plan by an employer (or employee), pursuant to the terms of the plan, state law, actuarial calculations or some other basis for determinations.

PENSION TRUST FUND: A fund used to account for a PERS. Pension trust funds, like nonexpendable trust funds, use the accrual basis of accounting and have a capital maintenance focus.

UAAL AMORTIZATION PAYMENT: The portion of the pension plan contribution, which is designed to pay off (amortize) the unfunded actuarial accrued liability in a systematic fashion. Equivalently, it is a series of periodic payments required to pay off a debt.

UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL): The excess of the actuarial accrued liability over the actuarial value of assets.

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