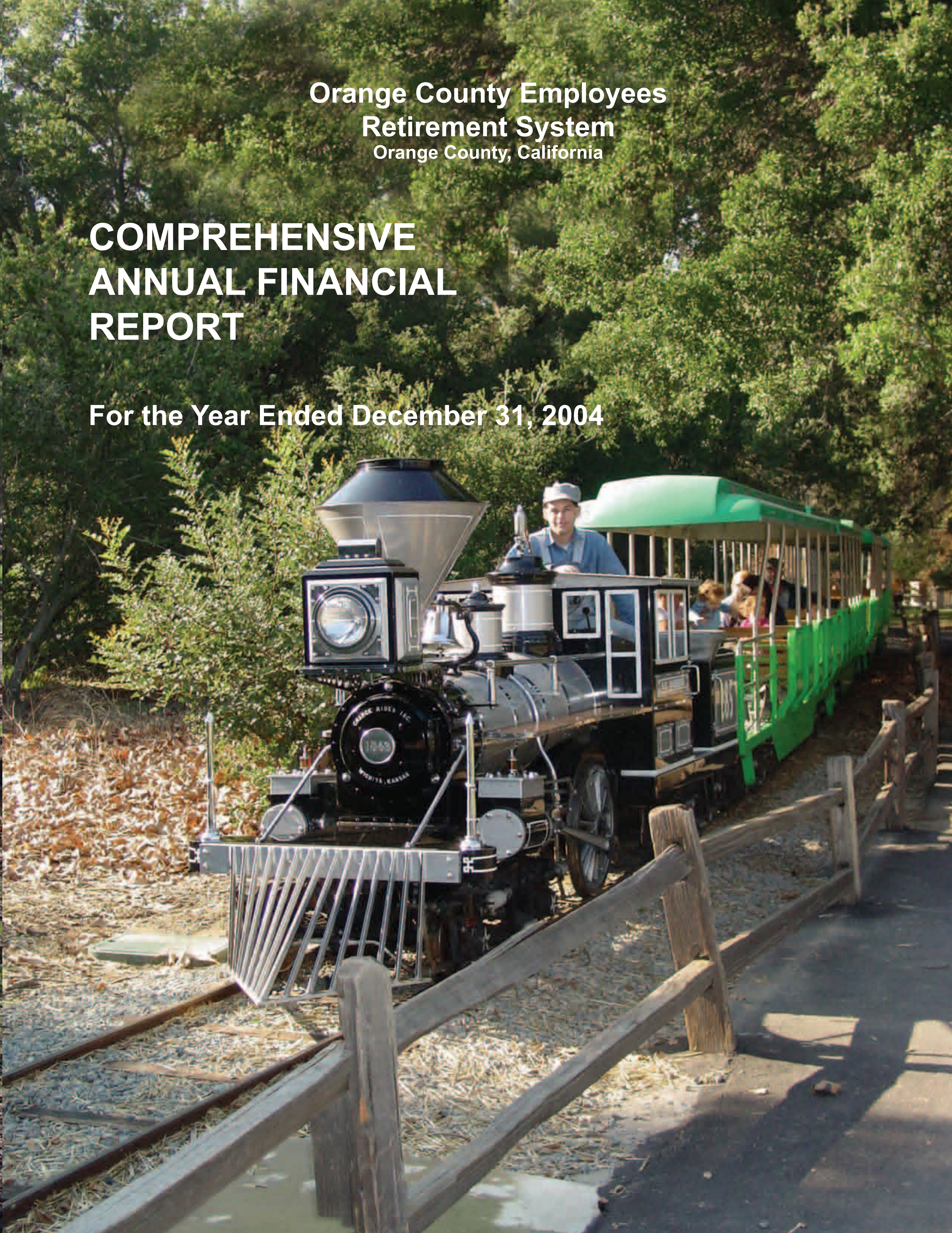
Orange County Employees
Retirement System
Orange County, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 2004



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 2004

Orange County Employees Retirement System
Orange County, California

Keith Bozarth
Chief Executive Officer

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SECTION 1

> INTRODUCTION

LETTER OF TRANSMITTAL

RETIREMENT SYSTEM

Serving the Active and Retired Members of:

City of Rancho Santa Margarita

City of San Juan Capistrano

County of Orange

Orange County Cemetery District

Orange County Children & Families Commission

Orange County Employees Retirement System

Orange County Fire Authority

Orange County Local Agency Formation Commission

Orange County Public Law Library

Orange County Sanitation District

Orange County Transportation Authority

Orange County Vector Control District

Superior Court of California, County of Orange

Transportation Corridor Agencies

April 22, 2005

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

Dear Board Members:

It is with great pleasure that we submit the Comprehensive Annual Financial Report (CAFR) of the Orange County Employees Retirement System (OCERS) for the calendar year ended December 31, 2004, the System's 60th year of operation. Information contained in this report is designed to provide a complete and accurate review of the year's operations and is the responsibility of the OCERS' management. Please review the basic financial statements in conjunction with the Management's Discussion and Analysis pages 16-20.

Structure of the Report:
This report is presented in five sections:

- The Introductory Section describes the System's management and organizational structure, a summary of the plan provisions and a listing of the professional services used.
- The Financial Section contains the opinion of the independent auditors, Link, Murrel & Co., Management's Discussion and Analysis, and the Basic Financial Statements of the System.
- The Investment Section contains the Investment Consultant's statement produced by Callan Associates, OCERS' investment consulting firm, along with graphs and schedules regarding asset allocation, asset diversification, and history of performance.
- The Actuarial Section includes the certification letter produced by the independent actuary, The Segal Company, along with supporting schedules and information.
- The Statistical Section contains graphs and schedules with comparative data related to active and deferred membership, retired membership, average monthly retirement benefits, revenues and expenses, and participating employers.

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

Board of Retirement
April 22, 2005

Certificate of Achievement:
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to OCERS for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2003 (page 6).

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

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

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA for evaluation.

Retired Members Benefit Reserve (RMBR):
The Retired Members Benefit Reserve was created in 2002 to ensure the continued funding of medical grants and similar supplemental benefits for an additional period. All participating agencies transferred a projected three years of benefit payments to the RMBR balance that was created as a sub-account of the Employer Advanced Reserve Account. The RMBR account will be used to pay additional benefits to retirees. The RMBR balance will be funded on a three-year rolling method. As of December 31, 2004, the balance for the RMBR account was $9,820,000.

Accounting System and Report:
The CAFR was prepared in conformity with accounting principles generally accepted in the United States of America and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB) Statements No. 3, 25, 28, 34, and the County Employees Retirement Law of 1937.

The accompanying basic financial statements are prepared using the accrual basis of accounting. Contributions from employers and members are recognized when due; benefits and refunds are recognized when payable in accordance with the provisions of the plan. Investment income is recognized as revenue when earned. Expenses are recorded when corresponding liabilities are incurred, regardless of when payment is due.

Board of Retirement
April 22, 2005

Link, Murrel & Co., independent auditors, have audited the basic financial statements. Management believes that internal control is adequate and that the accompanying statements, schedules and tables are fairly presented.

Additions to Plan Net Assets:
Due to improved market conditions during 2004, the total additions to plan net assets, including net appreciation in fair value of investments, were $845,361,000. This amount includes member and employer contributions of $276,361,000, net investment gains of $568,027,000, net security lending income of $857,000 and net commission recapture income of $116,000. Net investment gain, excluding net security lending income and net commission recapture income, represented a decrease of $149,549,000 over the prior year. This decrease was attributable mainly to a $217,076,000 decrease in net appreciation in fair value of investments over the prior year. Details of the additions to plan net assets are included in the Statements of Changes in Plan Net Assets on page 22.

Deductions to Plan Net Assets:
Deductions for 2004, excluding investment management and security lending fees, were $247,992,000 which represented an increase of $22,459,000 over the prior year. This increase was the result of higher retirement benefit payments, an increase in the number of retirees and an increase in refunds/withdrawals to terminated members.

Investment and Economic Summary:
In 2004 concerns about global terrorism, interest rate hikes, and U.S elections kept the markets on edge. Despite these concerns, the global markets continued to expand throughout the year as a result of the continued strength in the U.S. economy and low interest rates. Low interest rates pushed up gross domestic product for 2004. The GDP was up 4.4% driven by strong consumer and business spending. The weakness in the dollar continued. Mid-year, the Federal Reserve started a tightening cycle, and raised rates five times for a total of 125 basis points. 2004 turned out to be another strong year for both equities and fixed income. The S&P 500 was up 10.88%, and the Dow was up 5.27% for the year. Small cap continued to outperform large cap stocks, value outperformed growth stocks, and international equity. Fixed income performed well in 2004 despite Fed tightening, with the Lehman Aggregate up 4.33% for the year. Higher yield investments continued to outperform Treasuries as investors continued to seek yield-enhancing instruments.

Funding:
OCERS' funding objective is to meet long-term benefit obligations through contributions and investment income. For the year of 2004, the funding ratio of the System was 69.15%. A six-year history of OCERS' funding progress is presented on page 36. For year 2004, OCERS experienced an increase of $597,369,000 in plan net assets. Details of

Board of Retirement
April 22, 2005

the components of this increase are included in the Statements of Changes in Plan Net Assets on page 22.

Conclusion:
We would like to take this opportunity to thank the members of the System for their confidence in OCERS during the past year. We also want to express our thanks to the Board of Retirement for its dedicated effort in supporting the System through this past year. Likewise, we thank the consultants and staff for their commitment to OCERS and for their diligent work to assure the System's continued successful operation.

Respectfully submitted,

Keith Bozarth
Chief Executive Officer

Toi Dang
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Orange County Employees Retirement System, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2003

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.

Nancy L. Zielke

President

Jeffrey R. Esser

Executive Director

MEMBERS OF THE BOARD OF RETIREMENT

As of December 31, 2004

Reed L. Royalty
Chair
Appointed by the Board of Supervisors

Sharon Neebe
Vice-Chair
Elected by General Members

Lisa Welch Silbar
Appointed by the Board of Supervisors

Frank E. Eley
Elected by General Members

Thomas J. Lightvoet
Appointed by the Board of Supervisors

George W. Jeffries
Appointed by the Board of Supervisors

David J. Thompson
Alternate
Elected by Safety Members

Richard A. White Jr.
Elected by Safety Members

Keith L. Concannon
Elected by Retired Members

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

ORGANIZATION OF OCERS

Board of Retirement

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

Executive

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

Investment Department

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

External Operations Department

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

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

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

The Communications Division is responsible for producing publications such as the Comprehensive Annual Financial Report, a quarterly news magazine and brochures, as well as producing content for the Web site and Board of Retirement Extranet. The Communications division also coordinates financial and pre-retirement seminars for more than 1,500 members annually.

Internal Operations Department

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

The Finance Division is responsible for all the financial records and reports of OCERS. This includes the preparation of the Comprehensive Annual Financial Report, monthly and quarterly financial statements and the annual operating budget. The Finance Division also maintains OCERS' system of internal control; balances retirement payroll, refunds of contribution and interest to members; 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 on our Benefits Administration System. In addition, this division is responsible for the production of retiree payroll and administering all audio/visual services.

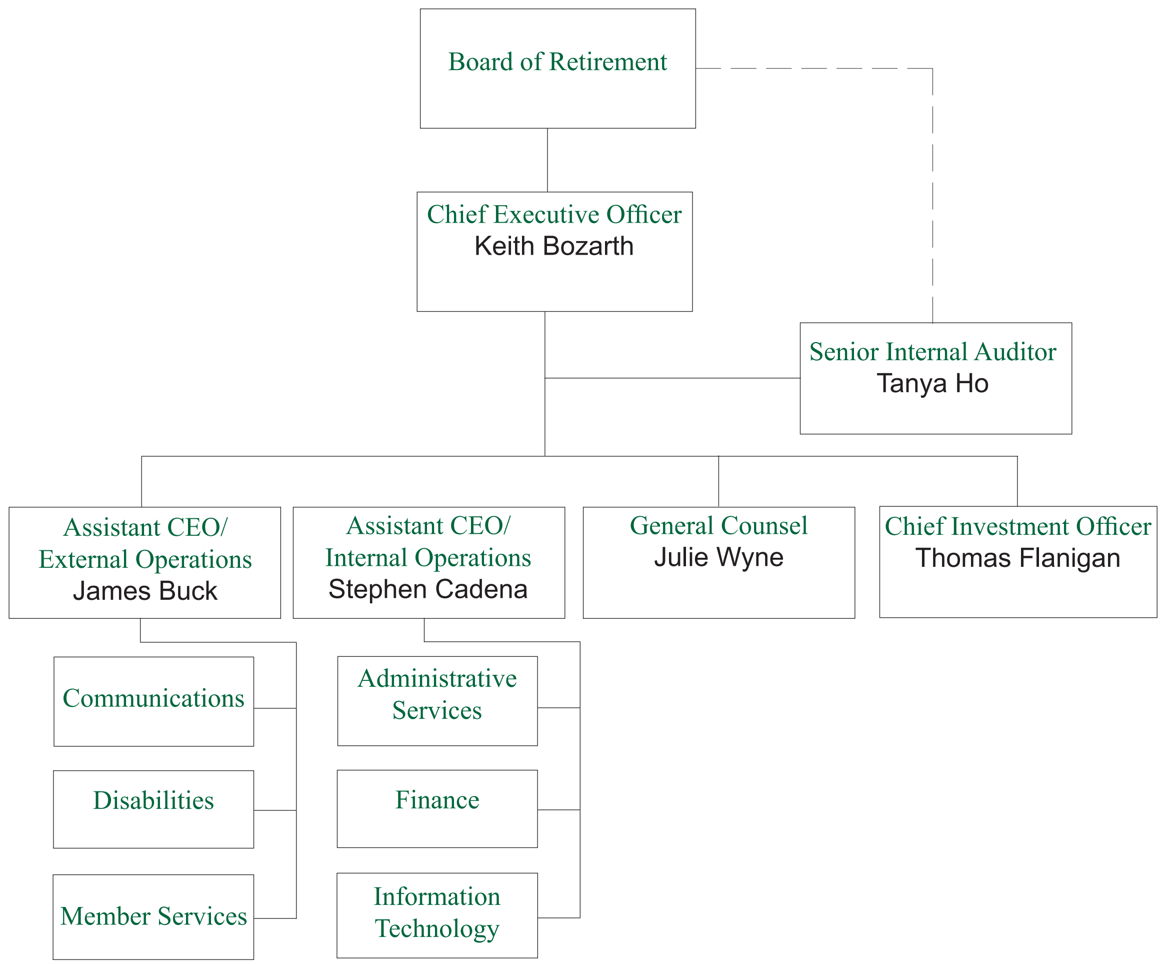
The Administrative Services Division is responsible for providing the contract administration, purchasing, and human resources functions of OCERS.

Legal Department

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

ADMINISTRATIVE ORGANIZATION CHART

as of December 31, 2004



Professional Services
As of December 31, 2004

Actuary

The Segal Company

Investment Consultant

Callan Associates, Inc.

Real Estate Consultant

The Townsend Group

Independent Auditor

Link, Murrel & Company

Investment Counsel

Stradling, Yocca, Carlson & Rauth

Fiduciary Counsel

Steefel Levitt & Weiss

Tax Counsel

Foley & Lardner

Custodian

State Street California

Investment Managers
As of December 31, 2004

Domestic Equity

Artisan Partners

Barclays Global Investors

Cadence Capital Management

Capital Guardian Trust Company

Dodge & Cox

Peregrine Capital Management

Domestic Fixed Income

Barclays Global Investors

Loomis, Sayles & Company

Pacific Investment Management Company (PIMCO)

International Equity

Capital Guardian Trust Company

Barclays Global Investors

International Fixed Income

Mondrian Investment Partners, Ltd.

Investment Managers
As of December 31, 2004
(Continued)

Real Estate

Domestic

American Realty Advisors

CB Richard Ellis

Sentinel Real Estate Corporation

International

Rockspring Property Investment Managers, Ltd.

Non-Traditional Investments

Managers

Adams Street Partners

HarbourVest Partners, LLC

Limited Partnerships

TCW Asset Management Company

Vega Partners

Timber

Hancock Timber Resource Group

Prudential Timber Investments, Inc.

SECTION 2


>FINANCIAL

Link, Murrel & Company

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying statements of plan net assets of the Orange County Employees Retirement System ("System") as of December 31, 2004 and 2003, and the related statements of changes in plan net assets for the years 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Orange County Employees Retirement System at December 31, 2004 and 2003, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the required supplementary information 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.

Certified Public Accountants 19700 Fairchild, Suite 300 Irvine, CA 92612-2515 949-261-1120 FAX 949-261-7014

Orange County Employees Retirement System
Board of Retirement
Page 2

Our audits were conducted for the purpose of forming an opinion on the System's basic financial statements taken as a whole. The other supplementary information and the introduction, investment, actuarial and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introduction, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

Link, Murrel & Co.

Irvine, California
April 11, 2005

Management's Discussion and Analysis

OCERS management is pleased to provide this overview and analysis of the financial activities of the Orange County Employees Retirement System (OCERS) for the year ended December 31, 2004. Please review it in conjunction with the Letter of Transmittal (starting on page 2) and the Basic Financial Statements beginning on page 21.

Financial Highlights (Dollars in thousands):

- Net Assets Held in Trust for Pension Plan Benefits, as reported in the Statements of Plan Net Assets, totaled $5,556,995 an increase of $597,369 or 12.04% from the prior year, primarily as a result of the increases in fair market values of investments and increases in contributions.

- Total Additions, as reported in the Statements of Changes in Plan Net Assets were $845,361, the major components of which is the appreciation in the fair value of investments and increases in contributions.

- Total Deductions, as reported in the Statements of Changes in Plan Net Assets, were $247,992. This represented an increase of $22,459 over the prior year primarily as a result of increases in benefit payments.

- The Segal Company is OCERS' new actuary. The latest actuarial valuation completed as of December 31, 2004 indicated that the funding status (the ratio of system assets to system liabilities) was 69.15%.

Overview of Financial Statements:

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

1. Statements of Plan Net Assets (page 21): This is a snapshot of account balances at the end of calendar year. This statement reflects assets available for future payments to members and their beneficiaries and any current liabilities that are owed.

2. Statements of Changes in Plan Net Assets (page 22): This report reflects all of the financial activities that occurred during the calendar year and shows the impact of those activities as Additions to or Deductions from the Plan.

3. Notes to Basic Financial Statements (pages 23-34): The Notes are an integral part of the financial reports; they provide detailed discussion to key policies, programs and activities that occurred during the year.

4. Required Supplementary Information (pages 35-37): This section includes the Schedule of Funding Progress that shows the historical trend for the actuarial funding status of the Plan; the Schedule of Employer Contributions that shows the annual required contributions, the percentage of contributions made and the list of significant factors affecting trends in actuarial information.

The Other Supplementary Information (pages 38-41), the Investment Section (pages 42-57), the Actuarial Section (pages 58-81) and the Statistical Section (pages 82-93) provide additional detailed financial, investment, actuarial, and statistical data supporting information reported in the basic financial statements.

Plan Net Assets (Dollars in thousands):

	December 31 2004	December 31 2003	December 31 2002	Increase/ (Decrease) Amount 2004-2003	Increase/ (Decrease) Amount 2004-2002	Increase/ (Decrease) Amount 2003-2002
Current Assets	$ 1,143,084	$ 874,188	$ 462,249	$ 268,896	$ 680,835	$ 411,939
Investments	5,356,914	4,421,845	4,043,188	935,069	1,313,726	378,657
Capital Assets	3,558	4,231	3,538	(673)	20	693
Total Assets	6,503,556	5,300,264	4,508,975	1,203,292	1,194,581	791,289
Total Liabilities	946,561	340,638	318,726	605,923	627,835	21,912
Total Plan Net Assets	**$ 5,556,995**	**$ 4,959,626**	**$ 4,190,249**	**$ 597,369**	**$ 1,366,746**	**$ 769,377**

	Increase/ (Decrease) Amount 2004-2003	Increase/ (Decrease) Amount 2004-2002	Increase/ (Decrease) Amount 2003-2002	Increase/ (Decrease) % 2004-2003	Increase/ (Decrease) % 2004-2002	Increase/ (Decrease) % 2003-2002
Current Assets	$ 268,896	$ 680,835	$ 411,939	30.76%	147.29%	89.12%
Investments	935,069	1,313,726	378,657	21.15%	32.49%	9.37%
Capital Assets	(673)	20	693	-15.91%	0.57%	19.59%
Total Assets	1,203,292	1,994,581	791,289	22.70%	44.10%	17.55%
Total Liabilities	605,923	627,835	21,912	177.88%	196.98%	6.87%
Total Changes	**$ 597,369**	**$ 1,366,746**	**$ 769,377**	**12.04%**	**32.62%**	**18.36%**

Revenues - Additions to Plan Net Assets (Dollars in thousands):

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through interest credited to the reserves. Earnings (losses) on investments increase (decrease) the Net Assets Held in Trust for Pension Benefits that, in turn, decrease (increase) employers' contribution. Gains, including net appreciation in fair market value of investments, net securities lending income, net commission recapture income and net of investment expenses for the year ended December 31, 2004, totaled $569,000. (See page 22).

Overall additions to plan net assets were $845,361 due primarily to investment gains and an increase in overall contributions.

Additions to Plan Net Assets (Dollars in thousands):

	Years Ended December 31 2004	2003	2002	Increase/ (Decrease) Amount 2004-2003	Increase/ (Decrease) Amount 2004-2002	Increase/ (Decrease) Amount 2003-2002
Employer Contributions	$ 194,430	$ 124,243	$ 13,289	$ 70,187	$ 181,141	$ 110,954
Employee Contributions	81,931	81,581	77,917	350	4,014	3,664
Investment Gains (Losses)	569,000	789,086	(269,188)	(220,086)	838,188	1,058,274
Total Additions	**$ 845,361**	**$ 994,910**	**$ (177,982)**	**$ (149,549)**	**$ 1,023,343**	**$ 1,172,892**

	Increase/ (Decrease) Amount 2004-2003	Increase/ (Decrease) Amount 2004-2002	Increase/ (Decrease) Amount 2003-2002	Increase/ (Decrease) % 2004-2003	Increase/ (Decrease) % 2004-2002	Increase/ (Decrease) % 2003-2002
Employer Contributions	$ 70,187	$ 181,141	$ 110,954	56.49%	1363.09%	834.93%
Employee Contributions	350	4,014	3,664	0.43%	5.15%	4.70%
Investment Gains (Losses)	(220,086)	838,188	1,058,274	-27.89%	311.38%	393.14%
Total Changes	**$ (149,549)**	**$ 1,023,343**	**$ 1,172,892**	**-15.03%**	**574.97%**	**658.99%**

Expenses - Deductions from Plan Net Assets (Dollars in thousands):

OCERS was created to provide lifetime retirement annuities, survivor benefits and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, as designated by the Plan, refund of contributions to terminated employees and the cost of administering the system. Deductions for the year ended December 31, 2004, totaled $247,992 (see page 22).

Deductions from Plan Net Assets (Dollars in thousands):

	Years Ended December 31 2004	2003	2002	Increase/ (Decrease) Amount 2004-2003	Increase/ (Decrease) Amount 2004-2002	Increase/ (Decrease) Amount 2003-2002
Benefits Paid	$ 230,684	$ 210,273	$ 181,549	$ 20,411	$ 49,135	$ 28,724
Withdrawals/Refunds	7,845	6,412	4,482	1,433	3,363	1,930
Administrative Expenses	9,463	8,848	8,279	615	1,184	569
Total Deductions	**$ 247,992**	**$ 225,533**	**$ 194,310**	**$ 22,459**	**$ 53,682**	**$ 31,223**

	Increase/ (Decrease) Amount 2004-2003	Increase/ (Decrease) Amount 2004-2002	Increase/ (Decrease) Amount 2003-2002	Increase/ (Decrease) % 2004-2003	Increase/ (Decrease) % 2004-2002	Increase/ (Decrease) % 2003-2002
Benefits Paid	$ 20,411	$ 49,135	$ 28,724	9.71%	27.06%	15.82%
Withdrawals/Refunds	1,433	3,363	1,930	22.35%	75.03%	43.06%
Administrative Expenses	615	1,184	569	6.95%	14.30%	6.87%
Total Changes	**$ 22,459**	**$ 53,682**	**$ 31,223**	**9.96%**	**27.63%**	**16.07%**

Reserves (Dollars in thousands):

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

	December 31		
	2004	**2003**	**2002**
Active Members Reserve	$ 1,007,576	$ 927,970	$ 858,121
Retired Members Reserve	2,655,784	2,503,128	2,148,469
Employer Advanced Reserve	1,422,602	1,268,602	1,350,611
Additional Retiree Benefit Account Reserve	-	-	25,703
Retired Members Benefit Account	9,820	20,422	56,950
Death Benefits Reserve	-	-	1,074
	5,095,782	4,720,122	4,440,928
Less: Accounts Receivable for Interest Credited to Reserve	(301,184)	(122,922)	-
Net Total Reserve	**$ 4,794,598**	**$ 4,597,200**	**$ 4,440,928**

Investment and Economic Summary:

In 2004 concerns about global terrorism, interest rate hikes, and U.S elections kept the markets on edge. Despite these concerns, the global markets continued to expand throughout the year as a result of the continued strength in the U.S. economy and low interest rates. Low interest rates pushed up gross domestic product for 2004. The GDP was up 4.4% driven by strong consumer and business spending. The weakness in the dollar continued. Mid-year, the Federal Reserve started a tightening cycle, and raised rates five times for a total of 125 basis points. 2004 turned out to be another strong year for both equities and fixed income. The S&P 500 was up 10.88%, and the Dow was up 5.27% for the year. Small cap continued to outperform large cap stocks, value outperformed growth stocks, and international equity. Fixed income performed well in 2004 despite Fed tightening, with the Lehman Aggregate up 4.33% for the year. Higher yield investments continued to outperform Treasuries as investors continued to seek yield-enhancing instruments.

Capital Assets (Dollars in thousands):

OCERS' investment in capital assets decreased from $4,231 to $3,558 (net of accumulated depreciation and amortization). This investment in capital assets includes equipment, furniture and computer system-installation. The total decrease in OCERS' investment in capital assets for the current year was (15.91%) over 2003. The decrease is mainly due to the adjustment of fully-depreciated and obsolete equipment.

Changes in OCERS' Plan Net Assets (Dollars in thousands):

Positive market returns and increases in contributions were the primary factors in an increase in net assets by $597,369, thereby accounting for an increase of 12.04% over the prior year. Key elements of this increase are described in the section that follows:

	Years Ended December 31		
	2004	**2003**	**2002**
Contributions Received	$ 276,361	$ 205,824	$ 91,206
Net Investment Gains (Losses)	568,027	788,036	(270,654)
Net Securities Lending Income and Other Income	973	1,050	1,466
Participant's Benefits	(230,684)	(210,273)	(181,549)
Withdrawals and Refunds	(7,845)	(6,412)	(4,482)
Administrative Expenses	(9,463)	(8,848)	(8,279)
Increases (Decreases) in Plan Net Assets	**$ 597,369**	**$ 769,377**	**$ (372,292)**

OCERS' Fiduciary Responsibilities:

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

Requests for Information:

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

OCERS
Attention: Toi Dang
2223 Wellington Avenue
Santa Ana, CA 92701

Toi Dang
Chief Financial Officer

Statements of Plan Net Assets
(in thousands)

	December 31 2004	December 31 2003
ASSETS		
Cash and Short-Term Investments		
Cash and Cash Equivalents (Note E-3)	$ 286,788	$ 550,268
Collateral Held for Securities Lent (Note E-6)	809,189	290,166
Total Cash and Short-Term Investments	1,095,977	840,434
Receivables		
Forward Currency Contracts, Net (Note F-1)	288	378
Investment Income	20,266	13,585
Securities Sales	10,740	6,615
Employer/Employee Contributions	15,813	13,176
Total Receivables	47,107	33,754
Investments, at Fair Value (Notes B-2 and E)		
United States Government Debt Securities and Corporate Bonds	2,087,534	1,305,891
Foreign Bonds	377,156	237,560
Domestic Equity Securities	1,172,805	1,727,507
International Equity Securities	1,226,987	748,239
Real Estate	341,030	250,291
Venture Capital and Limited Partnership Interests	151,402	152,357
Total Investments	5,356,914	4,421,845
Capital Assets, Net (Note B-3)	3,558	4,231
Total Assets	6,503,556	5,300,264
LIABILITIES		
Collateral Held for Securities Lent (Note E-6)	809,189	290,166
Securities Purchased	111,514	24,318
Other	25,858	26,154
Total Liabilities	946,561	340,638
Net Assets Held in Trust for Pension Plan Benefits*	$ 5,556,995	$ 4,959,626

*(See Schedule of Funding Progress on page 36.)
(See accompanying notes to financial statements beginning on page 23.)

Statements of Changes in Plan Net Assets
(in thousands)

	Years Ended December 31 2004	2003
ADDITIONS		
Contributions (Note C)*		
Employer	$ 194,430	$ 124,243
Employee	81,931	81,581
Total Contributions	276,361	205,824
Investment Income:		
Net Appreciation in Fair Value of Investments (Note E-5)	458,929	676,005
Interest on:		
Domestic and International Securities	61,206	66,368
Cash with County Treasurer (Note E-3)	235	105
Domestic Dividends	14,998	11,092
Rental Income	16,908	24,970
International Dividends	11,800	12,088
Venture Capital and Limited Partnership	21,344	14,177
Total Investment Income	585,420	804,805
Less Investment Expenses	(17,393)	(16,769)
Net Investment Income	568,027	788,036
Securities Lending Revenue (Note E-6)	1,203	1,236
Less Securities Lending Fees (Note E-6)	(346)	(364)
Net Securities Lending Income	857	872
Income from Commission Recapture-Net	116	178
Total Additions	845,361	994,910
DEDUCTIONS		
Participants' Benefits	230,225	208,861
Death Benefits	459	1,412
Member Withdrawals	7,845	6,412
Administrative Expenses (Note G)	9,463	8,848
Total Deductions	247,992	225,533
NET INCREASE	597,369	769,377
NET ASSETS HELD IN TRUST FOR PENSION PLAN BENEFITS		
Beginning of Year	4,959,626	4,190,249
End of Year	**$ 5,556,995**	**$ 4,959,626**

*Employer contributions reflect cash payments only. Please see note C on pages 27-28 for amounts transferred from the County Investment Account.

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

A. Description and History of Plan

The following is a brief description of the Orange County Employees Retirement System (OCERS). Participants should refer to their Summary Plan Description for more complete information.

1. General

OCERS is a cost-sharing multiple-employer, defined benefit pension plan covering substantially all employees of the County of Orange (County) and of the following agencies:

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

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

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

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

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

2. Membership

All regular full-time employees or part-time employees scheduled to work 20 hours or more per week for the County or other participating employers become members of the plan upon employment.

3. Monthly Salary Base for Benefits

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

4. Service Retirement

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

b. Benefit Formula per Year of Service:

General Tier 1 – 2%   General Tier II – 1.6667%
Firefighters and Law Enforcement – 3%
OCFA General – 2%   Probation Safety – 2%
Rancho Santa Margarita – 2%
San Juan Capistrano – 2%

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

Firefighters/Law Enforcement	31664.1
Probation Safety	31664
San Juan Capistrano	31676.19
OCFA General	31676.19
Rancho Santa Margarita	31676.18

All other General members:

• Tier 1	31676.12
• Tier II	31676.1

5. **Non-Service Connected Disability**

   a. Eligibility: Five years of service.

   b. Benefit Formula per Year of Service:

   Tier I

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

   Tier II

   1.5% x Years of Service Credit x Final Three Year Average Monthly Compensation. (If benefit is less than 1/3 of final average monthly compensation, the number of years to age 65 can be added to the years of service credit in order to pay up to a maximum of one-third of final average monthly compensation.)

6. **Service Connected Disability**

   a. Eligibility: No age or service requirement.

   b. Benefit: 50% of final average monthly compensation, or service retirement if the benefits are higher.

7. **Active Member Death**

   a. If a member with less than five years of service dies in a non-work related incident, the spouse or dependent children will receive the member's refundable retirement contributions plus interest. In addition, the beneficiary will receive one month's salary for each completed year that the member served to a maximum of six months.

   b. If the member was eligible for a service retirement or a non-service connected disability retirement at the time of death, the qualified surviving spouse or child has the following options:

   - Refund of employee contributions with interest plus one month's salary for each year of service to a maximum of six months' salary;

     or

   - 60% of earned benefit payable to surviving eligible spouse;

     or

   - Combined benefit equal to a lump-sum payment plus a reduced monthly allowance.

   If no eligible spouse or child exists, the named beneficiary receives refund of employee contributions with interest plus one month's salary for each year of service to a maximum of six months' salary.

   c. Service Connected Death:

   If a member dies in a job-related incident, the spouse or qualified child is eligible for a monthly allowance equal to 50 percent of the member's final average salary.

   d. $750 Burial Benefit:

   A burial allowance of $750 is payable to deceased member's beneficiary or estate if the member had 10 years of service with the County or district at the time of the member's death.

   e. If a safety member dies in the line of duty, the spouse may be eligible for an additional 25% of the service connected death allowance for each qualified child, from the County or district contributions and a one-time lump sum payment to the spouse equal to the annual compensation earnable of the deceased member at the rate of pay when the member died.

8. **Death After Retirement**

   a. Non-Service Connected Disability Retirement:

   60% of member's unmodified allowance continued to eligible spouse or eligible child. (Member may elect a modified allowance at time of retirement.)

   b. Service Connected Disability Retirement:

   The continuance is 100% to the eligible spouse or eligible child if the member retired with a service connected disability.

   c. $1,000 Burial Benefit:

   A burial allowance of $1,000 is payable to the deceased retiree's beneficiary or estate.

   d. Service Retirement:

   Benefit depends upon option chosen.

9. **Termination of Employment**

   Members may elect a refund of accumulated contributions and interest. Contributions left on deposit continue to draw interest regardless of the amount of service the member has earned. If the member does leave his contributions on deposit and has at least five years of service, he will be eligible for a benefit at the point that he attains retirement age and would have met the service requirements had he not terminated covered employment.

10. Post-Retirement Cost-of-Living Benefits

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

11. Employer Contributions

Determined by Projected Unit Credit funding method with a 30-year declining period amortization of Unfunded Actuarial Accrued Liability.

12. Member Contributions

Normal Based on Entry Age

	Tier 1 1/200 @	Tier 2 1/120 @	1/100 @
General			
County of Orange and Others	60	60	
OCTA	60	60	
City of Rancho Santa Margarita			55
City of San Juan Capistrano			55
OCFA			55

Safety	Tier 1 1/200 @	Tier 2 1/100 @
Firefighters	50	50
Law Enforcement	50	50
Probation Safety	50	50

Cost-of-Living Contributions Equal to Percent of Normal

	Tier 1 1 Year FAS*	Tier 2 3 Year FAS*
County of Orange and Others	51.90%	31.40%
OCTA	50.96%	35.56%
Firefighters	108.80%	54.86%
Law Enforcement	113.32%	57.36%
Probation Safety	28.28%	14.10%
City of Rancho Santa Margarita	27.37%	27.37%
City of San Juan Capistrano	29.15%	29.16%
OCFA General	51.90%	31.40%

*FAS = Final Average Salary

13. Active and Retired Members

The following is a summary of OCERS' membership composition at December 31, 2004 and 2003:

Active and Deferred Personnel
(unaudited)

	December 31 2004	December 31 2003
General Members		
County and Agencies Paid by County Payroll	15,760	15,857
Outside Agencies	3,175	3,166
Subtotal - General Members	18,935	19,023
Safety Members		
County and Agencies Paid by County Payroll	2,776	2,854
Outside Agencies	791	795
Subtotal - Safety Members	3,567	3,649
Total Active Members	22,502	22,672
Deferred (General & Safety) Members		
Regular	1,817	2,251
Employment with Other Agencies (Reciprocity)	93	27
Subtotal - Deferred Members	1,910	2,278
Total Active and Deferred Personnel	**24,412**	**24,950**

Benefit Recipients
(unaudited)

	December 31, 2004 Gen.	Safety	Total	December 31, 2003 Gen.	Safety	Total
Service Retirement	6,118	788	6,906	5,952	680	6,632
Survivors	606	55	661	575	48	623
Alternate Payees QDRO	102	26	128	93	18	111
Subtotal	6,826	869	7,695	6,620	746	7,366
Service Connected Disability	585	333	918	564	315	879
Survivors	47	18	65	47	14	61
Alternate Payees QDRO	5	17	22	5	10	15
Subtotal	637	368	1,005	616	339	955
Non-Service Connected Disability	244	14	258	248	16	264
Survivors	77	1	78	75	1	76
Aternate Payees QDRO	3	0	3	3	0	3
Subtotal	324	15	339	326	17	343
Active Death Survivors	359	35	394	365	34	399
Total Recipients	**8,146**	**1,287**	**9,433**	**7,927**	**1,136**	**9,063**

14. Employee Purchased Annuities

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

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

15. Federal Income Tax Status

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

B. Summary of Significant Accounting Policies

1. Basis of Accounting

OCERS' financial statements are prepared on the accrual basis of accounting. Contributions from employers and members are recognized when due pursuant to formal commitments, as well as statutory requirements; benefits and refunds are recognized when payable in accordance with the provisions of the plan. Investment income is recognized as revenue when earned. The net appreciation (depreciation) in fair value of assets held by OCERS is recorded as an increase (decrease) to investment income based on the valuation of investments at year end. Expenses are recorded when corresponding liabilities are incurred, regardless of when payment is due.

2. Valuation of Investments

Quoted market prices are used to value United States Government and agency securities, corporate and foreign bonds and debentures, and domestic and international common stocks. Real estate equity investments are stated at fair value, determined by independent appraisals performed on the properties held. The values of venture capital funds and limited partnership investments were determined by the investment managers based on the underlying financial statements and performance of the investments and acceptable valuation methodologies.

3. Capital Assets

Capital assets are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method with a 10 year useful life for computer software, and 5 to 15 years for equipment and furniture. The cost and accumulated depreciation of capital assets at December 31, 2004 and 2003, were as follows:

	2004	2003
Furniture and Equipment	$ 1,161,000	$ 1,784,000
Computer Software	4,087,000	4,887,000
Total Capital Assets (at cost)	5,248,000	6,671,000
Less Accumulated Depreciation	(1,690,000)	(2,440,000)
Total Capital Assets Net of Depreciation	**$ 3,558,000**	**$ 4,231,000**

4. Reclassification of Prior Year Amounts

Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation.

C. Contributions Required and Contributions Made

As a condition of participation under the provisions of the County Employees Retirement Law of 1937, members are required to contribute a percentage of their annual compensation to OCERS. For Tier I members, the normal rate of contribution is based on the member's age of entry into OCERS, and is calculated to provide an annual annuity equal to 1/200 of the member's "final compensation" for each year of service rendered at age 60 for General members, and at the age of 50 for Safety members. For Tier II General members, the rate of contribution is calculated to provide an annual annuity equal to 1/120 of the member's "final compensation" for each year of service rendered at age 60. For Tier II Safety members, the rate of contribution is calculated to provide an annual annuity equal to 1/100 of the member's "final compensation" for each year of service rendered at age 50.

Present members' accumulated contributions at December 31, 2004 and 2003, were $1,007,576,000 and $927,971,000, respectively, including interest credited. Interest was credited at an interest rate of 5.0% per annum as of June 30, on the balance of the members' accounts as of the prior December 31 and as of December 31 on the balance of the members' accounts as of the prior June 30. The incremental difference between the 5% that is credited to employee contributions and the actuarially assumed rate of 7.5% is credited to the Employer Reserve account.

The County and participating agencies' funding policy is to make periodic contributions to OCERS in amounts that, when combined with members' contributions and with investment income, will fully provide for all members' benefits by the time they retire.

In September 1994, the County of Orange issued $320 million in Pension Obligation Bonds (POB) of which $318.3 million in proceeds were paid to OCERS to fund the County's portion of the Unfunded Actuarial Accrued Liability (UAAL). The proceeds received were recorded as employer contributions in calendar year 1994.

For accounting purposes, OCERS maintains the proceeds for the POB's in the County Investment Account (Investment Account). OCERS and the County of Orange, a single participating district, entered into an agreement which provided an offsetting credit based upon an amount actuarially determined to deplete the County Investment Account over the then remaining UAAL amortization period. The offsetting credits for years 2004, 2003, 2002, 2001, 2000 and 1999 were $3,579,000, $26,209,000, $65,180,000, $41,319,000, $48,555,000 and $47,129,000, respectively.

In 1995, the Board of Retirement and the County of Orange, modified the previous agreement for the use of the Investment Account. The modification provided, that for the year 1995, the employer contributions for the County of Orange would be paid entirely from the Investment Account.

Subsequently, in 1996, the Board of Retirement and the County of Orange entered into an agreement for the use of the Investment Account over a new funding period of 20 years. The agreement provided that the Investment Account would be used to fund the County's employer contribution in a decreasing percentage each year. In 1997, the Investment Account funded approximately 90% of the County's employer contribution and the County made cash contributions for the remaining 10%. For each subsequent year the funding by the Investment Account would decrease by 5.0% annually, while the County of Orange employer cash contribution would increase by a corresponding amount.

In November 2002, the Board of Retirement and the County amended the agreement to provide for greater County flexibility by eliminating the draw down schedule and to allow the County to determine annually how the account will be used.

Combined Employer and Employee Contributions Received

	2004	2003
Normal Cost	$ 183,339,000	$ 172,353,000
Amortization of Unfunded Actuarial Accrued Liability	$ 93,022,000	$ 33,471,000
Total	**$ 276,361,000**	**$ 205,824,000**

The Orange County Employees Retirement System (OCERS), as an employer, has also participated in the program. On an annual basis, OCERS has made contributions to the System in accordance with the actuarially-determined rates. For the years ended December 31, 2004 and 2003, OCERS contributed $431,000 and $288,000, respectively.

The contributions to OCERS for 2004 and 2003 were made in accordance with the actuarially-determined requirements as follows:

Percent of Members' Payroll

	07/04-12/04	07/03–06/04	07/02–06/03	07/01–06/02
Employer Contributions - General - County of Orange and Others				
Normal Cost	5.56%	5.44%	5.04%	4.94%
Amortization of Unfunded Actuarial Accrued Liability	6.56%	3.21%	0.12%	-3.98%
Subtotal	12.12%	8.65%	5.16%	0.96%
Additional Contribution	.50%	0.50%	0.50%	0.00%
Total	**12.62%**	**9.15%**	**5.66%**	**0.96%**
Employer Contributions - OCTA				
Normal Cost	4.41%	4.36%	4.20%	4.94%
Amortization of Unfunded Actuarial Accrued Liability	6.54%	3.37%	0.27%	-3.98%
Subtotal	10.95%	7.73%	4.47%	0.96%
Additional Contribution	.50%	0.50%	0.50%	0.00%
Total	**11.45%**	**8.23%**	**4.97%**	**0.96%**
Employer Contributions - City of Rancho Santa Margarita 2.5%				
Normal Cost	1.77%	1.69%	N/A	N/A
Amortization of Unfunded Actuarial Accrued Liability	2.93%	3.40%	N/A	N/A
Subtotal	4.70%	5.09%	N/A	N/A
Additional Contribution	.50%	0.00%	N/A	N/A
Total	**5.20%**	**5.09%**	**N/A**	**N/A**
Employer Contributions - City of San Juan Capistrano 2.7%				
Normal Cost	7.22%	5.44%	5.04%	4.94%
Amortization of Unfunded Actuarial Accrued Liability	10.46%	7.65%	0.12%	-3.98%
Subtotal	17.68%	13.09%	5.16%	0.96%
Additional Contribution	.50%	0.50%	0.50%	0.00%
Total	**18.18%**	**13.59%**	**5.66%**	**0.96%**
Employer Contributions - Safety - Law Enforcement				
Normal Cost	16.86%	16.53%	15.87%	8.57%
Amortization of Unfunded Actuarial Accrued Liability	22.03%	20.84%	8.65%	0.16%
Subtotal	38.89%	37.37%	24.52%	8.73%
Additional Contribution	.50%	0.50%	0.50%	0.00%
Total	**39.39%**	**37.87%**	**25.02%**	**8.73%**

Percent of Members' Payroll
(Continued)

	07/04-12/04	07/03–06/04	07/02–06/03	07/01–06/02
Employer Contributions - Safety - Firefighters				
Normal Cost	17.98%	17.85%	10.30%	8.57%
Amortization of Unfunded				
Actuarial Accrued Liability	14.90%	16.31%	1.39%	0.16%
Subtotal	32.88%	34.16%	11.69%	8.73%
Additional Contribution	.50%	0.50%	0.50%	0.00%
Total	**33.38%**	**34.66%**	**12.19%**	**8.73%**
Employer Contributions - Safety - Probation				
Normal Cost	4.02%	4.38%	5.04%	4.94%
Amortization of Unfunded				
Actuarial Accrued Liability	8.23%	3.69%	0.12%	-3.98%
Subtotal	12.25%	8.07%	5.16%	0.96%
Additional Contribution	.50%	0.50%	0.50%	0.00%
Total	**12.75%**	**8.57%**	**5.66%**	**0.96%**

The Memorandum of Understanding (MOU) between OCERS and participating employers required that Employer Contributions must increase by the lesser of .50% of pay or the amount necessary to increase OCERS' Unallocated Fund Balance (UFB) to 3% of OCERS' adjusted total assets. The balance of the UFB as of December 31, 2004 was zero; therefore, the additional Employer Contribution of .50% of pay continued for the fiscal year beginning July 1, 2004. The total payments made during the second and third quarters of calendar year 2004 pursuant to such provision was $1,571,000. In September 2004, the County and the Orange County Fire Authority signed amended MOUs that eliminated the requirement for this payment to the UFB. However, the County elected to redirect such payments to their Retired Members Benefit Reserve (RMBR) account.

D. Plan Termination

There are no plan termination provisions under the County Employees Retirement Law of 1937.

E. Investments

1. Investments Authorized

California law follows the "prudent person" rule for investing by retirement systems.

2. Investment Concentration

As of December 31, 2004 OCERS did not invest in any single issue of securities that represented more than five percent of the System's net assets.

3. Cash and Cash Equivalents

At any given time, OCERS' investment portfolios may contain funds not yet invested in securities. These funds are invested in short-term money market funds including the Orange County Treasurer's Investment Pool. In addition, OCERS maintains an operating cash balance at a local financial institution that is used for retirement payroll and other operational expenses. On December 31, 2004, OCERS had money market funds of $254,130,000 invested with OCERS' master trust custodian bank, State Street California, $22,005,000 invested with Wells Fargo Bank and $10,653,000 invested with the Orange County Treasurer's Investment Pool. All of the cash invested is uninsured and uncollateralized; interest on the money market funds and in the Orange County Treasurer's Investment Pool are computed on an average daily balance. The total amount classified as Cash and Cash Equivalents as of December 31, 2004 was $286,788,000.

4. Credit Risk

GASB Statement No. 3 requires that OCERS' investments be categorized to give an indication of the level of risk assumed by OCERS at year-end. The categories are:

Category 1 includes investments that are insured or registered or for which the securities are held by OCERS or by its agent in its name.

Category 2, of which OCERS has none, includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in OCERS' name.

Category 3, of which OCERS has none, includes uninsured and unregistered investments for which the securities are held by broker-dealers or by other counterparties, but not in OCERS' name.

Investments not evidenced by securities are not categorized. The investment values (in thousands) at December 31, 2004 are summarized as follows:

	Cost	Fair Value
Category 1 Classification		
U.S. Government Debt Securities	$ 515,915	$ 478,160
Corporate Debt Securities	193,495	212,289
Foreign Bonds	329,093	372,869
Domestic Equity Securities	678,517	835,067
International Equity Securities	328,456	432,963
Subtotal	2,045,476	2,331,348
Amounts Not Subject to Classification		
Investments Held by Broker-Dealers Under Securities Loans with Cash Collateral:		
Corporate Debt Securities	19,918	24,325
U.S. Government Debt Securities	520,089	577,452
Domestic Equity Securities	61,724	73,841
International Equity Securities	81,708	109,456
Foreign Bonds	3,184	4,287
Orange County Treasurer's Investment Pool	10,653	10,653
Real Estate Investments	330,193	341,030
Domestic Equity Index Fund	279,756	263,897
International Pooled Equity Funds	541,491	684,568
Domestic Pooled Fixed Income	678,495	795,308
Alternative Investment in Venture Capital and Limited Partnership	187,643	151,402
Subtotal	2,714,854	3,036,219
Less: Orange County Treasurer's Investment Pool	(10,653)	(10,653)
Total Investments	**$ 4,749,677**	**$ 5,356,914**

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

5. Net Appreciation

During 2004 and 2003, OCERS' investments (including investments bought and sold, as well as held during each year) appreciated in value by $458,929,000 and by $649,697,000, respectively.

	Years Ended December 31 (in thousands) 2004	2003
Net Appreciation in Fair Value as Determined by Quoted Market Prices:		
Domestic Equity Securities	$ 160,159	$ 414,694
United States Government Debt Securities, Corporate & Foreign Bonds & Debentures	96,078	102,152
International Equity Securities	171,189	194,425
Subtotal	427,426	711,271
Net Appreciation (Depreciation) in Fair Value as Determined by Estimated Fair Value:		
Real Estate	26,605	(9,319)
Alternative	4,898	(25,947)
Total Net Appreciation	**$ 458,929**	**$ 676,005**

6. Securities Lending Contracts

OCERS' investment policy permits the pension trust fund to participate in a securities lending program. Domestic and international equities as well as domestic and international fixed income securities are loaned to brokers who provide collateral in the form of cash. This collateral must equal 102 percent of the fair market value for domestic loans and 105 percent of the fair market value for international loans and the values are priced daily. OCERS invests the collateral in short-term securities that cannot be pledged or sold by OCERS unless the borrower defaults. Income is also realized from the securities lending fees paid by the broker-borrower. OCERS' practice is to match the term to maturity of the securities lent with the term to maturity of the collateral investment. There are no restrictions on the amount of securities that can be lent at any one time. OCERS experienced no violations of its securities lending provisions in 2004. Securities on loan at year-end are presented as unclassified in the schedule of custodial credit risk. At December 31, 2004 and 2003, the fair market values of security loaned to various securities brokers were $789,361,000 and $283,805,000 respectively.

State Street California serves as OCERS' broker for its securities lending program. State Street California holds securities purchased with collateral for OCERS in a separate collateral account. State Street California, OCERS' custodial bank, provides indemnification against dealer default. OCERS experienced no losses on its securities lending program for the years ended December 31, 2003 and 2004.

Gross security lending revenue for 2004 and 2003 were $1,203,000 and $1,236,000 respectively. At December 31, 2004 and 2003, OCERS held broker collateral with fair values totaling $809,189,000 and $290,166,000. At year end, the system has no credit risk exposure to borrowers because the amounts the system owes the borrowers exceed the amounts the borrowers owe the system.

7. International Investments

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

8. Alternative Investments

OCERS has utilized two different methods of investing in alternatives. The first is to employ a management firm to invest in both limited partnerships and direct private placements. The second method is for OCERS to participate as a limited partner in a limited partnership fund. As of December 31, 2004, OCERS had approximately $55,793,000 of open commitments in four alternative investments. Alternative investments may include venture capital, corporate finance, buyout, energy, oil and gas.

9. **Derivative Holdings Held for Trading Purposes**

OCERS may hold derivatives, as defined by GASB No. 3, in its domestic fixed income portfolio (See note F for other derivative investments). The investment objective of holding derivative securities is to achieve favorable yields and advantageous risk/reward profiles. The U.S. Government guarantees the majority of these securities.

Securities	Fair Value 2004	Fair Value 2003
FHLMC	$ 11,100,000	$ 30,066,000
FNMA	51,061,000	54,429,000
GNMA	6,254,000	9,169,000
CMO	9,955,000	4,135,000
Others	28,870,000	17,021,000
Total Derivative Securities	**$ 107,240,000**	**$ 114,820,000**

F. Financial Investments with Off Balance Sheet Risk

1. **Forward Currency Contracts**

OCERS' international investment managers invest in forward currency contracts. These are agreements to exchange different currencies at specified rates and settlement dates. Differences between the contract and market exchange rates at settlement result in gains or losses. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in exchange and interest rates. OCERS' balances for the forward currency receivables and payable accounts are based upon the currencies' contract exchange rates in relation to their market exchange rates at December 31, 2004 and 2003. An accounts receivable balance that is greater than the payable balance represents a net gain on the contracts. An accounts receivable balance that is less than the payable balance indicates a net loss. At December 31, 2004 and 2003, OCERS had net forward currency contract receivables of $288,000 and $378,000, respectively.

2. **Financial Futures Contracts Held for Purposes Other than Trading**

On December 31, 2004 and 2003, OCERS held open contracts of $196,269,000 and $82,035,000, respectively, for the purchase of Treasury notes and Financial Future Euro Dollars with delivery at specified future dates. Risks associated with holding Financial Futures contracts include movements in security values and/or interest rates. OCERS realized a net depreciation of $1,319,000 and $631,000, respectively, for the years ended December 31, 2004 and 2003.

OCERS is required to maintain a deposit with the broker as collateral to support open futures contracts. On December 31, 2004 and 2003, OCERS had collateral deposits of $3,376,000 and $3,280,000, respectively.

G. Administrative Expenses

Section 31580.2 of the Government Code limits the annual administrative expenses of the retirement system to 18/100 (18 basis points) of the total assets of the retirement system. Total administrative expenses subject to the statutory limitation for the years ended December 31, 2004 and 2003 were $8,118,000 and $7,312,000, respectively. The total administrative expenses were under the 18 basis points limitation which were $10,002,000 and $8,927,000, respectively. Additionally, Section 31596.1 of the Government Code allows certain costs to be excluded from the statutory limitation. The excluded costs are included in the amounts classified as administrative expenses for OCERS' financial statements.

	Years Ended December 31 (in thousands) 2004	2003
Expenses Subject to the Statutory Limitation:		
Personnel Services:		
Board Members' Allowance	$ 12	$ 13
Employee Salaries and Benefits	4,631	4,167
Total Personnel Services	4,643	4,180
Office Operating Expenses:		
Operating Expenses	903	856
Professional Services	1,222	1,216
Rent/Leased Real Property	872	750
Depreciation/Amortization	478	310
Total Office Operating Expenses	3,475	3,132
Total Expenses Subject to the Statutory Limitation	8,118	7,312
Expenses Not Subject to the Statutory Limitation:		
Commingled Interest Cost	19	11
Actuarial Fees	162	354
Fund Evaluation Costs	331	315
Custodian Services	288	321
Investment Department Expenses	541	474
Legal Costs	4	4
Additional Death Benefit Costs	-	57
Total Expenses Not Subject to the Statutory Limitation	1,345	1,536
Total Administrative Expenses	**$ 9,463**	**$ 8,848**

H. Reserve Accounts

The plan net assets of $5,556,995,000 as of December 31, 2004 include reserves of $5,095,782,000 and unreserved net assets of $461,213,000. The unreserved net assets include the County Investment Account. The reserve balances as of December 31, 2004 are as follows (in thousands):

	Active Members Reserve	Retired Members Reserve	Employer Advanced Reserve	ARBA Reserve	RMBR Reserve	Total Reserves
General Ledger Balance	$ 1,007,576	$ 2,655,784	$ 1,422,602	$ 0	$ 9,820	$ 5,095,782
Less: Accounts Receivable for Interest Credited to Reserves	(38,765)	(154,814)	(107,605)			(301,184)
Net Reserves	**$ 968,811**	**$ 2,500,970**	**$ 1,314,997**	**$ 0**	**$ 9,820**	**$ 4,794,598**

The Additional Retiree Benefit Account (ARBA) results from a Memorandum of Understanding (MOU) with the County of Orange and subsequently with all employers. The amounts maintained in the ARBA are to be applied to health insurance or other supplemental benefits for OCERS' retirees. There were no transfers to the ARBA accounts in years 2004 and 2003 because the UFB was zero; the remaining balance of ARBA account was used to credit interest to other reserves.

The Retirement Board adopted the creation of the Retired Members Benefit Reserve (RMBR) for OCERS' retirees in the year 2002 to ensure the continued funding of the retiree supplemental benefits for three years. All participating agencies could transfer a projected three year benefit payment to the RMBR balance that was created as a sub-account of the Employer Advanced Reserve Account. The RMBR account will be used to pay additional benefits to retirees in lieu of payments out of the ARBA balance in circumstances where the ARBA balance is depleted. The RMBR balance will not receive the bi-annual interest credit and it will be funded on a three year rolling method. The balance of the RMBR at year-end was approximately $9,820,000.

Required Supplementary Information

Schedule of Funding Progress for the Years Ended December 31
(in thousands)

Actuarial Valuation Date December 31	Actuarial Value ($) of Plan Assets (a)	Actuarial Accrued Liability ($) (b)	Total Unfunded Actuarial Accrued Liability (UAAL) ($) (b-a=c)	Funded Ratio (%) (a/b)	Covered Payroll ($) (d)	UAAL as a Percentage (%) of Covered Payroll (c/d)
1999	3,931,744	4,017,279	85,535	97.87%	912,490	9.37%
2000	4,497,362	4,335,025	(162,337)	103.74%	994,669	-16.32%
2001	4,586,844	4,843,899	257,055	94.69%	1,122,763	22.89%
2002	4,695,675	5,673,754	978,079	82.76%	1,242,348	78.73%
2003	4,790,099	6,099,433	1,309,334	78.53%	1,243,964	105.25%
2004*	5,245,821	7,586,690	2,340,869	69.15%	1,257,085	186.21%

*Effective December 31, 2004 the actuarial valuation of plan assets was changed to a 5-year smoothing methodology based on market value rather than a rolling 5-year modified book value.

Note:

1. The 12/31/99, 12/31/00, 12/31/01, 12/31/02, 12/31/03 and 12/31/04 actuarial value of assets exclude $286,139,000, $272,789,000, $221,643,000, $143,675,000, $143,744,000 and $155,245,000 of the County Investment Account balances respectively. Effective December 31, 2002, the Retirement Board elected to change the amortization period for the General Member and Probation Officer unfunded actuarial accrued liability (UAAL) to 30 years. The amortization is a level dollar amount.

   The amortization of the Safety member UAAL has not changed. That UAAL is amortized in pieces as follows. The UAAL as of December 31, 1995 is amortized as a level dollar amount over 28 years. Actuarial gains and losses for each year are amortized over separate 15-year periods on a level dollar basis. Changes in the UAAL arising from assumption changes and plan amendments are amortized over periods determined by the Board. All amortization periods are considered closed (i.e., level dollar amortization with a fixed end date).

Schedule of Employer Contributions for the Years Ended December 31
(in thousands)

	2004	2003	2002	2001	2000	1999
Annual Required Contribution*	$194,430	$124,243	$13,289	$12,060	$15,561	$17,591
Percentage Contributed	100%	100%	100%	100%	100%	100%

* Employer contributions reflect cash payments only. Please see note C on pages 27-28 for amounts transferred from the County Investment Account.

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

The historical trend information about the Orange County Employees Retirement System is presented as required supplementary information. The information is intended to help users assess the status of the fund on a going-concern basis and to evaluate the progress made in accumulating assets for paying benefits when due.

Actuarial Assumptions and Method

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2004.
Actuarial cost method	Projected Unit Credit.
Amortization method	Level dollar (closed)
Remaining amortization period	19 years (closed) for Firefighters and Law Enforcement personnel.
Remaining amortization period	28 years (closed) for others.
Asset valuation method	5 year smoothing between the actual market value and the expected (currently at 7.5%) return on market value.
Actuarial assumptions	
Investment rate of return	7.5%
Projected Salary Increases	4.5% per annum
Includes inflation at	4.5% subject to Tier maximum.
Cost-of-living adjustments	3% per annum with excess banked.

Significant Factors Affecting Trends in Actuarial Information

2004 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

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

Retirement formula for General Members of the County of Orange will change to 2.7% at 55 effective July 1, 2005.

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

2003 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

The City of Rancho Santa Margarita adopted a 2.5% at 55. Retirement formula for the City of San Juan Capistrano changed to 2.7% at 55.

2002 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

Retirement formula for Fire Authority personnel changed to 3% at 50.
All probation officers' status changed from General to Safety.

Interest rate assumption changed from 8.0% to 7.5%.
Salary scale changed from 5.5% to 4.5%.
Reset amortization period to 30 years except for actuarial gains and losses related to Fire Authority and Law Enforcement personnel.

2001 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

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

1998 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

Reduced termination rates.
Moved retirement age slightly older.
Changed Pre-retirement Mortality Table from 1971 GAM to 1983 GAM.

1997 California Supreme Court Decision - Ventura County

Expanded the definition of compensation earnable.

1995 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

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

1993 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

Changed Mortality Table from 1971 GAM (for regular retirement) to 1983 Group Annuity. Changed Expectations of Life After Disability from 80% of Mortality Table to 60%.

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

Other Supplementary Information

Schedule of Administrative Expenses
Years Ended December 31, 2004 and 2003
(in thousands)

	2004	2003
Expenses Subject to the Statutory Limitation		
Personnel Services:		
Board Members' Allowance	$ 12	$ 13
Employee Salaries and Benefits	4,631	4,167
Total Personnel Services	**4,643**	**4,180**
Professional Services:		
Benchmarking Services	30	-
Legal Fees	123	268
Financial and Internal Audits	103	75
Mortality Verification	4	4
Information Technology Consultant	412	380
Hearing Officers/Medical Consultants	392	305
Financial Strategy Seminars	11	13
Miscellaneous	147	171
Total Professional Services	**1,222**	**1,216**
Other Operating Expenses:		
Telephone	74	74
Maintenance	263	243
Printing Services	141	140
Building and Equipment Leases	872	750
Transportation, Travel and Training	93	93
Postage	167	194
Office Expense	165	112
Depreciation	478	310
Total Other Operating Expenses	**2,253**	**1,916**
Total Expenses Subject to the Statutory Limitation*	**8,118**	**7,312**
Expenses Not Subject to the Statutory Limitation		
Fund Evaluation Cost	331	315
Custodian Services	288	321
Commingled Interest Cost	19	11
Actuarial Cost, net	162	354
Legal Costs	4	4
Additional Death Benefits Cost	-	57
Investment Department Expenses	541	474
Total Expenses Not Subject to the Statutory Limitation	**1,345**	**1,536**
Total Administrative Expenses	**$ 9,463**	**$ 8,848**

(Please see note G on page 33.)

Schedule of Payments for Professional Services
Years Ended December 31, 2004 and 2003
(in thousands)

Name of Firms	Type of Services	2004	2003
Professional Expenses Subject to the Statutory Limitation			
County of Orange	Board Elections	$ 5	$ 39
County of Orange	Data Services	22	19
County of Orange	Cost Allocation (CWCAP)	18	18
CEM, Inc.	Benchmarking Services	30	-
Netifice Communication, Inc.	Internet Usage	33	15
Manpower, Inc.	Temporary Personnel	38	61
E-Partners	System Consulting	-	1
Valerie Desporough	Transcribing Services	15	21
Hanson Bridgett	Legal Services	16	10
Foley & Lardner	Legal Services	2	55
Steefel, Levitt & Weiss	Legal Services	87	127
Schott & Lites Advocates	Legislative Counseling	18	18
Various Firms	Legal Services	-	11
Link, Murrel & Company	Audit Services	103	75
The Berwyn Group	Mortality Verification	4	4
Various Firms	Disability/Medical Hearings	392	352
Financial Management Specialists	Financial Strategy Seminars	11	13
Iron Mountain	Offsite Data Storage	5	4
Linea Solutions	System Consulting	341	162
Levi, Ray, & Shoup, Inc.	System Improvement	38	202
Various Professional Firms	Other Services	44	9
Total Professional Expenses Subject to the Statutory Limitation		**$ 1,222**	**$ 1,216**
Professional Expenses Not Subject to the Statutory Limitation			
Callan Associates, Inc./ The Townsend Group	Performance Evaluation	282	282
Effron Enterprises, Inc.	Performance Evaluation	1	1
G. Shilling	Board and Staff Education	5	5
ISI Group	Performance Evaluation	25	25
Douglas Gillespie	Performance Evaluation	3	2
Zephyr Associates, Inc.	Performance Evaluation	15	-
State Street California	Master Trust Custody	288	321
County of Orange	Commingled Interest Cost	19	11
Towers Perrin	Actuarial Services	119	354
The Segal Company	Actuarial Services	43	-
Stradling, Yocca, Carlson, & Rauth	Legal Counsel	4	4
Additional Death Benefits Cost	Member Benefits	-	57
Investment Department Expenses	Investment Expenses	541	474
Total Professional Expenses Not Subject to the Statutory Limitation		**1,345**	**1,536**
Total All Professional Expenses		**$ 2,567**	**$ 2,752**

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SECTION 3

> INVESTMENTS

CALLAN ASSOCIATES INC

CAI

SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

April 13, 2005

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, 2004.

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

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

The equity markets had rebounded strongly in 2003 and continued to advance at a more moderate pace in 2004. The S&P 500 rose 10.88%, the Dow was up 5.27% and the NASDAQ advanced 9.14%. High quality, very large companies enjoyed attractive gains but lagged small cap stock indexes.

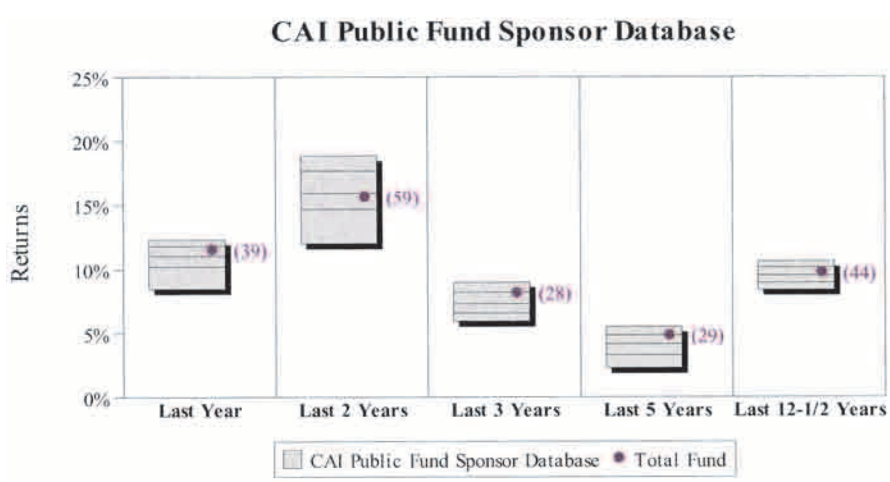
The year was volatile as Iraq and political uncertainty troubled investors. However, the economy continued to advance, fueled by tax cuts, lean inventories and the low level of interest rates. The economic rebound and a weak dollar provided a supportive environment for strong corporate profit growth.

Within the fixed income market, the Lehman Aggregate posted a return of 4.33% for the year. Corporate bonds (5.24%) led all sectors in 2004. Treasurys lagged as investors sought higher yields. Interest rates on Treasury instruments were volatile during the year but ended near the same levels as of the end of 2003.

The resurgence in the overseas stock markets that began in the 2003 continued through 2004. Measured in U.S. dollar terms, international stocks outperformed domestic stock indices by a wide margin. The MSCI-EAFE advanced 20.25% for the year. It is important to note that much of the gain was attributable to the continued weakness in the dollar. Measured in local currency terms, the EAFE index gained only 12.67%, a healthy return but one much more similar to the U.S. stock market. Emerging markets continued to surge as evidenced by the MSCI-Emerging Markets Index that advanced 25.95%.

For the calendar year, OCERS' total fund had a time-weighted total return of 11.40%. The return lagged the System's strategic policy benchmark target return of 12.67% but outpaced the Public Fund median. The policy benchmark was modified during the year. It is currently comprised of the following indices in the percentages as indicated: Lehman Brothers U.S. Universal Bond Index (19%); MSCI-EAFE (20%); Russell 3000 (18%); NCREIF Total Index (10%); Lehman US TIPS (10%); Salomon Non-$ Government Bond Index Hedged (5%); Salomon Non-US World Gov't Bond Index (5%); OCERS Non-traditional (5%); MSCI-Emerging Markets Index (5%); S&P 500 (2%); and Lehman Aggregate Bond Index (1%). Over the trailing 5-year period, a span that includes three years of bear market and then two years of market recovery, OCERS has achieved an annualized return of 4.76%. While this return is below the System's actuarial earnings target, this result was better than the System's policy index return of 4.59% and ranked in the 29th percentile relative to other public funds. Over longer-term periods, the System's total return also has been strong particularly when evaluated on a risk-adjusted basis. For example, the twelve and one-half year return (the longest for which Callan has performance data) of 9.66% was 3 basis points below the policy benchmark's 9.69% annualized return.

The graph below depicts the Total Fund relative to Callan's Total Public Fund Database for cumulative periods ended December 31, 2004.



The System's well-diversified and comparatively conservative allocation strategy was the primary driver in the achievement of strong relative performance results for all periods that include the difficult bear market of 2000-2002. OCERS' active stock and bond managers added value in 2004 and in the vast majority of longer cumulative periods ended 2004.

OCERS' domestic bond component strongly outperformed its target index for the year (+6.50% versus +4.97% for the Lehman U.S. Universal Bond Index). The outperformance for the year was primarily attributable to OCERS managers' emphasis on corporate bonds, including their exposure to BAA and lower rated securities. These securities had underperformed prior to 2003 but rebounded strongly in 2003 and continued to outpace governments in 2004. Over the long-term, OCERS' aggregate bond composite continues to outperform market indices and peers. For the twelve and one-half years-ended 12/31/04, OCERS' bond composite ranks in the eighth percentile of the Public Fund database. The 8.60% annualized return exceeds the target index return of 7.23%.

OCERS' U.S. equity composite gained 13.62% in 2004. This result was better than the Russell 3000 Stock Index return of 11.95% and also better than the Callan Public Fund Domestic Equity peer group median. Over all cumulative periods considered, OCERS' domestic equity composite has achieved very strong comparative returns. For example, the trailing five-year return of positive 1.9% ranked in the 26th percentile and exceeded the target benchmark return of negative 1.16% annualized.

OCERS' international equities achieved an attractive absolute composite return of 17.40%. However, this result lagged the target index return of 21.26%, and also trailed the peer group median.

In summary, calendar 2004 was another strong year that combined with 2003 helped offset the well below historic average returns of the three preceding challenging years.

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, 2004. 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	13.62%	6.58%	1.90%
Russell 3000 Index	11.95%	4.80%	-1.16%
International Equity	17.40%	9.96%	-2.73%
MSCI AC World Ex US Index	21.36%	13.56%	0.02%
MSCI Eafe Index	20.25%	11.89%	-1.14%
Domestic Fixed	6.50%	8.48%	8.73%
Lehman Bros Universal Index	4.97%	6.85%	7.88%
TIPS	N/A	N/A	N/A
Lehman Bros TIPS Index	8.46%	11.08%	10.85%
International Fixed Income	11.67%	11.87%	8.41%
S/B Non-US Hedged Govt. Index	8.75%	5.79%	6.61%
Cash & Equivalents	1.41%	1.76%	3.70%
Real Estate	10.58%	8.52%	7.99%
NCREIF Property Index	14.49%	10.07%	9.95%
Non - Traditional	15.17%	2.29%	4.44%
Total Fund	11.40%	8.07%	4.76%
*Composite Policy Benchmark**	12.67%	8.15%	4.59%

* Policy Benchmark = 19.0% LB US Universal Index + 18.0% MSCI EAFE Index + 18.0% Russell 3000 + 10.0% NCREIF Total Index + 10.0% LB US TIPS Index + 5.0% SB Non-US Govt. Hedged + 5.0% Non-US World Govt. Bond + 5.0% OCERS-Non Traditional + 5.0% MSCI Emerging Markets + 2.0% MSCI EAFE Index + 2.0% S&P 500 and 1.0% L/B Agg.

STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

General

This statement is intended to set forth the factors involved in the management of investment assets for the Orange County Employees Retirement System (the System). The responsibility of the Board (with the participation of its Investment Committee, Staff and Advisors) is to establish broad investment policy, guidelines and objectives for the total fund and its component parts, to select independent investment managers and to monitor the activities of the investment managers. The responsibility of each investment manager is to develop and implement management strategies in accordance with the stated investment policies, guidelines and objectives, in a manner consistent with the "prudent man" rule for similar funds, i.e., with care, skill, prudence and diligence, with full discretion subject to the guidelines and applicable statutes. The investment manager is responsible for administration of the investment program within parameters established.

Strategic Asset Allocation Policy and Maintenance

The Board periodically undertakes strategic asset allocation studies. Such studies define the targeted level of diversification among the various major asset classes and the range in which they are permitted to fluctuate. When significant changes are made to the plan, a transition plan is adopted.

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

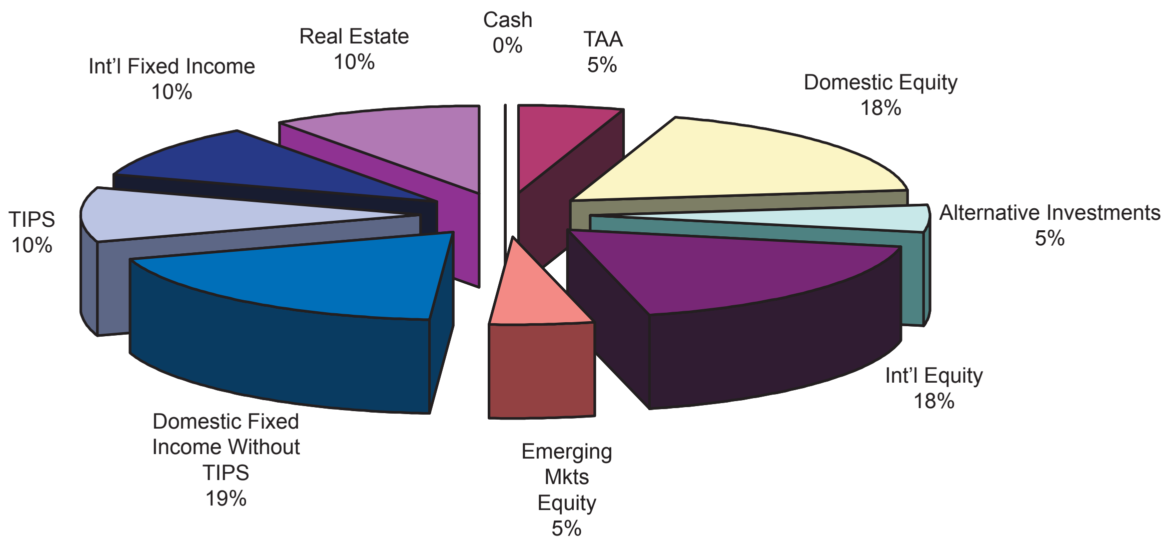
Should expected external flows be judged by staff to be insufficient to bring the plan within permitted ranges within a 12 month period, staff shall inform the Investment Committee. The Investment Committee then will formulate a recommendation to shift assets that will be presented to the full Board.

Program Administration and Manager Structure

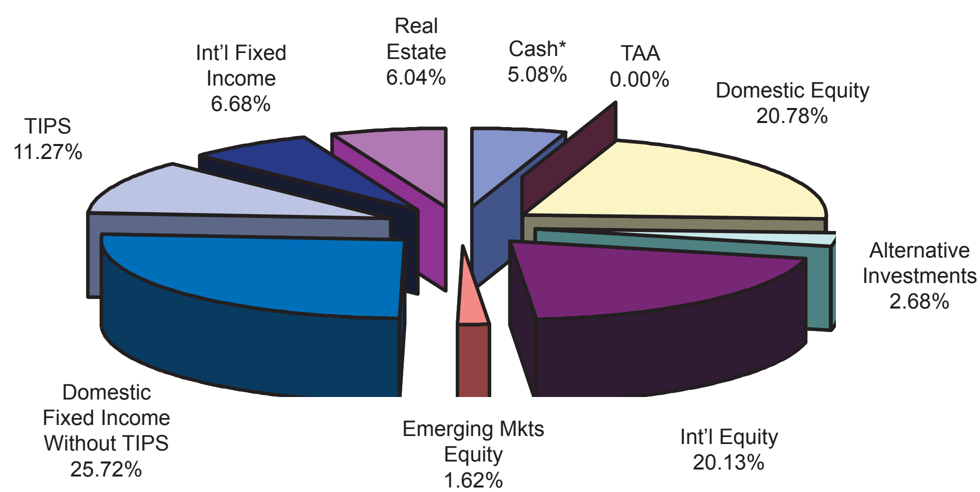
For each major asset class, the System shall diversify assets by employing managers with demonstrated skill in their particular areas of expertise. The System will retain managers who utilize varied investment approaches and allocate assets in a manner that is consistent with the overall strategic plan. So, for example, the sum of all domestic equity managers should exhibit characteristics that are similar, but not necessarily identical, to the overall equity market. When asset fluctuation causes the asset class to exhibit characteristics that are dissimilar from the plan, staff shall direct cash flows to or from the various managers so that actual characteristics are consistent with the plan. Should unusual circumstances create a significant imbalance that cannot be corrected through the routine allocation of external cash flows, the Investment Committee shall formulate a recommendation for Board consideration.

Asset Diversification
December 31, 2004

Policy

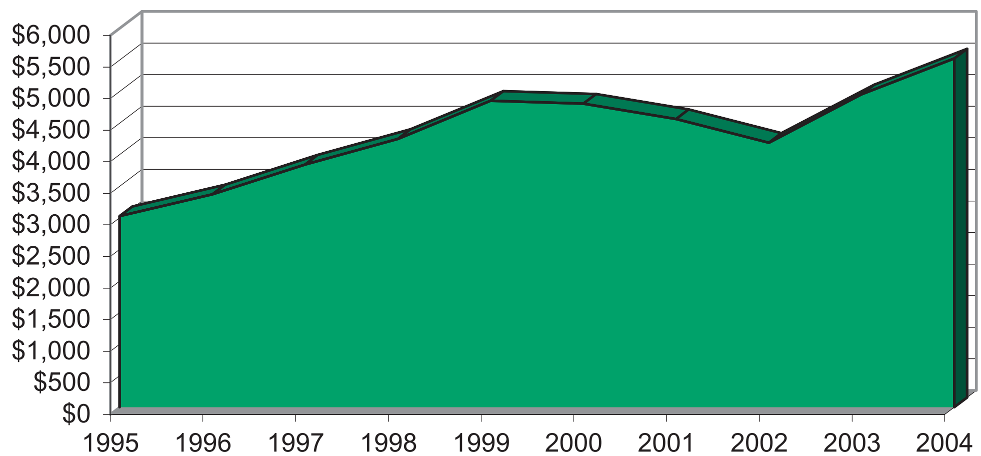


Actual

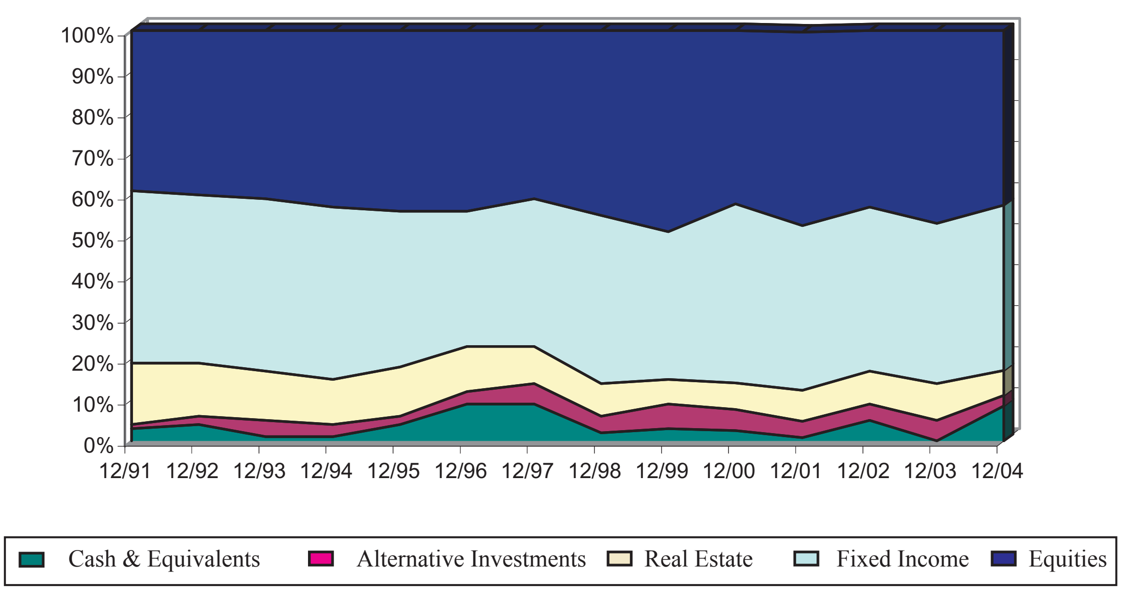


*Includes cash equivalents held by investment managers.

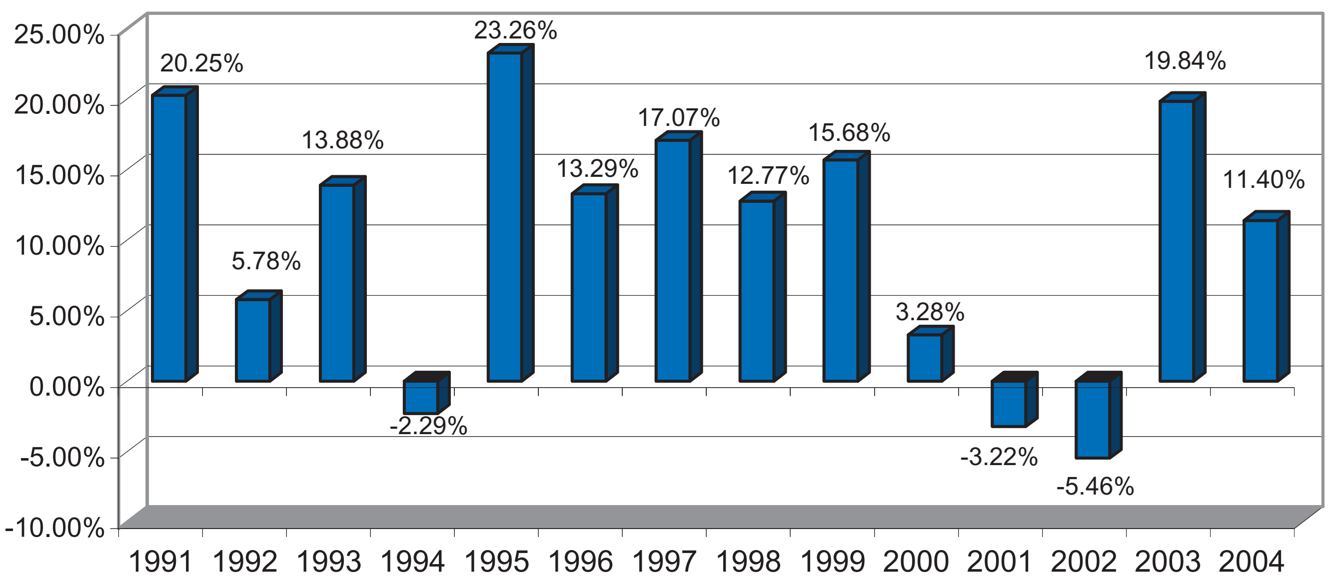
Growth of System Net Assets at Fair Value
for Ten Years Ended December 31, 2004
(in Millions of Dollars)



Historical Asset Allocation
(Actual)
December 1991 – December 2004



History of Performance
(Based on Fair Value)
December 1991 – December 2004



COMMISSION RECAPTURE PROGRAM

OCERS implements a direct brokerage program where investment managers are encouraged to trade with four brokerage firms, Abel Noser, Capital Institutional Services, Rochdale Securities, and Alfa, Inc. For domestic equity, OCERS recaptures about 75% of the commission, 60% for fixed income and 50% for international equity. For the year ended December 31, 2004 the System generated $116,000 in Commission Recapture dollars.

Schedule of Commissions
for the Year Ended December 31, 2004

Brokerage Firms	Number of Shares Traded	Total Commission	Commission Per Share
Abel Noser Corporation	1,284,166	41,899.99	0.03263
ABN AMRO Asia Limited	196,000	1,950.08	0.00995
ABN AMRO Australia Limited	284,275	5,594.51	0.01968
ABN AMRO Equities (UK) Ltd. London	739,718	15,080.49	0.02039
Adams Harkness + Hill, Inc.	18,800	940.00	0.05000
America's Growth Capital LLC	108,800	5,440.00	0.05000
Baird, Robert W., & Company Incorporated	231,300	11,401.00	0.04929
Banc/America Security LLC Montgomery Div.	275,900	12,168.50	0.04410
Bank Julius Baer and Co., Ltd.	33,323	2,345.04	0.07037
Baring Securities (Hong Kong)	61,000	289.26	0.00474
Bear Stearns + Co. Inc.	804,100	39,743.00	0.04943
Bear Stearns Securities Corp.	104,494	5,906.11	0.05652
Black Watch Brokerage, Inc.	12,900	645.00	0.05000
BNP Paribas Securities Services	12,900	2,100.68	0.16284
BONY Brokerage, Inc.	1,245,200	32,774.20	0.02632
Brean Murray	27,300	1,365.00	0.05000
Bridge Trading	237,500	11,487.00	0.04837
Broadcort Capital (Thru ML)	33,900	1,690.00	0.04985
Brown Brothers Harriman & Co.	59,000	2,727.00	0.04622
B-Trade Services LLC	1,272,600	24,143.75	0.01897
Burnham Securities	10,500	420.00	0.04000
C.E. Unterberg, Tobin	7,500	375.00	0.05000
Cantor Fitzgerald + Co.	394,500	18,403.50	0.04665
Capital Institutional Services Inc., Equities	271,935	4,456.03	0.01639
Cazenove + Co.	84	8.39	0.09988
Charles Schwab Co., Inc.	190,800	8,886.00	0.04657
China International Capital Corp. (HK) Ltd.	1,600	17.67	0.01104
CI Nordic Securities AB	4,200	98.51	0.02345
CIBC Woodgundy	53,300	2,132.00	0.04000
CIBC World Market Corp.	315,900	15,573.00	0.04930
CIBC World Market, Inc.	75,500	2,672.60	0.03540
Citation Group	129,200	6,460.00	0.05000
Citi Group Global Markets Australia Ltd.	188,800	1,318.81	0.00699
Citi Group Global Markets, Inc.	1,593,748	54,534.13	0.03422
Citi Group Global Markets, Inc., Salomon Bro.	1,698	10,398.75	6.12412
Citi Group Global Markets, Ltd.	440,723	15,819.01	0.03589
CJS Securities	4,900	224.00	0.04571
Compass Point Research and Trading	665,268	28,747.40	0.04321
CPR Paris	1,100	38.50	0.03500
Credit Agricole Indosuez Cereus	79,800	4,957.41	0.06212
Credit Lyonais Securities	62,800	1,356.87	0.02161
Credit Lyonais (USA) Securities	317,000	4,530.70	0.01429

Brokerage Firms	Number of Shares Traded	Total Commission	Commission Per Share
Credit Lyonais (Asia) Securities	1,518,897	14,846.03	0.00977
Credit Suisse First Boston (Europe)	7,600	5,384.93	0.70854
Credit Suisse First Boston (Europe), Ltd.	1,152,726	9,527.72	0.00827
Credit Suisse First Boston Corporation	679,890	26,180.34	0.03851
Credit Suisse First Boston Equities (Europe)	195,210	3,410.83	0.01747
Credit Suisse First Boston (HK) Ltd.	13,825,591	25,243.19	0.00183
Credit Suisse First Boston Australia Equities, Ltd.	115,388	1,460.78	0.01266
Daiwa SBCM Europe	80,600	1,911.17	0.02371
Deutsche Bank AG London	441,660	9,733.42	0.02204
Deutsche Bank Securities, Inc.	558,655	12,823.48	0.02295
Deutsche Securities Asia, Ltd.	483,029	10,148.49	0.02101
Dowling &Partners Securities, LLC.	71,700	3,393.50	0.04733
Edwards AG Sons, Inc.	96,500	4,640.00	0.04808
Enskilda Securities AB	209,100	3,567.58	0.01706
Exane S.A.	4,800	553.96	0.11541
Execution Limited	266,400	2,826.64	0.01061
Factset Data System (Thru Bear Stearns)	35,900	1,795.00	0.05000
Fano Securities LLC	33,100	1,655.00	0.05000
Fidelity Capital Markets	71,100	3,555.00	0.05000
Fidentiis	82,200	1,321.14	0.01607
First Albany Capital, Inc.	42,200	2,107.00	0.04993
First Clearing, LLC	18,000	900.00	0.05000
First Tennessee Securities Corp.	2,900	101.50	0.03500
Fistserv Securities, Inc.	196,300	7,473.00	0.03807
Fox Pitt Kelton, Inc.	103,500	5,175.00	0.05000
Frank Russell Sec./Broardcort Clearing	33,400	1,670.00	0.05000
Friedman Billings + Ramsey	15,900	795.00	0.05000
Fulcrum Global Partners LLC	139,500	6,975.00	0.05000
G Trade Services, Ltd.	19,000	232.04	0.01221
Garp Stearns & Securities, Co.	37,800	1,711.00	0.04526
Goldman Sachs + Co.	994,247	46,140.69	0.04641
Goldman Sachs International London	221,491	6,491.80	0.02931
Gordon Haskett	48,800	2,440.00	0.05000
Green Street Advisors	31,700	1,585.00	0.05000
Griswold Company	7,800	390.00	0.05000
Harris Nesbitt Corp.	25,800	1,290.00	0.05000
Hibernia Southcoast Capital, Inc.	91,500	3,854.00	0.04212
Howard Weil Division Legg Mason	46,000	2,300.00	0.05000
HSBC Bank PLC	61,400	4,656.74	0.07584
HSBC Securities (Asia) Ltd.	49,700	1,771.51	0.03564
ING Bank N V	9,700	443.68	0.04574
Instinet	6,900	301.00	0.01781
Instinet Clearing Services, Inc.	32,000	610.00	0.01906
Investment Technology Group, Inc.	845,300	16,817.00	0.01989
Investment Technology Group, Ltd.	3,900	59.55	0.01527
ISI Group, Inc.	61,300	2,786.00	0.04545
J B Were and Son	362,252	3,192.18	0.00881
J P Morgan Securities, Inc.	598,200	25,881.00	0.04326
Janney Montgomery, Scott, Inc.	389,500	17,748.00	0.04557
JB Were and Son (NZ), Ltd.	1,457	13.46	0.00924
Jefferies Company, Inc.	1,031,500	42,350.00	0.04106
Johnson Rice + Co.	67,800	3,327.00	0.04907

Brokerage Firms	Number of Shares Traded	Total Commission	Commission Per Share
Jones & Associates, Inc.	113,000	4,713.50	0.04171
JP Morgan Securities, Ltd.	242,349	8,095.90	0.03341
JP Morgan Chase Bank	166	622.50	3.75000
JP Morgan Securities (Asia Pacific), Ltd.	171,000	1,045.98	0.00612
Julius Baer Brokerage SA	33,300	1,557.72	0.04678
KBC Financial Products UK, Ltd.	10,800	969.25	0.08975
Keefe Bruetter + Woods, Inc.	69,100	3,455.00	0.05000
King, CL, & Associates, Inc.	38,600	1,930.00	0.05000
Kleinwort Benson Securities, Ltd.	572,876	9,898.05	0.01728
Knight Securities	172,793	6,646.36	0.03846
LA Branche Financial #2	936,200	33,324.00	0.03559
Lazard Freres & Co.	524,710	26,235.50	0.05000
Leerink Swann and Company	332,700	16,635.00	0.05000
Legg Mason Wood Walker, Inc.	123,800	6,065.00	0.04899
Lehman Brothers Asia, Ltd.	19,200	314.28	0.01637
Lehman Brothers, Inc.	476,178	32,172.50	0.06756
Lehman Brothers International (Europe)	791,710	17,214.35	0.02174
Lehman Brothers Securities (Asia)	1,110,164	9,064.80	0.00817
Liquid Net, Inc.	430,124	8,602.48	0.02000
Lynch Jones and Ryan, Inc.	2,082,176	81,899.64	0.03933
M M Warburg	8,400	890.59	0.10602
Mac. Quarie Investment	221,400	1,905.43	0.00861
Mac. Quarie Securities, Ltd.	76,300	2,090.30	0.02740
Main First Bank DE	48,395	3,060.71	0.06324
Maxcor Financial, Inc.	8,200	410.00	0.05000
McDonald & Company Securities, Inc.	106,400	5,297.50	0.04979
Merrill Lynch + Co., Inc.	36,100	1,223.98	0.03391
Merrill Lynch International	812,607	16,642.82	0.02048
Merrill Lynch Pierce Fenner & Smith	948,633	12,396.17	0.01307
Merrill Lynch Pierce Fenner & Smith	573,110	28,332.52	0.04944
Merrill Lynch Professional Clearing Corp.	579,200	25,864.00	0.04465
Merrill Lynch Pierce Fenner & Smith, Inc.	23,760	1,388.00	0.05842
Merrill Lynch Pierce Fenner & Smith, Inc.	624,073	32,630.45	0.05229
Merriman Curhan Ford + Co.	26,500	1,325.00	0.05000
Midwest Research Securities	306,100	13,831.00	0.04518
Miller Tabak + Company, LLC	13,200	660.00	0.05000
Mizuho Securities USA, Inc.	712,461	8,279.13	0.01162
Mpprs + Cabot, Inc.	43,000	2,150.00	0.05000
Morgan Keegan & Co., Inc.	65,700	3,285.00	0.05000
Morgan Stanley and Co., International	1,371,007	23,246.13	0.01696
Morgan Stanley and Co., Incorporated	1,482,547	52,441.59	0.03537
Morgan, Eric J. & Co., Ltd.	600	18.00	0.03000
National Financial Services, Corp.	90,400	4,194.50	0.04640
Needham + Company	45,000	2,112.00	0.04693
Nesbitt Burns	476,900	16,581.45	0.03477
Neuberger and Berman	61,000	2,178.00	0.03570
Nomura Securities International, Inc.	232,474	5,345.17	0.02299
Numis Securities, Ltd.	20,400	299.68	0.01469
Nutmeg Securities	6,600	198.00	0.03000
NY Fix Transaction Services #2	1,100	11.00	0.01000
O' Neil, William & Co., INC. BCC Clearing	80,065	4,003.25	0.05000
Oppenheimer & Co. Inc.	109,787	5,489.35	0.05000

Brokerage Firms	Number of Shares Traded	Total Commission	Commission Per Share
PCS Securities, Inc.	18,100	905.00	0.05000
Penson Financial Services, Inc.	500	43.80	0.08760
Pershing	1,510	7.32	0.00485
Pershing LLC	96,900	3,731.00	0.03850
Pershing Securities, Ltd.	1,521,508	4,874.15	0.00320
Petercam S.A.	300	27.78	0.09260
Petrie Parkman + Co.	83,900	4,195.00	0.05000
Pickering Energy Partners, Inc.	6,700	335.00	0.05000
Piper Jaffrey & Co.	13,300	497.50	0.03741
Pritchard Capital Partners LLC	64,700	3,235.00	0.05000
Prudential Securities Group	456,200	22,684.00	0.04972
Pulse Trading LLC	14,900	491.00	0.03295
Raymond James & Associates, Inc.	60,600	3,030.00	0.05000
RBC Capital Markets	460,214	22,911.70	0.04978
RBC Dain Rauscher, Inc.	300	15.00	0.05000
RBC Dominion Securities	27,600	821.27	0.02976
Robotti + Company	11,000	550.00	0.05000
Rochdale Securities Corp.	312,600	4,706.50	0.01506
Ryan Beck + Co.	1,600	80.00	0.05000
S.G. Cowen & Co., LLC	270,070	13,215.50	0.04893
Salomon Smith Barney Korea, Ltd.	1,680	1,505.82	0.89632
Sanders Morris Mundy	2,500	80.00	0.03200
Sandler O’Neil + Partners, LP.	431,100	19,888.00	0.04613
Sanford C. Bernstein, Ltd.	81,400	616.37	0.00757
Sanford C. Bernstein, Co., LLC	529,800	23,853.00	0.04502
Scotia Capital (USA), Inc.	554,700	16,751.73	0.03020
Scott & Stringfellow, Inc.	45,100	2,255.00	0.05000
SG Americas Securities, LLC	23,545	1,175.80	0.04994
SG Cowen Securities Corp.	151,400	7,570.00	0.05000
Sidoti + Company LLC	73,000	3,650.00	0.05000
Simmons + Company International	56,800	2,840.00	0.05000
Societe Generale London Branch	16,800	732.92	0.04363
Southwest Securities	407,900	17,955.00	0.04402
Spear, Leeds & Kellogg	3,100	31.00	0.01000
Standard & Poor’s Securities, Inc.	61,400	3,070.00	0.05000
State Street Brokerage Services	5,285,002	83,995.20	0.01589
Stephens, Inc.	402,400	20,021.00	0.04975
Sterne, Agee & Leach, Inc.	17,700	885.00	0.05000
Stifel Nicolaus & Co., Inc.	461,700	18,475.00	0.04002
Stifel Nicolaus & Co., Inc.	194,200	7,054.00	0.03632
Suntrust Capital Markets, Inc.	92,600	4,630.00	0.05000
Svenska Handelsbanken London Branch	12,600	389.06	0.03088
TD Waterhouse Investor Services, Inc.	2,400	48.00	0.02000
Think Equity Partners, LLC	11,700	585.00	0.05000
Thomas Weisel Partners	250,300	11,190.00	0.04471
U S Clearing Institutional Trading	62,900	3,145.00	0.05000
U.S. Bancorp Piper Jaffrey, Inc.	14,800	518.00	0.03500
UBS AG	477,307	16,375.27	0.03431
UBS Financial Services, Inc.	7,600	380.00	0.05000
UBS Securities Canada, Inc.	144,000	4,465.48	0.03101
UBS Securities, LLC	548,840	26,385.71	0.04808
UBS Warburg LLC	138,700	7,269.18	0.05241

Brokerage Firms	Number of Shares Traded	Total Commission	Commission Per Share
Veritas Securities	558,300	19,073.00	0.03416
Wachovia Securities, LLC	10,300	515.00	0.05000
Wachovia Securities, LLC	37,400	1,491.50	0.03988
Wachovia Capital Markets, LLC	96,200	4,293.00	0.04463
Warburg Dillon Read (Asia) Ltd.	477,406	7,063.23	0.01480
Wedbush Morgan Securities, Inc.	56,300	1,689.00	0.03000
Weeden + Co.	614,700	27,465.00	0.04468
Wells Fargo Securities LLC	18,700	568.50	0.03040
Westminster Research Association	80,100	3,897.00	0.04865
Westminster Research Association	61,000	2,719.00	0.04457
William Blair & Company, LLC	16,300	815.00	0.05000
William Smith Securities	107,500	5,375.00	0.05000

Schedule of Fees and Other Investment Expenses
Years Ended December 31, 2004 and 2003

(in thousands)

	2004		2003	
	Fees	Assets Under Management	Fees	Assets Under Management
Domestic Equity	$ 4,168	$ 1,172,805	$ 3,591	$ 1,727,507
International Equity	2,728	1,226,986	2,390	748,239
Global Fixed Income	2,441	1,828,717	2,921	1,543,451
Treasury Inflation Protected Securities (TIPS)	417	635,974	-	-
Real Estate	3,801	341,030	2,784	250,291
Venture Capital	2,989	115,348	4,402	104,146
Other Alternative Investments	849	36,054	681	48,211
Total Fees & Other Investment Expenses	**$ 17,393**	**$ 5,356,914**	**$ 16,769**	**$ 4,421,845**

Investment Summary
December 31, 2004
(in thousands)

Investment	Fair Value	Percentage
Domestic Equity	$ 1,172,805	20.78%
Domestic Fixed Income	1,451,560	25.72%
International Equity	1,135,825	20.13%
International Emerging Market	91,162	1.62%
International Fixed Income	377,156	6.68%
Global TIPS	635,974	11.27%
Alternative Investments	151,402	2.68%
Real Estate	341,030	6.04%
Cash and Cash Equivalents	286,788	5.08%
Total	**$ 5,643,702**	**100.00%**

Schedule of Largest Stock Holdings (by Fair Value)*
December 31, 2004

Stock	Security Description	Fair Value
Vodaphone Group	Common Stock	$ 20,048,141.00
eBay, Inc.	Common Stock	18,604,800.00
Sanofi Aventis	Common Stock	16,368,411.00
Royal Dutch Petroleum	Common Stock	14,229,876.00
Goldman Sachs Group, Inc.	Common Stock	13,171,464.00
Microsoft Corp.	Common Stock	12,521,648.00
Medtronic, Inc.	Common Stock	12,338,028.00
Novatis AG	Common Stock	9,913,439.00
Intel Corp.	Common Stock	9,886,953.00
First Data Corp.	Common Stock	9,367,308.00

Schedule of Largest Bond Holdings (by Fair Value)*
December 31, 2004

Bonds	Moody's Quality Rating	Fair Value
United States Treasury Notes 2.000%, 15 Jan. 2014	AAA	$ 153,076,926.23
United States Treasury Notes 3.000, 15 Jul. 2012	AAA	88,835,151.80
United States Treasury Bonds 3.875%, 15 Apr. 2029	AAA	70,163,098.50
United States Treasury Notes 4.250%, 15 Jan. 2010	AAA	58,154,279.57
United States Treasury Notes 2.000%, 15 Jul. 2014	AAA	35,943,045.97
United States Treasury Notes 3.625%, 15 Jan. 2008	AAA	33,596,330.84
United States Treasury Notes 3.875%, 15 Jan. 2009	AAA	31,968,910.56
United States Treasury Bonds 3.625%, 15 Apr. 2028	AAA	30,696,796.10
Poland (Government of), 5.000%, 24 Oct. 2013	A2	25,091,807.44
Sweden (Kingdom of), 6.750%, 05 May 2014	AAA	22,564,407.56

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

SECTION 4

>ACTUARIAL

SEGAL

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

June 17, 2005

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

Dear Members of the Board:

The Segal Company (Segal) prepared the December 31, 2004 actuarial valuation of the Orange County Employees Retirement System. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

The funding method used by the System is called the Projected Unit Credit Method. The funding objective of the system has been to reduce the unfunded actuarial accrued liability (UAAL) to zero over a 28-year period commencing December 31, 1995, while maintaining contribution rates that remain approximately the same from generation to generation. Effective with the December 31, 2002 actuarial valuation, the Board elected to restart the amortization period for General Members, including Probation Officers, to 30 years. Emerging gains and losses have been amortized separately over individual 15-year periods. Other changes to the UAAL, created by assumption changes or plan amendments are amortized over 15 years. The 15-year amortization period for plan amendments is based on a recent policy change adopted by the Board and it is applicable for plan changes after April 18, 2005. Before the policy change, plan amendments were amortized over 30 years. The progress being made toward the realization of the financing objectives through December 31, 2004 is illustrated in the attached Exhibits I and II.

As part of the December 31, 2004 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 total return at market value and the expected investment return over a five-year period. The Actuarial Value in previous valuations had been calculated by multiplying the Market Value by a ratio of the average Book Value to Market Value. That method has been discontinued for this valuation. The Actuarial

Board of Retirement
Orange County Employees Retirement System
June 17, 2005
Page 2

Value was set equal to the market value as of January 1, 2004. The development of the Actuarial Value as of December 31, 2004 is provided in Exhibit V.

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

1. History of Unfunded Actuarial Accrued Liability (Exhibit I);
2. History of Employer Contribution Rates (Exhibit II);
3. Summary of Active Membership (Exhibit III);
4. Summary of Retired Membership (Exhibit IV);
5. Development of Actuarial Value of Assets (Exhibit V);
6. Solvency test (Exhibit VI);
7. Actuarial Methods and Assumptions, including the attached Tables (Exhibit VII);
8. Summary of Major Plan Provisions (Exhibit VIII); and
9. Experience Analysis (Exhibit IX).

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on our recommendations following the December 31, 2004 Experience Analysis. It is our opinion that the assumptions used in the December 31, 2004 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The next experience analysis is due to be performed as of December 31, 2007.

In the December 31, 2004 valuation, the ratio of the valuation assets to actuarial accrued liabilities decreased from 78.53% to 69.15%. The aggregate employer rate (average of the County and all special districts rates combined) has increased from 18.89% of payroll (after reflecting the cost of benefit improvements for certain employers, before the improvements the rate was 16.04%) to 22.70% of payroll. The employee's rate has increased from 9.55% of payroll (after reflecting the cost of benefit improvements for certain employers, before the improvements the rate was 7.70%) to 11.41% of payroll. The employer's rate developed in the December 31, 2004 valuation reflects a 3-year phase-in of the rate increase calculated in the 2004 valuation.

Sincerely,

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

DZY/hy:jc
Attachments

187118/05794.002v2

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
12/31/95	2,633,884	2,434,406	199,478	92.43%	727,768	27.41%
12/31/96	2,851,894	2,675,632	176,262	93.82%	758,897	23.23%
12/31/97	3,332,967	3,128,132	204,835	93.85%	781,890	26.20%
12/31/98	3,682,686	3,504,708	177,978	95.17%	863,199	20.62%
12/31/99	4,017,279	3,931,744	85,535	97.87%	912,490	9.37%
12/31/00	4,335,025	4,497,362	(162,337)	103.74%	994,669	(16.32%)
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	7,586,690	5,245,821	2,340,869	69.15%	1,257,085	186.21%

Notes:

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

  Methodology and procedure changes

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

  Assumption changes

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

  Benefit changes:

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

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

  The Orange County Sanitation District adopted 2.5% of final average pay at age 55 on all service.

  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.

Orange County Employees Retirement System

HISTORY OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (Cont.)

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

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

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

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

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

- The 12/31/01 valuation included changes to the assumed withdrawal rates, the assumed termination rates, the assumed service connected disability rates and the assumed retirement rates. These changes increased both member and employer contribution rates. The retirement benefit for Law Enforcement was changed to a 3% per year of service benefit payable unreduced at age 50.

- The 12/31/98 valuation included changes to the assumed withdrawal rates, the assumed preretirement mortality and the assumed retirement rates. These changes increased both member and employer contribution rates.

- The 12/31/97 valuation included an increase in plan benefits to reflect the impact of the California Supreme Court decision in the Ventura County case regarding compensation earnable.

- The 12/31/95 valuation included a change in the salary scale from 6.0% to 3.5% per annum through the year 2000, and 5.5% thereafter. The aggregate payroll increase assumption was also changed from 5.0% to 4.5% per annum.

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

Valuation Date	Amount Excluded from Assets
12/31/95	$329,064,000
12/31/96	$313,250,000
12/31/97	$322,333,000
12/31/98	$302,909,000
12/31/99	$286,139,000
12/31/00	$272,789,000
12/31/01	$221,643,000
12/31/02	$143,675,000
12/31/03	$143,744,000
12/31/04	$155,245,000

Orange County Employees Retirement System

Exhibit II

HISTORY OF EMPLOYER CONTRIBUTION RATES

Employer Contribution Rate (% of pay)

Valuation Date	GENERAL				SAFETY		
12/31/1995	Normal 3.33 UAAL (0.47)* Total 2.86				Normal 5.59 UAAL 18.84* Total 24.43		
12/31/1996	Normal 3.38 UAAL (1.06) Total 2.32				Normal 5.77 UAAL 17.77 Total 23.54		
12/31/1997	Normal 3.77 UAAL (1.91) Total 1.86				Normal 6.79 UAAL 19.65 Total 26.44		
12/31/1998	Normal 4.35 UAAL (2.35) Total 2.00				Normal 8.00 UAAL 16.41 Total 24.41		
12/31/1999	Normal 4.56 UAAL (3.60) Total 0.96				Normal 8.27 UAAL 13.95 Total 22.22		
12/31/2000	Normal 4.94 UAAL (3.98) Total 0.96				Normal 8.57 UAAL 0.16 Total 8.73		
	Non-OCTA	*OCTA*	*Rancho Santa Margarita*	*San Juan Capistrano*	*Law Enforcement*	*Fire Authority*	*Probation*
12/31/2001	Normal 5.04 UAAL 0.62* Total 5.66	Normal 4.20 UAAL 0.77* Total 4.97	N/A	Normal 5.04 UAAL 0.62* Total 5.66	Normal 15.87 UAAL 9.15* Total 25.02	Normal 10.30 UAAL 1.89* Total 12.19	Normal 5.04 UAAL 0.62* Total 5.66
12/31/2002	Normal 5.44 UAAL 3.71* Total 9.15	Normal 4.36 UAAL 3.87* Total 8.23	N/A	Normal 5.44 UAAL 3.71* Total 9.15	Normal 16.53 UAAL 21.34* Total 37.87	Normal 17.85 UAAL 16.81* Total 34.66	Normal 4.38 UAAL 4.19* Total 8.57
12/31/2003**	Normal 5.56 UAAL 7.06* Total 12.62	Normal 4.41 UAAL 7.04* Total 11.45	Normal 1.77 UAAL 3.43* Total 5.20	Normal 7.22 UAAL 10.96* Total 18.18	Normal 16.86 UAAL 22.53* Total 39.39	Normal 17.98 UAAL 15.40* Total 33.38	Normal 4.02 UAAL 8.73* Total 12.75

* 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. Additional rates to reflect cost of benefit improvements will be implemented beginning with July 1, 2005.

Orange County Employees Retirement System

Exhibit III

SUMMARY OF ACTIVE MEMBERSHIP

Valuation Date	Number	Annual Salary	Annual Average Salary	Increase in Average Salary (%)
12/31/95				
General	15,658	$597,800,535	$38,179	1.11
Safety	2,351	129,967,110	55,282	2.00
Total	18,009	$727,767,645	$40,411	1.78
12/31/96				
General	15,736	$623,682,535	$39,634	3.81
Safety	2,354	135,214,811	57,440	3.90
Total	18,090	$758,897,346	$41,951	3.81
12/31/97				
General	16,266	$643,115,556	$39,537	(0.24)
Safety	2,427	138,774,560	57,179	(0.45)
Total	18,693	$781,890,116	$41,828	(0.29)
12/31/98				
General	16,976	$706,507,935	$41,618	5.26
Safety	2,456	156,691,236	63,799	11.58
Total	19,432	$863,199,171	$44,422	6.20
12/31/99				
General	17,801	$738,956,477	$41,512	(0.25)
Safety	2,556	173,533,473	67,893	6.42
Total	20,357	$912,489,950	$44,824	0.90
12/31/00				
General	18,382	$809,054,612	$44,016	6.04
Safety	2,605	185,614,420	71,256	4.95
Total	20,987	$994,669,032	$47,400	5.76
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	18,935	$1,003,413,000	$52,993	2.29
Safety	3,567	253,723,000	71,131	0.44
Total	22,502	$1,257,136,000	$55,868	1.82

Excludes Deferred and Pending members.

Orange County Employees Retirement System

Exhibit IV

SUMMARY OF RETIRED MEMBERSHIP

		Added to Rolls		Removed from Rolls					
Plan Year Ending	At Beginning of Year	Number	Annual Allowance (in 000's)*	Number	Annual Allowance (in 000's)	At End of Year	Annual Allowance (in 000's)	% Increase in Annual Allowance	Average Monthly Allowance
1995	5,816	690	--	(147)	--	6,359	$92,333	18.94	$1,210
1996	6,359	426	--	(154)	--	6,631	99,751	8.03	1,254
1997	6,631	505	--	(224)	--	6,912	109,661	9.93	1,322
1998	6,912	547	--	(215)	--	7,244	125,440	14.39	1,443
1999	7,244	549	--	(256)	--	7,537	137,543	9.65	1,521
2000	7,537	618	--	(240)	--	7,915	149,003	8.33	1,569
2001	7,915	606	--	(305)	--	8,216	162,553	9.09	1,649
2002	8,216	727	--	(255)	--	8,688	186,286	14.60	1,787
2003	8,688	793	--	(402)	--	9,079	210,913	13.22	1,936
2004	9,079	638	$26,663	(284)	($4,715)	9,433**	232,861	10.41	2,057

* Includes COLA granted during the plan year.
** Includes 153 QDRO recipients at the end of Plan Year 2004.

Orange County Employees Retirement System

Exhibit V

DEVELOPMENT OF ACTUARIAL AND VALUATION VALUE OF ASSETS

As of December 31, 2004

Plan Year Ending	Total Actual Market Return (net)	Expected Market Return (net)	Investment Gain (Loss)	Deferred Factor	Deferred Return
2004	$544,457,000	$362,744,000	$181,713,000	0.8	$145,370,000

(1)	Net Market Value of Assets (Excludes County Investment Account)	$5,401,750,000
(2)	Actuarial Value of Assets	5,256,380,000
(3)	Non-valuation Reserves	
(a)	Unclaimed member deposit	655,000
(b)	Medicare medical insurance reserve	84,000
(c)	RMBR	9,820,000
(d)	Subtotal	10,559,000
(4)	Valuation Value of Assets (2)-(3)(d)	$5,245,821,000

Orange County Employees Retirement System

Exhibit VI

SHORT-TERM SOLVENCY TEST

($ Amounts in Thousands)

Valuation Date	(1) Active Member Contributions	(2) Liability for Inactive Participants	(3) Liability for Active Members (Employer Financed Portion)	Valuation Value of Assets	Portion of Accrued Liability Covered by Valuation Assets (%)		
					(1)	(2)	(3)
12/31/95	$438,949	$1,201,057	$993,878	$2,434,406	100	100	79.93
12/31/96	484,451	1,295,334	1,072,109	2,675,632	100	100	83.56
12/31/97	523,770	1,554,017	1,255,180	3,128,132	100	100	83.68
12/31/98	567,932	1,632,708	1,482,047	3,504,708	100	100	87.99
12/31/99	618,463	1,782,432	1,616,383	3,931,744	100	100	94.71
12/31/00	671,152	1,911,328	1,752,545	4,497,362	100	100	100.00
12/31/01	739,084	2,085,697	2,019,118	4,586,844	100	100	87.27
12/31/02	858,121	2,496,133	2,319,500	4,695,675	100	100	57.83
12/31/03	852,016	2,843,236	2,404,180	4,790,099	100	100	45.54
12/31/04	949,528	3,137,714	3,499,448	5,245,821	100	100	33.11

Orangeounty Employees Retirement System

Exhibit VII

ACTUARIAL METHODS AND ASSUMPTIONS

Section 1 – Post-Retirement Mortality Rates

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

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

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

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

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

Section 2 - Termination Rates Before Retirement:

Healthy Mortality:

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

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

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Section 2 - Termination Rates Before Retirement (continued):
Disability Incidence Rates:

	Rate (%) Disability			
Age	General all other[1]	General OCTA[2]	Safety – Law & Fire[3]	Safety - Probation[4]
20	0.00%	0.00%	0.05%	0.00%
25	0.03	0.00	0.08	0.06
30	0.08	0.03	0.16	0.16
35	0.13	0.08	0.32	0.20
40	0.18	0.28	0.52	0.20
45	0.20	0.58	0.72	0.20
50	0.23	0.76	0.98	0.20
55	0.31	0.92	2.24	0.20
60	0.41	1.30	3.60	0.08

(1) 60% of General all other disabilities are assumed to be duty disabilities. The other 40% are assumed to be ordinary disabilities.
(2) 70% of General - OCTA disabilities are assumed to be duty disabilities. The other 30% are assumed to be ordinary disabilities.
(3) 85% of Safety – Law Enforcement and Fire disabilities are assumed to be duty disabilities. The other 15% are assumed to be ordinary disabilities.
(4) 85% of Safety - Probation disabilities are assumed to be duty disabilities. The other 15% are assumed to be ordinary disabilities.

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

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

Rate (%)

Withdrawal (< 5 Years of Service)

Years of Service	General all other	General OCTA	Safety – Law & Fire	Safety - Probation
0	10.0%	10.0%	3.0%	11.0%
1	8.0	7.0	2.0	10.0
2	6.0	6.0	2.0	8.0
3	6.0	5.0	1.0	6.0
4	5.0	4.0	1.0	5.0

Withdrawal (5+ Years of Service) *

Age	General all other	General OCTA	Safety – Law & Fire	Safety – Probation
20	5.0%	3.0%	1.0%	5.0%
25	5.0	3.0	1.0	5.0
30	5.0	3.0	1.0	5.0
35	4.4	3.0	0.9	4.4
40	3.7	3.0	0.6	3.7
45	2.9	3.0	0.5	2.9
50	2.2	2.7	0.2	2.2
55	1.4	1.9	0.0	1.4
60	0.4	0.6	0.0	0.4

* *15% of all terminated vested members will choose a refund of contributions and 85% will choose a deferred vested benefit. This is based on the observation that out of all vested members who have terminated, 64% of General and 80% of Safety and Probation chose a deferred vested benefit.*

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Retirement Rates:
The following rates apply:

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

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

Retirement Age and Benefit for Deferred Vested Members:

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

General Age:	57
Safety Age:	53

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

Future Benefit Accruals:

1.0 year of service per year for the full-time employees. Continuation of current partial service accrual for part-time employees. There is no assumption to anticipate conversion of unused sick leave at retirement.

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

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

Inclusion of Deferred Vested Members: All deferred vested members are included in the valuation.

Percent Married: 80% of male members; 50% of female members.

Age of Spouse: Female (or male) spouses are four years younger (or older) than their spouses.

Net Investment Return: 7.50%

Employee Contribution Crediting Rate: 5.00%

Consumer Price Index: Increase of 4.00% per year, retiree COLA increases due to CPI subject to a 3.0% maximum change per year.

Salary Increases:

Annual Rate of Compensation Increase (%)

Inflation: 4.00%, plus the following Merit and Longevity

Age	General	Safety
20	7.0%	6.0%
25	5.2	5.1
30	3.4	3.6
35	2.2	1.8
40	1.7	0.7
45	1.6	0.5
50	1.4	0.5
55	0.9	0.5
60	0.6	0.0
65+	0.6	

There are assumed to be 0.00% "across the board" salary increases (other than inflation).

Terminal Pay Assumptions: Additional pay elements are expected to be received during a member's final average earnings period. The percentages used in this valuation are:

	Tier 1	Tier 2
General including Safety Probation	4.50%	2.10%
Law Enforcement	9.30%	6.30%
Fire Protection	5.10%	2.40%

Please note that the terminal pay assumptions are the same for service and disability retirements.

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Actuarial Value of Assets:	The Actuarial Value of Assets is determined by phasing in any difference between actual and expected market return over 5 years. The Valuation Value of Assets is reduced by the value of the non-valuation reserves.
Actuarial Cost Method:	Projected Unit Credit Actuarial Cost Method – assuming a closed group. The unfunded actuarial accrued liability (UAAL) is amortized over a 28-year period commencing December 31, 1995. Effective with December 31, 2002 actuarial valuation, the Board elected to restart the amortization period for General Members, including Probation Officers, to 30 years. Emerging gains and losses have been amortized separately over individual 15-year periods. Other changes to the UAAL, created by assumption changes or plan amendments are amortized over 15 years. The 15-year amortization period for plan amendments is based on a recent policy change adopted by the Board and it is applicable for plan changes after April 18, 2005. Before the policy change, plan amendments were amortized over 30 years.

Orange County Employees Retirement System

Exhibit VIII

SUMMARY OF MAJOR 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	*(City of Rancho Santa Margarita, Orange County Sanitation District)*
Plan G	General members hired before September 21, 1979.
Plan H	General members hired on or after September 21, 1979
2.7% @ 55 Plans	*(City of San Juan Capistrano, Orange County employees except those from bargaining unit AFSCME, Orange County Superior Court, Orange County Local Agency Formation Commission, Orange County Employees Retirement System 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.
All Other General Employers	
Plan A	General members hired before September 21, 1979.
Plan B	General members hired on or after September 21, 1979.
Safety Plans	
Law Enforcement, Fire Protection and Probation Members	
Plan E	Safety members hired before September 21, 1979.
Plan F	Safety members hired on or after September 21, 1979.
Final Compensation for Benefit Determination:	
Plans A, E, G and I	Highest consecutive twelve months of compensation earnable. (§31462.1) (FAS1)
Plans B, F, H and J	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)
	Part time employees over age 55 with 10 years of employment may retire with 5 years of service.

Orange County Employees Retirement System

SUMMARY OF MAJOR 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)

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)

Orange County Employees Retirement System

SUMMARY OF MAJOR PROVISIONS (CONT'D)

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

	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)

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

Ordinary Disability:

General Plans

Plans A, B,G, H, I and J

Eligibility — Five years of service. (§31720)

Benefit Formula

Plans A, G and I:
1.8% per year of service, and if the benefit does not exceed one-third of Final Compensation, the service is projected to 62, but the total benefit cannot be more than one-third of Final Compensation. (§31727)

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

Orange County Employees Retirement System

SUMMARY OF MAJOR PROVISIONS (CONT'D)

Safety Plans

Plans E and F

Eligibility	Five years of service. (§31720)
Benefit Formula	1.8% per year of service. If the benefit does not exceed one-third of Final Compensation, the service is projected to 55, but the total benefit cannot be more than one-third of Final Compensation (§31727.2).

Line-of-Duty Disability:

All Members

Eligibility	No age or service requirements. (§31720)
Benefit Formula	50% of the Final Compensation or 100% of Service Retirement benefit, if greater. (§31727.4)

Pre-Retirement Death:

All Members

Eligibility	None.
Benefit	Refund of employee contributions with interest plus one month's compensation for each year of service to a maximum of six month's compensation. (§31781) $750 lump sum benefit 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)

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) $750 lump sum benefit 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). $750 lump sum benefit is payable upon death of a member (with 10 years of service) to his/her eligible beneficiary (§31790).

Orange County Employees Retirement System

SUMMARY OF MAJOR PROVISIONS (CONT'D)

Withdrawal Benefits:	
Less than Five Years of Service	Refund of accumulated employee contributions with interest or earned benefit at age 70 (§31628). Effective January 1, 2003, A member may also elect to leave their contributions on deposit in the retirement fund. (§31629.5)
Five or More Years of Service	If contributions left on deposit, entitled to earned benefits commencing at any time after eligible to retire. (§31700)
Post-retirement Cost-of-Living Benefits:	Future changes based on Consumer Price Index to a maximum of 3% per year, excess "banked." (§31870.1)
Supplemental Benefit:	Non-vested supplemental COLA and medical benefits are also paid by the System to eligible retirees and survivors. These benefits have been excluded from this valuation.
Member Contributions:	
General Plans:	
Plan A	
Basic	Provide for an average annuity at age 60 equal to 1/200 of FAS1. (§31621.5)
Cost-of-Living	Provide for one-half of future Cost-of-Living costs.
Plan B	
Basic	Provide for an average annuity at age 60 equal to 1/120 of FAS3. (§31621)
Cost-of-Living	Provide for one-half of future Cost-of-Living costs.
Plans G, H, I and J	
Basic	Provide for an average annuity at age 55 equal to 1/100 of FAS3 (FAS1 for Plans G and I). (§31621.8)
Cost-of-Living	Provide for one-half of future Cost-of-Living costs.
Safety Plans:	
Plans E	
Basic	Provide for an average annuity at age 50 equal to 1/200 FAS1. (§31639.5)
Cost-of-Living	Provide for one-half of future Cost-of-Living costs.
Plans F	
Basic	Provide for an average annuity at age 50 equal to 1/100 of FAS3. (§31639.25)
Cost-of-Living	Provide for one-half of future Cost-of-Living costs.
Other Information:	Law Enforcement, Fire Protection and Probation 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.

Orange County Employees Retirement System

SUMMARY OF MAJOR PROVISIONS (CONT'D)

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

Orange County Employees Retirement System

Exhibit IX

EXPERIENCE ANALYSIS
($000)

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

Type of Activity	Gains (or Losses) Per Year				
	2000	**2001**	**2002**	**2003**	**2004**
Retirements	$(29,367)	$(48,490)	$(82,392)	$(119,420)	--
Disabilities	16,780	17,696	(8,012)	24,833	--
Withdrawal From Employment	(4,633)	(13,932)	(15,328)	(1,962)	--
Pay Increases	(24,585)	(40,448)	(91,887)	103,234	$41,647
Investment Income	286,267	(221,192)	(220,329)	(287,828)	54,242
Mortality	28,836	(3,021)	(7,422)	7,574	--
Other	(20,775)	(20,534)	(18,001)	(35,343)	(64,725)
Gain (or Loss) During Year From Experience	**$252,523**	**$(329,921)**	**$(443,371)**	**$(308,912)**	**$31,164**
Nonrecurring Items:					
Method and Procedure Changes					(106,631)
Plan Amendments and Assumption Changes	0	(85,395)	(238,027)	(2,338)	(945,090)
Composite Gain (or Loss) During Year	**$252,523**	**$(415,316)**	**$(681,398)**	**$(311,250)**	**$(1,020,557)**

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SECTION 5

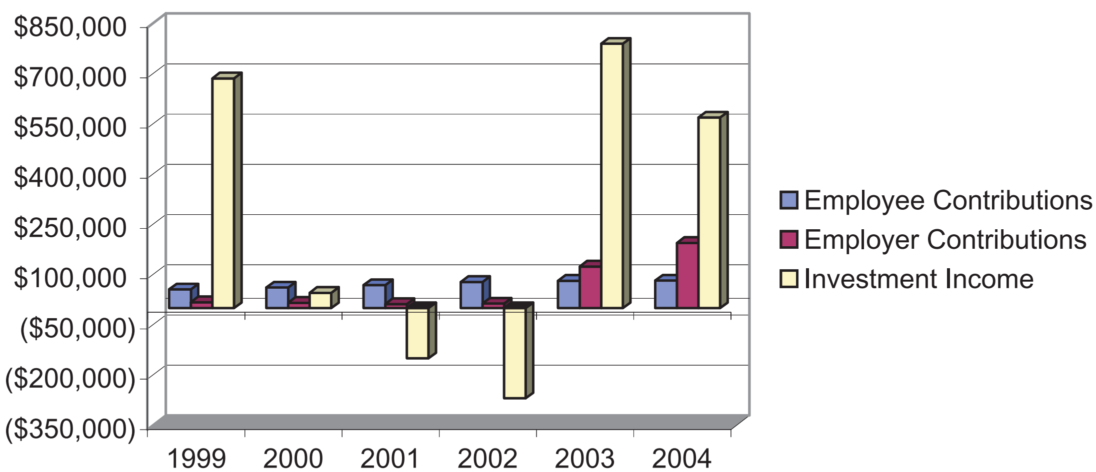
> STATISTICAL

Schedule and Graph of Revenues by Source

(in thousands)

1999 – 2004

Year Ended December 31	1999	2000	2001	2002	2003	2004
Employee Contributions	$55,693	$61,179	$68,635	$77,917	$81,581	$81,931
Employer Contributions	$17,591	$15,561	$12,060	$13,289	$124,243	$194,430
Investment Income*	$685,718	$45,284	($149,858)	($269,188)	$789,086	$569,000
Total	$759,002	$122,024	($69,163)	($177,982)	$994,910	$845,361



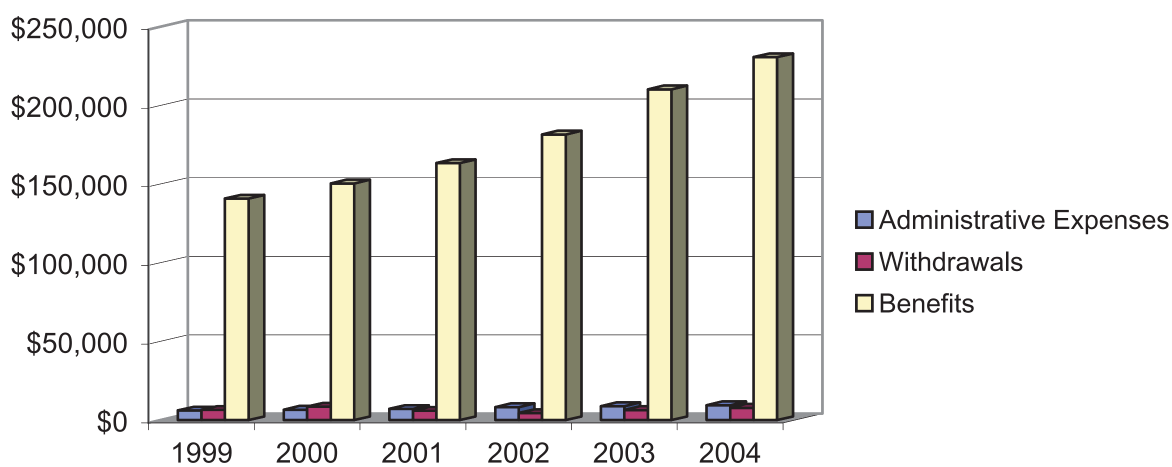
* Includes net appreciation (depreciation) less investment manager fees and security lending fees.

Schedule and Graph of Expenses by Type

(in thousands)

1999 – 2004

Year Ended December 31	1999	2000	2001	2002	2003	2004
Administrative Expenses	$6,094	$6,631	$7,146	$8,279	$8,848	$9,463
Withdrawals	$6,513	$8,515	$5,896	$4,482	$6,412	$7,845
Benefits	$140,736	$150,466	$163,378	$181,549	$210,273	$230,684
Total	$153,343	$165,612	$176,420	$194,310	$225,533	$247,992

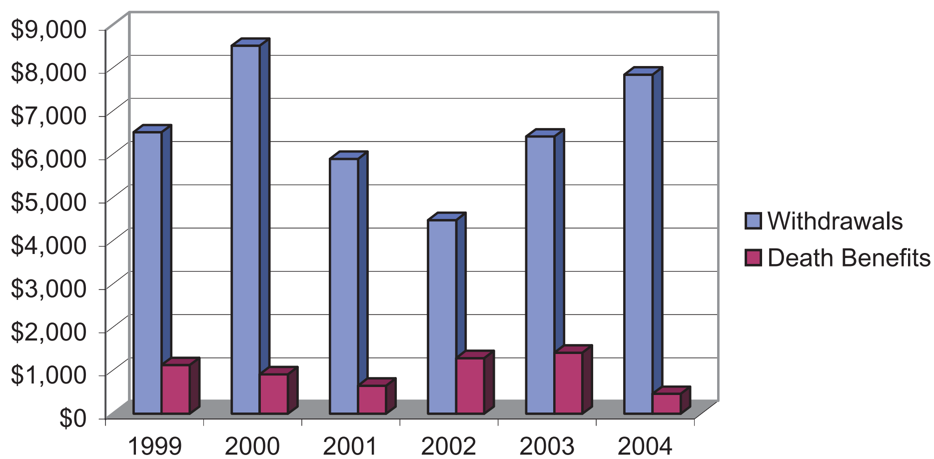


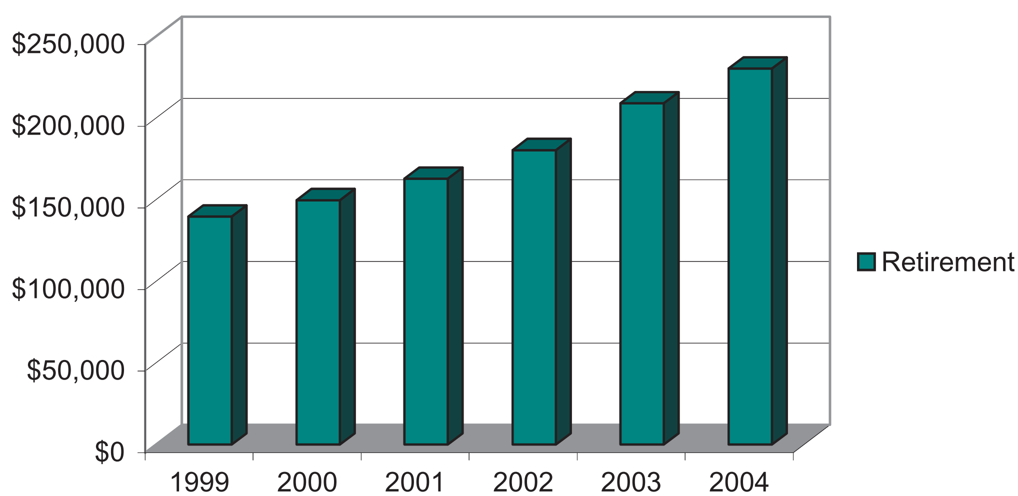
Schedule and Graphs of Benefit Expenses by Type

(in thousands)

1999 – 2004

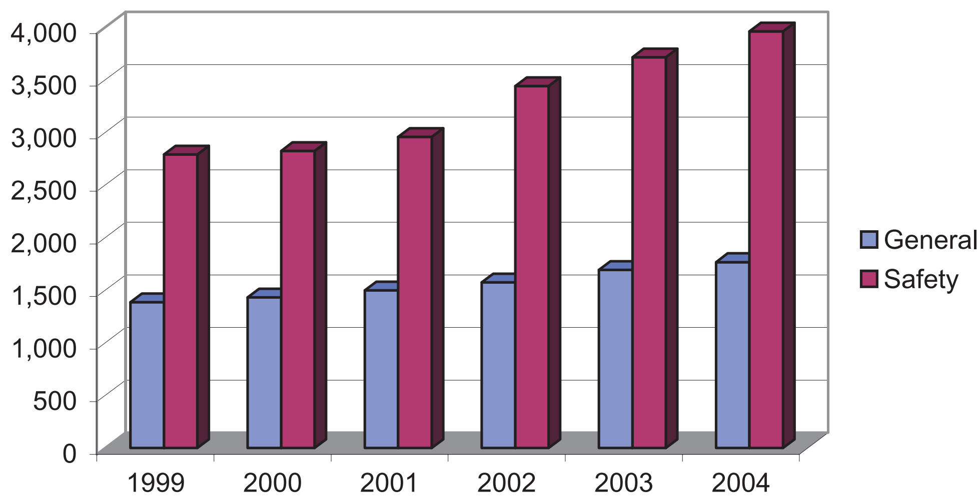
Year Ended December 31	1999	2000	2001	2002	2003	2004
Withdrawals	$6,513	$8,515	$5,896	$4,482	$6,412	$7,845
Retirement	$139,611	$149,555	$162,732	$180,263	$208,861	$230,225
Death Benefits	$1,125	$911	$646	$1,286	$1,412	$459
Total	$147,249	$158,981	$169,274	$186,031	$216,685	$238,529





Schedule and Graph of Average Monthly Pension Check 1999 – 2004

	1999	2000	2001	2002	2003	2004
General Members	$1,385	$1,429	$1,498	$1,572	$1,691	$1,766
Safety Members	$2,788	$2,822	$2,955	$3,438	$3,713	$3,959



Schedule of Benefit Recipients by Type of Benefit
December 31, 2004

Monthly Benefit	1	2	3	4	5	6	7	Total
$0-500	723	134	5	18	20	57	94	1,051
$501-1,000	1,184	222	7	70	35	38	155	1,711
$1,001-1,500	1,134	132	87	109	24	17	73	1,576
$1,501-2,000	869	70	263	31	21	21	31	1,306
$,2001-2,500	615	46	204	18	18	8	15	924
$2,501-3,000	503	21	130	5	12	4	6	681
$3,001-3,500	364	18	121	5	6	5	7	526
$3,501-4,000	307	9	39	1	2	3	4	365
$4,001-4,500	255	3	25	0	2	0	6	291
$4,501-5,000	191	1	10	0	1	0	0	203
$5,001-5,500	142	2	7	0	1	0	2	154
$5,501-6,000	124	1	3	0	0	0	1	129
$6,001-6,500	104	1	2	0	0	0	0	107
$6,501-7,000	89	0	2	0	1	0	0	92
Over $7,000	302	1	13	1	0	0	0	317
Total	6,906	661	918	258	143	153	394	9,433

Definition of Terms

Eligible Spouse: A member's spouse is considered eligible if the member has been married for at least one year at the time of retirement and remains married throughout the member's retirement.

Eligible Child: An eligible child is an unmarried child under the age of 18, or under the age of 22 if a full-time student.

Type of Retirement Benefit

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

Schedule of Benefit Recipients by Option Selected
December 31, 2004

Monthly Benefit	JSURV	SL100	SL60	SLIFE	SLR60	UNMJS	Total Payees*
$0-500	85	0	1	81	0	884	1,051
$501-1,000	120	0	8	146	2	1,435	1,711
$1,001-1,500	114	1	2	124	1	1,334	1,576
$1,501-2,000	87	0	2	84	0	1,133	1,306
$2,001-2,500	73	0	0	48	0	803	924
$2,501-3,000	54	1	0	37	0	589	681
$3,001-3,500	49	1	1	30	0	445	526
$3,501-4,000	42	0	0	22	0	301	365
$4,001-4,500	43	0	0	20	0	228	291
$4,501-5,000	37	0	0	17	0	149	203
$5,001-5,500	24	0	1	17	0	112	154
$5,501-6,000	27	0	0	17	0	85	129
$6,001-6,500	15	0	0	4	0	88	107
$6,501-7,000	13	0	0	3	0	76	92
Over $7,000	68	0	0	19	0	230	317
Total	851	3	15	669	3	7,892	9,433

Definition of Options

JSURV: Contingent joint survivor.

SL100: Single life with 100% joint survivor adjustment.

SL60: Single life with 60% adjustment.

SLIFE: Lifetime payment.

SLR60: Single life with 60% adjustment with reduction.

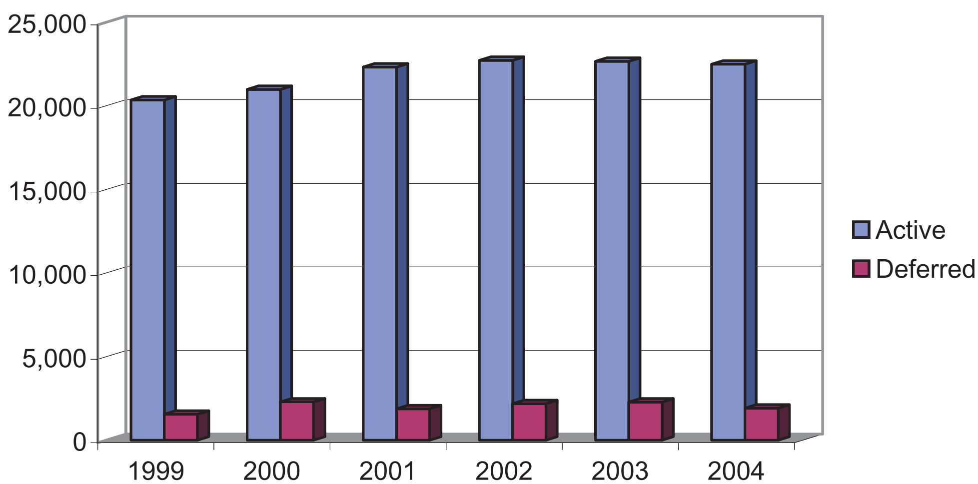
UNMJS: Unmodified with joint survivor.

* Total payees includes 153 Qualified Domestic Relations Orders (QDRO) payees.

Schedule and Graph of Active and Deferred Members 1999 – 2004

December 31

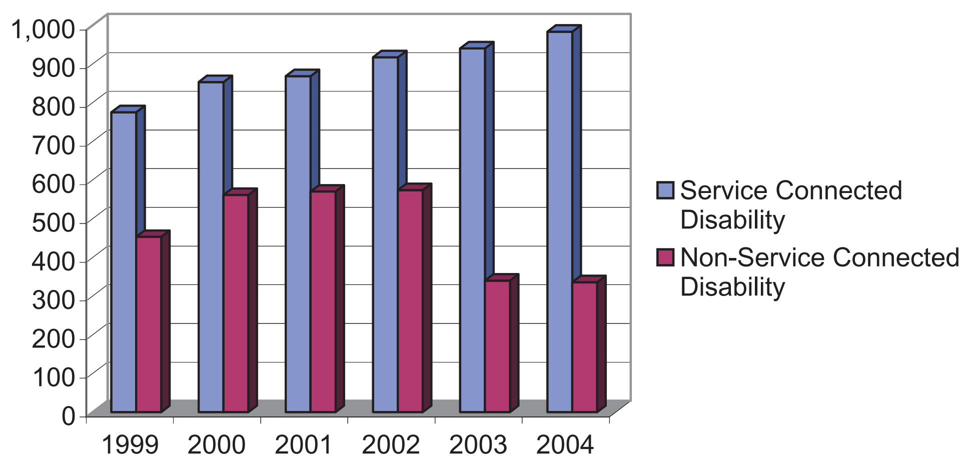
	1999	2000	2001	2002	2003	2004
Active	20,357	20,987	22,329	22,723	22,672	22,502
Deferred	1,553	2,285	1,872	2,177	2,278	1,910
Total	21,910	23,272	24,201	24,900	24,950	24,412

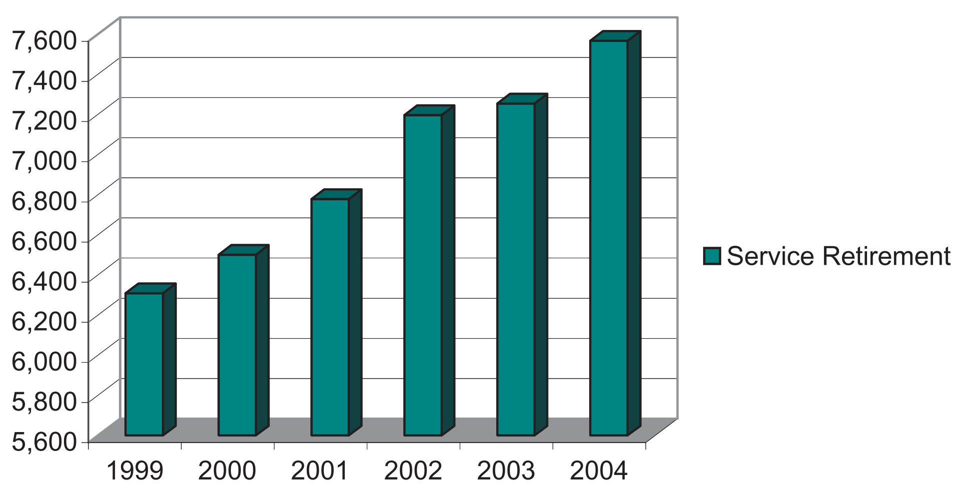


Schedule and Graphs of Benefit Recipients 1999 – 2004

December 31

	1999	2000	2001	2002	2003	2004
Service Connected Disability	775	853	868	917	940	983
Non-Service Connected Disability	453	561	570	574	340	336
Service Retirement	6,309	6,501	6,778	7,197	7,255	7,567
Total	7,537	7,915	8,216	8,688	8,535*	8,886**





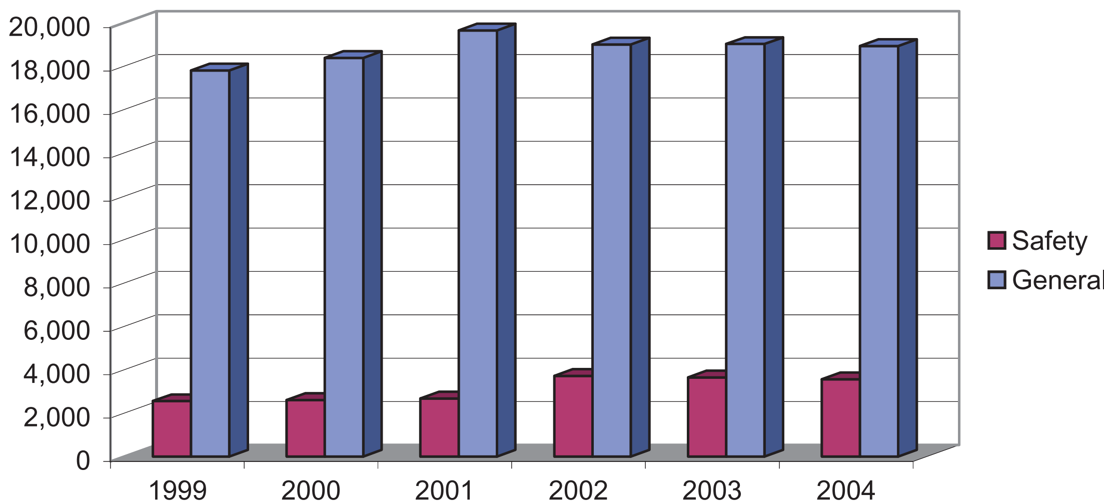
*Excludes 129 Qualified Domestic Relations Orders (QDRO) payees and 399 Active Death Survivors.

**Excludes 153 Qualified Domestic Relations Orders (QDRO) payees and 394 Active Death Survivors.

Schedule and Graph of
Active Members by Membership Classification*
1999 – 2004

December 31

	1999	2000	2001	2002	2003	2004
Safety	2,556	2,605	2,676	3,721	3,649	3,567
General	17,801	18,382	19,653	19,002	19,023	18,935
Total	20,357	20,987	22,329	22,723	22,672	22,502



* Excludes members with Deferred Status

History of Actuarial Assumption Rates for the Period January, 1945 – December, 2004

The table shown below is a comprehensive history of the interest rate assumption and the salary assumption rates corresponding to the Orange County Employees Retirement System since the inception of the system. These rates are adopted by the Retirement Board and used by the consulting actuary in the creation of the actuarial valuation of the system.

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

History of OCERS Actuarial Assumption Rates

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%

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