

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2008



Orange County Employees Retirement System
Orange County, California

Comprehensive Annual Financial Report

For the Year Ended December 31, 2008

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

ISSUED BY:

Steve Delaney
Chief Executive Officer

PREPARED BY:

Stephen Cadena
Assistant Chief Executive Officer

Michelle Williamson, PhD
Director of Finance

Orange County Employees Retirement System
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> CONTENTS

SECTION 1 | INTRODUCTION

Letter of Transmittal	2
Certificate of Achievement	5
Members of the Board of Retirement	6
Organization of OCERS	7
Administrative Organization Chart	8
Professional Consultants	9

SECTION 2 | FINANCIAL

Independent Auditor's Report	12
Management's Discussion and Analysis	14

BASIC FINANCIAL STATEMENTS

Statement of Plan Net Assets	18
Statement of Changes in Plan Net Assets	19
Notes to the Basic Financial Statements	20

Required Supplementary Information

Schedule of Funding Progress	37
Schedule of Employer Contributions	37
Latest Actuarial Valuation Methods and Assumptions	38

Other Supplementary Information

Schedule of Administrative Expenses	41
Schedule of Investment Expenses	42
Schedule of Payments for Professional Services	43

SECTION 3 | INVESTMENT

Investment Consultant's Statement	46
Investment Returns	49
Statement of Investment Objectives and Policies	50
Asset Diversification	51
Growth of System Net Assets at Fair Value	52
Historical Asset Allocation - Actual	52
History of Performance - Based on Fair Value	53
Commission Recapture Program	54
Schedule of Commissions	54

Investment Summary	60
Schedule of Largest Equity Holdings	60
Schedule of Largest Fixed Income Holdings	60
List of Investment Managers	61

SECTION 4 | ACTUARIAL

Actuary's Certification Letter	66
History of Unfunded Actuarial Accrued Liability	69
History of Employer Contribution Rates	72
Summary of Active Membership	75
Summary of Retired Membership	76
Development of Actuarial and Valuation Value of Assets	77
Short-Term Solvency Test	78
Actuarial Methods and Assumptions	79
Summary of Major Plan Provisions	86
Experience Analysis	93
Schedule of Funding Progress	94

SECTION 5 | STATISTICAL

Schedule of Changes in Plan Net assets	98
Schedule and Graph of Revenues by Source	99
Schedule and Graph of Expenses by Type	100
Schedule and Graphs of Benefit Expenses by Type	101
Schedule and Graph of Average Monthly Pension Check	102
Schedule of Average Pension Benefit Payments by Years of Service	103
Schedule of Benefit Recipients by Type of Benefit	104
Schedule of Benefit Recipients by Option Selected	105
Schedule and Graphs of Benefit Recipients	106
Schedule of Average Retirement Age	107
Schedule of Average Years of Service at Retirement	107
Schedule of Beneficiaries Receiving a Pension	107
Schedule of Active and Deferred Members	107
Schedule of Participating Employers	108
History of Actuarial Assumption Rates	109



SECTION

1



> INTRODUCTION

LETTER OF TRANSMITTAL



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

June 30, 2009

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, 2008, the System's 64th 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 Orange County Employees Retirement System management. Please review the basic financial statements in conjunction with the Management's Discussion and Analysis on page 14.

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

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

Profile of OCERS:

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

OCERS Economic Condition:

OCERS' funding objective is to meet long-term benefit obligations through contributions and investment income. For the year of 2008 the funding ratio of the System was 71.34%. A history of OCERS' funding progress is presented on page 37.

In 2008, OCERS experienced a decrease of \$1,444,089,110 in plan net assets. Details of the components of this decrease are included in the Statement of Changes in Plan Net Assets on page 19.

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

Board of Retirement
June 30, 2009

Funding Goal:

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

Following the negative investment markets from early in the decade, major revisions in OCERS' actuarial regimen and various benefit changes, OCERS' funded ratio declined requiring an increase in contributions. The years following those changes saw the actuary's valuations lead to stable contribution requirements and gradually improving funding. The 2008 funded ratio did decline slightly as a result of new actuarial assumptions adopted by the OCERS Board to better reflect recent and expected experience. While those modified assumptions should contribute to more stable contributions going forward, market losses in 2008 will affect rates for sometime.

Due to market conditions in 2008, the total additions to plan net assets decreased by \$1,013,580,976. This amount includes member and employer contributions of \$606,201,749, net investment income of (\$1,627,177,419), net security lending income of \$6,145,253 and net commission recapture income and other of \$1,249,441. This difference was attributable mainly to a \$1,736,994,154 decrease in net appreciation in fair value of investments over the prior year. Details of the additions to plan net assets are included in the Statement of Changes in Plan Net Assets on page 19.

Deductions for 2008, excluding investment management and security lending fees, were \$430,508,134 which represented an increase of \$66,266,013 over the prior year. This increase was the result of higher retirement benefit payments, an increase in the number of retirees and a decrease in refunds/withdrawals to terminated members.

Internal Controls:

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

Major Initiatives:

During 2008 OCERS continued to make modest modifications in its investment program to enhance diversification and the prospects for incremental return. The system diversified its real estate portfolio, absolute return strategies and made additional commitments to private equity. In 2008 OCERS completed the installation of an image system for all member records. The ability of members to access personal account information on-line was enhanced as were

Board of Retirement
June 30, 2009

opportunities to conduct transactions, including the retirement application, on-line. At the same time OCERS conducted a record number of retirement planning and other seminars for members, maintaining our dual focus on quality 'in-person' service, along with better electronic capabilities.

In an effort to assist plan sponsors and members to address the need to fund other post employment benefit (OPEB) obligations, OCERS began providing administrative services for OPEB funds. This service provides higher returns and lower costs for the plan sponsors. OCERS provides this service as a third-party administrator. OCERS includes reporting the medical health trust in its total fund financial statements, the GASB 43 and 45 OPEB reporting will remain the responsibility of the individual plan sponsor.

Awards and Acknowledgements:

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to OCERS for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2007 (page 5).

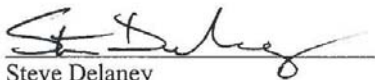
This was the fourteenth consecutive year that OCERS has achieved this prestigious award. The Certificate of Achievement is a national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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


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

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

Respectfully submitted,



Steve Delaney
Chief Executive Officer



Michelle Williamson
Director of Finance

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, 2007

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.



A handwritten signature in black ink, appearing to read "M. L. R. T.", positioned above the printed name.

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Erwin", positioned above the printed name.

Executive Director

MEMBERS OF THE BOARD OF RETIREMENT

As of December 31, 2008



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



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



Russell Baldwin
*Elected by
General Members*



Tony Bedolla
Alternate
*Elected by
Safety Members*



Frank E. Eley
*Elected by
General Members*



Thomas E. Flanigan
*Appointed by the
Board of Supervisors*



Patti Gorczyca
*Appointed by the
Board of Supervisors*



Arthur Hidalgo
*Appointed by the
Board of Supervisors*



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



Chriss W. Street
*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 (one of whom is also General Counsel), a Senior Internal Auditor, and the Chief Investment Officer (CIO) assist the CEO in the daily operations of the system.

Investment Department

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

External Operations Department

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

The Member Services Division is responsible for providing all benefit services to the members of the system. This includes benefit calculations, preparation of data to support applications for retirement, preparation of the retiree payroll, processing transmittals, membership counseling, and retirement seminars. The Disability section of Member Services is responsible for reviewing claims and medical records; interviewing applicants and witnesses; preparing written reports of findings and recommendations; and making presentations to the Board of Retirement regarding the disposition of cases.

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

Internal Operations Department

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

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

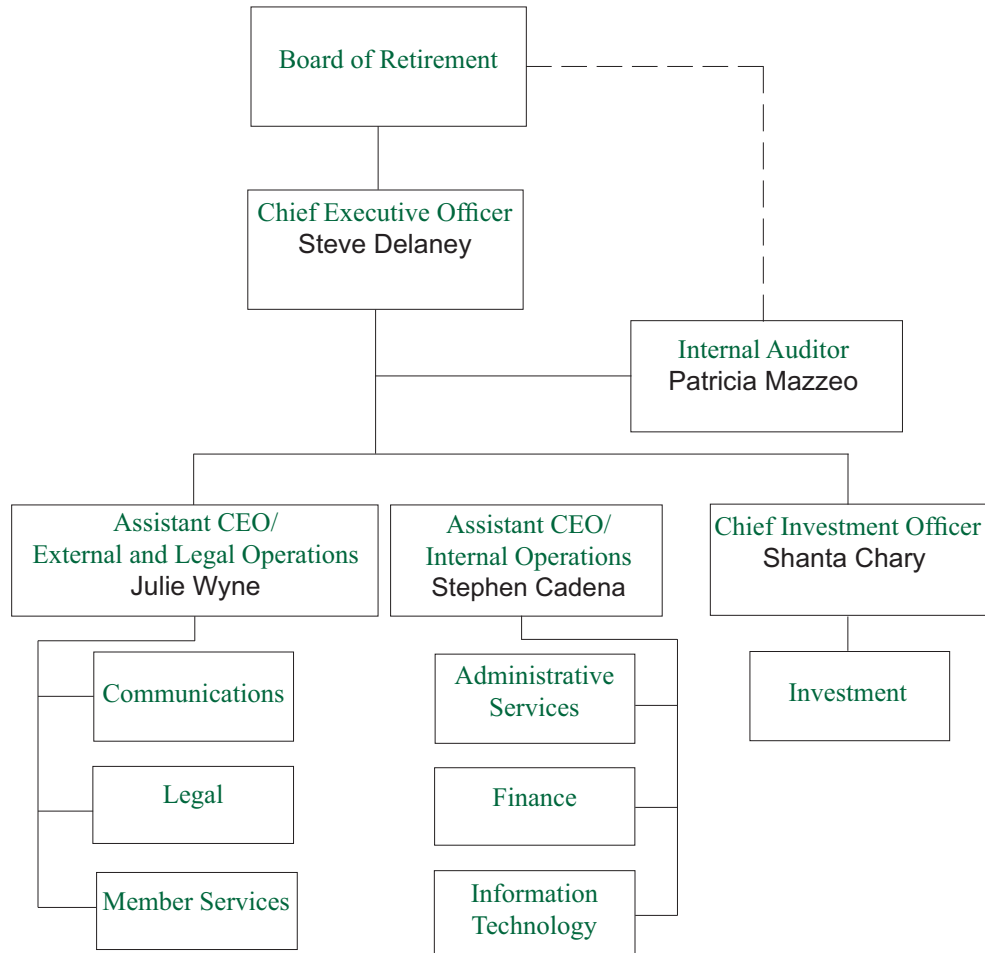
The Administrative Services Division is responsible for providing the contract administration, purchasing, and human resources functions of OCERS.

Legal Department

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

Administrative Organization Chart

As of December 31, 2008



List of Professional Consultants
As of December 31, 2008

Actuary

The Segal Company

Investment Consultant

Callan Associates, Inc.

Real Estate Consultant

Callan Associates, Inc.

Independent Auditor

Brown Armstrong Accountancy Corporation

Investment Counsel

Stradling, Yocca, Carlson & Rauth

Fiduciary Counsel

Reed Smith, LLP

Tax Counsel

Foley & Lardner

Custodian

State Street California

Note: List of Investment Managers is located on pages 61 and 62 of the Investment Section of this report.

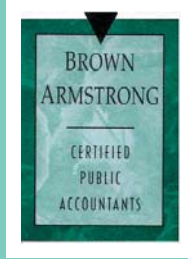


SECTION

2



➤ **FINANCIAL**



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

Main Office

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Andrew J. Paulden, CPA
Peter C. Brown, CPA
Burton H. Armstrong, CPA, MST
Steven R. Starbuck, CPA
Aileen K. Keeter, CPA
Chris M. Thornburgh, CPA
Eric H. Xin, MBA, CPA
Richard L. Halle, CPA, MST

INDEPENDENT AUDITOR'S REPORT

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

Harvey J. McCown, MBA, CPA
Lynn R. Krausse, CPA, MST
Rosalva Flores, CPA
Connie M. Perez, CPA
Diana H. Branthoover, CPA
Thomas M. Young, CPA
Alicia Dias, CPA, MBA
Matthew R. Gilligan, CPA
Hanna J. Sheppard, CPA
Ryan L. Nielsen, CPA
Jian Ou-Yang, CPA
Amanda Dickerson, CPA
Jialan Su, CPA
Ariadne S. Prunes, CPA
Samuel O. Newland, CPA
Brooke N. DeCuir, CPA
Kenneth J. Witham, CPA
Clint W. Baird, CPA
Adrian Rich, CPA
Craig Rickett, CPA

We have audited the accompanying statement of plan net assets of the Orange County Employees' Retirement System (OCERS) as of December 31, 2008 and 2007 and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of management of OCERS. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note B, to the financial statements, in 2008 OCERS adopted the provisions of GASB Statement No. 50, Pension Disclosures-an amendment of GASB Statements No. 25 and 27.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Orange County Employees' Retirement System as of December 31, 2008 and 2007 and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information designated as other supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of OCERS. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other data included in this report, designated as the investment, actuarial and statistical sections in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on such data.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2009, on our consideration of OCERS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION



Bakersfield, California
June 2, 2009

Management's Discussion and Analysis

OCERS' management is pleased to provide this overview and the analysis of the financial activities of the Orange County Employees Retirement System (OCERS) for the year ended December 31, 2008. Readers are encouraged to consider the information presented in this Management Discussion and Analysis in conjunction with the Letter of Transmittal (starting on page 2) and the Basic Financial Statements beginning on page 18. In addition, please refer to the Notes to the Financial Statements beginning on page 20, Required Supplementary Information beginning on page 36, and the Other Supplemental Information beginning on page 40.

Financial Highlights:

- Net Assets Held in Trust for Pension Plan Benefits, as reported in the Statement of Plan Net Assets, totaled \$6,457,113,042, a decrease of \$1,444,089,110 from the prior year, primarily as a result of the decreases in the fair market value of investments and increases in contributions.
- Total Additions, as reported in the Statement of Changes in Plan Net Assets for 2008 were a negative \$1,013,580,976. The major significant portions of the additions are the appreciation in the fair value of investments, investment gains, and the increases in contributions.
- Total Deductions, as reported in the Statement of Changes in Plan Net Assets, were \$430,508,134. This represents an increase of \$66,266,013 over the prior year primarily as a result of the increases in benefit payments.
- OCERS' funding objective is to meet its long-term benefit obligations through contributions and investment income. The Segal Company is OCERS' actuary. The latest actuarial valuation completed as of December 31, 2008 indicates that the funding status (the ratio of system assets to system liabilities) is 71.34%.

Overview of Financial Statements:

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

1. Statement of Plan Net Assets (page 18): This is a snapshot of account balances at the end of the calendar year. This statement reflects assets available for future payments to members and their beneficiaries and any current liabilities that are owed.
2. Statement of Changes in Plan Net Assets (page 19): This report reflects all of the financial activities that occurred during the calendar year and shows the impact of those activities as Additions to or Deductions from the Plan. Other factors, such as market conditions, should also be considered in measuring the System's overall health.
3. Notes to Basic Financial Statements (pages 20-35): The Notes are an integral part of the financial reports; they provide a detailed discussion to key policies, programs and activities that occurred during the year.
4. Required Supplementary Information (pages 36-39): This section includes the Schedule of Funding Progress that shows the historical trend for the actuarial funding status of the Plan; the Schedule of Employer Contributions showing the annual required contributions and the percentage of contributions made. In addition, this section provides information on the Latest Actuarial Valuation

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

5. The Other Supplementary Information (pages 40-43), the Investment Section (pages 44-63), the Actuarial Section (pages 64-95) and the Statistical Section (pages 96-110) provide additional detailed financial, investment, actuarial, and statistical data supporting information reported in the Basic Financial Statements.

Plan Net Assets:	December 31		Increase/ (Decrease) Amount 2008-2007
	2008	2007	
	Current Assets	\$1,346,285,451	
Investments	6,530,253,448	8,209,388,255	(1,679,134,807)
Capital Assets	2,335,161	2,877,877	(542,716)
Total Assets	\$7,878,874,060	\$9,429,501,984	(\$1,550,627,924)
Total Liabilities	\$1,421,761,018	\$1,528,299,832	(\$106,538,814)
Total Plan Net Assets	\$6,457,113,042	\$7,901,202,152	(\$1,444,089,110)

Revenues – Additions to Plan Net Assets:

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through interest credited to the reserves. Total contributions for 2008, including prepaid employer contributions, were \$606,201,749. (See page 19).

Overall additions to plan net assets were down \$1,444,089,110 due primarily to market conditions.

Additions to Plan Net Assets:	Years Ended December 31		Increase/ (Decrease) Amount 2008-2007
	2008	2007	
	Employer Contributions	\$433,911,069	
Employee Contributions	172,290,680	159,475,621	12,815,059
Investment Gains (Losses)	(1,619,782,725)	768,342,343	(2,388,125,068)
Total Additions	(\$1,013,580,976)	\$1,328,855,061	(\$2,342,436,037)

Expenses – Deductions from Plan Net Assets:

OCERS was created to provide lifetime retirement pensions, survivor benefits and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, as designated by the Plan, refund of contributions to terminated employees and the cost of administering the system. Deductions for the year ended December 31, 2008, totaled \$430,508,134. (See page 19).

Deductions from Plan Net Assets :	Years Ended December 31		Increase/ (Decrease) Amount
	2008	2007	
Benefits Paid	\$411,143,304	\$345,061,652	\$66,081,652
Withdrawals/Refunds	8,358,601	8,799,409	(440,808)
Administrative Expenses	11,006,229	10,381,060	625,169
Total Deductions	\$430,508,134	\$364,242,121	\$66,266,013

Reserves:

OCERS' reserves are established from contributions and the amount of interest credited to reserve accounts at the actuarially assumed rate of 7.75% on the balances as of 6/30/08 and 12/31/08 on a bi-annual basis.

Reserve balances are as follows:

Reserve Analysis:	Years Ended December 31		Increase/ (Decrease) Amount
	2008	2007	
Active Members Reserve	\$1,481,322,126	\$1,288,934,409	\$192,387,717
Retired Members Reserve	4,576,291,583	3,885,657,762	690,633,821
Employer Advanced Reserve	1,264,818,644	1,221,716,666	43,101,978
Total Unclaimed Reserve	933,401	1,225,418	(292,017)
Unreserved Net Assets	(963,003,630)	1,424,132,577	(2,387,136,207)
Retirement Fund	\$6,360,362,124	\$7,821,666,832	(\$1,461,304,708)
Health Benefit Reserves	\$96,750,918	\$79,535,320	\$17,215,598
Net Total Reserve	\$6,457,113,042	\$7,901,202,152	(\$1,444,089,110)

Investment and Economic Summary:

In 2008, the world wide economic environment was challenging. The challenges in the mortgage markets spilled over into the world economies. The Federal Reserve ended the year closely watching the Fed Funds Rate. During late 2008, the Federal Reserve cut the Fed Funds rate aggressively as major financial institution problems created a difficult investment environment. The first half of the year the economy was impacted by a significant increase in the cost of oil, and the value of the dollar.

For calendar year 2008, OCERS' fund was down 20.71%. Over the trailing three-year period, the fund was down .10%, and for the five-year return OCERS was below the actuarial earnings assumption rate of 7.75%. During calendar year 2008, there were decreased returns in both domestic and international equities. For 2008, the Russell 3000 index was down 37.30%, while MSCI EAFE index was down 43.40%. Domestic bonds were in positive territory due to continued supply of liquidity by the Federal Reserve. Returns in the real estate and alternatives asset classes were down.

Capital Assets:

OCERS' capital assets decreased from \$2,877,877 to \$2,335,161 (net of accumulated depreciation and amortization). This investment in capital assets includes equipment, furniture and computer imaging system installation. The current year depreciation was \$542,715 (see page 24).

Changes in OCERS' Plan Net Assets:

Negative market returns were the primary factors in a decrease in net assets by \$1,444,089,110 thereby accounting for a decrease over the prior year. A 10-year history of the Changes in Plan Net Assets can be found in the Statistical section of this CAFR on page 98. Key elements of this increase in the Changes in Plan Net Assets are described in the section that follows:

Changes In Plan Net Assets:	Years Ended December 31		Increase/ (Decrease)
	2008	2007	Amount
			2008-2007
Contributions Received	\$606,201,749	\$560,512,718	\$45,689,031
Net Investment Gains (Losses)	(1,619,782,725)	768,342,343	(2,388,125,068)
Participants' Benefits and Death Benefits	(411,143,304)	(345,061,652)	(66,081,652)
Withdrawals and Refunds	(8,358,601)	(8,799,409)	440,808
Admin Expenses and Prepaid Unearned Contributions	(11,006,229)	(10,381,060)	(625,169)
Increases (Decreases) in Plan Net Assets	(\$1,444,089,110)	\$964,612,940	(\$2,408,702,050)

The Board of Retirement approves OCERS' annual budget. The 1937 Act limits OCERS' annual administrative expenses to 0.18% of the System's total assets. OCERS' administrative expenses have historically been below the limitation. For the year ended December 31, 2008 the administrative expenses were below the budget established by the Board of Retirement and were 0.13% of the year's total assets.

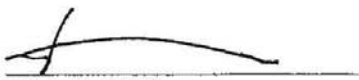
OCERS' Fiduciary Responsibilities:

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

Requests for Information:

This financial report is designed to provide the Board of Retirement, members, beneficiaries, taxpayers, investment managers, participating employers, and other stakeholders with a general overview of OCERS' financial condition. Copies of this report are available at the address below and on the System's Web site at www.ocers.org. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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


 Michelle Williamson
 Director of Finance

Statement of Plan Net Assets

	December 31, 2008			Dec. 31, 2007 Total Fund
	Pension Fund	Health Care Fund	Total Fund	
ASSETS				
Cash and Short-Term Investments Operating Cash				
Cash and Cash Equivalents (Note E)	\$391,536,129		\$391,536,129	\$335,281,124
Collateral Held for Securities Lent (Note F)	295,811,164		295,811,164	778,390,772
Total Cash and Short-Term Investments	687,347,293		687,347,293	1,113,671,896
Receivables				
Investment Income	25,851,830		25,851,830	29,223,212
Securities Sales	597,702,197		597,702,197	66,088,615
Employer/Employee Contributions	33,539,627		33,539,627	7,583,074
Other Receivables	1,844,504		1,844,504	669,055
Total Receivables	658,938,158		658,938,158	103,563,956
Investments, at Fair Value (Notes B-2 and F)				
US Govt Debt Securities and Corp Bonds	2,338,332,489	\$26,770,155	2,365,102,644	2,783,944,623
Foreign Bonds	738,491,533		738,491,533	792,705,590
Domestic Equity Securities	1,265,362,482	26,770,155	1,292,132,637	1,807,503,474
International Equity Securities	1,005,648,682	26,770,155	1,032,418,837	2,048,736,844
Real Estate	604,802,996		604,802,996	623,071,198
Venture Capital and Ltd Partnership Interests	480,864,348		480,864,348	146,262,478
Medical Trust Investments		16,440,453	16,440,453	7,164,048
Total Investments	6,433,502,530	96,750,918	6,530,253,448	8,209,388,255
Capital Assets, Net (Note B-3)	2,335,161		2,335,161	2,877,877
Total Assets	7,782,123,142	96,750,918	7,878,874,060	9,429,501,984
LIABILITIES				
Collateral Held for Securities Lent (Note F)	295,811,164		295,811,164	778,390,772
Securities Purchased	1,065,023,875		1,065,023,875	594,103,281
Prepaid Unearned Contributions (Note C)	24,350,723		24,350,723	108,301,236
Retiree Payroll Payable	27,311,866		27,311,866	29,534,548
Other	9,263,390		9,263,390	17,969,995
Total Liabilities	1,421,761,018		1,421,761,018	1,528,299,832
Net Assets Held in Trust for Pension Plan Benefits*	\$6,360,362,124	\$96,750,918	\$6,457,113,042	\$7,901,202,152

*See Schedule of Funding Progress on page 26.

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

Statement of Changes in Plan Net Assets

	December 31, 2008			Dec. 31, 2007 Total Fund
	Pension Fund	Health Care Fund	Total Fund	
ADDITIONS				
Contributions (Note C)*				
Employer	\$360,209,434	\$73,701,635	\$433,911,069	\$401,037,097
Employee	172,290,680		172,290,680	159,475,621
Total Contributions	532,500,114	73,701,635	606,201,749	560,512,718
Investment Income:				
Net Appreciation in Fair Value of Investments (Note F)	(1,732,716,601)	(4,277,553)	(1,736,994,154)	506,986,001
Interest on:				
Domestic and International Securities	80,934,193		80,934,193	146,287,497
Cash with County Treasurer (Note E)	478,470		478,470	1,874,995
Interest Income - Medical Trust		(18,681,840)	(18,681,840)	
Domestic Dividends	16,660,817		16,660,817	28,406,695
Real Estate Income	32,036,790		32,036,790	34,577,653
International Dividends	46,619,973		46,619,973	56,359,808
Venture Capital and Limited Partnerships	(10,150,021)		(10,150,021)	18,791,786
Total Investment Income	(1,566,136,379)	(22,959,393)	(1,589,095,772)	793,284,435
Less Investment Expenses	(38,034,670)		(38,034,670)	(30,112,168)
Less Investment Expenses - Medical		(46,977)	(46,977)	(54,979)
Net Investment Income	(1,604,171,049)	(23,006,370)	(1,627,177,419)	763,117,288
Securities Lending Revenue (Note F)	7,550,741		7,550,741	4,157,378
Less Securities Lending Fees (Note F)	(1,405,488)		(1,405,488)	(705,845)
Net Securities Lending Revenue	6,145,253		6,145,253	3,451,533
Income from Commission Recapture-Net/Other	1,249,441		1,249,441	1,773,522
Total Additions	(1,064,276,241)	50,695,265	(1,013,580,976)	1,328,855,061
DEDUCTIONS				
Participants' Benefits	(376,937,417)	(33,479,668)	(410,417,085)	(344,321,004)
Death Benefits	(726,219)		(726,219)	(740,648)
Member Withdrawals and Refunds	(8,358,601)		(8,358,601)	(8,799,409)
Administrative Expenses (Note G)	(11,006,229)		(11,006,229)	(10,381,060)
Total Deductions	(397,028,466)	(33,479,668)	(430,508,134)	(364,242,121)
NET INCREASE/(DECREASE)	(1,461,304,707)	17,215,597	(1,444,089,110)	964,612,940
NET ASSETS HELD IN TRUST FOR PENSION PLAN BENEFITS				
Beginning of Year	7,821,666,831	79,535,321	7,901,202,152	6,936,589,212
End of Year	\$6,360,362,124	\$96,750,918	\$6,457,113,042	\$7,901,202,152

* Employer contributions reflect cash payments only. Please see Note C on page 25 for amounts transferred from the County Investment Account.
(See accompanying notes to financial statements beginning on page 20.)

A. Description and History of Plan

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

1. General

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

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

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

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

The Retirement Board consists of nine members and one alternate. Four members of the Board of Retirement are appointed by the Board of Supervisors of the County; four members are elected by active members of the system of which one is the alternate member; one member is elected by the retirees; and the Treasurer of the County is an ex-officio member. The County of Orange is not financially accountable for OCERS.

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

2. Membership

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

3. Monthly Salary Base for Benefits

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

4. Service Retirement

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

b. Benefit Formula per Year of Service:

Firefighters, Law Enforcement and Probation Safety – 3%
 City of San Juan Capistrano – 2%
 County of Orange, except AFSCME bargaining unit – 2%
 Orange County Cemetery District – 2%
 Orange County Children & Families Commission – 2%
 Orange County Fire Authority General – 2%
 Orange County Local Agency Formation Commission – 2%
 Orange County Public Law Library – 2%
 Orange County Sanitation District – 2%
 Orange County Superior Court – 2%
 Orange County Employees Retirement System – 2%
 Transportation Corridor Agencies – 2%
 All other General members: Tier I – 2% Tier II – 1.6667%

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

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

5. Nonservice-connected Disability

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

Tier I

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

Tier II

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

6. Service-connected Disability

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

7. Active Member Death

- a. If a member with less than five years of service dies in a non-work related incident, the spouse/Qualified Domestic Partner or dependent children will receive the member's refundable retirement contributions plus interest. In addition, the beneficiary will receive one month's salary for each completed year that the member served but not to exceed 50 percent of such annual compensation.
- b. If the member was eligible for a service retirement or a nonservice-connected disability retirement at the time of death, the qualified surviving spouse/Qualified Domestic Partner or child has the following options:
 - Refund of employee contributions with interest plus one month's salary for each year of service to a maximum of six months' salary;
 - or
 - 60% of earned benefit payable to surviving eligible spouse/Qualified Domestic Partner;
 - or
 - Combined benefit equal to a lump-sum payment plus a reduced monthly allowance.

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

- c. Service-connected Death:

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

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

8. Death After Retirement

- a. Nonservice-connected Disability Retirement:

60% of member's unmodified allowance continued to eligible spouse/Qualified Domestic Partner or eligible child. (Member may elect a modified allowance at time of retirement.)
- b. Service-connected Disability Retirement:

The continuance is 100% to the eligible spouse/Qualified Domestic Partner or eligible child if the member retired with a service-connected disability.
- c. \$1,000 Burial Benefit:

A burial allowance of \$1,000 is payable to the deceased retiree's beneficiary or estate.
- d. Service Retirement:

Benefit depends upon option chosen.

9. Termination of Employment

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

10. Post-Retirement Cost-of-Living Benefits

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

11. Employer Contributions

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

12. Member Contributions

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

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

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

13. Active and Retired Members

The following is a summary of OCERS' membership composition at December 31, 2008 and 2007:

Active and Deferred Personnel

	December 31	
	2008	2007
<u>Active General Members</u>		
County and Agencies Paid by County Payroll	16,644	16,672
Outside Agencies	3,151	3,131
Subtotal - Active General Members	19,795	19,803
<u>Active Safety Members</u>		
County and Agencies Paid by County Payroll	3,090	2,991
Outside Agencies	835	824
Subtotal - Active Safety Members	3,925	3,815
Total Active Members	23,720	23,618
<u>Deferred (General & Safety) Members</u>		
Regular	3,002	2,816
Employment with Other Agencies (Reciprocity)	879	830
Total Deferred Members	3,881	3,646
Total Active and Deferred Personnel	27,601	27,264

Benefit Recipients

	December 31, 2008			December 31, 2007		
	General	Safety	Total	General	Safety	Total
Service Retirement	7,800	1,124	8,924	7,580	1,056	8,636
Survivors	742	70	812	715	68	783
Alternate Payees QDRO	148	57	205	144	48	192
Subtotal	8,690	1,251	9,941	8,439	1,172	9,611
Service-connected Disability	613	396	1,009	601	385	986
Survivors	59	28	87	58	25	83
Alternate Payees QDRO	7	22	29	7	18	25
Subtotal	679	446	1,125	666	428	1,094
Nonservice-connected Disability	243	15	258	244	13	257
Survivors	77	1	78	78	2	80
Alternate Payees QDRO	4	0	4	4	0	4
Subtotal	324	16	340	326	15	341
Active Death Survivors	336	36	372	339	35	374
Total Benefit Recipients	10,029	1,749	11,778	9,770	1,650	11,420

14. Employee Purchased Annuities

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

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

15. Federal Income Tax Status

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

B. Summary of Significant Accounting Policies

1. Basis of Accounting

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

2. Valuation of Investments

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

3. Capital Assets

Capital assets are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method with a 3 year useful life for computer software, and 5 to 15 years for equipment and furniture. The cost and accumulated depreciation of capital assets at December 31, 2008 and 2007, were as follows:

	<u>2008</u>	<u>2007</u>
Furniture and Equipment	\$ 1,239,727	\$ 1,239,727
Computer Software	4,813,313	4,813,313
Total Capital Assets (at cost)	6,053,040	6,053,040
Less Accumulated Depreciation	(3,717,879)	(3,175,163)
Total Capital Assets Net of Depreciation	\$ 2,335,161	\$ 2,877,877

Depreciation expense for the year ended 2008 and 2007 was \$542,715 and \$598,961, respectively.

4. Implementation of New Accounting Pronouncements

In 2008 OCERS adopted the provisions of GASB Statement No. 50, Pension Disclosures-an amendment of GASB Statements No. 25 and 27.

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

5. Subsequent Events

Additional Portfolio Activity –

January: RMK Timberland Group purchased Scappose Forest LLC in Oregon for \$9.35 million; funded \$5.60 million to the Clifton Group; funded \$1.36 million to Adams Street 2007 US Fund, \$236,250 to Adams Street 2007 Non-US Fund, \$3.19 million to Adams Street 2008 US Fund, \$337,500 to Adams Street 2009 US Fund, \$110,000 to Adams Street 2009 Direct Fund, and \$3.00 million to Mesirow Fund V.

February: Liquidated \$60 million from the BGI US Debt Index Fund and \$30 million from Mondrian International Fixed Income portfolio; funded \$85 million to the BGI Russell 1000 Index Fund, \$20 million to Mercator EAFE portfolio, and \$15 million to Alliance Bernstein Emerging Markets portfolio; funded \$3.90 million to the Clifton Group; funded \$125,000 to Adams Street 2008 US Fund and \$375,000 to Abbott Capital 2009 Fund.

March: Liquidated \$75 million from the PIMCO TIPS portfolio and \$35 million from the PIMCO Total Return portfolio; funded \$15 million to the Loomis Sayles High Yield portfolio, \$35 million to Capital Guardian EAFE portfolio, \$10 million to William Blair Emerging Markets Fund, and \$15 million to Cadence Capital Large Cap.

C. Contributions Required and Contributions Made

1. Authority

As a condition of participation under the provisions of the County Employees Retirement Law of 1937, members are required to contribute a percentage of their annual compensation to OCERS. See page 22 number 12 “Member Contributions” for the methodology used to compute member contributions.

2. Member Contributions

Present members’ accumulated contributions at December 31, 2008 and 2007, were \$1,481,322,126 and \$1,288,934,409, respectively, including interest credited. Interest was credited at an interest rate of 5.0% per annum with 2.5% credited as of June 30, on the balance of the members’ accounts as of the prior December 31 and 2.5% credited as of December 31 on the balance of the members’ accounts as of the prior June 30. The incremental difference between the 5% that is credited to employee contributions and the actuarially then-assumed rate of 7.75% is credited to the Employer Reserve account.

3. Funding Policy

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.

Schedule of Funding Progress
(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (\$) ¹	Actuarial Accrued Liability (\$)	Total Unfunded Actuarial Accrued Liability (UAAL) (\$)	Funded Ratio (%)	Covered Payroll (\$)	UAAL as a Percentage (%) of Covered Payroll
December 31	(a)	(b)	(b-a=c)	(a/b)	(d)	(c/d)
2003	\$4,790,099	\$6,099,433	\$1,309,334	78.53%	\$1,243,964	105.25%
2004**	5,245,821	7,403,972	2,158,151	70.85%	1,257,085	171.68%
2005	5,786,617	8,089,627	2,303,010	71.53%	1,276,764	180.38%
2006	6,466,085	8,765,045	2,298,960	73.77%	1,322,952	173.78%
2007	7,288,900	9,838,686	2,549,786	74.08%*	1,457,159	174.98%
2008	7,748,380	10,860,715	3,112,335	71.34%*	1,569,764	198.27%

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

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

Note:

- The 12/31/03, 12/31/04, 12/31/05, 12/31/06, 12/31/07 and 12/31/08 actuarial value of plan assets exclude \$143,744,000, \$155,245,000, \$158,218,736, \$168,223,633, \$174,348,137 and \$126,688,030 of the County Investment Account balances respectively.

Schedule of Employer Contributions

(Please see page 37)

Latest Actuarial Valuation Methods and Assumptions

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

Actuarial Assumptions and Method

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

Valuation date	12/31/2008
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll
Remaining amortization period	30-year closed amortization with 26 years remaining
Asset valuation method	5 year smoothing between the actual market value and the expected (currently at 7.75%) return on market value
Actuarial assumptions	
Investment rate of return	7.75%
Projected Salary Increases	3.50% per annum
Includes inflation at	3.50% subject to Tier maximum
Cost-of-living adjustments	3.00% per annum with excess banked

4. Pension Obligation Bonds

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

For accounting purposes, OCERS maintains the proceeds for the POB's in the County Investment Account (Investment Account). OCERS and the County of Orange, a single participating district, entered into an 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 2008 and 2007 were \$12,600,000 and \$11,000,000, respectively.

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

5. Combined Employer and Employee Contributions Received

	2008	2007
Normal Cost	\$ 366,083,355	\$ 267,416,588
Amortization of Unfunded Actuarial Accrued Liability	166,416,759	218,795,390
Total	\$ 532,500,114	\$ 486,211,978

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, 2008 and 2007, OCERS contributed \$839,084 and \$741,497, respectively. 100% of the required contributions were paid each year.

During the year, contributions totaled \$606,201,749 which included \$433,911,069 in employer contributions and \$172,290,680 in employee contributions. Government Code Section 31582(b) allows the Board of Supervisors to authorize advance payment of all or part of the County's estimated annual contribution to the retirement fund. Code Section 31585 makes the same advance payment option available to the other sponsors. Participating employers have made advance payments in 2008 of the employers' estimated annual contributions discounted by the assumed interest rate in effect. At the end of the fiscal year, a "true up" is completed and employers are either billed for an underpayment or apply their overpayment towards the following year contributions. At the end of the 2008 calendar year, a total of \$24,350,723 remained as prepayments for the sponsors to be applied in 2009.

The Memorandum of Understanding (MOU) between OCERS and certain participating employers required that Employer Contributions must increase by the lesser of .50% of pay or the amount necessary to increase OCERS' Unallocated Fund Balance (UFB) to 3% of OCERS' adjusted total assets.

D. Plan Termination

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

E. Cash and Cash Equivalents

At any given time, OCERS' investment portfolios may contain funds not yet invested in securities. These funds are invested in short-term money market funds including the Orange County Treasurer's Investment Pool. In addition, OCERS maintains an operating cash balance at a local financial institution that is used for retirement payroll and other operational expenses. On December 31, 2008, OCERS had money market funds of \$101,125,418 invested with OCERS' master trust custodian bank, State Street California, \$28,089,826 invested with Wells Fargo Bank and \$564,668 invested with the Orange County Treasurer's

Investment Pool. All of the cash invested is uninsured and uncollateralized; interest on the money market funds and in the Orange County Treasurer's Investment Pool are computed on an average daily balance. The total amount of Cash and Cash Equivalents as of December 31, 2008 and 2007 was \$687,347,293 and \$1,113,671,896, respectively.

F. Investments

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

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

Credit Risk

Credit Risk is the risk that an issuer or other party to an investment will not fulfill its obligations. OCERS seeks to maintain a diversified portfolio of fixed income instruments to obtain the highest total return for the fund at an acceptable level of risk. OCERS utilizes external investment managers to manage both its active and passive portfolios. OCERS investment policy specifies the guidance to our fixed income managers of the security types, credit rating and targeted durations versus a benchmark. OCERS portfolio diversification minimizes overall market and credit risk, while allowing for maximization of higher investment returns.

Fixed Income Securities

Most fixed income securities are rated by one or more corporate credit rating agencies such as Moody's, Standard and Poor's, or Fitch IBCA. These ratings help potential investors determine the risk associated with investing in a specific company, investing instrument or market. A non-rated (NR/NA) security does not necessarily indicate a lower quality security. Presented below is a table listing fair values of fixed income investments categorized by rating as of December 31, 2008.

	TOTAL	Aaa	Aa	A	Baa	Ba	B	Caa	NR/NA	Duration
COLLATERALIZED MORTGAGE OBLIGATIONS	\$58,506,158	\$13,431,396	\$10,120,456	\$34,954,306						12.51
CONVERTIBLE BONDS	\$3,191,135				\$2,839,935		\$351,200			3.10
CORPORATE BONDS	\$738,240,073	\$3,611,250	\$195,502,091	\$310,525,599	\$58,914,537	\$169,581,077		\$105,519		12.40
FEDERAL HOME LOAN MORTGAGE CORP	\$273,096,058	\$273,096,058								5.88
FEDERAL NATIONAL MORTGAGE ASSN	\$526,597,735	\$526,597,735								2.29
GOVERNMENT ISSUES	\$869,478,754	\$869,478,754								7.96
GOVERNMENT NATIONAL MORTGAGE ASSN I	\$25,517,146	\$25,517,146								7.77
GOVERNMENT NATIONAL MORTGAGE ASSN II	\$42,613,422	\$42,613,422								5.32
MUNICIPALS	\$31,297,179		\$8,491,042		\$103,596	\$15,143,537	\$7,559,004			21.33
FOREIGN GOVERNMENT	\$513,098,216		\$475,774,135		\$37,324,081					7.98
OTHER ASSET - BACKED SECURITIES	\$41,456,280	\$32,828,079	\$8,628,201							5.38
INTEREST RATE SWAP	-\$19,497,979								-\$19,497,979	20.85
GRAND TOTALS	\$3,103,594,177	\$1,787,173,840	\$698,515,925	\$345,479,905	\$99,182,149	\$184,724,614	\$7,910,204	\$105,519	-\$19,497,979	9.40 AVG

Custodial Credit Risk

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

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. OCERS' policy is to attempt to achieve its investment return objective with an appropriate level of risk using an efficient combination of investable assets. OCERS does not have a formal risk policy specific to interest rate risk. OCERS manages total fund level risk by setting portfolio level guidelines for each investment manager.

Concentration of Credit Risk

Concentration Risk is the risk of financial loss that results from investing too much from the total portfolio in any one investment. Investments in mutual funds help limit exposure to concentration risk because these investment types represent a collection or grouping of individual investments. The table below represents the 10 largest investments by OCERS as of December 31, 2008. OCERS did not invest in any single issue of security totaling more than five percent of the System's net assets.

**Schedule of Largest Equity Holdings (by Market Value)
December 31, 2008**

Common Stock	Shares	Market Value	% of Composite
Exxon Mobil Corp	261,172	\$ 20,849,361	0.90
Roche Holdings AG	83,108	12,688,542	0.55
Softbank Corp	586,100	10,364,239	0.45
Procter & Gamble Co	148,997	9,210,985	0.40
General Electric Co	520,113	8,425,824	0.36
AT&T Inc	293,660	8,369,314	0.36
Johnson & Johnson	139,302	8,334,412	0.36
Nintendo Co	20,800	7,744,071	0.33
Microsoft Corp	396,822	7,714,218	0.33
Chevron Corp	102,239	7,562,626	0.33

**Schedule of Largest Fixed Income Holdings (by Market Value)
December 31, 2008**

Asset	CPN/Maturity	Market Value	% of Composite
FNMA	5.500	\$ 140,304,326	4.71
FNMA	5.000	117,753,952	3.95
FNMA	6.000	66,450,119	2.23
UNITED STATES TREAS NTS	2.000/TIPS	58,586,000	1.97
UNITED STATES TREAS BDS	3.875/04-15-2029	43,086,426	1.45
UNITED STATES TREAS NTS	2.500/TIPS	40,253,117	1.35
UNITED STATES TREAS NTS	2.000/TIPS	38,835,762	1.30
UNITED STATES TREAS NTS	1.875/TIPS	36,545,669	1.23
UNITED STATES TREAS BDS	3.625/04-15-2028	34,116,656	1.15
FNMA	5.500	34,013,088	1.14

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. OCERS recognizes that some level of risk must be assumed to achieve the system's long term investment objectives. OCERS' policy is to attempt to achieve its investment return objective with an appropriate level of risk using an efficient combination of investable assets. OCERS does not have a formal risk policy specific to foreign currency risk. OCERS manages total fund level risk by setting portfolio level guidelines for each investment manager.

Currency Exposure as of December 31, 2008

Currency	Market Value
AUSTRALIAN DOLLAR	\$ 54,234,721
BRAZILIAN REAL	2,959,307
CANADIAN DOLLAR	32,309,837
DANISH KRONE	5,504,160
EURO CURRENCY	489,012,429
HONG KONG DOLLAR	16,915,701
ICELAND KRONA	1,783,822
INDONESIAN RUPIAH	2,178,983
JAPANESE YEN	520,277,372
MALAYSIAN RINGGIT	49,075
MEXICAN PESO	40,734,593
NEW ZEALAND DOLLAR	6,960,442
NIGERIAN NAIRA	884
NORWEGIAN KRONE	6,659,071
POLISH ZLOTY	29,731,749
POUND STERLING	239,039,547
SINGAPORE DOLLAR	11,295,236
SOUTH AFRICAN RAND	1,041,935
SOUTH KOREAN WON	4,205,468
SWEDISH KRONA	17,379,154
SWISS FRANC	85,085,238
THAILAND BAHT	2,648,551

Net Appreciation

During 2008 and 2007, OCERS' investments (including investments bought and sold, as well as held during each year) appreciated (depreciated) in value by (\$1,736,994,154) and by \$506,986,001, respectively.

	Years Ended December 31	
	2008	2007
Net Appreciation in Fair Value as Determined by Quoted Market Prices:		
Domestic Equity Securities	\$ (588,454,948)	\$ 69,776,911
United States Government Debt Securities, Corporate & Foreign Bonds & Debentures	41,086,876	111,225,695
International Equity Securities	(974,696,205)	257,041,926
Subtotal	(1,522,064,277)	438,044,532
Net Appreciation (Depreciation) in Fair Value as Determined by Estimated Fair Value:		
Real Estate	(77,735,667)	45,933,920
Alternative	(137,194,210)	23,007,549
Total Net Appreciation	\$(1,736,994,154)	\$ 506,986,001

Securities Lending and Custodial Risk

OCERS' investment policy permits the pension trust fund to participate in a securities lending program. Domestic and international equities as well as domestic and international fixed income securities are loaned to brokers who provide collateral in the form of cash. This collateral must equal 102 percent of the fair market value for domestic loans and 105 percent of the fair market value for international loans and the values are priced daily. OCERS invests the collateral in short-term securities that cannot be pledged or sold by OCERS unless the borrower defaults. Income is also realized from the securities lending fees paid by the broker-borrower. OCERS' practice is to match the term to maturity of the securities lent with the term to maturity of the collateral investment. There are no restrictions on the amount of securities that can be lent at any one time. OCERS experienced no violations of its securities lending provisions in 2008. Securities on loan at year-end to various securities brokers for 2008 and 2007, at fair market values were \$295,811,164 and \$778,390,772, 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, 2008 and 2007.

Gross security lending revenue for 2008 and 2007 was \$7,550,741 and \$4,157,378, respectively. At year end, the system has no credit risk exposure to borrowers because the amounts the system owes the borrowers exceed the amounts the borrowers owe the system.

International Investments

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

Alternative Investments

OCERS has utilized two different methods of investing in alternatives. The first is to employ a management firm to invest in both limited partnerships and direct private placements. The second method is for OCERS to participate as a limited partner in a limited partnership fund. As of December 31, 2008, OCERS had approximately \$484,468,848 of open commitments in four alternative investments. Alternative investments may include venture capital, corporate finance, buyout, energy, oil and gas.

Derivative Holdings Held for Trading Purposes

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

Securities	Fair Value 2008	Fair Value 2007
FHLMC	\$ 273,096,058	\$ 68,303,671
FNMA	526,597,735	501,256,424
GNMA	68,130,568	15,853,353
CMO	58,506,158	135,896,150
Asset-Backed/Swaps	21,958,301	25,539,609
Total Derivative Securities	\$ 948,288,820	\$ 746,849,207

G. Administrative Expenses and Prepaid Unearned Contributions

The total administrative expenses for the years ended December 31, 2008 and 2007 were \$11,006,229 and \$10,381,060, respectively. Section 31580.2 of the Government Code limits the annual administrative expenses of the retirement system to 18/100 (18 basis points) of the total assets of the retirement system. Additionally, Section 31596.1 of the Government Code allows certain costs to be excluded from the statutory limitation. The limitations for the years ended December 31, 2008 and 2007 were \$10,241,879 and \$14,209,269, respectively. Administrative expenses subject to the statutory limitation for the years ended December 31, 2008 and 2007 were \$9,308,803 and \$9,146,145, respectively. These expenses are financed mostly by investment income. The excluded costs are included in the amounts classified as administrative expenses for OCERS' financial statements.

The deductions for 2008 and 2007 include a discount on Prepaid Unearned Contributions of \$12,558,592 and \$16,420,391, respectively.

H. Reserves

The Statement of Changes in Reserves encompasses the reserve accounts listed below. The definition of reserve fund balance is the portion of a governmental fund's net assets that is not available for appropriation. As required by the County Employee's Retirement Law of 1937 or the Board of Retirement's policies, the following reserves from the Net Assets in Trust for Pension Benefits are established and used to account for the members', employees', retirees' contributions and the accumulation of investment earnings after netting the investment and administrative expenses.

EE Active Contribution Reserve

Active member reserves represent the balance of active member contributions. Additions include member contributions and related earnings. Deductions include refunds to members, death benefit payments to active members, and related expenses.

ER Active Contribution Reserve

Active employer reserves represent the balance of employer contributions for future retirement payments to current active members. Additions include contributions from employers and related earnings. Deductions include related expenses.

ERI Reserve

ERI (Early Retirement Incentive) reserves represent the balance of employer contributions for future retirement payments to current active members offered early retirement incentives. Additions include employer contributions and related earnings. Deductions include related expenses.

Annuity Reserve - EE Retired

Retired member reserves represent the balance of retired member contributions. Additions include balance transfers from employee active reserves when members retire and related earnings. Deductions include annuity payments to retired members, lump-sum death benefit payments to members' survivors, refunds to members, and related expenses.

Pension Reserve -ER Retired

Retired employer reserves represent the balance of retired employer contributions. Additions include. Additions include balance transfers from employer active reserves when members retire and related earnings. Deductions include pension payments to retired members, supplemental disability payments, and lump-sum death benefit payments to members' survivors.

STAR COLA Reserve

STAR COLA reserves represent the balance of STAR COLA employer contributions for future supplemental cost-of-living-increases. Additions include contributions and related earnings. Deductions include STAR COLA payments to eligible retired members.

ARBA Reserve

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 2008 and 2007 because the Unallocated Fund Balance (UFB) was zero; the remaining balance of ARBA account was used to credit interest to other reserves.

RMBR Reserve

The Retirement Board adopted the creation of the Retired Members Benefit Reserve (RMBR) for OCERS' retirees in the year 2002 to ensure the continued funding of the retiree supplemental benefits for three years. All participating agencies could transfer a projected three year benefit payment to the RMBR balance that was created as a sub-account of the Employer Advanced Reserve Account. The RMBR account will be used to pay additional benefits to retirees in lieu of payments out of the ARBA balance in circumstances where the ARBA balance is depleted. The RMBR balance will not receive the bi-annual interest credit and it will be funded on a three year rolling method. The balance of the RMBR on December 31, 2008 was approximately \$1,085,769. The County of Orange terminated their RMBR agreement on December 31, 2006 and all others terminated by December 31, 2007.

Unclaimed Reserve

The unclaimed reserves represent active employee contribution balances from members who have terminated employment before 12/31/02, are not vested (have less than five years of service), and whose contributions remain on deposit with the retirement system. The unclaimed reserve balance does not receive bi-annual interest credit (AB2766 signed 9/25/02).

Reserve Accounts

The plan net assets of \$6,457,113,042 as of December 31, 2008 include reserves of \$5,494,109,412 and unreserved net assets of (\$963,003,630). The unreserved net assets include the County Investment Account. The reserve balances as of December 31, 2008 are as follows:

Active Members Reserve	\$ 1,481,322,126
Retired Members Reserve	\$ 4,576,291,583
Employer Advanced Reserve	\$ 1,264,818,644
Total Unclaimed Reserve	\$ 933,401
Unreserved Net Assets	\$ (963,003,630)
Total Retirement Fund	\$ 6,360,362,124
Health Benefits Reserve	\$ 96,750,918
Plan Net Assets	\$ 6,457,113,042

I. Summary of Derivative Financial Instruments**Futures Contracts**

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

As of December 31, 2008, OCERS had the following futures contracts:

Description	Contracts	Notional Par	Market Value
Futures Long	6,010	1,087,174,205	\$25,791,099
Futures Short	241	-92,320	-\$373,105

FX Forward Contracts

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

As of December 31, 2008, OCERS had the following FX forward contracts:

Description	Contracts	Market Value
FX Contracts Purchased	93	\$114,310,711
FX Contracts Sold	102	96,368,041
FX Cross deal	24	(30,657,667)

Option Contracts

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

As of December 31, 2008, OCERS had the following option contracts:

Description	Contracts	Market Value
Options Purchased – Calls	138,100,001	\$4,756,803
Options Written – Calls	57,200,002	(6,233,100)
Options Written – Puts	23,500,249	(325,569)

Swap Agreements

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

As of December 31, 2008, OCERS had the following swap agreements:

Description	Notional Value – U. S. Dollar
Swaps – Long	\$612,238,020
Swaps – Short	(612,238,020)

J. Post Employment Health Care Benefits

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

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

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

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

When related to the accounting of the OPEB plan, OCERS presents information according to the principles and reporting guidelines as set forth by the Government Accounting Standards Board.

Participating employers, upon their implementation of the related GASB Statement 45, are required to disclose additional information with regard to the funding policy, the employer's annual OPEB cost and contributions made, the funded status and the funding progress of the employer's individual plan, and actuarial methods and assumptions used.

Actuarial valuations for OPEB plans are done at the Participating employers involving estimates of the value of reported amounts and assumptions about the probability of events far into the future. Please note that actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

K. Reclassification of Financial Statement Presentation

Certain reclassifications have been made to the 2007 financial statements to conform with the 2008 financial statement presentation. Such reclassifications had no material effect on net plan assets as previously reported.

Required Supplementary Information

Schedule of Funding Progress
(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (\$) ¹ (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)
December 31						
2003	\$4,790,099	\$6,099,433	\$1,309,334	78.53%	\$1,243,964	105.25%
2004**	5,245,821	7,403,972	2,158,151	70.85%	1,257,085	171.68%
2005	5,786,617	8,089,627	2,303,010	71.53%	1,276,764	180.38%
2006	6,466,085	8,765,045	2,298,960	73.77%	1,322,952	173.78%
2007	7,288,900	9,838,686	2,549,786	74.08%*	1,457,159	174.98%
2008	7,748,380	10,860,715	3,112,335	71.34%*	1,569,764	198.27%

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

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

Note:

- The 12/31/03, 12/31/04, 12/31/05, 12/31/06, 12/31/07 and 12/31/08 actuarial value of assets exclude \$143,744,000, \$155,245,000, \$158,218,736, \$168,223,633, \$174,348,137 and \$126,688,030 of the County Investment Account balances respectively.

Schedule of Employer Contributions

	Annual Required Contribution*	Percentage Contributed**
2003	\$124,243,000	100%
2004*	\$194,430,000	100%
2005***	\$227,892,000	100%
2006	\$277,368,000	100%
2007	\$326,736,000	100%
2008	\$360,209,434	100%

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

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

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

Latest Actuarial Valuation Methods and Assumptions

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

Actuarial Assumptions and Method

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

Valuation date	12/31/2008
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll
Remaining amortization period	30-year closed amortization with 26 years remaining
Asset valuation method	5 year smoothing between the actual market value and the expected (currently at 7.75%) return on market value
Actuarial assumptions	
Investment rate of return	7.75%
Projected Salary Increases	3.50% per annum
Includes inflation at	3.50% subject to Tier maximum
Cost-of-living adjustments	3.00% per annum with excess banked

Significant Factors Affecting Trends in Actuarial Information

2008 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

Mortality tables changed.

Individual salary increase assumption is changed from age based to service based.

With the exception of Safety Law, the annual payoff assumptions were increased.

2007 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

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

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

2006 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

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

2005 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

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

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

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

individual.

Reset amortization period for all members to 30 years.

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

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

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

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

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

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

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

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

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

(Continued)

Significant Factors Affecting Trends in Actuarial Information (Continued)

2004 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

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

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

2003 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

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

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

2002 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

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

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

Interest rate assumption changed from 8.0% to 7.5%.

Salary scale changed from 5.5% to 4.5%.

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

2001 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

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

1998 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

Reduced termination rates.

Moved retirement age slightly older.

Changed Pre-retirement Mortality Table from 1971 GAM to 1983 GAM.

1997 California Supreme Court Decision - Ventura County

Expanded the definition of compensation earnable.

1995 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

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

1993 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

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

Other Supplementary Information

Schedule of Administrative Expenses

	Years Ended December 31	
	2008	2007
Expenses Subject to the Statutory Limitation:		
Personnel Services:		
Board Members' Allowance	\$ 13,000	\$ 12,500
Employee Salaries and Benefits	5,465,215	5,263,570
Total Personnel Services	5,478,215	5,276,070
Office Operating Expenses:		
Operating Expenses	1,063,418	1,014,283
Professional Services	1,389,708	1,305,771
Rent/Leased Real Property	834,747	951,060
Depreciation/Amortization	542,715	598,961
Total Office Operating Expenses	3,830,588	3,870,075
Total Expenses Subject to the Statutory Limitation*	9,308,803	9,146,145
Expenses Not Subject to the Statutory Limitation:		
Commingled Interest Cost	14,049	34,411
Actuarial Fees	364,081	146,776
Consulting/Research Fees	350,219	355,934
Investment Department Expenses	790,249	635,152
Legal Costs	178,828	62,642
Total Expenses Not Subject to the Statutory Limitation	1,697,426	1,234,915
Total Administrative Expenses	\$11,006,229	\$10,381,060

(*Please see note G on page 32)

Schedule of Investment Expenses

	Years Ended December 31	
	2008	2007
Investment Expense by Category		
Domestic/Global Fixed Income	\$ 4,465,374	\$ 4,482,765
Domestic Equity	4,992,395	6,063,589
Real Estate	3,980,411	8,461,765
Limited Partnership	5,930,404	254,143
Venture Capital	12,392,777	3,491,533
International Equity	6,273,309	7,358,373
Subtotal	38,034,670	30,112,168
Security Lending Fees		
Security Lending Fees	1,405,488	705,845
Health Fund	46,977	-
Total Investment Expenses	\$ 39,487,135	\$ 30,818,013

**Schedule of Payments for Professional Services
For the Years Ended December 31, 2008 and 2007**

Name of Firms	Type of Services	2008	2007
Professional Expenses Subject to the Statutory Limitation			
County of Orange	Various Services	\$ 50,245	\$ 67,007
Megapath Networks Inc.	Internet Usage	17,858	17,443
Manpower, Inc.	Temporary Personnel	28,782	60,500
Select Personnel Services	Temporary Personnel	-	4,050
Talent Tree Crystal , Inc.	Temporary Personnel	70,410	22,959
Hanson Bridgett	Legal Services	96,952	22,465
Baker & McKenzie	Legal Services	12,182	-
Reed Smith	Legal Services	359,886	291,488
Schott & Lites Advocates	Legislative Counseling	9,000	18,000
The Berwyn Group	Mortality Verification	2,487	2,487
Brown Armstrong	Audit Services	92,600	92,600
Management Specialists	Financial Strategy Seminars	9,600	11,250
Iron Mountain	Off-site Data Storage	10,987	9,192
Linea Solutions	System Consulting	131,608	92,777
Levi, Ray, & Shoup, Inc.	System Improvement	58,413	-
Novanis	System Consulting	54,760	18,216
Various Professional Firms	Other Services	383,938	575,337
Total Professional Expenses Subject to the Statutory Limitation		\$ 1,389,708	\$ 1,305,771
Professional Expenses Not Subject to the Statutory Limitation			
Callan Associates, Inc./ The Townsend Group	Performance Evaluation	324,418	307,387
IRSS Inc.	Performance Evaluation	25,000	25,000
Informa Investment Solutions (Effron Enterprises, Inc.)	Performance Evaluation	800	800
State Street Bank and Trust Company	Custodian Services	180,000	180,000
County of Orange	Commingled Interest Cost	14,049	34,411
The Segal Company	Actuarial Services	364,081	146,776
Stradling, Yocca, Carlson, & Rauth	Legal Counsel	178,828	62,642
Davis, Mendel & Regenstein	Performance Evaluation	-	22,500
Investment Department Expenses	Investment Expenses	610,250	455,399
Total Professional Expenses Not Subject to the Statutory Limitation		1, 697,426	1,234,915
Total All Professional Expenses		\$ 3,087,134	\$ 2,540,686



SECTION

3



> **INVESTMENT**

CALLAN ASSOCIATES^{INC.}

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



SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

April 14, 2009

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, 2008.

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

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

Market Environment

U.S. equity indices lost one-third to nearly one-half of their value in 2008. The broad U.S. equity market, as represented by the Russell 3000 Index fell 22.8% during the fourth quarter and fell 37.3% for the calendar year. The Russell 2000 Index (-26.1%), a small cap U.S. equity benchmark suffered greater losses than the large cap benchmark of the Russell 1000 Index (-22.5%) during the quarter. However, the relative results were reversed for the entire calendar year of 2008 as the Russell 1000 Index was down 37.6% while the small cap index of the Russell 2000 declined 33.8%.

within the bond market. U.S. Government securities returned an extraordinary 12.4% while investment grade credit securities lost 3.1%. Long dated government instruments enjoyed a 22.7% return while asset backed securities lost 12.7%. Turmoil in the money and bond markets, particularly in the second half of the year, combined with aggressive actions by the Federal Reserve to lower short-term interest rates led to significant volatility. These trends have moderated slightly in early 2009. As was the case in 2007, investors literally ran to quality provided by government securities while avoiding securities with any credit risk.

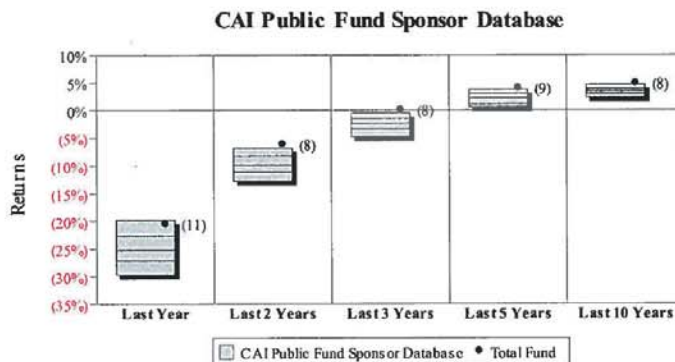
Within the Non-U.S. developed markets, as measured by the MSCI EAFE Index, fared best with a 43.4% drop for the year and fell 20.0% in the fourth quarter. As was the case domestically, style had little impact overseas for either time period. Developed non-U.S. small cap could not keep up with their large cap counterparts, falling 47.0% as measured by the MSCI EAFE Small Cap Index for the year. Emerging markets shed more than half their value losing 53.2% as measured by MSCI Emerging Markets Index, by far the worst year since the benchmark's inception.

Performance

For the calendar year, OCERS' total fund had a negative time-weighted total return of 20.71%. While this return lagged the System's strategic policy benchmark target return of negative 19.1%, it ranked in the 11th percentile of Callan's Public Fund database. Returns for trailing 2, 3, 5 and 10-year periods all rank at or above the 9th percentile. The System's risk adjusted return ranked in the top decile of Callan's Public Fund Database for the trailing 3, 5 and 10-year periods.

OCERS' Strategic Policy Benchmark Index is currently comprised of the following indices in the percentages as indicated: Barclays Capital U.S. Universal Bond Index (19%); MSCI-EAFE (18%); Russell 3000 (18%); NCREIF Total Index (9%); EPRA/NAREIT Global Real Estate Securities Index (1%); Barclays Capital U.S. TIPS (6%); Citigroup Non-\$ Government Bond Index Hedged (2.9%); Citigroup Non-U.S. World Gov't Bond Index (5.1%); OCERS Non-traditional (5%); MSCI-Emerging Markets Index (5%); various commodity indexes (1.5%); NCREIF Timberland Index (2%); CPI+ 5% (0.5%); the 3-month Treasury Bill + 7% (4%) and the 3-month Treasury bill +4% (3%).

The graph that follows depicts the Total Fund return relative to Callan's Total Public Fund Database for cumulative periods ended December 31, 2008.




The System's well-diversified and comparatively conservative allocation strategy was the primary driver in the achievement of strong relative performance results for all periods that include the extreme bear market of 2007-2008. OCERS' active domestic stock managers had mixed results in 2008. The System's large cap managers underperformed their benchmarks while small cap managers outpaced their target indexes. Similarly, the System's active bond managers trailed market index benchmarks owing to lower than benchmark government security exposure in 2008. OCERS' stock and bond managers have added value in the vast majority of cumulative periods longer than 5-years.

OCERS' U.S. equity composite fell 38.17% in 2008. This result was slightly below both the Russell 3000 Stock Index return of a negative 37.3% and the Callan Public Fund Domestic Equity peer group median. Over cumulative periods of 5-years or greater, OCERS' domestic equity composite has achieved favorable comparative returns. For example, the trailing 5-year return of negative 1.81% ranked in the 49th percentile and exceeded the target benchmark return of negative 1.95% annualized.

OCERS' developed international equities fell 42.5% for the year while the benchmark EAFE Index lost 43.4%. The System's small cap and emerging markets managers under-performed their benchmarks resulting in total international declining 46.05% while the MSCI All Country World Ex U.S. index fell 45.2%.

In summary, calendar 2008 was a terrible year for investors but, fortunately, OCERS' broad diversification helped moderate the widespread value declines when compared to other public pension plans.

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, 2008. 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	-38.17%	-9.37%	-1.81%
<i>Russell 3000 Index</i>	-37.31%	-8.63%	-1.95%
International Equity	-46.05%	-7.53%	2.00%
<i>MSCI AC World Ex US Index</i>	-45.24%	-6.57%	3.00%
<i>MSCI EAFE Index</i>	-43.38%	-7.35%	1.66%
Domestic Fixed	-3.31%	3.17%	3.73%
<i>Barclays Capital Universal Index</i>	2.38%	4.60%	4.30%
International Fixed Income	10.52%	8.26%	6.50%
<i>Intl Fixed Income Target Index ⁽¹⁾</i>	9.23%	7.46%	5.76%
Absolute Return	-0.98%	4.81%	N/A
<i>Absolute Return Target Index ⁽²⁾</i>	8.22%	10.90%	N/A
Real Return	-10.63%	0.05%	N/A
<i>Real Return Target Index ⁽³⁾</i>	2.18%	4.63%	N/A
Cash & Equivalents	3.25%	4.68%	3.72%
Real Estate	-2.91%	9.41%	11.90%
<i>Real Estate Target Index ⁽⁴⁾</i>	-11.30%	5.74%	10.20%
Alternative Investments	-4.69%	14.62%	15.66%
Opportunistic Investing	-40.93%	N/A	N/A
Total Fund	-20.71%	-0.10%	3.87%
<i>Composite Policy Benchmark ⁽⁵⁾</i>	-19.10%	0.97%	4.80%

(1) Intl Fixed Income Target Index = Citi Non-US Govt Hedged Index through 3/31/04 and 50% Citi Non-US Govt Bond Index + 50% Citi Non-US Govt Hedged Index thereafter

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

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

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

(5) Policy Benchmark = 19.0% BC US Universal Index + 18.0% MSCI EAFE Index + 18.0% Russell 3000 + 9.0% NCREIF Total Index + 1.0% EPRA/NAREIT Global Index + 6.0% BC US TIPS Index + 2.9% Citi Non-US Govt Hedged + 5.1% Citi Non-US Govt Bond Index + 5.0% OCERS-Non Traditional + 5.0% MSCI Emerging Markets + 4.0% (3-month Treasury Bill + 7%) + 3.0% (3-month Treasury Bill + 4.0%) + 2.0% NCREIF Timberland Index + 0.7% DJ AIG Commodity Index + 0.7% Schroder Commodity Custom Index + 0.5% (CPI + 5%)

STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

General

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

Strategic Asset Allocation Policy and Maintenance

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

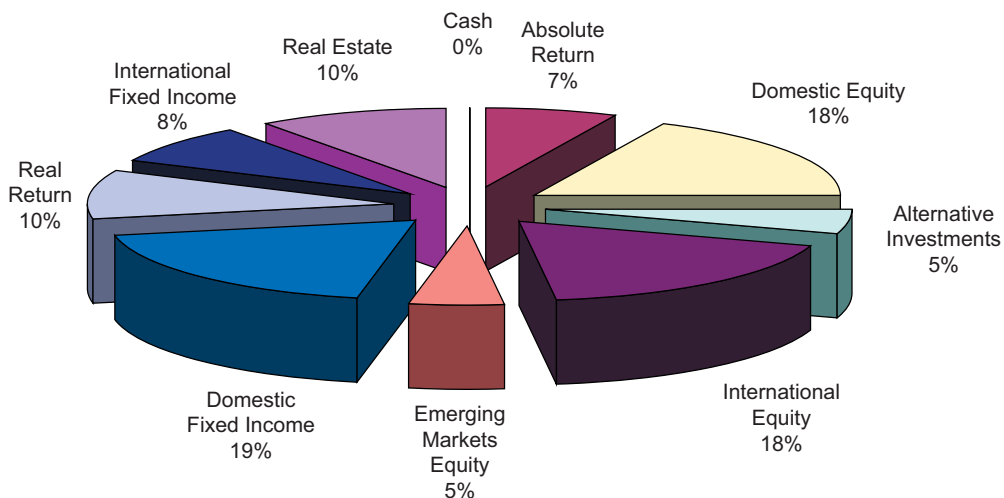
In normal circumstances, asset levels are permitted to fluctuate around targeted levels, and cash inflows are administered by staff in a manner that is consistent with maintenance of the desired level of diversification. When asset fluctuations and/or external cash flows take actual allocation outside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

Program Administration and Manager Structure

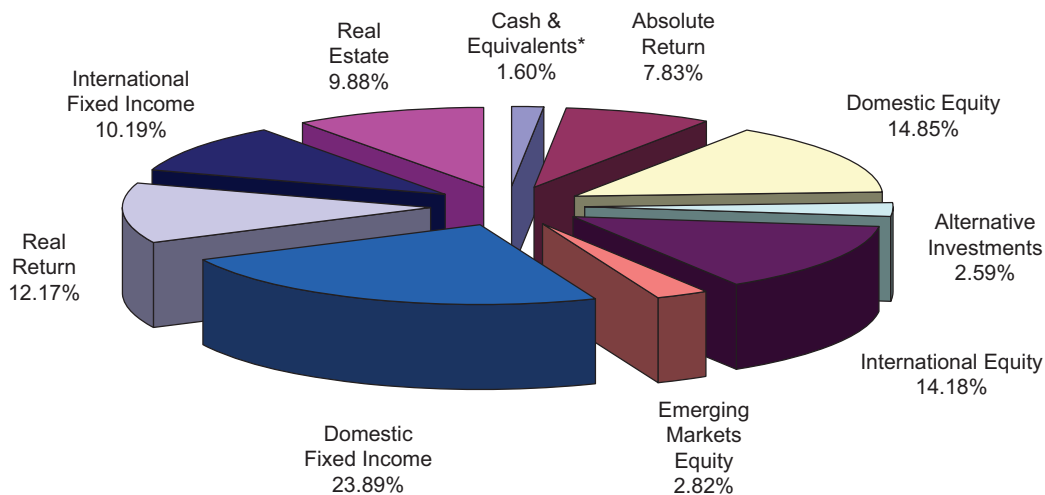
For each major asset class, the System shall diversify assets by employing managers with demonstrated skill in their particular areas of expertise. The System will retain managers who utilize varied investment approaches and allocate assets in a manner that is consistent with the overall strategic plan. So, for example, the sum of all domestic equity managers should exhibit characteristics that are similar, but not necessarily identical, to the overall equity market. When asset fluctuation causes the asset class to exhibit characteristics that are dissimilar from the plan, staff shall direct cash flows to or from the various managers so that actual characteristics are consistent with the plan.

Asset Diversification December 31, 2008

Policy

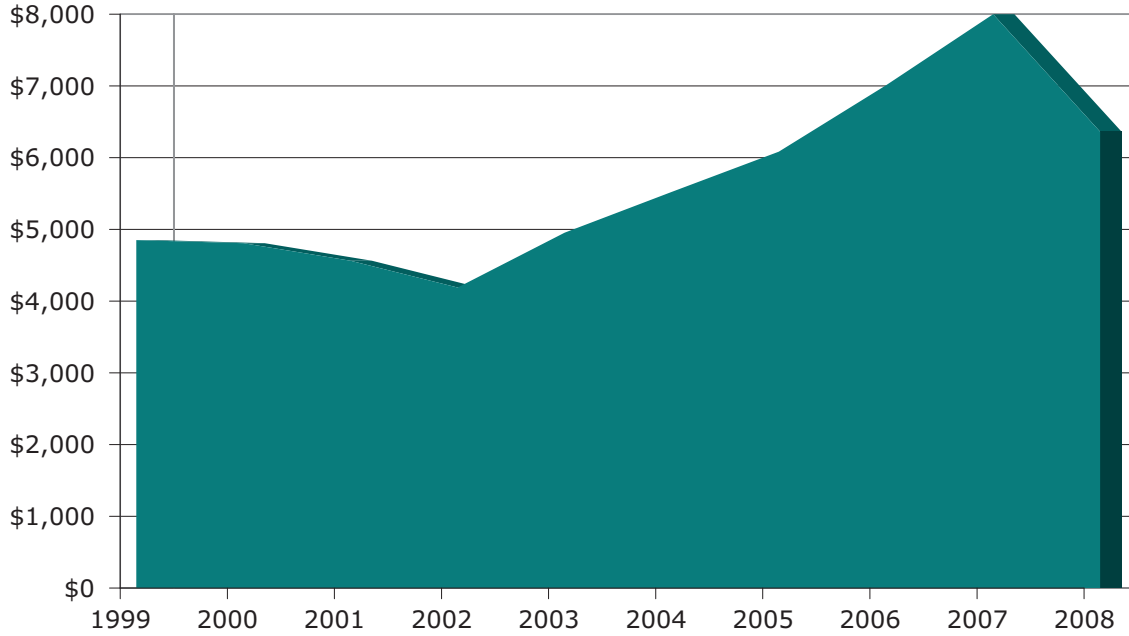


Actual

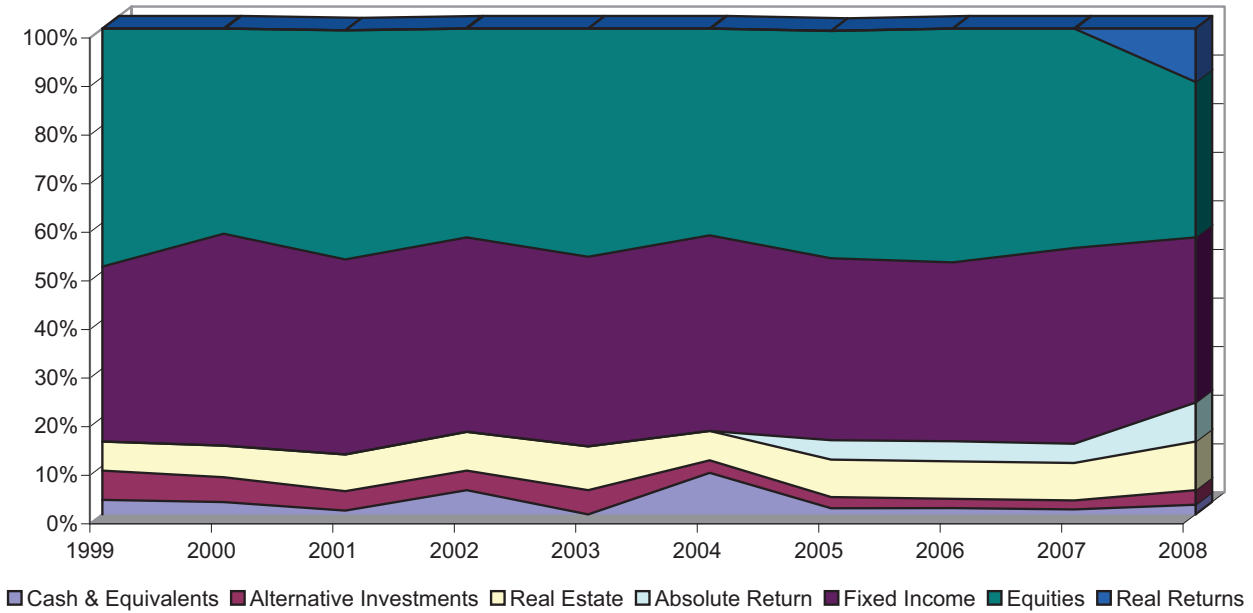


*Does not include OCERS operating cash accounts

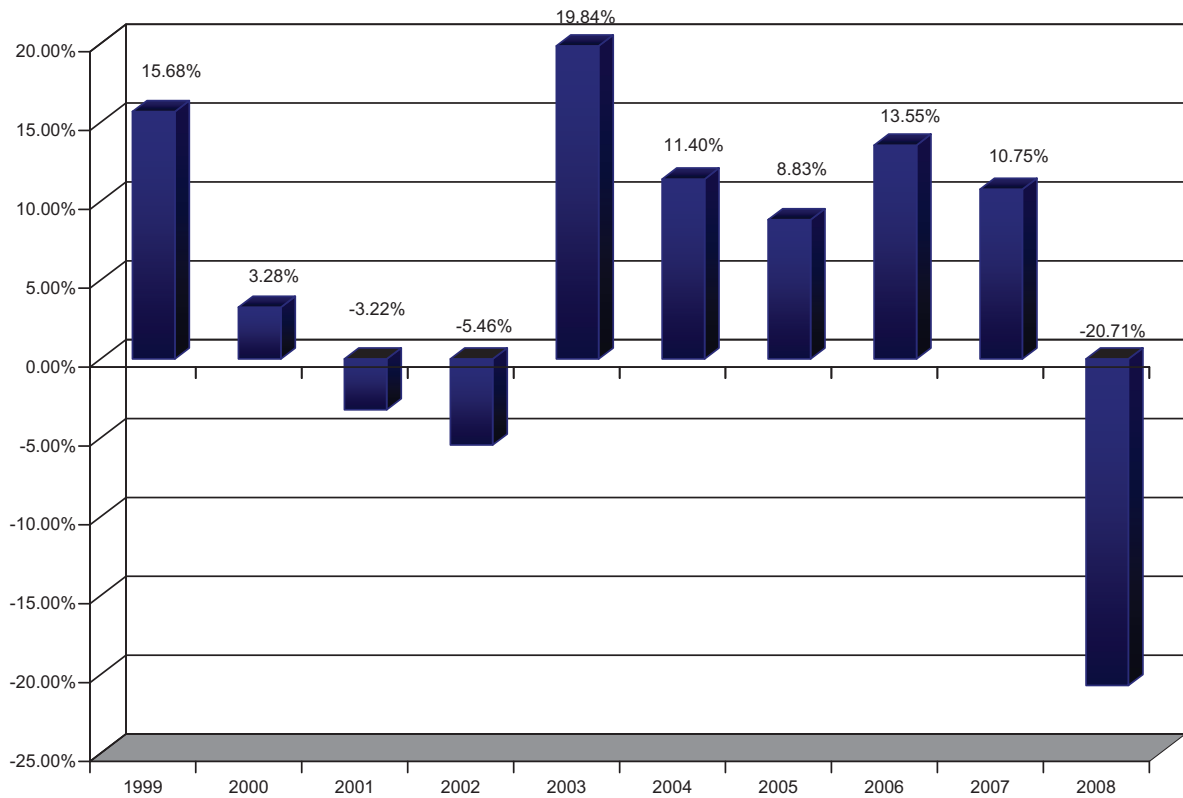
**Growth of System Net Assets at Fair Value
for Ten Years Ended December 31, 2008**
(in Millions of Dollars)



**Historical Asset Allocation
(Actual)**
December 1999 – December 2008



History of Performance
(Based on Fair Value)
December 1999 – December 2008



COMMISSION RECAPTURE PROGRAM

OCERS implements a direct brokerage program where investment managers are encouraged to trade with five brokerage firms, Abel Noser, Capital Institutional Services, Rochdale Securities, LJR Recapture Services and Alfa, Inc. OCERS recaptures about 75% of the domestic equity commission, 60% for fixed income and 50% for international equity. For the year ended December 31, 2008 the System generated \$54,013 in Commission Recapture dollars.

Schedule of Commissions for the Year Ended December 31, 2008

Brokerage Firms	Number of Shares Traded	Commission (Base)	Commission Per Share
ABEL NOSER CORPORATION	602,431	20,753	3.44
ABG SECURITIES	184,101	2,822	1.53
ABG SECURITIES AS (STOCKHOLM)	3,300	60	1.82
ABN AMRO ASIA LIMITED	337,000	20	0.01
ABN AMRO BANK N. V. (HONG KONG)	31,200	912	2.92
ABN AMRO BANK NV	979,764	9,190	0.94
ABN AMRO BANK NV (UK)	366,028	106	0.03
ABN AMRO SECURITIES (USA) INC	2,500	873	34.92
ALBERT FRIED & COMPANY LLC	30,710	614	2.00
AVONDALE PARTNERS LLC	14,000	700	5.00
ROBERT BAIRD, & COMPANY INC	323,246	13,020	4.03
BANC OF AMERICA SECURITIES LLC	200,241	6,892	3.44
BANCO ESPIRITO SANTO DE INVEST	99,539	137	0.14
BANCO ESPIRITO SANTO INVESTMENTO SUCURSA	29,000	214	0.74
BANCO SANTANDER CENTRAL HISPANO	410,000	3,026	0.74
BANK AM BELLEVUE	30,423	2,899	9.53
BANK JULIUS BAER AND CO	1,001	293	29.27
BANK OF AMERICA INTL (U.S.)	20,000	984	4.92
BANK OF AMERICA SECURITIES LLC	319,717	12,045	3.77
BANQUE NATIONALE DU (CANADA)	27,200	1,209	4.44
BARCLAYS CAPITAL	61,887	144	0.23
BARCLAYS CAPITAL LE	105,377	4,119	3.91
BAYPOINT TRADING LLC	119,620	1,841	1.54
BEAR STEARNS & CO INC	83,780	3,200	3.82
BEAR STEARNS SECURITIES CORP	1,309,630	12,513	0.96
BLOOMBERGTRADEBOOK LLC	1,316,000	11,844	0.90
BLUEFIN RESEARCH PARTNER INC	5,730	172	3.00
BNP PARIBAS PEREGRINE SECURITIES	1,731,898	7,626	0.44
BNP PARIBAS SECURITIES SERVICES	57,600	612	1.06
BNY BROKERAGE INC	1,642,343	25,202	1.53
BNY CONVERGEX LJR	3,070,640	64,493	2.10
BREAN MURRAY	12,010	480	4.00
BRODCORT CAPITAL (THRU ML)	269,090	8,501	3.16
BROCKHOUSE & COOPER INC MONTREAL	272,200	3,679	1.35
BROWN BROTHERS HARRIMAN & CO	20,400	1,020	5.00
CANACCORD ADAMS INC.	52,950	2,118	4.00
CANACCORD CAPITAL CORP	9,100	334	3.67
CANTOR FITZ (EUR)	2,807,995	4,098	0.15
CANTOR FITZGERALD & CO	220,909	7,148	3.24
CARIS & COMPANY INC	10,750	215	2.00
CARNEGIE A S	10,700	300	2.80
CARNEGIE FONDKOMISSION	252,900	1,059	0.42

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Commission (Base)</u>	<u>Commission Per Share</u>
CARNEGIE INT'L LND	37,125	660	1.78
CAZENOVE & CO	572,842	5,174	0.90
CAZENOVE ASIA LTD	753,000	770	0.10
CHAPDELAINE INSTITUTIONAL	465,490	18,443	3.96
CHASE SECURITIES INC	90,725	907	1.00
CHINA INTRTNL CAP CORP HK SECS LTD	102,000	472	0.46
CIBC WOOD GUNDY	71,800	2,513	3.50
CIBC WORLD MARKETS CORP	5,900	213	3.61
CIBC WORLD MKTS INC	19,800	726	3.67
CITIGROUP GLOBAL MARKETS AUSTRALIA PTY	536,081	6,110	1.14
CITIGROUP GLOBAL MARKETS INC	1,118,058	40,668	3.64
CITIGROUP GLOBAL MARKETS INC.	1,109,926	22,698	2.05
CITIGROUP GLOBAL MARKETS LIMITED	3,655,765	29,284	0.80
CJS SECURITIES	4,600	230	5.00
CLSA SECURITIES KOREA LTD.	3,600	1,549	43.03
COLLINS STEWART & CO	9,250	87	0.94
COMPASS POINT RESEARCH AND TRADING	283,900	5,678	2.00
COWEN & CO, LLC	9,700	340	3.50
COWEN AND COMPANY, LLC	295,250	11,634	3.94
CRAIG - HALLUM	39,750	1,590	4.00
CREDIT AGRICOLE INDOSUEZ	18,309	827	4.52
CREDIT AGRICOLE INDOSUEZ CHEUVREUX	4,741,085	36,013	0.76
CREDIT LYONNAIS SECURITIES	815,423	11,694	1.43
CREDIT LYONNAIS SECURITIES (USA)	515,750	6,974	1.35
CREDIT LYONNAIS SECURITIES(ASIA)	44,300	1,211	2.73
CREDIT SUISSE FIRST BOSTON (EUROPE)	20,318	8,864	43.63
CREDIT SUISSE SECURITIES (EUROPE) LTD	3,602,683	31,906	0.89
CREDIT SUISSE SECURITIES (USA) LLC	1,633,836	37,392	2.29
CS FIRST BOSTON (HONG KONG) LIMITED	1,513,271	14,376	0.95
CSFB EUROPE LTD	60,400	3,929	6.50
D CARNEGIE AG	2,968	38	1.28
DAIWA SBCM EUROPE	132,300	1,646	1.24
DAIWA SECURITIES AMERICA INC	634,877	2,605	0.41
DAVIDSON D.A. & COMPANY INC	27,500	1,100	4.00
DBS VICKERS SECURITIES (SINGAPORE)	446,500	1,865	0.42
DEUTSCHE BANK AG LONDON	840,155	14,814	1.76
DEUTSCHE BANK ALEX BROWN	12,156	486	4.00
DEUTSCHE BANK SECURITIES INC	12,865,490	49,667	0.39
DEUTSCHE MORGAN GRENFELL SECS	528,232	1,686	0.32
DEUTSCHE SECURITIES ASIA LIMITED	1,011,400	2,475	0.24
DEUTSCHE SECURITIES ASIA LTD	3,000	838	27.93
DOWLING & PARTNERS	9,200	460	5.00
DRESDNER BANK AG, LONDON BRANCH	27,033	520	1.92
EMP RESEARCH PTRNS	14,300	715	5.00
EVLI SECURITIES LTD	12,298	139	1.13
EXANE S.A.	283,077	11,633	4.11
FERRIS BAKER WATTS INC	112,400	5,614	4.99
FIDELITY CAPITAL MARKETS	261,771	9,643	3.68
FIDENTIIS	89,500	2,332	2.61
FIM SECURITIES LTD	1,540	26	1.69
FIRST CLEARING, LLC	68,500	3,396	4.96
FORTIS BANK (NEDERLAND) N.V.	5,129	161	3.14

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Commission (Base)</u>	<u>Commission Per Share</u>
FOX PITT KELTON INC	113,030	4,511	3.99
FRIEDMAN BILLINGS & RAMSEY	46,846	1,852	3.95
G TRADE SERVICES LTD	34,799	295	0.85
GOLDMAN SACHS & CO	5,667,262	40,613	0.72
GOLDMAN SACHS EXECUTION & CLEARING	14,900	357	2.40
GOLDMAN SACHS INTERNATIONAL	919,935	18,555	2.02
GOLDMAN SACHS INTL LTD	20,800	1,626	7.82
GOODBODY STOCKBROKERS	36,700	1,633	4.45
GORDON HASKETT	108,630	2,173	2.00
GREEN STREET ADVISORS	62,363	2,804	4.50
GREEN STREET ADVISORS, INC.	10,900	545	5.00
HARRIS NESBITT CORP	900	27	3.00
HEFLIN & CO LLC	379,204	8,495	2.24
HONGKONG AND SHANGHAI BANKING CORP	1,006,370	13,137	1.31
HOWARD WEIL DIVISION LEGG MASON	17,800	890	5.00
HSBC BANKPLC	967,053	6,578	0.68
HSBC BROKERAGE	25,200	882	3.50
ICAP CORPORATES LLC	21,000	210	1.00
ICAP SECURITIES LTD	461,821	12,645	2.74
ING BANK N V	8,095	297	3.67
INSTINET	101,020	3,705	3.67
INSTINET FRANCE S.A.	1,419	4	0.28
INSTINET U.K. LTD	906,550	2,949	0.33
INSTINET,LLC	125,000	1,250	1.00
INTERMONTE SEC SIM SPA	36,600	952	2.60
INVESTMENT TECHNOLOGY GROUP INC.	1,993,913	43,754	2.19
INVESTMENT TECHNOLOGY GROUP LTD	1,348,365	7,552	0.56
ITG AUSTRALIA LTD.	478,397	376	0.08
ITG CANADA	13,200	523	3.96
ITG INC	963,395	13,488	1.40
ITG SECURITIES (HK) LTD	1,540,500	187	0.01
IXIS SECURITIES	252,634	459	0.18
J B WERE AND SON	226,010	1,986	0.88
J P MORGAN SECURITIES INC	893,443	32,912	3.68
J P MORGAN CLEARING CORP.	379,983	4,373	1.15
J P MORGAN SECURITIES (FAR EAST)	100	26	26.00
JANNEY MONTGOMERY, SCOTT INC	91,050	1,821	2.00
JEFFERIES & COMPANY INC	4,380,783	49,698	1.13
JMP SECURITIES	18,100	662	3.66
JOH BERENBERG GOSSLER AND CO	79,487	766	0.96
JOHNSON RICE & CO	24,400	1,220	5.00
JONES & ASSOCIATES INC	18,700	655	3.50
JONESTRADING INSTITUTIONAL SERVICES LLC	21,500	564	2.62
JP MORGAN	57,000	50	0.09
JP MORGAN SECURITIES (AUSTRALIA)	856,196	3,331	0.39
JP MORGAN SECURITIES LIMITED	3,244,250	42,234	1.30
JPMORGAN SECURITIES (ASIA PACIFIC)	5,679,539	13,295	0.23
KAS-ASSOCIATIE N.V.	2,795	100	3.58
KBC FINANCIAL PRODUCTS (UK)	38,964	1,437	3.69
KBC PEEL HUNT LTD	117,049	818	0.70
KEEFE BRUYETTE & WOODS INC	42,355	1,518	3.58
KEMPEN & CO (N.V.)	44,706	797	1.78

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Commission (Base)</u>	<u>Commission Per Share</u>
KEPLER EQUITIES	31,921	105	0.33
KEPLER EQUITIES FRANKFURT BRANCH	54,400	1,718	3.16
KEPLER EQUITIES PARIS	5,769	342	5.93
KEPLER EQUITIES SUCURSAL EN ESPANA	5,600	23	0.41
KEPLER EQUITIES ZURICH	1,900	31	1.63
KEYBANC CAPITAL MARKETS INC	40,430	1,576	3.90
KLEINWORT BENSON SECURITIES LIMITED	1,056,413	7,695	0.73
KNIGHT SECURITIES	175,073	3,882	2.22
KNIGHT SECURITIES L.P.	3,200	96	3.00
LAZARD CAPITAL MARKETS LLC	609,126	11,803	1.94
LEE RINK SWANN AND COMPANY	130,890	5,097	3.89
LEHMAN BROTHERS INC	1,234,561	15,738	1.27
LEHMAN BROTHERS INTERNATIONAL (EUROPE)	6,315,098	29,956	0.47
LEHMAN BROTHERS SECS (ASIA)	369,563	2,509	0.68
LIQUIDNET (ASIA)	50,557	332	0.66
LIQUIDNET (EUROPE)	1,096,661	9,853	0.90
LIQUIDNET INC	976,238	28,463	2.92
LYNCH JONES AND RYAN INC	420,490	8,410	2.00
MACQUARIE EQUITIES LIMITED (SYDNEY)	2,350,528	12,002	0.51
MACQUARIE EQUITIES (NEW ZEALAND)	76,636	24	0.03
MACQUARIE SECURITIES LIMITED	15,242,701	61,469	0.40
MACQUARIE SECURITIES LTD (SEOUL)	579	666	115.03
MAGNA SECURITIES CORP	2,600	104	4.00
MAIN FIRST BANK	2,700	196	7.26
MAN FINANCIAL LIMITED	324,692	4,785	1.47
MCDONALD CO, SECURITIES, INC	6,800	292	4.29
MERRILL LYNCH & CO INC	181,800	5,108	2.81
MERRILL LYNCH INTERNATIONAL	1,127,821	18,704	1.66
MERRILL LYNCH PEIRCE FENNER AND SMITH	5,399,884	25,298	0.47
MERRILL LYNCH PROFESSIONAL CLEARING CORP	703,330	26,626	3.79
MERRILL LYNCH,PIERCE,FENNER & SMITH, INC	1,547,076	56,089	3.63
MIDWEST RESEARCH SECURITIES	134,270	5,371	4.00
MILLER TABAK & COMPANY, LLC	15,530	493	3.17
MITSUBISHI UFJ SECURITIES INT PLC	2,000	1	0.05
MIZUHO SECURITIES (USA)	99,000	3,942	3.98
MORGAN SECURITIES INC	10,000	473	4.73
MORGAN KEEGAN & CO INC	43,330	1,547	3.57
MORGAN STANLEY AND CO. INTERNATIONAL	2,496,132	26,456	1.06
MORGAN STANLEY CO INC	15,332,075	109,843	0.72
MORGAN STANLEY SECURITIES LIMITED	3,700	20	0.54
NBC CLEARING SERVICES INCORPORATED	59,000	2,411	4.09
NCB STOCKBROKERS LTD	24,100	956	3.97
NEEDHAM & COMPANY	3,700	160	4.32
NEONET SECURITIES (AB)	53,169	153	0.29
NESBITT BURNS	346,700	14,471	4.17
NEXT GENERATION EQUITY RESEARCH LLC	2,700	135	5.00
NOMURA INTERNATIONAL (HONG KONG)	2,029,496	213	0.01
NOMURA INTERNATIONAL PLC	553,913	412	0.07
NOMURA SECURITIES INTERNATIONAL INC	19,317,150	48,094	0.25
NUMIS SECURITIES LIMITED	166,400	1,731	1.04
NYFIX TRANSACTION SERVICES	231,735	2,317	1.00
NZB NEUE ZUERCHER BANK	11,634	524	4.50

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Commission (Base)</u>	<u>Commission Per Share</u>
OPPENHEIM UND CIE KOELN	730	70	9.59
OPPENHEIMER & CO. INC	135,723	6,295	4.64
OPPENHEIMER & CO INC (UK)	246,257	10,319	4.19
OPPENHEIMER AND COMPANY	19,800	861	4.35
OPSTOCK SECURITIES	5,300	15	0.28
PACIFIC CREST SECURITIES	59,845	2,394	4.00
PACIFIC GROWTH EQUITIES, LLC	27,640	1,106	4.00
PALI CAPITAL INC	28,480	570	2.00
PENSON FINANCIAL SERVICES INC	2,400	209	8.71
PERSHING LLC	16,100	679	4.22
PERSHING LLC 1ST REPUBLIC P.B. CNS	10,814	50	0.46
PERSHING SECURITIES LIMITED	50,910	3,647	7.16
PETERCAM (S.A.)	9,694	411	4.24
PETERS AND CO LIMITED	39,700	1,745	4.40
PIPELINE TRADING SYSTEMS LLC	38,561	989	2.56
PIPER JAFFRAY	153,219	5,314	3.47
PIPER JAFFRAY & HOPWOOD	9,800	490	5.00
PRITCHARD CAPITAL PARTNERS LLC	42,100	2,105	5.00
PULSE TRADING LLC	400	4	1.00
RABOBANK NETHERLAND	280	16	5.71
RAFFERITY CAPITAL MARKETS, LLC	23,000	460	2.00
RAYMOND JAMES AND ASSOCIATES INC	30,748	988	3.21
RAYMOND JAMES LTD	500	22	4.40
RAYMOND JAMES TRUST COMPANY	61,669	2,874	4.66
RBC CAPITAL MARKETS	271,450	11,316	4.17
RBC DAIN RAUSCHER INC	183,650	7,985	4.35
RBC DOMINION SECURITIES	26,400	1,080	4.09
RBC DOMINION SECURITIES INC	28,600	967	3.38
REDBURN PARTNERS LLP	248,600	5,111	2.06
RENAISSANCE CAPITAL LTD	20,534	355	1.73
RIDGE CLEARING & OUTSOURCING SOLUTIONS	7,300	365	5.00
ROBINSON-HUMPHREY CO	13,400	670	5.00
ROBOTTI & COMPANY	5,900	295	5.00
ROTH CAPITAL PARTNERS LLC	1,900	95	5.00
SANDLER ONEILL & PARTNERS, LP	141,890	5,699	4.02
SANFORD C. BERNSTEIN LTD	199,754	4,804	2.40
SANFORD CBERNSTEIN CO LLC	717,400	18,616	2.59
SANTANDER CENTRAL HISPANO BOLSA	34,100	935	2.74
SCOTIA CAPITAL (USA) INC	91,100	3,635	3.99
SCOTIA CAPITAL MKTS	106,800	4,504	4.22
SCOTT & STRINGFELLOW, INC	38,395	1,176	3.06
SCOTT & STRINGFELLOW FINANCIAL	4,400	220	5.00
SG AMERICAS SECURITIES, LLC	3,300	99	3.00
SG SECURITIES (HK)	395,710	29	0.01
SHENYIN WANGUO SECURITIES (HK)	77,000	12	0.02
SIS SEGAINTERSETTLE (AG)	12,050	1,130	9.38
SJ LEVINSON & SONS LLC	5,470	109	2.00
SKANDINAVISKA ENSKILDA BANKEN	301,761	3,191	1.06
SOCIETE GENERALE	366,171	7,381	2.02
SOLEIL SECURITIES	3,900	195	5.00
STANFORD GROUP CO	17,700	582	3.29
STANFORD GROUP COMPANY	74,380	2,870	3.86

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Commission (Base)</u>	<u>Commission Per Share</u>
STATE STREET BANK & TRUST CO (UK)	15,108	292	1.93
STATE STREET BANK AND TRUST CO	2,800	98	3.50
STEPHENS, INC.	52,499	2,100	4.00
STERNE, AGEE & LEACH, INC.	53,880	1,315	2.44
STIFEL NICOLAUS & CO INC	181,417	6,185	3.41
SUNTRUST CAPITAL MARKETS, INC.	5,890	172	2.92
SVENSKA HANDELSBANKEN	42,400	561	1.32
TD WATERHOUSE	284,900	11,465	4.02
THE BENCHMARK COMPANY, LLC	6,190	248	4.01
THINK EQUITY PARTNERS LLC	5,020	100	1.99
THOMAS WEISEL PARTNERS LLC	304,386	13,131	4.31
TOKYO-MITSUBISHI SECURITIES (USA)	97,530	3,169	3.25
TORONTO DOMINION SECURITIES	83,300	3,733	4.48
TROIKA DIALOG (UK)	131,474	6,372	4.85
UBS AG	4,433,576	60,829	1.37
UBS AG (UK)	692,337	7,820	1.13
UBS SECURITIES (ASIA)	8,116,865	29,366	0.36
UBS SECURITIES (CANADA)	136,200	4,993	3.67
UBS SECURITIES LLC	589,889	10,239	1.74
UBS SECURITIES PTE.LTD., (SEOUL)	2,290	2,631	114.89
UOB KAY HIAN PRIVATE LIMITED	441,550	156	0.04
US CLEARING CORP (PRIME BROKER)	16,200	810	5.00
VERITAS SECURITIES	160,100	4,280	2.67
WACHOVIA SECURITIES, LLC	4,022	160	3.98
WACHOVIA CAPITAL MARKETS, LLC	127,072	5,109	4.02
WARBURG DILLON READ SECURITIES LTD	9,088	2,469	27.17
WDR WARBURG DILLON READ LLC	288,480	7,575	2.63
WEEDEN & CO.	1,102,680	19,730	1.79
WILLIAM BLAIR & COMPANY, LLC	263,090	12,938	4.92

Investment Summary
December 31, 2008
(Dollars in Thousands)

Investment	Fair Value	Percentage
Domestic Equity	\$ 944,568	14.85%
International Equity	902,288	14.18%
International Emerging Market	179,179	2.82%
Domestic Fixed Income	1,520,028	23.89%
International Fixed Income	648,583	10.19%
Absolute Return	498,273	7.83%
Real Return	774,128	12.17%
Cash and Cash Equivalents	101,549	1.60%
Real Estate	628,685	9.88%
Alternative Investments	165,102	2.59%
Total *	\$ 6,362,383	100.00%

* The table above is provided directly from State Street and does not reflect funds held at Wells Fargo Bank, accounts receivable, accounts payable, depreciation or capital assets. (See page 18)

Schedule of Largest Equity Holdings (by Market Value)**
December 31, 2008

Common Stock	Shares	Market Value	% of Composite
Exxon Mobil Corp	261,172	\$ 20,849,361	0.90
Roche Holdings AG	83,108	12,688,542	0.55
Softbank Corp	586,100	10,364,239	0.45
Procter & Gamble Co	148,997	9,210,985	0.40
General Electric Co	520,113	8,425,824	0.36
AT&T Inc	293,660	8,369,314	0.36
Johnson & Johnson	139,302	8,334,412	0.36
Nintendo Co	20,800	7,744,071	0.33
Microsoft Corp	396,822	7,714,218	0.33
Chevron Corp	102,239	7,562,626	0.33

Schedule of Largest Fixed Income Holdings (by Market Value)**
December 31, 2008

Asset	CPN/Maturity	Market Value	% of Composite
FNMA	5.500	\$ 140,304,326	4.71
FNMA	5.000	117,753,952	3.95
FNMA	6.000	66,450,119	2.23
UNITED STATES TREAS NTS	2.000/TIPS	58,586,000	1.97
UNITED STATES TREAS BDS	3.875/04-15-2029	43,086,426	1.45
UNITED STATES TREAS NTS	2.500/TIPS	40,253,117	1.35
UNITED STATES TREAS NTS	2.000/TIPS	38,835,762	1.30
UNITED STATES TREAS NTS	1.875/TIPS	36,545,669	1.23
UNITED STATES TREAS BDS	3.625/04-15-2028	34,116,656	1.15
FNMA	5.500	34,013,088	1.14

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

List of Investment Managers

As of December 31, 2008

Domestic Equity

Artisan Partners

Barclays Global Investors

Cadence Capital Management

Capital Guardian Trust Company

Dodge & Cox

Peregrine Capital Management

Washington Capital Management, Inc.

Domestic Fixed Income

Aberdeen Asset Management, Inc.

Barclays Global Investors

Loomis, Sayles & Company

Pacific Investment Management Company (PIMCO)

International Equity

AllianceBernstein

AQR Capital Management, LLC

AXA Rosenberg Investment Management, LLC

Barclays Global Investors

Capital Guardian Trust Company

GlobeFlex Capital, L.P.

Mercator Asset Management

William Blair & Co.

International Fixed Income

Mondrian Investment Partners, Ltd.

Absolute Return

BlackRock Alternative Advisors

Bridgewater Associates, Inc.

Pacific Alternative Asset Management Company

Real Return

Barclays Global Investors

Hancock Timber Resource Group

Pacific Investment Management Company (PIMCO)

RMK Timberland Group

Schroder Investment Management

Wellington Management

Real Estate

Domestic

American Realty Advisors

AEW Capital Management

CB Richard Ellis Investors

Fidelity Management Trust Co.

Morgan Stanley

International

Rockspring Property Investment Managers, Ltd.

Global Real Estate Securities

LaSalle Investment Management

(Continued on next page)

List of Investment Managers
As of December 31, 2008
(Continued)

Non-Traditional Investments

Managers

Abbott Capital

Adams Street Partners

HarbourVest Partners, LLC

Mesirow Financial Private Equity

Limited Partnerships

Pacific Investment Management Company (PIMCO)

TCW Asset Management Company

Timber

Hancock Timber Resource Group

Cash Overlay

The Clifton Group

Securities Lending Program

State Street Corporation

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SECTION

4



> ACTUARIAL



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

May 28, 2009

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, 2008 annual actuarial valuation of the Orange County Employees Retirement System. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

The funding method used by the System is called the Entry Age Normal Actuarial Cost Method. One of the funding objectives of the System is to reduce the outstanding balance of the December 31, 2004 unfunded actuarial accrued liability (UAAL) to zero over a 30-year period commencing December 31, 2004. Any increases or decreases in UAAL that arise in future years due to actuarial gains or losses will be amortized over separate 15-year periods. Increases or decreases due to assumption changes will be amortized over separate 30-year periods. The progress being made toward the realization of the financing objectives through December 31, 2008 is illustrated in the attached Exhibits I, II and X.

As part of the December 31, 2008 actuarial valuation, Segal conducted an examination of all participant data for reasonableness. Summaries of the employee data used in performing the actuarial valuations are provided in our valuation report. We did not audit the System's financial statements. For actuarial valuation purposes, Plan assets are valued at actuarial value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the actual and expected return on market value over a five-year period. The development of the actuarial value as of December 31, 2008 is provided in Exhibit V.

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



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

Board of Retirement
Orange County Employees Retirement System
May 28, 2009
Page 2

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

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

The valuation assumptions used in this valuation were included in the Actuarial Section. Those assumptions were adopted by the Retirement Board from the December 31, 2007 experience study, except for the General member retirement probabilities for those plans with improved benefit formulas. For those plans, the Board adopted the proposed retirement rates shown in our April 10, 2009 letter to the System. It is our opinion that the assumptions used in the December 31, 2008 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The next experience analysis is due to be performed as of December 31, 2010.

In the December 31, 2008 valuation, the ratio of the valuation value of assets to actuarial accrued liabilities decreased from 74.08% to 71.34%. The aggregate employer rate (average of the County and all special districts rates combined) has increased from 24.39% of payroll to 27.30% of payroll. The aggregate employee's rate has increased from 10.66% of payroll to 10.74% of payroll.

In the December 31, 2008 valuation, the actuarial value of assets included \$1,502 million in deferred investment losses, which represented 24% of the market value of assets. If these deferred investment losses were recognized immediately in the actuarial value of assets, the funded percentage would decrease from 71.3% to 57.5% and the aggregate employer contribution rate, expressed as a percent of payroll, would increase from 27.3% to about 37%.

Board of Retirement
Orange County Employees Retirement System
May 28, 2009
Page 3

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

Sincerely,



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



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

DNA/hy
Enclosures

Orange County Employees Retirement System

Exhibit I

HISTORY OF UNFUNDED ACTUARIAL ACCRUED LIABILITY

(In Thousand Dollars)

Valuation Date	Actuarial Accrued Liability	Valuation Value of Assets	Unfunded Actuarial Accrued Liability	Ratio of Assets to Actuarial Accrued Liability	Annual Active Member Compensation	Ratio of Unfunded Actuarial Accrued Liability to Active Compensation
12/31/99	\$4,017,279	\$3,931,744	\$85,535	97.87%	\$912,490	9.37%
12/31/00	4,335,025	4,497,362	(162,337)	103.74%	994,669	(16.32%)
12/31/01	4,843,899	4,586,844	257,055	94.69%	1,122,763	22.89%
12/31/02	5,673,754	4,695,675	978,079	82.76%	1,242,348	78.73%
12/31/03	6,099,433	4,790,099	1,309,334	78.53%	1,243,964	105.25%
12/31/04	7,403,972	5,245,821	2,158,151	70.85%	1,257,085	171.68%
12/31/05	8,089,627	5,786,617	2,303,010	71.53%	1,276,764	180.38%
12/31/06	8,765,045	6,466,085	2,298,960	73.77%	1,322,952	173.78%
12/31/07	9,838,686 ⁽¹⁾	7,288,900	2,549,786 ⁽¹⁾	74.08% ⁽¹⁾	1,457,159	174.98% ⁽¹⁾
12/31/08	10,860,715	7,748,380	3,112,335	71.34%	1,569,764	198.27%

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

Notes:

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

Assumption Changes:

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

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

Assumption Changes:

Changes in mortality, disability, termination, retirement, salary scale, and annual payoff assumptions in the December 31, 2007 triennial experience study increased the UAAL by \$237 million.

Benefit changes:

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

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

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

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

Assumption Changes:

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

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

Orange County Employees Retirement System

HISTORY OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (Cont.)

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

Methodology and procedure changes:

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

Assumption changes:

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

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

Benefit changes:

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

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

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

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

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

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

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

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

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

- The 12/31/02 valuation included changes to the interest rate and salary increase assumptions. The interest rate changed from 8.0% to 7.5% and the salary increase assumption from 5.5% to 4.5%. These changes increased employer rates and generally decreased member contribution rates slightly. The retirement benefit for Firefighters was changed to a 3% per year of service benefit payable unreduced at age 50. Probation Officers became Safety Members with a portion of service for Tier II members converted to Safety Member service at less than one-for-one.
- The 12/31/01 valuation included changes to the assumed withdrawal rates, the assumed termination rates, the assumed service connected disability rates and the assumed retirement rates. These changes increased both member and employer contribution rates. The retirement benefit for Law Enforcement was changed to a 3% per year of service benefit payable unreduced at age 50.
- Each year's assets exclude an amount as shown in the following table of the County's unamortized 1994 funding of its portion of the Unfunded Actuarial Accrued Liability, which funding for 1995 was being amortized over a 14-year period beginning July 1, 1994 and for 1996 and later was being amortized over a 28-year period beginning July 1, 1996. Beginning July 1, 2003, the County can utilize this amount at its discretion to fund any portion of the employer contribution.

Orange County Employees Retirement System

HISTORY OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (Cont.)

Valuation Date	Amount Excluded from Assets
12/31/99	\$286,139,000
12/31/00	\$272,789,000
12/31/01	\$221,643,000
12/31/02	\$143,675,000
12/31/03	\$143,744,000
12/31/04	\$155,245,000
12/31/05	\$158,219,000 ⁽¹⁾
12/31/06	\$168,224,000 ⁽²⁾
12/31/07	\$174,348,000 ⁽³⁾
12/31/08	\$126,683,000 ⁽⁴⁾

⁽¹⁾ For the December 31, 2005 valuation, we also excluded an additional \$45,925,000 in prepaid employer contributions.

⁽²⁾ For the December 31, 2006 valuation, we also excluded an additional \$70,941,000 in prepaid employer contributions.

⁽³⁾ For the December 31, 2007 valuation, we also excluded an additional \$108,301,000 in prepaid employer contributions.

⁽⁴⁾ For the December 31, 2008 valuation, we also excluded an additional \$24,345,000 in prepaid employer contributions.

Orange County Employees Retirement System

Exhibit II

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

Valuation Date	GENERAL				SAFETY				
	12/31/1999			NC 4.56%		NC 8.27%			
			UAAL (3.60)		UAAL 13.95				
			Total 0.96%		Total 22.22%				
12/31/2000			NC 4.94%		NC 8.57%				
			UAAL (3.98)		UAAL 0.16				
			Total 0.96%		Total 8.73%				
	<i>Non-OCTA</i>		<i>OCTA</i>	<i>Rancho Santa Margarita</i>	<i>San Juan Capistrano</i>	<i>Law Enforcement</i>		<i>Fire Authority</i>	<i>Probation</i>
12/31/2001	NC 5.04%	NC 4.20%		NC 5.04%	NC 15.87%	NC 10.30%	NC 5.04%		
	UAAL 0.62*	UAAL 0.77*	N/A	UAAL 0.62*	UAAL 9.15*	UAAL 1.89*	UAAL 0.62*		
	Total 5.66%	Total 4.97%		Total 5.66%	Total 25.02%	Total 12.19%	Total 5.66%		
12/31/2002	NC 5.44%	NC 4.36%		NC 5.44%	NC 16.53%	NC 17.85%	NC 4.38%		
	UAAL 3.71*	UAAL 3.87*	N/A	UAAL 3.71*	UAAL 21.34*	UAAL 16.81*	UAAL 4.19*		
	Total 9.15%	Total 8.23%		Total 9.15%	Total 37.87%	Total 34.66%	Total 8.57%		
12/31/2003**	NC 5.56%	NC 4.41%	NC 1.77%	NC 7.22%	NC 16.86%	NC 17.98%	NC 4.02%		
	UAAL 7.07*	UAAL 7.05*	UAAL 3.43*	UAAL 10.96*	UAAL 22.53*	UAAL 15.40*	UAAL 8.73*		
	Total 12.63%	Total 11.46%	Total 5.20%	Total 18.18%	Total 39.39%	Total 33.38%	Total 12.75%		

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

	<i>General (Non-OCTA)</i>	<i>General (2.7% @ 55)</i>	<i>General (OCTA)</i>	<i>General (2.5% @ 55)</i>	<i>General (Rancho Santa Margarita)</i>	<i>General (2.0% @ 55, TCA)</i>	<i>General (2.0% @ 55 Cemetery, future service)</i>	<i>General (2.7% @ 55, OCFA)</i>
12/31/2004 ***,****	NC 9.55% UAAL <u>6.08</u> Total 15.63%	NC 11.74% UAAL <u>10.49</u> Total 22.23%	NC 11.71% UAAL <u>1.39</u> Total 13.10%	NC 10.80% UAAL <u>9.35</u> Total 20.15%	NC 10.53% UAAL <u>2.30</u> Total 12.83%	NC 11.45% UAAL <u>7.09</u> Total 18.54%	See General (Non-OCTA)	See General (2.7% @ 55)
12/31/2005 ***,****	NC 9.33% UAAL <u>5.00</u> Total 14.33%	NC 11.46% UAAL <u>11.10</u> Total 22.56%	NC 11.36% UAAL <u>3.60</u> Total 14.96%	NC 10.54% UAAL <u>10.33</u> Total 20.87%	NC 10.81% UAAL <u>1.92</u> Total 12.73%	NC 11.49% UAAL <u>5.87</u> Total 17.36%	See General (Non-OCTA)	See General (2.7% @ 55)
12/31/2006 ***,****,*****	NC 9.19% UAAL <u>5.31</u> Total 14.50%	NC 11.36% UAAL <u>10.84</u> Total 22.20%	NC 11.25% UAAL <u>4.77</u> Total 16.02%	NC 10.55% UAAL <u>10.79</u> Total 21.34%	N/A	NC 12.03% UAAL <u>6.01</u> Total 18.04%	NC 10.31% UAAL <u>5.00</u> Total 15.31%	NC 11.43% UAAL <u>12.81</u> Total 24.24%
12/31/2007	NC 8.92% UAAL <u>5.25</u> Total 14.17%	NC 11.24% UAAL <u>10.59</u> Total 21.83%	NC 11.26% UAAL <u>3.76</u> Total 15.02%	NC 10.54% UAAL <u>11.41</u> Total 21.95%	N/A	NC 12.60% UAAL <u>6.13</u> Total 18.73%	NC 10.79% UAAL <u>4.36</u> Total 15.15%	NC 11.48% UAAL <u>11.53</u> Total 23.01%
12/31/2008	NC 8.99% UAAL <u>7.06</u> Total 16.05%	NC 11.79% UAAL <u>13.00</u> Total 24.79%	NC 11.32% UAAL <u>5.94</u> Total 17.26%	NC 11.19% UAAL <u>13.01</u> Total 24.20%	N/A	NC 13.02% UAAL <u>5.72</u> Total 18.74%	NC 10.85% UAAL <u>7.05</u> Total 17.90%	NC 12.03% UAAL <u>12.59</u> Total 24.62%

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

	<i>Safety Law Enforcement</i>		<i>Safety Fire Authority</i>		<i>Safety Probation</i>	
12/31/2004 ***,****	NC	20.43%	NC	20.33%	NC	21.37%
	UAAL	<u>17.22</u>	UAAL	<u>13.52</u>	UAAL	<u>12.04</u>
	Total	37.65%	Total	33.85%	Total	33.41%
12/31/2005 ***,****	NC	20.15%	NC	20.04%	NC	20.76%
	UAAL	<u>17.18</u>	UAAL	<u>13.98</u>	UAAL	<u>11.18</u>
	Total	37.33%	Total	34.02%	Total	31.94%
12/31/2006 ****	NC	20.19%	NC	19.93%	NC	20.61%
	UAAL	<u>15.86</u>	UAAL	<u>13.50</u>	UAAL	<u>11.64</u>
	Total	36.05%	Total	33.43%	Total	32.25%
12/31/2007	NC	21.27%	NC	21.02%	NC	20.49%
	UAAL	<u>18.25</u>	UAAL	<u>17.22</u>	UAAL	<u>10.90</u>
	Total	39.52%	Total	38.24%	Total	31.39%
12/31/2008	NC	21.39%	NC	21.16%	NC	20.15%
	UAAL	<u>21.95</u>	UAAL	<u>21.94</u>	UAAL	<u>12.03</u>
	Total	43.34%	Total	43.10%	Total	32.18%

- * Includes an additional 0.50% of pay as required under an agreement between OCERS and the County.
- ** Excludes the cost of benefit improvements for certain employers adopted after December 31, 2003.
- *** After reflecting three-year phase-in of the total rate increase calculated in the 2004 and 2005 valuations for OCTA.
- **** Excludes contributions to RMBR/ARBA, if applicable.
- ***** Starting 12/31/2006, General (2.7% @ 55) excludes OCFA

Orange County Employees Retirement System

Exhibit III

SUMMARY OF ACTIVE MEMBERSHIP

Valuation Date	Number	Annual Salary	Annual Average Salary	Increase in Average Salary (%)
12/31/99				
General	17,801	\$738,956,477	\$41,512	(0.25)
Safety	<u>2,556</u>	<u>173,533,473</u>	67,893	6.42
Total	20,357	\$912,489,950	\$44,824	0.90
12/31/00				
General	18,382	\$809,054,612	\$44,016	6.04
Safety	<u>2,605</u>	<u>185,614,420</u>	71,256	4.95
Total	20,987	\$994,669,032	\$47,400	5.76
12/31/01				
General	19,653	\$921,057,200	\$46,860	6.46
Safety	<u>2,676</u>	<u>201,705,606</u>	75,372	5.78
Total	22,329	\$1,122,762,806	\$50,280	6.08
12/31/02				
General	19,002	\$976,660,649	\$51,398	9.68
Safety	<u>3,721</u>	<u>265,638,289</u>	71,389	(5.28)
Total	22,723	\$1,242,348,938	\$54,674	8.74
12/31/03				
General	19,023	\$985,534,535	\$51,808	0.80
Safety	<u>3,649</u>	<u>258,429,279</u>	70,822	(0.79)
Total	22,672	\$1,243,963,814	\$54,868	0.35
12/31/04				
General	18,928	\$1,003,061,000	\$52,993	2.29
Safety	<u>3,574</u>	<u>254,024,000</u>	71,076	0.36
Total	22,502	\$1,257,085,000	\$55,866	1.82
12/31/05				
General	18,816	\$1,011,214,000	\$53,742	1.41
Safety	<u>3,651</u>	<u>265,550,000</u>	72,733	2.25
Total	22,467	\$1,276,764,000	\$56,828	1.72
12/31/06				
General	19,129	\$1,049,095,000	\$54,843	2.05
Safety	<u>3,662</u>	<u>273,857,000</u>	74,783	2.82
Total	22,791	\$1,322,952,000	\$58,047	2.15
12/31/07				
General	19,803	\$1,156,684,000	\$58,410	6.50
Safety	<u>3,815</u>	<u>300,475,000</u>	78,761	5.32
Total	23,618	\$1,457,159,000	\$61,697	6.29
12/31/08				
General	19,795	\$1,238,077,000	\$62,545	7.08
Safety	<u>3,925</u>	<u>331,687,000</u>	84,506	7.29
Total	23,720	\$1,569,764,000	\$66,179	7.26

Excludes Deferred and Pending members.

Orange County Employees Retirement System

EXHIBIT IV

SUMMARY OF RETIRED MEMBERSHIP

Plan Year Ending	At Beginning of Year	Added to Rolls		Removed from Rolls		At End of Year	Annual Allowance (in 000's)	% Increase in Annual Allowance	Average Monthly Allowance
		Number	Annual Allowance (in 000's)*	Number	Annual Allowance (in 000's)				
1999	7,244	549	--	(256)	--	7,537	\$137,543	9.65	\$1,521
2000	7,537	618	--	(240)	--	7,915	149,003	8.33	1,569
2001	7,915	606	--	(305)	--	8,216	162,553	9.09	1,649
2002	8,216	727	--	(255)	--	8,688	186,286	14.60	1,787
2003	8,688	793	--	(402)	--	9,079	210,913	13.22	1,936
2004	9,079	638	\$26,663	(284)	(\$4,715)	9,433	232,861	10.41	2,057
2005	9,433	1,024	56,669	(239)	(4,081)	10,218	285,449	22.58	2,328
2006	10,218	965	46,950	(268)	(5,580)	10,915	326,819	14.49	2,495
2007	10,915	817	41,552	(311)	(6,596)	11,421	361,775	10.70	2,640
2008	11,421	658	38,298	(301)	(6,426)	11,778	393,647	8.81	2,785

* Includes COLA granted during the plan year.

Note: Annual allowances exclude RMBR and STAR COLA.

Orange County Employees Retirement System

Exhibit V

DEVELOPMENT OF ACTUARIAL AND VALUATION VALUE OF ASSETS

As of December 31, 2008

Plan Year Ending	Total Actual Market Return (net)	Expected Market Return (net)	Investment Gain/(Loss)	Deferred Factor	Deferred Return
2005	\$441,178,000	\$421,743,000	\$19,435,000	0.2	\$3,887,000
2006	\$787,330,000	\$463,198,000	\$324,132,000	0.4	\$129,653,000
2007	\$769,613,000	\$533,502,000	\$236,111,000	0.6	\$141,667,000
2008	\$(1,617,791,000)	\$603,959,000	\$(2,221,750,000)	0.8	\$(1,777,400,000)

(1) Total Deferred Return	\$(1,502,193,000)
(2) Net Market Value of Assets (Excludes \$126,683,000 in County Investment Account and \$24,345,000 in Prepaid Employer Contributions)	\$6,248,558,000
(3) Actuarial Value of Assets (2) – (1)	\$7,750,751,000
(4) Non-valuation Reserves	
(a) Unclaimed member deposit	\$1,163,000
(b) Medicare medical insurance reserve	\$99,000
(c) Retired member benefit reserve (RMBR)	<u>\$1,109,000</u>
(d) Subtotal	\$2,371,000
(5) Valuation Value of Assets (3) – (4)(d)	\$7,748,380,000
(6) Deferred Return Recognized in Each of the Next 4 Years	
(a) Amount recognized on 12/31/2009	\$(328,414,167)
(b) Amount recognized on 12/31/2010	(332,301,167)
(c) Amount recognized on 12/31/2011	(397,127,667)
(d) Amount recognized on 12/31/2012	<u>(444,350,000)</u>
(e) Subtotal (may not total exactly due to rounding)	\$(1,502,193,000)

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)
12/31/99	\$618,463	\$1,782,432	\$1,616,383	\$3,931,744	100	100	94.71
12/31/00	671,152	1,911,328	1,752,545	4,497,362	100	100	100.00
12/31/01	739,084	2,085,697	2,019,118	4,586,844	100	100	87.27
12/31/02	858,121	2,496,133	2,319,500	4,695,675	100	100	57.83
12/31/03	852,016	2,843,236	2,404,180	4,790,099	100	100	45.54
12/31/04	949,528	3,137,714	3,316,730	5,245,821	100	100	34.93
12/31/05	1,002,279	3,723,611	3,363,737	5,786,617	100	100	31.53
12/31/06	1,087,804	4,274,829	3,402,412	6,466,085	100	100	32.43
12/31/07	1,215,825	4,803,585	3,819,276 ⁽¹⁾	7,288,900	100	100	33.24 ⁽¹⁾
12/31/08	1,376,514	5,211,893	4,272,308	7,748,380	100	100	27.15

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

Orange County Employees Retirement System

Exhibit VII

ACTUARIAL METHODS AND ASSUMPTIONS

Section 1 - Post – Retirement Mortality Rates:

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

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

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

Section 2 - Termination Rates Before Retirement:

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

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

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Section 2 - Termination Rates Before Retirement (Continued):

Disability Incidence Rates:

Age	Rate (%)			
	Disability			
	General All Other ⁽¹⁾	General OCTA ⁽²⁾	Safety - Law & Fire ⁽³⁾	Safety - Probation ⁽³⁾
20	0.00	0.00	0.03	0.00
25	0.00	0.00	0.08	0.06
30	0.03	0.03	0.16	0.16
35	0.08	0.08	0.32	0.20
40	0.13	0.28	0.52	0.20
45	0.17	0.49	0.72	0.20
50	0.19	0.64	0.98	0.20
55	0.23	0.88	2.24	0.20
60	0.34	1.30	3.60	0.08

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

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

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

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Section 2 - Termination Rates Before Retirement (Continued):

Termination Rates:

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

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

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

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

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

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Retirement Rates:

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

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

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Retirement Age and Benefit for Deferred Vested Members:	<p>For deferred vested members, we make the following retirement age assumptions:</p> <p style="padding-left: 40px;">General Age: 57</p> <p style="padding-left: 40px;">Safety Age: 52</p> <p>We assume that 30% of future General and Safety deferred vested members are reciprocal. For reciprocals, we assume 4.50% compensation increases per annum.</p>
Liability Calculation for Current Deferred Vested Members:	<p>Liability for a current deferred vested member is calculated based on salary, service, and eligibility for reciprocal benefit as provided by the Retirement System. For those members without salary and/or service information, we assumed a refund of account balance.</p>
Future Benefit Accruals:	<p>1.0 year of service per year of employment. There is no assumption to anticipate conversion of unused sick leave at retirement.</p>
Unknown Data for Members:	<p>Same as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male.</p>
Percent Married:	<p>80% of male members and 50% of female members are assumed to be married at retirement or time of pre-retirement death.</p>
Age of Spouse:	<p>Female (or male) four years younger (or older) than spouse.</p>
Net Investment Return:	<p>7.75%; net of investment and administrative expenses.</p>
Employee Contribution Crediting Rate:	<p>5.00%, compounded semi-annually.</p>
Consumer Price Index:	<p>Increase of 3.50% per year, retiree COLA increases due to CPI subject to a 3.0% maximum change per year.</p>

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Salary Increases:

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

Annual Payoffs Assumptions:

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

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

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

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Actuarial Value of Assets:	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual and the expected return on a market value basis, and is recognized over a five-year period.
Valuation Value of Assets:	The Valuation Value of Assets is the Actuarial Value of Assets reduced by the value of the non-valuation reserves.
Actuarial Cost Method:	<p>Entry Age Normal Actuarial Cost Method. Entry Age is the current age minus Vesting Credit. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salaries, with Normal Cost determined as a level percentage of individual salary, as if the current benefit accrual rate had always been in effect. The outstanding balance of the December 31, 2004 unfunded Actuarial Accrued Liability is amortized over a declining 26-year period. Any increases or decreases in unfunded actuarial accrued liability that arise in future years due to actuarial gains or losses will be amortized over separate 15-year periods. Any increases or decreases in UAAL due to changes in actuarial assumptions are amortized over separate 30-year periods.</p> <p>Please note that for Probation members who have prior benefit service in another General OCERS plan, the normal cost rate for the current plan is calculated assuming their Entry Age is the date they entered service with their current plan.</p>

Orange County Employees Retirement System

Exhibit VIII

SUMMARY OF MAJOR PLAN PROVISIONS

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

Membership Eligibility:	Membership with OCERS begins with the day of employment in an eligible position by the County or a participating employer.
General Plans	
<i>2.5% @ 55 Plans</i>	<i>(Orange County Sanitation District and Law Library⁽¹⁾)</i>
<i>Plan G</i>	General members hired before September 21, 1979.
<i>Plan H</i>	General members hired on or after September 21, 1979.
<i>2.7% @ 55 Plans</i>	<i>(City of San Juan Capistrano, Orange County Employees except bargaining unit AFSCME members, Orange County Superior Court, Orange County Local Agency Formation Commission⁽¹⁾, Orange County Employees Retirement System⁽²⁾, Children and Family Commission⁽³⁾ and Orange County Fire Authority)</i>
<i>Plan I</i>	General members hired before September 21, 1979.
<i>Plan J</i>	General members hired on or after September 21, 1979.
	⁽¹⁾ <i>Improvement is prospective only for service after June 23, 2005.</i>
	⁽²⁾ <i>Improvement for management employees is prospective only for service after June 30, 2005.</i>
	⁽³⁾ <i>Improvement is prospective only for service after December 22, 2005.</i>
<i>2.0% @ 55 Plans</i>	<i>(Transportation Corridor Agency, Cemetery District - future service effective December 7, 2007)</i>
<i>Plan M</i>	General members hired before September 21, 1979.
<i>Plan N</i>	General members hired on or after September 21, 1979.
<i>All Other General Employers</i>	
<i>Plan A</i>	General members hired before September 21, 1979.
<i>Plan B</i>	General members hired on or after September 21, 1979.
Safety Plans	
<i>Law Enforcement, Fire Protection and Probation Members</i>	
<i>Plan E</i>	Safety members hired before September 21, 1979.
<i>Plan F</i>	Safety members hired on or after September 21, 1979.

Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Final Compensation for Benefit Determination:

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

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

Service: Years of service. (Yrs)

Service Retirement Eligibility:

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

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

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

Benefit Formula:

General Plans

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

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

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

Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

<i>Plan J (§31676.19)</i>	50	(2.00% x FAS3 x Yrs)
<i>Tier 2</i>	55	(2.70% x FAS3 x Yrs)
	60	(2.70% x FAS3 x Yrs)
	62	(2.70% x FAS3 x Yrs)
	65	(2.70% x FAS3 x Yrs)
2.0% @ 55	Retirement Age	Benefit Formula
<i>Plan M (§31676.16)</i>	50	(1.43% x FAS1 x Yrs)
<i>Tier 1</i>	55	(2.00% x FAS1 x Yrs)
	60	(2.34% x FAS1 x Yrs)**
	62	(2.62% x FAS1 x Yrs)**
	65	(2.62% x FAS1 x Yrs)**
<i>Plan N (§31676.16)</i>	50	(1.43% x FAS3 x Yrs)
<i>Tier 2</i>	55	(2.00% x FAS3 x Yrs)
	60	(2.26% x FAS3 x Yrs)
	62	(2.37% x FAS3 x Yrs)
	65	(2.43% x FAS3 x Yrs)***

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

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

<i>All Other General Members</i>	Retirement Age	Benefit Formula
<i>Plan A (§31676.12)</i>	50	(1.34% x FAS1 x Yrs)
<i>Tier 1</i>	55	(1.77% x FAS1 x Yrs)
	60	(2.34% x FAS1 x Yrs)
	62	(2.62% x FAS1 x Yrs)
	65	(2.62% x FAS1 x Yrs)
<i>Plan B (§31676.1)</i>	50	(1.18% x FAS3 x Yrs)
<i>Tier 2</i>	55	(1.49% x FAS3 x Yrs)
	60	(1.92% x FAS3 x Yrs)
	62	(2.09% x FAS3 x Yrs)
	65	(2.43% x FAS3 x Yrs)

Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Safety Plans

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

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

Ordinary Disability:

General Plans

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

Eligibility

Five years of service. (§31720)

Benefit Formula

Plans A, G, I, and M:
 1.8% per year of service. If the benefit does not exceed one-third of Final Compensation, the service is projected to 62, but the total benefit cannot be more than one-third of Final Compensation.
 (§31727.1)

Plans B, H, J and N:
 1.5% per year of service. If the benefit does not exceed one-third of Final Compensation, the service is projected to 65, but the total benefit cannot be more than one-third of Final Compensation.
 (§31727)

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).

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

Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Line-of-Duty Disability:

All Members

Eligibility

No age or service requirements. (§31720)

Benefit Formula

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

Pre-Retirement Death:

All Members

Eligibility

None.

Benefit

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

Death in line of duty

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

OR

Vested Members

Eligibility

Five years of service.

Benefit

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

Death After Retirement:

All Members

Service or

Ordinary Disability Retirement

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

Line-of-Duty Disability

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

Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Withdrawal Benefits:	
<i>Less than Five Years of Service</i>	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)
<i>Five or More Years of Service</i>	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:	
<i>Plan A</i>	
<i>Basic</i>	Provide for an average annuity at age 60 equal to 1/200 of FAS1. (§31621.5)
<i>Cost-of-Living</i>	Provide for 50% of future Cost-of-Living costs.
<i>Plan B</i>	
<i>Basic</i>	Provide for an average annuity at age 60 equal to 1/120 of FAS3. (§31621)
<i>Cost-of-Living</i>	Provide for 50% of future Cost-of-Living costs.
<i>Plans G, H, I and J</i>	
<i>Basic</i>	Provide for an average annuity at age 55 equal to 1/100 of FAS3 (FAS1 for Plans G and I). (§31621.8)
<i>Cost-of-Living</i>	Provide for 50% of future Cost-of-Living costs.
<i>Plan M</i>	
<i>Basic</i>	Provide for an average annuity payable at age 60 equal to 1/120 of FAS1. (§31621).
<i>Cost of Living</i>	Provide for 50% of future Cost-of-Living costs.

Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Plan N

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

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

Safety Plans:

Plans E

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

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

Plans F

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

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

Other Information:

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

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 Actuarial Accrued Liabilities During Years Ended December 31, Resulting from Differences Between Assumed Experience & Actual Experience					
Type of Activity	Gains (or Losses) Per Year				
	2004	2005	2006	2007	2008
Retirements	--	--	--	--	\$(54,911)
Pay Increases	\$41,647	\$(16,544)	\$(21,679)	\$(136,417)	(97,561)
Investment Income	50,536	39,536	112,612	176,681	(257,752)
Other	<u>(61,019)</u>	<u>(65,468)</u>	<u>(39,155)</u>	<u>(43,538)</u>	<u>(17,159)</u>
Gain (or Loss) During Year From Experience	\$31,164	\$(42,476)	\$51,778	\$(3,274)	\$(427,383)
<i><u>Nonrecurring Items:</u></i>					
Method and Procedure Changes	(106,630)	15,335	--	--	--
Plan Amendments and Assumption Changes	<u>(762,372)</u>	--	--	<u>(237,147)</u>	<u>(115,764)</u>
Composite Gain (or Loss) During Year	\$(837,838)	\$(27,141)	\$51,778	\$(240,421)	\$(543,147)

Orange County Employees Retirement System

Exhibit X

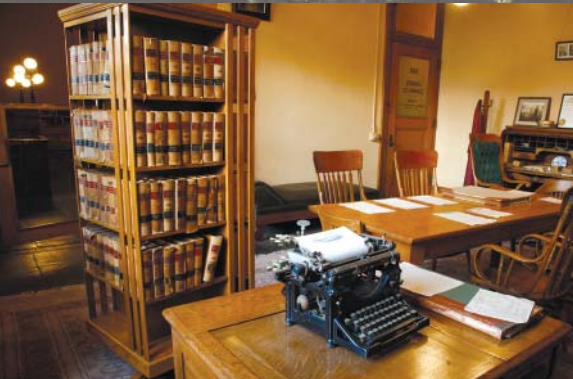
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date December 31	Valuation Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c)
2003	\$4,790,099,000	\$6,099,433,000	\$1,309,334,000	78.53%	\$1,243,964,000	105.25%
2004	5,245,821,000	7,403,972,000	2,158,151,000	70.85%	1,257,085,000	171.68%
2005	5,786,617,000	8,089,627,000	2,303,010,000	71.53%	1,276,764,000	180.38%
2006	6,466,085,000	8,765,045,000	2,298,960,000	73.77%	1,322,952,000	173.78%
2007	7,288,900,000	9,838,686,000 ⁽¹⁾	2,549,786,000 ⁽¹⁾	74.08% ⁽¹⁾	1,457,159,000	174.98% ⁽¹⁾
2008	7,748,380,000	10,860,715,000	3,112,335,000	71.34%	1,569,764,000	198.27%

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

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SECTION

5

> STATISTICAL

Statistical Section Review

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

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

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

Schedule of Changes in Plan Net Assets

1999 – 2008

Years Ended December 31	1999	2000	2001	2002	2003
Additions					
Employer Contributions	\$17,591,000	\$15,561,000	\$12,060,000	\$13,289,000	\$124,243,000
Member Contributions	\$55,693,000	\$61,179,000	\$68,635,000	\$77,917,000	\$81,581,000
Net Investment Income	\$684,649,000	\$25,814,000	\$(151,438,000)	\$(270,654,000)	\$788,036,000
Net Securities Lending	\$1,069,000	\$925,000	\$1,580,000	\$1,119,000	\$872,000
Miscellaneous		\$18,545,000		\$347,000	\$178,000
Total Additions	\$759,002,000	\$122,024,000	\$(69,163,000)	\$(177,982,000)	\$994,910,000
Deductions					
Total Benefit Expenses	\$147,249,000	\$158,981,000	\$169,274,000	\$186,031,000	\$216,685,000
Administrative Expenses	\$6,094,000	\$6,631,000	\$7,146,000	\$8,279,000	\$8,848,000
Total Deductions	\$153,343,000	\$165,612,000	\$176,420,000	\$194,310,000	\$225,533,000
Change in Plan Net Assets	\$605,659,000	\$(43,588,000)	\$(245,583,000)	\$(372,292,000)	\$769,377,000

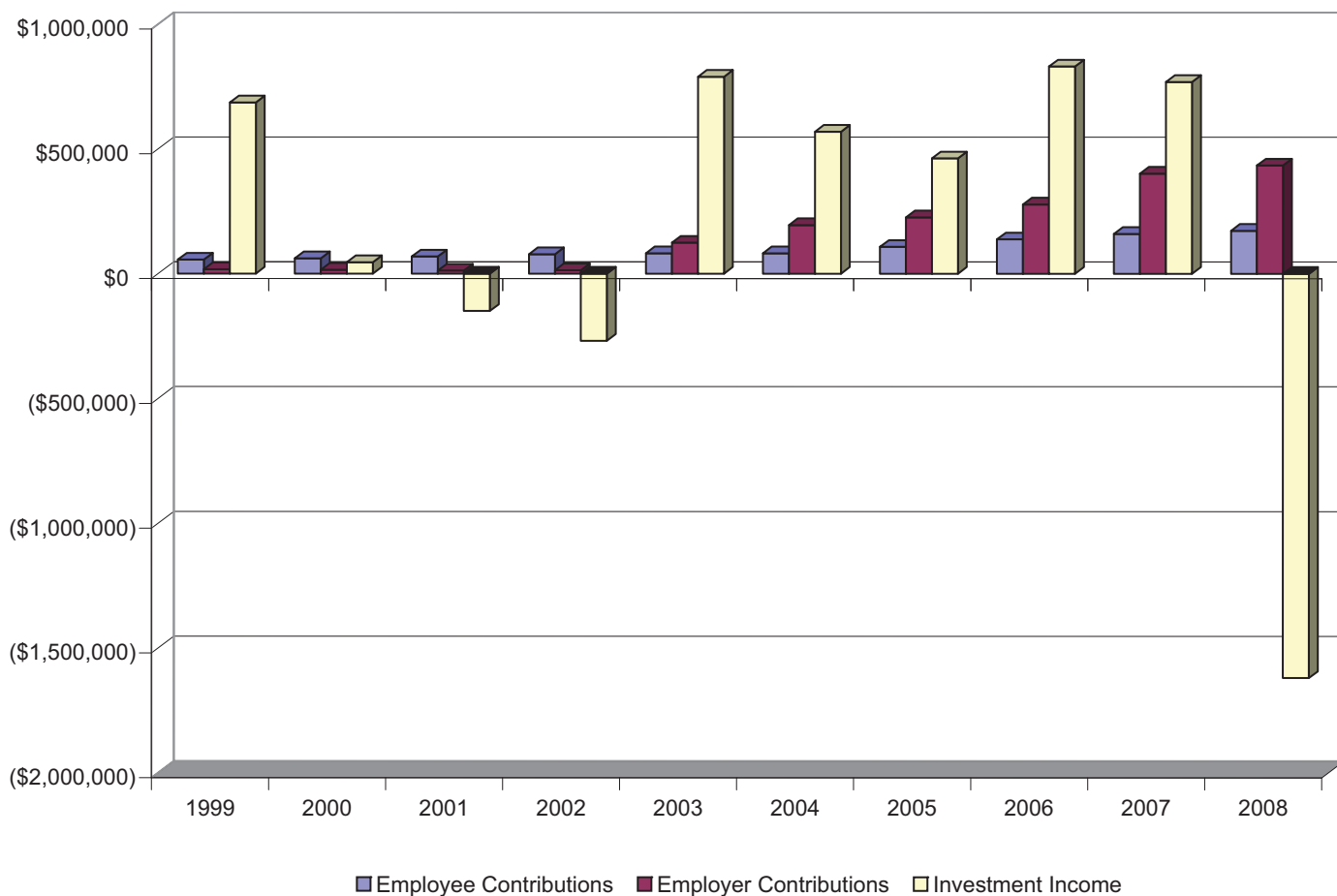
Years Ended December 31	2004	2005	2006	2007	2008
Additions					
Employer Contributions	\$194,430,000	\$226,129,626	\$277,368,459	\$401,037,097	\$433,911,069
Member Contributions	\$81,931,000	\$107,543,611	\$137,581,505	\$159,475,621	\$172,290,680
Net Investment Income	\$568,027,000	\$460,431,356	\$828,147,188	\$763,117,288	\$(1,627,177,419)
Net Securities Lending	\$857,000	\$1,425,286	\$1,316,925	\$3,451,533	\$6,145,253
Miscellaneous	\$116,000	\$123,476	\$735,898	\$1,773,522	\$1,249,441
Total Additions	\$845,361,000	\$795,653,355	\$1,245,149,975	\$1,328,855,061	\$(1,013,580,976)
Deductions					
Total Benefit Expenses	\$238,529,000	\$264,927,495	\$318,665,929	\$353,861,061	\$419,501,905
Administrative Expenses	\$9,463,000	\$9,952,870	\$17,145,308	\$10,381,060	\$11,006,229
Total Deductions	\$247,992,000	\$274,880,365	\$335,811,237	\$364,242,121	\$430,508,134
Change in Plan Net Assets	\$597,369,000	\$520,772,990	\$909,338,738	\$964,612,940	\$(1,444,089,110)

Schedule and Graph of Revenues by Source

(Dollars in Thousands)

1999 – 2008

Years Ended December 31	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Employee Contributions	\$55,693	\$61,179	\$68,635	\$77,917	\$81,581	\$81,931	\$107,544	\$137,582	\$159,476	\$172,291
Employer Contributions	\$17,591	\$15,561	\$12,060	\$13,289	\$124,243	\$194,430	\$226,130	\$277,368**	\$401,037	\$433,911
Investment Income*	\$685,718	\$45,284	(\$149,858)	(\$269,188)	\$789,086	\$569,000	\$461,980	\$830,200	\$768,342	(\$1,619,782)
Total	\$759,002	\$122,024	(\$69,163)	(\$177,982)	\$994,910	\$845,361	\$795,654	\$1,245,150	\$1,328,855	(\$1,013,580)



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

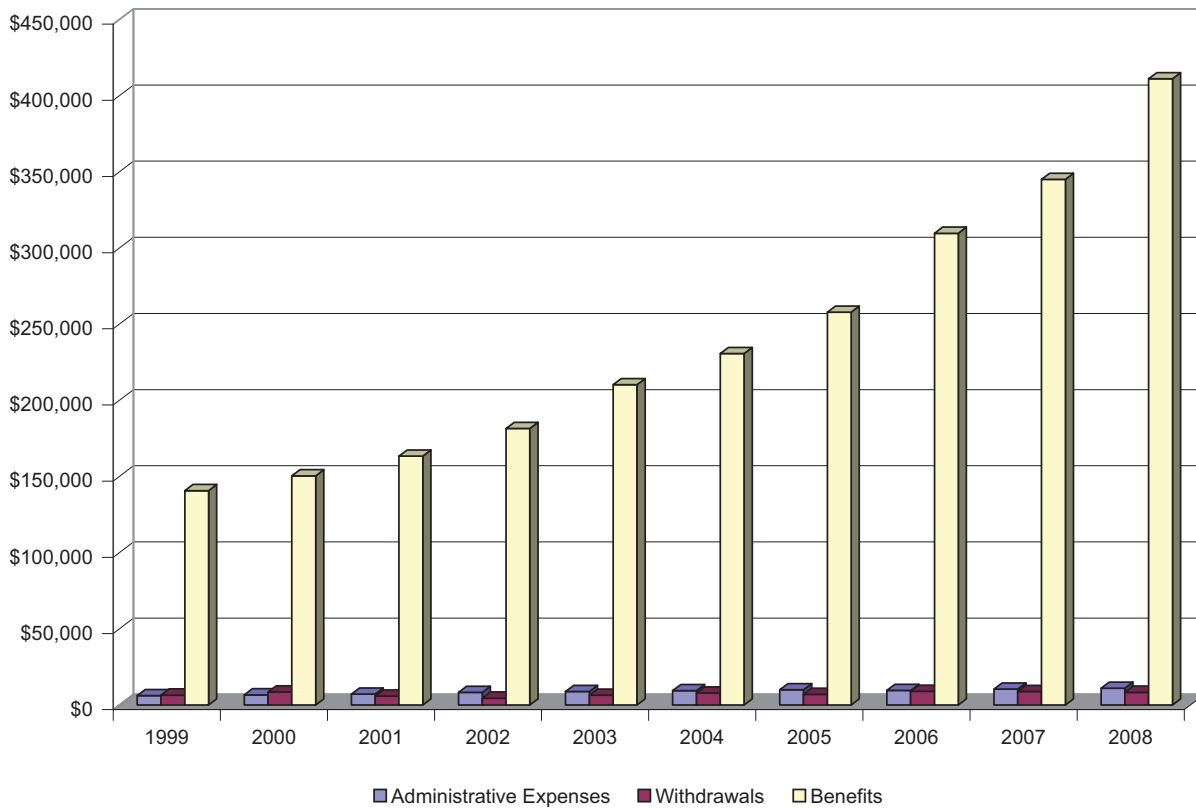
** Prepaid Unearned Contribution not netted (Note G)

Schedule and Graph of Expenses by Type

(Dollars in Thousands)

1999 – 2008

Years Ended December 31	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Administrative Expenses	\$6,094	\$6,631	\$7,146	\$8,279	\$8,848	\$9,463	\$9,953	\$9,600	\$10,381	\$11,006
Withdrawals	\$6,513	\$8,515	\$5,896	\$4,482	\$6,412	\$7,845	\$6,999	\$8,970	\$8,799	\$8,359
Benefits	\$140,736	\$150,466	\$163,378	\$181,549	\$210,273	\$230,684	\$257,929	\$309,696	\$345,062	\$411,143
Total	\$153,343	\$165,612	\$176,420	\$194,310	\$225,533	\$247,992	\$274,881	\$328,266	\$364,242	\$430,508

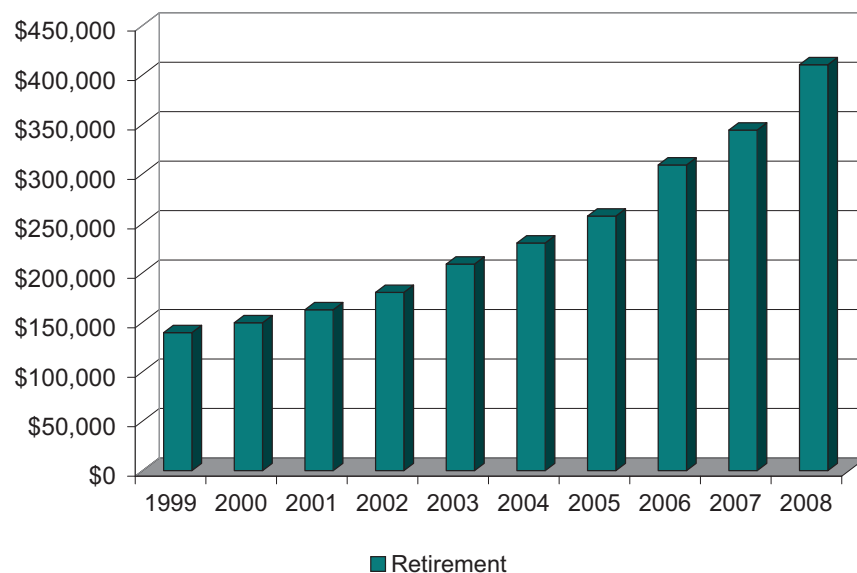
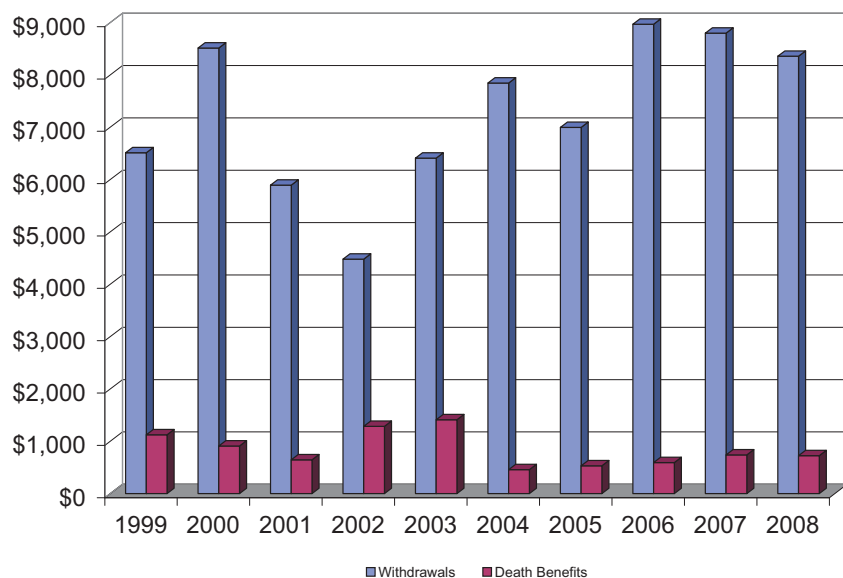


Schedule and Graphs of Benefit Expenses by Type

(Dollars in Thousands)

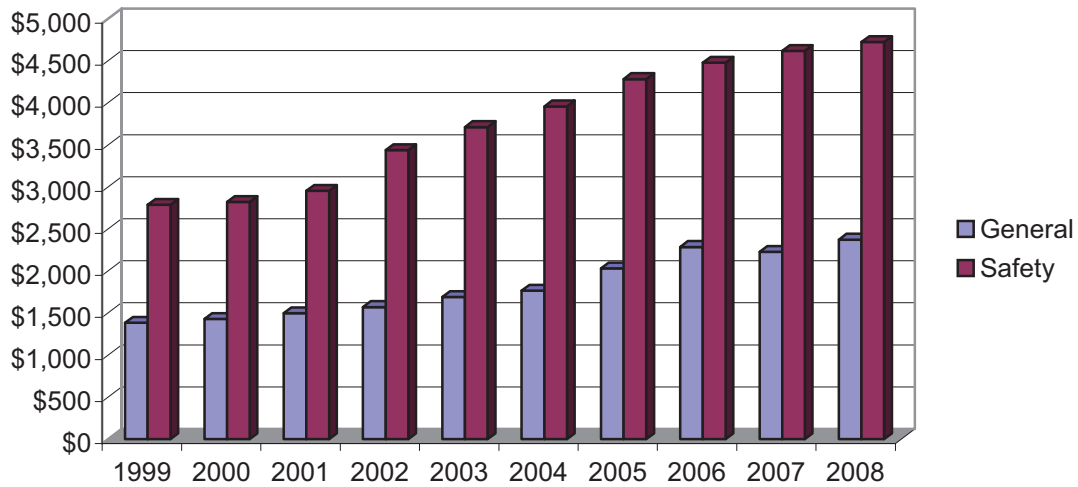
1999 – 2008

Years Ended December 31	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Withdrawals	\$6,513	\$8,515	\$5,896	\$4,482	\$6,412	\$7,845	\$6,999	\$8,970	\$8,799	\$8,359
Retirement	\$139,611	\$149,555	\$162,732	\$180,263	\$208,861	\$230,225	\$257,397	\$309,102	\$344,321	\$410,417
Death Benefits	\$1,125	\$911	\$646	\$1,286	\$1,412	\$459	\$532	\$594	\$741	\$726
Total	\$147,249	\$158,981	\$169,274	\$186,031	\$216,685	\$238,529	\$264,928	\$318,666	\$353,861	\$419,502



Schedule and Graph of Average Monthly Pension Check 1999 – 2008

Years Ended December 31	1999	2000	2001	2002	2003	2004	2005	2006*	2007	2008
General Members	\$1,385	\$1,429	\$1,498	\$1,572	\$1,691	\$1,766	\$2,031	\$2,286	\$2,228	\$2,373
Safety	\$2,788	\$2,822	\$2,955	\$3,438	\$3,713	\$3,959	\$4,283	\$4,479	\$4,618	\$4,724



*Year 2006 includes health grant

Schedule of Average Pension Benefit Payments By Years of Service

Retirement Effective Dates	Years of Service						
	0-4	5-9	10-14	15-19	20-24	25-29	30 & Over
PERIOD 1/1/99 –12/31/99							
Average Monthly Pension Benefits	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	NA	NA	NA	NA	NA	NA	NA
Number of Retired Members	NA	NA	NA	NA	NA	NA	NA
PERIOD 1/1/00 –12/31/00							
Average Monthly Pension Benefits	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	NA	NA	NA	NA	NA	NA	NA
Number of Retired Members	NA	NA	NA	NA	NA	NA	NA
PERIOD 1/1/01 –12/31/01							
Average Monthly Pension Benefits	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	NA	NA	NA	NA	NA	NA	NA
Number of Retired Members	NA	NA	NA	NA	NA	NA	NA
PERIOD 1/1/02 –12/31/02							
Average Monthly Pension Benefits	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	NA	NA	NA	NA	NA	NA	NA
Number of Retired Members	NA	NA	NA	NA	NA	NA	NA
PERIOD 1/1/03 –12/31/03							
Average Monthly Pension Benefits	\$457	\$599	\$1,109	\$1,695	\$2,566	\$4,136	\$5,628
Average Final Average Salary	\$3,123	\$3,476	\$4,160	\$4,453	\$4,821	\$5,636	\$6,311
Number of Retired Members	14	28	92	88	106	100	116
PERIOD 1/1/04 –12/31/04							
Average Monthly Pension Benefits	\$328	\$811	\$1,134	\$1,793	\$3,075	\$4,550	\$6,183
Average Final Average Salary	\$2,086	\$3,697	\$4,267	\$4,536	\$5,451	\$6,188	\$7,064
Number of Retired Members	19	37	77	69	70	61	87
PERIOD 1/1/05 –12/31/05							
Average Monthly Pension Benefits	\$503	\$731	\$1,496	\$2,316	\$3,101	\$4,760	\$5,877
Average Final Average Salary	\$3,253	\$4,181	\$4,585	\$5,223	\$5,227	\$6,374	\$6,567
Number of Retired Members	19	43	129	125	150	169	282
PERIOD 1/1/06 –12/31/06							
Average Monthly Pension Benefits	\$448	\$788	\$1,608	\$2,389	\$3,368	\$4,898	\$6,112
Average Final Average Salary	\$3,770	\$4,031	\$4,952	\$5,198	\$5,668	\$6,474	\$6,789
Number of Retired Members	15	46	129	167	129	174	155
PERIOD 1/1/07 –12/31/07							
Average Monthly Pension Benefits	\$368	\$817	\$1,593	\$2,407	\$3,366	\$5,626	\$6,401
Average Final Average Salary	\$2,213	\$4,206	\$5,065	\$5,239	\$5,714	\$7,219	\$7,223
Number of Retired Members	16	45	110	111	100	145	104
PERIOD 1/1/08 –12/31/08							
Average Monthly Pension Benefits	\$321	\$876	\$1,784	\$2,451	\$3,793	\$5,323	\$7,687
Average Final Average Salary	\$2,539	\$4,166	\$5,512	\$5,330	\$6,484	\$6,864	\$8,424
Number of Retired Members	19	31	83	90	78	91	97

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

Schedule of Benefit Recipients by Type of Benefit December 31, 2008

Monthly Benefit	1	2	3	4	5	6	7	Total
\$001-500	644	125	4	9	16	62	48	908
\$501-1,000	1,059	231	3	51	38	61	147	1,590
\$1,001-1,500	1,160	144	53	100	23	37	91	1,608
\$1,501-2,000	952	106	170	50	19	30	32	1,359
\$,2001-2,500	818	74	246	25	25	19	17	1,224
\$2,501-3,000	682	48	168	10	15	16	12	951
\$3,001-3,500	576	27	123	6	11	1	5	749
\$3,501-4,000	436	17	101	3	4	8	10	579
\$4,001-4,500	390	19	43	1	3	4	1	461
\$4,501-5,000	346	6	28	0	2	0	5	387
\$5,001-5,500	320	4	16	2	1	0	0	343
\$5,501-6,000	259	5	12	0	3	0	1	280
\$6,001-6,500	225	1	8	0	0	0	1	235
\$6,501-7,000	202	2	6	0	1	0	1	212
Over \$7,000	855	4	28	1	4	0	0	892
Total	8,924	813	1,009	258	165	238	371	11,778

Definition of Terms

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

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

Type of Retirement Benefit

1. Normal Retirement for age and service
2. Survivor Payment - normal retirement
3. Service-connected Disability Retirement
4. Nonservice-connected Disability Retirement
5. Survivor Payment - disability retirement
6. DRO (Domestic Relations Order payees)
7. Active Deaths

Source: OCERS Pension Gold Information System

Schedule of Benefit Recipients by Option Selected December 31, 2008

Monthly Benefit	JSURV	SL100	SL60	SLIFE	SLR60	UNMJS	Total Payees
\$001-500	138	0	2	146	1	621	908
\$501-1,000	232	0	15	290	8	1,045	1,590
\$1,001-1,500	229	1	16	285	3	1,074	1,608
\$1,501-2,000	238	0	3	247	1	870	1,359
\$2,001-2,500	228	1	1	227	0	767	1,224
\$2,501-3,000	211	0	2	166	0	572	951
\$3,001-3,500	198	2	0	118	0	431	749
\$3,501-4,000	150	3	1	99	0	326	579
\$4,001-4,500	126	0	0	88	0	247	461
\$4,501-5,000	133	1	0	60	0	193	387
\$5,001-5,500	152	0	0	69	0	122	343
\$5,501-6,000	115	0	0	62	0	103	280
\$6,001-6,500	112	0	1	44	0	78	235
\$6,501-7,000	102	0	0	38	0	72	212
Over \$7,000	435	0	0	124	0	333	892
Total	2,799	8	41	2,063	13	6,854	11,778

Definition of Options

JSURV: Contingent joint survivor.

SL100: Single life with 100% joint survivor adjustment.

SL60: Single life with 60% adjustment.

SLIFE: Lifetime payment.

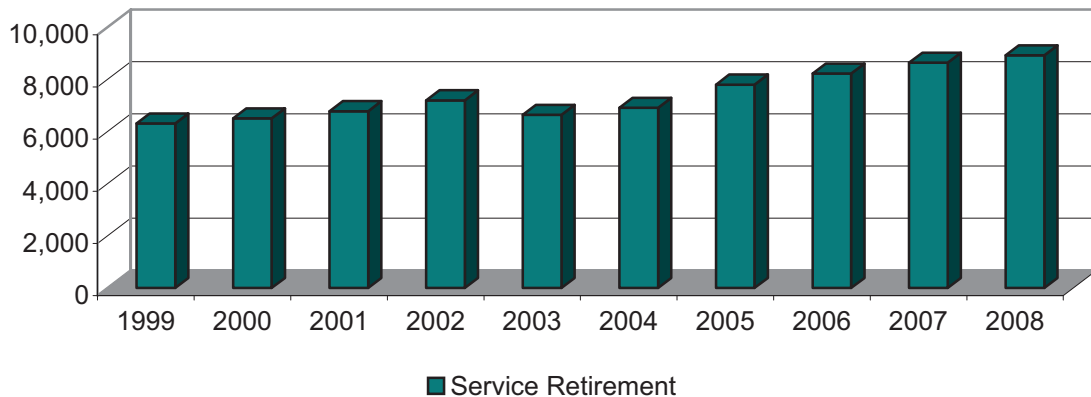
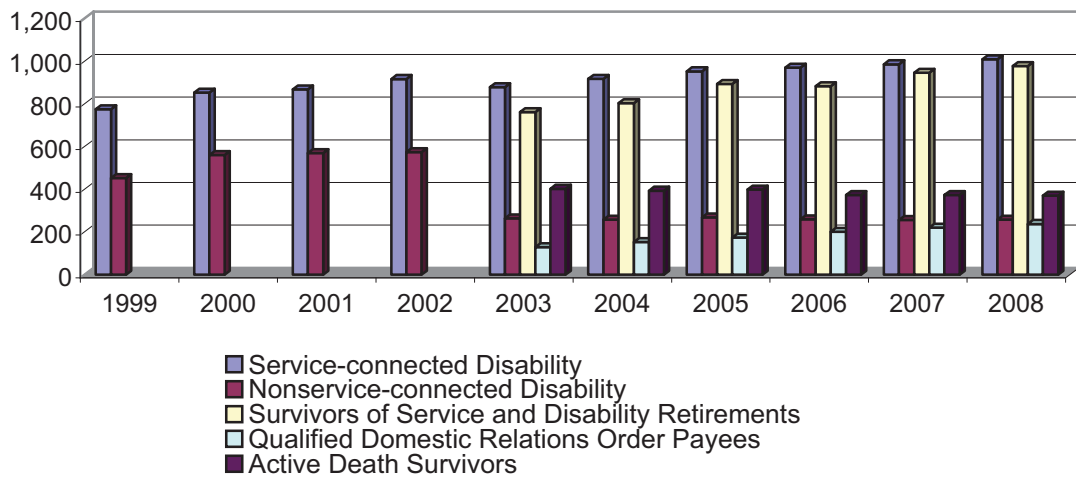
SLR60: Single life with 60% adjustment with reduction.

UNMJS: Unmodified with joint survivor.

Source: OCERS Pension Gold Information System

Schedule and Graphs of Benefit Recipients 1999 – 2008

Years Ended December 31	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Service-connected Disability	775	853	868	917	879	918	953	986	986	1,009
Nonservice-connected Disability	453	561	570	574	264	258	269	269	257	258
Service Retirement	6,309	6,501	6,778	7,197	6,642	6,906	7,799	8,403	8,636	8,924
Survivors of Service and Disability Retirements	N/A	N/A	N/A	N/A	762	804	894	1,310	946	978
Qualified Domestic Relations Orders	N/A	N/A	N/A	N/A	129	153	174	203	221	238
Active Death Survivors	N/A	N/A	N/A	N/A	403	394	399	11	374	371
Total*	7,537	7,915	8,216	8,688	9,079	9,433	10,488	11,182	11,420	11,778



Source: OCERS Pension Gold Information System

N/A: Detailed information not available. Payment amounts were included in Service Retirement Benefits.

* Certain reclassifications have been made.

Schedule of Average Retirement Age 1999 – 2008

Years Ended December 31	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General	N/A	N/A	N/A	N/A	60.68	61.06	60.03	60.31	60.71	60.51
Safety	N/A	N/A	N/A	N/A	56.02	54.56	55.20	54.17	54.60	54.21

Schedule of Average Years of Service at Retirement 1999 – 2008

Years Ended December 31	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General	N/A	N/A	N/A	N/A	22.29	22.11	24.79	22.67	21.85	22.33
Safety	N/A	N/A	N/A	N/A	25.74	24.55	24.01	23.63	25.62	26.04

Schedule of Beneficiaries Receiving a Pension 1999 – 2008

Years Ended December 31	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General	N/A	N/A	N/A	N/A	1,068	1,089	1,175	1,200	1,190	1,214
Safety	N/A	N/A	N/A	N/A	97	109	118	121	130	135
Total	N/A	N/A	N/A	N/A	1,165	1,198	1,293	1,321	1,320	1,349

Schedule of Active and Deferred Members 1999 – 2008

Years Ended December 31	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General										
Active	N/A	N/A	N/A	N/A	19,006	18,935	18,812	19,101	19,803	19,795
Deferred	N/A	N/A	N/A	N/A	1,546	1,763	2,213	2,911	3,353	3,560
Safety										
Active	N/A	N/A	N/A	N/A	3,645	3,567	3,653	3,649	3,815	3,925
Deferred	N/A	N/A	N/A	N/A	119	147	196	267	293	321
Total	N/A	N/A	N/A	N/A	24,316	24,412	24,874	25,928	27,264	27,601

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

Schedule of Participating Employers 2003 – 2008*

Years Ended December 31		Total	Orange County	OCTA	Superior Court	Fire Authority	Sanitation District	City of San Juan Capistrano	Transportation Corridor Agency	All Other Sponsors
1999	Number of Covered Employees	20,357	-	-	-	-	-	-	-	-
	Percentage to Total System	100.00%	-	-	-	-	-	-	-	-
2000	Number of Covered Employees	20,987	-	-	-	-	-	-	-	-
	Percentage to Total System	100.00%	-	-	-	-	-	-	-	-
2001	Number of Covered Employees	22,329	-	-	-	-	-	-	-	-
	Percentage to Total System	100.00%	-	-	-	-	-	-	-	-
2002	Number of Covered Employees	22,723	-	-	-	-	-	-	-	-
	Percentage to Total System	100.00%	-	-	-	-	-	-	-	-
2003	Number of Covered Employees	(note 1) 22,651	18,538	2,021	(note 2)	1,057	572	94	115	254
	Percentage to Total System	100.00%	81.84%	8.92%	-	4.67%	2.53%	0.41%	0.51%	1.13%
2004	Number of Covered Employees	22,502	16,908	2,048	1,458	1,061	593	102	92	240
	Percentage to Total System	100.00%	75.14%	9.10%	6.48%	4.72%	2.64%	0.45%	0.41%	1.07%
2005	Number of Covered Employees	22,465	16,776	1,976	1,617	1,066	602	90	94	244
	Percentage to Total System	100.00%	74.68%	8.80%	7.20%	4.75%	2.68%	0.40%	0.42%	1.09%
2006	Number of Covered Employees	22,750	16,971	1,940	1,726	1,092	603	91	86	241
	Percentage to Total System	100.00%	74.60%	8.53%	7.59%	4.80%	2.65%	0.40%	0.38%	1.06%
2007	Number of Covered Employees	23,618	17,702	2,012	1,845	1,116	598	93	86	166
	Percentage to Total System	100.00%	74.95%	8.52%	7.81%	4.73%	2.53%	0.39%	0.36%	0.70%
2008	Number of Covered Employees	23,720	17,798	2,022	1,812	1,121	615	93	93	166
	Percentage to Total System	100.00%	75.03%	8.52%	7.64%	4.73%	2.59%	0.39%	0.39%	0.70%

Note 1 Includes Active & Inactive members.

Note 2 Orange County Superior Court became a separate agency in 2004.

* Data for years 1999 to 2002 is not available in our current system.

Source: OCERS Pension Gold Information System

History of Actuarial Assumption Rates for the Period January, 1945 – December, 2008

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

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

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

Source: The Segal Company





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