Orange County Employees Retirement System
Orange County, California

Comprehensive Annual Financial Report

For The Year Ended December 31, 2009

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Orange County, California

Comprehensive Annual Financial Report

For the Year Ended December 31, 2009

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

Jayne Ritchey
Computer Graphics Specialist

Orange County Employees Retirement System
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Cover photo: Robert Kinsler, OCERS

Additional photography courtesy of OC Sanitation District, Chet Frohlich Photography; OC Fire Authority, photographer Peggy Delaney; John Wayne Airport, Stephen Francis Photography; OCTA; and CEO/Media Relations

Photo on next page courtesy of OC Sanitation District, Chet Frohlich Photography

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Orange County Fire Authority open house visitors – Peggy Delaney, photographer

SECTION 1

> INTRODUCTION

LETTER OF TRANSMITTAL

RETIREMENT SYSTEM

Serving the Active and Retired Members of:

City of San Juan Capistrano

County of Orange

Orange County Cemetery District

Orange County Children & Families Commission

Orange County Department of Education (closed to new members)

Orange County Employees Retirement System

Orange County Fire Authority

Orange County In-Home Supportive Services Public Authority

Orange County Local Agency Formation Commission

Orange County Public Law Library

Orange County Sanitation District

Orange County Transportation Authority

Orange County Vector Control District (closed to new members)

Superior Court of California, County of Orange

Transportation Corridor Agency

UCI Medical Center (closed to new members)

June 9, 2010

Board of Retirement
Orange County Employees Retirement System
2223 East Wellington Avenue, Suite 100
Santa Ana, CA 92701

Dear Board Members:

It is with great pleasure that we submit the Comprehensive Annual Financial Report (CAFR) of the Orange County Employees Retirement System (OCERS) for the calendar year ended December 31, 2009, the System's 65th year of operation.

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

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

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. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present both the financial position and OCERS operating results.

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 INVESTMENT SUMMARY

OCERS established its investment policies in accordance with State and Federal laws for the systematic administration of the fund. The fund's investment policies are designed to maximize the investment return while taking prudent risks. OCERS fund is managed on a total return basis, and the Board's Investment Policy has been designed to produce a total long-term (above inflation) return of 7.75%. In 2009, OCERS had a total fund return of 18.52%. Prudent risk-taking is warranted within the context of overall portfolio diversification while allowing sufficient flexibility in the management oversight process to capture investment opportunities as they occur. The asset mix serves to diversify the

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Telephone (714) 558-6200 Fax (714) 558-6234

Board of Retirement
June 9, 2010

portfolio by minimizing portfolio volatility, while the Board continues its effort on finding ways to add value in the investment fund while focusing on risk management.

In 2009, OCERS experienced an increase of $1,157,488,682 in plan net assets. Details of the components of this increase are included in the Statement of Changes in Plan Net Assets on page 21.

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 2009 funded ratio did decline slightly as a result of new actuarial assumptions adopted by the OCERS Board to better reflect recent and expected experience. For the year 2009, the funded ratio of the System was 68.77%. While those modified assumptions should contribute to more stable contributions going forward, market losses in 2008 will affect rates for some time.

In 2009, the total additions to plan net assets increased by $2,643,492,407. This amount includes member and employer contributions of $549,903,557, net investment income of $1,073,857,961, net security lending income of $3,989,290 and net commission recapture income and other of $2,160,623. This difference was attributable mainly to an $875,994,246 increase 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 21.

Deductions for 2009, excluding investment management and security lending fees, were $472,422,749, which represented an increase of $41,914,615 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.

ACCOUNTING SYSTEM AND REPORTS

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 controls are adequate and that the accompanying statements, schedules and tables are fairly presented. 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

Board of Retirement
June 9, 2010

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 2009, 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.

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, 2008 (page 5).

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

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

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

The Public Pension Coordinating Council (PPCC) granted its 2009 achievement award to OCERS. This award is in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.

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, 2008

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
_2009_

Presented to

Orange County Employees Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

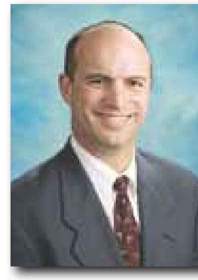
Alan H. Winkle
Program Administrator

MEMBERS OF THE BOARD OF RETIREMENT

As of December 31, 2009

Robert A. Griffith
Chair
Elected by Retired Members

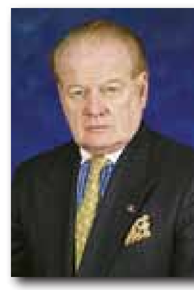
Patti Gorczyca
Vice Chair
Appointed by the Board of Supervisors



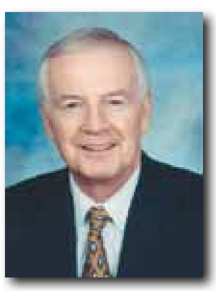
Russell Baldwin
Elected by General Members

Tony Bedolla
Alternate Elected by Safety Members

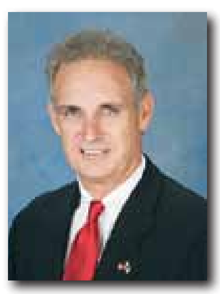
Frank E. Eley
Elected by General Members



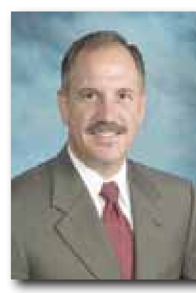
Thomas E. Flanigan
Appointed by the Board of Supervisors



Reed L. Royalty
Appointed by the Board of Supervisors



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



Richard A. White, Jr.
Elected by Safety Members

ORGANIZATION OF OCERS

Board of Retirement

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

Executive

This department consists of the Chief Executive Officer (CEO) who implements and executes policies promulgated by the Board of Retirement. Two assistant CEOs (one of whom is also General Counsel), an Internal Auditor, and the 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.

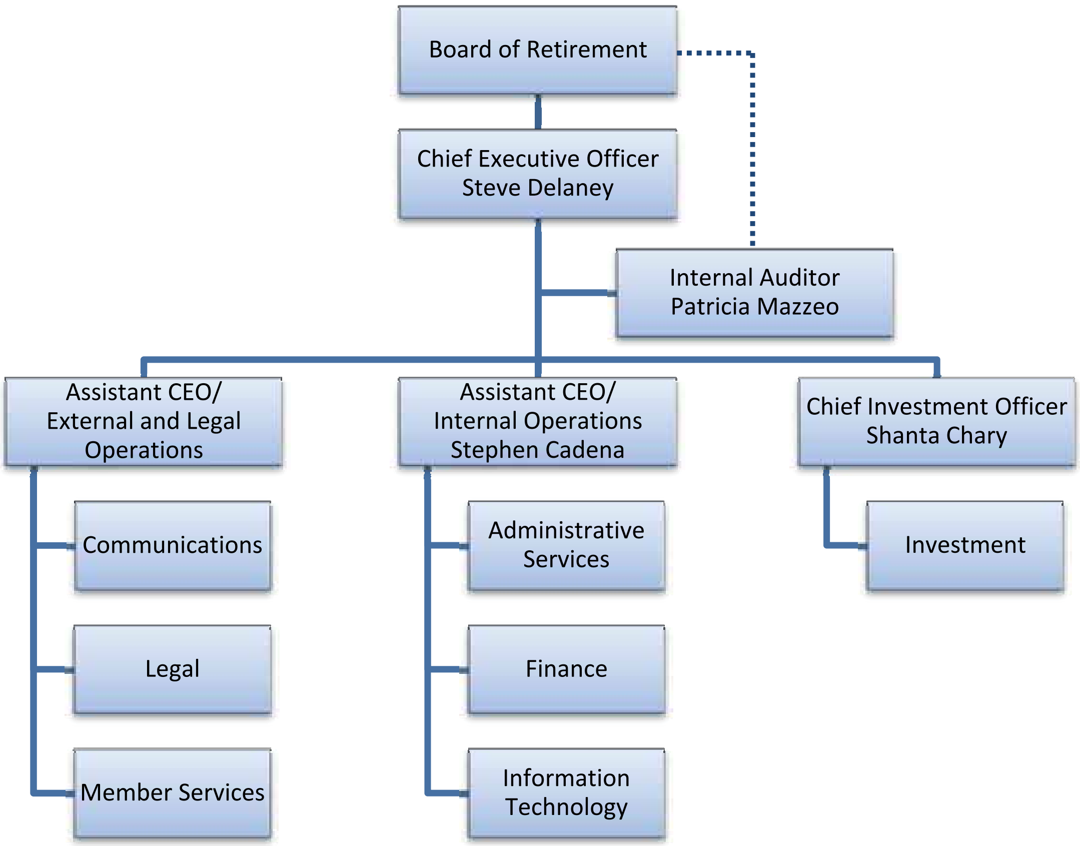
The Administrative Services Division is responsible for providing the contract administration, purchasing, and human resources functions of OCERS.

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, 2009



List of Professional Consultants
As of December 31, 2009

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

Hanson Bridgett LLP

Custodian

State Street California

Note: List of Investment Managers is located on pages 64 and 65 of the Investment Section of this report.

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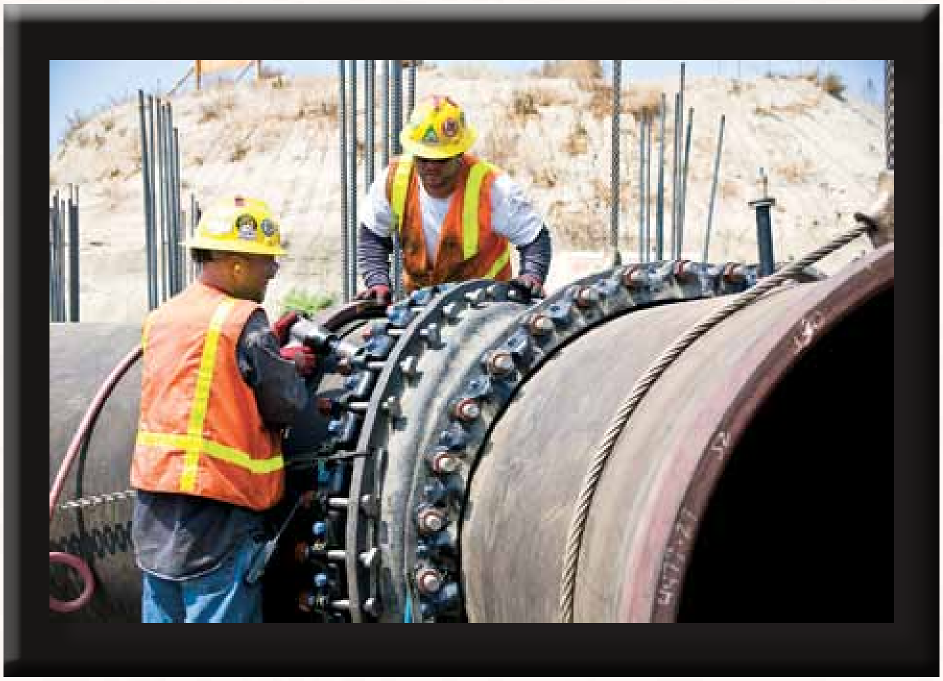
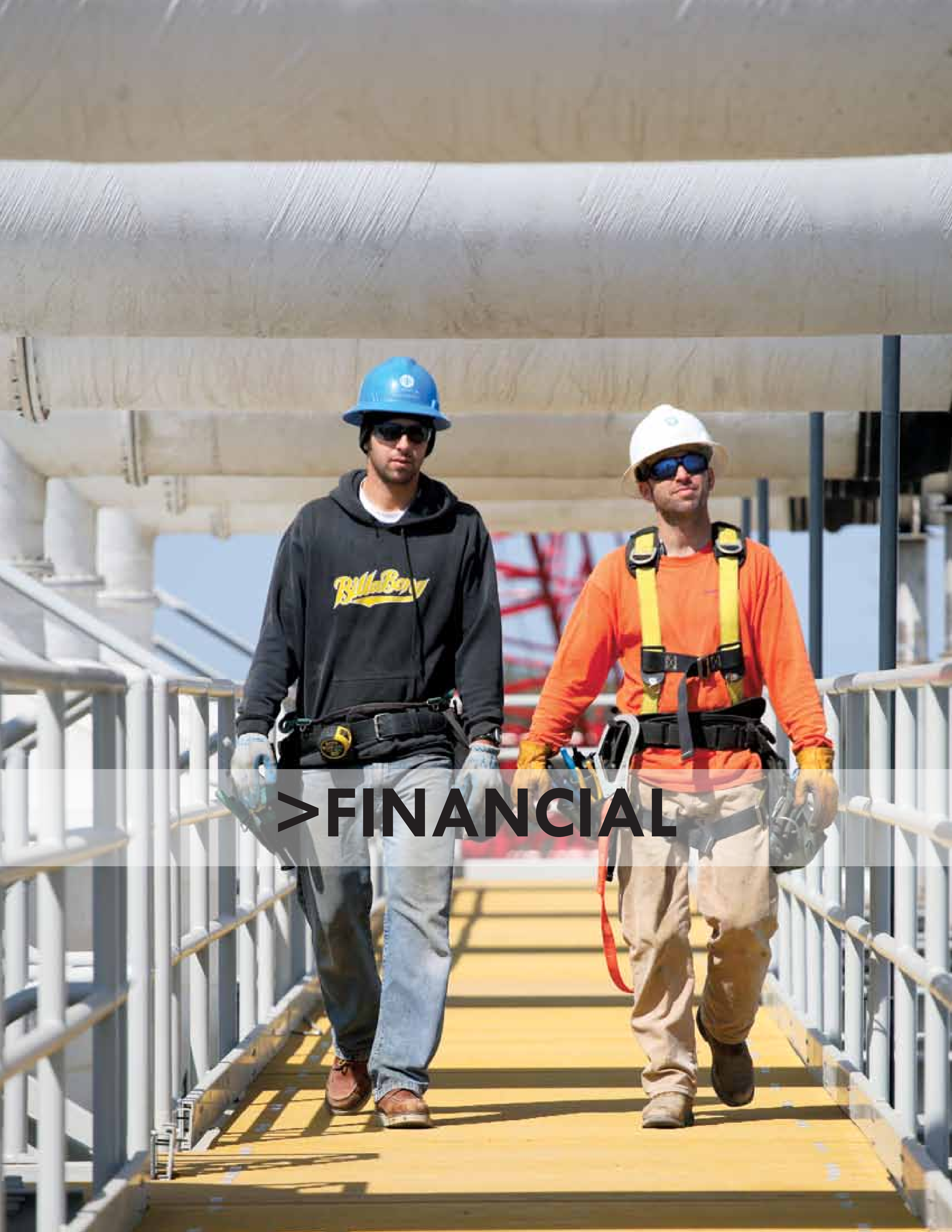
OC Sanitation District, Chet Frohlich Photography



SECTION 2

>FINANCIAL



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

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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560 Central Avenue
Shafter, California 93263
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8365 N. Fresno Street, Suite 440
Fresno, California 93720
Tel 559-476-3592 Fax 559-476-3593

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of plan net assets of the Orange County Employees' Retirement System (OCERS) as of December 31, 2009, and the related statement of changes in plan net assets for the year then ended. These basic financial statements are the responsibility of management of OCERS. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 2009 OCERS adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

In our opinion, the basic 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, 2009, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information designated as other supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of OCERS. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other data included in this report, designated as the investment, actuarial and statistical sections in the table of contents, has 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 9, 2010, 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
ACCOUNTANCY CORPORATION

Bakersfield, California
June 9, 2010

Management's Discussion and Analysis

OCERS' management is pleased to provide this overview and analysis of the financial activities of the Orange County Employees Retirement System (OCERS) for the year ended December 31, 2009. 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 20. In addition, please refer to the Notes to the Basic Financial Statements beginning on page 22, Required Supplementary Information beginning on page 42, and the Other Supplementary Information beginning on page 47.

Financial Highlights:

- Net Assets Held in Trust for Pension Plan Benefits and Health Care Fund, as reported in the Statement of Plan Net Assets, totaled $7,614,601,725, an increase of $1,157,488,682 from the prior year, primarily as a result of the increases in the fair market value of investments and decrease in contributions.
- Total Additions, as reported in the Statement of Changes in Plan Net Assets for 2009 were a positive $1,629,911,431. The major significant portions of the additions are the appreciation in the fair value of investments, investment income, and the decreases in contributions.
- Total Deductions, as reported in the Statement of Changes in Plan Net Assets, were $472,422,749. This represents an increase of $41,914,615 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, 2009, indicates that the funding status (the ratio of system assets to system liabilities) is 68.77%.

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 20): 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. The statement represents the net assets held in trust for both pension benefits and health care benefits.

2. Statement of Changes in Plan Net Assets (page 21): 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 the Basic Financial Statements (pages 22-40): 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 42-45): 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 47-51), the Investment Section (pages 54-65), the Actuarial Section (pages 68-102) and the Statistical Section (pages 106-117) provide additional detailed financial, investment, actuarial, and statistical data supporting information reported in the Basic Financial Statements.

Plan Net Assets:	31-Dec 2009	31-Dec 2008	31-Dec 2007	Increase/ (Decrease) Amount 2009-2008	Increase/ (Decrease) Amount 2008-2007
Current Assets	$2,377,230,536	$1,346,285,451	$1,217,235,852	$1,030,945,085	$129,049,599
Investments	7,189,701,267	6,530,253,448	8,209,388,255	659,447,819	(1,679,134,807)
Capital Assets	1,761,280	2,335,161	2,877,877	(573,881)	(542,716)
Total Assets	9,568,693,083	7,878,874,060	9,429,501,984	1,689,819,023	(1,550,627,924)
Total Liabilities	1,954,091,358	1,421,761,018	1,528,299,832	532,330,340	(106,538,814)
Total Plan Net Assets	**$7,614,601,725**	**$6,457,113,042**	**$7,901,202,152**	**$1,157,488,683**	**($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 2009, including prepaid employer contributions, were $549,903,557 (See page 21).

Overall additions to plan net assets were $1,629,911,431 due primarily to market conditions.

Additions to Plan Net Assets:	Years Ended December 31			Increase/ (Decrease) Amount	Increase/ (Decrease) Amount
	2009	2008	2007	2009-2008	2008-2007
Employer Contributions	$377,975,938	$433,911,069	$401,037,097	($55,935,131)	$32,873,972
Employee Contributions	171,927,619	172,290,680	159,475,621	(363,061)	12,815,059
Investment Gains (Losses)	1,080,007,874	(1,619,782,725)	768,342,343	2,699,790,599	(2,388,125,068)
Total Additions (Declines)	**$1,629,911,431**	**($1,013,580,976)**	**$1,328,855,061**	**$2,643,492,407**	**($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, 2009, totaled $472,422,749. (See page 21).

Deductions from Plan Net Assets :	Years Ended December 31			Increase/ (Decrease) Amount	Increase/ (Decrease) Amount
	2009	2008	2007	2009-2008	2008-2007
Benefits Paid	$452,477,875	$411,143,304	$345,061,652	$41,334,571	$66,081,652
Withdrawals/Refunds	9,051,853	8,358,601	8,799,409	693,252	(440,808)
Administrative Expenses	10,893,021	11,006,229	10,381,060	(113,208)	625,169
Total Deductions	**$472,422,749**	**$430,508,134**	**$364,242,121**	**$41,914,615**	**$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 June 30, 2009 and December 31, 2009 on a bi-annual basis.
Reserve balances are as follows:

Reserve Analysis:	Years Ended December 31			Increase/ (Decrease) Amount	Increase/ (Decrease) Amount
	2009	2008	2007	2009-2008	2008-2007
Active Members Reserve	$1,647,498,031	$1,481,322,126	$1,288,934,409	$166,175,905	$192,387,717
Retired Members Reserve	5,013,224,757	4,576,291,583	3,885,657,762	436,933,174	690,633,821
Employer Advanced Reserve	388,028,208	1,264,818,644	1,221,716,666	(876,790,436)	43,101,978
Total Unclaimed Reserve	849,725	933,401	1,225,418	(83,676)	(292,017)
Unreserved Net Assets	453,366,073	(963,003,630)	1,424,132,577	1,416,369,703	(2,387,136,207)
Retirement Fund	7,502,966,794	6,360,362,124	7,821,666,832	1,142,604,670	(1,461,304,708)
Health Benefit Reserves	111,634,931	96,750,918	79,535,320	14,884,013	17,215,598
Net Total Reserve	**$7,614,601,725**	**$6,457,113,042**	**$7,901,202,152**	**$1,157,488,683**	**($1,444,089,110)**

Investment and Economic Summary:

In 2009, 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.

For calendar year 2009, OCERS' fund was up 18.52%. Over the trailing three-year period, the fund was up 1.34%, and for the five-year return OCERS was up 5.16%, below the actuarial earnings assumption rate of 7.75%. During calendar year 2009, there were increased returns in both domestic and international equities. For 2009, the Russell 3000 index was up 28.43%, while MSCI EAFE index was up 31.78%. 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 -18.96% and -8.65% respectfully.

Capital Assets:

OCERS' capital assets decreased from $2,335,161 to $1,761,280 (net of accumulated depreciation and amortization). This investment in capital assets includes equipment, furniture and computer imaging system installation. The current year depreciation was $573,881 (see page 26).

Changes in OCERS' Plan Net Assets:

Positive market returns were the primary factors in an increase in net assets by $1,157,488,682, thereby accounting for an increase over the prior year. A 10-year history of the Changes in Plan Net Assets can be found in the Statistical section of this CAFR on page 106. 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) Amount	Increase/ (Decrease) Amount
	2009	2008	2007	2009-2008	2008-2007
Contributions Received	$549,903,557	$606,201,749	$560,512,718	($56,298,192)	$45,689,031
Net Investment Gains (Losses)	1,080,007,874	(1,619,782,725)	768,342,343	2,699,790,599	(2,388,125,068)
Participants' Benefits and Death Benefits	(452,477,875)	(411,143,304)	(345,061,652)	(41,334,571)	(66,081,652)
Withdrawals and Refunds	(9,051,853)	(8,358,601)	(8,799,409)	(693,252)	440,808
Admin Expenses	(10,893,021)	(11,006,229)	(10,381,060)	113,208	(625,169)
Increases (Decreases) in Plan Net Assets	**$1,157,488,682**	**($1,444,089,110)**	**$964,612,940**	**$2,601,577,792**	**($2,408,702,050)**

Other Post Employment Benefits (OPEB):

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 reports the medical health trust in its financial statements. The Net Assets Held in Trust for Pension Benefits, which are the assets less the liabilities, reflects the funds available for future use. The Statement of Changes in Assets and Liabilities for OPEB are reported under the Health Care Fund.

The Schedule of Funding Progress for the OPEB Plan, required supplementary schedules, include historical trend information about the actuarially funded status of the OPEB plan and the progress made in accumulating sufficient assets to pay benefits when due. The other required supplementary schedules, the Schedule of Employer Contributions-OPEB Plan, present historical trend information about the annual required contributions of the employer and the actual contributions made. No pension assets were transferred to the OPEB fund in fiscal years 2009 or 2008.

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 East Wellington Avenue, Suite 100
Santa Ana, CA 92701

Statement of Plan Net Assets

	Pension Fund	Health Care Fund	Dec. 31, 2009	Pension Fund	Health Care Fund	Dec. 31, 2008
ASSETS						
Cash and Short-Term Investments						
Cash and Cash Equivalents (Note E)	$462,437,643		$462,437,643	$391,536,129		$391,536,129
Securities Lent (Note F)	1,148,890,268		1,148,890,268	295,811,164		295,811,164
Total Cash and Short-Term Investments	**1,611,327,911**		**1,611,327,911**	**687,347,293**		**687,347,293**
Receivables						
Investment Income	21,615,277		21,615,277	25,851,830		25,851,830
Securities Sales	256,213,432		256,213,432	597,702,197		597,702,197
Contributions	19,346,438		19,346,438	33,539,627		33,539,627
Other Receivables	468,727,478		468,727,478	1,844,504		1,844,504
Total Receivables	**765,902,625**		**765,902,625**	**658,938,158**		**658,938,158**
Investments at Fair Value (Notes B-2 and F)						
Domestic Equity Securities	1,738,794,564	$16,800,209	1,755,594,773	1,265,362,482	$26,770,155	1,292,132,637
International Equity Securities	1,909,348,002	21,466,934	1,930,814,936	1,005,648,682	26,770,155	1,032,418,837
U.S. Govt. Debt Securities and Corp. Bonds	1,745,184,478	17,733,554	1,762,918,032	2,338,332,489	26,770,155	2,365,102,644
Foreign Bonds	540,417,297	7,466,760	547,884,057	738,491,533		738,491,533
Real Estate	541,162,160	9,333,449	550,495,609	604,802,996		604,802,996
Alternative Investments	603,159,835	20,533,589	623,693,424	480,864,348		480,864,348
Medical Trust Investments		18,300,436	18,300,436		16,440,453	16,440,453
Total Investments	**7,078,066,336**	**111,634,931**	**7,189,701,267**	**6,433,502,530**	**96,750,918**	**6,530,253,448**
Capital Assets, Net (Note B-3)	1,761,280		1,761,280	2,335,161		2,335,161
Total Assets	**9,457,058,152**	**111,634,931**	**9,568,693,083**	**7,782,123,142**	**96,750,918**	**7,878,874,060**
LIABILITIES						
Securities Lent (Note F)	1,148,890,268		1,148,890,268	295,811,164		295,811,164
Securities Purchased	733,925,065		733,925,065	1,065,023,875		1,065,023,875
Unearned Contributions (Note C)	20,026,863		20,026,863	24,350,723		24,350,723
Retiree Payroll Payable	38,377,517		38,377,517	27,311,866		27,311,866
Other	12,871,645		12,871,645	9,263,390		9,263,390
Total Liabilities	**1,954,091,358**		**1,954,091,358**	**1,421,761,018**		**1,421,761,018**
NET ASSETS HELD IN TRUST for PENSION PLAN BENEFITS	**$7,502,966,794**	**$111,634,931**	**$7,614,601,725**	**$6,360,362,124**	**$96,750,918**	**$6,457,113,042**

(See accompanying notes to financial statements beginning on page 22.)

Statement of Changes in Plan Net Assets

	Pension Fund	Health Care Fund	Dec. 31, 2009	Pension Fund	Health Care Fund	Dec. 31, 2008
ADDITIONS						
Contributions (Note C)*						
Employer	$338,386,973	$39,588,965	$377,975,938	$360,209,434	$73,701,635	$433,911,069
Employee	171,927,619		171,927,619	172,290,680		172,290,680
Total Contributions	**510,314,592**	**39,588,965**	**549,903,557**	**532,500,114**	**73,701,635**	**606,201,749**
Investment Income:						
Net Appreciation/(Depreciation) in Fair Value of Investments (Note F)	874,358,442	1,635,804	875,994,246	(1,732,716,601)	(4,277,553)	(1,736,994,154)
Interest on:						
Domestic and Foreign Bonds	88,201,409		88,201,409	80,934,193		80,934,193
Cash w/County Treasurer (Note E)	37,534		37,534	478,470		478,470
Interest Income - Medical Trust		13,571,326	13,571,326		(18,681,840)	(18,681,840)
Domestic Dividends	9,974,126		9,974,126	16,660,817		16,660,817
International Dividends	31,937,938		31,937,938	46,619,973		46,619,973
Real Estate Income	36,003,007		36,003,007	32,036,790		32,036,790
Alternative Investments	53,011,796		53,011,796	(10,150,021)		(10,150,021)
Total Investment Income	**1,093,524,252**	**15,207,130**	**1,108,731,382**	**(1,566,136,379)**	**(22,959,393)**	**(1,589,095,772)**
Less Investment Expenses	(34,819,023)		(34,819,023)	(38,034,670)		(38,034,670)
Less Investment Exp-Medical		(54,398)	(54,398)		(46,977)	(46,977)
Net Investment Income	**1,058,705,229**	**15,152,732**	**1,073,857,961**	**(1,604,171,049)**	**(23,006,370)**	**(1,627,177,419)**
Securities Lending Revenue (Note F)	4,863,911		4,863,911	7,550,741		7,550,741
Less Securities Lending Fees (Note F)	(874,621)		(874,621)	(1,405,488)		(1,405,488)
Net Securities Lending Revenue	**3,989,290**		**3,989,290**	**6,145,253**		**6,145,253**
Commission Recapture-Net/Other	2,160,623		2,160,623	1,249,441		1,249,441
Total Additions	**1,575,169,734**	**54,741,697**	**1,629,911,431**	**(1,064,276,241)**	**50,695,265**	**(1,013,580,976)**
DEDUCTIONS						
Participants' Benefits	(411,959,227)	(39,857,685)	(451,816,912)	(376,937,417)	(33,479,668)	(410,417,085)
Death Benefits	(660,963)		(660,963)	(726,219)		(726,219)
Member Withdrawals and Refunds	(9,051,853)		(9,051,853)	(8,358,601)		(8,358,601)
Administrative Expenses (Note G)	(10,893,021)		(10,893,021)	(11,006,229)		(11,006,229)
Total Deductions	**(432,565,064)**	**(39,857,685)**	**(472,422,749)**	**(397,028,466)**	**(33,479,668)**	**(430,508,134)**
NET INCREASE/(DECREASE)	**1,142,604,670**	**14,884,012**	**1,157,488,682**	**(1,461,304,707)**	**17,215,597**	**(1,444,089,110)**
NET ASSETS HELD IN TRUST FOR PENSION PLAN BENEFITS						
Beginning of Year	6,360,362,124	96,750,918	6,457,113,042	7,821,666,831	79,535,321	7,901,202,152
End of Year	**$7,502,966,794**	**$111,634,931**	**$7,614,601,725**	**$6,360,362,124**	**$96,750,918**	**$6,457,113,042**

* Employer contributions reflect cash payments only. Please see Note C on page 29 for amounts transferred from the County Investment Account.
(See accompanying notes to financial statements beginning on page 22.)

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 a 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

a. The annual Cost-of-Living Adjustment (COLA) is intended to adjust retirement payments to account for inflation or deflation. 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 COLA.

b. 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, 2009 and 2008:

Active and Deferred Personnel

	December 31	
	2009	2008
Active General Members		
County and Agencies Paid by County Payroll	15,926	16,644
Outside Agencies	2,947	3,151
Subtotal - Active General Members	18,873	19,795
Active Safety Members		
County and Agencies Paid by County Payroll	2,927	3,090
Outside Agencies	833	835
Subtotal - Active Safety Members	3,760	3,925
Total Active Members	22,633	23,720
Deferred (General & Safety) Members		
Regular	3,226	3,002
Employment with Other Agencies (Reciprocity)	868	879
Total Deferred Members	4,094	3,881
Total Active and Deferred Personnel	**26,727**	**27,601**

Benefit Recipients

	December 31, 2009			December 31, 2008		
	General	Safety	Total	General	Safety	Total
Service Retirement	8,138	1,184	9,322	7,800	1,124	8,924
Survivors	768	79	847	742	70	812
Alternate Payees QDRO	150	62	212	148	57	205
Subtotal	9,056	1,325	10,381	8,690	1,251	9,941
Service-connected Disability	613	409	1,022	613	396	1,009
Survivors	68	30	98	59	28	87
Alternate Payees QDRO	7	25	32	7	22	29
Subtotal	688	464	1,152	679	446	1,125
Nonservice-connected Disability	238	14	252	243	15	258
Survivors	85	1	86	77	1	78
Alternate Payees QDRO	4	0	4	4	0	4
Subtotal	327	15	342	324	16	340
Active Death Survivors	332	36	368	336	36	372
Total Benefit Recipients	**10,403**	**1,840**	**12,243**	**10,029**	**1,749**	**11,778**

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 and amortization. Depreciation and amortization 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 and amortization of capital assets at December 31, 2009 and 2008, were as follows:

	2009	2008
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	(4,291,760)	(3,717,879)
Total Capital Assets Net of Depreciation/Amortization	**$ 1,761,280**	**$ 2,335,161**

Depreciation expense for the year ended 2009 and 2008 was $573,881 and $542,715, respectively.

4. Implementation of New Accounting Pronouncements

The provisions of Governmental Accounting Standards Board (GASB) Statement No. 52, Land and other Real Estate held as Investments by Endowments, is to be implemented as of December 31, 2009, however, this provision is not applicable to the Orange County Employees Retirement System.

GASB Statements No. 55 and 56 were also implemented as of December 31, 2009. Statement No. 55, incorporating the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature, did not cause any real changes to the preparation process of the financial statements and did not have a significant impact on the financial statements, thus the Board does not expect this statement will result in a change in current practice. Statement No. 56, incorporating into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards, did not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. Thus, this provision did not cause any real changes to the preparation process of the financial statements and did not have a significant impact on the financial statements.

For the prior fiscal year ended December 31, 2008, the System implemented the provisions of GASB's Statement No. 50, Pension Disclosures – the objective of which is to amend note disclosure and required supplementary information (RSI) standards of GASB Statements No. 25, Financial Reporting for Defined Benefit Pension Plans, and No. 27, Accounting for Pensions by State and Local Governmental Employers, to conform with applicable changes adopted in Statements No. 43, Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans, and No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions. GASB Statement No. 50 is intended to improve the transparency and decision usefulness of reported information about pensions by state and local governmental plans and employers.

For defined benefit pension plans, GASB Statement No. 50 requires disclosure of the funded status of the plan as of the most recent actuarial valuation date in the Notes to the Basic Financial Statements section and a reference linking the funding status disclosure in the notes to financial statements to the required schedule of funding progress in the Required Supplemental Schedules. It also requires defined benefit pension plans to disclose in the notes to financial statements the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market prices. GASB Statement No. 50 also amends Statement No. 27 to require note disclosure of the required contribution rates of the employer(s) in dollars and the percentage of that amount contributed for the current year and each of the two preceding years, how the contractually required contribution rate is determined (for example, by statute or by contract, or on an actuarially determined basis) or if that cost-sharing plan is financed on a pay-as-you-go basis.

5. Subsequent Events

Additional Portfolio Activity –
January: Liquidated $118.9 million from Peregrine Capital large cap growth portfolio and $60.0 million from the Mondrian International Fixed Income portfolio. Transferred $100.0 million to the BlackRock TIPS portfolio.

February: Liquidated $50.0 million from BlackRock Russell 1000 Index Fund, $60.0 million from BlackRock MSCI EAFE Fund, $25.0 million from William Blair Emerging Markets Growth Fund, $20.0 million from PIMCO Total Return Bond portfolio, and $40.0 million from Mondrian International Fixed Income portfolio. Transferred $118.8 million to Waddell & Reed Large Cap Growth portfolio and $100.0 million to GMO Global Equity portfolio. Transferred $20.95 million to CB Richard Ellis Investors to pay down debt on Montgomery Corporate Center in Dresher, PA.

March: Liquidated $50.0 million from Cadence Capital, $15.1 million from Artisan Partners, $15.0 million from Washington Capital, $30.0 million from BlackRock EAFE Index Fund, $25.0 million from AQR Capital Management, $55.0 million from Capital Guardian EAFE portfolio, $10.1 million from Mercator Asset Management, and $30.0 million from AllianceBernstein Emerging Market Equities portfolio. Transferred $100.5 million to J.P. Morgan Global Equity portfolio, $100.2 million to Franklin Templeton Global Equity portfolio, and $75.0 million to the BlackRock TIPS portfolio.

Schedule of Funding Progress
(Dollars in Thousands)

Actuarial Valuation Date December 31	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)
2009*	$8,154,687	$11,858,578	$3,703,891	68.77%**	$1,618,491	228.85%

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

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

Note:

1. 12/31/09 actuarial value of plan assets exclude $108,324,352 of the County Investment Account balances respectively.

Schedule of Employer Contributions

(Please see page 42)

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	12/31/2009
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll
Remaining amortization period	30-year closed amortization with 25 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

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 24 number 12 "Member Contributions" for the methodology used to compute member contributions.

2. Member Contributions

Present members' accumulated contributions at December 31, 2009 and 2008, were $1,647,498,031 and $1,481,322,126, 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.

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).

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 2009 and 2008 were $34,900,000 and $12,600,000, respectively.

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

5. Combined Employer and Employee Contributions Received - Pension

	2009	2008
Normal Cost	$ 276,590,509	$ 366,083,355
Amortization of Unfunded Actuarial Accrued Liability	233,724,083	166,416,759
Total	**$ 510,314,592**	**$ 532,500,114**

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, 2009 and 2008, OCERS contributed $842,923 and $839,084, respectively. 100% of the required contributions were paid each year. This table does not include health care contributions.

During the year, contributions totaled $510,314,592 which included $338,386,973 in employer contributions and $171,927,619 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

2009 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 2009 calendar year, a total of $20,026,863 remained as prepayments for the sponsors to be applied in 2010.

D. Plan Termination

There are no Plan termination provisions available to the County under the County 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, 2009, OCERS had money market funds of $97,165,984 invested with OCERS' master trust custodian bank, State Street California, $40,505,380 invested with Wells Fargo Bank and $495,241 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 is computed on an average daily balance. The total amount of Cash and Cash Equivalents as of December 31, 2009 and 2008, was $1,611,327,911 and $687,347,293, respectfully.

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 verses a benchmark. OCERS portfolio diversification minimizes overall market and credit risk, while allowing for maximization of higher investment returns.

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.

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 ratings and average modified duration as of December 31, 2009. This table does not include health care fund.

	TOTAL	Aaa	Aa	A	Baa	Ba	B	Caa	Ca	NR/NA	DURATION
ASSET - BACKED SECURITIES	$58,757,713	$24,747,736	$100,780	$45,202	$22,610,556	$2,154,858	$0	$87,843	$0	$9,010,738	2.66
COLLATERALIZED MORTGAGE OBLIGATIONS	$83,617,540	$51,011,815	$3,727,064	$2,518,475	$642,822	$265,453	$740,043	$1,523,988	$0	$23,187,880	3.97
CONVERTIBLE BONDS	$24,487,121	$0	$0	$2,768,487	$1,159,875	$470,925	$4,038,424	$2,789,593	$49,617	$13,210,200	10.64
CORPORATE BONDS	$624,242,182	$0	$135,749,528	$149,898,821	$133,663,369	$74,126,802	$61,341,710	$23,705,377	$4,908,751	$40,847,824	6.30
FEDERAL HOME LOAN MORTGAGE CORP	$105,531,900	$100,764,024	$0	$0	$0	$0	$0	$0	$0	$4,767,876	2.36
FEDERAL NATIONAL MORTGAGE ASSN	$206,209,713	$211,821,501	$0	$0	$0	$0	$0	$0	$0	$ (5,611,788)	2.67
GOVERNMENT ISSUES	$1,120,375,545	$802,180,999	$274,306,141	$10,573,786	$23,007,311	$951,074	$0	$0	$0	$9,356,234	2.45
GOVERNMENT NATIONAL MORTAGE ASSN I	$34,274,175	$20,655,720	$0	$0	$0	$0	$0	$0	$0	$13,618,455	2.62
GOVERNMENT NATIONAL MORTAGE ASSN II	$4,405,920	$4,405,920	$0	$0	$0	$0	$0	$0	$0	$0	5.69
MUNICIPALS	$20,919,243	$0	$10,661,081	$2,990,942	$7,116,839	$0	$0	$0	$0	$150,381	6.79
SWAPS	$2,780,723	$0	$0	$0	$0	$0	$0	$0	$0	$2,780,723	2.28
GRAND TOTALS	**$2,285,601,775**	**$1,215,587,715**	**$424,544,594**	**$168,795,713**	**$188,200,772**	**$77,969,112**	**$66,120,177**	**$28,106,801**	**$4,958,368**	**$111,318,523**	**4.4**

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, 2009. 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, 2009

Common Stock	Shares	Market Value	% of Composite
Exxon Mobil Corp	320,373	$ 21,846,309	0.58
Roche Holdings AG Genusscheine	114,954	19,549,130	0.52
Koninklijke KPN	920,000	15,628,434	0.42
MicroSoft Corporation	506,010	15,428,232	0.41
HSBC Holdings	1,217,678	13,937,602	0.37
Hewlett Packard Company	255,000	13,135,050	0.35
Apple Inc.	58,572	12,348,069	0.33
Pernod Ricard	143,656	12,348,069	0.33
Softbank Corporation	509,200	11,869,209	0.32
Johnson and Johnson	180,917	11,652,854	0.31

Schedule of Largest Fixed Income Holdings (by Market Value)
December 31, 2009

Asset	CPN/Maturity	Market Value	% of Composite
FNMA	6.500	$ 51,405,120	2.27
UNITED STATES TREAS NTS	2.500/TIPS	42,549,096	1.88
UNITED STATES TREAS BDS	3.875/04-15-2029	32,829,104	1.45
UNITED STATES TREAS NTS	3.000/TIPS	29,989,326	1.33
UNITED STATES TREAS BDS	2.375/01-2027	28,088,067	1.24
UNITED STATES TREAS NTS	2.000/TIPS	26,970,948	1.19
UNITED STATES TREAS NTS	4.250/TIPS	25,212,524	1.11
JAPAN (GOVT OF)	1.200/09-12-2020	24,263,735	1.07
JAPAN (GOVT OF)	0.500/06-13-2020	23,798,142	1.05
JAPAN (GOVT OF)	1.600/06-14-2020	22,598,851	1.00

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, 2009

Currency	Market Value
AUSTRALIAN DOLLAR	$ 147,214,429
BRAZILIAN REAL	4,217,523
CANADIAN DOLLAR	48,644,531
DANISH KRONE	12,529,590
EURO CURRENCY	642,009,851
HONG KONG DOLLAR	67,032,994
ICELAND KRONA	1,756,478
INDONESIAN RUPIAH	3,719,309
ISRAELI SHEKEL	955,069
JAPANESE YEN	464,014,547
MALAYSIAN RINGGIT	16,232
MEXICAN PESO	18,000,876
NEW ZEALAND DOLLAR	10,495,947
NORWEGIAN KRONE	20,847,761
POLISH ZLOTY	9,527,237
POUND STERLING	259,459,216
SINGAPORE DOLLAR	24,428,564
SOUTH AFRICAN RAND	2,654,734
SOUTH KOREAN WON	17,024,376
SWEDISH KRONA	49,859,574
SWISS FRANC	122,880,099
THAILAND BAHT	5,648,270

Net Appreciation (Depreciation)

During 2009 and 2008, OCERS' investments (including investments bought and sold, as well as held during each year) appreciated (depreciated) in value by $875,994,246 and by $(1,736,994,154), respectively.

	Years Ended December 31	
	2009	**2008**
Net Appreciation (Depreciation) in Fair Value as Determined by Quoted Market Prices:		
Domestic Equity Securities	$ 348,770,078	$ (588,454,948)
United States Government Debt Securities, Corporate & Foreign Bonds & Debentures	120,420,298	41,086,876
International Equity Securities	527,587,472	(974,696,205)
Subtotal	996,777,848	(1,522,064,277)
Net Appreciation (Depreciation) in Fair Value as Determined by Estimated Fair Value:		
Real Estate	(143,496,755)	(77,735,667)
Alternative	22,713,153	(137,194,210)
Total Net Appreciation (Depreciation)	**$ 875,994,246**	**$ (1,736,994,154)**

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 2009. As of December 31, 2009, the fair value of securities on loan was $1,122,330,247 with the value of cash collateral received for the securities on loan of $1,148,890,268 and no non-cash collateral.

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, 2009 and 2008. Securities lending information includes BlackRock Institutional Trust Company which manages assets for OCERS under a mutual fund agreement.

Gross security lending revenue for 2009 and 2008 was $4,863,911 and $7,550,741, 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.

Securities Lent	Collateral on Loan	Loan at Market	Loan Ratio
Domestic Equity	$207,478,025	$202,331,347	102.54%
International Equity	175,009,440	168,408,330	103.92%
Domestic Fixed Income	723,014,162	709,223,928	101.94%
International Fixed Income	14,909,892	14,607,987	102.07%
Real Estate	11,347,014	10,970,859	103.43%
Real Return and Commodities	17,131,735	16,787,796	102.05%
Totals	$1,148,890,268	$1,122,330,247	102.37%

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. 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 2009	Fair Value 2008
FHLMC	$ 105,531,900	$ 273,096,058
FNMA	206,209,713	526,597,735
GNMA	38,680,095	68,130,568
CMO	83,317,540	58,506,158
Asset-Backed/Swaps	61,538,436	21,958,301
Total Derivative Securities	**$ 495,677,684**	**$ 948,288,820**

G. Administrative Expenses and Prepaid Unearned Contributions

The total administrative expenses for the years ended December 31, 2009 and 2008 were $10,893,021 and $11,006,229, 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, 2009 and 2008, were $10,554,801 and $10,241,879, respectively. Administrative expenses subject to the statutory limitation for the years ended December 31, 2009 and 2008 were $9,365,839 and $9,308,803, 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 2009 and 2008 include a discount on Prepaid Unearned Contributions of $3,327,070 and $12,558,592, 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 Employees 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', and 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 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 2009 and 2008 because the Unallocated Fund Balance (UFB) was zero; the remaining balance of the 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, 2009, was approximately $17,758. 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 December 31, 2002, 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 $7,614,601,725 as of December 31, 2009 include reserves of $7,049,600,721 and unreserved net assets of $453,366,073. The unreserved net assets include the County Investment Account. The reserve balances as of December 31, 2009 are as follows:

Active Members Reserve	$ 1,647,498,031
Retired Members Reserve	5,013,224,757
Employer Advanced Reserve	388,028,208
Total Unclaimed Reserve	849,725
Unreserved Net Assets	453,366,073
Total Retirement Fund	7,502,966,794
Health Benefits Reserve	111,634,931
Plan Net Assets	$ 7,614,601,725

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, 2009, OCERS had the following futures contracts:

Description	Contracts	Notional Par	Market Value
Futures Long	3,070	$515,466,280	$2,908,828
Futures Short	408	(1,335,445)	(849,830)

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, 2009, OCERS had the following FX forward contracts:

Description	Contracts	Market Value
FX Contracts Purchased	76	$135,491,606
FX Contracts Sold	78	127,110,225

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, 2009, OCERS had the following option contracts:

Description	Contracts	Market Value
Options Written – Calls	57,600,308	$(85,937)
Options Written – Puts	181,400,266	(1,976,412)

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, 2009, OCERS had the following swap agreements:

Description	Notional Value – U. S. Dollar
Swaps – Long	$190,765,595
Swaps – Short	(190,765,595)

J. Post Employment Health Care Benefits (OPEB)

Beginning in 2007, the Orange County Fire Authority, Orange County Transportation 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 reserve 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 Plan Sponsors make payment of premiums when due.

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.

The OPEB Fund is presented according to the principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB). This Fund accounts for assets held as an agent on behalf of others. This fund is custodial in nature and does not measure the results of operations. Assets and liabilities are recorded using the accrual basis of accounting.

Investments are carried at fair value. Fair values for investments are derived from quoted market prices. For publicly traded stocks and bonds and issues of the U.S. government and its agencies, the most recent sales prices as of fiscal year-end is used.

Pursuant to Agreements between the County of Orange, Orange County Fire Authority, Orange County Transportation Authority and OCERS, the parties agreed to the continuation of the health benefits then in existence. The agreements subsidize a portion of the insurance premiums of retired members and their dependents based on the member’s length of services.

Plan net assets are not held in trust for OPEB.

Participating employers, upon their implementation of GASB Statement No. 45, are required to disclose additional information with regard to funding policy, the employer’s annual OPEB costs and contributions made, the funded status and funding progress of the employer’s individual plan, and actuarial methods and assumptions used to prepare the valuation.

The OCERS OPEB program’s actuarial valuation was conducted by The Segal Company, Inc. as of December 31, 2009. The valuation was performed in accordance with GASB Statement Nos. 43 and 45 requirements to satisfy financial statement reporting guidelines that apply to the sponsoring employers and organizations administering the benefits program. The reporting guidelines are intended to improve cost disclosures and do not require any funding arrangements. The valuations are conducted every year. The next actuarial valuation will be conducted as of December 31, 2010.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The required Schedule of Funding Progress (page 43) immediately following the Notes to the Financial Statements present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liability for benefits.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of cost between the employer and plan members. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

K. Actuarial Methods and Assumptions (OPEB)

The actuarial assumptions that are not related to the health plan are provided in the actuarial methods and assumptions of the corresponding Pension CAFR certification.

The actuarial assumptions that are related to the health plan are provided below.

County of Orange

Health Care Trend:

	HMO		PPO	
Year	Pre-Medicare	Post-Medicare	Pre-Medicare	Post-Medicare
2008	10.4%	10.8%	11.3%	11.7%
2009	9.7%	10.1%	10.5%	10.9%
2010	9.1%	9.4%	9.8%	10.1%
2011	8.4%	8.7%	9.0%	9.3%
2012	7.8%	8.0%	8.3%	8.5%
2013	7.1%	7.3%	7.5%	7.7%
2014	6.5%	6.6%	6.8%	6.9%
2015	5.8%	5.9%	6.0%	6.1%
2016	5.2%	5.2%	5.3%	5.3%
2017+	4.5%	4.5%	4.5%	4.5%

Annual Increase in Monthly Subsidy:

AFSCME – Lesser of 5% and health care trend
Non-AFSCME – Lesser of 3% and health care trend

Participation at Retirement: 81%
Medicare Eligible Rate: 100%. Everyone eligible for Medicare is assumed to elect Part B coverage.
Dependent Coverage: 10% of General and 20% of Safety are assumed to elect family coverage. No family coverage is assumed after age 65.

OCTA

Health Care Trend:	Not applicable
Annual Increase in Monthly Benefit:	0%

OCFA

Health Care Trend:	9.00% initial rate, graded down to 5.0% over 8 years
Annual Increase in Monthly Subsidy:	5% per year
Participation at Retirement:	95% of future participants retiring from active or inactive status (non-retired) are assumed to receive retiree monthly subsidy.
Implicit Subsidy:	Safety retirees are in the same rating pool as active employees and hence there is an implicit subsidy paid by the employer. The value of the implicit subsidy has been included in the liability calculation.

Summary of Major Plan Provisions

This section provides a brief summary of the monthly retirement benefit provided by OCTA. It also provides the monthly medical subsidy benefits payable by the County of Orange and by OCFA. It is not intended to be, nor should it be interpreted as, a complete statement of all plan provisions.

County of Orange

Eligibility: Retire directly from the County and eligible to receive an OCERS pension benefit plus:

* Age 50 with 10 years of County service, or
* 30 years of County service (20 years for Safety), or
* Non service-connected disability with 5 years of County service, or
* Service-connected disability with no service requirement.

Monthly Subsidy (Grant)
Before Plan Amendments: Monthly subsidy of $16.67 per year of County service for 2007 and $17.17 per year of County service for 2008 payable towards providing health insurance coverage for retiree and dependent subject to maximum of 25 years of County service. A minimum benefit calculated using 10 years of service is granted on service-connected disability. Excess of monthly subsidy over actual health insurance premium can be used for Medicare Part B premiums.

After Recent Plan Amendments: Reduction or elimination of monthly subsidy benefits depending on bargaining representation.

Surviving Spouse Benefit: 50% of monthly subsidy is payable to a spouse qualified for an OCERS pension benefit.

Other Benefits
Before Plan Amendments: Lump sum benefit equal to 1% of final 3-year average base pay for each year of service after August 1, 1993, payable to employees who terminate employment or become nonservice-connected disabled before eligible for monthly subsidy.

After Recent Plan Amendments: Reduction or elimination of lump sum benefits depending on bargaining representation.

Employee Contributions: Discontinued except for AOCDS.

OCTA

Eligibility: Retire directly from OCTA plus:

* Age 50 with 10 years of service, or
* 30 years of service.

Monthly Benefit:	Monthly benefit of $10.00 per year of service subject to a maximum of 15 years of service. This subsidy can be used by the retiree to pay health and/or non health related benefits.
Other Benefits:	None.
Employee Contributions:	None.

OCFA

Eligibility:	Hired before December 31, 2006, and retire from OCFA and eligible to receive an OCERS pension benefit plus: * General members: Age 55 with 1 year of credited service or any age with 30 years of service, or * Safety members: Age 50 with 1 year of credited service or any age with 20 years of service. * Benefits commence at age 55 for those employees terminating employment before eligibility for a service or disability retirement.
Monthly Benefit:	Monthly subsidy of $17.78 per year of credited service for 2008 payable towards providing health insurance coverage for retiree and dependent subject to maximum of 25 years of credited service. A minimum benefit calculated using 10 years of credited service is granted on service-connected disability.
Surviving Spouse Benefit:	50% of monthly subsidy is payable to a spouse qualified for an OCERS pension benefit.
Other Benefits:	None.
Employee Contributions:	4% of base salary.

L. Reclassification and Estimates of Financial Statement Presentation

Certain reclassifications have been made to the 2008 financial statements to conform with the 2009 financial statement presentation. Such reclassifications had no material effect on net plan assets as previously reported.

The preparation of the Plan's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Required Supplementary Information

Schedule of Funding Progress (Pension Plan)

(Dollars in Thousands)

Actuarial Valuation Date December 31	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)
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%
2009	8,154,687	11,858,578	3,703,891	68.77%**	1,618,491	228.85%

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

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

Note:

1. The 12/31/04, 12/31/05, 12/31/06, 12/31/07, 12/31/08 and 12/31/09 actuarial value of assets exclude $155,245,000, $158,218,736, $168,223,633, $174,348,137, $126,688,030 and $108,324,352 of the County Investment Account balances, respectively.

Schedule of Employer Contributions (Pension Plan)

	Annual Required Contribution*	Percentage Contributed**
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%
2009	$338,386,973	100%

* Employer contributions reflect cash payments only. Please see note C on page 29 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 21) is the prepaid discount.

Schedule of Funding Progress (OPEB)

(Dollars in Thousands)

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
County of Orange						
6/30/2007	$408,322	$0	$408,322	0.0%	$1,157,642	35.3%
6/30/2008*	$423,025	$79,717	$343,308	18.8%	$1,198,159	28.7%
OCTA						
1/1/2008	$491	$0	$491	0.0%	$36,085	1.4%
1/1/2010	$13,746	$8,947	$4,799	65.1%	$101,596	4.7%
OCFA						
6/30/2006	$60,808	$7,436	$53,372	12.2%	$95,608	55.8%
6/30/2008	$94,125	$21,525	$72,600	22.9%	$80,624	90.0%

** The 6/30/2008 actuarial results are projected based on the 6/30/2007 actuarial valuation.*

History of Employer Contribution Rates (OPEB)

	Date of Valuation	ARC
County of Orange	6/30/2007	2.6% of pay
OCTA	1/1/2010	0.9% of pay
OCFA	6/30/2008	$8,877,757

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	12/31/2009
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll
Remaining amortization period	30-year closed amortization with 25 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

2009 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

Adjustments to correct the under reporting of certain premium pay items in prior years' pensionable salary data.

County and Court adopted optional 1.62% at 65 formula for their General employees entering OCERS after May 7, 2010.

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

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

(Continued)

Significant Factors Affecting Trends in Actuarial Information (Continued)

service only) effective July 1, 2005.

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

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

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

2004 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

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

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

2003 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

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

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

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.

1996 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

The salary assumption was changed to 3.5% per year for the first 5 years of employment (by individual) and then 5.5% per year thereafter.

1995 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

The salary assumption was 2.5% per year for the first 5 years of employment (by individual) and then 4.5% per year 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	
	2009	**2008**
Expenses Subject to the Statutory Limitation:		
Personnel Services:		
Board Members' Allowance	$ 12,700	$ 13,000
Employee Salaries and Benefits	5,664,159	5,465,215
Total Personnel Services	5,676,859	5,478,215
Office Operating Expenses:		
Operating Expenses	992,588	1,063,418
Professional Services	1,261,692	1,389,708
Rent/Leased Real Property	860,819	834,747
Depreciation/Amortization	573,881	542,715
Total Office Operating Expenses	3,688,980	3,830,588
Total Expenses Subject to the Statutory Limitation*	9,365,839	9,308,803
Expenses Not Subject to the Statutory Limitation:		
Commingled Interest Cost	2,736	14,049
Actuarial Fees	336,723	364,081
Consulting/Research Fees	357,425	350,219
Investment Department Expenses	742,990	790,249
Legal Costs	87,308	178,828
Total Expenses Not Subject to the Statutory Limitation	1,527,182	1,697,426
Total Administrative Expenses	**$ 10,893,021**	**$ 11,006,229**

(*Please see note G on page 34)

Schedule of Investment Manager Fees for Year Ended December 31, 2009

	Net Assets Managed at Fair Value	Fees
Domestic Equity Managers		
Artisan Partners	$ 89,875,545	$ 602,106
BlackRock Institutional Trust Company	730,416,454	47,349
Cadence Capital Management	190,763,190	543,623
Capital Guardian Trust Company	31,188	171,768
Dodge & Cox	265,928,383	367,788
Peregrine Capital Management	123,494,739	592,091
Washington Capital Management, Inc.	64,680,042	371,663
Total Domestic Equity Managers	**1,465,189,541**	**2,696,388**
Domestic Fixed Income Managers		
Aberdeen Asset Management, Inc.	62,028	400,741
BlackRock Institutional Trust Company	657,810,339	135,210
Loomis, Sayles & Company	317,281,125	699,134
Pacific Investment Management Company (PIMCO)	1,074,914,111	2,260,922
Total Domestic Fixed Income Managers	**2,050,067,603**	**3,496,007**
International Equity Managers		
AllianceBernstein	296,428,729	610,944
AQR Capital Management, LLC	165,434,607	567,601
AXA Rosenberg Investment Management, LLC	44,686,831	40,251
BlackRock Institutional Trust Company	468,277,180	302,062
Capital Guardian Trust Company	601,167,221	1,678,672
GlobeFlex Capital, L.P.	63,341,966	193,175
Mercator Asset Management	152,493,093	804,080
William Blair & Co.	178,232,033	1,377,442
Total International Equity Managers	**1,970,061,660**	**5,574,227**
International Fixed Income Managers		
Mondrian Investment Partners, Ltd.	478,392,134	1,277,795
Total International Fixed Income Managers	**478,392,134**	**1,277,795**
Absolute Return Managers		
BlackRock Alternative Advisors	151,492,658	843,917
Bridgewater Associates, Inc.	322,017,621	2,170,493
Pacific Alternative Asset Management Company	64,434,890	384,478
Total Absolute Return Managers	**537,945,169**	**3,398,888**

(Continued on next page)

Schedule of Investment Manager Fees for Year Ended December 31, 2009
(Continued)

	Net Assets Managed at Fair Value	Fees
Real Return Managers		
Hancock Timber Resource Group	$ 83,299,585	$ 1,004,476
Pacific Investment Management Company (PIMCO)	51,099,114	62,163
RMK Timberland Group	39,235,653	390,988
Schroder Investment Management	52,509,382	381,428
Wellington Management	37,706,135	283,281
Total Real Return Mangers	**263,849,869**	**2,122,336**
Real Estate Managers		
Domestic Real Estate Managers		
American Realty Advisors	213,889,121	1,132,104
AEW Capital Management	4,235,765	156,899
CB Richard Ellis Investors	228,668,719	1,557,364
Fidelity Management Trust Co.	1,730,243	281,447
Morgan Stanley	15,547,409	171,985
AEW Core Property Trust Inc.	9,840,607	12,502
CB Richard Strategic Partners US Value 5	9,689,281	138,126
Total Domestic Real Estate Managers	**483,601,145**	**3,450,427**
Global Real Estate Securities Managers		
LaSalle Investment Management	62,312,422	163,326
Total Global Real Estate Securities Managers	**62,312,422**	**163,326**
Non-Traditional Investments		
Managers		
Abbott Capital	20,467,083	1,346,250
Adams Street Partners	93,643,647	1,525,769
HarbourVest Partners, LLC	22,664,397	374,795
Mesirow Financial Private Equity	17,784,211	904,438
Total Non-Traditional Managers	**154,559,338**	**4,151,252**
Limited Partnerships		
Pacific Investment Management Company (PIMCO)	31,823,495	592,237
Total Limited Partnerships	**31,823,495**	**592,237**
Timber		
Hancock Timber Resource Group	2,322,345	40,280
Total Timber	**2,322,345**	**40,280**

(Continued on next page)

Schedule of Investment Manager Fees for Year Ended December 31, 2009
(Continued)

	Net Assets Managed at Fair Value	Fees
Cash Overlay		
The Clifton Group	$ 25,306,190	$ 63,839
Total Cash Overlay	**25,306,190**	**63,839**
Securities Lending Program		
State Street Corporation	1,148,890,268	874,621
Total Securities Lending Program	**1,148,890,268**	**874,621**
Total Investment Manager Fees	**$ 8,674,321,179**	**$ 27,952,545 ***

* This schedule of investment management fees is included in the investment expenses listed on page 21.

Schedule of Payments for Professional Services
For the Years Ended December 31, 2009 and 2008

Type of Services	2009	2008
Professional Expenses Subject to the Statutory Limitation		
Legal Services	$ 277,428	$ 401,164
Temporary Personnel	176,329	117,392
Professional Services	807,935	871,152
Total Professional Expenses Subject to the Statutory Limitation	**$ 1,261,692**	**$ 1,389,708**
Professional Expenses Not Subject to the Statutory Limitation		
Actuarial Services	$ 336,723	$ 364,081
Consulting/Research Services	357,425	350,218
Custodian Services	212,022	180,000
Commingled Interest Cost	2,736	14,049
Legal Services	87,308	178,828
Investment Expenses	530,968	610,250
Total Professional Expenses Not Subject to the Statutory Limitation	**$ 1,527,182**	**$ 1,697,426**
Total All Professional Services	**$ 2,788,874**	**$ 3,087,134**

OC Sanitation District, Chet Frohlich Photography

SECTION 3

>INVESTMENT

CALLAN ASSOCIATES INC

SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

March 12, 2010

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, 2009.

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

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

Market Environment

The U.S. equity market rebounded strongly in 2009 after experiencing sizeable losses in 2008. The broad U.S. equity market, as represented by the Russell 3000 Index, gained 28.3% during the year, which includes a negative return of -10.8% in the first quarter of 2009. This first quarter loss was followed by a gain of 43.9% in the last three quarters of 2009. The Russell 1000 Index, a large cap U.S. equity benchmark, returned 28.4% during the calendar period outpacing small cap stocks (+27.2%) represented by the Russell 2000 Index. Midcap was the best performing capitalization segment of the U.S. equity market with the Russell Midcap index returning 40.5% in 2009. The difference between growth and value stocks in the year was sizeable as the

Russell 3000 Growth index (+37.0%) handily exceeded the Russell 3000 Value index (+19.8%).

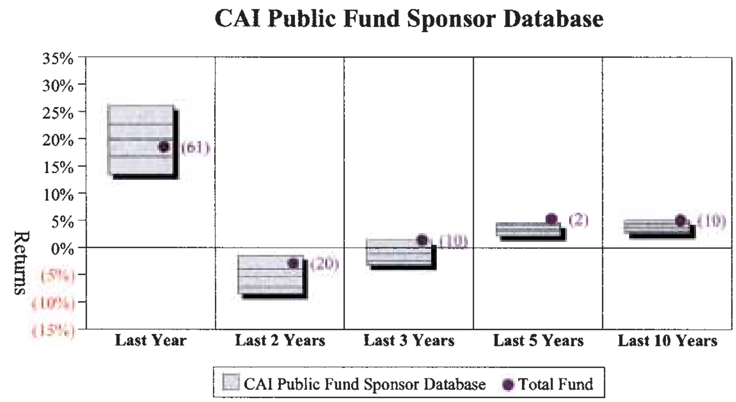
Within the fixed income market, the Barclays Capital Aggregate Bond Index posted a return of 5.9% for the year. The attractive overall return was a result of narrowing yield spreads as risk aversion subsided and investors no longer sought the safety of Treasuries, a complete reversal from 2008. U.S. Government securities returned -2.2% for the year while investment grade credit securities gained 16.0%. Longer dated government instruments were hurt the most in the year posting a negative 12.2% return.
Asset backed securities (+24.7%), Commercial mortgage backed securities (+28.5%), and mortgage backed securities (+5.9%) benefited from government stimulus programs in the year. The Federal Open Market Committee kept rates between 0 and 0.25% during calendar year 2009.

The Non–U.S. developed markets, as measured by the MSCI EAFE Index, fared best with a 31.8% gain for the year. Opposite to the domestic equity market, value (MSCI EAFE Value +34.2%) outperformed growth (MSCI EAFE Growth +29.4%) overseas in 2009. Developed non-U.S. small cap stocks exceeded their large cap counterparts, gaining 46.8% as measured by the MSCI EAFE Small Cap Index for the year. After losing 53.2 % of their value in 2008, Emerging Markets, measured by MSCI Emerging Markets Index, gained a tremendous 79.0% in 2009.

Performance
For the calendar year, OCERS' total fund had a strong time-weighted total return of 18.52%. While this return outpaced the System's strategic policy benchmark target return of 16.13%, it ranked slightly below Callan's Public Fund database median. Returns for trailing 2, 3, 5 and 10-year periods all rank in the top quintile. The System's risk adjusted return ranked in the top decile of Callan's Public Fund Database for the trailing 3, 5, 7 and 10-year periods.

OCERS' Strategic Policy Benchmark Index is currently comprised of the following indices in the percentages as indicated: Barclays Capital U.S. Universal Bond Index (19%); MSCI-EAFE (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, 2009.



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 better than benchmark results in 2009. Similarly, the System's active bond managers enjoyed exceptionally strong returns in comparison to their target indexes. OCERS' active stock and bond managers have added value in the majority of cumulative periods longer than 5-years.

OCERS' U.S. equity composite rose 29.72% in 2009. This result was better than both the Russell 3000 Stock Index return of 28.34% and the Callan Public Fund Domestic Equity peer group median. Over cumulative periods of 3-years or greater, OCERS' domestic equity composite has achieved favorable returns when compared to the market benchmark. For example, the trailing 10-year return of positive 1.36% ranked in the 27th percentile and exceeded the target benchmark return of negative 0.20% annualized.

OCERS' significant international allocation recovered strongly in 2009. The System's total international allocation returned 39.92% for the year. This result was led by the emerging markets component of the portfolio (+89.66%). Despite these very attractive absolute returns, the total international component lagged the combined international benchmark return (MSCI-ACWI ex-U.S.) of 42.14%. It, however, did rank in the top quartile when ranked against other public funds.

In summary, calendar 2009 was an excellent year, but further recovery is necessary to overcome the prior year's extreme market weakness. OCERS' broad diversification helped moderate the widespread value declines in the 2007-2008 bear market while still providing sufficient growth exposure to participate handsomely in the market recovery.

Sincerely,

Michael J. O'Leary, Jr., CFA
Executive Vice President

3

Investment Returns

The table below details the annualized rates of return for the different asset categories over various time periods ended December 31, 2009. 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 (%)	29.72	-5.31	0.82
Russell 3000 Index (%)	*28.43*	*-5.42*	*0.76*
International Equity (%)	39.92	-4.31	5.65
MSCI AC World Ex US Index (%)	*42.14*	*-3.04*	*6.31*
MSCI EAFE Index (%)	*31.78*	*-6.04*	*3.54*
Domestic Fixed (%)	17.73	6.88	5.92
Barclays Capital Universal Index (%)	*8.60*	*5.80*	*5.01*
International Fixed Income (%)	6.56	8.59	5.50
International Fixed Income Target Index (1) (%)	*3.49*	*6.93*	*4.72*
Absolute Return (%)	7.96	5.41	N/A
Absolute Return Target Index (2) (%)	*3.72*	*8.04*	*N/A*
Real Return (%)	13.29	3.98	3.22
Real Return Target Index (3) (%)	*9.77*	*7.78*	*5.27*
Cash & Equivalents (%)	5.38	3.59	3.91
Real Estate (%)	-18.96	-3.64	5.16
Real Estate Target Index (4) (%)	*-16.90*	*-1.69*	*5.90*
Alternative Investments (%)	-8.65	3.96	10.42
Opportunistic Investing (%)	34.30	N/A	N/A
Total Fund (%)	18.52	1.34	5.16
Composite Policy Benchmark (5) (%)	*16.13*	*1.59*	*5.43*

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

(2) Absolute Return Target Index = 3-month Treasury Bill + 7% through 3/31/08 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 Government Hedged + 5.1% Citi Non-US Government 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 UBS Commodity Index + 0.7% Schroder Commodity Custom Index + 0.5% (CPI + 5%).

STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

General

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

Strategic Asset Allocation Policy and Maintenance

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

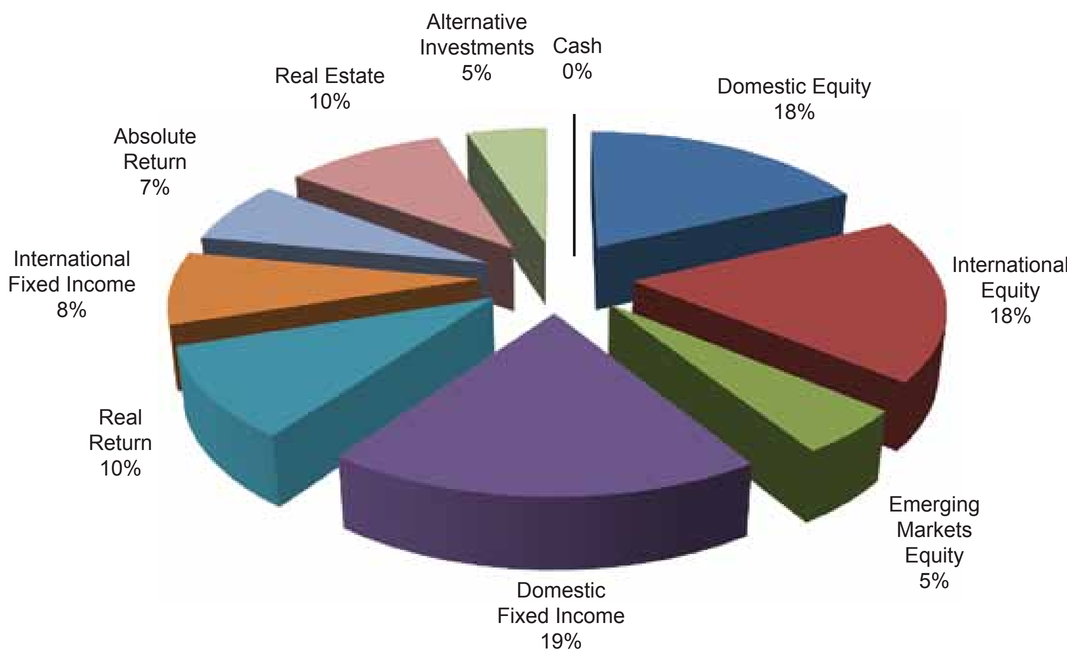
In normal circumstances, asset levels are permitted to fluctuate around targeted levels, and cash inflows are administered by staff in a manner that is consistent with maintenance of the desired level of diversification. When asset fluctuations and/or external cash flows take actual allocation outside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

Program Administration and Manager Structure

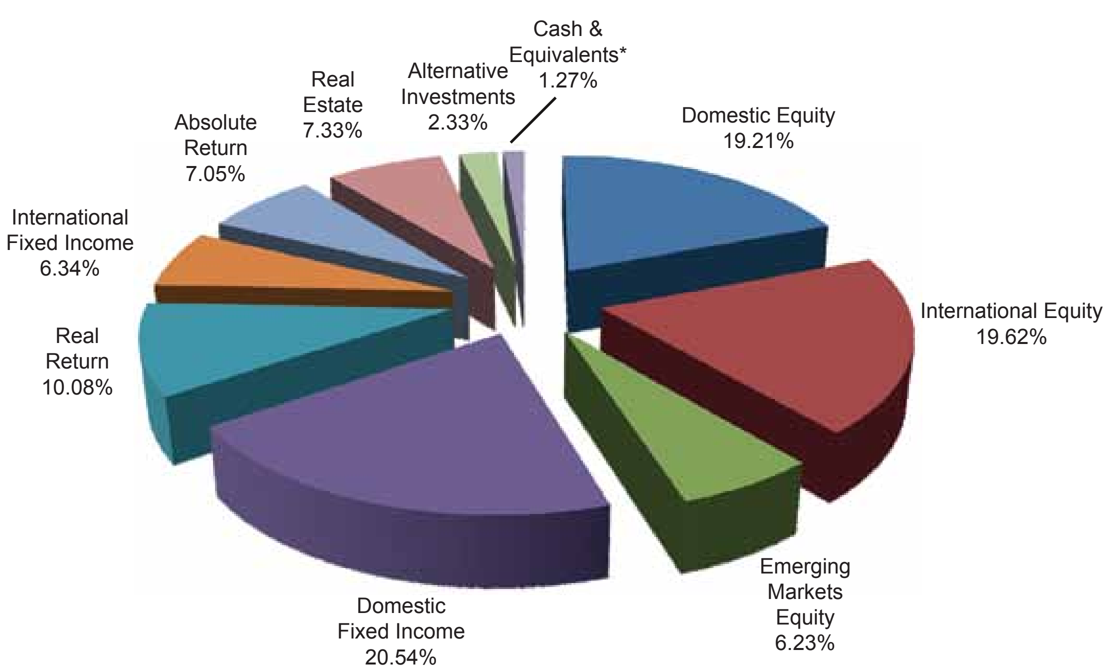
For each major asset class, the System shall diversify assets by employing managers with demonstrated skill in their particular areas of expertise. The System will retain managers who utilize varied investment approaches and allocate assets in a manner that is consistent with the overall strategic plan.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

Asset Diversification
December 31, 2009

Policy

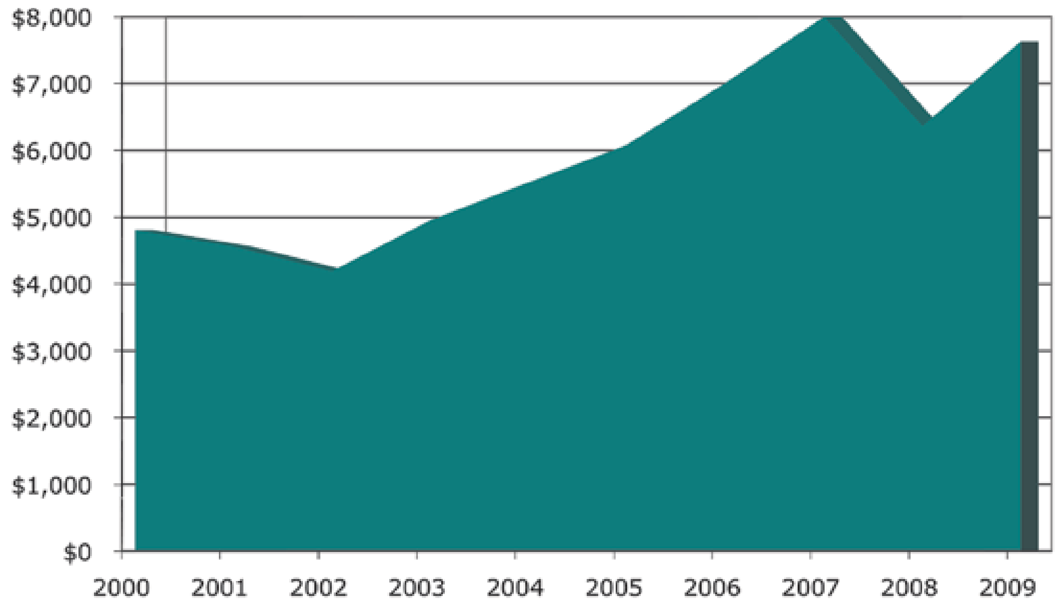


Actual

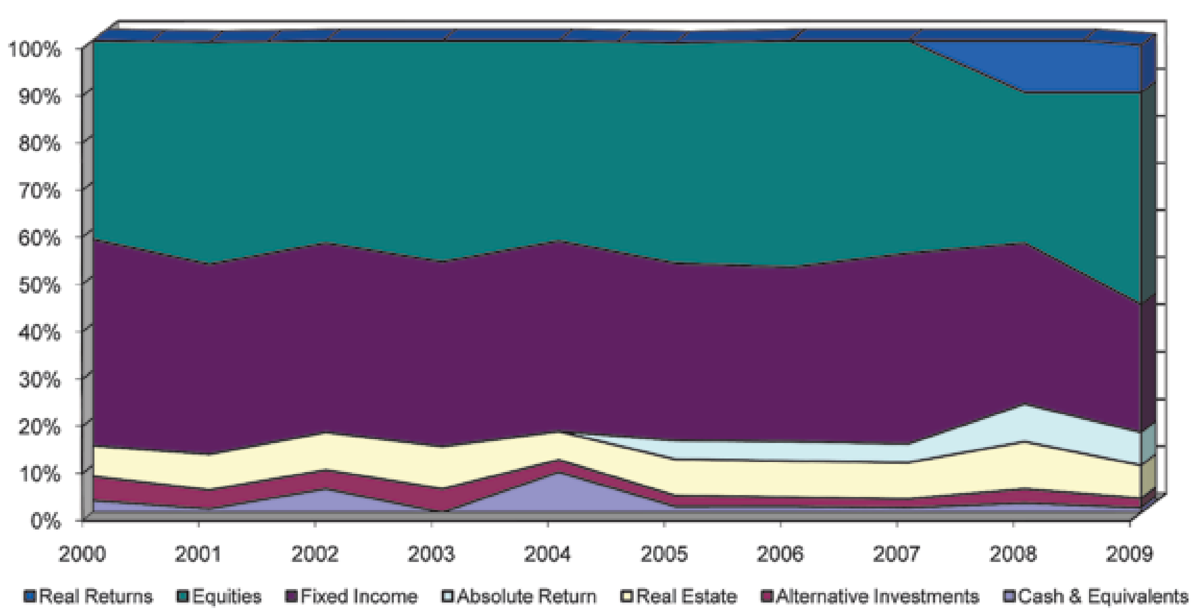


*Does not include OCERS operating cash accounts

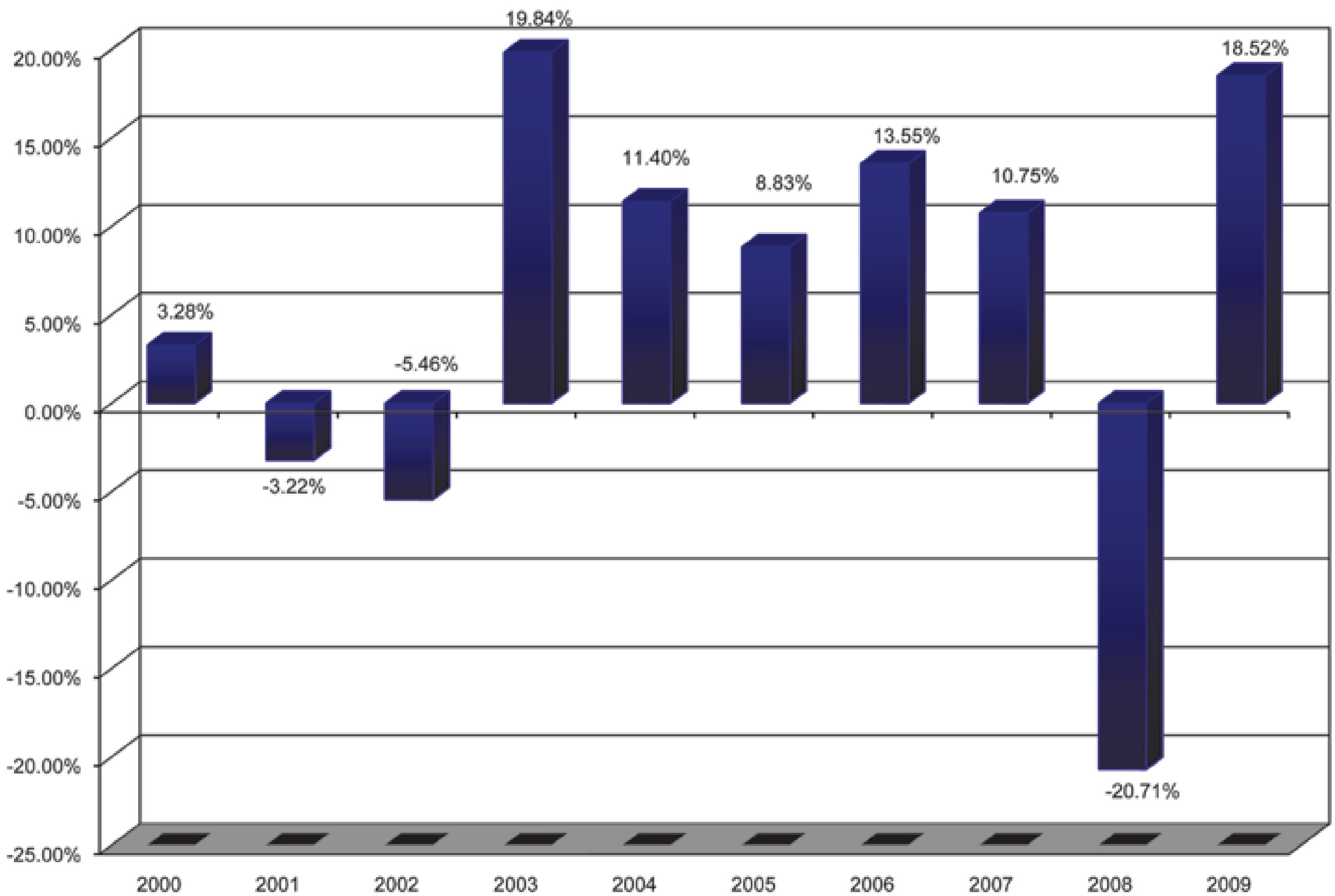
Growth of System Net Assets at Fair Value
for Ten Years Ended December 31, 2009
(in Millions of Dollars)



Historical Asset Allocation
(Actual)
December 2000 – December 2009



History of Performance
(Based on Fair Value)
December 2000 – December 2009



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, 2009, the System generated $719,033 in Commission Recapture dollars.

Schedule of Commissions
for the Year Ended December 31, 2009

Broker Name	Number of Shares Traded	Commission
ABEL NOSER CORPORATION	3,811,118	$87,070
BNY CONVERGEX LJR	7,053,809	$70,606
JEFFERIES AND COMPANY INC.	4,649,971	$45,730
BNY CONVERGEX	1,799,600	$43,037
LIQUID NET, INC.	1,323,171	$40,809
GOLDMAN SACHS & CO.	13,011,025	$39,626
INVESTMENT TECHNOLOGY GROUP INC.	908,825	$28,994
MERRILL LYNCH PROFESSIONAL CLEARING CORP.	816,114	$28,009
RAFFERTY CAPITAL MARKETS, LLC	827,220	$27,853
RBC CAPITAL MARKETS	581,670	$24,599
MACQUARIE SECURITIES (USA) INC.	553,380	$19,012
ROBERT W. BAIRD & COMPANY INC.	430,240	$18,040
WEEDEN & CO.	792,382	$16,290
WILLIAM BLAIR & COMPANY, LLC	367,590	$15,703
BARCLAYS CAPITAL LE	362,482	$13,263
INSTINET	327,074	$10,908
OTHER*	7,065,670	$189,483
GRAND TOTAL	44,681,341	$719,033

* Includes approximately 100 additional firms with less than 25% of total Commissions

Investment Summary
December 31, 2009

Investment	Fair Value	Percentage
Domestic Equity	$ 1,465,386,605	19.21%
International Equity	1,496,520,960	19.62%
International Emerging Market	474,928,800	6.23%
Domestic Fixed Income	1,566,649,235	20.54%
International Fixed Income	483,422,599	6.34%
Absolute Return	537,945,169	7.05%
Real Return	768,960,848	10.08%
Cash and Cash Equivalents	96,778,242	1.27%
Real Estate	559,187,116	7.33%
Alternative Investments	177,827,964	2.33%
Total *	**$ 7,627,607,538**	**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 20)

Schedule of Largest Equity Holdings (by Market Value)**
December 31, 2009

Common Stock	Shares	Market Value	% of Composite
Exxon Mobil Corp	320,373	$ 21,846,309	0.58
Roche Holdings AG Genusscheine	114,954	19,549,130	0.52
Koninklijke KPN	920,000	15,628,434	0.42
MicroSoft Corporation	506,010	15,428,232	0.41
HSBC Holdings	1,217,678	13,937,602	0.37
Hewlett Packard Company	255,000	13,135,050	0.35
Apple Inc.	58,572	12,348,069	0.33
Pernod Ricard	143,656	12,348,069	0.33
Softbank Corporation	509,200	11,869,209	0.32
Johnson and Johnson	180,917	11,652,854	0.31

Schedule of Largest Fixed Income Holdings (by Market Value)**
December 31, 2009

Asset	CPN/Maturity	Market Value	% of Composite
FNMA	6.500	$ 51,405,120	2.27
UNITED STATES TREAS NTS	2.500/TIPS	42,549,096	1.88
UNITED STATES TREAS BDS	3.875/04-15-2029	32,829,104	1.45
UNITED STATES TREAS NTS	3.000/TIPS	29,989,326	1.33
UNITED STATES TREAS BDS	2.375/01-2027	28,088,067	1.24
UNITED STATES TREAS NTS	2.000/TIPS	26,970,948	1.19
UNITED STATES TREAS NTS	4.250/TIPS	25,212,524	1.11
JAPAN (GOVT OF)	1.200/09-12-2020	24,263,735	1.07
JAPAN (GOVT OF)	0.500/06-13-2020	23,798,142	1.05
JAPAN (GOVT OF)	1.600/06-14-2020	22,598,851	1.00

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

List of Investment Managers
As of December 31, 2009

Domestic Equity

Artisan Partners

BlackRock Institutional Trust Company

Cadence Capital Management

Dodge & Cox

Peregrine Capital Management

Washington Capital Management, Inc.

Domestic Fixed Income

BlackRock Institutional Trust Company

Loomis, Sayles & Company

Pacific Investment Management Company (PIMCO)

International Equity

AllianceBernstein

AQR Capital Management, LLC

AXA Rosenberg Investment Management, LLC

BlackRock Institutional Trust Company

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

BlackRock Institutional Trust Company

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, 2009
(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

Orange County Parks

Orange County Health Care Agency

SECTION 4

Orange County
Transportation Authority, next page

>ACTUARIAL

SEGAL

THE SEGAL COMPANY
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June 7, 2010

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

Re: Certification for Pension Plan

Dear Members of the Board:

The Segal Company (Segal) prepared the December 31, 2009 annual actuarial valuation of the Orange County Employees Retirement System. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

The funding method used by the System is called the Entry Age Normal Actuarial Cost Method. One of the funding objectives of the System is to reduce the outstanding balance of the December 31, 2004 unfunded actuarial accrued liability (UAAL) to zero over a 30-year period commencing December 31, 2004. Any increases or decreases in UAAL that arise in future years due to actuarial gains or losses will be amortized over separate 15-year periods. Increases or decreases due to assumption changes will be amortized over separate 30-year periods. A 30-year period is also used in the December 31, 2009 valuation to amortize the UAAL as a result of recognizing certain additional premium pay items not previously reported as pensionable salary for the valuation. The progress being made toward the realization of the financing objectives through December 31, 2009 is illustrated in the attached Exhibits I, II and X.

As part of the December 31, 2009 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, 2009 is provided in Exhibit V.

Board of Retirement
Orange County Employees Retirement System
June 7, 2010
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) – for inclusion in Actuarial Section of CAFR;
2. History of Employer Contribution Rates (Exhibit II);
3. Summary of Active Membership (Exhibit III);
4. Summary of Retired Membership (Exhibit IV);
5. Development of Actuarial and Valuation Value of Assets (Exhibit V);
6. Short-Term Solvency Test (Exhibit VI);
7. Actuarial Methods and Assumptions (Exhibit VII);
8. Summary of Major Plan Provisions (Exhibit VIII);
9. Experience Analysis (Exhibit IX); and
10. Schedule of Funding Progress (Exhibit X) – for inclusion in Financial Section of CAFR.

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

In the December 31, 2009 valuation, the ratio of the valuation value of assets to actuarial accrued liabilities decreased from 71.34% to 68.77%. The aggregate employer rate (average of the County and all special districts rates combined) has increased from 27.53% of payroll to 30.03% of payroll. The aggregate employee's rate has decreased from 10.85% of payroll to 10.84% of payroll.

In the December 31, 2009 valuation, the actuarial value of assets included $691 million in deferred investment losses, which represented 9% 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 68.8% to 62.9% and the aggregate employer contribution rate, expressed as a percent of payroll, would increase from 30.0% to about 34.4%.

Board of Retirement
Orange County Employees Retirement System
June 7, 2010
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

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

Andy Yeung

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

MYM/kek
Enclosures

SEGAL

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June 8, 2010

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

Re: Disclosure for OPEB Plan

Dear Members of the Board:

The Board of Retirement had entered into agreements with County of Orange, Orange County Transit Authority (OCTA) and Orange County Fire Authority (OCFA) to establish a separate Health Care Fund account for each of the three entities. Under those agreements, OCERS would administer the health care programs for the retired members and their eligible dependents. The governing bodies at the three entities reserve the right to amend or revise these plans and programs at any time. OCERS' role in these programs is limited to the collection of monies, the investment of funds, and the payment of premiums or monthly benefits when due, based upon direction from the governing bodies at the three entities.

The Segal Company (Segal), acting in the capacity as the retained actuary of OCERS, did not perform any actuarial valuations of the Other Post Employment Benefits (OPEB) for the three entities. However, Segal has through a separate procurement process been retained by OCFA to perform the actuarial valuation for OCFA's OPEB liabilities.

In preparing this combined disclosure of the OPEB liability for OCERS, Segal has relied exclusively on the independent actuarial reports prepared by the actuaries retained by the three entities (including Segal for OCFA) and we have accepted all of their results without further audit. According to the actuarial certificates included in those reports, those actuarial valuations were prepared in accordance with generally accepted actuarial principles and practices. It is our understanding that the assumptions and methods used for funding purposes for the monthly retirement benefit provided by OCTA meet the parameters of the Governmental Accounting Standards Board (GASB) Statement No. 25. It is also our understanding that the assumptions and methods used for funding purposes for the monthly medical subsidy benefits payable by the County of Orange and by OCFA meet the parameters of the GASB Statement No. 43.

Board of Retirement
June 8, 2010
Page 2

We did not audit the Plan's financial statements. For actuarial valuation purposes, Plan assets are valued at Market Value[(1)] by County of Orange, Actuarial Value by OCTA and Market Value by OCFA. For OCTA, the Actuarial Value asset method used to determine the employer's contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over five-year periods.

The Entry Age Normal Cost Method was used to determine the Annual Required Contribution (ARC) and the actuarial accrued liability. Under this method, the ARC provides for current cost (normal cost) plus a level percentage of payroll (level dollar for OCTA) to amortize any unfunded actuarial accrued liability (UAAL). One of the general funding objectives is to reduce the outstanding balance of the UAAL. The date of the last biennial valuation together with the amortization period used in that valuation for each of the three entities are summarized in the table below:

	Date of Last Valuation	Remaining Amortization Period as of Last Valuation	Level Percent of Pay/Level Dollar Amortization
County of Orange	June 30, 2007	30 years, closed[(1)]	Level Percent of Pay
OCTA	January 1, 2010	18 years, closed	Level Percent of Pay
OCFA	June 30, 2008	28 years, closed	Level Dollar

(1) *Both the asset valuation method and the amortization method are currently under review by the County of Orange and are subject to change in future valuations.*

The actuarial valuation reflects a long term perspective that involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about future experience. The assumptions that are not related to health care and used in the above valuations are consistent with those adopted by the Board of Retirement based on Segal's December 31, 2004 or December 31, 2007 triennial experience studies for the pension plan. The next triennial experience analysis is due to be performed as of December 31, 2010. The assumptions that are related to health care are based on those adopted by the governing entities at County of Orange and OCFA.

Actuarial valuations are performed on a biennial basis. The most recent valuations were based upon the benefits provided under the terms of the substantive plans in effect at the time of the such valuations. The ratios of the assets to the actuarial accrued liabilities (or funded ratio) as well as the ARC determined in each of the last three valuations are provided in the table below:

	Date of Last Valuation	Funded Ratio	ARC
County of Orange	June 30, 2007	0.00%	2.6% of pay
OCTA	January 1, 2010	65.09%	0.9% of pay
OCFA	June 30, 2008	22.87%	$8,877,757

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Board of Retirement
June 8, 2010
Page 3

The valuations were based upon the benefits provided under the terms of the substantive plans in effect at the time of the valuations. The schedules presented in the Actuarial and the other Sections of the CAFR have been summarized by Segal based on information provided by the independent actuarial firms retained by the three entities.

The schedules presented in the Actuarial and the other Sections of the CAFR are as follows:

1. Schedule of Funding Progress;
2. History of Employer Contribution Rates;
3. Summary of Active and Retired Membership;
4. Short-Term Solvency Test;
5. Actuarial Methods and Assumptions; and
6. Summary of Major Plan Provisions.

Sincerely,

Paul Angelo

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

Andy Yeung

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

AYY/gxk
Enclosures

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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
12/31/00	$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%
12/31/09	11,858,578	8,154,687	3,703,891	68.77%	1,618,491	228.85%

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

Notes:

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

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

  Law Enforcement adopted a 3.0% of final average salary at age 55.

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

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

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

  Assumption Changes:

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

  Benefit changes:

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

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

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

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

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

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

SEGAL

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
12/31/00	$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)
12/31/09	$108,324,000(5)

(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.*

(5) *For the December 31, 2009 valuation, we also excluded an additional $20,027,000 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		
12/31/2000	NC 4.94% UAAL (3.98) Total 0.96%				NC 8.57% UAAL 0.16 Total 8.73%		
	Non-OCTA	***OCTA***	***Rancho Santa Margarita***	***San Juan Capistrano***	***Law Enforcement***	***Fire Authority***	***Probation***
12/31/2001	NC 5.04% UAAL 0.62* Total 5.66%	NC 4.20% UAAL 0.77* Total 4.97%	N/A	NC 5.04% UAAL 0.62* Total 5.66%	NC 15.87% UAAL 9.15* Total 25.02%	NC 10.30% UAAL 1.89* Total 12.19%	NC 5.04% UAAL 0.62* Total 5.66%
12/31/2002	NC 5.44% UAAL 3.71* Total 9.15%	NC 4.36% UAAL 3.87* Total 8.23%	N/A	NC 5.44% UAAL 3.71* Total 9.15%	NC 16.53% UAAL 21.34* Total 37.87%	NC 17.85% UAAL 16.81* Total 34.66%	NC 4.38% UAAL 4.19* Total 8.57%
12/31/2003**	NC 5.56% UAAL 7.07* Total 12.63%	NC 4.41% UAAL 7.05* Total 11.46%	NC 1.77% UAAL 3.43* Total 5.20%	NC 7.22% UAAL 10.96* Total 18.18%	NC 16.86% UAAL 22.53* Total 39.39%	NC 17.98% UAAL 15.40* Total 33.38%	NC 4.02% UAAL 8.73* Total 12.75%

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Orange County Employees Retirement System

HISTORY OF EMPLOYER CONTRIBUTION RATES (Cont.)

Employer Contribution Rate (% of pay)

	General (2.7% @ 55, Non-OCTA)	*General (1.62% @ 65, Non-OCTA)*	*General (2.7% @ 55)*	*General (OCTA)*	*General (2.5% @ 55)*	*General (Rancho Santa Margarita)*	*General (2.0% @ 55, TCA)*	*General (2.0% @ 55, Cemetery, future service)*	*General (2.7% @ 55, OCFA)*
12/31/2004 ***,****	NC 9.55% UAAL 6.08 Total 15.63%	N/A	NC 11.74% UAAL 10.49 Total 22.23%	NC 11.71% UAAL 1.39 Total 13.10%	NC 10.80% UAAL 9.35 Total 20.15%	NC 10.53% UAAL 2.30 Total 12.83%	NC 11.45% UAAL 7.09 Total 18.54%	See General (Non-OCTA)	See General (2.7% @ 55)
12/31/2005 ***,****	NC 9.33% UAAL 5.00 Total 14.33%	N/A	NC 11.46% UAAL 11.10 Total 22.56%	NC 11.36% UAAL 3.60 Total 14.96%	NC 10.54% UAAL 10.33 Total 20.87%	NC 10.81% UAAL 1.92 Total 12.73%	NC 11.49% UAAL 5.87 Total 17.36%	See General (Non-OCTA)	See General (2.7% @ 55)
12/31/2006 ****, *****	NC 9.19% UAAL 5.31 Total 14.50%	N/A	NC 11.36% UAAL 10.84 Total 22.20%	NC 11.25% UAAL 4.77 Total 16.02%	NC 10.55% UAAL 10.79 Total 21.34%	N/A	NC 12.03% UAAL 6.01 Total 18.04%	NC 10.31% UAAL 5.00 Total 15.31%	NC 11.43% UAAL 12.81 Total 24.24%
12/31/2007	NC 8.92% UAAL 5.25 Total 14.17%	N/A	NC 11.24% UAAL 10.59 Total 21.83%	NC 11.26% UAAL 3.76 Total 15.02%	NC 10.54% UAAL 11.41 Total 21.95%	N/A	NC 12.60% UAAL 6.13 Total 18.73%	NC 10.79% UAAL 4.36 Total 15.15%	NC 11.48% UAAL 11.53 Total 23.01%
12/31/2008	NC 8.99% UAAL 7.06 Total 16.05%	N/A	NC 11.79% UAAL 13.00 Total 24.79%	NC 11.32% UAAL 5.94 Total 17.26%	NC 11.19% UAAL 13.01 Total 24.20%	N/A	NC 13.02% UAAL 5.72 Total 18.74%	NC 10.85% UAAL 7.05 Total 17.90%	NC 12.03% UAAL 12.59 Total 24.62%
12/31/2009 ******	NC 8.69% UAAL 10.37 Total 19.06%	NC 3.69% UAAL 10.37 Total 14.06%	NC 11.61% UAAL 15.47 Total 27.08%	NC 11.11% UAAL 9.12 Total 20.23%	NC 10.93% UAAL 14.65 Total 25.58%	N/A	NC 12.59% UAAL 7.00 Total 19.59%	NC 11.24% UAAL 6.92 Total 18.16%	NC 11.98% UAAL 14.46 Total 26.44%

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Orange County Employees Retirement System

HISTORY OF EMPLOYER CONTRIBUTION RATES (Cont.)

Employer Contribution Rate (% of pay)

	Safety Law Enforcement (3% @ 50)		*Safety Law Enforcement (3% @ 55)*		*Safety Fire Authority*		*Safety Probation*	
12/31/2004 ***,****	NC	20.43%	N/A		NC	20.33%	NC	21.37%
	UAAL	17.22			UAAL	13.52	UAAL	12.04
	Total	37.65%			Total	33.85%	Total	33.41%
12/31/2005 ***,****	NC	20.15%	N/A		NC	20.04%	NC	20.76%
	UAAL	17.18			UAAL	13.98	UAAL	11.18
	Total	37.33%			Total	34.02%	Total	31.94%
12/31/2006 ****	NC	20.19%	N/A		NC	19.93%	NC	20.61%
	UAAL	15.86			UAAL	13.50	UAAL	11.64
	Total	36.05%			Total	33.43%	Total	32.25%
12/31/2007	NC	21.27%	N/A		NC	21.02%	NC	20.49%
	UAAL	18.25			UAAL	17.22	UAAL	10.90
	Total	39.52%			Total	38.24%	Total	31.39%
12/31/2008	NC	21.39%	N/A		NC	21.16%	NC	20.15%
	UAAL	21.95			UAAL	21.94	UAAL	12.03
	Total	43.34%			Total	43.10%	Total	32.18%
12/31/2009 ******	NC	21.13%	NC	20.38%	NC	21.31%	NC	20.17%
	UAAL	25.02	UAAL	25.02	UAAL	26.61	UAAL	13.89
	Total	46.15%	Total	45.40%	Total	47.92%	Total	34.06%

* *Includes an additional 0.50% of pay as required under an agreement between OCERS and the County.*

** *Excludes the cost of benefit improvements for certain employers adopted after December 31, 2003.*

*** *After reflecting three-year phase-in of the total rate increase calculated in the 2004 and 2005 valuations for OCTA.*

**** *Excludes contributions to RMBR/ABRA, if applicable.*

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

****** *The UAAL established as a result of including additional premium pay items is amortized over a 30-year period.*

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Exhibit III

SUMMARY OF ACTIVE MEMBERSHIP

Valuation Date	Number	Annual Salary	Annual Average Salary	Increase in Average Salary (%)
12/31/00				
General	18,382	$809,054,612	$44,016	6.04
Safety	2,605	185,614,420	71,256	4.95
Total	20,987	$994,669,032	$47,400	5.76
12/31/01				
General	19,653	$921,057,200	$46,860	6.46
Safety	2,676	201,705,606	75,372	5.78
Total	22,329	$1,122,762,806	$50,280	6.08
12/31/02				
General	19,002	$976,660,649	$51,398	9.68
Safety	3,721	265,638,289	71,389	(5.28)
Total	22,723	$1,242,348,938	$54,674	8.74
12/31/03				
General	19,023	$985,534,535	$51,808	0.80
Safety	3,649	258,429,279	70,822	(0.79)
Total	22,672	$1,243,963,814	$54,868	0.35
12/31/04				
General	18,928	$1,003,061,000	$52,993	2.29
Safety	3,574	254,024,000	71,076	0.36
Total	22,502	$1,257,085,000	$55,866	1.82
12/31/05				
General	18,816	$1,011,214,000	$53,742	1.41
Safety	3,651	265,550,000	72,733	2.25
Total	22,467	$1,276,764,000	$56,828	1.72
12/31/06				
General	19,129	$1,049,095,000	$54,843	2.05
Safety	3,662	273,857,000	74,783	2.82
Total	22,791	$1,322,952,000	$58,047	2.15
12/31/07				
General	19,803	$1,156,684,000	$58,410	6.50
Safety	3,815	300,475,000	78,761	5.32
Total	23,618	$1,457,159,000	$61,697	6.29
12/31/08				
General	19,795	$1,238,077,000	$62,545	7.08
Safety	3,925	331,687,000	84,506	7.29
Total	23,720	$1,569,764,000	$66,179	7.26
12/31/09				
General	18,873	$1,258,558,000	$66,686	6.62
Safety	3,760	359,933,000	95,727	13.28
Total	22,633	$1,618,491,000	$71,510	8.06

Excludes Deferred and Pending members.

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EXHIBIT IV

SUMMARY OF RETIRED MEMBERSHIP

		Added to Rolls		Removed from Rolls					
Plan Year Ending	At Beginning of Year	Number	Annual Allowance (in 000's)*	Number	Annual Allowance (in 000's)	At End of Year	Annual Allowance (in 000's)	% Increase in Annual Allowance	Average Monthly Allowance
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
2009	11,778	744	32,435	(279)	(6,829)	12,243	419,253	6.50	2,854

* *Includes COLA granted during the plan year.*

Note: Annual allowances exclude RMBR and STAR COLA.

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Exhibit V

DEVELOPMENT OF ACTUARIAL AND VALUATION VALUE OF ASSETS

As of December 31, 2009

Plan Year Ending	Total Actual Market Return (net)	Expected Market Return (net)	Investment Gain/(Loss)	Deferred Factor	Deferred Return
2006	$787,330,000	$463,198,000	$324,132,000	0.2	$64,826,000
2007	$769,613,000	$533,502,000	$236,111,000	0.4	$94,444,000
2008	$(1,617,791,000)	$603,959,000	$(2,221,750,000)	0.6	$(1,333,050,000)
2009	$1,092,660,000	$489,051,000	$603,609,000	0.8	$482,887,000

(1)	Total Deferred Return	$(690,893,000)
(2)	Net Market Value of Assets (Excludes $108,324,000 in County Investment Account and $20,027,000 in Prepaid Employer Contributions)	$7,464,761,000
(3)	Actuarial Value of Assets (2) – (1)	$8,155,654,000
(4)	Non-valuation Reserves	
(a)	Unclaimed member deposit	$849,000
(b)	Medicare medical insurance reserve	$100,000
(c)	Retired member benefit reserve (RMBR)	$18,000
(d)	Subtotal	$967,000
(5)	Valuation Value of Assets (3) – (4)(d)	$8,154,687,000
(6)	Deferred Return Recognized in Each of the Next 4 Years	
(a)	Amount recognized on 12/31/2010	$(211,580,167)
(b)	Amount recognized on 12/31/2011	(276,406,167)
(c)	Amount recognized on 12/31/2012	(323,628,666)
(d)	Amount recognized on 12/31/2013	120,722,000
(e)	Subtotal (may not total exactly due to rounding)	$(690,893,000)

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Orange County Employees Retirement System

Exhibit VI

SHORT-TERM SOLVENCY TEST

($ Amounts in Thousands)

Valuation Date	(1) Active Member Contributions	(2) Liability for Inactive Participants	(3) Liability for Active Members (Employer Financed Portion)	Valuation Value of Assets	Portion of Accrued Liability Covered by Valuation Assets (%)		
					(1)	(2)	(3)
12/31/00	$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
12/31/09	1,536,849	5,680,031	4,641,698	8,154,687	100	100	20.20

(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:

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

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

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Section 2 - Termination Rates Before Retirement (Continued):

Disability Incidence Rates:

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

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

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

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

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Section 2 - Termination Rates Before Retirement (Continued):

Termination Rates:

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

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

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

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

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

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Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Retirement Rates:

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

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

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

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Retirement Age and Benefit for Deferred Vested Members: For deferred vested members, we make the following retirement age assumptions:

General Age:	57
Safety Age:	52

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

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

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

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

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

Age of Spouse: Female (or male) four years younger (or older) than spouse.

Net Investment Return: 7.75%; net of investment and administrative expenses.

Employee Contribution Crediting Rate: 5.00%, compounded semi-annually.

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

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Salary Increases:

Annual Rate of Compensation Increase (%)

Inflation: 3.50% per year, plus the following merit and promotion increases:

Years of Service	General	Safety
Less than 1	8.00%	10.00%
1	7.00	8.00
2	6.00	7.00
3	5.00	6.00
4	4.00	4.00
5	3.00	3.00
6	2.00	2.00
7	1.75	1.75
8	1.50	1.50
9	1.25	1.25
10	1.25	1.00
11	1.25	1.00
12	1.25	1.00
13	1.25	1.00
14	1.25	1.00
15	1.25	1.00
16	1.00	1.00
17	1.00	1.00
18	1.00	1.00
19	1.00	1.00
20 & over	1.00	1.00

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

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

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

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

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

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

Actuarial Cost Method: Entry Age Normal Actuarial Cost Method. Entry Age is the current age minus Vesting Credit. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salaries, with Normal Cost determined as a level percentage of individual salary, as if the current benefit accrual rate had always been in effect. The outstanding balance of the December 31, 2004 unfunded Actuarial Accrued Liability is amortized over a declining 25-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. The UAAL established in the December 31, 2009 valuation as a result of including additional premium pay items is amortized over a 30-year period.

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

Orange County Employees Retirement System

Exhibit VIII

SUMMARY OF MAJOR PLAN PROVISIONS

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

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

Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Safety Plans

3% @ 50 Plans	*(Law Enforcement, Fire Protection and Probation Members)*
Plan E	Safety members hired before September 21, 1979.
Plan F	Safety members hired on or after September 21, 1979 and before April 8, 2010.
3% @55 Plans	*(Law Enforcement)*
Plan Q	Safety members rehired on or after April 8, 2010 and previously in Plan E.
Plan R	Safety members rehired on or after April 8, 2010.

Final Compensation for Benefit Determination:

Plans A, E, G , I, M, O and Q	Highest consecutive twelve months of compensation earnable. (§31462.1) (FAS1)
Plans B, F, H, J, N, P and R	Highest consecutive thirty-six months of compensation earnable. (§31462) (FAS3)
Service:	Years of service. (Yrs)

Service Retirement Eligibility:

General	Age 50 with 10 years of service, or age 70 regardless of service, or after 30 years, regardless of age. (§31672)
Safety	Age 50 with 10 years of service, or after 20 years, regardless of age. (§31663.25)
	All part time employees over age 55 with 10 years of employment may retire with 5 years of service.

Benefit Formula:

General Plans

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

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

SEGAL

Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

2.7% @ 55	**Retirement Age**	**Benefit Formula**
Plan I (§31676.19)	50	(2.00% x FAS1 x Yrs)
Tier 1	55	(2.70% x FAS1 x Yrs)
	60	(2.70% x FAS1 x Yrs)
	62	(2.70% x FAS1 x Yrs)
	65	(2.70% x FAS1 x Yrs)
Plan J (§31676.19)	50	(2.00% x FAS3 x Yrs)
Tier 2	55	(2.70% x FAS3 x Yrs)
	60	(2.70% x FAS3 x Yrs)
	62	(2.70% x FAS3 x Yrs)
	65	(2.70% x FAS3 x Yrs)

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

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

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

Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

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

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

Safety Plans

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

Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

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

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

Ordinary Disability:

General Plans

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

Eligibility Five years of service. (§31720)

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

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

Safety Plans

Plans E, F, Q and R

Eligibility Five years of service. (§31720)

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

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

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:	
Less than Five Years of Service	Refund of accumulated employee contributions with interest or earned benefit at age 70 (§31628). Effective January 1, 2003, A member may also elect to leave their contributions on deposit in the retirement fund. (§31629.5)
Five or More Years of Service	If contributions left on deposit, entitled to earned benefits commencing at any time after eligible to retire. (§31700)
Post-retirement Cost-of-Living Benefits:	Future changes based on Consumer Price Index to a maximum of 3% per year, excess "banked." (§31870.1)
Supplemental Benefit:	Non-vested supplemental COLA and medical benefits are also paid by the System to eligible retirees and survivors. These benefits have been excluded from this valuation.

Member Contributions:

General Plans:

Plan A

Basic	Provide for an average annuity at age 60 equal to 1/200 of FAS1. (§31621.5)
Cost-of-Living	Provide for 50% of future Cost-of-Living costs.

Plan B

Basic	Provide for an average annuity at age 60 equal to 1/120 of FAS3. (§31621)
Cost-of-Living	Provide for 50% of future Cost-of-Living costs.

Plans G, H, I and J

Basic	Provide for an average annuity at age 55 equal to 1/100 of FAS3 (FAS1 for Plans G and I). (§31621.8)
Cost-of-Living	Provide for 50% of future Cost-of-Living costs.

Plan M and O

Basic	Provide for an average annuity payable at age 60 equal to 1/120 of FAS1. (§31621).
Cost of Living	Provide for 50% of future Cost-of-Living costs.

Plan N and P

Basic	Provide for an average annuity payable at age 60 equal to 1/120 of FAS3. (§31621).
Cost of Living	Provide for 50% of future Cost-of-Living costs.

Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Safety Plans:

Plans E and Q

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

Plans F and R

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

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

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

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				
	2005	**2006**	**2007**	**2008**	**2009**
Retirements	--	--	--	$(54,911)	--
Pay Increases	$(16,544)	$(21,679)	$(136,417)	(97,561)	$77,858
Investment Income	39,536	112,612	176,681	(257,752)	(322,523)
Other	(65,468)	(39,155)	(43,538)	(17,159)	(14,931)
Gain (or Loss) During Year From Experience	**$(42,476)**	**$51,778**	**$(3,274)**	**$(427,383)**	**$(259,596)**
Nonrecurring Items:					
Method and Procedure Changes	15,335	--	--	--	--
Plan Amendments and Assumption Changes	--	--	(237,147)	(115,764)	--
Correction to Include All Premium Pay Items	--	--	--	--	(228,051)
Composite Gain (or Loss) During Year	**$(27,141)**	**$51,778**	**$(240,421)**	**$(543,147)**	**$(487,647)**

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)
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%
2009	8,154,687,000	11,858,578,000	3,703,891,000	68.77%	1,618,491,000	228.85%

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

SUMMARY OF ACTIVE AND RETIRED MEMBERSHIP (OPEB)

Valuation Date		Number	Annual Salary	Annual Average Salary
County of Orange				
6/30/2007	Active	18,362	$1,157,642,000	$63,046
	Retiree	6,878	N/A	N/A
	Deferred Retiree	18	N/A	N/A
OCTA				
1/1/2010	Active	1,812	$101,596,000	$56,068
	Retiree	373	N/A	N/A
OCFA				
6/30/2008	Active	960	$80,624,028	$83,983
	Retiree	316	N/A	N/A

SHORT-TERM SOLVENCY TEST (OPEB)

($ 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)
County of Orange							
6/30/2007	$0	$241,620	$166,702	$0	100%	0%	0%
OCTA							
1/1/2010	$0	$5,750	$7,996	$8,947	100%	100%	40%
OCFA							
6/30/2008	N/A*	$29,083	$81,570	$21,525	100%	74%	0%

** Not available and included in total assets of $21,525,000 reported for the entire plan.*

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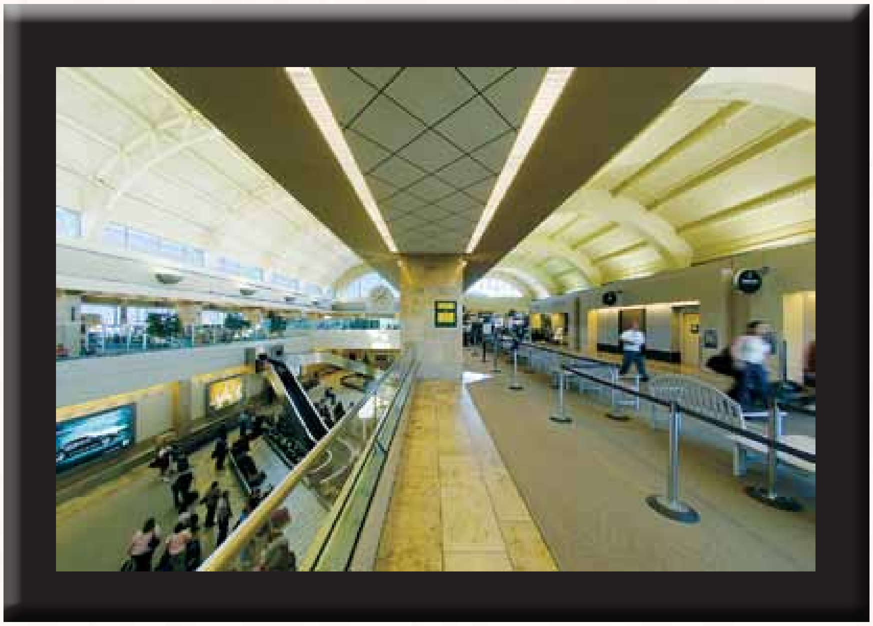
John Wayne Airport, Stephen Francis Photography



SECTION 5

>STATISTICAL

Statistical Section Review

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

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

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

Schedule of Changes in Plan Net Assets
2000 – 2009

Years Ended December 31	2000	2001	2002	2003	2004
Additions					
Employer Contributions	$15,561,000	$12,060,000	$13,289,000	$124,243,000	$194,430,000
Member Contributions	$61,179,000	$68,635,000	$77,917,000	$81,581,000	$81,931,000
Net Investment Income	$25,814,000	$(151,438,000)	$(270,654,000)	$788,036,000	$568,027,000
Net Securities Lending	$925,000	$1,580,000	$1,119,000	$872,000	$857,000
Miscellaneous	$18,545,000		$347,000	$178,000	$116,000
Total Additions	**$122,024,000**	**$(69,163,000)**	**$(177,982,000)**	**$994,910,000**	**$845,361,000**
Deductions					
Total Benefit Expenses	$158,981,000	$169,274,000	$186,031,000	$216,685,000	$238,529,000
Administrative Expenses	$6,631,000	$7,146,000	$8,279,000	$8,848,000	$9,463,000
Total Deductions	**$165,612,000**	**$176,420,000**	**$194,310,000**	**$225,533,000**	**$247,992,000**
Change in Plan Net Assets	**$(43,588,000)**	**$(245,583,000)**	**$(372,292,000)**	**$769,377,000**	**$597,369,000**

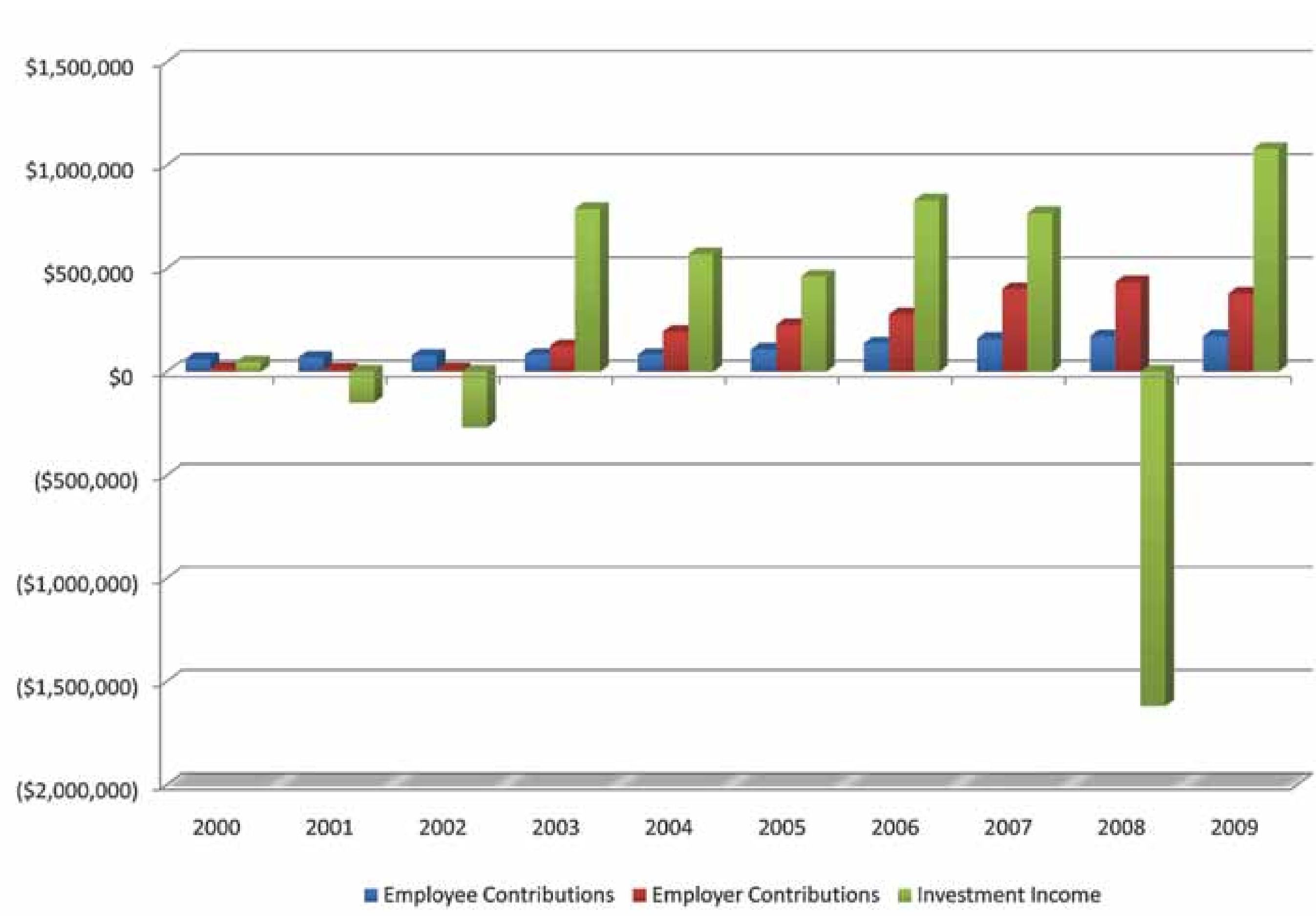
Years Ended December 31	2005	2006	2007	2008	2009
Additions					
Employer Contributions	$226,129,626	$277,368,459	$401,037,097	$433,911,069	$377,975,938
Member Contributions	$107,543,611	$137,581,505	$159,475,621	$172,290,680	$171,927,619
Net Investment Income	$460,431,356	$828,147,188	$763,117,288	$(1,627,177,419)	$1,073,857,961
Net Securities Lending	$1,425,286	$1,316,925	$3,451,533	$6,145,253	$3,989,290
Miscellaneous	$123,476	$735,898	$1,773,522	$1,249,441	$2,160,623
Total Additions	**$795,653,355**	**$1,245,149,975**	**$1,328,855,061**	**$(1,013,580,976)**	**$1,629,911,431**
Deductions					
Total Benefit Expenses	$264,927,495	$318,665,929	$353,861,061	$419,501,905	$461,529,728
Administrative Expenses	$9,952,870	$17,145,308	$10,381,060	$11,006,229	$ 10,893,021
Total Deductions	**$274,880,365**	**$335,811,237**	**$364,242,121**	**$430,508,134**	**$472,422,749**
Change in Plan Net Assets	**$520,772,990**	**$909,338,738**	**$964,612,940**	**$(1,444,089,110)**	**$1,157,488,682**

Schedule and Graph of Revenues by Source

(Dollars in Thousands)

2000 – 2009

Years Ended December 31	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Employee Contributions	$61,179	$68,635	$77,917	$81,581	$81,931	$107,544	$137,582	$159,476	$172,291	$171,928
Employer Contributions	$15,561	$12,060	$13,289	$124,243	$194,430	$226,130	$277,368**	$401,037	$433,911	$377,976
Investment Income*	$45,284	$(149,858)	$(269,188)	$789,086	$569,000	$461,980	$830,200	$768,342	$(1,619,782)	$1,080,007
Total	$122,024	$(69,163)	$(177,982)	$994,910	$845,361	$795,654	$1,245,150	$1,328,855	$(1,013,580)	$1,629,911



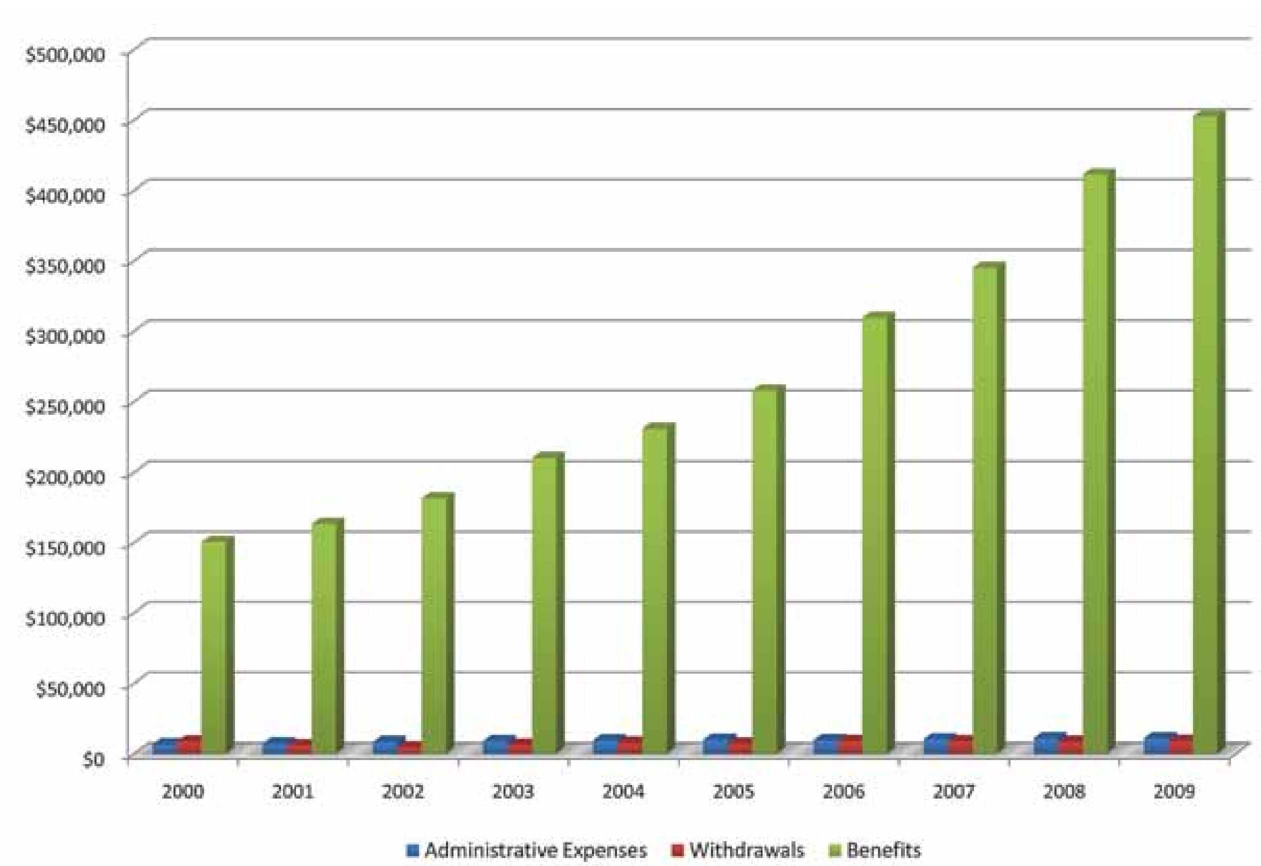
* Investment Income includes net appreciation (depreciation) less investment manager fees, security lending fees and commission recapture.
** Prepaid Unearned Contribution not netted (Note G)

Schedule and Graph of Expenses by Type

(Dollars in Thousands)

2000 – 2009

Years Ended December 31	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Administrative Expenses	$6,631	$7,146	$8,279	$8,848	$9,463	$9,953	$9,600	$10,381	$11,006	$10,893
Withdrawals	$8,515	$5,896	$4,482	$6,412	$7,845	$6,999	$8,970	$8,799	$8,359	$9,052
Benefits	$150,466	$163,378	$181,549	$210,273	$230,684	$257,929	$309,696	$345,062	$411,143	$452,478
Total	$165,612	$176,420	$194,310	$225,533	$247,992	$274,881	$328,266	$364,242	$430,508	$472,423

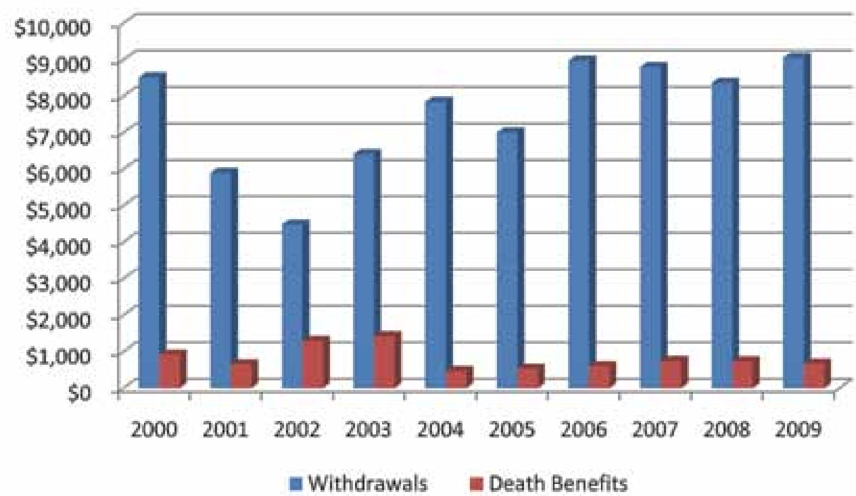


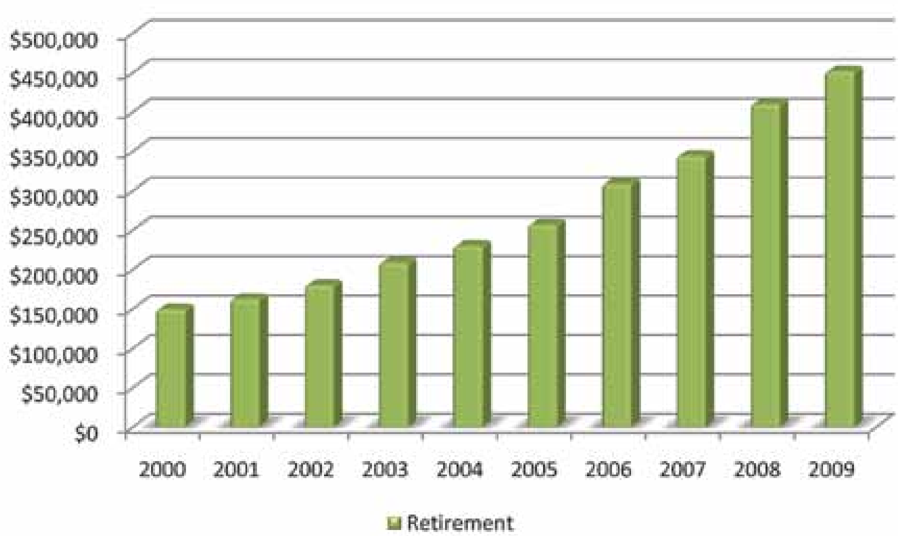
Schedule and Graphs of Benefit Expenses by Type

(Dollars in Thousands)

2000 – 2009

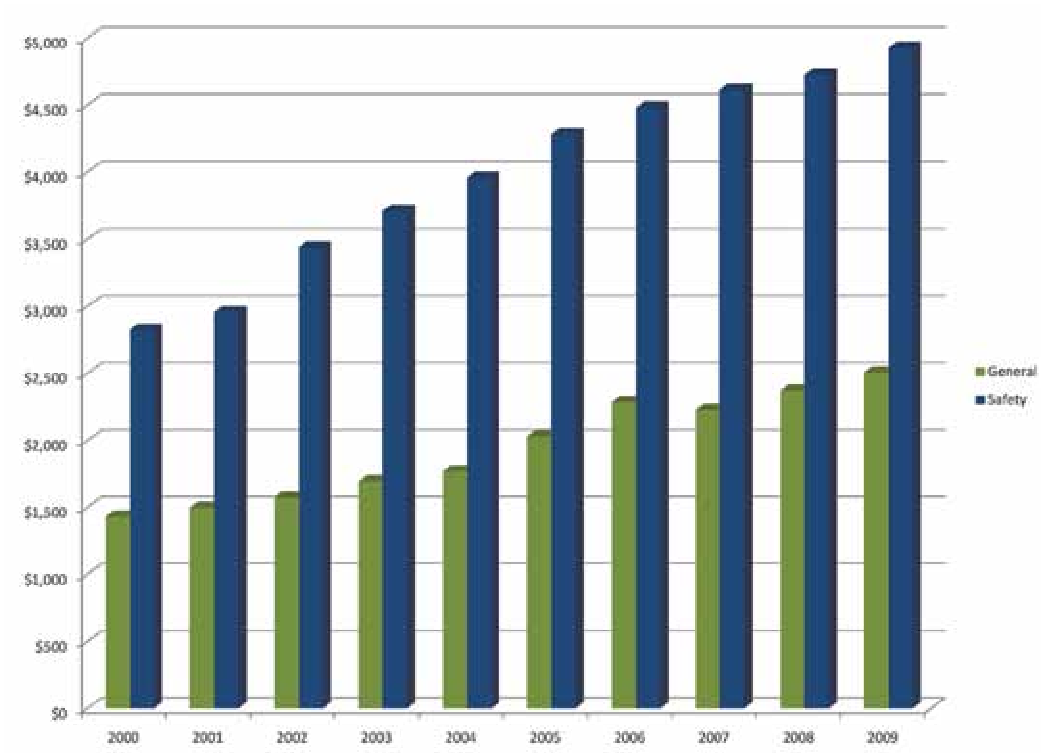
Years Ended December 31	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Withdrawals	$8,515	$5,896	$4,482	$6,412	$7,845	$6,999	$8,970	$8,799	$8,359	$9,052
Retirement	$149,555	$162,732	$180,263	$208,861	$230,225	$257,397	$309,102	$344,321	$410,417	$451,817
Death Benefits	$911	$646	$1,286	$1,412	$459	$532	$594	$741	$726	$661
Total	$158,981	$169,274	$186,031	$216,685	$238,529	$264,928	$318,666	$353,861	$419,502	$461,530





Schedule and Graph of Average Monthly Pension Check 2000 – 2009

Years Ended December 31	2000	2001	2002	2003	2004	2005	2006*	2007	2008	2009
General	$1,429	$1,498	$1,572	$1,691	$1,766	$2,031	$2,286	$2,228	$2,373	$2,508
Safety	$2,822	$2,955	$3,438	$3,713	$3,959	$4,283	$4,479	$4,618	$4,724	$4,926



*Year 2006 includes health grant

Schedule of Average Pension Benefit Payments By Years of Service

	Years of Service						
Retirement Effective Dates	0-4	5-9	10-14	15-19	20-24	25-29	30 & Over
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
PERIOD 1/1/09 –12/31/09							
Average Monthly Pension Benefits	$381	$950	$1,821	$2,716	$3,711	$5,852	$7,467
Average Final Average Salary	$3,766	$4,228	$5,564	$6,006	$6,417	$7,669	$8,378
Number of Retired Members	26	45	102	87	110	106	124

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

Schedule of Benefit Recipients by Type of Benefit
December 31, 2009

Monthly Benefit	1	2	3	4	5	6	7	Total
$001-500	624	121	3	7	16	63	42	876
$501-1,000	1,058	227	3	43	42	61	147	1,581
$1,001-1,500	1,167	149	49	93	25	40	87	1,610
$1,501-2,000	952	115	136	59	17	34	37	1,350
$2001-2,500	871	79	251	24	32	21	19	1,297
$2,501-3,000	674	56	170	10	16	11	12	949
$3,001-3,500	592	28	124	8	13	6	5	776
$3,501-4,000	471	20	122	3	5	6	5	632
$4,001-4,500	415	21	45	1	5	5	5	497
$4,501-5,000	376	9	36	0	3	1	5	430
$5,001-5,500	342	7	18	2	0	0	1	370
$5,501-6,000	296	5	13	0	3	0	1	318
$6,001-6,500	268	2	7	0	2	0	1	280
$6,501-7,000	196	3	11	0	1	0	1	212
Over $7,000	1,020	5	34	2	4	0	0	1,065
Total	9,322	847	1,022	252	184	248	368	12,243

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, 2009

Monthly Benefit	JSURV	SL100	SL60	SLIFE	SLR60	UNMJS	Total Payees
$001-500	149	0	2	160	1	564	876
$501-1,000	265	0	16	314	10	976	1,581
$1,001-1,500	244	1	15	312	4	1,034	1,610
$1,501-2,000	265	0	4	280	1	800	1,350
$2,001-2,500	270	1	3	275	0	748	1,297
$2,501-3,000	218	0	2	175	0	554	949
$3,001-3,500	218	2	0	131	0	425	776
$3,501-4,000	182	2	0	107	0	341	632
$4,001-4,500	142	1	1	116	0	237	497
$4,501-5,000	154	1	0	76	0	199	430
$5,001-5,500	164	0	0	78	0	128	370
$5,501-6,000	148	0	0	67	0	103	318
$6,001-6,500	130	0	1	61	0	88	280
$6,501-7,000	101	0	0	39	0	72	212
Over $7,000	547	0	0	168	0	350	1,065
Total	3,197	8	44	2,359	16	6,619	12,243

Definition of Options

JSURV: Contingent joint survivor.

SL100: Single life with 100% joint survivor adjustment.

SL60: Single life with 60% adjustment.

SLIFE: Lifetime payment.

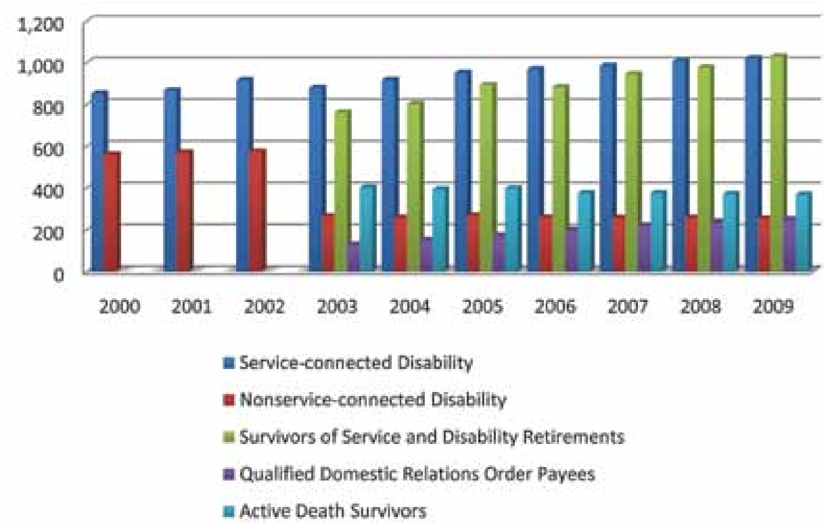
SLR60: Single life with 60% adjustment with reduction.

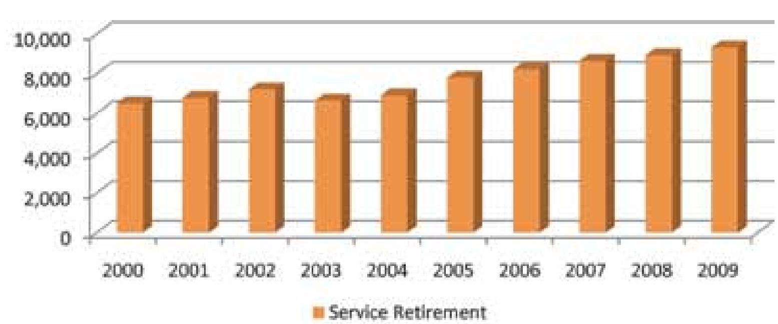
UNMJS: Unmodified with joint survivor.

Source: OCERS' Pension Gold Information System

Schedule and Graphs of Benefit Recipients 2000 – 2009

Years Ended December 31	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Service-connected Disability	853	868	917	879	918	953	986	986	1,009	1,022
Nonservice-connected Disability	561	570	574	264	258	269	269	257	258	252
Service Retirement	6,501	6,778	7,197	6,642	6,906	7,799	8,403	8,636	8,924	9,322
Survivors of Service and Disability Retirements	N/A	N/A	N/A	762	804	894	1,310	946	978	1,031
Qualified Domestic Relations Orders	N/A	N/A	N/A	129	153	174	203	221	238	248
Active Death Survivors	N/A	N/A	N/A	403	394	399	11	374	371	368
Total*	7,915	8,216	8,688	9,079	9,433	10,488	11,182	11,420	11,778	12,243





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 2000-2009

Years Ended December 31	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General	N/A	N/A	N/A	60.68	61.06	60.03	60.31	60.71	60.51	60.28
Safety	N/A	N/A	N/A	56.02	54.56	55.20	54.17	54.60	54.21	54.19

Schedule of Average Years of Service at Retirement 2000-2009

Years Ended December 31	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General	N/A	N/A	N/A	22.29	22.11	24.79	22.67	21.85	22.33	22.18
Safety	N/A	N/A	N/A	25.74	24.55	24.01	23.63	25.62	26.04	26.07

Schedule of Beneficiaries Receiving a Pension 2000-2009

Years Ended December 31	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General	N/A	N/A	N/A	1,068	1,089	1,175	1,200	1,190	1,214	1,253
Safety	N/A	N/A	N/A	97	109	118	121	130	135	146
Total	N/A	N/A	N/A	1,165	1,198	1,293	1,321	1,320	1,349	1,399

Schedule of Active and Deferred Members 2000-2009

Years Ended December 31	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General										
Active	N/A	N/A	N/A	19,006	18,935	18,812	19,101	19,803	19,795	18,873
Deferred	N/A	N/A	N/A	1,546	1,763	2,213	2,911	3,353	3,560	3,707
Safety										
Active	N/A	N/A	N/A	3,645	3,567	3,653	3,649	3,815	3,925	3,760
Deferred	N/A	N/A	N/A	119	147	196	267	293	321	387
Total	N/A	N/A	N/A	24,316	24,412	24,874	25,928	27,264	27,601	26,727

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

Schedule of Participating Employers
2003 – 2009*

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
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%
2009	Number of Covered Employees	22,633	17,021	1,836	1,711	1,114	611	88	92	160
	Percentage to Total System	100.00%	75.20%	8.11%	7.56%	4.92%	2.70%	0.39%	0.41%	0.71%

Note 1 Includes Active & Inactive members.
Note 2 Orange County Superior Court became a separate agency in 2004.
* Data for years 2000 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 2009

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

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

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

Source: The Segal Company

Story time at the library in Rancho Santa Margarita, above
Old Courthouse in Santa Ana, below

SECTION 6

OC Sanitation District,
Chet Frohlich Photography - next page

>GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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