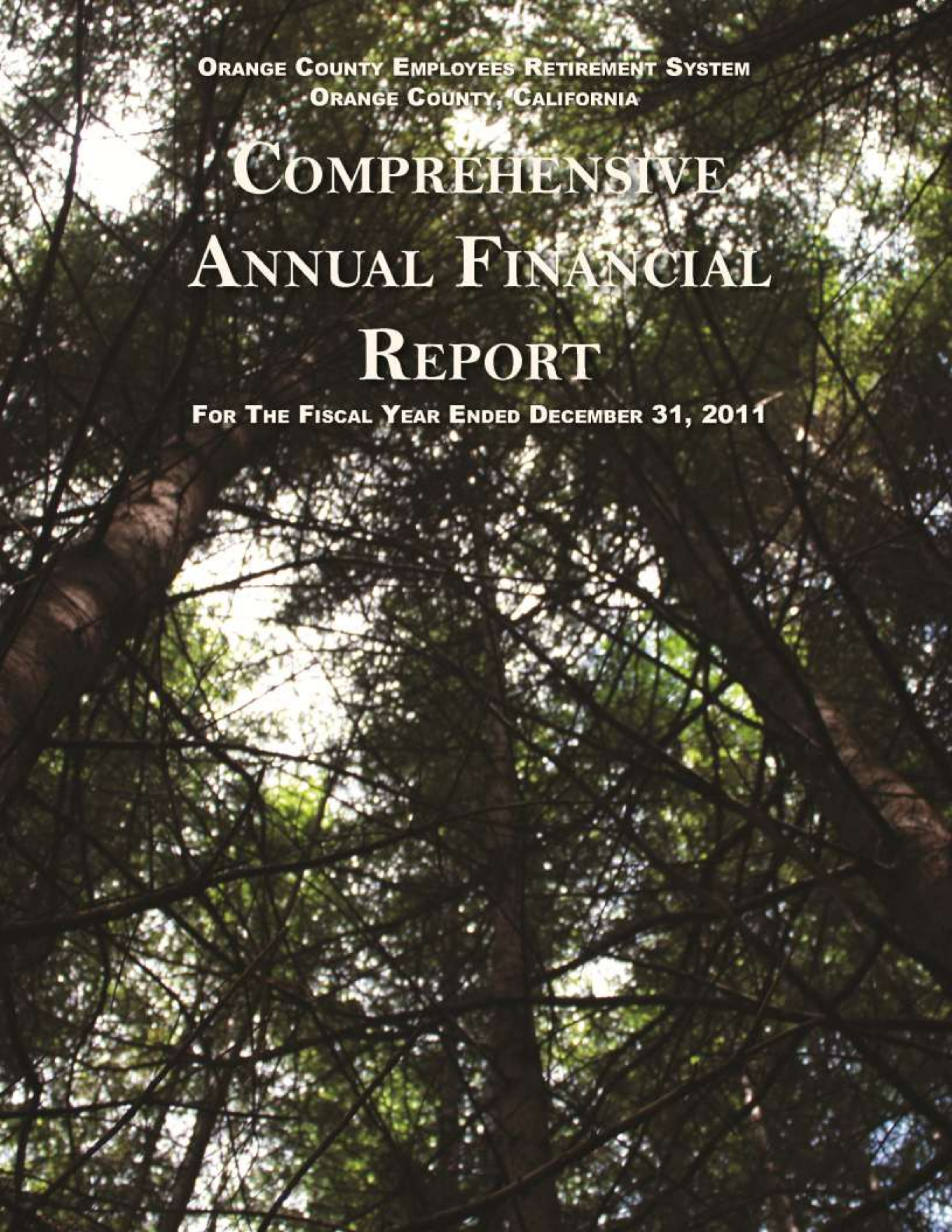
Orange County Employees Retirement System
Orange County, California

Comprehensive Annual Financial Report

For The Fiscal Year Ended December 31, 2011



Orange County Employees Retirement System
Orange County, California

Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2011

Prepared by:	**The Finance Division of the Orange County Employees Retirement System**
Issued by:	**Steve Delaney, Chief Executive Officer**

Orange County Employees Retirement System
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Santa Ana, CA 92701-3161

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Web site: www.ocers.org

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Farmland Management Services/Hancock Agricultural Investment Group;
RMK Timberland Group
Robert Kinsler, Orange County Employees Retirement System

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SECTION I

Photo credit: Farmland Management Services / Hancock Agricultural Investment Group

> INTRODUCTORY

Letter of Transmittal

ORANGE COUNTY
OCERS
EMPLOYEES RETIREMENT SYSTEM

Serving the Active and Retired Members of:

CITY OF SAN JUAN CAPISTRANO

COUNTY OF ORANGE

ORANGE COUNTY CEMETERY DISTRICT

ORANGE COUNTY CHILDREN & FAMILIES COMMISSION

ORANGE COUNTY DEPARTMENT OF EDUCATION (CLOSED TO NEW MEMBERS)

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

ORANGE COUNTY FIRE AUTHORITY

ORANGE COUNTY IN-HOME SUPPORTIVE SERVICES PUBLIC AUTHORITY

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

ORANGE COUNTY PUBLIC LAW LIBRARY

ORANGE COUNTY SANITATION DISTRICT

ORANGE COUNTY TRANSPORTATION AUTHORITY

SUPERIOR COURT OF CALIFORNIA, COUNTY OF ORANGE

TRANSPORTATION CORRIDOR AGENCIES

UCI MEDICAL CENTER AND CAMPUS (CLOSED TO NEW MEMBERS)

August 1, 2012

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 or System) as of and for the year ended December 31, 2011, the System's 67th year of operation.

OCERS

OCERS provides service retirement, disability, death and survivor benefits and is administered in accordance with the County Employees Retirement Law of 1937 (Government Code Section 31450, et seq.). Pursuant to certain provisions of the County Employees Retirement Law, OCERS is an independent district within the County of Orange, with a separate operating budget and professional staff. The California Constitution gives the Board of Retirement plenary authority over the administration of the system, which includes administering plan benefits and managing the assets. The Board of Retirement and OCERS' staff members are committed to act for the exclusive benefit of the plan and its participants, manage the assets of the plan prudently and administer benefits with impartiality. To fulfill this mandate, OCERS employs a skilled professional staff and independent consultants that operate under a robust system of governance, operational and fiduciary policies and procedures.

Currently, OCERS' participating agencies include the County of Orange, one city, ten active special districts, two special districts with active employees that are closed to new members and one special district with deferred members.

MANAGEMENT RESPONSIBILITY OF FINANCIAL REPORTING

OCERS' management is responsible for the complete and fair presentation of the financial information in accordance with generally accepted accounting principles (GAAP) in the United States. 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 the financial position and operating results of OCERS.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM ◆ *2223 E. Wellington Avenue, Suite 100, Santa Ana, CA 92701*

OCERS' MISSION STATEMENT AND OBJECTIVES
The role of OCERS 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.

In fulfilling our mission as a retirement system, OCERS' objectives are:

1. Excellent customer service, *providing*
2. Timely and accurate benefits, *based on*
3. Secure and reliable data, *funded by*
4. Prudently managed investments, *guided by*
5. Professional plan administration

MAJOR INITIATIVES AND SIGNIFICANT EVENTS
The following are major initiatives and significant events that were undertaken during the year:

- The multi-year implementation of a new Pension Administration System.
- Completed a comprehensive review of data used in the annual Actuarial Valuation and Review and reallocated plan assets credited to each plan sponsor in the report.
- Performed a thorough assessment of OCERS' policies and procedures, specifically focusing on the implementation of an entity wide internal control structure and improved and well documented policies and procedures.
- Implemented new procedures and enhanced internal controls in the finance department to specifically address and correct the weaknesses that were identified and reported by Macias, Gini O'Connell LLP (MGO), OCERS' independent auditors, during the 2010 financial audit.
- Created a succession plan for OCERS' management team and hired individuals for key positions that were vacant.
- Hired a new investment consultant, New England Pension Consulting (NEPC), LLC and real estate investment consultant, R.V. Kuhns & Associates, Inc.
- Completed a search for investment managers in the agriculture sector.
- Developed a quality assurance/compliance process for specific benefit payments, including the implementation of a peer audit process for all benefit types.
- Evaluated the application phase of disability retirements to ensure that deadlines are met and applications are efficiently processed.
- Assessed communication efforts with disability applicants and employers by reviewing all notification letters and updated to provide clear information on where an application is in the process.
- Completed a Cost of Living Adjustment (COLA) audit of over 290 records.
- Introduced and developed an agency-wide internal control enhancement project to be implemented in 2012.
- Implemented a new phone system.
- Upgraded OCERS' network infrastructure and installed the required hardware to upgrade the network bandwidth to 10Mbps.
- Successful litigation outcome in Wachovia securities litigation matter.
- OCERS' staff wrote, produced and posted six instructional videos on the OCERS' website for an easy access way for members to get answers to their most frequently asked questions
- Completed a series of active member focus groups and developed targeted communication to various member groups based on outcomes.

ACCOUNTING SYSTEMS AND REPORTS

OCERS' management is responsible for establishing a system of internal control to safeguard assets and for the presentation of the accompanying basic financial statements. Oversight is provided by OCERS' internal auditing staff and OCERS' Audit Committee. MGO audited the accompanying basic financial statements and related disclosures.

The CAFR was prepared in accordance with GAAP and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB) and the County Employees Retirement Law of 1937. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. OCERS' MD&A can be found immediately following the independent auditor's report.

INVESTMENT ACTIVITIES

In accordance with state constitutional mandates, the Board adopts a strategic asset allocation policy designed to ensure diversification among asset classes and achieve OCERS' long-term investment objectives. Although OCERS invests on a long term horizon, short term returns are important to keep in mind. During 2011, the OCERS' investment portfolio returned less than one percent. Annualized returns over the last three and five years have been 10.07% and 3.2%, respectively.

PENSION ACTUARIAL FUNDING STATUS

OCERS maintains a funding goal to establish contributions that fully fund the System's liabilities, and that, as a percentage of payroll, remain as level as possible for each generation of active members. Actuarial valuations are performed annually with actuarial experience investigations conducted triennially in accordance with state statute. The use of realistic assumptions is important in maintaining the necessary funding while paying promised benefits. Each year the actual experience of the System is compared to our assumptions and the differences are studied to determine whether changes in the contribution requirements are necessary. In addition, triennially, the actuarial experience investigation is undertaken to review the actuarial assumptions and compare the actual experience during the preceding three year period with that expected under those assumptions. With the 2011 experience investigation, the Board adopted changes in several assumptions that were incorporated into the 2011 actuarial valuation. One significant assumption that was reviewed but not changed with the 2011 actuarial valuation is the assumed rate of return. OCERS has been using a 7.75% assumed rate of return in its annual actuarial valuations since 2004. The Board received a recommendation from the System's actuary to reduce the assumed rate of return to either 7.50% or 7.25%. After a thorough review and lengthy discussions, the Board decided to maintain the existing assumption and revisit the matter later in 2012, after completing an asset allocation study.

At December 31, 2011, OCERS' funding status was 67.03% with an Unfunded Actuarial Accrued Liability (UAAL) of $4.5 billion. Average employer and employee contribution rates for the year ended December 31, 2011, were 30.13% and 10.84%, respectively.

BUDGET

The Board of Retirement approves OCERS' annual budget. Effective 2011, the 1937 Act limits OCERS' annual administrative expenses, excluding the costs of administration for computer software and hardware and computer technology consulting services (IT costs), to twenty-one hundredths of one percent (0.21%) of OCERS' actuarial accrued liability. Previously, the limit was eighteen hundredths of one percent (0.18%) of OCERS' total assets. OCERS' administrative expense of $10.4 million, excluding IT costs of $2.4 million, were .08% of OCERS' actuarial accrued liability.

ACKNOWLEDGEMENTS

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

Respectfully submitted,

Steve Delaney
Chief Executive Officer

Members of the Board of Retirement
As of December 31, 2011

Russell Baldwin
Chair
Elected by General Members

Thomas E. Flanigan
Vice Chair
Appointed by the Board of Supervisors

Tony Bedolla
Alternate elected by Safety Members

Frank E. Eley
Elected by General Members

Robert Griffith
Elected by Retired Members

Charles E. Packard
Appointed by the Board of Supervisors

Reed L. Royalty
Appointed by the Board of Supervisors

Shari L. Freidenrich
Ex-Officio Member
Treasurer-Tax Collector
County of Orange

Richard A. White, Jr.
Elected by Safety Members

Organization of OCERS

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

Executive
This department consists of the Chief Executive Officer (CEO) who implements and executes policies promulgated by the Board of Retirement. Two assistant CEOs (one of whom is also General Counsel), an Internal Auditor, and the Managing Director of Investments (MDI) assist the CEO in the daily operations of the system.

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

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

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

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

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

The Finance Division is responsible for all the financial records and reports of OCERS. This includes the preparation of the Comprehensive Annual Financial Report, monthly and quarterly financial statements and the annual operating budget. The Finance Division also maintains OCERS' system of internal control; processes and accounts for retirement payroll and refunds of contributions and interest to members; collects and accounts for members' contributions; reconciles investment portfolios; and pays costs incurred for goods received and services rendered.

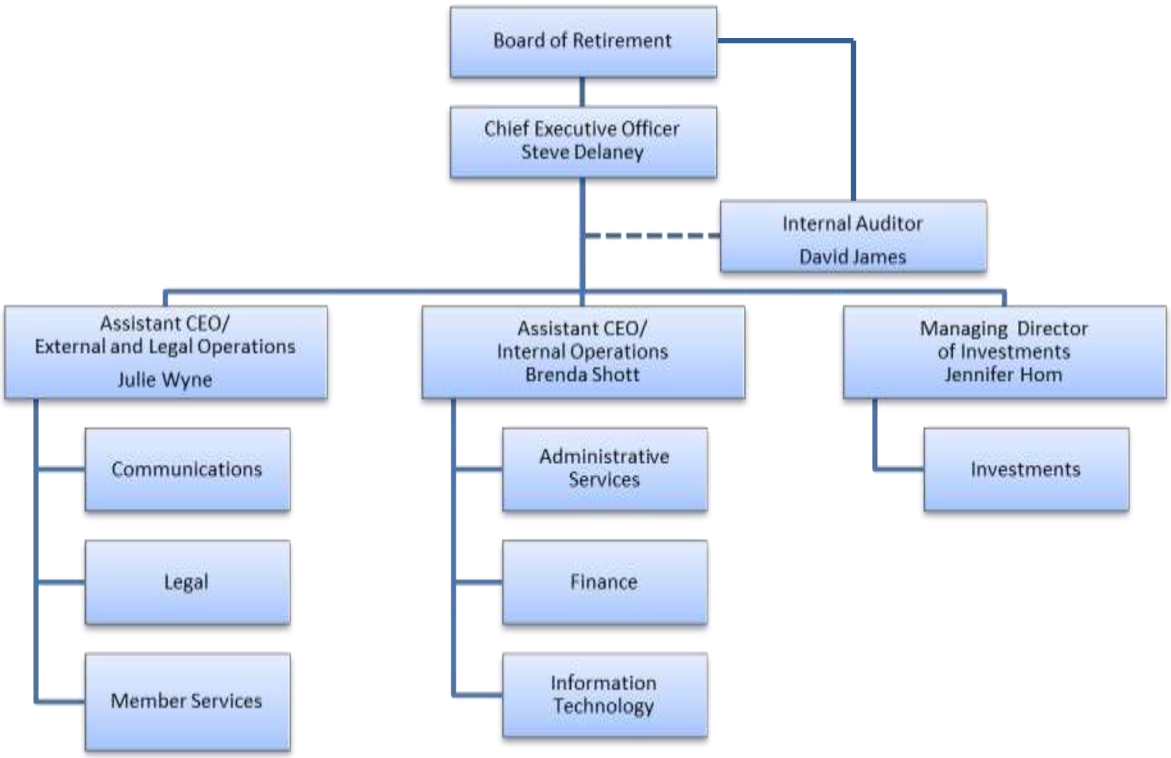
The Information Technology Division is responsible for OCERS' network systems, personal computers and Web site, while providing programming and technical support to our Benefits Administration System. In addition, this division is responsible for the production of retiree payroll disbursements and administering all audio/visual services.

The Administrative Services Division is responsible for providing the contract administration, purchasing, human resources and labor relations 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, 2011



List of Professional Consultants
As of December 31, 2011

Actuary
The Segal Company

Investment Consultants
Callan Associates, Inc.
New England Pension Consulting (NEPC), LLC

Real Estate Consultants
Callan Associates, Inc.
R.V. Kuhns & Associates, Inc.

Independent Auditor
Macias Gini and O'Connell, LLP

Investment Counsel
Foley and Lardner, LLP

Fiduciary Counsel
Reed Smith, LLP

Tax Counsel
Hanson Bridgett, LLP

Custodian
State Street California

Note: List of Investment Managers is located on page 64 of the Investment Section of this report.

SECTION II

>FINANCIAL

MGO **Certified Public Accountants.**

Sacramento • Walnut Creek • Oakland • Los Angeles/Century City • Newport Beach • San Diego **mgocpa.com**

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of fiduciary net assets of the Orange County Employees' Retirement System (the System) as of December 31, 2011, and the related statement of changes in fiduciary net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2010 financial statements on which our report dated December 29, 2011, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the Orange County Employees' Retirement System as of December 31, 2011, and the changes in fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 10, based on the most recent actuarial valuation of the pension plan as of December 31, 2011, the System's independent actuary determined that, at December 31, 2011, the value of the System's actuarial accrued liability exceeded the actuarial value of its assets by $4.5 billion. The most recent actuarial value of assets as of December 31, 2011 does not reflect the remaining deferred investment losses that will be recognized in the future.

As described in Note 11, the actuarial value of assets for the County of Orange and Orange County Fire Authority healthcare plans include certain assets held outside of the related health care trusts administered by the System.

3000 S Street	2121 N. California Blvd.	505 14th Street	2029 Century Park East	4675 MacArthur Ct.	225 Broadway
Suite 300	Suite 750	5th Floor	Suite 500	Suite 600	Suite 1750
Sacramento	Walnut Creek	Oakland	Los Angeles	Newport Beach	San Diego
CA 95816	CA 94596	CA 94612	CA 90067	CA 92660	CA 92101

In accordance with *Government Auditing Standards*, we have issued our report dated August 1, 2012, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedules of Funding Progress and the Schedules of Employer Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The introductory section, other supplemental information in the financial section, the investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental information in the financial section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and, certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory, investment, actuarial and statistical sections have not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Macias Gini & O'Connell LLP

Sacramento, California
August 1, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents Management's Discussion and Analysis (MD&A) of Orange County Employees Retirement System's (OCERS or System) financial performance and a summary of OCERS' financial position and activities as of and for the year ended December 31, 2011. It is a narrative overview and analysis that is presented in conjunction with the Chief Executive Officer's Letter of Transmittal, included in Section I – Introduction to this Comprehensive Annual Financial Report. The MD&A should also be read in conjunction with OCERS' basic financial statements as presented in this report. Amounts in this section have been grouped together to facilitate readability.

OCERS is primarily responsible for administering retirement benefits as well as acting as a trustee and custodian for retirement health benefit plan funds that are sponsored by participating employers. OCERS' financial information is comprised of four funds: a defined benefit pension trust fund, two other postemployment benefit (OPEB) trust funds for retiree medical plans and an agency fund.

FINANCIAL HIGHLIGHTS

- Fiduciary net assets held in trust, representing assets available to pay current and future member pension and health care benefits, increased $129.1 million or 1.5%. The increase in fiduciary net assets during 2011 is primarily attributable to mild growth in the OCERS' investment portfolio and net positive cash flows from contributions and disbursements.
- Total additions to fiduciary net assets decreased 54.7% in 2011 from $1,467 million to $664.6 million.
  - Net investment income declined 94.6% from $898.5 million in 2010 to $49.8 million in 2011. The net year to date rate of return on investments on a fair value basis was approximately .74% in 2011 down from 11.7% return earned in 2010.
  - Contributions received from employers and employees totaled $614.8 million in 2011, an increase of 8.1% compared to 2010 contributions received of $568.6 million.
- Total deductions from fiduciary net assets increased $36.1 million from $499.5 million in 2010 to $535.5 million in 2011.
  - Member pension benefit payments increased by $35.9 million or 8.0% in 2011.
  - The number of retired members and beneficiaries receiving a benefit payment increased 4.1% from 12,762 payees at the end of 2010 to 13,289 as of December 31, 2011
  - The average annual benefit paid to retired members and beneficiaries during 2011 was $36,422 an increase of 3.7% over the average annual benefit payment of $35,112 in 2010.
- Based upon the most recent actuarial valuation as of December 31, 2011, prepared by the System's independent actuary, OCERS' funding status for the pension plan, as measured by the ratio of the actuarial value of assets (which smoothes market gains and losses over five years) to the actuarial value of liabilities, decreased from 69.79% at December 31, 2010 to 67.03% at December 31, 2011. OCERS' funding status when measured using market value of assets was 62.60% at the end of 2011 compared to 67.25% at the end of 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A serves as an introduction and overview of the OCERS' Basic Financial Statements. The Basic Financial Statements and required disclosures are prepared in accordance with accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB). OCERS' Basic Financial Statements are comprised of the following:

Statement of Fiduciary Net Assets
The Statement of Fiduciary Net Assets presents the major categories of assets and liabilities and their related value as of December 31; OCERS' fiscal year end. The difference between assets and liabilities, "Net Assets Held in Trust for Pension Plan and Other Postemployment Benefits", represents funds available to pay benefits. The Statement of Fiduciary Net Assets includes prior year-end balances for comparative purposes. Increases and decreases in Net Assets Held in Trust for Pension Plan and Other Postemployment Benefits, when analyzed over time, may serve as an indicator of whether OCERS' financial position is improving or deteriorating.

Statement of Changes in Fiduciary Net Assets
The Statement of Changes in Fiduciary Net Assets provides information about the financial activities during the reporting period that increased and decreased Net Assets Held in Trust for Pension Plan and Other Postemployment Benefits. For comparative purposes, prior year-end balances are also provided.

Notes to the Basic Financial Statements
The Notes to the Basic Financial Statements are an integral part of the basic financial statements and provide additional information that is essential to a full understanding of the information provided in the two statements discussed above. The notes include further discussion and details regarding OCERS' policies, programs, investments and activities.

Required Supplementary Information
The Required Supplementary Information contains two supporting schedules of historical trend information related to each of the plans reported in the Basic Financial Statements: pension plan, County of Orange's retiree medical plan and Orange County Fire Authority's retiree medical plan. The two schedules presented for each plan are: Schedule of Funding Progress and Schedule of Employer Contributions. The information contained in these schedules is based on actuarial valuations prepared for each benefit plan. The valuation reports include additional actuarial information that contributes to the understanding of the changes in the actuarial funding progress of these defined benefit pension and other postemployment benefit plans over the past six years as presented in the schedules. The actuarial information is based upon assumptions made regarding future events at the time the valuations were performed. Therefore, the amounts presented in the schedules are management's estimates. A summary of factors that affected the trends of the actuarial information is included in this section as well.

Other Supplemental Information
The Other Supplemental Information includes schedules pertaining to OCERS' administrative expenses, investment expenses, professional services and a schedule of changes for the agency fund.

FINANCIAL ANALYSIS

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

Table #1: Fiduciary Net Assets
As of December 31, 2011 and 2010
(Dollars in Thousands)

	12/31/2011	12/31/2010	Increase/ (Decrease)	Percentage Change
Assets				
Cash & Cash Equivalents	$419,392	$303,820	$115,572	38.0%
Securities Lending Collateral	413,795	461,489	(47,694)	(10.3%)
Receivables	319,637	99,391	220,246	221.6%
Investments	8,624,233	8,429,232	195,001	2.3%
Capital Assets	6,862	3,289	3,573	108.6%
Total Assets	**9,783,919**	**9,297,221**	**486,698**	**5.2%**
Liabilities				
Obligations Under Securities Lending Program	413,795	461,489	(47,694)	(10.3%)
Securities Purchased	438,367	159,810	278,557	174.3%
Other	238,756	112,006	126,750	113.2%
Total Liabilities	**1,090,918**	**733,305**	**357,613**	**48.8%**
Net Assets Held in Trust for Pension and Health Care Benefits	**$8,693,001**	**$8,563,916**	**$129,085**	**1.5%**

As of December 31, 2011, OCERS held net assets of $8.7 billion in trust for pension and health care benefits. Total Assets increased $486.7 million or 5.2% from 2010. Net positive cash flow from contributions less benefit payments was main contributor to net asset growth, including cash and cash equivalents and investments. The increase in receivables from the prior year is attributed to the timing of current year proceeds being received subsequent to year end. OCERS' Capital Assets increased $3.6 million as OCERS continued progress in implementing a new Pension Administration System (V-3). Total liabilities increased $357.6 million or 48.8% over the prior year. The increase in liabilities is primarily a result of an increase in securities purchased due to unsettled fixed income security purchases that occurred at year end. In addition, other liabilities increased from prior year due to additional unearned contributions from the plan sponsors that prepaid contributions. The County of Orange participated in the prepayment program in 2011 where they had not done so in 2010.

Table #2: Changes in Fiduciary Net Assets
As of December 31, 2011 and 2010
(Dollars in Thousands)

	12/31/2011	12/31/2010	Increase/ (Decrease)	Percentage Change
Additions				
Employer Pension Contributions	$387,585	$372,437	$15,148	4.1%
Employer Health Care Contributions	43,354	18,216	25,138	138.0%
Employee Pension Contributions	183,820	177,929	5,891	3.3%
Net Investment Income	48,105	896,612	(848,507)	(94.6%)
Net Securities Lending Income	1,724	1,870	(146)	(7.8%)
Total Additions	**664,588**	**1,467,064**	**(802,476)**	(54.7%)
Deductions				
Participant Benefits - Pension	484,012	448,099	35,913	8.0%
Participant Benefits - Health Care	28,899	27,672	1,227	4.4%
Death Benefits	863	838	25	3.0%
Member Withdrawals and Refunds	8,874	10,446	(1,572)	(15.0%)
Administrative Expenses - Pension	12,828	12,368	460	3.7%
Administrative Expenses - Health Care	27	27	-	0.0%
Total Deductions	**535,503**	**499,450**	**36,053**	7.2%
Increase/(Decrease) in Net Assets Held in Trust for Pension and Health Care Benefits	**$129,085**	**$967,614**	**$(838,529)**	(86.7%)
Net Assets Held in Trust for Pension and Health Care Benefits				
Beginning of the Year	$8,563,916	$7,614,602		
Prior Period Adjustment	-	(18,300)		
End of Year	**$8,693,001**	**$8,563,916**		

Additions to Fiduciary Net Assets
Additions to fiduciary net assets declined 54.7% in 2011. The primary reason for the decline was that investment income fell 94.6% from the prior year due to the adverse affect the economic uncertainties had in the global and international markets. During the year, the investment portfolio experienced several challenges indicative of the uncertain economics that played out throughout the world. Particularly, the global and international equity holdings were adversely impacted in connection with the debt crisis in Europe. Consequently, the OCERS' investment portfolio did not generate the level of investment income in 2011 as in the prior year. OCERS' investment portfolio returned 11.7% in 2010, while 2011 investment returns totaled just 0.74%. The decline in investment income was just slightly offset by an increase in contributions received. Employer and employee pension contributions increase by 4.1% and 3.3% over the prior year, respectively. The increase in pension contributions is a direct result of increases in the average employer and employee contribution rates. The increase in employer healthcare contributions of $25.1 million is a result of the County of Orange making a larger contribution to their retiree health care plan in the current year.

Deductions from Fiduciary Net Assets
Deductions from fiduciary net assets increased 7.2% compared to the prior year due to the continued and anticipated growth in member pension benefit payments. During the year, the total number of OCERS' retired members receiving a pension benefit increased 4.1% and the average benefit received increased 3.7%. These increases were anticipated given that members added to the retiree payroll in 2011 received a higher average benefit than those removed from the retiree payroll and because cost of living adjustments ranging between 1% and 3% were granted to retirees as approved by the Board of Retirement in accordance with plan provisions. Participant health care plan benefits increased $1.2 million in connection with the growth in the number of retirees during 2011. Pension plan withdrawal payments decreased 15% from 2010 which is a result of less active and deferred members leaving the system altogether. Pension plan administrative expenses increased 3.7% primarily due to consultant costs utilized during the year that were not used in 2010.

OCERS Membership
The table below provides comparative OCERS' membership data for the last two fiscal years.

Table #3 – Membership Data
As of December 31, 2011 and 2010

	2011	2010	Increase/ (Decrease)	Percentage Change
Active Members	21,421	21,742	(321)	(1.5%)
Retired Members	13,289	12,762	527	4.1%
Deferred Members	4,406	4,308	98	2.3%
Total Membership	39,116	38,812	304	0.8%

Total OCERS' membership remained relatively flat during 2011 with a net increase of 304 members or 0.8%. The number of active members declined by 321 or 1.5%, while the number of retirees increased by 527 or 4.1% suggesting that as members have chosen to retire from their careers employers have not replaced all of them with new employees. During the tough economic times employers are faced with strained budgets and have held back on filling open positions.

Actuarial Valuations
In order to determine whether Net Assets Held in Trust for Pension Benefits will be sufficient to meet future obligations, a calculation of the actuarial funded status is required. An actuarial valuation includes an appraisal of both the assets available to pay future benefits and the liabilities of the system, which represent the actuarial present value of all future benefits expected to be paid for each member. The purpose of the valuation is to determine the amount of future contributions by the employees (members) and employers (plan sponsors) needed to pay all expected future benefits. OCERS utilizes an independent actuarial firm, The Segal Company, to prepare an annual valuation.

In order to prepare the valuation, the actuary must use several assumptions with regards to OCERS' members such as their life expectancy, projected salary increases over time, and the age in which members will retire. The actuary must also utilize assumptions with regards to how the assets will perform over time. A key assumption in this regard is the expected rate of return. OCERS has used an assumed rate of return of 7.75% since 2005. All assumptions used by the actuary are reviewed and adjusted as required on a triennial basis by the Board of Retirement.

In the actuarial valuation for the pension plan as of December 31, 2011, the ratio of the valuation value of assets to actuarial accrued liabilities decreased from 69.79% to 67.03%. This calculation of funding status takes into account OCERS' policy to smooth the impact of market volatility by spreading each year's gains or losses over five years. Using the market value of assets as of the valuation date the funded status of OCERS' pension plan declined from 67.25% in 2010 down to 62.60% in 2011.

INVESTMENT AND ECONOMIC SUMMARY

The 2011 economic climate was dominated by worries of worldwide events, particularly the Euro zone crisis. The U.S. economy struggled throughout 2011 as Congress dealt with the nation's deficit ceiling, an unparalleled credit downgrade for the U.S. government, anemic GDP growth, persistently high levels of unemployment throughout the country and the limited ability for government intervention as monetary policy remains relaxed. The markets responded to this flurry of uncertainty and concern with significant volatility. As Europe's sovereign debt crisis played out, investors watched closely and their concerns with the macro environment created another flight to security into U.S. Treasuries. As a result of this flight to security, the riskier asset classes like emerging markets experienced significant drawdown. Overall, deterioration and global concerns in the market led to a rally in the bond sector which offset some of the negative returns realized in global and international equities securities. Real estate fundamentals continued to be a market section that improved during 2011 from the lows realized in 2008 and 2009 which led to some seeing double digit performance for the year; the same was true for private investments in this sector all of which eased the impact of the declines in the stock market.

OCERS' investment returns fluctuated throughout the year along with the overall market conditions. The portfolio managed to capture some positive returns early in the year, whereas, the last half of the year experienced a downward slide consistent with the markets in general. Returns on investments after the first four months of 2011 were above 6%. Yet as the global and homeland economic climates hit hurdle after hurdle returns began to diminish on a year to date basis but managed to stay just about even. OCERS' portfolio's final annual return was 0.74%

The rate of return on OCERS' investment portfolio is an integral component of the annual additions to the pension plan as total investment income is typically the largest contributor to the plan's annual additions to retirement plan assets. Despite near zero returns in 2011, the investment portfolio has added $948 million to plan assets over the past two years.

REQUEST FOR FINANCIAL INFORMATION

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

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

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

Statement of Fiduciary Net Assets
As of December 31, 2011
(with summarized comparative amounts for December 31, 2010)
(Dollars in Thousands)

	Pension Trust Fund	Health Care Fund-County	Health Care Fund-OCFA	OPEB 115 Agency Fund	Total Fund	Comparative Totals 2010
Assets						
Cash and Short-Term Investments						
Cash and Cash Equivalents	$414,119	$4,474	$719	$80	$419,392	$303,820
Securities Lending Collateral	408,670	4,415	710	-	413,795	461,489
Total Cash and Short-Term Investments	822,789	8,889	1,429	80	833,187	765,309
Receivables						
Investment Income	23,460	253	41	-	23,754	22,681
Securities Sales	266,565	2,879	463	-	269,907	32,851
Contributions	10,692	-	-	-	10,692	37,177
Foreign Currency Forward Contracts (Net)	13,824	149	24	-	13,997	5,378
Other Receivables	1,271	14	2	-	1,287	1,304
Total Accounts Receivable	315,812	3,295	530	-	319,637	99,391
Investments at Fair Value						
Domestic Equity Securities	1,431,041	15,460	2,486	8,598	1,457,585	1,883,083
International Equity Securities	1,625,189	17,557	2,823	4,002	1,649,571	2,218,029
Global Equity Securities	345,119	3,728	599	-	349,446	-
Domestic Bonds	2,401,486	25,944	4,171	9,645	2,441,246	2,377,401
Foreign Bonds	650,866	7,031	1,131	-	659,028	515,208
Real Estate	825,492	8,918	1,434	-	835,844	729,814
Alternative Investments	1,216,262	13,139	2,112	-	1,231,513	705,697
Total Investments	8,495,455	91,777	14,756	22,245	8,624,233	8,429,232
Capital Assets, Net	6,862	-	-	-	6,862	3,289
Total Assets	9,640,918	103,961	16,715	22,325	9,783,919	9,297,221
Liabilities						
Obligations Under Securities Lending Program	408,670	4,415	710	-	413,795	461,489
Securities Purchased	432,938	4,677	752	-	438,367	159,810
Unearned Contributions	162,873	-	-	-	162,873	29,545
Retiree Payroll Payable	41,303	2,216	192	-	43,711	40,555
Other	9,726	104	17	-	9,847	19,970
Due to Employers	-	-	-	22,325	22,325	21,936
Total Liabilities	1,055,510	11,412	1,671	22,325	1,090,918	733,305
Net Assets Held in Trust for Pension and Other Postemployment Benefits	**$8,585,408**	**$92,549**	**$15,044**	**$-**	**$8,693,001**	**$8,563,916**

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

Statement of Changes in Fiduciary Net Assets
For the Year Ended December 31, 2011
(with summarized comparative amounts for December 31, 2010)
(Dollars in Thousands)

	Pension Trust Fund	Health Care Fund-County	Health Care Fund-OCFA	Total Fund	Comparative Totals 2010
Additions					
Contributions					
Employer	$387,585	$39,694	$3,660	$430,939	$390,653
Employee	183,820	-	-	183,820	177,929
Total Contributions	571,405	39,694	3,660	614,759	568,582
Investment Income					
Net Appreciation/(Depreciation) in Fair Value of Investments	(163,768)	(2,945)	(373)	(167,086)	783,091
Interest on:					
Domestic and Foreign Bonds	81,272	881	140	82,293	75,108
Cash with County Treasurer	18	-	-	18	22
Domestic Dividends	13,522	147	23	13,692	12,872
International Dividends	83,229	902	143	84,274	33,669
Real Estate Income	60,588	656	104	61,348	42,264
Alternative Investments	10,940	119	19	11,078	10,062
Less Investment Expenses	(39,132)	(424)	(67)	(39,623)	(61,613)
Securities Lending Revenue	2,426	26	4	2,456	2,289
Less Securities Lending Fees	(723)	(8)	(1)	(732)	(419)
Net Securities Lending Revenue	1,703	18	3	1,724	1,870
Commission Recapture-Net/Other	2,084	23	4	2,111	1,137
Net Investment Income/(Loss)	50,456	(623)	(4)	49,829	898,482
Total Additions	**621,861**	**39,071**	**3,656**	**664,588**	**1,467,064**
Deductions					
Participant Benefits	484,012	26,250	2,649	512,911	475,771
Death Benefits	863	-	-	863	838
Member Withdrawals and Refunds	8,874	-	-	8,874	10,446
Administrative Expenses	12,828	18	9	12,855	12,395
Total Deductions	**506,577**	**26,268**	**2,658**	**535,503**	**499,450**
Net Increase	**$115,284**	**$12,803**	**$998**	**$129,085**	**$967,614**
Net Assets Held in Trust For Pension and Other Postemployment Benefits Beginning of Year as Previously Reported	-	-	-	-	7,614,602
Prior Period Adjustments	-	-	-	-	(18,300)
Net Assets Held in Trust For Pension and Other Postemployment Benefits Beginning of Year as Restated	8,470,124	79,746	14,046	8,563,916	7,596,302
Ending Net Assets	**$8,585,408**	**$92,549**	**$15,044**	**$8,693,001**	**$8,563,916**

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 – PLAN DESCRIPTIONS

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

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

Pension Plan Membership

OCERS provides retirement, disability and death benefits to general and safety members. Safety membership includes those members serving in active law enforcement, fire suppression and as probation officers. General membership applies to all other occupations. Plan retirement benefits are tiered based upon date of OCERS membership. Those who became members prior to September 21, 1979 are Tier I members. All other members are Tier II. Within a tier there are various benefit formulas in which members participate. All regular employees scheduled to work 20 hours or more per week become members of the plan upon commencing employment with one of OCERS' plan sponsors. Members vest in OCERS after earning/accumulating five years of creditable service.

Additional information regarding the pension plan's benefit structure is included in the Summary Plan Description that is available on the web at www.ocers.org/member_active/spd.htm.

OCERS Membership
As of December 31, 2011

OCERS Membership	2011
Active Members	
Vested	17,757
Non-Vested	3,664
Total Active Members	21,421
Retired Members & Beneficiaries	13,289
Terminated Vested (Deferred)	4,406
Total Membership	39,116

Member Retirement Benefits

Members with ten or more years of service are entitled to receive a retirement allowance beginning at age 50. Members attaining age 70 are eligible to retire regardless of credited service. Benefits received are determined by member rate group or benefit classification. Member rate groups and benefit plans as of December 31, 2011 are as follows:

Rate Group	Plan Type	Benefit Formula per Year of Service	Sponsoring Agencies Include
#1	General	1.77%@55 & 1.49%@55	County of Orange
#2	General	2.7%@55 & 1.62%@65	County of Orange
#3	General	2.5% @55 & 1.64%@57	OC Superior Court OC Sanitation District OC Law Library
#5	General	1.77%@55 & 1.49%@55	OC Transportation Authority
#6	Safety	3.0%@50	County of Orange (Probation)
#7	Safety	3.0%@50 & 3.0%@55	County of Orange (Law Enforcement)
#8	Safety	3.0%@50 & 3.0%@55	OC Fire Authority
#9	General	2.0%@55	Transportation Corridor Agency
#10	General	2.0% @ 55 & 2.7%@55	OC Fire Authority
#11	General	2.0%@55	OC Cemetery

Disability Benefits

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

Death Benefits

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

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

Cost-of-Living Adjustments

Retired member monthly allowances will be adjusted annually in accordance with changes in the cost-of-living, as determined by the average annual change in the Consumer Price Index (CPI) for the prior calendar year. The cost-of-living adjustment is limited to a maximum increase or decrease of three percent per year as established by the Board of Retirement. The 2011 cost-of-living adjustment ranged from one percent to three percent based on the date benefit recipients began receiving benefits.

STAR COLA

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

Postemployment Health Care Plans

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

In order to be eligible for the County of Orange's Health Care Plan, retired County of Orange members must have completed at least 10 years of continuous County service, be enrolled in a County sponsored health care plan and/or Medicare and be eligible to receive a monthly retirement benefit from OCERS. In 2011, retired County of Orange members received $18.77 per year of County service, with the maximum monthly benefit equaling $469.25 for 25 or more years of credited service. Retired County of Orange members represented by the AFSCME (American Federation of State, County and Municipal Employees) received $20.27 per year of County service, with the maximum monthly benefit equaling $506.75 for 25 or more years of credited service.

Postemployment Health Care Plan Membership - County of Orange

	June 30, 2011
Active Participants	
General Members	
AFSCME	1,094
Non-AFSCME	14,108
Safety Members	
Probation	896
Association of Orange County Deputy Sheriffs (AOCDS)	1,753
Law Enforcement Management (LEM)	77
Total	17,928
Retired Participants	
General Members	
AFSCME	119
Non-AFSCME	6,140
Safety Members	
Probation	283
AOCDS	733
LEM	121
Total	7,396
Total Plan Participants *	**25,324**

* Membership count based upon latest actuarial valuation.

All retirees and full-time employees hired prior to January 1, 2007, are eligible to participate in the OCFA health care plan. Eligible employees who are credited with at least one year of service are eligible to receive Plan benefits upon retirement. Participants must be covered under a qualified health plan, Medicare or a recognized health insurance plan. In 2011, retired OCFA members received $20.04 per year of creditable service, with a maximum monthly benefit of $501 based upon 25 or more year of creditable service.

Postemployment Health Care Plan Membership - OCFA

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

* Membership count based upon latest actuarial valuation

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

In addition to serving as Trustee for the two 401(h) health care plans, OCERS also provides investment advisory services to the Orange County Transportation Authority (OCTA) and the OCFA Health Care Plans pursuant to agreements established in accordance with Internal Revenue Code section 115 (115 Plans). The OCTA 115 plan provides postemployment health care benefits to retired members with at least 10 years of OCTA service. The OCFA 115 plan was established, in part, to provide OCFA with an option to add contributions to its employer health care plan in excess of the contribution subordination limit described in section 401(h). Investments for the two section 115 plans are not commingled with those of the pension plan and 401(h) plan trusts, but rather are invested in separately managed index funds.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Investment Valuation

State Street Bank and Trust (State Street) maintains custody of the majority of OCERS' investments held as of December 31, 2011. Investments are authorized by state statute and OCERS' investment policy and consist of domestic and international fixed income, domestic, international, global (includes both domestic and international investments) and emerging market equities, private equity, real return strategies, absolute return strategies, opportunistic strategies and real estate. Investments are reported at fair value and the overall valuation process and information sources by major asset classification are as follows:

Cash and Short-Term Investments

Cash and short-term investments represent funds held in operating accounts with State Street, Wells Fargo Bank and include deposits held in a pooled account with the County of Orange Treasurer. Short-term investments are expected to be utilized within 30-90 days and are reported at fair value. Deposits held in the Orange County Investment Pool (OCIP) are invested in the Orange County Money Market Fund and the Extended Fund. The OCIP is an external investment pool and is not registered with the Securities and Exchange Commission (SEC). At December 31, 2011 the OCIP had a weighted average maturity of 280 days. The Orange County Money Market Fund is rated AAAm by Standard & Poor's. The Extended Fund is not rated. The deposits in the

OCIP are reported at amortized cost which approximates fair value. For further information regarding the OCIP, refer to the County of Orange Comprehensive Annual Financial Report.

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

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

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

OCERS engages real estate management firms to assist in the day to day operations of the real estate portfolio. At December 31, 2011, the estimated fair value of OCERS' real estate portfolio was $835.8 million net of outstanding debt of $68.3 million. The chart below details the repayment of real estate debt obligations.

Real Estate Debt Obligations
As of December 31, 2011
(Dollars in Thousands)

Property	Original Loan Balance	Loan Balance Outstanding	Interest Rate	Debt Structure	Maturity Date
#1	$26,375	$26,375	5.22%	Fixed interest only through 2/2013 Amortizing 30 years until 2/2015	2/1/2015
#2	5,400	5,400	6.18%	Interest only	11/15/2012
#3	16,500	16,500	4.79%	Interest only	4/1/2013
#4	20,000	20,000	5.60%	Interest only to 12/1/12 25 year amortization from 1/1/2013 to 11/1/2017	12/1/2017 Stated Maturity Date; Lender has option to declare loan due on 12/1/2012 with 90 days prior notice

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

- Core Real Estate: limited to 50% of the individual asset market value at the time of financing with leverage limits at the portfolio level of 40%.
- Value-Added Real Estate: accessed through commingled funds that have pre-specified leverage limits in offering documents and are limited to 75% of the market value of the commingled funds, at the time of financing.
- High Return: accessed through commingled funds that have pre-specified leverage limits, or maximums, specified in offering documents. Leverage is utilized and often unlimited.

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

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

Capital Assets
Capital assets consist of furniture, equipment and intangible assets, including computer software. Capital assets are defined by OCERS as assets with an initial, individual cost of more than $25,000 and an estimated useful life in excess of one year. Such assets are recorded at cost. Capital assets are depreciated using the straight-line depreciation method over their estimated useful lives, ranging from five to fifteen years for furniture and equipment and three years for computer software.

Capital Assets
As of December 31, 2011
(Dollars in Thousands)

Furniture & Equipment	$1,240
Computer Software	11,181
Total Capital Assets (at cost)	12,421
Less Accumulated Depreciation	(5,559)
Total Capital Assets-Net of Depreciation	$6,862

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

OCERS began implementing and developing a new Pension Administration System (V-3) in 2010 and $4.2 million in expenses related to V-3 were capitalized in the current fiscal year. Intangible assets are included as Capital Assets in the Statement of Fiduciary Net Assets.

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

Comparative Totals
The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with OCERS' financial statements for the year ended December 31, 2010, from which the summarized information was derived.

NOTE 3 – INVESTMENTS

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

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

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 risk if they are not insured or not collateralized. As of December 31, 2011, OCERS' deposits with a financial institution are fully insured by FDIC insurance. Deposits held by OCERS' custodial bank are not exposed to custodial credit risk as they are held in a qualified pool trust, separate from the custodial bank assets.

For an investment, custodial credit risk is the risk that, in the event of a counterparty failure, OCERS will not be able to recover the value of its investments or collateral securities that are in the possession of counterparties. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in OCERS' name or by other qualified third party administrator trust accounts.

OCERS' investments and collateral received through securities lending are not exposed to custodial credit risk because all securities are held by OCERS' custodial bank in OCERS' name or by other qualified third party administrator trust accounts. OCERS does not maintain any general policies regarding custodial credit risk.

Credit Risk
By definition, credit risk measures the risk that an issuer or counterparty will not fulfill its obligations. OCERS' investment guidelines require, in managing credit risk, that individual fixed income portfolios maintain an overall credit rating of AA. Standard & Poor's defines investment grade as those fixed income securities with ratings between AAA and BBB. OCERS' investment policy permits, on an opportunistic basis, the investment in fixed income securities rated below investment grade. A rating of NR represents those securities that are not rated and NA represents those securities that are not subjected to the GASB Statement No. 40 disclosure requirements. The credit ratings for individual OCERS' fixed income portfolios are monitored regularly.

At December 31, 2011, the credit ratings of the OCERS' fixed income portfolio were as follows:

As of December 31, 2011
(Dollars in Thousands)

	Credit Rating											
Category	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**D**	**NR**	**NA**	**TOTAL**
Pooled	$-	$31,126	$-	$-	$-	$-	$-	$-	$-	$1,038,898	$-	$1,070,024
International	84,170	40,529	97,540	29,547	4,940	-	-	-	-	402,302	-	659,028
Corporates	2,216	26,362	118,404	145,032	92,926	81,967	14,314	643	1,912	18,339	-	502,114
Treasuries	-	-	-	-	-	-	-	-	-	-	485,571	485,571
Agency	-	183,176	-	156	-	-	-	-	-	-	1,646	184,978
Mortgages	31,117	17,942	16,752	1,561	750	1,972	5,611	640	69	27,057	-	103,472
Municipal	1,753	12,515	10,579	-	1,532	111	-	-	-	13,208	-	39,699
Asset-backed	18,025	447	-	339	-	-	867	-	-	13,614	-	33,292
Swaps	-	-	-	-	-	-	-	-	-	548	-	548
Other	-	-	-	-	-	-	-	-	-	169	-	169
Total	**$137,281**	**$312,096**	**$243,275**	**$176,635**	**$100,148**	**$84,050**	**$20,793**	**$1,283**	**$1,981**	**$1,514,135**	**$487,217**	**$3,078,895***

* This schedule reflects credit ratings for OCERS' fixed income portfolio and therefore excludes $21.4 million of non-fixed income securities that are included in the domestic bond category on the Statement of Fiduciary Net Assets.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed-income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates.

Interest rate risk is managed through OCERS' investment policies requiring that investment managers investing on behalf of OCERS have applicable investment guidelines and that the effective durations of fixed income portfolios remain within a defined range of the benchmark's effective duration. The benchmarks for domestic and foreign bonds are the Barclays Aggregate Index and Citigroup Non US World Government Bond, respectively. As of December 31, 2011, the duration was 4.95 for the Barclays Aggregate Index and 7.17 for Citigroup Non US World Government Bond and all investment managers were in compliance within their defined range.

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

The interest rate risk schedule presents the duration of fixed income securities by investment category as of December 31, 2011:

Interest Rate Risk Schedule
As of December 31, 2011
(Dollars in Thousands)

Category	Amount	Duration (in Years)	Percent
Pooled	$1,070,024	5.52	35%
International	628,091	5.24	20%
Treasuries	485,571	5.42	16%
Corporates	454,886	5.31	15%
Agency	184,978	3.02	6%
Mortgages	98,994	3.74	3%
Municipal	39,699	10.01	1%
Asset-Backed	27,728	1.92	1%
Swaps	(93,694)	3.79	(3%)
No Effective Duration:			
Swaps	94,242	NA	3%
Corporates	47,228	NA	2%
International	30,937	NA	1%
Asset-Backed	5,564	NA	0%
Mortgages	4,478	NA	0%
Other	169	NA	0%
Total	**$3,078,895***	**4.96**	**100%**

* This schedule reflects interest rate risk for OCERS' fixed income portfolio and therefore excludes $21.4 million of non-fixed income securities that are included in the domestic bond category on the Statement of Fiduciary Net Assets.

Foreign Currency Risk

The value of deposits or investments denominated in foreign currency may be adversely affected by changes in currency exchange rates. OCERS' investment policy permits investment in international securities with a current overall investment target of 30% that includes investments in international equity securities, global equity securities, emerging market equity securities and foreign bonds. Investment managers monitor currency exposures daily. Further information can be found regarding OCERS' investment policy in Section III of this Comprehensive Annual Financial Report.

The following schedule represents OCERS' net exposure to foreign currency risk in U.S. dollars as of December 31, 2011:

As of December 31, 2011
(Dollars in Thousands)

Currency - in US Dollar	Cash	Equities	Fixed Income	Swaps	Forwards	Total
Australian Dollar	$168	$45,147	$17,946	$244	($586)	$62,919
Brazilian Real	-	488	3,960	865	(242)	5,071
British Pound Sterling	324	183,787	5,770	405	(285)	190,001
Canadian Dollar	113	40,221	46,147	-	(114)	86,367
Czech Koruna	-	1,568	-	-	-	1,568
Danish Krone	42	10,850	-	-	19	10,911
Euro Currency	22,843	256,481	238,445	980	12,105	530,854
Hong Kong Dollar	122	56,970	-	-	-	57,092
Iceland Krona	50	-	1,681	-	-	1,731
Indian Rupee	-	-	-	-	(171)	(171)
Indonesian Rupiah	-	1,072	6,000	-	(49)	7,023
Israeli Shekel	-	217	-	-	(14)	203
Japanese Yen	978	167,508	246,713	-	1,761	416,960
Malaysian Ringgit	-	-	-	-	(17)	(17)
Mexican Peso	363	-	10,294	(5)	(3)	10,649
New Taiwan Dollar	-	-	-		(33)	(33)
New Zealand Dollar	435	-	22,162	-	396	22,993
Norwegian Krone	33	10,021	2,904	-	(218)	12,740
Philippine Peso	-	-	-	-	(35)	(35)
Polish Zloty	-	1,061	28,459	-	1,349	30,869
Singapore Dollar	16	16,524	3,903	-	(16)	20,427
South African Rand	-	1,136	-	-	-	1,136
South Korean Won	-	29,894	-	-	(83)	29,811
Swedish Krona	68	22,987	-	-	(40)	23,015
Swiss Franc	91	85,390	-	-	118	85,599
Thailand Baht	-	5,036	-	-	-	5,036
Yuan Renminbi	-	-	-	-	155	155
Amount Exposed to Foreign Currency Risk	**$25,646**	**$936,358**	**$634,384**	**$2,489**	**$13,997**	**$1,612,874**

The foreign currency amounts above are included within the cash and cash equivalents, international equity, global equity and foreign bond allocations on the Statement of Fiduciary Net Assets as of December 31, 2011. Swaps are included in the international equity, global equity, foreign bond, and alternative investment allocations.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. By policy, OCERS did not hold investments in any one issuer that represented five percent (5%) or more of plan net assets. Investments issued or explicitly guaranteed by the U.S. Government and any pooled investments are excluded from this policy requirement.

Derivative Instruments

As of December 31, 2011, all derivative instruments held by OCERS are considered investments and not hedges for accounting purposes. Any reference to the term hedging in these financial statements references an economic activity and not an accounting method. All gains and losses associated with these activities are recognized as incurred in the Statement of Changes in Plan Net Assets.

The table that follows presents the related net appreciation/(depreciation) in fair value, the fair value amounts and the notional amounts of derivative instruments outstanding at December 31, 2011.

As of December 31, 2011
(Dollars in Thousands)

	Changes in Fair Value (4)		Fair Value at December 31, 2011		
Investment Derivatives	**Classification**	**Amount (1)**	**Classification**	**Amount (2)**	**Notional (3)**
Credit Default Swaps Bought	Net Appreciation/ (Depreciation) in Fair Value of Investments	$(1,404)	Domestic Bonds/ Alternative Investments	$2,326	$205,547
Credit Default Swaps Written	Net Appreciation/ (Depreciation) in Fair Value of Investments	(2,475)	Domestic Bonds/ Alternative Investments	(4,064)	125,373
Fixed Income Options Bought	Net Appreciation/ (Depreciation) in Fair Value of Investments	(50)	Domestic Bonds/ Alternative Investments	184	24,310
Fixed Income Options Written	Net Appreciation/ (Depreciation) in Fair Value of Investments	3,594	Domestic Bonds/ Alternative Investments	(1,024)	(513,300)
Futures Options Written	Net Appreciation/ (Depreciation) in Fair Value of Investments	57	Domestic Bonds/ Alternative Investments	(6)	(195)
Foreign Currency Forward Contracts	Net Appreciation/ (Depreciation) in Fair Value of Investments	14,046	Receivables	13,997	721,231
Pay Fixed Interest Rate Swaps	Net Appreciation/ (Depreciation) in Fair Value of Investments	(774)	Domestic Bonds/ Alternative Investments	(287)	6,928
Receive Fixed Interest Rate Swaps	Net Appreciation/ (Depreciation) in Fair Value of Investments	1,422	Domestic Bonds/ Alternative Investments	2,593	97,530
Total Return Swaps Bond	Net Appreciation/ (Depreciation) in Fair Value of Investments	16	Domestic Bonds/ Alternative Investments	(6)	50,680
Total Return Swaps Equity	Net Appreciation/ (Depreciation) in Fair Value of Investments	(14)	Domestic Bonds/ Alternative Investments	(14)	24
Warrants	Net Appreciation/ (Depreciation) in Fair Value of Investments	2	Domestic Bonds	2	2
Total Investment Derivatives		**$14,420**		**$13,701**	

(1) Negative values (in brackets) refer to losses
(2) Negative values refer to liabilities
(3) Notional may be a dollar amount or number of shares of underlying for futures and options. Negative values refer to short positions
(4) Excludes futures margin payments

Valuation of Derivative Instruments

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

Futures contracts are traded on exchanges and typically derive their value from underlying indices and are marked to market daily. All gains and losses associated with changes in the value of futures contracts also settle on a daily basis and result in the contracts themselves having no fair value at the end of any trading day, including December 31, 2011. Future variation margin accounts also settle daily and are recognized in the financial statements under net appreciation (depreciation) in the fair value of the investment as incurred.

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

Foreign currency forward contracts are agreements to buy or sell a currency at a specified exchange rate on a specified date. The fair value of a foreign currency forward is determined by the difference between the specified exchange rate and the closing exchange rate at December 31, 2011.

Custodial Credit Risk – Derivative Instruments

As of December 31, 2011, all investments in derivative instruments are held in OCERS' name and are not exposed to custodial credit risk as described in the previous discussion of custodial credit risk.

Counterparty Credit Risk – Derivative Instruments

A summary of counterparty credit ratings relating to non-exchange traded derivatives in asset positions as of December 31, 2011 is as follows:

Counterparty Credit Risk Schedule for Derivative Investments
As of December 31, 2011
(Dollars in Thousands)

Counterparty Name	S&P Rating	Foreign Currency Forward Contracts	Swaps	Total Fair Value
Bank of America N.A.	A	$121	$4	$125
Barclays Bank PLC	A+	114	-	114
Barclays Bank PLC Wholesale	A+	1,092	-	1,092
Barclays Capital	A+	210	318	528
BNP Paribas	AA-	-	64	64
BNP Paribas SA	AA-	-	92	92
Citibank N.A.	A	265	96	361
Citigroup Global Markets Inc.	A-	-	263	263
Credit Suisse Financial Products	A+	228	-	228
Credit Suisse First Boston London	A+	-	324	324
Credit Suisse London Branch (GFX)	A+	987	-	987
Deutsche Bank AG London	A+	1,214	73	1,287
Goldman Sachs & Company	A-	-	10	10
Goldman Sachs Capital Markets LP	A-	-	146	146
Goldman Sachs International	A-	364	-	364
HSBC Bank USA	AA-	5	305	310
JP Morgan Chase Bank	A+	85	3	88
JP Morgan Chase Bank N.A.	A+	328	3	331
Morgan Stanley & Co. Inc.	A-	5	-	5
Morgan Stanley Capital Services Inc.	A-	-	229	229
Morgan Stanley CME	A-	-	2,151	2,151
Morgan Stanley Co Incorporated	A-	23	102	125
Royal Bank of Canada	AA-	57	-	57
Royal Bank of Canada (UK)	AA-	8	-	8
Royal Bank of Scotland PLC	A	233	15	248
Societe Generale	A+	-	29	29
State Street Bank London	A+	11,729	-	11,729
UBS AG	A	107	13	120
UBS AG London	A	460	-	460
UBS Securities LLC	A	-	6	6
Westpac Banking Corporation	AA-	29	-	29
Total Derivatives in Asset Position		**$17,664**	**$4,245**	**$21,909**

Interest Rate Risk – Derivatives

At December 31, 2011, OCERS is exposed to interest rate risk on its investments in various swap arrangements based on daily interest rates for LIBOR (London Interbank Offered Rate), EURIBOR (Euro-denominated interbank offered rate), Brazilian and Australian reference rates, federal funds rate and Mexican swap rates. The table below illustrates the maturity periods of these investments.

Interest Rate Risk Schedules for Derivative Instruments
As of December 31, 2011
(Dollars in Thousands)

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less Than 1**	**1 - 5**	**6 - 10**	**More than 10**
Credit Default Swaps Bought	$2,326	$-	$2,326	$-	$-
Credit Default Swaps Written	(4,064)	31	(2,728)	(1,368)	-
Pay Fixed Interest Rate Swaps	(287)	-	-	(143)	(144)
Receive Fixed Interest Rate Swaps	2,593	3	876	613	1,101
Total Return Swaps Bond	(6)	(6)	-	-	-
Total Return Swaps Equity	(14)	(14)	-	-	-
Total	**$548**	**$14**	**$475**	**($898)**	**$957**

Derivative Instruments Highly Sensitive to Interest Rate Changes:

Investment Type	Reference Rate	Fair Value	Notional
Pay Fixed Interest Rate Swaps	Receive variable 3-month LIBOR; Pay Fixed 2.75-4.0%	$(144)	$5,500
Pay Fixed Interest Rate Swaps	Receive variable 6-month EURIBOR; Pay Fixed 3.5%	(143)	1,428
Receive Fixed Interest Swaps	Receive Fixed 11.67%-12.285%; Pay variable 0-month BRCDI	824	18,602
Receive Fixed Interest Swaps	Receive Fixed 9.97%-10.53%; Pay variable 0-month BZDIO	(10)	10,294
Receive Fixed Interest Swaps	Receive Fixed 1.5%-1.85%; Pay variable 0-month CPI	(91)	6,393
Receive Fixed Interest Swaps	Receive Fixed 0.5%-1.0%; Pay variable 0-month FEDEL	106	17,000
Receive Fixed Interest Swaps	Receive Fixed 11.98%; Pay variable 1-month BRCDI	34	1,019
Receive Fixed Interest Swaps	Receive Fixed 10.77%; Pay variable 3-month BRCDI	6	1,126
Receive Fixed Interest Swaps	Receive Fixed 10.58%; Pay variable 12-month BRCDI	12	6,273
Receive Fixed Interest Swaps	Receive Fixed 6.35%; Pay variable 1-month TIIE	(5)	172
Receive Fixed Interest Swaps	Receive Fixed 5.0%-5.25%; Pay variable 6-month BBSW	244	7,381
Receive Fixed Interest Swaps	Receive Fixed 2.5%-3.65%; Pay variable 6-month EURIBOR	1,473	29,270
Total Interest Rate Swaps		**$2,306**	

Foreign Currency Risk – Derivatives

At December 31, 2011, OCERS is exposed to foreign currency risk on investments in swaps and forward currency contracts denominated in foreign currencies that may be adversely affected by changes in the currency exchange rates.

Foreign Currency Risk Schedule for Derivative Instruments
As of December 31, 2011
(Dollars in Thousands)

	Foreign Currency Forward Contracts			
Currency Name	**Net Receivables**	**Net Payables**	**Swaps**	**Total Exposure**
Australian Dollar	$58	($644)	$244	($342)
Brazilian Real	(201)	(41)	865	623
British Pound Sterling	(596)	311	405	120
Canadian Dollar	6	(120)	-	(114)
Danish Krone	-	19	-	19
Euro Currency	(758)	12,864	980	13,086
Hong Kong Dollar	1	-	-	1
Indian Rupee	(277)	106	-	(171)
Indonesian Rupiah	(38)	(11)	-	(49)
Israeli Shekel	(14)	-	-	(14)
Japanese Yen	24	1,736	-	1,760
Malaysian Ringgit	(42)	26	-	(16)
Mexican Peso	(3)	-	(5)	(8)
New Taiwan Dollar	(28)	(5)	-	(33)
New Zealand Dollar	29	366	-	395
Norwegian Krone	(219)	-	-	(219)
Philippine Peso	(62)	27	-	(35)
Polish Zloty	(45)	1,394	-	1,349
Singapore Dollar	(13)	(3)	-	(16)
South Korean Won	(101)	18	-	(83)
Swedish Krona	(37)	(3)	-	(40)
Swiss Franc	11	144	-	155
Yuan Renminbi	121	(3)	-	118
Total	**($2,184)**	**$16,181**	**$2,489**	**$16,486**

Securities Lending

OCERS is authorized by investment policy and state law to lend its investment securities including domestic and international equities and bonds to broker/dealers in exchange for collateral in the form of either cash or securities. Lent domestic and international securities are collateralized with an initial market value of not less than 102% of fair value of the loaned securities. The lending agent receives cash and non-cash collateral for the securities on loan. There are no restrictions on the amount of securities that can be lent at one time. State Street Bank serves, in accordance with a Securities Lending Authorization Agreement, as OCERS' agent to loan domestic and international securities. State Street Bank does not have the ability to pledge or sell collateral securities delivered absent a borrow default.

Cash collateral received on loaned securities is invested together with the cash collateral of other qualified tax-exempt investors in a collective investment fund managed by State Street. The collective investment fund is not rated. In December 2010 the collective investment fund was divided into separate investment pools: 1) a liquidity pool and 2) a duration pool. As of December 31, 2011, the liquidity pool had an average duration of 26 days and an average weighted maturity of 71 days. The duration pool had an average duration of 35 days and an average weighted maturity of 648 days. Because loans are terminable at will, the duration of the loans did not generally match the duration of the investments made with the cash collateral. At December 31, 2011, the credit risk to OCERS was minimal because OCERS held greater amounts of collateral than the security amounts borrowed. Additionally, the Securities Lending Agreement requires State Street to indemnify OCERS if the broker/dealer fails to return any borrowed securities. During 2011, there were no failures to return loaned securities or to pay distributions by the borrowers. Furthermore, there were no losses due to borrower defaults. The fair market value of securities on loan and the total cash and non-cash collateral held as of December 31, 2011 was $407.9 million and $418.9 million, respectively. The following table shows fair values of securities on loan and cash collateral received by asset class:

Securities On Loan
As of December 31, 2011
(Dollars in Thousands)

Security Lent for Cash Collateral	Fair Value of OCERS' Security Lent	Cash Collateral Received	Non-Cash Collateral Received	Total Collateral Received
Domestic Corporate Bonds and Equity	$191,740	$196,450	$5,101	$201,551
U.S. Government Bonds	122,419	124,851	-	124,851
International Equity	76,862	75,087	-	75,087
Foreign Bonds	16,905	17,407	-	17,407
TOTAL	**$407,926**	**$413,795**	**$5,101**	**$418,896**

NOTE 4 – FUNDING POLICY - PENSION PLAN

Employer and employee/member pension plan contribution requirements are determined as a percentage of plan sponsor payrolls. In determining contributions, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. The projected total pensionable compensation for all OCERS' plan sponsors for the year ending December 31, 2011 was $1.62 billion. Employer contribution rates are determined using the entry age normal actuarial cost method based upon a level percentage of payroll. The employer contributions provide for both normal cost and an amount to amortize any unfunded or overfunded actuarial accrued liabilities. By definition, the normal cost is the annual contribution rate that, if paid annually from a member's first year of membership through the year of retirement, would accumulate to the amount necessary to fully fund the member's retirement benefit if all underlying assumptions are met. The actuarial report as of December 2008 established the contribution rates for fiscal year 2010-2011, and the actuarial valuation report as of December 2009 established the contribution rates for fiscal year 2011-2012. For the year ending December 31, 2011, employer contribution rates ranged from 19.12% of payroll to 48.53% depending upon the benefit plan type. Employer contributions were $387.6 million for the year ended December 31, 2011 of which approximately $293.7 and $51.2 million were made by the County of Orange and the Orange County Fire Authority, respectively. Participating employers are required by Government Code sections 31453.5 and 31454 to contribute a percentage of covered salary to the Plan. The contribution requirements of participating active members and employers are established and may be amended by the OCERS' Board of Retirement. Participating employers may pay a portion of the participating active employees' contributions through negotiations and bargaining agreements.

Employee contributions are determined by state statute (Government Code sections 31621, 31621.5, 31621.8, 31639.25 and 31639.5) and vary based upon employee age at the time of entering OCERS membership. OCERS received $183.8 million in employee contributions for the year ended December 31, 2011. Average employee contribution rates for the year ended December 31, 2011 ranged between 7.37% and 12.92%.

NOTE 5 – FUNDING POLICY – HEALTH CARE PLANS

County of Orange Plan: Employer contributions are determined by actuarial valuations. Contribution rates range from 0.6% of pay to 4.5% based upon individual employee labor group and totaled $39.7 million for the year ending December 31, 2011. The County's annual contributions are calculated based on the annual required contribution to the Retiree Medical Plan and are projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period not to exceed 30 years.

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

Orange County Fire Authority Plan: Current, active employees received pay increases pursuant to collective bargaining agreements in order to contribute 4% of pay to the OCFA for post employment (retirement) coverage. OCERS classifies plan contributions as being employer made due to the collective bargaining arrangement. The OCFA periodically remits plan contributions to the OCERS administered trust in amounts authorized by the OCFA Board of Directors. Contributions totaled $3.7 million for the year ending December 31, 2011.

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

NOTE 6 – PLAN RESERVES

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

- **Employee Contribution Reserve**
  Employee contribution reserve represents the balance of member contributions. Additions include member contributions and interest credited. Deductions include member refunds and transfers to fund retirement benefits.
- **Employer Contribution Reserve**
  Employer contribution reserve represents the balance of employer contributions for future active member retirement benefits. Additions include employer contributions and interest credited. Deductions include transfers to retiree reserves in order to fund retirement benefits, disability benefits and death benefits.
- **Annuity Reserve**
  Annuity reserve represents funding set aside for retirement payments derived from contributions made by members. Additions include transfers from the member contribution reserve and interest credited. Deductions include benefit payments made to retired members.
- **Pension Reserve**
  Pension reserve represents funding set aside for retirement payments derived from employer contributions. Additions include transfers from the employer contribution reserve and interest credited. Deductions include benefit payments made to retired members.
- **STAR COLA Reserve**
  STAR COLA reserve represents employer contributions designated for use to fund the Supplemental Targeted Adjustment for Retirees Cost-of-Living benefit. Additions include employer contributions. Deductions include benefit payments made to eligible retired members.
- **Unclaimed Fund Reserve**
  Unclaimed fund reserve represents contributions from terminated non-vested members who left employment prior to December 31, 2002 and whose funds remain on deposit with OCERS.
- **EPA (Employee Paid Annuity) Reserve**
  EPA reserve represents additional employee contributions made by members pursuant to Government Code section 31627 for the purpose of providing additional benefits.
- **County Investment Account Reserve**
  County investment account reserve represents the remaining proceeds from the County of Orange's 1994 Pension Obligation Bond issuance. The remaining proceeds are utilized, in accordance with a long standing agreement between OCERS and the County of Orange, to offset a portion of the annual actuarially-determined contribution rate for the County of Orange. In 2011, $11 million of the remaining proceeds were utilized to offset the actuarially determined contributions for the County of Orange.
- **Health Care Plan Reserves**
  Health care plan reserves represent assets held to pay medical benefits for eligible retirees of the 401(h) and 115 health care plans. Additions include employer contributions and investment earnings. Deductions include medical payments.

Plan Reserves
As of December 31, 2011
(Dollars in Thousands)

Pension Reserve	$5,219,243
Employee Contribution Reserve	1,968,927
Annuity Reserve	650,853
Employer Contribution Reserve	648,425
Health Care Plan Reserve	107,593
County Investment Account Reserve	97,768
Unclaimed Fund Reserve	130
EPA Reserve	62
STAR COLA Reserve	-
Net Assets - Total Fund	$8,693,001

NOTE 7 – ADMINISTRATIVE EXPENSES - Pension

As permitted by Government Code (Code) Section 31580.2, the Board of Retirement adopts an annual budget, financed from the System's assets, covering the entire expenses for the administration of OCERS. The Code provides that administrative expenses incurred in any year are to be charged against the earnings of the pension trust fund and are not to exceed twenty-one hundredths of one percent (0.21%) of OCERS' actual accrued liabilities, excluding investment related costs and expenditures for computer software, hardware and related technology consulting services. Administrative expenses incurred in calendar year 2011 were within the limits established by the Code. The administrative budget for the year ending December 31, 2011 is as follows:

2011 Administrative Expense Compared to Actuarial Accrued Liability
(Dollars in Thousands)

Actuarial Accrued Liability	$13,522,978
Maximum Allowed For Administrative Expense (AAL * 0.21%)	28,398
Actual Administrative Expense[1]	10,440
Excess of Allowed Over Actual Expense	$17,958
Actual Administrative Expense as a Percentage of Actuarial Accrued Liability	0.08%

[1] Administrative Expense Reconciliation

Administrative Expense per CAFR Stmt of Changes Plan Net Assets	$12,828
Less Administrative Expense not Considered per CERL Section 31596.1	(2,388)
Administrative Expense Allowable Under CERL Section 31580.2	$10,440

NOTE 8 – COMMITMENTS

At December 31, 2011, OCERS had outstanding commitments of $749.4 million to various limited partnerships investment portfolios. The following table details, by asset class, the unfunded commitments.

Asset Class	Unfunded Commitments (Dollars in Thousands)
Private Equity	$627,690
Real Estate	121,757
Total Outstanding	$749,447

NOTE 9 – CONTINGENCIES

At December 31, 2011, OCERS was involved in various litigation matters. In management's opinion, and after consultation with legal counsel, the outcome of these matters is not expected to have a material adverse effect on OCERS' financial position.

NOTE 10 – PENSION DISCLOSURES

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

(Dollars in Thousands)

Actuarial Valuation Date December 31	Valuation Value of Assets*	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2011	$9,064,355	$13,522,978	$4,458,623	67.03%	$1,619,474	275.31%

*** The valuation value of assets is the actuarial valuation of assets reduced by the value of non-valuation reserves in the amount of $225,000**.

The following summarizes the actuarial assumptions and methods used in the most recent actuarial valuation of December 31, 2011, and the December 31, 2009 and 2008 valuations, which were used to determine 2011 contributions.

Actuarial Information:	2011	2009	2008
Valuation Date	December 31, 2011	December 31, 2009	December 31, 2008
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Remaining Amortization Period	23 years closed (declining)	25 years closed (declining)	26 years closed (declining)
Asset Valuation Method	Market Value of Assets less unrecognized returns in each of last five years	Market Value of Assets less unrecognized returns in each of last five years	Market Value of Assets less unrecognized returns in each of last five years

Actuarial Assumptions:	2011	2009	2008
Investment Rate of Return	7.75%	7.75%	7.75%
Inflation Rate	3.50%	3.50%	3.50%
Projected Salary Increases	0.25% across-the-board	4.5% to 11.5% for General members; 4.5% to 13.5% for Safety members based upon service	4.5% to 11.5% for General members; 4.5% to 13.5% for Safety members based upon service
Cost of Living Adjustments	3.00%	3.00%	3.00%

Highlights of the December 31, 2011 valuation include:

- The ratio of pension plan valuation assets to actuarial accrued liabilities decreased from 69.79% to 67.03%.
- The UAAL increased from $3.8 million to $4.5 million at December 31, 2011 primarily due to lower than expected investment earnings and changes in actuarial assumptions.
- Aggregate employer contributions for the period July 1, 2013 to June 30, 2014 will increase from 31.12% to 34.69% due to lower than expected earnings and lower than expected growth in individual salary increases and growth in total payroll and other experience losses.
- The aggregate member contribution rate will increase from 10.8% to 11.47% due to changes in actuarial assumptions and changes in member demographics.
- OCERS' actuary recommended lowering the current 7.75% investment return assumption to either 7.50% or 7.25%; the Board elected to maintain the current assumption of 7.75%.
- As of December 31, 2011, the total investment loss to be recognized in future valuation periods totaled $599 million compared to $315.6 million and will offset investment gains earned after December 31, 2011. The deferred losses of $599 million represent about 7% of the market value of assets. Unless offset by future investment gains or other favorable experience, the

recognition of the $599 million market losses is expected to have a material impact on the System's future funded percentage and contribution rate requirements.

- If investment losses were recognized immediately as of December 31, 2011, then the pension plan's funded status would decrease from 67.25% to 62.6%.

NOTE 11 – HEALTH CARE PLAN DISCLOSURES

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

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 results are compared to past expectations and new estimates are made about the future. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective.

County of Orange Health Care Plan
(Dollars in Thousands)

Actuarial Valuation Date June 30	Actuarial Value of Assets*	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2011	$116,804	$528,639	$411,835	22.1%	$1,227,601	33.5%

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

Actuarial Information

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age Normal
Remaining Amortization Period	26 years
Asset Valuation Method	Market value

Actuarial Assumptions

Investment Rate of Return	7.25%
Inflation Rate	3.50%
Projected Salary Increases	0.25% across-the-board
Medical Cost Trend Rate	9.4% trending down to 5% over 9 years.

Highlights of the June 30, 2011 valuation include:

- The June 30, 2011 valuation determined the annual required contribution for 2011/2012 fiscal year to be $41,169.
- The discount rate was lowered from 7.75% to 7.25%.

Orange County Fire Authority Health Care Plan
(Dollars in Thousands)

Actuarial Valuation Date July 1	Actuarial Value of Assets*	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2010	$21,550	$147,709	$126,160	14.59%	$81,391	155.00%

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

Actuarial Information

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

Actuarial Assumptions

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

Highlights of the July 1, 2010 valuation include:

- In the prior valuation, 100% of the ARC was funded and the discount rate was set equal to the long-term investment return expected to be earned by the plan assets.
- In 2009 and 2010, contributions represented 48% and 50% of the ARC (calculated at 7.75% discount rate), respectively. For this valuation, the discount rate is based on a partially funded plan. The discount rate is a blended rate that reflects the proportionate amounts of plan and employer assets expected to be used.
- The discount rate was lowered from 7.75% to 5.50% to reflect the fact that the plan is partially funded. The change in the discount rate increased the UAAL by $44 million.

NOTE 12 – SUBSEQUENT EVENT

On June 25, 2012, GASB approved Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 67 addresses reporting by pension plans that administer benefits for governments, and is effective for financial statements for periods beginning after June 15, 2013. Statement No. 68, which primarily relates to reporting by governments that provide pensions to their employees, is effective for fiscal years beginning after June 15, 2014.

Key changes include:

- Incorporating ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes into projections of benefit payments, if an employer's past practice and future expectations of granting them indicate they are essentially automatic.
- Using a discount rate that applies (a) the expected long-term rate of return on pension plan investments for which plan assets are expected to be available to make projected benefit payments, and (b) the interest rate on a tax-exempt 20-year AA- or higher rated municipal bond index to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.
- Adopting a single actuarial cost allocation method – entry age normal – rather than the current choice among six actuarial cost methods.
- Requiring more extensive note disclosures and required supplementary information.

The System will be subject to the provisions of Statement No. 67 beginning with the fiscal year ending December 31, 2014. GASB Statement No. 67 replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. GASB Statement No. 67 builds upon the existing framework for financial reports of defined benefit pension plans and enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. In addition, it requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules.

GASB is expected to publish the new statements in early August.

Required Supplementary Information

Schedule of Funding Progress – Pension Plan
(Dollars in Thousands)

Actuarial Valuation Date December 31	Valuation Value of Assets*	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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%
2010	8,672,592	12,425,873	3,753,281	69.79%	1,579,239	237.66%
2011	9,064,355	13,522,978	4,458,623	67.03%	1,619,474	275.31%

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

Schedule of Employer Contributions – Pension Plan

Plan Year Ended December 31	Annual Required Contributions	Percentage Contributed
2006	$277,368	100.0%
2007	326,736	100.0%
2008	359,673	100.2%**
2009	337,496	100.3%**
2010	372,437	100.0%
2011	387,585	100.0%

** The OCFA made additional contributions towards reducing their UAAL

Schedule of Funding Progress – OPEB
County of Orange
(Dollars in Thousands)

Actuarial Valuation Date June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2007	$-	$408,322	$408,322	0.00%	$1,157,642	35.27%
2009	94,110	456,005	361,895	20.64%	1,267,427	28.55%
2011	116,804	528,639	411,835	22.10%	1,227,601	33.50%

Schedule of Employer Contributions – OPEB
County of Orange

Plan Year Ended July 1	Annual Required Contributions	Percentage Contributed
2009	$25,900	139.2%
2010	35,148	91.5%
2011	36,378	93.1%

Schedule of Funding Progress – OPEB
Orange County Fire Authority
(Dollars in Thousands)

Actuarial Valuation Date July 1	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2006	$7,436	$60,808	$53,372	12.23%	$95,608	55.82%
2008	21,525	94,125	72,600	22.87%	80,624	90.05%
2010	21,550	147,709	126,160	14.59%	81,391	155.00%

Schedule of Employer Contributions – OPEB
Orange County Fire Authority

Plan Year Ended July 1	Annual Required Contributions	Percentage Contributed
2008	$6,530	54.0%
2009	8,845	48.4%
2010	8,795	50.9%

Significant Factors Affecting Trends in Actuarial Information

2011 Changes in Pension and OPEB Plan Provisions and Actuarial Assumptions

- Effective April 20, 2012, certain employees previously employed at the City of Santa Ana became employees of OCFA General and OCFA Safety and are eligible for benefits under Plan N (2%@55) and Plan F (3%@50), respectively.
- Effective July 1, 2012, new General employees hired by the City of San Juan Capistrano will be covered under General Plan S (2%@57).
- The June 30, 2011 OPEB: County of Orange valuation determined the annual required contribution for 2011/2012 fiscal year to be $41,169.
- Effective July 1, 2012, the OPEB: County of Orange discount rate was lowered from 7.75% to 7.25%.

2010 Changes in Pension and OPEB Plan Provisions and Actuarial Assumptions

- Effective October 1, 2010, the Orange County Sanitation District implemented Plan B (1.64% at 57) for some future hires.
- General Member employees within the County Manager unit may elect, effective August 17, 2010, in lieu of General Plan I/J (2.7% at 55), the optional General Member Plan O/P (1.62% at 65). LAFCO General Member employees became eligible for the same election on July 1, 2010.
- Effective July 1, 2011, new General Member employees of the OCFA will be covered under General Member Plan M/N (2% at 55).
- New Executive Safety Member employees employed as Executive Managers by the OCFA will be covered under Safety Plan Q/R (3% at 55) effective July 1, 2011.

- In the prior OPEB: Orange County Fire Authority valuation, 100% of the ARC was funded and the discount rate was set equal to the long-term investment return expected to be earned by the plan assets.
- In 2009 and 2010, OPEB: Orange County Fire Authority contributions represented 48% and 50% of the ARC (calculated at 7.75% discount rate) respectively. For this valuation, the discount rate is based on a partially funded plan. The discount rate is a blended rate that reflects the proportionate amounts of plan and employer assets expected to be used.
- The OPEB: Orange County Fire Authority discount rate was lowered from 7.75% to 5.50% to reflect the fact that the plan is partially funded. The change in the discount rate increased the UAAL by $44 million.

2009 Changes in Pension Plan Provisions and Actuarial Assumptions

- Adjustments to correct the under-reporting of certain premium pay items in prior years' pensionable salary data resulted in a $228 million increase in UAAL.
- County and the Courts adopted optional 1.62% at 65 formula for General Member Employees entering OCERS after May 7, 2010.
- County Law Enforcement Members adopted 3% at 55 formula for Safety Members entering OCERS after April 8, 2010.

2008 Changes in Pension Plan Provisions and Actuarial Assumptions

- Individual salary increase assumptions are changed from age based to service based.
- Annual leave payoff assumptions were increased for General Members.

2007 Changes in Pension Plan Provisions and Actuarial Assumptions

- Vector Control District discontinued its participation in OCERS effective January 4, 2007.
- The benefit formula for Orange County Cemetery District members was changed to 2% at 55 effective December 7, 2007.
- Demographic assumptions changed based on triennial experience study.

2006 Changes in Pension Plan Provisions and Actuarial Assumptions

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

Other Supplemental Information

Schedule of Pension Plan Administrative Expenses
For the Year Ended December 31, 2011
(Dollars in Thousands)

Expenses Subject to the Statutory Limit	
Personnel Services	
Employee Salaries and Benefits	$5,907
Board Members' Allowance	11
Total Personnel Services	5,918
Office Operating Expenses	
Professional Services	1,982
Rent/Leased Real Property	952
Operating Expenses	919
Depreciation/Amortization	669
Total Office Operating Expenses	4,522
Total Expenses Subject to the Statutory Limit	**10,440**
Expenses Not Subject to the Statutory Limit	
Investment Department Expenses	1,752
Actuarial Fees	372
Legal Costs	165
Consulting/Research Fees	96
Commingled Interest	3
Total Expenses Not Subject to the Statutory Limit	**2,388**
Total Administrative Expenses	**$12,828**

Schedule of Investment Management and Security Lending Fees
For the Year Ended December 31, 2011
(Dollars in Thousands)

Investment Management Fees	
Domestic Equity Securities	$8,667
International Equity Securities	6,720
Domestic Bonds	5,254
Foreign Bonds	1,040
Real Estate	4,705
Alternative Investments	3,570
Total Investment Management Fees*	**29,956**
Security Lending Activity	
Security Lending Fees	445
Rebates Fees	287
Security Lending & Rebate Fees	**732**
Total Investment Management and Security Lending Fees*	**$30,688**

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

Schedule of Payments for Professional Services
For the Year Ended December 31, 2011
(Dollars in Thousands)

Type of Services*	
Professional Expenses Subject to the Statutory Limit	
Professional Services	$1,077
Legal Services	492
Temporary Personnel	413
Total Professional Expenses Subject to the Statutory Limit	**1,982**
Professional Expenses Not Subject to the Statutory Limit	
Actuarial Services	372
Custodian Services	301
Legal Services	165
Consulting/Research Services	96
Commingled Interest Cost	3
Total Professional Expenses Not Subject to the Statutory Limit	**937**
Total Payments for Professional Expenses	**$2,919**

* Detail for fees paid to investment professionals is presented in the investment section.

Statement of Changes in Assets and Liabilities - OPEB Agency Fund
For the Year Ended December 31, 2011
(Dollars in Thousands)

	Beginning Balance December 31, 2010	Additions	Deductions	Ending Balance December 31, 2011
Assets				
Cash	$173	$856	$949	$80
Domestic Equity Securities	8,390	1,733	1,525	8,598
International Equity Securities	4,498	916	1,412	4,002
Domestic Bonds	8,875	797	27	9,645
Total Assets	**$21,936**	**$4,302**	**$3,913**	**$22,325**
Liabilities				
Due to Employers	$21,936	$4,302	$3,913	$22,325
Total Liabilities	**$21,936**	**$4,302**	**$3,913**	**$22,325**

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SECTION III

Photo Credit: RMK Timberland Group

Oregon Douglas Fir

NEPC, LLC

ALLAN MARTIN
PARTNER

June 8, 2012

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 year ended December 31, 2011.

The primary objective of OCERS is to prudently and expertly invest the System's assets, in a manner that will ensure the System's ability to pay promised benefits to participants and their beneficiaries, consistent with governing law and best industry practices. 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 mixes and policies. The Board selects a strategic policy mix that best balances growth potential and acceptable risk. A policy benchmark index is constructed to mirror the system's strategic asset allocation policy. This policy benchmark is a custom market index comprised of the various asset class indices that make up the investment program, weighted in proportion to their policy weights.

The System's custodian, State Street Bank and Trust Company, independently prepared the underlying performance data used in this report. The performance calculations were made in compliance with industry performance calculation standards. NEPC, LLC serves as OCERS' independent investment consultant and evaluates the performance of the fund in relation to the System's performance objectives, market benchmarks, and appropriate peer groups of other public pension funds.

Market Environment

The global equity markets were quite volatile in 2011, faced with optimism about a possible economic recovery coupled with worries about the European debt crisis, inflation in China, US unemployment, unrest in the Middle East, and the downgrade of the US credit rating by Standard and Poor's. Additionally, Japan was hit by an earthquake and tsunami in March that resulted in a major nuclear crisis, sending the Japanese stock market into a tailspin and global markets along with it. Despite these events, worldwide markets have remained resilient, and as the year ended, improving economic data in the US and European policy moves managed to bolster equity markets.

As a whole, developed international markets lagged US Markets, which was a function of weak currency returns and the uncertainty that the Euro cast on international markets. Fears surrounding the Euro and growing inflation concerns in China caused Emerging markets to suffer as investors shed risk. By and large, equity securities moved with little regard for fundamentals and correlations across risky asset classes were elevated.

For the year, the S&P 500 Index (the benchmark for domestic equities) returned 2.1%, the MSCI All Country World excluding the United States Index (the benchmark for non-US equities) returned a -13.3% return, the MSCI Emerging Market Free Index (the Benchmark for emerging, international

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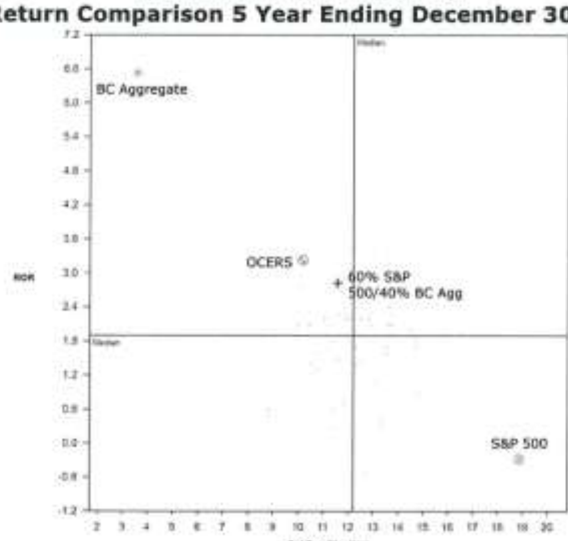
equities markets) returned -18.2%, and the Barclays US Aggregate Bond Index (the benchmark for Domestic Fixed Income) returned 7.8%.

The OCERS Portfolio

For the calendar year, OCERS' total fund (valued at $8.79 Billion) had a time-weighted rate of return of 0.5% net of fees, which ranked the Fund in the 60th percentile of the Independent Consultant Cooperative's (ICC) Public Funds Universe. The median fund in the universe returned 0.9% for the period. The return of the OCERS policy index (+2.2%), exceeded the actual return significantly, with domestic and international equity managers, real estate managers, and real asset managers substantially underperforming their respective indices. While the Fund has slightly underperformed over the year, longer term results compare much more favorably. For the five-year period ending December 31, 2011, the Fund returned 3.2% per annum, net of fees versus 1.9% for the median Fund. The Fund's Sharpe Ratio (the most-widely used measure of return per unit of risk) over the five-year period was 0.2, which ranks in the 3rd percentile. Presented below is the Fund's five-year risk and return, with the horizontal axis representing risk (as measured by standard deviation) and the vertical axis representing the five-year annualized rate of return.

Total Public Fund Universe
Risk-Return Comparison 5 Year Ending December 30th, 2011



In summary, calendar year 2011 was a challenging year for all funds, and OCERS 0.5% return, net of fees, was modest by historic standards. However, OCERS' broad diversification strategy and lower equity exposure than its peers has resulted in strong absolute and relative returns over the very volatile five-year period, and positions the fund to better withstand on-going negative swings in the equity markets.

Sincerely,

Allan Martin
Partner

INVESTMENT RETURNS

The table below details the annualized rates of return for the different asset categories over various time periods ended December 31, 2011. 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 (%)	0.1	14.59	-0.31
Russell 3000 Index (%)	*1.03*	*14.88*	*-0.01*
Global Equity (%)	-4.15	N/A	N/A
MSCI World Index (%)	*-5.54*	*N/A*	*N/A*
International Equity (%)	-12.58	8.05	-4.31
MSCI AC World ex US Index (%)	*-13.71*	*10.7*	*-2.92*
MSCI EAFE Index (%)	*-12.14*	*7.65*	*-4.72*
Emerging Markets Equity (%)	-19.95	21.85	0.23
MSCI EMF Index (%)	*-18.42*	*20.07*	*2.4*
Domestic Fixed (%)	6.2	11.09	7.29
Barclays Capital Universal Index (%)	*7.4*	*7.72*	*6.39*
International Fixed Income (%)	6.07	5.72	7.1
International Fixed Income Target Index(1) (%)	*4.67*	*2.43*	*4.88*
Absolute Return (%)	7.57	10.37	7.84
Absolute Return Target Index(2) (%)	*5.82*	*5.87*	*7.6*
Real Return (%)	7.65	9.37	5.36
Real Return Target Index(3) (%)	*11.37*	*9.25*	*8.26*
Cash & Equivalents (%)	0.71	2.8	2.76
Real Estate (%)	9.54	-0.07	1.96
Real Estate Target Index(4) (%)	*14*	*0.58*	*3.07*
Alternative Investments (%)	11.7	4.32	6.9
Opportunistic Investing (%)	1.8	26.54	N/A
Total Fund (%)	0.74	10.07	3.2
Composite Policy Benchmark(5) (%)	*2.22*	*9.38*	*3.38*

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

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

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

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

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

STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

General

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

Strategic Asset Allocation Policy and Maintenance

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

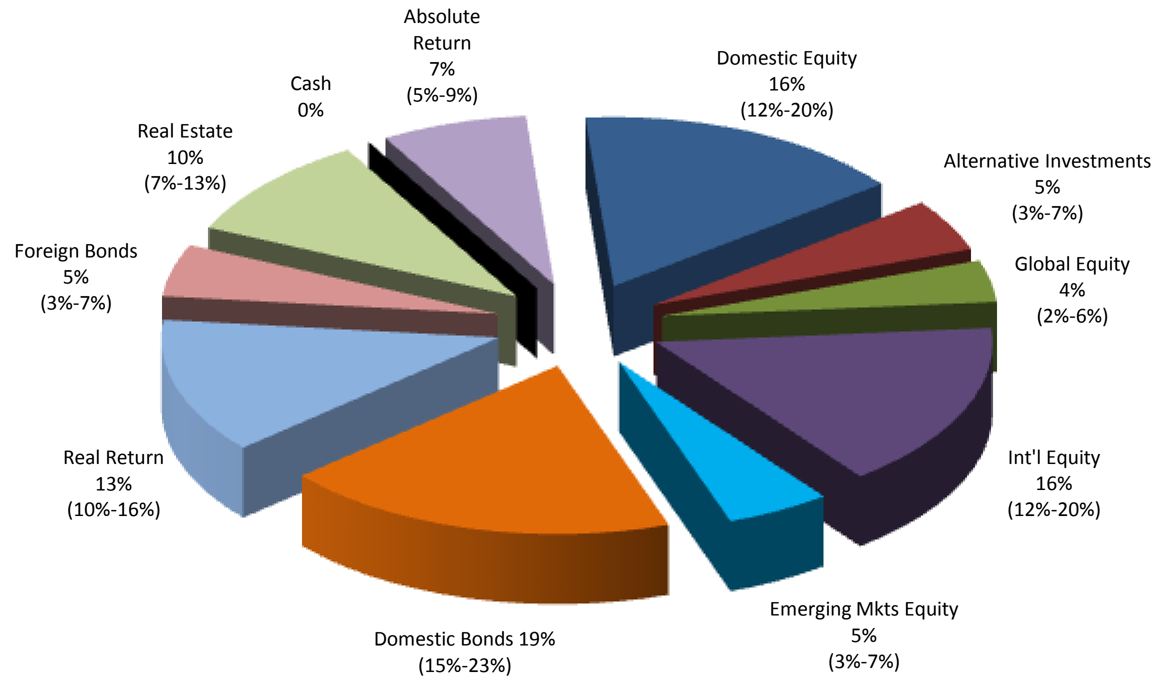
In normal circumstances, asset levels are permitted to fluctuate around targeted levels, and cash inflows are administered by staff in a manner that is consistent with maintenance of the desired level of diversification. When asset fluctuations and/or external cash flows take actual allocation outside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

Program Administration and Manager Structure

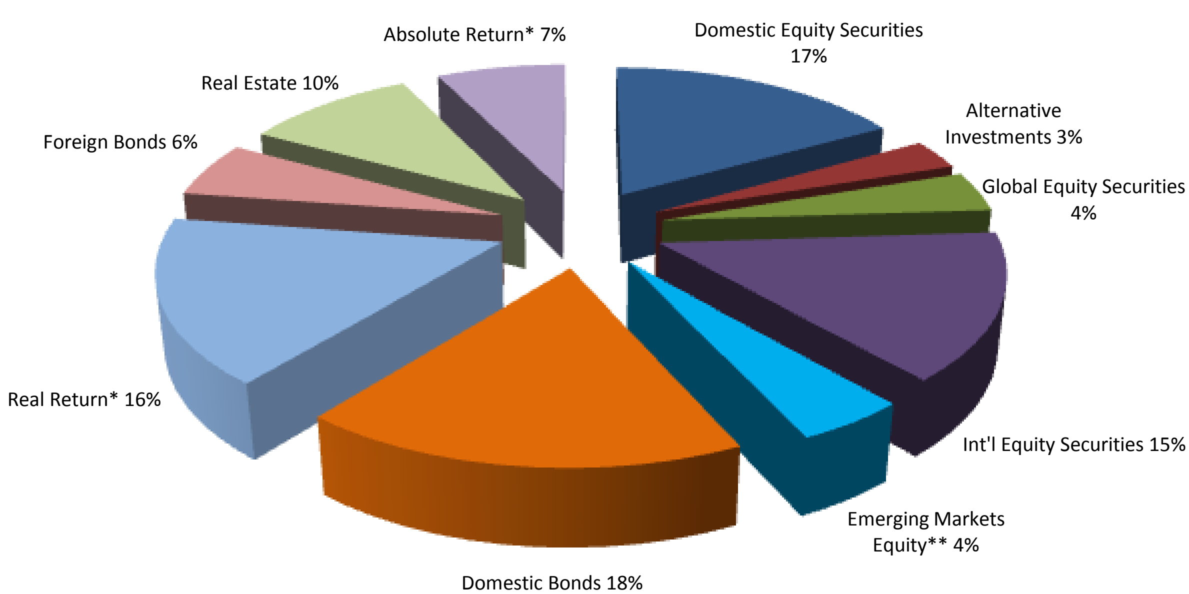
For each major asset class, the System shall diversify assets by employing managers with demonstrated skill in their particular areas of expertise. The System will retain managers who utilize varied investment approaches and allocate assets in a manner that is consistent with the overall strategic plan.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

Asset Diversification
December 31, 2011

Policy

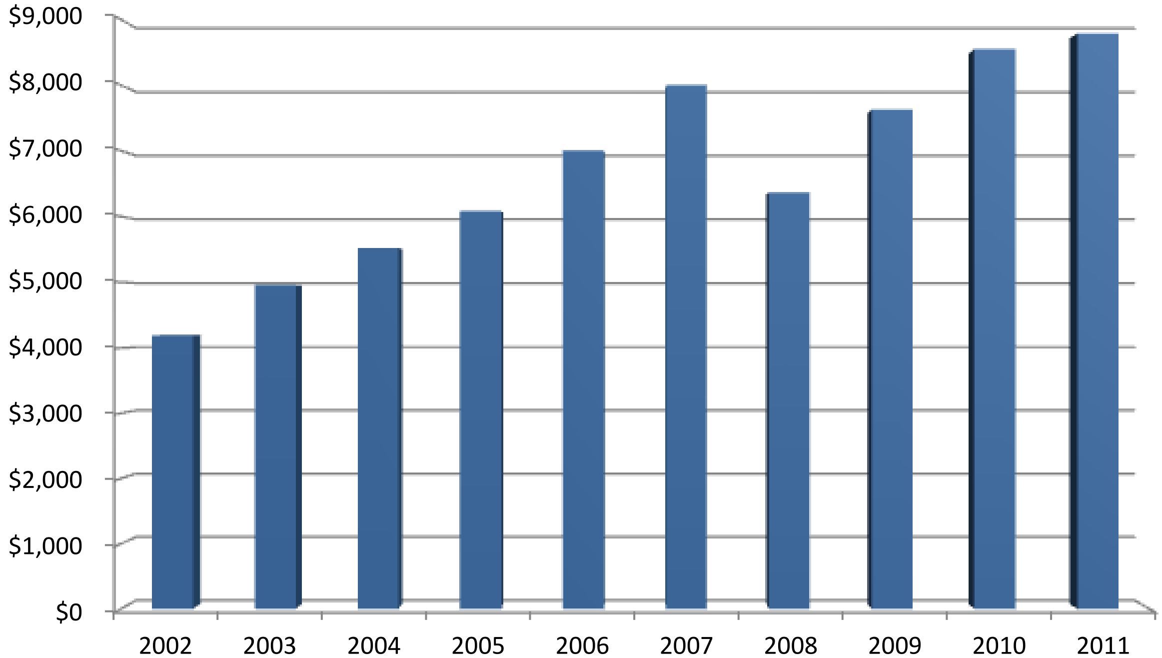


Actual

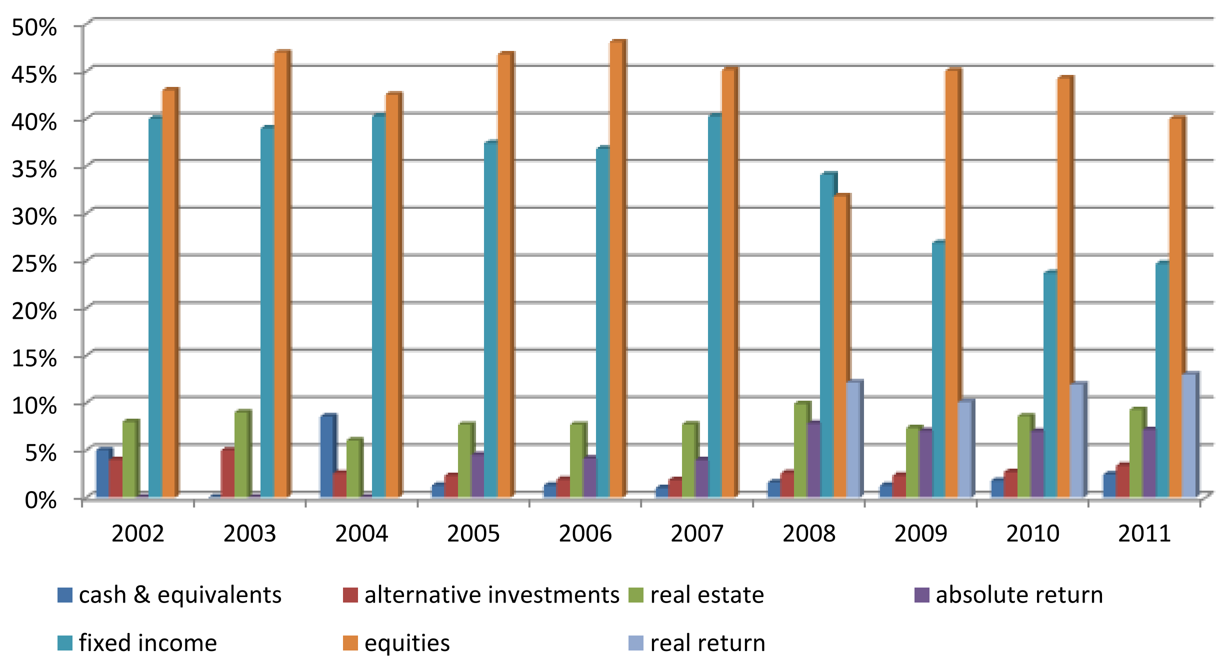


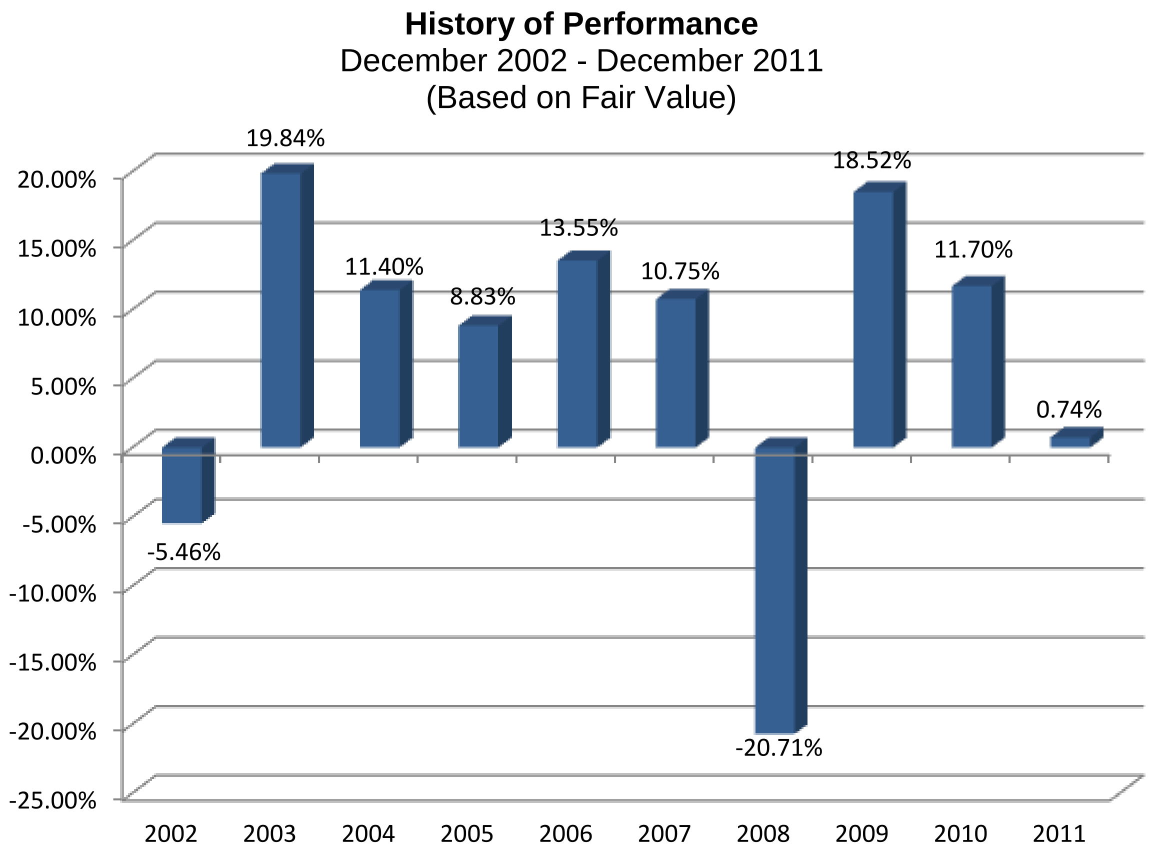
* Investment classified as alternative investments in the financial statements.
** Investment classified as international equity securities in the financial statements.

Growth of System Net Assets at Fair Value for Ten Years Ended December 31, 2011
(in Millions of Dollars)



Historical Asset Allocation
December 2002 – December 2011
(Actual)




History of Performance
December 2002 - December 2011
(Based on Fair Value)
20.00%
15.00%
10.00%
5.00%
0.00%
-5.00%
-10.00%
-15.00%
-20.00%
-25.00%
-5.46%
19.84%
11.40%
8.83%
13.55%
10.75%
-20.71%
18.52%
11.70%
0.74%
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011

Schedule of Commissions
(Amounts in Thousands)

Broker Name	Number of Shares Traded	Commission
Abel Noser Corporation	2,538	$51
ABN AMRO Bank	4,069	15
Barclays Capital	2,203	50
Bloomberg Tradebook, LLC	2,270	36
BNP Paribas	2,374	19
Broadcort Capital (THRU ML)	377	11
Burke & Quick Partners, LLC	1,022	41
Citigroup Global Markets, Inc.	5,798	57
CLSA	1,189	18
Convergex Execution Solutions, LLC	1,038	30
Credit Agricole	2,627	30
Credit Lyonnais Securities	2,392	13
Credit Suisse	2,173	45
CS First Boston (Hong Kong) Limited	3,709	11
Daiwa Securities	1,949	13
Deutsche Bank	11,259	57
Goldman Sachs	9,999	55
Instinet	4,263	10
Investment Technology Group, Inc.	3,398	21
ITG, Inc.	4,212	15
J.P. Morgan Securities	29,994	105
Jefferies & Company, Inc.	695	22
Liquidnet, Int.	1,868	18
MacQuarie	10,524	60
Merrill Lynch & Company, Inc.	15,010	117
Mizuho Securities, Inc.	659	12
Morgan Stanley & Company, Inc.	14,748	94
Nomura Securities International, Inc.	3,911	27
Pershing, LLC	3,318	25
Rafferity Capital Markets, LLC	449	18
Robert W. Baird Company, Inc.	461	18
Sanford C. Bernstein, LTD.	7,188	50
SJ Levinson & Sons, LLC	426	17
Societe Generale, London Branch	1,207	14
Stifel Nicolaus & Company, Inc.	448	16
UBS	14,551	71
Other*	20,752	320
TOTAL	**195,068**	**$1,602**

*Other includes approximately 166 additional firms that comprise roughly 20% of total commissions and 11% of the total number of shares traded.

Commission Recapture Program

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

Schedule of Investment Management and Security Lending Fees
For the Year Ended December 31, 2011

Investment Management Fees	
Domestic Equity Securities	$8,667
International Equity Securities	6,720
Domestic Bonds	5,254
Foreign Bonds	1,040
Real Estate	4,705
Alternative Investments	3,570
Total Investment Activity Fees	**29,956**
Security Lending Activity	
Security Lending Fees	445
Rebate Fees	287
Security Lending & Rebate Fees	**732**
Total Investment Management and Security Lending Fees	**$30,688**

Investment Summary
As of December 31, 2011

Investment	Fair Value	Percentage
Domestic Equity Securities	$1,448,986	17%
International Equity Securities	1,645,569	19%
Global Equity Securities	349,447	4%
Domestic Bonds	2,431,601	28%
Foreign Bonds	659,028	8%
Real Estate	835,844	10%
Alternative Investments	1,231,514	14%
Total*	**$8,601,988**	**100%**

*The table above does not include fair value of OPEB 115 Agency Funds held by OCERS in an investment capacity.

Schedule of Largest Equity Holdings (by Market Value)*
December 31, 2011
(Amounts in Thousands)

Common Stock	Shares	Market Value	% of Composite
Exxon Mobil Corp	290	$24,563	0.31%
Samsung Electronics Co Ltd	26	23,657	0.29%
Apple Inc	54	22,033	0.27%
International Business Machines Corporation	71	13,102	0.16%
Chevron Corp	118	12,583	0.16%
Pernod Ricard Sa	124	11,500	0.14%
Microsoft Corp	437	11,333	0.14%
General Electric Co	624	11,174	0.14%
Softbank Corp	375	11,043	0.14%
Procter and Gamble Company	164	10,375	0.13%

Schedule of Largest Fixed Income Holdings (by Market Value)*
December 31, 2011
(Dollars in Thousands)

Asset	CPN/Maturity	Market Value	% of Composite
FNMA TBA 30YR SINGLE FAMILY JA	3.5/12-1-2099	$73,019	2.35%
TSY INFL IX N/B	1.25/7-15-2020	48,150	1.55%
TSY INFL IX N/B	3.375/1-15-2012	39,417	1.27%
TSY INFL IX N/B	3.875/4-15-2029	30,262	0.97%
TSY INFL IX N/B	2.375/1-15-2025	29,019	0.93%
US TREASURY N/B	2/11-15-2021	28,319	0.91%
JAPAN 50	1.9/3-22-2021	28,289	0.91%
TSY INFL IX N/B	3.625/4-15-2028	27,478	0.88%
BUNDESREPUB. DEUTSCHLAND	2.25/9-4-2020	26,678	0.86%
JAPAN 250	0.5/6-20-2013	26,136	0.84%

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

List of Investment Managers
As of December 31, 2011

Domestic Equity
Artisan Partners
BlackRock Institutional Trust Company
Cadence Capital Management
Dodge & Cox
Eagle Asset Management
Waddell & Reed Asset Management Group

Domestic Fixed Income
BlackRock Institutional Trust Company
Loomis, Sayles & Company
Pacific Investment Management Company

International Equity
Alliance Bernstein
AQR Capital Management, LLC
BlackRock Institutional Trust Company
Capital Guardian Trust Company
Mercator Asset Management
Mondrian Investment Partners, Ltd.
Pyramis Global Advisors
William Blair & Co.

Global Equity
Franklin Templeton Investments
Grantham Mayo Van Otterloo & Co LLC
J.P. Morgan Asset Management

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
EIG Alternative Investments
EnerVest, Ltd
Hancock Agricultural Investment Group
Hancock Timber Resource Group
Pacific Investment Management Company
RMK Timberland Group
Schroder Investment Management
Wellington Management

Real Estate
Domestic
AEW Capital Management
Angelo Gordon & Co.
CB Richard Ellis Investors
Fidelity Management Trust Co.
Morgan Stanley

Global Real Estate Securities
LaSalle Investment Management

Alternative Investments
Managers
Abbott Capital
Adams Street Partners
HarbourVest Partners, LLC
Mesirow Financial Private Equity

Limited Partnerships
Pacific Investment Management Company

Cash Overlay
The Clifton Group

Securities Lending Program
State Street Corporation

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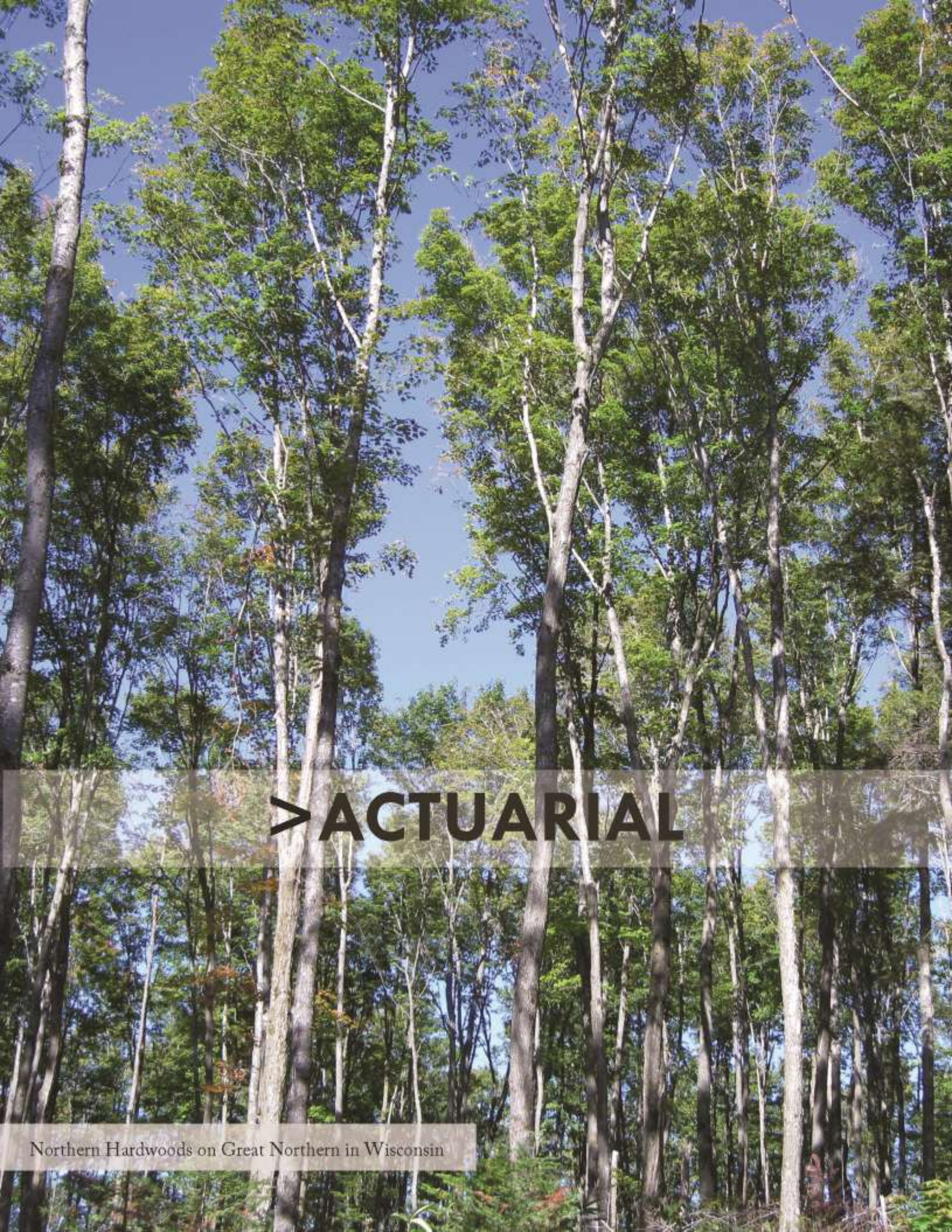
SECTION IV

Northern Hardwood from Great Northern in Wisconsin; Closeup of Loblolly Pine on Monticello in Virginia

>ACTUARIAL



Northern Hardwoods on Great Northern in Wisconsin

SEGAL

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

July 18, 2012

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, 2011 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. It is our understanding that the 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 declining period, currently 23 years. The outstanding balance of the UAAL established in the December 31, 2009 valuation as a result of including additional premium pay items as pensionable salary and the new UAAL established in the December 31, 2010 valuation as a result of reallocating contributions and benefit payments among Rate Groups are also amortized over a 23-year period, in the December 31, 2011 valuation. Any increases or decreases in UAAL that arise in future years due to actuarial gains or losses will be amortized over separate 15-year periods. Increases or decreases due to assumption changes will be amortized over separate 30-year periods. The progress being made toward the realization of the financing objectives through December 31, 2011 is illustrated in the attached Exhibits I, II and X.

As part of the December 31, 2011 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, 2011 is provided in Exhibit V.

Board of Retirement
Orange County Employees Retirement System
July 18, 2012
Page 2

A listing of the 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. The results of this valuation were prepared using the actuarial assumptions and methods developed in the experience study and economic assumptions study prepared in conjunction with the December 31, 2011 valuation. All of the assumptions recommended in those studies were adopted by the Board, except for the investment return assumption. Segal recommended lowering the current 7.75% investment return assumption to either 7.50% or 7.25%; however, the Board elected to maintain the current assumption of 7.75%. This 7.75% assumption prescribed by the Board and used in the December 31, 2011 valuation would have no margin under the risk adjusted model used by Segal to study the investment return assumption. This assumption will be reviewed again prior to the next valuation and the review will include the outcome of the asset liability study. Actuarial valuations are performed on an annual basis. With the exception of the review of the investment return assumption just discussed, an experience analysis is performed every three years. The next experience analysis is due to be performed as of December 31, 2013 and any changes in assumptions that result will be reflected in the December 31, 2014 valuation.

In the December 31, 2011 valuation, the ratio of the valuation value of assets to actuarial accrued liabilities decreased from 69.79% to 67.03%. The aggregate employer rate (average of the County and all special districts rates combined) has increased from 31.12% of payroll to 34.69% of payroll. The aggregate employee's rate has increased from 10.79% of payroll to 11.49% of payroll.

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Board of Retirement
Orange County Employees Retirement System
July 18, 2012
Page 3

In the December 31, 2011 valuation, the actuarial value of assets included $599 million in unrecognized investment losses, which represented 7% 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 67.0% to 62.6% and the aggregate employer contribution rate, expressed as a percent of payroll, would increase from 34.7 to about 37.9%.

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

Sincerely,

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

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

AW/hy
Enclosures

5201264v1/05794.002

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
12/31/02	$5,673,754	$4,695,675	$978,079	82.76%	$1,242,348	78.73%
12/31/03	6,099,433	4,790,099	1,309,334	78.53%	1,243,964	105.25%
12/31/04	7,403,972	5,245,821	2,158,151	70.85%	1,257,085	171.68%
12/31/05	8,089,627	5,786,617	2,303,010	71.53%	1,276,764	180.38%
12/31/06	8,765,045	6,466,085	2,298,960	73.77%	1,322,952	173.78%
12/31/07	9,838,686[1]	7,288,900	2,549,786[1]	74.08%[1]	1,457,159	174.98%[1]
12/31/08	10,860,715	7,748,380	3,112,335	71.34%	1,569,764	198.27%
12/31/09	11,858,578	8,154,687	3,703,891	68.77%	1,618,491	228.85%
12/31/10	12,425,873	8,672,592	3,753,281	69.79%	1,579,239	237.66%
12/31/11	13,522,978	9,064,355	4,458,623	67.03%	1,619,474	275.31%

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

Notes:

- The 12/31/11 valuation included the following changes:

  Assumption Changes:

  Changes in mortality, disability, termination, retirement, salary scale, and annual pay-off assumptions in the December 31, 2010 triennial experience study increased the UAAL by $364 million.

  Benefit changes:

  City of San Juan Capistrano adopted a 2.0% of final average salary at age 57 for members hired on or after July 1, 2012.

  Certain employees previously employed at the City of Santa Ana became employees of OCFA General and OCFA Safety eligible for benefits under 2.0% of final average salary at age 55 and 3.0% of final average salary at age 50, respectively.

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

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

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

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

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

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

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

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

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

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

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

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Orange County Employees Retirement System

HISTORY OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (Cont.)

- 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.

- 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.

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Orange County Employees Retirement System

HISTORY OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (Cont.)

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

	Amount Excluded from Assets	
Valuation Date	County Investment Account	Prepaid Employer Contributions
12/31/02	$143,675,000	$0
12/31/03	$143,744,000	$0
12/31/04	$155,245,000	$0
12/31/05	$158,219,000	$45,925,000
12/31/06	$168,224,000	$70,941,000
12/31/07	$174,348,000	$108,301,000
12/31/08	$126,683,000	$24,345,000
12/31/09	$108,324,000	$20,027,000
12/31/10	$108,531,000	$29,545,000
12/31/11	$97,767,000	$162,873,000

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Orange County Employees Retirement System

Exhibit II

HISTORY OF EMPLOYER CONTRIBUTION RATES

Employer Contribution Rate (% of pay)

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

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Orange County Employees Retirement System
HISTORY OF EMPLOYER CONTRIBUTION RATES (Cont.)

Employer Contribution Rate (% of pay)

	General (Non-OCTA, Non-OCSD)	*General (1.62% @ 65, Non-OCTA)*	*General (2.7% @ 55)*	*General (2.0% @ 57)*	*General (OCTA)*	*General (2.5% @ 55)*	*General (1.64% @ 57, OCSD)*	*General (Rancho Santa Margarita)*	*General (2.0% @ 55, TCA)*
12/31/2004 ***,****	NC 9.55% UAAL 6.08 Total 15.63%	N/A	NC 11.74% UAAL 10.49 Total 22.23%	N/A	NC 11.71% UAAL 1.39 Total 13.10%	NC 10.80% UAAL 9.35 Total 20.15%	N/A	NC 10.53% UAAL 2.30 Total 12.83%	NC 11.45% UAAL 7.09 Total 18.54%
12/31/2005 ***,****	NC 9.33% UAAL 5.00 Total 14.33%	N/A	NC 11.46% UAAL 11.10 Total 22.56%	N/A	NC 11.36% UAAL 3.60 Total 14.96%	NC 10.54% UAAL 10.33 Total 20.87%	N/A	NC 10.81% UAAL 1.92 Total 12.73%	NC 11.49% UAAL 5.87 Total 17.36%
12/31/2006 ****	NC 9.19% UAAL 5.31 Total 14.50%	N/A	NC 11.36% UAAL 10.84 Total 22.20%	N/A	NC 11.25% UAAL 4.77 Total 16.02%	NC 10.55% UAAL 10.79 Total 21.34%	N/A	N/A	NC 12.03% UAAL 6.01 Total 18.04%
12/31/2007	NC 8.92% UAAL 5.25 Total 14.17%	N/A	NC 11.24% UAAL 10.59 Total 21.83%	N/A	NC 11.26% UAAL 3.76 Total 15.02%	NC 10.54% UAAL 11.41 Total 21.95%	N/A	N/A	NC 12.60% UAAL 6.13 Total 18.73%
12/31/2008	NC 8.99% UAAL 7.06 Total 16.05%	N/A	NC 11.79% UAAL 13.00 Total 24.79%	N/A	NC 11.32% UAAL 5.94 Total 17.26%	NC 11.19% UAAL 13.01 Total 24.20%	N/A	N/A	NC 13.02% UAAL 5.72 Total 18.74%
12/31/2009 ******	NC 8.69% UAAL 10.43 Total 19.12%	NC 3.69% UAAL 15.50 Total 19.19%	NC 11.61% UAAL 15.50 Total 27.11%	N/A	NC 11.11% UAAL 9.28 Total 20.39%	NC 10.93% UAAL 14.75 Total 25.68%	NC 10.14% UAAL 14.75 Total 24.89%	N/A	NC 12.59% UAAL 7.05 Total 19.64%
12/31/2010 *******	NC 8.59% UAAL 8.26 Total 16.85%	NC 5.10% UAAL 16.84 Total 21.94%	NC 11.55% UAAL 16.84 Total 28.39%	N/A	NC 10.96% UAAL 10.00 Total 20.96%	NC 10.92% UAAL 16.55 Total 27.47%	NC 10.14% UAAL 16.55 Total 26.69%	N/A	NC 12.56% UAAL 8.41 Total 20.97%
12/31/2011	NC 8.55% UAAL 10.39 Total 18.94%	NC 4.91% UAAL 20.98 Total 25.89%	NC 12.03% UAAL 20.98 Total 33.01%	NC 10.99% UAAL 20.98 Total 31.97%	NC 10.57% UAAL 13.08 Total 23.65%	NC 11.29% UAAL 20.66 Total 31.95%	NC 10.11% UAAL 20.66 Total 30.77%	N/A	NC 13.11% UAAL 9.11 Total 22.22%

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Orange County Employees Retirement System

HISTORY OF EMPLOYER CONTRIBUTION RATES (Cont.)

Employer Contribution Rate (% of pay)

	General (2.0% @ 55, Cemetery, future service)	*General (2.7% @ 55, OCFA)*	*General (2.0% @ 55, OCFA)*	*Safety Law Enforcement (3% @ 50)*	*Safety Law Enforcement (3% @ 55)*	*Safety Fire Authority (3% @ 50)*	*Safety Fire Authority (3% @ 55)*	*Safety Probation*
12/31/2004 ***,****	See General (Non-OCTA)	See General (2.7% @ 55)	N/A	NC 20.43% UAAL 17.22 Total 37.65%	N/A	NC 20.33% UAAL 13.52 Total 33.85%	N/A	NC 21.37% UAAL 12.04 Total 33.41%
12/31/2005 ***,****	See General (Non-OCTA)	See General (2.7% @ 55)	N/A	NC 20.15% UAAL 17.18 Total 37.33%	N/A	NC 20.04% UAAL 13.98 Total 34.02%	N/A	NC 20.76% UAAL 11.18 Total 31.94%
12/31/2006 ****	NC 10.31% UAAL 5.00 Total 15.31%	NC 11.43% UAAL 12.81 Total 24.24%	N/A	NC 20.19% UAAL 15.86 Total 36.05%	N/A	NC 19.93% UAAL 13.50 Total 33.43%	N/A	NC 20.61% UAAL 11.64 Total 32.25%
12/31/2007	NC 10.79% UAAL 4.36 Total 15.15%	NC 11.48% UAAL 11.53 Total 23.01%	N/A	NC 21.27% UAAL 18.25 Total 39.52%	N/A	NC 21.02% UAAL 17.22 Total 38.24%	N/A	NC 20.49% UAAL 10.90 Total 31.39%
12/31/2008	NC 10.85% UAAL 7.05 Total 17.90%	NC 12.03% UAAL 12.59 Total 24.62%	N/A	NC 21.39% UAAL 21.95 Total 43.34%	N/A	NC 21.16% UAAL 21.94 Total 43.10%	N/A	NC 20.15% UAAL 12.03 Total 32.18%
12/31/2009 ******	NC 11.24% UAAL 6.92 Total 18.16%	NC 11.98% UAAL 14.55 Total 26.53%	NC 11.11% UAAL 14.55 Total 25.66%	NC 21.13% UAAL 25.26 Total 46.39%	NC 20.38% UAAL 25.26 Total 45.64%	NC 21.31% UAAL 27.22 Total 48.53%	NC 18.30% UAAL 27.22 Total 45.52%	NC 20.17% UAAL 13.90 Total 34.07%
12/31/2010 *******	NC 10.90% UAAL 6.86 Total 17.76%	NC 11.85% UAAL 16.14 Total 27.99%	NC 11.11% UAAL 16.14 Total 27.25%	NC 21.05% UAAL 26.40 Total 47.45%	NC 20.38% UAAL 26.40 Total 46.78%	NC 21.54% UAAL 23.92 Total 45.46%	NC 18.30% UAAL 23.92 Total 42.22%	NC 20.07% UAAL 16.22 Total 36.29%
12/31/2011	NC 10.80% UAAL 8.23 Total 19.03%	NC 12.18% UAAL 20.43 Total 32.61%	NC 14.35% UAAL 20.43 Total 34.78%	NC 21.48% UAAL 29.38 Total 50.86%	NC 21.47% UAAL 29.38 Total 50.85%	NC 23.49% UAAL 19.66 Total 43.15%	NC 18.58% UAAL 19.66 Total 38.24%	NC 19.31% UAAL 17.26 Total 36.57%

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

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

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

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

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

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

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

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Exhibit III

SUMMARY OF ACTIVE MEMBERSHIP

Valuation Date	Number	Annual Salary	Annual Average Salary	Increase in Average Salary (%)
12/31/02				
General	19,002	$976,660,649	$51,398	9.68
Safety	3,721	265,638,289	71,389	(5.28)
Total	22,723	$1,242,348,938	$54,674	8.74
12/31/03				
General	19,023	$985,534,535	$51,808	0.80
Safety	3,649	258,429,279	70,822	(0.79)
Total	22,672	$1,243,963,814	$54,868	0.35
12/31/04				
General	18,928	$1,003,061,000	$52,993	2.29
Safety	3,574	254,024,000	71,076	0.36
Total	22,502	$1,257,085,000	$55,866	1.82
12/31/05				
General	18,816	$1,011,214,000	$53,742	1.41
Safety	3,651	265,550,000	72,733	2.33
Total	22,467	$1,276,764,000	$56,828	1.72
12/31/06				
General	19,129	$1,049,095,000	$54,843	2.05
Safety	3,662	273,857,000	74,783	2.82
Total	22,791	$1,322,952,000	$58,047	2.15
12/31/07				
General	19,803	$1,156,684,000	$58,410	6.50
Safety	3,815	300,475,000	78,761	5.32
Total	23,618	$1,457,159,000	$61,697	6.29
12/31/08				
General	19,795	$1,238,077,000	$62,545	7.08
Safety	3,925	331,687,000	84,506	7.29
Total	23,720	$1,569,764,000	$66,179	7.26
12/31/09				
General	18,873	$1,258,558,000	$66,686	6.62
Safety	3,760	359,933,000	95,727	13.28
Total	22,633	$1,618,491,000	$71,510	8.06
12/31/10				
General	18,155	$1,232,657,000	$67,896	1.81
Safety	3,587	346,582,000	96,622	0.93
Total	21,742	$1,579,239,000	$72,635	1.57
12/31/11				
General	17,717	$1,249,064,000	$70,501	3.84
Safety	3,704	370,410,000	100,003	3.50
Total	21,421	$1,619,474,000	$75,602	4.08

Excludes Deferred and Pending members.

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EXHIBIT IV

SUMMARY OF RETIRED MEMBERSHIP

Plan Year Ending	At Beginning of Year	Added to Rolls: Number	Added to Rolls: Annual Allowance (in 000's)*	Removed from Rolls: Number	Removed from Rolls: Annual Allowance (in 000's)	At End of Year	Annual Allowance (in 000's)	% Increase in Annual Allowance	Average Monthly Allowance
2002	8,216	727	--	(255)	--	8,688	$186,286	14.60	$1,787
2003	8,688	793	--	(402)	--	9,079	210,913	13.22	1,936
2004	9,079	638	$26,663	(284)	$(4,715)	9,433	232,861	10.41	2,057
2005	9,433	1,024	56,669	(239)	(4,081)	10,218	285,449	22.58	2,328
2006	10,218	965	46,950	(268)	(5,580)	10,915	326,819	14.49	2,495
2007	10,915	817	41,552	(311)	(6,596)	11,421	361,775	10.70	2,640
2008	11,421	658	38,298	(301)	(6,426)	11,778	393,647	8.81	2,785
2009	11,778	744	32,435	(279)	(6,829)	12,243	419,253	6.50	2,854
2010	12,243	851	46,736	(332)	(8,334)	12,762	457,655	9.16	2,988
2011	12,762	888	45,913	(361)	(9,371)	13,289	494,197	7.98	3,099

* *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, 2011

Plan Year Ending	Total Actual Market Return (net)	Expected Market Return (net)	Investment Gain/(Loss)	Deferred Factor	Deferred Return
2008	$(1,617,791,000)	$603,959,000	$(2,221,750,000)	0.2	$(444,350,000)
2009	$1,092,660,000	$489,051,000	$603,609,000	0.4	$241,444,000
2010	$787,215,000	$582,621,000	$204,594,000	0.6	$122,756,000
2011	$3,236,000	$651,782,000	$(648,546,000)	0.8	$(518,837,000)

(1)	Total Deferred Return	$(598,987,000)
(2)	Net Market Value of Assets (Excludes $97,767,000 in County Investment Account and $162,873,000 in Prepaid Employer Contributions)	$8,465,593,000*
(3)	Actuarial Value of Assets (2) – (1)	$9,064,580,000**
(4)	Non-valuation Reserves	
	(a) Unclaimed member deposit	$130,000
	(b) Medicare medical insurance reserve	$95,000
	(c) Retired member benefit reserve (RMBR)	$0
	(d) Subtotal	$225,000
(5)	Valuation Value of Assets (3) – (4)(d)	$9,064,355,000
(6)	Deferred Return Recognized in Each of the Next 4 Years	
	(a) Amount recognized on 12/31/2012	$(412,418,583)
	(b) Amount recognized on 12/31/2013	31,931,417
	(c) Amount recognized on 12/31/2014	(88,790,584)
	(d) Amount recognized on 12/31/2015	(129,709,250)
	(e) Subtotal (may not total exactly due to rounding)	$(598,987,000)

* Based on the unaudited financial statement originally provided by OCERS for the December 31, 2011 valuation. The value in the final audited financial statements is greater by about $8.5 million. As this change would not have a material effect on the valuation results, it will be reflected in the next valuation as of December 31, 2012.

** Ratio of Actuarial Value of Assets to Net Market Value of Assets is 107% ((3) / (2)).

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Orange County Employees Retirement System

Exhibit VI

SHORT-TERM SOLVENCY TEST

($ Amounts in Thousands)

Valuation Date	(1) Active Member Contributions	(2) Liability for Inactive Participants	(3) Liability for Active Members (Employer Financed Portion)	Valuation Value of Assets	Portion of Accrued Liability Covered by Valuation Assets (%) (1)	(2)	(3)
12/31/02	$858,121	$2,496,133	$2,319,500	$4,695,675	100	100	57.83
12/31/03	852,016	2,843,236	2,404,180	4,790,099	100	100	45.54
12/31/04	949,528	3,137,714	3,316,730	5,245,821	100	100	34.93
12/31/05	1,002,279	3,723,611	3,363,737	5,786,617	100	100	31.53
12/31/06	1,087,804	4,274,829	3,402,412	6,466,085	100	100	32.43
12/31/07	1,215,825	4,803,585	3,819,276[1]	7,288,900	100	100	33.24[1]
12/31/08	1,376,514	5,211,893	4,272,308	7,748,380	100	100	27.15
12/31/09	1,536,849	5,680,031	4,641,698	8,154,687	100	100	20.20
12/31/10	1,680,401	6,107,350	4,638,122	8,672,592	100	100	19.08
12/31/11	1,829,406	6,881,152	4,812,420	9,064,355	100	100	7.35

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

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Orange County Employees Retirement System

Exhibit VII

ACTUARIAL METHODS AND ASSUMPTIONS

Section 1 - Post – Retirement Mortality Rates:

Healthy:	For General Members and all Beneficiaries: RP-2000 Combined Healthy Mortality Table set back three years.
	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.
	The mortality tables shown above were determined to contain sufficient provision appropriate to reasonably reflect future mortality improvement, based on a review of the mortality experience in the January 1, 2008 through December 31, 2010 Actuarial Experience Study.
Employee Contribution Rates:	For General Members: RP-2000 Combined Healthy Mortality Table set back three years, 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	0.06	0.04	0.06	0.04
40	0.09	0.06	0.10	0.06
45	0.12	0.09	0.13	0.09
50	0.17	0.13	0.19	0.14
55	0.27	0.20	0.29	0.22
60	0.47	0.35	0.53	0.39
65	0.88	0.67	1.00	0.76

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

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Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Section 2 - Termination Rates Before Retirement (Continued):

Disability Incidence Rates:

	Rate (%) Disability			
Age	General All Other[1]	General OCTA[2]	Safety - Law & Fire[3]	Safety - Probation[3]
20	0.00	0.00	0.01	0.00
25	0.00	0.00	0.04	0.06
30	0.02	0.03	0.08	0.16
35	0.06	0.08	0.22	0.20
40	0.11	0.28	0.36	0.20
45	0.14	0.46	0.52	0.20
50	0.15	0.56	0.96	0.20
55	0.18	0.84	1.68	0.20
60	0.32	1.30	3.80	0.08

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

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

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

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Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Section 2 - Termination Rates Before Retirement (Continued):

Termination Rates:

	Rate (%)			
	Termination (< 5 Years of Service)			
Years of Service	General All Other[(1)]	General OCTA[(1)]	Safety – Law & Fire[(2)]	Safety - Probation[(2)]
0	13.0	20.0	4.0	20.0
1	8.0	16.0	3.0	15.0
2	7.0	12.0	2.0	10.0
3	6.0	9.0	2.0	5.0
4	5.0	7.0	1.0	4.0

	Termination (5+ Years of Service)			
Age	General All Other[(3)]	General OCTA[(3)]	Safety – Law & Fire[(3)]	Safety – Probation[(2)]
20	5.0	4.0	1.0	4.0
25	4.4	4.0	1.0	4.0
30	4.0	4.0	1.0	3.4
35	3.4	4.0	0.9	3.0
40	3.0	3.4	0.6	2.4
45	2.4	3.0	0.5	2.0
50	2.3	3.0	0.2	2.0
55	2.5	3.0	0.0	1.4
60	2.5	3.0	0.0	0.4

(1) *50% of all terminated members will choose a refund of contributions and 50% will choose a deferred vested benefit.*

(2) *40% of all terminated members will choose a refund of contributions and 60% will choose a deferred vested benefit.*

(3) *30% of terminated members will choose a refund of contributions and 70% 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	General – SJC	Safety – Law (3% @ 50)[1]	Safety – Law (3% @ 55)[1]	Safety – Fire (3% @ 50)[1]	Safety – Fire (3% @ 55)[1]	Safety – Probation[1]
49	0.0	0.0	0.0	10.0	0.0	0.0	0.0	0.0
50	3.0	2.0	3.0	14.0	11.5	7.0	8.0	4.0
51	2.0	2.0	3.0	14.0	12.0	9.0	10.0	4.0
52	2.0	2.0	3.0	14.0	12.7	11.0	11.0	4.0
53	2.0	2.0	3.0	14.0	17.9	12.0	12.0	4.0
54	5.0	2.0	3.0	20.0	18.8	16.0	14.0	8.0
55	15.0	3.0	4.0	20.0	30.7	20.0	24.0	12.0
56	9.0	4.0	5.0	20.0	20.0	20.0	23.0	12.0
57	9.0	6.0	6.0	20.0	20.0	25.0	27.0	16.0
58	9.0	8.0	7.0	20.0	25.0	25.0	27.0	25.0
59	9.0	8.0	9.0	25.0	30.0	30.0	36.0	25.0
60	12.0	8.0	11.0	60.0	100.0	60.0	100.0	25.0
61	12.0	8.0	13.0	60.0	100.0	60.0	100.0	25.0
62	17.0	16.0	15.0	60.0	100.0	60.0	100.0	25.0
63	15.0	16.0	15.0	60.0	100.0	60.0	100.0	50.0
64	18.0	16.0	20.0	60.0	100.0	60.0	100.0	100.0
65	20.0	20.0	20.0	100.0	100.0	100.0	100.0	100.0
66	25.0	25.0	24.0	100.0	100.0	100.0	100.0	100.0
67	21.0	21.0	24.0	100.0	100.0	100.0	100.0	100.0
68	21.0	21.0	24.0	100.0	100.0	100.0	100.0	100.0
69	21.0	21.0	24.0	100.0	100.0	100.0	100.0	100.0
70	60.0	40.0	100.0	100.0	100.0	100.0	100.0	100.0
71	60.0	40.0	100.0	100.0	100.0	100.0	100.0	100.0
72	60.0	40.0	100.0	100.0	100.0	100.0	100.0	100.0
73	60.0	40.0	100.0	100.0	100.0	100.0	100.0	100.0
74	60.0	40.0	100.0	100.0	100.0	100.0	100.0	100.0
75	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

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

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Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

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

General Age:	57
Safety Age:	53

We assume that 25% of future General and 30% of future Safety deferred vested members are reciprocal. For reciprocals, we assume 4.75% 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) three years younger (or older) than spouse.

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

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

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

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Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Salary Increases:

Annual Rate of Compensation Increase (%)

Inflation: 3.50% per year, plus "across the board" salary increases of 0.25% per year, plus the following merit and promotion increases:

Years of Service	General	Safety
Less than 1	10.00%	14.00%
1	7.00	9.00
2	6.00	8.00
3	5.00	7.00
4	4.00	5.00
5	3.00	4.00
6	2.00	3.00
7	1.75	3.00
8	1.50	2.00
9	1.25	2.00
10	1.25	1.50
11	1.25	1.50
12	1.25	1.50
13	1.25	1.50
14	1.25	1.50
15	1.25	1.50
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	4.00%	2.70%
Safety - Probation	5.20%	2.70%
Safety - Law	6.60%	4.50%
Safety - Fire	4.00%	2.00%

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

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Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

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

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

Actuarial Cost Method: Entry Age Normal Actuarial Cost Method. Entry Age* is the current age minus Vesting Credit. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salaries, with Normal Cost determined as a level percentage of individual salary, as if the current benefit accrual rate had always been in effect. The outstanding balance of the December 31, 2004 Unfunded Actuarial Accrued Liability is amortized over a declining 23-year period. The outstanding balance of the UAAL established in the December 31, 2009 valuation as a result of including additional premium pay items as pensionable salary and the new UAAL established in the December 31, 2010 valuation as a result of reallocating contributions and benefit payments among Rate Groups are also amortized over a 23-year period, in the December 31, 2011 valuation. Any increases or decreases in Unfunded Actuarial Accrued Liability that arise in future years due to actuarial gains or losses will be amortized over separate 15-year periods. Any increases or decreases in UAAL due to changes in actuarial assumptions are amortized over separate 30-year periods.

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

* For members previously employed at the City of Santa Ana, their Entry Age is their age as of this valuation on December 31, 2011.

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Orange County Employees Retirement System

Exhibit VIII

SUMMARY OF MAJOR PLAN PROVISIONS

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

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

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Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

2.0% @ 57 Plan	*(City of San Juan Capistrano)*
Plan S	*General members hired on or after July 1, 2012.*
All Other General Employers	
Plan A	General members hired before September 21, 1979.
Plan B	General members hired on or after September 21, 1979 and Sanitation District members within Supervisors and Professional unit hired on or after October 1, 2010.
Safety Plans	
3% @ 50 Plans	*(Law Enforcement, Fire Authority and Probation)*
Plan E	Safety members hired before September 21, 1979.
Plan F	Safety members hired on or after September 21, 1979 and before April 9, 2010 for Law Enforcement, before July 1, 2011 for Safety employees of OCFA Executive Management, and before July 1, 2012 for other OCFA Safety employees.
3% @ 55 Plans	*(Law Enforcement and Fire Authority)*
Plan Q	Safety Law Enforcement members rehired on or after April 9, 2010, Safety employees of OCFA Executive Management rehired on or after July 1, 2011, and other OCFA Safety employees rehired on or after July 1, 2012 and previously in Plan E.
Plan R	Safety Law Enforcement members hired on or after April 9, 2010, Safety employees of OCFA Executive Management hired on or after July 1, 2011, and other OCFA Safety employees hired on or after July 1, 2012.
Final Compensation for Benefit Determination:	
Plans A, E, G, I, M, O and Q	Highest consecutive twelve months of compensation earnable. (§31462.1) (FAS1)
Plans B, F, H, J, N, P, R and S	Highest consecutive thirty-six months of compensation earnable. (§31462) (FAS3)
Service:	Years of service. (Yrs)
Service Retirement Eligibility:	
General	Age 50 with 10 years of service, or age 70 regardless of service, or after 30 years, regardless of age. (§31672)
Safety	Age 50 with 10 years of service, or after 20 years, regardless of age. (§31663.25)
	All part time employees over age 55 with 10 years of employment may retire with 5 years of service.

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Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Benefit Formula:

General Plans

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

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

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

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Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

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

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

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

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

2.0% @ 57	**Retirement Age**	**Benefit Formula**
Plan S (§31676.12)	50	(1.34% x FAS3 x Yrs)
Tier 2	55	(1.77% x FAS3 x Yrs)
	60	(2.34% x FAS3 x Yrs)
	62	(2.62% x FAS3 x Yrs)
	65	(2.62% x FAS3 x Yrs)

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Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

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

Safety Plans

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

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

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

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Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Ordinary Disability:

General Plans

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

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

Safety Plans

Plans E, F, Q and R

Eligibility	Five years of service. (§31720)
Benefit Formula	1.8% per year of service. If the benefit does not exceed one-third of Final Compensation, the service is projected to 55, but the total benefit cannot be more than one-third of Final Compensation (§31727.2). For all members, 100% of the service retirement benefit will be paid, if greater.

Line-of-Duty Disability:

All Members

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

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Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Pre-Retirement Death:	
All Members	
Eligibility	None.
Benefit	Refund of employee contributions with interest plus one month's compensation for each year of service to a maximum of six month's compensation. (§31781) A lump sum benefit in the amount of $1,000 is payable upon death of a member (with 10 years of service) to his/her eligible beneficiary. (§31790)
Death in line of duty	50% of Final Compensation or 100% of Service Retirement benefit, if greater, payable to spouse or minor-children. (§31787).
	OR
Vested Members	
Eligibility	Five years of service.
Benefit	60% of the greater of Service or Ordinary Disability Retirement benefit payable to eligible surviving spouse (§31765.1, §31781.1), in lieu of §31781.
Death After Retirement:	
All Members	
Service or Ordinary Disability Retirement	60% of member's unmodified allowance continued to eligible spouse. (§31760.1) A lump sum benefit in the amount of $1,000 is payable upon death of a member (with 10 years of service) to his/her eligible beneficiary. (§31790) An eligible spouse is a surviving spouse who was married to the member at least one year prior to the date of retirement. (§31760.1)
Line-of-Duty Disability	100% of member's allowance continued to eligible spouse. (§31786) A lump sum benefit in the amount of $1,000 is payable upon death of a member (with 10 years of service) to his/her eligible beneficiary. (§31790)
Withdrawal Benefits:	
Less than Five Years of Service	Refund of accumulated employee contributions with interest or earned benefit at age 70 (§31628). Effective January 1, 2003, a member may also elect to leave their contributions on deposit in the retirement fund. (§31629.5)
Five or More Years of Service	If contributions left on deposit, entitled to earned benefits commencing at any time after eligible to retire. (§31700)
Post-retirement Cost-of-Living Benefits:	Future changes based on Consumer Price Index to a maximum of 3% per year, excess "banked." (§31870.1)

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Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Supplemental Benefit:	Non-vested supplemental COLA and medical benefits are also paid by the System to eligible retirees and survivors. These benefits have been excluded from this valuation.

Member Contributions:

General Plans:

Plan A	
Basic	Provide for an average annuity at age 60 equal to 1/200 of FAS1. (§31621.5)
Cost-of-Living	Provide for 50% of future Cost-of-Living costs.
Plan B	
Basic	Provide for an average annuity at age 60 equal to 1/120 of FAS3. (§31621)
Cost-of-Living	Provide for 50% of future Cost-of-Living costs.
Plans G, H, I and J	
Basic	Provide for an average annuity at age 55 equal to 1/100 of FAS3 (FAS1 for Plans G and I). (§31621.8)
Cost-of-Living	Provide for 50% of future Cost-of-Living costs.
Plan M, N, O and P	
Basic	Provide for an average annuity payable at age 60 equal to 1/120 of FAS3 (FAS1 for Plans M and O). (§31621)
Cost of Living	Provide for 50% of future Cost-of-Living costs.
Plan S	
Basic	Provide for an average annuity at age 60 equal to 1/100 of FAS3. (§31621.2)
Cost of Living	Provide for 50% of future Cost-of-Living costs.

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Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Safety Plans:

Plans E and Q	
Basic	Provide for an average annuity at age 50 equal to 1/200 FAS1. (§31639.5)
Cost-of-Living	Provide for 50% of future Cost-of-Living costs.
Plans F and R	
Basic	Provide for an average annuity at age 50 equal to 1/100 of FAS3. (§31639.25)
Cost-of-Living	Provide for 50% of future Cost-of-Living costs.

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

NOTE: The summary of major plan provisions is designed to outline principal 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 that both can be sure the proper provisions are valued.

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Orange County Employees Retirement System

Exhibit IX

EXPERIENCE ANALYSIS
($000)

Gains & Losses in Actuarial Accrued Liabilities During Years Ended December 31, Resulting from Differences Between Assumed Experience & Actual Experience					
	Gains (or Losses) Per Year				
Type of Activity	**2007**	**2008**	**2009**	**2010**	**2011**
Retirements	--	$(54,911)	--	--	--
Pay Increases	$(136,417)	(97,561)	$77,858	$215,936	$154,946
Investment Income	176,681	(257,752)	(322,523)	(224,044)	(388,935)
Other	(43,538)	(17,159)	(14,931)	63,174	(38,159)
Gain (or Loss) During Year From Experience	**$(3,274)**	**$(427,383)**	**$(259,596)**	**$55,066**	**$(272,148)**
Nonrecurring Items:					
Method and Procedure Changes	--	--	--	--	--
Plan Amendments and Assumption Changes	(237,147)	(115,764)	--	--	(363,842)
Correction to Include All Premium Pay Items	--	--	(228,051)	--	--
Composite Gain (or Loss) During Year	**$(240,421)**	**$(543,147)**	**$(487,647)**	**$55,066**	**$(635,990)**

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Exhibit X

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date December 31	Valuation Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c)
2006	$6,466,085,000	$8,765,045,000	$2,298,960,000	73.77%	$1,322,952,000	173.78%
2007	7,288,900,000	9,838,686,000[1]	2,549,786,000[1]	74.08%[1]	1,457,159,000	174.98%[1]
2008	7,748,380,000	10,860,715,000	3,112,335,000	71.34%	1,569,764,000	198.27%
2009	8,154,687,000	11,858,578,000	3,703,891,000	68.77%	1,618,491,000	228.85%
2010	8,672,592,000	12,425,873,000	3,753,281,000	69.79%	1,579,239,000	237.66%
2011	9,064,355,000	13,522,978,000	4,458,623,000	67.03%	1,619,474,000	275.31%

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

For informational purposes only, we have also developed the funded ratio determined using the historical market value of assets after adjustment for amounts in the County Investment Account, prepaid employer contributions, unclaimed member reserve, Medicare Medical Insurance Reserve and RMBR.

Actuarial Valuation Date December 31	Funded Ratio Based on Net Market Value of Assets
2006	77.69%
2007	78.43%
2008	57.51%
2009	62.94%
2010	67.25%
2011	62.60%

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ACTUARIAL CERTIFICATION

- This report presents the County of Orange Retiree Healthcare Plan ("Plan") June 30, 2011 actuarial valuation. The purpose of this valuation is to:
  - Determine the Governmental Accounting Standards Board Statement Nos. 43 and 45 June 30, 2011 Benefit Obligations,
  - Determine the Plan's June 30, 2011 Funded Status, and
  - Calculate the 2011/12 and 2012/13 Annual Required Contributions.
- The report provides information intended for reporting under GASB 43 and 45, but may not be appropriate for other purposes. Information provided in this report may be useful to the County for the Plan's financial management. Future valuations may differ significantly if the Plan's experience differs from our assumptions or if there are changes in Plan design, actuarial methods or actuarial assumptions. The project scope did not include an analysis of this potential variation.
- The valuation is based on Plan provisions, participant data, and asset information provided by the County as summarized in this report, which we relied on and did not audit. We reviewed the participant data for reasonableness.
- To the best of our knowledge, this report is complete and accurate and has been conducted using generally accepted actuarial principals and practices. Additionally, in our opinion, actuarial methods and assumptions comply with GASB 43 and 45. As members of the American Academy of Actuaries meeting the Academy Qualification Standards, we certify the actuarial results and opinions herein.

  Respectfully submitted,

John E. Bartel, ASA, MAAA, FCA	Catherine A. Wandro, ASA, MAAA
President	Assistant Vice President
Bartel Associates, LLC	Bartel Associates, LLC
July 3, 2012	July 3, 2012

July 11, 2012

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May 24, 2011

ACTUARIAL CERTIFICATION

This is to certify that The Segal Company has conducted an actuarial valuation of certain benefit obligations of Orange County Fire Authority's other postemployment benefit programs as of July 1, 2010, in accordance with generally accepted actuarial principles and practices. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of GASB Statements 43 and 45 for the determination of the liability for postemployment benefits other than pensions.

The actuarial valuation is based on the plan of benefits verified by Orange County Fire Authority and on participant, premium, claims and expense data provided by Orange County Fire Authority or from vendors employed by Orange County Fire Authority.

The actuarial computations made are for purposes of fulfilling plan accounting requirements. Determinations for purposes other than meeting financial accounting requirements may be significantly different from the results reported here. Accordingly, additional determinations may be needed for other purposes, such as judging benefit security at termination of the plan, or determining short-term cash flow requirements.

To the best of our knowledge, this report is complete and accurate and in our opinion presents the information necessary to comply with GASB Statements 43 and 45 with respect to the benefit obligations addressed. The signing actuaries are members of the Society of Actuaries, the American Academy of Actuaries, and other professional actuarial organizations and collectively meet their "General Qualification Standards for Statements of Actuarial Opinions" to render the actuarial opinion contained herein.

Dave Bergerson

Dave T. Bergerson, ASA, MAAA, EA, FCA
Vice President and Actuary

Patrick Twomey

Patrick Twomey, ASA, MAAA, EA
Assistant Actuary

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SECTION V

Loblolly Pine on Monticello in Virginia; wild flower in Oregon

>STATISTICAL

Peters Canyon Regional Park

STATISTICAL SECTION REVIEW

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

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

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

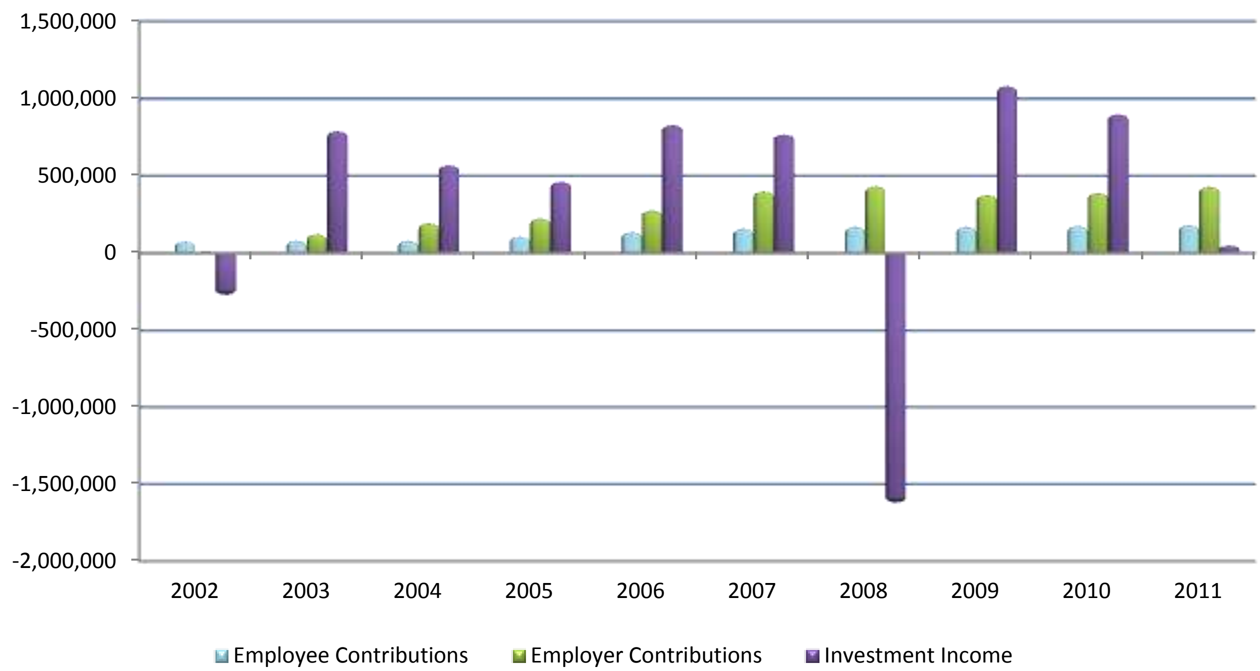
Schedule of Changes in Fiduciary Net Assets
2002 – 2011
(Dollars in Thousands)

Years Ended December 31	2002	2003	2004	2005	2006
Additions					
Employer Contributions	$13,289	$124,243	$194,430	$226,130	$277,368
Employee Contributions	77,917	81,581	81,931	107,544	137,582
Investment Income	(270,654)	788,036	568,027	460,431	828,147
Net Securities Lending	1,119	872	857	1,425	1,317
Commission Recapture-Net/Other	347	178	116	123	736
Total Additions	**($177,982)**	**$994,910**	**$845,361**	**$795,653**	**$1,245,150**
Deductions					
Benefits	$186,031	$216,685	$238,529	$264,927	$318,666
Administrative Expenses	8,279	8,848	9,463	9,953	17,145
Total Deductions	**$194,310**	**$225,533**	**$247,992**	**$274,880**	**$335,811**
Change in Fiduciary Net Assets	**($372,292)**	**$769,377**	**$597,369**	**$520,773**	**$909,339**

Years Ended December 31	2007	2008	2009	2010	2011
Additions					
Employer Contributions	$401,037	$433,911	$377,976	$390,653	$430,939
Employee Contributions	159,476	172,291	171,928	177,929	183,820
Investment Income	763,117	(1,627,177)	1,073,912	895,475	45,994
Net Securities Lending	3,452	6,145	3,989	1,870	1,724
Commission Recapture-Net/Other	1,773	1,249	2,161	1,137	2,111
Total Additions	**$1,328,855**	**($1,013,581)**	**$1,629,966**	**$1,467,064**	**$664,588**
Deductions					
Benefits	$353,861	$419,502	$461,530	$487,055	$522,648
Administrative Expenses	10,381	11,006	10,947	12,395	12,855
Total Deductions	**$364,242**	**$430,508**	**$472,477**	**$499,450**	**$535,503**
Change in Fiduciary Net Assets	**$964,613**	**($1,444,089)**	**$1,157,489**	**$967,614**	**$129,085**

Schedule and Graph of Fiduciary Revenues by Source
2002 – 2011
(Dollars in Thousands)

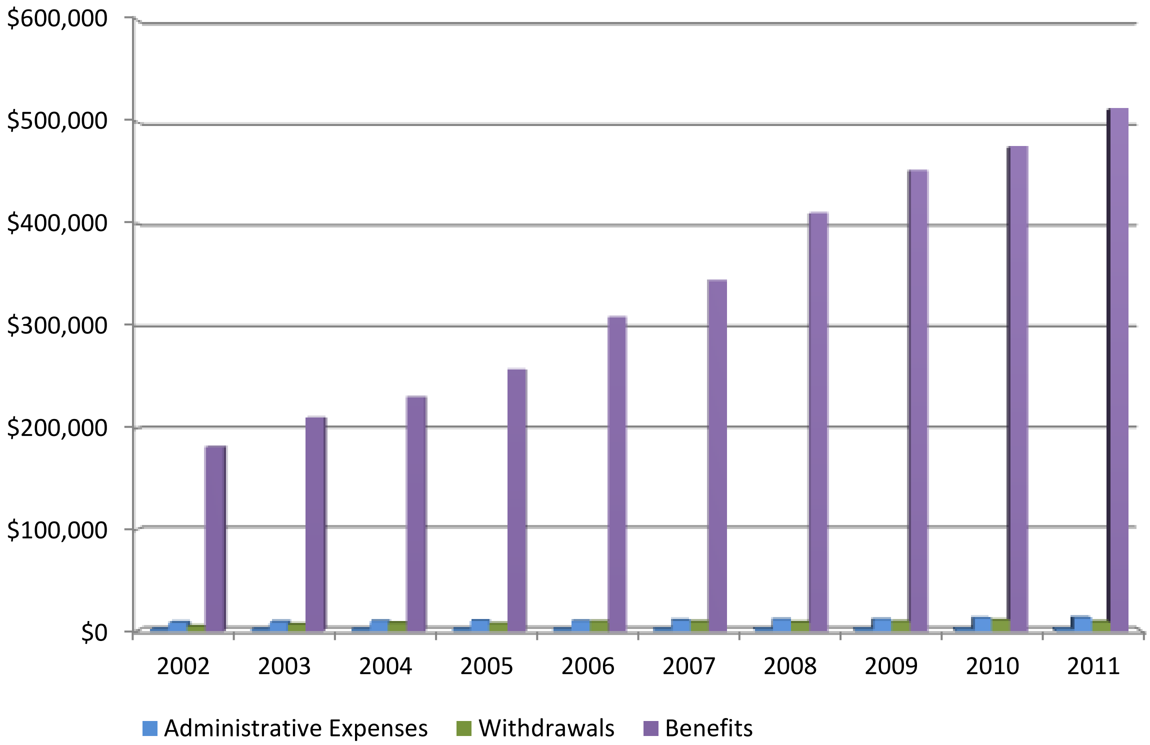
Years Ended December 31	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Employee Contributions	$77,917	$81,581	$81,931	$107,544	$137,582	$159,476	$172,291	$171,928	$177,929	$183,820
Employer Contributions	13,289	124,243	194,430	226,130	277,368	401,037	433,911	377,976	390,653	430,939
Investment Income *	(269,188)	789,086	569,000	461,979	830,200	768,342	(1,619,783)	1,080,062	898,482	49,829
Total	**($177,982)**	**$994,910**	**$845,361**	**$795,653**	**$1,245,150**	**$1,328,855**	**($1,013,581)**	**$1,629,966**	**$1,467,064**	**$664,588**



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

Schedule and Graph of Expenses by Type
2002 – 2011
(Dollars in Thousands)

Years Ended December 31	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Administrative Expenses	$8,279	$8,848	$9,463	$9,953	$9,600	$10,381	$11,006	$10,947	$12,395	$12,855
Withdrawals										
Separation	3,810	5,450	6,982	6,439	8,073	8,007	7,022	7,604	8,566	6,833
Death	672	962	863	560	897	792	1,337	1,448	1,880	2,041
Benefits	181,549	210,273	230,684	257,929	309,696	345,062	411,143	452,478	476,609	513,774
Total	**$194,310**	**$225,533**	**$247,992**	**$274,881**	**$328,266**	**$364,242**	**$430,508**	**$472,477**	**$499,450**	**$535,503**

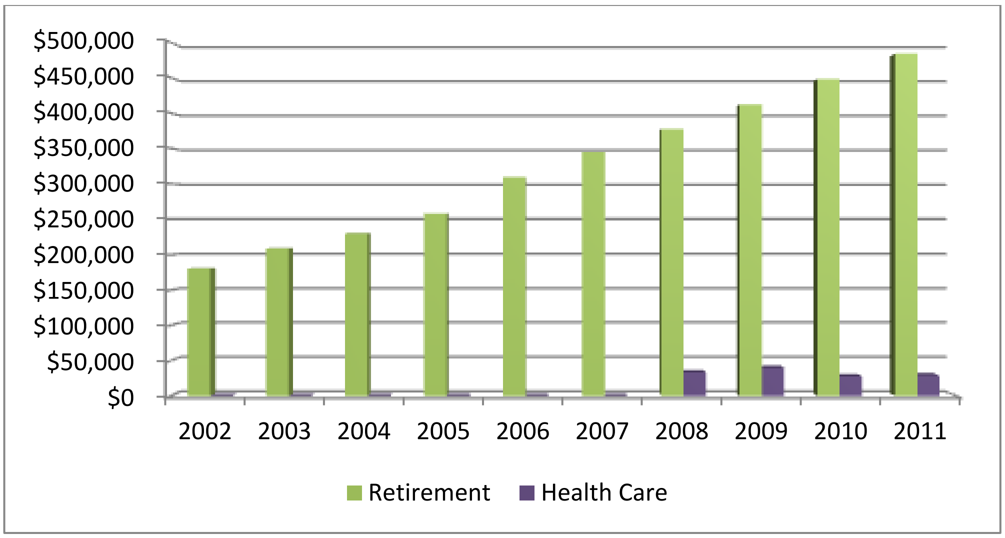


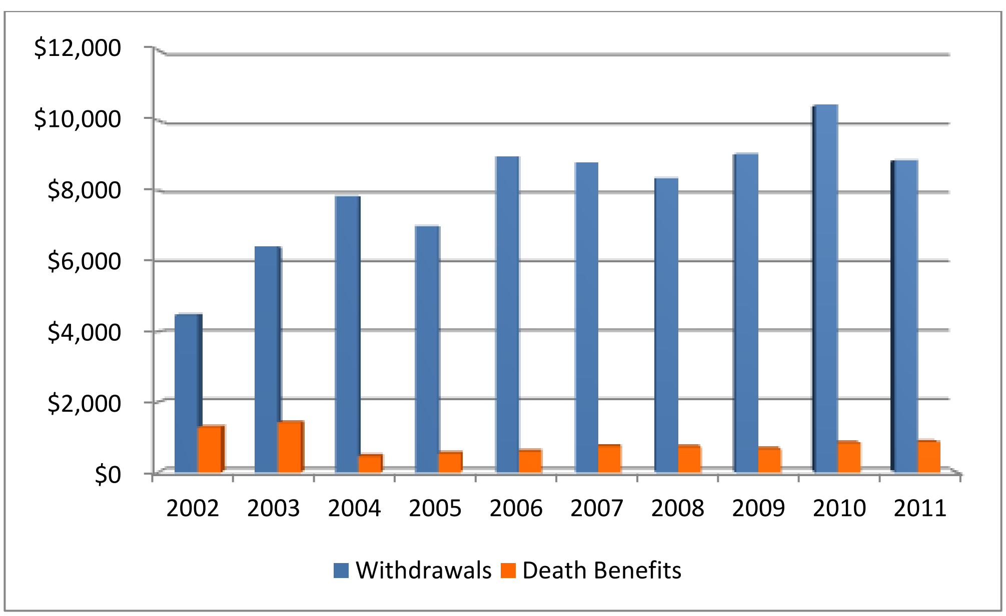
Schedule and Graphs of Benefit Expenses by Type

2002 – 2011

(Dollars in Thousands)

Years Ended December 31	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Retirement	$180,263	$208,861	$230,225	$257,397	$309,102	$344,321	$376,937	$411,959	$448,099	$484,012
Health Care[1]	N/A	N/A	N/A	N/A	N/A	N/A	33,480	39,858	27,672	28,899
Withdrawals	4,482	6,412	7,845	6,999	8,970	8,799	8,359	9,052	10,446	8,874
Death Benefits	1,286	1,412	459	532	594	741	726	661	838	863
Total	**$186,031**	**$216,685**	**$238,529**	**$264,928**	**$318,666**	**$353,861**	**$419,502**	**$461,530**	**$487,055**	**$522,648**



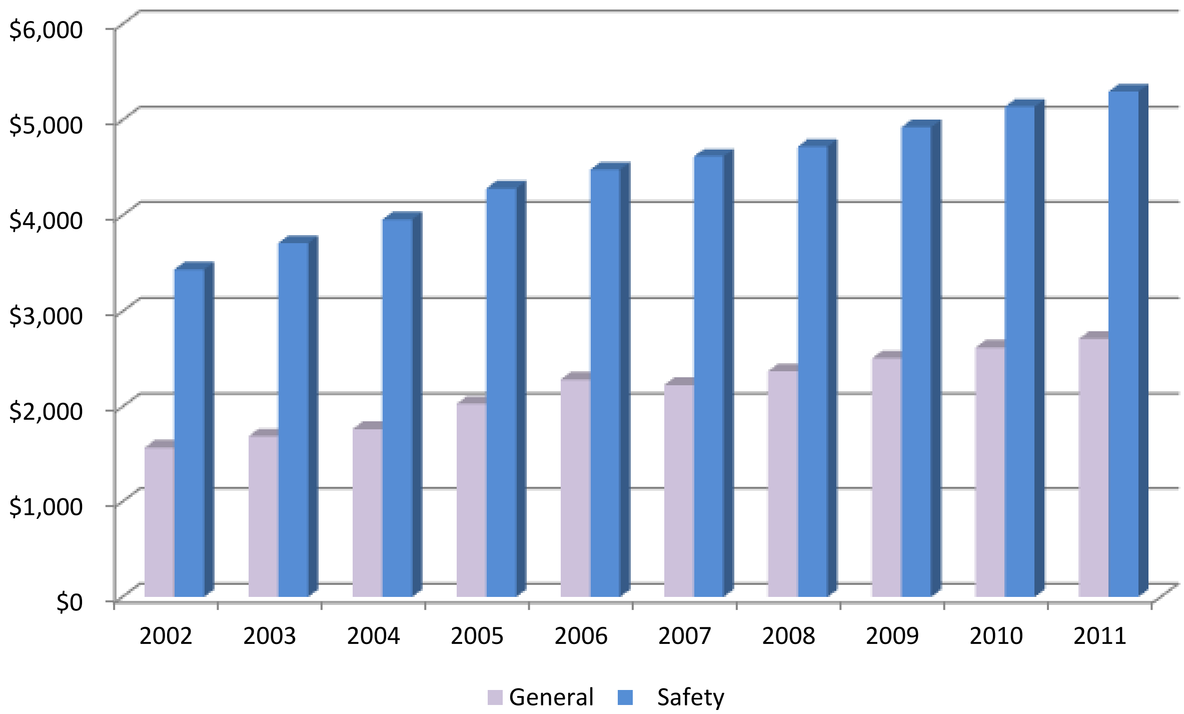


N/A: Detailed information not available.

1) Health care benefits for 2008 and 2009 encompass all plans, including 401(h), which are reported as trust funds, and 115, which are reported as agency funds.

Schedule and Graph of Average Monthly Pension Check
2002 – 2011

Years Ended December 31	2002	2003	2004	2005	2006*	2007	2008	2009	2010	2011
General	$1,572	$1,691	$1,766	$2,031	$2,286	$2,228	$2,373	$2,508	$2,621	$2,714
Safety	$3,438	$3,713	$3,959	$4,283	$4,479	$4,618	$4,724	$4,926	$5,141	$5,297



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

Schedule of Average Pension Benefit Payments
By Years of Service

	Years of Service						
Service Retirement Effective Dates	**0-5**	**05-10**	**10-15**	**15-20**	**20-25**	**25-30**	**30 & Over**
Period 1/1/02 –12/31/02							
Average Monthly Pension Benefits	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average Final Average Salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of Retired Members	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Period 1/1/03 –12/31/03							
Average Monthly Pension Benefits	$457	$599	$1,109	$1,695	$2,566	$4,136	$5,628
Average Final Average Salary	$3,123	$3,476	$4,160	$4,453	$4,821	$5,636	$6,311
Number of Retired Members	14	28	92	88	106	100	116
Period 1/1/04 –12/31/04							
Average Monthly Pension Benefits	$328	$811	$1,134	$1,793	$3,075	$4,550	$6,183
Average Final Average Salary	$2,086	$3,697	$4,267	$4,536	$5,451	$6,188	$7,064
Number of Retired Members	19	37	77	69	70	61	87
Period 1/1/05 –12/31/05							
Average Monthly Pension Benefits	$503	$731	$1,496	$2,316	$3,101	$4,760	$5,877
Average Final Average Salary	$3,253	$4,181	$4,585	$5,223	$5,227	$6,374	$6,567
Number of Retired Members	19	43	129	125	150	169	282
Period 1/1/06 –12/31/06							
Average Monthly Pension Benefits	$448	$788	$1,608	$2,389	$3,368	$4,898	$6,112
Average Final Average Salary	$3,770	$4,031	$4,952	$5,198	$5,668	$6,474	$6,789
Number of Retired Members	15	46	129	167	129	174	155
Period 1/1/07 –12/31/07							
Average Monthly Pension Benefits	$368	$817	$1,593	$2,407	$3,366	$5,626	$6,401
Average Final Average Salary	$2,213	$4,206	$5,065	$5,239	$5,714	$7,219	$7,223
Number of Retired Members	16	45	110	111	100	145	104
Period 1/1/08 –12/31/08							
Average Monthly Pension Benefits	$321	$876	$1,784	$2,451	$3,793	$5,323	$7,687
Average Final Average Salary	$2,539	$4,166	$5,512	$5,330	$6,484	$6,864	$8,424
Number of Retired Members	19	31	83	90	78	91	97
Period 1/1/09 –12/31/09							
Average Monthly Pension Benefits	$381	$950	$1,821	$2,716	$3,711	$5,852	$7,467
Average Final Average Salary	$3,766	$4,228	$5,564	$6,006	$6,417	$7,669	$8,378
Number of Retired Members	26	45	102	87	110	106	124
Period 1/1/10 –12/31/10							
Average Monthly Pension Benefits	$587	$986	$1,855	$2,929	$4,046	$5,922	$6,856
Average Final Average Salary	$3,666	$4,800	$5,537	$6,291	$6,962	$7,764	$7,741
Number of Retired Members	23	45	108	106	130	127	129
Period 1/1/11 –12/31/11							
Average Monthly Pension Benefits	$678	$1,057	$1,689	$3,054	$4,257	$5,910	$6,766
Average Final Average Salary	$4,843	$5,825	$5,475	$6,497	$7,314	$7,874	$7,650
Number of Retired Members	16	55	111	86	120	123	155

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

Schedule of Pension Benefit Recipients
By Type of Benefit
December 31, 2011

Monthly Benefit	1	2	3	4	5	6	7	Total
$1-500	609	121	3	5	17	65	33	**853**
$501-1000	1,007	236	1	37	42	71	135	**1,529**
$1001-1500	1,149	159	31	89	28	47	90	**1,593**
$1501-2000	1,023	130	109	65	16	37	41	**1,421**
$2001-2500	924	97	261	27	33	26	23	**1,391**
$2501-3000	737	65	164	14	22	18	9	**1,029**
$3001-3500	660	43	127	6	14	10	6	**866**
$3501-4000	539	26	120	3	13	7	4	**712**
$4001-4500	451	27	63	3	5	5	8	**562**
$4501-5000	453	14	41	0	4	3	4	**519**
$5001-5500	398	8	27	3	1	0	3	**440**
$5501-6000	363	8	12	3	1	0	0	**387**
$6001-6500	309	7	13	0	4	0	1	**334**
$6501-7000	258	2	13	0	1	0	2	**276**
Over $7000	1,309	9	47	4	7	0	1	**1,377**
Total	**10,189**	**952**	**1,032**	**259**	**208**	**289**	**360**	**13,289**

Definition of Terms

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

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

Type of Retirement Benefit

1. Normal Retirement for Age and Service
2. Survivor Payment - Normal Retirement
3. Service-Connected Disability Retirement
4. Non-Service-Connected Disability Retirement
5. Survivor Payment - Disability Retirement
6. DRO (Domestic Relations Order payees)
7. Active Deaths

Source: OCERS' Pension Gold Information System

Schedule of Pension Benefit Recipients by Option Selected
December 31, 2011

Monthly Benefit	JSURV	SL100	SL60	SLIFE	SLR60	UNMJS	Total
$1-500	175	0	3	226	1	448	853
$501-1000	310	0	19	388	12	800	1,529
$1001-1500	301	0	21	381	4	886	1,593
$1501-2000	332	1	5	355	3	725	1,421
$2001-2500	341	0	6	353	0	691	1,391
$2501-3000	273	1	2	252	0	501	1,029
$3001-3500	277	1	0	180	0	408	866
$3501-4000	237	3	0	152	0	320	712
$4001-4500	171	1	1	141	0	248	562
$4501-5000	208	1	0	119	0	191	519
$5001-5500	196	1	0	99	0	144	440
$5501-6000	190	0	0	97	0	100	387
$6001-6500	160	0	0	82	0	92	334
$6501-7000	147	0	1	59	0	69	276
Over $7000	766	1	0	235	0	375	1,377
Total	**4,084**	**10**	**58**	**3,119**	**20**	**5,998**	**13,289**

Definition of Options

JSURV: Contingent joint survivor.

SL100: Single life with 100% joint survivor adjustment.

SL60: Single life with 60% adjustment.

SLIFE: Lifetime payment.

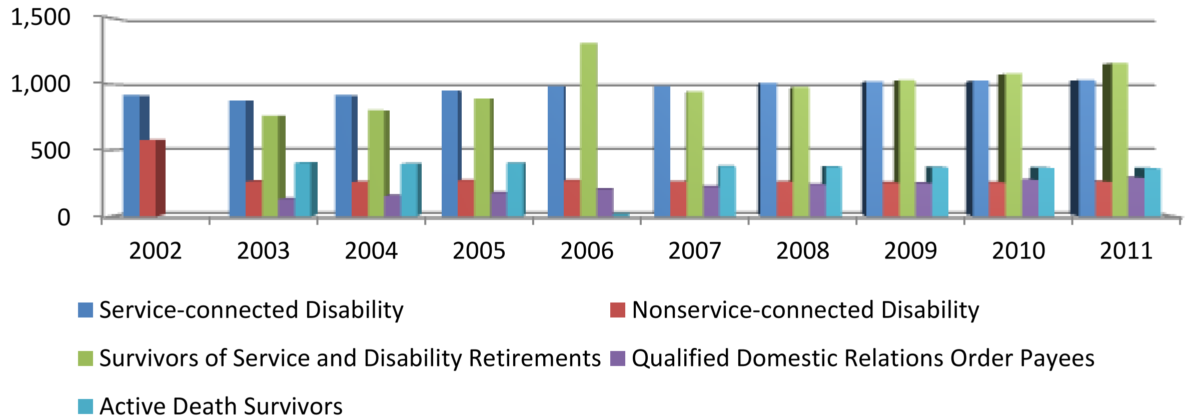
SLR60: Single life with 60% adjustment with reduction.

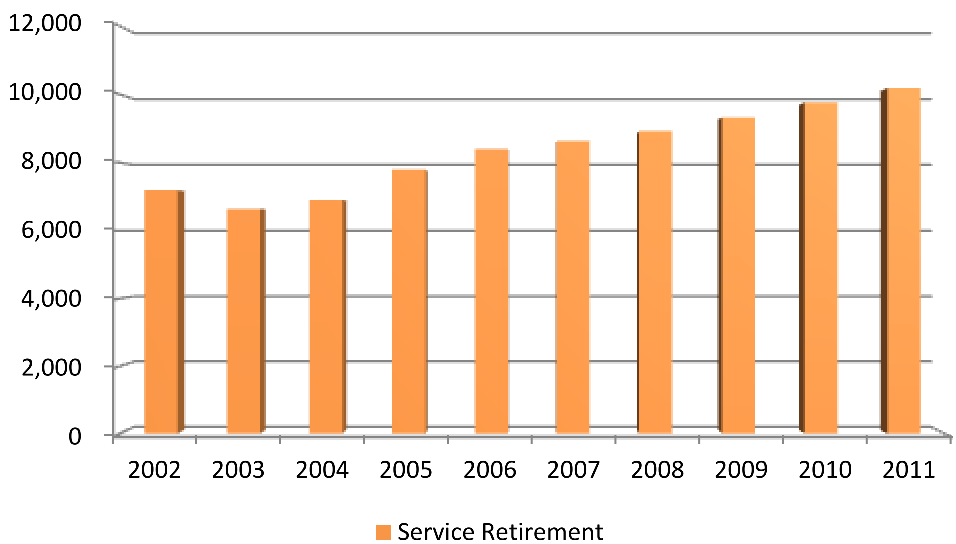
UNMJS: Unmodified with joint survivor.

Source: OCERS' Pension Gold Information System.

Schedule and Graphs of Pension Benefit Recipients
2002 – 2011

Years Ended December 31	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Service-Connected Disability	917	879	918	953	986	986	1,009	1,022	1,027	1,032
Nonservice-Connected Disability	574	264	258	269	269	257	258	252	254	259
Service Retirement	7,197	6,642	6,906	7,799	8,403	8,636	8,924	9,322	9,767	10,189
Survivors of Service and Disability Retirements	N/A	762	804	894	1,310	946	978	1,031	1,079	1,160
Qualified Domestic Relations Order Payees	N/A	129	153	174	203	221	238	248	272	289
Active Death Survivors	N/A	403	394	399	11	374	371	368	363	360
Total *	**8,688**	**9,079**	**9,433**	**10,488**	**11,182**	**11,420**	**11,778**	**12,243**	**12,762**	**13,289**





N/A: Detailed information not available. Payment amounts were included in Service Retirement Benefits.
* Certain reclassifications have been made.
Source: OCERS' Pension Gold Information System.

Schedule of Average Retirement Age
2002 – 2011

Years Ended December 31	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General	N/A	59.99	60.28	59.69	59.83	60.07	59.82	60.31	60.55	60.65
Safety	N/A	55.17	54.53	54.95	54.12	54.47	54.03	54.98	54.18	54.56

Schedule of Average Years of Service at Retirement
2002 – 2011

Years Ended December 31	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General	N/A	20.93	19.59	23.59	21.17	20.04	20.44	20.79	20.53	20.82
Safety	N/A	25.13	23.52	22.94	23.09	24.66	23.77	22.63	23.91	25.27

Schedule of Beneficiaries Receiving a Pension
2002 – 2011

Years Ended December 31	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General	N/A	1,068	1,089	1,175	1,200	1,190	1,214	1,253	1,286	1,352
Safety	N/A	97	109	118	121	130	135	146	156	168
Total	N/A	**1,165**	**1,198**	**1,293**	**1,321**	**1,320**	**1,349**	**1,399**	**1,442**	**1,520**

Schedule of Active and Deferred Members
2002 – 2011

Years Ended December 31	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General										
Active	N/A	19,006	18,935	18,812	19,101	19,803	19,795	18,873	18,155	17,717
Deferred	N/A	1,546	1,763	2,213	2,911	3,353	3,560	3,707	3,905	3,998
Safety										
Active	N/A	3,645	3,567	3,653	3,649	3,815	3,925	3,760	3,587	3,704
Deferred	N/A	119	147	196	267	293	321	387	403	408
Total	**N/A**	**24,316**	**24,412**	**24,874**	**25,928**	**27,264**	**27,601**	**26,727**	**26,050**	**25,827**

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

Schedule of Participating Employers – Pension Plan
2002 – 2011*

	Years Ended December 31	Total	Orange County	OCTA	Superior Court [2]	Fire Authority	Sanitation District	City of San Juan Capistrano	TCA	All Other Sponsors
2002	Number of Covered Employees	22,723	-	-	-	-	-	-	-	-
	Percentage to Total System	100%	-	-	-	-	-	-	-	-
2003	Number of Covered Employees [1]	22,651	18,538	2,021	-	1,057	572	94	115	254
	Percentage to Total System	100%	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%	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%	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%	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%	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%	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%	75.20%	8.11%	7.56%	4.92%	2.70%	0.39%	0.41%	0.71%
2010	Number of Covered Employees	21,742	16,486	1,639	1,635	1,064	594	87	79	158
	Percentage to Total System	100%	75.83%	7.54%	7.52%	4.89%	2.73%	0.40%	0.36%	0.73%
2011	Number of Covered Employees	21,421	16,084	1,549	1,638	1,244	596	80	80	150
	Percentage to Total System	100%	75.09%	7.23%	7.65%	5.81%	2.78%	0.37%	0.37%	0.70%

Note 1: Includes Active and Inactive members.
Note 2: Orange County Superior Court became a separate agency in 2004.
* Data for year 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 2011

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
1/1/1945	2.50%	0.00%
7/1/1962	3.50%	0.00%
12/31/1965	4.00%	0.00%
7/1/1969	4.50%	0.00%
6/30/1970	5.00%	0.00%
8/31/1973	5.75%	0.00%
7/1/1975	6.00%	0.00%
7/1/1981	7.25%	5.00%
7/1/1989	7.50%	5.50%
7/1/1991	8.00%	6.00%
7/1/1996	8.00%	3.50%
7/1/2000	8.00%	5.50%
7/1/2003	7.50%	4.50%
12/31/2004	7.75%	3.5%*
12/31/2007	7.75%	3.5%**
12/31/2011	7.75%	3.5%***

* Inflation per year plus merit and promotion increases ranging from .6% to 7%
** Inflation per year plus merit and promotion increases ranging from 1% to 10%
*** Inflation per year plus 0.25% across-the-board real salary increases plus merit and promotion increases ranging from 1% to 14%
Source: The Segal Company.

Cranberry Marsh

SECTION VI

Farmland Management Services / Hancock Agricultural Investment Group
RMK Timberland Group

>GLOSSARY

Loblolly Pine Plantation on Monticello in Virginia

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 valuation 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 salaries increases (loss) 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.

AMORTIZATION
(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 generally accepted accounting principles (GAAP) or some other comprehensive basis of accounting.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)
The official annual report of a government. It includes the basic financial statements and their related notes prepared in conformity with GAAP. 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).

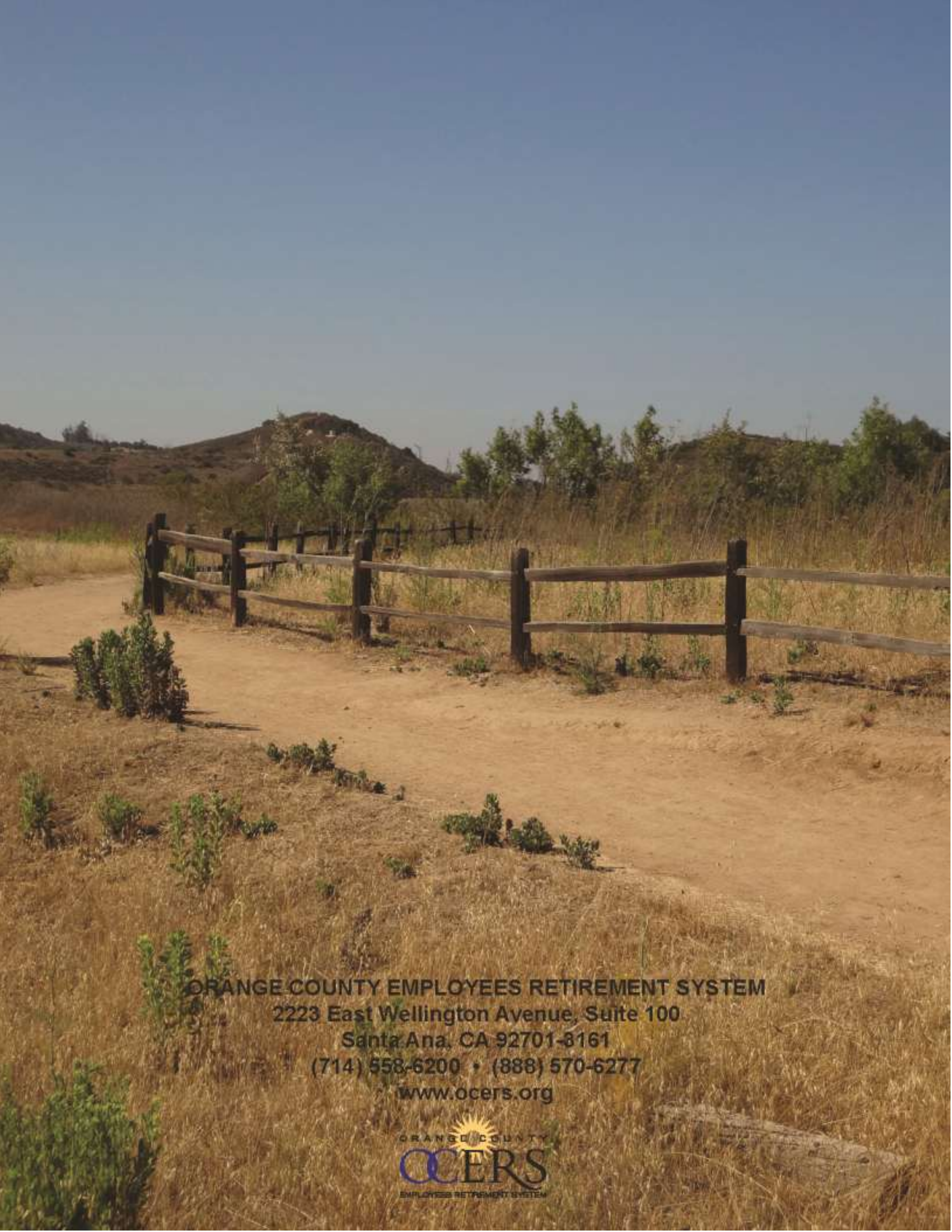
NORMAL COST
The ongoing annual cost allocated to the system by a particular actuarial cost method for providing benefits (future cost). Normal cost payments are made during the working lifetime of the member.

PENSION CONTIRBUTION
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 public employee retirement benefits. 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 pension contributions, 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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