



Sacramento County Employees' Retirement System

Sacramento, California

Comprehensive Annual Financial Report

For the Year Ended June 30, 2003



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Mission Statement

*We are dedicated to providing quality services
and managing system assets in a prudent manner.*

Issued by:
John R. Descamp
Chief Executive Officer

Jeffrey W. States
Chief Investment Officer

Kathryn T. Regalia, CPA
Chief Operations Officer

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Introductory Section



Executive Staff
John R. Descamp
Chief Executive Officer
Jeffrey W. States
Chief Investment Officer
Kathryn T. Regalia
Chief Operations Officer

Letter of Transmittal

December 19, 2003

Board of Retirement
Sacramento County Employees' Retirement System
980 9th Street, Suite 1800
Sacramento, CA 95814

Dear Board Members:

As Chief Executive Officer of the Sacramento County Employees' Retirement System ("SCERS" or the "System"), I am pleased to present this Comprehensive Annual Financial Report ("CAFR" or the "Report") for the year ended June 30, 2003.

The System

SCERS is a public employees' retirement system enacted, managed, and administered in accordance with provisions of the County Employees Retirement Law of 1937 (California Government Code Section 31450, et seq). The purpose of which is to provide retirement, disability, and survivors' benefits to participants of the System. In accordance with Section 31500 of that law, SCERS was created by ordinance adopted by the Sacramento County Board of Supervisors on April 30, 1941 and was effective July 1, 1941. Article XVI, Section 17 of the constitution of the State of California establishes that the Board of Retirement shall have plenary authority and fiduciary responsibility for investment of monies and administration of the System. At June 30, 2003, participating local government employers consisted of the County of Sacramento and 11 special districts.

The Comprehensive Annual Financial Report

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation rests with the management of the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System.

The CAFR is divided into five sections.

- The Introductory Section contains this letter of transmittal, a list of Board of Retirement members, an organization chart, a list of participating employers, and a list of professional consultants used by the System.

- *The Financial Section* presents the independent auditor's report, management's discussion and analysis, financial statements, and required supplemental information.
- *The Investment Section* contains the Chief Investment Officer's Report on Investment Activity summarizing the investment policy and asset allocation and includes a listing of investment professionals currently under contract with SCERS. In addition, this section contains current and historical investment results, listings of the top ten stock and bond holdings at June 30, 2003, and a schedule of manager fees.
- *The Actuarial Section* provides the independent actuary's certification, a summary of actuarial assumptions and methods, and various actuarial statistics.
- *The Statistical Section* contains significant detailed information pertaining to the administration of the System.

I trust that readers of this Report and participants of the System will find this information helpful in understanding SCERS and its commitment to financial integrity and participant service.

SCERS Mission Statement and Core Values

We are dedicated to providing quality services and managing system assets in a prudent manner. In carrying out our mission we will:

- Act as fiduciaries for the members, retirees, and beneficiaries.
- Take responsibility for cost effective operations and minimize employer contributions.
- Display competency, courtesy, and respect.
- Continue our professional growth through education and training.
- Plan strategically for the future.

Accounting System and Reports

Management of SCERS is responsible for establishing and maintaining internal controls designed to ensure that SCERS' assets are protected from loss, theft, or misuse. Responsibility for the accuracy, completeness, and fair presentation of the information, and all disclosures, rests with SCERS' management. Macias, Gini & Company, LLP, a certified public accounting firm, has completed their audit of the financial statements and related disclosures. The financial audit provides assurance about whether SCERS' financial statements are presented in conformity with generally accepted accounting principles and are free from material misstatement. The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

This report has been prepared in accordance with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). GAAP require 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 MD&A and should be read in conjunction with it. SCERS' MD&A can be found immediately following the independent auditor's report.

Investments – General Authority and SCERS

Article XVI, Section 17 of the Constitution of the State of California provides that “Notwithstanding any other provisions of law or this Constitution, the Retirement Board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of monies and administration of the system...”

Article XVI, Section 17(a) of the Constitution of the State of California provides that “the Retirement Board of a public pension or retirement system shall have sole and exclusive fiduciary responsibility over the assets...”

SCERS maintains a diversified investment portfolio. An integral part of the overall investment policy is the strategic asset allocation policy. This is designed to provide an optimal mix of asset classes with return expectations that reflect expected liabilities. This emphasizes a maximum diversification of the portfolio that protects the System from declines that a particular asset class may experience in a given period. For the year ended June 30, 2003, SCERS' investments provided a 3.4% rate of return, net of manager fees, compared to the policy benchmark of 3.8%.

Actuarial Funding Status

SCERS' funding objective is to meet long-term benefit promises by retaining a well-funded plan status and obtaining superior investment returns while minimizing employer contributions. Employer contributions remain approximately level as a percent of member payroll. The greater the level of overall plan funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. The advantage of a well-funded plan is that the benefits earned by participants are funded during their working careers and not by future generations of taxpayers. At June 30, 2003, SCERS' funding ratio was 94.1%. The net actuarial value of assets at June 30, 2003 was \$3.9 billion, and the actuarial accrued liability of SCERS at June 30, 2003 was \$4.1 billion.

SCERS engages an independent actuarial consulting firm, Mercer Human Resource Consulting, to conduct annual actuarial valuations. Recommendations are presented to the Board of Retirement for consideration. Triennially, an analysis is made of the appropriateness of all economic and non-economic assumptions. The last triennial analysis was performed as of June 30, 2001, and the Board adopted certain changes to non-economic assumptions.

Major Initiatives and Significant Events

During the current fiscal year the System continued to implement elements of the strategic plan and also addressed new issues which arose during the year. Following are the major initiatives and significant events which occurred:

- ✓ Prepared for the implementation of enhanced benefits, which resulted in a substantial increase in service retirements and public service purchase requests. Preparation included conducting in-house training, performing pre-calculations and file reviews, review and rewrite of the retirement application, development of a purchase of public service packet, and delivery of informational meetings.
- ✓ Implemented an upgrade to the SAP financial system pertaining to pension payroll.

- ✓ Implemented phase III of the Member and Benefit Accounting System (MBASE), which expanded reporting capabilities and provided increased flexibility with online table maintenance.
- ✓ Enhanced automation of benefit processing by adding automated forms production to the Retirement Allowance Program.
- ✓ Implemented a process for Internal Revenue Code Section 415 testing, which was an essential part of implementing the enhanced benefit formulas.
- ✓ Diversified the small cap growth equity investments by hiring M.A. Weatherbie & Co., Inc., as a second manager in this style to manage a \$50 million portfolio.
- ✓ Transitioned \$98 million in real estate investment properties managed by PM Realty Advisors to SSR Realty Advisors. PM Realty Advisors resigned its contract and went out of business.
- ✓ Complied with newly-chaptered law and evaluated potential impact of ambiguously-worded retirement-related legislations.

Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SCERS for its comprehensive annual financial report for the fiscal year ended June 30, 2002. This was the fourth consecutive year that the System has received this prestigious award. In order to be awarded a Certificate of Achievement, a public employee retirement system must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The compilation of this report reflects the combined effort of SCERS' staff under the leadership of the Board of Retirement. It is intended to provide complete and reliable information and reflect the Board's responsible stewardship. On behalf of the Board of Retirement, I take this opportunity to thank the staff and SCERS' professional advisors for their commitment to SCERS and its participants.

Respectfully submitted,



John R. Descamp
Chief Executive Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Sacramento County
Employees' Retirement System,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Sacramento County Employees' Retirement System Board of Retirement



President
James A. Diepenbrock
Appointed by Board of Supervisors
Present term expires:
June 30, 2006



1st Vice President
Ronald Suter
Elected by miscellaneous members
Present term expires:
December 31, 2003



2nd Vice President
John B. Kelly
Appointed by Board of Supervisors
Present term expires:
December 31, 2003



**Ex-Officio
Director of Finance**
Mark Norris
Member mandated by law



Trustee
William Cox
Elected by retired members
Present term expires:
December 31, 2004



Trustee
Keith DeVore
Elected by miscellaneous members
Present term expires:
December 31, 2004



Trustee
Winston Hickox
Appointed by Board of Supervisors
Present term expires:
June 30, 2006



Trustee
William D. Johnson
Elected by safety members
Present term expires:
December 31, 2003



Trustee
Robert Woods
Appointed by Board of Supervisors
Present term expires:
June 30, 2004

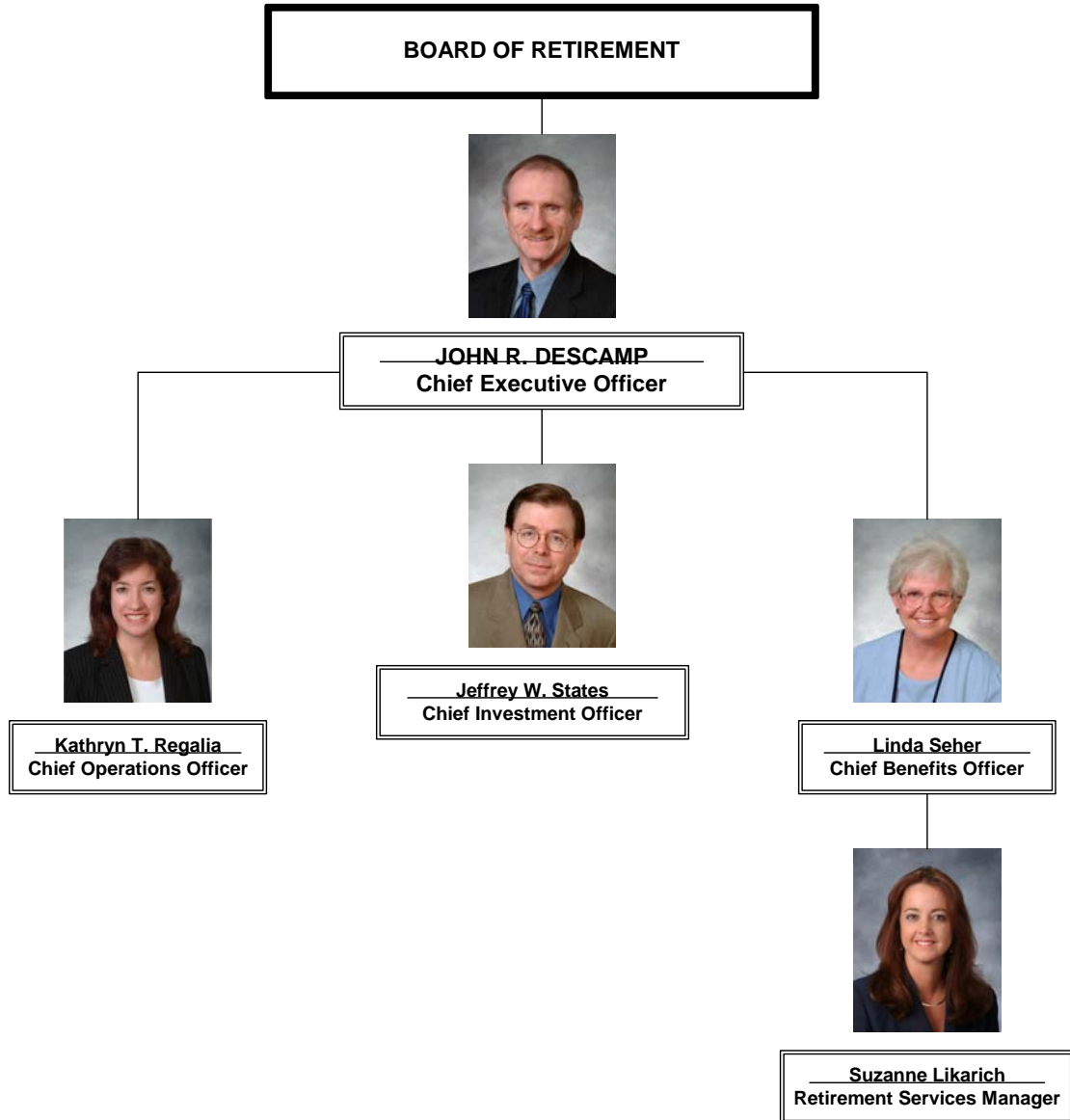


Alternate Trustee
Steven Soto
Elected by safety members
Present term expires:
December 31, 2003

Not pictured: Alternate Retiree Trustee Nancy Wolford-Landers, Appointed by Board of Retirement, Present term expires December 31, 2004.

Board of Retirement as of December 19, 2003

Sacramento County Employees' Retirement System Organization Chart



Organization chart as of December 12, 2003

Participating Employers

<u>Employer</u>	<u>Date Entered System</u>	<u>Date of Termination</u>
County of Sacramento	July 1, 1941	
Elected Officials: Board of Supervisors Sheriff Assessor District Attorney	July 1, 1941	
U.C. Davis Medical Center	July 1, 1941	
Sacramento County Fire District	March 1, 1957	
Sunrise Recreation and Park District	August 1, 1961	
Fair Oaks Cemetery District	March 1, 1962	
Carmichael Recreation and Park District	January 1, 1967	
Florin Fire District	July 1, 1974	June 30, 1996
Mission Oaks Recreation and Park District	February 1, 1976	
Sacramento Employment Training Agency (SETA)	June 1, 1979	
Orangevale Recreation and Park District	March 3, 1987	
Elk Grove Cemetery District	April 28, 1987	
Galt-Arno Cemetery District	July 1, 1987	

Professional Consultants

Auditor

Macias, Gini & Company, LLP
Certified Public Accountants
3927 Lennane Drive, Suite 200
Sacramento, CA 95834-1922

Actuary

Mercer Human Resource Consulting
3 Embarcadero Center, Suite 1500
San Francisco, CA 94111

Custodian

State Street California, Inc.
1001 Marina Village Parkway, 3rd Floor
Alameda, CA 94501

Legal Counsel

County of Sacramento
Office of the County Counsel
700 H Street, Suite 2650
Sacramento, CA 95814

Knox, Lemmon & Anapolsky, LLP
One Capitol Mall, Suite 700
Sacramento, CA 95814

Nossaman, Guthner, Knox & Elliot, LLP
50 California Street, 34th Floor
San Francisco, CA 94111-4712

Investment Consultant

Mercer Investment Consulting, Inc.
777 South Figueroa Street, Suite 2000
Los Angeles, CA 90017

Investment Managers

Alliance Capital Management
1345 Avenue of the Americas
New York, NY 10105

Dalton, Greiner, Hartman, Maher & Co.
565 Fifth Avenue, Suite 2101
New York, NY 10017-2413

Independence Investment Associates
53 State Street - 28th Floor
Boston, MA 02109

Nicholas-Applegate Capital Management
600 West Broadway, 29th Floor
San Diego, CA 92101-5402

Oppenheimer Capital Management
1345 Avenue of the Americas
New York, NY 10105

Investment Managers – (cont.)

Trinity Investment Management
12835 East Arapahoe Road
Englewood, CO 80112

TCW Asset Management
865 South Figueroa Street
Los Angeles, CA 90017

Northern Trust
Global Investment Services
50 South LaSalle Street
Chicago, IL 60675

Capital Guardian Trust Company
330 South Hope Street
Los Angeles, CA 90071-1406

Bank of Ireland Asset Management
233 Wilshire Boulevard, Suite 830
Santa Monica, CA 90401

Capital International, Inc.
11100 Santa Monica Boulevard, 15th Floor
Los Angeles, CA 90025

Lincoln Capital Fixed Income Management
200 South Wacker Drive, Suite 2100
Chicago, IL 60606

Bradford & Marzec, Inc.
333 South Hope Street, Suite 4050
Los Angeles, CA 90071

SSR Realty Advisors
125 Summer Street, Suite 1270
Boston, MA 02110

Heitman/JMB Advisors
180 North LaSalle Street
Chicago, IL 60601-2886

Metropolitan West Asset Management
1776 Wilshire Blvd., Suite 1580
Los Angeles, CA 90025

Lend Lease Real Estate Investments
One Front Street, Suite 1100
San Francisco, CA 94111

CB Richard Ellis
865 South Figueroa Street
Los Angeles, CA 90017

M.A. Weatherbie & Co.
265 Franklin Street, Suite 1601
Boston, MA 02110

A schedule of manager fees is located on page 14 in the investment section.

Financial Section



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Suite 200
Sacramento, CA 95834-1922
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916.928.2755 FAX
www.maciasgini.com

To the Board of Retirement of the
Sacramento County Employees' Retirement System
Sacramento, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of plan net assets of the Sacramento County Employees' Retirement System (the System) as of June 30, 2003 and 2002, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Sacramento County Employees' Retirement System as of June 30, 2003 and 2002, and the changes in plan net assets for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated December 19, 2003, on our consideration of the System's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 18 through 23, the Schedules of Funding Progress and Employer Contributions on page 44 and Significant Actuarial Assumptions on page 45 are not a required part of the basic financial statements of the System, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other data included in this report, designated as the introductory, investment and actuarial sections in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias, Gini & Company LLP

Certified Public Accountants

Sacramento, California
December 19, 2003

Management's Discussion and Analysis

This section presents management's discussion and analysis (MD&A) of the financial activities of Sacramento County Employees' Retirement System (SCERS) as a narrative overview for the years ended June 30, 2003 and 2002. Readers are encouraged to consider the information presented in conjunction with the letter of transmittal and financial statements.

FINANCIAL HIGHLIGHTS

- Net assets held in trust for pension benefits (net assets) as of June 30, 2003 and 2002 were \$3,238.8 million and \$3,199.2 million, respectively, an increase of \$39.6 million or 1.2% from prior year.
- Total additions, as reflected in the statements of changes in plan net assets, were \$197.3 million and (\$111.1) million for the years ended June 30, 2003 and 2002, respectively. Total additions increased \$308.5 million and \$23.1 million for the years ended June 30, 2003 and 2002, respectively. The primary reasons for the increases in additions were due to changes in the fair value of investments and investment returns in the two-year period.
- Total deductions, as reflected in the statements of changes in plan net assets, were \$157.8 million and \$122.5 million for the years ended June 30, 2003 and 2002, respectively. This represented increases of \$35.3 million or 28.8% and \$9.6 million or 8.5%, respectively, from the prior two years.
- The funded ratios (the ratio of the actuarial value of assets to actuarial accrued liability) as of June 30, 2003 and 2002 were 94.1% and 107.1%, respectively.

OVERVIEW OF FINANCIAL STATEMENTS

This MD&A serves as an introduction to the basic financial statements. SCERS has two basic financial statements, the notes to financial statements, and three required supplementary schedules of historical trend information and actuarial assumptions. The basic financial statements and the required disclosures are in compliance with the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board utilizing the accrual basis of accounting.

The first basic financial statements are the statements of plan net assets. This is a snapshot of account balances at fiscal year end. These statements reflect assets available for future payments to retirees and their beneficiaries and liabilities owed as of fiscal year end. The net assets, which are the assets less the liabilities, reflect the funds available for future use.

The second financial statements are the statements of changes in plan net assets. This report reflects all the activities that occurred during the year and shows the impact of those activities as additions or deductions to the plan. The trend of additions versus deductions to the plan will indicate whether SCERS financial position is improving or deteriorating over time.

The notes to financial statements (notes) are an integral part of the financial reports. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the financial statements and accompanying notes, required supplementary information is presented concerning SCERS' progress in funding its obligation to provide benefits to system members. The schedule of funding progress includes historical trend information about the actuarially-funded status of the plan and the progress made in accumulating sufficient assets to pay benefits when due. The schedule of employer contributions presents historical trend information about the annual required contribution of the employers and the actual contributions made. The significant actuarial assumptions include the actuarial cost, amortization, and asset valuation methods, remaining amortization period, and assumptions regarding the investment rate of return, projected salary increase, wage inflation, and assumed postretirement benefit increases. These schedules provide information to help promote understanding of the changes in the funded status of the plan over time.

FINANCIAL ANALYSIS

Assets and Funded Ratio

As of June 30, 2003 and 2002 net assets were \$3,238.8 million and \$3,199.2 million, respectively. Total assets of \$3,746.0 million exceeded total liabilities of \$507.2 million as of June 30, 2003. Total assets of \$3,647.8 million exceeded total liabilities of \$448.6 million as of June 30, 2002. The net assets represent resources available for future payments. However, of importance is the fact that unlike private pension funds, public pension funds are not required to disclose the future liability of obligations owed to retirees.

PLAN NET ASSETS (Dollars in Millions)

	2003	2002	2001
Assets			
Current and other assets	\$3,487.9	\$3,397.2	\$3,602.7
Securities lending collateral	258.1	250.6	264.3
Capital Assets	0.0	0.0	0.1
Total assets	<u>3,746.0</u>	<u>3,647.8</u>	<u>3,867.1</u>
Liabilities			
Long-term liabilities outstanding	72.6	72.9	73.2
Securities lending liability	258.1	250.6	264.3
Other liabilities	176.5	125.1	96.8
Total liabilities	<u>507.2</u>	<u>448.6</u>	<u>434.3</u>
Net assets held in trust for pension benefits	<u>\$3,238.8</u>	<u>\$3,199.2</u>	<u>\$3,432.8</u>

SCERS' independent actuary, Mercer Human Resource Consulting, Inc., performed actuarial valuations as of June 30, 2003 and 2002. Funded ratios were determined to be 94.1% and 107.1%, a decrease of 12.1% and 0.6%, respectively, over each of the prior two years. The main reason for the decrease in funded status during 2003 was due to the implementation of enhanced retirement benefits for active employees as of June 29, 2003 as discussed below. The decrease in 2002 was insignificant. An actuarial valuation is similar to an inventory process. On the valuation date, the assets available for the payment of retirement benefits are appraised. These assets are compared with the actuarial liabilities, which are the actuarial present value of all future benefits expected to be paid with respect to each member. The purpose of the valuation is to determine what future contribution by the members and the

membership employers is needed to pay all expected future benefits. This ratio means that as of June 30, 2003 and 2002, SCERS has approximately 94 cents and \$1.07 available for each dollar of anticipated future liability.

Changes in Plan Net Assets

The following table presents the changes in plan net assets for the years ended June 30, 2003 and 2002, respectively.

CHANGES IN PLAN NET ASSETS (Dollars in Millions)

	2003	2002	2001
Additions			
Employee contributions	\$ 43.7	\$ 38.4	40.4
Employer contributions	52.8	44.6	33.0
Net investment gain (loss)	100.8	(194.1)	(207.6)
Total additions	<u>197.3</u>	<u>(111.1)</u>	<u>(134.2)</u>
Deductions			
Service retirement, death, and disability benefits	111.8	103.9	96.8
Retiree death benefits	0.4	0.5	0.6
Retiree health and dental insurance	10.8	9.1	8.1
Withdrawal of contributions	2.9	3.5	3.6
Retroactive benefits payable	25.9	-	-
Administrative and other expenses	5.9	5.5	3.8
Total deductions	<u>157.7</u>	<u>122.5</u>	<u>112.9</u>
Increase (Decrease) in plan net assets	39.6	(233.6)	(247.1)
Net assets held in trust for pension benefits, beginning	<u>3,199.2</u>	<u>3,432.8</u>	<u>3,679.9</u>
Net assets held in trust for pension benefits, ending	<u>\$ 3,238.8</u>	<u>\$ 3,199.2</u>	<u>\$ 3,432.8</u>

Additions to Plan Net Assets

The primary sources to finance SCERS retirement benefits are accumulated through income on investments and through the collection of member (employee) and employer retirement contributions. For the year ended June 30, 2003, additions were \$197.3 million, consisting of contributions of \$96.5 million and net investment gains of \$100.8 million. For the year ended June 30, 2002, net investment losses of \$194.1 million more than offset contributions of \$83.0 million by \$111.1 million due to volatile financial markets, weak asset returns, and low interest rates experienced during the year.

Employer contributions were \$52.8 million and \$44.6 million for the years ended June 30, 2003 and 2002, respectively. Employer contributions reflect payments from participating employers. During the two year period, employer contributions increased from the prior years due to actuarially-determined rate increases resulting from salary increases and from increases in the employee populations in both years.

Net investment gains were \$100.8 million for the year ended June 30, 2003, an increase in performance of \$294.9 million or 152.0% over the prior year. After two fiscal years of negative returns, SCERS experienced a 3.4% total fund return. The results are encouraging, reflecting

the improvement of the U.S. economy and the improvement in domestic and international equity markets. Net investment losses were \$194.1 million for the year ended June 30, 2002, an increase in performance of \$13.5 million or 6.5% over the prior year, and the total fund return (loss) was -5.4% for the year due primarily to declining stock markets.

Deductions From Plan Net Assets

The primary uses of SCERS assets include the payment of benefits to members and their beneficiaries, withdrawal of contributions by terminated employees, and the cost of administering the plan. For the year ended June 30, 2003, deductions were \$157.8 million, an increase of \$35.3 million or 28.8% over the prior year. Of this amount, \$25.9 million was due to the recognition of retroactive benefits payable resulting from the settlement of litigation as discussed below. Deductions totaled \$122.5 million for the year ended June 30, 2002, an increase of \$9.6 million or 8.5% from the prior year. The increase was largely due to the growth in the number and average amount of benefits paid to members and their beneficiaries.

The Board of Retirement approves the annual budget. California Government Code Section 31580.2 limits the annual administrative expenses to eighteen hundredths of one percent (0.18%) of the total assets of the retirement system. It is the intent of the Board to remain within the appropriation limit established in the Government Code, which the Board has historically done.

OVERALL ANALYSIS

Overall, as of June 30, 2003 and for the year then ended, SCERS' financial position and results of operations have improved over the prior year. Net assets increased \$39.6 million or 1.2% over the prior year. This was due primarily to increased investment returns consistent with the improvement in the U.S. economy and domestic and international equity markets. As of June 30, 2002, net assets decreased by \$233.6 million or 6.8% over the prior year due primarily to declining stock markets.

OTHER SIGNIFICANT MATTERS

Enhanced Retirement Benefits and Impact upon Contributions and Benefits

The Sacramento County Board of Supervisors has reached agreement with all of its recognized employee representative organizations to include provisions for enhanced retirement benefits. The enhancements include:

1. applicability of Government Code Section 31676.14 (commonly referred to as "2% at 55 ½") for miscellaneous plan service credits,
2. applicability of Government Code Section 31664.1 (commonly referred to as "3% at 50") for safety plan service credits,
3. ability of an employee to purchase up to four years of public service credits.

By Resolution No. 2003-1517 adopted May 13, 2003, the Board of Supervisors set the effective date of enhancements to be June 29, 2003. As a result, the Board of Supervisors will be applying the new formulas for all SCERS members (including member districts) prospectively from June 29, 2003, and retroactively to County employees' service credits which precede that date.

In accordance with applicable retirement law, each SCERS member district's governing body decided on its own whether or not to apply the new formulas retroactively for service credits earned prior to June 29, 2003 and to make the public service credit purchase provisions applicable to its employees.

On May 13, 2003, arising out of the annual actuarial valuation conducted as of June 30, 2002, as well as taking into consideration the implementation of enhanced benefits effective June 29, 2003 and other favorable benefits negotiated by recognized employee representative organizations, the Supervisors ratified SCERS Board-approved contribution rates for employers and employees.

The composite rate (i.e., the total rate applied in the aggregate, across all plans and tiers) for employers is substantially increased from 7.92% to 17.75% of payroll. To help offset the cost of enhancements, a one-time only offset of cost-of-living increase for most active employees was accepted by recognized employee representative organizations.

The negotiated benefits enhancements mostly result in decreases of employee rates. The composite rate for employees is declined from 5.81% to 3.90%. Approved contribution rate changes were implemented effective the first full pay period of July 2003.

In accordance with provisions of Government Code Section 31681.55, the Board of Supervisors approved a benefit enhancement for SCERS annuitants (retirees and survivors) effective with the July 2003 warrants. Percentage increases ranged from 0 to 6% depending upon date of retirement or death. The percentage was applied to the allowance payable on the effective date, and the allowance as so increased shall be paid for time on after that date and shall be subject to annual cost-of-living adjustments.

Litigation Settlement

The SCERS Board and Sacramento County Board of Supervisors on October 16, and October 21, 2003, respectively, approved a proposed Settlement Agreement in the matter which will bring closure for active and retired members to the entire litigation known as the *Coordinated Cases*, now entitled *Retirement Cases* (aka "Ventura").

The Agreement will be implemented in January and February 2004. The Agreement will include a lump sum payment to be made retroactively to December 1, 1994 and a going-forward percentage increase for future monthly retirement allowances. To be eligible, retirees or beneficiaries must meet two criteria:

1. must be receiving a retirement or survivor's allowance on January 1, 2004; and,
2. must have had the initial retirement allowance calculated based upon compensation earned prior to October 1, 1997.

SCERS' liability under the settlement is actuarially estimated to be \$55 million. The settlement was approved December 19, 2003. Lump sum payments totaling \$25.9 million will be paid in January 2004, and prospective payments resulting from increased allowances is estimated to be \$29.1 million.

REQUESTS FOR INFORMATION

This financial report is designed to provide the Board of Retirement, our membership, taxpayers, and investment managers with a general overview of SCERS' finances and to show accountability for the money it receives. Questions about this report or requests for additional financial information should be addressed to:

Ms. Kathryn T. Regalia
Chief Operations Officer
Sacramento County Employees' Retirement System
980 9th Street, Suite 1800
Sacramento, CA 95814

Copies of this report are available at the above address and on the System's web site at www.saccounty.net/retirement.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John R. Descamp". The signature is written in a cursive style with a large, stylized initial "J".

John R. Descamp
Chief Executive Officer

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FINANCIAL STATEMENTS

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF PLAN NET ASSETS

AS OF JUNE 30, 2003 and 2002

	2003	2002
Assets		
Cash invested with Sacramento County Treasurer	\$ 3,229,875	\$ 3,419,883
Short-term investments with fiscal agents	153,928,717	84,089,644
Cash and short-term investments	157,158,592	87,509,527
Receivables		
Notes	-	1,538,564
Securities sold	23,488,055	34,371,436
Accrued investment income	13,827,077	14,821,477
Employee and employer contributions	2,707,891	1,885,269
Total receivables	40,023,023	52,616,746
Investments, at fair value		
United States government obligations	101,508,284	131,870,545
Domestic corporate bonds	773,096,178	847,160,173
International bonds	34,357,623	42,651,081
Common and preferred stock – domestic	1,320,106,000	1,213,177,630
Common and preferred stock – international	376,383,687	368,853,147
International equity index fund	284,583,583	278,551,923
Real estate equity	400,722,283	374,801,074
Securities lending collateral	258,075,384	250,600,636
Total investments	3,548,833,022	3,507,666,209
Capital assets - (net of accumulated depreciation of \$218,757 in 2003 and \$204,464 in 2002)	34,527	48,820
Total assets	3,746,049,164	3,647,841,302
Liabilities		
Accounts payable	2,799,660	4,123,062
Investment trades payable	146,497,663	119,651,565
Mortgages payable	72,645,195	72,919,076
Warrants payable	1,335,218	1,312,549
Retroactive benefits payable	25,870,000	-
Securities lending liability	258,075,384	250,600,636
Total liabilities	507,223,120	448,606,888
Net assets held in trust for pension benefits (A schedule of funding progress for the system is presented on page 44)	\$3,238,826,044	\$3,199,234,414

The notes to the basic financial statements are an integral part of this statement.

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN PLAN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2003 and 2002

	2003	2002
Additions		
Contributions		
Employee	\$ 43,699,827	\$ 38,431,627
Employer	52,840,790	44,547,261
Total contributions	96,540,617	82,978,888
Investment income		
From investment activities		
Net depreciation		
in fair value of investments – securities	(3,085,131)	(292,322,685)
Net appreciation (depreciation)		
in fair value of investments – real estate	5,181,214	(7,334,565)
Interest	52,592,062	63,948,783
Dividends	29,655,863	26,185,655
Real estate	23,988,978	23,688,296
Net gain (loss) from investment activities	108,332,986	(185,834,516)
From securities lending activities		
Securities lending income	4,339,852	7,141,093
Securities lending expense		
Borrower rebate expense	(3,040,848)	(5,037,758)
Security lending management fees	(357,649)	(594,283)
Net income from securities lending	941,355	1,509,052
Other income	637,290	198,915
Investment fees and expenses	(9,072,398)	(9,977,559)
Net investment gain (loss)	100,839,233	(194,104,108)
Total additions (deductions)	197,379,850	(111,125,220)
Deductions		
Benefits paid	112,248,883	104,353,244
Retroactive benefits payable	25,870,000	-
Withdrawal of contributions	2,906,302	3,516,699
Retiree health insurance	9,232,142	7,523,315
Retiree dental insurance	1,633,830	1,587,610
Administrative and other expenses	5,897,063	5,485,308
Total deductions	157,788,220	122,466,176
Net increase (decrease)	39,591,630	(233,591,396)
Net assets held in trust for pension benefits, beginning	3,199,234,414	3,432,825,810
Net assets held in trust for pension benefits, ending	\$3,238,826,044	\$3,199,234,414

The notes to the basic financial statements are an integral part of this statement.

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2003 and 2002

NOTE 1 - PLAN DESCRIPTION

The Sacramento County Employees' Retirement System ("SCERS" or the "System") is the administrator of a multiple-employer, cost-sharing public employee retirement system which operates under the County Employees Retirement Law of 1937. The System was created by resolution of the Board of Supervisors on July 1, 1941, to provide retirement, disability, and death benefits for qualified employees of Sacramento County and participating special districts. The Board of Retirement consists of nine members of which four are appointed by the County's Board of Supervisors, four are elected by the members of the System, and the County Director of Finance is an ex-officio member. The System is excluded from the reporting entity of the County of Sacramento (County), as it is fiscally independent of the County and is governed by a separate board of directors.

At June 30, 2003, participating local government employers consisted of the County of Sacramento and 11 special districts.

The membership consists of the following categories:

- ◆ Safety First Tier - includes employees whose principal duties consist of law enforcement or fire suppression work or who occupy positions designated by law as safety positions who have a membership date prior to June 25, 1995.
- ◆ Safety Second Tier - includes employees whose principal duties consist of law enforcement or fire suppression work or who occupy positions designated by law as safety positions who have a membership date on or after June 25, 1995.
- ◆ Miscellaneous First Tier - includes all members other than safety who have a membership date prior to September 27, 1981.
- ◆ Miscellaneous Second Tier - includes all members other than safety who have a membership date on or after September 27, 1981 and prior to June 27, 1993 who elected not to become members of miscellaneous third tier.
- ◆ Miscellaneous Third Tier - includes all members other than safety who have a membership date on or after June 27, 1993 and those miscellaneous second tier members who elected to become members of this class.

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
 NOTES TO FINANCIAL STATEMENTS (Continued)
 FOR THE YEARS ENDED JUNE 30, 2003 and 2002

Membership and contribution data was based on the June 30, 2003 and 2002 actuarial reports. At June 30, the System's membership consisted of:

	<u>2003</u>	<u>2002</u>
Retirees and beneficiaries currently receiving benefits:		
Miscellaneous – Service	3,583	3,504
Miscellaneous – Beneficiary	814	789
Disability Miscellaneous – Ordinary	306	310
Disability Miscellaneous – Duty	185	182
Safety – Service	637	615
Safety - Beneficiary	169	160
Disability Safety - Ordinary	19	21
Disability Safety - Duty	<u>169</u>	<u>161</u>
Total Retired	<u>5,882</u>	<u>5,742</u>
Terminated employees entitled to benefits but not yet receiving them:	<u>1,885</u>	<u>1,994</u>
Current Members:		
Vested		
Miscellaneous Tier 1	1,236	1,307
Miscellaneous Tier 2	415	433
Miscellaneous Tier 3	4,814	4,487
Safety Tier 1	1,059	1,089
Safety Tier 2	<u>577</u>	<u>436</u>
Subtotal	<u>8,101</u>	<u>7,752</u>
Non-vested		
Miscellaneous Tier 1	5	7
Miscellaneous Tier 3	5,226	5,384
Safety Tier 1	21	42
Safety Tier 2	<u>780</u>	<u>848</u>
Subtotal	<u>6,032</u>	<u>6,281</u>
Total Current Members	<u>14,133</u>	<u>14,033</u>

Pension Benefits

The System's benefits are established by statutes and provide for retirement, death, and disability benefits. All permanent full-time or part-time employees of the County or member districts are eligible to participate in the System. Upon reaching five years of service, participants have earned the right to receive a retirement benefit, subject to certain restrictions if

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED JUNE 30, 2003 and 2002

retirement is prior to attaining age 50 or if less than 10 years service has been achieved. Retirement benefits for each tier through June 28, 2003 were as follows:

1) Members covered under Safety Tier 1 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 2 percent of their final-average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 4 percent annually. Final-average salary is the member's average salary for the highest twelve consecutive months of credited service.

2) Members covered under Safety Tier 2 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 2 percent of their final-average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final-average salary is the member's average salary for the highest thirty-six consecutive months of credited service.

3) Members covered under Miscellaneous Tier 1 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, which is equal to 1.1 percent of their final-average salary for each year of credited service. It includes a cost-of-living adjustment of up to 4 percent annually. Final-average salary is the member's average salary for the highest twelve consecutive months of credited service.

4) Members covered under Miscellaneous Tier 2 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 1.1 percent of their final-average salary for each year of credited service. There is no cost-of-living adjustment. Final-average salary is the member's average salary for the highest thirty-six consecutive months of credited service.

5) Members covered under Miscellaneous Tier 3 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 1.1 percent of their final-average salary for each year of credited service. It includes a cost-of-living adjustment of up to 2 percent annually. Final-average salary is the member's average salary for the highest thirty-six consecutive months of credited service.

The retirement benefits of Safety Tier 1 and 2 and Miscellaneous Tier 1, 2, and 3 members who retire after age 50 are increased by an age factor.

Effective June 29, 2003, enhanced retirement benefits are applicable for all SCERS members. The enhanced benefits include the applicability of Government Code Section 31664.1 for Safety plan service credits and Government Code Section 31676.14 for Miscellaneous service credits. In addition, members who meet certain criteria may purchase up to four years of public service credits. Under the enhanced benefit formulas, retirement benefits under each tier are as follows:

1) Members covered under Safety Tier 1 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 3 percent of their final-average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 4 percent annually. Final-average salary is the member's average salary for the highest twelve consecutive months of credited service.

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED JUNE 30, 2003 and 2002

2) Members covered under Safety Tier 2 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 3 percent of their final-average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final-average salary is the member's average salary for the highest thirty-six consecutive months of credited service.

3) Members covered under Miscellaneous Tier 1 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, which is equal to 1.474 percent of their final-average salary for each year of credited service. It includes a cost-of-living adjustment of up to 4 percent annually. Final-average salary is the member's average salary for the highest twelve consecutive months of credited service.

4) Members covered under Miscellaneous Tier 2 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 1.474 percent of their final-average salary for each year of credited service. There is no cost-of-living adjustment. Final-average salary is the member's average salary for the highest thirty-six consecutive months of credited service.

5) Members covered under Miscellaneous Tier 3 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 1.474 percent of their final-average salary for each year of credited service. It includes a cost-of-living adjustment of up to 2 percent annually. Final-average salary is the member's average salary for the highest thirty-six consecutive months of credited service.

The retirement benefits of Miscellaneous Tier 1, 2, and 3 members who retire after age 50 are increased by an age factor for each quarter year of age up to a maximum of 2.611 percent of final-average salary for each year of credited service at age 62.

The Sacramento County Board of Supervisors applied the new formulas for all SCERS members, including member districts, prospectively from June 29, 2003 and retroactively to County employees' service credits which precede that date. In accordance with applicable retirement law, each SCERS member district's governing body determined whether or not to apply the new formulas retroactively for service credits earned prior to June 29, 2003 and to make the public service credit purchase provisions applicable to its employees.

Member Termination

Upon separation from the System, members' accumulated contributions are refundable with interest accrued through the prior June 30 or December 31. Interest on member accounts is credited semiannually on June 30 and December 31. Withdrawal of such accumulated contributions results in forfeiture of the related vested benefits.

Financing

Benefits payable by the System are financed through contributions of members, the County of Sacramento or member districts as employers, and earnings from investments. Member contributions are required by law. Contribution rates, which are actuarially determined, are based on age at entry into the System (a single rate is used for members entering the System

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED JUNE 30, 2003 and 2002

after January 1, 1975). County and member districts' contributions are actuarially determined to provide for the balance of contributions needed. This rate includes an additional amount required to partially fund the annual cost of living increases for retired members of the Miscellaneous Tier 1, Tier 3 and Safety categories. All contribution rates are reviewed and revised annually. The authority for both benefit provisions and contribution obligations is derived from the County Employees Retirement Law of 1937, Section 31450 et seq. of the California Government Code.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

Basis of Accounting

The System has adopted Governmental Accounting Standards Board (GASB) Statement No. 25 as its source of accounting and reporting principles and prepares its financial statements on the accrual basis. GASB Statement No. 25 requires that investments be valued at their fair value, which results in the recognition of fair value gains and losses. Member and employer contributions are recognized when due pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Investment purchases and sales are recorded on the trade date.

Capital Assets

Capital assets are defined by the System as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets held by the System, consisting of equipment and fixtures, are stated at historical cost. Depreciation is provided for capital assets using the straight-line method over a useful life of five, eight or ten years. Costs of assets sold or retired (and the related amount of accumulated depreciation for assets) are removed from the accounts in the year of sale or retirement. Any resulting gain or loss is reported in the statement of changes in plan net assets of the System.

Valuation of Investments

Investments other than real estate are reported based on quoted market prices. The fair value of the real estate trust holdings has been determined using industry standard appraisal techniques and assumptions. The real estate trust managers use appraisals, which are updated annually, to determine the fair value of these trusts. Cash deposited in the Sacramento County (County) Treasurer's pool is stated at fair value. The value of the System's pool shares is determined on an amortized cost basis, which may be different than fair value.

Short-Term Investments

Short-term investments, which include highly-liquid investments expected to be utilized by the System within 30-90 days, are reported at fair value. These investments may include securities, which have a maturity in excess of 90 days but are readily marketable.

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED JUNE 30, 2003 and 2002

NOTE 3 - CASH AND INVESTMENTS

Cash invested with Sacramento County Treasurer

The System invests in various cash and investment pools, including the County Treasurer's pool. The County Treasury Oversight Committee is responsible for regulatory oversight of the pool. The System's share of the County Treasurer's pool is separately accounted for, and interest earned, net of related expenses, is apportioned quarterly based on the relationship of its average daily cash balance to the total of the pooled cash and investments. The fair value of the System's cash invested with Sacramento County Treasurer totaled \$3,229,875 and \$3,419,883 at June 30, 2003 and 2002, respectively.

Interest earned but not received from the County at year end is reported as a component of accrued investment income on the statement of plan net assets. Cash and investments included within the Sacramento County Treasurer's pool is described in the County's Comprehensive Annual Financial Report.

Short-Term Investments with Fiscal Agents

At June 30, 2003 and 2002, the fair value of the System's short-term investments with fiscal agents were \$153,928,717 and \$84,089,644, respectively. The total short-term investments consisted of investments in the State Street Short-Term Investment Fund (STIF) and highly liquid investments with foreign banks. The STIF is designed to provide qualified benefit plans with a readily accessible investment vehicle that may be accessed on a daily basis. The STIF is limited to investing in securities that are rated A-1 by Moody's Investors Services and P-1 by Standard & Poor's Corporation at the time of issuance. Most investments range in maturity from overnight to 90 days with up to 20% of the STIF's value eligible for investment between 90 days and 13 months. The average maturities were 55 days and 80 days at June 30, 2003 and 2002, respectively. Net assets invested in the STIF from all participating custodial clients of State Street were \$38.5 billion and \$35.6 billion on June 30, 2003 and 2002, respectively.

Securities Lending

State statutes permit the System to participate in securities lending transactions, and the System has, pursuant to a Securities Lending Authorization Agreement, authorized State Street Bank and Trust Company (State Street) to act as its agent in lending the System's securities to broker-dealers and banks pursuant to a form of loan agreement.

During the years ended June 30, 2003 and 2002, State Street loaned, on behalf of the System, securities, including U.S. government obligations, domestic corporate bonds, and domestic and international equities, held by State Street as custodian and received, as collateral, United States and foreign currency cash, securities issued or guaranteed by the United States government, sovereign debt of foreign countries and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities absent borrower default. Borrowers delivered collateral for each loan equal to 102% and 105% of the fair value of the loaned domestic and international securities, respectively. In accordance with GASB Statement No. 28, securities lending collateral reported in the statement of plan net assets represented only cash collateral invested in the lending agent's cash collateral investment pool.

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
 NOTES TO FINANCIAL STATEMENTS (Continued)
 FOR THE YEARS ENDED JUNE 30, 2003 and 2002

The System did not impose any restrictions on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the years ended June 30, 2003 and 2002. Moreover, there were no losses resulting from default of the borrowers or State Street.

During the years ended June 30, 2003 and 2002, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received in connection with each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. For the years ended June 30, 2003 and 2002, the collective investment pool had an average duration of 70 days and 64 days, respectively. At June 30, 2003 and 2002, the collective investment pool had a weighted-average maturity of 438 days and 405 days, respectively. Because the loans were terminable at will, the maturities of the securities on loan did not generally match the maturities of the investments made with cash collateral. At year end, the System has no credit risk exposure to borrowers, as the amounts the System owes the borrowers exceeds the amounts the borrowers owe the System. Furthermore, the lending agreement with the custodian requires the custodian to indemnify the System if the borrower fails to return the securities. The cash collateral held and the fair value of securities on loan for the System as of June 30, 2003 were \$258,075,384 and \$251,956,432, respectively. The cash collateral held and the fair value of securities on loan for the System as of June 30, 2002 were \$250,600,636 and \$245,192,371, respectively. Non-cash collateral was \$2,255,777 as June 30, 2003. There was no non-cash collateral as of June 30, 2002.

Additional information regarding the cash collateral investment pool (collateral pool) follows:

- a. Method for Determining Fair Value. The fair value of investments held by the collateral pool is based upon valuations provided by a recognized pricing service.
- b. Policy for Utilizing Amortized Cost Method. Because the collateral pool does not meet the requirements of Rule 2a-7 of the Investment Company Act of 1940, State Street has valued the collateral pool investments at fair value for reporting purposes.
- c. Regulatory Oversight. The collateral pool is not registered with the Securities and Exchange Commission. State Street, and consequently the investment vehicles it sponsors (including the collateral pool), are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the System's position in the collateral pool is not the same as the value of the collateral pool shares.

Collateral and related securities on loan at June 30, 2003 and 2002, were as follows:

<u>Security Description</u>	<u>2003</u>		
	<u>Cash Collateral Value</u>	<u>Other Collateral Value</u>	<u>Fair Value of Securities on Loan</u>
U.S. government obligations	\$85,928,810		\$83,469,513
Domestic corporate bonds	37,307,636		36,651,841
Common stock - domestic	82,222,399	\$2,122,944	81,637,013
Common stock - international	<u>52,616,539</u>	<u>132,833</u>	<u>50,198,065</u>
Totals	<u>\$258,075,384</u>	<u>\$2,255,777</u>	<u>\$251,956,432</u>

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
 NOTES TO FINANCIAL STATEMENTS (Continued)
 FOR THE YEARS ENDED JUNE 30, 2003 and 2002

	2002		
<u>Security Description</u>	<u>Cash Collateral Value</u>	<u>Other Collateral Value</u>	<u>Fair Value of Securities on Loan</u>
U.S. government obligations	\$60,282,863	-	\$58,972,407
Domestic corporate bonds	107,504,853	-	105,373,197
Common stock - domestic	38,355,929	-	36,714,454
Common stock - international	<u>44,456,991</u>	<u>-</u>	<u>44,132,313</u>
Totals	<u>\$250,600,636</u>	<u>0</u>	<u>\$245,192,371</u>

Categories of Investment Risk

The investments of the System are governed primarily by an investment authority known as the "prudent person rule." The prudent person rule, as set forth in Section 31595 of the California Government Code, establishes a standard for all fiduciaries, which includes anyone that has authority with respect to the System. The System's investments are categorized to give an indication of the level of custodial credit risk assumed by the System at year end.

Accounting principles generally accepted in the United States of America define three levels of custodial credit risk for securities:

- 1) Securities that are insured or registered, or for which the securities are held by the System or its agent in the System's name.
- 2) Securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the System's name.
- 3) Securities that are uninsured and unregistered and held by the counterparty, or by its trust department or agent, but not in the System's name.

In accordance with GASB Statement No. 3 disclosure requirements, cash invested with County Treasurer, short-term investments with fiscal agents, international equity index fund investments, real estate equity investments, securities on loan, and securities lending collateral are not categorized.

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
 NOTES TO FINANCIAL STATEMENTS (Continued)
 FOR THE YEARS ENDED JUNE 30, 2003 and 2002

For financial reporting purposes, the System's investments are categorized below to provide an indication of the level of custodial credit risk assumed by the System at June 30, 2003 and 2002.

	June 30, 2003	
	Category 1	Fair Value
Investments:		
U.S. government obligations	\$ 18,038,771	\$ 18,038,771
Domestic corporate bonds	736,444,337	736,444,337
International bonds	34,357,623	34,357,623
Common and preferred stock – domestic	1,238,468,987	1,238,468,987
Common and preferred stock – international	<u>326,185,622</u>	<u>326,185,622</u>
Total investments	<u>2,353,495,340</u>	<u>2,353,495,340</u>
Investments not considered securities for the purpose of custodial risk classification:		
Cash invested with Sacramento County Treasurer		3,229,875
Short-term investments with fiscal agents		153,928,717
International equity index fund		284,583,583
Real estate equity		400,722,283
Securities lending cash collateral		258,075,384
Securities on loan		<u>251,956,432</u>
Total deposits and investments		<u>\$3,705,991,614</u>

	June 30, 2002	
	Category 1	Fair Value
Investments:		
U.S. government obligations	\$ 72,898,138	\$ 72,898,138
Domestic corporate bonds	741,786,976	741,786,976
International bonds	42,651,081	42,651,081
Common and preferred stock – domestic	1,176,463,176	1,176,463,176
Common and preferred stock – international	<u>324,720,834</u>	<u>324,720,834</u>
Total investments	<u>2,358,520,205</u>	<u>2,358,520,205</u>
Investments not considered securities for the purpose of custodial risk classification:		
Cash invested with Sacramento County Treasurer		3,419,883
Short-term investments with fiscal agents		84,089,644
International equity index fund		278,551,923
Real estate equity		374,801,074
Securities lending cash collateral		250,600,636
Securities on loan		<u>245,192,371</u>
Total deposits and investments		<u>\$3,595,175,736</u>

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
 NOTES TO FINANCIAL STATEMENTS (Continued)
 FOR THE YEARS ENDED JUNE 30, 2003 and 2002

For the years ended June 30, 2003 and 2002, there were no violations of State statutes or System policy in pooled investments.

Except for real estate equity investments and cash invested with the Sacramento County Treasurer, the System's cash and investments are held by a custodial bank. There are no investments that represent 5 percent or more of the System's net assets.

Derivatives

The System's investment policy allows investment managers to use derivative instruments. These instruments include currency forward contracts, currency futures, floater/inverse floater debt instruments, interest-only and principal-only notes, and exchange traded financial futures and options. The System permits the use of derivatives to minimize the exposure of certain of its investments to adverse fluctuations in financial and currency markets. The System does not use derivatives for speculative use or to create leverage. In addition, the System invests in mortgage-backed securities, including collateralized mortgage obligations (CMOs), to increase the yield and return on its investment portfolio given the available alternative investment opportunities. The values of mortgage-backed securities are generally based on the cash flows from principal and interest receipts on the underlying mortgage pools. In a CMO, the cash flows from principal and interest payments from one or more mortgage pass-through securities or a pool of mortgages may be reallocated to multiple security classes with different priority claims and payment streams (commonly referred to as tranches). A holder of the CMO security thus chooses the class of security that best meets its risk and return objectives. CMOs are subject to significant market risk due to fluctuations in interest rates, prepayment rates, and various liquidity factors related to their specific markets.

A summary of the various derivative instruments as of June 30, 2003 and 2002 is as follows:

	2003	2002
Currency forward contracts and futures	\$51,140,102	\$73,456,400
Floating-rate notes	77,553,666	95,605,903
Interest-only notes	2,007,816	-
Principal-only notes	464,000	-
Collateralized mortgage obligations	32,448,130	11,932,988
Total derivative instruments	\$163,613,714	\$180,995,291

The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The System's investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. The System anticipates that the counterparties will be able to satisfy their obligations under the contracts.

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED JUNE 30, 2003 and 2002

NOTE 4 - CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

Contributions to the plan are made pursuant to Section 31584 of the County Employees Retirement Law of 1937. The System's funding policy provides for periodic contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate adequate assets to pay benefits when due. Members of the System are required to contribute between 2.99% and 11.97% of their annual covered salary. Each employer of the System is obligated by state law to make all required contributions to the plan, ranging from 3.37% to 26.60% of covered payroll. The required contributions include current service cost, and amortization of prior service cost over an initial amortization period of 30 years. At June 30, 2003, there are 19 years remaining in the amortization period of prior service cost.

Employer contribution rates are determined using the entry age normal funding method based on a level percentage of payroll. The System also uses this actuarial method to amortize the unfunded liability, if applicable.

Contributions for the year ending June 30, 2003 and 2002 totaled \$96,540,617 and \$82,978,888, respectively. Included in this total are employer contributions of \$52,840,790 and \$44,547,261, respectively, of which \$49,438,193 and \$41,240,753 were made by the County of Sacramento. Member contributions were \$43,699,827 and \$38,431,627, in 2003 and 2002, respectively. All contributions were made in accordance with actuarially-determined contribution requirements based on the actuarial valuations performed at June 30, 2001 and 2000, respectively.

NOTE 5 – RESERVES

Member and employer contributions are allocated to various legally required reserve accounts based on actuarial determinations. Descriptions of the purpose for the reserve and designated accounts are provided below.

Employee reserves represent the balance of member contributions. Additions include member contributions and interest earnings; deductions include refunds of member contributions and transfers to retiree reserves.

Employer reserves represent the balance of employer contributions for future retirement payments to current active members. Additions include contributions from the employer and interest earnings; deductions include transfers to retiree reserves, lump sum death benefits, and payments under California Government Code Sections 31725.5 and 31725.6.

Retiree reserves represent the balance of transfers from employee reserves, employer reserves, and interest earnings less payments to retired members.

Retiree death benefit reserves represent the balance of monies set aside to fund the lump sum death benefit for retirees. Additions include interest earnings; deductions include payments to beneficiaries of retired members who are deceased.

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
 NOTES TO FINANCIAL STATEMENTS (Continued)
 FOR THE YEARS ENDED JUNE 30, 2003 and 2002

Retiree health care benefit reserves include transfers made by the System from excess earnings to fund a health and dental insurance premium offsets for retirees. The retiree health care benefit program qualifies under section 401(h) of the Internal Revenue Code.

Contingency reserve represented 2.5% of total assets. The contingency reserve was established, pursuant to California Government Code Section 31592.2, at a minimum of 1% of the total assets of the System. It was created to serve as a reserve against deficiencies in interest earnings in other years, losses on investments, and other contingencies. The Retirement Board subsequently increased the contingency reserve an additional 1.5% of total assets.

Designations for legislation and litigation. The Retirement Board elected to augment the contingency reserve to provide for liabilities arising out of anticipated litigation or legislation.

A summary of the various reserve accounts, which comprise net assets available for pension and other benefits at June 30, 2003 and 2002 (under the five-year smoothed market asset valuation method for actuarial valuation purposes) is as follows:

NET ASSETS AVAILABLE FOR BENEFITS AT FAIR VALUE AS OF JUNE 30,

	2003	2002
Employee reserves	\$553,425,220	\$491,404,774
Employer reserves	1,719,122,591	1,607,762,010
Retiree reserves	1,402,805,544	1,320,493,561
Retiree death benefit reserves	12,848,630	12,321,064
Retiree health care benefits reserves	2,425,028	1,739,075
Contingency reserve	93,651,229	91,196,033
Designation for legislation and litigation	<u>29,130,000</u>	<u>121,249,698</u>
Total reserves and designations	<u>3,813,408,242</u>	<u>3,646,166,215</u>
Excess earnings – undesignated	<u>50,991,552</u>	<u>192,915,082</u>
Total allocated reserves (smoothed market actuarial value)	3,864,399,794	3,839,081,297
Net assets in excess (deficit) of reserves	<u>(625,573,750)</u>	<u>(639,846,883)</u>
Net assets available for benefits, at fair value	<u>\$ 3,238,826,044</u>	<u>\$ 3,199,234,414</u>

NOTE 6 - OTHER BENEFITS

In addition to providing pension benefits, the System provides certain health care and dental insurance premium offsets for retired members. These benefits are provided pursuant to California Government Code Section 31592.4 wherein excess earnings at the end of the year are treated in the immediately succeeding year as appropriations, transfers, and contributions to the retirement fund by the county and districts for purposes of meeting applicable requirements of Internal Revenue Code Section 401(h). This is not a vested benefit and is subject to the availability of excess earnings from the System. The cost of the retiree health care and dental

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
 NOTES TO FINANCIAL STATEMENTS (Continued)
 FOR THE YEARS ENDED JUNE 30, 2003 and 2002

insurance premium offsets is recognized as an expense of the System in the year the benefit is payable. For the years ended June 30, 2003 and 2002, those costs were \$9,232,142 and \$7,523,315 for health insurance and \$1,633,830 and \$1,587,610 for dental insurance for a total of \$10,865,972 and \$9,110,925, respectively.

NOTE 7 - PLAN TERMINATION

California Government Code Section 31483 allows the governing body of the County or special district, through the adoption of an ordinance or resolution, to terminate the applicability of the plan to employees of the County or district whose services commence after a given future date.

NOTE 8 – MORTGAGES PAYABLE

The System has real estate investments secured by long-term mortgage obligations. Future debt service requirements for outstanding mortgages are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 297,203	\$ 4,889,331
2005	322,511	4,864,023
2006	10,325,481	4,213,925
2007	-	4,002,830
2008	-	4,002,830
2009	<u>61,700,000</u>	<u>2,001,415</u>
Total	<u>\$ 72,645,195</u>	<u>\$ 23,974,354</u>

NOTE 9 – LEASE OBLIGATIONS

A commitment under an operating lease agreement for office facilities provides for minimum future rental payments as of June 30, 2003 as follows:

<u>Year Ending June 30:</u>	
2004	\$ 524,749
2005	534,988
2006	545,227
2007	555,466
2008	565,705
2009-2011	<u>1,607,523</u>
Total	<u>\$ 4,333,658</u>

Rental costs during the year ended June 30, 2003 and 2002 were \$533,099 and \$399,187, respectively.

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED JUNE 30, 2003 and 2002

NOTE 10 – SUBSEQUENT EVENT

The System and other retirement systems were sued in a statewide litigation seeking inclusion of additional pay to be included in final compensation and retroactive application of increases in final compensation mandated by *Ventura County Deputy Sheriff's Association et al. v. Board of Retirement* (1997) 16 Cal. 4th 483. That case is now finally determined (*In re Retirement Cases* (2003) 110 Cal. App. 4th 426).

Shortly before the decision was rendered, the System agreed to settle the litigation for an actuarially estimated \$55 million. That settlement limiting the System's liability to \$55 million was approved by the court on December 19, 2003. Of this amount, \$25,870,000 was accrued as of June 30, 2003, which represents the lump sum and retroactive portion of the settlement, including attorneys' fees. The remaining \$29,130,000 will be paid out as increased retirement allowances after January 2004.

NOTE 11 – RECLASSIFICATIONS

Certain amounts reported in the prior year have been reclassified to conform with the current year's presentation.

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REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
 REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
 FOR THE YEARS ENDED JUNE 30, 2003 and 2002

Schedule I - Schedule of funding progress (in thousands):

A six-year schedule of the funding progress of the System is presented herewith as required supplementary information. This information is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

Actuarial Valuation Date <u>June 30</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Liability (AAL) Entry Age <u>(b)</u>	Accrued (AAL) <u>(b-a)</u>	Unfunded/ (Over funded) AAL <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Annual Covered Payroll <u>(c)</u>	Unfunded/ (Over funded) AAL as a Percentage of Covered Payroll <u>((b-a)/c)</u>
1998	\$2,600,547	\$2,409,642	(\$190,905)	107.9%	\$470,385	(40.6)%	
1999	3,017,639	2,734,548	(283,091)	110.4	502,325	(56.4)	
2000	3,427,348	3,111,760	(315,588)	110.1	559,047	(56.5)	
2001	3,718,198	3,451,864	(266,334)	107.7	634,798	(42.0)	
2002	3,839,081	3,586,250	(252,831)	107.1	695,259	(36.4)	
2003	3,864,400	4,108,294	243,894	94.1	733,296	33.3	

Effective June 29, 2003, the Sacramento County Board of Supervisors adopted benefits under Section 31676.14 for Miscellaneous members and 31664.1 for Safety members. The County and certain Districts adopted these improvements for all service, while the remaining Districts adopted these improvements for future service only. The adoption of enhanced benefits significantly increased the actuarial accrued liability as of June 30, 2003.

Schedule II - Schedule of employer contributions:

Year Ended <u>June 30</u>	Annual Required Contribution	Percentage Contributed
1998	\$43,108,885	100.0%
1999	46,745,055	100.0
2000	42,023,885	100.0
2001	40,358,154	100.0
2002	44,547,261	100.0
2003	52,840,790	100.0

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) (Continued)
FOR THE YEARS ENDED JUNE 30, 2003 and 2002

Schedule III – Significant actuarial assumptions:

The following significant actuarial assumptions underlying the required supplementary schedules were utilized as part of the actuarial valuation dated June 30, 2003:

Actuarial cost method:	Entry age normal
Amortization method:	Level percent open
Remaining amortization period:	19 years
Asset valuation method:	5-year smoothed fair value

Actuarial assumptions:

Investment rate of return	8.00%
Projected salary increases *	5.75

* Includes wage inflation of 4.25% and merit and longevity adjustment of 1.50%.

Assumed postretirement benefit increase:

Miscellaneous Tier 1	3.50%
Miscellaneous Tier 2	0.00
Miscellaneous Tier 3	2.00
Safety Tier 1	3.50
Safety Tier 2	2.00

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OTHER SUPPLEMENTAL INFORMATION

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
OTHER SUPPLEMENTAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2003 and 2002

Schedule I – Schedule of administrative and other expenses:

Type of expense	<u>2003</u>	<u>2002</u>
Salaries and benefits	\$2,416,078	\$2,077,187
Professional fees	577,469	420,311
Equipment purchases and maintenance	198,299	313,967
Rent and lease expense	560,369	415,657
Depreciation expense	18,383	42,408
Other administrative expenses	<u>2,126,465</u>	<u>2,215,778</u>
Total administrative and other expenses	<u>\$5,897,063</u>	<u>\$5,485,308</u>

Schedule II – Schedule of investment fees and expenses:

Type of investment expense	<u>2003</u>	<u>2002</u>
Domestic equity managers	\$3,345,324	\$3,884,489
International equity managers	1,658,000	1,765,986
Bond managers	1,751,364	2,004,725
Real estate managers	1,778,924	1,948,106
Custodian fees	218,425	215,409
Investment consulting fees	161,004	143,004
Other professional fees	<u>159,357</u>	<u>15,840</u>
Total investment fees and expenses	<u>\$9,072,398</u>	<u>\$9,977,559</u>

Schedule III – Schedule of payments to consultants:

Type of consulting expense	<u>2003</u>	<u>2002</u>
Mercer Investment Consulting, Inc.:		
Investment consulting fees	<u>\$161,004</u>	<u>\$143,004</u>

Investment Section



Executive Staff

John R. Descamp
Chief Executive Officer

Jeffrey W. States
Chief Investment Officer

Kathryn T. Regalia
Chief Operations Officer

Chief Investment Officer's Report on Investment Activity

December 19, 2003

Dear Members of the Board:

Introduction

After two fiscal years of negative returns, the System saw its total fund investment return move back into positive territory for the twelve-month period ending June 30, 2003. The total fund return was 3.4%, net of manager fees. The results are encouraging, reflecting the improvement of the U.S. economy and the improvement in the domestic and international equity markets. The twelve-month return is 40 basis points below the policy weighted benchmark return of 3.8%, which is not adjusted for manager fees. Before investment management fees, the System return of 3.7% came close to matching the return of the policy benchmark. On a peer comparison the System performance places in the 44th percentile of the Russell/Mellon Trust Universe for funds of a billion dollars or more for the twelve month period. Over the past ten years the System has achieved an annualized investment return of 8.4%, net of manager fees. Mercer Investment Consulting, Inc. prepares the investment returns using information it receives from the System's custodian bank and investment managers. The return calculations are prepared using a time-weighted rate of return based on the market rate of return in accordance with AIMR performance standards.

General Information

The System uses external investment managers chosen by the Board to invest the funds' assets. As of June 30, 2003 there are fourteen investment managers investing fifteen separate account portfolios. In addition, the System has an investment in a commingled international equity MSCI EAFE index fund which Northern Trust Global Investments manages, an investment in the Capital International Inc. Emerging Markets Growth Fund and investments in four commingled real estate funds. A list of the managers and the commingled trust funds is on the following page. The Board uses the services of Mercer Investment Consulting Inc. as a general investment consultant to assist in developing investment policy, advise on asset allocation decisions and help select and monitor investment managers. The Sacramento County Counsels' office provides legal services that are supplemented by contract legal counsel for equity real estate investments.

As part of the Board's ongoing review of investment managers and its investment management structure a decision was made in the fall of 2002 to have two small cap growth managers. This decision was made to provide for better diversification of the domestic equity investments and for manager diversification. The Board completed the selection of the second small cap growth equity manager in October and the new account was funded in December by reallocating one-half of the existing manager's assets to the new manager.

In March of 2003 SSR Realty Advisors took over the management of the four real estate properties owned in the account advised by PM Realty Advisors (PMRA). Pacific Life, the parent company of PMRA, decided to close PMRA's operations after being unsuccessful in finding a purchaser for the business unit. After considering various options the Board decided to transfer the properties owned in the account to SSR Realty Advisors. The Board will consider hiring a second real estate manager when additional assets are available to allocate to this asset class.

The System's custodial bank is State Street California, Inc. State Street California provides securities lending services to the System and through State Street Brokerage carries out a commission recapture program. In fiscal year 2003 SCERS earned \$941,355 from securities lending and received recapture income of \$236,483. SCERS does not use directed brokerage or soft-dollar commissions to purchase any services.

SCERS Investment Objectives

SCERS investment objectives as set forth in the Board's Investment Policy and Objectives, adopted on June 24, 1999 and revised on July 18, 2002 are:

1. Provide for Present and Future Benefit Payments - The overall objective of the System is to invest pension assets, solely in the interest of providing benefits to the participants and their beneficiaries, while attempting to minimize the employer contributions and defraying the administrative costs. The investment of contributions and other fund assets in accordance with the investment policy described herein will accomplish this and maintain adequate funding of the System's liabilities over time.

The goal of the Board is to design an investment portfolio that will achieve and exceed the annualized actuarial assumed rate of 8% over a market cycle of three to five years. The Board strives to achieve this level of return with a high level of certainty and with an acceptable level of risk.

2. Make Prudent Investments - With care, skill, prudence and diligence the Board will strive to produce an investment return based on levels of liquidity and investment risk that are prudent and reasonable under present circumstances. Such circumstances may change over time.

3. Diversify the Assets - The Board will diversify the investments of the Fund to maximize the investment return with acceptable investment risk.

4. Create Reasonable Pension Investments Relative to Other Pension Funds - The pension investment program must operate in compliance with all applicable State and Federal laws and regulations concerning the investment of pension assets. The System judges its selection of investment vehicles and policies against other private and public pension funds, with special emphasis on comparisons with public funds.

5. Establish Policy and Objective Review Process - Annually, the System will conduct a formal review of its Investment Policy and Objectives and will develop an updated financial projection at least every five years.

Summary of Proxy Voting Guidelines and Procedures

As a fiduciary, the Board of Retirement has an obligation to manage the System's assets in the best interest of the plan participants. The Board has established a Proxy Voting & Corporate Governance Policy. This policy provides guidance to the Chief Investment Officer for voting proxies and acting on corporate action issues such as mergers and acquisitions. For the fiscal year ended June 30, 2003 all proxies that were received were voted through an electronic voting platform provided by Institutional Shareholder Services. The Chief Investment Officer in accordance with the Board's policy votes proxies with the assistance of research and analysis provided by Institutional Shareholder Services.

Summary of Asset Allocation

The Board develops the strategic asset allocation with the assistance of an external investment consultant. The investment consultant is Thomas Lightvoet, Mercer Investment Consulting, Inc. The intent of the asset allocation policy is to ensure that investments are diversified in a manner that achieves the desired rate of investment return with an acceptable investment risk. The actual and policy allocation for each asset class is shown in the pie chart on page 54. The actual asset allocation by investment manager also is included. The capital market assumptions adopted along with the asset allocation give the System an expected 8.55% annualized total rate of return over the next ten years with a standard deviation of returns of 11.71%. The Board will undertake an asset liability study and adopt revised capital market assumptions by asset class in the new fiscal year. The study is scheduled to be finished by January of 2004.

Summary of Investment Results

The System monitors capital market investment returns by using recognized and easily obtainable market indices as asset class proxy benchmarks. The benchmark index and index performance by asset class the System uses is included in the page of Investment Results provided later in this report. The System's policy-weighted benchmark return is 3.8% for the twelve-month period ended June 30, 2003. The System's actual total investment return, net of manager fees, for the fiscal year is 3.4%. For the twelve-month period ending June 30, 2002 the domestic equity benchmark Russell 3000 index return is 0.8%, the Lehman Aggregate bond index return is 10.4% and the Morgan Stanley Capital Markets International Europe, Australia, Far East (MSCI EAFE) index return is -6.5%. The NCREIF real estate benchmark return is 7.64% for the fiscal year. The System's investment returns and the returns of the asset class benchmark indices for three and five years can be found on page 56. The asset allocation is broadly diversified between asset classes as well as within each class in a manner that will insure consistent long-term performance in line with the policy objectives.

U.S. Domestic equity is the System's largest investment asset class. For the one-year period the System's total return is -0.8%, net of fees, and -0.5% gross of fees. The return is below the benchmark Russell 3000 index return of 0.8%. In the Mercer Equity Universe, the System's return for the quarter ranked in the 52nd percentile for the one-year period. For the three-year period, the System's domestic equity return is -9.4%. The comparable Russell 3000 index return is -10.5% for three years.


Domestic equity investments are divided into two sub-asset classes based on stock capitalization. Large cap domestic equity is 85% of the domestic equity allocation. The large cap domestic equity investments had a 0% return net of fees for one year; 100 basis points below the Russell 1000 index return of 1.0%. The investment return for large cap equity for three years is -9.2%; 180 basis points better than the Russell 1000 index. The return for small cap equity investments for the one-year period is -4.8%, which is 320 basis points below the benchmark return of the Russell 2000 index -1.6%. For the three-year period the small cap equity return is -14.8%, 1150 basis points below the Russell 2000 index return of -3.3%.

The System's international equity managers out performed the benchmark MSCI EAFE index for the one-year period. The international equity return is -4.0% compared to return of -6.5%. Performance for three years also bettered the benchmark with a return of -12.9% compared to the benchmark return of -13.5%. For the developed markets, the System's managers return of -7.9% under performed the MSCI EAFE index by 140 basis points. Over the three-year period the developed market return is -14.1% compared to a MSCI EAFE index return of -13.5%.

The international emerging markets provided positive returns for the year, significantly out performing the developed markets. The MSCI Emerging Markets Free Index returned 7.0% for twelve months. The System's portfolio out performed the benchmark by 10 basis points returning 7.1%. For the three-year period the index return is -7.0% compared to the System's return of -10.6%.

Fixed income investments were the best performing asset class for the year. The System's combined fixed income manager return was better than the return of the benchmark Lehman Aggregate Bond index. The combined fixed income portfolio return for the fiscal year was 11.4%, net of fees and benchmark return was 10.4%. In comparison to the Mercer US Fixed Income Combined Universe SCERS return ranked in the 34th percentile for the period. Over the three year period ending June 30, the System's return of 9.5%, net of fees, trailed the benchmark return of 10.1%. For the five-year period, the System's return of 7.5%, net of fees, matched the benchmark return.

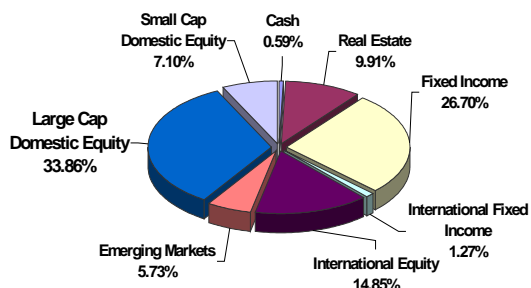
The System's investments in the direct ownership of commercial real estate also provided positive returns for the year. The return for the fiscal year was 9.9%. This return is 470 basis points above the NCREIF property index. During the year real estate valuations declined as the weak economy impacted property sales values. As part of the strategic plan to reposition the portfolio for the economic recovery, SSR Realty sold three properties, two apartments and an office building and acquired one office building. Additional acquisitions to re-invest sales proceeds are planned during the 2004 fiscal year. Over three-year the real estate portfolio return was 8.3% compared to the NCREIF return of 7.9% and over five-years the return is 8.9% compared to the NCRIF return of 10.2%.



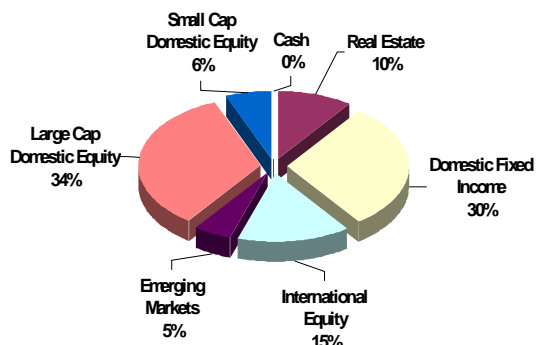
Jeffrey W. States
Chief Investment Officer

Asset Allocation

2003 SCERS Actual Asset Allocation



Target Asset Allocation



Dom Eq = Domestic Equity / Inter Eq = International Equity / Dom F I = Domestic Fixed Income / Inter F I = International Fixed Income / R E = Real Estate / Cash = Cash

The 2003 Actual Asset Allocation is based upon the Investment Summary adjusted to net out the \$72.6 million in leverage

Investment Professionals at June 30, 2003

Investment Managers

EQUITY-DOMESTIC

Alliance Capital Management
Dalton, Greiner, Hartman,
Maher & Company
Independence Investment
Nicholas Applegate Capital Mgmt.
Oppenheimer Capital Mgmt.
TCW Asset Management
Trinity Investment Management

EQUITY-INTERNATIONAL

Northern Trust Global Investment Services
Capital Guardian Trust Company
Bank of Ireland Asset Management
Capital International, Inc.

FIXED INCOME

Lincoln Capital Fixed
Income Management
Bradford & Marzec, Inc.
Metropolitan West Asset
Management

REAL ESTATE

SSR Realty Advisors
PM Realty Advisors

Commingled Trusts:
Heitman Real Estate Fund III & IV
Heitman Real Estate Fund V
JMB Real Estate Trust IV & V
Lend Lease Core Property Trust
TCW Realty Fund VI

Real Estate Legal Counsel

Knox, Lemmon & Anapolsky, LLP
Service
Nossaman, Guthner, Knox & Elliot, LLP

Investment Consultant

Mercer Investment Consulting

Proxy Advisor

Institutional Shareholder

Investment Summary of Assets as Allocated

<u>Equity</u>	<u>Fair Value at 06/30/03</u>	<u>Percentage of Total Fair Value</u>
Domestic		
Alliance-Russell 1000 Index	\$ 634,150,828	18.39%
Alliance-Russell 1000 Value Index	81,559,423	2.37
Dalton, Greiner -Active Small Cap Value	58,341,975	1.69
Independence-Growth	220,983,473	6.40
M.A. Weatherbie-Small Growth	55,433,646	1.61
Nicholas Applegate-Small Cap	59,182,389	1.72
Oppenheimer-CORE	75,289,771	2.18
Trinity-Value	90,958,356	2.64
TCW Asset Mgmt- Active Small Cap Value	<u>59,320,291</u>	<u>1.72</u>
Total Domestic Equity	<u>1,335,220,152</u>	<u>38.72</u>
International		
Northern Trust Global Services - EAFE Index	97,894,650	2.84
Capital Guardian Trust - EAFE Index	190,027,746	5.51
Capital International - Emerging Markets	186,688,934	5.41
Bank of Ireland Asset Management – EAFE	<u>194,610,045</u>	<u>5.64</u>
Total International Equity	<u>669,221,375</u>	<u>19.40</u>
Total Equities	<u>2,004,441,527</u>	<u>58.12</u>
Fixed Income		
Domestic		
Lincoln Capital-Index-Lehman Brothers Aggregate	350,840,501	10.18
Bradford & Marzec	304,301,253	8.83
Metropolitan West Asset Management	<u>333,850,259</u>	<u>9.68</u>
Total Domestic Fixed	<u>988,992,013</u>	<u>28.69</u>
International		
Bradford & Marzec	<u>34,357,623</u>	<u>1.00</u>
Total International Fixed	<u>34,357,623</u>	<u>1.00</u>
Total Fixed Income	<u>1,023,349,636</u>	<u>29.69</u>
Real Estate		
SSR Realty-Separate	296,977,169	8.54
PM Realty-Separate	93,802,244	2.85
Commingled Trusts	<u>9,942,870</u>	<u>.24</u>
Total Real Estate ¹	<u>400,722,283</u>	<u>11.63</u>
Total Investments at Fair Value	3,428,513,446	99.44
Cash (Unallocated)	<u>19,402,784</u>	<u>.56</u>
Total Cash & Investments	<u>3,447,916,230</u>	<u>100.00%</u>
Other Assets		
Receivables	40,023,023	
Fixed Assets	34,527	
Securities lending collateral	<u>258,075,384</u>	
Total Assets	<u>3,746,049,164</u>	
Liabilities		
Investment Trades Payable	146,497,663	
Mortgages Payable	72,645,195	
Other Liabilities	30,004,878	
Securities lending liability	<u>258,075,384</u>	
Net Assets held in Trust for Pension Benefits	<u>\$ 3,238,826,044</u>	

1. The SSR Realty account includes investments made using \$72.6 million from loan proceeds.

Investment Results¹

Domestic Equity	Current Year	Annualized	
	Ending June 30, 2003	3 Year	5 Year
Total Domestic Equity	-0.5%	-9.1%	-0.8%
Mercer Equity Universe Median	-0.3%	-4.3%	2.5%
Benchmark: Russell 3000 Index	0.8%	-10.5%	-1.1%
International Equity			
Total International Equity	-3.5%	-12.5%	-2.7%
Mercer International Equity Universe Median	-6.0%	-12.5%	-1.8%
Benchmark: MSCI EAFE Index	-6.5%	-13.5%	-4.0%
Fixed Income			
Total Fixed Income	11.6%	9.6%	7.6%
Mercer Fixed Income Universe Median	10.7%	9.8%	7.4%
Benchmark: Lehman Brothers Aggregate	10.4%	10.1%	7.5%
Real Estate			
Total Real Estate	9.9%	8.3%	9.2%
Mercer Real Estate Universe Median	8.1%	9.1%	9.5%
Benchmark: NCREIF Classic Property Index	5.2%	7.9%	10.2%
Total Fund			
Sacramento Total Fund	3.7%	-2.2%	2.9%
Russell/Mellon Public Funds Billion \$ Universe	3.4%	-3.1%	2.7%
Benchmark: Asset Allocation Weightings ³	3.8%	-2.6%	2.9%

Notes:

- Returns were prepared by Mercer Investment Consulting, Inc., and shown on a gross of fee basis.
- The Mercer 40/30/15/10/5 Balanced Universe is comprised of 40% managed domestic equity funds, 30% managed fixed income funds, 15% international equity funds, 10% real estate funds and 5% international emerging market funds. Prior to January 1, 2000, the Benchmark Universe consisted of 47% managed domestic equity funds, 23% managed fixed income funds, 15% international equity funds and 15% real estate funds.
- The Benchmark consists of 35% Russell 3000, 5% Russell 2000, 30% Lehman Brothers Aggregate Bond Index, 15% MSCI EAFE index, 5% MSCI Emerging Markets Free and 10% NCREIF Classic Property Index. Prior to January 1, 2000 the Benchmark consisted of 47% Russell 3000, 23% Salomon Smith Barney Broad Investment Grade bond Index, 15% MSCI EAFE and 15% NCREIF.

Return calculations were prepared using a time-weighted rate of return based on the fair rate of return in accordance with AIMR performance presentation standards.

Schedule of Manager Fees

<u>Manager</u>	<u>Total</u>	<u>Category Total</u>
<i>Equity-Domestic</i>		
Alliance Capital Management	\$ 147,972	
Dalton, Greiner, Hartman, Maher & Company	415,904	
Independence Investment Associates	1,183,169	
M.A. Weatherbie	260,869	
Nicholas Applegate	600,290	
Oppenheimer Capital Management	235,812	
Trinity Investment Management	223,308	
TCW Asset Management	<u>278,000</u>	
		<u>3,345,324</u>
<i>Equity-International</i>		
Deutsche Asset Management/Northern Trust	190,855	
Bank of Ireland	653,858	
Capital Guardian	<u>813,287</u>	
		<u>1,658,000</u>
<i>Fixed Income</i>		
Lincoln Capital Management	154,727	
Bradford & Marzec	781,972	
Metropolitan West Asset Management	691,504	
David L. Bonuccelli & Associates	<u>123,161</u>	
		<u>1,751,364</u>
<i>Real Estate</i>		
PM Realty Advisors	474,558	
SSR Realty Advisors*	<u>1,304,366</u>	
		<u>1,778,924</u>
 Total Manager Fees	 <u>8,533,612</u>	
<i>Other Professional Fees</i>		
State Street Bank – Custodian & Securities Lending Fees	218,425	
William Mercer Consulting – Investment Consulting	161,004	
Proxy Monitoring Service	24,136	
Legal Fees and Misc	<u>135,221</u>	
 Total Investment Fees and Expenses	 <u><u>\$ 9,072,398</u></u>	

Ten Largest Stock Holdings (by Fair Value) As of June 30, 2003

<u>Rank</u>	<u>Shares</u>	<u>Security Name</u>	<u>Fair Value</u>
1.	984,102	Pfizer Inc.	\$ 33,607,083
2.	1,067,485	General Electric Co.	30,615,469
3.	669,696	Citigroup Inc.	28,662,989
4.	1,011,010	Microsoft Corp.	25,891,966
5.	689,566	Exxon Mobil Corp.	24,762,315
6.	350,538	Johnson + Johnson	18,122,814
7.	272,032	Merck + Co. Inc.	16,471,538
8.	277,078	American Intl. Group Inc.	15,289,164
9.	283,260	Wal Mart Stores Inc.	15,202,564
10.	180,345	International Business Machines	<u>14,878,462</u>
Total of Ten Largest Stock Holdings			\$ <u>223,504,364</u>

Ten Largest Bond Holdings (by Fair Value) As of June 30, 2003

<u>Rank</u>	<u>Par</u>	<u>Security Name</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Fair Value</u>
1.	14,917,000	US Treasury Bonds	5.375%	02/15/2031	\$ 16,795,609
2.	132,753,332	US Treasury Notes	4.25%	01/15/2010	15,610,961
3.	13,990,000	FHLMC TBA AUG 30	4.50%	12/31/2099	13,834,798
4.	16,150,000	Calpine CDA Energy Fin	8.50%	05/01/2008	12,334,562
5.	12,395,000	Ford Motor Co. Del	7.45%	07/16/2031	11,451,525
6.	9,960,000	FNMA TBA Jul 30	5.50%	12/01/2099	10,295,372
7.	9,000,000	OMI TR	7.09%	06/15/2032	9,478,125
8.	9,150,000	FNMA TBA Aug 15	5.00%	12/31/2099	9,430,219
9.	9,000,000	Vanderbilt Acquisition	6.57%	12/31/2032	9,382,500
10.	8,822,000	FNMA TBA Jul 15	5.00%	12/31/2099	<u>9,114,229</u>
Total Largest Bond Holdings					\$ <u>117,727,900</u>

Note: The above schedules do not include funds invested in commingled trust funds or cash in the custodians short term investment fund.

A complete list of the portfolio's holdings is available upon request.

Schedule of Equity Brokerage Fees

For the Year Ended June 30, 2003

Broker Name	Commissions Per Share	Total Commission	Shares/Par Value
ABEL NOSER CORPORATION	0.0500	1,000.00	20,000
ABG SECURITIES AS (STOCKHOLM)	0.0024	98.32	40,400
ABN AMRO ASIA SERVICES	0.0026	51.11	20,000
ABN AMRO AUSTRALIA LIMITED	0.0073	472.90	64,963
ABN AMRO BANK N V	0.0039	62.02	15,913
ABN AMRO BANK NV AUCKLAND NZ	0.0062	53.13	8,600
ABN AMRO EQUITIES (UK) LTD LONDON	0.0159	6,389.61	402,328
ABN AMRO SECURITIES LLC	0.0126	1,067.38	85,000
ADAMS HARKNESS + HILL,INC	0.0495	8,248.10	166,522
ADVEST INC	0.0500	275.00	5,500
ALLEN & COMPANY INCORPORATED	0.0500	4,480.00	89,600
AMERICAN TECHNOLOGY RESEARCH INC	0.0500	1,790.00	35,800
AMERICAS/DEUTSCHE BANK AG LONDON	0.0448	340.19	7,600
ARCHIPELAGO BCC CAPITAL CLEAR	0.0200	5,189.60	259,480
ARNHOLD S BLEICHROEDER INC	0.0497	1,720.00	34,600
AUTRANET,INC.	0.0037	4,125.89	1,123,400
AVALON RESEARCH GROUP INC	0.0500	7,335.00	146,700
BAIRD, ROBERT W., & COMPANY INCORPORATED	0.0469	20,735.60	442,152
BANC AMERICA SECURITY LLC MONTGOMERY DIV	0.0441	43,046.55	975,571
BANC OF AMERICA SECURITIES LLC	0.0490	19,378.00	395,300
BANC/AMERICA SECUR.LLC MONTGOMEY DIV	0.0482	15,245.00	316,400
BANCO SANTANDER CENTRAL HISPANO	0.0236	465.78	19,700
BANK JULIUS BAER (DEUTSCHLAND) AG	0.0062	63.51	10,200
BANK JULIUS BAER AND CO.LTD.	0.0248	14.88	600
BANK OF AMERICA INTL LIMI	0.3754	119.37	318
BANQUE NATIONALE DE PARIS, LON	0.0215	1,796.00	83,518
BARING SECURITIES (HONG KONG)	0.0136	203.31	15,000
BARRINGTON RESEARCH ASSOC	0.0543	727.00	13,400
BEAR STEARNS + CO INC	0.0470	44,559.00	948,600
BEAR STEARNS SECURITIES CORP	0.0473	20,283.38	428,650
BLAYLOCK + PARTNERS L P	0.0500	185.00	3,700
BLAYLOCK PARTNERS	0.0500	1,197.50	23,950
BNY BROKERAGE INC	0.0018	7,421.49	4,143,100
BNY CLEARING SERVICES LLC	0.0500	1,690.00	33,800
BNY CLEARING SERVICES LLC (BNY)	0.0476	2,486.00	52,200
BNYESI TRANSITION MANAGEMENT	0.0500	2,415.00	48,300
BREAN MURRAY	0.0500	80.00	1,600
BRIDGE TRADING	0.0506	14,448.60	285,560
BROADCORTCAPITAL (THRU ML)	0.0497	65,505.85	1,317,157
BTN RESEARCH	0.0500	345.00	6,900
B-TRADE SERVICES LLC	0.0218	12,331.56	565,928
BUCKINGHAM RESEARCH GROUP	0.0568	1,642.00	28,900
C. L. GLAZER & COMPANY, INC.	0.0500	300.00	6,000
C.E. UNTERBERG, TOBIN	0.0496	2,502.00	50,400
C.L. KING 7 ASSOCIATES, INC	0.0528	4,462.00	84,500
CANADIAN IMPERIAL BANK OF COMMERCE	0.0348	583.84	16,800

Broker Name	Commissions Per Share	Total Commission	Shares/Par Value
CANTOR FITZ EUR 2	0.0136	46.26	3,400
CANTOR FITZGERALD + CO.	0.0395	26,119.10	661,529
CAPITAL INSTITUTIONAL SERVICES	0.0493	434.00	8,800
CARIS + COMPANY	0.0400	2,956.00	73,900
CARLIN EQUITIES	0.0500	285.00	5,700
CARNEGIE INT'L LND	0.0766	390.47	5,100
CAZENOVE + CO	0.0017	2,101.61	1,206,003
CAZENOVE INCORPORATED	0.2088	141.78	679
CHARLES SCHWAB CO INC	0.0451	19,020.73	421,548
CI NORDICSECURITIES AB	0.0231	13.88	600
CIBC WORLD MARKETS CORP	0.0434	60,328.83	1,391,625
CITATION GROUP	0.0487	51,000.50	1,047,150
CITIBANK,N.A.	0.0500	45.00	900
CITIGROUPGLOBAL MARKETS ASIA LIMITED	0.0013	801.30	624,000
CITIGROUPGLOBAL MARKETS AUSTRALIA PTR	0.0210	735.77	35,000
CITIGROUPGLOBAL MARKETS INC	0.0450	21,176.58	471,025
CITIGROUPGLOBAL MARKETS LIMITED	0.0657	315.47	4,799
CJS SECURITIES	0.0550	842.00	15,300
COLLINS STEWART + CO	0.0110	91.91	8,373
COMMERCE CAPITAL MARKETS	0.0500	580.00	11,600
CREDIT AGRICOLE INDOSUEZ CHEUVREUX	0.0338	6,542.08	193,800
CREDIT LYONNAIS HONGKONG	0.0184	699.76	38,000
CREDIT LYONNAIS SECS	0.0994	129.18	1,300
CREDIT LYONNAIS SECURITIES	0.0281	140.30	5,000
CREDIT LYONNAIS SECURITIES(ASIA)	0.0099	718.11	72,500
CREDIT SUISSE FIRST BOSTON	0.0114	308.48	27,000
CREDIT SUISSE FIRST BOSTON CORPORATION	0.0464	118,145.82	2,544,850
CREDIT SUISSE FIRST BOSTON EQUITIES (EUR)	0.0140	9,478.18	676,432
CREDIT SUISSE FST BOSTON SINGAPORE	0.0227	567.74	25,000
CREDIT USA	0.0434	316.50	7,300
CS FIRST BOSTON (HONG KONG) LIMITED	0.0117	2,835.75	242,729
CSFB AUSTRALIA EQUITIES LTD	0.0059	955.33	161,465
CSFB EQUITIES 1 CABOT SQUARE	0.0040	2,767.65	690,082
DAIWA SBCM EUROPE	0.0174	1,025.34	58,926
DAVIDSON D.A. + COMPANY INC.	0.0565	588.00	10,400
DAVY (J+E)	0.0262	2,401.22	91,779
DEUTSCHE BANK AG LONDON	0.0121	10,353.40	855,732
DEUTSCHE BANK SECURITIES INC	0.0453	40,234.05	887,981
DEUTSCHE BANK SECURITIES, INC	0.0170	1,848.71	108,900
DEUTSCHE MORGAN GRENPELL SECS	0.0149	626.33	42,119
DEUTSCHE SECURITIES ASIA LIMITED	0.0248	762.31	30,700
DONALDSON, LUFKIN & JENRETTE SECURITIES	0.0501	37,930.75	757,375
DONALDSON, LUFKIN + JENRETTE SECS	0.0500	37,100.00	742,000
DONALDSONLUFKIN + JENRETTE SEC CORP	0.0500	2,206.30	44,126
EDWARDS AG SONS INC	0.0450	2,316.00	51,500
ENSKILDA SECURITIES AB	0.0385	1,367.28	35,500
EXANE S.A.	0.0853	1,602.96	18,800
FACTSET DATA SYSTEMS (THRU BEAR STEARNS)	0.0522	7,923.00	151,700
FAHNESTOCK & COMPANY, INC.	0.0500	510.00	10,200
FIRST ALBANY CORP.	0.0454	16,707.00	367,700

Broker Name	<u>Commissions Per Share</u>	<u>Total Commission</u>	<u>Shares/Par Value</u>
FIRST ANALYSIS SECURITIES CORP	0.0500	2,730.00	54,600
FIRST CLEARING CORP	0.0500	965.00	19,300
FIRST TENNESSEE SECURITIES CORP	0.0508	3,302.00	65,000
FIRST UNION CAPITAL MARKETS	0.0445	26,636.40	598,060
FIRST UNION SECURITIES INC	0.0500	5,880.00	117,600
FOX PITT KELTON INC	0.0506	2,937.00	58,000
FREIMARK BLAIR + COMPANY, INC.	0.0500	1,445.00	28,900
FRIEDMAN BILLINGS + RAMSEY	0.0459	6,181.80	134,660
GERARD KLAUER MATTISON + CO	0.0465	7,003.00	150,500
GOLDMAN SACHS + CO	0.0420	195,909.47	4,667,949
GOLDMAN SACHS INTERNATIONAL LONDON	0.0143	11,540.76	807,003
GOLDSMITH& HARRIS (THRU BEAR STEARNS)	0.0500	685.00	13,700
GOODBODY STOCKBROKERS	0.0198	1,497.88	75,494
GREEN STREET ADVISORS INCORPORATED	0.0501	341.00	6,800
HENDERSONCROSTHWAITE LIMITED	0.0076	33.37	4,400
HIBERNIA SOUTHCOAST CAPITAL INC	0.0406	780.00	19,200
HOEFER + ARNETT	0.0500	635.00	12,700
HOENIG + COMPANY INC	0.0507	1,364.00	26,900
HOWARD WEIL DIVISION LEGG MASON	0.0537	1,980.00	36,900
HSBC BANKPLC	0.0636	448.40	7,045
HSBC INVESTMENT BANK PLC	0.0183	1,665.56	91,141
HSBC SECURITIES(ASIA)LIMITED	0.0083	1,769.99	213,079
ING BANK N V	0.0314	421.31	13,400
ING BARINGS CORP	0.0178	607.32	34,100
INGALLS SNYDER	0.0500	595.00	11,900
INSTINET	0.0411	35,416.61	860,745
INSTINET CLEARING SERVICES INC	0.0360	180.06	5,002
INVESTEC ERNST & COMPANY	0.0487	3,271.00	67,200
INVESTMENT TECHNOLOGY GROUP	0.0138	15.18	1,100
INVESTMENT TECHNOLOGY GROUP INC.	0.0221	101,095.23	4,572,289
ISI GROUPINC	0.0563	1,323.00	23,500
J B WERE AND SON	0.0123	1,900.15	155,076
J P MORGAN SECURITIES INC	0.0193	62,980.23	3,267,182
JANNEY MONTGOMERY, SCOTT INC	0.0408	4,864.75	119,275
JB WERE AND SON (NZ) LTD	0.0058	51.38	8,900
JEFFERIESCOMPANY INC	0.0410	79,624.53	1,943,831
JMP SECURITIES	0.0500	615.00	12,300
JOHNSON RICE + CO	0.0525	851.00	16,200
JONES & ASSOCIATES INC	0.0423	13,357.62	316,081
JONES + ASSOCIATES	0.0484	2,523.00	52,100
JP MORGANSECURITIES ASIA LTD	0.3552	809.87	2,280
JP MORGANSECURITIES AUSTRALIA LTD	0.0059	491.03	83,843
JP MORGANSECURITIES INC	0.0132	935.71	70,900
JP MORGANSECURITIES LIMITED	0.0121	3,404.43	282,163
JULIUS BAER FRANCE	0.1070	307.69	2,875
JULIUS BAER NEDERLAND	0.0166	384.20	23,100
JULIUS BAER SECURITIES	0.0251	42.59	1,700
JULIUS BAER/BANK JULIUS BAER	0.0082	10.72	1,300
KEEFE BRUYETTE + WOODS INC	0.0520	11,359.00	218,620
KLEINWORTBENSON SECURITIES LIMITED	0.0095	7,725.93	809,043

Broker Name	<u>Commissions Per Share</u>	<u>Total Commission</u>	<u>Shares/Par Value</u>
KNIGHT SECURITIES	0.0433	3,445.00	79,500
LA BRANCHE FINANCIAL #2	0.0300	1,293.00	43,100
LA BRANCHE FINANCIAL SERVICES INC	0.0300	1,374.00	45,800
LADENBURGTHALMAN + CO	0.0456	3,984.00	87,300
LAZARD FRERES & CO.	0.0490	1,220.00	24,900
LEERINK SWANN AND COMPANY	0.0500	12,260.00	245,200
LEGG MASON WOOD WALKER INC	0.0517	7,100.00	137,200
LEHMAN BROTHERS INC	0.0416	88,040.84	2,117,684
LEHMAN BROTHERS INTERNATIONAL (EUROPE)	0.0056	26,559.09	4,718,302
LEHMAN BROTHERS SECS (ASIA)	0.0134	1,575.19	117,688
LEVESQUE BEAUBIEN GEOFFRION INC	0.0321	128.58	4,000
LIQUIDNETINC	0.0253	10,344.00	408,200
LOOP CAPITAL MKTS LLC]	0.0500	1,175.00	23,500
M M WARBURG	0.0424	1,228.62	29,000
M RAMSEY KING SECURITIES INC	0.0419	1,052.00	25,100
MAINFIRSTBANK DE	0.0701	1,758.36	25,100
MCDONALD AND COMPANY SECURITIES, INC	0.0360	7,368.00	204,900
MERRILL LYNCH + CO INC	0.0148	3,392.93	229,633
MERRILL LYNCH EQUITIES (AUSTRALIA)	0.0067	897.99	134,500
MERRILL LYNCH EQUITIES (SYDNEY)	0.0125	419.82	33,600
MERRILL LYNCH INTERNATIONAL	0.0061	8,567.19	1,415,253
MERRILL LYNCH PEIRCE, FENNER AND S	0.0098	1,194.05	122,155
MERRILL LYNCH PIERCE FENNER + SMITH	0.0489	48,653.80	995,300
MERRILL LYNCH PROFESSIONAL CLEARING CORP	0.0487	47,787.00	981,300
MERRION CAPITAL GROUP	0.0251	595.44	23,700
MIDWEST RESEARCH SECURITIES	0.0502	7,323.00	145,900
MIDWOOD SECURITIES	0.0500	650.00	13,000
MILLER TABAK + COMPANY, LLC	0.0500	5,590.00	111,800
MOORS + CABOT INC	0.0500	1,750.00	35,000
MORGAN GRENFELL AND CO LIMITED	0.0085	3,504.18	414,529
MORGAN GRENFELL AND CO LIMITED	0.0086	2,119.99	246,658
MORGAN KEEGAN & CO INC	0.0487	3,182.00	65,400
MORGAN STANLEY AND CO INTERNATIONAL	0.2669	966.03	3,620
MORGAN STANLEY AND CO. INTERNATIONAL	0.0342	13,688.66	400,249
MORGAN STANLEY ASIA LTD	0.0054	410.72	76,000
MORGAN STANLEY CO INCORPORATED	0.0327	66,572.23	2,037,914
MORGAN STANLEY SECURITIES LIMITED	0.0050	240.41	47,610
NATIONAL FINANCIAL SERVICES CORP.	0.0500	455.00	9,100
NBCN CLEARING INC.	0.0523	685.00	13,100
NCB STOCKBROKERS LTD	0.0255	1,858.75	72,940
NEEDHAM +COMPANY	0.0476	17,106.39	359,071
NESBITT BURNS	0.0292	3,172.76	108,700
NEUBERGERAND BERMAN	0.0393	2,573.00	65,500
NOMURA SECURITIES INTERNATIONAL INC	0.0126	3,044.59	241,361
NORDEA BANK DENMARK A/S	0.0269	67.19	2,500
NUTMEG SECURITIES	0.0412	589.00	14,300
O NEIL, WILLIAM AND CO. INC/BCC CLRG	0.0300	1,725.00	57,500
PACIFIC CREST SECURITIES	0.0455	5,875.00	129,100
PACIFIC GROWTH EQUITIES	0.0500	1,205.00	24,100
PANMURE GORDON & CO LTD	0.0077	12.25	1,600

Broker Name	Commissions Per Share	Total Commission	Shares/Par Value
PARIBAS	0.0698	2,905.53	41,646
PERSHING	0.0500	205.00	4,100
PERSHING DIV OF DLJ	0.0500	11,525.00	230,500
PERSHING LLC	0.0500	36,800.00	736,000
POLCARI/WEICKER DIV OF GARBAN CORP	0.0500	2,895.00	57,900
PRUDENTIAL SECURITIES INC.	0.0491	40,893.25	832,905
PULSE TRADING LLC	0.0500	230.00	4,600
PUNK ZIEGEL AND KNOLL	0.0357	75.00	2,100
PUTNAM LOVELL SECURITIES INC	0.0600	966.00	16,100
RABO SECURITIES NV	0.0348	149.69	4,300
RAIDA STOCKBROKERS	0.0244	431.28	17,665
RAYMOND JAMES AND ASSOCIATES INC	0.0471	11,300.25	240,125
RBC DAIN RAUSCHER INC	0.0484	9,620.00	198,700
RBC DOMINION SECURITIES	0.0377	1,524.68	40,400
ROBBINS AND HENDERSON	0.0500	3,405.00	68,100
ROBERT VAN SECURTIES	0.0500	45.00	900
ROBERTSONSTEPHENS, INC.	0.0500	1,410.00	28,200
ROCHDALE SEC CORP.(CLS THRU 443)	0.0500	420.00	8,400
RUSSELL FRANK SECURITIES INC	0.0500	5,335.00	106,700
RYAN BECK+ CO	0.0463	227.00	4,900
SALOMON BROS HONG KONG	0.0105	1,486.42	141,800
SALOMON BROTHERS INC, NY	0.0193	11,874.04	615,586
SALOMON BROTHERS INTERNATIONAL	0.0144	2,912.80	202,810
SALOMON SMITH BARNEY INC	0.0460	45,711.78	992,974
SALOMON SMITH BARNEY NZ	0.0063	184.87	29,400
SANDERS MORRIS MUNDY	0.0500	90.00	1,800
SANDLER ONEILL + PART LP	0.0399	2,343.50	58,790
SANFORD CBERNSTEIN CO LLC	0.0495	14,080.00	284,400
SANTANDERCENTRAL HISPANO BOLSA	0.0237	42.72	1,800
SCOTIA CAPITAL (USA) INC	0.0265	3,422.83	129,200
SCOTT & STRINGFELLOW, INC	0.0478	1,362.00	28,500
SG COWEN SECURITIES CORP	0.0497	13,695.75	275,615
SG SECURITIES (LONDON)LTD	0.0541	178.48	3,300
SHIELD + COMPANY	0.0600	126.00	2,100
SIDOTI + CO	0.0363	2,009.00	55,300
SIMMONS +COMPANY INTERNATIONAL	0.0573	905.00	15,800
SOUTHWESTSECURITIES	0.0500	35.00	700
SPEAR, LEEDS & KELLOGG	0.0431	19,214.97	446,298
SPEAR, LEEDS & KELLOGG CAPITAL MARKETS	0.0388	8,178.00	210,900
STANDARD + POORS SECURITIES INC	0.0505	5,644.00	111,700
STATE STREET BANK + TR CO	0.0518	48,620.70	938,234
STATE STREET BROKERAGE SERVICES	0.0362	4,735.00	130,700
STEPHENS,INC.	0.0489	4,930.00	100,900
STIFEL NICOLAUS & CO INC	0.0500	520.00	10,400
STUART FRANKEL + CO	0.0300	780.00	26,000
SUN	0.0600	258.00	4,300
SUNTRUST CAPITAL MARKETS INC	0.0500	1,527.50	30,550
SUNTRUST CAPITAL MARKETS, INC.	0.0442	1,181.00	26,700
SVENSKA HANDELSBANKEN LONDON BRANCH	0.0380	315.31	8,300
THEMIS TRADING LLC	0.0320	8,426.21	263,707

Broker Name	<u>Commissions Per Share</u>	<u>Total Commission</u>	<u>Shares/Par Value</u>
THOMAS WEISEL PARTNERS	0.0494	26,096.00	528,700
THOMASON INSTITUTIONAL SERVICES, INC	0.0586	1,575.00	26,900
TORONTO DOMINION SECURITIES INC	0.0359	340.67	9,500
U S BANCORP PIPER JAFFRAY INC	0.0482	29,074.56	603,752
U S CLEARING INSTITUTIONAL TRADING	0.0600	732.00	12,200
U.S. CLEARING CORPORATION	0.0500	85.00	1,700
UBS AG	0.0186	14,004.71	753,180
UBS AG LONDON	0.0074	2,678.85	360,990
UBS BUNTING WARBURG INC., TORO	0.0418	230.13	5,500
UBS FINANCIAL SERVICES INC	0.0075	9,471.80	1,260,800
UBS PAINWEBBER INC	0.0046	22,412.50	4,883,700
UBS WARBURG LLC	0.0480	46,195.24	962,000
VANDHAM SECURITIES CORP	0.0503	3,952.00	78,600
VERITAS SECURITIES	0.0250	3,720.00	148,800
WACHOVIA SECURITIES INC	0.0500	550.00	11,000
WACHOVIA SECURITIES LLC (PRUDENTIAL SECURITIES)	0.0500	2,315.00	46,300
WACHOVIA SECURITIES, LLC	0.0500	3,130.00	62,600
WARBURG DILLION READ (ASIA) LTD	0.0087	7,432.36	857,894
WARBURG DILLON READ SECURITIES LTD	0.8797	615.78	700
WAVE SECURITIES LLC	0.0200	456.00	22,800
WEDBUSH MORGAN SECURITIES INC	0.0486	8,396.00	172,700
WEEDEN + CO.	0.0492	24,755.10	502,742
WELLS FARGO SECURITIES LLC	0.0516	1,802.00	34,900
WELLS FARGO VAN KASPER LLC	0.0500	735.00	14,700
WILLIAM BLAIR & COMPANY, L.L.C	0.0500	2,879.80	57,596
WIT SOUNDVIEW CORP	0.0477	18,644.00	391,200
TOTAL		\$ 2,427,572.47	84,550,199

Actuarial Section

MERCER

Human Resource Consulting

111 SW Fifth Avenue, Suite 2800
Portland, OR 97204-3693
503 273 5900 Fax 503 273 5999
www.mercerHR.com

November 11, 2003

Board of Retirement
Sacramento County Employees' Retirement System
980 9th Street, Suite 1800
Sacramento, CA 95814-2738

Subject:

**Actuarial Valuation for the Sacramento County Employees'
Retirement System**

Dear Members of the Board:

We are pleased to present the actuarial valuation for the Sacramento County Employees' Retirement System prepared as of June 30, 2003, by Mercer Human Resource Consulting. The report includes:

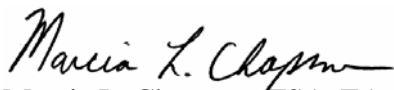
1. A determination of the recommended employer contribution rates. These rates are calculated to be effective July 1, 2004;
2. A determination of the recommended member contribution rates, also to be effective on July 1, 2004;
3. A determination of the funded status as of June 30, 2003; and
4. Financial reporting and disclosure information pursuant to applicable accounting standards.

This report incorporates the impact on funding status and contribution rates of the Retirement Board's expansion of the pay items includable in Earnable Compensation in response to the 1997 California Supreme Court decision in the *Ventura County Deputy Sheriff's System v. Board of Retirement, Ventura County Employees' Retirement System*. This report does not incorporate the settlement of the Ventura Litigation that is anticipated to be settled January 31, 2004. The settlement will include a retrospective lump sum amount and a prospective increase in the monthly allowance. The settlement, if finalized during the 2003/2004 plan year, will be incorporated in the next actuarial valuation.

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

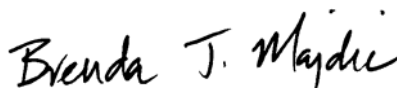
We look forward to presenting this report to the Board in the November meeting.

Sincerely,



Marcia L. Chapman, FSA, EA, MAAA

BJM/MLC/mlc/bjm/bjo:gjw



Brenda J. Majdic, ASA, EA, MAAA

MERCER

Human Resource Consulting

Actuarial Certification

The annual actuarial valuation required for the Sacramento County Employees' Retirement System has been prepared as of June 30, 2003, by Mercer Human Resource Consulting, Inc. In preparing this valuation, we have employed generally accepted actuarial methods and assumptions to determine a sound value for the System's assets, liability and future contribution requirements. Our calculations are based upon member data and unaudited financial information provided to us by the System's staff. This data has not been audited by us, but it has been reviewed and found to be consistent, both internally and with prior years' data.

The contribution requirements are determined as a percentage of payroll. The primary funding objective of the System is to determine employer rates required to provide for both normal cost and a contribution to amortize the unfunded actuarial accrued liability. The amortization period for the unfunded actuarial accrued liability is 19 years as of June 30, 2003. Also included in this report are the rates assuming a 30-year amortization period. The contribution to the unfunded actuarial accrued liability is calculated to remain level as a percentage of future payroll (including projected payroll for future members). The dollar amount of payments (credits) will increase with payroll at a rate of 4.25 percent per year. The period for amortizing the unfunded actuarial accrued liability is set by the Board of Retirement.

The County issued Pension Obligation Bonds on July 5, 1995, to fully fund its unfunded actuarial accrued liability calculated as of June 30, 1994. Districts did not participate in the bond issue, so they are required to contribute at a higher level.

Contribution levels are recommended by the Actuary and adopted by the Board each year. The ratio of Actuarial Value of Assets to Actuarial Accrued Liabilities decreased from 107.1 percent to 94.1 percent during the year.

The results in this valuation were based on our recommended interest and inflation assumptions of 8.00 percent and 3.00 percent developed in this report. Other important assumptions included the demographic and salary increase assumptions adopted by the Board in the last triennial experience study as of June 30, 2001.

In our opinion, the combined operation of the assumptions and methods applied in this valuation fairly represent past and anticipated future experience of the System and meet the parameters required by GASB Statement 25.

Future contribution requirements may differ from those determined in the valuation because of:

1. Differences between actual experience and anticipated experience;
2. Changes in actuarial assumptions or methods;
3. Changes in statutory provisions; and
4. Differences between the contribution rates determined by the valuation and those adopted by the Board.

MERCER

Human Resource Consulting

Section 1: Actuarial Certification (*continued*)

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

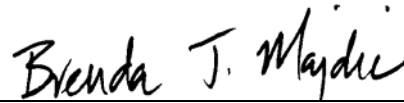
Mercer Human Resource Consulting



Marcia L. Chapman, FSA, EA,
MAAA

November 11, 2003

Date



Brenda J. Majdic, ASA, EA, MAAA

November 11, 2003

Date

Summary of Actuarial Assumptions and Methods

The following assumptions were recommended by the actuary and have been adopted by the Board for the June 30, 2003 valuations.

Assumption:

Valuation Interest Rate & Rate of Return on Investment	8.00%
Inflation Assumption	3.00%
Cost of Living Adjustment	3.50% for Miscellaneous and Safety Tier 1 members 0.00% for Miscellaneous Tier 2 members 2.00% for Miscellaneous Tier 3 and Safety Tier 2 members
Interest Rate Credited to Active member accounts	8.00%

Post-Retirement Mortality

(a) Service

Males - 1994 Male Group Annuity Mortality Table set back two years

Females - 1994 Female Group Annuity Mortality Table with no set back

Safety - 1994 Male Group Annuity Mortality Table with no set back

(b) Disability

Miscellaneous - 1981 General Disability Mortality Table with no set back

Safety - 1981 Safety Disability Mortality Table set back one year

(c) For Employee Contribution Rate Purposes

Miscellaneous - 1994 Male Group Annuity Mortality Table with a three year set back

Safety - 1994 Male Group Annuity Mortality Table with no set back

Pre-Retirement Mortality	Based upon the 6/30/2001 Experience Analysis
Withdrawal Rates	Based upon the 6/30/2001 Experience Analysis
Disability Rates	Based upon the 6/30/2001 Experience Analysis
Service Retirement Rates	Based upon the 6/30/2001 Experience Analysis
Salary Scales	Total increases of 5.75% per year reflecting 4.25% for wage inflation and approximately 1.50% for merit and longevity
Assets	Valued at Five Year Smoothed Fair Value
Percentage of Members Married at Retirement	70% for male members and 50% for female members
Terminated Members Eligible for Reciprocal Benefits	60%

Funding Method and Amortization of Actuarial Gains or Losses

The County's liability is being funded on the Entry Age Normal Method. The amortization period for the Unfunded Actuarial Accrued Liability is 19 years from the June 30, 2003 valuation date.

Summary of Plan Provisions

Briefly summarized below are the major provisions of the County Employees Retirement Law of 1937, as amended through June 30, 2003 that are applicable to Sacramento County Employees' Retirement System.

Membership

Miscellaneous employees entering after September 27, 1981 become members of Tier 2 or Tier 3. Safety members entering after June 24, 1995 become members of Tier 2. All others are covered by Tier 1 provisions.

Final Average Salary (FAS)

Final average salary is defined as the highest 12 consecutive months of compensation earnable for Tier 1 and highest 36 consecutive months for Tier 2 and Tier 3.

Return of Contributions

If a member should resign or die before becoming eligible for retirement, his or her contributions plus interest will be refunded. In lieu of receiving a return of contributions, a member with five or more years of service may elect to leave his or her contributions on deposit and receive a deferred vested benefit when eligible for retirement.

Service Retirement Benefit

Members with 10 years of service who have attained the age of 50 are eligible to retire. Members with 30 years of service (20 years for Safety), regardless of age, are eligible to retire.

The benefit expressed as a percentage of monthly FAS per year of service, depending on age at retirement, is illustrated below for typical ages. For members whose benefit is integrated with Social Security, the benefit is reduced by one-third of the percentage shown below times the first \$350 of monthly FAS per year of service after January 1, 1956.

Age	Miscellaneous	Safety
50	1.48%	3.00%
55	1.95%	3.00%
60	2.44%	3.00%
65 and over	2.61%	3.00%

Disability Benefit

Members with five years of service, regardless of age, are eligible for non-service connected disability.

For Miscellaneous Tier 1 members, the benefit is 1.5% (1.8% for Safety Tier 1 members) of FAS for each year of service. If this benefit does not equal one-third of FAS, the benefit is increased by the same percentage of FAS for the years which would have been credited to age 65 (age 55 for Safety members), but the total benefit in this case cannot be more than one-third of FAS.

For Tier 2 and Tier 3 members, the benefit is 20% of FAS for the first five years of service plus 2% for each additional year for a maximum of 40% of FAS.

If the disability is service connected, the member may retire regardless of length of service, with a benefit of 50% of FAS.

Death Benefit (Before Retirement)

In addition to the return of contributions, a death benefit is payable to the member's beneficiary or estate equal to one month's salary for each completed year of service under the retirement system, based on the final year's average salary, but not to exceed six (6) months' salary.

If a member dies while eligible for service retirement or non-service connected disability, the spouse receives 60% of the allowance that the member would have received for retirement on the day of his or her death.

If a member dies in the performance of duty, the spouse receives 50% of the member's final average salary.

Death Benefit (After Retirement)

If a member dies after retirement, a \$4,000 lump burial allowance is paid to the beneficiary or estate.

If the retirement was for service connected disability, 100% of the member's allowance as it was at death is continued to the surviving spouse for life.

If the retirement was for other than service connected disability and the member elected the unmodified option, 60% of the member's allowance is continued to the spouse for life.

Maximum Benefit

The maximum benefit payable to a member or beneficiary is 100% of FAS.

Cost-of-Living

The maximum increase in retirement allowance is 4% per year for Miscellaneous and Safety Tier 1 members, 2% for Safety Tier 2 members and, effective April 1, 1993, 2% for Miscellaneous Tier 3 members. Miscellaneous Tier 2 members have no cost-of-living benefit. The cost-of-living increases are based on the change in the Consumer Price Index for the calendar year prior to the April 1 effective date.

Contribution Rates

Basic member contribution rates are based on the age nearest birthday at entry into the System (single rate for entrants after January 1, 1975). The rates are such as to provide an average annuity at age 55 equal to 1/240 of FAS for Miscellaneous members and at age 50 equal to 1/100 of FAS for Safety members. For members integrated with Social Security, the above contributions are reduced by one-third of that portion of such contribution payable with respect to the first \$350 of monthly salary. Cost-of-living rates are designed to pay for one quarter of the future cost of living costs. Member contributions are refundable upon termination from the System.

The Employer rates are actuarially determined to provide for the balance of the contributions needed to fund the benefits promised under the Retirement System.

Schedule of Active Member Valuation Data

Valuation Date	Plan Type	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay *
6/30/98	Miscellaneous	8,866	\$ 367,781,000	\$ 41,482	9.60%
	Safety	1,935	102,604,000	53,025	8.81%
	Total	10,801	\$ 470,385,000	\$ 43,550	9.50%
6/30/99	Miscellaneous	9,350	\$ 400,287,000	\$ 42,811	3.20%
	Safety	2,004	102,038,000	50,917	-3.98%
	Total	11,354	\$ 502,325,000	\$ 44,242	1.59%
6/30/00	Miscellaneous	10,217	\$441,118,000	\$ 43,175	0.85%
	Safety	2,018	117,930,000	58,439	14.77%
	Total	12,235	\$559,048,000	\$ 45,693	3.28%
6/30/01	Miscellaneous	10,781	\$498,408,000	\$ 46,230	7.08%
	Safety	2,210	136,390,000	61,715	5.61%
	Total	12,991	\$634,798,000	\$ 48,864	6.94%
6/30/02	Miscellaneous	11,618	\$542,877,000	\$ 46,727	1.08%
	Safety	2,415	152,382,000	63,098	2.24%
	Total	14,033	\$695,259,000	\$ 49,545	1.39%
6/30/03	Miscellaneous	11,696	\$577,810,000	\$ 49,403	5.73%
	Safety	2,437	155,486,000	63,802	1.12%
	Total	14,133	\$733,296,000	\$ 51,885	4.72%

* Reflects the increase in average salary for members at the beginning of the year versus those at the end of the year, it does not reflect the average salary increases received by members who worked the full year.

Retirees and Beneficiaries Added to and Removed from Retiree Payroll

Plan Year Ending	At Beginning of Year	Added During Year	Removed During Year	At End of Year	Annual Retiree Payroll (In Thousands)	Payroll Added During Year	Payroll Removed During Year	% Increase In Annual Retiree Payroll	Average Annual Allowance
6/30/1998	4,646	394	156	4,884	\$78,762	N/A	N/A	11.38%	\$16,127
6/30/1999	4,884	573	154	5,303	85,698	N/A	N/A	8.81	16,160
6/30/2000	5,303	377	192	5,488	91,391	N/A	N/A	6.64	16,653
6/30/2001	5,488	205	167	5,526	98,600	9,576	2,367	7.89	17,843
6/30/2002	5,526	438	222	5,742	108,538	12,623	2,685	10.08	18,762
6/30/2003	5,742	321	181	5,882	115,819	9,439	2,158	6.71	19,690

N/A – Not Available
Participants are counted once for each benefit received.

Schedule of Funding Progress (in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (i) (a)	Actuarial Accrued of Liability (AAL) – Entry Age (ii) (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
6/30/1998	\$2,600,547	\$2,409,642	(\$190,905)	107.9%	\$470,385	(40.6)%
6/30/1999	3,017,639	2,734,548	(283,091)	110.4	502,325	(56.4)
6/30/2000	3,427,348	3,111,760	(315,588)	110.1	559,047	(56.5)
6/30/2001	3,718,198	3,451,864	(266,334)	107.7	634,798	(42.0)
6/30/2002	3,839,081	3,586,250	(252,831)	107.1	695,259	(36.4)
6/30/2003	3,864,400	4,108,294	243,894	94.1	733,296	33.3

(i) Excludes accounts payable.

(ii) Includes reserve for interest fluctuations, retiree health benefit reserve, retiree death benefit reserve, and amount over reserved benefits.

Solvency Tests (in thousands)

Valuation Date	Active Member Contributions	Retired/Vested Members	Active Members (Employer Financed Portion)	Total	Actuarial Value of Assets	Active Member Contributions	Retired/Vested Members	Active Members (Employer Financed Portion)
06/30/98	\$285,779	\$1,043,514	\$1,080,349	\$2,409,642	\$2,600,547	100%	100%	100%
06/30/99	303,957	1,122,054	1,308,537	2,734,548	3,017,639	100	100	100
06/30/00	322,134	1,239,894	1,549,732	3,111,760	3,427,348	100	100	100
06/30/01	393,924	1,323,405	1,734,535	3,451,864	3,718,198	100	100	100
06/30/02	370,625	1,427,334	1,788,291	3,586,250	3,839,081	100	100	100
06/30/03	252,998	1,599,899	2,255,397	4,108,294	3,864,400	100	100	89

Events affecting year to year comparability:

06/30/98 – Salary increase assumption increased from 5.5% to 5.55%. Modification in non-economic assumptions.

Liability as a result of Ventura Court decision was included.

06/30/99 – No change in assumptions.

06/30/00 – No change in assumptions.

06/30/01 – Salary increase assumption increased from 5.55% to 5.75%. Modification in non-economic assumptions.

06/30/02 – No change in assumptions.

06/30/03 – Increased enhanced benefits under Sections 31676.14 and 31664.1 and ad hoc COLA increase under Section 31681.55.

Inflation assumption decreased from 4.25% to 3%.

Actuarial Analysis of Financial Experience (in millions)

	Plan Years Ended June 30,					
	2003	2002	2001	2000	1999	1998
Prior Valuation Unfunded Actuarial Accrued Liability	(\$253)	(\$266)	(\$316)	(\$283)	(\$191)	(\$12)
Salary Increase Greater (Less) than Expected	2	5	50	46	(93)	(29)
Asset Return Less (Greater) than Expected	(13)	(8)	(3)	(6)	(11)	(205)
Plan Improvements	460	-	-	-	(18)	-
Other Experience	92	16	(18)	(2)	-	55
Liability from Ventura Court Decision	-	-	-	-	-	95
Economic and Non-Economic Assumption Changes	(44)	-	21	-	-	21
Data Corrections	-	-	-	-	30 *	-
Transfer from Excess Earnings	-	-	-	(71)	-	(116)
Ending Unfunded Actuarial Accrued Liability	244	(\$253)	(\$266)	(\$316)	(\$283)	(\$191)

* Includes \$24 million in Recognition of Sick Leave Service in Valuation and \$6 million in Loss from Retirements.

NEW PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT

MISCELLANEOUS TIER 1 MALE MEMBERS

Age	SVC RET	WITH (0<SVC<1)	WITH (1<SVC<2)	WITH (2<SVC<3)	WITH (3<SVC<4)	WITH (4<SVC<5)	WITH (SVC>5)	TERM <u>Vested</u>	Ordinary <u>Disab.</u>	Duty <u>Disab.</u>	Ordinary <u>Death</u>	Duty <u>Death</u>
<=20	0.0000	0.1040	0.1040	0.1040	0.1040	0.1040	0.1040	0.0150	0.0000	0.0001	0.0005	0.0001
21	0.0000	0.1010	0.1010	0.1010	0.1010	0.1010	0.0965	0.0150	0.0000	0.0001	0.0005	0.0001
22	0.0000	0.0980	0.0980	0.0980	0.0980	0.0980	0.0891	0.0150	0.0000	0.0001	0.0005	0.0001
23	0.0000	0.0950	0.0950	0.0950	0.0950	0.0950	0.0796	0.0150	0.0000	0.0001	0.0006	0.0001
24	0.0000	0.0920	0.0920	0.0920	0.0920	0.0920	0.0705	0.0150	0.0000	0.0001	0.0006	0.0001
25	0.0000	0.0900	0.0900	0.0900	0.0900	0.0900	0.0618	0.0150	0.0025	0.0001	0.0006	0.0001
26	0.0000	0.0850	0.0850	0.0850	0.0850	0.0850	0.0534	0.0150	0.0025	0.0001	0.0007	0.0001
27	0.0000	0.0800	0.0800	0.0800	0.0800	0.0800	0.0454	0.0150	0.0025	0.0001	0.0007	0.0001
28	0.0000	0.0750	0.0750	0.0750	0.0750	0.0750	0.0399	0.0150	0.0025	0.0001	0.0007	0.0001
29	0.0000	0.0700	0.0700	0.0700	0.0700	0.0700	0.0340	0.0150	0.0025	0.0001	0.0008	0.0001
30	0.0000	0.0660	0.0660	0.0660	0.0660	0.0660	0.0343	0.0150	0.0025	0.0001	0.0008	0.0001
31	0.0000	0.0620	0.0620	0.0620	0.0620	0.0620	0.0347	0.0150	0.0025	0.0001	0.0008	0.0001
32	0.0000	0.0570	0.0570	0.0570	0.0570	0.0570	0.0351	0.0150	0.0025	0.0001	0.0009	0.0001
33	0.0000	0.0530	0.0530	0.0530	0.0530	0.0530	0.0354	0.0150	0.0025	0.0001	0.0009	0.0001
34	0.0000	0.0480	0.0480	0.0480	0.0480	0.0480	0.0358	0.0150	0.0025	0.0001	0.0009	0.0001
35	0.0000	0.0460	0.0460	0.0460	0.0460	0.0460	0.0361	0.0125	0.0025	0.0002	0.0009	0.0001
36	0.0000	0.0440	0.0440	0.0440	0.0440	0.0440	0.0401	0.0125	0.0025	0.0002	0.0009	0.0001
37	0.0000	0.0410	0.0410	0.0410	0.0410	0.0410	0.0425	0.0125	0.0025	0.0003	0.0009	0.0001
38	0.0000	0.0380	0.0380	0.0380	0.0380	0.0380	0.0347	0.0125	0.0025	0.0004	0.0009	0.0001
39	0.0000	0.0350	0.0350	0.0350	0.0350	0.0350	0.0276	0.0125	0.0025	0.0005	0.0010	0.0001
40	0.0000	0.0290	0.0290	0.0290	0.0290	0.0290	0.0206	0.0125	0.0025	0.0006	0.0010	0.0001
41	0.0000	0.0262	0.0262	0.0262	0.0262	0.0262	0.0146	0.0125	0.0025	0.0007	0.0011	0.0001
42	0.0000	0.0235	0.0235	0.0235	0.0235	0.0235	0.0096	0.0125	0.0025	0.0007	0.0012	0.0001
43	0.0000	0.0208	0.0208	0.0208	0.0208	0.0208	0.0074	0.0125	0.0025	0.0009	0.0012	0.0001
44	0.0000	0.0181	0.0181	0.0181	0.0181	0.0181	0.0055	0.0125	0.0025	0.0010	0.0013	0.0001
45	0.0000	0.0166	0.0166	0.0166	0.0166	0.0166	0.0037	0.0108	0.0025	0.0011	0.0015	0.0001
46	0.0000	0.0148	0.0148	0.0148	0.0148	0.0148	0.0035	0.0092	0.0029	0.0013	0.0016	0.0001
47	0.0000	0.0129	0.0129	0.0129	0.0129	0.0129	0.0031	0.0075	0.0034	0.0014	0.0017	0.0001
48	0.0000	0.0111	0.0111	0.0111	0.0111	0.0111	0.0027	0.0058	0.0037	0.0017	0.0019	0.0001
49	0.0000	0.0102	0.0102	0.0102	0.0102	0.0102	0.0024	0.0042	0.0040	0.0020	0.0020	0.0001
50	0.0418	0.0102	0.0102	0.0102	0.0102	0.0102	0.0021	0.0042	0.0045	0.0022	0.0023	0.0001
51	0.0359	0.0097	0.0097	0.0097	0.0097	0.0097	0.0018	0.0042	0.0045	0.0025	0.0025	0.0001
52	0.0230	0.0092	0.0092	0.0092	0.0092	0.0092	0.0016	0.0042	0.0045	0.0028	0.0028	0.0001
53	0.0445	0.0087	0.0087	0.0087	0.0087	0.0087	0.0014	0.0042	0.0045	0.0029	0.0031	0.0001
54	0.0596	0.0082	0.0082	0.0082	0.0082	0.0082	0.0011	0.0042	0.0045	0.0031	0.0035	0.0001
55	0.0840	0.0078	0.0078	0.0078	0.0078	0.0078	0.0000	0.0000	0.0045	0.0033	0.0039	0.0001
56	0.1022	0.0074	0.0074	0.0074	0.0074	0.0074	0.0000	0.0000	0.0045	0.0035	0.0043	0.0001
57	0.1801	0.0069	0.0069	0.0069	0.0069	0.0069	0.0000	0.0000	0.0045	0.0038	0.0048	0.0001
58	0.2501	0.0064	0.0064	0.0064	0.0064	0.0064	0.0000	0.0000	0.0045	0.0041	0.0053	0.0001
59	0.2790	0.0059	0.0059	0.0059	0.0059	0.0059	0.0000	0.0000	0.0045	0.0044	0.0060	0.0001
60	0.3066	0.0055	0.0055	0.0055	0.0055	0.0055	0.0000	0.0000	0.0045	0.0048	0.0068	0.0001
61	0.3379	0.0050	0.0050	0.0050	0.0050	0.0050	0.0000	0.0000	0.0045	0.0053	0.0076	0.0001
62	0.3784	0.0050	0.0050	0.0050	0.0050	0.0050	0.0000	0.0000	0.0045	0.0059	0.0086	0.0001
63	0.3938	0.0045	0.0045	0.0045	0.0045	0.0045	0.0000	0.0000	0.0045	0.0065	0.0097	0.0001
64	0.3979	0.0045	0.0045	0.0045	0.0045	0.0045	0.0000	0.0000	0.0045	0.0071	0.0109	0.0001
65	0.4169	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0045	0.0077	0.0123	0.0001
66	0.4478	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0045	0.0083	0.0139	0.0001
67	0.4788	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0045	0.0090	0.0156	0.0001
68	0.5472	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0045	0.0097	0.0175	0.0001
69	0.6840	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0045	0.0104	0.0194	0.0001
70	1.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

NEW PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT

MISCELLANEOUS TIER 1 FEMALE MEMBERS

Age	SVC RET	WITH (0<SVC<1)	WITH (1<SVC<2)	WITH (2<SVC<3)	WITH (3<SVC<4)	WITH (4<SVC<5)	WITH (SVC>5)	TERM Vested	Ordinary Disab.	Duty Disab.	Ordinary Death	Duty Death
<=20	0.0000	0.1250	0.1250	0.1250	0.1250	0.1250	0.1250	0.0150	0.0000	0.0001	0.0003	0.0000
21	0.0000	0.1150	0.1150	0.1150	0.1150	0.1150	0.1150	0.0150	0.0000	0.0000	0.0003	0.0000
22	0.0000	0.1060	0.1060	0.1060	0.1060	0.1060	0.1060	0.0150	0.0000	0.0000	0.0003	0.0000
23	0.0000	0.0980	0.0980	0.0980	0.0980	0.0980	0.0980	0.0150	0.0000	0.0000	0.0003	0.0000
24	0.0000	0.0930	0.0930	0.0930	0.0930	0.0930	0.0930	0.0150	0.0000	0.0000	0.0003	0.0000
25	0.0000	0.0900	0.0900	0.0900	0.0900	0.0900	0.0858	0.0150	0.0001	0.0001	0.0003	0.0000
26	0.0000	0.0880	0.0880	0.0880	0.0880	0.0880	0.0786	0.0150	0.0001	0.0001	0.0003	0.0000
27	0.0000	0.0860	0.0860	0.0860	0.0860	0.0860	0.0714	0.0150	0.0001	0.0001	0.0003	0.0000
28	0.0000	0.0840	0.0840	0.0840	0.0840	0.0840	0.0614	0.0150	0.0001	0.0001	0.0003	0.0000
29	0.0000	0.0820	0.0820	0.0820	0.0820	0.0820	0.0520	0.0150	0.0001	0.0010	0.0004	0.0000
30	0.0000	0.0759	0.0759	0.0759	0.0759	0.0759	0.0432	0.0150	0.0002	0.0001	0.0004	0.0000
31	0.0000	0.0711	0.0711	0.0711	0.0711	0.0711	0.0351	0.0150	0.0002	0.0001	0.0004	0.0000
32	0.0000	0.0663	0.0663	0.0663	0.0663	0.0663	0.0276	0.0150	0.0002	0.0001	0.0004	0.0000
33	0.0000	0.0615	0.0615	0.0615	0.0615	0.0615	0.0210	0.0150	0.0003	0.0001	0.0005	0.0000
34	0.0000	0.0567	0.0567	0.0567	0.0567	0.0567	0.0149	0.0150	0.0003	0.0001	0.0005	0.0000
35	0.0000	0.0479	0.0479	0.0479	0.0479	0.0479	0.0113	0.0125	0.0002	0.0002	0.0005	0.0000
36	0.0000	0.0452	0.0452	0.0452	0.0452	0.0452	0.0101	0.0125	0.0003	0.0002	0.0006	0.0000
37	0.0000	0.0408	0.0408	0.0408	0.0408	0.0408	0.0086	0.0125	0.0004	0.0002	0.0006	0.0000
38	0.0000	0.0364	0.0364	0.0364	0.0364	0.0364	0.0073	0.0125	0.0004	0.0002	0.0006	0.0000
39	0.0000	0.0328	0.0328	0.0328	0.0328	0.0328	0.0063	0.0125	0.0005	0.0002	0.0007	0.0000
40	0.0000	0.0293	0.0293	0.0293	0.0293	0.0293	0.0065	0.0125	0.0010	0.0002	0.0008	0.0000
41	0.0000	0.0275	0.0275	0.0275	0.0275	0.0275	0.0055	0.0125	0.0014	0.0002	0.0008	0.0000
42	0.0000	0.0258	0.0258	0.0258	0.0258	0.0258	0.0046	0.0125	0.0017	0.0003	0.0009	0.0000
43	0.0000	0.0241	0.0241	0.0241	0.0241	0.0241	0.0041	0.0125	0.0023	0.0003	0.0009	0.0000
44	0.0000	0.0224	0.0224	0.0224	0.0224	0.0224	0.0035	0.0125	0.0029	0.0003	0.0010	0.0000
45	0.0000	0.0215	0.0215	0.0215	0.0215	0.0215	0.0029	0.0100	0.0036	0.0004	0.0010	0.0000
46	0.0000	0.0206	0.0206	0.0206	0.0206	0.0206	0.0029	0.0100	0.0044	0.0004	0.0011	0.0000
47	0.0000	0.0197	0.0197	0.0197	0.0197	0.0197	0.0029	0.0100	0.0050	0.0004	0.0012	0.0000
48	0.0000	0.0188	0.0188	0.0188	0.0188	0.0188	0.0029	0.0100	0.0050	0.0006	0.0013	0.0000
49	0.0000	0.0179	0.0179	0.0179	0.0179	0.0179	0.0029	0.0100	0.0050	0.0007	0.0014	0.0000
50	0.0702	0.0184	0.0184	0.0184	0.0184	0.0184	0.0026	0.0070	0.0050	0.0008	0.0015	0.0000
51	0.0491	0.0175	0.0175	0.0175	0.0175	0.0175	0.0026	0.0070	0.0050	0.0010	0.0017	0.0000
52	0.0451	0.0165	0.0165	0.0165	0.0165	0.0165	0.0026	0.0070	0.0050	0.0012	0.0019	0.0000
53	0.0726	0.0155	0.0155	0.0155	0.0155	0.0155	0.0023	0.0070	0.0050	0.0013	0.0021	0.0000
54	0.1172	0.0146	0.0146	0.0146	0.0146	0.0146	0.0023	0.0070	0.0050	0.0015	0.0022	0.0000
55	0.1085	0.0137	0.0137	0.0137	0.0137	0.0137	0.0000	0.0000	0.0050	0.0017	0.0025	0.0000
56	0.1104	0.0127	0.0127	0.0127	0.0127	0.0127	0.0000	0.0000	0.0050	0.0018	0.0028	0.0000
57	0.1309	0.0113	0.0113	0.0113	0.0113	0.0113	0.0000	0.0000	0.0050	0.0020	0.0031	0.0000
58	0.2140	0.0098	0.0098	0.0098	0.0098	0.0098	0.0000	0.0000	0.0050	0.0019	0.0036	0.0000
59	0.2388	0.0088	0.0088	0.0088	0.0088	0.0088	0.0000	0.0000	0.0050	0.0018	0.0042	0.0000
60	0.2506	0.0080	0.0080	0.0080	0.0080	0.0080	0.0000	0.0000	0.0050	0.0017	0.0048	0.0000
61	0.2799	0.0070	0.0070	0.0070	0.0070	0.0070	0.0000	0.0000	0.0050	0.0016	0.0055	0.0000
62	0.4256	0.0060	0.0060	0.0060	0.0060	0.0060	0.0000	0.0000	0.0050	0.0015	0.0063	0.0000
63	0.4930	0.0050	0.0050	0.0050	0.0050	0.0050	0.0000	0.0000	0.0050	0.0016	0.0072	0.0000
64	0.4948	0.0040	0.0040	0.0040	0.0040	0.0040	0.0000	0.0000	0.0050	0.0018	0.0082	0.0000
65	0.6000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0050	0.0021	0.0093	0.0000
66	0.4729	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0050	0.0022	0.0104	0.0000
67	0.5618	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0050	0.0024	0.0116	0.0000
68	0.6420	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0050	0.0024	0.0126	0.0000
69	0.8025	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0050	0.0024	0.0137	0.0000
70	1.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

NEW PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT

MISCELLANEOUS TIER 2 & 3 MALE MEMBERS

Age	SVC RET	WITH						TERM Vested	Ordinary		Duty	
		(0<SVC<1)	(1<SVC<2)	(2<SVC<3)	(3<SVC<4)	(4<SVC<5)	(SVC>5)		Disab.	Disab.	Death	Death
<=20	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.1022	0.1817	0.0000	0.0001	0.0005	0.0001
21	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0992	0.1647	0.0000	0.0001	0.0005	0.0001
22	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0963	0.1478	0.0000	0.0001	0.0005	0.0001
23	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0916	0.1309	0.0000	0.0001	0.0006	0.0001
24	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0871	0.1139	0.0000	0.0001	0.0006	0.0001
25	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0731	0.0970	0.0001	0.0001	0.0006	0.0001
26	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0596	0.0801	0.0001	0.0001	0.0007	0.0001
27	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0465	0.0632	0.0001	0.0001	0.0007	0.0001
28	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0407	0.0462	0.0001	0.0002	0.0007	0.0001
29	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0307	0.0400	0.0001	0.0003	0.0008	0.0001
30	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0240	0.0300	0.0002	0.0003	0.0008	0.0001
31	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0228	0.0300	0.0002	0.0003	0.0008	0.0001
32	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0216	0.0300	0.0002	0.0003	0.0009	0.0001
33	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0216	0.0300	0.0002	0.0003	0.0009	0.0001
34	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0216	0.0300	0.0002	0.0003	0.0009	0.0001
35	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0216	0.0250	0.0002	0.0004	0.0009	0.0001
36	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0216	0.0250	0.0003	0.0004	0.0009	0.0001
37	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0218	0.0250	0.0003	0.0004	0.0009	0.0001
38	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0210	0.0250	0.0008	0.0004	0.0009	0.0001
39	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0202	0.0250	0.0010	0.0004	0.0010	0.0001
40	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0194	0.0225	0.0013	0.0004	0.0010	0.0001
41	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0186	0.0225	0.0014	0.0004	0.0011	0.0001
42	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0178	0.0225	0.0016	0.0004	0.0012	0.0001
43	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0169	0.0225	0.0017	0.0004	0.0012	0.0001
44	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0160	0.0225	0.0019	0.0004	0.0013	0.0001
45	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0138	0.0210	0.0020	0.0005	0.0015	0.0001
46	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0129	0.0210	0.0023	0.0005	0.0016	0.0001
47	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0120	0.0210	0.0027	0.0006	0.0017	0.0001
48	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0120	0.0210	0.0028	0.0006	0.0019	0.0001
49	0.0000	0.0932	0.0628	0.0470	0.0440	0.0250	0.0120	0.0210	0.0029	0.0007	0.0020	0.0001
50	0.0178	0.0932	0.0628	0.0470	0.0440	0.0250	0.0105	0.0200	0.0032	0.0008	0.0023	0.0001
51	0.0194	0.0932	0.0628	0.0470	0.0440	0.0250	0.0100	0.0200	0.0032	0.0009	0.0025	0.0001
52	0.0140	0.0932	0.0628	0.0470	0.0440	0.0250	0.0095	0.0200	0.0034	0.0010	0.0028	0.0001
53	0.0451	0.0932	0.0628	0.0470	0.0440	0.0250	0.0090	0.0200	0.0035	0.0011	0.0031	0.0001
54	0.0367	0.0932	0.0628	0.0470	0.0440	0.0250	0.0085	0.0200	0.0037	0.0012	0.0035	0.0001
55	0.0613	0.0932	0.0628	0.0470	0.0440	0.0250	0.0080	0.0200	0.0039	0.0012	0.0039	0.0001
56	0.0690	0.0932	0.0628	0.0470	0.0440	0.0250	0.0075	0.0200	0.0041	0.0013	0.0043	0.0001
57	0.1205	0.0932	0.0628	0.0470	0.0440	0.0250	0.0070	0.0200	0.0043	0.0015	0.0048	0.0001
58	0.1659	0.0932	0.0628	0.0470	0.0440	0.0250	0.0065	0.0200	0.0046	0.0017	0.0053	0.0001
59	0.1710	0.0932	0.0628	0.0470	0.0440	0.0250	0.0060	0.0200	0.0047	0.0018	0.0060	0.0001
60	0.1825	0.0932	0.0628	0.0470	0.0440	0.0250	0.0055	0.0200	0.0049	0.0021	0.0068	0.0001
61	0.2031	0.0932	0.0628	0.0470	0.0440	0.0250	0.0050	0.0200	0.0049	0.0023	0.0076	0.0001
62	0.4015	0.0932	0.0628	0.0470	0.0440	0.0250	0.0050	0.0200	0.0049	0.0026	0.0086	0.0001
63	0.4975	0.0932	0.0628	0.0470	0.0440	0.0250	0.0045	0.0200	0.0049	0.0029	0.0097	0.0001
64	0.4898	0.0932	0.0628	0.0470	0.0440	0.0250	0.0045	0.0200	0.0049	0.0031	0.0109	0.0001
65	0.6474	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0200	0.0049	0.0034	0.0123	0.0001
66	0.5914	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0200	0.0049	0.0036	0.0139	0.0001
67	0.5354	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0200	0.0049	0.0039	0.0156	0.0001
68	0.6119	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0200	0.0049	0.0042	0.0175	0.0001
69	0.7648	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0200	0.0049	0.0045	0.0194	0.0001
70	1.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

NEW PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT

MISCELLANEOUS TIER 2 & 3 FEMALE MEMBERS

Age	SVC RET	WITH	WITH	WITH	WITH	WITH	WITH	TERM	Ordinary	Duty	Ordinary	Duty
		(0<SVC<1)	(1<SVC<2)	(2<SVC<3)	(3<SVC<4)	(4<SVC<5)	(SVC>5)	Vested	Disab.	Disab.	Death	Death
<=20	0.0000	0.1050	0.0850	0.0538	0.1000	0.0350	0.1500	0.1400	0.0000	0.0001	0.0003	0.0001
21	0.0000	0.1050	0.0850	0.0538	0.1000	0.0350	0.1368	0.1300	0.0000	0.0000	0.0003	0.0000
22	0.0000	0.1050	0.0850	0.0538	0.1000	0.0350	0.1236	0.1200	0.0000	0.0000	0.0003	0.0000
23	0.0000	0.1050	0.0850	0.0538	0.1000	0.0350	0.1145	0.1036	0.0000	0.0000	0.0003	0.0000
24	0.0000	0.1050	0.0850	0.0538	0.1000	0.0350	0.1045	0.0872	0.0000	0.0000	0.0003	0.0000
25	0.0000	0.1050	0.0850	0.0538	0.0750	0.0350	0.0934	0.0707	0.0001	0.0001	0.0003	0.0000
26	0.0000	0.1050	0.0850	0.0538	0.0750	0.0350	0.0897	0.0543	0.0001	0.0001	0.0003	0.0000
27	0.0000	0.1050	0.0850	0.0538	0.0750	0.0350	0.0856	0.0379	0.0001	0.0001	0.0003	0.0000
28	0.0000	0.1050	0.0850	0.0538	0.0750	0.0350	0.0720	0.0355	0.0001	0.0001	0.0003	0.0000
29	0.0000	0.1050	0.0850	0.0538	0.0750	0.0350	0.0596	0.0331	0.0001	0.0001	0.0004	0.0000
30	0.0000	0.1050	0.0850	0.0538	0.0600	0.0350	0.0484	0.0307	0.0002	0.0001	0.0004	0.0000
31	0.0000	0.1050	0.0850	0.0538	0.0600	0.0350	0.0383	0.0283	0.0002	0.0001	0.0004	0.0000
32	0.0000	0.1050	0.0850	0.0538	0.0600	0.0350	0.0294	0.0259	0.0002	0.0001	0.0004	0.0000
33	0.0000	0.1050	0.0850	0.0538	0.0600	0.0350	0.0286	0.0262	0.0003	0.0001	0.0005	0.0000
34	0.0000	0.1050	0.0850	0.0538	0.0600	0.0350	0.0267	0.0260	0.0003	0.0001	0.0005	0.0000
35	0.0000	0.1050	0.0850	0.0538	0.0500	0.0350	0.0237	0.0260	0.0003	0.0002	0.0005	0.0000
36	0.0000	0.1050	0.0850	0.0538	0.0500	0.0350	0.0245	0.0260	0.0005	0.0002	0.0006	0.0000
37	0.0000	0.1050	0.0850	0.0538	0.0500	0.0350	0.0239	0.0260	0.0007	0.0002	0.0006	0.0000
38	0.0000	0.1050	0.0850	0.0538	0.0500	0.0350	0.0240	0.0260	0.0007	0.0002	0.0006	0.0000
39	0.0000	0.1050	0.0850	0.0538	0.0500	0.0350	0.0240	0.0260	0.0008	0.0002	0.0007	0.0000
40	0.0000	0.1050	0.0850	0.0538	0.0450	0.0350	0.0220	0.0220	0.0008	0.0001	0.0008	0.0000
41	0.0000	0.1050	0.0850	0.0538	0.0450	0.0350	0.0220	0.0220	0.0009	0.0001	0.0008	0.0000
42	0.0000	0.1050	0.0850	0.0538	0.0450	0.0350	0.0216	0.0220	0.0009	0.0002	0.0009	0.0000
43	0.0000	0.1050	0.0850	0.0538	0.0450	0.0350	0.0191	0.0220	0.0010	0.0002	0.0009	0.0000
44	0.0000	0.1050	0.0850	0.0538	0.0450	0.0350	0.0165	0.0220	0.0010	0.0003	0.0010	0.0000
45	0.0000	0.1050	0.0850	0.0538	0.0350	0.0350	0.0139	0.0160	0.0011	0.0001	0.0010	0.0000
46	0.0000	0.1050	0.0850	0.0538	0.0350	0.0350	0.0114	0.0160	0.0011	0.0002	0.0011	0.0000
47	0.0000	0.1050	0.0850	0.0538	0.0350	0.0350	0.0088	0.0160	0.0011	0.0002	0.0012	0.0000
48	0.0000	0.1050	0.0850	0.0538	0.0350	0.0350	0.0082	0.0160	0.0014	0.0002	0.0013	0.0000
49	0.0000	0.1050	0.0850	0.0538	0.0350	0.0350	0.0076	0.0160	0.0017	0.0003	0.0014	0.0000
50	0.0458	0.1050	0.0850	0.0538	0.0300	0.0350	0.0070	0.0150	0.0020	0.0006	0.0015	0.0000
51	0.0296	0.1050	0.0850	0.0538	0.0300	0.0350	0.0066	0.0150	0.0023	0.0009	0.0017	0.0000
52	0.0250	0.1050	0.0850	0.0538	0.0300	0.0350	0.0066	0.0150	0.0026	0.0012	0.0019	0.0000
53	0.0473	0.1050	0.0850	0.0538	0.0300	0.0350	0.0066	0.0150	0.0031	0.0015	0.0021	0.0000
54	0.0760	0.1050	0.0850	0.0538	0.0300	0.0350	0.0066	0.0150	0.0036	0.0018	0.0022	0.0000
55	0.0922	0.1050	0.0850	0.0538	0.0150	0.0350	0.0066	0.0150	0.0041	0.0021	0.0025	0.0000
56	0.1216	0.1050	0.0850	0.0538	0.0150	0.0350	0.0066	0.0150	0.0048	0.0022	0.0028	0.0000
57	0.1416	0.1050	0.0850	0.0538	0.0150	0.0350	0.0061	0.0150	0.0055	0.0023	0.0031	0.0000
58	0.2544	0.1050	0.0850	0.0538	0.0150	0.0350	0.0059	0.0150	0.0058	0.0023	0.0036	0.0000
59	0.2490	0.1050	0.0850	0.0538	0.0150	0.0350	0.0059	0.0150	0.0062	0.0023	0.0042	0.0000
60	0.2677	0.1050	0.0850	0.0538	0.0100	0.0350	0.0048	0.0102	0.0066	0.0023	0.0048	0.0000
61	0.3202	0.1050	0.0850	0.0538	0.0100	0.0350	0.0046	0.0102	0.0069	0.0024	0.0055	0.0000
62	0.5169	0.1050	0.0850	0.0538	0.0100	0.0350	0.0042	0.0102	0.0074	0.0024	0.0063	0.0000
63	0.6043	0.1050	0.0850	0.0538	0.0100	0.0350	0.0038	0.0102	0.0083	0.0025	0.0072	0.0000
64	0.6094	0.1050	0.0850	0.0538	0.0100	0.0350	0.0032	0.0102	0.0093	0.0025	0.0082	0.0000
65	0.7500	0.1050	0.0850	0.0538	0.0100	0.0350	0.0000	0.0000	0.0104	0.0026	0.0093	0.0000
66	0.4986	0.1050	0.0850	0.0538	0.0100	0.0350	0.0000	0.0000	0.0115	0.0026	0.0104	0.0000
67	0.6061	0.1050	0.0850	0.0538	0.0100	0.0350	0.0000	0.0000	0.0127	0.0026	0.0116	0.0000
68	0.6927	0.1050	0.0850	0.0538	0.0100	0.0350	0.0000	0.0000	0.0133	0.0026	0.0126	0.0000
69	0.8659	0.1050	0.0850	0.0538	0.0100	0.0350	0.0000	0.0000	0.0139	0.0026	0.0137	0.0000
70	1.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

NEW PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT

SAFETY MEMBERS

Age	SVC RET	WITH (0<SVC<1)	WITH (1<SVC<2)	WITH (2<SVC<3)	WITH (3<SVC<4)	WITH (4<SVC<5)	WITH (SVC>5)	TERM Vested	Ordinary Disab.	Duty Disab.	Ordinary Death	Duty Death
<=20	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0070	0.0500	0.0000	0.0005	0.0005	0.0002
21	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0070	0.0500	0.0000	0.0006	0.0006	0.0002
22	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0070	0.0500	0.0000	0.0007	0.0006	0.0002
23	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0070	0.0500	0.0000	0.0007	0.0006	0.0002
24	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0070	0.0500	0.0000	0.0007	0.0007	0.0002
25	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0070	0.0500	0.0002	0.0009	0.0007	0.0002
26	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0070	0.0500	0.0002	0.0011	0.0007	0.0002
27	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0068	0.0142	0.0003	0.0012	0.0008	0.0002
28	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0065	0.0139	0.0003	0.0015	0.0008	0.0002
29	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0063	0.0136	0.0004	0.0018	0.0008	0.0002
30	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0060	0.0132	0.0004	0.0018	0.0009	0.0002
31	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0060	0.0129	0.0005	0.0022	0.0009	0.0002
32	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0060	0.0126	0.0005	0.0026	0.0009	0.0002
33	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0060	0.0115	0.0006	0.0028	0.0009	0.0002
34	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0060	0.0104	0.0006	0.0031	0.0009	0.0002
35	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0550	0.0096	0.0007	0.0035	0.0009	0.0002
36	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0055	0.0089	0.0008	0.0039	0.0009	0.0002
37	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0055	0.0081	0.0009	0.0045	0.0010	0.0002
38	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0055	0.0074	0.0010	0.0046	0.0010	0.0002
39	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0055	0.0066	0.0011	0.0046	0.0011	0.0002
40	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0050	0.0066	0.0012	0.0046	0.0012	0.0002
41	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0050	0.0066	0.0013	0.0046	0.0012	0.0002
42	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0050	0.0066	0.0014	0.0047	0.0013	0.0002
43	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0050	0.0066	0.0015	0.0049	0.0015	0.0002
44	0.0000	0.0600	0.0250	0.0200	0.0200	0.0100	0.0050	0.0066	0.0017	0.0052	0.0016	0.0002
45	0.0000	0.0600	0.0000	0.0000	0.0000	0.0000	0.0050	0.0046	0.0019	0.0068	0.0017	0.0003
46	0.0000	0.0600	0.0000	0.0000	0.0000	0.0000	0.0050	0.0046	0.0021	0.0077	0.0019	0.0003
47	0.0000	0.0600	0.0000	0.0000	0.0000	0.0000	0.0050	0.0046	0.0023	0.0087	0.0020	0.0003
48	0.0000	0.0600	0.0000	0.0000	0.0000	0.0000	0.0050	0.0046	0.0025	0.0095	0.0023	0.0003
49	0.0000	0.0600	0.0000	0.0000	0.0000	0.0000	0.0050	0.0046	0.0028	0.0100	0.0025	0.0003
50	0.3300	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0025	0.0028	0.0100	0.0028	0.0003
51	0.2500	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0025	0.0031	0.0100	0.0031	0.0003
52	0.2500	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0025	0.0033	0.0100	0.0035	0.0003
53	0.3300	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0025	0.0037	0.0100	0.0039	0.0003
54	0.3300	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0025	0.0040	0.0100	0.0043	0.0003
55	0.5000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0025	0.0043	0.0100	0.0048	0.0004
56	0.5000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0025	0.0047	0.0100	0.0053	0.0004
57	0.5000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0025	0.0051	0.0100	0.0060	0.0004
58	0.5000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0025	0.0054	0.0100	0.0068	0.0004
59	0.5000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0025	0.0058	0.0100	0.0076	0.0004
60	1.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

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Statistical Section

Schedule of Participating Employers and Active Members

SCERS Member Agency	Plan	6/30/03	6/30/02	6/30/01	6/30/00	6/30/99	6/30/98
Carmichael Recreation and Park District	Misc.	20	18	20	18	18	20
	Safety						
Elk Grove Cemetery District	Misc.	1	1	1	1	1	1
	Safety						
Fair Oaks Cemetery District	Misc.	5	3	3	4	4	5
	Safety						
Galt-Arno Cemetery District	Misc.	3	3	2	2	2	3
	Safety						
Mission Oaks Recreation and Park District	Misc.	13	13	13	12	12	12
	Safety						
Orangevale Recreation and Park District	Misc.	14	14	14	14	14	13
	Safety						
Sacramento County Fire District	Misc.						
	Safety	7	7	7	9	9	10
S.E.T.A.	Misc.	513	520	520	409	445	345
	Safety						
Sunrise Recreation and Park District	Misc.	27	28	29	28	28	27
	Safety						
U.C. Davis Medical Center	Misc.	1	1	1	2	3	3
	Safety						
Board of Supervisors	Misc.	5	5	5	5	5	5
	Safety						
Sheriff	Safety	1	1	1	1	1	1
Assessor	Misc.	1	1	1	1	1	1
District Attorney	Misc.	1	1	1	1	1	1
Total Special District Members	Misc.	604	608	610	497	534	436
	Safety	8	8	8	10	10	11
Sacramento County Members	Misc.	11,092	11,010	10,171	9,720	8,816	8,430
	Safety	2,429	2,407	2,202	2,008	1,994	1,924
Total Members	Misc.	11,696	11,618	10,781	10,217	9,350	8,866
	Safety	2,437	2,415	2,210	2,018	2,004	1,935
	Total	14,133	14,033	12,991	12,235	11,354	10,801

Source: Actuarial Report for June 30, 1998 - 2003

Schedule of Revenue by Source (in thousands)

Year Ended	Member Contributions	Employer Contributions			
		Dollars	% of Annual Covered Payroll	Investment Income/(Loss) (Net)	Total
6/30/1998	\$29,930	\$43,109	9.16%	\$464,511	\$537,550
6/30/1999	30,385	46,745	9.30	360,748	437,878
6/30/2000	30,018	42,024	7.52	315,790	387,832
6/30/2001	32,964	40,358	6.36	(207,580)	(134,257)
6/30/2002	38,432	44,547	6.41	(194,104)	(111,125)
6/30/2003	43,700	52,841	7.21	100,839	197,380

Source: Audited Financial Statements for June 30, 2003

Schedule of Expenses by Type (in thousands)

Year Ended	Benefits Paid						Total
	Service	Survivor Benefits	Retiree Death Benefits	Health and Dental Benefits	Admin. and Other Expenses	Refunds	
6/30/1998	\$72,748	\$1,166	\$106	\$5,981	\$2,868	\$2,460	\$85,329
6/30/1999	79,426	1,190	95	5,973	3,363	3,306	93,353
6/30/2000	88,103	1,200	293	6,946	3,602	3,181	103,325
6/30/2001	95,526	1,229	561	8,072	3,831	3,611	112,830
6/30/2002	102,555	1,274	524	9,111	5,485	3,517	122,466
6/30/2003	110,326	1,482	441	10,866	31,767	2,906	157,788

Note: For the year ended June 30, 2003, Admin. and Other Expenses include retroactive benefits of \$25,870,000 related to the Ventura litigation settlement.

Source: Audited Financial Statements for June 30, 2003

Schedule of Retiree Members by Type of Benefit

Miscellaneous Members

	Count	Monthly Allowances			Average Benefit
		Basic	COL	Total	
Service Retirement					
Unmodified	3,100	\$3,340,190	\$1,277,096	\$4,617,286	\$1,489
Option 1	232	225,934	73,003	298,937	1,289
Option 2, 3 & 4	251	208,464	56,677	265,141	1,056
Total	3,583	3,774,588	1,406,776	5,181,364	1,446
Ordinary Disability					
Unmodified	277	205,769	92,439	298,208	1,077
Option 1	21	14,248	4,145	18,393	876
Option 2, 3 & 4	8	5,893	2,108	8,001	1,000
Total	306	225,910	98,692	324,602	1,061
Duty Disability					
Unmodified	175	191,285	102,395	293,680	1,678
Option 1	6	7,873	2,445	10,318	1,720
Option 2, 3 & 4	5	5,227	1,665	6,892	1,378
Total	185	203,427	106,610	310,037	1,676
Beneficiary					
Total	814	399,714	324,393	724,107	890
Total (All Groups)	4,888	\$4,603,639	\$1,936,471	\$6,540,110	\$1,338

Safety Members

	Count	Monthly Allowances			Average Benefit
		Basic	COL	Total	
Service Retirement					
Unmodified	585	\$1,643,495	\$500,945	\$2,144,440	\$3,666
Option 1	22	48,222	18,086	66,308	3,014
Option 2, 3 & 4	30	77,744	18,516	96,260	3,209
Total	637	1,769,461	537,547	2,307,008	3,622
Ordinary Disability					
Unmodified	18	24,319	13,698	38,017	2,112
Option 1	-	-	-	-	-
Option 2, 3 & 4	1	1,434	427	1,861	1,861
Total	19	25,753	14,125	39,878	2,099
Duty Disability					
Unmodified	159	304,294	140,014	412,150	2,592
Option 1	7	12,895	4,559	17,454	2,493
Option 2, 3 & 4	3	5,052	1,230	6,282	2,094
Total	169	322,241	145,803	468,044	2,769
Beneficiary					
Total	169	164,856	131,640	296,496	1,754
Total (All Groups)	994	\$2,282,311	\$829,115	\$3,111,426	\$3,130

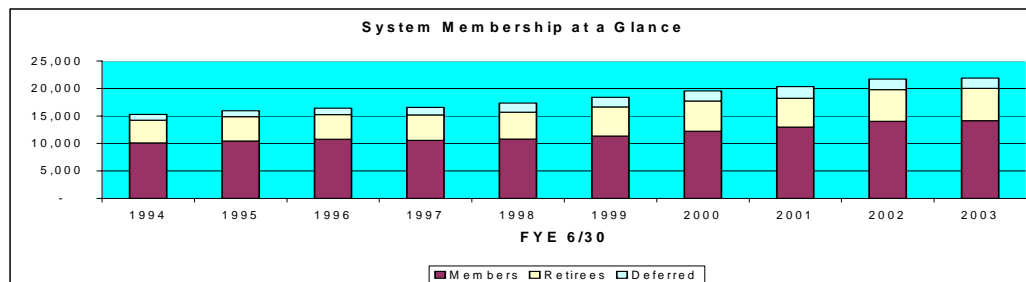
Source: Actuarial Report for June 30, 2003

Schedule of Average Benefit Payments for Retirees and Beneficiaries

Retirement Effective Dates <u>7/01/97 to 6/30/03</u>	<u>0-4</u>	<u>5-9</u>	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25-29</u>	<u>30&over</u>
Period 7/01/97–6/30/98:							
Average Monthly Benefit	\$1,659	\$1,472	\$1,228	\$1,007	\$858	\$698	\$482
Number of Active Retirants	1,633	1,043	962	700	366	147	33
Period 7/01/98–6/30/99:							
Average Monthly Benefit	\$1,639	\$1,552	\$1,313	\$1,079	\$923	\$727	\$579
Number of Active Retirants	1,667	1,262	979	744	432	179	40
Period 7/01/99–6/30/00:							
Average Monthly Benefit	\$1,821	\$1,675	\$1,381	\$1,180	\$947	\$729	\$2,125
Number of Active Retirants	1,528	1,249	965	840	561	282	75
Period 7/01/00–6/30/01:							
Average Monthly Benefit	\$1,758	\$1,779	\$1,439	\$1,269	\$1,047	\$776	\$770
Number of Active Retirants	1,433	1,287	1,002	815	610	308	71
Period 7/01/01–6/30/02:							
Average Monthly Benefit	\$1,804	\$1,865	\$1,614	\$1,376	\$1,121	\$859	\$834
Number of Active Retirants	1,494	1,327	1,024	823	650	324	100
Period 7/01/02–6/30/03:							
Average Monthly Benefit	\$1,842	\$1,854	\$1,839	\$1,463	\$1,207	\$972	\$819
Number of Active Retirants	1,447	1,312	1,117	849	664	348	145

Source: Actuarial Report for June 30, 2003

Growth of System Membership



FYE 6/30	Members	Retirees	Deferred	Total
1994	10,110	4,130	1,040	15,280
1995	10,462	4,387	1,099	15,948
1996	10,756	4,502	1,152	16,410
1997	10,547	4,646	1,383	16,576
1998	10,801	4,884	1,658	17,343
1999	11,354	5,303	1,739	18,396
2000	12,235	5,488	1,828	19,551
2001	12,991	5,526	2,146	20,663
2002	14,033	5,742	1,944	21,719
2003	14,133	5,882	1,885	21,900

Source: Audited Financial Statements for June 30, 2003

Schedule of Employer Contribution Rates

Actuarial Report for Year Ended	<u>County</u>					<u>Special Districts</u>		
	<u>General</u>			<u>Safety</u>		<u>General</u>		<u>Safety</u>
	Tier 1	Tier 2	Tier 3	Tier 1	Tier 2	Tier 1	Tier 3	Tier 1
6/30/1998	6.43%	3.40%	5.02%	17.96%	13.42%	14.44%	15.40%	23.80%
6/30/1999	5.85	2.91	4.55	14.57	10.30	14.58	14.91	20.45
6/30/2000	5.89	2.94	4.56	14.56	10.29	14.63	14.54	20.64
6/30/2001	5.85	2.90	4.53	14.52	10.37	16.44	14.94	21.75
6/30/2002	6.86	3.41	5.26	16.04	11.96	17.54	15.90	23.12
6/30/2003	7.14	3.53	5.15	17.03	13.53	15.09	13.06	22.96

Source: Actuarial Report for June 30, 2003

Schedule of Administrative Expenses

<u>Type of Expense</u>	<u>6/30/03</u>	<u>6/30/02</u>	<u>6/30/01</u>	<u>6/30/00</u>	<u>6/30/99</u>	<u>6/30/98</u>
Salaries and Benefits	\$2,416,079	\$2,077,187	\$1,817,936	\$1,464,159	\$1,418,423	\$1,300,446
Professional Fees	577,469	420,311	433,167	634,020	753,372	783,323
Equipment Purchases and Maintenance	198,299	313,967	241,896	155,414	110,426	109,086
Rent and Lease Expense	560,369	415,657	203,834	170,880	155,031	150,555
Depreciation Expense	18,383	42,409	42,450	25,289	43,407	45,025
Other Administrative Expenses	<u>2,126,465</u>	<u>2,215,777</u>	<u>1,092,133</u>	<u>1,152,303</u>	<u>882,524</u>	<u>480,000</u>
TOTAL\$	<u>\$5,897,063</u>	<u>\$5,485,308</u>	<u>\$3,831,416</u>	<u>\$3,602,065</u>	<u>\$3,363,183</u>	<u>\$2,868,435</u>

Source: Audited Financial Statements for June 30, 2003

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