



# **Employees' Retirement System**

Comprehensive Annual Financial Report  
For the Year Ended June 30, 2004





# **Sacramento County Employees' Retirement System**

**Sacramento, California**

## **Comprehensive Annual Financial Report** For the Year Ended June 30, 2004

### *Mission Statement*

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

Issued by:  
Richard Stensrud  
Chief Executive Officer

Jeffrey W. States  
Chief Investment Officer

Kathryn T. Regalia, CPA  
Chief Operations Officer

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# Introductory Section



Executive Staff  
Richard Stensrud  
Chief Executive Officer  
Jeffrey W. States  
Chief Investment Officer  
John W. Gobel, Sr.  
Chief Benefits Officer  
Kathryn T. Regalia  
Chief Operations Officer

## Letter of Transmittal

December 17, 2004

Board of Retirement  
Sacramento County Employees' Retirement System  
980 9<sup>th</sup> 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, 2004.

### 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, 2004, 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, 2004, and a schedule of manager fees.
- *The Actuarial Section* provides the independent actuary's certification as of June 30, 2003, 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 accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America (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, 2004, SCERS' investments provided a 16.0% rate of return, net of manager fees, compared to the policy benchmark of 15.5%, which is not adjusted for manager fees.

## 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 engaged an independent actuarial consulting firm, Mercer Human Resource Consulting, to conduct its annual actuarial valuation as of June 30, 2003. Triennially, the firm has performed an analysis 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.

SCERS retained a new independent actuarial consulting firm, The Segal Company, to prepare the actuarial valuation as of June 30, 2004, which is currently in progress as of this writing. The triennial analysis as of June 30, 2004 is also underway, and any resulting recommendations will be presented to the Board for consideration.

## Significant Events

Following are significant events which occurred during the fiscal year:

- ✓ Implemented collectively-bargained agreements and Board of Supervisors' and member districts' governing boards' resolutions applying service retirement formulas pursuant to Government Code Sections 31676.14 and 31664.1 to members' service credits and allowing for purchase of public service credit.

- ✓ Conceptualized, developed, tested, and implemented a Replacement Benefits Plan to provide earned and payable benefits to members who are limited by rules of Section 415(b) of the Internal Revenue Code of 1986, as amended.
- ✓ Processed approximately 785 service and disability retirement applications and made first benefit payments on average within four weeks of retirement dates.
- ✓ Processed 780 requests for calculation of cost of purchasing public service credits.
- ✓ Conducted 35 new retiree orientation sessions.
- ✓ Negotiated and received Superior Court approval of a Settlement Agreement to settle class action litigation Judicial Council Coordination Proceeding No. 4049, Sacramento County Case No 97CS030403, i.e., the "Ventura" litigation.
- ✓ Implemented provisions of court-approved Settlement Agreement with total SCERS payout of \$55 million to plaintiffs and representing attorneys.
- ✓ Contracted with The Segal Company for expert advice pertinent to anticipated litigation.
- ✓ Coordinated and successfully completed board member elections for one safety member and one alternate safety member, filling the vacated existing terms and for new three-year terms and for one miscellaneous member for a three-year term. William D. Johnson and Steven Soto were elected as safety and alternate safety members, respectively. Ronald Suter was re-elected as miscellaneous member.
- ✓ Enhanced SCERS website to provide greater accessibility to members with physical limitations.
- ✓ Conducted a recruitment effort with CPS Human Resource Services for Assistant Administrator/Chief Benefits Officer to replace Linda Seher. Successfully recruited John W. Gobel, Sr., formerly of Stanislaus County Employees' Retirement Association.
- ✓ Issued Request for Proposal for financial audit services and selected Macias, Gini & Company for a new three-year contract.
- ✓ Issued Request for Proposal for actuarial services and selected The Segal Company for a new three-year contract.
- ✓ Participated with County in development of a Request for Proposal to select a new payroll vendor for Special Districts, which is expected to result in an automated interface of Special District payroll activity.
- ✓ Adopted a new schedule for trust and custodian banking services, portfolio analytics, securities lending and other investment-related services with State Street Bank.
- ✓ Conceptualized, conducted, and completed a system asset/liability modeling study and asset allocation study.
- ✓ Adopted a new asset allocation of 35% domestic equity, 20% international equity, 25% aggregate fixed income, 15% real estate and 5% equity long-short hedge funds with assistance of investment consultant, Mercer Investment Consulting.
- ✓ Selected Cornerstone Real Estate Investment Advisors as equity real estate core separate account investment advisor.
- ✓ Initiated Request for Information for two equity long-short hedge fund managers.
- ✓ Provided assistance to Sacramento County with its issuance of pension obligation bonds.

### 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, 2003. This was the fifth consecutive year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report 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.

Respectfully submitted,

A handwritten signature in black ink that reads "Richard Stensrud". The signature is written in a cursive, flowing style.

Richard Stensrud  
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, 2003

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



*Nancy L. Zjelke*

President

*Jeffrey R. Emmer*

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, 2006



**2<sup>nd</sup> Vice President**  
**John B. Kelly**  
Appointed by  
Board of Supervisors  
Present term expires:  
December 31, 2006



**Ex-Officio**  
**Mark Norris**  
Director of Finance  
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, 2006



**Trustee**  
**Robert Woods**  
Appointed by  
Board of Supervisors  
Present term expires:  
June 30, 2007

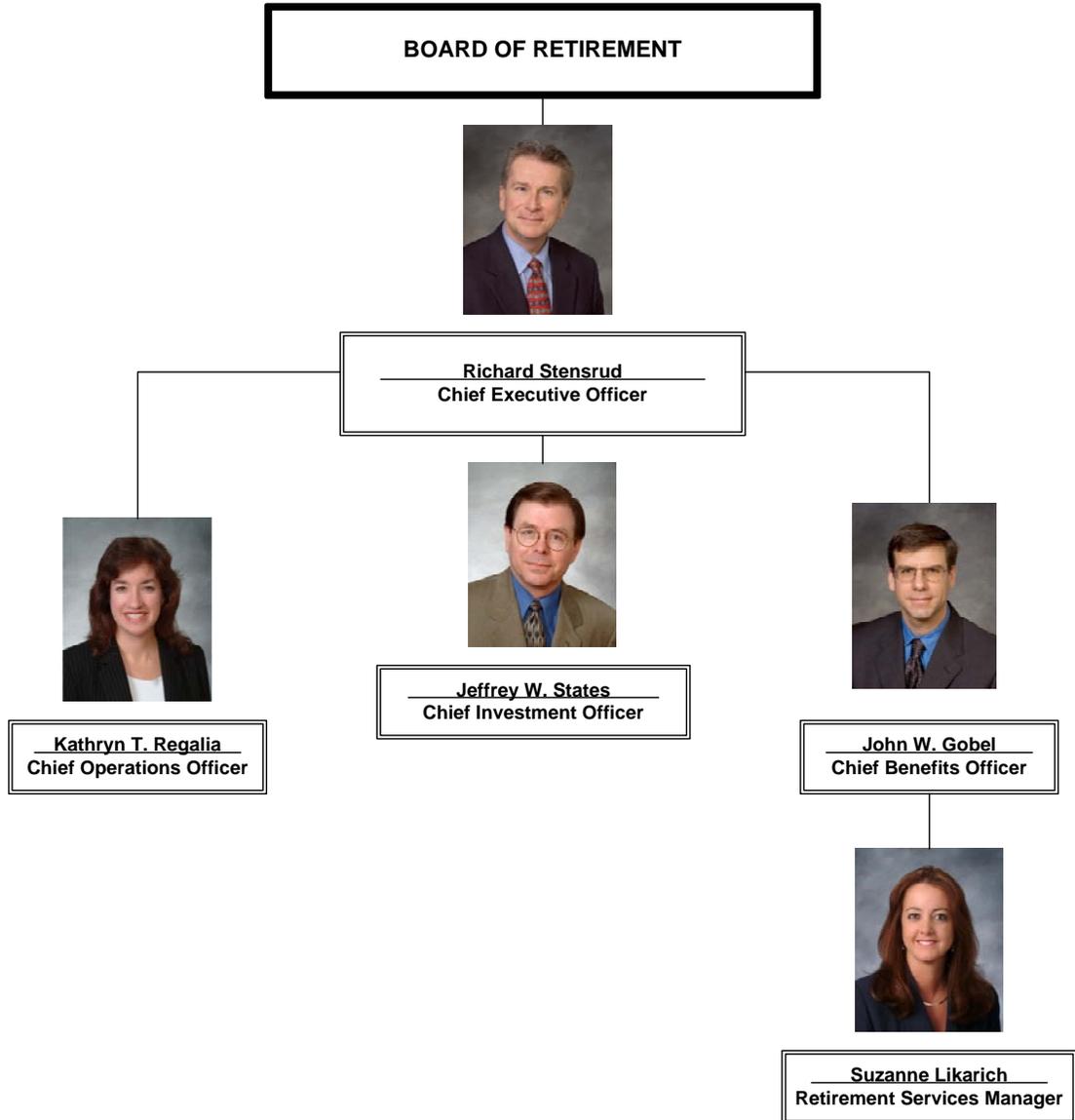


**Alternate Safety Trustee**  
**Steven Soto**  
Elected by  
Safety Members  
Present term expires:  
December 31, 2006



**Alternate Retiree Trustee**  
**Nancy Wolford-Landers**  
Appointed by  
Board of Retirement  
Present term expires:  
December 31, 2004

# Sacramento County Employees' Retirement System Organization Chart



Organization chart as of December 17, 2004

## Participating Employers

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<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 Metropolitan 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

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### **Auditor**

Macias, Gini & Company, LLP  
Certified Public Accountants  
3000 S Street, Suite 300  
Sacramento, CA 95816

### **Actuary**

Mercer Human Resource Consulting, Inc.  
111 SW Fifth Avenue, Suite 2800  
Portland, OR 97204-3693

The Segal Company  
120 Montgomery Street, Suite 500  
San Francisco, CA 94104-4308

### **Custodian**

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

### **Legal Counsel**

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

Nossaman, Guthner, Knox & Elliot, LLP  
50 California Street, 34<sup>th</sup> 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

Bank of New York Asset Management  
1633 Broadway, 13<sup>th</sup> Floor  
New York, NY 10019

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

Independence Investment Associates  
53 State Street - 28<sup>th</sup> Floor  
Boston, MA 02109

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

### **Investment Managers – (cont.)**

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

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, 15<sup>th</sup> 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

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

Cornerstone Realty Advisors  
One Financial Plaza  
Hartford, CT 06103

*A schedule of manager fees is located on page 60 in the investment section.*

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# Financial Section



## MACIAS GINI & COMPANY LLP

3000 S Street, Ste. 300  
Sacramento, California 95816

916.928.4600 PHONE  
916.928.2755 FAX

### INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of plan net assets of the Sacramento County Employees' Retirement System (the System), as of June 30, 2004 and 2003, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2004 and 2003, 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 17, 2004, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 20 through 25, the Schedule of Funding Progress and the Schedule of Employer Contributions on page 46 and the Significant Actuarial Assumptions on page 47 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United State of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The introductory section, other supplemental information in the financial section and the investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental information in the financial section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in a material respects in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial and statistical sections have not been subjected to auditing procedures applied in the audit of the basic financials statements and, accordingly, we express no opinion on them.

*Macias, Gini & Company LLP*

Certified Public Accountants

Sacramento, California

December 17, 2004

## Management's Discussion and Analysis

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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, 2004 and 2003. 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, 2004 and 2003 were \$3,761.7 million and \$3,238.8 million, respectively, an increase of \$522.9 million or 16.1% from prior year.
- Total additions, as reflected in the statements of changes in plan net assets, were \$687.3 million and \$197.3 million for the years ended June 30, 2004 and 2003, respectively. Total additions increased \$490.0 million and \$308.4 million for the years ended June 30, 2004 and 2003, 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 \$164.4 million and \$157.7 million for the years ended June 30, 2004 and 2003, respectively. This represented increases of \$6.7 million or 4.2% and \$35.2 million or 28.7%, 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. Total funded ratio as of June 30, 2004 is not yet available.

### 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, 2004 and 2003, net assets were \$3,761.7 million and \$3,238.8 million, respectively. Total assets of \$4,528.6 million and \$3,751.8 million exceeded total liabilities of \$766.9 million and \$513.0 million as of June 30, 2004 and 2003, respectively. 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

As of June 30,  
(Dollars in Millions)

	2004	2003	2002
<b>Assets</b>			
Current and other assets	\$4,095.9	\$3,493.7	\$3,401.1
Securities lending collateral	432.7	258.1	250.6
<b>Total assets</b>	<u>4,528.6</u>	<u>3,751.8</u>	<u>3,651.7</u>
<b>Liabilities</b>			
Long-term liabilities outstanding	104.0	72.6	72.9
Securities lending liability	432.7	258.1	250.6
Other liabilities	230.2	182.3	129.0
<b>Total liabilities</b>	<u>766.9</u>	<u>513.0</u>	<u>452.5</u>
<b>Net assets held in trust for pension benefits</b>	<u>\$3,761.7</u>	<u>\$3,238.8</u>	<u>\$3,199.2</u>

SCERS engaged a new independent actuary, The Segal Company, to perform its actuarial valuation as of June 30, 2004. At the time of this writing, the actuarial valuation report was not yet complete pending consideration by the Board of Retirement of changes to economic and non-economic assumptions resulting from the triennial experience analysis, which was recently completed.

SCERS' former independent actuary, Mercer Human Resource Consulting, Inc., performed an actuarial valuation as of June 30, 2003. The funded ratio was determined to be 94.1%, a decrease of 12.1% over the prior year. 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. 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, SCERS has approximately 94 cents 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, 2004, 2003, and 2002, respectively.

**CHANGES IN PLAN NET ASSETS**  
For the Year Ended June 30,  
(Dollars in Millions)

	2004	2003	2002
<b>Additions</b>			
Employee contributions	\$ 42.9	\$ 43.7	\$ 38.4
Employer contributions	119.1	52.8	44.6
Net investment gain (loss)	525.3	100.8	(194.1)
<b>Total additions</b>	<b>687.3</b>	<b>197.3</b>	<b>(111.1)</b>
<b>Deductions</b>			
Service retirement, death, and disability benefits	140.9	111.8	103.9
Retiree death benefits	0.6	0.4	0.5
Retiree health and dental insurance	12.3	10.8	9.1
Withdrawal of contributions	4.0	2.9	3.5
Retroactive benefits	0.8	25.9	-
Administrative and other expenses	5.8	5.9	5.5
<b>Total deductions</b>	<b>164.4</b>	<b>157.7</b>	<b>122.5</b>
<b>Increase (decrease) in plan net assets</b>	<b>522.9</b>	<b>39.6</b>	<b>(233.6)</b>
<b>Net assets held in trust for pension benefits, beginning</b>	<b>3,238.8</b>	<b>3,199.2</b>	<b>3,432.8</b>
<b>Net assets held in trust for pension benefits, ending</b>	<b>\$ 3,761.7</b>	<b>\$ 3,238.8</b>	<b>\$ 3,199.2</b>

### 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 years ended June 30, 2004 and 2003, additions were \$687.3 million and \$197.3 million, respectively. For the years June 30, 2004 and 2003, contributions were \$162.0 million and \$96.5 million, respectively, and net investment gains were \$525.3 million and \$100.8 million, respectively.

Employer contributions were \$119.1 million and \$52.8 million for the years ended June 30, 2004 and 2003, respectively, reflecting increases of \$66.3 million or 125.6% and 18.4% for the two years, 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.

The primary reason for the substantial increase in 2004 was due to the full-year implementation of enhanced retirement benefits as described below.

Net investment gains were \$525.3 million and \$100.8 million for the years ended June 30, 2004 and 2003, respectively, an increase in performance of \$424.5 million or 421.1% and \$294.9 million or 151.9% over each prior year, respectively. The results are encouraging, reflecting the improvement of the U.S. economy and the improvement in domestic and international equity 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, 2004 and 2003, deductions were \$164.4 million and \$157.7 million, respectively, reflecting increases of \$6.7 million or 4.2% and \$35.2 million or 28.7% over each prior year. During the two years ended June 30, 2004, SCERS reported deductions of \$26.7 million due to recognition of lump sum benefits resulting from the settlement of litigation as discussed below. Of this total, \$0.8 million and \$25.9 million were recognized in the years ended June 30, 2004 and 2003, respectively. Increased monthly retirement allowances resulting from the litigation settlement are included with benefits paid on the statement of changes in net assets.

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 SCERS has historically done.

#### OVERALL ANALYSIS

Overall, as of June 30, 2004 and 2003 and for the years then ended, SCERS' financial position and results of operations have improved over each prior year. For the year ended June 30, 2004, net assets increased \$522.9 million or 16.1% over the prior year. As of June 30, 2003, net assets increased \$39.6 million or 1.2% over the prior year. Both years' improvements were due primarily to increased investment returns consistent with the improvement in the U.S. economy and domestic and international equity markets.

#### OTHER SIGNIFICANT MATTERS

##### Enhanced Retirement Benefits and Impact upon Contributions and Benefits

The Sacramento County Board of Supervisors 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 applied the new formulas for all SCERS members (including member districts) prospectively from June 29, 2003, and retroactively to County employees' service credits which preceded that date.

In accordance with applicable retirement law, each SCERS member district's governing body decided 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 17.33% 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 effective June 29, 2003.

The negotiated benefits enhancements mostly resulted in decreases of employee rates. The composite rate for employees declined from 5.81% to 3.70%. 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 the 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 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*, also referred to as "Ventura Litigation".

The Agreement was implemented during 2004. The Agreement included 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 have met two criteria:

1. must have received 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 was actuarially estimated to be \$55 million. The settlement was approved December 19, 2003. Lump sum payments totaling \$26.7 were primarily paid in January 2004. Prospective payments resulting from increased allowances were 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 9<sup>th</sup> 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](http://www.saccounty.net/retirement).

Respectfully submitted,

A handwritten signature in black ink that reads "Richard Stensrud". The signature is written in a cursive style with a large initial "R" and a distinct "S".

Richard Stensrud  
Chief Executive Officer

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# **FINANCIAL STATEMENTS**

**SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**STATEMENTS OF PLAN NET ASSETS**  
**AS OF JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Cash and short-term investments		
Cash invested with Sacramento County Treasurer	\$ 9,361,449	\$ 3,229,875
Other cash and cash equivalents	39,212,267	28,653,755
Cash and short-term investments with fiscal agents	<u>159,611,546</u>	<u>153,928,717</u>
Cash and short-term investments	<u>208,185,262</u>	<u>185,812,347</u>
Receivables		
Securities sold	93,442,767	23,488,055
Accrued investment income	14,643,879	13,827,077
Employee and employer contributions	<u>5,401,530</u>	<u>2,707,891</u>
Total receivables	<u>113,488,176</u>	<u>40,023,023</u>
Investments, at fair value		
United States government obligations	177,639,678	101,508,284
Domestic corporate bonds	826,512,603	773,096,178
International bonds	28,474,001	34,357,623
Common and preferred stock – domestic	1,573,614,840	1,320,106,000
Common and preferred stock – international	469,615,012	376,383,687
International equity index fund	337,387,494	284,583,583
Real estate	359,043,822	375,247,870
Securities lending collateral	<u>432,733,273</u>	<u>258,075,384</u>
Total investments	<u>4,205,020,723</u>	<u>3,523,358,609</u>
Other assets	<u>1,895,062</u>	<u>2,661,778</u>
Total assets	<u>4,528,589,223</u>	<u>3,751,855,757</u>
<b>Liabilities</b>		
Accounts payable and other accrued liabilities	27,496,810	8,606,253
Investment trades payable	197,968,603	146,497,663
Mortgages payable	103,995,096	72,645,195
Warrants payable	1,235,294	1,335,218
Retroactive benefits payable	3,495,153	25,870,000
Securities lending liability	<u>432,733,273</u>	<u>258,075,384</u>
Total liabilities	<u>766,924,229</u>	<u>513,029,713</u>
<b>Net assets held in trust for pension benefits</b> <b>(A schedule of funding progress for the system</b> <b>is presented on page 44)</b>	<u>\$3,761,664,994</u>	<u>\$3,238,826,044</u>

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, 2004 AND 2003

	2004	2003
<b>Additions</b>		
Contributions		
Employee	\$ 42,863,624	\$ 43,699,827
Employer	119,144,097	52,840,790
Total contributions	162,007,721	96,540,617
Investment income		
From investment activities		
Net appreciation (depreciation) in		
fair value of investments – securities	418,220,428	(3,085,131)
Net appreciation in		
fair value of investments – real estate	8,059,996	5,181,214
Interest	50,287,596	52,592,062
Dividends	37,114,117	29,655,863
Real estate	23,197,627	23,988,978
Net gain from investment activities	536,879,764	108,332,986
From securities lending activities		
Securities lending income	4,136,990	4,339,852
Securities lending expense		
Borrower rebate expense	(2,848,188)	(3,040,848)
Security lending management fees	(517,535)	(357,649)
Net income from securities lending	771,267	941,355
Other income	429,870	637,290
Investment fees and expenses	(12,841,080)	(9,072,398)
Net investment gain	525,239,821	100,839,233
Total additions	687,247,542	197,379,850
<b>Deductions</b>		
Benefits paid	141,454,185	112,248,883
Retroactive benefits	807,341	25,870,000
Withdrawal of contributions	3,989,918	2,906,302
Retiree health insurance	10,547,981	9,232,142
Retiree dental insurance	1,763,253	1,633,830
Administrative and other expenses	5,845,914	5,897,063
Total deductions	164,408,592	157,788,220
<b>Net increase</b>	522,838,950	39,591,630
<b>Net assets held in trust for pension benefits, beginning</b>	3,238,826,044	3,199,234,414
<b>Net assets held in trust for pension benefits, ending</b>	\$3,761,664,994	\$3,238,826,044

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, 2004 and 2003

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, 2004, 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, 2004 and 2003

At June 30, the System's membership consisted of:

	<u>2004</u>	<u>2003</u>
Retirees and beneficiaries currently receiving benefits:		
Miscellaneous – Service	3,823	3,583
Miscellaneous – Beneficiary	842	814
Disability Miscellaneous – Ordinary	310	306
Disability Miscellaneous – Duty	174	185
Safety – Service	764	637
Safety - Beneficiary	184	169
Disability Safety - Ordinary	18	19
Disability Safety - Duty	<u>176</u>	<u>169</u>
Total Retired	<u>6,291</u>	<u>5,882</u>
Terminated employees entitled to benefits but not yet receiving them:	<u>2,110</u>	<u>1,885</u>
Current Members:		
Vested		
Miscellaneous Tier 1	990	1,236
Miscellaneous Tier 2	386	415
Miscellaneous Tier 3	5,317	4,814
Safety Tier 1	906	1,059
Safety Tier 2	<u>692</u>	<u>577</u>
Subtotal	<u>8,291</u>	<u>8,101</u>
Non-vested		
Miscellaneous Tier 1	2	5
Miscellaneous Tier 3	4,689	5,226
Safety Tier 1	7	21
Safety Tier 2	<u>683</u>	<u>780</u>
Subtotal	<u>5,381</u>	<u>6,032</u>
Total Current Members	<u>13,672</u>	<u>14,133</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, 2004 and 2003

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.

Enhanced Benefits

Effective June 29, 2003, enhanced retirement benefits became applicable for all SCERS service credits earned prospectively. 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, 2004 and 2003

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 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

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
FOR THE YEARS ENDED JUNE 30, 2004 and 2003

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.

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.

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 \$9,361,449 and \$3,229,875 at June 30, 2004 and 2003, respectively. As a result of the Ventura litigation (see Note 10), SCERS was ordered by the court to establish an interest-bearing trust account for the payment of attorneys fees and any additional payments ordered by the court for members. As of June 30, 2004, cash invested with Sacramento County Treasurer included \$3,495,153 held in trust as a result of the Ventura litigation.

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
FOR THE YEARS ENDED JUNE 30, 2004 and 2003

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.

Other Cash and Cash Equivalents

At June 30, 2004 and 2003, the cash and other cash equivalents are balances in bank demand deposit accounts of \$39,212,267 and \$28,653,755, respectively. The cash is held in 18 and 17 separate bank demand deposit accounts at June 30, 2004 and 2003, respectively, for the operations of the real estate properties each having \$100,000 in federal deposit insurance. Total insurance as of June 30, 2004 and 2003 is \$1,800,000 and \$1,700,000, respectively, with the balance of \$37,412,267 and \$26,953,755, respectively, collateralized by pledging financial institutions in the System's name.

Cash and Short-Term Investments with Fiscal Agents

At June 30, 2004 and 2003, the fair value of the System's cash and short-term investments with fiscal agents was \$159,611,546 and \$153,928,717, respectively. The total cash and short-term investments consisted of investments in the State Street Short-Term Investment Fund (STIF) and unallocated cash. 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 44 days and 55 days at June 30, 2004 and 2003, respectively. Net assets invested in the STIF from all participating custodial clients of State Street were \$38.4 billion and \$38.5 billion on June 30, 2004 and 2003, respectively. Unallocated cash was \$15,644,682 as of June 30, 2004 as a result of unanticipated amounts being received from a real estate advisor too late to be swept into the STIF. This amount was neither insured nor collateralized. There was no unallocated cash as of June 30, 2003.

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, 2004 and 2003, 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, 2004 and 2003

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, 2004 and 2003. Moreover, there were no losses resulting from default of the borrowers or State Street.

During the years ended June 30, 2004 and 2003, 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, 2004 and 2003, the collective investment pool had an average duration of 55 days and 70 days, respectively. At June 30, 2004 and 2003, the collective investment pool had a weighted-average maturity of 483 days and 438 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, 2004 were \$432,733,273 and \$423,352,853, respectively. 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. Non-cash collateral was \$405,316 and \$2,255,777 as of June 30, 2004 and 2003, respectively.

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, 2004 and 2003 were as follows:

<u>Security Description</u>	2004		
	<u>Cash Collateral Value</u>	<u>Other Collateral Value</u>	<u>Fair Value of Securities on Loan</u>
U.S. government obligations	\$174,919,590	\$ -	\$172,401,996
Domestic corporate bonds	75,667,548	-	74,269,250
Common stock - domestic	107,925,432	376,798	106,072,965
Common stock - international	<u>74,220,703</u>	<u>28,518</u>	<u>70,608,642</u>
Totals	<u>\$432,733,273</u>	<u>\$405,316</u>	<u>\$423,352,853</u>

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 FOR THE YEARS ENDED JUNE 30, 2004 and 2003

	2003		
<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	\$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>

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, other cash and cash equivalents, cash and short-term investments with fiscal agents, international equity index fund investments, real estate investments, securities on loan, and securities lending collateral are not categorized.

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, 2004 and 2003.

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 FOR THE YEARS ENDED JUNE 30, 2004 and 2003

		June 30, 2004	
	Category 1		Fair Value
Investments:			
U.S. government obligations	\$ 5,237,682		\$ 5,237,682
Domestic corporate bonds	752,243,353		752,243,353
International bonds	28,474,001		28,474,001
Common and preferred stock – domestic	1,467,541,875		1,467,541,875
Common and preferred stock – international	399,006,370		399,006,370
Total investments	2,652,503,281		2,652,503,281
Cash and investments not considered securities for the purpose of custodial risk classification:			
Cash invested with Sacramento County Treasurer			9,361,449
Other cash and cash equivalents			39,212,267
Cash and short-term investments with fiscal agents			159,611,546
International equity index fund			337,387,494
Real estate			359,043,822
Securities lending cash collateral			432,733,273
Securities on loan			423,352,853
Total deposits and investments			\$ 4,413,205,985

		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	326,185,622		326,185,622
Total investments	2,353,495,340		2,353,495,340
Cash and investments not considered securities for the purpose of custodial risk classification:			
Cash invested with Sacramento County Treasurer			3,229,875
Other cash and cash equivalents			28,653,755
Cash and short-term investments with fiscal agents			153,928,717
International equity index fund			284,583,583
Real estate			375,247,870
Securities lending cash collateral			258,075,384
Securities on loan			251,956,432
Total deposits and investments			\$3,709,170,956

For the years ended June 30, 2004 and 2003, there were no violations of State statutes or System policy in pooled investments.

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 FOR THE YEARS ENDED JUNE 30, 2004 and 2003

Except for real estate investments, cash invested with the Sacramento County Treasurer, and other cash and cash equivalents, 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, 2004 and 2003 is as follows:

	2004	2003
Currency forward contracts and futures	\$257,849,721	\$51,140,102
Floating-rate notes	81,216,000	77,553,666
Interest-only notes	-	2,007,816
Principal-only notes	-	464,000
Collateralized mortgage obligations	<u>8,855,000</u>	<u>32,448,130</u>
Total derivative instruments	<u>\$347,920,721</u>	<u>\$163,613,714</u>

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.

Real Estate

The system invests in actively-managed real estate portfolios, which are broadly diversified by geography and property types. Investment types may include offices, apartments, retail, industrial, and hotels. As of June 30, 2004 and 2003, real estate investments were \$359,043,822 and \$375,247,870, respectively.

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
FOR THE YEARS ENDED JUNE 30, 2004 and 2003

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 1.73% and 12.78% 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 11.43% to 42.34% of covered payroll. The required contributions include current service cost, and amortization of prior service cost over an amortization period of 30 years.

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, 2004 and 2003 totaled \$162,007,721 and \$96,540,617, respectively. Included in this total are employer contributions of \$119,144,097 and \$52,840,790, respectively, of which \$113,919,380 and \$49,438,193 were made by the County of Sacramento. Member contributions were \$42,863,624 and \$43,699,827, in 2004 and 2003, respectively. All contributions were made in accordance with actuarially-determined contribution requirements based on the actuarial valuations performed at June 30, 2002 and 2001, 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, 2004 and 2003

*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. Effective July 1, 2004, the health and dental insurance premium offsets for retirees has been funded by the employers who have elected to continue the payments for their retired members, since the System has not had adequate excess earnings to fund the benefit.

*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. For the year ended June 30, 2004, there were not sufficient earnings to maintain the additional 1.5% contingency reserve. Therefore, as of June 30, 2004, the contingency reserve was maintained at 1% 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, including the Ventura litigation (see Note 10). As of June 30, 2003, \$29,130,000 was designated for increased member benefit payments resulting from settlement of the Ventura litigation. As of June 30, 2004, member benefit payments had been increased, and the remaining balance was transferred to retiree reserves.

*Total allocated reserves (Smoothed market actuarial value).* Investment gains and losses for the year are recognized (smoothed) over a five-year period. As of June 30, 2004, total allocated reserves were \$3,958,640,315 as calculated by management. As of June 30, 2003 total allocated reserves were \$3,864,399,794 as determined by SCERS' consulting actuary.

A summary of the various reserve accounts, which comprise net assets available for pension and other benefits at June 30, 2004 and 2003 (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,**

	2004	2003
Employee reserves	\$ 528,600,970	\$ 553,425,220
Employer reserves	1,490,758,625	1,719,122,591
Retiree reserves	1,879,628,282	1,402,805,544
Retiree death benefit reserves	12,793,780	12,848,630
Retiree health care benefits reserves	1,572,766	2,425,028
Contingency reserve	45,285,892	93,651,229
Designation for legislation and litigation	-	29,130,000
Total reserves and designations	3,958,640,315	3,813,408,242
Excess earnings – undesignated	-	50,991,552
Total allocated reserves (smoothed market actuarial value)	3,958,640,315	3,864,399,794
Net assets in excess (deficit) of reserves	(196,975,321)	(625,573,750)
Net assets available for benefits, at fair value	\$ 3,761,664,994	\$ 3,238,826,044

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 FOR THE YEARS ENDED JUNE 30, 2004 and 2003

NOTE 6 - OTHER BENEFITS

In addition to providing pension benefits, the System provided certain health care and dental insurance premium offsets for retired members. These benefits were provided pursuant to California Government Code Section 31592.4 wherein excess earnings at the end of the year were 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 has been subject to the availability of excess earnings from the System. As of July 1, 2004, the System ceased to fund this benefit from excess earnings. SCERS employers have determined whether or not to fund the benefit for the employers' retired members. The cost of the retiree health care and dental insurance premium offsets was recognized as an expense of the System in the year the benefit was payable. For the years ended June 30, 2004 and 2003, those costs were \$10,547,981 and \$9,232,142 for health insurance and \$1,763,253 and \$1,633,830 for dental insurance for a total of \$12,311,234 and \$10,865,972, 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, and activities were as follows for the year ended June 30:

	<u>2004</u>	<u>2003</u>
Beginning Balance	\$ 72,645,195	\$ 72,919,076
Additions	45,700,000	-
Deductions	<u>(14,350,099)</u>	<u>(273,881)</u>
Ending Balance	<u>\$ 103,995,096</u>	<u>\$ 72,645,195</u>

Future debt service requirements for outstanding mortgages are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 171,209	\$ 6,116,111
2006	5,425,887	5,837,426
2007	1,000	5,726,520
2008	1,000	5,726,520
2009	61,701,000	3,725,105
2010 - 2014	18,025,649	4,709,597
2015 - 2019	4,290,711	3,802,059
2020 - 2024	5,389,855	2,702,915
2025 - 2029	6,770,564	1,322,205
2030 - 2034	<u>2,216,221</u>	<u>76,731</u>
Total	<u>\$ 103,995,096</u>	<u>\$ 39,745,189</u>

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 FOR THE YEARS ENDED JUNE 30, 2004 and 2003

NOTE 9 – LEASE OBLIGATIONS

A commitment under an operating lease agreement for office facilities provides for minimum future rental payments as of June 30, 2004 as follows:

Year Ending <u>June 30:</u>	
2005	\$ 534,988
2006	545,227
2007	555,466
2008	565,705
2009	575,944
Thereafter	<u>883,114</u>
Total	<u>\$ 3,660,444</u>

Rental costs during the year ended June 30, 2004 and 2003 were \$568,443 and \$533,099, respectively.

NOTE 10 – LITIGATION SETTLEMENT

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. 4<sup>th</sup> 483. That case is now finally determined (*In re Retirement Cases* (2003) 110 Cal. App. 4<sup>th</sup> 426), also referred to as the "Ventura Litigation".

The System agreed to settle the litigation for an actuarially estimated \$55 million. The settlement consisted of lump sum payments to members and attorneys fees of \$25,870,000 and an estimated \$29,130,000 to be paid out after January 2004 as increased retirement allowances. The settlement was approved by the court on May 18, 2004 subject to resolution of additional issues. The last remaining additional issue was resolved by the court by its order dated October 19, 2004.

NOTE 11 – RECLASSIFICATIONS

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

NOTE 12 – FUTURE ACCOUNTING PRONOUNCEMENTS

No new accounting pronouncements were implemented in the fiscal year ended June 30, 2004. The Governmental Accounting Standards Board (GASB) recently released GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3* and GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS (Continued)  
FOR THE YEARS ENDED JUNE 30, 2004 and 2003

GASB Statement No. 40 modifies previous custodial risk disclosure requirements and establishes more comprehensive disclosure requirements relating to other common risks of investments such as credit risk, concentration of credit risk, interest rate risk, and foreign currency risk currently found in Note 3. GASB No. 40 will be implemented in the financial statements for the year ending June 30, 2005.

GASB Statement No. 43 provides uniform financial reporting standards for plans that provide postemployment benefits such as health care benefits. This statement, if applicable, may require the System to obtain actuarial valuations, and report in its financial statements, the funded status and funding progress of health care and dental insurance premium offsets for retired members. Management is currently evaluating GASB No. 43 and if applicable, it will be implemented in the financial statements for the year ending June 30, 2007.

**REQUIRED SUPPLEMENTARY INFORMATION**

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
 REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
 FOR THE YEARS ENDED JUNE 30, 2004 and 2003

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 and significantly increased employer contributions for the year end June 30, 2004.

Schedule II - Schedule of employer contributions:

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
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
2004	119,144,097	100.0

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) (Continued)  
FOR THE YEARS ENDED JUNE 30, 2004 and 2003

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, 2004 and 2003

Schedule I – Schedule of administrative and other expenses:

Type of expense	<u>2004</u>	<u>2003</u>
Salaries and benefits	\$2,662,928	\$2,416,078
Professional fees	582,700	577,469
Equipment purchases and maintenance	89,171	198,299
Rent and lease expense	596,144	560,369
Depreciation expense	14,048	18,383
Other administrative expenses	<u>1,900,923</u>	<u>2,126,465</u>
Total administrative and other expenses	<u>\$5,845,914</u>	<u>\$5,897,063</u>

Schedule II – Schedule of investment fees and expenses:

Type of investment expense	<u>2004</u>	<u>2003</u>
Domestic equity managers	\$3,283,627	\$3,345,234
International equity managers	2,129,884	1,658,000
Bond managers	1,768,279	1,751,364
Real estate managers	5,064,429	1,778,924
Custodian fees	343,835	218,425
Investment consulting fees	190,004	161,004
Other professional fees	<u>61,022</u>	<u>159,357</u>
Total investment fees and expenses	<u>\$12,841,080</u>	<u>\$9,072,398</u>

Schedule III – Schedule of payments to consultants:

Type of consulting expense	<u>2004</u>	<u>2003</u>
Mercer Investment Consulting, Inc. Investment consulting fees	<u>\$190,004</u>	<u>\$161,004</u>

# Investment Section



Executive Staff

Richard Stensrud  
Chief Executive Officer

Jeffrey W. States  
Chief Investment Officer

John W. Gobel, Sr.  
Chief Benefits Officer

Kathryn T. Regalia  
Chief Operations Officer

## Chief Investment Officer's Report on Investment Activity

December 17, 2004

Dear Members of the Board,

### Introduction

SCERS saw a double digit total investment return of 16%, net of investment management fees, for the twelve-month period ending June 30, 2004. This is a significant improvement from the 2003 fiscal year return of 3.4%. These encouraging results reflect the improvement in the U.S. economy and the improvement in the domestic and international equity markets. The twelve-month return is .5% above SCERS policy weighted benchmark return of 15.5%, which is not adjusted for manager fees. Gross of fees, SCERS investment return for the twelve-month period is 16.2%. On a peer comparison SCERS performance ranks in the 80th percentile of the Russell/Mellon Trust Universe for funds of a billion dollars or more for the twelve month period. Over the trailing ten year period SCERS annualized investment return is 9.9%, net of manager fees. Mercer Investment Consulting, Inc. (Mercer) prepares the investment returns using information it receives from SCERS 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

SCERS uses external investment managers chosen by the Board to invest the funds' assets. As of June 30, 2004 there are sixteen investment managers investing fifteen separate account portfolios. In addition, SCERS 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 three 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 County Counsels' office provides legal services that are supplemented by contract legal counsel for equity real estate investments.

During the past twelve-months SCERS undertook a study of the investment asset allocation and the investment portfolio structure, which culminated in SCERS adopting a new asset allocation and revising the Investment Policy and Guidelines in July of 2004. The review began in the fall

of 2003 when Mercer Investment Consulting assisted the Board in a review of the asset allocation by conducting an asset/liability study. The Board considered and adopted new capital market return assumptions and risk assumptions for the major asset classes to be included in the study. Mercer then used these assumptions to assist the Board in evaluating several different asset allocation mixes to look at their return and risk characteristic using standard portfolio optimization methodology. The various allocation mixes were also evaluated against SCERS forecast liabilities using actuarial data and Monte Carlo simulations of outcomes in several different economic scenarios. After reviewing the study SCERS adopted a new asset allocation designed to improve the overall risk and return characteristics of the portfolio. The new asset allocation was adopted in December of 2003. Two significant changes were included in the new asset allocation. The first change was to reduce the asset allocation to domestic equity from 40% to 35% and add a 5% allocation to an equity long/short hedge fund portfolio. The second change was to reduce the fixed income allocation from 30% to 25% and increase SCERS allocation to equity real estate from 10% to 15%. SCERS asset allocation by major asset class is shown in the chart at the end of this letter.

To begin the implementation of the new asset allocation SCERS conducted a search for an additional equity real estate advisor to manage the additional 5% allocation. The search was conducted in March and April, and Cornerstone Realty Advisers became SCERS second equity real estate adviser in May. The Board also requested SCERS staff and investment consultant begin the process of searching for equity long/short hedge fund of funds managers. This search began in June and will be completed by August.

With the asset allocation decisions made, Mercer began a portfolio structure analysis to evaluate how well SCERS investment managers were doing in meeting the investment objectives and to identify possible changes needed to improve portfolio efficiency and performance. This study was an optimization of our current managers and their holdings. Using the manager's existing portfolios and guidelines an optimization of the holdings was prepared to determine where SCERS has gaps in comparison to the constituents of the various asset class benchmarks and to determine where there are overlaps in holdings. The result of this study was a decision to eliminate some portfolio overlap in domestic equity by eliminating an indexed Russell 1000 value portfolio and to replace one large cap value manager whose holdings and returns were highly correlated to another manager. It was decided to search for a new large cap value manager whose holdings and returns would have a lower correlation to the other managers.

SCERS custodial bank is State Street California, Inc. State Street California provides securities lending services to SCERS and through State Street Brokerage carries out a commission recapture program. In fiscal year 2004 SCERS earned net income of \$771,267 from securities lending and received recapture income of \$230,951.64. 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 SCERS 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 SCERS' 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. 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. SCERS 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, SCERS 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 SCERS Board has an obligation to manage the retirement 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 ending June 30, 2004 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 the following page. The actual asset allocation by investment manager also is included. The capital market assumptions adopted along with the asset allocation give SCERS an expected 8.55% annualized total rate of return over the next ten years with a standard deviation of returns of 11.71%. The asset allocation is broadly diversified between asset classes as well as within each class in a manner that insures consistent long-term performance in line with the policy objectives.

#### Summary of Investment Results

SCERS monitors capital market investment returns by using recognized and easily obtainable market indices as asset class benchmark proxies. The benchmark index and index performance by asset class for one, three and five years is shown on the page of Investment Results found later in this report. The asset class benchmark returns are weighted by the asset allocation to provide a policy-weighted return. SCERS total investment return for the fiscal year ending June 30, 2004, net of manager fees, is 16.0%. SCERS policy-weighted benchmark return for the fiscal year is 15.5%. SCERS also compares its performance against the performance of other

public funds utilizing a series of universe comparisons provided by Mercer Investment Consulting. For the fiscal year SCERS return ranked in the 80<sup>th</sup> percentile in comparison to the Russell/ Mellon Trust Universe for 36 public funds with assets of greater than one billion dollars.

U.S. Domestic equity is SCERS largest investment asset class. For the fiscal year SCERS total domestic equity return is 22.0%, net of fees, and 22.3% gross of fees. The return is above the benchmark Russell 3000 index return by 1.5%. In the Mercer Equity Universe SCERS the return ranks in the 50<sup>th</sup> percentile for the one-year period. For the three-year period SCERS domestic equity return is 0.7%, net of fees. The comparable Russell 3000 index return is 0.2% 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 19.4% return net of fees for one year; 0.1% below the Russell 1000 index return of 19.5%. The investment return for large cap equity for three years is 0.1%, 20 basis points better than the Russell 1000 index. The return for small cap equity investments for the one-year period is 34.5%, which is 110 basis points above the benchmark return of the Russell 2000 index of 33.4%. For the three-year period the small cap equity return is 4.3%, 190 basis points below the Russell 2000 index return of 6.2%.

International equity is SCERS best performing asset class for the fiscal year. The total international equity return is 28.2%. This is below the benchmark MSCI EAFE index equity return 32.4%. Performance for three years of 3.9% is better than the benchmark return of 2.2%. SCERS divides international equity into two categories based on country location. For the developed markets SCERS manager return of 27.9% under performed the MSCI EAFE index by 450 basis points. Over the three-year period the developed market return is 3.9% compared to a MSCI EAFE index return of 3.8%.

The international emerging markets slightly out performed the developed markets for the fiscal year. The MSCI Emerging Markets Free Index return for the fiscal year is 33.5% SCERS portfolio under performed the benchmark by 560 basis points returning 27.9%. For the three-year period the index return is 13.1% compared to the SCERS return of 8.9%.

Fixed income investments provided as measured by the Lehman Aggregate Bond Index had a return of only 0.3% for the fiscal year. SCERS combined fixed income manager return is better than the return of the benchmark Lehman Aggregate Bond index. The combined fixed income portfolio return for the fiscal year is 2.1%, net of fees. Over the three year period ending June 30, SCERS return of 6.7%, net of fees, is above the benchmark return of 6.4%. SCERS has one-third of the fixed income assets in a passive Lehman Aggregate indexed portfolio.

SCERS investments in the direct ownership of commercial real estate had a positive 11.1% return for the year. This return is 260 basis points above the NCREIF property index. During the fiscal year SCERS hired a second real estate adviser as the asset allocation to this asset class

was increased to 15%. In addition, as part of the strategic plan to reposition the portfolio for the economic recovery, SSR Realty sold five properties, two apartments, one industrial center, one retail grocery anchored shopping center and an office building and acquired an apartment complex and an retail grocery anchored shopping center. Additional acquisitions from the re-invest of sales proceeds are planned during the 2005 fiscal year. Over three-year the real estate portfolio return was 8.8% compared to the NCREIF property index return of 6.5%

A handwritten signature in black ink that reads "Jeffrey W. States". The signature is written in a cursive, slightly slanted style.

Jeffrey W. States  
Chief Investment Officer

## Asset Allocation

### 2004 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 2004 Actual Asset Allocation is based upon the Investment Summary adjusted to net out the \$104 million in leverage

## Investment Professionals at June 30, 2004

### Investment Managers

#### EQUITY-DOMESTIC

Alliance Capital Management  
 BNY Asset 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  
 Cornerstone Realty Advisors  
 Commingled Trusts:  
 Heitman Real Estate Fund III  
 Heitman Real Estate Fund V  
 JMB Real Estate Trust IV & V

### Real Estate Legal Counsel

Nossaman, Guthner, Knox & Elliot, LLP

### Proxy Advisor

Institutional Shareholder  
 Service

### Investment Consultant

Mercer Investment Consulting

## Investment Summary of Assets as Allocated 06/30/2004

	<u>Fair Value</u>	<u>Percentage of Total Cash &amp;</u>
<b><u>Investments</u></b>		
<b><u>Domestic</u></b>		
Alliance-Russell 1000 Index	\$ 840,936,563	21.13%
Alliance-Russell 1000 Value Index	132,544	.00
BNY Asset Management –Active Small Growth	60,284,249	1.51
Dalton, Greiner -Active Small Cap Value	81,210,720	2.04
Independence-Growth	274,080,537	6.89
M.A. Weatherbie-Small Growth	67,697,189	1.70
Oppenheimer-Value	90,963,530	2.29
Trinity-Value	109,930,290	2.76
TCW Asset Mgmt- Active Small Cap Value	<u>64,228,113</u>	<u>1.61</u>
Total Domestic Equity	<u>1,589,463,735</u>	<u>39.93</u>
<b><u>International</u></b>		
Northern Trust Global Services - EAFE Index	129,836,369	3.26
Capital Guardian Trust - EAFE Index	241,646,744	6.07
Capital International - Emerging Markets	207,551,125	5.21
Bank of Ireland Asset Management – EAFE	<u>237,655,744</u>	<u>5.97</u>
Total International Equity	<u>816,689,982</u>	<u>20.52</u>
Total Equities	<u>2,406,153,717</u>	<u>60.45</u>
<b><u>Fixed Income</u></b>		
<b><u>Domestic</u></b>		
Lincoln Capital-Index Salomon BIG	400,631,823	10.06
Bradford & Marzec-Salomon BIG	318,268,615	8.00
Metropolitan West Asset Management	<u>348,406,764</u>	<u>8.75</u>
Total Domestic Fixed	1,067,307,202	26.81
<b><u>International</u></b>		
Bradford & Marzec-Salomon BIG	<u>28,474,001</u>	<u>.72</u>
Total International Fixed	<u>28,474,001</u>	<u>.72</u>
Total Fixed Income	<u>1,095,781,203</u>	<u>27.53</u>
<b><u>Real Estate</u></b>		
SSR Realty-Separate	289,310,846	7.27
Cornerstone	61,466,061	1.54
Commingled Trusts	<u>8,266,915</u>	<u>.21</u>
Total Real Estate <sup>1</sup>	<u>359,043,822</u>	<u>9.02</u>
Total Investments at Fair Value	<u>3,860,978,742</u>	<u>96.97</u>
<b><u>Cash</u></b>		
Cash (Unallocated)	80,281,703	2.04
Other Cash & Cash Equivalents	<u>39,212,267</u>	<u>0.99</u>
Total Cash & Investments	<u>3,980,472,712</u>	<u>100.00%</u>
<b><u>Other Assets</u></b>		
Receivables	113,488,176	
Other Assets	1,895,062	
Securities lending collateral	<u>432,733,273</u>	
Total Assets	4,528,589,223	
<b><u>Liabilities</u></b>		
Accounts Payable and Other Accrued Liabilities	27,496,810	
Investment Trades Payable	197,968,603	
Mortgages Payable	103,995,096	
Other Liabilities	4,730,447	
Securities lending liability	<u>432,733,273</u>	
	766,924,229	
Net Assets held in Trust for Pension Benefits	<u>\$ 3,761,664,994</u>	

1. The real estate total includes investments made with borrowed funds totaling \$104 million. \$15.5 million is in the Cornerstone assets and \$88.6 million is in the SSR Realty assets.

## Investment Results

Domestic Equity	Current Year	Annualized	
	Ending June 30, 2004	3 Year	5 Year
Total Domestic Equity	22.3%	1.0%	0.1%
Mercer Equity Universe Median	22.3%	1.9%	1.2%
Benchmark: Russell 3000 Index	20.5%	0.2%	-1.1%
<b>International Equity</b>			
Total International Equity	28.7%	4.5%	0.4%
Mercer International Equity Universe Median	32.9%	5.5%	2.4%
Benchmark: MSCI EAFE Index	32.4%	3.9%	0.1%
<b>Fixed Income</b>			
Total Fixed Income	2.3%	6.8%	7.2%
Mercer Fixed Income Universe Median	2.3%	7.3%	7.2%
Benchmark: Lehman Brothers Aggregate	0.0%	6.4%	6.9%
<b>Real Estate</b>			
Total Real Estate	11.1%	8.8%	9.7%
Mercer Real Estate Universe Median	10.7%	8.4%	9.1%
Benchmark: NCREIF Classic Property Index	8.5%	6.5%	8.8%
<b>Total Fund</b>			
Sacramento Total Fund	16.2%	4.5%	3.6%
Russell/Mellon Public Funds Billion \$ Universe	17.5%	4.5%	4.1%
Benchmark: Asset Allocation Weightings <sup>3</sup>	15.5%	4.4%	3.2%

**Notes:**

1. Returns were prepared by Mercer Investment Consulting, Inc., and shown on a gross of fee basis.
2. 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.
3. 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	\$175,527	
BNY Asset Management	343,227	
Dalton, Greiner, Hartman, Maher & Company	405,511	
Independence Investment Associates	657,825	
M.A. Weatherbie	573,970	
Nicholas Applegate	75,379	
Oppenheimer Capital Management	300,242	
Trinity Investment Management	277,661	
TCW Asset Management	<u>474,275</u>	
		3,283,627
<i>Equity-International</i>		
Northern Trust Global Investments	230,085	
Bank of Ireland	875,267	
Capital Guardian Trust	<u>1,024,532</u>	
		2,129,884
<i>Fixed Income</i>		
Lincoln Capital Management	166,365	
Bradford & Marzec	832,203	
Metropolitan West Asset Management	749,849	
David L. Bonuccelli & Associates	<u>19,862</u>	
		1,768,279
<i>Real Estate</i>		
SSR Realty Advisors	5,047,123	
Cornerstone Realty Advisors	<u>17,306</u>	
		5,064,429
Total Manager Fees		<u>12,246,219</u>
<i>Other Professional Fees</i>		
State Street Bank – Custodian & Securities Lending Fees	343,835	
Mercer Investment Consulting	190,004	
Proxy Voting Services/Other	<u>61,022</u>	
		<u>594,861</u>
Total Investment Fees and Expenses		<u>\$ 12,841,080</u>

## Ten Largest Stock Holdings (by Fair Value) As of June 30, 2004

<u>Rank</u>	<u>Shares</u>	<u>Security Name</u>	<u>Fair Value</u>
1.	1,148,585	General Electric	\$ 37,214,154
2.	1,136,110	Microsoft Corp.	32,447,301
3.	946,362	Pfizer Inc.	32,441,289
4.	682,366	Exxon Mobil Corp.	30,303,874
5.	636,896	Citigroup Inc.	29,615,664
6.	965,850	Intel Corp.	26,657,460
7.	917,900	Cisco Systems Inc.	21,754,230
8.	279,878	American Intl. Group Inc.	19,949,703
9.	338,238	Johnson + Johnson Corp	18,839,856
10.	218,216	Bank America Corp.	<u>18,465,437</u>
Total of Ten Largest Stock Holdings			<u>\$ 267,688,968</u>

## Ten Largest Bond Holdings (by Fair Value) As of June 30, 2004

<u>Rank</u>	<u>Par</u>	<u>Security Name</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Fair Value</u>
1.	19,204,000	US Treasury Bonds	6.125%	11/15/2027	\$ 21,052,385
2.	16,955,000	US Treasury Notes	2.25%	02/15/2007	16,626,496
3.	14,172,000	US Treasury Notes	4.875%	02/15/2012	14,639,233
4.	13,030,000	FNMA TBA Jul 30	5.5%	12/01/2099	12,962,814
5.	12,373,000	FNMA TBA Jul 30	6.0%	12/01/2099	12,624,326
6.	11,817,000	US Treasury Notes	5.875%	11/15/2004	12,003,486
7.	11,752,921	FNMA Pool 725257	5.5%	02/01/2034	11,734,098
8.	11,578,000	US Treasury Notes	4.25%	08/15/2013	11,304,830
9.	8,980,000	US Treasury Notes	2.25%	04/30/2006	8,918,262
10.	9,182,000	FNMA TBA Jul 30	5.00%	12/01/2099	<u>8,868,521</u>
Total Largest Bond Holdings					<u>\$ 130,734,451</u>

**Note:** The above schedules do not include funds invested in commingled trust funds or cash in the custodian's 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, 2004

Broker Name	<u>Commissions Per Share</u>	<u>Total Commission</u>	<u>Shares/Par Value</u>
ABG SECURITIES AS (STOCKHOLM)	0.1058	582.12	5,500
ABN AMRO ASIA LIMITED	0.0082	2,274.52	279,000
ABN AMRO AUSTRALIA LIMITED	0.0206	3,324.12	161,482
ABN AMRO BANK NV AUCKLAND NZ	0.0086	130.11	15,069
ABN AMRO EQUITIES (UK) LTD LONDON	0.0093	9,568.40	1,028,099
ABN AMRO EQUITIES AUSTRALIA LTD.	0.0054	502.30	93,133
ABN AMRO EQUITIES UK LTD LONDON	0.0396	346.21	8,742
ADAMS HARKNESS + HILL,INC	0.0479	20,438.73	426,667
ADVEST INC	0.0500	80.00	1,600
ALLEN & COMPANY INCORPORATED	0.0167	894.00	53,400
ARNHOLD S BLEICHROEDER INC	0.0347	1,734.00	50,000
AUTRANET,INC.	0.0350	850.50	24,300
AVALON RESEARCH GROUP INC	0.0500	1,440.00	28,800
B RILEY AND CO INC.	0.0307	1,032.50	33,600
BAIRD, ROBERT W., & COMPANY INC	0.0492	26,359.87	535,525
BANC OF AMERICA SECURITIES	0.0500	1,850.00	37,000
BANC/AMERICA SECUR.LLC MONTGOMEY DIV	0.0454	58,716.23	1,292,867
BANK JULIUS BAER AND CO.LTD.	0.0703	1,153.05	16,395
BANK OF NEW YORK (THE) UBS LIMITED	0.0379	326.25	8,602
BANQUE NATIONALE DE PARIS, LON	0.2683	263.75	983
BARING SECURITIES (HONG KONG)	0.0159	890.83	56,000
BARRINGTON RESEARCH ASSOCIATES INC.	0.0500	335.00	6,700
BAYERISCHE HYPO UND VEREINSBANK AG	0.1773	974.99	5,500
BAYERISCHE HYPO VEREINSBANK AG	0.1079	86.32	800
BEAR STEARNS + CO INC	0.0494	48,786.60	987,732
BEAR STEARNS SECURITIES CORP	0.0452	14,487.28	320,827
BLAIR WILLIAM	0.0500	151.50	3,030
BLAYLOCK + PARTNERS L P	0.0482	2,689.00	55,760
BNP PARIBAS SECURITIES SERVICES	0.0539	1,433.13	26,600
BNY BROKERAGE INC	0.0104	22,769.50	2,185,760
BNY BROKERAGE.	0.0350	1,673.00	47,800
BNY CLEARING SERVICES LLC	0.0500	677.25	13,545
BNY ING BANK NV LONDON BRANCH	0.0182	67.74	3,732
BRIDGE TRADING	0.0500	5,620.00	112,400
BROADCORTCAPITAL (THRU ML)	0.0492	37,281.00	757,140
B-TRADE SERVICES LLC	0.0208	15,854.10	761,816
BUCKINGHAM RESEARCH GROUP	0.0483	4,228.75	87,615
BUCKINGHAM RESEARCH GROUP INC. (THE)	0.0500	1,499.25	29,985
BURNHAM SECURITIES	0.0300	378.00	12,600
C L KING AND ASSOC	0.0500	61.75	1,235
C. L. GLAZER & COMPANY, INC.	0.0500	885.00	17,700
C.E. UNTERBERG, TOBIN	0.0500	2,315.00	46,300
CALYON SECURITIES (USA) INC	0.0156	516.73	33,109
CANADIAN IMPERIAL BANK OF COMMERCE	0.0430	546.60	12,700
CANTOR FITZ EUR 2	0.3018	241.45	800
CANTOR FITZGERALD + CO.	0.0452	8,189.43	181,050
CAP INSTITUTIONAL SERVICES INC EQUITIES	0.0500	240.00	4,800
CAPITAL INSTITUTIONAL SERVICES	0.0125	10,845.45	867,635
CARIS + COMPANY	0.0200	3,480.00	174,000
CARNEGIE INT'L LND	0.0343	326.00	9,500
CAZENOVE + CO	0.0032	5,048.93	1,571,258
CAZENOVE ASIA LTD	0.0152	365.26	24,000
CHARLES SCHWAB CO INC	0.0418	28,285.18	677,097
CI NORDICSECURITIES AB	0.0235	46.91	2,000
CIBC WOODGUNDY	0.0400	904.00	22,600
CIBC WORLD MARKETS CORP	0.0438	30,139.61	688,821
CIBC WORLD MKTS INC	0.0355	902.35	25,400
CITATION GROUP	0.0500	28,410.00	568,200
CITIGROUPGLOBAL MARKETS ASIA LIMITED	0.0013	2,875.63	2,260,900
CITIGROUPGLOBAL MARKETS AUSTRALIA PTR	0.0153	1,856.36	121,300

<b>Broker Name</b>	<b>Commissions Per Share</b>	<b>Total Commission</b>	<b>Shares/Par Value</b>
CITIGROUPGLOBAL MARKETS INC	0.0400	61,914.39	1,547,821
CITIGROUPGLOBAL MARKETS LIMITED	0.0174	11,262.55	648,389
CJS SECURITIES	0.0500	1,500.00	30,000
COLLINS STEWART + CO	0.0101	92.56	9,141
CREDIT AGRICOLE INDOSUEZ CHEUVREUX	0.0384	3,796.30	98,800
CREDIT LYONNAIS SECURITIES	0.0192	272.70	14,200
CREDIT LYONNAIS SECURITIES (USA) INC	0.0149	3,043.87	204,500
CREDIT LYONNAIS SECURITIES(ASIA)	0.0026	4,085.94	1,578,500
CREDIT SUISSE FIRST BOSTON	0.0192	442.44	23,000
CREDIT SUISSE FIRST BOSTON (EUROPE) LTD	0.0144	6,293.61	437,065
CREDIT SUISSE FIRST BOSTON CORPORATION	0.0431	85,329.63	1,977,680
CREDIT SUISSE FIRST BOSTON EQUITIES (EUR	0.0058	7,463.62	1,279,705
CREDIT USA	0.0425	161.47	3,800
CS FIRST BOSTON (HONG KONG) LIMITED	0.0109	5,188.21	476,142
CSFB AUSTRALIA EQUITIES LTD	0.0125	420.73	33,687
CSFB EQUITIES 1 CABOT SQUARE	0.0050	7,389.23	1,475,381
CUSTOM EQUITY RESEARCH, INC.	0.0500	4,927.50	98,550
DAIWA SBCM EUROPE	0.0038	1,107.72	288,418
DAVIDSON D.A. + COMPANY INC.	0.0499	2,445.00	48,950
DEMATTEED MONNESS LLC	0.0500	3,100.00	62,000
DEUTSCHE BANK AG LONDON	0.0103	17,415.89	1,696,435
DEUTSCHE BANK SECURITIES INC	0.0508	11,486.08	226,260
DEUTSCHE BANK SECURITIES, INC	0.0070	1,310.70	188,300
DEUTSCHE SECURITIES ASIA LIMITED	0.0078	2,241.26	289,000
DONALDSONLUFKIN + JENRETTE SEC CORP	0.0500	82.65	1,653
EDWARDS AG SONS INC	0.0418	8,495.00	203,460
EHRENKRANTZ KING NUSSBAUM INC.	0.0500	170.00	3,400
ENSKILDA SECURITIES AB	0.0403	277.95	6,900
EXANE S.A.	0.0665	379.00	5,700
EXECUTIONLIMITED	0.0532	511.04	9,600
FACTSET DATA SYSTEMS (THRU BEAR STEARNS)	0.0500	15,785.00	315,700
FAGENSON + CO INC	0.0500	55.00	1,100
FAHNESTOCK & COMPANY, INC.	0.0500	60.00	1,200
FECHTOR DETWILER CO INC	0.0500	450.00	9,000
FERRIS BAKER WATTS INC	0.0400	68.00	1,700
FIRST ALBANY CAPITAL INC.	0.0499	4,333.00	86,800
FIRST ALBANY CORP.	0.0489	3,569.25	73,025
FIRST ANALYSIS SECURITIES CORP	0.0500	2,065.00	41,300
FIRST CLEARING, LLC	0.0500	3,655.00	73,100
FIRST UNION CAPITAL MARKETS	0.0499	4,850.00	97,200
FISERV SECURITIES INC	0.0313	5,205.99	166,100
FISERV SECURITIES, INC	0.0500	495.00	9,900
FOX PITT KELTON INC	0.0500	905.00	18,100
FRANKEL STUART + CO	0.0400	160.00	4,000
FRIEDMAN BILLINGS + RAMSEY	0.0447	6,118.00	137,000
FULCRUM GLOBAL PARTNERS LLC	0.0491	5,490.00	111,820
G G E T LLC	0.0500	120.00	2,400
G TRADE SERVICES LTD	0.0273	336.18	12,300
G.K.GOH STOCKBROKERS PTE LTT.	0.0189	415.60	22,000
GABELLI +COMPANY	0.0500	990.00	19,800
GARP STEARNS & SECURITIES CO	0.0500	220.00	4,400
GERARD KLAUER MATTISON + CO	0.0500	1,235.00	24,700
GERSON LEHRMAN GROUP BROKERAGE SERV LLC	0.0461	18,622.00	404,300
GOLDMAN SACHS + CO	0.0443	120,558.48	2,719,673
GOLDMAN SACHS INTERNATIONAL LONDON	0.0187	14,904.99	796,266
GOLDSMITH& HARRIS (THRU BEAR STEARNS)	0.0500	390.00	7,800
GOODBODY STOCKBROKERS	0.0163	1,259.73	77,275
GREEN STREET ADVISORS	0.0500	1,035.00	20,700
GREEN STREET ADVISORS INCORPORATED	0.0500	600.00	12,000
HARBORSIDE SECURITIES	0.0200	16.00	800
HARRIS NESBITT CORP.	0.0500	2,191.40	43,848
HARRIS NESBITT GERARD INC.	0.0500	130.00	2,600
HIBERNIA SOUTHCOAST CAPITAL INC	0.0500	285.00	5,700
HOENIG + COMPANY INC	0.0500	260.00	5,200
HOWARD WEIL DIVISION LEGG MASON	0.0500	1,825.00	36,500

<b>Broker Name</b>	<b>Commissions Per Share</b>	<b>Total Commission</b>	<b>Shares/Par Value</b>
HSBC BANKPLC	0.0706	4,787.57	67,774
HSBC SECURITIES(ASIA)LIMITED	0.0096	1,361.51	141,300
IMPERIAL CAPITAL LLC	0.0406	69.00	1,700
INGALLS SNYDER	0.0500	685.00	13,700
INSTINET	0.0388	21,985.61	566,602
INSTINET CLEARING SERVICES INC	0.0500	35.00	700
INVESTMENT TECHNOLOGY GROUP	0.0151	1.51	100
INVESTMENT TECHNOLOGY GROUP INC.	0.0224	70,234.82	3,132,472
INVESTMENT TECHNOLOGY GROUP LTD	0.0153	15.27	1,000
ISI GROUPINC	0.0486	2,312.00	47,600
ITG	0.0154	9.22	600
ITG EUROPE LIMITED	0.0144	8.61	600
J B WERE AND SON	0.0074	2,223.43	302,165
J P MORGAN SECURITIES INC	0.0178	118,000.01	6,642,882
JANNEY MONTGOMERY, SCOTT INC	0.0490	5,205.00	106,250
JB WERE AND SON (NZ) LTD	0.0076	140.30	18,454
JEFFERIESCOMPANY INC	0.0403	29,741.16	737,185
JMP SECURITIES	0.0479	4,381.30	91,486
JOHNSON RICE + CO	0.0500	466.20	9,324
JONES & ASSOCIATES INC	0.0413	7,658.00	185,200
JP MORGANSECURITIES AUSTRALIA LTD	0.0064	483.53	75,223
JP MORGANSECURITIES LIMITED	0.0313	4,803.48	153,662
JPMORGAN CHASE BANK	0.0173	110.41	6,390
JPMORGAN SECURITIES(ASIA PACIFIC)LTD	0.0044	870.79	200,000
KBC FINANCIAL PRODUCTS UK LTD	0.0932	329.26	3,531
KEEFE BRUYETTE + WOODS INC	0.0483	6,554.25	135,565
KING, CL, & ASSOCIATES, INC	0.0500	2,619.50	52,390
KLEINWORTBENSON SECURITIES LIMITED	0.0187	8,886.19	474,556
KNIGHT SECURITIES	0.0269	7,686.08	285,254
LA BRANCHE FINANCIAL #2	0.0313	3,147.00	100,700
LAZARD FRERES & CO.	0.0500	2,020.00	40,400
LEERINK SWANN AND COMPANY	0.0500	19,246.20	384,924
LEGENT CLEARING CORP.	0.0500	20.00	400
LEGG MASON WOOD WALKER INC	0.0492	13,764.81	279,587
LEHMAN BROTHERS ASIA LTD	0.0164	170.24	10,400
LEHMAN BROTHERS INC	0.0411	103,694.18	2,521,682
LEHMAN BROTHERS INTERNATIONAL (EUROPE)	0.0195	8,535.21	438,402
LEHMAN BROTHERS SECS (ASIA)	0.0110	5,068.45	461,356
LIQUIDNETINC	0.0263	33,250.90	1,266,439
LYNCH JONES AND RYAN INC	0.0500	2,595.00	51,900
M M WARBURG	0.1177	364.83	3,100
MACQUARIEINVESTMENT	0.0087	821.79	94,100
MAINFIRSTBANK DE	0.1297	1,057.82	8,155
MCDONALDAND COMPANY SECURITIES, INC.	0.0482	4,506.25	93,475
MERRILL LYNCH + CO INC	0.0377	6,833.48	181,152
MERRILL LYNCH EQUITIES (AUSTRALIA)	0.0070	133.81	19,100
MERRILL LYNCH INTERNATIONAL	0.0186	13,021.61	701,012
MERRILL LYNCH PEIRCE FENNER AND S	0.0134	8,701.81	650,984
MERRILL LYNCH PEIRCE, FENNER AND S	0.0008	184.78	241,508
MERRILL LYNCH PIERCE FENNER + SMITH	0.0496	42,497.36	856,593
MERRILL LYNCH PROFESSIONAL CLEARING CORP	0.0439	11,584.50	264,150
MESIROW FINANCIAL INC.	0.0500	45.00	900
MIDWEST RESEARCH SECURITIES	0.0490	6,065.97	123,720
MIDWOOD SECURITIES	0.0400	760.00	19,000
MIZUHO SECURITIES USA INC	0.0096	1,698.75	177,109
MOORS + CABOT INC	0.0499	1,962.00	39,300
MORGAN KEEGAN & CO INC	0.0500	2,242.25	44,845
MORGAN STANLEY AND CO. INTERNATIONAL	0.0278	20,122.18	723,900
MORGAN STANLEY CO INCORPORATED	0.0277	116,094.53	4,194,844
NATIONAL FINANCIAL SERVICES CORP.	0.0044	8,048.40	1,842,225
NCB STOCKBROKERS LTD	0.0420	145.03	3,452
NEEDHAM +COMPANY	0.0485	11,392.84	234,980
NESBITT BURNS	0.0374	3,823.48	102,121
NEUBERGERAND BERMAN	0.0333	5,938.00	178,500
NOMURA INTERNATIONAL PLC	0.0538	2,544.56	47,337

<b>Broker Name</b>	<b>Commissions Per Share</b>	<b>Total Commission</b>	<b>Shares/Par Value</b>
NOMURA SECURITIES INTERNATIONAL INC	0.0084	2,346.79	278,868
NORTHEASTSECURITIES INC	0.0500	7,285.00	145,700
OPPENHEIMER & CO. INC.	0.0499	4,936.50	98,950
PACIFIC CREST SECURITIES	0.0400	2,264.00	56,600
PACIFIC GROWTH EQUITIES	0.0500	290.00	5,800
PANMURE GORDON & CO LTD	0.2376	47.52	200
PARIBAS	0.0302	398.65	13,200
PARIBAS ASIA LIMITED	0.0172	283.12	16,500
PCS SECURITIES INC	0.0500	2,800.00	56,000
PENSON FINANCIAL SERVICES INC	0.0876	70.08	800
PERSHING	0.0500	4,294.75	85,895
PERSHING LLC	0.0473	40,224.15	850,575
PETERCAM S.A.	0.0926	27.78	300
PETRIE PARKMAN + CO	0.0500	175.00	3,500
PIPER JAFFRAY & CO.	0.0486	16,072.45	330,841
PORTALES PARTNERS LLC	0.0500	2,515.00	50,300
PRUDENTIAL EQUITY GROUP	0.0500	26,093.10	522,242
PULSE TRADING LLC	0.0300	150.00	5,000
RAYMOND JAMES AND ASSOCIATES INC	0.0489	14,694.45	300,389
RAYMOND JAMES LTD	0.0419	498.96	11,900
RBC CAPITAL MARKETS	0.0432	2,665.00	61,700
RBC DAIN RAUSCHER INC	0.0488	6,249.50	128,150
RBC DOMINION SECURITIES	0.0408	240.48	5,900
RBC DOMINION SECURITIES INC.	0.0640	376.37	5,881
ROBBINS AND HENDERSON	0.0500	905.00	18,100
ROSENBLATT SECURITIES INC	0.0500	565.00	11,300
ROTH CAPITAL PARTNERS LLC	0.0489	3,542.35	72,480
S.G. COWEN & CO., LLC	0.0400	140.36	3,509
SANDERS MORRIS MUNDY	0.0499	869.00	17,400
SANDLER ONEIL	0.0500	21.00	420
SANDLER ONEILL + PART LP	0.0496	5,028.75	101,355
SANDLER ONEILL + PARTNERS LLC	0.0500	280.25	5,605
SANFORD C. BERNSTEIN LTD	0.0153	2,682.90	175,089
SANFORD CBERNSTEIN CO LLC	0.0451	37,673.55	836,224
SANTANDERCENTRAL HISPANO BOLSA	0.0242	137.82	5,700
SCOTIA CAPITAL (USA) INC	0.0362	1,824.07	50,400
SCOTT & STRINGFELLOW, INC	0.0496	7,810.55	157,475
SG AMERICAS SECURITIES, LLC	0.0500	1,490.00	29,800
SG COWEN SECURITIES CORP	0.0475	19,377.35	407,767
SG SECURITIES (LONDON)LTD	0.0812	220.18	2,712
SIDOTI & CO. LLC	0.0500	715.00	14,300
SIDOTI + COMPANY LLC	0.0500	840.00	16,800
SIMMONS +COMPANY INTERNATIONAL	0.0500	1,170.00	23,400
SOCIETE GENERALE LONDON BRANCH	0.0624	717.52	11,501
SOUTHWESTSECURITIES	0.0500	1,250.00	25,000
SPEAR, LEEDS & KELLOGG	0.0165	1,547.00	93,633
STANDARD & POOR'S SECURITIES, INC.	0.0500	4,500.00	90,000
STANDARD + POORS SECURITIES INC	0.0497	7,466.00	150,100
STANFORD GROUP CO	0.0481	101.00	2,100
STATE STREET BANK + TR CO	0.0497	56,978.15	1,145,723
STATE STREET BROKERAGE SERVICES	0.0487	99,406.33	2,039,639
STATUS SECURITIES	0.0300	150.00	5,000
STEPHENS,INC.	0.0500	3,205.00	64,100
STIFEL NICOLAUS & CO INC	0.0500	980.00	19,600
STUART FRANKEL + CO	0.0196	53.00	2,700
SUN	0.0500	125.00	2,500
SUNTRUST CAPITAL MARKETS INC	0.0500	555.00	11,100
SUNTRUST CAPITAL MARKETS, INC.	0.0438	1,596.00	36,400
TD WATERHOUSE INVESTOR SERVICES INC	0.0200	28.00	1,400
THE BENCHMARK COMPANY, LLC	0.0497	671.00	13,500
THEMIS TRADING LLC	0.0387	17,293.45	447,312
THINKEQUITY PARTNERS LLC	0.0499	3,784.25	75,875
THOMAS WEISEL PARTNERS	0.0490	14,697.85	299,657
THOMASON INSTITUTIONAL SERVICES, INC	0.0494	1,294.00	26,200
TORONTO DOMINION SECURITIES INC	0.0360	284.31	7,900

<b>Broker Name</b>	<b><u>Commissions Per Share</u></b>	<b><u>Total Commission</u></b>	<b><u>Shares/Par Value</u></b>
U S BANCORP PIPER JAFFRAY INC	0.0492	8,988.75	182,595
U S CLEARING INSTITUTIONAL TRADING	0.0500	30.00	600
UBS AG	0.0093	16,692.78	1,790,038
UBS AG LONDON	0.0171	133.25	7,805
UBS AG/CUST LDN BRAN	0.0264	286.94	10,851
UBS FINANCIAL SERVICES INC	0.0023	3,937.10	1,747,800
UBS SECURITIES CANADA INC	0.0393	460.15	11,719
UBS SECURITIES LLC	0.0497	9,983.22	200,940
UBS WARBURG LLC	0.0469	25,956.51	553,593
VANDHAM SECURITIES CORP	0.0473	3,846.00	81,300
VARIANT RESEARCH CORPORATION	0.0500	1,000.00	20,000
VERITAS SECURITIES	0.0250	10,967.50	438,700
WACHOVIA SECURITIES, LLC	0.0500	1,000.00	20,000
WACHOVIA SECURITIES, LLC.	0.0129	64,019.22	4,962,780
WACHOVIACAPITAL MARKETS, LLC	0.0486	11,309.70	232,714
WARBURG DILLION READ (ASIA) LTD	0.0043	6,048.25	1,406,210
WARBURG DILLON READ	0.0500	440.00	8,800
WAVE SECURITIES LLC	0.0176	9,185.65	521,502
WEDBUSH MORGAN SECURITIES INC	0.0487	6,790.08	139,406
WEEDEN + CO.	0.0458	8,345.65	182,069
WELLS FARGO SECURITIES LLC	0.0500	5,995.00	119,900
WESTMINSTER RESEARCH ACCOCIATION	0.0484	12,702.30	262,226
WILLIAM BLAIR & COMPANY, L.L.C	0.0496	9,419.63	189,743
WIT SOUNDVIEW CORP	0.0500	7,148.00	142,960
WR HAMBRECHT + CO	0.0500	2,180.00	43,600
<b>TOTAL</b>	<b>0.0264</b>	<b><u>\$2,317,104.55</u></b>	<b><u>87,907,490</u></b>

# 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.

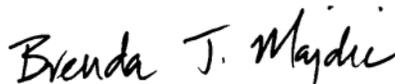
We look forward to presenting this report to the Board in the November meeting.

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 Letter

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.

A list of supporting schedules we prepared for inclusion in the Actuarial and Financial Sections of the System's CAFR Report is provided below:

- Summary of Membership Statistics
- Schedule of Active Member Valuation Data
- Retirees and Beneficiaries Added To and Removed From Retiree Payroll
- Schedule of Funding Progress
- Solvency Tests

- Actuarial Analysis of Financial Experience
- Probability of Separation Prior to Retirement
- Schedule of Retired Members by Type of Benefit
- Schedule of Average Benefit Payments for Retirees and Beneficiaries

In addition to the Schedule of Funding Progress for the Financial Section of the CAFR, we have also provided a summary of the System's membership data for June 30, 2003 and June 30, 2002.

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

Differences between actual experience and anticipated experience;

Changes in actuarial assumptions or methods;

Changes in statutory provisions; and

Differences between the contribution rates determined by the valuation and those adopted by the Board.

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




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Marcia L. Chapman, FSA, EA, MAAA

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November 11, 2003

Date




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Brenda J. Majdic, ASA, EA, MAAA

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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

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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

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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)		Actuarial Value of Assets	Active Member Contributions	Retired/Vested Members	Active Members (Employer Financed Portion)
			Financed Portion	Total				
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,					
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
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)	-	(16)
<b>Ending Unfunded Actuarial Accrued Liability</b>	<b>244</b>	<b>(\$253)</b>	<b>(\$266)</b>	<b>(\$316)</b>	<b>(\$283)</b>	<b>(\$191)</b>

\* 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 Vested	Ordinary Disab.	Duty Disab.	Ordinary Death	Duty Death
<=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 (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	0.0932	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	0.0050	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 Metropolitan 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					Admin. and Other Expenses	Refunds	Total
	Service	Survivor Benefits	Retiree Death Benefits	Health and Dental Benefits				
6/30/1999	\$ 9,426	\$ 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	
6/30/2004	139,009	1,817	629	12,311	6,653	3,990	164,409	

Note: For the years ended June 30, 2004 and 2003, Admin. and Other Expenses include retroactive benefits of \$807,341 and \$25,870,000, respectively, related to the Ventura litigation settlement.

Source: Audited Financial Statements for June 30, 2004

## Schedule of Retiree Members by Type of Benefit

### *Miscellaneous Members*

	Monthly Allowances				Average Benefit
	Count	Basic	COL	Total	
<b>Service Retirement</b>					
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
<b>Total</b>	<b>3,583</b>	<b>3,774,588</b>	<b>1,406,776</b>	<b>5,181,364</b>	<b>1,446</b>
<b>Ordinary Disability</b>					
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
<b>Total</b>	<b>306</b>	<b>225,910</b>	<b>98,692</b>	<b>324,602</b>	<b>1,061</b>
<b>Duty Disability</b>					
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
<b>Total</b>	<b>185</b>	<b>203,427</b>	<b>106,610</b>	<b>310,037</b>	<b>1,676</b>
<b>Beneficiary</b>					
<b>Total</b>	<b>814</b>	<b>399,714</b>	<b>324,393</b>	<b>724,107</b>	<b>890</b>
<b>Total (All Groups)</b>	<b>4,888</b>	<b>\$4,603,639</b>	<b>\$1,936,471</b>	<b>\$6,540,110</b>	<b>\$1,338</b>

### *Safety Members*

	Monthly Allowances				Average Benefit
	Count	Basic	COL	Total	
<b>Service Retirement</b>					
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
<b>Total</b>	<b>637</b>	<b>1,769,461</b>	<b>537,547</b>	<b>2,307,008</b>	<b>3,622</b>
<b>Ordinary Disability</b>					
Unmodified	18	24,319	13,698	38,017	2,112
Option 1	-	-	-	-	-
Option 2, 3 & 4	1	1,434	427	1,861	1,861
<b>Total</b>	<b>19</b>	<b>25,753</b>	<b>14,125</b>	<b>39,878</b>	<b>2,099</b>
<b>Duty Disability</b>					
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
<b>Total</b>	<b>169</b>	<b>322,241</b>	<b>145,803</b>	<b>468,044</b>	<b>2,769</b>
<b>Beneficiary</b>					
<b>Total</b>	<b>169</b>	<b>164,856</b>	<b>131,640</b>	<b>296,496</b>	<b>1,754</b>
<b>Total (All Groups)</b>	<b>994</b>	<b>\$2,282,311</b>	<b>\$829,115</b>	<b>\$3,111,426</b>	<b>\$3,130</b>

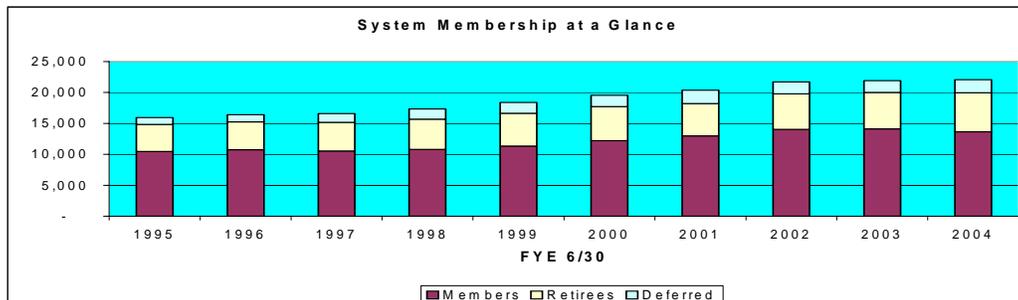
Source: Actuarial Report for June 30, 2003

## Schedule of Average Benefit Payments for Retirees and Beneficiaries

Retirement Effective Dates 7/01/97 to 6/30/03	0-4	5-9	10-14	15-19	20-24	25-29	30&over
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
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
2004	13,672	6,291	2,110	22,073

Source: Audited Financial Statements for June 30, 2004

## Schedule of Employer Contribution Rates

Actuarial Report for Year Ended	<u>County</u>					<u>Special Districts</u>		
	<u>Miscellaneous</u>			<u>Safety</u>		<u>Miscellaneous</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	16.33	12.00	14.16	31.82	27.67	18.37	18.42	27.42

**Source: Actuarial Report for June 30, 2003**

Note: Actuarial Valuation Reports are prepared subsequent to a fiscal year-end and determine rates which pertain to the following fiscal year. For example, the Actuarial Valuation as of 6/30/03 presented current rates for the Fiscal Year 2003-04 and was used to determine rates for the Fiscal Year 2004-05.

## Schedule of Administrative Expenses

<u>Type of Expense</u>	<u>6/30/04</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>
Salaries and Benefits	\$2,662,928	\$2,416,079	\$2,077,187	\$1,817,936	\$1,464,159	\$1,418,423
Professional Fees	582,700	577,469	420,311	433,167	634,020	753,372
Equipment Purchases and Maintenance	89,171	198,299	313,967	241,896	155,414	110,426
Rent and Lease Expense	596,144	560,369	415,657	203,834	170,880	155,031
Depreciation Expense	14,048	18,383	42,409	42,450	25,289	43,407
Other Administrative Expenses	<u>1,900,923</u>	<u>2,126,465</u>	<u>2,215,777</u>	<u>1,092,133</u>	<u>1,152,303</u>	<u>882,524</u>
<b>TOTAL\$</b>	<b><u>\$5,845,914</u></b>	<b><u>\$5,897,063</u></b>	<b><u>\$5,485,308</u></b>	<b><u>\$3,831,416</u></b>	<b><u>\$3,602,065</u></b>	<b><u>\$3,363,183</u></b>

**Source: Audited Financial Statements for June 30, 2004**

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