

Comprehensive Annual Financial Report

For The Fiscal Years Ended June 30, 2005 and 2004



Employees' Retirement System

Sacramento, California

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2005 and 2004

Issued By:

Richard Stensrud
Chief Executive Officer

Kathryn T. Regalia, CPA
Chief Operations Officer



Sacramento County
Employees' Retirement System
980 9th Street, Suite 1800
Sacramento, CA 95814
www.scers.org

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Introductory Section



Letter of Transmittal



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

December 22, 2005

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

Dear Board Members:

As Chief Executive Officer of the Sacramento County Employees' Retirement System ("SCERS" or the "System"), I am pleased to present this Comprehensive Annual Financial Report ("CAFR" or the "Report") for the fiscal years ended June 30, 2005 and 2004.

The System

SCERS is a multi-employer public employee retirement system, enacted and administered in accordance with the provisions of the County Employees Retirement Law of 1937 (California Government Code Section 31450, et seq.) ("1937 Act"). Since its creation by the Sacramento County Board of Supervisors in 1941, SCERS has provided retirement, disability, and survivors' benefits to eligible participants of the System. Under Article XVI, Section 17 of the Constitution of the State of California, the SCERS Board of Retirement is vested with plenary authority and fiduciary responsibility for the investment of monies and the administration of the System. Together, the provisions of the State Constitution and the 1937 Act establish SCERS as a separate and independent governmental entity from the public employers that participate in SCERS. At June 30, 2005, the County of Sacramento and 11 special districts ("Special Districts") participated in SCERS.

The Comprehensive Annual Financial Report

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation in this CAFR rests with the management of the System. To the best of management's 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.

Introductory Section

Letter of Transmittal (Continued)

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; required supplementary information, and other supplemental information.

The Investment Section contains the Chief Investment Officer's Report on Investment Activity which summarizes 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, 2005; and a schedule of manager fees.

The Actuarial Section provides the independent actuary's certification as of June 30, 2005; 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 the System's assets are protected from loss, theft, or misuse. Responsibility for the accuracy, completeness, and fair presentation of information, and all disclosures in this CAFR and in the System's records, rests with SCERS' management. Macias, Gini & Company, LLP, a certified public accounting firm, has audited the financial statements and related disclosures. The financial audit provides assurance that SCERS' financial statements are presented in conformity with accounting principles generally accepted in the United States 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 assessment of costs and benefits requires estimates and judgments by management.

This report has been prepared in accordance with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). GAAP requires that management provide a narrative introduction, overview, and analysis to

Introductory Section

Letter of Transmittal (Continued)

accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The System's 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) further provides that "the Retirement Board of a public pension or retirement system shall have sole and exclusive fiduciary responsibility over the assets...."

SCERS maintains an overall investment policy designed to achieve a diversified investment portfolio. An integral part of the investment policy is the strategic asset allocation, which is designed to provide an optimal mix of asset classes with return expectations that correspond to expected liabilities. The strategic asset allocation also emphasizes maximum diversification of the portfolio to protect the System from the possibility that a particular asset class may experience poor investment performance in a given period.

For the year ended June 30, 2005, SCERS' investments provided a 10.1% rate of return (gross of fees), compared to the investment policy benchmark return of 11.1%.

More detailed information regarding SCERS' strategic asset allocation, professional investment advisors, and investment performance can be found in the Investment Section of this Report.

Actuarial Funding Status

SCERS' overall funding objective is to meet long-term benefit promises by maintaining a well-funded plan status through a combination of superior investment returns and employer and employee contributions which are both minimized and maintained as level as possible for each generation of active members. The greater the level of overall plan funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the 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. To help reduce year-to-year volatility in employer contribution rates due to fluctuations in investment performance, SCERS smoothes the calculation of actuarial assets over a rolling five-year period. This not only stabilizes contribution rates but also improves the ability of the employer to plan for possible future increases or decreases in the rates.

SCERS engaged an independent actuarial consulting firm, The Segal Company, to conduct its annual actuarial valuation as of June 30, 2005. Triennially, the System requests that its actuary perform an analysis of the appropriateness of all economic and non-economic assumptions. The last triennial analysis was performed as of June 30, 2004, and as a result of that analysis, the Board of Retirement approved certain changes to the actuarial assumptions. The actuarial assumptions were further reviewed in 2005, and as a result of that analysis the Board of Retirement approved certain changes to the economic assumptions which were incorporated in the actuarial valuation as of June 30, 2005.

Introductory Section

Letter of Transmittal (Continued)

At June 30, 2005, SCERS' funding ratio was 93.2%, with the actuarial value of assets totaling \$4,531 million and the actuarial accrued liability totaling \$4,861 million. This very slight decline in the funding ratio (down from 93.3% as of June 30, 2004) was due primarily to the ongoing phase-in of poor investment performance from 2000 through 2003 under the five-year smoothing methodology. Importantly, however, as a result of the strong investment performance over the last two years, the deferred gains under the smoothing methodology now exceed the deferred losses by nearly \$46 million, and these deferred gains can be utilized to offset possible investment shortfall in the future or to lower future costs. Overall, the shift from a net balance of deferred losses to a net balance of deferred gains represents a meaningful step toward stabilizing contribution costs.

Budget

The Board of Retirement approves SCERS' annual budget. The 1937 Act limits SCERS' annual administrative expenses to eighteen hundredths of one percent (0.18%) of the System's total assets and SCERS' administrative expenses have historically been below that limitation. For the years ended June 30, 2005 and June 30, 2004, administrative expenses were within the budget established by the Board of Retirement and were 0.10% and 0.13% of the prior year's total assets, respectively.

Significant Events

Following are significant events which occurred during the fiscal year:

- ◇ Coordinated and successfully conducted Retirement Board elections for one Retiree member, one Alternate Retiree member, and one Miscellaneous member. Nancy Wolford-Landers and William Cox were elected as Retiree member and Alternate Retiree member, respectively, for three-year terms. Keith DeVore was re-elected as a Miscellaneous member for a three-year term.
- ◇ Dave Irish was named Sacramento County Director of Finance and joined the Board of Retirement in July 2005 as an Ex-Officio member. Mr. Irish replaced Mark Norris, who accepted a promotion to Administrator of the Internal Services Agency for Sacramento County.
- ◇ Worked with the Sacramento County Department of Finance, Office of Communications and Information Technology, and participating SCERS employers to interview, select, and implement an automated interface for Special District payroll activity.
- ◇ Replaced SCERS' custom DocScan and DocIndex software and current scanner hardware with Kofax Ascent Capture software and new hardware. Migrated SCERS data and documents from stand-alone server to shared server.
- ◇ Implemented the transition of actuarial service providers to The Segal Company from Mercer Human Resource Consulting, Inc.
- ◇ Reinstated retirement planning seminars for active members.
- ◇ Implemented asset allocation changes and completed restructuring of investment managers to improve portfolio risk and return characteristics.
- ◇ Finalized and implemented the Settlement Agreement in Judicial Counsel Coordination Proceeding No. 4049, Sacramento County Case No. 97CS030403, i.e., the "Ventura" litigation.
- ◇ Implemented new state law provisions regarding registered domestic partners.
- ◇ Completed the transition in funding the subsidy for retiree health care costs from SCERS to participating employers.

Introductory Section

Letter of Transmittal (Continued)

- ◇ Created and implemented a new computer program for calculating retirement allowances.
- ◇ Engaged Macias Consulting Group to analyze and develop recommendations for improvement to SCERS' investment accounting process.
- ◇ Adopted and implemented changes in actuarial assumptions as recommended in the triennial experience study and in a post-experience study review.
- ◇ Formalized and documented the review process for domestic relations orders and community property interests.
- ◇ Developed and posted web-based instructions for the online benefits calculator.
- ◇ Analyzed pension reform proposals and proactively participated in educating plan stakeholders and the public.

Certificate of Achievement

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, 2004. In order to be granted this national award, a governmental entity must publish an easily readable and efficiently organized CAFR that meets the highest standards of governmental financial reporting. This was the sixth consecutive year that the System has achieved this prestigious award.

A Certificate of Achievement is valid for a period of one year. Management believes that this current comprehensive annual financial report continues to meet the requirements for earning a Certificate of Achievement, and it will be submitted to the GFOA for consideration for the award.

Acknowledgements

This Report is intended to provide complete and reliable information with respect to the responsible stewardship of SCERS. The compilation of this Report is a product of the combined and dedicated effort of the System's staff. This Report is also a reflection of the leadership of the SCERS Board in assuring the prudent fiduciary oversight of SCERS. I would like to take this opportunity to express my thanks to the SCERS Board, staff, and advisors for their commitment to SCERS, and for working so diligently to ensure the successful operation of the System.

Respectfully submitted,



Richard Stensrud
Chief Executive Officer



Certificate of Achievement

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, 2004

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. Zielke

President

Jeffrey R. Emery

Executive Director

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



2nd Vice President

John B. Kelly
Appointed by Board of Supervisors
Present term expires December 31, 2006



Ex-Officio

Director of Finance
Dave Irish
Member mandated by law



Trustee

Nancy Wolford-Landers
Elected by Retired Members
Present term expires December 31, 2007



Trustee

Keith DeVore
Elected by Miscellaneous Members
Present term expires December 31, 2007



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

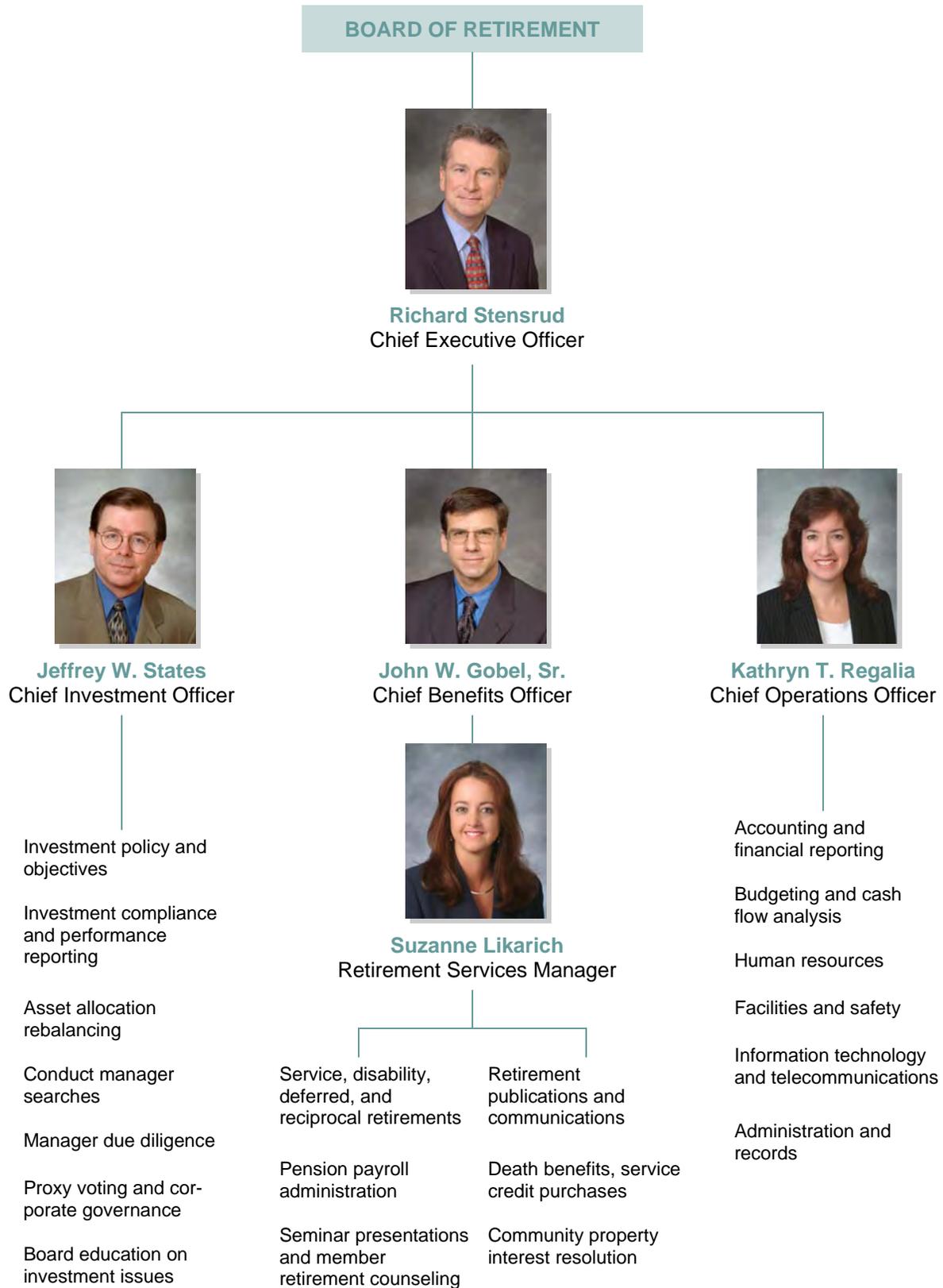
Steven Soto
Elected by Safety Members
Present term expires December 31, 2006



Alternate Retiree Trustee

William Cox
Elected by Retired Members
Present term expires December 31, 2007

Organization Chart



Introductory Section

Participating Employers

<u>Employer</u>	<u>Date Entered System</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
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 Cosumnes Cemetery District	April 28, 1987
Galt-Arno Cemetery District	July 1, 1987

* Florin Fire District terminated its membership on June 30, 1996. Members are currently part of Sacramento Metropolitan Fire District.

Professional Consultants

Actuary

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

Auditor

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

Custodian

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

Legal Counsel

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

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

Hanson, Bridgett, Marcus, Vlahos, & Rudy, LLP
333 Market Street, Suite 2300
San Francisco, CA 94105

Investment Consultant

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

Investment Managers

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

AXA Rosenberg Investment Management
4 Orinda Way, Building E
Orinda, CA 94563

Bank of New York Asset Management
1633 Broadway, 13th Floor
New York, NY 10019

BlackRock Realty Advisors, Inc.
300 Campus Drive, 3rd Floor
Florham Park, NJ 07932

Blackstone Alternative Asset Management L.P.
345 Park Avenue
New York, NY 10154

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

Capital Guardian Trust Company
330 South Hope Street, 51st Floor
Los Angeles, CA 90071-1406

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

Cornerstone Real Estate Advisers, LLC
One Financial Plaza
Hartford, CT 06103-2604

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

Grosvenor Capital Management, L.P.
227 West Monroe Street, Suite 4800
Chicago, IL 60606

Heitman Capital Management Corporation
191 North Wacker Drive
Chicago, IL 60606

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

INVESCO Global Asset Management (N.A.), Inc.
1360 Peachtree Street, N.E., Suite 100
Atlanta, GA 30309

Lehman Brothers Asset Management LLC
200 South Wacker Drive, Suite 2100
Chicago, IL 60606-5814

LSV Asset Management
One North Wacker Drive, Suite 4000
Chicago, IL 60600

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

Continued

Introductory Section

Professional Consultants (Continued)

Investment Managers –continued

Metropolitan West Asset Management
11766 Wilshire Blvd., Suite 1580
Los Angeles, CA 90025

OFI Institutional Asset Management
6801 South Tucson Way
Centennial, CO 80112

Pzena Investment Management, LLC
120 West 45th Street, 34th Floor
New York, NY 10036

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

A schedule of manager fees is located on pages 68 and 69 in the Investment section



Financial Section



Independent Auditor's Report



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, 2005 and 2004, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2005 and 2004, 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.

As described in Note 2, effective July 1, 2003, the System adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3.

Financial Section

Independent Auditor's Report (Continued)

In accordance with *Government Auditing Standards*, we have issued our report dated December 22, 2005, 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 22 through 30, the Schedule of Funding Progress and the Schedule of Employer Contributions on page 53 and Significant Actuarial Assumptions on page 54 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States 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 other supplemental information in the financial section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & Company LLP

Certified Public Accountants

Sacramento, California
December 22, 2005

Management's Discussion and Analysis

This section presents SCERS management's discussion and analysis (MD&A) of the financial activities of the Sacramento County Employees' Retirement System (SCERS) for the years ended June 30, 2005 and 2004. Readers are encouraged to consider the narrative overview and information presented in the MD&A in conjunction with the Letter of Transmittal beginning on page 8 of this Report and the Financial Statements, Notes to the Financial Statements, Required Supplementary Information, and Other Supplemental Information that follows.

FINANCIAL HIGHLIGHTS

As of June 30, 2005, the net assets of SCERS held in trust for pension benefits (Plan Net Assets) totaled \$4,576.4 million. This represents an increase of \$814.7 million (or 21.7%) from the \$3,761.7 million in SCERS Plan Net Assets as of June 30, 2004, which, in turn, represented an increase of \$522.9 million (or 16.1%) over the \$3,238.8 million in Plan Net Assets as of June 30, 2003.

Revenues (Additions to Plan Net Assets) were \$986.0 million and \$687.3 million for the years ended June 30, 2005 and 2004, respectively. Total additions increased \$298.7 million (or 43.5%) for the year ended June 30, 2005, and \$489.9 million (or 248.2%) for the year ended June 30, 2004. Investment gains were a significant reason for the increase in total additions both years, with net investment gains of \$419.5 million in the year ended June 30, 2005 and \$525.2 million in the year ended June 30, 2004. Another significant reason for the increase in total additions for the year ended June 30, 2005 was the receipt of \$420.0 million in proceeds from pension obligation bonds issued by the County of Sacramento.

Deductions in Plan Net Assets were \$171.3 million and \$164.4 million for the years ended June 30, 2005 and 2004, respectively. The total deductions in the year ended June 30, 2005 increased \$6.9 million (or 4.2%) over the year ended June 30, 2004, which, in turn, had increased in total deductions of \$6.6 million (or 4.2%) over the year ended June 30, 2003. Increased monthly benefit payments due to participating employers' adoption of enhanced benefit formulas was the primary reason for the increase in total deductions for both years.

SCERS' funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2005, the funded ratio of SCERS (i.e., the ratio of the actuarial value of assets to actuarial accrued liability) was 93.2%, down slightly from the funded ratio of 93.3% as of June 30, 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A serves as an introduction to the basic financial statements, which are comprised of the following components:

1. Statements of Plan Net Assets
2. Statements of Changes in Plan Net Assets
3. Notes to the Basic Financial Statements

In addition, please note that this Report also contains three required supplementary schedules of historical trend information and actuarial assumptions, and three schedules of other supplemental information.

Financial Section

Management's Discussion and Analysis (Continued)

The [Statements of Plan Net Assets](#) are snapshots 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 [Statements of Changes in Plan Net Assets](#) reflect all the activities that occurred during the year and show 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 basic financial statements and the required disclosures are in accordance with the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB) utilizing the accrual basis of accounting, which is the accounting method practiced by most private-sector companies. Under this method, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All investment gains and losses are recorded at trade date, not settlement date. Both realized and unrealized gains and losses are included in investments.

These two statements report SCERS' net assets held in trust for pension benefits (net assets) – i.e., the difference between assets and liabilities – as one way to measure the System's financial position. Over time, increases or decreases in net assets serve as one indicator of whether SCERS' financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the System's overall health.

The [Notes to the Basic Financial Statements](#) are an integral part of the financial reports and 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, this Report presents certain [Required Supplementary Information](#) concerning SCERS' progress in funding its obligations 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 increases, wage inflation, and postretirement benefit increases. These schedules provide information to help promote understanding of the changes in the funded status of the plan over time.

Schedules of administrative expenses, investment management expenses, and payments to consultants are presented as [Other Supplemental Information](#) following the required supplementary information.

FINANCIAL ANALYSIS

Assets and Funded Ratio

SCERS net assets held in trust for pension benefits as of June 30, 2005 totaled \$4,576.4 million, an increase of \$814.7 million (21.7%) from the \$3,761.7 million in net assets as of June 30, 2004, which, in turn, represented an increase of \$522.9 million (16.1%) over the

Financial Section

Management's Discussion and Analysis (Continued)

\$3,238.8 million in net assets as of June 30, 2003. The increase in net assets over the two year period was primarily due to investment gains and receipt of the proceeds of pension obligation bonds. All of the net assets are available to meet SCERS' obligations to plan participants and beneficiaries.

PLAN NET ASSETS

As of June 30

(Amounts Expressed in Millions)

	2005	2004	Increase/ (Decrease)	% Change
Assets				
Cash and short-term investments	\$ 248.3	\$ 208.2	\$ 40.1	19.3%
Receivables	85.3	113.5	(28.2)	-24.8
Investments, at fair value	4,531.0	3,772.3	758.7	20.1
Securities lending collateral	569.5	432.7	136.8	31.6
Other assets	4.4	1.9	2.5	131.6
Total assets	5,438.5	4,528.6	909.9	20.1
Liabilities				
Investment trades payable	156.4	198.0	(41.6)	-21.0
Mortgages payable	112.6	104.0	8.6	8.3
Securities lending liability	569.5	432.7	136.8	31.6
Other liabilities	23.6	32.2	(8.6)	-26.7
Total liabilities	862.1	766.9	95.2	12.4
Net assets held in trust for pension benefits	\$ 4,576.4	\$ 3,761.7	\$ 814.7	21.7%

PLAN NET ASSETS

As of June 30

(Amounts Expressed in Millions)

	2004	2003	Increase/ (Decrease)	% Change
Assets				
Cash and short-term investments	\$ 208.2	\$ 185.8	\$ 22.4	12.1%
Receivables	113.5	40.0	73.5	183.8
Investments, at fair value	3,772.3	3,265.2	507.1	15.5
Securities lending collateral	432.7	258.1	174.6	67.6
Other assets	1.9	2.7	(0.8)	-29.6
Total assets	4,528.6	3,751.8	776.8	20.7
Liabilities				
Investment trades payable	198.0	146.5	51.5	35.2
Mortgages payable	104.0	72.6	31.4	43.3
Securities lending liability	432.7	258.1	174.6	67.6
Other liabilities	32.2	35.8	(3.6)	-10.1
Total liabilities	766.9	513.0	253.9	49.5
Net assets held in trust for pension benefits	\$ 3,761.7	\$ 3,238.8	\$ 522.9	16.1%

Management's Discussion and Analysis (Continued)

SCERS retains an independent actuarial firm, The Segal Company, to perform annual actuarial valuations to monitor the funding status of the System. 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 contributions will be needed by the members and participating employers to pay all expected future benefits.

As of June 30, 2005, the funded ratio of SCERS (i.e., the ratio of the actuarial value of assets to actuarial accrued liability) was 93.2%, down slightly from the funded ratio of 93.3% as of June 30, 2004. In general terms, this ratio means that as of June 30, 2005, SCERS had approximately 93 cents available for each dollar of anticipated future liability.

The Required Supplementary Information and Actuarial Section of this Report provide additional actuarial information.

Reserves

SCERS' reserves are established in accordance with the requirements of the 1937 Act, utilizing contributions and the accumulation of investment income, after satisfying administrative and investment expenses. Under GASB 25, investments are stated at fair value instead of cost and include the recognition of unrealized gains and losses. In addition, for actuarial purposes, SCERS utilizes a five-year smoothing methodology under which a portion of the market gains and losses is recognized and allocated to the reserves through interest crediting. The difference between the market value of assets (equivalent to the net assets held in trust for pension benefits) and the smoothed actuarial value of assets is tracked in the Market Stabilization Reserve.

As a result of the substantial downturn in the investment markets in 2000, 2001 and 2002, the Market Stabilization Reserve had a negative balance of \$625.6 million as of June 30, 2003. Since that time, investment returns have improved substantially, with the result that, as of June 30, 2004, the balance in the Market Stabilization Reserve had increased to a negative \$197.0 million, and as of June 30, 2005, the balance in the Market Stabilization Reserve increased to a positive \$45.8 million. In the year ending June 30, 2005, the balance in the Contingency Reserve was utilized to mitigate a shortfall in the funds available for interest crediting due to the ongoing phase-in of losses through the five-year smoothing methodology.

Financial Section

Management's Discussion and Analysis (Continued)

NET ASSETS AVAILABLE FOR BENEFITS AT FAIR VALUE AS OF JUNE 30 (Amounts Expressed in Thousands)

	2005	2004	2003
Employee reserves	\$ 537,994	\$ 528,601	\$ 553,425
Employer reserves	1,887,086	1,490,758	1,719,123
Retiree reserves	2,091,019	1,879,628	1,402,805
Retiree death benefit reserves	12,912	12,794	12,849
Retiree health care benefits reserves	1,571	1,573	2,425
Contingency reserve	-	45,286	93,651
Designation for legislation and litigation	-	-	29,130
Total reserves and designations	4,530,582	3,958,640	3,813,408
Excess earnings – undesignated	-	-	50,992
Smoothed actuarial value of assets	4,530,582	3,958,640	3,864,400
Market stabilization reserve	45,862	(196,975)	(625,574)
Net assets available for benefits, at fair value	\$ 4,576,444	\$ 3,761,665	\$ 3,238,826

Management's Discussion and Analysis (Continued)

Changes in Plan Net Assets

The following tables present the changes in plan net assets for the fiscal years ended June 30, 2005, 2004, and 2003, respectively.

CHANGE IN PLAN NET ASSETS

For the Fiscal Year Ended June 30

(Amounts Expressed in Millions)

	2005	2004	Increase/ (Decrease)	% Change
Additions				
Employee contributions	\$ 36.9	\$ 42.9	\$ (6.0)	-14.0%
Employer contributions	529.6	119.1	410.5	344.7
Net income from investment activities	435.4	542.7	(107.3)	-19.8
Net income from securities lending	0.9	0.8	0.1	12.5
Other income	0.5	0.8	(0.3)	-37.5
Investment fees and expenses	(17.3)	(19.0)	1.7	-8.9
Total additions	986.0	687.3	298.7	43.5
Deductions				
Benefits paid	162.5	141.5	21.0	14.8
Retiree health and dental insurance	-	12.3	(12.3)	-100.0
Withdrawal of contributions	3.5	4.0	(0.5)	-12.5
Retroactive benefits	-	0.8	(0.8)	-100.0
Administrative and other expenses	5.3	5.8	(0.5)	-8.6
Total deductions	171.3	164.4	6.9	4.2
Increase in plan net assets	814.7	522.9	291.8	55.8
Net assets held in trust for pension benefits, beginning	3,761.7	3,238.8	522.9	16.1
Net assets held in trust for pension benefits, ending	\$ 4,576.4	\$ 3,761.7	\$ 814.7	21.7%

Financial Section

Management's Discussion and Analysis (Continued)

CHANGE IN PLAN NET ASSETS

For the Year Ended June 30

(Amounts Expressed in Millions)

	2004	2003	Increase/ (Decrease)	% Change
Additions				
Employee contributions	\$ 42.9	\$ 43.7	\$ (0.8)	-1.8%
Employer contributions	119.1	52.8	66.3	125.6
Net income from investment activities	542.7	108.3	434.4	401.1
Net income from securities lending	0.8	1.0	(0.2)	-20.0
Other income	0.8	0.7	0.1	14.3
Investment fees and expenses	(19.0)	(9.1)	(9.9)	108.8
Total additions	687.3	197.4	489.9	248.2
Deductions				
Benefits paid	141.5	112.2	29.3	26.1
Retiree health and dental insurance	12.3	10.9	1.4	12.8
Withdrawal of contributions	4.0	2.9	1.1	37.9
Retroactive benefits	0.8	25.9	(25.1)	-96.9
Administrative and other expenses	5.8	5.9	(0.1)	-1.7
Total deductions	164.4	157.8	6.6	4.2
Increase in plan net assets	522.9	39.6	483.3	1,220.5
Net assets held in trust for pension benefits, beginning	3,238.8	3,199.2	39.6	1.2
Net assets held in trust for pension benefits, ending	\$ 3,761.7	\$ 3,238.8	\$ 522.9	16.1%

Additions to Plan Net Assets

Financing for the benefits SCERS provides to its members comes primarily from income on investments and through the collection of employer and member (employee) retirement contributions. For the years ended June 30, 2005 and 2004, total additions were \$986.0 million and \$687.3 million, respectively. Total additions increased \$298.7 million (43.5%) in the fiscal year ended June 30, 2005, and \$489.9 million (248.2%) in the fiscal year ended June 30, 2004.

For the years ended June 30, 2005 and 2004, combined employer and employee contributions were \$566.5 million and \$162.0 million, respectively. The substantial increase in employer contributions in the fiscal year ended June 30, 2005 was the result of the receipt of \$420.0 million in proceeds from the issuance of pension obligation bonds (POB) by the County of Sacramento and the receipt of \$10.5 million from the issuance of POB by the Sacramento Metropolitan Fire District. For the year ended June 30, 2004, employer contributions increased \$66.3 million or 125.6% over the previous year due to the implementation of enhanced retirement benefits as described below in the paragraph titled Other Significant Matters.

Net investment gains were \$419.5 million and \$525.2 million for the fiscal years ended June 30, 2005 and 2004, respectively, reflecting the improved investment environment relative to the fiscal year ended June 30, 2003, and the two years prior. The Investment Section of this

Report provides a detailed discussion of the investment markets and investment performance.

Deductions from Plan Net Assets

SCERS' assets are primarily used for the payment of benefits to members and their beneficiaries, the refunding of contributions to terminated employees, and the cost of administering the System. For the years ended June 30, 2005 and 2004, total deductions were \$171.3 million and \$164.4 million, respectively.

Deductions increased \$6.9 million or 4.2% in the year ended June 30, 2005 and \$6.6 million or 4.2% in the year ended June 30, 2004. The primary cause of the increase in deductions over the two years ended June 30, 2005 and 2004 was the implementation of enhanced retirement benefits as described in the paragraph below titled Other Significant Matters. In addition, during the two years ended June 30, 2005 and 2004, SCERS deductions included \$26.7 million in lump sum benefits payment (with \$25.9 recognized in the year ended June 30, 2003) resulting from the settlement of litigation as described in the paragraph below titled Other Significant Matters. That litigation also resulted in an increase in ongoing monthly retirement allowances. These increases in retirement benefits payment deductions are offset by the decrease in retiree health and dental insurance deductions in the year ended June 30, 2005 due to the suspension of System-provided retiree health care subsidies through an Internal Revenue Code Section 401(h) plan. Those non-vested subsidies were suspended due to the lack of excess investment earnings to fund the program.

The Board of Retirement approves SCERS' annual budget. The 1937 Act limits SCERS' annual administrative expenses to eighteen hundredths of one percent (0.18%) of the System's total assets and SCERS' administrative expenses have historically been below that limitation. For the years ended June 30, 2005 and June 30, 2004, administrative expenses were within the budget established by the Board of Retirement and were 0.10% and 0.13% of the prior year's total assets, respectively.

OVERALL ANALYSIS

For the years ended June 30, 2005, 2004 and 2003, SCERS' financial position and results of operations have improved over each prior year. For the year ended June 30, 2005, net assets increased \$814.7 million or 21.7% over the prior year. For the year ended June 30, 2004, net assets increased \$522.9 million or 16.1% over the prior year. This improvement was due primarily to increased investment returns resulting from the recovery of the domestic and international equity markets.

OTHER SIGNIFICANT MATTERS

Enhanced Retirement Benefits and Impact upon Contributions and Benefits

Effective June 29, 2003, the Sacramento County Board of Supervisors approved enhanced retirement benefits for all County employees. The new benefit formulas (commonly referred to as 3% at 50 for Safety members and 2% at 55 for Miscellaneous members) were made applicable to both prospective service and service previously rendered. In addition, the Board of Supervisors authorized the purchase of up to four years of public service retirement credit for qualified employees. Existing retirees were also granted an ad hoc benefit increase ranging from 0-6% based upon their date of retirement.

Financial Section

Management's Discussion and Analysis (Continued)

In accordance with applicable retirement law, the enhanced benefit formulas also applied to prospective service of the employees of other participating SCERS employers, but the governing body of those participating employers decided whether to apply the new formulas retroactively and whether to make the public service credit purchase provisions applicable to its employees.

Based on the recommendation of the actuary, beginning with the year ended June 30, 2004, employer contribution rates have increased to take into account the higher costs associated with the benefit enhancements. The County of Sacramento mitigated its employer contribution rate increases through the issuance of \$420.0 million in pension obligation bonds in July 2004. The Sacramento Metropolitan Fire District mitigated its employer contribution rate increases through the issuance of \$10.5 million in pension obligation bonds in October 2004.

Litigation Settlement

In October 2003, the SCERS Board of Retirement and Sacramento County Board of Supervisors respectively approved a proposed Settlement Agreement in the follow-up litigation to the statewide case of *Ventura County Deputy Sheriff's Association et al. v. Board of Retirement* 16 Cal. 4th 483 (1997), commonly referred to as the "Ventura Litigation." The Settlement Agreement in the follow-up litigation, titled *In re Retirement Cases* 110 Cal. App. 4th 426 (2003), included lump sum payments to existing retirees and a going-forward percentage increase for future monthly retirement allowances. The financial impact on SCERS of the Settlement Agreement was actuarially estimated to be \$55 million. In anticipation of the ultimate settlement of the case, SCERS had established a litigation reserve in the amount of \$55 million.

The Settlement Agreement was approved in December 2003. Of the total lump sum payments of \$26.7 million, \$25.9 million was paid in the year ended June 30, 2004. Prospective payments resulting from increased allowances were estimated to be \$29.1 million and such payments are ongoing. With the distribution of the final \$0.8 million of lump sum payments in December 2004, the litigation has reached final resolution.

SCERS' FIDUCIARY RESPONSIBILITIES

SCERS Board of Retirement and management staff are fiduciaries of the pension trust fund. Under the California Constitution and California state law, the plan assets must be used exclusively for the benefit of plan participants and their beneficiaries.

REQUESTS FOR INFORMATION

This financial report is designed to provide the Board of Retirement, SCERS membership, participating employers, taxpayers, and other stakeholders and interested parties with a general overview of SCERS' finances and to show accountability for the money SCERS receives.

Questions about this report or requests for additional financial information may be addressed to:

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

Copies of this report are available at the above address and on the System's web site at www.scers.org.

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SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF PLAN NET ASSETS

AS OF JUNE 30, 2005 AND 2004

(Amounts Expressed in Thousands)

Assets	2005	2004
Cash and short-term investments		
Cash invested with Sacramento County Treasurer	\$ 7,269	\$ 9,361
Other cash and cash equivalents	13,042	55,621
Short-term investments with fiscal agents	227,958	143,203
Cash and short-term investments	248,269	208,185
Receivables		
Securities sold	62,897	93,443
Accrued investment income	14,610	14,644
Employee and employer contributions	7,750	5,401
Total receivables	85,257	113,488
Investments, at fair value		
United States government and agency obligations	689,232	603,756
Domestic corporate bonds	492,103	373,305
International bonds	62,729	55,565
Common and preferred stock - domestic	1,879,739	1,582,171
Common and preferred stock - international	910,792	461,059
International equity index fund	-	337,388
Real estate	496,455	359,044
Securities lending collateral	569,531	432,733
Total investments	5,100,581	4,205,021
Other assets	4,439	1,895
Total assets	5,438,546	4,528,589
Liabilities		
Accounts payable and other accrued liabilities	22,354	27,497
Investment trades payable	156,420	197,969
Mortgages payable	112,649	103,995
Warrants payable	1,148	1,235
Retroactive benefits payable	-	3,495
Securities lending liability	569,531	432,733
Total liabilities	862,102	766,924
Net assets held in trust for pension benefits (A schedule of funding progress for the system is presented on page 53)	\$ 4,576,444	\$ 3,761,665

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 FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

(Amounts Expressed in Thousands)

	2005	2004
Additions		
Contributions		
Employee	\$ 36,916	\$ 42,864
Employer	529,618	119,144
Total contributions	<u>566,534</u>	<u>162,008</u>
Investment income		
From investment activities		
Net appreciation		
in fair value of investments - securities	261,057	409,900
Net appreciation		
in fair value of investments - real estate	39,773	24,760
Interest	60,961	49,758
Dividends	50,385	38,022
Real estate	23,226	20,207
Net income from investment activities	<u>435,402</u>	<u>542,647</u>
From securities lending activities		
Securities lending income	10,356	4,137
Securities lending expense		
Borrower rebate expense	(8,885)	(2,848)
Securities lending management fees	(554)	(518)
Net income from securities lending	<u>917</u>	<u>771</u>
Other income	480	831
Investment fees and expenses	<u>(17,318)</u>	<u>(19,010)</u>
Net investment income	<u>419,481</u>	<u>525,239</u>
Total additions	<u>986,015</u>	<u>687,247</u>
Deductions		
Benefits paid	162,509	141,454
Retroactive benefits	-	807
Withdrawal of contributions	3,463	3,990
Retiree health insurance	2	10,548
Retiree dental insurance	-	1,763
Administrative and other expenses	5,262	5,846
Total deductions	<u>171,236</u>	<u>164,408</u>
Net increase	814,779	522,839
Net assets held in trust for pension benefits, beginning	<u>3,761,665</u>	<u>3,238,826</u>
Net assets held in trust for pension benefits, ending	<u>\$ 4,576,444</u>	<u>\$ 3,761,665</u>

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

Notes to the Basic Financial Statements

(Amounts Expressed in Thousands)

NOTE 1 - PLAN DESCRIPTION

The Sacramento County Employees' Retirement System ("SCERS" or the "System") is a multiple-employer, cost-sharing public employee retirement system which operates under the County Employees Retirement Law of 1937 (Section 31450 et seq. of the California Government Code). The System was created by resolution of the Sacramento County (the "County") Board of Supervisors on July 1, 1941, to provide retirement, disability, and death benefits for qualified employees of Sacramento County and participating Special Districts ("Special Districts" or "Member Districts"). SCERS is governed by a nine member Board of Retirement, four are appointed by the County Board of Supervisors, four are elected by the members of the System (two by the Miscellaneous members, two by the Safety members and one by the Retiree members), and the County Director of Finance sits as an Ex-Officio member. An alternate Safety Board member and an alternate Retiree Board member are also elected by those respective member groups. The System is legally and fiscally independent of the County.

At June 30, 2005, participating local government employers consisted of the County of Sacramento and 11 Special Districts.

The System's membership consists of the following categories:

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

Financial Section

Notes to the Basic Financial Statements (Continued)

(Amounts Expressed in Thousands)

At June 30, 2005 and 2004, respectively, the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits:	<u>2005</u>	<u>2004</u>
Miscellaneous - Service	4,198	3,821
Miscellaneous - Beneficiary	861	846
Disability Miscellaneous - Ordinary	313	308
Disability Miscellaneous - Duty	175	174
Safety - Service	841	763
Safety - Beneficiary	193	186
Disability Safety - Ordinary	22	17
Disability Safety - Duty	181	176
Total Retired	<u>6,784</u>	<u>6,291</u>
Terminated employees entitled to benefits but not yet receiving them:	<u>2,135</u>	<u>2,110</u>
Current Members:		
Vested		
Miscellaneous Tier 1	813	990
Miscellaneous Tier 2	366	386
Miscellaneous Tier 3	5,926	5,317
Safety Tier 1	828	906
Safety Tier 2	795	692
Subtotal	<u>8,728</u>	<u>8,291</u>
Non-Vested		
Miscellaneous Tier 1	1	2
Miscellaneous Tier 3	4,272	4,689
Safety Tier 1	1	7
Safety Tier 2	726	683
Subtotal	<u>5,000</u>	<u>5,381</u>
Total Current Members	<u>13,728</u>	<u>13,672</u>

Financial Section

Notes to the Basic Financial Statements (Continued)

(Amounts Expressed in Thousands)

Pension Benefits

The System's benefits are established by the provisions of the County Employees Retirement Law of 1937 and provide for retirement, death, and disability benefits. All permanent full-time and 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 retirement is prior to attaining age 50 or if less than 10 years service has been achieved. Retirement benefits under each tier are as follows:

- ◆ 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.
- ◆ 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.
- ◆ 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. 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.
- ◆ 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.
- ◆ 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. 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.

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.

Effective June 29, 2003 the County Board of Supervisors applied these formulas for all SCERS members, including the employees of member districts, prospectively from June 29, 2003 and for County employees retroactively to 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 these formulas retroactively for service credits earned prior to June 29, 2003 by their employees.

Members whose employers determined not to retroactively apply the formulas to service credits earned prior to June 29, 2003 will continue to have their retirement benefits for that service calculated pursuant to the formulas in effect at the time the service was earned (i.e., Safety and Miscellaneous members who retire at age 50 earn 2 percent and 1.1 percent, respectively, of their final-average salary for each year of credited service).

Member Termination

Upon separation from employment with a participating employer, members' accumulated contributions are refundable with interest accrued through the prior six-month period ended 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 benefits.

Financing

Benefits payable by the System are financed through member contributions, employer contributions from the County or Member Districts, 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 Miscellaneous Tier 1 and Tier 3 and Safety Tiers. 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.

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 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.

Financial Section

Notes to the Basic Financial Statements (Continued)

(Amounts Expressed in Thousands)

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.

Other Assets

Other assets consist of accounts receivable, prepaid expenses, and security deposits.

Administrative Expenses

Administrative costs are financed with earnings from investments and employer and employee contributions.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

GASB 40 Implementation

SCERS implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3* as of June 30, 2005 and 2004. GASB 40 modifies previous custodial credit risk disclosure requirements and establishes more comprehensive risk disclosure requirements relating to other common risks of investments, such as credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

Reclassification

Certain reclassifications have been made to balances as of and for the fiscal year ended June 30, 2004 to conform to the presentation as of June 30, 2005.

NOTE 3 - CASH AND INVESTMENTS

The investment authority for the System rests primarily through the "prudent person rule", as set forth in Section 31595 of the County Employees Retirement Law of 1937, which establishes a standard for all fiduciaries, including anyone with investment authority on behalf of the System.

Cash invested with Sacramento County Treasurer

The System invests cash held for benefit payments and general operations in 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 the System's average daily cash balance to the total of the pooled cash and investments. The fair value of the System's cash invested with the County Treasurer totaled \$7,269 and \$9,361 at June 30, 2005 and 2004, 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 the County Treasurer included \$3,495 held in trust as a result of the Ventura litigation. As of June 30, 2005, all attorneys' fees and payments to members had been made, and the trust account was closed.

Interest earned but not received from the County Treasurer 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 County Treasurer's pool is described in the County's Comprehensive Annual Financial Report.

Other Cash and Cash Equivalents

At June 30, 2005 and 2004, other cash and cash equivalents constitute balances in bank demand deposit accounts of \$13,042 and \$55,621, respectively, which are held in the System's name and are not collateralized or insured. The System is exposed to custodial credit risk with respect to these deposits.

Short-Term Investments with Fiscal Agents

At June 30, 2005 and 2004, the fair value of the System's short-term investments with fiscal agents was \$227,958 and \$143,203, respectively. The total consisted of investments in the State Street Short-Term Investment Fund (STIF). 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 weighted average maturities were 29 days and 44 days at June 30, 2005 and 2004, respectively. Net assets invested in the STIF from all participating custodial clients of State Street were \$35.3 billion and \$38.4 billion on June 30, 2005 and 2004, respectively.

Securities Lending

State statutes permit the System to participate in securities lending transactions and, pursuant to a Securities Lending Authorization Agreement, the System has 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 an approved loan agreement.

During the years ended June 30, 2005 and 2004, on behalf of the System, State Street loaned securities held by State Street as custodian, including U.S. government and agency obligations, domestic corporate bonds, and domestic and international equities and received, as collateral, U.S. and foreign currency, securities issued or guaranteed by the U.S. government, sovereign debt of foreign countries, and irrevocable bank letters of credit. State Street did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers are required to deliver 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.

Financial Section

Notes to the Basic Financial Statements (Continued)

(Amounts Expressed in Thousands)

SCERS did not impose any restrictions during the fiscal years on the amount of the loans that State Street made on its behalf. There were no failures to return loaned securities or pay distributions thereon by any borrowers during the fiscal years. Moreover, there were no losses during the fiscal years resulting from a default of the borrowers or State Street.

During the fiscal years ended June 30, 2005 and 2004, SCERS and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. Since the System held collateral from the borrowers greater than the amounts borrowed, on June 30, 2005 and 2004 the System had no credit risk exposure to the borrowers. 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 market value of securities on loan as of June 30, 2005 were \$569,531 and \$555,144, respectively. The collateral held and the market value of securities on loan as of June 30, 2004 were \$432,733 and \$423,353, respectively.

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

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.

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.

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.

Financial Section

Notes to the Basic Financial Statements (Continued) (Amounts Expressed in Thousands)

Collateral and related securities on loan at June 30, 2005 and 2004 were as follows:

<u>Security Description</u>	2005		
	<u>Cash Collateral Value</u>	<u>Other Collateral Value</u>	<u>Fair Value of Securities on Loan</u>
U.S. government and agency obligations	\$ 289,842	\$ -	\$ 284,331
Domestic corporate bonds	30,960	-	30,479
Common and preferred stock – domestic	166,285	-	161,794
Common and preferred stock – international	82,444	39	78,540
Totals	\$ 569,531	\$ 39	\$ 555,144
2004			
<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 and agency obligations	\$ 219,442	\$ -	\$ 216,190
Domestic corporate bonds	31,145	-	30,481
Common and preferred stock – domestic	107,925	377	106,073
Common and preferred stock – international	74,221	29	70,609
Totals	\$ 432,733	\$ 406	\$ 423,353

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. This is measured by the assignment of ratings by nationally-recognized statistical rating organizations.

SCERS utilizes external investment managers to manage its portfolios. SCERS' Investment Policy specifies that fixed income investments will include both actively and passively managed investments in U.S. treasury and agency securities, corporate bonds, mortgage-backed and asset-backed securities and non-dollar denominated sovereign and corporate debt. The actively-managed investments will have a minimum average credit quality rating of AA-2 by

Financial Section

Notes to the Basic Financial Statements (Continued)

(Amounts Expressed in Thousands)

Moody's Investor Services or AA by Standard and Poor's Corporation. Portfolio diversification is constrained by the following parameters in order to minimize overall market and credit risk:

- ◇ No more than 10% of the portfolio will be concentrated in any one issuer except U.S. government and agency securities.
- ◇ No more than 20% of the portfolio will be invested in high yield or below investment grade straight securities.
- ◇ No more than 15% of the portfolio will be invested in convertible securities, which includes bonds and preferred issues.
- ◇ No more than 20% of the portfolio will be invested in non-U.S. dollar bonds.

The tables below depict the fixed income assets by credit rating as of June 30, 2005 and 2004:

Fixed Income

As of June 30, 2005

S&P Quality Rating	Moody's Quality Rating	Total	Securitized Obligations	Credit Obligations	U.S. Government & Agency Obligations	International Government	Collateralized Mortgage Obligations
AAA	AAA	\$ 424,589	\$ 39,449	\$ 2,793	\$ -	\$ 5,313	\$ 377,034
AA+	AA-2	124,431	124,431	-	-	-	-
AA-	A-1	26,117	-	26,117	-	-	-
BBB+	BAA-1	263,044	-	263,044	-	-	-
NR	NR	145,822	-	222	145,600	-	-
NA	NA	260,061	-	-	260,061	-	-
Total		\$ 1,244,064	\$ 163,880	\$ 292,176	\$ 405,661	\$ 5,313	\$ 377,034

Fixed Income

As of June 30, 2004

S&P Quality Rating	Moody's Quality Rating	Total	Securitized Obligations	Credit Obligations	U.S. Government & Agency Obligations	International Government	Collateralized Mortgage Obligations
AAA	AAA	\$ 15,615	\$ 13,651	\$ 1,964	\$ -	\$ -	\$ -
AA+	AA-1	53,078	-	-	-	-	53,078
AA	AA-2	24,243	-	-	-	24,243	-
AA-	AA-3	132,732	132,732	-	-	-	-
A-	A-1	23,810	-	23,810	-	-	-
BBB	BAA-1	252,700	-	252,700	-	-	-
NR	NR	352,808	-	-	69,801	-	283,007
NA	NA	177,640	-	-	177,640	-	-
Total		\$ 1,032,626	\$ 146,383	\$ 278,474	\$ 247,441	\$ 24,243	\$ 336,085

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. NR represents those securities that are not rated and NA represents those securities that are not applicable to the rating disclosure requirements.

Securities Lending Collateral Credit Risk

All of the cash collateral received for securities lending is invested in the Quality D Short-Term Investment Fund managed by State Street. At the time of purchase, all securities with maturities of 13 months or less must qualify as first-tier securities and all securities with maturities in excess of 13 months will be rated A or better by at least two nationally-recognized statistical rating organizations or, if unrated, be of comparable quality. The fund may invest in other State Street managed vehicles provided they conform to the guidelines.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment guidelines negotiated with the actively-managed external portfolio managers give the managers the discretion to deviate within +/- 20% from the effective duration of the relevant Lehman Brothers benchmark.

Below are tables depicting the duration in years of the long-term fixed income portfolio vs. the benchmark in years:

Long-Term Fixed Income Investments

Duration

As of June 30, 2005

Type of Securities	Market Value	Effective Duration	Benchmark Duration	Difference
Securitized Obligations				
Asset Backed Securities	\$ 124,431	0.84	2.64	(1.80)
Commercial Mortgage-Backed Securities	39,449	5.51	4.56	0.95
Credit Obligations				
Corporate Bonds	263,044	6.37	6.1	0.27
Municipal	3,015	7.51	NA	NA
Yankees	26,117	5.64	5.33	0.31
U.S. Government & Agency Obligations				
Agency Securities	69,941	2.84	3.67	(0.83)
US Treasury	260,061	5.94	5.35	0.59
International Government				
International Government	5,313	6.02	NA	NA
Collateralized Mortgage Obligations				
Collateralized Mortgage Obligations	85,339	1.54	5.84	(4.30)
Mortgage Pass-Through	291,695	2.28	2.69	(0.41)
Total Market Value with Weighted Average Duration	\$ 1,168,405	4.19	4.34	(0.15)

Financial Section

Notes to the Basic Financial Statements (Continued)

(Amounts Expressed in Thousands)

Long-Term Fixed Income Investments

Duration

As Of June 30, 2004

Investment Type	Market Value	Effective Duration	Benchmark Duration	Difference
Securitized Obligations				
Asset Backed Securities	\$ 132,732	1.42	2.71	(1.29)
Commercial Mortgage-Backed Securities	13,651	6.05	4.63	1.42
Credit Obligations				
Corporate Bonds	252,700	5.61	5.73	(0.12)
Municipal	1,964	8.03	NA	NA
Yankees	23,810	6.38	4.98	(1.14)
U.S. Government & Agency Obligations				
Agency Securities	69,801	2.98	4.17	(1.19)
US Treasury	177,640	6.08	5.31	(1.70)
International Government				
International Government	24,243	3.07	1.47	1.60
Collateralized Mortgage Obligations				
Collateralized Mortgage Obligations	53,078	4.06	1.24	2.82
Mortgage Pass-Through	283,007	3.66	3.85	(0.19)
Total Market Value with Weighted Average Duration	\$ 1,032,626	4.41	4.67	(0.26)

The investment objective for the short-term fixed income portfolio is to seek the preservation of capital and liquidity. Secondly, the objective is to provide a competitive short-term yield, in a low cost, liquid portfolio, while minimizing both interest rate and credit risk. No more than 20% of the portfolio may be invested in U.S. corporate debt. Permitted investments are U.S. Treasury and Agency securities and AA or better U.S. corporate debt. Below is a table depicting the segmented time distribution for the short-term fixed income assets based upon the expected maturity, 1st call date, and/or 1st reset date as of June 30, 2005:

Short-Term Fixed Income Investments

Segmented Time Distribution

As of June 30, 2005

Investment Type	Average Maturity					Total
	0-30 days	31-90 days	91-120 days	121-180 days	181-365 days	
U.S. Agency Obligations	\$ 6,009	\$ 22,472	\$ 14,908	\$ 19,888	\$ 12,382	\$ 75,659
Weighting	7.94%	29.70%	19.70%	26.29%	16.37%	100.00%

As of June 30, 2004, SCERS did not have the short-term fixed income portfolio.

Financial Section

Notes to the Basic Financial Statements (Continued)

(Amounts Expressed in Thousands)

Securities Lending Collateral Interest Rate Risk

Cash collateral from loans of securities is invested in the State Street Quality D Short-Term Investment Fund. Its average effective duration is restricted to 120 days or less. The maximum option adjusted duration of any variable rate security is five years or less. All fixed-rate instruments must have an option-adjusted duration not to exceed 30 months.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2005, the System had no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded. There are no general policies addressing the concentration of credit risk, however, as noted above in the discussion of credit risk, manager investment guidelines place limitations on the maximum holdings in any one issuer.

Custodial Credit Risk

Custodial credit risk is the risk that in the event a financial institution or counterparty fails, the System would not be able to recover the value of its deposits, investments, or securities. As of June 30, 2005 and 2004, 100% of the System's investments were held in the System's name, and the System is not exposed to custodial credit risk related to these investments. The System is exposed to custodial credit risk for uncollateralized cash and cash equivalents that are not covered by federal depository insurance. There are no general policies relating to the custodial credit risk.

Foreign Currency Risk

As of June 30, 2005

<u>Local Currency Name</u>	<u>Cash</u>	<u>Equity</u>	<u>Fixed Income</u>	<u>Total</u>
Australian Dollar	\$ 169	\$ 20,922	\$ -	\$ 21,091
Canadian Dollar	22	17,169	-	17,191
Danish Krone	-	8,780	-	8,780
Euro Currency	859	225,380	-	226,239
Hong Kong Dollar	394	12,543	-	12,937
Japanese Yen	1,255	157,614	-	158,869
New Zealand Dollar	8	891	5,313	6,212
Norwegian Krone	8	4,803	-	4,811
Pound Sterling	1,935	136,810	-	138,745
Singapore Dollar	34	4,477	-	4,511
South African Rand	-	1,151	-	1,151
South Korean Won	2	3,641	-	3,643
Swedish Krona	57	14,440	-	14,497
Swiss Franc	16	59,475	270	59,761
Total	\$ 4,759	\$ 668,096	\$ 5,583	\$ 678,438

Financial Section

Notes to the Basic Financial Statements (Continued)

(Amounts Expressed in Thousands)

As of June 30, 2004

<u>Local Currency Name</u>	<u>Cash</u>	<u>Equity</u>	<u>Fixed Income</u>	<u>Total</u>
Australian Dollar	\$ 1	\$ 10,889	\$ -	\$ 10,890
Canadian Dollar	1	7,749	-	7,750
Danish Krone	-	1,036	-	1,036
Euro Currency	320	152,829	12,960	166,109
Hong Kong Dollar	1	12,341	-	12,342
Japanese Yen	216	96,333	8,659	105,208
Norwegian Krone	-	3,442	-	3,442
Pound Sterling	217	99,044	6,443	105,704
Singapore Dollar	-	4,896	-	4,896
South Korean Won	-	1,463	-	1,463
Swedish Krona	-	5,673	-	5,673
Swiss Franc	-	54,500	268	54,768
Total	\$ 756	\$ 450,195	\$ 28,330	\$ 479,281

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following tables represent securities held in a foreign currency as of June 30, 2005 and 2004:

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held as a form of investment. Foreign currency is held temporarily in foreign accounts until it is able to be repatriated or expended.

Highly-Sensitive Investments

As of June 30, 2005 and 2004, SCERS' investments included mortgage backed securities totaling \$377,034 and \$336,085, respectively. These securities are highly-sensitive to interest rate fluctuations in that they are subject to early payment in a period of declining interest rates. The resulting reduction in expected total cash flows affects the fair value of these securities and makes the fair value of these securities highly sensitive to changes in interest rates.

Derivatives

The System's investment policy allows investment managers to use derivative instruments for certain purposes and within certain parameters. Such 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 investments to adverse fluctuations in financial and currency markets. The System does not permit the use of 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 relative to the available alternative investment opportunities. The value of mortgage-backed securities is generally based on the cash flow from principal and interest receipts on the underlying mortgage pools. In a CMO, the cash flow from principal and interest payments from

Notes to the Basic Financial Statements (Continued)
 (Amounts Expressed in Thousands)

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 related to fluctuations in interest rates, prepayment rates, and various liquidity factors tied to their specific markets.

A summary of the various derivative instruments as of June 30, 2005 and 2004 is as follows:

	2005	2004
Currency forward contracts	\$274,046	\$257,850
Floating-rate notes	107,957	81,216
Interest-only notes	3,780	-
Collateralized mortgage obligations	44,773	8,855
Total derivative instruments	\$430,556	\$347,921

The System could be exposed to risk if the counterparties to derivative 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. Investments include offices, apartments, retail, and industrial. As of June 30, 2005 and 2004, real estate investments were \$496,455 and \$359,044, respectively

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, and such contributions range from 1.73% to 10.50% of annual covered salary depending on the member’s tier, employer, and bargaining unit. Each employer of the System is obligated by state law to make all required contributions to the plan, and depending on the participating employer and their employees’ tiers, such contributions range from 9.13% to 37.24% of covered payroll. The required contributions include current service cost, and amortization of any unfunded prior service cost over a 30-year closed amortization period, with 28 years remaining as of June 30, 2005.

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

Financial Section

Notes to the Basic Financial Statements (Continued)

(Amounts Expressed in Thousands)

On July 1, 2004, SCERS received \$420,000 in proceeds from pension obligation bonds (POB) issued by the County of Sacramento. On October 20, 2004, SCERS received \$10,538 in proceeds from POB issued by the Sacramento Metropolitan Fire District. All POB proceeds were recorded as contributions when received.

Contributions for the years ended June 30, 2005 and 2004 totaled \$566,534 and \$162,008. Included in this total are employer contributions of \$529,618 and \$119,144, respectively, of which \$514,720 and \$113,919 were made by the County of Sacramento. Member contributions were \$36,916 and \$42,864 in fiscal years 2005 and 2004, respectively. All contributions were made in accordance with actuarially-determined contribution requirements based on the actuarial valuations performed at June 30, 2003 and 2002, respectively. In addition, the impact of the POB proceeds received from the County of Sacramento was reflected in the employer contribution rates charged during the year ended June 30, 2005.

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 related to alternative employment for members otherwise entitled to disability retirement benefits.

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 funds for lump sum death benefits for retirees. Additions include interest earnings and, if necessary, employer contributions. Deductions include payments to beneficiaries of retired members who are deceased.

Retiree health care benefit reserves include transfers made by the System from excess earnings in prior years to provide funding for a non-vested health and dental insurance premium offset for retirees. Funding of and payments for the retiree health care premium offsets are made in accordance with section 401(h) of the Internal Revenue Code. Effective July 1, 2004, funding for health care premium offsets for retirees has been provided by those employers who have elected to continue the payments for their retired members and have not been funded by the System.

Contingency reserve was created to serve as a reserve against deficiencies in interest earnings in other years, losses on investments, and other contingencies. Pursuant to California Government Code Section 31592.2, it was established at a minimum of 1% of the total assets of the System to allow the System to provide supplemental non-vested benefits such as the retiree health care premium offset. Effective June 30, 2005, the Retirement Board utilized the 1% contingency reserve to supplement interest crediting.

Notes to the Basic Financial Statements (Continued)

(Amounts Expressed in Thousands)

Smoothed actuarial value of assets. Investment gains and losses for the year are recognized (smoothed) over a five-year period. As of June 30, 2005 and 2004, total allocated reserves were \$4,530,582 and \$3,958,640, respectively.

Market stabilization reserve represents the difference between the smoothed actuarial value of assets and the net assets available for benefits at fair value.

A summary of the various reserve accounts, which comprise net assets available for pension and other benefits at June 30, 2005 and 2004 (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	2005	2004
Employee reserves	\$ 537,994	\$ 528,601
Employer reserves	1,887,086	1,490,758
Retiree reserves	2,091,019	1,879,628
Retiree death benefit reserves	12,912	12,794
Retiree health care benefits reserves	1,571	1,573
Contingency reserve	-	45,286
Total reserves and designations	4,530,582	3,958,640
Excess earnings – undesignated	-	-
Smoothed actuarial value of assets	4,530,582	3,958,640
Market stabilization reserve	45,862	(196,975)
Net assets available for benefits, at fair value	\$ 4,576,444	\$ 3,761,665

NOTE 6 - OTHER BENEFITS

In addition to providing pension benefits, in past years 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 whereby designated excess earnings at the end of the year were treated in the immediately succeeding year as contributions to the retirement fund by the County and Member Districts for purposes of offsetting employer contributions in accordance with the requirements of Internal Revenue Code Section 401(h). Such benefits were not vested and were subject to the availability of excess earnings from the System. 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. As of July 1, 2004, the System ceased to fund this benefit. SCERS participating employers have made individual determination of whether to fund the benefit for the retired members. For the years ended June 30, 2005 and 2004, SCERS' costs were \$2 and \$10,548 for health insurance and \$0 and \$1,763 for dental insurance for a total of \$2 and \$12,311, respectively.

Financial Section

Notes to the Basic Financial Statements (Continued)

(Amounts Expressed in Thousands)

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 Special 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. Activities related to such mortgages were as follows for the years ended June 30:

	2005	2004
Beginning Balance	\$ 103,995	\$ 72,645
Additions	14,250	45,700
Deductions	(5,596)	(14,350)
Ending Balance	<u>\$ 112,649</u>	<u>\$ 103,995</u>

Future debt service requirements for outstanding mortgages are as follows:

Year Ending	Principal	Interest	Total
<u>June 30:</u>			
2006	\$ 1	\$ 6,419	\$ 6,420
2007	1	6,419	6,420
2008	1	6,419	6,420
2009	61,701	4,959	66,660
2010	29,751	1,147	30,898
2011 - 2015	3,308	4,515	7,823
2016 - 2020	4,491	3,602	8,093
2021 - 2025	5,641	2,451	8,092
2026 - 2030	7,087	1,006	8,093
2031	667	8	675
Total	<u>\$ 112,649</u>	<u>\$ 36,945</u>	<u>\$ 149,594</u>

NOTE 9 – LEASE OBLIGATIONS

SCERS has commitments under operating lease agreements for office facilities and equipment. Minimum future rental payments as of June 30, 2005 were as follows:

<u>Year Ending June 30:</u>	
2006	\$ 559
2007	569
2008	580
2009	577
2010	586
2011	297
Total	<u>\$ 3,168</u>

Rental costs during the year ended June 30, 2005 and 2004 were \$596 and \$568, respectively.

NOTE 10 – LITIGATION SETTLEMENT

In statewide litigation initiated following the previous court decision in *Ventura County Deputy Sheriff's Association et al. v. Board of Retirement* 16 Cal. 4th 483 (1997) ("Ventura Litigation"), the System and other retirement systems were sued seeking the inclusion of additional pay elements in the final compensation used for determining retirement benefits and the retroactive application of such compensation elements to previous compensation.

Certain key issues in the new litigation were resolved by the court in *In re Retirement Cases* 110 Cal. App. 4th 426 (2003), and the System and the County agreed to settle with the plaintiffs for an amount actuarially estimated at \$55,000. The settlement consisted of estimated lump sum payments to members and attorneys fees of \$25,870 and an estimated \$29,130 to be paid out after January 2004 as increased retirement allowances. The actual lump sum payments to members and attorneys fees was \$26,677. The settlement was approved by the court and was fully implemented as of December 2004.

Financial Section

Notes to the Basic Financial Statements (Continued)

(Amounts Expressed in Thousands)

NOTE 11 – ACCOUNTING PRONOUNCEMENTS

GASB recently released Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. 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.

The GASB has issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*. GASB No. 44 provides guidance on the tables and narrative explanations in the statistical section. Management is currently evaluating GASB No. 44 and if applicable it will be implemented in the financial statements for the year ending June 30, 2006.

Required Supplementary Information

Schedule I - Schedule of funding progress (Amounts expressed 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 basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) Entry Age	Accrued (AAL)	Unfunded/ (Over funded) AAL	Funded Ratio	Annual Covered Payroll	Unfunded/ (Over funded) AAL as a Percentage of Covered Payroll
<u>June 30</u>	<u>(a)</u>	<u>(b)</u>		<u>(b-a)</u>	<u>(a/b)</u>	<u>(c)</u>	<u>((b-a)/c)</u>
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
2004	4,379,514	4,694,009		314,495	93.3	714,069	44.0
2005	4,530,583	4,860,882		330,299	93.2	722,015	45.7

Effective June 29, 2003, the Sacramento County Board of Supervisors adopted an enhanced benefit formula for Miscellaneous and Safety members. The County and certain Member Districts adopted these improvements for both past and prospective service, while the remaining Member 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 ended June 30, 2004 and subsequent years.

On July 1, 2004, the County issued \$420,000 of Pension Obligation Bonds. On October 20, 2004, Sacramento Metropolitan Fire District (SMFD) issued Pension Obligation Bonds. SCERS received proceeds of \$10,538 of which \$874 was attributable to SMFD's active SCERS members. The receivable contributions from the County POB and the SMFD POB for its active members were included in the value of assets for the actuarial valuation date as of June 30, 2004.

Schedule II - Schedule of employer contributions (Amounts expressed in thousands):

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2000	\$ 42,024	100.0%
2001	40,358	100.0
2002	44,547	100.0
2003	52,841	100.0
2004	119,144	100.0
2005	529,618	100.0

Financial Section

Required Supplementary Information (Continued)

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, 2005:

Actuarial cost method:	Entry age normal cost method
Amortization method:	Level percent of payroll for total unfunded liability
Remaining amortization period:	30-year closed amortization period with 28 years remaining as of June 30, 2005
Asset valuation method:	5-year smoothed fair value*

*The market value of assets plus or minus unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between actual and expected returns on a market value basis and is recognized over a five-year period. The actuarial value is further adjusted, if necessary, to be within 20% of the market value.

Actuarial assumptions:

Investment rate of return:	7.75%
Inflation rate:	3.50%
Real across-the-board salary increase:	0.25%
Miscellaneous projected salary increases**:	4.95% to 11.55%
Safety projected salary increases**:	3.75% to 9.65%

**Includes inflation at 3.50% plus real across-the-board salary increase of 0.25% plus merit and longevity increases.

Assumed postretirement benefit increase:

Miscellaneous Tier 1	3.40%
Miscellaneous Tier 2	0.00
Miscellaneous Tier 3	2.00
Safety Tier 1	3.40
Safety Tier 2	2.00

Financial Section

Other Supplemental Information

Schedule I - Schedule of administrative and other expenses:

Type of expense:	<u>2005</u>	<u>2004</u>
Salaries and benefits	\$ 2,734	\$ 2,663
Professional fees	440	583
Equipment purchases and maintenance	73	89
Rent and lease expense	596	596
Depreciation expense	27	14
Other administrative expenses	1,392	1,901
Total administrative and other expenses	<u>\$ 5,262</u>	<u>\$ 5,846</u>

Schedule II - Schedule of investment fees and expenses:

Type of investment expense:	<u>2005</u>	<u>2004</u>
Domestic equity managers	\$ 2,747	\$ 3,284
International equity managers	3,378	2,130
Bond managers	2,010	1,768
Hedge fund managers	2,098	-
Real estate managers	6,348	11,248
Custodian fees	335	294
Investment consulting fees	255	225
Other professional fees	147	61
Total investment fees and expenses	<u>\$ 17,318</u>	<u>\$ 19,010</u>

Schedule III - Schedule of payments to consultants:

Type of Service:	<u>2005</u>	<u>2004</u>
Legal services	\$ 508	\$ 832
Actuarial services	93	105
Medical consulting services	89	68
Audit & consulting services	59	41
Total payments to consultants	<u>\$ 749</u>	<u>\$ 1,046</u>





Investment Section



Chief Investment Officer's Report



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

December 22, 2005

Dear Members of the Board,

Introduction

After three years of sub-par performance by the investment markets, SCERS experienced its third consecutive fiscal year of positive investment returns. SCERS had a gross investment return of 10.1% for the twelve-month period ending June 30, 2005, and net of fees, the investment return for the fiscal year was 9.8%. These returns track the moderate growth that continues in the U.S. and global economies notwithstanding the drag caused by high oil prices. The twelve month return was 1.0% below SCERS' policy weighted benchmark return of 11.1%. Over the trailing ten-year period, SCERS' annualized investment return is 9.4%, gross of manager fees. SCERS' general investment consultant, 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 of Retirement to invest the fund's assets. As of June 30, 2005, there were 16 investment managers investing 19 separate account portfolios. In addition, SCERS has investments in a commingled emerging markets equity growth fund, two equity long/short commingled hedge fund-of-funds, and three commingled real estate funds. The managers and commingled funds are identified on the Investment Professionals page of this report. As the general investment consultant, Mercer Investment Consulting assists in developing the investment policy, conducts asset/liability studies, provides advice on the asset allocation, conducts investment manager searches, and helps monitor investment manager performance. The Sacramento County Counsel's Office provides investment-related legal services supplemented by outside legal counsel in real estate and hedge fund engagements.

During the fiscal year ended June 30, 2005, SCERS implemented several changes to its asset allocation as a result of an asset/liability study completed in the prior fiscal year and corresponding revisions to the Investment Policy and Guidelines adopted in July 2004.

Investment Section

Chief Investment Officer's Report (Continued)

Actions taken included: 1) In August 2004, two equity long/short hedge fund-of-fund managers (hedge fund) were selected to invest the \$200 million allocated to this new asset class. The first investments were made on October 1, 2004; 2) One additional manager and one replacement manager were selected in September 2004 to actively manage U.S. Equity Large Cap Value portfolios of \$70 million each; 3) The passive Russell 1000 Value Index portfolio was eliminated and the assets were moved to two new actively managed accounts; 4) An additional actively managed non-U.S. Equity Established Markets Large Cap Value manager was selected in October 2004 to manage \$200 million, with funding drawn from the passive investment in a MSCI EAFE Index Commingled Fund, which was terminated; and 5) A new, non-U.S. Equity Small Cap Value manager was selected in November 2004 to manage \$50 million. SCERS' asset allocation by major asset class is shown in the chart following the text of this report.

In addition, two equity investment managers were terminated for poor performance in 2004. A U.S. equity large cap value manager was terminated, and a new manager was hired during the U.S. equity large cap value manager search mentioned above. A non-U.S. Equity MSCI EAFE core manager was terminated in October 2004, and a new manager was selected in a separate search in November 2004.

In July 2004, SCERS received a cash inflow of \$420 million from Sacramento County from the issuance of pension obligation bonds. To provide liquidity to fund the allocation to hedge funds and the increased allocation to real estate, the cash was initially invested in the State Street Short-Term Investment Fund, and in September 2004, \$210 million was invested in a separate short maturity fixed income account in a buy and hold strategy.

The presence of the large amount of cash during the year created a drag on portfolio performance for the fiscal year. In January 2005, with the guidance of Mercer, the Board began assessing strategies that could be used to eliminate the impact of cash in the portfolio. In May 2005, Mercer provided an educational presentation on the use of options, futures, and swaps derivatives as a strategy to create an overlay of SCERS' asset allocation. As a result of this presentation, SCERS began a search for an overlay manager which will be completed in January 2006.

SCERS custodial bank is State Street Bank and Trust Company (State Street). State Street provides securities lending services to SCERS and, through State Street Global Markets, administers a commission recapture program. In fiscal year 2005, SCERS earned a net income of \$917,000 from securities lending and received recapture income of \$362,000. SCERS does not use directed brokerage or soft-dollar commissions to purchase any services.

SCERS Investment Objectives

As set forth in the Board's Investment Policy and Objectives, adopted on July 15, 2004, SCERS investment objectives 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

Investment Section

Chief Investment Officer's Report (Continued)

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 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 7.75% 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, the SCERS Board has an obligation to manage the retirement system's assets in the best interest of the plan participants. Those assets include the right to vote in corporate matters related to SCERS' stock holdings. The Board has established a Proxy Voting & Corporate Governance Policy to provide guidance to the Chief Investment Officer for voting proxies and for acting on corporate action issues such as mergers and acquisitions. For the fiscal year ending June 30, 2005, all proxies were voted in accordance with the Board's policy through an electronic voting platform provided by Institutional Shareholder Services, based upon research and analysis provided by Institutional Shareholder Services and Glass, Lewis & Co.

Summary of Asset Allocation

The Board develops the strategic asset allocation with the assistance of 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 asset allocation is broadly diversified between asset classes, as well as within each class, in a manner that ensures consistent long-term performance in line with the

policy objectives. The actual and policy allocation for each asset class is shown in the pie chart in the materials that follow. The actual asset allocation by investment manager is also included. The capital market assumptions, adopted along with the asset allocation, produce an expected 7.22% annualized total rate of return over the next ten years, with a standard deviation of returns of 11.70%. SCERS utilizes active investment management to achieve the target earning rate.

Summary of Investment Results

SCERS monitors capital market investment returns through reference to recognized and easily obtainable market indices which are used as asset class benchmarks. The benchmark index and index performance by asset class for one, three and five years is detailed on the Investment Results page in this report. The asset class benchmark returns are weighted by SCERS' particular asset allocation to provide a policy-weighted return specific to SCERS' asset allocation model. SCERS total investment return for the fiscal year ending June 30, 2005, net of manager fees, was 9.8%. SCERS' policy-weighted benchmark return for the fiscal year was 11.1%. 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 65th percentile in comparison to the Russell/ Mellon Trust Universe for 43 public funds with assets greater than one billion dollars.

U.S. domestic equity is SCERS' largest investment asset class. For the fiscal year, SCERS' total domestic equity return was 7.4%, net of fees, and 7.6% gross of fees. The return was below the benchmark Russell 3000 index return by 0.7%. In the Mercer Equity Universe, SCERS' return ranked in the 87th percentile for the one-year period. For the three-year period, SCERS' domestic equity return is 9.1%, net of fees, compared to the Russell 3000 Index return of 9.5%.

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 8.1% return, net of fees, for one-year, which was 0.2% above the Russell 1000 index return of 7.9%. The investment return for large cap equity for three years is 9.2%, which is 0.1% better than the Russell 1000 index for the period. The one-year return for small cap equity investments was 4.2%, net of fees. This return was 520 basis points below the benchmark Russell 2000 index return of 9.4%. For the three-year period, the small cap equity return is 10.1%, net of fees, which is 270 basis points below the Russell 2000 index return of 12.8% for the period.

International equity was SCERS' second best performing asset class for the fiscal year. The total international equity return was 17.5%, net of fees. This was 3.8% above the benchmark MSCI EAFE index equity return of 13.7%. Performance for three year period of 13.1% is 1.0% better than the benchmark return of 12.1% for the period.

SCERS divides international equity into two categories based on country location. For the established markets, SCERS' investment managers returned 12.7%, net of fees, which was 1.0% under the MSCI EAFE index. Over the three-year period the established market return

Investment Section

Chief Investment Officer's Report (Continued)

is 9.9%, net of fees, compared to a MSCI EAFE index return of 12.1%.

The international emerging markets significantly out-performed the established markets for the fiscal year. The MSCI Emerging Markets Free index return for the fiscal year was 34.9%. While SCERS' commingled fund investment slightly under-performed the benchmark by 60 basis points, returning 34.3%, net of fees, when combined with the established markets return it pushed the overall international equity return over the MSCI EAFE index. For the three-year period, the MSCI Emerging Markets Free index return of 24.4% is above SCERS return of 22.6% net of fees.

SCERS' three fixed income portfolios (of which one-third of the assets are in a passive index portfolio) had a return of 7.2% for the fiscal year. This return was better than the benchmark Lehman Aggregate Bond Index return of 6.8%. Over the three-year period ending June 30, 2005, SCERS' return of 6.8%, net of fees, is above the benchmark return of 5.8%. The temporary, short-term, fixed income portfolio had a return of 2.0%.

The real estate asset class provided SCERS' best performance. The return for one-year was 19.0%, which was 200 basis points above the NCREIF property index. Over the three-year period, the real estate portfolio return is 13.5%, compared to the NCREIF property index return of 12.1% for the period. During the fiscal year, SCERS completed an analysis of its real estate investment strategy and adopted a revised structure for the investments, which will be implemented in the 2006 fiscal year. Investments in publicly traded real estate investment trusts and in closed-end value added commingled funds will be added to diversify the portfolio of investments, improve liquidity and add incremental investment return over time.

The Hedge Fund-of-Funds investments identified in the asset allocation began in October 2004, and no investment return exist for the reported time periods.

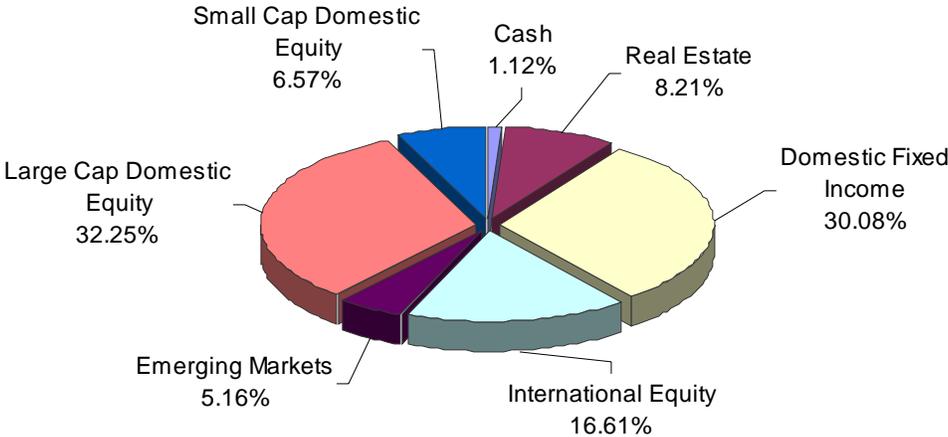
Respectfully submitted,



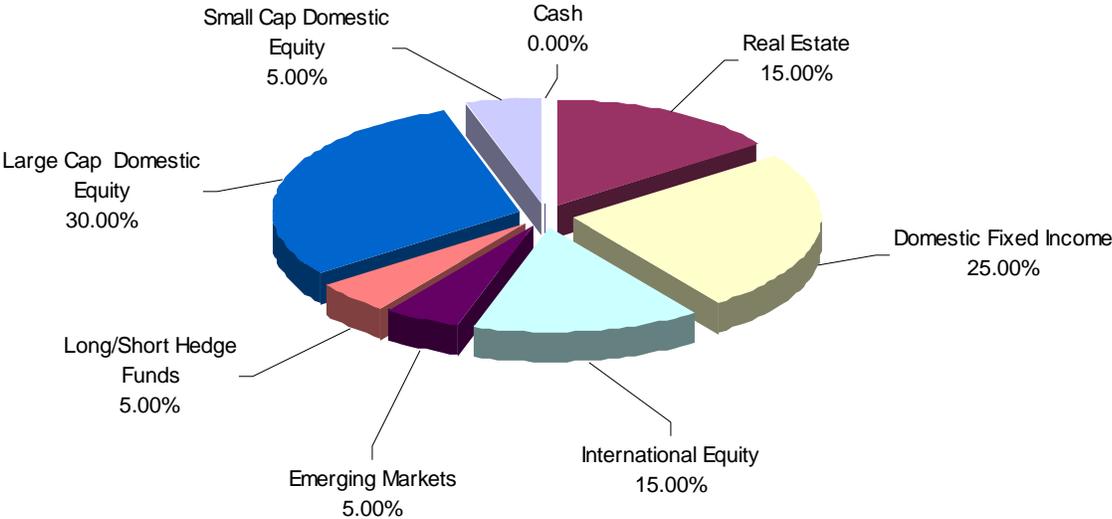
Jeffrey W. States
Chief Investment Officer

Asset Allocation

SCERS' Asset Allocation as of June 30, 2005



Target Asset Allocation



SCERS' Asset Allocation As of June 30, 2005 is based upon the Investment Summary adjusted to net out \$112.6 million in leverage in the real estate allocation.



Investment Section

Investment Professionals

Investment Managers

Equity-Domestic

Alliance Capital Management L.P.
BNY Asset Management
Dalton, Greiner, Hartman, Maher & Co., LLC
Independence Investment, LLC
LSV Asset Management
M.A. Weatherbie & Co, Inc.
Metropolitan West Asset Management
OFI (Trinity) Institutional Asset Management
Pzena Investment Management, LLC
TCW Asset Management

Equity Long/Short Hedge Fund-of-Funds

Blackstone Alternative Asset Management, L.P.
Grosvenor Capital Management, L.P.

Fixed Income

Lehman Brothers Assets Management LLC
Bradford & Marzec, Inc.
Metropolitan West Asset Management

Equity-International

Capital Guardian Trust Company
Capital International, Inc.
INVESCO Global Asset Management (N.A.), Inc.
LSV Asset Management
AXA Rosenberg Investment Management LLC

Real Estate

BlackRock Realty Advisors, Inc.
Cornerstone Real Estate Advisors, LLC.
Cornerstone Property Fund
Heitman Real Estate Fund V
JMB Group Trust V
PAC Limited Partnership Interest

Real Estate Legal Counsel

Nossaman, Guthner, Knox & Elliot, LLP

Investment Consultant

Mercer Investment Consulting

Proxy Advisor

Institutional Shareholder Service
Glass Lewis & Co.

Investment Summary of Assets

Investment Summary of Assets as Allocated

As of June 30, 2005

	Fair Value (Amounts Expressed in Thousands)	Percentage of Total Cash & Investments
<u>Equities</u>		
<i>Domestic</i>		
Alliance Capital (Russell 1000 Index)	\$ 927,505	19.41%
BNY Asset Management (Active Small Cap Growth)	62,121	1.30%
Dalton, Greiner (Active Small Cap Value)	85,686	1.79%
Independence (Active Large Cap Growth)	225,568	4.72%
M.A. Weatherbie (Active Small Cap Growth)	72,028	1.51%
LSV Asset Management (Active Large Cap Value)	81,027	1.69%
Pzena Investment Management (Active Large Cap Value)	79,062	1.65%
Trinity (Active Large Cap Value)	81,148	1.70%
TCW Asset Mgmt (Active Small Cap Value)	61,768	1.29%
Total Domestic Equity	1,675,913	
<i>International</i>		
AXA Rosenberg (International Small Cap Value)	50,478	1.05%
Capital Guardian Trust (International Growth)	230,333	4.82%
INVESCO (International Core)	217,791	4.56%
LSV (International Value)	217,490	4.55%
Capital International (International Emerging Markets)	223,345	4.67%
Total International Equity	939,437	
<i>Hedge Fund of Funds</i>		
Blackstone (Equity Long/Short)	112,803	2.36%
Grosvenor (Equity Long/Short)	106,277	2.22%
Total Hedge Fund of Funds	219,080	
Total Equities	2,834,430	
<u>Fixed Income</u>		
<i>Domestic</i>		
Lehman Brothers (Lehman Aggregate Index)	432,964	9.06%
Bradford & Marzec (Core Plus)	352,997	7.39%
Metropolitan West Asset Management (Core Plus)	375,031	7.85%
Total Domestic Fixed	1,160,992	
<i>International</i>		
Bradford & Marzec (Core Plus)	62,729	1.31%
Total International Fixed	62,729	
<i>Domestic Short Duration</i>		
Bradford & Marzec	162,520	3.40%
Total Short Duration	162,520	
Total Fixed Income	1,386,241	
<u>Real Estate</u>		
BlackRock Realty	377,123	7.89%
Cornerstone Realty	64,300	1.35%
Cornerstone Property Fund	53,824	1.13%
Other Commingled Trusts	1,208	0.03%
Total Real Estate	496,455	
Total Investments at Fair Value	\$ 4,717,126	

Investment Section

Investment Summary of Assets (Continued)

Investment Summary of Assets as Allocated

	Fair Value (Amounts Expressed in Thousands)	Percentage of Total Cash & Investments
<u>Cash</u>		
Cash (Unallocated)	48,455	1.01%
Other Cash & Cash Equivalents	13,637	0.29%
Transition Account	101	0.00%
Total Cash & Investments	<u>4,779,319</u>	<u>100.00%</u>
<u>Other Assets</u>		
Receivables	85,257	
Other Assets	4,439	
Securities lending collateral	569,531	
Total Assets	<u>5,438,546</u>	
<u>Liabilities</u>		
Accounts Payable	22,354	
Investment Trades Payable	156,420	
Mortgages Payable	112,649	
Warrants Payable	1,148	
Securities Lending Liability	569,531	
Total Liabilities	<u>862,102</u>	
Net Assets Held in Trust for Pension Benefits	<u>\$ 4,576,444</u>	

Note: Allocated assets include cash and cash equivalents and short-term investment with fiscal agents.

Investment Results ¹

	Current Year Ended <u>June 30, 2005</u>	<u>Annualized</u> <u>3 Year</u>	<u>5 Year</u>
Domestic Equity			
Total Domestic Equity	7.6%	9.4%	-0.3%
Mercer Equity Universe Median	8.7%	9.5%	-1.4%
Benchmark: Russell 3000 Index	8.1%	9.5%	-1.4%
International Equity			
Total International Equity	13.1%	10.3%	-1.4%
Mercer International Equity Universe Median	14.8%	13.0%	1.3%
Benchmark: MSCI EAFE Index	13.7%	12.1%	-0.5%
Fixed Income			
Total Fixed Income	7.3%	7.0%	7.7%
Mercer Fixed Income Universe Median	7.6%	7.2%	7.9%
Benchmark: Lehman Brothers Aggregate	6.8%	5.8%	7.4%
Equity Hedge Fund of Funds			
Total Hedge Funds	N/A	N/A	N/A
Real Estate			
Total Real Estate	19.0%	13.2%	10.9%
Mercer Real Estate Universe Median	19.3%	13.5%	11.9%
Benchmark: NCREIF Classic Property Index	18.0%	12.1%	10.6%
Total Fund			
Sacramento Total Fund	10.1%	9.8%	3.6%
Russell/Mellon Public Funds Billion \$ Universe	10.8%	10.5%	3.6%
Benchmark: Asset Allocation Weightings ²	11.1%	10.0%	3.5%

Notes:

- Returns were prepared by Mercer Investment Consulting, Inc., and shown on a gross of fee basis.
- The Benchmark consists of 30% Russell 3000, 5% Russell 2000, 25% Lehman Brothers Aggregate Bond Index, 15% MSCI EAFE index, 5% MSCI Emerging Markets Free, 15% NCREIF Classic Property Index and 5% CSFB Tremont Hedge Funds Long/Short Equity. Prior to January 1, 2004 the Benchmark consisted of 35% Russell 3000, 5% Russell 2000, 30% Lehman Aggregate, 15% MSCI EAFE index, and 10% NCREIF Property Index. Prior to January 1, 2000 to 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.

Investment Section

Schedule of Manager Fees

(Amounts Expressed in Thousands)

Manager

Domestic Equity

Alliance Capital Management, L.P.	\$ 198
BNY Asset Management	452
Dalton, Greiner, Hartman, Maher & Co., LLC	456
Independence Investment	200
LSV Asset Management	102
M.A. Weatherbie & Co., Inc.	611
OFI (Trinity) Institutional Asset Management	130
Oppenheimer Capital Management	99
Pzena Investment Management, LLC	168
TCW Asset Management	330
Total Domestic Equity	2,746

International Equity

AXA Rosenberg Investment Management, LLC	47
Bank of Ireland	285
Capital Guardian Trust Company	1,054
Capital International, Inc.	1,393
Investco Institutional NA, Inc.	230
LSV Asset Management	140
Northern Trust Company	229
Total International Equity	3,378

Hedge Fund of Funds

Blackstone Alternative Asset Management, L.P.	1,477
Grosvenor Capital Management, L.P.	621
Hedge Fund of Funds Total	2,098

Continued

Investment Section

Schedule of Manager Fees (Continued) (Amounts Expressed in Thousands)

Manager

Fixed Income

Bradford & Marzec, Inc.-Lehman Aggregate	898
Bradford & Marzec, Inc.-Short Duration	128
Lehman Brothers Assets Management, LLC	175
Metropolitan West Asset Management	809
Total Fixed Income	2,010

Real Estate

BlackRock Realty Advisors, Inc.	5,984
Cornerstone Real Estate Advisers, LLC	364
Total Real Estate	6,348

Other Professional Fees

Glass, Lewis & Co. , LLC	25
Institutional Shareholder Services	33
Mercer Investment Consulting, Inc.	255
State Street Bank	335
Total Other Professional Fees	648

Other Investment Expenses

Actuarial Service	74
Books/Periodical Service	15
Other Professional Service	1
Total Other Investment Expenses	90

Total Investment Fees and Expenses	\$ 17,318
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Investment Section

Ten Largest Stock Holdings (by Fair Value)

As of June 30, 2005

Rank	Shares	Security Name	Fair Value (in thousands)
1	1,048,685	General Electric	\$ 36,337
2	579,966	Exxon Mobil	33,331
3	666,821	Citigroup Inc.	30,827
4	1,001,112	Pfizer Inc.	27,611
5	367,638	Johnson + Johnson Corp.	23,896
6	936,085	Microsoft Corp.	23,252
7	438,464	Bank of America	19,998
8	757,350	Intel Corp.	19,737
9	267,380	Altria Group Inc.	17,289
10	866,600	Cisco System Inc.	10,561
Total of Ten Largest Stock Holdings			<u>\$ 242,839</u>

Ten Largest Bond Holdings (by Fair Value)

As of June 30, 2005

Rank	Par	Security Name	Interest Rate	Maturity	Fair Value (in thousands)
1	33,926,000	United States Treasury Notes	2.75%	08/15/07	\$ 33,298
2	32,375,000	United States Treasury Notes	4.13%	05/15/15	32,856
3	23,739,000	United States Treasury Notes	3.00%	11/15/07	23,398
4	20,000,000	Federal National Mortgage Association	2.38%	12/15/05	19,888
5	14,619,000	United States Treasury Bonds	6.13%	11/15/27	18,463
6	17,650,000	FNMA TBA Jul 30	5.00%	01/01/99	17,649
7	14,731,000	United States Treasury Bonds	5.38%	02/15/31	17,383
8	15,000,000	Federal Home Loan Banks	1.50%	10/19/05	14,908
9	14,000,000	FNMA Discount Notes	0.01%	07/29/05	13,854
10	12,535,000	FNMA TBA Jul 30	6.00%	12/01/99	12,851
Total of Ten Largest Bond Holdings					<u>\$ 204,548</u>

Investment Section

Schedule of Equity Brokerage Fees

<u>Broker Name</u>	<u>Commissions Per Share</u>	<u>Shares/Par</u>	<u>Total Commissions</u>
ABG SECURITIES AS (STOCKHOLM)	0.0298	21,400.00	\$637.74
ABN AMRO AUSTRALIA LIMITED	0.0147	37,113.00	546.50
ABN AMRO BANK N. V. HONG KONG	0.0045	5,124,008.00	23,245.20
ABN AMRO BANK NV	0.0207	119,038.00	2,463.80
ABN AMRO EQUITIES (UK) LTD LONDON	0.0179	218,877.00	3,927.20
ABN AMRO EQUITIES AUSTRALIA LTD.	0.0207	44,659.00	922.67
ABN AMRO EQUITIES UK LTD LONDON	0.0302	55,600.00	1,677.88
ADAMS HARKNESS + HILL,INC	0.0458	227,255.00	10,406.15
ADVEST INC	0.0400	22,348.00	893.92
AMERICAN TECHNOLOGY RESEARCH INC	0.0500	25,400.00	1,270.00
AMERICAS/DEUTSCHE BANK AG LONDON	0.0110	22,412.00	245.79
AMERICA'SGROWTH CAPITAL LLC	0.0400	5,489.00	219.56
ANCORA SECIRITIES INC	0.0400	37,900.00	1,516.00
AVALON RESEARCH GROUP INC	0.0400	40,800.00	1,632.00
AVIAN SECURITIES	0.0400	54,800.00	2,192.00
B RILEY AND CO INC.	0.0322	42,900.00	1,381.00
BAIRD, ROBERT W + CO	0.0500	8,460.00	423.00
BAIRD, ROBERT W., & COMPANY INC.	0.0431	276,813.00	11,921.92
BANC OF AMERICA SECURITIES	0.0500	84,000.00	4,200.00
BANC/AMERICA SECUR.LLC MONTGOMEY DIV	0.0418	1,226,760.00	51,264.95
BANK J.VONTOBEL UND CO. AG	0.9559	311.00	297.29
BANK JULIUS BAER AND CO.LTD.	0.1762	1,408.00	248.11
BANK OF AMERICA	0.0500	1,180.00	59.00
BANK OF NEW YORK	0.0200	2,500.00	50.00
BAYERISCHE HYPO UND VEREINSBANK AG	0.1091	4,400.00	479.90
BEAR STEARNS + CO INC	0.0471	1,262,792.00	59,518.92
BEAR STEARNS NY	0.0114	33,500.00	382.22
BEAR STEARNS SECS	0.0308	600.00	18.45
BEAR STEARNS SECURITIES CORP	0.0489	634,585.00	31,013.00
BLAYLOCK + PARTNERS L P	0.0500	200.00	10.00
BNY BROKERAGE INC	0.0088	1,449,100.00	12,822.05
BNY BROKERAGE.	0.0377	200,625.00	7,564.50
BREAN MURRAY	0.0400	66,900.00	2,676.00
BRIDGE TRADING	0.0467	466,300.00	21,761.00
BROADCORTCAPITAL (THRU ML)	0.0325	248,420.00	8,068.70
B-TRADE SERVICES LLC	0.0241	851,174.00	20,504.43
BUCKINGHAM RESEARCH GROUP	0.0424	118,435.00	5,023.75
BUCKINGHAM RESEARCH GROUP INC. (THE)	0.0500	5,510.00	275.50
BURNHAM SECURITIES	0.0424	10,980.00	466.00
C. L. GLAZER & COMPANY, INC.	0.0500	2,500.00	125.00
CANACCORDCAPITAL CORP	0.0365	7,000.00	255.21
CANTOR FITZ EUR 2	0.0036	529,347.00	1,902.37
CANTOR FITZGERALD + CO.	0.0403	243,618.00	9,828.22
CAP INSTITUTIONAL SERVICES INC EQUITIES	0.0483	20,100.00	970.00
CAPITAL INSTITUTIONAL SVCS INC EQUITIES	0.0500	34,900.00	1,745.00

Investment Section

Schedule of Equity Brokerage Fees (Continued)

<u>Broker Name</u>	<u>Commissions Per Share</u>	<u>Shares/Par</u>	<u>Total Commissions</u>
CARIS + COMPANY INC	0.0500	30,200.00	\$1,510.00
CAZENOVE + CO	0.0061	131,999.00	801.08
CDC IXIS SECURITIES	0.0137	12,348.00	168.90
CHARLES SCHWAB CO INC	0.0487	217,453.00	10,598.12
CHASE SECURITIES INC	0.0400	3,216.00	128.64
CHINA INTERNATIONAL CAP CORP (HK) LTD	0.0110	2,300.00	25.40
CIBC WORLD MARKETS CORP	0.0404	571,378.00	23,110.92
CIBC WORLD MKTS INC	0.0372	66,600.00	2,475.12
CITATION GROUP	0.0451	727,267.00	32,834.35
CITI GROUP	0.0072	40,300.00	290.95
CITIBANK,N.A.	0.0066	42,400.00	278.36
CITIGROUP	0.0198	24,400.00	484.16
CITIGROUPGLOBAL MARKETS ASIA LIMITED	0.0130	31,800.00	412.10
CITIGROUPGLOBAL MARKETS INC	0.0373	999,561.00	37,278.41
CITIGROUPGLOBAL MARKETS INC.	0.0209	108,258.00	2,258.81
CITIGROUPGLOBAL MARKETS INC/SALOMON BRO	0.0368	1,900.00	69.87
CITIGROUPGLOBAL MARKETS LIMITED	0.0258	733,286.00	18,913.76
CITIGROUPGLOBAL MARKETS UK EQUITY LTD	0.0032	96,600.00	308.47
CJS SECURITIES	0.0462	67,075.00	3,101.00
CREDIT AGRICOLE INDOSUEZ	0.0157	8,590.00	134.98
CREDIT AGRICOLE INDOSUEZ CHEUVREUX	0.0126	659,140.00	8,284.62
CREDIT LYONNAIS SECURITIES	0.0178	31,300.00	556.49
CREDIT LYONNAIS SECURITIES (USA) INC	0.0126	100,500.00	1,262.21
CREDIT RESEARCH + TRADING LLC	0.0500	4,075.00	203.75
CREDIT SUISSE FIRST BOSTON (EUROPE)	0.2752	1,000.00	275.17
CREDIT SUISSE FIRST BOSTON (EUROPE) LTD	0.0212	842,466.00	17,855.49
CREDIT SUISSE FIRST BOSTON CORPORATION	0.0378	1,695,170.00	64,111.12
CS FIRST BOSTON (HONG KONG) LIMITED	0.0055	1,514,000.00	8,256.96
CSFB AUSTRALIA EQUITIES LTD	0.0166	148,747.00	2,465.54
CSFB EQUITIES 1 CABOT SQUARE	0.0031	1,223,699.00	3,851.35
DAIWA SBCM EUROPE	0.0221	62,410.00	1,378.10
DAIWA SECURITIES AMERICA INC	0.0214	37,800.00	810.55
DAVENPORT& CO. OF VIRGINIA, INC.	0.0500	10,825.00	541.25
DAVIDSON D.A. + COMPANY INC.	0.0500	19,900.00	995.00
DAVIS, MENDEL AND REGENSTEIN	0.0500	5,900.00	295.00
DBS SECURITIES (S) PTE LTD.	0.0021	28,650.00	58.86
DEUTSCHE BANK AG LONDON	0.0296	389,570.00	11,550.50
DEUTSCHE BANK SECURITIES INC	0.0315	1,597,720.00	50,259.26
DEUTSCHE MORGAN GRENFELL SECS	0.0066	30,131.00	199.16
DEUTSCHE SECURITIES ASIA LIMITED	0.0081	310,260.00	2,501.01
DOWLING & PARTNERS SECURITIES, LLC.	0.0500	3,000.00	150.00
DRESDNER KLEINWORTH WASSERSTEIN SEC LLC	0.0092	518,900.00	4,764.16
EDWARDS AG SONS INC	0.0465	269,015.00	12,501.10
ENSKILDA SECURITIES AB	0.0187	95,400.00	1,782.89
EXANE S.A.	0.0821	18,100.00	1,485.92

Investment Section

Schedule of Equity Brokerage Fees (Continued)

<u>Broker Name</u>	<u>Commissions Per Share</u>	<u>Shares/Par</u>	<u>Total Commissions</u>
EXECUTIONLIMITED	0.0120	88,900.00	\$1,062.71
FACTSET DATA SYSTEMS (THRU BEAR STEARNS)	0.0454	101,800.00	4,618.00
FAGENSON + CO INC	0.0500	2,200.00	110.00
FERRIS BAKER WATTS INC	0.0500	8,900.00	445.00
FIDENTIIS	0.0161	40,100.00	644.53
FIRST ALBANY CAPITAL INC.	0.0285	41,310.00	1,179.30
FIRST ANALYSIS SECURITIES CORP	0.0450	84,000.00	3,778.00
FIRST CLEARING, LLC	0.0422	92,300.00	3,899.00
FIRST MANHATTAN CO	0.0500	800.00	40.00
FISERV SECURITIES INC	0.0201	261,050.00	5,236.50
FOX PITT KELTON INC	0.0461	98,200.00	4,527.75
FRANK RUSSELL SEC/BROADCORT CAP CLEARING	0.0500	63,100.00	3,155.00
FRIEDMAN BILLINGS + RAMSEY	0.0408	391,825.00	15,998.10
FULCRUM GLOBAL PARTNERS LLC	0.0464	171,400.00	7,957.00
G G E T LLC	0.0500	9,600.00	480.00
G TRADE	0.0053	121,400.00	646.26
G TRADE SERVICES LTD	0.0049	58,300.00	288.23
GARBAN CORPRATES LLC	0.0500	16,132.00	806.60
GERSON LEHRMAN GROUP BROKERAGE SERV LLC	0.0400	18,300.00	732.00
GLOBAL EQUITIES	0.0160	495.00	7.93
GLOBAL EXECUTION TECHNOLOGIES	0.0051	17,800.00	90.35
GOLDMAN SACHS + CO	0.0117	26,412,482.00	309,832.98
GOLDMAN SACHS EXECUTION + CLEARING	0.0150	327,786.00	4,916.29
GOLDMAN SACHS INTERNATIONAL LONDON	0.0097	682,192.00	6,645.07
GOLDSMITH& HARRIS (THRU BEAR STEARNS)	0.0400	1,300.00	52.00
GOODBODY STOCKBROKERS	0.0441	6,343.00	279.65
GREEN STREET ADVISORS	0.0500	39,100.00	1,955.00
HARBORSIDE SECURITIES	0.0200	8,300.00	166.00
HARRIS NESBITT CORP.	0.0451	228,515.00	10,312.45
HEFLIN + CO LLC	0.0400	800.00	32.00
HERZFELD & STERN	0.0500	755.00	37.75
HIBERNIA SOUTHCOAST CAPITAL INC	0.0400	14,060.00	562.40
HOWARD WEIL DIVISION LEGG MASON	0.0449	273,000.00	12,260.00
HSBC BANKPLC	0.0561	62,200.00	3,490.45
HSBC SECURITIES(ASIA)LIMITED	0.0578	38,645.00	2,235.16
IMPERIAL CAPITAL LLC	0.0359	17,610.00	631.40
ING BANK N V	0.0435	4,700.00	204.28
ING BARING SECURITIES LTD SEOUL	0.0060	105,780.00	635.29
INSTINET	0.0348	954,455.00	33,199.15
INSTINET CLEARING SERVICES INC	0.0306	1,600.00	49.00
INSTINET U.K. LTD	0.0052	130,737.00	683.96
INSTITUTIONAL DIRECT INC	0.0290	6,100.00	177.00
INVESTEC SECURITIES	0.0461	600.00	27.65
INVESTMENT TECHNOLOGY GROUP INC.	0.0197	3,749,354.00	74,046.64

Investment Section

Schedule of Equity Brokerage Fees (Continued)

<u>Broker Name</u>	<u>Commissions Per Share</u>	<u>Shares/Par</u>	<u>Total Commissions</u>
INVESTMENT TECHNOLOGY GROUP LTD	0.0042	247,815.00	\$1,034.53
ISI GROUPEQUITIES	0.0400	2,220.00	88.80
ISI GROUPINC	0.0429	62,000.00	2,662.00
ITG AUSTRALIA LTD.	0.0028	92,406.00	262.83
ITG SECURITIES (HK) LTD	0.0017	5,850.00	9.80
IVY SECURITIES, INC.	0.0400	42,700.00	1,708.00
IXIS SECURITIES	0.0137	17,925.00	245.72
J B WERE AND SON	0.0087	338,533.00	2,936.30
J P MORGAN SECURITIES INC	0.0163	2,692,679.65	43,968.03
J.P. MORGAN SECURITIES LIMITED	0.1074	2,100.00	225.57
JANNEY MONTGOMERY, SCOTT INC	0.0440	210,150.00	9,238.00
JEFFERIES+ COMPANY INC	0.0412	42,679.00	1,758.16
JEFFERIESCOMPANY INC	0.0425	460,811.00	19,586.44
JMP SECURITIES	0.0408	80,022.00	3,266.48
JOH BERENBERG GOSSLER AND CO	0.0089	42,562.00	376.98
JOHNSON RICE + CO	0.0500	30,100.00	1,505.00
JONES & ASSOCIATES INC	0.0326	295,440.00	9,619.60
JP MORGANSECURITIES AUSTRALIA LTD	0.0159	136,696.00	2,174.89
JP MORGANSECURITIES LIMITED	0.0428	135,833.00	5,812.14
JPMORG SEC(FAR EAST)LTD SEOUL	0.0031	53,860.00	168.16
JPMORGAN CHASE BANK	0.0738	3,612.00	266.57
JPMORGAN SECURITIES(ASIA PACIFIC)LTD	0.0236	75,616.00	1,782.53
JULIUS BAER BROKERAGE SA	0.0834	49,000.00	4,084.29
KAUFMAN BROTHERS	0.0500	7,400.00	370.00
KBC FINANCIAL PRODUCTS UK LTD	0.0856	9,200.00	787.76
KEEFE BRUYETTE + WOODS INC	0.0241	407,225.00	9,800.75
KEVIN DANN PARTNERS, LLC	0.0500	8,500.00	425.00
KING, CL, & ASSOCIATES, INC	0.0500	25,800.00	1,290.00
KING, CL,& ASSOCIATES, INC	0.0456	31,875.00	1,453.00
KLEINWORTBENSON SECURITIES LIMITED	0.0213	393,198.00	8,379.29
KNIGHT SECURITIES	0.0302	215,835.00	6,522.50
LA BRANCHE FINANCIAL #2	0.0300	12,500.00	375.00
LAZARD FRERES & CO.	0.0500	49,700.00	2,485.00
LEERINK SWANN AND COMPANY	0.0478	38,300.00	1,831.00
LEGG MASON WOOD WALKER INC	0.0453	180,754.00	8,196.76
LEHMAN BROTHERS INC	0.0379	2,397,370.00	90,845.07
LEHMAN BROTHERS INTERNATIONAL (EUROPE)	0.0328	324,570.00	10,656.50
LEHMAN BROTHERS SECS (ASIA)	0.0143	184,964.00	2,646.61
LIQUIDNETINC	0.0228	2,225,427.00	50,717.62
LYNCH JONES AND RYAN INC	0.0500	99,200.00	4,960.00
M M WARBURG	0.0746	7,600.00	567.00
MACQUARIEINVESTMENT	0.0088	5,900.00	52.20
MACQUARIESECURITIES LIMITED	0.0160	59,200.00	946.09
MAINFIRSTBANK DE	0.0715	6,255.00	447.20
MCDONALD AND COMPANY SECURITIES, INC.	0.0400	31,165.00	1,246.60

Investment Section

Schedule of Equity Brokerage Fees (Continued)

<u>Broker Name</u>	<u>Commissions Per Share</u>	<u>Shares/Par</u>	<u>Total Commissions</u>
MCDONALDAND COMPANY SECURITIES, INC.	0.0407	61,445.00	\$2,502.70
MERRILL LYNCH	0.0012	62,000.00	72.06
MERRILL LYNCH + CO INC	0.0368	12,580.00	463.20
MERRILL LYNCH INTERNATIONAL	0.0121	700,424.00	8,474.91
MERRILL LYNCH PEIRCE FENNER AND S	0.0085	11,166,169.00	95,049.09
MERRILL LYNCH PIERCE FENNER + SMITH	0.0494	241,984.00	11,960.96
MERRILL LYNCH PROFESSIONAL CLEARING CORP	0.0411	178,300.00	7,320.00
MERRILL LYNCH,PIERCE,FENNER & SMITH, INC	0.0455	125,846.00	5,729.03
MERRILL LYNCH,PIERCE,FENNER + SMITH, INC	0.0377	1,863,421.00	70,338.77
MERRIMAN CURHAN FORD + CO	0.0377	34,375.00	1,297.00
MIDWEST RESEARCH SECURITIES	0.0431	141,177.00	6,081.08
MIZUHO SECURITIES USA INC	0.0118	283,666.00	3,341.06
MOORS + CABOT INC	0.0471	91,400.00	4,303.00
MORGAN KEEGAN & CO INC	0.0422	150,000.00	6,323.00
MORGAN STANLEY	0.0018	755,300.00	1,390.68
MORGAN STANLEY AND CO. INTERNATIONAL	0.0259	829,981.00	21,495.20
MORGAN STANLEY CO INCORPORATED	0.0223	2,177,689.00	48,555.54
MORGAN STANLEY SECURITIES LIMITED	0.0024	43,524.00	102.93
NATIONAL FINANCIAL SERVICES CORP.	0.0035	4,473,200.00	15,640.15
NCB STOCKBROKERS LTD	0.0449	3,179.00	142.74
NEEDHAM +COMPANY	0.0430	209,653.00	9,021.97
NESBITT BURNS	0.0329	111,200.00	3,662.36
NF CLEARING/STOCK LOAN ACCOUNT	0.0500	2,680.00	134.00
NOMURA INTERNATIONAL (HONG KONG) LTD	0.0012	9,850.00	11.61
NOMURA INTERNATIONAL PLC	0.0443	41,225.00	1,825.12
NOMURA SECURITIES CO LTD	0.0027	26,460.00	71.05
NOMURA SECURITIES INTERNATIONAL INC	0.0347	74,493.00	2,581.89
NORTHEASTSECURITIES INC	0.0400	143,600.00	5,744.00
NUMIS SECURITIES LIMITED	0.0147	10,600.00	155.78
NYFIX TRANSACTION SERVICES #2	0.0200	162,875.00	3,257.50
OPPENHEIMER & CO. INC.	0.0460	141,550.00	6,516.50
PACIFIC CREST SECURITIES	0.0390	73,920.00	2,886.10
PACIFIC GROWTH EQUITIES	0.0400	5,000.00	200.00
PERSHING LLC	0.0443	93,359.00	4,137.59
PERSHING SECURITIES LIMITED	0.0115	16,709,342.00	192,884.93
PETRIE PARKMAN & CO INC	0.0400	12,400.00	496.00
PIPER JAFFRAY & CO.	0.0478	86,260.00	4,121.85
PIPER JAFFREY	0.0500	1,350.00	67.50
PORTALES PARTNERS LLC	0.0480	118,400.00	5,683.00
PRITCHARDCAPITAL PARTNERS LLC	0.0500	2,900.00	145.00
PRUDENTIAL EQUITY GROUP	0.0425	1,011,761.00	42,957.44
PULSE TRADING LLC	0.0300	7.00	0.21
R W PRESSPRICH + CO INC	0.0300	28,325.00	849.75
RAYMOND JAMES AND ASSOCIATES INC	0.0462	242,598.00	11,210.72
RAYMOND JAMES LTD	0.0303	1,600.00	48.50

Investment Section

Schedule of Equity Brokerage Fees (Continued)

<u>Broker Name</u>	<u>Commissions Per Share</u>	<u>Shares/Par</u>	<u>Total Commissions</u>
RBC CAPITAL MARKETS	0.0422	64,850.00	\$2,739.50
RBC DOMINION SECURITIES	0.0294	14,700.00	431.83
RBC DOMINION SECURITIES INC.	0.0406	5,148.00	209.12
RUSSELL FRANK SECURITIES INC	0.0400	21,100.00	844.00
RYAN BECK+ CO	0.0500	27,800.00	1,390.00
S.G. COWEN & CO., LLC	0.0419	345,882.00	14,482.78
SALOMON SMITH BARNEY KOREA LTD	0.8971	630.00	565.20
SANDERS MORRIS MUNDY	0.0500	3,400.00	170.00
SANDLER ONEILL + PART LP	0.0449	114,410.00	5,139.50
SANFORD C. BERNSTEIN LTD	0.0114	66,434.00	757.47
SANFORD CBERNSTEIN CO LLC	0.0414	631,629.00	26,124.04
SANTANDERINVESTMENT SECURITIES INC	0.0378	25,000.00	945.00
SCOTIA CAPITAL (USA) INC	0.0298	267,300.00	7,961.04
SCOTT & STRINGFELLOW, INC	0.0461	198,573.00	9,145.22
SG AMERICAS SECURITIES, LLC	0.0497	168,940.00	8,399.00
SG SECURITIES HK	0.0021	7,400.00	15.22
SIDOTI + COMPANY LLC	0.0408	216,124.00	8,811.37
SIMMONS +COMPANY INTERNATIONAL	0.0476	79,505.00	3,782.25
SOCIETE GENERALE LONDON BRANCH	0.1877	689.00	129.33
SOUTHWESTSECURITIES	0.0461	246,100.00	11,338.00
SPEAR, LEEDS & KELLOGG	0.0173	196,264.00	3,393.46
SPROTT SECURITIES LTD	0.0400	29,300.00	1,172.00
SSANGYONGINVESTMENT AND SECURITIES	0.0054	45,030.00	243.34
STANDARD & POOR'S SECURITIES, INC.	0.0452	231,600.00	10,476.00
STANFORD GROUP CO	0.0496	33,526.00	1,664.30
STATE STREET BANK + TR CO	0.0497	1,588,100.00	78,980.00
STATE STREET BROKERAGE SERVICES	0.0336	9,625,477.00	323,717.56
STATUS SECURITIES	0.0334	18,200.00	608.00
STEPHENS, INC.	0.0434	118,434.00	5,140.36
STIFEL NICOLAUS & CO INC	0.0500	385.00	19.25
STIFEL NICOLAUS + CO INC	0.0417	4,200.00	175.00
STUART FRANKEL + CO	0.0300	122,500.00	3,675.00
SUNTRUST CAPITAL MARKETS INC	0.0500	3,600.00	180.00
SUNTRUST CAPITAL MARKETS, INC.	0.0443	165,350.00	7,330.50
SVENSKA HANDELSBANKEN LONDON BRANCH	0.0309	6,300.00	194.52
THE BENCHMARK COMPANY, LLC	0.0400	29,400.00	1,176.00
THEMIS TRADING LLC	0.0400	368,118.00	14,724.72
THINKEQUITY PARTNERS LLC	0.0344	16,752.00	577.08
THOMAS WEISEL PARTNERS	0.0418	274,898.00	11,480.87
TORONTO DOMINION SECURITIES	0.0365	7,800.00	284.89
U.S. BANCORP PIPER JAFFRAY INC	0.0453	422,577.00	19,126.03
U.S. CLEARING CORPORATION	0.0496	68,677.00	3,405.78
UBS AG	0.0064	5,358,296.00	34,484.23
UBS AG LONDON	0.0179	172,420.00	3,083.65
UBS AG/CUST LDN BRAN	0.0240	36,874.00	884.66

Investment Section

Schedule of Equity Brokerage Fees (Continued)

<u>Broker Name</u>	<u>Commissions Per Share</u>	<u>Shares/Par</u>	<u>Total Commissions</u>
THE BENCHMARK COMPANY, LLC	0.0400	29,400.00	\$1,176.00
THEMIS TRADING LLC	0.0400	368,118.00	14,724.72
THINKEQUITY PARTNERS LLC	0.0344	16,752.00	577.08
THOMAS WEISEL PARTNERS	0.0418	274,898.00	11,480.87
TORONTO DOMINION SECURITIES	0.0365	7,800.00	284.89
U.S. BANCORP PIPER JAFFRAY INC	0.0453	422,577.00	19,126.03
U.S. CLEARING CORPORATION	0.0496	68,677.00	3,405.78
UBS AG	0.0064	5,358,296.00	34,484.23
UBS AG LONDON	0.0179	172,420.00	3,083.65
UBS AG/CUST LDN BRAN	0.0240	36,874.00	884.66
UBS SECURITIES CANADA INC	0.0317	79,745.00	2,530.15
UBS SECURITIES LLC	0.0374	948,783.00	35,443.32
UOB KAY HIAN (HONG KONG) LTD	0.0025	1,600.00	4.00
UOB KAY HIAN PRIVATE LIMITED	0.0020	19,000.00	38.84
VERITAS SECURITIES	0.0250	300,900.00	7,522.50
W R HAMBRECHT + CO LLC	0.0500	480.00	24.00
WACHOVIA SECURITIES, LLC	0.0400	5,617.00	224.68
WACHOVIACAPITAL MARKETS, LLC	0.0443	532,910.00	23,632.40
WARBURG DILLION READ (ASIA) LTD	0.0092	661,218.00	6,098.89
WARBURG DILLON READ SECURITIES LTD	0.0073	25,542.00	185.81
WAVE SECURITIES LLC	0.0142	687,323.00	9,736.10
WEDBUSH MORGAN SECURITIES INC	0.0397	43,319.00	1,721.26
WEEDEN + CO.	0.0268	442,620.00	11,840.25
WELLS FARGO SECURITIES LLC	0.0443	141,400.00	6,269.00
WESTMINSTER RESEARCH ACCOCIATION	0.0425	212,200.00	9,023.00
WESTMINSTER RESEARCH ASSOCIATE	0.0387	24,320.00	940.60
WILLIAM BLAIR & COMPANY, L.L.C	0.0435	289,162.00	12,579.93
WR HAMBRECHT + CO	0.0500	23,500.00	1,175.00
Total	<u>0.0199</u>	<u>142,630,298.65</u>	<u>\$2,842,366.63</u>





Actuarial Section



Actuarial Certification Letter



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

December 9, 2005

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

Re: Actuarial Valuation for the Sacramento County Employees' Retirement System

Dear Members of the Board:

The Segal Company prepared the June 30, 2005 actuarial valuation of the Sacramento County Employees' Retirement System. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

As part of the June 30, 2005 actuarial valuation, The Segal Company (Segal) conducted an examination of all participant data for reasonableness. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. We did not audit the System's financial statements. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over a five-year period.

The funding objective of the Plan is to establish rates which, over time, will remain level as a percentage of payroll unless Plan benefit provisions are changed. Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payrolls to amortize any unfunded actuarial accrued liability (UAAL). Actuarial gains and losses are incorporated into the UAAL and are amortized over the same period.

The UAAL is amortized as a level percentage of payroll over a 28-year period. The progress being made towards meeting the funding objective through June 30, 2005 is illustrated in the Schedule of Funding Progress.

Actuarial Section

Actuarial Certification Letter (Continued)

Board of Retirement
Sacramento County Employees' Retirement System
Actuarial Valuation for the Sacramento County Employees' Retirement System
December 9, 2005
Page 2

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

1. Schedule of active member valuation data;
2. Retirees and beneficiaries added to and removed from retiree payroll;
3. Solvency test;
4. Probability of separation prior to retirement;
5. Actuarial analysis of financial experience;
6. Schedule of average benefit payments for retirees and beneficiaries;
7. Schedule of retiree members by type of benefit;
8. Schedule of funding progress;
9. Membership summary statistics; and
10. Schedule of Participating Employers and Active Members.

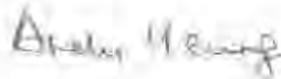
The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2004 Experience Analysis or in conjunction with the June 30, 2005 actuarial valuation. It is our opinion that the assumptions used in the June 30, 2005 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The next experience analysis is due to be performed as of June 30, 2007.

In the June 30, 2005 valuation, the ratio of the valuation assets to actuarial accrued liabilities decreased from 93.3% to 93.2%. The employer's rate has increased from 17.72% of payroll to 19.65% of payroll, while the employee's rate has decreased from 4.95% of payroll to 4.68% of payroll.

Sincerely,



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



Andy Yeung, ASA, EA, MAAA
Associate Actuary

DZY/hy

191366/05750.001

Actuarial Section

Summary of Assumptions & Methods

The following assumptions and methods have been adopted by the Board for the June 30, 2005 valuation.

Assumption:

Valuation Interest Rate and

Rate of Return on Investment: 7.75% net of administration and investment expenses

Inflation Assumption: 3.50%

Cost of Living Adjustment: 3.40% 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

Employee Contribution Crediting

Rate: 7.75%, compounded semi-annually assuming sufficient net investment revenue

Post-Retirement Mortality:

a) Service For Miscellaneous and Safety Members - 1994 Group Annuity Mortality Table

b) Disability For Miscellaneous Members - 1981 Miscellaneous Disability Mortality Table set back two years
For Safety Members - 1994 Group Annuity Mortality Table

c) Employee Contribution Rate For Miscellaneous Members - 1994 Group Annuity Mortality Table weighted 40% male and 60% female
For Safety Members - 1994 Group Annuity Mortality Table weighted 75% male and 25% female

Pre-Retirement Mortality:

Based upon the 6/30/2004 Experience Analysis

Withdrawal Rates:

Based upon the 6/30/2004 Experience Analysis

Disability Rates:

Based upon the 6/30/2004 Experience Analysis

Service Retirement Rates:

Based upon the 6/30/2004 Experience Analysis

Salary Increases:

Merit and longevity increases are based upon the 6/30/2004 Experience Analysis plus 3.50% inflation and across the board salary increases of 0.25% per year

Actuarial Value of Assets:

The market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between actual and expected returns on a market value basis and is recognized over a five-year period. The actuarial value is further adjusted, if necessary, to be within 20% of the market value.

Valuation Value of Assets:

Actuarial value of assets reduced by the value of non-valuation reserves and designations.

Summary of Assumptions & Methods (Continued)

Actuarial Cost Method:	Entry Age Normal Actuarial Cost Method. Entry Age is the age at the members' hire date. Actuarial Accrued Liability is calculated on an individual basis and is based on costs allocated as a level percentage of compensation. The Normal Cost is calculated on an aggregate basis by taking the Present Value of Future Normal Costs divided by the Present Value of Future Salaries to obtain a normal cost rate. This normal cost rate is then multiplied by the total current salaries. The total Unfunded Actuarial Accrued Liability is amortized over a declining 28-year period.
Percentage of Members Married at Retirement:	80% for male members and 50% for female members
Retirement Age for Deferred Vested Members:	Miscellaneous Members - 58 Safety Members - 55
Percentage Eligible for Reciprocal Benefits:	Miscellaneous Members - 55% Safety Members - 65%



Actuarial Section

Summary of Plan Provisions

Briefly summarized below are the major provisions of the County Employees' Retirement Law of 1937, as amended through June 30, 2005, that are applicable to the 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%
62	2.61%	3.00%
65 and over	2.61%	3.00%

Actuarial Section

Summary of Plan Provisions (Continued)

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) month's 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.

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.

Actuarial Section

Summary of Plan Provisions (Continued)

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 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 preceding April 1.

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 equal to 1/100 of FAS at age 50 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 contribution 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 contribution 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 (in thousands)	Annual Average Pay (in thousands)	% Increase in Average Pay *
6/30/03	Miscellaneous	11,696	\$577,810	\$49.4	5.73%
	Safety	2,437	155,486	63.8	1.12%
	Total	14,133	\$733,296	\$51.9	4.72%
6/30/04	Miscellaneous	11,384	\$563,022	\$49.5	0.11%
	Safety	2,288	151,048	66.0	3.47%
	Total	13,672	\$714,069	\$52.2	0.66%
6/30/05	Miscellaneous	11,378	\$566,749	\$49.8	0.72%
	Safety	2,350	155,265	66.1	0.08%
	Total	13,728	\$722,014	\$52.6	0.70%

* 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 End	At Beginning of Year	Added During Year	Removed During Year	At End of Year	Annual Retiree Payroll (in thousands)	Payroll added During Year (in thousands)	Removed During Year (in thousands)	% Increase In Annual Retiree Payroll	Average Annual Allowance
6/30/2003	5,742	321	181	5,882	\$ 115,819	\$ 9,439	\$ 2,158	6.71	\$ 19,690
6/30/2004	5,882	786	377	6,291	151,593	39,067	3,293	30.89	24,097
6/30/2005	6,291	706	213	6,784	171,445	23,273	3,421	13.10	25,272

Note: Participants are counted once for each benefit received.

Schedule of Funding Progress (Amounts Expressed in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets* (a)	Actuarial Liability (AAL)* (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
6/30/2003	\$ 3,864,400	\$ 4,108,294	\$ 243,894	94.1%	\$ 733,296	33.3%
6/30/2004	** 4,379,514	4,694,009	314,495	93.3	714,069	44.0
6/30/2005	4,530,583	4,860,882	330,299	93.2	722,015	45.7

*Includes contingency reserve, retiree health benefit reserve, retiree death benefit reserve, and amount over reserved benefits.

**Includes contributions receivable from Pension Obligation Bonds.

Solvency Tests (Amounts Expressed 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)
	Active Member Contributions	Retired / Vested Members	Active Members (Employer Financed Portion)	Total	Active Member Contributions	Retired / Vested Members				
6/30/2003	\$252,998	\$1,599,899	\$2,255,397	\$4,108,294	\$3,864,400	100%	100%	100%	100%	89%
6/30/2004	470,567	2,196,690	2,026,752	4,694,009	4,379,514	100	100	100	100	84
6/30/2005	474,613	2,444,406	1,941,863	4,860,882	4,530,583	100	100	100	100	83

Events affecting year to year comparability:

6/30/03 - 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 3.00%.

6/30/04 - Investment assumption decreased from 8% to 7.75%; inflation assumption increased from 3.00% to 4.00%.

Across-the-board salary increase assumption changed from 1.25% to 0.25%.

6/30/05 - Inflation assumption decreased from 4.00% to 3.50%.

Actuarial Analysis of Financial Experience (Amounts Expressed in Millions)

	Plan years Ended June 30		
	2005	2004	2003
Prior Valuation Unfunded Actuarial Liability	\$314	(\$176)	(\$253)
Salary Increase Greater (Less) than Expected	(35)	53	2
Asset Return Less (Greater) than Expected	107	102	(13)
Plan Improvements	(2)	27	460
Other Experience	49	(1)	92
Economic and Non-Economic Assumption Changes	(103)	310	(44)
Receivable from Pension Obligation Bonds	-	(1)	(420) *
Ending Unfunded Actuarial Accrued Liability	\$330	\$314	(\$176)

*\$420 in Pension Obligation Bonds was retroactively reflected in June 30, 2003 valuation, which impacted rates for fiscal year 2004-05

Actuarial Section

New Probabilities of Separation Prior to Retirement

Age	Rate (%) Mortality			
	Miscellaneous		Safety	
	Male	Female	Male	Female
25	0.07	0.03	0.07	0.03
30	0.08	0.04	0.08	0.04
35	0.09	0.05	0.09	0.05
40	0.11	0.07	0.11	0.07
45	0.16	0.10	0.16	0.10
50	0.26	0.14	0.26	0.14
55	0.44	0.23	0.44	0.20
60	0.80	0.44	0.80	0.44
65	1.45	0.86	1.45	0.86

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

Actuarial Section

New Probabilities of Separation Prior to Retirement (Continued)

Age	Rate (%)	
	Disability	
	Miscellaneous ⁽¹⁾	Safety ⁽²⁾
20	0.00	0.20
25	0.01	0.20
30	0.03	0.26
35	0.06	0.42
40	0.13	0.56
45	0.22	0.72
50	0.32	0.92
55	0.48	1.30
60	0.82	0.00

⁽¹⁾ 15% of Miscellaneous disabilities are assumed to be service connected disabilities. The other 85% are assumed to be non-service connected disabilities.

⁽²⁾ 85% of Safety disabilities are assumed to be service connected disabilities. The other 15% are assumed to be non-service connected disabilities.

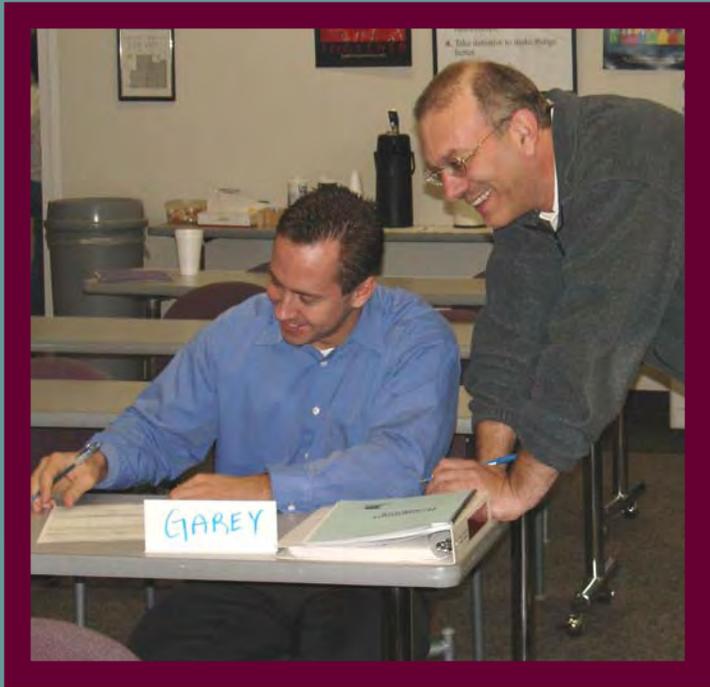
Actuarial Section

New Probabilities of Separation Prior to Retirement (Continued)

Rate (%)		
Withdrawal (<5 Years of Service)		
Years of Service	Miscellaneous	Safety
0	13.00	8.00
1	7.00	4.00
2	6.00	3.00
3	5.00	2.00
4	4.00	2.00

Withdrawal (5+ Years of Service) *		
Age	Miscellaneous	Safety
20	4.00	2.00
25	4.00	2.00
30	4.00	2.00
35	4.00	1.80
40	3.00	1.50
45	2.30	1.20
50	1.80	0.00
55	1.50	0.00
60	0.00	0.00

* 25% of the members are assumed to elect a refund of contribution balance while the remaining 75% are assumed to elect a deferred retirement benefit. No withdrawal is assumed after a member is eligible for retirement.



Statistical Section



Participating Employers and Active Members

SCERS Member Agency	Plan	For the Fiscal Year Ended June 30:											
		2005	2004	2003	2002	2001	2000	1999	1998	1997	1996		
Carmichael Recreation and Park District	Misc.	17	18	20	18	20	18	18	20	20	20	20	
Elk Grove Cosumnes Cemetery District	Misc.	4	4	1	1	1	1	1	1	0	0	0	
Fair Oaks Cemetery District	Misc.	5	5	5	3	3	4	4	5	5	4	4	
Florin Fire	Misc.	0	0	0	0	0	0	0	0	0	0	4	
	Safety	0	0	0	0	0	0	0	0	0	0	85	
Galt-Arno Cemetery District	Misc.	3	3	3	3	2	2	2	3	1	1	1	
Mission Oaks Recreation and Park District	Misc.	10	12	13	13	13	12	12	12	12	12	12	
Orangevale Recreation and Park District	Misc.	15	16	14	14	14	14	14	13	10	10	10	
Sacramento Metropolitan Fire District	Safety	7	7	7	7	7	9	9	10	10	10	10	
S.E.T.A	Misc.	544	549	513	520	520	409	445	345	257	193	193	
Sunrise Recreation and Park District	Misc.	28	26	27	29	29	28	28	27	26	27	27	
U.C. Davis Medical Center	Misc.	1	1	1	1	1	2	3	3	3	3	3	
Board of Supervisors	Misc.	5	5	5	5	5	5	5	5	5	5	5	
Auditor	Misc.	0	0	0	0	0	0	0	0	0	0	1	
Sheriff	Safety	1	1	1	1	1	1	1	1	1	1	1	
Assessor	Misc.	1	1	1	1	1	1	1	1	1	1	1	
District Attorney	Misc.	1	1	1	1	1	1	1	1	1	1	1	
Total Special District Members	Misc.	634	641	604	608	610	497	534	436	341	281	281	
	Safety	8	8	8	8	8	10	10	11	11	96	96	
Sacramento County Members	Misc.	10,744	10,743	11,092	11,010	10,171	9,720	8,816	8,430	8,343	8,579	8,579	
	Safety	2,342	2,280	2,429	2,407	2,202	2,008	1,994	1,924	1,852	1,800	1,800	
Total Members	Misc.	11,378	11,384	11,696	11,618	10,781	10,217	9,350	8,866	8,684	8,860	8,860	
	Safety	2,350	2,288	2,437	2,415	2,210	2,018	2,004	1,935	1,863	1,896	1,896	
	Total	13,728	13,672	14,133	14,033	12,991	12,235	11,354	10,801	10,547	10,756	10,756	

Source: Actuarial Reports for June 30, 1996 - 2005

Revenue by Source
(Amounts Expressed in Thousands)

Year Ended	Member Contributions	Employer Contributions	% of Annual Covered Payroll	Net Investment Income / (Loss)	Total
6/30/1996	\$24,395	\$568,677*	136.17%	\$322,841	\$915,913
6/30/1997	27,233	44,760	10.67	438,167	\$510,160
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)	(\$134,258)
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
6/30/2004	42,864	119,144	16.69	525,239	\$687,247
6/30/2005	36,916	529,618**	73.35	419,481	\$986,015

Source: Audited Financial Statements from June 30, 1996 through 2005

* This total includes \$533,034 in proceeds from Pension Obligation Bonds (POB) issued by the Sacramento County.

** This total includes \$420,000 and \$10,535 in proceeds from POB issued by the Sacramento County and Sacramento Metropolitan Fire District, respectively.



Statistical Section

Schedule of Expenses by Type

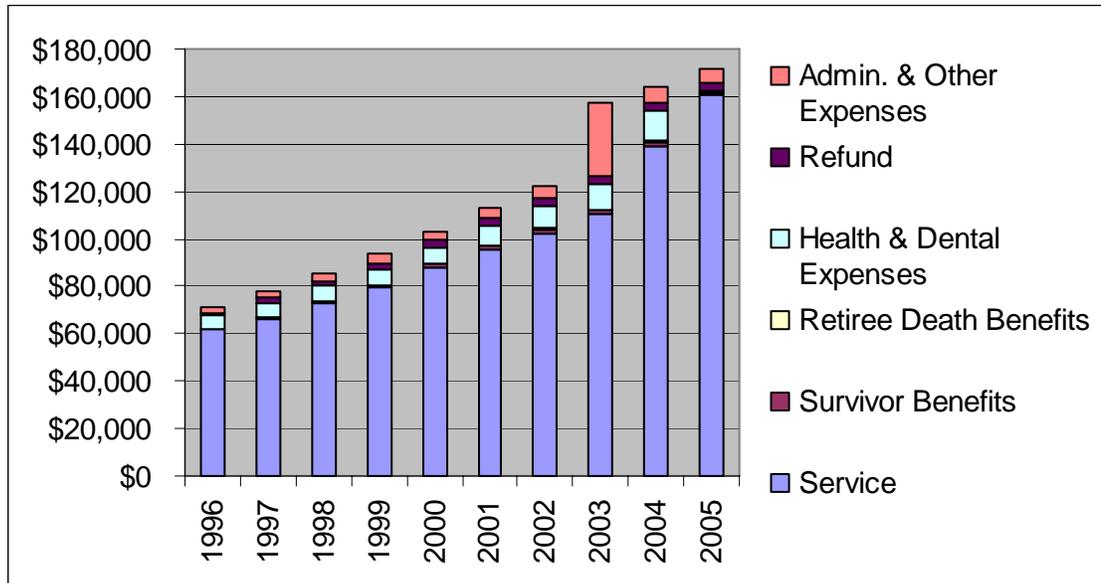
(Amounts Expressed in Thousands)

Year Ended	Benefits Paid						Refunds	Total
	Service	Survivor Benefits	Retiree Death Benefits	Health and Dental Benefits	Administrative And Other Expenses			
6/30/1996	*\$ 61,720	*\$ -	*\$ -	\$ 5,828	\$ 1,981	\$ 1,353	\$ 70,882	
6/30/1997	66,314	942	120	5,868	2,300	2,020	\$ 77,564	
6/30/1998	72,748	1,166	106	5,981	2,868	2,460	\$ 85,329	
6/30/1999	79,426	1,190	95	5,973	3,363	3,306	\$ 93,353	
6/30/2000	88,103	1,200	293	6,946	3,602	3,181	\$ 103,325	
6/30/2001	95,526	1,229	561	8,072	3,831	3,611	\$ 112,830	
6/30/2002	102,555	1,274	524	9,111	5,485	3,517	\$ 122,466	
6/30/2003	110,326	1,482	441	10,866	31,767	2,906	\$ 157,788	
6/30/2004	139,008	1,817	629	12,311	6,653	3,990	\$ 164,408	
6/30/2005	160,439	1,545	525	2	5,262	3,463	\$ 171,236	

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

* Detail unavailable

Source: Audited Financial Statements from June 30, 1996 through 2005



Retiree Members by Type of Benefit

As of June 30, 2005

Miscellaneous Members

	Count	Monthly Allowances			Average Benefit
		Basic	COL	Total	
Service Retirement					
Unmodified	3,611	\$ 5,380,404	\$ 1,558,348	\$ 6,938,752	\$ 1,922
Option 1	264	330,756	90,089	420,845	1,594
Option 2, 3, & 4	323	396,782	75,676	472,458	1,463
Total	4,198	6,107,942	1,724,113	7,832,055	1,866
Non-Service Disability					
Unmodified	279	223,095	106,700	329,795	1,182
Option 1	24	18,810	5,737	24,547	1,023
Option 2, 3, & 4	10	8,874	2,592	11,466	1,147
Total	313	250,779	115,029	365,808	1,169
Service Disability					
Unmodified	165	218,231	128,028	346,259	2,099
Option 1	6	8,090	3,115	11,205	1,868
Option 2, 3, & 4	4	4,366	2,160	6,526	1,632
Total	175	230,687	133,303	363,990	2,080
Beneficiary					
Total	861	492,101	410,762	902,863	1,049
Total (All Groups)	5,547	\$ 7,081,509	\$ 2,383,207	\$ 9,464,716	\$ 1,706

Safety Members

	Count	Monthly Allowances			Average Benefit
		Basic	COL	Total	
Service Retirement					
Unmodified	781	\$ 2,973,816	\$ 618,293	\$ 3,592,109	\$ 4,599
Option 1	26	82,406	16,422	98,828	3,801
Option 2, 3, & 4	34	104,978	18,170	123,148	3,622
Total	841	3,161,200	652,885	3,814,085	4,535
Non-Service Disability					
Unmodified	21	35,358	11,149	46,507	2,115
Option 1	-	-	-	-	-
Option 2, 3, & 4	1	1,512	541	2,053	2,053
Total	22	36,870	11,690	48,560	2,207
Service Disability					
Unmodified	169	372,857	166,169	539,026	3,190
Option 1	7	13,528	5,650	19,178	2,740
Option 2, 3, & 4	5	9,529	2,922	12,451	2,490
Total	181	395,914	174,741	570,655	3,153
Beneficiary					
Total	193	229,693	159,395	389,088	2,016
Total (All Groups)	1,237	\$ 3,823,677	\$ 998,711	\$ 4,822,388	\$ 3,898

Source: Actuarial Report as of June 30, 2005

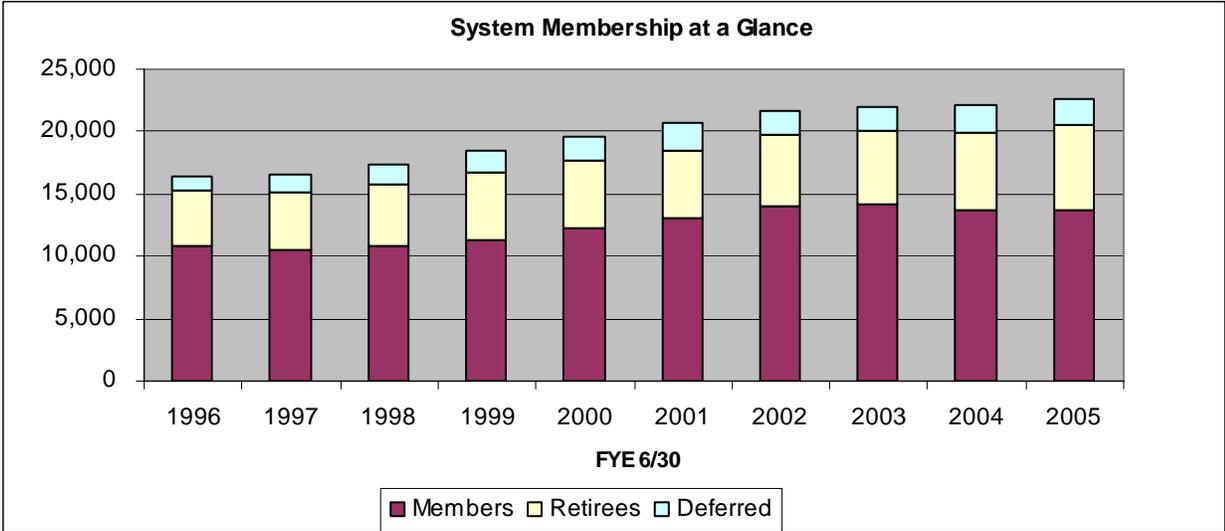
Statistical Section

Average Benefit Payments

Retirement Effective Dates	Years Since Retirement						
	0-4	5-9	10-14	15-19	20-24	25-29	30 & Over
Period 7/1/95 - 6/30/96:							
Average Monthly Benefit	\$ 1,501	\$ 1,283	\$ 1,114	\$ 893	\$ 697	\$ 633	\$ 478
Number of Active Retirants	1,430	1,121	875	649	317	82	28
Period 7/1/96 - 6/30/97:							
Average Monthly Benefit	\$ 1,539	\$ 1,404	\$ 1,151	\$ 950	\$ 760	\$ 651	\$ 485
Number of Active Retirants	1,501	1,092	902	683	337	104	27
Period 7/1/97 - 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 7/1/98 - 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 7/1/99 - 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 7/1/00 - 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 7/1/01 - 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 7/1/02 - 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
Period 7/1/03 - 6/30/04:							
Average Monthly Benefit	\$ 2,574	\$ 2,090	\$ 2,056	\$ 1,693	\$ 1,392	\$ 1,187	\$ 918
Number of Active Retirants	1,793	1,353	1,090	834	650	400	171
Period 7/1/04 - 6/30/05:							
Average Monthly Benefit	\$ 2,806	\$ 2,095	\$ 2,129	\$ 1,736	\$ 1,509	\$ 1,281	\$ 1,007
Number of Active Retirants	1,927	1,402	1,181	913	675	453	233

Source: Actuarial Report from June 30, 1996 through 2005

Growth of System Membership



FYE 6/30	Members	Retirees	Deferred	Total
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
2005	13,728	6,784	2,135	22,647

Schedule of Employer Contribution Rates

Actuarial Report for Year Ended	COUNTY					SPECIAL DISTRICTS		
	Miscellaneous			Safety		Miscellaneous	Safety	
	Tier 1	Tier 2	Tier 3	Tier 1	Tier 2	Tier 1	Tier 3	Tier 1
6/30/1997	6.43	3.40	5.02	17.96	13.42	14.44	15.40	23.80
6/30/1998	5.85	2.91	4.55	14.57	10.30	14.58	14.91	20.45
6/30/1999	5.89	2.94	4.56	14.56	10.29	14.63	14.54	20.64
6/30/2000	5.85	2.90	4.53	14.52	10.37	16.44	14.94	21.75
6/30/2001	6.86	3.41	5.26	16.04	11.96	17.54	15.90	23.12
6/30/2002	15.84	11.47	13.85	31.69	26.31	17.89	18.20	30.89
6/30/2003*	13.49	9.16	11.32	24.39	20.24	18.84	16.73	30.72
6/30/2004*	15.29	11.49	13.94	33.23	28.57	20.87	19.56	38.19
6/30/2005	16.10	13.14	15.88	35.18	30.84	22.78	22.56	39.71

Source: Actuarial Reports from June 30, 1997 though 2005

Note:

Actuarial Valuation Reports are prepared subsequent to a fiscal year-end and determines rates which pertain to the following fiscal year. For example, the Actuarial Valuation as of 6/30/04 presented current rates for the fiscal year 2004-2005 and was used to determine rates for the fiscal year 2005-06.

Composite contribution rates unavailable prior to June 30, 1997.

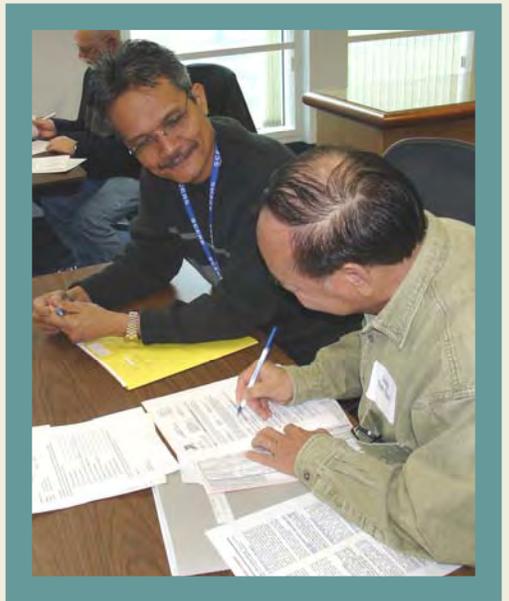
* Rates were adjusted to reflect the proceeds from Sacramento County's pension obligation bonds that were received on July 1, 2004.

Schedule of Administrative Expenses

(Amounts Expressed in Thousands)

Type of Expenses	6/30/05	6/30/04	6/30/03	6/30/02	6/30/01	6/30/00	6/30/99	6/30/98	6/30/97	6/30/96
Salaries and Benefits	\$ 2,734	\$ 2,663	\$ 2,416	\$ 2,077	\$ 1,818	\$ 1,464	\$ 1,418	\$ 1,300	\$ 1,004	\$ 747
Professional Fees	440	583	578	420	433	634	753	783	568	668
Equipment Purchases and Maintenance	73	89	198	314	242	156	111	109	257	65
Rent and Lease Expense	596	596	560	416	204	171	155	151	69	66
Depreciation Expense	27	14	18	42	42	25	-	-	-	-
Other Administrative Expenses	1,392	1,901	2,127	2,216	1,092	1,152	926	525	612	437
Total	\$ 5,262	\$ 5,846	\$ 5,897	\$ 5,485	\$ 3,831	\$ 3,602	\$ 3,363	\$ 2,868	\$ 2,510	\$ 1,983

Source: Audited Financial Statements from June 30, 1996 through 2005





980 9th Street, Suite 1800
Sacramento, CA 95814
(916) 874-9119
www.scers.org