

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for THE FISCAL YEARS ENDED JUNE 30, 2010 and 2009 | *Sacramento, California*



SACRAMENTO COUNTY
EMPLOYEES'
RETIREMENT SYSTEM





COMPREHENSIVE ANNUAL FINANCIAL REPORT

for THE FISCAL YEARS ENDED
JUNE 30, 2010 *and* 2009



ISSUED BY:

RICHARD STENSRUD

Chief Executive Officer

KATHRYN T. REGALIA, CPA

Chief Operations Officer

THUYET ZIYALAN

Accounting Manager



**SACRAMENTO COUNTY
EMPLOYEES' RETIREMENT SYSTEM**

*980 9th Street, Suite 1800
Sacramento, CA 95814*

WWW.SCERS.ORG

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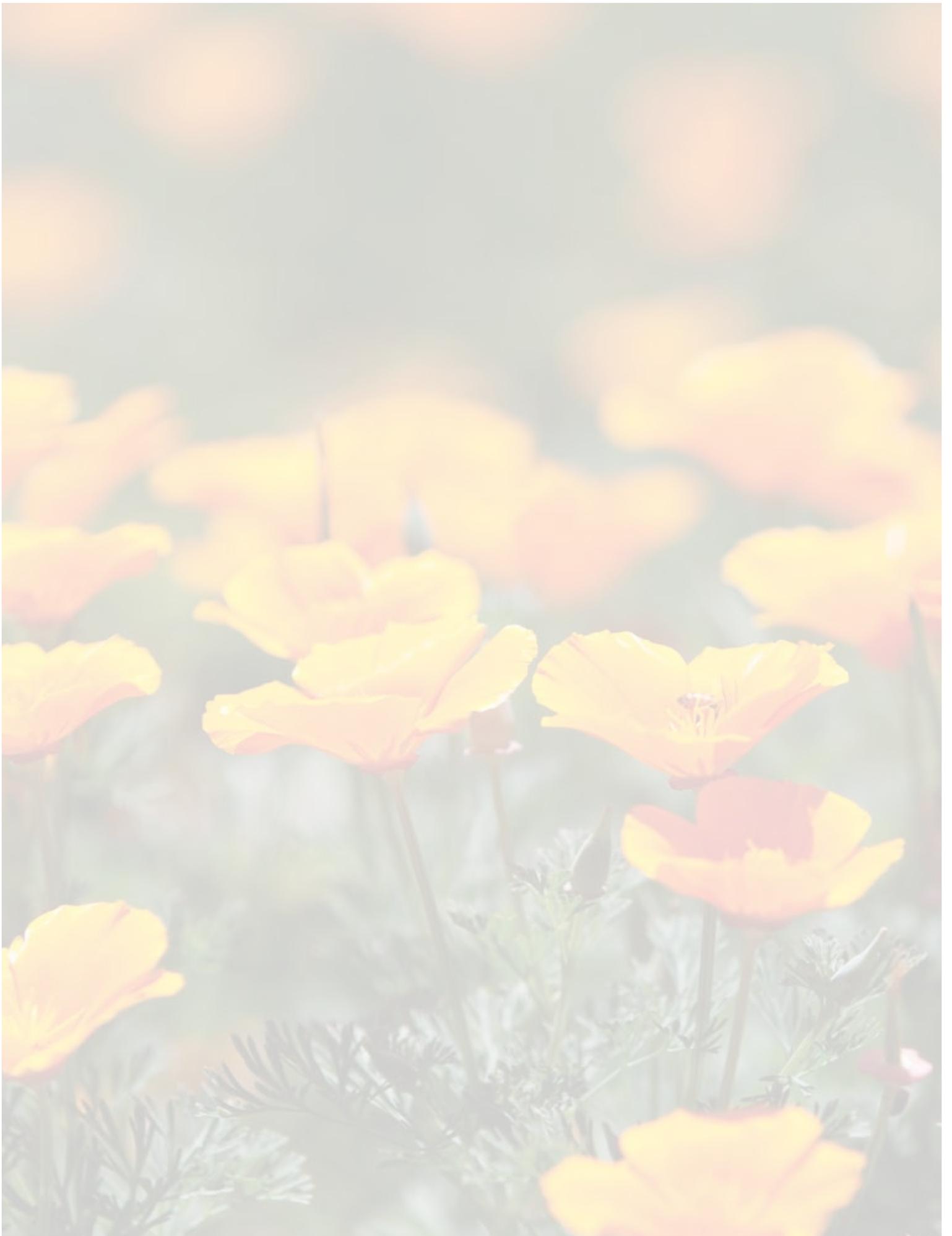
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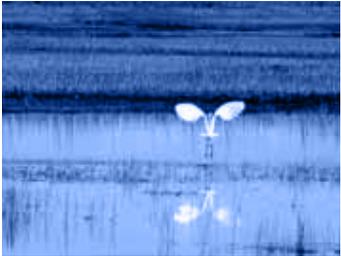
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INTRODUCTORY SECTION



LETTER OF TRANSMITTAL



Executive Staff
Richard Stensrud
Chief Executive Officer
James G. Line
General Counsel
Kathryn T. Regalia
Chief Operations Officer
John W. Gobel Sr.
Chief Benefits Officer

November 22, 2010

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, 2010 and 2009.

[The System](#)

SCERS is a multiple-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 establishment 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, 2010, the County of Sacramento; Superior Court of California, County of Sacramento; and eleven 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.

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 the highest level of retirement services and managing system resources in an effective and prudent manner.

In fulfilling our mission as a retirement system, we are committed to:

- ◇ The highest levels of professionalism and fiduciary responsibility
- ◇ Acting with integrity
- ◇ Competent, courteous and respectful service to all
- ◇ Open and fair processes
- ◇ Safeguarding confidential information
- ◇ Cost-effective operations
- ◇ Stable funding and minimal contribution volatility
- ◇ Effective communication and helpful education
- ◇ Maintaining a highly competent and committed staff
- ◇ Continuous improvement
- ◇ Planning 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 & O'Connell LLP, a certified public accounting firm, has audited the financial statements and related disclosures. The financial audit provides reasonable 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 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...."

LETTER OF TRANSMITTAL (CONTINUED)

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, 2010, SCERS' investments provided a 13.9% rate of return (gross of fees), compared to the investment policy benchmark return of 11.5%.

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 smooths the calculation of actuarial assets over a rolling seven-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, 2010. Triennially, the System requests that its actuary perform an analysis of the appropriateness of all economic and non-economic assumptions. The triennial analysis as of June 30, 2010 will commence in late 2010. The result of that analysis will be presented to the Board of Retirement for approval. The changes to the actuarial assumptions, if any, will be incorporated in the actuarial valuation as of June 30, 2011.

At June 30, 2010, SCERS' funding ratio was 87.0%, with the actuarial value of assets totaling \$6,217.0 million and the actuarial accrued liability totaling \$7,145.7 million. The increase in the funding ratio (up from 86.0%) was due to lower than expected active employee salary growth, and benefit payment cost-of-living adjustments (COLA) increases as well as other actuarial gains during fiscal year 2009-2010 which were partially offset by a reduction in the investment return assumption to 7.75%. Deferred losses under the smoothing methodology exceeded deferred gains by \$1,236.0 million as of June 30, 2010. Deferred investment gains/(losses) prior to July 1, 2008 will be amortized over a five-year period. Deferred investment gains/(losses) incurred after July 1, 2008 will be amortized over a seven-year period.

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, 2010 and 2009, administrative expenses were within the budget established by the Board of Retirement and were 0.11% and 0.09% of the prior year's total assets, respectively.

Significant Events

Following are significant events which occurred during the fiscal year:

- ◇ The County Board of Supervisors re-appointed Trustees Mr. John Kelly and Mr. Robert Woods to



new three-year terms on the SCERS Board.

- ◇ Worked with the Voter Registration and Elections Office to conduct a SCERS Board election for new three-year terms for one Board Member who represents the Miscellaneous Members, and for Board Members to serve as the Safety representative and the Alternate Safety representative. Ms. Kathy O'Neil was elected to represent the Miscellaneous Members, Mr. William Johnson and Mr. John Conneally were re-elected as the Safety and Alternate Safety Members, respectively.
- ◇ Ms. Julie Valverde became the Ex-Officio Board Member upon her appointment as County Director of Finance.
- ◇ Met with the County, participating employers and labor representatives to communicate the impact of the substantial downturn in the investment markets on employer and member contribution rates.
- ◇ Successfully handled the transition of staff responsibilities relating to investment matters following the departure of the Chief Investment Officer. Recruited and filled two newly-created Investment Officer positions. Developed assignments and responsibilities for the Investment Officers.
- ◇ Continued to analyze, assess and develop recommendations regarding ways to improve the performance of SCERS' investment portfolio, improve the selection of investment managers, and enhance the services provided by outside consultants.
- ◇ Conducted Board education sessions pertaining to investment opportunities, the economic environment, and actuarial matters. Continued to evaluate and identify possible alternative investment strategies for the Opportunities portfolio.
- ◇ Enhanced investment compliance and investment program governance via online reports and monitoring.
- ◇ Worked with the County Department of Personnel Services to reallocate vacant staff positions to new job classifications which enhanced the System's ability to achieve its goals and objectives. Recruited and filled the resulting Accounting Manager, Disability Specialist, and IT Analyst positions.
- ◇ Created and implemented a Privacy and Confidentiality Policy which enhanced the safeguards on confidential information by requiring Trustees, employees, vendors and visitors to adhere to the objectives and directives of the Policy.
- ◇ Engaged the actuary, The Segal Company (Segal), to perform a study of the impact of alternate smoothing periods and market value corridors consistent with Actuarial Standards of Practice to help manage cost volatility of the System. Adopted and implemented a new smoothing period and market value corridors as recommended by Segal.
- ◇ Engaged a real estate professional to assist with identifying and evaluating options for SCERS' administrative office space needs following the expiration of the building lease in December 2011.
- ◇ Continued to review, revise and upgrade the appearance and effectiveness of written materials and the SCERS website. Commenced working on a comprehensive communications plan and integration of new SCERS logo. Created a new abbreviated annual financial report and distributed it to all members.
- ◇ Revised and updated the service retirement application package.
- ◇ Expanded "full service" benefit administration model so that retirement calculations, permissive service purchases, and lump sum distributions or "refunds" of member contributions are handled via one point of contact.
- ◇ Increased frequency of Retirement Planning Seminars and conducted all-day, "advanced career" sessions for more than 800 registrants.
- ◇ Assisted with County-wide outplacement efforts by participating in all scheduled events, speaking with employee groups about retirement processes, and enhancing plan information provided to



LETTER OF TRANSMITTAL (CONTINUED)

terminated members.

- ◇ Implemented plan change adopted by Board of Supervisors by developing rules and processes required for re-employment after retirement under Government Code § 31680.7.
- ◇ Obtained favorable judgment for damages relating to the sale of investment property in Washington.
- ◇ Reviewed and updated the Conflict of Interest Code.
- ◇ Adopted a policy on post-retirement employment.
- ◇ The Board heard educational presentations on the proposed changes to the GASB rules on financial reporting and submitted comments on those rules.
- ◇ Continued to work with other 1937 Act retirement systems and the IRS on establishing a workable process for obtaining qualified plan determination letters in compliance with federal tax law.
- ◇ Chief Executive Officer testified before the Little Hoover Commission, a bipartisan, independent state oversight agency to assist with educating its members in understanding key issues surrounding public employee retirement systems in California.

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 years ended June 30, 2009 and 2008. 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 tenth 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.

SCERS also received the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting (“PAFR”) for the fiscal year ended June 30, 2009.

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, 2009

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



President

Executive Director



BOARD OF RETIREMENT



President

James A. Diepenbrock
Appointed by Board of Supervisors
Present term expires June 30, 2012



1st Vice President

Keith DeVore
Elected by Miscellaneous Members
Present term expires December 31, 2010



2nd Vice President

John B. Kelly
Appointed by Board of Supervisors
Present term expires December 31, 2012



Ex-Officio

Julie Valverde
Sacramento County Director of Finance
Member mandated by law



Trustee

Winston H. Hickox
Appointed by Board of Supervisors
Present term expires December 31, 2012



Trustee

William D. Johnson
Elected by Safety Members
Present term expires December 31, 2012



Trustee

Kathy O'Neil
Elected by Miscellaneous Members
Present term expires December 31, 2012



Trustee

Nancy Wolford-Landers
Elected by Retired Members
Present term expires December 31, 2010



Trustee

Robert Woods
Appointed by Board of Supervisors
Present term expires June 30, 2013



Alternate Safety Trustee

John Conneally
Elected by Safety Members
Present term expires December 31, 2012



Alternate Retiree Trustee

William Cox
Elected by Retired Members
Present term expires December 31, 2010

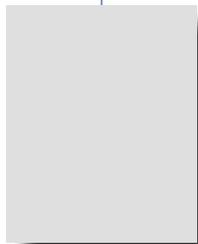


ORGANIZATION CHART

BOARD OF RETIREMENT



Richard Stensrud
Chief Executive Officer



Vacant
Chief Investment Officer

- Investment policy and objectives
- Investment compliance and performance reporting
- Asset allocation rebalancing
- Conduct manager searches
- Manager due diligence
- Proxy voting and corporate governance
- Board education on investment issues



James G. Line
General Counsel

- Legal representation and counsel to SCERS Board and staff
- Coordinate and oversee the selection and work of outside legal counsel
- Evaluation of securities litigation
- Analysis of state and federal legislation
- Legislative proposals, contracts, resolutions, opinions
- Legal education programs
- Legal service planning and budgeting



John W. Gobel, Sr.
Chief Benefits Officer



Suzanne Likarich
Retirement Services Manager

- | | |
|---|--|
| Service, disability, deferred, and reciprocal retirements | Retirement publications and communications |
| Pension payroll administration | Death benefits, service credit purchases |
| Seminar presentations and member retirement counseling | Community property interest resolution |



Kathryn T. Regalia
Chief Operations Officer

- Accounting and financial reporting
- Budgeting and cash flow analysis
- Human resources
- Facilities and safety
- Information technology and telecommunications
- Administration and records

PARTICIPATING EMPLOYERS

<u>Employer</u>	<u>Date Entered System</u>
County of Sacramento	July 1, 1941
County of Sacramento, 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 ("S.E.T.A.")	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
Superior Court of California, County of Sacramento**	June 25, 2006

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

** Prior to June 25, 2006, Superior Court member information was included in the totals for the County of Sacramento.



PROFESSIONAL CONSULTANTS

Actuary

The Segal Company

Auditor

Macias Gini & O'Connell LLP

Custodian

State Street California, Inc.

Investment Consultant

Mercer Investment Consulting, Inc.

Legal Counsel

County of Sacramento,

Office of the County Counsel

Foster Pepper PLLC

Hanson Bridgett

Jones Day

Nossaman, LLP

Note: Investment professionals are listed on page 66, and a schedule of manager fees is located on pages 70 and 71 of this report in the Investment Section.





FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT



Sacramento • Walnut Creek • Oakland • Los Angeles • Century City • Newport Beach • San Diego

mgocpa.com

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of fiduciary net assets of the pension trust fund and the statement of fiduciary assets and liabilities of the agency fund of the Sacramento County Employees' Retirement System (the System), as of June 30, 2010 and 2009, and the related statements of changes in fiduciary net assets of the pension trust fund for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 fiduciary net assets of the pension trust fund and the fiduciary assets and liabilities of the agency fund of the Sacramento County Employees' Retirement System as of June 30, 2010 and 2009, and the changes in fiduciary net assets of the pension trust fund for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

As discussed in Note 2, effective July 1, 2009, the System adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

3000 S Street
Suite 300
Sacramento
CA 95816

2121 N. California Blvd.
Suite 750
Walnut Creek
CA 95496

505 14th Street
5th Floor
Oakland
CA 94612

515 S. Figueroa Street
Suite 325
Los Angeles
CA 90071

2029 Century Park East
Suite 500
Los Angeles
CA 90067

1201 Dove Street
Suite 680
Newport Beach
CA 92660

225 Broadway
Suite 1750
San Diego
CA 92101



As described in Note 6, based on the most recent actuarial valuation as of June 30, 2010, the System's independent actuary determined that, at June 30, 2010, the value of the System's actuarial accrued liability exceeded the actuarial value of its assets by \$928.7 million. The most recent actuarial value of assets as of June 30, 2010 does not reflect the remaining deferred investment losses that will be recognized in the future.

In accordance with *Government Auditing Standards*, we have issued our report dated November 22, 2010, 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, the Schedule of Funding Progress and the Schedule of Employer Contributions, as listed in the table of contents, 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 introductory section, other supplemental information in the financial section and the investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental information in the financial section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in 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 auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Maciae Meiri & O'Connell LLP

Certified Public Accountants

Sacramento, California
November 22, 2010



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents 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, 2010 and 2009. Readers are encouraged to consider the narrative overview and information presented in this MD&A in conjunction with the Letter of Transmittal beginning on page 6 of this Report and the Financial Statements, Notes to the Basic Financial Statements, Required Supplementary Information, and Other Supplemental Information that follows.

FINANCIAL HIGHLIGHTS

As of June 30, 2010, the net assets of SCERS held in trust for pension benefits ("net assets") totaled \$4.981 billion. This represented an increase of \$573.1 million or 13.0% from the \$4.408 billion in SCERS net assets as of June 30, 2009, which, in turn, represented a decrease of \$1.328 billion or 23.2% over the \$5.736 billion in net assets as of June 30, 2008.

Additions to net assets were \$837.0 million and \$(1.087) billion for the years ended June 30, 2010 and 2009, respectively. Improved investment returns were the primary reason for the increase in total additions for the year ended June 30, 2010, with net investment gains of \$617.5 million. Investment losses were the reason for the decrease in total additions for the year ended June 30, 2009, with net investment losses of \$1.318 billion.

Deductions in net assets were \$263.9 million and \$241.6 million for the years ended June 30, 2010 and 2009, respectively. The total deductions in the year ended June 30, 2010 increased \$22.3 million or 9.2% over the year ended June 30, 2009, which, in turn, saw an increase in total deductions of \$17.6 million or 7.9% over the year ended June 30, 2008. Increased monthly benefit payments due to the increases in the number of retirees and the annual cost-of-living adjustment were the primary reasons 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, 2010, the funded ratio of SCERS (i.e., the ratio of the actuarial value of assets to actuarial accrued liability) was 87.0%, up from 86.0% as of June 30, 2009. Per the actuarial valuation report, the total unrecognized investment loss as of June 30, 2010 totaled \$1.236 billion. Unless offset by future investment gains or other favorable experience, the recognition of the \$1.236 billion over the next six years is expected to have a significant impact on the System's funded ratio and the aggregate employer contribution rate. The System's unfunded actuarial accrued liability decreased from \$931.8 million as of June 30, 2009 to \$928.7 million as of June 30, 2010. This decrease is mainly due to lower-than-expected active employee salary growth, and benefit payment cost-of-living adjustments (COLA) increases as well as other actuarial gains during fiscal year 2009-2010 which were partially offset by a reduction in the investment return assumption to 7.75%.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- ◇ Statements of Fiduciary Net Assets - Pension Trust Fund
- ◇ Statements of Changes in Fiduciary Net Assets - Pension Trust Fund
- ◇ Statements of Fiduciary Net Assets - Agency Fund
- ◇ Notes to the Basic Financial Statements
- ◇ Required Supplementary Information
- ◇ Other Supplemental Information

The **Statements of Fiduciary Net Assets - Pension Trust Fund** 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 Fiduciary Net Assets - Pension Trust Fund** 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 presented in accordance with the accounting principles and reporting guidelines set forth by the Governmental Accounting Standards Board ("GASB") and are prepared utilizing the accrual basis of accounting. 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. All investment purchases and sales are recognized as of the trade date, not settlement date. Both realized and unrealized gains and losses are recognized.

The fiduciary fund statements report SCERS' net assets held in trust for pension benefits. 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 or System's funded status, should also be considered in measuring the System's overall health.

The **Statements of Fiduciary Net Assets - Agency Fund** reflect assets held by SCERS in a trustee capacity or as an agent on behalf of others and do not measure the results of operations.

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. 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, payments to consultants, and statements of changes in assets and liabilities for agency fund 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, 2010 totaled \$4.981 billion, an increase of \$573.1 million or 13.0% from the \$4.408 billion in net assets as of June 30, 2009, which, in turn, represented a decrease of \$1.328 billion or 23.2% over the \$5.736 billion in net assets as of June 30, 2008. The increase in net assets for the year ended June 30, 2010 was due to investment gains as a result of the recovery in the U.S. and global economies. During the fiscal year, equity and fixed income asset classes delivered substantial gains, with the real estate asset class being the only asset class to experience negative returns, as economic distress continued to work its way through the commercial real estate markets. The decrease in net assets for the year ended June 30, 2009 was due to investment losses as a result of the expanding problems in the U.S. and global credit markets as well as the slowdown in several segments of the U.S. economy and the decline in global growth. All of the net assets are available to meet SCERS' obligations to plan participants and beneficiaries.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The decrease in cash and short-term investments as of June 30, 2010 compared to the prior year reflects funds being used to fulfill capital commitments for private equity, opportunity, and private real estate investments as well as to refinance and payoff mortgage debt in SCERS' real estate portfolios. The increase in receivables and investment trades payable as of June 30, 2010 compared to the prior year were the result of the increase in trading activity by external investment managers to capture the upside as global markets improved following the 2008 global credit crisis. The decrease in receivables and investment trades payable as of June 30, 2009 compared to June 30, 2008 were due to the reduction in trading activities at fiscal year end as a result of a volatile market. Securities lending collateral and securities lending liability were comparable as of June 30, 2010 and 2009. The decrease in securities lending collateral and securities lending liability as of June 30, 2009 compared to June 30, 2008 was consistent with the decline in the market value of lendable securities.

NET ASSETS

As of June 30

(Dollar Amounts Expressed in Millions)

Assets	2010	2009	Increase/ (Decrease)	% Change
Cash and short-term investments	\$342.7	\$445.4	\$(102.7)	(23.1)%
Receivables	132.9	91.3	41.6	45.6
Investments, at fair value	4,851.8	4,174.5	677.3	16.2
Securities lending collateral	561.2	539.2	22.0	4.1
Other assets	33.8	40.2	(6.4)	(15.9)
Total assets	5,922.4	5,290.6	631.8	11.9
Liabilities				
Investment trades payable	233.4	147.1	86.3	58.7
Mortgages payable	115.6	177.2	(61.6)	(34.8)
Securities lending liability	561.2	539.2	22.0	4.1
Other liabilities	31.2	19.2	12.0	62.5
Total liabilities	941.4	882.7	58.7	6.7
Net assets held in trust for pension benefits	\$4,981.0	\$4,407.9	\$573.1	13.0 %



NET ASSETS

As of June 30

(Dollar Amounts Expressed in Millions)

Assets	2009	2008	Increase/ (Decrease)	% Change
Cash and short-term investments	\$445.4	\$585.8	\$(140.4)	(24.0)%
Receivables	91.3	227.0	(135.7)	(59.8)
Investments, at fair value	4,174.5	5,558.4	(1,383.9)	(24.9)
Securities lending collateral	539.2	656.9	(117.7)	(17.9)
Other assets	40.2	6.5	33.7	518.5
Total assets	5,290.6	7,034.6	(1,744.0)	(24.8)
Liabilities				
Investment trades payable	147.1	422.1	(275.0)	(65.2)
Mortgages payable	177.2	194.9	(17.7)	(9.1)
Securities lending liability	539.2	656.9	(117.7)	(17.9)
Other liabilities	19.2	24.4	(5.2)	(21.3)
Total liabilities	882.7	1,298.3	(415.6)	(32.0)
Net assets held in trust for pension benefits	\$4,407.9	\$5,736.3	\$(1,328.4)	(23.2)%

SCERS retains an independent actuarial firm, The Segal Company, to perform annual actuarial valuations to determine the funding status of the System and annual required contribution rates. 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 is 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, 2010, the funded ratio of SCERS (i.e., the ratio of the actuarial value of assets to actuarial accrued liability) was 87.0%, up from the funded ratio of 86.0% as of June 30, 2009. In general terms, this ratio means that as of June 30, 2010, SCERS had approximately 87 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 Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, investments are stated at fair value instead of cost and include the recognition of unrealized gains and losses. In addition, for actuarial purposes, effective July 1, 2008, SCERS began utilizing a seven-year smoothing methodology under which a portion of the market gains and losses is



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

recognized and allocated to the reserves through interest crediting. Prior to June 30, 2008, SCERS had utilized a five-year smoothing period. 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.

Higher-than-expected investment performance for the year partially reduced SCERS Market Stabilization Reserve from \$(1.322) billion as of June 30, 2009 to \$(1.236) billion as of June 30, 2010.

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

	2010	2009	2008
Employee reserves	\$648,595	\$634,272	\$623,245
Employer reserves	2,358,614	2,232,274	2,268,948
Retiree reserves	3,116,520	2,848,041	2,818,409
Retiree death benefit reserves	14,707	14,061	14,663
Retiree health care benefits designations	1,567	1,567	1,567
Contingency reserve	76,991	-	203,926
Total reserves and designations	6,216,994	5,730,215	5,930,758
Unallocated earnings – undesignated	-	-	-
Smoothed actuarial value of assets	6,216,994	5,730,215	5,930,758
Market stabilization reserve	(1,236,032)	(1,322,357)	(194,429)
Net assets available for benefits, at fair value	<u>\$4,980,962</u>	<u>\$4,407,858</u>	<u>\$5,736,329</u>



Changes in Fiduciary Net Assets - Pension Trust Fund

The following tables present the changes in net assets for the fiscal years ended June 30, 2010, 2009, and 2008, respectively.

CHANGE IN FIDUCIARY NET ASSETS
For the Fiscal Years Ended June 30
(Dollar Amounts Expressed in Millions)

	2010	2009	Increase/ (Decrease)	% Change
Additions				
Employee contributions	\$52.4	\$54.6	\$(2.1)	(3.8)%
Employer contributions	167.1	177.0	(9.9)	(5.6)
Net income/(loss) from investment activities	635.1	(1,307.8)	1,942.9	148.6
Net income from securities lending	2.3	5.6	(3.3)	(58.9)
Other income	4.8	1.7	3.1	182.4
Investment fees and expenses	(24.7)	(17.9)	(6.9)	(38.5)
Total additions	837.0	(1,086.8)	1,923.8	177.0
Deductions				
Benefits paid	253.1	232.3	20.8	9.0
Withdrawal of contributions	4.9	3.3	1.6	48.5
Administrative expenses	5.9	6.0	(0.1)	(1.7)
Total deductions	263.9	241.6	22.3	9.2
Increase/(decrease) in net assets	573.1	(1,328.4)	1,901.5	143.1
Net assets held in trust for pension benefits, beginning	4,407.9	5,736.3	(1,328.4)	(23.2)
Net assets held in trust for pension benefits, ending	<u>\$4,981.0</u>	<u>\$4,407.9</u>	<u>\$573.1</u>	<u>13.0 %</u>



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CHANGE IN FIDUCIARY NET ASSETS

For the Fiscal Years Ended June 30

(Dollar Amounts Expressed in Millions)

	2009	2008	Increase/ (Decrease)	% Change
Additions				
Employee contributions	\$54.6	\$52.1	\$2.5	4.8%
Employer contributions	177.0	167.1	9.9	5.9
Net loss from investment activities	(1,307.8)	(233.8)	(1,074.0)	(459.4)
Net income from securities lending	5.6	5.5	0.1	1.8
Other income	1.7	19.3	(17.6)	(91.2)
Investment fees and expenses	(17.9)	(25.8)	7.9	30.6
Total additions	(1,086.8)	(15.6)	(1,071.2)	6,866.7
Deductions				
Benefits paid	232.3	214.9	17.4	8.1
Withdrawal of contributions	3.3	3.2	0.1	3.1
Administrative and other expenses	6.0	5.9	0.1	1.7
Total deductions	241.6	224.0	17.6	7.9
Decrease in net assets	(1,328.4)	(239.6)	(1,088.8)	(454.4)
Net assets held in trust for pension benefits, beginning	5,736.3	5,975.9	(239.6)	(4.0)
Net assets held in trust for pension benefits, ending	<u>\$4,407.9</u>	<u>\$5,736.3</u>	<u>\$(1,328.4)</u>	<u>(23.2)%</u>

Additions to Net Assets

Financing for the benefits SCERS provides to its members comes primarily through the collection of employer and member (employee) retirement contributions and from income on investments. For the years ended June 30, 2010 and 2009, total additions were \$837.0 million and \$(1.087) billion, respectively.

For the years ended June 30, 2010 and 2009, combined employer and employee contributions were \$219.6 million and \$231.6 million, respectively. The decrease in employer and employee contributions in fiscal year 2010 were primarily due to the decrease in total number of active members, and the corresponding decrease in total annual compensation, as a result of layoffs. In fiscal year 2009, employer contributions increased primarily due to the increase in total annual compensation for active members, while employee contributions increased because of an increased level of retirement service credit purchases.

Net investment gains/(losses) were \$617.4 million and \$(1.318) billion for the fiscal years ended June 30, 2010 and 2009, respectively. The net investment gain for the fiscal year ended June 30, 2010 was due to the recovery in the U.S. and global equity and fixed income markets following the 2008 global credit crisis. The net investment losses for the fiscal year ended June 30, 2009 were the result of the expanding problems in the U.S. and global credit markets as well as the slowdown in several segments of the U.S. economy and the decline in global growth. The Investment Section of this Report provides a detailed discussion of the investment markets and investment performance.



Deductions from Net Assets

SCERS' assets were primarily used for the payment of benefits to members and their beneficiaries, for the payment of contribution refunds to terminated employees, and for the cost of administering the System. For the years ended June 30, 2010 and 2009, total deductions were \$263.9 million and \$241.6 million, respectively.

Deductions increased \$22.3 million or 9.2% in the year ended June 30, 2010 and \$17.6 million or 7.9% in the year ended June 30, 2009. The primary cause of the increase in deductions in both years was increased monthly benefit payments due to the increase in number of retired members and the annual cost-of-living adjustment. Also, the increase in deductions in fiscal year 2010 was partially due to an increase in contribution refunds to terminated employees as a result of layoffs.

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, 2010 and June 30, 2009, administrative expenses of \$5.9 million and \$6.0 million were within the budget established by the Board of Retirement and were 0.11% and 0.09% of the prior year's total assets, respectively.

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 net 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.



STATEMENTS OF FIDUCIARY NET ASSETS

PENSION TRUST FUND
AS OF JUNE 30, 2010 AND 2009
(Dollar Amount Expressed in Thousands)

Assets	<u>2010</u>	<u>2009</u>
Cash invested with Sacramento County Treasurer	\$6,969	\$4,993
Other cash and cash equivalents	52,484	18,568
Short-term investments with fiscal agents	283,212	421,863
Cash and short-term investments	<u>342,665</u>	<u>445,424</u>
Receivables		
Employee and employer contributions	6,921	5,234
Accrued investment income	21,082	28,517
Securities sold	104,856	57,561
Total receivables	<u>132,859</u>	<u>91,312</u>
Investments, at fair value		
United States government securities	443,897	420,452
Domestic corporate bonds	550,076	453,372
International bonds	58,429	60,842
Common and preferred stock - domestic	1,791,533	1,477,947
Common and preferred stock - international	1,116,352	936,374
Private equity	36,515	21,354
Opportunities	265,001	182,461
Real estate	590,038	621,648
Securities lending collateral	561,201	539,207
Total investments	<u>5,413,042</u>	<u>4,713,657</u>
Other assets	<u>33,826</u>	<u>40,244</u>
Total assets	<u>5,922,392</u>	<u>5,290,637</u>
Liabilities		
Warrants payable	947	988
Accounts payable and other accrued liabilities	30,253	18,256
Mortgages payable	115,596	177,217
Investment trades payable	233,433	147,111
Securities lending liability	561,201	539,207
Total liabilities	<u>941,430</u>	<u>882,779</u>
Net assets held in trust for pension benefits	<u>\$4,980,962</u>	<u>\$4,407,858</u>

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



STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

PENSION TRUST FUND

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(Dollar Amount Expressed in Thousands)

Additions	2010	2009
Contributions		
Employee	\$52,413	\$54,623
Employer	167,142	177,011
Total contributions	219,555	231,634
Investment income (loss)		
From investment activities		
Net appreciation (depreciation) in investment fair value:		
Securities	557,193	(1,217,421)
Real estate	(54,474)	(235,927)
Interest	51,035	60,793
Dividends	60,257	59,018
Real estate	21,122	25,682
Net gain (loss) from investment activities	635,133	(1,307,855)
From securities lending activities		
Securities lending income	2,699	12,714
Securities lending expense		
Borrower rebate expense	468	(4,686)
Securities lending management fees	(865)	(2,409)
Net income from securities lending	2,302	5,619
Other income	4,816	1,720
Investment fees and expenses	(24,770)	(17,931)
Net investment income (loss)	617,481	(1,318,447)
Total additions	837,036	(1,086,813)
Deductions		
Withdrawal of contributions	4,932	3,302
Administrative expenses	5,908	5,980
Benefits paid	253,092	232,376
Total deductions	263,932	241,658
Net increase (decrease)	573,104	(1,328,471)
Net assets held in trust for pension benefits, beginning	4,407,858	5,736,329
Net assets held in trust for pension benefits, ending	\$4,980,962	\$4,407,858

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



STATEMENTS OF FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUND
AS OF JUNE 30, 2010 AND 2009
(Dollar Amounts Expressed in Thousands)

	<u>2010</u>	<u>2009</u>
Assets		
Receivables	<u>\$28</u>	<u>\$34</u>
Total assets	<u><u>\$28</u></u>	<u><u>\$34</u></u>
Liabilities		
Accounts payable	<u>\$28</u>	<u>\$34</u>
Total liabilities	<u><u>\$28</u></u>	<u><u>\$34</u></u>

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



NOTES TO THE BASIC FINANCIAL STATEMENTS

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, one by the Safety members and one by the Retiree members), and the County Director of Finance serves as an Ex-Officio member. An alternate Safety member and an alternate Retiree member are also elected by those respective member groups. The System is legally and fiscally independent of the County.

At June 30, 2010, participating local government employers consisted of the County of Sacramento; Superior Court of California, County of Sacramento ("Superior Court"); and eleven 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.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2010 and 2009, the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits:	2010	2009
Miscellaneous - Service	5,301	4,996
Miscellaneous - Beneficiary	943	930
Miscellaneous - Nonservice-Connected Disability	300	302
Miscellaneous - Service-Connected Disability	163	166
Safety - Service	1,133	1,084
Safety - Beneficiary	268	256
Safety - Nonservice-Connected Disability	29	29
Safety - Service-Connected Disability	209	205
Total Retirees and Beneficiaries	<u>8,346</u>	<u>7,968</u>

Terminated employees entitled to benefits but not yet receiving them:

Miscellaneous Tier 1	129	150
Miscellaneous Tier 2	270	286
Miscellaneous Tier 3	1,945	1,976
Safety Tier 1	139	155
Safety Tier 2	257	251
Total Terminated	<u>2,740</u>	<u>2,818</u>

Current Members:

Vested		
Miscellaneous Tier 1	362	444
Miscellaneous Tier 2	101	109
Miscellaneous Tier 3	7,878	7,765
Safety Tier 1	548	593
Safety Tier 2	1,293	1,228
Total Vested	<u>10,182</u>	<u>10,139</u>
Non-Vested		
Miscellaneous Tier 1	1	2
Miscellaneous Tier 3	2,970	4,134
Safety Tier 2	187	521
Total Non-Vested	<u>3,158</u>	<u>4,657</u>
Total Current Members	<u>13,340</u>	<u>14,796</u>



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, Superior Court and 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 of 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, for service credit prospectively from June 29, 2003, and for County employees, retroactively to service credit which precedes 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 credit 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, and



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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, Superior Court 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 accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. SCERS has fiduciary funds at June 30, 2010 and 2009 which include pension trust and agency funds. The pension trust fund is used to report resources that are required to be held in trust for the members and the beneficiaries of the defined benefit pension plan, and agency fund accounts for assets held by SCERS in a trustee capacity or as an agent on behalf of the others. The pension trust fund is accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. The agency fund is custodial in nature and does not measure the results of operations. Assets and liabilities are recorded using the accrual basis of accounting.

The System has adopted Governmental Accounting Standards Board ("GASB") Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as its source of accounting and reporting principles. Investments are 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, not settlement date.

New Accounting Standard

In June 2008, the Government Accounting Standards Board issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which became effective for the financial statements for periods beginning after June 15, 2009. This statement establishes accounting and financial reporting requirement for derivative instruments entered into by state and local government which requires most derivative instrument to be measured at fair value and reported on the statement of net assets. The statement also establishes disclosure requirements, which include a summary of derivative instrument activities during the reporting period and the related risks. The requirements of this statement enhanced derivative disclosures but does not have a significant impact on the financial statements for the fiscal years ended June 30, 2010, and 2009 since the System reported all investments, including investment derivative instruments, at fair value in prior fiscal years.

Valuation of Investments

The majority of the investments held at June 30, 2010 is in the custody of or controlled by State Street Bank, the System's custodian. The System's investments consist of domestic and international fixed income, domestic and international equities, hedge funds (sub-asset class of equity), private equity, opportunities, real estate, and other investments. Investments are reported at fair value. The diversity of the investment types which the System has entered into requires a wide range of techniques to determine fair value. The overall valuation processes and information sources by major asset classifications are as follows:

Cash and Short-Term Investments

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 approximates fair value.



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.

Fixed Income

Fixed income consists primarily of negotiable obligations of the U.S. Government and U.S. Government-sponsored agencies, corporations, and securitized offerings backed by residential and commercial mortgages. Certain securities, such as U.S. government bonds, have an active market for identical securities and can typically be valued using the close or last traded price on a specific date. Other securities that are not as actively traded are valued by pricing vendors, which use modeling techniques that include market observable inputs required to develop a fair value. Typical inputs include recent trades, yields, price quotes, cash flows, maturity, credit ratings and other assumptions based upon the specifics of the asset type.

Equities

The majority of the System's domestic and international equity securities are actively traded on major stock exchanges or over-the-counter. Investments listed or traded on a securities exchange are valued at fair value, which is determined as of the close of trading on the date which the value is being determined, by taking the last reported trade price of such security on such date on the exchange determined to be the primary market for such security. Listed investments that are not traded on a particular day are valued at the last known price deemed best to reflect their fair value. Investments not traded on a securities exchange, but which are traded in any other market or over the counter, are valued based on prices obtained from third party service providers.

Private Equity

Private equity investments are made through an externally managed fund-of-funds ("fund"). Each Fund manager's investments consist of portfolio funds and co-investments as well as marketable securities held from time to time as a result of a distribution from a portfolio fund. The fair value of all investments is determined by the fund manager in good faith and in compliance with the definition of fair value under U.S. generally accepted accounting principles or "GAAP" (FASB Accounting Standards Codification, Topic 820 and 946). In some circumstances, partnership agreements require reporting financial information and valuations in an accounting standard other than GAAP such as under International Financial Reporting Standards. The measure of fair value by the fund manager is typically conducted on a quarterly basis. Marketable securities are valued according to the most recent public market price with appropriate discounts to reflect any contractual or regulatory restriction upon sale. The fair value of each investment as reported does not necessarily represent the amount that may ultimately be realized, since such amounts depend upon future circumstances that cannot reasonably be determined until the position is actually liquidated. The fund's evaluation of the fair value of portfolio funds is based on the most recent available valuation information provided to it by the portfolio funds, adjusted for subsequent distributions from and capital contributions to such portfolio funds, if any. The evaluation of the fair value of co-investments is based on the most recent information available at the time of valuation ascribed to such investments by the sponsor partnership. If the manager does not agree with this valuation, holds different securities than the sponsor partnership, is unable to obtain the sponsor partnership's valuation, or has information that results in a different valuation, it may use its own internal evaluation of fair value. The assumptions are based upon the nature of the investment and the underlying business. The valuation techniques vary based upon investment type and involve a certain degree of expert judgment.

Opportunities

Opportunities investments are made in externally-managed funds. This segment includes a mix of investment securities which may include commodities and commodity futures, Treasury Inflation Protected Securities ("TIPS"), timber or agriculture land, real return strategies, direct private equity, direct hedge funds, debt securities and other unique strategies.

The System records its investment at fair value based on its proportionate interest in the net asset value of the funds. Assets and liabilities of the funds are measured at fair value using acceptable fair valuation methods and applications which give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value of opportunities is measured using the method that is appropriate in the circumstances and for which sufficient data is available and applying the approach consistently until no longer appropriate.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

Market approach - uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Income approach - uses valuation techniques to convert expected future amounts to a single present amount.

Cost approach - based on the amount that currently would be required to replace the service capacity of an asset.

Real Estate

Real estate is held either directly via a real estate holding entity or as a limited partner in a commingled fund. Properties owned directly are subject to annual independent third party appraisals performed in accordance with the Uniform Standards of Professional Appraisal Practice. Real estate investments in a commingled fund are long-term and illiquid in nature. As a result, investors are subject to redemption restrictions which generally limit distributions and restrict the ability of limited partners to exit a partnership investment prior to its dissolution. Limited partner interest in commingled funds are valued by using the net asset value ("NAV") of the partnership. The most significant input into the NAV of such an entity is the value of its investment holdings. These holdings are valued by the general partners on a continuous basis, audited annually and periodically appraised by an independent third party. The valuation assumptions are based upon both market and property specific inputs which are not observable and involve a certain degree of expert judgment. Certain real estate investments are leveraged, and the corresponding liability is recorded in the statement of fiduciary net assets. Refer to Note 9 for disclosures regarding mortgage obligations.

Securities Lending

Securities lending transactions are short-term collateralized loans of the System's securities for the purpose of generating additional investment income. For each lending transaction, the System receives either cash collateral or non-cash collateral. The underlying securities out on loan are reported on the System's statements of fiduciary net assets as if the lending transactions had not occurred. Cash collateral is reinvested in the lending agent's cash collateral investment pool and is valued at amortized cost which approximates fair value. A corresponding liability of an equal amount is reported as a liability. Non-cash collateral held is not reported on the statements of fiduciary net assets nor is there a corresponding liability reported on these statements as the System does not have the ability to pledge or sell them without a borrower default. Note 4 - *Cash and Investments* discloses the amount of securities lending non-cash collateral.

Other Assets

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

Administrative Expenses

Administrative costs are financed by the pension trust.

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.

Reclassification

Certain reclassification have been made to June 30, 2009 balances to conform to the presentation as of and for the year ended June 30, 2010.



NOTE 3 - RETIREE MEDICAL AND DENTAL INSURANCE PROGRAM

Plan Description

The Sacramento County Retiree Medical and Dental Insurance Program (the "Program") is an agent multiple-employer defined benefit medical and dental plan, which is sponsored, financed, and administered by nine participating employers. SCERS' role in regard to the Program is limited to collecting monies from Sacramento County and calculating and initiating payment of premiums when due. The activities of the Program are accounted for in the agency fund.

Below is the list of employers participating in the Program as of June 30, 2010:

- Carmichael Recreation and Park District
- County of Sacramento
- County of Sacramento Elected Officials
- Mission Oaks Recreation and Park District
- Orangevale Recreation and Park District
- Sacramento Metropolitan Fire District
- Sacramento Employment Training Agency
- Sunrise Recreation and Park District
- Superior Court of California, County of Sacramento

The Program provides medical and/or dental subsidy/offset payments to eligible retirees. The Sacramento County Board of Supervisors, at its own discretion, sets the amount of subsidy/offset payment available to eligible County retirees on a year-to-year basis. The medical subsidy amounts for special districts' retirees are varied and are established by each of the member districts. The dental subsidy/offset for dental coverage has been eliminated for calendar year 2010. As of June 30, 2010, there are 3,872 retired members and beneficiaries currently receiving medical subsidy.

Eligibility

County members who retired on or before May 31, 2007 – According to the Program's Administrative Policy, only County safety and miscellaneous members who retired on or before May 31, 2007 and who were receiving a subsidy/offset on December 31, 2007, are eligible for the subsidy during 2010 calendar year. For calendar year 2010, the monthly dental subsidy is \$0, and the monthly medical subsidy amounts range from \$72 to \$144 depending on the member's earned service credit. For calendar year 2011, the monthly dental subsidy is \$0, and the monthly medical subsidy amounts range from \$40 to \$81 depending on the member's earned service credit.

County members who retired after May 31, 2007 – According to the Program's Administrative Policy, only County safety and miscellaneous members from bargaining units 001, 003, 005, 007, 008, 010, 020, 021, and 025 who retired after May 31, 2007 may be eligible for a premium subsidy/offset effective January 1, 2011. For calendar year 2011, the monthly dental subsidy is \$25, and the monthly medical subsidy amounts range from \$122 to \$244 depending on the member's earned service credit.

Special Districts' members - The medical subsidy amounts for special districts' retirees are varied and are established by each of the member districts.

There are no vested benefits associated with the Program. The Program does not create any contractual, regulatory, or other vested entitlement to present or future retirees, their spouses, or dependents for medical and/or dental benefits, or subsidy/offset payments at any particular level, or at all. Sacramento County and other participating employers may, in their sole discretion, amend or terminate, in whole or in part, the Program by Resolution of the Board of Supervisors.

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Contributions and Reserves

The System does not have any authority to establish or amend the obligations of the plan members and employers to contribute to the Program. SCERS does not determine the contribution rate or collect the required contributions from employers. SCERS' role in regards to the Program is limited to collecting monies from Sacramento County and paying the premiums when due. Monies received by the System in excess of liabilities to pay premiums are recognized as liabilities to the County. There are no net assets or legally required reserve accounts for the Program.

In accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, each participating employer is required to disclose the Program information with regard to funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress, and actuarial methods and assumptions used.

Request for Information

Requests for additional financial information regarding the Program may be addressed to:

County of Sacramento, Department of Finance
Auditor-Controller Division
700 H Street, Room 3650
Sacramento, CA 95814
(916) 874-7422

NOTE 4 - 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 \$6,969 and \$4,993 at June 30, 2010 and 2009, respectively. The pool was not rated, and the weighted-average maturity of the pool was 170 days and 212 days at June 30, 2010 and 2009, respectively.

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

Other Cash and Cash Equivalents

At June 30, 2010 and 2009, other cash and cash equivalents constitute balances in bank demand deposit accounts of \$52,484 and \$18,568, respectively, of which \$12,543 and \$11,077 were not held in the System's name. The System is exposed to custodial credit risk with respect to these deposits on the balances not held in the System's name.

Short-Term Investments with Fiscal Agents

At June 30, 2010 and 2009, the fair value of the System's short-term investments with fiscal agents was \$283,212 and \$421,863, respectively. The total consisted of investments in the State Street Short-Term Investment Fund



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

(“STIF”). The STIF is designed to provide qualified benefit plans with an 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. The STIF is not rated by credit rating agencies. 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 30 and 53 days at June 30, 2010 and 2009. Net assets invested in the STIF from all participating custodial clients of State Street were \$54.5 billion and \$55.9 billion on June 30, 2010 and 2009, respectively.

Real Estate

In July 2007, SCERS modified the manner in which it invests its real estate allocation. The modified real estate allocation broadens SCERS’ real estate investments from being mostly in core properties through direct investment to include investments in commingled core real estate funds, value-added real estate investment funds, and publicly-traded real estate investment trust (“REIT”) stock investments. Of the capital committed to these new investment categories, \$19.2 million and \$34.1 million have not been funded as of June 30, 2010 and 2009, respectively. Direct investments include offices, apartments, retail, and industrial properties. As of June 30, 2010 and 2009, real estate investments were \$590,038 and \$621,648, respectively.

Changes to Asset Allocation Policy and Unfunded Commitments

In July 2007, SCERS adopted a new Asset Allocation Policy which includes two additional asset classes:

Private Equity - This category of investment includes limited partnerships, funds and fund-of-funds that invest in domestic and international private venture capital, mezzanine capital, buyouts, and distressed debt.

Opportunities - This segment includes a mix of investment securities that offer good risk/adjusted investment returns and are expected to have a low correlation with SCERS’ public equity and debt investments. Investments which may be included in this asset class are commodities and commodity futures, Treasury Inflation Protected Securities (“TIPS”), timber or agriculture land, real return strategies, direct private equity, debt securities and other unique strategies. Investments will be assigned to this asset class based on the recommendation of the Chief Investment Officer and the Investment Consultant.

As of June 30, the securities in this asset class are as follows:

	2010	2009
Blackstone Resources Select Offshore Commodities Fund	\$53,727	\$52,803
European Credit (Luxembourg) S.A.	49,086	35,091
GSCI Commodity Index CTF CMIZ	6,920	5,835
Metropolitan West Asset Management TALF	21,363	-
PIMCO Distressed Mortgage Fund I	20,070	10,995
PIMCO Distressed Mortgage Fund II	22,482	12,314
PIMCO TALF	3,404	-
REIT Index Fund	8,123	7,077
Resource Stock Index CTF	6,803	5,858
Stone Tower Structured Credit Recovery Fund	32,879	14,922
Strategic Commodities Fund	34,463	32,852
Treasury Inflation Protected Fund	5,681	4,714
Total	\$265,001	\$182,461



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Based on its asset allocation model, SCERS has committed to invest \$475.0 million in eight investment portfolios in the two asset classes. A summary of the unfunded capital commitments as of June 30, 2010 and 2009 is as follows:

	2010	2009
Opportunities		
PIMCO Distressed Mortgage Fund I & II	\$ -	\$2,400
Stone Tower	-	12,500
Private Equity		
Abbot Capital Private Equity Fund VI	69,375	71,625
Goldman Sachs Private Equity	61,713	70,155
HarbourVest International VI	48,583	49,581
HarbourVest Partners VIII	27,650	32,225
Total	<u>\$207,321</u>	<u>\$238,486</u>

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, 2010 and 2009, 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. The System does 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 a minimum of 100% of the market value of the loaned security.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, securities lending collateral reported in the statement of fiduciary net assets represented only cash collateral invested in the lending agent's cash collateral investment pool. 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, 2010 and 2009, 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 borrowers greater than the amounts borrowed, on June 30, 2010 and 2009, the System had minimal 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 total collateral held and the market value of securities on loan as of June 30, 2010 were \$578,556 and \$563,519, respectively. The total collateral held and the market value of securities on loan as of June 30, 2009 were \$556,190 and \$540,214, 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.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

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 the same as the value of the collateral pool shares.

Collateral and related securities on loan at June 30, 2010 and 2009 were as follows:

Security Description	2010		Fair Value of Securities on Loan
	Cash Collateral Value	Other Collateral Value	
U.S. government and agency obligations	\$130,990	\$13,690	\$141,788
Domestic corporate bonds	68,335	82	67,016
Common and preferred stock – domestic	318,167	(3,603)	306,429
Common and preferred stock – international	43,709	7,186	48,286
Total	\$561,201	\$17,355	\$563,519

Security Description	2009		Fair Value of Securities on Loan
	Cash Collateral Value	Other Collateral Value	
U.S. government and agency obligations	\$134,637	\$11,891	\$143,564
Domestic corporate bonds	38,551	46	37,808
Common and preferred stock – domestic	275,960	(206)	268,245
Common and preferred stock – international	90,059	5,252	90,597
Total	\$539,207	\$16,983	\$540,214

Term Asset-Backed Securities Loan Facility (TALF)

The Federal Reserve (the “Fed”) created the Term Asset-Backed Securities Loan Facility (“TALF”) in November 2008 to ‘make credit available to consumers and businesses on more favorable terms by facilitating the issuance of asset-backed securities (“ABS”) and improving the market conditions for ABS.’ The TALF program has since been expanded to include certain commercial mortgage backed securities (“CMBS”).

Under the TALF program, the Fed will lend up to \$1 trillion through June 30, 2010, with loans up to 95% of the lower of cost or market value of collateral investments in qualified ABS or CMBS. Upon loan settlement, the collateral investments are pledged toward repayment of the TALF loans. Collateral investments are held by the New York Fed’s custodial bank in the borrower’s name, and the Fed is granted a security interest in the investments. At the end of the loan term, borrowers may repay the loan, arrange for the sale of the collateral to repay the loan, or surrender the collateral to the Fed.

The general provisions of the TALF program require borrowers to disclose the liabilities, assets, and incomes associated with the TALF loans.

In April 2009, SCERS’ Board approved an investment in the Metropolitan West Asset Management (“MetWest”) TALF fund as a limited partner. Similarly, in June 2009, SCERS’ Board approved an investment in the PIMCO TALF fund via a series of limited partnership interests offered by PIMCO Private Funds II, L.P. The initial capital contributions for MetWest and PIMCO were made in July 2009. Both MetWest and PIMCO have borrowed from the TALF.

However, as a limited partner in these funds, SCERS does not own the underlying TALF securities but instead possesses a percentage of ownership in the limited partnerships. Therefore, as of June 30, 2010, SCERS did not have any obligations to repay the TALF loans.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Investment Risk Schedules

Pursuant to GASB Statement No. 40, the following schedules disclose the System's investments subject to certain types of risk.

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 active and enhanced index 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 A by Moody's Investor Services or A 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 include bonds and preferred issues.
- No more than 20% of the portfolio will be invested in non-U.S. dollar bonds.

The System's policy is that the enhanced index investments will have a credit quality rating similar to the Barclays Capital Aggregate Index. Portfolio diversification is constrained by the following parameters in order to minimize overall market and credit risk:

- The maximum holding in a single issuer, excluding U.S. Government and government-sponsored enterprises, is 5% of the portfolio's total market value.
- The minimum individual issue credit rating is BBB- by S&P, or an equivalent rating by Moody's, Fitch or Dominion Bond Rating Service.
- The portfolio duration will be within ± 0.25 years of the index duration as measured by the manager.
- All securities must be denominated in U.S. dollars.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

The following tables depict the fixed income assets by credit rating as of June 30, 2010 and 2009:

Fixed Income As of June 30, 2010

S&P Quality Rating	Total	Securitized Obligations	Credit Obligations	U.S.		Collateralized Mortgage Obligations	Mortgage Pass-Through		
				Government & Agency Obligations	International Government		FHLMC	FNMA	GNMA
AAA	\$371,156	\$57,937	\$2,942	\$20,905	\$13,799	\$39,366	\$91,371	\$144,836	\$ -
AA+	13,010	1,589	10,572	-	-	849	-	-	-
AA	3,537	2,647	890	-	-	-	-	-	-
AA-	11,151	5,217	3,733	-	-	2,201	-	-	-
A+	34,251	21,261	12,990	-	-	-	-	-	-
A	73,482	18,229	55,253	-	-	-	-	-	-
A-	35,085	5,813	29,272	-	-	-	-	-	-
BBB+	35,091	722	34,336	-	-	33	-	-	-
BBB	49,650	2,603	47,047	-	-	-	-	-	-
BBB-	60,773	1,229	59,544	-	-	-	-	-	-
BB+	9,913	21	8,731	-	-	1,161	-	-	-
BB	17,519	-	16,938	-	-	581	-	-	-
BB-	16,368	2,881	11,912	-	-	1,575	-	-	-
B+	12,167	291	10,969	-	-	907	-	-	-
B	6,671	619	6,052	-	-	-	-	-	-
B-	7,473	781	2,096	-	-	4,596	-	-	-
CCC	17,972	1,271	-	-	-	16,701	-	-	-
CCC-	71	71	-	-	-	-	-	-	-
CC	4,425	3	-	-	-	4,422	-	-	-
D	37	37	-	-	-	-	-	-	-
NA	172,931	-	-	144,503	-	-	-	-	28,428
NR	99,669	20,341	36,926	111	7,302	21,247	4,915	8,827	-
Total	\$1,052,402	\$143,563	\$350,203	\$165,519	\$21,101	\$93,639	\$96,286	\$153,663	\$28,428



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Fixed Income As of June 30, 2009

S&P Quality Rating	Total	Securitized Obligations	Credit Obligations	U.S.	International Government	Collateralized Mortgage Obligations	Mortgage Pass-Through		
				Government & Agency Obligations			FHLMC	FNMA	GNMA
AAA	\$406,718	\$60,344	\$11,714	\$23,869	\$15,262	\$40,018	\$94,203	\$161,308	\$0
AA+	9,305	1,248	8,057	-	-	-	-	-	-
AA	914	-	-	-	-	914	-	-	-
AA-	6,671	-	6,671	-	-	-	-	-	-
A+	20,742	-	20,742	-	-	-	-	-	-
A	68,035	-	66,308	-	-	1,727	-	-	-
A-	28,311	-	28,311	-	-	-	-	-	-
BBB+	37,033	467	36,566	-	-	-	-	-	-
BBB	52,907	345	51,754	-	-	808	-	-	-
BBB-	30,422	-	30,215	-	-	207	-	-	-
BB+	5,045	-	5,045	-	-	-	-	-	-
BB	5,807	-	4,583	-	-	1,224	-	-	-
BB-	8,580	2,131	6,449	-	-	-	-	-	-
B+	4,484	-	3,875	-	-	609	-	-	-
B	9,010	-	8,906	-	-	104	-	-	-
B-	2,760	-	2,760	-	-	-	-	-	-
CCC+	751	-	751	-	-	-	-	-	-
CCC	4,410	1,288	1,226	-	-	1,896	-	-	-
CCC-	106	106	-	-	-	-	-	-	-
CC	468	-	468	-	-	-	-	-	-
C	1,147	-	1,147	-	-	-	-	-	-
D	55	55	-	-	-	-	-	-	-
NA	123,286	-	-	100,431	-	-	-	-	22,855
NR	107,699	30,942	36,929	-	3,059	18,983	12,000	5,786	-
Total	\$934,666	\$96,926	\$332,477	\$124,300	\$18,321	\$66,490	\$106,203	\$167,094	\$22,855

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. NA represents those securities that are exempt from the rating disclosure requirements, and NR represents those securities that are not rated.

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, which is not rated by credit rating agencies. 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. As of June 30, 2010, since the System held collateral from borrowers greater than the amounts borrowed, the System had minimal credit risk exposure to the borrowers.

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 $\pm 20\%$ from the effective duration of the relevant Barclays Capital Aggregate benchmark based on the portfolio total.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

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

Long-Term Fixed Income Investments

Duration

As of June 30, 2010

Type of Securities	Fair Value	Effective Duration	Benchmark Duration	Difference
Securitized Obligations				
Asset-Backed Securities	\$49,508	2.29	3.61	(1.32)
Collateralized Mortgage-Backed Securities	94,055	4.44	3.90	0.54
Credit Obligations				
Corporate Bonds	326,536	5.57	6.56	(0.99)
Commingled Fund	16,773	NA	NA	NA
Yankees	6,894	6.02	5.43	0.59
U.S. Government & Agency Obligations				
Agency Securities	20,905	3.50	2.99	0.51
U.S. Treasury	144,614	5.89	5.36	0.53
International Government	21,101	6.79	NA	NA
Collateralized Mortgage Obligations	93,639	4.65	NA	NA
Mortgage Pass-Through				
FHLMC	96,286	1.86	2.19	(0.33)
FNMA	153,663	2.37	2.20	0.17
GNMA	28,428	2.60	2.44	0.16
Total Fair Value with Weighted Average Duration	\$1,052,402	4.37	4.33	0.04

Long-Term Fixed Income Investments

Duration

As of June 30, 2009

Type of Securities	Fair Value	Effective Duration	Benchmark Duration	Difference
Securitized Obligations				
Asset-Backed Securities	\$33,687	2.65	3.38	(0.73)
Collateralized Mortgage-Backed Securities	63,239	3.49	3.83	(0.34)
Credit Obligations				
Corporate Bonds	290,910	5.48	6.17	(0.69)
Commingled Fund	21,692	NA	NA	NA
Yankees	19,875	4.97	4.57	0.40
U.S. Government & Agency Obligations				
Agency Securities	23,869	4.00	3.40	0.60
U.S. Treasury	100,431	5.23	5.19	0.04
International Government	18,321	6.00	NA	NA
Collateralized Mortgage Obligations	66,490	6.36	4.67	1.69
Mortgage Pass-Through				
FHLMC	106,203	2.61	2.66	(0.05)
FNMA	167,094	3.12	2.52	0.60
GNMA	22,855	3.57	2.66	0.91
Total Fair Value with Weighted Average Duration	\$934,666	4.43	4.17	0.26



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar 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. Quality D's Investment Policy Guidelines provide that it will seek to maintain an average effective duration of 90 days or less, the maximum option-adjusted duration of any variable rate security shall be 2.5 years or less at the time of purchase, and all fixed-rate instruments must have an option-adjusted duration not to exceed 18 months at the time of purchase. As of June 30, 2010 and 2009, the actual effective duration were 30 days and 43 days, respectively.

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, 2010 and 2009, 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.

The System's investment policy does not allow more than 2.5% of the System's assets to be invested in any one security, and as of June 30, 2010 and 2009, the System had no issuer that exceeds 2.5% of total investment. As noted in the previous 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, 2010 and 2009, 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 custodial credit risk.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Foreign Currency Risk

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 cash and investments held in a foreign currency as of June 30, 2010 and 2009.

As of June 30, 2010

Local Currency Name	Cash & Cash Equivalents	Equity	Fixed Income	Total
Australian Dollar	\$464	\$56,219	\$10,128	\$66,811
Brazilian Real	23	1,588	-	1,611
British Pound	3,131	118,471	3,706	125,308
Canadian Dollar	143	31,533	-	31,676
Danish Krone	51	4,010	-	4,061
Euro	8,990	207,164	-	216,154
Hong Kong Dollar	1,576	47,654	-	49,230
Indonesian Rupiah	-	701	-	701
Israeli Shekel	21	1,615	-	1,636
Japanese Yen	3,369	172,485	325	176,179
Mexican Peso	-	604	-	604
New Zealand Dollar	2	253	7,581	7,836
Norwegian Krone	184	6,937	-	7,121
Singapore Dollar	358	16,504	-	16,862
South African Rand	10	1,938	-	1,948
South Korean Won	38	4,068	-	4,106
Swedish Krona	185	9,559	-	9,744
Swiss Franc	208	50,159	-	50,367
Turkish Lira	-	695	-	695
Total	\$18,753	\$732,157	\$21,740	\$772,650

As of June 30, 2009

Local Currency Name	Cash & Cash Equivalents	Equity	Fixed Income	Total
Australian Dollar	\$112	\$28,533	\$3,059	\$31,704
British Pound	767	103,436	-	104,203
Canadian Dollar	993	25,465	-	26,458
Danish Krone	9	3,448	-	3,457
Euro	1,630	189,571	11,561	202,762
Hong Kong Dollar	880	43,137	-	44,017
Israeli Shekel	-	289	-	289
Japanese Yen	1,561	153,536	254	155,351
Mexican Peso	-	528	-	528
New Zealand Dollar	182	382	3,701	4,265
Norwegian Krone	84	6,810	-	6,894
Singapore Dollar	309	12,591	-	12,900
South African Rand	-	1,866	-	1,866
South Korean Won	3	3,171	-	3,174
Swedish Krona	98	10,165	-	10,263
Swiss Franc	70	38,414	-	38,484
Turkish Lira	-	346	-	346
Total	\$6,698	\$621,688	\$18,575	\$646,961

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

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. The System does not have a foreign currency risk policy.

Highly-Sensitive Investments

As of June 30, 2010 and 2009, SCERS' investments included Collateralized Mortgage Obligations and Mortgage Pass-Through totaling \$372,016 and \$362,642, 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.

The System's investment policy allows investments in commodities and futures. SCERS' investments include an allocation of 2% of total fund assets in commodities and commodities futures as part of the Opportunities asset class. Commodities are a real asset class that produces a different pattern of returns to other asset classes. Unique supply and demand factors and the way commodities are traded are the main reasons for the low correlation between commodities and stocks and bonds. Not only is correlation low with traditional asset classes in general, but importantly, commodities tend to perform well when stocks and bond prices fall.

Spot commodity prices have historically been a poor investment and have declined in real terms. However, investment in collateralized commodity futures provides similar returns to stocks over the long term. The futures market is an efficient way for producers to hedge the price risk by forward-selling commodities at lower prices relative to spot prices to investors and speculators generating a roll yield (backwardation). In general, commodities are volatile investments that are prone to large price spikes. By investing in commodity futures, investors get exposure to short-term price movement and risk, as well as long-term price trends. This price volatility and the need for producers to hedge their production provides the fundamental rationale for why investment managers pay the risk premium to speculators and long-only investors in the commodity markets.

As of June 30, 2010 and 2009, total commodities investments were \$95.1 million and \$91.5 million, respectively. The investments consist of commodities futures hedge fund-of-funds, commodities index, and commodities futures strategic fund which are shown on page 39.

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. As of June 30, 2010 and 2009, the derivative instruments held by the System are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized as incurred in the Statement of Changes in Fiduciary Net Assets. The summary of derivative instrument activities during the reporting period and the related risks for fiscal year 2009-2010 are presented on the following pages. Information about derivative instruments held during the year ended June 30, 2009 was not available.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

The table below presents the related net appreciation/(depreciation) in fair value, the fair value amounts and the notional amounts of derivative instruments outstanding at June 30, 2010:

Investment Derivatives Instruments	Net Appreciation/ (Depreciation) in Fair Value of Investments through June 30, 2010	Fair Value at June 30, 2010		
		Classification	Amount	Notional
Futures (domestic and foreign)	\$84,042		\$ -	\$34,219
Foreign currency forwards	936	Accrued investment income receivables	46	-
Rights	(3,879)	Common and preferred stock - international	2	39,000 shares
TBA securities	6,823	United States government securities	669	\$94,020
Warrants	(83)	Common and preferred stock - domestic	66	21,000 shares
Total Derivative Instruments	\$87,839		\$783	

If the System's derivative instruments are not exchange traded, such as to-be-announced securities ("TBA"), they are valued using methods employed for fixed income securities.

Futures contracts are financial instruments that derive their value from underlying indices or reference rates and are marked-to-market at the end of each trading day. Daily settlement of gains and losses occur on the following business day. As a result, the instruments themselves have no fair value at June 30, 2010 or at the end of any trading day. Daily settlement of gains and losses is a risk control measure to limit counterparty credit risk. Futures variation margin amounts are settled each trading day and recognized in the financial statements under net appreciation/(depreciation) in fair value of investments as they are incurred.

Foreign currency forward contracts are obligations to buy or sell a currency at a specified exchange rate and quantity on a specific future date. The fair value of the foreign currency forwards is the unrealized gain or loss calculated based on the difference between the specified exchange rate and the closing exchange rate at June 30, 2010.

Counterparty Credit Risk

Below is a schedule showing the counterparty credit ratings of the System's non-exchange traded investment derivative instruments outstanding and subject to loss at June 30, 2010:

S&P Ratings	Foreign Currency Forwards	TBA Securities	Total
AA	\$644	\$ -	\$644
AA-	499	-	499
A+	125	-	125
A	19	-	19
Not rated	-	669	669
Subtotal Investments in Asset Position	1,287	669	1,956
Investments in Liability Position	(1,241)	-	(1,241)
Total Investments in Asset/(Liability) Position	\$46	\$669	\$715

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.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

The aggregate fair value of investment derivative instruments in an asset position subject to counterparty risk at June 30, 2010 was \$2.0 million. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. The System did not have any master netting agreements with its counterparties at June 30, 2010, except that certain investment managers used netting arrangements at their discretion to minimize counterparty risks. The above schedule presents exposure for similar instruments with the same counterparty on a net basis.

At June 30, 2010, the System did not have any significant exposure to counterparty credit risk with any single party.

Interest Rate Risk

At June 30, 2010, the System is exposed to interest rate risk on its investments in TBAs. These TBAs have a maturity period of more than 10 years, however, their settlement dates are within one year and therefore are highly sensitive to changes in interest rates. The table below details the reference rate, fair value, and notional amount of these derivative instruments.

Derivative Instruments Highly Sensitive to Interest Rate Changes

Investment Type	Reference Rate	Fair Value	Notional
TBA Securities	4.0%	\$27	\$2,390
TBA Securities	4.5%	537	32,520
TBA Securities	5.0%	(37)	30,025
TBA Securities	5.5%	114	24,300
TBA Securities	6.0%	24	4,030
TBA Securities	6.5%	4	755
Total		\$669	\$94,020

Foreign Currency Risk

At June 30, 2010, the System is exposed to foreign currency risk on its investments in forwards denominated in foreign currencies.

Currency Name	Common and Preferred Stock	Forward Contracts		Total Exposure
		Net Receivables	Net Payables	
Australian Dollar	\$ -	\$(25)	\$(75)	\$(100)
British Pound	-	81	(8)	73
Danish Krone	-	-	(2)	(2)
Euro	2	561	(48)	515
Japanese Yen	-	(531)	117	(414)
New Zealand Dollar	-	7	(29)	(22)
Norwegian Krone	-	-	(1)	(1)
Swedish Krona	-	14	(6)	8
Swiss Franc	-	(2)	(7)	(9)
	\$2	\$105	\$(59)	\$48

The System has investments in futures contracts. As indicated above, futures variation margin accounts are settled each trading day and recognized as realized gains/(losses) as they are incurred. As a result, the foreign futures contracts have no fair value at June 30, 2010.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

NOTE 5 - 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 1.81% to 12.26% 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 contribution rates range from 13.02% to 47.84% of covered payroll. The required contributions include current service cost and amortization of any unfunded prior service cost over a declining 25-year amortization period, with 25 years remaining as of June 30, 2010.

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. Contributions for the years ended June 30, 2010 and 2009 totaled \$219,555 and \$231,634. Included in this total are employer contributions of \$167,142 and \$177,011 in fiscal years 2010 and 2009, respectively, of which \$152,722 and \$161,782 were made by the County of Sacramento. Member contributions were \$52,413 and \$54,623 in fiscal years 2010 and 2009, respectively. All contributions were made in accordance with actuarially-determined contribution requirements based on the actuarial valuations performed as of June 30, 2008 and 2007, respectively, which utilized a 30-year closed amortization period and a 7.875% assumed investment rate of return.

NOTE 6 – FUNDED STATUS

The System's funded status based on the most recent actuarial valuation as of June 30, 2010 is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2010	\$6,216,994	\$7,145,726	\$928,732	87.0%	\$912,728	101.8%

As of June 30, 2010, the total unrecognized investment loss totaled \$1.236 billion and the unfunded actuarial accrued liability ("UAAL") decreased to \$928.7 million from \$931.8 million as of June 30, 2009. This decrease in UAAL is due to lower than expected active employee salary growth, and benefit payment cost-of-living adjustments ("COLA") increases as well as other actuarial gains during fiscal year 2009-2010 which were partially offset by a reduction in the investment return assumption to 7.75%. Unless offset by future investment gains or other favorable experience, the recognition of the \$1.236 billion investment losses over the next six years is expected to have a significant impact on the System's future funded ratio and the aggregate employer contributions.

Disclosure of Information about Actuarial Methods and Assumptions

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

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Actuarial Methods and Assumptions:

The following significant actuarial assumptions were utilized as part of the actuarial valuation dated June 30, 2010:

Actuarial cost method:	Entry age normal cost method
Amortization method:	Level percent of payroll for total unfunded liability
Remaining amortization period*:	Declining 25-year amortization period with 25 years remaining as of June 30, 2010 for all UAAL. The UAAL established as a result of the Early Retirement Incentive Program for the Sacramento County Law Enforcement Managers Association ("LEMA") members is amortized over a 10-year period, beginning June 30, 2010.
Asset valuation method**:	7-year smoothed fair value
Investment rate of return***:	7.75%
Inflation rate:	3.50%
Real across-the-board salary increase:	0.25%
Miscellaneous projected salary increases****:	5.14% to 11.55%
Safety projected salary increases****:	3.75% to 9.76%
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%

*Prior to June 30, 2010 valuation, the UAAL was amortized over a 30-year closed amortization period, with 24 years remaining as of June 30, 2009.

**The market value of assets plus (or minus) net unrecognized returns (or losses). Unrecognized returns (or losses) are equal to the difference between actual and expected returns on a market value basis. Unrecognized returns established prior to July 1, 2008 are recognized over a five-year period. Unrecognized returns established after July 1, 2008 are recognized over a seven-year period. The actuarial value is further adjusted, if necessary, to be within 30% of the market value.

***June 30, 2009 and 2008 valuations utilized a 7.875% investment rate of return.

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

NOTE 7 - PLAN TERMINATION

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

NOTE 8 – 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.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

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 designations include transfers made by the System from unallocated 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 were 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 solely from general revenues by those employers who have elected to continue the payments for their members.

Contingency reserve was created to serve as a reserve against deficiencies in future earnings and unexpected expenses.

Smoothed actuarial value of assets. Investment gains and losses prior to July 1, 2008 are recognized (smoothed) over a five-year period. Investment gains and losses after July 1, 2008 are recognized (smoothed) over a seven-year period. As of June 30, 2010 and 2009, total allocated reserves were \$6,216,994 and \$5,730,215, 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 benefits at June 30, 2010 and 2009, is as follows:

NET ASSETS AVAILABLE FOR BENEFITS AT FAIR VALUE

As of June 30

	2010	2009
Employee Reserve	\$648,595	\$634,272
Employer Reserve	2,358,614	2,232,274
Retiree Reserve	3,116,520	2,848,041
Retiree Death Benefit Reserve	14,707	14,061
Retiree Health Benefit Reserve	1,567	1,567
Contingency Reserve	76,991	-
Total allocated reserves and designations	6,216,994	5,730,215
Unallocated earnings	-	-
Smoothed actuarial value assets	6,216,994	5,730,215
Market Stabilization Reserve	(1,236,032)	(1,322,357)
Net assets available for benefits, at fair value	\$4,980,962	\$4,407,858



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

NOTE 9 – MORTGAGES PAYABLE

The System has real estate investments secured by long-term mortgage obligations which are recourse loans. Activities related to such mortgages were as follows for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Beginning Balance	\$177,217	\$194,957
Deductions	(61,621)	(17,740)
Ending Balance	<u>\$115,596</u>	<u>\$177,217</u>

Future debt service requirements for outstanding mortgages are as follows:

Year Ending			
June 30	Interest	Principal	Total
2011	\$5,826	\$22,252	\$28,078
2012	4,732	738	5,470
2013	4,432	20,781	25,213
2014	3,630	824	4,454
2015	3,326	11,681	15,007
2016 - 2020	6,940	36,219	43,159
2021 - 2025	5,544	5,390	10,934
2026 - 2030	3,881	7,053	10,934
2031 - 2035	1,705	9,229	10,934
2036 - 2040	29	1,429	1,458
Total	<u>\$40,045</u>	<u>\$115,596</u>	<u>\$155,641</u>

NOTE 10 – LEASE OBLIGATIONS

SCERS has commitments under operating lease agreements for office facilities and equipment. Minimum future rental payments as of June 30, 2010 were as follows:

Year Ending June 30:

2011	\$601
2012	303
2013	3
Total	<u>\$907</u>

Rental costs during the year ended June 30, 2010 and 2009 were \$677 and \$669, respectively.



REQUIRED SUPPLEMENTARY INFORMATION

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

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
2005	\$4,530,583	\$4,860,882	\$330,299	93.2%	\$722,015	45.7%
2006	4,848,953	5,214,915	365,962	93.0	782,572	46.8
2007	5,406,461	5,788,336	381,875	93.4	832,484	45.9
2008	5,930,758	6,363,355	432,597	93.2	902,971	47.9
2009	5,730,215	6,661,993	931,778	86.0	968,130	96.2
2010	6,216,994	7,145,726	928,732	87.0	912,728	101.8

The funded ratio compares the actuarial value of assets to the actuarial accrued liabilities of the plan as calculated under GASB. High ratios indicate a well-funded plan that is well positioned to pay benefits when they are due. Lower ratios may indicate recent changes to benefit structures, funding of the plan below actuarial requirements, poor asset performance, or a variety of other changes.

The UAAL decreased from \$931.8 million as of June 30, 2009 to \$928.7 million as of June 30, 2010. The funded ratio increased from 86.0% to 87.0%. The increase is mainly due to lower-than-expected active employee salary growth, and benefit payment cost-of-living adjustments (COLA) increases as well as other actuarial gains during fiscal year 2009-2010 which were partially offset by a reduction in the investment return assumption to 7.75%.

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

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2005	\$529,618*	100.0%
2006	154,052	86.1**
2007	156,805	100.0
2008	167,054	100.0
2009	177,011	100.0
2010	167,142	100.0

To calculate the required contribution, assumptions are made about future events that effect the amount and timing of benefits to be paid and assets to be accumulated. Each year actual experience is measured against the assumptions. If overall experience is more favorable than anticipated (an actuarial gain), the contribution requirement will decrease from the previous year. On the other hand, the contribution requirement will increase if overall actuarial experience is less favorable than expected. If assumptions are changed, the contribution requirements are adjusted to take into account a change in experience anticipated for all future years.

* Includes proceeds from Pension Obligation Bonds

**Caused by the phase-in of the employer rates adopted by the Board in the June 30, 2004 actuarial valuation.



OTHER SUPPLEMENTAL INFORMATION

FOR THE YEARS ENDED JUNE 30
(Dollar Amounts Expressed in Thousands)

Schedule I - Schedule of administrative expenses:

Type of expense:	2010	2009
Salaries and benefits	\$3,215	\$3,184
Professional fees	719	842
Equipment purchases and maintenance	29	62
Rent and lease expense	576	603
Depreciation expense	5	5
Other administrative expenses	1,364	1,284
Total administrative and other expenses	\$5,908	\$5,980

Schedule II - Schedule of investment fees and expenses:

Type of investment expense:	2010	2009
Domestic equity managers	\$5,122	\$4,153
International equity managers	4,281	3,059
Bond managers	1,695	1,693
Hedge fund managers	2,511	2,403
Real estate managers	5,300	1,463
Strategic cash overlay managers	286	401
Opportunity portfolio managers	1,854	1,262
Private equity managers	1,824	1,720
Custodian fees	443	415
Investment consulting fees	217	177
Other investment expenses and fees	1,237	1,185
Total investment fees and expenses	\$24,770	\$17,931

Schedule III - Schedule of payments to consultants:

Type of Service:	2010	2009
Legal services	\$1,919	\$1,054
Actuarial services	94	119
Medical consulting services	188	120
Audit and consulting services	65	81
Total payments to consultants	\$2,266	\$1,374



STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUND

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(Dollar Amounts Expressed in Thousands)

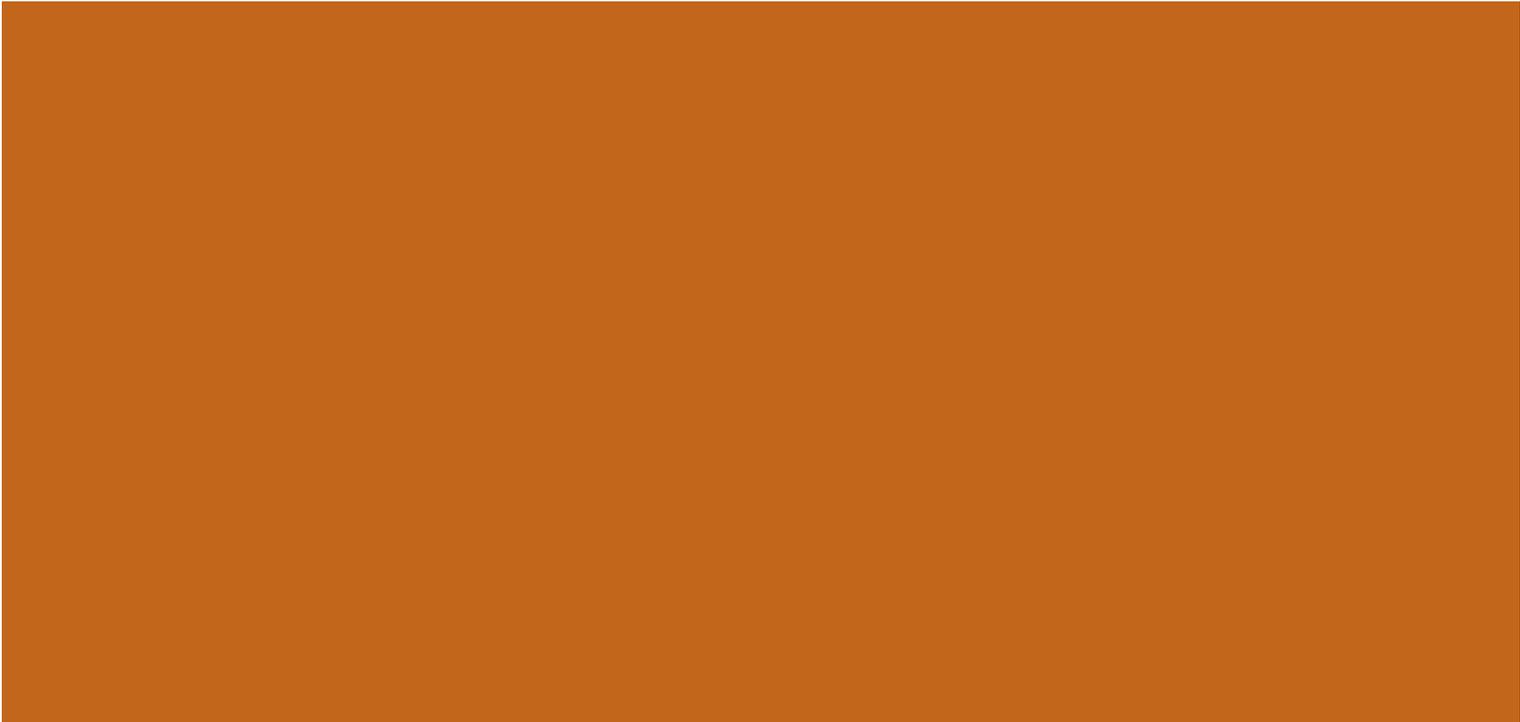
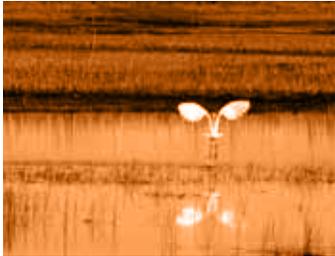
Assets	2010	2009
Beginning Balance	\$34	\$34
Additions	29,252	28,626
Deductions	(29,258)	(28,626)
Ending Balance	<u>\$28</u>	<u>\$34</u>

Liabilities	2010	2009
Beginning Balance	\$34	\$34
Additions	29,252	28,626
Deductions	(29,258)	(28,626)
Ending Balance	<u>\$28</u>	<u>\$34</u>





INVESTMENT SECTION



CHIEF INVESTMENT OFFICER'S REPORT

Introduction

In the fiscal year ended June 30, 2010, the U.S. and global economies experienced signs of economic recovery with the moderate reversal of several down-trending economic indicators. For much of the fiscal year, global equity markets priced-in economic recovery and generated significant returns as investors' appetite for risk increased. However, in the last quarter of the fiscal year investors appeared to conclude that the pricing premium related to economic recovery outpaced the true level of economic recovery, which led to a sell-off in global equity markets.

During most of the fiscal year, fixed income markets saw Treasury yields rise, with the 10-year Treasury bond reaching 4%. Risk appetite increased as investors flooded into spread product (non-Treasury taxable bonds), with non-agency mortgage-backed securities, corporate bonds and high-yield debt experiencing dramatic appreciation as spreads over Treasuries tightened substantially. During the last quarter of the fiscal year, risk aversion took hold and investors quickly moved back to quality. This caused the 10-year Treasury yield to drop below 3% and spreads to quickly widen.

The Federal Reserve continued its accommodative monetary policy during the year, keeping short-term interest rates at historically low levels and maintaining quantitative easing programs. Even with the remarkable amount of stimulus that was pumped into the economy, inflation remained in check during the fiscal year, with the core Consumer Price Index coming in below 1% on a year-over-year basis. It is expected that inflation will remain low given the troubled labor market, timid consumer spending levels and excess capacity throughout the economy.

As noted above, investors ended the fiscal year concerned about the sustainability of economic recovery. These concerns revolved around Europe's sovereign debt crisis, global debt to GDP levels, the impact that potential austerity programs will have on future growth, U.S. healthcare and financial reform measures and weak labor and housing markets. Fears of developed global economies entering a multi-year sub-par growth environment, grabbed the markets' attention to close out the year.

SCERS' investment performance for the fiscal year ended June 30, 2010 experienced a dramatic recovery from the negative levels of fiscal year 2008-2009. For the period, SCERS' total fund return was 13.9%, gross of investment management fees and 13.5%, net of investment management fees. The gross return for the fiscal year was 2.4% above SCERS' policy weighted benchmark return of 11.5%, and was well above the actuarial return objective of 7.875%. On a peer comparison basis, SCERS' one-year performance ranked at the 43rd percentile in the Mellon Analytical Solutions Trust Universes ("MASTU") for public funds of a billion dollars or more. Investments in all asset classes within the SCERS portfolio generated positive returns, except for real estate, which returned (1.1)% gross of fees. Over the trailing five-year period, SCERS' gross annualized investment return was 2.3% excluding the effects of the strategic cash overlay program. This five-year annualized return was below the actuarial return objective of 7.875% and SCERS' policy benchmark return of 3.0%.

During the fiscal year, several educational sessions were provided by SCERS' staff, investment consultant and various investment managers to assist the Board in making decisions regarding new asset classes and possible new investment strategies. The educational sessions included a presentation regarding quantitative-based investment strategies, a presentation on the current and future economic environment and the implications for future investment considerations, and presentations on investment opportunities within distressed credit and infrastructure.

SCERS' general investment consultant, Mercer Investment Consulting, Inc. ("Mercer"), prepared the investment returns cited in this transmittal using information it receives from SCERS' custodian bank and investment managers.



General Information

SCERS utilizes external investment managers chosen by the Retirement Board to invest the System's assets. As of June 30, 2010, there were twenty-three separate account portfolios, five domestic equity commingled funds, one commingled international equity fund, two equity long/short commingled hedge fund-of-funds, two commodities strategies, six real estate funds, four private equity fund-of-funds, five opportunistic credit strategies, a real asset strategy fund and a strategic cash overlay program. Each of the accounts is identified on the Summary of Investment Assets schedule. The Board uses the services of Mercer as a general investment consultant to assist in developing the investment policy, prepare asset/liability studies, advise on the asset allocation, conduct investment manager searches, and help monitor investment manager performance. During the fiscal year, Mercer was also retained to provide dedicated real estate consulting services to SCERS. SCERS' primary legal services regarding the investment program is provided by the in-house General Counsel and is supplemented by Nossaman LLP for real estate investments and outside specialized legal counsel as needed for private equity and various limited partnership investments.

During the fiscal year, SCERS continued to work toward implementation of the strategic asset allocation adopted in July 2007, in which Opportunities and Private Equity were added as asset classes. No new commitments were made to either asset class during the fiscal year. In Opportunities, all commitments have been called and the two Term Asset-Backed-Securities Loan Facility ("TALF") funds are in the process of returning capital. In Private Equity, SCERS continues to meet the capital calls for commitments made in the years ended June 30, 2007, 2008 and 2009. Because of the long investment period for these commitments, it will take a few years before most of the current commitments will be called and invested. As a result, this asset class will continue to be well below the five percent target for the next few years.

During the fiscal year, two external outside managers were terminated by SCERS. In February 2010, O'Shaughnessy Asset Management was terminated from a U.S. small cap growth mandate. The decision was based on extended periods of underperformance relative to its benchmark, the Russell 2000 Growth Index, and the median manager universe. In May 2010, AXA Rosenberg was terminated from an international small cap mandate. The primary reason for the termination was due to poor performance relative to its benchmark, the MSCI Small Cap World ex U.S. Index, and the median manager universe. In addition, AXA Rosenberg poorly communicated and was slow to announce an error within the firm's quantitative investment models that had occurred in 2009. Assets for both strategies were placed in passive index strategies until active manager replacements were selected. Turner Investment Partners and Mondrian Investment Partners were chosen in the third quarter of 2010 to replace O'Shaughnessy Asset Management and AXA Rosenberg, respectively.

SCERS' custodial bank is State Street California, Inc ("State Street"). In addition to custodial services (including performance measurement), State Street provides securities lending services to SCERS and, through State Street Global Markets, administers a commission recapture program. For the fiscal year ended June 30, 2010, SCERS earned a net income of \$2.3 million from securities lending and received recapture income of \$0.1 million. SCERS does not use directed-brokerage or soft-dollar commissions to purchase any services.

SCERS Investment Objectives

SCERS' investment objectives are set forth in the Board's Investment Policy and Objectives ("Investment Policy"). SCERS' investment objectives are:

Provide for Present and Future Benefit Payments - The overall investment objective of SCERS is to invest pension assets solely in the interest of providing benefits to the participants and their beneficiaries, while attempting to minimize employer contributions and defraying administrative costs. The investment of



CHIEF INVESTMENT OFFICER'S REPORT (CONTINUED)

contributions and other fund assets in accordance with the Investment Policy is intended to 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 7.875% over a market cycle. The Board strives to achieve this level of return with a high level of confidence and with an acceptable level of risk.

Make Prudent Investments - In accordance with the fiduciary standards of care, skill, prudence and diligence, the Board strives 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.

Diversify the Assets - The Board diversifies the investments of SCERS to maximize the investment return and maintain acceptable investment risk.

Create Reasonable Pension Investments Relative to Other Pension Funds - SCERS' 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.

Establish Policy and Objective Review Process - Annually, SCERS conducts a formal review of its Investment Policy and undertakes an updated asset/liability study at least every five years.

Summary of Proxy Voting Guidelines and Procedures

As a fiduciary, the Board has an obligation to manage SCERS' assets in the best interest of the plan participants. The Board has established a Proxy Voting and Corporate Governance Policy to assist with this goal. This policy provides guidance for voting proxies and acting on corporate action issues, such as mergers and acquisitions. For the fiscal year ended June 30, 2010, all proxies were voted through an electronic voting platform provided by Institutional Shareholder Services, with the assistance of 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. The intent of the asset allocation policy is to ensure the diversification of investments in a manner that achieves the desired rate of investment return with an acceptable investment risk. The actual and policy allocation for each asset class is shown in the pie chart in the materials that follow. SCERS did not change its long-term capital market assumptions in the fiscal year. The capital market assumptions included in the Investment Policy are estimated to give SCERS a 7.96% annualized total rate of return over the next ten years with a standard deviation of returns of 11.56%. SCERS utilizes active investment management to achieve the target earnings rate. 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.

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 performance by asset class for one, three and five years is shown on the Investment Results schedule. The asset class benchmark returns are weighted by the asset allocation to provide a policy-weighted return based on SCERS' asset allocation model. SCERS presents its returns using a time-weighted rate of return methodology based upon market values. SCERS' total investment return for the fiscal year ended June 30, 2010, gross of manager fees, was 13.9%. SCERS' policy-weighted benchmark return for the fiscal year was 11.5%.



SCERS also compares its performance against the performance of a peer group of other public funds utilizing a series of universe comparisons provided by Mercer. For the fiscal year, the median public fund in the MASTU of 47 public funds with assets of greater than one billion dollars had a return of 13.5%. SCERS ranked at the 43rd percentile.

Domestic Equity is SCERS' largest investment asset class. For the fiscal year, SCERS' total domestic equity return was 17.6%, gross of fees. The return exceeded the benchmark Russell 3000 Index return of 15.7%, by 1.9%. Outperformance relative to the benchmark was attributed to better performance within the enhanced large cap core portfolio, active U.S. large cap value and U.S. small cap growth investments. For the three-year period, SCERS' domestic equity annualized return was (10.4)%, gross of fees, compared to the Russell 3000 Index benchmark return of (9.5)%. In the MASTU U.S. Equity Billion Dollar Segment, SCERS ranked at the 26th percentile for one year and at the 81th percentile for three years.

The domestic equity sub-asset allocation divides investments by stock market capitalization and investment style. Large cap domestic equity is 78% of the domestic equity allocation. The large cap domestic equity investments had a fiscal year 15.7% return, gross of fees, which was 0.5% above the return of the Russell 1000 Index benchmark. The annualized investment return for large cap equity for three years was (11.0)%, gross of fees, which was 1.5% less than the benchmark return of (9.5)%. The one-year return for small cap equity investments was 24.6%, gross of fees. This return was 3.1% above the benchmark Russell 2000 Index return of 21.5%. For the three-year period, the small cap equity annualized return was (8.0)%, gross of fees, which was 0.6% better than the benchmark return of (8.6)%.

International Equity returned 11.6% for the fiscal year, gross of fees. This was 5.7% above the benchmark MSCI EAFE Net Dividend Index equity return of 5.9%. Annualized performance for the three-year period of (9.6)%, gross of fees, was 3.8% better than the benchmark return of (13.4)%. In the MASTU Non-U.S. Equity Billion Dollar Segment, SCERS ranked at the 61st percentile for one year and at the 28th percentile for three years.

SCERS' international equity investments are classified into two categories, established markets and emerging markets, determined by country. For the fiscal year, SCERS' established market investments returned 7.7%, gross of fees, which was 1.8% above the benchmark MSCI EAFE Net Dividend Index return of 5.9%. Over the trailing three-year period, the established market annualized return was (12.8)%, gross of fees, compared to a MSCI EAFE Net Dividend Index return of (13.4)%. For the fiscal year, the emerging markets gross of fees return of 22.8% was better than the established market return but was below the return of the benchmark MSCI Emerging Markets Free Index return of 24.6%. For the three-year period, SCERS' annualized return of (0.4)%, gross of fees, came in below the benchmark return of (0.2)%, by (0.2)%.

SCERS' Fixed Income investments provided strong performance in the fiscal year. The asset class returned 17.4%, gross of fees. This return ranked in the 16th percentile for the MASTU Fixed Income Billion Dollar Segment. The Barclays Capital Aggregate Index benchmark return for the fiscal year was 9.5%. For the three-year period, the fixed income asset class annualized return was 9.4%, gross of fees, compared to the benchmark return of 7.5%.

With respect to Hedge Funds, the equity long/short hedge fund-of-funds investments also experienced investment gains, although less than those for the long-only U.S. equity investments. For the fiscal year, the two hedge fund-of-funds investment portfolios had a return of 5.2%, gross of fees. The performance objective for the hedge fund-of-funds investments is the T-Bill plus five percent, which returned 5.1%. Another comparison measure is the CS Tremont Hedge Funds Long/Short Equity Index, which returned 6.8% for the fiscal year.

The Real Estate asset class was the only asset class to experience negative returns for the fiscal year, as economic distress continues to work its way through the commercial real estate markets. For the fiscal



CHIEF INVESTMENT OFFICER'S REPORT (CONTINUED)

year, the investment return, gross of fees, was (1.1)%, which was 0.4% better than the NCREIF Property Index return of (1.5%) . The one-year return for the real estate asset class ranked at the 21st percentile for the MASTU Real Estate Billion Dollar Segment. Over three years, the real estate portfolio annualized return was (10.8)%, gross of fees, compared to the NCREIF Property Index return of (4.7)%. Please note that the returns of the value added real estate sub-asset class are delayed one quarter.

The Private Equity investments had a return of 2.9%, gross of fees, for the fiscal year compared to the 51.8% return of the asset class benchmark, the S&P 500 index plus two percent. The significant underperformance for SCERS' investments reflects the J-curve effect on the private equity fund-of-fund investments, which are early in their investment cycle with minimal amounts of committed capital having been called and invested. Please note that the returns of the private equity asset class and benchmark are delayed one quarter.

The Opportunities investments are a mix of strategies which currently include investments in credit strategies, commodities investments, and investments in a real asset return strategy. For the fiscal year, the credit markets experienced a significant narrowing of spreads, which translated to exceptional returns for SCERS' opportunistic credit investments. The returns for individual investments ranged from 16.1% to 83.7%, gross of fees. Commodities investments, which are made up of energy, industrial metals, precious metals, agricultural and foods experienced moderate returns of 3.0%, gross of fees. The real asset strategy, which invests in inflation-protecting assets such as global equity resource stocks, commodities, Real Estate Investment Trusts ("REITS") and Treasury Inflation-Protected Securities ("TIPS") returned 17.1%, gross of fees, for the year. Over time the Opportunities investment portfolio is expected to diversify SCERS' investment risk by combining investments with a traditionally low correlation to equity investments and acceptable high single digit to low double digit returns.

Respectfully submitted,

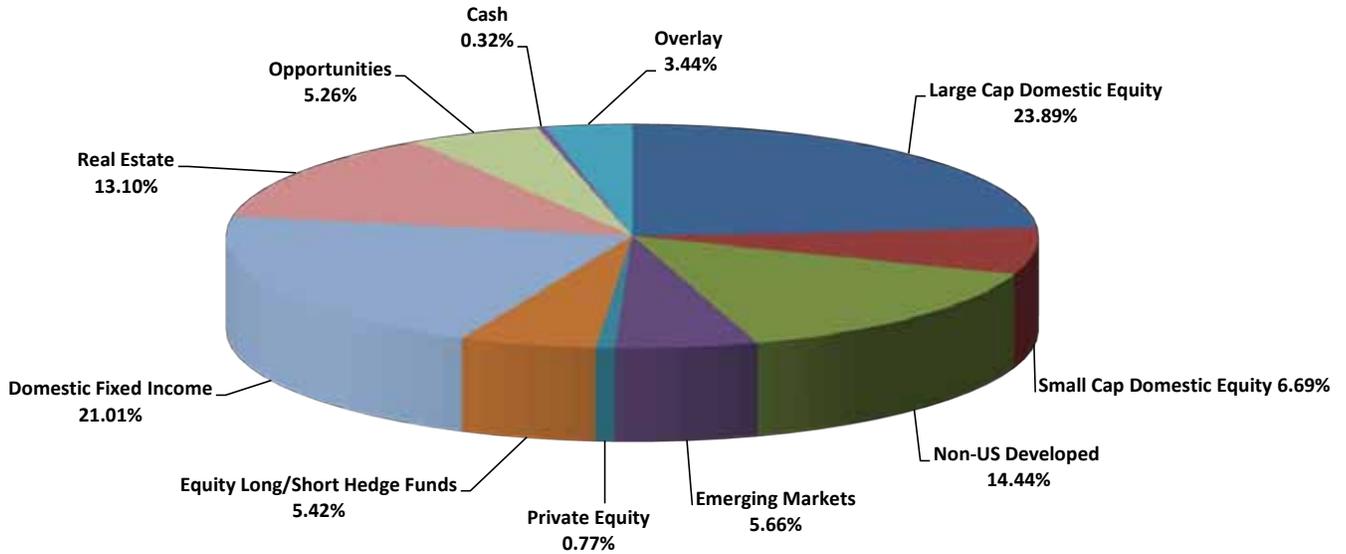


Richard Stensrud
Acting Chief Investment Officer

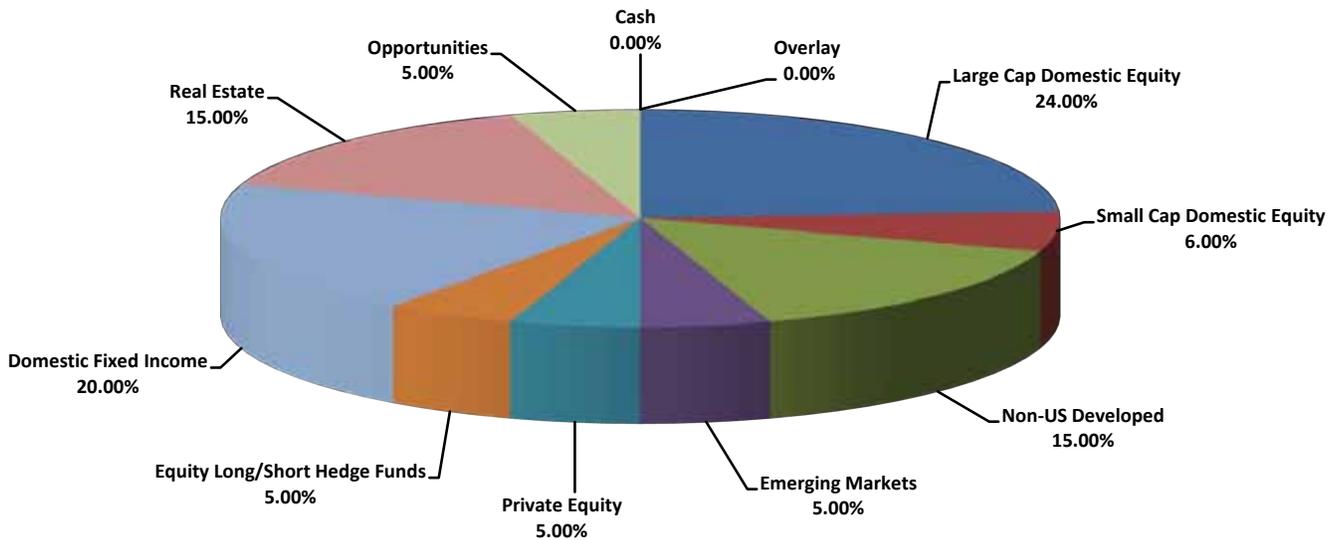


ASSET ALLOCATION

SCERS' Asset Allocation as of June 30, 2010



Target Asset Allocation



The 2010 Actual Asset Allocation is based upon the Investment Summary adjusted to net out \$116.4 million in leverage.

INVESTMENT PROFESSIONALS

As of June 30, 2010

Equity - Domestic

Alliance Bernstein LP
BlackRock, Inc.
Dalton, Greiner, Hartman, Maher & Co. LLC
InTech Investment Management LLC
JP Morgan Asset Management
LSV Asset Management
M.A. Weatherbie & Co., Inc.
Pzena Investment Management LLC
State Street Global Advisors
Thompson, Siegel & Walmsley LLC
UBS Global Asset Management
Wedge Capital Management, LLP
Wells Capital Management

Equity Long/Short Hedge Fund-of-Funds

Blackstone Group LP
Grosvenor Capital Management LP

Private Equity

Abbott Capital Private Equity Fund VI LP
Goldman Sachs Private Equity Partners X LP
HarbourVest Partners LLC

Equity - International

Capital Guardian Trust Company
Capital International, Inc.
INVESCO Institutional, Inc.
LSV Asset Management
State Street Global Advisors
William Blair & Co.

Fixed Income

Bradford & Marzec Global Fixed Income Management
Metropolitan West Asset Management
Neuberger Berman Fixed Income LLC

Real Estate

AEW Capital Management
BlackRock, Inc.
CBRE Global Real Estate Securities
Cornerstone Real Estate Advisors LLC
Hines Interests LP
Principal Global Investors LLC
UBS Realty Investors LLC
Urdang Securities Management, Inc.

Opportunities

Blackstone Resources Select Offshore Fund, Ltd.
European Credit Management, Ltd.
Metropolitan West Asset Management
Neuberger Berman Strategic Commodities Fund, Ltd.
PIMCO LLC
State Street Global Advisors
Stone Tower Capital

Strategic Cash Overlay

State Street Global Advisors

Real Estate Legal Counsel

Nossaman LLP
Hanson Bridgett
Foster Pepper PLLC

Investment Consultant

Mercer Investment Consulting, Inc.

Proxy Advisor

Institutional Shareholder Service
Glass Lewis & Co.



INVESTMENT RESULTS

For the Period Ended June 30, 2010

	Annualized		
	1 Year	3 Years	5 Years
Domestic Equity			
Total Domestic Equity	17.6 %	(10.4)%	(1.3)%
MASTU Equity Universe Median	16.5	(9.3)	(0.2)
Benchmark: Russell 3000 Index	15.7	(9.5)	(0.5)
Equity Hedge Fund of Funds			
Total Hedge Funds	5.2	(4.2)	2.5
CS Tremont Hedge Funds Long/Short Equity Index	6.8	(1.3)	5.6
Benchmark: Treasury Bill plus five percent	5.1	6.3	7.5
Private Equity			
Total Private Equity*	2.9	N/A	N/A
S&P 500 + 2%	51.8	(2.0)	4.0
International Equity			
Total International Equity	11.6	(9.6)	4.9
MASTU International Equity Universe Median	11.9	(10.3)	3.4
Benchmark: MSCI EAFE Index	5.9	(13.4)	0.9
Fixed Income			
Total Fixed Income	17.4	9.4	6.8
MASTU Fixed Income Universe Median	13.8	7.2	5.5
Benchmark: Barclays Capital Aggregate	9.5	7.5	5.5
Real Estate			
Total Real Estate	(1.1)	(10.8)	0.3
MASTU Real Estate Universe Median	(5.6)	(9.2)	2.8
Benchmark: NCREIF Classic Property Index	(1.5)	(4.7)	3.8
Opportunities			
Total Opportunities	24.6	N/A	N/A
Dow Jones UBS Commodity Index + 1%	2.7	(8.4)	(1.3)
Total Fund			
SCERS Total Fund	13.9	(5.1)	2.3 **
MASTU Public Funds Billion \$ Universe	13.5	(3.6)	3.0
Benchmark: Asset Allocation Weightings***	11.5	(4.2)	3.0

Notes: Returns were prepared by Mercer Investment Consulting, Inc., and shown on a gross of fee basis and included the overlay effect. Return calculations were prepared using a timeweight rate of return.

* Investment return and index return are one quarter in arrears.

** Result does not include the overlay effect.

*** The Benchmark consists of 30% Russell 3000, 20% ACWI ex U.S., 20% Lehman Brothers Aggregate, 12% NCREIF Property, 3% NAREIT, 5% T-Bill plus 5%, 5% Dow Jones AIG Commodities Total Return Index and 5% S&P 500 plus 2% (for private equity). From 2/1/06 to 12/31/07, the Benchmark consisted of 30% Russell 1000 Index, 5% Russell 2000 Index, 25% Lehman Brothers Aggregate Bond Index, 15% MSCI EAFE Index, 5% MSCI Emerging Markets Free Index, 12% NCREIF Property Index, 3% NAREIT Index and 5% T-Bill plus 5%.



SUMMARY OF INVESTMENT ASSETS

As of June 30, 2010

	Fair Value (Dollar Amounts Expressed in Thousands)	Percentage of Total Cash & Investments
Equities		
Domestic		
AllianceBernstein LP - Large Cap Core Index	\$545,010	10.49%
BlackRock - Equity Active Extension (130/30)	48,178	0.93
BlackRock - Enhanced Large Cap Core Index	73,956	1.42
Dalton, Greiner, Hartman, Maher - Small Cap Value	83,953	1.62
InTech - Large Cap Growth	104,060	2.00
JP Morgan Asset Management - Equity Active Extension (130/30)	53,843	1.04
LSV Asset Management - Large Cap Value	105,558	2.03
M.A. Weatherbie & Co. - Small Cap Growth	80,613	1.55
Pzena Investment Management - Large Cap Value	112,680	2.17
State Street Global Advisors - Small Cap Growth	79,558	1.53
Thompson, Siegel & Walmsley - Small Cap Value	40,400	0.78
UBS Global Asset Management - Equity Active Extension (130/30)	49,890	0.96
Wedge Capital Management - Small Cap Value	46,123	0.90
Wells Capital Management - Large Cap Growth	93,897	1.81
Total Domestic Equity	1,517,719	
Hedge Fund of Funds		
Blackstone Group	134,580	2.59
Grosvenor Capital Management	133,979	2.58
Total Hedge Fund of Funds	268,559	
Private Equity		
Abbott Capital	4,253	0.08
Goldman Sachs PEP X	9,606	0.18
HarbourVest Partners VIII	21,650	0.42
HarbourVest Partners International PEP VI	1,006	0.02
Total Private Equity	36,515	
International		
Capital Guardian Trust Company - MSCI EAFE Growth	192,530	3.71
Capital International - MSCI Emerging Markets Growth	280,406	5.40
INVESCO Institutional - MSCI EAFE Core	230,147	4.43
LSV Asset Management - MSCI EAFE Value	178,230	3.43
State Street Global Advisors - MSCI ex-US Small Cap	49,856	0.96
William Blair & Co. - MSCI Small Cap Growth	62,288	1.20
Total International Equity	993,457	
Total Equities	2,816,250	
Fixed Income		
Domestic		
Bradford & Marzec - Barclay's Capital Aggregate Index	332,008	6.39
Metropolitan West Asset Management - Barclay's Capital Aggregate Index	372,974	7.18
Neuberger Berman - Barclay's Capital Aggregate Index	380,244	7.32
Total Domestic Fixed Income	1,085,226	
International		
Bradford & Marzec - Barclay's Capital Aggregate Index	44,771	0.86
Metropolitan West Asset Management - Barclay's Capital Aggregate Index	5,056	0.10
Neuberger Berman - Barclay's Capital Aggregate Index	7,872	0.15
Total International Fixed Income	57,699	
Total Fixed Income	1,142,925	

(continued)



SUMMARY OF INVESTMENT ASSETS (CONTINUED)

	Fair Value (Dollar Amounts Expressed in Thousands)	Percentage of Total Cash & Investments
Real Estate		
AEW Value Investors II	3,627	0.07
UBS Realty Investors - Allegis Value Trust	16,030	0.31
BlackRock - Granite Property Fund	35,742	0.69
BlackRock - Separate Account	297,100	5.72
CBRE Global	85,843	1.65
Cornerstone Real Estate Advisors - Patriot Fund	57,243	1.10
Cornerstone Real Estate Advisors - Separate Account	167,600	3.23
Hines US Office Value Fund II	12,688	0.24
Other Commingled Trusts	8	0.00
Principal Global Investor	43,788	0.84
Urdang Securities Management	47,398	0.91
Total Real Estate	767,067	
Opportunities		
Blackstone Resources Select Offshore Fund	53,727	1.03
European Credit (Luxembourg) S.A.	49,087	0.94
Metropolitan West Asset Management TALF	21,362	0.41
Neuberger Berman Strategic Commodities Fund	34,463	0.66
PIMCO Distressed Debt Fund	42,552	0.82
PIMCO TALF	3,404	0.07
State Street Global Advisors - Real Asset Strategy	27,527	0.53
Stone Tower	32,879	0.63
Total Opportunities	265,001	
Futures Overlay		
State Street Global Advisors	174,949	3.37
Total Futures Overlay	174,949	
Total Investments at Fair Value	5,166,192	
Cash		
Cash (Unallocated)	8,802	0.17
Other Cash & Cash Equivalents	19,512	0.38
Total Cash & Investments	5,194,506	100.00%
Other Assets		
Receivables	132,859	
Other Assets	33,826	
Securities Lending Collateral	561,201	
Total Assets	5,922,392	
Liabilities		
Accounts Payable	30,253	
Investment Trades Payable	233,433	
Mortgages Payable	115,596	
Warrants Payable	947	
Securities Lending Liability	561,201	
Total Liabilities	941,430	
Net Assets Held in Trust for Pension Benefits	\$4,980,962	

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



SCHEDULE OF MANAGER FEES

For the Year Ended June 30, 2010
(Dollar Amounts Expressed in Thousands)

Manager

Domestic Equity

Alliance Bernstein LP	\$126
BlackRock - Equity Active Extension (130/30)	177
BlackRock - Enhanced Large Cap Core Index	147
Dalton, Greiner, Hartman, Maher	923
INTECH Investment	530
JP Morgan Asset Management	417
LSV Asset Management	99
M.A. Weatherbie	690
O'Shaughnessy Asset Management	71
Pzena Investment Management	282
State Street Global Advisors	10
Thompson Siegel & Walmsley	421
UBS Global Asset Management	161
Wedge Capital Management	472
Wells Capital Management	596
Total Domestic Equity	5,122

Hedge Fund of Funds

The Blackstone Group	1,328
Grosvenor Capital Management	1,183
Total Hedge Fund of Funds	2,511

International Equity

AXA Rosenberg Investment Management	111
Capital Guardian Trust Company	557
Capital International	1,784
INVESCO Institutional	1,091
LSV Asset Management	175
William Blair	563
Total International Equity	4,281

Fixed Income

Bradford & Marzec Global Fixed Income Management	838
Metropolitan West Asset Management	653
Neuberger Berman Fixed Income	204
Total Fixed Income	1,695

(continued)



SCHEDULE OF MANAGER FEES (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Real Estate

AEW Capital Management	133
BlackRock - Separate Account	1,516
BlackRock - Granite Property Fund	255
CBRE Global	840
Cornerstone Real Estate Advisors - Patriot Fund	554
Cornerstone Real Estate Advisors - Separate Account	1,059
Hines - U.S. Office Value Added Fund II	271
Principal Global Investors	143
UBS Realty Investors - Allegis Value Trust	123
Urdang Securities Management	406
Total Real Estate	5,300

Futures Overlay

State Street Global Advisors	286
Total Futures Overlay	286

Opportunities

Blackstone Resources Select Offshore Fund	555
European Credit Management	156
Neuberger Berman Strategic Commodities Fund	243
PIMCO Distressed Mortgage Fund	556
State Street Global Advisors - Russell 2000 Growth	28
State Street Global Advisors - Real Asset Strategy	40
Stone Tower Capital	276
Total Opportunities	1,854

Private Equity

Abbott Capital Private Equity Fund VI	497
Goldman Sachs Private Equity Partners X	750
HarbourVest International Private Equity Partners VI	85
HarbourVest Partners	492
Total Private Equity	1,824

Total Manager Fees

\$22,873



TEN LARGEST STOCK HOLDINGS (BY FAIR VALUE)

As of June 30, 2010

Rank	Shares	Security Name	Fair Value (in thousands)
1	406,085	Exxon Mobile Corp.	\$23,175
2	86,620	Apple Inc.	21,787
3	807,060	Microsoft Corp.	18,570
4	1,012,361	Bank of America Corp.	14,548
5	392,832	JP Morgan Chase & Co.	14,382
6	613,512	Cisco Systems Inc.	13,074
7	100,900	IBM	12,459
8	201,088	Johnson & Johnson	11,876
9	171,985	Chevron Corp.	11,671
10	179,722	Sanofi Aventis	10,904
Total of Ten Largest Stock Holdings			\$152,446

A complete list of the stock holdings is available.

TEN LARGEST BOND HOLDINGS (BY FAIR VALUE)

As of June 30, 2010

Rank	Par	Security Name	Interest Rate	Maturity	Fair Value (in thousands)
1	19,495,000	WI Treasury Sec	1.88%	6/30/2015	\$19,571
2	15,800,000	FNMA TBA Aug 30 Single Fam	5.50%	12/1/2099	16,906
3	15,800,000	FNMA TBA Aug 30 Single Fam	5.00%	12/1/2099	16,657
4	13,195,000	FNMA TBA Jul 30 Single Fam	4.50%	12/1/2099	13,675
5	12,260,000	WI Treasury N/B	3.38%	11/15/2019	12,698
6	12,125,000	GNMA I TBA Jul 30 Single Fam	4.50%	12/1/2099	12,629
7	9,235,068	FED HM LN PC Pool G01838	5.00%	7/1/2035	9,803
8	9,579,000	United States Treasury N/B	1.88%	4/30/2014	9,752
9	7,839,654	United States Treasury Bonds	1.75%	1/15/2028	7,952
10	7,230,000	United States Treasury Notes	4.75%	5/31/2012	7,804
Total of Ten Largest Bond Holdings					\$127,447

A complete list of the bond holdings is available.



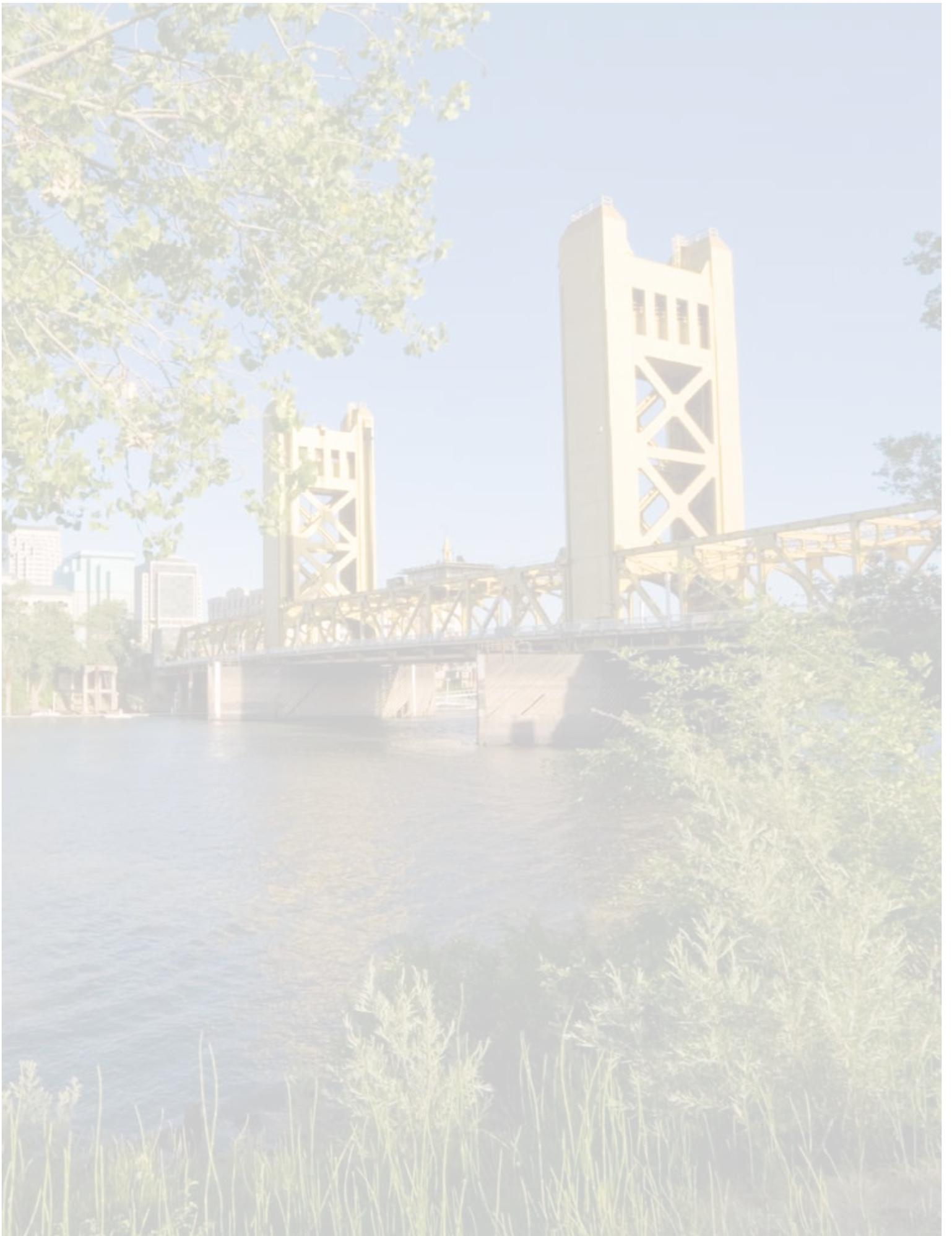
SCHEDULE OF EQUITY BROKERAGE COMMISSIONS

For the Year Ended June 30, 2010

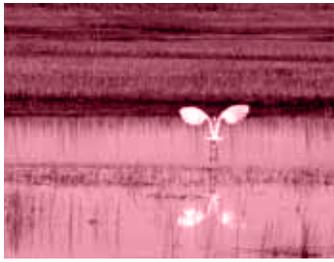
Brokerage Firm	Commission Per Share	Shares/Par Value	Total Commission	Total of Commission
J.P. Morgan Securities Inc.	\$0.036	3,004,118	\$109,341	4.66%
Goldman Sachs + Co.	0.012	8,491,612	104,705	4.47
Investment Technology Group Inc.	0.022	3,671,747	81,850	3.49
UBS Securities LLC	0.021	3,786,699	78,199	3.34
Broadcortcapital (Thru ML)	0.031	2,387,744	73,236	3.12
Barclays Capital LE	0.015	4,459,309	68,058	2.90
Credit Suisse Securities (USA) LLC	0.007	9,703,263	67,368	2.87
Deutsche Bank Securities Inc.	0.009	7,209,463	66,473	2.84
Liquidnet Inc.	0.023	2,634,806	59,792	2.55
Capital Institutional Svcs Inc. Equities	0.031	1,719,231	54,092	2.31
Credit Agricole Indosuez Cheuvreux	0.020	2,598,796	52,808	2.25
Credit Suisse Securities (Europe) LTD	0.029	1,446,082	41,495	1.77
Societe Generale London Branch	0.017	2,370,726	40,685	1.74
Weeden + Co.	0.016	2,441,411	39,125	1.67
State Street Global Markets	0.010	3,743,657	38,385	1.64
Merrill Lynch Pierce Fenner + Smith Inc.	0.015	2,495,487	36,930	1.58
Morgan Stanley Co. Incorporated	0.007	5,452,348	36,820	1.57
Electronic Specialist, LLC	0.036	922,689	33,221	1.42
Citation Group	0.037	882,728	32,895	1.40
Merrill Lynch International	0.007	4,638,279	32,554	1.39
State Street Global Markets, LLC	0.034	892,651	30,352	1.29
Citigroupglobal Markets Inc.	0.023	1,250,889	28,428	1.21
Macquari securities Limited	0.003	10,691,191	27,774	1.18
Morgan Stanley And Co. International	0.008	3,432,522	26,234	1.12
Merrill Lynch Peirce Fenner	0.002	10,177,864	24,988	1.06
RBC Capital Markets	0.032	751,822	24,342	1.04
J.P. Morgan Clearing Corp.	0.007	3,256,809	24,132	1.03
Nomura Securities International Inc.	0.010	2,427,074	24,066	1.03
Themis Trading LLC	0.040	583,233	23,329	1.00
All Other Brokerage Firms*	0.009	106,369,620	962,925	41.06
Total Brokerage Commissions	\$0.011	213,893,870	\$2,344,602	100.00%
Brokerage Commission Recapture			(105,472)	
Net Brokerage Commissions			\$2,239,130	

*This comprises approximately 308 additional firms, each receiving less than 1% of total commissions. A complete list of brokerage fees is available.





ACTUARIAL SECTION



ACTUARIAL CERTIFICATION LETTER



THE SEGAL COMPANY
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T 415.263.8200 F 415.263.8290 www.segalco.com

November 19, 2010

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

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

Dear Members of the Board:

The Segal Company prepared the June 30, 2010 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, it is our understanding that the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

As part of the June 30, 2010 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 actual investment return at market value and the expected investment return over a five-year period. Investment gains/losses established after July 1, 2008 will be recognized over a seven-year period and the deferred return is further adjusted, if necessary, so that the actuarial value of assets will stay within 30% of the market value of assets.

One of the general goals of an actuarial valuation is to establish contribution 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 payroll to amortize any unfunded actuarial accrued liability (UAAL). Actuarial gains and losses are incorporated into the UAAL and are amortized over the same period.

Benefits, Compensation and HR Consulting Offices throughout the United States and Canada



Founding Member of the Multinational Group of Actuaries and Consultants, a global affiliation of independent firms



Board of Retirement
 Sacramento County Employees' Retirement System
 November 19, 2010
 Page 2

The UAAL established as a result of the 2010 Early Retirement Incentive Program for the Sacramento County Law Enforcement Managers Association (LEMA) members is amortized as a level percentage of payroll over a 10-year period beginning June 30, 2010. The System's remaining UAAL as of June 30, 2010 is amortized as a level percentage of payroll over a 25-year period beginning June 30, 2010. The progress being made towards meeting the funding objective through June 30, 2010 is illustrated in the Schedule of Funding Progress.

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. Retirees and beneficiaries added to and removed from retiree payroll;
2. Solvency test; and
3. Schedule of retiree members by type of benefit.

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2007 Experience Analysis or in conjunction with the June 30, 2010 actuarial valuation. It is our opinion that the assumptions used in the June 30, 2010 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, 2010 and the assumptions adopted in that analysis will be used in the next valuation as of June 30, 2011.

In the June 30, 2010 valuation, the ratio of the valuation assets to actuarial accrued liabilities increased from 86.0% to 87.0%. The employer's rate has decreased from 22.38% of payroll to 21.87% of payroll, while the employee's rate has increased from 4.95% of payroll to 6.20% of payroll. The decrease in the employer's contribution rate and the increase in the employee's contribution rate can be explained primarily by the agreement of some employees represented by certain bargaining units to increase contributions from half rates to full rates.

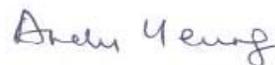
In the June 30, 2010 valuation, the actuarial value of assets included \$1,236.0 million in deferred investment losses, which represented 25% of the market value of assets. If these deferred investment losses were recognized immediately in the actuarial value of assets, the funded percentage would decrease from 87.0% to 70.5% and the aggregate employer contribution rate, expressed as a percent of payroll, would increase from 21.87% to 29.89%.

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

Sincerely,



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



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

MYM/hy
 Enclosures

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

The following assumptions and methods have been adopted by the Board for the June 30, 2010 valuation.

Assumptions:

Valuation Interest Rate and

Rate of Return on Investments: 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:

5-year Treasury rate, assuming sufficient net investment earnings

Post-Retirement Mortality:

- a) Service For Miscellaneous and Safety Members - 1994 Group Annuity Mortality Table set back one year
- b) Disability For Miscellaneous Members - 1981 Miscellaneous Disability Mortality Table set back three years
For Safety Members - 1994 Group Annuity Mortality Table set back one year
- c) Employee Contribution Rate For Miscellaneous Members - 1994 Group Annuity Mortality Table set back one year weighted 40% male and 60% female
For Safety Members - 1994 Group Annuity Mortality Table set back one year weighted 75% male and 25% female

Pre-Retirement Mortality:

Based upon the 6/30/2007 Experience Analysis

Withdrawal Rates:

Based upon the 6/30/2007 Experience Analysis

Disability Rates:

Based upon the 6/30/2007 Experience Analysis

Service Retirement Rates:

Based upon the 6/30/2007 Experience Analysis

Salary Increases:

Merit and longevity increases are based upon the 6/30/2007 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 up to June 30, 2008 is recognized over a five-year period. Unrecognized return established after July 1, 2008 is recognized over a seven-year period. The actuarial value is further adjusted, if necessary, to be within 30% of the market value.



SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Valuation Value of Assets:	Actuarial value of assets reduced by the value of non-valuation reserves and designations.
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 25-year period.
Percentage of Members Married at Retirement:	80% for male members and 55% for female members
Retirement Age for Deferred Vested Members:	Miscellaneous Members - 59 Safety Members - 54
Percentage Eligible for Reciprocal Benefits:	Miscellaneous Members - 55% Safety Members - 65%



SUMMARY OF PLAN PROVISIONS

Briefly summarized below are the major provisions of the County Employees' Retirement Law of 1937, as amended through June 30, 2010, that are applicable to the Sacramento County Employees' Retirement System.

Membership

Miscellaneous employees entering before September 27, 1981 are Tier 1 members. Miscellaneous employees entering after September 27, 1981 and June 27, 1993 are members of Tier 2 or Tier 3, respectively. Safety members entering before June 24, 1995 are Tier 1 members. Safety members entering after June 24, 1995 are Tier 2 members.

Final Average Salary

Final average salary ("FAS") 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

Upon separation from service, a member may elect to leave his or her contributions on deposit. If the member has five or more years of service, he or she may elect to receive a deferred benefit when eligible for retirement. If the member has less than five years of service, he or she may request return of contributions, plus interest, at any time.

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%



Disability Benefit

Members with five years of service, regardless of age, are eligible for nonservice-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 nonservice-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 an eligible spouse for life (married for at least one year prior to retirement).

Maximum Benefit

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

Cost-of-living

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



SUMMARY OF PLAN PROVISIONS (CONTINUED)

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*
6/30/2010	Miscellaneous	11,312	\$727,445	\$64.3	4.38%
	Safety	2,028	185,283	91.4	6.65
	Total	13,340	\$912,728	\$68.4	4.59%
6/30/2009	Miscellaneous	12,454	\$767,501	\$61.6	10.58%
	Safety	2,342	200,629	85.7	8.51
	Total	14,796	\$968,130	\$65.4	10.00%
6/30/2008	Miscellaneous	12,725	\$709,159	\$55.7	4.96%
	Safety	2,455	193,812	78.9	5.96
	Total	15,180	\$902,971	\$59.5	5.15%
6/30/2007	Miscellaneous	12,327	\$654,497	\$53.1	4.16%
	Safety	2,389	177,987	74.5	4.53
	Total	14,716	\$832,484	\$56.6	4.18%
6/30/2006	Miscellaneous	12,052	\$614,358	\$51.0	2.34%
	Safety	2,360	168,214	71.3	7.88
	Total	14,412	\$782,572	\$54.3	3.24%
6/30/2005	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.



**RETIRES 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)	Payroll Removed During Year (in thousands)	% Increase In Annual Retiree Payroll	Average Annual Allowance
6/30/2010	7,968	599	221	8,346	\$259,213	\$19,276	\$4,639	5.98%	\$31,058
6/30/2009	7,709	503	244	7,968	244,576	25,347	5,440	8.86	30,695
6/30/2008	7,464	490	245	7,709	224,669	22,527	4,745	8.60	29,144
6/30/2007	7,108	563	207	7,464	206,887	23,837	3,881	10.68	27,718
6/30/2006	6,784	509	185	7,108	186,931	18,698	3,212	9.03	26,299
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 (Dollar Amounts Expressed in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets* (a)	Actuarial Accrued of 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)
6/30/2010	\$6,216,994	\$7,145,726	\$928,732	87.0%	\$912,728	101.8%
6/30/2009	5,730,215	6,661,993	931,778	86.0	968,130	96.2
6/30/2008	5,930,758	6,363,355	432,597	93.2	902,971	47.9
6/30/2007	5,406,461	5,788,336	381,875	93.4	832,484	45.9
6/30/2006	4,848,953	5,214,915	365,962	93.0	782,572	46.8
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.

SOLVENCY TESTS (Dollar Amounts Expressed in Thousands)

Valuation Date	Active Member Contributions	Retired/Vested Members	Active Members (Employer Financed Portion)	Total	Actuarial Value of Assets	Active Member Contributions	Retired/Vested Members	Active Members (Employer Financed Portion)
6/30/2010	\$571,866	\$3,626,664	\$2,947,196	\$7,145,726	\$6,216,994	100%	100%	68%
6/30/2009	561,461	3,399,695	2,700,837	6,661,993	5,730,215	100	100	66
6/30/2008	551,181	3,150,635	2,661,539	6,363,355	5,930,758	100	100	84
6/30/2007	520,420	2,920,508	2,347,408	5,788,336	5,406,461	100	100	84
6/30/2006	509,257	2,615,466	2,090,192	5,214,915	4,848,953	100	100	82
6/30/2005	474,613	2,444,406	1,941,863	4,860,882	4,530,583	100	100	83

Events affecting year to year comparability:

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

6/30/06 - Employee contribution crediting rate is equal to 5-year Treasury rate, assuming sufficient net earnings.

6/30/07 - Investment return assumption increased from 7.75% to 7.875%.

- Salary increase assumption increased from 5.45% to 5.65%.

6/30/10 - Investment return assumption decreased from 7.875% to 7.75%

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE (Dollar Amounts Expressed in Millions)

	Plan Years Ended June 30					
	2010	2009	2008	2007	2006	2005
Prior Valuation Unfunded Actuarial Liability	\$932	\$433	\$382	\$366	\$330	\$314
Salary Increase Greater (Less) than Expected	(55)	42	55	68	12	(35)
Asset Return Less (Greater) than Expected	3	445	9	(93)	23	107
Plan Improvements	-	-	-	-	-	(2)
Other Experience	(59)	12	(13)	(15)	1	49
Economic and Non-Economic Assumption Changes	108	-	-	56	-	(103)
Receivable from Pension Obligation Bonds	-	-	-	-	-	-
Ending Unfunded Actuarial Accrued Liability	\$929	\$932	\$433	\$382	\$366	\$330



NEW PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT

Rate (%)				
Mortality				
Age	Miscellaneous		Safety	
	Male	Female	Male	Female
25	0.06%	0.03%	0.06%	0.03%
30	0.08	0.03	0.08	0.03
35	0.08	0.04	0.08	0.04
40	0.10	0.07	0.10	0.07
45	0.15	0.09	0.15	0.09
50	0.23	0.13	0.23	0.13
55	0.40	0.21	0.40	0.21
60	0.71	0.39	0.71	0.39
65	1.29	0.76	1.29	0.76

Note: All Miscellaneous pre-retirement deaths are assumed to be nonservice-connected. For Safety, 25% pre-retirement deaths are assumed to be nonservice-connected and the rest are assumed to be service-connected.

Rate (%)		
Disability		
Age	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	0.10	0.56
45	0.17	0.72
50	0.26	0.92
55	0.42	1.90
60	0.80	0.00

(1) 20% of Miscellaneous disabilities are assumed to be service-connected disabilities. The other 80% are assumed to be nonservice-connected disabilities.

(2) 80% of Safety disabilities are assumed to be service-connected disabilities. The other 20% are assumed to be nonservice-connected disabilities.

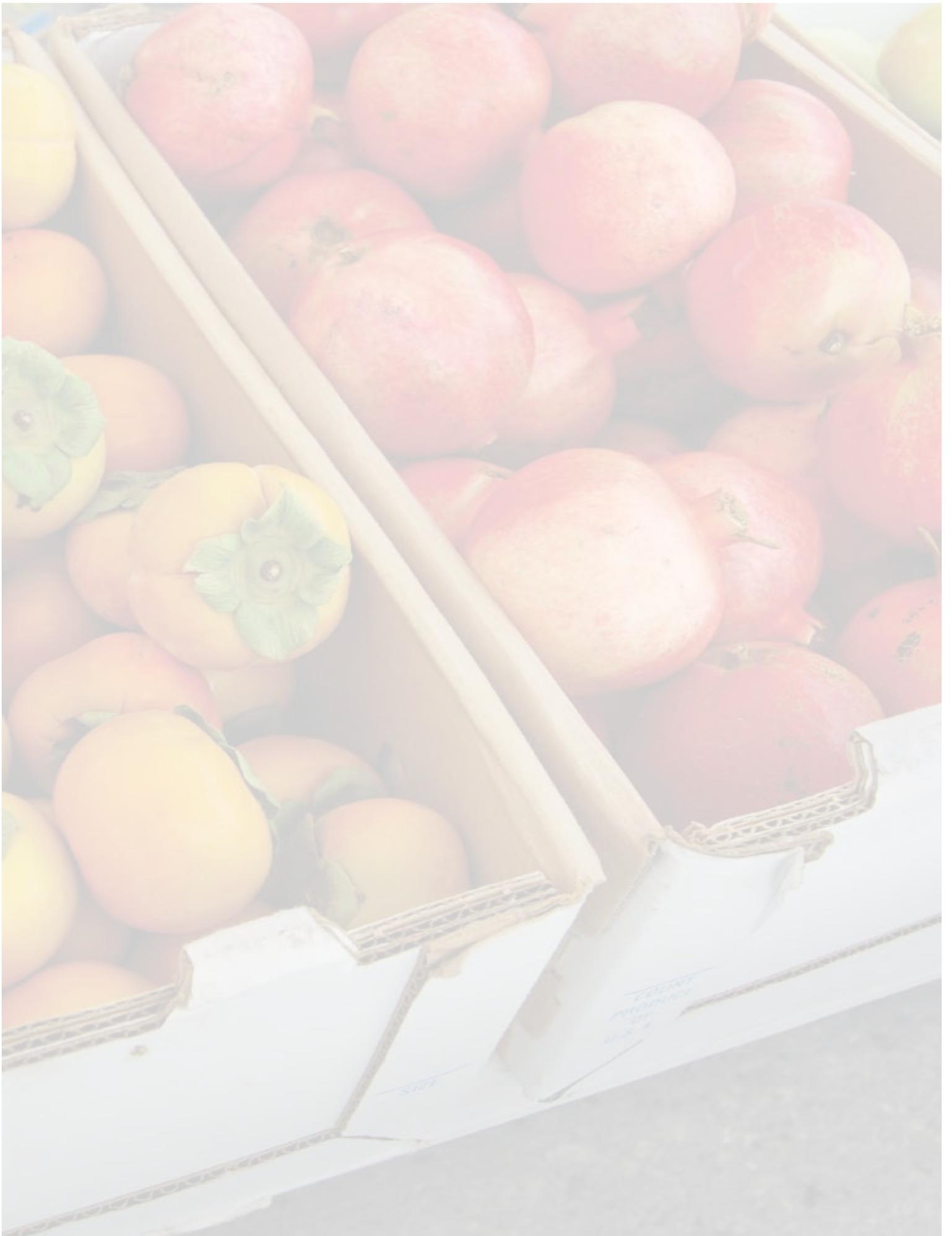


NEW PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT (CONTINUED)

Rate (%)		
Withdrawal (<5 Years of Service)		
Years of Service	Miscellaneous	Safety
0	15.00%	10.00%
1	9.00	6.00
2	8.00	5.00
3	6.00	4.00
4	5.00	3.00

Withdrawal (5+ Years of Service)*		
Age	Miscellaneous	Safety
20	5.10%	3.00%
25	4.85	3.00
30	4.60	3.00
35	4.35	2.70
40	3.80	2.20
45	2.90	1.70
50	2.02	0.00
55	1.58	0.00
60	0.00	0.00

*50% of the Miscellaneous members and 40% of the Safety members are assumed to elect a withdrawal of contributions upon separation, while the remaining 50% and 60% of Miscellaneous and Safety members, respectively, are assumed to elect a deferred retirement benefit. No withdrawal is assumed after a member is eligible to retire.



STATISTICAL SECTION



SUMMARY OF STATISTICAL DATA

Issued in May 2004, pronouncement *GASB Statement No. 44, Economic Conditioning Reporting: The Statistical Section* establishes and modifies requirements related to the supplementary information presented in this section of the report.

The pension trust fund is accounted for under the accrual basis of accounting. Information is provided for the last ten years ended June 30, 2010 for the following five objectives: financial trends; revenue capacity; debt capacity; demographic and economic; and operating.

Financial trends are presented on pages 91 to 95. The schedules contain trend information to aid in understanding how the System's financial performance has changed over time.

Revenue capacity is presented on pages 91, 93, and 94. The schedules contain information regarding the contribution rate history for the last ten years.

Demographic and economic information is presented on pages 96 to 100. These schedules offer demographic and economic indicators to enhance understanding of the environment within which the System's financial activities take place. The schedules show the average monthly benefit payments followed by the System membership.

Operating information is presented on pages 101 and 102. These schedules contain pension plan data to assist in understanding how the information in the financial report relates to the pension plan the System administers. This section includes the schedules of principal participating employers and active members.



SCHEDULE OF ADDITIONS BY SOURCE

(Dollar Amounts Expressed in Thousands)

Year Ended June 30:	Member Contributions	Employer Contributions	Net Investment Income / (Loss)	Total
2010	\$52,413	\$167,142	\$617,481	\$837,036
2009	54,623	177,011	(1,318,447)	(1,086,813)
2008	52,142	167,055	(234,795)	(15,598)
2007	42,871	156,805	891,506	1,091,182
2006	41,959	132,708	527,863	702,530
2005	36,916	529,618*	419,481	986,015
2004	42,864	119,144	525,239	687,247
2003	43,700	52,841	100,839	197,380
2002	38,432	44,547	(194,104)	(111,125)
2001	32,964	40,358	(207,580)	(134,258)

Source: Audited Financial Statements from June 30, 2001 through 2010

*This total includes \$420,000 and \$10,535 in proceeds from pension obligation bonds ("POB") issued by the County of Sacramento and Sacramento Metropolitan Fire District, respectively.

SCHEDULE OF DEDUCTIONS BY TYPE

(Dollar Amounts Expressed in Thousands)

Year Ended June 30:	Benefits Paid						Total
	Service	Survivor Benefits	Retiree Death Benefits	Health and Dental Benefits	Administrative And Other Expenses	Withdrawals	
2010	\$250,553	\$1,993	\$546	\$-	\$5,908	\$4,932	\$263,932
2009	230,005	1,749	622	-	5,980	3,302	241,658
2008	212,406	1,865	621	-	5,866	3,177	223,935
2007	193,823	1,681	492	1	5,818	4,434	206,249
2006	176,199	1,608	553	2	5,061	4,622	188,045
2005	160,439	1,545	525	2	5,262	3,463	171,236
2004	139,008	1,817	629	12,311	6,653	3,990	164,408
2003	110,326	1,482	441	10,866	31,767	2,906	157,788
2002	102,555	1,274	524	9,111	5,485	3,517	122,466
2001	95,526	1,229	561	8,072	3,831	3,611	112,830

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 a litigation settlement.

Source: Audited Financial Statements from June 30, 2001 through 2010





SCHEDULE OF ADMINISTRATIVE EXPENSES

For the Year Ended June 30

(Dollar Amounts Expressed in Thousands)

Type of Expenses	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Salaries and Benefits	\$3,215	\$3,184	\$3,130	\$3,352	\$2,718	\$2,734	\$2,663	\$2,416	\$2,077	\$1,818
Professional Fees	719	842	942	629	808	440	583	578	420	433
Equipment Purchases and Maintenance	29	62	41	85	70	73	89	198	314	242
Rent and Lease Expense	576	603	571	648	612	596	596	560	416	204
Depreciation Expense	5	5	5	5	3	27	14	18	42	42
Other Administrative Expenses	1,364	1,284	1,177	1,099	850	1,392	1,901	2,127	2,216	1,092
Total	<u>\$5,908</u>	<u>\$5,980</u>	<u>\$5,866</u>	<u>\$5,818</u>	<u>\$5,061</u>	<u>\$5,262</u>	<u>\$5,846</u>	<u>\$5,897</u>	<u>\$5,485</u>	<u>\$3,831</u>

Note: For the years ended June 30, 2004 and 2003, this schedule does not include retroactive benefits of \$807 and \$25,870, respectively, related to a litigation settlement.

Source: Audited Financial Statements from June 30, 2001 through 2010

SCHEDULE OF CHANGES IN NET ASSETS

For the Last Ten Fiscal Years Ended June 30
(Dollar Amounts Expressed in Thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Employee contributions	\$52,413	\$54,623	\$52,142	\$42,871	\$41,959	\$36,916	\$42,864	\$43,700	\$38,432	\$32,964
Employer contributions	167,142	177,011	167,055	156,805	132,708	529,618	119,144	52,841	44,547	40,358
Net investment income/(loss)	617,481	(1,318,447)	(234,795)	891,506	527,863	419,481	525,239	100,839	(194,104)	(207,580)
Total additions	837,036	(1,086,813)	(15,598)	1,091,182	702,530	986,015	687,247	197,380	(111,125)	(134,258)
Benefits paid	253,092	232,376	214,892	195,997	178,362	162,511	153,765	123,115	113,464	105,387
Withdrawals	4,932	3,302	3,177	4,434	4,622	3,463	3,990	2,906	3,517	3,611
Administrative and other expenses	5,908	5,980	5,866	5,818	5,061	5,262	6,653	31,767	5,485	3,831
Total deductions	263,932	241,658	223,935	206,249	188,045	171,236	164,408	157,788	122,466	112,829
Change in net assets	573,104	(1,328,471)	(239,533)	884,933	514,485	814,779	522,839	39,592	(233,591)	(247,087)
Net assets, beginning	4,407,858	5,736,329	5,975,862	5,090,929	4,576,444	3,761,665	3,238,826	3,199,234	3,432,826	3,679,913
Net assets, ending	\$4,980,962	\$4,407,858	\$5,736,329	\$5,975,862	\$5,090,929	\$4,576,444	\$3,761,665	\$3,238,826	\$3,199,234	\$3,432,826

Source: Audited Financial Statements from June 30, 2001 through 2010



SCHEDULE OF EMPLOYER CONTRIBUTION RATES

Actuarial Report for Year Ended	COUNTY and COURT					SPECIAL DISTRICTS		
	Miscellaneous			Safety		Miscellaneous	Safety	
	Tier 1	Tier 2	Tier 3	Tier 1	Tier 2	Tier 1	Tier 3	Tier 1
6/30/2010	18.11%	15.63%	18.49%	36.91%	32.88%	24.45%	24.94%	56.30%
6/30/2009	18.15	15.75	18.60	38.95	34.66	24.58	25.26	49.86
6/30/2008	15.46	13.07	15.88	33.65	29.53	22.08	22.57	39.25
6/30/2007	15.04	12.58	15.43	34.71	30.61	21.98	22.41	41.15
6/30/2006	15.89	12.95	15.73	36.01	31.67	22.26	22.13	41.94
6/30/2005	16.10	13.14	15.88	35.18	30.84	22.78	22.56	39.71
6/30/2004*	15.29	11.49	13.94	33.23	28.57	20.87	19.56	38.19
6/30/2003*	13.49	9.16	11.32	24.39	20.24	18.84	16.73	30.72
6/30/2002	15.84	11.47	13.85	31.69	26.31	17.89	18.20	30.89
6/30/2001	6.86	3.41	5.26	16.04	11.96	17.54	15.90	23.12

Source: Actuarial Reports from June 30, 2001 though 2010

Note: Actuarial Valuation Reports are prepared subsequent to a fiscal year-end and determine rates which pertain to the following fiscal year. For example, the Actuarial Valuation as of June 30, 2010 presented current rates for the fiscal year 2010-2011 and was used to determine rates for the fiscal year 2011-2012.

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



SCHEDULE OF BENEFITS PAID AND WITHDRAWALS BY TYPE

For the Last Ten Fiscal Years Ended June 30
(Dollar Amounts Expressed in Thousands)

Type of Benefit	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Service Retirement Benefits	\$250,192	\$229,659	\$212,061	\$193,376	\$175,745	\$160,154	\$138,907	\$110,243	\$102,301	\$95,182
Survivor Benefits	1,993	1,749	1,865	1,681	1,608	1,545	1,817	1,482	1,274	1,229
Death Benefits-Before Retirement	361	346	345	447	454	285	101	83	254	343
Death Benefits-After Retirement	546	622	621	492	553	525	629	441	524	561
Retiree Health and Dental Insurance	-	-	-	1	2	2	12,311	10,866	9,111	8,072
Total Benefits Paid	\$253,092	\$232,376	\$214,892	\$195,997	\$178,362	\$162,511	\$153,765	\$123,115	\$113,464	\$105,387
Type of Withdrawal										
Death	\$526	\$601	\$111	\$725	\$715	\$411	\$738	\$110	\$623	N/A
Separation	4,303	2,550	2,940	3,492	3,409	2,802	2,878	2,423	2,667	N/A
Miscellaneous	103	151	126	217	498	250	374	373	227	N/A
Total Withdrawals	\$4,932	\$3,302	\$3,177	\$4,434	\$4,622	\$3,463	\$3,990	\$2,906	\$3,517	\$3,611

N/A: Type of withdrawal is not available.

Source: Audited Financial Statements from June 30, 2001 through 2010



SCHEDULE OF DISTRIBUTION OF RETIRED MEMBERS AND BENEFICIARIES BY TYPE AND BY MONTHLY AMOUNT

As of June 30, 2010

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement*																	Option Selected**		
		1	2	3	4	5	6	7	8	9	10	11	12	13	17	Unmodified	1	2	3	4	
\$1 - \$499	854	625	23	2	5	5	91	27	23	-	25	-	24	-	4	642	64	124	9	15	
500 - 999	1,242	812	54	16	-	1	149	76	76	2	24	3	25	1	3	1,012	98	104	8	20	
1,000 - 1,499	1,215	866	77	27	14	6	109	32	43	1	11	3	20	6	-	1,039	55	102	14	5	
1,500 - 1,999	971	706	56	22	42	13	76	19	8	9	9	-	9	2	-	828	58	76	5	4	
2,000 - 2,499	800	639	8	6	41	11	56	6	5	12	5	-	8	3	-	699	36	50	5	10	
2,500 - 2,999	651	497	10	4	38	30	46	3	1	8	3	-	5	6	-	578	25	39	3	6	
3,000 - 3,499	514	380	1	-	50	32	28	-	-	15	-	-	1	7	-	460	25	27	-	2	
3,500 - 3,999	401	327	-	1	22	11	18	2	-	11	1	-	3	5	-	362	11	19	2	7	
4,000 - 4,499	341	310	2	1	6	5	8	1	-	4	1	-	1	2	-	320	8	12	-	1	
4,500 - 4,999	260	232	1	-	11	3	6	-	-	4	2	-	-	1	-	235	5	12	6	2	
5,000 & over	1,097	1,040	3	6	23	6	11	1	1	4	1	-	1	-	-	1,014	26	44	6	7	
Total	8,346	6,434	235	85	252	123	598	167	157	70	82	6	97	33	7	7,189	411	609	58	79	

* Type of Retirement:

- 1 Service Retirement
- 2 Nonservice-Connected Disability, age 55 and older
- 3 Nonservice-Connected Disability, under age 55
- 4 Service-Connected Disability, age 55 and older
- 5 Service-Connected Disability, under age 55
- 6 Beneficiary of Service Retiree
- 7 Survivor Death Benefits
- 8 Beneficiary of Nonservice-Connected Disability Retiree
- 9 Beneficiary of Service-Connected Disability Retiree
- 10 Divorce-Receiving Benefits
- 11 Interim Nonservice-Connected Disability Retirement
- 12 Non-Member Receiving Benefits
- 13 Survivor Death Benefits-SCD
- 14 Beneficiary of SDB
- 15 Beneficiary of SDB-SCD
- 16 Beneficiary of Non-Member
- 17 Beneficiary of Divorce-Receiving

Source: SCERS Retired Member Pension Payroll Data

** Option Selected:

Unmodified: Qualified service retirement or nonservice-connected disability retirement beneficiary receives 60 percent continuance. Qualified service-connected disability retirement beneficiary receives 100 percent continuance.

The following options reduce the retired member's monthly benefit:

- Option 1 - Beneficiary receives lump sum or member's unused contributions.
- Option 2 - Beneficiary having an insurable interest in member's life receives 100 percent of member's reduced monthly benefit.
- Option 3 - Beneficiary having an insurable interest in member's life receives 50 percent of member's reduced monthly benefit.
- Option 4 - Benefits paid to person having an insurable interest in member's life as nominated by member's written designation.



SCHEDULE OF RETIREE MEMBERS BY TYPE OF BENEFIT

As of June 30, 2010

Miscellaneous Members

	Monthly Allowances				Average Benefit
	Count	Basic	COL	Total	
Service Retirement					
Unmodified	4,513	\$8,606,163	\$2,111,891	\$10,718,054	\$2,375
Option 1	309	402,235	116,193	518,428	1,678
Option 2, 3, & 4	<u>479</u>	<u>781,342</u>	<u>124,651</u>	<u>905,993</u>	<u>1,891</u>
Total	5,301	9,789,740	2,352,735	12,142,475	2,291
Non-Service Disability					
Unmodified	265	243,518	105,546	349,064	1,317
Option 1	23	17,312	7,961	25,273	1,099
Option 2, 3, & 4	<u>12</u>	<u>9,272</u>	<u>2,261</u>	<u>11,533</u>	<u>961</u>
Total	300	270,102	115,768	385,870	1,286
Service Disability					
Unmodified	152	203,167	130,716	333,883	2,197
Option 1	7	10,623	4,385	15,008	2,144
Option 2, 3, & 4	<u>4</u>	<u>4,434</u>	<u>1,673</u>	<u>6,107</u>	<u>1,527</u>
Total	163	218,224	136,774	354,998	2,178
Beneficiary					
Total	<u>943</u>	<u>629,369</u>	<u>502,363</u>	<u>1,131,732</u>	<u>1,200</u>
Total (All Groups)	<u><u>6,707</u></u>	<u><u>\$10,907,435</u></u>	<u><u>\$3,107,640</u></u>	<u><u>\$14,015,075</u></u>	<u><u>\$2,090</u></u>

Safety Members

	Monthly Allowances				Average Benefit
	Count	Basic	COL	Total	
Service Retirement					
Unmodified	1,040	\$4,570,450	\$1,069,932	\$5,640,382	\$5,423
Option 1	31	106,152	29,708	135,860	4,383
Option 2, 3, & 4	<u>62</u>	<u>250,283</u>	<u>38,681</u>	<u>288,964</u>	<u>4,661</u>
Total	1,133	4,926,885	1,138,321	6,065,206	5,353
Non-Service Disability					
Unmodified	26	66,964	21,007	87,971	3,384
Option 1	2	5,648	796	6,444	3,222
Option 2, 3, & 4	<u>1</u>	<u>1,512</u>	<u>779</u>	<u>2,291</u>	<u>2,291</u>
Total	29	74,124	22,582	96,706	3,335
Service Disability					
Unmodified	193	482,498	229,081	711,579	3,687
Option 1	10	21,743	9,465	31,208	3,121
Option 2, 3, & 4	<u>6</u>	<u>11,921</u>	<u>4,604</u>	<u>16,525</u>	<u>2,754</u>
Total	209	516,162	243,150	759,312	3,633
Beneficiary					
Total	<u>268</u>	<u>410,965</u>	<u>253,781</u>	<u>664,746</u>	<u>2,480</u>
Total (All Groups)	<u><u>1,639</u></u>	<u><u>\$5,928,136</u></u>	<u><u>\$1,657,834</u></u>	<u><u>\$7,585,970</u></u>	<u><u>\$4,628</u></u>

Source: Actuarial Report as of June 30, 2010

Note: Refer to page 96 for the description of retirement options

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

For the Last Ten Fiscal Years

Retirement Effective Date	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
7/1/09 - 6/30/10							
Average monthly benefit	\$422	\$992	\$1,623	\$2,501	\$3,239	\$4,789	\$5,714
Average monthly final average salary	\$6,582	\$5,306	\$5,549	\$6,071	\$6,022	\$7,278	\$6,930
Number of retired members	30	69	87	78	75	65	75
7/1/08 - 6/30/09							
Average monthly benefit	\$462	\$900	\$1,727	\$2,232	\$4,074	\$6,298	\$7,227
Average monthly final average salary	\$6,968	\$5,425	\$5,697	\$5,397	\$6,893	\$8,437	\$8,369
Number of retired members	14	52	68	60	58	58	66
7/1/07 - 6/30/08							
Average monthly benefit	\$359	\$977	\$1,626	\$2,202	\$3,151	\$5,729	\$6,171
Average monthly final average salary	\$5,974	\$5,428	\$5,467	\$5,874	\$5,729	\$7,992	\$7,685
Number of retired members	25	35	75	56	53	44	52
7/1/06 - 6/30/07							
Average monthly benefit	\$512	\$874	\$1,536	\$2,341	\$3,228	\$4,756	\$5,652
Average monthly final average salary	\$6,856	\$4,747	\$5,220	\$5,331	\$5,884	\$6,508	\$6,868
Number of retired members	27	55	83	71	74	69	86
7/1/05 - 6/30/06							
Average monthly benefit	\$381	\$917	\$1,409	\$2,029	\$2,838	\$4,561	\$4,858
Average monthly final average salary	\$5,824	\$5,345	\$4,933	\$5,069	\$5,415	\$6,500	\$6,150
Number of retired members	25	45	63	73	64	62	83
7/1/04 - 6/30/05							
Average monthly benefit	\$349	\$949	\$1,220	\$1,800	\$2,585	\$4,010	\$4,871
Average monthly final average salary	\$5,725	\$4,960	\$4,361	\$4,662	\$4,832	\$5,732	\$5,816
Number of retired members	36	43	90	83	96	84	123
7/1/03 - 6/30/04							
Average monthly benefit	\$437	\$993	\$1,368	\$1,992	\$2,893	\$4,136	\$5,520
Average monthly final average salary	\$5,089	\$4,719	\$4,658	\$4,686	\$5,211	\$5,834	\$6,330
Number of retired members	22	45	98	90	85	127	278
7/1/02 - 6/30/03							
Average monthly benefit	\$488	\$678	\$1,292	\$1,609	\$2,033	\$3,076	\$4,519
Average monthly final average salary	\$5,543	\$4,091	\$4,505	\$4,252	\$4,627	\$5,859	\$6,214
Number of retired members	23	25	52	47	33	19	51
7/1/01 - 6/30/02							
Average monthly benefit	\$311	\$768	\$1,148	\$1,449	\$2,227	\$3,702	\$4,101
Average monthly final average salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of retired members	17	31	61	42	38	24	54
7/1/00 - 6/30/01							
Average monthly benefit	\$402	\$680	\$1,007	\$1,487	\$2,337	\$2,939	\$3,513
Average monthly final average salary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of retired members	23	28	61	31	30	30	34

N/A: Detail not available

Source: SCERS Retired Member Pension Payroll Data



SCHEDULE OF AVERAGE BENEFIT PAYMENTS

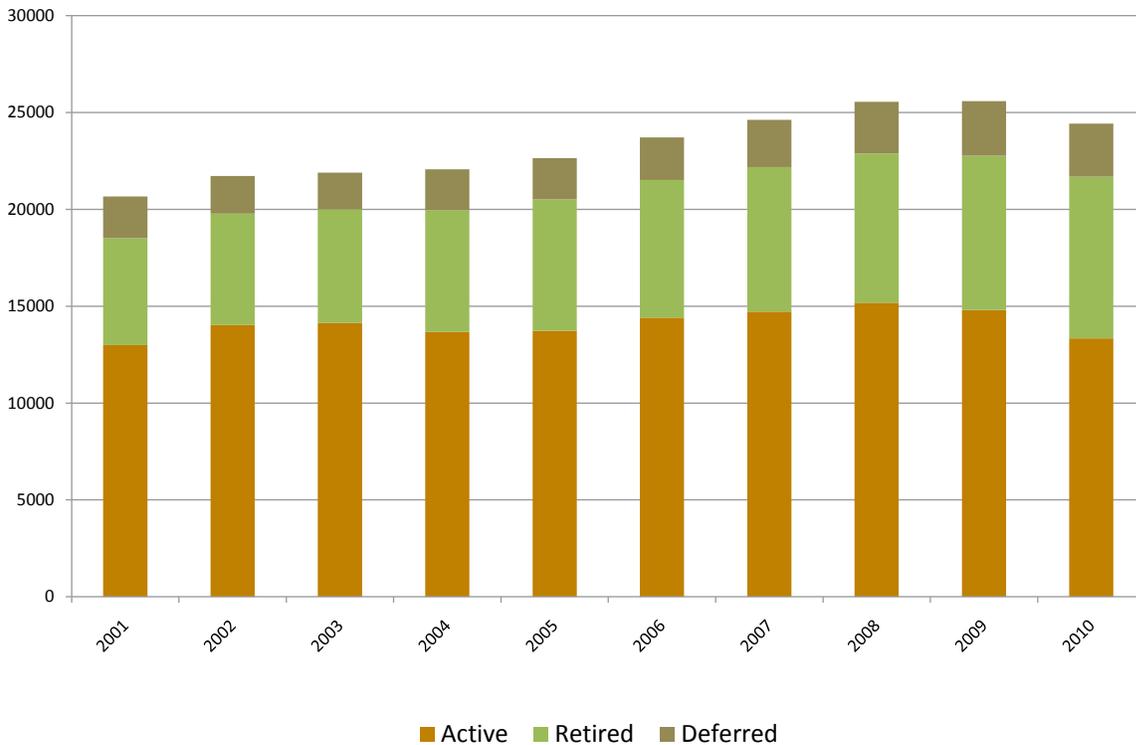
As Of	Years Since Retirement						
	0-5	5-10	10-15	15-20	20-25	25-30	30 +
6/30/10:							
Average monthly benefit	\$3,150	\$3,022	\$2,343	\$2,318	\$1,911	\$1,704	\$1,351
Number of retired members	2,206	2,019	1,360	1,058	744	547	412
6/30/09:							
Average monthly benefit	\$3,133	\$2,886	\$2,309	\$2,322	\$1,884	\$1,590	\$1,276
Number of retired members	2,247	1,787	1,299	1,012	726	527	370
6/30/08:							
Average monthly benefit	\$3,197	\$2,199	\$2,214	\$2,250	\$1,751	\$1,501	\$1,226
Number of retired members	2,582	1,373	1,207	997	730	509	311
6/30/07:							
Average monthly benefit	\$3,041	\$2,133	\$2,237	\$1,948	\$1,636	\$1,449	\$1,120
Number of retired members	2,458	1,383	1,226	930	709	495	263
6/30/06:							
Average monthly benefit	\$2,871	\$2,105	\$2,165	\$1,749	\$1,576	\$1,393	\$1,049
Number of retired members	2,232	1,365	1,199	921	692	468	231
6/30/05:							
Average monthly benefit	\$2,806	\$2,095	\$2,129	\$1,736	\$1,509	\$1,281	\$1,007
Number of retired members	1,927	1,402	1,181	913	675	453	233
6/30/04:							
Average monthly benefit	\$2,574	\$2,090	\$2,056	\$1,693	\$1,392	\$1,187	\$918
Number of retired members	1,793	1,353	1,090	834	650	400	171
6/30/03:							
Average monthly benefit	\$1,842	\$1,854	\$1,839	\$1,463	\$1,207	\$972	\$819
Number of retired members	1,447	1,312	1,117	849	664	348	145
6/30/02:							
Average monthly benefit	\$1,804	\$1,865	\$1,614	\$1,376	\$1,121	\$859	\$834
Number of retired members	1,494	1,327	1,024	823	650	324	100
6/30/01:							
Average monthly benefit	\$1,758	\$1,779	\$1,439	\$1,269	\$1,047	\$776	\$770
Number of retired members	1,433	1,287	1,002	815	610	308	71

Source: Actuarial Report from June 30, 2001 through 2010

GROWTH OF SYSTEM MEMBERSHIP

Year Ended June 30:	Active Members	Retired Members	Deferred Members	Total
2010	13,340	8,346	2,740	24,426
2009	14,796	7,968	2,818	25,582
2008	15,180	7,709	2,661	25,550
2007	14,716	7,464	2,437	24,617
2006	14,412	7,108	2,192	23,712
2005	13,728	6,784	2,135	22,647
2004	13,672	6,291	2,110	22,073
2003	14,133	5,882	1,885	21,900
2002	14,033	5,742	1,944	21,719
2001	12,991	5,526	2,146	20,663

SYSTEM MEMBERSHIP AT A GLANCE



Source: Actuarial Reports from June 30, 2001 through 2010



SCHEDULE OF PRINCIPAL PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS

Current Fiscal Year and Nine Fiscal Years Ago

Participating Employer	2010			2001		
	Covered Employees	Rank	Percent of Total System	Covered Employees	Rank	Percent of Total System
County of Sacramento	11,889	1	89.12%	12,373	1	95.24%
Superior Court	765	2	5.73	-	13	0.00
S.E.T.A.	584	3	4.38	520	2	4.00
Carmichael Recreation and Park District	26	4	0.20	20	4	0.15
Sunrise Recreation and Park District	26	4	0.20	29	3	0.22
Orangevale Recreation and Park District	16	6	0.12	14	5	0.11
Mission Oaks Recreation and Park District	14	7	0.10	13	6	0.10
Elected Officials*	8	8	0.06	8	7	0.06
Fair Oaks Cemetery District	4	9	0.03	3	9	0.02
Sacramento Metropolitan Fire District	3	10	0.02	7	8	0.05
Elk Grove Cosumnes Cemetery District	3	10	0.02	1	11	0.01
Galt-Arno Cemetery District	1	12	0.01	2	9	0.02
U.C. Davis Medical Center	1	12	0.01	1	11	0.01
Total	13,340		100.00%	12,991		100.00%

*Elected Officials - consisted of Board of Supervisors (5), Assessor (1), District Attorney (1), and Sheriff (1).

Source: Actuarial Reports from June 30, 2010, and June 30, 2001

SCHEDULE OF PRINCIPAL PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS

For the Last Ten Fiscal Years Ended June 30

SCERS Member Agency	Plan	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Carmichael Recreation and Park District	Misc.	26	29	24	27	15	17	18	20	18	20
Elk Grove Cosumnes Cemetery District	Misc.	3	4	3	4	5	4	4	1	1	1
Fair Oaks Cemetery District	Misc.	4	4	4	5	5	5	5	5	3	3
Galt-Arno Cemetery District	Misc.	1	3	3	3	3	3	3	3	3	2
Mission Oaks Recreation and Park District	Misc.	14	13	13	12	11	10	12	13	13	13
Orangevale Recreation and Park District	Misc.	16	17	12	15	14	15	16	14	14	14
Sacramento Metropolitan Fire District	Safety	3	4	6	6	6	7	7	7	7	7
S.E.T.A.	Misc.	584	604	597	598	562	544	549	513	520	520
Sunrise Recreation and Park District	Misc.	26	28	28	24	29	28	26	27	29	29
U.C. Davis Medical Center	Misc.	1	1	1	1	1	1	1	1	1	1
Elected Officials*	Misc.	7	7	7	7	7	7	7	7	7	7
Elected Officials*	Safety	1	1	1	1	1	1	1	1	1	1
Total Special District Members	Misc.	682	710	692	696	652	634	641	604	608	610
Safety		4	5	7	7	7	8	8	8	8	8
Superior Court Members	Misc.	765	807	843	814	-	-	-	-	-	-
Sacramento County Members	Misc.	9,865	10,937	11,190	10,817	11,400	10,744	10,743	11,092	11,010	10,171
Safety		2,024	2,337	2,448	2,382	2,353	2,342	2,280	2,429	2,407	2,202
Total Members	Misc.	11,312	12,454	12,725	12,327	12,052	11,378	11,384	11,696	11,618	10,781
Safety		2,028	2,342	2,455	2,389	2,360	2,350	2,288	2,437	2,415	2,210
Total		13,340	14,796	15,180	14,716	14,412	13,728	13,672	14,133	14,033	12,991

*Elected Officials - consisted of Board of Supervisors (5), Assessor (1), District Attorney (1), who were miscellaneous members, and one Sheriff who was a safety member.

Source: Actuarial Reports from June 30, 2001 through 2010





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EMPLOYEES'
RETIREMENT SYSTEM

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