COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2008

Santa Barbara County Employees' Retirement System

A Pension Trust Fund for the County of Santa Barbara, California

Santa Barbara County Employees' Retirement System

Comprehensive Annual Financial Report

For Fiscal Years Ended June 30, 2008 and 2007

Issued by -
Oscar Peters, Retirement Administrator
Ramona DeWitte, Financial Accounting Analyst

SBCERS

3916 State Street, Suite 210 | Santa Barbara, CA 93105
805.568.2940 | www.countyofsb.org/sbcers

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MISSION

Santa Barbara County Employees' Retirement System
is committed to:

- *Fulfilling its fiduciary responsibility by providing the highest quality of service to all members and plan sponsors and*
- *Protecting promised benefits through prudent investing while*
- *Ensuring reasonable expenses of administration.*

1 Introduction

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SBCERS
Santa Barbara County Employees' Retirement System

Oscar Peters Retirement Administrator

October 31, 2008

Board of Retirement
Santa Barbara County Employees' Retirement System
3916 State Street, Suite 210
Santa Barbara, CA 93105

Dear Board Members,

I am pleased to submit this *Comprehensive Annual Financial Report (CAFR) of the Santa Barbara County Employees' Retirement System (SBCERS) for Fiscal Years Ended June 30, 2008 and June 30, 2007.* This report is intended to provide readers with complete and reliable information about the SBCERS' financial status, compliance with the law, and administrative consistency with policy.

For the first time in five years, the performance of the investment portfolio did not exceed the assumed rate of return. The fund experienced a market rate of return of negative (7.4%), trailing its policy benchmark return of negative (5.6%) for the year ending June 30, 2008. Both the domestic and international equity portfolios underperformed the benchmark indices while the fixed income, private equity, real estate and real return all outperformed their reference benchmarks. Despite the fact that all markets declined, the weightings of the equity portfolios caused the loss to be more significant.

While the investment returns for 2008 were disappointing, the System remains well funded and well positioned. After the fiscal year closed, the County and other agencies participating in the System established a 401(h) Retiree Health Benefits Plan, resulting in a re-characterization of $84 million of assets as valuation assets for the retirement plan. As a result, the participating agencies are responsible for funding retired health benefits. For the year ended 2008, SBCERS has an actuarial funding of 88.6%.

I encourage you to review the narrative introduction, overview and analysis located in Management's Discussion and Analysis beginning on page 14.

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

Responsibility for both accuracy of the data and the completeness and fairness of the presentation rests with SBCERS' management. It is our intent and belief that 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.

3916 State Street Suite 210 • Santa Barbara, California 93105 • Phone 805-568-2940 • Fax 805-560-1086
2400 Professional Pkwy Suite 150 • Santa Maria, California 93455 • Phone 805-739-8686 • Fax 805-739-8689

SBCERS AND ITS SERVICES

SBCERS was established on January 1, 1944, and is administered by the Board of Retirement to provide service retirement, disability, death, and survivor benefits for its employees and contracting districts under the California State Government Code §31450 et seq., (County Employees' Retirement Law of 1937). Members include all permanent full and part-time employees of the County of Santa Barbara, the Santa Barbara County Courts, and the following nine districts:

- Carpinteria Cemetery District
- Carpinteria-Summerland Fire Protection District
- Goleta Cemetery District
- Mosquito & Vector Management District of Santa Barbara County
- Oak Hill Cemetery District
- Santa Barbara County Air Pollution Control District
- Santa Barbara County Association of Governments
- Santa Maria Cemetery District
- Summerland Sanitary District

The Board of Retirement is responsible for establishing policies governing the administration of the retirement plan and managing the investment of the System's assets under authority granted by Article XVI of the Constitution of the State of California.

Article XVI, Section 17(a) provides that the Retirement Board has "the sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries." Section 17(b) further provides that "members of the Retirement Board of a public retirement system shall discharge their duties…solely in the interest of, and for the exclusive purpose of providing benefits to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A Retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty."

The Board consists of nine members and two alternates. The County Board of Supervisors appoints four, members of the Retirement System elect six (including the two alternates), and the County Treasurer is an ex-officio member. The Retirement System is not a component unit of the County of Santa Barbara as the County is not financially accountable for the Retirement System. The Board of Retirement (Board) continues to demonstrate its commitment to providing accurate and timely service to our 5794 active members and 2972 benefit recipients into the future.

SERVICE EFFORTS AND ACCOMPLISHMENTS

SERVICE

SBCERS conducted an electronic Customer Service Survey of active members, specifically seeking information about how to better serve our membership. 90% of the respondents were satisfied with the current service level provided by SBCERS. The predominant remark expressed a desire for more information and information that is easily understood.

The County negotiated several changes in retirement benefits that were implemented during the year:

- A new safety member plan was established that changed the benefit formula from 3%@55 to 3%@50 for safety members in the Sheriff's and District Attorney's office. The members covered by the new plan had their contribution rates halved, and the period used to compute their final average salary is one year for members hired before 10/10/1994 and three years for members hired on or after 10/10/1994.
- A new tier was established for some general members in the 2%@57 plan. The members covered by this tier had their contribution rates halved and the period that is used to compute their final average salary extended from one year to three years.

The close of the calendar year brought about the first full year of tax reporting from the passage of the Pension Protection Act in August 2006. Account statements with individual tax credit amounts were sent to eligible safety members in early December.

During the year the County changed the primary health insurance provider from Blue Shield to Aetna. Overall, retiree medical premiums increased by 19% for an 18-month contract term expiring December 31, 2009. As health insurance benefits are of great concern to retirees and their families, a large volume of retiree contacts were fielded by staff during the open enrollment process. To facilitate a smoother, more efficient process for retiree coverage transition, staff built a database of subscribers and associated dependents within the pension software. Historically this was captured by the insurance carriers from member enrollment forms. While this was a significant increase in staff workload, the retirees were relieved of the burden of completing multiple forms and the resulting comprehensive insurance database will help better serve the membership.

SBCERS had our first enrollees in the Cal-COBRA health insurance program this year. Cal-COBRA is a California law that closely follows federal COBRA but extends the coverage period another 18 months beyond the federal COBRA 18 month eligibility period. The administration of Cal-COBRA was originally handled by the primary health insurance provider (Blue Shield), but when the County changed the primary carrier to Aetna, SBCERS became a self-administrator of the Cal-COBRA program for its enrollees. Despite the additional increase in workload, retirees were transitioned smoothly.

An annual Cost of Living increase of 3% was approved by the Board of Retirement for all eligible retirees and beneficiaries effective April 1, 2008, with a future carry-over from this year of 0.5% for all members retired on or before April 1, 2008.

As the County reviewed the budget it was decided to seek to reduce the senior staffing of some departments. Therefore a golden handshake was offered to members of the County Counsel and to certain management employees. The members accepting the handshake were granted two additional years of retirement service credit. The County was required to fund the increased liability before the end of the next fiscal year.

The County Employees Retirement Law (CERL) requires interest to be distributed to all valuation reserve accounts on June 30 and December 31 each year. The default interest rate to be credited is the actuarial assumed rate unless the Board determines that a higher or lower rate is appropriate. The Board conducted a review of the interest crediting policy of SBCERS and subsequently adopted a new interest crediting policy for member accounts. The interest crediting policy approved by the Board stipulates that as of June 30, 2008 the member accounts will be now credited at an interest rate equivalent to the yield of the five-year Treasury Note as of the last business day of the interest crediting period, not to exceed the actuarial assumed rate.

STAFFING

SBCERS upgraded the Benefits Supervisor to a Benefits Manager in line with the increasing complexity of the benefits structures being negotiated by the plan sponsors. The position was filled mid-year.

The Board and staff have traditionally received the legal support from a designated attorney on County Counsel staff. Increasing conflicts of interest made this arrangement less desirable. The Board therefore appointed outside counsel to be their advisor. In addition, the Board established a position of Staff Counsel to provide legal support for the staff. At year end the position remained vacant.

ADMINISTRATION

SBCERS, its participating employers and legal counsel engaged in discussions throughout the year to discuss the status of Governmental Accounting Standards Board (GASB) Statements Nos. 43 & 45 reporting and required disclosure issues. At the center of the discussions was the structure of the funding vehicle for retiree health benefits. The primary employer, Santa Barbara County, initiated a redrafting of a 401(h) Retiree Health Plan originally sponsored by SBCERS in 2005. Failing to reach an agreement with the Board of Retirement, the County filed a *writ of Mandamus* against the Board of Retirement and filed a request for a letter of determination and a Voluntary Compliance Plan with the Internal Revenue Service which was contingent upon the establishment of a 401(h) Retiree Health Plan. After the end of the year, a stand still agreement was reached on the writ and a 401(h) Retiree Health Plan was established.

FINANCIAL INFORMATION

SBCERS' management is responsible for the accuracy of the data, the completeness and fairness of the presentation of financial information, including all disclosures, and establishing and maintaining an internal control structure designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Nasif, Hicks, Harris & Company, LLP, independent auditors, have audited the financial statements and expressed their opinion that SBCERS' financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatement.

INVESTMENTS

The Board of Retirement has exclusive control of all investments of the Retirement System and is responsible for the establishment of investment objectives, strategies, and policies. Members of the Board serve in a fiduciary capacity and are authorized to invest in any form or type of investment deemed prudent in the informed opinion of the Board.

External investment management firms manage the assets of SBCERS. Staff and the System's investment consultant closely monitor the activity of these managers and assist the Board with implementation of investment policies and long-term investment strategies. The Investment Goals, Policies, and Procedures establish investment program goals, asset allocation of the plan, policies, performance objectives, investment management policies, and risk controls.

For the quarter ended June 30, 2008, SBCERS' investments provided a minus (2.0%) return. SBCERS' annualized rate of return over the last one and three-years is minus (7.4%) and 6.3% respectively, while the policy benchmark had annualized returns of minus (5.6%) and 7.3% for one and three-year periods. More detail on SBCERS' investment performance and policies can be found in the Management Discussion and Analysis Report (page 14) and in the Investment section (page 47).

ACTUARIAL FUNDING STATUS

SBCERS' funding objective is to satisfy all benefit commitments by following an actuarially prudent funding plan, obtaining superior investment returns consistent with established risk controls, and minimizing employer contributions to the retirement fund.

SBCERS engages an independent actuarial consulting firm, Milliman, Inc., to conduct annual actuarial valuations. The purpose of the valuation is to reassess the magnitude of the benefit commitments. This is compared to the assets expected to be available to support those commitments so employer and member contribution rates can be adjusted accordingly. The actuarial process uses a five year asset smoothing and a fifteen year amortization of experience gains and losses. At June 30, 2008, SBCERS' funding ratio was 88.6%, with the actuarial value of assets totaling $1,893.9 million and the actuarial accrued liability totaling $2,135.9 million.

On a triennial basis, the actuarial firm also conducts an experience study and makes recommendations to the Board on all economic and non-economic assumptions. The last experience study was conducted as of June 30, 2007. The next experience study is scheduled for 2010.

More detailed information on methods and funding status can be found in the Financial and Actuarial sections of the CAFR.

ACKNOWLEDGMENTS

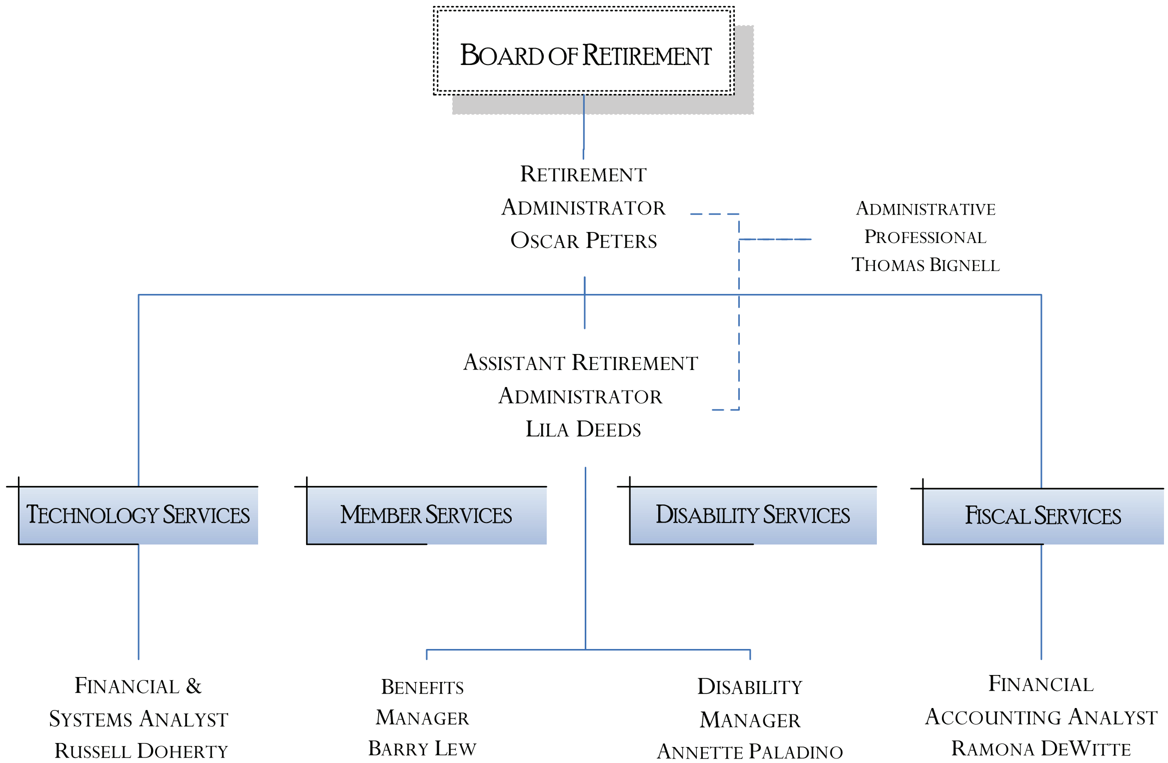
I would like to express my appreciation for the dedication and efforts of the staff members who contributed to the preparation of the CAFR. Their combined efforts have produced a report that will enable the Board, the members and the County to better evaluate and understand the Santa Barbara County Employees' Retirement System. I also want to express my thanks to the Board of Retirement for its dedicated effort and to the retirement staff for its commitment to SBCERS, a combination that assures the System's continued successful operation.

Respectfully submitted,

Oscar Peters

Oscar Peters
Retirement Administrator

2008 ORGANIZATIONAL CHART



A listing of Professional Consultants can be located on page 10 in the Introduction section.
A listing of Investment Managers can be located on page 53 in the Investment section.

Donald Kendig
SECRETARY
Elected by General Members
Present term expires December 2011

Bernice James
CHAIR
COUNTY TREASURER
Ex Officio Member Mandated by Law

Joni Gray
VICE CHAIR
Appointed by Board of Supervisors
Present term expires December 2009

Joseph C. Gallas
MEMBER
Appointed by Board of Supervisors
Present term expires December 2008

Harriet Miller
MEMBER
Appointed by Board of Supervisors
Present term expires December 2009

George Bobolia
MEMBER
Elected by Retired Members
Present term expires December 2008

Vanessa Patterson
MEMBER
Appointed by Board of Supervisors
Present term expires December 2011

BOARD OF RETIREMENT

Julie McCammon
MEMBER
Elected by Safety Members
Present term expires December 2010

Shawn Terris
MEMBER
Elected by General Members
Present term expires December 2010

Frederick Tan
ALTERNATE MEMBER
Elected by Safety Members
Present term expires December 2010

Ron Bruns
ALTERNATE MEMBER
Elected by Retired Members
Present term expires December 2008

LIST OF PROFESSIONAL CONSULTANTS

Actuary
Milliman, Inc.

Independent Auditor
Nasif, Hicks, Harris & Company, LLP

Custodian
BNY Mellon Global Securities Services

Legal Advisors
Santa Barbara County Counsel
Jones Day, LLP
McCarthy & Kroes
Reicker, Pfau, Pyle & McRoy, LLP
Rogers, Sheffield & Campbell, LLP
Steefel, Levitt & Weiss, PC

Investment Consultants
Hamilton Lane Advisors, LLC
Pension Consulting Alliance, Inc.
PCA Real Estate Consultants

Other Specialized Services
Levi, Ray & Shoup, Inc.
Novanis

11 Financial

NASIF, HICKS, HARRIS & CO., LLP

CERTIFIED PUBLIC ACCOUNTANTS

WILLIAM J. NASIF
STEVEN J. HICKS
JEFFERY P. HARRIS
BARBARA ROGERS SCOLLIN
JODY DOLAN HOLEHOUSE
THOMAS W. BURK
MARIANNE F. BLOOM
ROBERT SWAYNE LYONS

1111 GARDEN STREET, SUITE 200
SANTA BARBARA, CALIFORNIA 93101
TELEPHONE (805) 966-1521
FAX (805) 963-1780
www.nhhco.com

April 22, 2009

<u>Independent Auditors' Report</u>

The Honorable Board of Retirement
Santa Barbara County Employees' Retirement System

We have audited the accompanying financial statements of the Santa Barbara County Employees' Retirement System (SBCERS) as of and for the years ended June 30, 2008 and 2007, which collectively comprise SBCERS's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Santa Barbara County Employees' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

On June 13, 2008, the County of Santa Barbara ("the County", a plan sponsor) filed a "Petition for Writ of Mandamus and Complaint for Declaratory and Injunctive Relief" ("the Petition") in Santa Barbara County Superior Court ("the Court"). On January 16, 2009, as described in Note 13 *Subsequent Events*, the County filed a Request for Dismissal of the entire action and all causes of action, which was approved and entered by the Court. With regard to the core pension plan and the "in substance" retiree supplemental health benefit plan (as described in Note 7 *Other Post Employment Benefits (OPEB)*), the County on July 2, 2008 submitted to the Internal Revenue Service ("the IRS") an application for determination and a proposed voluntary compliance plan. The IRS has not responded to the application for determination and voluntary compliance plan. On September 16, 2008, the Santa Barbara County Board of Supervisors adopted a 401(h) Medical Trust Plan. As discussed in Note 14, on September 19, 2008, the SBCERS Board acted to reclassify $84 million from the 2007 non-valuation Health Coverage Reserve to a newly created valuation Undesignated Earnings Reserve (see Note 4). The June 30, 2007 Statement of Plan Net Assets, Statement of Changes in Plan Net Assets and the Required Supplementary Information-pension *Schedule of Funding Progress* have been restated to account for the reclassification.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Santa Barbara County Employees' Retirement System as of June 30, 2008 and 2007, and the changes in its plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis section on pages 14-17, and the schedules of funding progress and employer contributions on page 40-41 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The introduction section, schedules of administrative expenses, investment fees, and payments to consultants on pages 44-45, and the investments, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The schedules of administrative expenses, investment fees, and payments to consultants have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole. The information presented in the introduction, investments, actuarial, and statistical sections have not been audited by us and, accordingly, we express no opinion on them.

Nasif, Hicks, Harris & Co., LLP

Nasif, Hicks, Harris & Co., LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis of the financial activities of Santa Barbara County Employees' Retirement System (SBCERS) is an overview of fiscal operations for the fiscal year ended June 30, 2008. Please review it in conjunction with the Financial Statements.

Financial Highlights

- Net Assets Held in Trust for Pension Benefits, as reported in the Statement of Plan Net Assets, total $1.8 billion, a decrease of $137.5 million or (7.2)% from the prior year.

- Net investment income (including securities lending) decreased by $404.9 million or (149.1)% from fiscal year 2006-2007 to 2007-2008.

- Contributions (member and employer) increased by $5.7 million or 7.2% from fiscal year 2006-2007 to 2007-2008.

- Benefit payments increased by $7.6 million or 9.8% from fiscal year 2006-2007 to 2007-2008.

- The latest actuarial valuation completed was as of June 30, 2008 and determined the funding status (the ratio of system assets to system liabilities) to be 88.6%, an increase from 87.1% at June 30, 2007. This increase was caused by deferred investment return gains and the depletion of the Contingency Reserve. Due to the asset smoothing method, only 20% of the losses of the past year are recognized this year. Currently $131 million net investment return loss is being deferred. These deferred losses will be reflected in future actuarial valuations. SBCERS' funding objective is to meet long-term benefit obligations through contributions and investment income. Milliman, Inc. served as SBCERS' independent actuary.

Overview of Financial Statements

This Management's Discussion and Analysis serves as an introduction to the basic financial statements. SBCERS has two basic financial statements, the notes to the financial statements, and two required supplementary schedules of historical trend information. The basic financial statements and the required disclosures comply with the Governmental Accounting Standards Board's accounting principles and reporting guidelines and utilize the accrual basis of accounting.

- The Statement of Plan Net Assets is the first basic financial report. This statement of account balances at fiscal year end reflects assets available for future payments to retirees and their beneficiaries and any current liabilities that are owed at fiscal year end. The net assets, which are the assets less the liabilities, reflect the funds available for future use.

- The Statement of Changes in Plan Net Assets is the second financial report. This report reflects all the activities that occurred during the fiscal year, and shows the impact of those activities as Additions or Deductions to the plan.

- The Notes to the Financial Statements (Notes) are an integral part of the financial reports. The Notes provide detailed discussion of key policies, programs, and activities that occurred during the year.

- The Schedule of Funding Progress, a required supplementary schedule, includes historical trend information about the funded status of the plan, and the progress made in accumulating sufficient assets to pay benefits when due.

- The Schedule of Employer Contributions, also a required supplementary schedule, presents historical trend information about the annual required contributions of the employers and the actual contributions made.

Financial Analysis

Table 1 and Table 2 present condensed comparative summaries about SBCERS' financial results for the current and prior years.

The current fiscal period closed with net assets of $1.76 billion. All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries.

Table 1 – PLAN NET ASSETS

For the Years Ended June 30, 2008 and 2007	2008	2007	Increase/ (Decrease)	Percent Increase/ (Decrease)
Cash & Investments	$1,863,664,196	$1,994,894,605	$(131,230,409)	(6.58)%
Securities Lending	60,378,810	222,156,141	(161,777,331)	(72.82)%
Receivables	116,178,165	125,566,910	(9,388,745)	(7.48)%
Total Assets	2,040,221,171	2,342,617,656	(302,396,485)	(12.91)%
Securities Lending	60,378,810	222,156,141	(161,777,331)	(72.82)%
Other Liabilities	216,893,804	220,000,221	(3,106,417)	(1.41)%
Total Liabilities	277,272,614	442,156,362	(164,883,748)	(37.29)%
Net Assets	$1,762,948,557	$1,900,461,294	$(137,512,737)	(7.24)%

For the Years Ended June 30, 2007 and 2006	2007	2006	Increase/ (Decrease)	Percent Increase/ (Decrease)
Cash & Investments	$1,994,894,605	$1,676,124,593	$318,770,012	19.02%
Securities Lending	222,156,141	196,246,974	25,909,167	13.20%
Receivables	125,566,910	91,467,430	34,099,480	37.28%
Total Assets	2,342,617,656	1,963,838,997	378,778,659	19.29%
Securities Lending	222,156,141	196,246,974	25,909,167	13.20%
Other Liabilities	220,000,221	138,633,733	81,366,488	58.69%
Total Liabilities	442,156,362	334,880,707	107,275,655	32.03%
Net Assets	$1,900,461,294	$1,628,958,290	$271,503,004	16.67%

Additions to Plan Net Assets

The sources of assets to fund the benefits SBCERS provides are the collection of member and employer contributions, along with the accumulated investment returns. These income sources for fiscal year 2007-2008 totaled $(47.7) million, compared with $353.1 million in 2006-2007. This decrease is primarily due to overall investment performance.

Member and employer contributions increased 7.2% over the contributions made in 2006-2007. The increase was due to the result of the lag implementing new rates, investment returns that were less than the corresponding assumed actuarial rate of return and liability growth greater than expected.

Deductions from Plan Net Assets

The primary uses of SBCERS' assets include the payment of benefits to retired members and their beneficiaries, refunds of contributions to terminated employees, and the costs of administering the System. The deductions for fiscal year 2007-2008 were $89.8 million, an increase of $8.2 million, or 10.1%, over 2006-2007. This increase can be attributed to the escalation of average monthly allowances at the time of retirement and granting the maximum allowable cost of living adjustment.

For the Years Ended June 30, 2008 and 2007	2008	2007	Increase/ (Decrease)	Percent Increase/ (Decrease)
Additions				
Contributions	$ 84,940,244	$ 79,248,435	$ 5,691,809	7.18%
Investment Income (net)	(133,832,849)	271,251,408	(405,084,257)	(149.34)%
Securities Lending (net)	583,617	359,070	224,547	62.54%
Other	629,238	2,233,265	(1,604,027)	(71.82)%
Total Additions	(47,679,750)	353,092,178	(400,771,928)	(113.50)%
Deductions				
Pension Benefits	84,409,181	76,846,452	7,562,729	9.84%
Member Withdrawals	1,819,710	1,883,614	(63,904)	(3.39)%
Actuarial Expenses	403,291	82,300	320,991	390.03%
Legal Expenses	470,157	306,750	163,407	53.27%
Administrative Expense	2,730,648	2,470,058	260,590	10.55%
Total Deductions	89,832,987	81,589,174	8,243,813	10.10%
Net Increase/(Decrease)	$ (137,512,737)	$ 271,503,004	$(409,015,741)	(150.65)%

For the Years Ended June 30, 2007 and 2006	2007	2006	Increase/ (Decrease)	Percent Increase/ (Decrease)
Additions				
Contributions	$ 79,248,435	$ 69,034,338	$ 10,214,097	14.80%
Investment Income (net)	271,251,408	158,261,872	112,989,536	71.39%
Securities Lending (net)	359,070	405,751	(46,681)	(11.5)%
Other	2,233,265	55,990	2,177,275	3888.69%
Total Additions	353,092,178	227,757,951	125,334,227	55.03%
Deductions				
Pension Benefits	76,846,452	71,018,064	5,828,388	8.21%
Member Withdrawals	1,883,614	1,474,822	408,792	27.72%
Actuarial Expenses	82,300	59,720	22,580	37.81%
Legal Expenses	306,750	264,888	41,862	15.80%
Administrative Expense	2,470,058	2,140,186	329,872	15.41%
Total Deductions	81,589,174	74,957,680	6,631,494	8.85%
Net Increase/(Decrease)	$ 271,503,004	$ 152,800,271	$ 118,702,733	77.68%

Investment Analysis

The Plan's investment performance is a function of the underlying financial markets for the period measured, asset allocation and individual investment manager judgment.

During this fiscal year the portfolio had good returns in fixed income, real return assets, and private equity. Unfortunately they only represent slightly over 35% of the portfolio. The remainder of the portfolio is invested in domestic and international equity markets. The domestic market equities represent 45% of the total fund. Until the last two months of the year they had been moving sideways then collapsed ending with the worst equity returns in the last 20 years. The international markets, which represent 19% of the Fund, also had a negative year. However, they were down only half as much as the domestic equity markets. The negative equity market returns were made worse by active managers underperforming the broad markets in which they invested.

Our fixed income managers had positive returns and outperformed their benchmark. This was significant in that the credit crisis that caught up to equity managers at the end of the year had started in fixed income portfolios. Our fixed income managers avoided most of those issues during the fiscal year. We continue to build our alternative equities position over the years and expect those investments to perform well in the future.

During the last year, the total portfolio had a return of (7.4)%. This was less than the actuarially assumed rate of 8.16% and underperformed the policy benchmark by approximately 1.8 %. The negative return was the result of deeply declining global equity markets. For detailed investment returns, fees, and the Fund's asset allocation, please refer to the investment section beginning on page 47.

Funding Status

Of primary concern to most pension plan participants is the amount of money available to pay benefits. Historically, pension plans have been underfunded when the employer failed to make annual actuarially required contributions to the Plan. For SBCERS, the cost-sharing multiple employers have traditionally contributed the annual required contribution (ARC) as determined by the Plan's Actuary. Currently $1,762,948,557 in net assets is held in trust for benefits. All of the net assets are available to meet SBCERS' ongoing obligation to plan participants and their beneficiaries.

An indicator of funding status is the ratio of the actuarial value of the assets to the actuarial accrued liability (AAL). An increase in the percentage over time usually indicates a plan is becoming financially stronger. However, a decrease will not necessarily indicate a plan is in financial decline. Changes in actuarial assumptions can significantly impact the AAL. Performance in the stock and bond markets can have a material impact on the actuarial value of assets.

The funding ratio as of June 30, 2008 was 88.6% using the entry age actuarial cost method with a five year smoothing of the actuarial value of assets. As of the fiscal year ended June 30, 2008, the net assets were $1.76 billion. The next actuarial valuation is scheduled for June 30, 2009.

Requests for Information

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

SBCERS
Retirement Administrator
3916 State Street, Suite 210
Santa Barbara, California, 93105

This report is also available on SBCERS' website under "Forms and Publications" at www.countyofsb.org/sbcers.

Respectfully submitted,

Oscar Peters

Oscar Peters
Retirement Administrator

STATEMENT OF PLAN NET ASSETS

As of June 30, 2008 and 2007

	Retirement	Post Employment Health Care	JUNE 30, 2008	Retirement	Post Employment Health Care	JUNE 30, 2007
ASSETS						
Cash	$ 11,718,860	$ -	$ 11,718,860	$ 9,595,904	$ -	$ 9,595,904
Total Cash	11,718,860	-	11,718,860	9,595,904	-	9,595,904
Receivables						
Contributions	3,118,010	-	3,118,010	3,037,589	-	3,037,589
Other	-	-	-	8,108	-	8,108
Accrued Interest	4,311,206	-	4,311,206	4,174,264	-	4,174,264
Dividends	1,432,247	-	1,432,247	1,250,515	-	1,250,515
Security Sales	107,316,702	-	107,316,702	117,096,434	-	117,096,434
Total Receivables	116,178,165	-	116,178,165	125,566,910	-	125,566,910
Investments at Fair Value						
Short Term Investments	102,221,117	-	102,221,117	53,193,708	-	53,193,708
Alternative Equity	27,208,653	-	27,208,653	42,193,870	-	42,193,870
Domestic Equity	746,306,583	-	746,306,583	903,228,521	-	903,228,521
Domestic Bonds	455,278,575	-	455,278,575	452,344,445	-	452,344,445
International Equity	378,028,620	-	378,028,620	445,283,672	-	445,283,672
International Bonds	57,507,841	-	57,507,841	42,506,167	-	42,506,167
Real Estate	85,393,947	-	85,393,947	46,548,318	-	46,548,318
Sub-Total Investments	1,851,945,336	-	1,851,945,336	1,985,298,701	-	1,985,298,701
Collateral Held for Securities Lent	60,378,810	-	60,378,810	222,156,141	-	222,156,141
Total Investments & Securities Lent	1,912,324,146	-	1,912,324,146	2,207,454,842	-	2,207,454,842
Health Coverage Designation	(2,528,553)	2,528,553	-	(9,400,000)	9,400,000	-
Total Health Coverage	(2,528,553)	2,528,553	-	(9,400,000)	9,400,000	-
TOTAL ASSETS	**2,037,692,618**	**2,528,553**	**2,040,221,171**	**2,333,217,656**	**9,400,000**	**2,342,617,656**
LIABILITIES						
Accounts Payable	383,307	-	383,307	916,557	-	916,557
Benefits Payable	7,499,175	-	7,499,175	931,092	-	931,092
Collateral Held Securities Lent	60,378,810	-	60,378,810	222,156,141	-	222,156,141
Security Purchases	209,011,322	-	209,011,322	218,152,572	-	218,152,572
TOTAL LIABILITIES	**277,272,614**	**-**	**277,272,614**	**442,156,362**	**-**	**442,156,362**
NET ASSETS HELD IN TRUST for PENSION & OPEB BENEFITS*	**$1,760,420,004**	**$2,528,553**	**$1,762,948,557**	**$1,891,061,294***	**$ 9,400,000***	**$1,900,461,294**

* *Re-stated for Year Ending June 30, 2007. See NOTE 14.*

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Fiscal Years Ended June 30, 2008 and 2007

	Retirement	Post Employment Health Care	JUNE 30, 2008	Retirement	Post Employment Health Care	JUNE 30, 2007
ADDITIONS						
Contributions						
Employers	$ 69,460,616	$ -	$ 69,460,616	$ 63,395,296	$ -	$ 63,395,296
Plan Members	15,479,628	-	15,479,628	15,853,139	-	15,853,139
Total Contributions	84,940,244	-	84,940,244	79,248,435	-	79,248,435
Investment Income						
Net Increase/(Decrease) in Fair Value of Investments	(171,413,084)	-	(171,413,084)	234,289,600	-	234,289,600
Interest	22,821,260	190,763	23,012,023	12,305,014	7,227,876	19,532,890
Dividends	19,644,091	-	19,644,091	22,759,075	-	22,759,075
Total Investment Income	(128,948,733)	190,763	(128,756,970)	269,353,689	7,227,876	276,581,565
Less Investment Expense	(5,075,879)	-	(5,075,879)	(5,330,157)	-	(5,330,157)
Net Investment Income	(134,023,612)	190,763	(133,832,849)	264,023,532	7,227,876	271,251,408
Securities Lent Income	5,768,514	-	5,768,514	8,915,940	-	8,915,940
Securities Lent Expense	(5,184,897)	-	(5,184,897)	(8,556,870)	-	(8,556,870)
Net Securities Income	583,617	-	583,617	359,070	-	359,070
Class Action Settlements	545,429	-	545,429	2,178,174	-	2,178,174
Commission Recapture	78,478	-	78,478	51,106	-	51,106
Miscellaneous Income	5,331	-	5,331	3,985	-	3,985
Total Miscellaneous Income	629,238	-	629,238	2,233,265	-	2,233,265
TOTAL ADDITIONS	**(47,870,513)**	**190,763**	**(47,679,750)**	**345,864,302**	**7,227,876**	**353,092,178**
DEDUCTIONS						
Benefits Paid	77,346,971	7,062,210	84,409,181	68,913,732	7,932,720	76,846,452
Member Withdrawals	1,819,710	-	1,819,710	1,883,614	-	1,883,614
Actuarial Expense	403,291	-	403,291	82,300	-	82,300
Legal Expense	470,157	-	470,157	306,750	-	306,750
Administrative Expense	2,730,648	-	2,730,648	2,470,058	-	2,470,058
TOTAL DEDUCTIONS	**82,770,777**	**7,062,210**	**89,832,987**	**73,656,454**	**7,932,720**	**81,589,174**
Net Increase/(Decrease)	(130,641,290	(6,871,447)	(137,512,737)	272,207,848	(704,844)	271,503,004
NET ASSETS HELD IN TRUST FOR PENSION & OPEB BENEFITS						
Beginning of Year	1,891,061,294	9,400,000	1,900,461,294	1,618,853,446	10,104,844	1,628,958,290
Net Increase/(Decrease)	(130,641,290)	(6,871,447)	(137,512,737)	272,207,848	(704,844)	271,503,004
END OF YEAR*	**$1,760,420,004**	**$2,528,553**	**$1,762,948,557**	**$1,891,061,294***	**$ 9,400,000***	**$1,900,461,294**

** Re-stated for Year Ending June 30, 2007. See NOTE 14.*

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity
SBCERS is an independent public employee retirement system with its own governing board, separate and distinct from the County of Santa Barbara. SBCERS' annual financial statements are referenced in the *Notes to the Basic Financial Statements* in the County of Santa Barbara's Comprehensive Annual Financial Report.

Basis of Accounting
SBCERS follows the accounting principles and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB).

SBCERS' financial statements are prepared on the accrual basis of accounting. Member and Employer contributions are recognized as revenue in the period in which the contributions are due. Retirement benefits and member refunds are recognized as expense when due and payable in accordance with the terms of the plan. Other expenses are recognized when the corresponding liabilities are incurred.

Cash and Short-Term Investments
Cash and short-term investments consist of short-term investments with fiscal agents as well as deposits held in a pooled account with the County of Santa Barbara. All participants in the pool share earnings and losses. Short-term investments consist of cash held in money market accounts and securities readily convertible to cash. All cash, deposits and short-term investments are carried at cost, which approximates fair value.

The Santa Barbara County Treasury Oversight Committee has regulatory oversight for all monies deposited into the Santa Barbara County investment pool. Such amounts are invested in accordance with investment policy guidelines established by the County Treasurer and approved by the County Board of Supervisors. Interest earned on pooled investments is apportioned quarterly to participating funds based upon each fund's average daily deposit balance with all remaining interest deposited in the General Fund. The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2008, to support the value of shares in the pool.

Investments
Investments are reported at fair value. Investment income is recognized as revenue when earned. Net appreciation in fair value of investments held by the Retirement System is recorded as an increase to investment income based on valuation of investments at year-end. Realized gains and losses are recognized upon the maturity or disposition of the security.

Valuation of Investments

Debt and equity securities are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Fair value of investments in commingled funds is based on the fund share price provided by the fund manager, which is based on net asset value.

Estimates

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

New Accounting Pronouncement

For the fiscal year ended June 30, 2008, SBCERS implemented Governmental Accounting Standards Board's (GASB) Statement No. 50, *Pension Disclosures, An Amendment of GASB Statements No. 25 and No. 27*. GASB No. 50 amends applicable note disclosure and Required Supplementary Information (RSI) of GASB No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB No. 27, *Accounting for Pensions by State and Local Governmental Employers* effective for the year ended June 30, 2008.

This new pronouncement is intended to improve the transparency and decision usefulness of reported information about pensions by local governmental plans.

Reclassification

Comparative data from the prior year have been presented in the selected sections and may have been reclassified. Such reclassifications had no effect on previously reported net plan assets.

2. PLAN DESCRIPTION

General Provisions

The Santa Barbara County Employees' Retirement System (Retirement System) was established on January 1, 1944. It is governed by the California Constitution, the County Employees' Retirement Law of 1937 (CERL), and the bylaws, policies and procedures adopted by SBCERS' Board of Retirement. The Santa Barbara County Board of Supervisors may also adopt resolutions, as permitted by the CERL, which may affect the benefits of SBCERS members.

SBCERS operates as a cost-sharing multiple-employer defined benefit plan for Santa Barbara County, Santa Barbara County Courts and nine special districts:

- Carpinteria Cemetery District
- Carpinteria-Summerland Fire Protection District
- Goleta Cemetery District
- Mosquito & Vector Management District of Santa Barbara County
- Oak Hill Cemetery District
- Santa Barbara County Air Pollution Control District
- Santa Barbara County Association of Governments
- Santa Maria Cemetery District
- Summerland Sanitary District

Plan Membership

SBCERS provides retirement, disability, and death benefits to members and administers the plan sponsors' retiree health benefit program. See NOTE 7 – Other Post Employment Benefits.

The Retirement System has five retirement plans of which four are currently available to all new full-time permanent employees and those part-time employees working at least half-time.

Multiple contributory rates are applicable based upon negotiated bargaining unit Memoranda of Understanding (MOU's) and on date of entry into membership.

Retirement Plan	Type	New Membership
General Plan 5	Contributory	Open
Safety Plan 4	Contributory	Open
Safety Plan 6	Contributory	Open
APCD General Plan	Contributory	Open
General Plan 2	Non-Contributory	Closed

The retirement benefits within the plan are based on age, years of service, final average salary and the benefit options selected.

SBCERS' Membership
As of June 30, 2008 and 2007

	2008	2007
Members Now Receiving Benefits		
Service Retirement	2,302	2,184
Disability Retirement	249	244
Beneficiaries and Survivors	421	384
Subtotal	2,972	2,812
Active Members		
Active Vested Members	3,097	3,147
Active Nonvested Members	1.509	1,478
Subtotal	4,606	4,625
Deferred Members	1,188	1,137
Total Membership	**8,766**	**8,574**

Benefit Provisions

GENERAL PLAN 5, SAFETY PLANS 4 & 6, APCD PLAN:

• Pension benefits are based upon a combination of age, years of service, average monthly salary for the highest one or three consecutive years' covered compensation, and the benefit payment option selected by the member.

• Disability benefits are based upon whether the disability was service or non-service connected.

• Death benefits are based upon whether the death occurred before or after retirement and whether the death was service or non-service connected.

GENERAL PLAN 2: Pension benefits are based upon a combination of age, years of service, and highest average monthly salary during any three years of employment and are coordinated with social security benefits. A separate long-term disability program is available for members who become disabled, regardless of length of service, or whether the disability is job related. Death benefits are based upon whether the death occurred before or after retirement.

Cost-of-Living Adjustment

All plans, with the exception of General Plan 2, provide for retirement benefits subject to cost-of-living adjustments (COLA) for retired members. COLA's are granted to eligible retired members each April based upon the Bureau of Labor Statistics Consumer Price Index (CPI) for All Urban Consumers for the Los Angeles-Riverside-Orange County area as of the preceding January 1 and is subject to a 3% maximum limitation. The portion of a CPI increase that exceeds 3% is accumulated for credit in future years.

Supplemental Cost-of-Living Adjustment

In accordance with the CERL, the Board may grant supplemental cost-of-living adjustments (Supplemental COLA). The Supplemental COLA is structured to restore purchasing power up to 80% of the original benefit. Supplemental COLA's may be granted to members who have an accumulated loss of purchasing power of more than 20% due to inflation.

Vesting

GENERAL PLAN 5, SAFETY PLANS 4 & 6, APCD PLAN: Upon completing five years of creditable service, employees have irrevocable rights to receive benefits attributable to an employer's contributions, provided their contributions have not been withdrawn. Members are eligible to retire at age 50 with retirement credit of ten years from date of membership, or thirty years of creditable service (safety members twenty years) regardless of age, or upon attaining age 70.

If an employee terminates before rendering five years of service, the employee is entitled to withdraw the employee contributions made, together with accumulated interest, unless the member enters a reciprocal retirement system within six months and/or elects to leave their accumulated contributions on deposit with the Retirement System. A member who continues membership under this provision is granted a deferred non-vested status and has no rights to future benefits except a refund of their account balance as of the date of termination.

If an employee terminates after five years of service, the employee may elect to leave the accumulated contributions in the retirement fund and receive a deferred retirement allowance at the time the member would have been entitled to the allowance if service had continued.

GENERAL PLAN 2: Upon completing ten years of creditable service, Plan 2 members have irrevocable rights to receive benefits. Plan 2 members are eligible to retire at age fifty-five with retirement credit of ten or more years of service. Once vested, Plan 2 members have a one-time election to defer accrued Plan 2 benefits and enter the contributory retirement plan in effect at that time. Contributions are based upon age at the time of transfer.

3. CONTRIBUTIONS

FUNDING OBJECTIVE

The funding for retirement benefits comes from member contributions, employer contributions, and the earnings on investments held by the plan.

Participating members are required by statutes §31621, 31621.2, 31621.5, 31621.6 and 31639.25 of the CERL to contribute a percentage of covered compensation based on certain actuarial assumptions and their age at entry into the plan. The funding objective of SBCERS is to establish member and participating employer contribution rates that will remain level over time 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 the unfunded actuarial accrued liability (UAAL). For actuarial valuation purposes, Plan assets are valued at Market value of assets less unrecognized gains and losses from each of the last five years. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the actual market return and the expected market return over a 5-year period.

GENERAL PLAN 5, SAFETY PLANS 4 & 6, APCD PLAN: Contributions are made by members and employers at rates recommended by an independent actuary, approved by the Board of Retirement, and adopted by the Board of Supervisors. For certain bargaining units, a portion of the member contribution is paid by the employer. Member contributions are based upon each individual member's age of entry into SBCERS. Member contributions cannot be withdrawn until separation from employment.

GENERAL PLAN 2: Employer contribution rates are recommended by the actuary, approved by the Board of Retirement, and adopted by the Board of Supervisors. There are no member contributions.

The following schedule summarizes the contribution rates in effect at June 30, 2008. Contribution rates are expressed as a percentage of covered payroll. The member contribution rates depicted below vary according to age at entry and benefit plan and tier level.

Member Classification	Member Rates	Employer Rates
General Members	3.57% - 9.77%	10.81% - 17.26%
Safety Members	5.24% - 15.45%	28.83% - 34.04%
APCD Members	4.16% - 10.41%	19.93% - 20.45%

Contributions made for the years ended June 30, 2008 and 2007 were in accordance with actuarially determined contributions for the year. For the years ended June 30, 2008 and 2007, covered payroll was $307,264,000 and $294,163,000 respectively, an increase of 4.5%.

Contributions from all employers represented 22.6% and 21.6% respectively of covered payroll while contributions from all members represented 5.0% and 5.4% respectively of covered payroll.

SBCERS' Contributions Made By Plan
As of June 30, 2008 and 2007

		2008	2007
General Plan 2	Employer contributions	$ 140,578	$ 143,707
General Plan 5	Employer contributions	40,957,631	34,561,932
	Member contributions	11,485,765	11,770,976
Safety Plans 4&6	Employer contributions	27,580,698	27,952,153
	Member contributions	3,560,070	3,797,752
APCD	Employer contributions	781,709	737,504
	Member contributions	433,793	284,411
Total		**$ 84,940,244**	**$ 79,248,435**

SBCERS' Contributor Comparison
As of June 30, 2008 and 2007

		2008		2007	
EMPLOYER	Santa Barbara County	$ 64,044,796	92.2%	$ 58,737,360	92.7%
	Santa Barbara Courts	2,982,355	4.3%	2,495,018	3.9%
	Special Districts	2,433,465	3.5%	2,162,918	3.4%
		$ 69,460,616	100.0%	$ 63,395,296	100.0%
MEMBER	Santa Barbara County	$ 13,956,145	90.1%	$ 14,602,968	92.1%
	Santa Barbara Courts	877,831	5.7%	678,311	4.3%
	Special Districts	645,652	4.2%	571,860	3.6%
		$ 15,479,628	100.0%	$ 15,853,139	100.0%
Total		**$ 84,940,244**		**$ 79,248,435**	

4. RESERVES

The reserves represent the components of SBCERS' net assets. Reserves are established from member and employer contributions and the accumulation of investment income after satisfying investment and administrative expenses.

Reserves and Designations

Following are brief explanations of the reserves and designations used by SBCERS:

Member Contribution Reserve represents the balance of member contributions. Additions include member contributions and interest earnings; deductions include refunds of member contributions and transfers to Retired Member Reserve when the member retires.

County and District Reserve represents the balance of employer contributions for future retirement payments to current active members. Additions include contributions from the employers and interest earnings; deductions include transfers to Retired Members Reserve when the member retires, lump sum death benefits, and supplemental disability allowance payments under §31725.5, §31725.6 and §31725.65 of the County Employees' Retirement Law of 1937. A refund of member contributions has no corresponding effect on the balance of the County and District Reserve because the employer contribution rates are based on an actuarial assumption that takes into account the expected rate of member terminations.

Retired Member Reserve represents funds accumulated to pay retirement benefits to retired members. This reserve includes the total accumulated transfers from the Member Reserve, the Employer Reserve and interest earnings, reduced by payments to retired members, beneficiaries, and survivors.

Undesignated Earnings Reserve was established as a valuation reserve effective June 30, 2007. Funds transferred from the Health Coverage Reserve represent the balance of monies set aside for the funding of the pending 401(h) Retiree Health Medical Trust Fund. Additions represent interest. No deductions were taken in 2007-2008. See NOTE 13 – Subsequent Events.

Market Stabilization Reserve represents unrealized gains or losses recognized in the financial statements because of the adoption of GASB 25, which requires reporting investments at fair value instead of cost. The account was established to offset the impact of market fluctuation. Semiannually, income and losses from investments stated at fair value are placed in this account as realized and available earnings are credited to other reserves.

2007-2008 Health Coverage Reserve (temporary) represents the balance of monies set aside for retired members to fund the health insurance offset through September 2008 and the supplemental health cash benefit though December 2008. Additions represent interest; deductions represent subsidies for retired members enrolled in a County sponsored health plan and cash payments for retired members who do not participate in the health plans.

Contingency Reserve represents reserves accumulated for future earnings deficiencies. The Contingency Reserve is used to satisfy the statutory requirement to reserve at least 1% of total assets against future earnings deficiencies.

SBCERS' Reserves *At June 30, 2008*	**Pension Benefits**	**Post Employment Medical Benefits**	**Total**
VALUATION RESERVES			
Member Contribution Reserve	$ 177,770,373	$ -	$ 177,770,373
County and District Reserve	571,385,192	-	571,385,192
Retired Member Reserve	1,028,073,017	-	1,028,073,017
Undesignated Earnings Reserve	90,995,458	-	90,995,458
Market Stabilization Reserve	(107,804,036)	-	(107,804,036)
NON-VALUATION RESERVES			
2007-2008 Health Coverage Reserve (3)	-	2,528,553	2,528,553
Contingency Reserve (4)	-	-	-
Total Value of Net Assets	**$ 1,760,420,004**	**$ 2,528,553**	**$ 1,762,948,557**

SBCERS' Reserves *At June 30, 2007*	**Pension Benefits**	**Post Employment Medical Benefits**	**Total**
VALUATION RESERVES			
Member Contribution Reserve	$ 169,217,997	$ -	$ 169,217,997
County and District Reserve	558,510,143	-	558,510,143
Retired Member Reserve(1)	912,832,239	-	912,832,239
Undesignated Earnings Reserve(2)	84,130,416	-	84,130,416
Market Stabilization Reserve	144,750,285	-	144,750,285
NON-VALUATION RESERVES			
2007-2008 Health Coverage Reserve (3)	-	9,400,000	9,400,000
Contingency Reserve (4)	21,620,214	-	21,620,214
Total Value of Net Assets	**$ 1,891,061,294**	**$ 9,400,000**	**$ 1,900,461,294**

(1) *Retired Member Reserve was previously reported in the 2007 Comprehensive Annual Financial Report as two accounts – the Annuity Reserve and the Pension Reserve. The two reserves have been combined for reporting purposes for simplification and transparency to the reader.*

(2) *Established as a valuation asset reserve effective June 30, 2007. See NOTE 14.*

(3) *Established as a non-valuation asset reserve effective June 30, 2007. This reserve is used to pay $15 Health Benefits through September 2008 and $4 Supplemental Health Benefits through December 2008.*

(4) *As of June 30, 2008, the Contingency Reserve was used to credit interest to the Retired Member Reserve.*

5. DEPOSITS AND INVESTMENTS

SBCERS operates under the "Prudent Person Rule" which authorizes the Board of Retirement, at its discretion, to purchase, hold, or sell any form or type of investment, financial instrument, or enter into any financial transaction when prudent in the informed opinion of the Board.

Deposits

The cash balance represents operating cash held by the County Treasurer. The portion of SBCERS' cash held by the County Treasurer is a part of the County's cash and investment pool. Accordingly, SBCERS' investments held in the name of the County are not specifically identifiable. At June 30, 2008, cost approximated fair value of the SBCERS' share of pooled cash and investments.

The market value of deposits approximated the bank balances at June 30, 2008 and 2007. The cash amounted to $11,718,860 and $9,595,904 as of June 30, 2008 and 2007, respectively. These deposits are both uninsured and uncollateralized.

SBCERS' Summary of Investments
As of June 30, 2008 and 2007

	2008	2007
Short Term Investments	$ 102,221,117	$ 53,193,708
Alternative Equity	27,208,653	42,193,870
Investments at Fair Value:		
Domestic Equity	746,306,583	903,228,521
Domestic Bonds	455,278,575	452,344,445
International Equity	378,028,620	445,283,672
International Bonds	57,507,841	42,506,167
Real Estate	85,393,947	46,548,318
Collateral Held for Securities Lent	60,378,810	222,156,141
Total Investments	**$1,912,324,146**	**$2,207,454,842**

Investment Risk

The Board of Retirement's investment policies and guidelines allocate the asset classes of the portfolio investments within ranges. The portfolio is maintained within the ranges and reported each month. The Board annually reviews the allocation model and the risk structure of the total portfolio. The investment policy does not address Credit risk, Concentration of Credit Risk, Interest Rate Risk, or Foreign Currency Risk, as investment managers within their specific mandates are given risk parameters that would result in limiting these types of risk on a total portfolio level.

GASB Statement No. 40 requires that investments be evaluated to give an indication of the level of risk assumed at year-end, as follows:

- Credit Risk
- Custodial Credit Risk
- Concentrations of Credit Risk
- Interest Rate Risk
- Foreign Currency Risk

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. SBCERS seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class. To control Credit Risk, credit quality guidelines have been established. The credit quality ratings of investments in fixed income securities by a nationally recognized statistical rating organization are shown in the *Credit Risk by Quality* table on page 28.

Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that, in the event of a financial institution's failure, SBCERS would not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. Cash deposits are held by the County Treasurer within the County investment pool and as cash reserves in the master custodian short-term investment funds. The risks of the pool are addressed in the County CAFR. Additional insurance against loss and theft is provided through a Financial Institution Bond.

Custodial Credit Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, SBCERS would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they uninsured, are not registered in SBCERS name, and held by a counter party. SBCERS' securities are not exposed to custodial risk as they are held by our custodial bank in our nominee name.

Credit Risk Concentration

As of June 30, 2008, SBCERS' investment portfolio contained no concentration of investments in any one entity (other than investments guaranteed by the U.S. Government, investments in mutual funds, and external investment pools) that represented 5 percent or more of the total investment portfolio.

Credit Risk By Quality

As of June 30, 2008

(Dollars in Thousands)

		Moody's/S&P/Fitch Investment Grade									
Fixed Income By Type	**Total**	**Aaa AGY UST**	**Aa1**	**Aa2**	**Aa3**	**A1**	**A2**	**A3**	**Baa1**	**Baa2**	**Baa3**
Asset Backed Securities	$ 63,496	$ 61,884	$ -	$ -	$ 548	$ -	$ 1,064	$ -	$ -	$ -	$ -
CMO Government Agencies	103,385	103,385	-	-	-	-	-	-	-	-	-
Domestic Corp Fixed Income	122,881	6,780	89	7,599	15,908	15,690	42,690	9,880	13,850	9,312	1,083
Government	274	274	-	-	-	-	-	-	-	-	-
International Fixed Income	48,000	-	702	4,574	1,735	7,474	4,522	12,901	12,397	2,101	1,594
Municipal Bonds	2,964	-	-	2,050	914	-	-	-	-	-	-
Mutual Funds	5,573	-	-	-	-	-	-	-	-	5,573	-
Non-Govt Mortgage Backed	61,155	61,155	-	-	-	-	-	-	-	-	-
Treasurer Investment Pool	8,309	6,868	-	1,441	-	-	-	-	-	-	-
US Govt Mortgages	38,095	38,095	-	-	-	-	-	-	-	-	-
US Private Placements	21,554	3,218	-	1,113	2,904	5,565	2,699	815	1,195	2,431	1,614
Subtotal	**475,686**	**281,659**	**791**	**16,777**	**22,009**	**28,729**	**50,975**	**23,596**	**27,442**	**19,417**	**4,291**

(Dollars in Thousands)

		Moody's/S&P/Fitch Speculative Grade									
Fixed Income By Type	**Total**	**Ba1**	**Ba2**	**Ba3**	**B1**	**B2**	**B3**	**Caa**	**D**	**Not Rated**	**Rating With-drawn**
Asset Backed Securities	$ 722	$ 112	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 610	$ -
Domestic Corp Fixed Income	12,617	3,279	2,122	-	-	1,624	750	1,328	630	$ 2,884	-
International Fixed Income	1	-	-	-	-	-	1	-	-	-	-
Mutual Funds	30,248	-	-	-	30,248	-	-	-	-	-	-
Treasurer Investment Pool	598	-	-	-	-	-	-	-	-	-	598
US Private Placements	706	-	-	-	706	-	-	-	-	-	-
Subtotal	**44,892**	**3,391**	**2,122**	**-**	**30,954**	**1,624**	**751**	**1,328**	**630**	**3,494**	**598**

(Dollars in Thousands)

		Moody's/S&P/Fitch Short-Term Rated			
Fixed Income By Type	**Total**	**P-1**	**P-2**	**P-3**	**NP**
Asset Backed Securities	$ 402	$ 402	$ -	$ -	$ -
Treasurer Investment Pool	2,812	2,812	-	-	-
Subtotal	**3,214**	**3,214**	**-**	**-**	**-**
Total	**$523,792**				

Securities Lending

SBCERS participates in securities lending transactions through its custodian BNY Mellon Global Securities Services (Mellon) to increase income. Securities are lent to brokers and dealers (borrower) and in turn, SBCERS receives collateral. Collateral can be in the form of cash (both United States and foreign currency), securities issued or guaranteed by the U.S. Government, sovereign debt of foreign countries, or irrevocable bank letters of credit or such other forms as may be agreed upon. SBCERS pays the borrower interest on the collateral received and invests the collateral with the goal of earning a higher yield than the interest rate paid to the borrower. Earnings generated above and beyond the interest paid to the borrower represent the net income to SBCERS from the transaction.

Transactions are collateralized at no less than 100% percent of market value of the loaned security. Collateral is marked to market daily. The custodian invests the collateral received in short-term investment funds (maintained by the custodian), money market mutual funds, and other similar investments as the custodian may select.

The average term of all SBCERS' loans is overnight or "on demand." The custodian will ensure that, in any agreement with a borrower, it retains its absolute right to terminate the agreement without cause, upon short notice and without any penalty. SBCERS cannot pledge or sell collateral securities received unless the borrower defaults. In the event of a borrower default, Mellon indemnifies SBCERS to the extent of replacing the securities loaned.

Credit risk is the risk that the issuer of a debt security or other counterparty to an investment will not fulfill its obligations. As of June 30, 2008, SBCERS had no credit risk exposure to borrowers because the total collateral value exceeded the market value of securities on loan.

As of June 30, 2008, the market value of securities on loan was $57.3 million and the value of collateral received for the securities on loan was $60.4 million of which $5 million was non-cash collateral. As of June 30, 2007, the market value of securities on loan was $217.1 million and the value of collateral received for the securities on loan was $222.2 million of which $32.3 million was non-cash collateral. SBCERS' income net of expenses from securities lending was $583,617 and $359,070 for the years ended June 30, 2008 and June 30, 2007 respectively.

SBCERS' Securities Lending Program

As of June 30, 2008

Securities on Loan	Market Value of Securities on Loan	Collateral Received
Domestic Equities	$ 45,014,329	$ 42,329,665
International Equities	7,783,772	8,234,644
Domestic Corporate Fixed Income	4,457,355	4,623,926
	57,255,456	55,188,235
Non-Cash Collateral	-	5,190,575
Total	$ 57,255,456	$ 60,378,810

Derivatives

Derivatives are investments that respond to changes in a reference asset or benchmark and do not represent direct investment in the referenced asset. Managers of some portfolios within the system use derivative investments to get immediate market exposure and to protect or capture interest rate risk. At year-end, derivative investments were in Collateralized Mortgage Obligations (CMO) and Unfunded Default Credit Swaps.

Holdings of Derivative Securities
As of June 30, 2008 and 2007

	2008		2007	
	Cost	**Market**	**Cost**	**Market**
Collateralized Mortgage Obligations	$202,635,334	$203,172,769	$185,876,979	$186,662,724
Unfunded Default Credit Swaps	(318,200)	(254,010)	(39,529)	(33,883)
Total Derivative Securities	**$202,317,134**	**$202,918,759**	**$185,837,450**	**$186,628,841**

Interest Rate Risk

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

Interest Rate Risk
As of June 30, 2008

Totals By Sector	**Base Market Value**	**Option Adjusted Duration (Years)**	**Weighted Average Maturity (Years)**	**Market Value of Securities with no Duration Available**
Agency	$103,385,243	3.49	21.77	$ -
Asset Backed Securities	63,476,389	1.37	4.81	1,143,190
CMBS	48,813,945	3.62	31.03	-
CMO Corporate	10,369,665	4.02	23.47	1,971,631
Corporates & Other Credit	133,066,197	5.77	11.71	2,750,546
General Obligations	2,964,485	9.82	20.21	-
Government	273,710	11.69	19.39	-
Mutual Funds	35,820,776	1.90	7.04	-
Other	99,095,000	0.98	0.08	11,670,661
US Govt Mortgages	32,410,850	5.83	28.59	5,684,000
US Private Placements	22,260,070	4.51	9.53	-
Non US	48,001,011	4.93	10.09	-
SubTotal	**599,937,341**			**23,220,028**
Total Consolidation	**$ 623,157,369**			

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. SBCERS' international equity managers are permitted to invest in authorized countries.

Forward currency contract and currency futures (maturity ranging from at least 30 days and not to exceed one year for either instrument) are permitted for defensive currency hedging.

Foreign Currency Risk

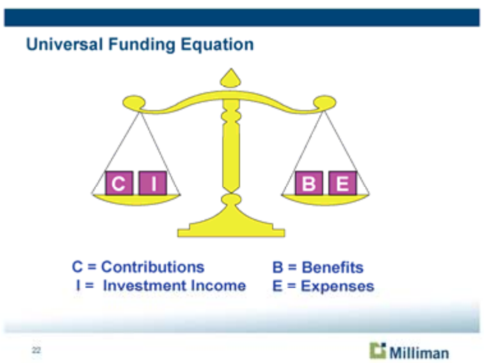
As of June 30, 2008

Currency	Cash	Equity	Fixed	Total
Argentine Peso	$ 8,197	$ -	$ -	$ 8,197
Australian Dollar	14,586,933	7,157,599	-	21,744,532
Bermuda Dollar	75,828	-	-	75,828
Brazilian Real	1,307,047	-	876,904	2,183,951
British Pound Sterling	29,474,280	20,113,838	2,253	49,590,371
Canadian Dollar	18,908,289	5,961,467	318,586	25,188,342
Chilean Peso	170,465	-	-	170,465
Columbian Peso	-	-	251,388	251,388
Danish Krone	1,656,765	-	-	1,656,765
Egyptian Pound	86,012	-	-	86,012
Euro Currency Unit	57,243,473	44,909,282	6,243	102,158,998
Hong Kong Dollar	5,586,813	5,742,422	-	11,329,235
Hungarian Forint	1,270,220	-	-	1,270,220
Indian Rupee	956,485	-	-	956,485
Indonesian Rupiah	206,039	-	-	206,039
Japanese Yen	38,262,199	21,827,410	-	60,089,609
Malaysian Ringgit	279,303	-	-	279,303
Mexican Peso	826,581	-	373,243	1,199,824
New Zealand Dollar	227,871	256	458	228,585
Norwegian Krone	4,761,959	-	-	4,761,959
Pakistani Rupee	62,393	-	-	62,393
Philippine Peso	54,954	-	-	54,954
Qatari Rial	48,198	-	-	48,198
Russian Ruble (new)	2,657,658	-	-	2,657,658
Singapore Dollar	2,322,993	1,006,882	-	3,329,875
South African Rand	1,369,496	-	-	1,369,496
South Korean Won	2,129,103	-	-	2,129,103
Swedish Krona	4,176,502	536,614	-	4,713,116
Swiss Franc	11,914,202	7,873,207	-	19,787,409
Taiwan New Dollar	2,531,350	-	-	1,531,350
Thai Baht	228,426	-	-	228,426
Turkish Lira	373,544	-	-	373,544
UAE Dirham	1,364,061	-	270,899	1,634,960
Total Securities Held in Foreign Currency	**$204,127,639**	**$115,128,977**	**$2,099,974**	**$321,356,590**

6. ACTUARIAL VALUATION

SBCERS retains an independent actuarial firm to conduct an annual actuarial valuation to monitor SBCERS' funding status and funding integrity. The last valuation was performed as of June 30, 2008 and determined the funded status of the plan to be 88.6%.

The purpose of the valuation is to reassess the magnitude of SBCERS' benefit commitments in



comparison with the assets expected to be available to support those commitments so employer and member contribution rates can be adjusted accordingly. For the pension plan, the actuarial assumptions estimate as closely as possible what the actual cost of the plan will be in order to determine rates for setting aside contributions today to provide benefits in the future.

Contribution requirements are determined under the entry age normal actuarial cost method. This method is designed to collect contributions as a level percentage of pay. Any gains or losses that occur under this method are amortized as a level percentage of pay. To minimize any investment gains or losses, the Board of Retirement has adopted a smoothing process that involves spreading the difference between actual and expected market return over five years to determine the actuarial value of assets.

The information for funded status of the pension plan, which includes the funded ratio, the actuarial accrued liability, the actuarial value of assets, the unfunded actuarial accrued liability, the annual covered payroll, and the ratio of unfunded actuarial accrued liability to annual covered payroll are presented on the Funding Progress – Pension Plan table.

SUMMARY ACTUARIAL INFORMATION

Valuation Date	June 30, 2008
Actuarial Cost Method	Individual entry-age normal cost method
Amortization Method	Level percent of pay
Remaining Amortization Period	Fifteen years closed layers
Asset Valuation Method	Five-year smoothed market

ACTUARIAL ASSUMPTIONS

Investment Rate of Return	8.16%
Projected Salary Increase	Variable percentage based on service
Wage Inflation	4.00%
Cost-of-Living Adjustments for Retirees	Up to 3.00%

Funding Progress – Pension Plan

Dollars in Thousands

Actuarial Valuation Date	(a) Actuarial Value of Plan Assets	(b) Non-Valuation Assets (NVA)	(c) Valuation Assets (a)-(b)	(d) Valuation Actuarial Accrued Liabilities (AAL)	(e) AAL with NVA (b)+(d)	(f) Unfunded Actuarial Accrued Liabilities (UAAL) (d)-(c) = (e)-(a)	(g) Funded Ratio (c) ÷ (d)	(h) Covered Payroll	UAAL as a Percentage of Covered Payroll (f) ÷ (h)
06/30/08	$1,893,984	$2,528	$1,891,456	$2,135,955	$2,138,483	$244,499	88.6%	$307,264	79.6%

Employer Contributions – Pension Plan

Year Ended	Annual Required Contributions (ARC)	Contributions Made	% of Required Contributions Made
06/30/08	$69,461,000	$69,461,000	100.0%

7. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

SBCERS administers a cost-sharing multiple employer defined benefit OPEB plan that provides health care benefits for retired members and their eligible dependents. The County negotiates the health care contracts with the providers covering both active and retired members. Retirees are offered the same health plans as active employees as well as enhanced senior plans for retirees on Medicare. Retiree premiums are rated separately from active employees. Approximately 62% of eligible SBCERS' retirees participated in this program during 2007-2008.

Benefit Provisions

SBCERS retirees are eligible to receive an explicit subsidy for medical premiums funded by SBCERS' Health Coverage reserve. This explicit subsidy takes the form of a monthly medical allowance based on $15 per year of service to help pay health premiums. If the monthly premium for the health plan selected is less than $15 times the member's years of service, the subsidy is limited to the entire premium. The health plans include coverage for eligible spouses and dependents.

After the member's death, a surviving spouse is eligible to continue health plan coverage. The subsidy benefit will be equal to $15 per year of service times the survivor continuation percentage applicable for pension benefits.

If a member is eligible for a disability retirement benefit, the member can receive a monthly health plan subsidy of $187 per month or $15 per year of service, whichever is greater.

Retirees who choose not to participate in a County sponsored health plan receive a cash allowance benefit of $4.00 per month per year of service.

A settlement agreement (Bobolia Settlement) between the County and retirees provided for a benefit for all retired members as of June 24, 1988. At the time of the settlement, the County agreed to pay a retiree health care subsidy of $8 per month per year of service for retirees who participated in a County Sponsored health plan. For those who did not participate in a County sponsored health plan, the cash benefit was $1.47 per month per year of service, subject to certain limitations. The County Employees Retirement Law of 1937 (CERL §31592 and 31592.2) allows the Board of Retirement to allocate excess earnings to subsidize retired health insurance benefits in counties that provide health insurance for active members. Between 1996 and 2002, the Board of Retirement used excess earnings as defined in the CERL to expand the subsidy from $8 to $15 and the cash benefit from $1.47 to $4 per month per year of service respectively. By definition in the CERL, these increases are not vested if funding for the benefit is insufficient. These benefits have not increased since 2002.

Summary of Significant Accounting Policies

The Government Accounting Standards Board (GASB) issued Statements 43 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* that provides for reporting and disclosure requirements for Other Post Employment Benefits (OPEB) that includes retiree health benefits.

Employer Disclosures

During the 2007-2008 fiscal year, the County, the other employer sponsors and SBCERS did not have a formal plan document that provides for retiree health benefits. SBCERS believes that the benefit program it provides is a substantive plan as defined by GASB 43.

GASB Statements No. 43 and 45 require that the liability related to the substantive plan for the benefits must be actuarially determined for retiree healthcare benefits. A substantive plan is the plan as its terms are understood by the County and its employees at the time of the actuarial valuation. The substantive plan is evidenced by written documents, employee and retiree communications, and by patterns and practices. It is the pattern of future expenditures for OPEB that the Plan Sponsor is considered to be committed to, not the cost of its legal obligations. Because there is a pattern of expenditures, it is reasonable to interpret the substantive plan to include the non-vested benefits, which is tentatively defined as the difference between the current $15 and $4 rates versus the original $8 and $1.47 rates, stemming from the Bobolia Settlement. Alternatively, if there are insufficient earnings and the non-vested benefits can be reduced, the liability may be limited to the vested benefits plus assets set aside for non-vested benefits.

SBCERS' Health Care Benefits *As of June 30, 2008 and 2007*	**2008 Benefit**	**2008 Enrollees**	**2007 Benefit**	**2007 Enrollees**
Subsidy of $15 per year of service	$6,523,211	1,799	$7,470,365	1,764
Cash Option of $4 per year of service	538,999	1,097	462,355	933
Total Health Care Benefits	**$7,062,210**	**2,896**	**$7,932,720**	**2,697**

Funding Policy

SBCERS established the Health Coverage Reserve to pay for health benefits. The funding of the health benefits via the transfer of excess earnings is allowed by CERL §31691.1 to a designated reserve. However, paying a non-taxable subsidy from that reserve within the retirement trust is inconsistent with Internal Revenue Code (IRC) provisions and may threaten the qualified status of the plan and the tax-favored treatment of benefits for current employees, retirees, and their beneficiaries. The Board of Retirement proposed that the County establish an IRC§401(h) tax qualified post employment benefit plan, which occurred after the fiscal year end. See NOTE 13 – Subsequent Events.

OPEB Actuarial Valuation

SBCERS' *Other Post Employment Benefits Program's* actuarial valuation was conducted by Milliman, Inc. as of June 30, 2007. The valuation was performed in accordance with GASB Statements No. 43 and 45 requirements to satisfy financial statement reporting guidelines that apply to organizations that administer the benefits program. The valuation must be conducted at least every two years. The next OPEB Actuarial Valuation is scheduled for June 30, 2009.

8. CONTINGENCIES

In the normal course of business, denials of applications for benefits are appealed to the Superior Court. The outcome of these decisions will have no material impact on the financial status of the System.

9. PLAN TERMINATION

There are no plan termination provisions under the County Employees' Retirement Law of 1937, which governs the operation of the Retirement System.

10. RELATED PARTY TRANSACTIONS

By necessity, SBCERS is involved in various business transactions with the County of Santa Barbara, the primary plan sponsor. SBCERS funds the County for the cost of services provided by the following agencies: County Counsel, Auditor-Controller, Purchasing, Human Resources and Treasurer. In addition, SBCERS reimburses the County for cost of services in the areas of information technology, reprographics, telecommunications, and Board of Retirement elections.

11. LEASE COMMITMENTS

SBCERS leases property under lease agreements that expire in 2011 and 2012. The Santa Maria office entered a five-year lease effective May 15, 2006. The Santa Barbara office lease began October 1, 2003 and was renewed in 2007 extending to June 30, 2012. The Santa Barbara office lease requires that SBCERS pay a portion of the building's operating expenses based on square footage occupied.

Minimum Lease Commitments
At June 30, 2008

Lease Payments	
2008 - 2009	$ 119,823
2009 - 2010	123,509
2010 - 2011	121,852
2011 - 2012	68,288
Total	**$ 433,472**

Lease expense, exclusive of common area maintenance fees, in 2008 and 2007 was $116,391 and $113,012, respectively. Minimum non-cancelable lease commitments net of sublease income as of June 30, 2008 are shown in the table above.

12. ADMINISTRATIVE EXPENSE

Effective July 1, 2000, the Board of Retirement adopted Government Codes §31522.1 and §31580.2. As a result, the Board has adopted an annual budget for the year ended June 30, 2008 that covers the expense of administration of the retirement system with the earnings of the retirement fund and is limited to eighteen-hundredths of 1 percent (18 basis points) of total net assets. Total administrative expense for the years ended June 30, 2008 and 2007 were $3,604,096 and $2,859,108 of which $2,730,648 and $2,470,058 were subject to §31580.2 or 15.49 and 13.00 basis points, respectively.

SBCERS' Administrative Expense
As of June 30, 2008 and 2007

	2008	2007
Expense Subject to Statutory Limitation		
Employee Salaries and Benefits	$1,718,109	$1,532,283
Operating Expenses	544,718	480,152
Professional Services	467,821	457,623
Total Expense Subject to Statutory Limitation	2,730,648	2,470,058
Expense Not Subject to Statutory Limitation		
Actuarial Costs	403,291	82,300
Legal Costs	470,157	306,750
Total Expense Not Subject to Statutory Limitation	873,448	389,050
Total Administrative Expense	**$ 3,604,096**	**$ 2,859,108**

13. SUBSEQUENT EVENTS

Pending Litigation, Claims and Assessments

Petition for Writ of Mandamus and Complaint for Declaratory and Injunctive Relief

On June 13, 2008, the County of Santa Barbara filed a *"Petition for Writ of Mandamus and Complaint for Declaratory and Injunctive Relief,"* in Santa Barbara County Superior Court, Action No. 1300995 ("Petition"). The County sought to challenge SBCERS' calculation of employer contributions to the retirement system, certain accounting and actuarial methodologies employed by SBCERS and SBCERS' authority to provide certain supplemental benefits to retired employees of the County and districts participating in the retirement system.

Intervenors' Petition for Writ of Mandamus and Complaint for Declaratory Relief in Intervention

On July 18, 2008 an *"Intervenors' Petition for Writ of Mandamus and Complaint for Declaratory Relief in Intervention"* was filed by legal counsel representing several Santa Barbara County Unions, active employees and two retired members. The petitioners requested that both the County and SBCERS take all action necessary to continue payment and funding of the $15 per year of service benefit and declare it a vested benefit. A hearing date of September 16, 2008 was set to decide if the request for intervention would be allowed in the lawsuit.

On July 23, 2008, SBCERS' Board of Retirement agreed to honor a request from the County received on the same date as this meeting to continue paying the non-taxable $15 per year of service health care credit for the August 1, 2008 benefit payment to allow additional time for the County to seek to implement a 401(h) account to fund such benefits.

Agreement for County to Establish and SBCERS to Administer a 401(h) Medical Trust Plan; Related Litigation Therefore Suspended

On September 16, 2008, the Board of Supervisors passed a resolution:

(i) adopting regulations and an administrative agreement to establish an account for the provision of retiree medical benefits to be funded by the County and other Plan Sponsors and administered by SBCERS, in accordance with §401(h) of the Internal Revenue Code; and

(ii) authorizing execution of a further agreement between the County and SBCERS that, in effect, provides for litigation to be suspended and for a defined status quo to be preserved once the 401(h) account was in place.

On September 19, 2008, SBCERS' Board of Retirement likewise approved the 401(h) regulations, administrative agreement and status quo agreement described above.

On October 28, 2008, the County and SBCERS submitted a joint stipulation to the Superior Court assigned to hear the related litigation, which advised the Court of the existence and terms of the Agreement and requested that the Court schedule a status conference for early 2009.

On January 16, 2009, the County filed a Request for Dismissal of the entire action and all causes of action, which was approved and entered by the Superior Court on the same date.

Voluntary Compliance Plan Statement

On July 2, 2008, as part of filing an application for determination and a voluntary compliance plan, the County Board of Supervisors submitted to the Internal Revenue Service (IRS) a proposed resolution adopting the provisions of CERL §31694 and a proposed resolution providing for the contribution of funds by the County and various districts into a Post-Employment Benefits Trust Account (401(h) account).

Also submitted were proposed regulations to establish the respective roles and responsibilities of SBCERS and the County with respect to the funding, distribution, expenditure, actuarial, accounting and reporting considerations, and applicable investment provisions. Under the proposed regulations submitted to the IRS, the County would be the settlor for the 401(h) account and would provide for the funding of the account. SBCERS would be the fiduciary of the account, and the County would reserve the right to modify or terminate the plan.

Employer Contribution Rates for 2008-2009

The Board of Supervisors exercised its right to delay adopting new 2008-2009 employer contribution rates for ninety days after the recommended effective date of July 1, 2008.

New contribution rates were not adopted by the Board of Supervisors until September 23, 2008 at which time, upon adoption, the rates became effectively immediately (with the pay period beginning September 22, 2008.)

Interim Retirement Administrator

On September 24, 2008, the Board appointed Tom Ford as Interim Retirement Administrator due to the retirement of Administrator Oscar Peters.

Market Decline in 2009

During the period from June 30, 2008 through March 31, 2009 SBCERS has experienced an investment loss of -$525,416,422 (or -29.8%).

14. POST 2007 YEAR-END BOARD ACTION

On September 19, 2008, the Board acted to reclassify $84,130,416 in the 2007 non-valuation Health Coverage Reserve to a newly created valuation Undesignated Earnings Reserve, subsequent to the adoption of a 401(h) Medical Trust Plan by the Santa Barbara County Board of Supervisors on September 16, 2008.

RECLASSIFICATION OF STATEMENT OF PLAN NET ASSETS

As of June 30, 2007

	Retirement	Post Employment Health Care	JUNE 30, 2007
Net Assets Held in Trust for Pension & OPEB Benefits as ORIGINALLY PRESENTED	**$1,806,930,878**	**$93,530,416**	**$1,900,461,294**
Post 2007 End-of-Year Board Action	**84,130,416**	**(84,130,416)**	-
Net Assets Held in Trust for Pension & OPEB Benefits as RESTATED	**$1,891,061,294**	**$ 9,400,000**	**$1,900,461,294**

39 Supplemental Schedules

REQUIRED SUPPLEMENTARY INFORMATION – Pension Plan

Schedule I - Funding Progress – Pension Plan

Dollars in Thousands

Actuarial Valuation Date*	(a) Actuarial Value of Plan Assets	(b) Non-Valuation Assets (NVA)	(c) Valuation Assets (a)-(b)	(d) Valuation Actuarial Accrued Liabilities (AAL)	(e) AAL with NVA (b)+(d)	(f) Unfunded Actuarial Accrued Liabilities (UAAL) (d)-(c) = (e)-(a)	(g) Prior Method Funded Ratio (a) ÷ (e)	(h) Current Method Funded Ratio (c) ÷ (d)	(i) Covered Payroll	UAAL as a Percentage of Covered Payroll (f) ÷ (i)
06/30/03	$1,346,665	$135,317	$1,211,348	$1,319,547	$1,454,864	$108,199	92.6%	91.8%	$257,237	42.1%
06/30/04	1,379,170	137,613	1,241,557	1,441,156	1,578,769	199,599	87.4%	86.2%	266,960	74.8%
06/30/05	1,443,824	137,829	1,305,995	1,549,803	1,687,632	243,808	85.6%	84.3%	267,785	91.0%
06/30/06	1,552,776	137,825	1,414,951	1,671,831	1,809,656	256,880	85.8%	84.6%	287,382	89.4%
**06/30/07	1,735,489	31,020	1,704,469	1,956,834	1,987,854	252,365	87.3%	87.1%	294,163	85.8%
06/30/08	1,893,984	2,528	1,891,456	2,135,955	2,138,483	244,499	88.6%	88.6%	307,264	79.6%

* *Information for years prior to 2007 was provided by prior actuaries.*
Prior to 2007, non-valuation asset reserves were included with the Actuarial Value of Assets (AVA).
Non-Valuation asset reserves were also added to the Actuarial Accrued Liabilities (AAL) prior to 2007.
Beginning in 2007, non-valuation assets are not included in the AVA and are no longer added to the AAL.

** *Results as of June 30, 2007 do not match those previously reported in the 2007 Comprehensive Annual Financial Report (CAFR). This information reflects the Board's actions on September 19, 2008 regarding asset reserve classifications.*

Schedule II - Employer Contributions – Pension Plan

Year Ended	Annual Required Contributions (ARC)	Contributions Made As a Percentage of ARC
06/30/03*	$ 9,118,000	100.0%
06/30/04	39,335,000	100.0%
06/30/05	46,721,000	100.0%
06/30/06	53,977,000	100.0%
06/30/07	63,395,000	100.0%
06/30/08	69,461,000	100.0%

* *The scheduled timing of the actuarial valuation was changed to fiscal year basis effective June 30, 2003. The low ARC for June 30, 2003 only represents six (6) months of required employer contributions and is greatly impacted by the large annual pre-payment of contributions made by the County of Santa Barbara in July at the beginning of each fiscal year.*

REQUIRED SUPPLEMENTARY INFORMATION – Other Post Employment Benefits

Schedule III - Funding Progress – Other Post Employment Benefits

Valuation Date	(a) Actuarial Value of Plan Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a)÷(b)	(c) Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (b-a) ÷ (c)
06/30/06	$ 94,235,000	$ 90,146,000	$ (4,089,000)	104.5%	$ 287,382,000	(1.4)%
06/30/07	93,530,000	111,326,000	17,796,000	84.0%	294,163,000	6.0%

** The Board of Retirement elected to forego an OPEB Actuarial Valuation as of June 30, 2008. SBCERS and contributing Employers were in process of establishing a 401(h) Medical Trust and the Board felt a valuation would not be representative of the changing OPEB benefit.*
The OPEB Actuarial Valuation must be performed every two years. The next OPEB Actuarial Valuation is scheduled for 06/30/2009.

Schedule IV – Employer Contributions – Other Post Employment Benefits

Year Ended	Annual Required Contributions (ARC)	Contributions Made As a Percentage of ARC
06/30/07	$-0-	0.0%

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES – Pension Plan
For Fiscal Year Ended June 30, 2008

Actuarial Methods and Assumptions– Pension Plan

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information of the latest Pension actuarial valuation dated June 30, 2007 is as follows:

Valuation Date	June 30, 2008
Actuarial Cost Method	Entry age normal
Amortization Method	15-year amortization of actuarial gains and losses (using a level percentage of projected payrolls)
Amortization Period	15-year closed amortization of each year's actuarial gain or loss [layers] (adopted 04/09/2003)
Asset Valuation Method	Actuarial market value method with a smoothed fair value over a five-year period (adopted 04/09/2003)
Actuarial Assumptions:	
Investment rate of return	8.16 % APY (adopted 04/26/1995)
Projected salary increases	• Variable percentage based on service (duration) for Merit and Longevity *and* • 4.00 % Inflation (COLA) - comprised of 3.5% for consumer price inflation and 0.5% for real wage inflation (adopted 01/29/2008)
Cost-of-living adjustments	Up to 3 % for General Plan 5, Safety Plan 4 and APCD Plan (adopted 02/21/2001) General Plan 2 is not eligible to receive these adjustments

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES – Other Post Employment Benefits
For Fiscal Year Ended June 30, 2008

Actuarial Methods and Assumptions– Other Post Employment Benefits

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information of the Other Post Employment Benefits actuarial valuation dated June 30, 2007 is as follows:

OPEB Valuation Date June 30, 2007
The Board of Retirement elected to forego an OPEB Actuarial Valuation as of June 30, 2008. SBCERS and contributing Employers were in process of establishing a 401(h) Medical Trust and felt a valuation would not be representative of the changing OPEB benefit.

Actuarial Cost Method Entry age normal

Actuarial Assumptions:

Investment rate of return 8.16 % APY (adopted 04/26/1995)

Projected salary increases Future salary increases do not have an impact on OPEB benefit levels, but do have an impact on the annual required OPEB contribution (ARC), i.e. funding of the benefit

Valuation of Subsidy The monthly Health Insurance Subsidy will be equal to the maximum subsidy of $15 per year of service

Valuation of Assets The Health Coverage Reserve will be used to pay for the retiree health benefits

Post-Retirement Benefit Increases

Assumptions of no future increases granted in any of the following:

- Monthly Health Insurance Subsidy of $15 per year of service
- Monthly Cash Benefit of $4 per year of service for those electing to forego the health subsidy
- Monthly Subsidy of $187 for members receiving disability retirement benefits

Health Plan Description Future Retirees are assumed to receive the following:

- 75% will receive the monthly health subsidy of $15 per year of service
- 25% will receive the monthly cash benefit of $4 per year of service

Healthcare Cost Trend Rate The Healthcare Cost Trend Rate is not applicable because the total cost of health benefits is not valued. Only the monthly health insurance subsidy of $15 per year of service is valued using the assumption that no future increase will be granted to the amount.

Schedule Of Administrative Expense

For the Years Ended June 30, 2008 and 2007

	2008	2007
Personnel Services		
Salaries and Employee Benefits	$ 1,718,109	$ 1,532,283
Total Personnel Services	1,718,109	1,532,283
Professional Services		
Computer Software Services and Support	116,439	110,257
County Cost Allocation	45,124	61,108
External Audit Fees	57,753	26,047
Disability Medical Fees	137,551	150,938
Disability Transcription Fees	12,242	29,754
Disability Hearing Officer Fees	29,851	65,151
Other Professional Services	68,861	14,368
Total Professional Services	467,821	457,623
Communication		
Postage	46,266	40,553
Telecommunication	20,995	21,060
Training	99,568	84,510
Transportation and Travel	13,606	13,254
Total Communication	180,435	159,377
Rents / Leases / Structures		
Rents/Leases – Structure	156,562	150,726
Furniture & Fixtures	3,509	444
Building Maintenance	47,161	2,805
Total Rents / Leases / Structures	207,232	153,975
Miscellaneous		
Computer Equipment and Supplies	46,746	50,397
Other Office Expenses	76,799	82,182
Insurance	33,506	34,221
Total Miscellaneous	157,051	166,800
Total Administrative Expense	$ 2,730,648	$ 2,470,058

Schedule Of Investment Expense

For the Years Ended June 30, 2008 and 2007

	2008	2007
Investment Activity		
Investment Management Fees		
Stock Managers		
Domestic	$ 1,455,729	$ 2,000,255
International	1,313,097	1,652,913
Bond Managers		
Domestic	1,346,288	929,375
Total From Investment Activity	4,115,114	4,582,543
Other Investment Expense		
Consultant	836,600	602,663
Custodian	124,165	144,951
Total Other Investment Expense	960,765	747,614
Total Fees and Other Investment Expense	$ 5,075,879	$ 5,330,157

Schedule of Payments to Consultants

For the Years Ended June 30, 2008 and 2007

	2008	2007
Actuarial Services	$ 403,291	$ 82,300
Audit Services	57,753	26,047
Legal Services	470,157	306,750
Total Payments to Consultants	$ 931,201	$ 415,097

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Pension Consulting Alliance, Inc.
Los Angeles – Portland – New York – www.pensionconsulting.com

October 9, 2008

Retirement Board
Santa Barbara County Employees' Retirement System (SBCERS)
3916 State Street, Suite 210
Santa Barbara, CA 93105

Dear Board Members:

This letter reviews the investment performance of the Santa Barbara County Employees' Retirement System ("System") for the fiscal year ended June 30, 2008. During this period of time, the SBCERS total investment portfolio decreased by $140.6 million to a value of $1.8 billion. The portfolio is broadly diversified, holding investments ranging from domestic equities to private real estate. Despite the challenging investment environment of the last twelve months, the System has been effective in using its resources in a cost-effective manner to ensure that benefits continue to flow to plan participants.

The System's custodian, Mellon Bank, independently prepared the underlying performance data. The performance calculations were made in compliance with GIPS Performance Presentation Standards. PCA serves as SBCERS' independent investment consultant and evaluated the System's performance in relation to market benchmarks, appropriate manager peer groups and other public pension funds.

The most critical factor influencing overall investment performance is the allocation of the SBCERS portfolio across major asset classes. The second quarter report for 2008 reflects asset allocation guidelines adopted by the System during the fourth quarter of 2005. The portfolio's actual allocation is closely aligned with policy. The actual domestic equity allocation was underweight versus policy, while domestic fixed income was overweight.

Over the last year, the SBCERS investment portfolio produced an overall return of minus (7.4%), which was below the median peer result*. The primary difference between SBCERS and its peers' portfolios is the peers' higher average allocation to private real estate. The portfolio also underperformed its policy benchmark by approximately 1.0% largely due to lagging results attributable the plan's active equity managers.

During the last three and five year periods, the SBCERS portfolio generated average annual returns of 6.3% and 9.0%, respectively. The latter five-year result exceeds the plan's long-term actuarial expected annual return of 8.16%. The plan's longer-term returns, however, lagged both peer and policy benchmark results due largely to the same causes as the most recent twelve-month period: a lower allocation to private real estate versus peer funds and active equity managers that underperformed over the most recent investment cycle. A review of the strategic allocation of the portfolio is currently being conducted and may result in future adjustments of the fund's assets.

Sincerely,

Neil Rue, CFA
Managing Director

*This is net of commingled fund fees, but before separate account fees. Policy benchmark returns are calculated gross of fees. Peers data comes from the Mellon Master Trust Universe.

514 N.W. 11th Avenue • Suite 203 • Portland, OR 97209 • bus: (503) 226-1050 • fax: (503) 226-7702

INVESTMENT POLICIES

External investment management firms manage the System's investment assets. Professional investment consultants, along with staff, closely monitor the activity of these managers and assist the Board with the implementation of investment policies and long-term investment strategies.

The Retirement Board (the Board), having sole and exclusive authority and fiduciary responsibility for the investment and administration of the system, has adopted an Investment Objectives and Policy Statement, which reflect the Board's policies for management of the System's investments.

1. The investment of the assets of the Retirement System shall be based on a financial plan that will consider:

   - the financial condition of the Retirement System
   - the expected long-term capital market outlook
   - the Board's risk tolerance
   - future growth of active and retired participants
   - inflation and the rate of salary increase
   - cash flow

   The financial plan measures the potential impact on pension cost of alternative investment policies in terms of risk and return based on various levels of asset diversification and the current and projected liability structure of the retirement plan.

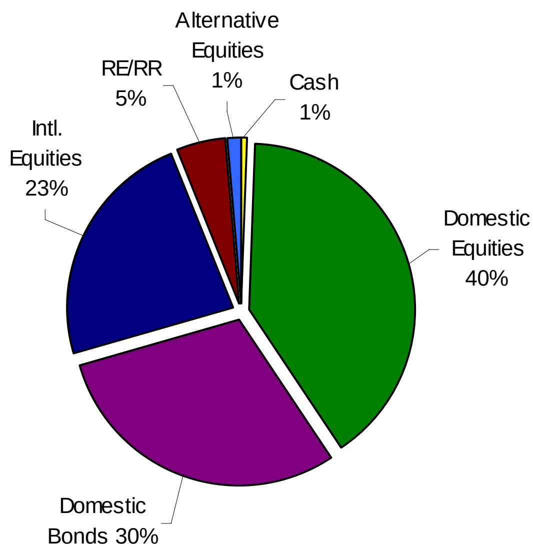
2. Based on the financial plan, it will be the responsibility of the Board to determine the specific allocation of the investments among the various asset classes considered prudent given the retirement plan's liability structure. The asset allocation, which is the Retirement System's investment structure, shall be sufficiently diversified to maintain risk at a reasonable level, determined by the Board without imprudently sacrificing return. The Board shall determine performance benchmarks against which the asset allocation plan shall be reviewed to ensure that the asset mix remains appropriate to meet long-term goals of the investment program.

3. In accordance with the asset allocation guidelines, the Board will select external investment managers with demonstrated experience and expertise whose investment styles collectively will implement the planned asset allocation.

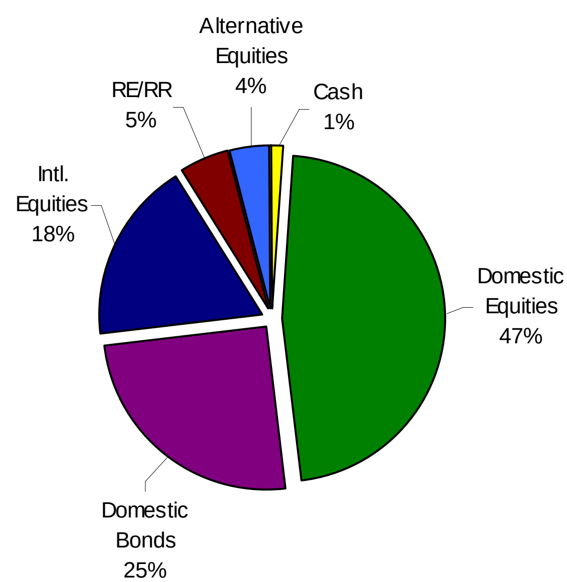
4. It is the responsibility of the Board to administer the investments of the Retirement System at the lowest possible cost, being careful to avoid sacrificing quality.

INVESTMENT SUMMARY *As of June 30, 2008*	**Market Value**	**Percent of Total Market Value**
Cash	$ 11,718,860	0.63%
Short Term Investments	102,221,117	5.48%
U.S. Government Bonds	38,368,560	2.06%
Municipal Bonds	2,964,485	0.16%
Domestic Corporate Bonds	413,945,530	22.21%
International Bonds	57,507,841	3.09%
Total Bonds	512,789,416	27.52%
Alternative Equities	27,208,653	1.46%
Domestic Equities	746,306,583	40.05%
International Equities	378,028,620	20.28%
Total Equities	1,151,543,856	61.79%
Real Estate/Real Return	85,393,947	4.58%
Total Equities & Fixed Income	**1,863,664,196**	**100.00%**
Collateral Held for Securities Lent	60,378,810	-
Total	**$1,924,043,006**	**100.00%**

Actual Asset Allocation



Target Asset Allocation



INVESTMENT RESULTS BASED ON FAIR MARKET VALUE

As of June 30, 2008

Investments	Current Year	Annualized 3 - year	Annualized 5 - year
Domestic Equity	-15.4%	3.7%	7.6%
Russell 3000 Benchmark	-12.7%	4.7%	8.4%
International Equity	-8.1%	14.1%	16.9%
MSCI ACWI xUS Index	-6.2%	16.2%	19.4%
Domestic Bonds	6.8%	4.2%	4.5%
Lehman Universe Index	6.2%	4.1%	4.2%
Real Estate/Real Return*	9.3%	-	-
*NCREIF Index***	6.2%	-	-
Private Equity	0.6%	-	-
Russell 3000 plus 3%	-9.7%	-	-
Cash	4.3%	3.5%	2.5%
Citigroup 3 month T-Bill	3.3%	4.1%	3.1%
Total Fund	-7.1%	6.2%	8.8%
SBCERS Policy Benchmark	-5.6%	7.3%	9.9%

Calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with Global Investment Performance Standards (GIPs). Returns shown here for SBCERS are net of fees.

* *Transitioned to this category January 2006, no position was held in this category October through December 2005.*

** *Reassigned to NCREIF index as of 4/1/2006.*

SCHEDULE OF TOP TEN EQUITY SECURITIES AND TOP TEN BOND HOLDINGS

As of June 30, 2008

TOP TEN EQUITY SECURITIES by Market Value

Shares/Par	Security Name	Market Value
359,074	Exxon Mobil Corp	$ 31,645,192
153,909	Chevron Corporation Com	15,256,999
571,300	General Electric Co Com	15,247,997
392,875	AT&T Inc Com	13,235,959
123,970	ConocoPhillips	11,701,528
161,834	Procter & Gamble Co Com	9,841,126
220,600	Expeditors Intl Wash Inc Com	9,485,800
539,872	Pfizer Inc Com Stk USD 0.05	9,431,564
249,907	JPMorgan Chase & Co Com	8,574,309
235,307	Verizon Communications Com	8,329,868

TOP TEN BOND HOLDINGS by Market Value

Shares/Par	Security Name	Market Value
25,610,000	Commit to Pur FNMA SF Mtg 4.50%	$ 23,730,226
12,800,000	Commit to Pur GNMA SF Mtg 5.00%	12,368,640
10,900,000	Commit to Pur FHLMC Gold SFM 6.50%	11,233,813
9,735,000	Commit to Pur GNMA SF Mtg 5.50%	9,656,147
7,440,000	Commit to Pur GNMA SF Mtg 6.00%	7,528,536
6,245,000	Commit to Pur FNMA SF Mtg 6.00%	6,281,846
6,420,000	Commit to Pur FNMA SF Mtg 5.00%	6,152,928
5,600,000	Commit to Pur GNMA SF Mtg 6.00%	5,684,000
6,089,000	JPMorgan Chase Cap XXV Cap Sec 6.80%	5,465,791
5,200,000	Commit to Pur FNMA SF Mtg 5.50%	5,125,120

A complete list of portfolio holdings is available upon request.

INVESTMENT HOLDINGS *As of June 30, 2008*

TYPE OF INVESTMENT	MARKET VALUE	% of PORTFOLIO
ALTERNATIVE EQUITY		
Venture Capital LP	$ 27,208,653	1.46
Alternative Equity Total	27,208,653	1.46
EQUITY		
Aerospace & Defense	$ 2,780,564	0.15
Basic Industries	36,889,461	1.98
Business Services	5,637,485	0.30
Capital Goods	57,275,913	3.07
Chemicals	24,462,048	1.31
Commingled Funds US/Intl	100,479,882	5.39
Consumer Durables	8,438,306	0.45
Consumer Non-Durables	55,223,390	2.96
Consumer Services	55,394,225	2.97
Energy	131,204,697	7.04
Financial Services	131,305,802	7.05
Health Care	90,862,029	4.88
Media	15,742,048	0.84
Mutual Funds US/Intl	205,551,450	11.03
Other	19,649,070	1.05
Pharmaceuticals	2,394,898	0.13
Real Estate	10,434,167	0.56
Technology	123,476,070	6.63
Transportation	20,396,940	1.09
Utilities	26,736,758	1.43
Equity Total	$ 1,124,335,203	60.33
BONDS		
Asset Backed Securities	$ 63,716,123	3.42
Banking & Finance	94,808,150	5.09
Collateralized Mortgage Oblig	63,955,174	3.43
Credit Default Swaps	(318,199)	-0.02
General Obligation	1,877,386	0.10
Government Bonds - US	37,633,909	2.02
Government Bonds - Intl	1,007	0.00
Health Care	1,566,972	0.08
Housing	103,541,011	5.56
Industrial	42,497,284	2.28
Insurance	603,529	0.03
International Corporate Bonds	36,767,749	1.97
Private Placements	36,514,614	1.96
Other Corporate Bonds	23,477,709	1.26
Transportation	3,714,331	0.20
Utilities	12,287,320	0.66
Yankee Bonds	1,861,207	0.10
Bonds Total	$ 524,505,276	28.14
REAL ESTATE		
REIT	51,398,284	2.76
Real Return	33,995,663	1.82
Real Estate Total	85,393,947	4.58
CASH & CASH EQUIVALENTS	102,221,117	5.48
Grand Total	**$ 1,863,664,196**	**100.00**

LIST OF INVESTMENT MANAGERS

Alternative Equity
Arden Asset Management

Domestic Equity
Alliance Bernstein
Alliance Capital Management LP
OFI Institutional Asset Management
Dimensional Fund Advisors
Invesco
First Republic Investment Management

International Equity
New Star Institutional Managers Limited
Pyramis
State Street Global Advisors
The Boston Company

Domestic Bonds
Julius Baer
Lehman Brothers Asset Management
Reams Asset Management
Standish Mellon
STW Fixed Income

Real Estate
RREEF

SCHEDULE OF PROFESSIONAL FEES AND SERVICE

As of June 30, 2008

	Assets Under Management	Fees	Basis Points
Investment Managers			
Bond Managers	$ 512,786,416	$1,226,481	6.58
Equity Managers	1,124,335,203	2,768,826	14.86
Real Estate Manager	85,393,947	-	-
Short Term Investments	102,221,117	119,807	0.64
Alternative Equity	27,208,653	-	-
Total Investment Managers	1,851,945,336	4,115,114	22.08
Other:			
Cash	11,718,860	-	-
Custodian Fees	-	124,165	0.67
Investment Consultant Fees	-	836,600	4.49
	11,718,860	971,855	5.16
Total	$1,863,664,196	$5,075,879	27.24

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55 Actuarial

Milliman

1301 Fifth Avenue
Suite 3800
Seattle, WA 98101-2605
USA

Tel +1 206 624 7940
Fax +1 206 623 3485

milliman.com

April 2, 2009

Mr. Tom Ford
Santa Barbara County Employees' Retirement System
3916 State Street, Suite 210
Santa Barbara, CA 93105

Members of the Board:

Milliman has performed the June 30, 2008 annual actuarial valuation for the Santa Barbara County Employees Retirement System (SBCERS). It is anticipated that future actuarial valuations will be performed every year with the next valuation to be as of June 30, 2009. Milliman was retained by SBCERS in March 2007. Prior valuations were performed by a different firm.

Changes since July 8, 2008

Our letter for the 2007 certification was based on the information available as of July 8, 2008 and was based on information that was later reported in a 2007 valuation dated August 5, 2008. Subsequent to both the prior certification letter and the August 5, 2008 report, additional actions were taken by the Board of Retirement. On September 19, 2008, the Board acted to reclassify certain assets that resulted in an increase in the valuation reserves used for funding the regular SBCERS benefits. As a result of this restatement of the earlier 2007 valuation report, the total contribution rates decreased from 25.58% to 23.06% and the Funded Ratio increased from 82.8% to 87.1%. This letter reflects those revised 2007 results. Other than these asset reclassifications, no benefits or actuarial assumptions changed for 2007.

Contribution Rates

Contribution rates are based on the entry age cost method which will tend to produce rates that remain relatively level as a percentage of payroll. As of June 30, 2008, there is an Unfunded Actuarial Accrued Liabilities (UAAL) of $244.4 million. The current financing objective of SBCERS is to amortize any UAAL as a percentage of projected salaries of present and future members of SBCERS. Each year's change is measured separately and amortized over a fixed 15-year period. This approach is sometimes referred to as a "layered" amortization method. Due primarily to changes in plan membership, the total calculated contribution rate for all plans increased from 23.06% of pay, based on the final June 30, 2007 valuation report dated September 19, 2008, to 23.30% of pay, based on the June 30, 2008 valuation.

Funding Status

As of June 30, 2008, the Funded Ratio increased during the past year from 87.1% to 88.6% due to experience gains primarily due to asset gains from the recognition of recent investment gains (0.9%) and the transfer of the Contingency Reserve from a nonvaluation asset to a valuation asset (1.1%). Other changes, including the expected year-to-year change due to contributions and the demographic experience, combined to decrease the Funded Ratio (-0.5%). The Funded Ratio is the ratio of the actuarial value of the valuation assets over the value of the actuarial accrued liability.

Milliman

Board of Retirement
April 2, 2009
Page 2

Certification Statement

The June 30, 2008 valuation results are based on the membership data and the asset information provided by SBCERS. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes, although we have not audited the data at the source. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is found to be materially inaccurate or incomplete, our calculations will need to be revised.

The valuation is also based on our understanding of SBCERS's current benefit provisions and the actuarial assumptions which were last reviewed and adopted by the Board at their November and December 2007 meetings. The assumptions were based on the triennial investigation of experience study report as of June 30, 2007. Assumptions will be reviewed again in 2010.

The actuarial computations presented in the valuation report are for purposes of determining the recommended funding amounts for SBCERS consistent with our understanding of their funding requirements and goals. The liabilities are determined by using the entry age normal funding method. The actuarial assets are determined by using a five-year smoothed recognition method of asset gains and losses, determined as the difference of the actual market value to the expected market value. We believe the actuarial assumptions and methods are internally consistent, reasonable and meet the parameters of Governmental Accounting Standards Board Statement No. 25 for fulfilling financial accounting requirements. Nevertheless, the emerging costs will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions. Future actuarial measurements may differ significantly from the current measurements as presented in the valuation report due to many factors. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

We assisted in the preparation of several schedules included in the actuarial, statistical and financial sections of SBCERS's Comprehensive Annual Financial Report. Information for years prior to the 2007 valuation was prepared by the prior actuarial firms retained by SBCERS. The sections with which we were involved are listed below:

1. Schedule of Active Member Valuation Data
2. Schedule of Retired Members and Beneficiary Data
3. Solvency Test
4. Analysis of Financial Experience
5. Schedule of Average Benefit Payment Amounts
6. Schedule of Funding Progress

We certify that the June 30, 2008 valuation was performed in accordance with the Actuarial Standards Board (ASB) standards of practice and by qualified actuaries. We are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Respectfully submitted,

Karen I. Steffen

Daniel Wade

Karen I. Steffen, FSA, EA, MAAA
Consulting Actuary

Daniel R. Wade, FSA, EA, MAAA
Consulting Actuary

KIS/DRW/nlo

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Assumptions And Methods

Recommended by the Actuary and adopted by the Board of Retirement. The actuarial assumptions used to determine the liabilities are based on the results of the June 30, 2007 Experience Study. The Board of Retirement adopted the new assumptions on 01/29/2008. The actuarial valuation of the assets and liabilities of SBCERS were determined with respect to the following:

Noneconomic assumptions

- No refunds occur after a member in any plan reaches 20 years of service
- Service-based salary increase due to promotion and longevity (merit increase)
- Mortality assumptions are based on a more current table and active member mortality assumptions are the same as the rates recommended for retired members
- General plan male and female members have an ultimate retirement age of 75
- Safety plan members have an ultimate retirement age of 65
- General plan male rates increased modestly for service retirement
- General plan female rates increased for service retirement
- Safety plan member rate increased for service retirement
- Disabled rates are based on age, sex and plan membership
- General and Safety plan members rates of termination based on service rather than age
- Healthy General and Safety plan retirees have lower mortality rates
- All members are assumed to elect the unmodified retirement allowance; additionally, 80% of all male retirees and 50% of female retirees have an eligible survivor
- Beneficiary age, as compared to member age: 3 years older in males and 3 years younger in females; additionally, the beneficiaries' sex is the opposite of the member
- Age at which vested terminated members commence retirement benefits was changed for some plans
- 50% of all deferred vested members are eligible for reciprocity with another California retirement system

Economic assumptions

- General Wage growth of 4.00%, (the total of consumer price inflation assumption of 3.5% and the real wage inflation rate of 0.50%)
- Merit and Longevity salary increase of varying percentages based on service (duration)
- Net investment return of 8.16%
- Total expense ratio, administrative expense plus investment expense, of 0.45%
- Payroll growth assumed to be the same as wage growth

Assumptions for Post Employment Benefits Other than Pensions

- Termination, retirement, disability, mortality and other assumptions will be the same as used for the pension valuation
- 75% of future retirees will select a monthly subsidy for County health plan benefits of $15 per year of service, while 25% will select the cash benefit option, percentages are based upon service weighted method
- Members receive the maximum monthly subsidy

- No future increases will be granted for the monthly subsidy of $15 per year of service, monthly cash benefit of $4 per year of service for members foregoing the health subsidy, or monthly subsidy floor of $187 for members receiving disability retirement benefits

Actuarial Cost Method

SBCERS uses the entry age actuarial cost method. The Unfunded Actuarial Accrued Liability (UAAL), if any, is amortized as a level of percentage of the projected salaries of present and future members of SBCERS over specified fixed periods of time. The UAAL is being funded over fifteen years from the valuation date each new liability is first recognized (adopted 04/09/2003).

Actuarial Asset Valuation Method

Five-year smoothed method based on the difference between expected and actual market value of assets as of the valuation date (adopted 04/09/2003).

Amortization of Gains and Losses

Actuarial gains and losses are reflected in the Unfunded Actuarial Accrued Liability and amortized over fifteen years (adopted 04/09/2003).

Investment Rate of Return

Future investment earnings are assumed to accrue at an annual rate of 8.16%, compounded semi-annually, exclusive of both investment and administrative expenses (adopted 04/26/1995).

Projected Salary Increases

Rates of annual salary increases (adopted 01/29/2008, BOR resolution 2008-01) assumed for the purpose of the valuation are:

- Variable percentage annually for merit and longevity based on service (duration) and
- 4.0% for inflation (cost-of-living adjustments – comprised of 3.5% for consumer price inflation and 0.5% for real wage inflation)

Rates of Separation from Employment

Various rates are dependent upon member's age, sex, and retirement plan.

During the experience study period (July 1, 2003 to June 30, 2007):

- *Pre-Retirement Death*
  - The same mortality table is used for active members as is used for retired healthy members.

- *Ordinary Disability*
  - The incidence of *ordinary disability* was lower than expected for General male members. No changes recommended.
  - The incidence of *ordinary disability* was higher than expected for Safety members. No changes recommended.

- *Duty Disability*
  - The number of actual separations due to *duty disability* was lower than expected for General male members and higher than expected for Safety members. No changes recommended.

- *Service Retirement*
  - The number of actual separations due to *service retirement* was slightly lower than expected for General male members and significantly higher than expected for General female members. This resulted in *service retirement* rates being increased for both General males and General females. In addition, the ultimate assumed retirement age was increased from 70 to 75.
  - The number of actual separations due to *service retirement* was higher than expected for Safety members. Consequently, the rates for *service retirement* increased for Safety plan members. Additionally, the ultimate assumed retirement age was increased from 60 to 65.

- *Withdrawal*
  - The incidence of *withdrawal* was slightly lower than expected for General and Safety plan members. This trend resulted in decreasing the probability of *withdrawal* rates and basing these rates on years of service instead of age.

- *Vested Termination*
  - The number of actual separations due to *vested termination* for General males were higher than expected and lower than expected for General female members. The number of actual separations due to *vested termination* were lower than expected for Safety members. Rates based upon duration were adopted rather than the age-based assumptions previously used.

None of the other types of separations demonstrated a statistically significant trend.

Post-Retirement Benefit Increases

Cost-of-Living benefit increases of up to 3% per year are assumed for the valuation in accordance with the benefits provided for General Plan 5, Safety Plan 4 and APCD Plan (adopted 02/21/2001). General Plan 2 is not eligible to receive these adjustments (adopted 02/21/2001).

Expectation of Life after Retirement

During the period investigated, the number of actual deaths after Service Retirement was lower than expected for General females and Safety members. The number of expected deaths is very close to the number of actual deaths for General males. As a result, the retiree assumptions were strengthened as follows:

RP-2000 Combined Mortality Table:

- For male members, set back 3 years
- For female members, set back 2 years

Note: No set back means that the table is used as published. When the table is set forward one year, the member's life expectancy is that of someone one year older. When the table is set back one year, the member's life expectancy is that of someone one year younger.

Expectation of Life after Disability

During the period investigated, the number of actual deaths after Disability Retirement was lower than expected for General and Safety members. A more modern ***Disability Retirement Mortality table*** was adopted 01/29/2008 (BOR resolution 2008-01) that will better reflect the future experience.

RP-2000 Combined Mortality Table:

- For General members, no age adjustment
- For Safety members, no age adjustment

Note: No set back means that the table is used as published. When the table is set forward one year, the member's life expectancy is that of someone one year older. When the table is set back one year, the member's life expectancy is that of someone one year younger.

Mortality Tables Impact on Employee Contribution Rates

Member contribution rates will be based on the following sex distinct mortality tables adjusted by ages and used regardless of gender:

RP-2000 Combined Mortality Table assumptions used:

- For General healthy members, the Male table set back 4 years
- For Safety healthy members, the Male table set back 3 years
- For Beneficiaries, the Male table set back 4 years
- For General disabled members, the Female table set forward 1 year
- For Safety disabled members, the Male table with no age adjustment

Note: No set back means that the table is used as published. When the table is set forward one year, the member's life expectancy is that of someone one year older. When the table is set back one year, the member's life expectancy is that of someone one year younger.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Plan Type	Active Members	Average Annual Salary	Average	% Increase in Average Salary
June 30, 2002	General	3,660	$ 175,920,000	$ 48,066	9.1%
	Safety	961	58,763,000	61,148	8.5%
	Total	**4,621**	**$ 234,683,000**	**50,786**	**8.9%**
June 30, 2003	General	3,648	$ 193,102,000	$ 52,934	10.1%
	Safety	925	64,135,000	69,335	13.4%
	Total	**4,573**	**$ 257,237,000**	**56,251**	**10.8%**
June 30, 2004	General	3,559	$ 199,365,000	$ 56,017	5.8%
	Safety	944	67,596,000	71,606	3.3%
	Total	**4,503**	**$ 266,961,000**	**59,285**	**5.4%**
June 30, 2005	General	3,558	$ 199,371,000	$ 56,035	0.0%
	Safety	947	68,414,000	72,244	0.9%
	Total	**4,505**	**$ 267,785,000**	**59,442**	**0.3%**
June 30, 2006	General	3,658	$ 214,405,000	$ 58,613	4.6%
	Safety	982	72,977,000	74,315	2.9%
	Total	**4,640**	**$ 287,382,000**	**61,936**	**4.2%**
June 30, 2007	General	3,569	$ 214,717,000	$ 60,162	2.6%
	Safety	1,003	75,506,000	75,280	1.3%
	APCD	53	3,940,000	74,340	N/A
	Total	**4,625**	**$294,163,000**	**63,603**	**2.7%**
June 30, 2008	General	3,552	$ 226,426,000	$ 63,746	6.0%
	Safety	1,006	77,230,000	76,769	2.0%
	APCD	48	3,608,000	75,167	1.1%
	Total	**4,606**	**$307,264,000**	**66,710**	**4.9%**

SCHEDULE OF RETIREES & BENEFICIARIES ADDED TO AND REMOVED FROM RETIREMENT PAYROLL

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Fiscal Year	Number	Annual Allowance	Number	Annual Allowance	Number	Annual Allowance	% Increase in Retiree Allowance	Average Annual Allowance
2001	126	$ 2,183,588	(66)	($ 862,260)	2,128	$36,766,740	7.6%	$17,278
2002	182	$ 4,869,205	(69)	($ 729,682)	2,241	$41,805,316	13.7%	$18,655
2003	184	$ 5,470,614	(80)	($1,362,009)	2,345	$47,280,006	13.1%	$20,162
2004	185	$ 4,846,363	(90)	($1,316,001)	2,440	$52,267,967	10.5%	$21,421
2005	202	$ 6,264,388	(81)	($1,410,780)	2,561	$58,823,879	12.5%	$22,969
2006	191	$ 4,784,912	(73)	($1,257,887)	2,679	$64,580,012	9.8%	$24,106
2007	203	$ 7,348,140	(70)	($1,165,047)	2,812	$70,763,105	9.6%	$25,165
2008	232	$ 8,624,426	(72)	($1,213,017)	2,972	$83,023,412	17.3%	$27,935

ACTUARIAL SOLVENCY TEST
Dollars in Thousands

Valuation Date	Valuation Assets	Actuarial Accrued Liabilities for: Active Member Contribution (A)	Retirees and Beneficiaries (B)	Active Members (Employer Financed) (C)	Total AAL	Portion of Accrued Liabilities Covered by Reported Assets: (A)	(B)	(C)
12/31/1998	$ 938,295	$ 85,113	$ 318,476	$ 546,616	$ 950,205	100%	100%	97.8%
12/31/1999	$ 1,068,357	$ 90,308	$ 359,969	$ 617,100	$ 1,067,377	100%	100%	100.2%
12/31/2000	$ 1,171,138	$ 98,215	$ 396,275	**$ 651,029	$ 1,145,519	100%	100%	103.9%
12/31/2002	$ 1,295,956	$ 122,032	$ 460,031	$ 781,542	$ 1,363,605	100%	100%	91.3%
06/30/2003	$ 1,346,665	$ 105,570	$ 572,737	$ 776,557	$ 1,454,864	100%	100%	86.1%
06/30/2004	$ 1,379,170	$ 115,530	$ 633,082	$ 830,157	$ 1,578,769	100%	100%	76.0%
06/30/2005	$ 1,443,824	$ 125,040	$ 715,319	$ 847,273	$ 1,687,632	100%	100%	71.2%
06/30/2006	$ 1,552,776	$ 137,148	$ 788,479	$ 884,029	$ 1,809,656	100%	100%	70.9%
06/30/2007*	$ 1,704,469	$ 169,218	$ 979,657	$ 810,516	$ 1,959,391	100%	100%	68.5%
06/30/2008	$ 1,891,456	$ 177,770	$1,124,748	$ 833,437	$ 2,135,955	100%	100%	70.7%

* • Information for years prior to 2007 was provided by prior actuaries.
- Prior to 2007, non-valuation asset reserves were included with the Actuarial Value of Assets (AVA).
- Non-valuation asset reserves were also added to the Actuarial Accrued Liabilities (AAL) for Active Members prior to 2007.
- Beginning in 2007, non-valuation assets are not included in the AVA and are no longer added to the AAL.
- Also beginning in 2007, liabilities for terminated members with vested deferred benefits are included with the AAL for Retirees and Beneficiaries.
- Results as of June 30, 2007 do not match those previously reported in the 2007 Comprehensive Annual Financial Report (CAFR). This information reflects the Board's actions on September 19, 2008 regarding asset reserve classifications.

** Excluding benefit improvements.

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE
Dollars in Millions

As of June 30	2008	2007	2006	2005
Prior Valuation Unfunded Actuarial Accrued Liability	**$252.3**	**$256.9**	**$243.8**	**$199.6**
Expected Change from Prior Year	(5.6)	5.8	2.2	4.2
Actuarial (Gains) or Losses During the Year				
Asset Transfer from Non-Valuation Reserves	(21.6)	(84.1)	-	-
Asset Return (Greater) or Less than Expected	(20.3)	(57.6)	7.9	41.5
New Entrants	2.9	4.0	-	-
Salary Increases Greater or (Less) than Expected	10.9	12.6	-	-
Changes in Assumptions and Methodology	-	114.2	(7.0)	-
*Changes in Plan Provisions**	-	10.2	1.1	-
All Other (Including Demographic Experience)	25.8	(9.7)	8.9	(1.5)
Total Changes	(7.9)	4.6	13.1	44.2
Values as of Valuation Date	**$244.4**	**$252.3**	**$256.9**	**$243.8**

Information for years prior to 2007 was provided by prior actuaries.
Results as of June 30, 2007 do not match those previously reported in the 2007 Comprehensive Annual Financial Report (CAFR).
**Changes in Plan Provisions are for new Safety Plan 6 and General Plan 5C.*

PROBABILITY OF SEPARATION FROM ACTIVE SERVICE

The following tables indicate the probability of separation from active service for each of five separate sources of termination:

SERVICE RETIREMENT	Member retires after satisfaction of requirements of age and/or service for reasons other than disability.
DUTY DISABILITY	Member receives disability retirement; disability is employment related.
ORDINARY DISABILITY	Member receives disability retirement; disability not employment related.
ORDINARY DEATH	Member dies prior to eligibility for retirement; death not employment related.
OTHER TERMINATIONS	Member terminates and requests a refund of member contributions and/or terminates and leaves the contributions on deposit (vested terminations).

The probability shown for each cause of termination represents the probability that a given member will terminate at a particular age for the indicated reason. For example, if the probability of withdrawal at age 25 is .1380, then we are assuming that 13.8 percent of the active members at age 25 will terminate without vested rights during the next year.

The age at which a vested terminated member is assumed to commence the payment of retirement benefits is:

PLAN	AGE
General Plan 2	65
General Plan 5	56
Safety Plan 4	52
Safety Plan 6	50
APCD	56

Rate of Separation From Active Service

Assumptions adopted January, 29 2008

GENERAL MEMBERS – MALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Ordinary Death	Years of Service	Other Terminations
20	0.00%	0.01%	0.00%	0.03%	**5**	8.75%
30	0.00%	0.02%	0.00%	0.04%	**10**	4.87%
40	2.00%	0.07%	0.02%	0.09%	**15**	3.34%
50	2.00%	0.17%	0.10%	0.17%	**20**	2.37%
60	15.00%	0.29%	0.29%	0.47%	**25**	0.85%
70	20.00%	0.35%	0.60%	1.61%	**30+**	0.04%

Rate of Separation From Active Service

Assumptions adopted January, 29 2008

GENERAL MEMBERS – FEMALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Ordinary Death	Years of Service	Other Terminations
20	0.00%	0.01%	0.00%	0.02%	**5**	7.84%
30	0.00%	0.01%	0.02%	0.02%	**10**	4.87%
40	8.00%	0.06%	0.07%	0.06%	**15**	3.34%
50	8.00%	0.14%	0.22%	0.14%	**20**	2.37%
60	15.00%	0.25%	0.42%	0.39%	**25**	0.85%
70	30.00%	0.30%	0.61%	1.35%	**30+**	0.04%

Rate of Separation From Active Service

Assumptions adopted January, 29 2008

SAFETY PLAN 4 MEMBERS – MALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Ordinary Death	Years of Service	Other Terminations
20	0.00%	0.02%	0.00%	0.03%	**5**	3.60%
30	3.00%	0.10%	0.00%	0.04%	**10**	2.66%
40	3.00%	0.40%	0.07%	0.09%	**15**	2.18%
50	4.00%	0.82%	0.09%	0.17%	**20+**	0.00%
60	20.00%	1.01%	0.11%	0.47%		

Rate of Separation From Active Service

Assumptions adopted January, 29 2008

SAFETY PLAN 4 MEMBERS – FEMALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Ordinary Death	Years of Service	Other Terminations
20	0.00%	0.02%	0.00%	0.02%	**5**	3.60%
30	3.00%	0.10%	0.00%	0.02%	**10**	2.66%
40	3.00%	0.40%	0.07%	0.06%	**15**	2.18%
50	4.00%	0.82%	0.09%	0.14%	**20+**	0.00%
60	20.00%	1.01%	0.11%	0.39%		

Rate of Separation From Active Service

Assumptions adopted January, 29 2008

SAFETY PLAN 6 MEMBERS – MALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Ordinary Death	Years of Service	Other Terminations
20	0.00%	0.02%	0.00%	0.03%	**5**	3.60%
30	3.00%	0.10%	0.00%	0.04%	**10**	2.66%
40	3.00%	0.40%	0.07%	0.09%	**15**	2.18%
50	8.00%	0.82%	0.09%	0.17%	**20+**	0.00%
60	20.00%	1.01%	0.11%	0.47%		

Rate of Separation From Active Service

Assumptions adopted January, 29 2008

SAFETY PLAN 6 MEMBERS – FEMALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Ordinary Death	Years of Service	Other Terminations
20	0.00%	0.02%	0.00%	0.02%	**5**	3.60%
30	3.00%	0.10%	0.00%	0.02%	**10**	2.66%
40	3.00%	0.40%	0.07%	0.06%	**15**	2.18%
50	8.00%	0.82%	0.09%	0.14%	**20+**	0.00%
60	20.00%	1.01%	0.11%	0.39%		

Mortality for Members Retired for Service

Assumptions Adopted January, 29 2008

	GENERAL		SAFETY			GENERAL		SAFETY	
Age	**Male**	**Female**	**Male**	**Female**	**Age**	**Male**	**Female**	**Male**	**Female**
20	0.030%	0.019%	0.030%	0.019%	**60**	0.469%	0.392%	0.469%	0.392%
25	0.037%	0.020%	0.037%	0.020%	**65**	0.876%	0.765%	0.876%	0.765%
30	0.038%	0.024%	0.038%	0.024%	**70**	1.608%	1.345%	1.608%	1.345%
35	0.056%	0.039%	0.056%	0.039%	**75**	2.728%	2.297%	2.728%	2.297%
40	0.090%	0.060%	0.090%	0.060%	**80**	4.691%	3.760%	4.691%	3.760%
45	0.122%	0.094%	0.122%	0.094%	**85**	8.049%	6.251%	8.049%	6.251%
50	0.173%	0.143%	0.173%	0.143%	**90**	13.604%	10.730%	13.604%	10.730%
55	0.267%	0.221%	0.267%	0.221%					

Mortality for Members Retired for Disability

Assumptions Adopted January, 29 2008

GENERAL & SAFETY MEMBERS

Age	Male	Female	Age	Male	Female
20	0.035%	0.019%	**60**	0.675%	0.506%
25	0.038%	0.021%	**65**	1.274%	0.971%
30	0.044%	0.026%	**70**	2.221%	1.674%
35	0.077%	0.048%	**75**	3.783%	2.811%
40	0.108%	0.071%	**80**	6.437%	4.588%
45	0.151%	0.112%	**85**	11.076%	7.745%
50	0.214%	0.168%	**90**	18.341%	13.168%
55	0.362%	0.272%			

Salary Increase Assumption

Assumptions Adopted January, 29 2008

GENERAL MEMBERS

Years of Service	Due to Promotion & Longevity	Total Annual Increase	Years of Service	Due to Promotion & Longevity	Total Annual Increase
<1	4.75%	8.94%	16	0.50%	4.52%
1	4.00%	8.16%	17	0.48%	4.50%
2	3.25%	7.38%	18	0.46%	4.48%
3	2.50%	6.60%	19	0.44%	4.46%
4	2.00%	6.08%	20	0.42%	4.44%
5	1.50%	5.56%	21	0.40%	4.42%
6	1.25%	5.30%	22	0.38%	4.40%
7	1.00%	5.04%	23	0.36%	4.37%
8	0.90%	4.94%	24	0.34%	4.35%
9	0.80%	4.83%	25	0.32%	4.33%
10	0.78%	4.81%	26	0.30%	4.31%
11	0.75%	4.78%	27	0.28%	4.29%
12	0.70%	4.73%	28	0.26%	4.27%
13	0.65%	4.68%	29	0.25%	4.26%
14	0.60%	4.62%	30+	0.25%	4.26%
15	0.55%	4.57%			

The total expected increase in salary is the increase due to promotions and longevity, adjusted for an assumed 4.00% per annum increase in the general wage level of the membership. The total result is compounded rather than additive.

Salary Increase Assumption

Assumptions Adopted January, 29 2008

SAFETY MEMBERS

Years of Service	Due to Promotion & Longevity	Total Annual Increase	Years of Service	Due to Promotion & Longevity	Total Annual Increase
<1	6.00%	10.24%	16	0.82%	4.85%
1	5.00%	9.20%	17	0.80%	4.83%
2	4.00%	8.16%	18	0.77%	4.80%
3	3.25%	7.38%	19	0.74%	4.77%
4	2.50%	6.60%	20	0.72%	4.75%
5	2.00%	6.08%	21	0.69%	4.72%
6	1.60%	5.66%	22	0.67%	4.70%
7	1.30%	5.35%	23	0.64%	4.67%
8	1.20%	5.25%	24	0.62%	4.64%
9	1.10%	5.14%	25	0.59%	4.62%
10	1.00%	5.04%	26	0.57%	4.59%
11	0.95%	4.99%	27	0.54%	4.57%
12	0.92%	4.96%	28	0.52%	4.54%
13	0.89%	4.93%	29	0.50%	4.52%
14	0.87%	4.90%	30+	0.50%	4.52%
15	0.85%	4.88%			

The total expected increase in salary is the increase due to promotions and longevity, adjusted for an assumed 4.00% per annum increase in the general wage level of the membership. The total result is compounded rather than additive.

Immediate Refund of Contributions Upon Termination of Employment

Assumptions adopted January, 29 2008

GENERAL & SAFETY MEMBERS

Years of Service	General Male	General Female	Safety
0	100%	100%	100%
5	50%	50%	35%
10	15%	20%	35%
15	10%	10%	20%
20	0%	0%	0%
25	0%	0%	0%
30	0%	0%	0%

SUMMARY OF MAJOR PLAN PROVISIONS

Eligibility

- First pay period following date of employment

Definition of Salary

- Highest 12 consecutive months of compensation earnable for General Plans 5A and 5B, Safety Plans 4A, 4B, 6A, and APCD Plans 1 and 2

- Highest 36 consecutive months of compensation earnable for General Plan 2 and 5C, Safety Plans 4C, 4D, 6B and part-time members in all plans

Service Retirement

NORMAL RETIREMENT AGE

- Age 65 for §31486.4 (General Plan 2)
- Age 57 for §31676.12 (General Plan 5)
- Age 55 for §31664.2 (Safety Plan 4)
- Age 50 for §31664.1 (Safety Plan 6)
- Age 55 for §31676.15 (APCD Plan)

EARLY RETIREMENT

- Age 50 and 10 years for General Plan 5 and APCD Plan
- Age 55 and 10 years for General Plan 2

  OR
- 30 years for General Plan 5 and APCD Plan
- 20 years for Safety Plans 4 and 6

BENEFIT AT NORMAL RETIREMENT AGE

- 2 percent of final average salary per year of service times benefit factor (§31676.12 and §31676.15 respectively) for General Plan 5 and APCD Plan

- 2 percent of final average salary per year of service (maximum 35 years) plus 1 percent of final average salary per year of service in excess of 35 (maximum 10 years) reduced by 1/35 of Social Security benefit at age 65 per year of service (maximum 35 years) for General Plan 2

- 3 percent of final average salary per year of service times benefit factor for Safety Plans 4 (§31664.2) and 6 (§31664.1)

BENEFIT ADJUSTMENTS

- Reduced for retirement before:
  - Age 65 for § 31486.4 (General Plan 2)
  - Age 57 for § 31676.12 (General Plan 5)
  - Age 55 for § 31664.2 (Safety Plan 4)
  - Age 50 for § 31664.1 (Safety Plan 6)
  - Age 55 for § 31676.15 (APCD Plan)

  Reductions for § 31486.4 are actuarial equivalents

- Increased for retirement after:
  - Age 57 for § 31676.12 (General Plan 5)
  - Age 55 for § 31676.15 (APCD Plan)

Disability Retirement

- Non-service connected for General Plan 5, Safety Plans 4 and 6 and APCD Plan
  - 1.8 percent of final average salary per year of service, with maximum of 33⅓ percent if projected service is used (age 62 for General Plan 5, age 55 for Safety Plans 4 and 6 and age 65 for APCD Plan) or
  - 90 percent of the accrued service retirement benefit without a benefit adjustment, or service retirement benefit (if eligible)

- Service connected for General Plan 5, Safety Plans 4 and 6 and APCD Plan
  - Greater of 50 percent of final average salary or service retirement benefit (if eligible)

- General Plan 2 purchases long-term insurance policy
  - 60 percent of salary provided outside of the Plan
  - Payments are reduced by other disability income benefits
  - Service retirement at age 65 (credit given toward service retirement while disabled under the LTD Plan)

Death Before Retirement

- Non-service connected before eligible to retire for General Plan 5, Safety Plans 4 and 6 and APCD Plan
  - Refund of contributions plus 1/12 of last year's salary per year of service up to 6 years

- Eligible for non-service connected disability or service retirement for General Plan 5, Safety Plans 4 and APCD Plan
  - 60 percent of member's accrued allowance

- Service connected for General Plan 5, Safety Plans 4 and 5, and APCD Plan
  - 50 percent of salary

- Benefit for General Plan 2
  - 1/12 of last year's salary per year of service up to 6 years

Death After Retirement

- $5,000 lump sum death benefit for General Plan 5, Safety Plans 4 and 6, and APCD Plan

- Service retirement or non-service connected disability
  - 60 percent of member's allowance payable to an eligible spouse for General Plan 5, Safety Plans 4 and 6and APCD Plan
  - 50 percent of member's allowance payable to an eligible spouse for General Plan 2

- Service connected disability
  - 100 percent of member's allowance payable to an eligible spouse for General Plan 5, Safety Plans 4 and 6 and APCD Plan
  - 50 percent of member's allowance payable to an eligible spouse for General Plan 2

Vesting

- Must leave contributions on deposit
- Five years of service for General Plan 5, Safety Plans 4 and 6 and APCD Plan
- Ten years of service for General Plan 2

Member's Contributions

- Based on entry age
- Half rates for General Plans 5A and 5C, Safety Plans 4A, 4C, 4D, 6A and APCD Plan 1
- Full rates for General Plan 5B, Safety Plan 4B and APCD Plan 2
- General Plan 2 is noncontributory

Maximum Benefit

- 100 percent of final average salary for General Plan 5, Safety Plans 4 and 6 and APCD Plan
- Benefit and Social Security combined cannot exceed 70 percent of final average salary if service is less than 35 years, otherwise 80 percent for General Plan 2

Cost-Of-Living

- Up to 3 percent cost-of-living adjustment for General Plan 5, Safety Plans 4 and 6 and APCD Plan
- None for General Plan 2

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Schedule of Additions By Source

Fiscal Year	Member Contributions	Employer Contributions	Gross Return on Investments	Investment Expenses	Other Income	Total
1999	$ 7,039,762	$ 29,088,462	$115,349,949	$ (2,505,666)	$ -	$148,972,507
2000	7,348,582	30,057,229	78,590,073	(2,447,083)	-	113,548,801
2001	8,458,680	29,346,269	(44,280,522)	(8,253,395)	596,247	(14,132,721)
2002	10,480,593	31,759,299	(57,204,548)	(5,177,584)	4,400	(20,137,840)
2003	12,796,575	33,799,166	57,301,619	(4,426,277)	4,012	99,475,095
2004	13,633,762	39,334,678	190,516,409	(5,198,320)	4,001	238,290,530
2005	14,827,847	46,720,797	143,795,225	(8,473,262)	49,497	196,920,104
2006	15,057,589	53,976,749	170,316,018	(11,648,395)	55,990	227,757,951
2007	15,853,139	63,395,296	285,497,505	(13,887,027)	2,233,265	353,092,178
2008	15,479,629	69,460,616	(122,988,456)	(10,260,776)	629,238	(47,679,749)

Schedule of Deductions By Type

Fiscal Year	Benefits Paid	Refunds	Administrative Expenses	Total
1999	$ 33,493,394	$ 893,349	$ 620,626	$ 35,007,369
2000	37,537,933	991,089	697,085	39,226,107
2001	40,775,721	1,144,835	1,523,493	43,444,049
2002	46,792,742	885,479	1,715,345	49,393,566
2003	51,443,905	1,204,495	1,520,815	54,169,215
2004	57,634,424	1,467,988	1,985,863	61,088,275
2005	64,254,302	1,284,974	1,842,161	67,381,437
2006	71,018,064	1,474,822	2,140,186	74,633,072
2007	76,846,452	1,883,614	2,470,058	81,200,124
2008	84,409,181	1,819,710	2,730,648	88,959,539

Schedule of Benefit Expenses By Type

Fiscal Year	Benefits Paid General	Benefits Paid Safety	Benefits Paid APCD	Death Benefits	Total Benefit Expense
1999	$ 24,631,860	$ 8,777,855	$	$ 83,679	$ 33,493,394
2000	26,250,846	11,047,682	-	239,405	37,537,933
2001	28,365,250	12,067,274	-	343,197	40,775,721
2002	31,877,649	14,669,468	-	245,625	46,792,742
2003	33,663,687	17,349,343	-	430,875	51,443,905
2004	38,007,015	19,335,644	-	291,765	57,634,424
2005	38,419,896	25,474,122	-	360,284	64,254,302
2006	42,993,071	27,439,334	265,414	320,245	71,018,064
2007	46,357,692	29,787,719	418,508	282,533	76,846,452
2008	50,680,926	32,900,009	596,896	231,350	84,409,181

Schedule of Average Benefit Payments

	Years of Retirement					
	0-9	10-14	15-19	20-24	25-29	30+
December 31, 1999						
Average Monthly Benefit	$1,893	$1,518	$1,168	$865	$778	$710
Average Annual Benefit	22,721	18,221	14,019	10,384	9,331	8,522
Number of Active Retirees	914	313	309	304	125	47
December 31, 2000						
Average Monthly Benefit	$1,890	$1,714	$1,290	$897	$910	$684
Average Annual Benefit	22,679	20,563	15,480	10,768	10,923	8,213
Number of Active Retirees	1,013	311	285	301	132	56
December 31, 2001						
Average Monthly Benefit	$1,764	$ 1,691	$1,218	$911	$648	$602
Average Annual Benefit	21,172	20,291	14,617	10,930	7,775	7,226
Number of Active Retirees	1,113	365	257	270	188	69
December 31, 2002						
Average Monthly Benefit	$1,907	$1,675	$1,277	$923	$946	$887
Average Annual Benefit	22,881	20,101	15,323	11,072	11,349	10,641
Number of Active Retirees	1,125	349	264	275	193	69
June 30, 2003						
Average Monthly Benefit	$2,046	$1,789	$1,329	$1,014	$941	$928
Average Annual Benefit	24,549	21,471	15,944	12,167	11,295	11,132
Number of Active Retirees	1,181	365	258	274	189	78
June 30, 2004						
Average Monthly Benefit	$2,163	$1,837	$1,472	$1,156	$927	$959
Average Annual Benefit	25,950	22,044	17,665	13,870	11,124	11,508
Number of Active Retirees	1,281	337	267	244	216	95
June 30, 2005						
Average Monthly Benefit	$2,328	$1,851	$1,635	$1,279	$885	$1,076
Average Annual Benefit	27,938	22,214	19,624	15,345	10,616	12,915
Number of Active Retirees	1,367	363	264	234	219	114
June 30, 2006						
Average Monthly Benefit	$2,390	$1,989	$1,773	$1,366	$936	$1,091
Average Annual Benefit	28,680	23,870	21,271	16,396	11,235	13,096
Number of Active Retirees	1,472	355	286	237	209	120
June 30, 2007						
Average Monthly Benefit	$2,462	$2,045	$1,906	$1,510	$1,056	$1,113
Average Annual Benefit	29,544	24,540	22,872	18,120	12,672	13,356
Number of Active Retirees	1,566	349	314	232	207	144
June 30, 2008						
Average Monthly Benefit	$2,651	$2,176	$2,106	$1,764	$1,310	$1,332
Average Annual Benefit	31,812	26,112	25,272	21,168	15,720	15,984
Number of Active Retirees	1,776	340	305	228	192	131

Schedule of Participating Employers	**June 30, 2008**	**June 30, 2007**
County of Santa Barbara:		
General Members	3,242	3,218
Safety Members	979	1,003
Total:	4,221	4,221
Santa Barbara Courts:		
General Members	284	277
Total:	284	277
Participating District Members:		
Air Pollution Control	48	53
Carpinteria Cemetery	2	2
Carpinteria-Summerland Fire Protection	7	32
Goleta Cemetery	4	4
Oak Hill Cemetery	3	3
Santa Barbara Association of Governments	19	17
Santa Barbara Vector Control	5	4
Santa Maria Cemetery	9	8
Summerland Sanitary	4	4
Total:	101	127
Total Active Membership:	4,606	4,625

Employer Contribution Rates

Effective July 1, 2007

		SB County Air Pollution Control District	SB County & SB Courts	Special Districts
General	APCD 1	19.93%		
	APCD 2	20.45%		
General	Plan 2		10.81%	
	Plan 5A		17.26%	17.26%
	Plan 5B		17.26%	
Safety	Plan 4A		34.04%	34.04%
	Plan 4B		28.83%	
	Plan 4C		31.89%	
	Plan 4D		31.60%	
	Plan 6A		34.04%	
	Plan 6B		31.60%	

Member Contribution Rates

Effective July 1, 2007

	General			Safety						APCD	
Entry Age	Plan 5A FAS 1yr Half Rates	Plan 5B FAS 1yr Full Rates	Plan 5C FAS 3yr Half Rates	Plan 4A FAS 1yr Half Rates	Plan 4B FAS 1yr Full Rates	Plan 4C FAS 3yr Half Rates	Plan 4D FAS 3yr Half Rates	Plan 6A FAS 1yr Half Rates	Plan 6B FAS 3yr Half Rates	APCD Plan 1 FAS 1yr Half Rates	APCD Plan 2 FAS 1yr Full Rates
20	3.57%	7.13%	3.57	5.47%	10.93%	5.24%	5.24%	5.47%	5.24%	4.16%	8.33%
21	3.56	7.13	3.56	5.46	10.93	5.23	5.23	5.46	5.23	4.16	8.31
22	3.56	7.13	3.56	5.47	10.93	5.24	5.24	5.47	5.24	4.15	8.30
23	3.56	7.13	3.56	5.47	10.94	5.24	5.24	5.47	5.24	4.15	8.30
24	3.57	7.14	3.57	5.48	10.95	5.25	5.25	5.48	5.25	4.15	8.30
25	3.57	7.15	3.57	5.49	10.98	5.26	5.26	5.49	5.26	4.15	8.30
26	3.58	7.16	3.58	5.50	11.01	5.27	5.27	5.50	5.27	4.15	8.31
27	3.59	7.18	3.59	5.52	11.05	5.29	5.29	5.52	5.29	4.16	8.32
28	3.60	7.20	3.60	5.55	11.10	5.32	5.32	5.55	5.32	4.17	8.34
29	3.62	7.23	3.62	5.58	11.16	5.35	5.35	5.58	5.35	4.18	8.37
30	3.63	7.26	3.63	5.62	11.24	5.39	5.39	5.62	5.39	4.20	8.40
31	3.65	7.30	3.65	5.67	11.34	5.43	5.43	5.67	5.43	4.22	8.43
32	3.67	7.34	3.67	5.72	11.44	5.48	5.48	5.72	5.48	4.23	8.47
33	3.69	7.39	3.69	5.77	11.55	5.53	5.53	5.77	5.53	4.26	8.51
34	3.72	7.43	3.72	5.83	11.66	5.58	5.58	5.83	5.58	4.28	8.56
35	3.74	7.49	3.74	5.89	11.78	5.64	5.64	5.89	5.64	4.31	8.61
36	3.77	7.54	3.77	5.95	11.90	5.70	5.70	5.95	5.70	4.33	8.67
37	3.80	7.60	3.80	6.02	12.03	5.76	5.76	6.02	5.76	4.36	8.73
38	3.83	7.66	3.83	6.09	12.17	5.83	5.83	6.09	5.83	4.39	8.79
39	3.86	7.73	3.86	6.16	12.31	5.90	5.90	6.16	5.90	4.43	8.86
40	3.90	7.80	3.9	6.23	12.47	5.97	5.97	6.23	5.97	4.47	8.93
41	3.94	7.88	3.94	6.31	12.63	6.05	6.05	6.31	6.05	4.51	9.01
42	3.98	7.96	3.98	6.40	12.79	6.13	6.13	6.40	6.13	4.55	9.10
43	4.02	8.04	4.02	6.48	12.97	6.21	6.21	6.48	6.21	4.59	9.18
44	4.06	8.13	4.06	6.58	13.15	6.30	6.30	6.58	6.30	4.64	9.27
45	4.11	8.21	4.11	6.67	13.35	6.39	6.39	6.67	6.39	4.68	9.37
46	4.15	8.31	4.15	6.78	13.56	6.50	6.50	6.78	6.50	4.73	9.46
47	4.20	8.41	4.2	6.89	13.78	6.60	6.60	6.89	6.60	4.79	9.57
48	4.25	8.51	4.25	7.00	13.99	6.70	6.70	7.00	6.70	4.84	9.68
49	4.31	8.61	4.31	7.11	14.21	6.81	6.81	7.11	6.81	4.89	9.79
50	4.36	8.72	4.36	7.22	14.44	6.92	6.92	7.22	6.92	4.95	9.90
51	4.42	8.83	4.42	7.33	14.67	7.03	7.03	7.33	7.03	5.01	10.03
52	4.47	8.95	4.47	7.45	14.91	7.14	7.14	7.45	7.14	5.08	10.15
53	4.53	9.06	4.53	7.59	15.18	7.27	7.27	7.59	7.27	5.14	10.28
54	4.59	9.18	4.59	7.72	15.45	7.40	7.40	7.72	7.40	5.21	10.41
55	4.65	9.30	4.65								
56	4.71	9.41	4.71								
57	4.77	9.53	4.77								
58	4.83	9.65	4.83								
59+	4.89	9.77	4.89								

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79 Glossary

ACCUMULATED PLAN BENEFITS: Benefits attributable under the provisions of a pension plan to employees for services rendered to the benefit information date.

ACTUARIAL ASSUMPTIONS: Assumptions used in the actuarial valuation process as to the occurrence of future events affecting pension costs, such as mortality, withdrawal, disablement and retirement; changes in compensation and national pension benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the actuarial value of assets; characteristics of future entrants for open group actuarial cost methods and other relevant items.

ACCRUAL BASIS: The recording of the financial effects on a government of transactions and other events and circumstances that have cash consequences for the government in the periods in which those transactions, events and circumstances occur, rather than only in the periods in which cash is received or paid by the government.

ACTUARIAL ACCRUED LIABILITY: The portion, as determined by a particular cost method, of the total present value of benefits that is attributable to past service credit.

ACTUARIAL GAIN (LOSS): A measure of the difference between actual and expected experience based upon a set of actuarial assumptions. Examples include higher than expected salary increases (loss) and a higher return on fund assets than anticipated (gain).

ACTUARIAL PRESENT VALUE: The discounted value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions.

AMORTIZATION: (1) The portion of the cost of a limited-life or intangible asset charged as an expense during a particular period. (2) The reduction of debt by regular payments of principal and interest sufficient to retire the debt by maturity.

AUDITOR'S REPORT: In the context of a financial audit, a statement by the auditor describing the scope of the audit and the auditing standards applied in the examination, and setting forth the auditor's opinion on the fairness of presentation of the financial information in conformity with GAAP or some other comprehensive basis of accounting.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report of a government. It includes (a) the five combined financial statements in the combined statements - overview and their related notes (the "liftable" GPFS) and (b) combining statements by fund type and individual fund and account group financial statements prepared in conformity with GAAP and organized into a financial reporting pyramid. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, required supplementary information, extensive introductory material and a detailed statistical section. Every government reporting entity should prepare a CAFR.

ENTRY AGE ACTUARIAL COST METHOD: A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability.

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

PENSION CONTRIBUTION: The amount paid into a pension plan by an employer (or employee), pursuant to the terms of the plan, state law, actuarial calculations or some other basis for determinations.

PENSION TRUST FUND: A trust fund used to account for a PERS. Pension trust funds, like nonexpendable trust funds, use the accrual basis of accounting and have a capital maintenance focus.

UAAL AMORTIZATION PAYMENT: The portion of the pension plan contribution, which is designed to pay off (amortize) the unfunded actuarial accrued liability in a systematic fashion. Equivalently, it is a series of periodic payments required to pay off a debt.

UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL): The excess of the actuarial accrued liability over the actuarial value of assets.