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Special:

Circular Letter

TO: SCHOOL EMPLOYERS

SUBJECT: ESTIMATED 2004-2005 SCHOOL EMPLOYER POOL CONTRIBUTION RATE

The purpose of this letter is to help school employers in the preparation of their 2004-2005 budget by providing them with an estimate of the 2004-2005 school employer pool contribution rate.

For fiscal year 2004-2005, the school employer pool contribution rate is ESTIMATED to be **12.2 percent**.

This estimate assumes that there will be no liability gains or losses (such as larger than expected pay increases, more retirements than expected, etc.). This is a very significant assumption because these gains and losses do occur and can have a significant effect on the contribution rate. Such gains and losses often cause a change in the employer's contribution rate of one or two percent of pay. In less common instances such gains or losses can produce even greater changes in the employer's contribution rate. Unfortunately, these gains and losses cannot be predicted. Therefore, the projected employer contribution rate of 12.2 percent for fiscal 2004-2005 must be considered as an estimate only.

By far, the greatest reason for the recent increases in school employer contribution rates is recent investment returns. Recent press articles have blamed much of the increases on the new higher benefits for school employees. To be sure, higher benefits cost more money. But, far and away, the driver of the current employer rate increases is the investment return.

During the mid to late 1990s, the U.S. stock market experienced one of its greatest booms. The compound annual investment return at CalPERS between July 1, 1994 and June 30, 2000 was 15.6 percent. Because of this excellent investment performance, the contribution rate for school employers was zero for four fiscal years, from 1998-1999 through 2001-2002.

However, this great market boom was followed by 3 fiscal years of returns considerably less than the 8.25 percent assumed in CalPERS' actuarial calculations. The return for fiscal year 2000-2001, it was -7.23 percent, for fiscal year 2001-2002, it was -6.4 percent, and for fiscal 2002-2003, it was about 4 percent. These returns have caused the school employer pool contribution rate to increase from zero percent in fiscal year 2001-2002 to 10.420 percent for the 2003-2004 fiscal year. As mentioned above, the 4 percent investment return in fiscal year 2002-2003 is ESTIMATED to cause the employer rate to increase to 12.2 percent for fiscal year 2004-2005.

Even with these recent investment returns, the 10-year compound return for the period ending June 30, 2003, was 8.23 percent and for the 15-year period ending June 30, 2003, CalPERS' return was 9.38 percent. So, CalPERS has equaled or exceeded the long-term 8.25 percent assumed return over the past 10 to 15 years.

If you have any questions, please contact the Actuarial & Employer Services Division at the above listed address or telephone number.

Ron Seeling, Chief Actuary
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