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Date: **June 26, 2002**

Reference No:

Circular Letter No: **200-023-02**

Distribution: **I, II A, VI**

Special:

TO: ALL PUBLIC AGENCIES

SUBJECT: SLUGGISH ECONOMY AND LOWER STOCK PRICES WILL CAUSE PUBLIC AGENCY CONTRIBUTION RATES TO INCREASE BEGINNING IN 2003-04

For the past two years the US economy has struggled to recover from significant declines in stock prices, particularly in the technology sector. Many believe the worst is behind us but stock prices continue to fall as the Dow Jones Industrial Average is down 1,000 points from this time a year ago. Although PERS investment managers have been able to shield the Public Employees Retirement Fund from the magnitude of losses experienced by other institutional funds and private investors, the fund experienced a negative 7.2% rate of return on investments during the twelve months ended June 30, 2001 (2000-01) and we estimate the rate of return for 2001-02 will be close to negative 3%.

Impact on Contribution Rates

A number of actuarial assumptions are used in projecting your plan's liabilities and setting your employer contribution rate. When actual experience deviates from the actuarial assumptions, your contribution rate is impacted. This is certainly true of investment performance. When investment performance is better than expected, contribution rates are lowered; and conversely when investment performance is worse than expected, contribution rates increase. Because of excellent investment performance during most of the 1990's, contribution rates have been very low or zero for many years for the majority of PERS agencies. That era is coming to an end at least temporarily and we expect that some agencies may experience substantial rate increases in the future. Because the actuarial cost method has a two year lag in recognizing investment gains and losses and a three year asset smoothing technique thereafter, these rate increases will be phased in beginning with the 2003-04 year and continue for several years.

Primary Indicator for Increase in Contribution Rate

We have identified a key statistic that may predict whether your agency will experience substantial rate increases beginning in 2003-04. This statistic is called the "funded status". Funded status is the ratio of your actuarial value of assets to accrued liability. You can find the funded status for your plan on page four of your June 30, 2000

Actuarial Valuation Report, or on page three of your Contract Amendment Cost Analysis if you amended your plan after June 30, 2000.

- **If your funded status is between 90% and 130%**, we are estimating that your contribution rate might increase by up to 4% of pay from 2002-03 to 2003-04 and by up to 16% of pay from 2003-04 to 2004-05.
- **If your funded status is less than 90%, or greater than 130%**, we are estimating that your contribution rate might increase by up to 2% of pay from 2002-03 to 2003-04 and by up to 4% of pay from 2003-04 to 2004-05.

While the funded status is not an absolute predictor of results for your plan(s), a phone call to your CalPERS actuary is certainly warranted if your funded status falls between 90% and 130% and we urge you to make that call.

Secondary Indicator

In addition to the funded status, if your agency has relatively large assets and accrued liabilities but few active participants, your contribution rate might also increase substantially beginning in 2003-04. In this case, the impact of recent investment performance is "leveraged" since the contribution rate is the "cost" divided by expected payroll.

Employee Contribution Rate

Up to this point, we have been addressing the possibility that some agencies will experience substantial increases in their "employer" contribution rates in the future. You should also be aware that if your plan is "superfunded" and you have been paying employee contributions from surplus assets, the recent investment performance might result in the loss of superfunded status and cause you or your employees to resume making "employee" contributions. A plan is superfunded if the actuarial value of assets exceeds the total present value of benefits. You can determine if your plan is superfunded by referring to page five of your June 30, 2000 Actuarial Valuation Report, or to page two of your Contract Amendment Cost Analysis, if you amended your plan after June 30, 2000.

Our analysis shows that about 620 plans were superfunded at June 30, 2000. After reflecting the recent investment performance, we estimate that this number will drop to approximately 490 at June 30, 2001 and to 250 by June 30, 2002. Remember that because of the two year lag in the actuarial cost method, the superfunded status at June 30, 2001 and June 30, 2002 will affect employee contributions for 2003-04 and 2004-05, respectively.

Nature of Estimates

The information in this letter should be regarded as an estimate of the rate increases that may occur in the future. The 90% to 130% funded status range is an estimate. The potential rate increases up to 2% of pay from 2002-03 to 2003-04 and up to 4% of pay from 2003-04 to 2004-05, for plans with funded status less than 90% or greater than 130%, are estimates and actual increases may exceed these amounts.

In addition, we have only considered the effect on future contribution rates produced by recent investment performance. Other events may also cause substantial increases in future rates or serve to dampen the impact of the recent negative investment returns. These other events include but are not limited to the level of increases in employee compensation, or disabilities, deaths, or retirements at levels or ages other than the assumed rates. In addition, recent benefit improvements coupled with recent investment returns can combine to produce substantial contribution rate increases.

Conclusion

Our goal is to provide you with clear and concise information regarding actuarial issues that may affect you as a public agency providing PERS benefits. This letter is intended to help certain affected agencies prepare for the possibility of substantial contribution rate increases in the future. If you have any questions after reading this letter, or if you are concerned that your plan might be among those that experience substantial contribution rate increases in the future, we once again urge you to call your PERS actuary as soon as possible. The listing of actuaries by county served is attached.

Sincerely,

Ron Seeling, Chief Actuary
Actuarial & Employer Services Division

Actuarial Contacts

Actuary	Phone Number
Bill Karch	(916) 795-2856
David Clement	(916) 795-2472
Ray Lane	(916) 795-0328
David DuBois	(916) 795-3427
Gale Patrick	(916) 795-3709
Kung-pei Hwang	(916) 795-3411
Barbara Ware	(916) 795-3426

County Name	Actuary Assigned
ALAMEDA	David DuBois

ALPINE	David Clement
AMADOR	David DuBois
BUTTE	Barbara Ware
CALAVERAS	Gale Patrick
COLUSA	Bill Karch
CONTRA COSTA	David DuBois
DEL NORTE	Bill Karch
EL DORADO	Gale Patrick
FRESNO	David Clement
GLENN	Bill Karch
HUMBOLDT	Bill Karch
HUMBOLDT	David DuBois
IMPERIAL	David Clement
INYO	David Clement
KERN	Barbara Ware
KINGS	Gale Patrick
LAKE	Bill Karch
LASSEN	David Clement
LOS ANGELES	Kung-pei Hwang
MADERA	Gale Patrick
MARIN	Barbara Ware
MARIPOSA	Gale Patrick
MENDOCINO	Bill Karch
MERCED	Gale Patrick
MODOC	Bill Karch
MONO	Bill Karch
MONTEREY	Barbara Ware
NAPA	Barbara Ware

County Name	Actuary Assigned
NEVADA	David Clement
ORANGE	Kung-pei Hwang
PLACER	Bill Karch
PLUMAS	Bill Karch
RIVERSIDE	David DuBois

SACRAMENTO	Ray Lane
SAN BENITO	Barbara Ware
SAN BERNARDINO	Gale Patrick
SAN DIEGO	Ray Lane
SAN FRANCISCO	David DuBois
SAN JOAQUIN	Bill Karch
SAN LUIS OBISPO	Barbara Ware
SAN MATEO	David DuBois
SANTA BARBARA	Ray Lane
SANTA CLARA	David Clement
SANTA CRUZ	David Clement
SHASTA	David Clement
SIERRA	David Clement
SISKIYOU	David Clement
SOLANO	Gale Patrick
SONOMA	Barbara Ware
STANISLAUS	Barbara Ware
SUTTER	Barbara Ware
TEHAMA	Bill Karch
TRINITY	Bill Karch
TULARE	Gale Patrick
TUOLUMNE	Barbara Ware
VENTURA	Bill Karch
YOLO	Ray Lane
YUBA	Barbara Ware