ATTACHMENT 1
ESTIMATES OF POOLS' NORMAL COST AND SURCHARGES FOR CLASS 1 BENEFITS

In order to provide employers with a general idea of the cost associated with each risk pool, below are preliminary estimates of the pools' normal costs, estimates of some of the surcharges for class 1 benefits and an example of how the phase out of the normal cost will be done.

Estimated Normal Costs

The following table contains the estimated normal cost for each of the 9 risk pools. Note that the normal cost does not include the cost of class 1 benefits. Class 1 benefits will be paid for through surcharges.

Pool Number	Benefit Formula	Estimated Employer Normal Cost
Pool 1	2% @ 60 Miscellaneous	5.8%
Pool 2	2% @ 55 Miscellaneous	6.6%
Pool 3	2.5% @ 55 Miscellaneous	8.2%
Pool 4	2.7% @ 55 Miscellaneous	8.5%
Pool 5	3% @ 60 Miscellaneous	10.1%
Pool 6	2% @ 55 Safety	8.4%
Pool 7	2% @ 50 Safety	11.5%
Pool 8	3% @ 55 Safety	13.6%
Pool 9	3% @ 50 Safety	15.3%

Member contributions (whether paid by the employer or the employee) are in addition to the above rates unless the plan is superfunded.

Estimated Surcharges for Class 1 Benefits

The following table contains estimates of the surcharges for a sample of class 1 benefits. Note that the surcharges will vary by risk pool.

Class 1 Benefit	Surcharges								
	Pool 1	Pool 2	Pool 3	Pool 4	Pool 5	Pool 6	Pool 7	Pool 8	Pool 9
One Year Final Compensation	0.5%	0.6%	0.7%	0.7%	0.8%	0.7%	1.1%	1.2%	1.2%
Post-Retirement Survivor Allowance	0.7%	1.0%	1.1%	1.1%	1.1%	1.1%	1.9%	2.0%	2.0%
3% COLA	0.7%	0.8%	1.0%	1.0%	1.1%	0.9%	1.3%	1.5%	1.6%
5% COLA	1.1%	1.3%	1.7%	1.7%	1.9%	1.6%	2.5%	2.8%	3.0%
IDR for Miscellaneous Members	0.4%	0.5%	0.5%	0.5%	0.5%	N/A	N/A	N/A	N/A

The surcharges in the above table are estimates only. Exact surcharges will be calculated as part of the June 30, 2003 pool valuations and included in the valuation report of each pool.

Note that CalPERS' actuarial staff is currently performing an experience study. This experience study is required under Section 20133 of the Government Code. This study consists of an investigation of demographic experience such as mortality incidence, retirement incidence and disability incidence over a 4-year period. When completed, the results of the experience study will be presented to the CalPERS' Board. If the study indicates that a change in demographic assumptions is warranted, the CalPERS' Board will be asked to approve the new assumptions. These assumptions would then be used in the actuarial valuations, starting with the June 30, 2003 valuations. More information will be made available at the time if new assumptions are approved.

Phase Out of Normal Cost – Example

In order to help employers better understand how the phase out of normal cost will be done, an example is provided below.

Let's assume that the miscellaneous plan of City XYZ is about to participate in the 2% @ 55 miscellaneous pool and that the employer normal cost for that plan is currently 8.7%. That plan currently contracts for 2 class 1 benefits: 1 year final compensation and post-retirement survivor allowance.

For the phase out calculation, the individual plan's normal cost is compared with the pool's normal cost plus applicable surcharge.

1. Pool's Normal Cost	6.6%
2. 1 Year Final Compensation Surcharge	0.6%
3. Post-Retirement Survivor Allowance Surcharge	1.0%
4. Sum of 1, 2 & 3	8.2%
5. Individual Plan's Normal Cost (Pre-Pooling)	8.7%
6. Total Difference (4 minus 5)	-0.5%
7. Annual Phase-Out (5 year phase-out)	-0.1%

The first year into the pool, City XYZ will be paying its individual employer normal cost. The annual phase-out will start in the second year. For this plan, the phase out of the difference in normal cost will result in the following employer normal costs:

Estimated Post-Pooling Employer Normal Cost for City XYZ

Year	Employer Normal Cost (% of Payroll)
1st Year	8.7%
2nd Year	8.6%
3rd Year	8.5%
4th Year	8.4%
5th Year	8.3%
6th Year	8.2%