



PERSppectives



Fourth Quarter 2006

Public Employee Retirement System of Idaho

PERSI FUNDING STATUS AMONG THE HIGHEST NATIONWIDE

In recent years, the media has focused much of its attention on the troubles surrounding pension plans. The Pension Protection Act of 2006 was signed into law last August to address some of the problems. With all the talk about pension reform and the difficulties so many pension plans face, PERSI wants to take time to reassure its members we are on solid ground.

The Pension Protection Act of 2006

While the majority of traditional, defined benefit pension plans in both the public and private sectors are financially healthy, some plans are significantly underfunded. In the past few years, a number of large, underfunded pension plans, most notably in the airline industry, have been terminated, putting the retirement security of thousands of plan participants at risk.

The Act primarily focuses on funding issues associated with private sector plans; however, some of the provisions will affect public pensions. For example, starting in 2007, non-spouse beneficiaries will be able to roll over inherited workplace savings

plan assets to a special Individual Retirement Account (IRA). The beneficiary will avoid taxes on the rollover, and will be taxed only when the assets are withdrawn.

PERSI's Status

PERSI is currently 95 percent pre-funded, which means it has already funded 95 percent of its total obligations regardless of when benefit payments are due to retirees. In the pension world, 90 percent funding or higher is considered relatively healthy.

The value of the PERSI fund is rapidly approaching \$11 billion. Thanks to sound investment strategies employed by Chief Investment Officer Bob Maynard, PERSI has generated more than a 12 percent return on investments during the last fiscal year (ending June 30, 2006).

With this level of stability (see related story below), PERSI members can rest assured their retirement benefits are not in jeopardy. For more detailed information about PERSI's financial and funding status, members can review the 2006 annual report on the PERSI Web site at www.persi.gov.

CONTRIBUTION RATES AND COST OF LIVING ADJUSTMENTS

Contribution Rate Increase Postponed Again

At its October meeting, PERSI's Retirement Board unanimously approved postponing future contribution rate increases by one year. The increase scheduled for July 1, 2007 is postponed until 2008, and the July 1, 2008 increase is postponed until 2009. There hasn't been a rate increase since 2004 thanks to PERSI's funding stability.

Cost of Living Adjustment Approved

Ensuring PERSI's 28,000 retirees maintain their purchasing power is a priority. To accomplish this, PERSI provides cost of living adjustments (COLAs).

Idaho Code requires a mandatory 1 percent COLA if the Consumer Price Index (CPI), the inflation factor, increases more than 1 percent. The law also allows the PERSI Retirement Board to award a discretionary COLA. The Retirement Board unanimously approved a 2.8 discretionary COLA at its October meeting. The combined COLAs total 3.8 percent, the maximum post-retirement allowance allowed by law. Unless modified by the legislature, the COLA will go into effect on March 1, 2007.

Inside this issue:

Financial Resolutions.....	2
Beneficiary Form.....	3
Choice Plans Statements....	3
Investment News.....	4
2006 Annual Report.....	4
Notes.....	4

Insights

2007 FINANCIAL RESOLUTION SOLUTIONS

Many of us make New Year's resolutions each year, only to see them go by the wayside before the end of January. According to a survey conducted by Bankrate.com, 31 million people resolved to improve their financial fitness last year; most failed to achieve their goals. In fact, only 9 percent of all New Year's resolutions are kept. Change is difficult and financial change seems especially challenging. To succeed, we shouldn't make resolutions that dramatically change our lifestyle. Planning, setting goals, prioritizing, and taking action are part of a resolution solution that could work for you.

Try, Try Again

If you vowed to improve your fiscal health in 2006, but didn't make the progress you hoped, it's not too late. Get back in the saddle for 2007. Rather than tackling several areas of your finances, try modifying one. You might start by preparing a monthly budget; even if you get off track one week, you can make a fresh start the following week and still make great strides.

Goal Setting

You can't reach a goal if you never set one. Your goal can be anything from paying off credit card debt to saving a percentage of your income for retirement. It helps to keep goals realistic and specific. Without a goal, you can't tell if you're on target for success.

Plan A Strategy

Unless you take the time to write down your plan, it's only a pipe dream. Ask yourself how you can improve your financial posture in the coming year. Will you eat out less? Will you start contributing to a 401(k) or increase the amount you currently contribute? Everyone can benefit from a spending journal. Here's how it works: write down everything you spend on a daily basis so you can see at a glance where your money goes. By tracking your money, you will be in a position to make decisions on whether you're spending wisely and will be able to identify those areas needing improvement.

Getting Out of Debt

If you are only making the minimum payments on your credit card debt, you – like many – are caught up in the abyss of compound interest. Consider adding an extra few dollars to your payment each month to payoff your credit card with the highest interest rate. Try finding a creditor offering lower interest, even if it's just an introductory rate. When the card with the highest rate is paid off, focus on the card with the next highest rate. You might also want to consider consolidating your debt into a single card with the lowest rate.

Build Cash Reserves

Although it may be difficult, try building up a cash reserve for emergencies. Unexpected financial situations periodically crop up for all of us. If you've saved for these times, you won't have to rely on credit cards or tap into your investments or retirement funds for things like auto repairs or appliance replacement. Think of saving like paying a bill...it must be done every month.

Make Retirement Contributions

If you receive a raise in 2007, consider increasing the percentage you contribute to your Choice Plan 401(k). If you don't currently participate in the Choice Plan, 2007 is a good time to start. The money comes out before your check gets to you. It's automatic and most of us don't miss what we don't see.

Stay Motivated

Although it's difficult to keep a financial resolution, it helps if you continually ask yourself why it's important to stay on track. When you reach a milestone, such as saving a certain amount of money or by paying off one of your bills, reward yourself somehow...but only within your means.

Spending money carefully, reducing debt, and saving for retirement doesn't mean giving up life's pleasures. In fact, with less debt and more savings, you may find you're enjoying life more.

BENEFICIARY FORM HAS CHANGED

- it's now easier to designate a minor beneficiary -

PERSI has updated the RS-115 Beneficiary Designation form to make it easier for members to name a minor as a beneficiary and to appoint a custodian for the funds until the minor becomes an adult. If you plan to ask your employer for a copy of PERSI's RS-115 Beneficiary Designation form, make sure the form they give you has a revision date of 10/2006 in the lower left corner of each page. You can always download the new form from the PERSI Web site at www.persi.idaho.gov.

Minors as Beneficiaries

To designate a minor child as a primary or secondary beneficiary, members should consider transferring the money to a custodian for the child under the provisions of the Idaho Uniform Transfers to Minors Act. (The custodian is a substitute for a conservator or a guardian.) The custodian must be an individual who is an adult or a trust company, such as a financial institution with a trust department.

If a member is designating one or more minors as beneficiary, they should specify how they want their death benefit transferred if they die before the beneficiary becomes an adult (legal age of majority). PERSI cannot disperse money to a minor, so if a member doesn't nominate a custodian on the RS-115 form, the courts may have to appoint an adult to serve as custodian or conservator of the funds. The RS-115 form provides an easy and inexpensive way to transfer death benefits to a minor through the UTMA. It enables members to nominate a custodian (and a substitute custodian) for their minor beneficiary, and authorizes PERSI to pay their death benefit to the custodian. (The substitute custodian would serve if, at the time of payment, the first-named custodian is deceased or otherwise unwilling or unable to serve.)

To nominate a custodian for a minor beneficiary, members need to complete page 2 of the RS-115 form.

Age of Majority

If a member uses the UTMA to nominate a custodian for their minor beneficiary, they should be aware the legal age of majority under UTMA is 21, even though in Idaho the statutory age of majority is 18 years of age. Therefore, if the member dies before their beneficiary reaches age 21, the money will go to and remain in the custodian's care until the beneficiary does reach 21 years of age.

Other Insurance May be Affected

If members have other employer plans or insurance policies, they may want to check out how the UTMA affects those beneficiary designations. To avoid delays in benefit payments, the Office of Group Insurance for the State of Idaho recommends anyone who has named a minor as a beneficiary for life insurance also list a custodian for the minor.

One Designation Does Not Apply to All Assets

The beneficiary designation form completed for PERSI applies only to the death benefits associated with the member's Base Plan and Choice Plan 401(k) accounts. Because beneficiary designations do not apply across the board, members may want to review their will, annuities, trusts, life insurance policies, and other retirement accounts to make sure a beneficiary has been named and to assess the need to designate a custodian under the UTMA.

Idaho Code

For a better understanding of how Idaho applies the UTMA law, members can review Section 68-801 through 68-825 of Idaho Code, or consult with a qualified attorney.

CHOICE PLAN 401(k) STATEMENTS AVAILABLE ONLINE

Beginning in 2007, Choice Plan 401(k) quarterly statements will be available online via the PERSI Web site (under the [Account Information](#) tab, go to [Choice Plan](#) and click on [Information](#), then click on the [My Choice Plan Account](#) link). Use your Social Security Number and personal identification number (PIN) to log on. If you do not have access to the Web site, contact ACS (PERSI's record keeper) at 1-866-437-3774 to have a statement mailed to you. Quarterly statements will be available approximately 15 business days following the end of the quarter. Annual statements will continue to be mailed to Choice Plan participants. If you are not currently participating in the Choice Plan, an enrollment kit can be requested via at <http://www.persi.idaho.gov/html/forms.htm#ACTIVE> or by calling ACS at the toll-free number listed above.

Notes

PERSI staff participated in the Governor's *Summit on Aging* held September 12 -13 at the Boise Centre on the Grove. Training Specialist [Graydon Wood](#) presented a retirement planning session, and other staff helped with registration and provided information about PERSI to attendees.

PERSI Retirement Board Chairman [Jody Olson](#) was elected to the Board of the Council of Institutional Investors, a non-profit shareowner-rights organization that works to educate members and the public about corporate governance.

[Cheryl Inga](#) joined the PERSI Answer Center as a Customer Service Representative. She came to PERSI after spending 10 years in the call center at First Health.

[Mike Mitchell](#) joined PERSI as a Training Specialist, bringing 6 years of financial services and training experience to this role. Mike holds a bachelor's degree in Business Administration and Finance from Cal State Fullerton. He previously worked as a paraplanner for Chang & Moore-Jones, was a client financial analyst with Citibank, and served as a financial advisor with American Express Financial Advisors. He holds Series 7 and 66 licenses.

[Bob Maynard](#), PERSI's Chief Investment Officer, received the Institute for Fiduciary Education's (IFE) Leadership award for 2006. The award is given in recognition of a plan sponsor who plays a key role in their pension system and who shows leadership by striving for the best results for plan participants. The purpose is to recognize persons who make important contributions to the pension industry. He was also the recipient of the Stoddard Award, which recognizes people who've made outstanding contributions to the investment of public funds. The award is given only when someone has been identified as having made a significant contribution to the investment of public funds.

[Stacy Jones](#) was named PERSI's 2006 employee of the year. She is an IT Systems Analyst who has also been serving as the project manager for PERSI's Business Process Reengineering project over the past 12 months. [Diane Kaiser](#) was named PERSI's Manager of the Year for 2006. She manages the Choice Plan 401(k) program, and was recognized for the special projects she completed during the past year.

PERSI INVESTMENT NEWS

*as of December 31, 2006**

Value of the Fund:
\$10,645,815,579

Fiscal Year Change in Market Value:
\$1,054,524,571

Fiscal Year-to-Date Returns:
11.2%

Month-to-Date Returns:
1.1%

*Posted monthly on PERSI Web site: www.persi.idaho.gov

PERSI ANNUAL REPORT AVAILABLE ONLINE

The 2006 Comprehensive Annual Financial Report (CAFR) is now available on the PERSI Web site at www.persi.idaho.gov.



www.persi.idaho.gov

PER**S**pectives

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