



PERSpectives

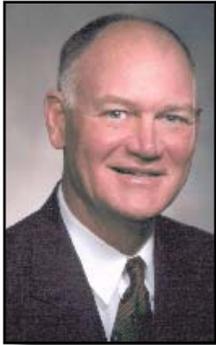


Third Quarter 2007

Public Employee Retirement System of Idaho

A MESSAGE FOR PERSI MEMBERS

from Jody Olson, Chairman of the Board



I'm pleased to report the last fiscal year (ending 6/30/2007) was a spectacular financial success for the Public Employee Retirement System of Idaho (PERSI). A whopping 20.03% was earned on PERSI investments. When the actuarial and performance reports come in later this year, PERSI is expected to be nearly 105 percent funded and will rank in the top 2 percent of public funds in the country. Chief Investment Officer Bob Maynard and the investment team, with support from the Governor's office and the Legislature, can be credited for this outstanding performance. As a result, our retirees should receive a full cost-of-living adjustment (COLA) in 2008. With the COLA's and retro-COLA's over the years, every PERSI retiree has 100 percent purchasing power equal to the day they retired.

I mention all this to you because the country's aging population has become an integral part of the national discussion. As baby boomers begin retiring, many public pension systems are bracing for the impact. With all the media attention given to the financial troubles of many pension systems, it is easy to understand the concern. An alarming number of pension systems, both private and public, are having trouble meeting their obligations. I can assure you, however, PERSI remains fiscally strong. We are well positioned to meet our obligations to all 118,000 members regardless of when benefit payments are due. And, to meet them in a manner consistent with the budgets of our more than 700 employers.

On another note, you may have seen news stories regarding the movement for pension systems to divest money from companies doing business in the Sudan. Legislation was proffered in Idaho by a local affiliate of the Washington, DC-based "Task Force for Divestment in Sudan" and supported by some PERSI members. The

Legislature requested that the Board review the issues surrounding divestment and study the impact it would have on PERSI. The Board first reaffirmed that the situation in the Sudan was very grim with unbelievable atrocities occurring on a large scale. Academic experts as well as political observers verified the horrendous nature of the genocide. We then set about examining whether divestment was legal and consistent with Idaho statutes; whether as a policy issue we wished to adopt an investment criteria promoting social, political, or environmental issues; and finally, we began studying what divestment might cost. We also looked at whether divestment from companies doing business in the Sudan would be effective in stopping the genocide. Over a 6-month period, the Board reviewed some 650 pages of information gathered by PERSI staff and various other sources, and considered input from experts, members, retirees, and academics. That documentation is available on CD for any member who cares to review it.

At its July meeting, the Board unanimously chose not to follow the recommendation of the Task Force because divestment would have violated the Board's fiduciary responsibility to act solely in the best interests of PERSI members. PERSI's only mission is to provide a secure retirement for its members, the public employees of Idaho. As individuals, we feel deeply sympathetic for the people of Darfur, but as an organization with legal mandates and fiduciary responsibilities, we must stay true to our mission. The Board did, however, vote to establish a new "Sudan free" investment option for the Choice Plan 401(k) that will allow members to invest in a "socially responsible" fund if they so choose (see page 3).

I want to close by saying how proud I am to be associated with PERSI. I

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Insights

RETIREMENT PLANNING IN YOUR FIFTIES

The third in a series of articles focusing on retirement planning for members from their 20s to their 60s and beyond.

By the time you reach your 50s, hopefully you've already been saving for your retirement for years. If not, it's not too late...but you're cutting it close. With as little as 15 years of working life left, you've got to start focusing on the kind of retirement you want and figure out how you're going to pay for it. If you have been saving all along, you're in the home stretch and it's time to sock away as much as possible.

When Will You Retire?

There's a lot to consider before setting a target retirement date. If you're planning to stop working at normal retirement age, use your target date as a guide for going forward. Early retirement may not be possible if you haven't already done some planning and saving. It will require a larger nest egg than if you wait to retire, and the money will have to last longer...yet you have fewer years to save. Besides getting smaller retirement benefits from PERSI, your Social Security benefit will also be reduced if you retire early. And withdrawals from your retirement savings plans before age 59½ could trigger a 10 percent tax penalty. Do your research before setting a retirement date so you don't have any regrets about your decision later.

Calculate Income and Estimate Expenses

Six out of 10 people have never calculated what they'll need in retirement income. If you're one of these people, crunch the numbers now and create a plan. To determine how much money you'll need, start by estimating your expenses: housing, transportation, food, utilities, medical, insurance (health, life, auto, homeowners, long-term care), and lifestyle (travel, golf, hobbies, etc.). Be realistic in your estimates. Next, tally your income from all sources at normal retirement age...Base Plan, Choice Plan 401(k), other retirement savings plan benefits, and Social Security. How long will these assets last given your projected expenses? Once you have these numbers, you're in a better position to make decisions about cutting costs, increasing savings, and reallocating assets.

Cut Expenses

Review your spending habits. To put more into retirement savings, cut your current expenses and invest the savings. If you have adult children you are partially (or entirely) supporting, wean them off you. Just think of what you could save if you weren't supporting grown kids. How important is it to have hundreds of channels on cable or satellite television or to buy a \$5.00 cup of coffee every day? These are the type of "luxury" expenses you might want to cut to secure your retirement. Are you paying for services you no longer need or use? For example, if you have a cell phone with unlimited long distance included, think about discontinuing long distance service on your land line. Selling your primary residence if it's too big for your current family is another thing to consider. Downsizing to a smaller home could reduce your mortgage payment, utility costs, taxes, and insurance. No matter what expenses you cut, it only helps if you put the savings into a retirement account.

Save More

One of the most critical decisions you can make in your 50s is to continue contributing to your Choice Plan 401(k). If you aren't already participating, now's a good time to get started. While it may sound ambitious, try to save 20 percent of your income or more ("no pain, no gain"). In your 50s, you can make catch up contributions to your Choice Plan 401(k) or other retirement accounts. The current catch up limit is \$5,000. If you worked for multiple employers over your career and still have small retirement plans with each one, consolidating them in the Choice Plan is a good option. It's easy and only requires you to sign rollover forms to complete the transaction. Forms are available from PERSI. By consolidating, you will be able to better manage your investments, have a clearer picture of your overall portfolio, eliminate fees, and make accessing your funds easier.

Asset Allocation

At this time of your life consider shifting your asset allocation to reduce risk. Are you being overly conservative by having too much in fixed-income assets? Or, are

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you taking too much risk by investing heavily in stocks and mutual funds? If you're unsure about how to proceed, you may want to get advice from a financial advisor.

Long-Term Care Insurance

Long-term care planning should be a part of your retirement plan. If your health fails, how will you or your family pay for your care? Even though this type of insurance is expensive, it's less expensive than the cost of custodial care. The younger you are when you take out a policy, the lower your premiums will be. But before you take out a policy, make sure you can afford the premiums for many years because it could be a long time – if ever – before you'd use this type of insurance. Be sure to consider the cost of keeping up the premiums when you retire.

Review Your Estate Plan

Besides adding to your retirement nest egg in your 50s, you should also review your estate plan. Make sure your beneficiaries are updated, your will is current, and your personal information hasn't changed. If you haven't already completed a durable power of attorney, do it now. A durable power of attorney designates someone to act on your behalf if you become incapacitated. A form specifically for conducting PERSI business is available

on the PERSI Web site at www.persi.idaho.gov. If you don't have a living will, you may also want to establish one now. If necessary consult an attorney for help with your documents.

Contact Social Security

By the time you reach your late 50s, contact the Social Security Administration (1-800-772-1213) for an estimate of your benefits based on your targeted retirement date. Remember, if you're planning to retire early, your benefits will be reduced.

Retirement Workshops

Attend PERSI's *Retirement's a Beach* workshop; it covers many aspects of retirement, not just your PERSI benefits. The 4-hour session provides insight on Social Security, Medicare, health insurance costs, understanding your PERSI retirement estimate, and more. A Retirement Specialist is always available at the workshops to meet with members wanting answers to specific questions. Both the schedule and online registration are available on PERSI's Web site.

Aging is something none of us like, but it's a fact of life. The better you plan for retirement, the more comfortable you'll be...after all, you've earned it!

NEW INVESTMENT OPTIONS FOR CHOICE PLAN 401(k)

PERSI diligently monitors the investment options for the Choice Plan 401(k) to ensure participants are provided with a wide array of good investment products. World events and/or questionable performance may cause PERSI to change the options from time to time...and that's exactly what's happening. The call for divestment from companies doing business in the Sudan is an example of how a social/political issue can impact PERSI investment options. And recently, an under-performing fund was identified and is being replaced with a fund expected to produce a higher rate of return.

Social Investment Option

In July, the Retirement Board directed PERSI to find a "Sudan free" investment option for the Choice Plan 401(k) program. The Calvert Socially Responsible Balanced Fund was approved by the Board for this option. This fund screens for several social investment restrictions, including companies doing business in the Sudan. This option becomes available October 12, 2007. Before selecting this or any other investment

option, members are advised to review the fund's historical performance and consider the associated fees. A fact sheet on this option is available on the PERSI Web site. PERSI believes that offering this fund is a way of accommodating members who want to make investment decisions based on non-financial criteria.

Better Performing Option

The second change to the Choice Plan 401(k) investment options is the replacement of the Dreyfus Premier Mid-Cap Stock R Fund with the Mellon Capital Management Wilshire 4500 Index Completion Fund. Extended under-performance prompted PERSI to terminate its relationship with the Dreyfus Fund. The Board approved the replacement at its August meeting. The new option will provide members with a highly diversified, style neutral vehicle that provides access to small and medium sized companies at a very low cost. The Mellon Wilshire 4500 Index Fund is essentially the Wilshire 5000 index, less the S&P 500 stocks. This option will also be available starting October 12th. Members with

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have had the honor and privilege to serve on the Board for the past 20 years and was recently reappointed to another 5-year term by Governor C.L. "Butch" Otter, subject to Legislative confirmation. I would also like to encourage members to attend a Board meeting in Boise or other cities in the state when they occur. It is the best way to learn first hand about PERSI's investment strategies, the status of the fund, and the administrative, legal and fiscal matters that impact daily operations. It's a great time to be a public employee in Idaho!

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assets still in the Dreyfus fund when the termination occurs at 4:00 p.m. EDT on October 11, 2007, will automatically have their balance transferred to the Mellon Wilshire 4500 Index Fund. Members who prefer not to have their balance transferred to the Mellon Wilshire 4500 Index Fund can move their balance to another investment option before or after the automatic transfer occurs. A fact sheet on this option is also available on the PERSI Web site.

Changing Investment Options

Because transfers among the Choice Plan 401(k) investment options can, in most cases, be made 24/7, members have great flexibility in changing the way their money is invested. Selecting these new options will involve the same process as selecting any other option. To change an existing investment choice and/or to transfer money between the fund options, members can call ACS HR Solutions (the plan's record keeper) toll-free at 1-866-437-3774 or go the PERSI secure Web site at www.persi.idaho.gov/choice.htm and select *My Choice Plan Account*. Members should have their Social Security number and 6-digit Personal Identification Number (PIN) ready when they call or log on. Members who don't know their PIN can call ACS or go to the Choice Plan 401(k) Web site and request that a "PIN reminder letter" be mailed to their home.

Getting Started in the Choice Plan

To begin making contributions to the Choice Plan 401(k), members should obtain a *Deferral Election (RS 801)* form from their payroll clerk or download it from the PERSI Web site. The completed form should be returned to the payroll clerk who will set up the payroll deduction. Contributions of new participants will be invested in the Total Return Fund unless different allocations are authorized. To make investment elections, members should contact ACS after completing the *Deferral Election* form. Before investing in any fund, members are encouraged to read the fact sheets available on the PERSI Web site at www.persi.idaho.gov. If you have questions about the Choice Plan 401(k) program, contact ACS or visit the PERSI Web site for more information.

PERSI INVESTMENT NEWS

as of September 23, 2007*

Value of the Fund:
\$11,643,900,406

Fiscal Year Change in Market Value:
\$181,321,993

Fiscal Year-to-Date Returns:
1.5%

Month-to-Date Returns:
2.3%

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

ADDITIONAL WORKSHOPS

Due to popular demand, PERSI has added three *Retirement's a Beach* workshops to the 2007 schedule: Wednesday, October 17 in Lewiston; Wednesday, November 14 in Pocatello; and Thursday, November 15 in Twin Falls. Members can register online via the PERSI Web site at www.persi.idaho.gov.



www.persi.idaho.gov

PERSpectives

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607 North 8th Street, Boise, ID 83702
Base Plan: 208.334.3365 or 1.800.451.8228
Choice Plan: 1.866.437.3774
www.persi.idaho.gov

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