



PERSI CONTINUES TO RECOVER

Public retirement systems nationwide continue to make headlines. For many the outlook is still grim; but for PERSI, the news is good. Over the past 2 years, the fund has gained back nearly 65 percent of the losses sustained during the country's economic downturn. On June 30, 2010, PERSI was 78.9 percent funded with an unfunded liability of \$2.55 billion; as of June 15, 2011, PERSI was 87.7 percent funded with an unfunded liability of \$1.6 billion. Remaining disciplined during difficult times wasn't easy, but sticking with a proven plan served PERSI well. Besides strong investment returns, there are several reasons PERSI has gained ground while other pension systems continue to struggle.

How is PERSI Different?

Years ago legislators had the foresight to structure a system where employers and employees shared the risk, where conservative benefits were established to provide public employees with a secure old age so they wouldn't have to rely on taxpayer-funded assistance programs, and where safeguards were created to prevent abuse. But there are other reasons why PERSI is different:

- PERSI is one of only two systems nationwide that does not smooth. Smoothing is a process where unusually high or low returns in a given year are spread over a multi-year period to lower the volatility of the gains and losses from pension fund investment returns. PERSI uses a mark-to-market approach using the current fair market value of assets or liabilities. This gives PERSI a well-defined picture of returns in real time.
- PERSI is the only system that calculates and publishes a daily valuation. The daily valuation reflects financial events almost as they occur. This practice provides a clear representation of the plan's status in a fluctuating economy.

- Some states borrowed funds from their systems to cover other expenses, which contributed to their funding gap. PERSI funds, which are held in a trust and are not part of the state's general fund, may only be used for the benefit of the members.

- PERSI is not managed like Social Security. It is not a "pay as you go" system; the future value of benefits are funded as benefits are earned today so future generations will not have the burden of paying for them later.

- Unlike other systems, PERSI does not provide health care benefits for retirees, does require contributions from both the employer and employee – and payments are current, has a reasonable retirement age of 65, applies a 60-month vesting period, does not allow compensation increases (spiking) before retirement, and provides modest benefits (11th lowest in the nation). Many troubled pension systems are beginning to adopt these same practices.

Reports about PERSI's unfunded actuarial accrued liability (UAAL) are often a focus of discussion and can be confusing. It helps to think of the UAAL like a mortgage where payments are made over a period of time. Retirement benefits, like mortgages, are not due and payable all at once. The UAAL would only become an issue if every PERSI member were to retire today with service credit equivalent to what they would earn over the next 25-30 years. Since that won't happen, PERSI is able to use investment revenues and contributions to maintain appropriate funding levels to pay benefits over time.

The past few years have been challenging. Everyone at PERSI appreciates the unwavering support of members, employers, and retirees.

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Insights

WILL YOU STRUGGLE FINANCIALLY IN RETIREMENT?

Studies show most people don't have adequate savings for a secure old age, which could leave an entire generation struggling financially in retirement. PERSI's goal is to help you prevent that from happening.

Many Americans say they plan to work until age 70, or never stop working at all. A Transamerica Center for Retirement Studies report states a substantial number of Americans are unprepared for retirement, and don't have a back up plan if they are forced to retire earlier than expected. In a report issued by the Urban Institute, it was noted how important it is for individuals to save for retirement and for the government to protect the vulnerable when considering reforms. The report went on to say policymakers should think about changes that increase pension coverage and encourage more retirement savings especially among low-income workers.

Lack of Confidence in Managing Investments

Uncertainty among pre-retirees about their future leaves many fearing they will live in poverty. A lot of people say they feel less-than confident when it comes to making important financial decisions and express concern about changes that would take their retirement accounts from a defined benefit (DB) to a defined contribution (DC) plan. Because many individuals don't understand asset allocation, diversification, or rebalancing enough to make good decisions, they are fearful about handling a DC account especially if their DB plan disappears. Adequately managing investments requires education and keeping up-to-date on market trends. PricewaterhouseCoopers reports 48 percent of Americans say they are uncomfortable choosing investments on their own. The "average Joe" may not understand how much risk is too much or how much to take out of his retirement account each month to ensure the money lasts throughout retirement. And too often emotions rather than investing knowledge influence choices...and that can be disastrous.

According to the 2010 Retirement Readiness Ratings by the Employee Benefit Research Institute, 45 percent of Boomers are at risk of running short in retirement. A Harvard study concluded 60 percent of current retirees barely get by. And one in four older workers exhausted all savings during the recent recession, says a report by the AARP Public Policy Institute. Leakage – the taking of retirement funds for expenses other than retirement – is one of the major pitfalls of relying solely on a DC plan for retirement. Since money can be withdrawn before retirement, this could leave individuals in the poverty category later in life if the funds are depleted. Control is a requirement for self-managed retirement accounts such as 401(k) plans.

PERSI Helps You Be Disciplined

It is always difficult to save money, so PERSI helps members remain disciplined by requiring contributions to fund retirement. If you're in your twenties or thirties, you may think this is a waste of your money. But studies show the closer someone gets to retirement age, the more grateful they are for being "forced" to save for retirement. No one wants to struggle financially later in life.

Outlive Your Money...Not With PERSI

Although many pre-retirees are concerned about outliving their retirement savings, for PERSI members it's less scary. Having a defined benefit means you'll have a lifetime income after you stop working. You didn't have to make difficult investment decisions or have to decide how much to withdraw each month in retirement because the amount is set... this allows you to establish a plan and budget long before retirement. But the Base Plan is not enough for most people. If you set up a supplemental retirement account (e.g., Choice 401(k) Plan), you can better estimate how much additional money you'll need from such an account to fill any gap left by your Base Plan and Social Security.

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RETIREMENT CHECKLIST

The following check list will be helpful when you are ready to retire. July and August are the busiest time for retirements, so file your application early.

One to Two Years Before Retirement

- Call PERSI for an updated Base Plan benefit estimate and to learn about Choice 401(k) Plan payment options in retirement.
- Contact the Social Security Administration (SSA) to verify work history and request a Personal Earnings & Benefit Estimate Statement (PEBES) based on your retirement age and the date you will stop working (needed for PERSI Retirement Options 3, 4A, and 4B). Ask how to apply for benefits and enroll in Medicare. *(You have 3 months before and 3 months after your 65th birthday to enroll in Medicare, otherwise you may face a penalty.)*
- Contact your tax-deferred annuity agent or financial planner to discuss other retirement income.
- Consult with a tax specialist about the tax consequences of various pension payments.

Six Months Before Retirement

- Inform your employer of your targeted retirement date.
- If you are an employee of a state agency or an eligible school district or political subdivision, ask your payroll clerk about the cash value of your unused sick leave. Your employer will tell PERSI the amount.
- Ask your payroll clerk for a retiree health insurance enrollment form. State employees should contact the Office of Group Insurance for the necessary paperwork by calling 208-332-1863 or toll-free 1-800-531-0597. Request a comparison of insurance rates between Retiree Medical Insurance and COBRA, and find out if Medicare Part D (prescription coverage) will affect your insurance.
- Contact PERSI for an updated Base Plan benefit estimate and to request a retirement application.
- Formally notify SSA of your retirement plans if age 62 or older.
- If you have NCPERS Insurance, check with your employer about continuing this after retirement.

- If you have been divorced anytime while a PERSI member, your former spouse may be entitled to part of your PERSI benefit. To make that determination, PERSI will need a copy of your divorce decree and property settlement agreement.

Two Months Before Retirement

- Make an appointment to meet with a PERSI retirement specialist. If you are married, bring your spouse. Although this meeting is not required, it is highly recommended.
- Select a retirement option; prepare your application package, and complete all forms. Your signature and your spouse's must be notarized. Submit all forms to PERSI 45 days prior to your planned retirement date.
- Provide PERSI with an original voided check from your bank to arrange direct deposit.
- Visit your local Social Security office with your spouse (if retiring at age 62 or over).
- Contact your payroll representative to finalize insurance arrangements, if any.

One Month Before Retirement

- If eligible to use Unused Sick Leave to pay retiree medical insurance, remind your payroll clerk to advise PERSI of the cash value of your unused sick leave entitlement.
- School district employees: ask your payroll clerk for a retiree health insurance form.
- State employees: contact the Office of Group Insurance for an insurance benefits request form.

Before Retirement Effective Date

- Be sure your employer notifies PERSI you are terminating work. Your retirement cannot be finalized and may be delayed if notification is not received from your employer on an RS109 form.

Necessary Forms

To finalize your retirement, several forms must be completed. Be sure to include your name and Social Security number on all forms and documents. Most forms are available on the PERSI website (www.persi.idaho.gov).

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- Application for Retirement RS121
- Choice Plan 401(k) Distribution RS813
- Retiree Insurance Benefits Request (For qualifying state and school employees only.) State employees: contact the Office of Group Insurance at 208-332-1863 or 1-800-531-0597. School employees: contact your payroll or personnel office.
- Tax Withholding Certificate RS322
- Direct Deposit Authorization RS448
- Beneficiary Designation RS115
- Notification of Separation RS109 (employer)
- Optional forms: Split Sick Leave RS160 and Durable Power of Attorney RS113
- Birth Certificates: Yours and your contingent annuitants if you selected a CA option.
- Social Security Cards: Yours and your contingent annuitants if you selected a CA option.
- Social Security Benefit Estimate from SSA if you are considering options 3, 4A, or 4B.
- Voided check from your financial institution so your monthly benefit can be deposited directly into your account.
- Divorce Decree (if applicable): A copy of your divorce decree and property settlement agreement.

Documents PERSI Will Need

Unless otherwise indicated, legible copies will suffice:

Meeting with a retirement specialist can be helpful. Call the PERSI Answer Center toll-free at 1-800-451-8228 or 334-3365 from the Boise area for an appointment.

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Choices: Pay Now or Pay Later

Regardless of whether you are a near-retiree or a thirtysomething, you have a choice to make: Save now or possibly struggle in the future. And those who say taxpayers shouldn't be footing the bill for public pensions also have a choice. Without financial security, retirees may have to rely on taxpayer funded public assistance programs...so is it better to cover pension contributions now or pay later in the form of welfare assistance? The result of those choices will affect lives tomorrow. Only time will tell if the right choices were made today.



CHECK IT OUT -- PERSI HAS A NEWLY DESIGNED WEBSITE

PERSI INVESTMENT NEWS

as of June 15, 2011

Value of the Fund:

\$11,766,748,523

Fiscal Year Change in Market Value:

\$1,688,724,018

Fiscal Year-to-Date Returns:

18.3%

Month-to-Date Returns:

-2.8%

*Posted monthly on PERSI website: www.persi.idaho.gov



www.persi.idaho.gov

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