



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

ARE SENIORS CRANKY OR JUST DEALING WITH STRESS?



“There will be good days and bad, which means that some days I may be cranky and some days really cranky.”

-- Peter Jennings (1938-2005)

Too often seniors are labeled as cranky. Getting older presents unique challenges and can cause stress, which may mean the “golden years” aren’t so golden for everyone.

In a report issued by Johns Hopkins University, “old folks are more emotionally stable overall” than younger adults...and not really cranky at all. In a study conducted by the *Journal of Neuroscience* where people of all ages were questioned to assess their emotional reactivity and brain activity screenings were used to assess facial expressions, it was found that although memory function may decrease as we age, emotional stability increases at the same time.

Cognitive Changes

Since research shows negative moods are not a normal part of aging, if you have a spouse, relative, or friend who is persistently irritable, you might need to seek help. There are some fairly predictable changes in our brains as we age, but they don’t make us grouchy. For example, although neurons are lost as we get older, the brain continues to grow new ones, just at a slower pace. As a result, we experience slower cognitive processing and have less complex reasoning ability. Around the age of 50 noticeable changes start to occur...learning new things takes a little longer, multi-tasking is more challenging, and paying attention to detail becomes harder. By the time we hit 60, the changes are more apparent; and by 70, there is usually a wide variation in cognitive thinking. Although something is lost — and that can be stressful, wisdom and insight from life experience is gained — and that can be satisfying.

Chronic Stressors

Stress is part of everyday life, but older people are usually faced with chronic stress, not acute stress.

Acute stress is short-term stress. An event occurs that is short-lived and then it’s gone...and the stress goes with it. Chronic stress, however, is current and ongoing.

Dealing with chronic stressors may have more to do with being labeled as cranky than reaching a certain age. What causes chronic stress? Well, aging alone can be stressful. Everyone wants to make their own choices and remain in control of their lives, so losing independence can be frightening. The death of a spouse can be devastating. Changes in vision and hearing can be frustrating. Medical disability can be depressing. And anyone living with pain knows how it can adversely affect their physical, emotional, and spiritual well-being. These are situations that cause chronic stress.

Managing Stress

The older we get, the more prone we are to the effects of stress. The first step in managing stress is to accept that change is inevitable. Your body will change, your lifestyle will change, and your abilities will change. Next, increase your social interactions. Social isolation increases stress. Having close friends to socialize with can relieve stress and positively influence both your physical and mental health. Studies show the stressors associated with retirement, death of a spouse, and decreased activity were reduced by having a supportive network of friends. Finally, stay as active as you can. Find an activity you like and do it regularly. Whether you are walking or volunteering, stay active in some way that boosts your energy, lifts your self-esteem, and reduces stress...making you immune to crankiness.

Take advantage of this phase of your life where you fulfill challenges in a different but equally satisfying way. Enjoy those “senior moments” when you receive discounts at a store or a restaurant. You’ve earned it. Let the world know the wrinkles on your face are from smiling, not from being cranky. 😊

DIVORCE AFTER RETIREMENT



Besides changing your life, divorce can affect your PERSI benefit. If you are a PERSI retiree who is divorcing, your ex-spouse may be legally entitled to a portion of your retirement benefit because Idaho is a community property state.

This means property acquired during the marriage belongs to the “community of marriage” rather than to the individuals as separate property.

Accounts affected by divorce are not automatically divided. A divorcing retiree should work with an attorney to obtain a domestic retirement order (DRO), which is a judgement from the court that determines the right of a former spouse to a portion of the retirement assets.

Once a DRO is approved by PERSI it becomes an approved domestic retirement order (ADRO). No further court involvement is necessary unless the DRO is not approved. If the order is not approved, PERSI will notify the court and the parties involved within 90 days so amendments can be made. Social Security numbers are not required in the order; however, the former spouse’s Social Security number must be provided to PERSI before a DRO will be approved

An ADRO recognizes an alternate payee’s right to a portion of the accrued benefits of a PERSI member, and directs PERSI to disburse benefits to the alternate payee (e.g., the former spouse). The former spouse will be paid a portion of the retiree’s monthly benefit directly from PERSI. It will be either a set dollar amount or a percentage of the retiree’s monthly benefit.

Besides the DRO and the ADRO, there is also a Qualified Domestic Relations Order (QDRO). This is a court order that legally allows a retirement plan to distribute money to someone other than the plan participant (e.g., a former spouse).

ADRO Requirements

There are three requirements common to all ADROs.

1. The order must indicate which PERSI account the order applies to specifically. It is not enough to refer to “retirement benefits,” “state benefits,” or “employer benefits.” The order must specifically reference the

PERSI Base Plan (pension) or the Choice 401 (k) Plan.

2. The order must contain sufficient information including an effective date, and the name, address, date of birth, gender, and last known mailing address of both parties. It must also include the member’s PERSI identification number. The alternate payee’s Social Security number is also required, but may be provided to PERSI under separate cover.

3. The order must provide for a proportional reduction of the amount awarded to the ex-spouse should law reduce the benefits available to the member. This applies to a Base Plan DRO only.

Additional information may be required in an ADRO depending on which plan it addresses, and whether the member is active, inactive, or retired. If the member is retired, the order must specify the amount or percentage of the member’s benefit to be paid to the former spouse.

There are also several prohibitions related to an ADRO. The DRO will not be approved if it provides for benefits inconsistent with the PERSI plan or if it imposes conditions or contingencies; it cannot provide benefits to an ex-spouse that have previously been ordered paid to a different payee under another order; it cannot segregate the right to repay previous credited service; and it cannot result in a benefit greater than what would have existed had the member’s account not been divided.

After a benefit is divided into two payments, both the retiree and ex-spouse will receive cost-of-living-adjustments on a proportional basis when and if one is granted.

Dividing a Choice Plan Account

To divide a Choice 401(k) Plan account, a separate DRO that substantially meets the requirements of a Qualified Domestic Relations Order (QDRO) must be submitted. Divorce attorneys will be familiar with QDRO requirements. The order should clearly designate it applies to the PERSI Choice 401(k) Plan. If the order is approved by PERSI, the member’s Choice 401(k) Plan account will be segregated and a separate account will be established for the alternate payee who will then be entitled to certain benefits in their own right.



PERSI
P.O. BOX 83720
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www.persi.idaho.gov

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



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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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