



PERSpectives



Second Quarter 2014

Public Employee Retirement System of Idaho

The Importance of Independence, - a message from Board Chairman Jody Olson -



Jody B. Olson, Chairman
PERSI Retirement Board

The Public Employee Retirement System of Idaho (PERSI) was created by the Idaho Legislature in 1963 and went into service 1965. Since then, PERSI has seen its share of ups and downs. This will be my 28th year on the PERSI Retirement Board, and I'm pleased to tell you that 2014 is shaping up nicely. As I draft this message, the fiscal year

hasn't quite wrapped up, so I'll save the specifics for next quarter's newsletter. Instead, my focus will be on the importance of *independence*, as it relates to your Board of Trustees.

PERSI's five-member Retirement Board is appointed by Idaho's Governor for staggered terms lasting five years. (See *Get to Know your Trustees* on page 3.) Many of our peer systems in other states are directed by bodies of ten to fifteen trustees, whose appointments are often based on political affiliation or constituency (union or association) representation. PERSI's Board is different; smaller and independent. State law requires that two members of the Board be active PERSI members with at least ten years of service and three members be Idaho citizens but not members of the system except by reason of having served on the board.

Once appointed, and then confirmed by the Idaho Senate, each Trustee's primary duty is to loyally act with an "eye single" to the interests of PERSI's members, beneficiaries, and the fund itself. We work to help employers when appropriate, because without them the system would not function, but

again our fiduciary responsibility is to act for the exclusive benefit of the members of the fund. The Board operates in these critical areas:

- Hiring, direction, and oversight of PERSI's Executive Director and Chief Investment Officer.
- Oversight of investment activities, asset allocation and funding policy.
- Review and adoption of actuarial assumptions.
- Oversight of PERSI's administrative activities, including approval of PERSI's annual budget.
- Setting contribution rates.
- Awarding discretionary Cost of Living Adjustments (COLAs) to Retiree Benefits, subject to legislative review. The Board has never had a discretionary COLA decision rejected by the legislature.

We do not have the authority to make changes to PERSI's benefit structure - that is up to the Legislature. We generally only submit legislation that affects PERSI administration or operations.

I will close by reminding you that the Board is an independent body, acting on your behalf; it doesn't operate in a vacuum. Our meetings are open to the public, and generally held on the third Tuesday of each month at PERSI headquarters in downtown Boise. I'd like to invite you to attend one, to see first-hand how we treat investment strategy, administrative issues, and how we evaluate the status of the fund. Our service is a result of yours.

Inside this issue:

- Three Keys to a Healthy Fund.....2
- Get to Know Your Trustees.....3
- Investment News.....4

Insights

THREE KEYS TO ASSESSING A HEALTHY FUND

-- Pushing, Pulling, Balancing --

Three terms you hear a lot in the halls of PERSI are funded status, contribution rates, and Cost of Living Adjustments (COLAs). Each has a very real impact on the other two, and on you. Contribution rates strain employer budgets, yet help to strengthen PERSI's fund. COLAs strain the fund, yet PERSI retirees rely on them to keep up with inflation. Together they have a balancing effect on the fund, and neither can be addressed without considering funded status. COLA and contribution rate decisions are some of the most difficult considerations PERSI's Retirement Board faces. It has long been the desire of the Board to see retirees' benefits catch up, and keep up with inflation. The Board is also sensitive to the budgets of active members and employers.

The Board relies on actuarial assumptions as well as current funded status information when evaluating decisions such as contribution rate increases and COLAs. In plain terms, a fund is considered healthy if it can reasonably be expected to be able to meet its obligations, long-term. To stay healthy, PERSI relies on required contributions from all active employees and employers, as well as an assumed long-term investment return rate of 7%. This article touches on additional factors used to evaluate funded status and uses a real (unaudited) example from May 27, 2014.

PERSI Status as of 07/01/2013 (Audited)

Actuarial Accrued Liability	14,127.6
Market Value of Assets	12,053.5
Unfunded Actuarial Accrued Liability (NPL)	2,074.1
Funded Ratio	85.3%

PERSI Status as of 05/27/2014 (Unaudited)

Actuarial Accrued Liability	14,722.2
Market Value of Assets	13,664.0
Unfunded Actuarial Accrued Liability (NPL)	1,058.2
Funded Ratio	92.8%

MARKET VALUE OF ASSETS

First, we look at the current value of the fund's assets. PERSI is the only major public pension system in the country to determine the Market Value Assets (MVA) on a daily basis. According to PERSI Chief Investment Officer,

Bob Maynard, "PERSI chooses to invest in funds that can provide a daily valuation because we want to know exactly where we stand at any given point in time." As of May 27th, PERSI's MVA was \$13.6 billion.

ACTUARIAL ACCRUED LIABILITY

Next, we look at the present value of all future benefits promised to all 130,000-plus PERSI participants. This is the Actuarial Accrued Liability (AAL) and as of May 27th, PERSI's AAL was \$14.7 billion.

NET PENSION LIABILITY

When the AAL is larger than the MVA, a Net Pension Liability (NPL) exists. To calculate NPL, take the difference between Market Value of Assets and Actuarial Accrued Liability. On May 27th, PERSI's NPL was \$1.1 billion. So, on May 27th, PERSI had enough assets on-hand to cover \$13.6 billion of the \$14.7 billion in current and future obligations. That's a funded status of 92.8%. The Pew Center on the States considers a funded status of 80% or better to be healthy.

PUTTING IT INTO CONTEXT

Idaho statute requires PERSI to erase any NPL over an amortization period of 25 years or less. Generally speaking, the only way to do that is by raising contribution rates. The smaller the NPL, the shorter the amortization period will be, the healthier the fund will be. Continuing with the May 27th example, the amortization period to cover the NPL would be about 12 years.

While all indications point toward PERSI's fund being healthy and stable, contribution rates went up last year, with two additional increases still to come. At the same time, retirees have been waiting for a discretionary cola for several years, and all the while, one sharp drop in the market could blow the ship off course. Understanding how COLAs, contribution rates, and funded status directly affect one another, PERSI's Retirement Board continues to exercise great care and caution while navigating sometimes tricky public pension waters.

GET TO KNOW YOUR TRUSTEES



Jody B. Olson, Chairman
PERSI Retirement Board

Jody B. Olson has been a Trustee for 28 years (24 as Chairman). An attorney and Certified Public Accountant, Jody is of Counsel at Idaho's oldest and largest law firm, Hawley Troxell Ennis & Hawley. He has held corporate leadership and Board positions with Trus Joist International and Norco Windows. He has served on numerous other Boards including the Bishop Kelly Foundation, the University of Idaho College of Business, and the St. Alphonsus Hospital Foundation.



Bill Deal, Trustee
PERSI Retirement Board

J. Kirk Sullivan has been a PERSI Trustee since 1996. With more than 40 years of industry experience including general management, contract negotiations, public affairs, and philanthropic fund raising, Kirk has also served on the Board of Trustees for Saint Alphonsus Regional Medical Center, and as a member of the Governor's State Science and Technology Advisory Council.



J. Kirk Sullivan, Trustee
PERSI Retirement Board

Bill Deal was appointed to the Board in 2007. He is currently the Director of the State of Idaho Department of Insurance. Bill is a past member of the Idaho Endowment Investment Board, and past Chairman of the Board of the Idaho State Insurance Fund.



Joy Fisher, Trustee
PERSI Retirement Board

Jeff Cilek joined the Board in 2005. He is currently System Vice President (External/Governmental Affairs) for St. Luke's Health System in Boise. Jeff has served on several Governor's Task Forces and on the Boards of the Boise Metro Chamber of Commerce and Make-A-Wish Foundation of Idaho.



Jeff Cilek, Trustee
PERSI Retirement Board

Joy Fisher has served on the PERSI Board since 2009. She is the Director of Foundation and Investment Accounting for the Trust and Investment Office at the University of Idaho, where she has worked since 1982.

TIPS FROM PERSI MEMBER SERVICES



Occasionally, we invite PERSI Member Services Center customer service and administration staff to share about topics or issues they feel would be beneficial to our readers. This quarter's tips and reminders come from Erin Duran.

UPDATING INFORMATION

Did you know that as a retiree you can change your address,

your name, your beneficiary designation, and update your direct deposit all online?

These forms and others are available on our website at www.persi.idaho.gov.

Simply click on the 'Forms' link under the 'Retirees' tab on our home page. This will take you to our list of retiree forms.

To submit a form online, select the form you would like to fill out, and click on the icon to the far right of the page that looks like a world.

(Not all forms are available to complete online. For security purposes, certain forms must be mailed or faxed to us.)

Clicking on the online icon will prompt you to log into your myPERSI account. If you haven't yet created an account, you will be able to do so here. Once you get logged in, you'll be able to fill out and submit your form! If you would like more information, or need help logging into myPERSI, please call the PERSI Answer Center at 1-800-451-8228.



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PERSI INVESTMENT NEWS

for Base Plan as of June 2, 2014 (unaudited)

Value of the Fund:

\$ 14,476,561,143

Fiscal Year Change in Market Value:

\$ 1,720,035,226

Fiscal Year-to-Date Returns:

15.4%

Month-to-Date Returns:

0.0%

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