



PERSpectives



Third Quarter 2014

Public Employee Retirement System of Idaho



*Jody B. Olson, Chairman
PERSI Retirement Board*

POSITIVE RESULTS AND PEACE OF MIND -- A message from Chairman Jody Olson --

Some terrific things are happening with the Public Employee Retirement System of Idaho (PERSI). I have been helping steer the system’s direction for 28 years now, and I am happy to report the last fiscal year (ending June 30, 2014) was one of the best we’ve had. On the heels of an extraordinary 17.2% annual return on PERSI investments, and record high asset values nearing \$15 billion, I’m excited to share news with you, highlighting PERSI’S maturity, sustainability, and ability to provide significant and much anticipated relief across the board for active members, employers, and retirees.

COST OF LIVING ADJUSTMENT

At the September Board meeting, your Board voted to recommend a 4%* cost of living adjustment (COLA) for PERSI retirees. This marks the first time since 2008 that PERSI retirees have seen an increase in excess of 1%. Strong investment performance, solid funded status, and the Board’s confidence in the sustainability of the fund all factored into the COLA recommendations. The COLA recommendations are submitted to the Legislature in late December, before the start of their session. They then have 45 days within which to either accept, amend, or reject the COLA. The Idaho Legislature has never amended or rejected a PERSI Retirement Board COLA recommendation.

CONTRIBUTION RATES

The 2008-2009 “Great Recession” did its best to derail public pension systems; we at PERSI saw asset values dive from \$11.7 billion to \$7.7 billion in six short months. By law, the PERSI Board had to act to stabilize the fund and bring its liabilities in line with Idaho Statute, so in 2009 we authorized a series of three contribution rate increases totaling 5.31%. The first rate increase (1.5%) took effect July 1, 2013, and last year the Board elected to postpone the 2 remaining increases (totaling 3.31%) for one year. Again, considering excellent investment performance (averaging 12.2% over the last five years), and the maturity and stability of the fund, we felt it prudent and timely to provide some relief for active members and employers. The Board unanimously chose to permanently eliminate the two remaining contribution rate increases*. That leaves existing contribution rates for general members where they are (11.32 for employers and 6.79 for employees) for the foreseeable future. These rates are a lower percentage of pay than they were fifteen years ago.

FIREFIGHTERS’ RETIREMENT FUND (FRF)

I am particularly proud of our accomplishments on behalf of the employers, members, and retirees of the Firefighters’ Retirement Fund (FRF). Back in 1980, just a few short years before I joined the PERSI

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Board, Idaho lawmakers rescued what was then a woefully underfunded, failing retirement system for Idaho firefighters. Retirement security for hundreds of dedicated public safety professionals was in jeopardy, so the Legislature closed the fund to new members and entrusted administration of the fund and its investments to the PERSI Retirement Board. (From that point on, all new eligible hires were to be enrolled in PERSI.) In the 35 years since then, PERSI has been able to keep FRF retirees whole, and fortify the fund to the point where, today, it is fully funded at approximately 110%. This dramatic turnaround has afforded the Board a long-awaited opportunity to provide contribution relief to the 22 cities, counties and fire districts across the state, dutifully paying 17.24% of payroll into the fund since 1980. Effective January 1st, 2015, these 22 employers' contributions will be reduced to 5% of payroll - effectively saving them a total of nearly \$7.75 million each year moving forward. We made this decision with confidence that contribution rates will likely never go up in the future, and every single retiree's and beneficiary's FRF benefit will be secure and paid for, until the very last one passes.

The last six years have been a real grind for PERSI members, staff, and leadership. Now is the first time we have been in a position to affect this much positive change since 2001, when the system exceeded 113% funded and we were able to return nearly \$155 million back to members -- both active and retired -- in a historic one-time gain sharing event. It sure feels good to be back! I hope today's news serves as evidence that your retirement is secure, and in good hands. Thank you for your dedicated service to the people of your community and the State of Idaho.

****Final COLA and contribution rates are subject to Board acceptance of the final fiscal year 2014 valuation, and legislative review. The COLA recommendations are submitted to the Legislature in late December, before the start of their session. They then have 45 days within which to either accept, amend, or reject the COLA. The final COLA will take effect March 1, 2015. Not all retirees will receive the full 4% COLA. Individual COLA calculations will be based on the retiree's date of last contribution. Retirees will receive a detailed remittance letter in March.***

THIS IS ONLY AN ESTIMATE, AND REFLECTS A CHANGE TO A PREVIOUS ESTIMATE FOR THE RETRO TIED TO THE 2012 COLA. FINAL COLA DISTRIBUTION IS SUBJECT TO BOARD APPROVAL OF THE FINAL FISCAL YEAR 2014 VALUATION, AND LEGISLATIVE APPROVAL. HERE IS HOW PERSI ESTIMATES THE 2015 COLA TO BE DIVIDED: IF THE LEGISLATURE APPROVES THE 4% COLA AS THE BOARD HAS RECOMMENDED, HERE IS HOW PERSI ESTIMATES THE 2015 COLA TO BE DIVIDED:

Mandatory and discretionary COLAs are combined as a whole for 1.7%. Anyone with a date of last contribution (DOLC) before 3/1/14 will receive the full 1.7% of this portion of the COLA. (Prorated for those whose DOLC was between March 1, 2014 and January 31, 2015.)

The remaining 2.3% COLA will be distributed from past years' Retro COLAs and will cover all or some of these years' available Retro COLA. (Based on COLAs given in 2009, 2011, 2012.)

.18% retro tied to the 2012 COLA - The full amount applies to all whose date of last contribution (DOLC) was before 3/1/11. (Prorated for those whose DOLC was between March 1, 2011 and January 31, 2012.)

.15% retro tied to 2011 - The full amount applies to all whose date of last contribution (DOLC) was before 3/1/10. (Prorated for those whose DOLC was between March 1, 2010 and January 31, 2011.)

1.92% retro tied to 2009 - The full amount applies to all whose date of last contribution (DOLC) was before 3/1/08. (Prorated for those whose DOLC was between March 1, 2008 and January 31, 2009.)

Insights

REQUIRED MINIMUM DISTRIBUTION

The PERSI Base Plan and the PERSI Choice 401 (k) Plan are both qualified plans under the Internal Revenue Code. The PERSI Base Plan is a mandatory defined benefit plan, while the PERSI Choice 401(k) Plan is a voluntary defined contribution plan. Being “qualified plans” is what allows employee contributions to be made on a tax-deferred basis. As qualified plans, the Base and Choice Plans are subject to certain requirements of IRS Code. One such requirement is the Required Minimum Distribution (RMD). The RMD rules require you to withdraw a certain amount of money once you reach a certain age if you are no longer working for a PERSI employer. *Failure to take RMD payments may result in substantial IRS penalty.*

Generally, the first RMD must be taken by April 1st following the calendar year you turn 70½ or the year you terminate employment, whichever comes later. In subsequent years, the RMD deadline is December 31st.

How RMD Rules Apply to the PERSI Base Plan

- Under PERSI statutes, vested members are required to begin taking distribution of their Base Plan funds when they reach service retirement age or separate from service with a PERSI employer, whichever comes later. This requirement under the PERSI rules generally satisfies any RMD requirements that would otherwise be applicable.
- Non-vested, inactive members who are age 70½ are subject to RMD rules. According to the IRS, if you have multiple retirement accounts you must calculate the RMD amount for each, but you do not have to take the RMD from each. You can add the separate RMD amounts and take the total distribution from just one account. Since PERSI cannot distribute partial payment amounts, you must either take the distribution of the entire Base Plan balance or satisfy the RMD requirements by taking the distribution from another retirement account.

How RMD Rules Apply to the Choice 401(k) Plan

- If you are an inactive member age 70½ or older you will be notified by Xerox HR Solutions, the Choice Plan’s record keeper, when you are obliged to take an RMD. This correspondence is sent in early November and explains the particulars affecting your account. Any required payments are processed and mailed to you the latter part of December.
- Your first RMD payment can be deferred until April 1st of the following year. Members who elect to defer their first payment will receive two RMD payments the following year (one in March prior to the April 1st deadline and one in December prior to the December 31st deadline).
- The RMD amount is calculated by Xerox HR Solutions. The formula uses the prior year-end balance divided by the factor in the IRS life expectancy table less any payments received that calendar year.
- For 401(k) plans, IRS rules require the RMD calculation be applied to each individual 401(k) account. In other words, RMD payments you receive from other retirement plans are not factored into the RMD amount for the Choice Plan.
- While you may withdraw an amount greater than the RMD calculation, you cannot withdraw any less than that.

For more information about RMD rules, please refer to the IRS website at www.irs.gov; there you can find several reference documents related to RMD. You may want to consult with your financial planner especially if you have several retirement plans and/or IRA accounts.



PERSI
P.O. BOX 83720
Boise, ID 83720-0078

PRSR STD
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PERSpectives is published for members of
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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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PERSI INVESTMENT NEWS

for Base Plan as of September 19, 2014

Value of the Fund:

\$14,801,628,284

Fiscal Year Change in Market Value:

\$ 115,045,188

Fiscal Year-to-Date Returns:

0.4%

Month-to-Date Returns:

-0.8%

*Posted monthly on PERSI website: www.persi.idaho.gov/
Fiscal Year 7/1/2014 - 6/30/2015

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