

**PERSI STATUS: PAST, PRESENT,  
AND OUTLOOK FOR THE FUTURE**

September 15, 2011  
Association of Government Accountants

Commitment  
Competence  
Character

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**THE PERSI  
FOUNDATION**

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**Statute 59-1301. Public Employee Retirement System: Purpose**

- ◆ To provide an orderly means whereby Idaho public employees who become superannuated or otherwise incapacitated as the result of age or disability, may retire from active service without prejudice and without inflicting a hardship upon the employees retired.
- ◆ To enable such employees to accumulate pension credits to provide for old-age, disability, death and termination of employment, thus effecting economy and efficiency in the administration of the state, county and local government.

The legislature, therefore, declares that, in its considered judgment, the public good, and the general welfare of the citizens of this state required the enactment of this measure, under the police powers of the state.

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## Employer Demographics



EMPLOYERS	06/30/2007	06/30/2008	06/30/2009	06/30/2010	Current
Cities	144	146	146	147	147
School Districts	146	149	151	153	157
Highway & Water Districts	122	122	124	125	126
State Subdivisions	97	96	97	97	97
Counties	40	40	41	41	41
Other	149	153	165	167	173
<b>TOTALS</b>	<b>698</b>	<b>706</b>	<b>724</b>	<b>730</b>	<b>741</b>

*Steady growth over past several years.  
PERSI benefits help employers attract and retain employees.*

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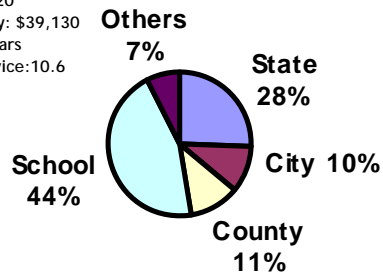
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## Active Member Demographics



- Active Member: 67,020
- Average Annual Salary: \$39,130
- Average Age: 46.7 Years
- Average Years of Service: 10.6




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## Retired Member Demographics



- Retired members: 33,625
- Average monthly benefit: \$1342
- Average years of service: 18.3
- Annual payroll: \$571 million in benefits (FY2011)
  - \$510 million paid to retirees with Idaho addresses (89.3%)
- Average age: 71.8
- Average age at retirement: 61.7
  - Teachers: 60.8
  - General Members: 62.8




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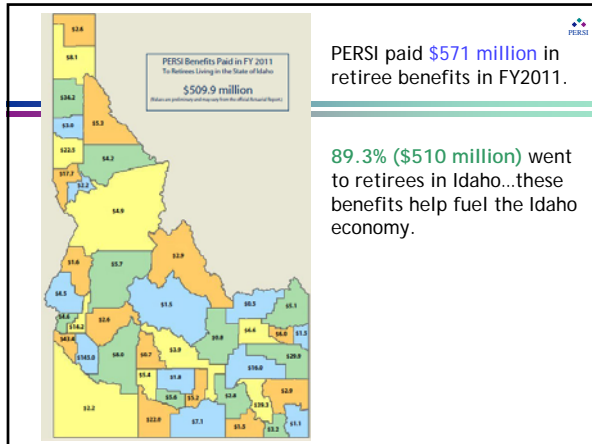
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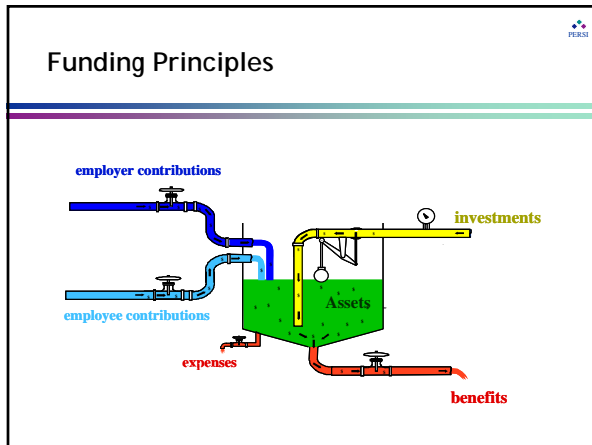
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PRESENT PENSION PERSPECTIVES

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Idaho has always been conservative and prudent...

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### Pension system perspectives in today's environment.

- Defined Benefit Plans**
  - Guaranteed benefit; funded by contributions & investment revenues
  - Risk shared by employer and employee
- Defined Contribution Plans**
  - No guaranteed benefit; benefits stop when account is depleted, regardless of retiree's age or circumstance; may force employees to work beyond retirement age
  - Success in a DC plan relies on investment choices & financial decisions (average return 2.5%)
  - Participants may withdraw funds (leakage); can leave them unprepared at retirement
- Hybrid Plans**
  - Some plans combine DB and DC features
  - Annuity or lump sum payments at employment termination among the options

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### Pension system perspectives in today's environment (continued)

- Employee Compensation Truths**
  - Differing opinions on how public sector wages compare to private sector wages
  - Retirement benefits are key to attracting & retaining quality employees
  - Reduced retirement benefits increases need for higher wages
- Risks of Inadequate Retirement Resources**
  - Without adequate savings, retirees may rely on taxpayer funded public assistance programs
  - DB doesn't guarantee successful retirement; does help control states' social risk

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## Pension Systems in the News



BusinessWeek



THE WALL STREET JOURNAL



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## How some systems got into trouble as reported by GFOA.



- Failed to pay contributions
- Allowed compensation increases (spiking) before retirement
- Reduced retirement age
- Unfunded COLAs
- Paid for retiree healthcare

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## 60 Minutes reported...



- Current and past New Jersey governors "have *failed to contribute to the state's share of its pension obligation in 13 of the last 17 years, one of the reasons the fund is going broke.*"



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## U.S. State and Local Government Pensions *One Size Does Not Fit All*



A January 7, 2011 special report released by Fitch Ratings noted:

"...there is cause for near-term concern about a number of public sector defined benefit pensions plans and recognized the considerable pressure that these obligations will place on many government budgets in the coming years. However, given wide variation in the financial condition of and management approach to individual plans, blanket conclusions are problematic."

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## Pew Center on the States report concurs with GFOA.



🌈 To a significant degree the \$1 trillion gap reflects states' own policy choices and lack of discipline:

- ♦ failing to make annual payments for pension systems at the levels recommended by their own actuaries
- ♦ expanding benefits and offering cost-of-living increases without fully considering their long-term price tag or determining how to pay for them
- ♦ providing retiree health care without adequately funding it

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## Governing Magazine interviewed Dan Crippen, Director of the National Governors Association



*Question:* Aside from market conditions that contributed to the pension problem, states also bear some responsibility. Some weren't making contributions to the pensions that actuaries were recommending. But state officials insist they can get out of this mess. Why should taxpayers believe them, if they helped cause it?

*Mr. Crippen:* The Pew report said most states are making changes. Obviously when times are tight, priorities and tradeoffs between funding education and fully funding this year's pension contributions is a tough choice; but they generally catch up. And again, they dropped 1% last year. [*Ed. note: According to Pew study, it was a 6% drop.*] This is not something that's going downhill. It's pretty well stabilized. A few assumption changes could be made to show full funding, but that's not what we want to do. It becomes part of the overall priorities for the citizens of a state, and I don't see *any* state trying to duck those obligations. There's no reason to believe state level pensions are going to take down any state. There are other issues out there with healthcare that are important, with growing costs, and in some sense...that's much more problematic than pensions."

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### Studies and surveys continue to report...

“For decades, employers have devoted a wide range of retirement resources, matching retirement plan contributions, employee-education efforts and the like, toward the goal of helping their employees enjoy positive retirement lifestyles. Add in the immense resources of the Internet and today’s employees should, theoretically, be better equipped than ever to make good decisions. But the nation’s benefits directors are telling us the opposite.”

*Phil Eckman, Transamerican Retirement Management*

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### HOW IDAHO IS DIFFERENT FROM SYSTEMS WITH PROBLEMS

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### Idaho built a stable system from the start.

- 🔹 Legislators created sound infrastructure with built-in safeguards to prevent abuse of benefits
- 🔹 PERSI is currently valued at \$12.2 billion; nearly a 65% gain since 2009
- 🔹 PERSI funded ratio is 91.7%; PEW Center study says 80% equals solid performer
- 🔹 \$463 million in retirement benefits paid in Idaho; generates \$28 million in tax revenue

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## Contributions have always been paid in Idaho.

- Idaho employers pay contributions on time
- No "pension contribution holidays" are given

*"During the first ten months of 2010, 18 states took action to reduce their pension liabilities, either through trimming benefits or increasing employee contributions, according to the Pew Center. In 2009, 11 states made similar changes, and eight did so in 2008 (some states made multiple changes). Over the three-year span, however, 20 states enacted no legislation. Of that group, a handful of states, such as Delaware, Florida, Idaho, North Carolina, Washington and Wisconsin, have been able to report high funding all through the crisis. The reason for their success is not complicated, but is very difficult to carry out year after year: They've all made contributions adequate to support the benefits they've promised."*

2/17/11 report from CNBC titled, "State Pension Plans Scramble to Avoid Bankruptcy"

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## Idaho Code prevents spiking.

### 59-1302(5D)(e):

"...salary increments inconsistent with usual compensation patterns may be disallowed by the board in determining average monthly salary and base period."

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## PERSI's retirement age higher than many systems (Statute 59-1342).

### Idaho retirement age:

- General member service retirement age is 65
- Police officer/PERSI firefighter service retirement age is 60
- For a member with mixed general and police officer/PERSI firefighter service: the service retirement age is between age 60 and 65 based on the amount of each type of service

*Some systems now adjusting their retirement age upward.*

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## PERSI funds cost-of-living adjustments, but not healthcare.



- Valuation considers annual 1% COLA, which is mandated by law (Statute 59-1355)
  - Cost is built into contribution rates
- Retiree healthcare costs are not paid for by PERSI

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## PEW Center on the States says...



“States such as Florida, Idaho, New York, North Carolina and Wisconsin all entered the current recession with fully funded pensions. As a result, these states will be in a better position to keep their plans on a solid financial footing in the immediate future. But many other states are struggling.”

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## What makes PERSI different from other pension systems? No Smoothing



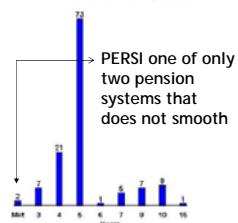
### Smoothing:

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.

Advantage of Not Smoothing:  
Clear picture of returns

### U.S. Pension Systems

Figure 1: Distribution of smoothing periods used to calculate actuarial value of plan assets



Data & chart from NASRA

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## What makes PERSI different from other pension systems? **Daily Valuation**



### Valuation:

The value of PERSI investments are calculated and published each day. Daily valuation reflects financial events almost as they occur. This practice provides a clear representation of the plan status in a fluctuating economy.



**Advantage of Daily Valuation:**  
Clear picture of fund value

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## Other factors that set PERSI apart = **Benefits, Rules & Contributions**



- No healthcare insurance provided for retirees
- Modest benefits (11<sup>th</sup> lowest nationwide)
- Reserves required by statute
- No benefit changes in "good times"
  - Gain Sharing used to distribute excess funding
- Employees contribute to their retirement

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## PRESENT & FUTURE




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Economic downturn decreased PERSI funding rate and increased amortization period.



	Unfunded Actuarial Accrued Liability	Funded Rate	Amortization Period
Actual UAL 7/1/08	\$748.9	93.3%	15.6 years
Actual UAL 7/1/09	\$3,026.6	74.1%	Over 100 years

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Many benefits derived from meeting with lawmakers and employers.



- Greater understanding of employer concerns
  - Budget challenges are paramount
  - Offering PERSI is key factor in employee retention
- Opportunity to educate lawmakers
  - Why PERSI is different from other systems
- Able to discuss legislators' concerns
  - Is the fund sustainable?
  - How can risks be controlled?

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By end of fiscal year June 30, 2011, PERSI experienced its greatest growth in 25 years.



<b>PERSI INVESTMENT REPORT</b>	
Month to Date Report	June 30, 2011
CURRENT VALUE OF THE FUND	\$ 11,976,780,730
FISCAL YEAR CHANGE IN MARKET VALUE	\$ 1,898,756,225
FISCAL YEAR TO DATE RETURNS	20.7%
MONTH TO DATE RETURNS	-0.8%

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What caused the August "flash crash" of the market?

- Political jockeying ended, debt ceiling raised (August 2)
- Latest news about the Eurozone debt crisis triggers fears in U.S. about a double-dip recession (August 4)
- Standard & Poor's downgrades the credit rating on U.S. bond for first time in history (August 5)

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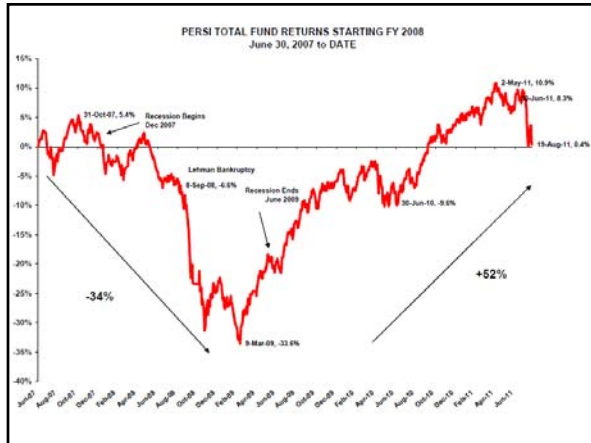
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The value of sticking with a sound investment policy = **Able to Bounce Back Following Declines**

Funded Ratio

1992:	69.7%
1995:	75%
	[higher contributions - 17.61%]
1997:	97%
1998:	110%
2000:	116%
	[gain sharing, lower contributions - 15.66%]
2003:	84%
2007:	106%
2009:	74%
2010:	79%
Today:	90% [current contributions - 16.89%]

Contribution rates lower today than in 1996

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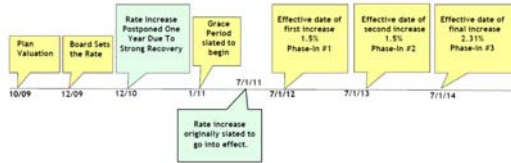
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## State Law 59-1322(5) *Funding & Action*

According to this section of Idaho Code, the Board *must* act if the amortization period for the Fund's unfunded actuarial liability (UAL) exceeds 25 years.



*Board Postponed 2011 Rate Increase Due to Strong Recovery*

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## UAAL - June 30, 2011

### Public Employees Retirement System of Idaho Unfunded Actuarial Accrued Liability Model (UAAL)

Inputs	
Date for calculation of UAAL	06/30/2011
Asset Return Year to Date	20.70%
Total March 1, 2011 COLA	1.5000%
PERSI Status as of 7/01/2010	
Actuarial Accrued Liability	12,135.6
Assets	9,579.8
Unfunded Actuarial Accrued Liability	2,555.8
Funded Ratio	78.9%
PERSI Status as of 6/30/2011	
Actuarial Accrued Liability	12,800.8
Assets	11,429.0
Unfunded Actuarial Accrued Liability	1,371.7
Funded Ratio	89.3%

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PERSI educational video is available online.

PERSI website:  
<http://www.persi.idaho.gov/media/>

Youtube:  
<http://www.youtube.com/watch?v=GRFKj4uWPaE>




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 <p>PERSI</p>	Questions?
Commitment	
Competence	
Character	<p><a href="http://www.persi.idaho.gov">www.persi.idaho.gov</a></p>

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