

PERSI MISSION STATEMENT

To provide members and their beneficiaries with reliable, secure, long-term retirement, survivor and disability benefits as specified by law.

To assist our members in planning a secure retirement by providing high quality, friendly service, and retirement education and information.

CORE VALUES

In our interactions with members, employers, internal staff and oversight agencies; in the tasks and activities we undertake; indeed, in everything we do, PERSI is guided by a set of core values and beliefs:

- Our fiduciary responsibility always comes first.
- We treat everyone with honesty, consistency, and respect.
- We are dedicated to providing outstanding service to all PERSI members.
- All actions are transparent and open to scrutiny.
- We are committed to support the PERSI team by providing a rewarding work environment and professional development in order to foster excellence in customer service.

FIDUCIARY DUTY OF LOYALTY

The primary duty of the Retirement Board and PERSI staff, as fiduciaries, is that of loyalty, or acting with an “eye single” to the interests of the beneficiaries. PERSI is required by law to make all its decisions solely in the interest of the beneficiaries and to avoid, at all costs, serving the interests of any other party not a beneficiary of the system.

C.L. "Butch" Otter, Governor, State of Idaho

RETIREMENT BOARD



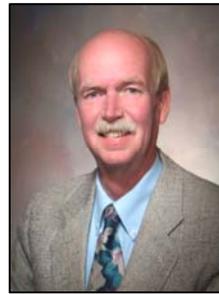
Jody B. Olson, Chairman
Term expires July 1, 2012



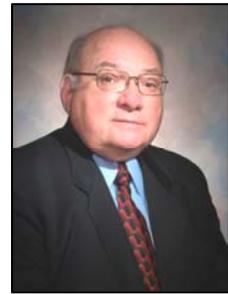
Jeff Cilek
Term expires July 1, 2010



William "Bill" Deal
Term expires July 1, 2013



Clifford T. Hayes
Term expires July 1, 2009



J. Kirk Sullivan
Term expires July 1, 2011

PERSI EXECUTIVE STAFF

Donald D. Drum, Executive Director
Alan H. Winkle, Retiring Executive Director
Robert M. Maynard, Chief Investment Officer
Joanna Guilfoy, Deputy Attorney General
James E. Monroe, Financial Officer
Judy Aitken, Answer Center Manager
Susan Shaw, Processing Center Manager
Patrice Perow, Public Information Officer
Carol Boylan, Information Technology Manager
Diane Kaiser, Employer Service Center and Defined Contribution Manager

PROFESSIONAL CONSULTANTS

Actuary:	Milliman, Inc., Seattle, WA
Auditor:	Deloitte & Touche LLP, Boise, ID Eide Bailly, LLP, Boise, ID
Medical:	Sedgwick CMS, Memphis, TN
Investment:	Callan Associates, Inc., San Francisco, CA CS Capital Management, Inc., Atlanta, GA Capmark Finance, Inc., San Francisco, CA Hamilton Lane Advisors, LLC, Philadelphia, PA
Legal:	Foster, Pepper & Shefelman PLLC, Seattle, WA Whiteford, Taylor & Presto, LLP, Baltimore, MD
Other:	ACS HR Solutions, LLC, Woburn MA Mellon Transition Management Services, San Francisco, CA
Investment Custodians:	The Bank of New York Mellon, Pittsburgh, PA Wells Fargo Bank of Idaho, Boise, ID

Investment Managers:

Adelante Capital Management LLC, Berkeley, CA	KKR 2006 Fund, New York, NY
Apollo Management, LP, Purchase, NY	Kohlberg & Co., LLC, Mt. Kisko, NY
Baring America Asset Management, Inc., Boston, MA	Koll Company, LLC, Newport Beach, CA
Blackstone Capital Partners, LP, New York, NY	Koll/PER, LLC, Newport Beach, CA
Brandes Investment Partners, LP, San Diego, CA	Lindsay Goldberg & Bessemer, New York, NY
Bridgepoint Capital LTD, London	Littlejohn Fund, LP, Greenwich, CT
Capital Guardian Trust Company, Brea, CA	McCown DeLeeuw & Co., LP, Menlo Park, CA
Cascade Affordable Housing, Seattle, WA	Mellon Capital Management, San Francisco, CA
Cerberus Institutional Investors LP, New York, NY	Mondrian Investment Partners, Ltd., London
Chisholm Partners, LP, Providence, RI	Mountain Pacific Investment Advisers, Inc., Boise, ID
Clearwater Advisors LLC, Boise, ID	Nautic Partners, LLC, Providence, RI
CVC European Equity Partners, LP, London	Newbridge Asia, LP, Ft. Worth, TX
D.B. Fitzpatrick & Co., Inc., Boise, ID	Oaktree Capital Management, LLC, Los Angeles, CA
Donald Smith & Co., Inc., New York, NY	Olympic IDA Fund, LLC, Los Angeles, CA
Epic Venture Fund IV LLC, Salt Lake City, UT	Pareto Partners, LLC, London
Enhanced Equity, LP, New York, NY	Peregrine Capital Management, Inc., Minneapolis, MN
First Reserve XI LP., Greenwich, CT	Providence Equity Partners, LP, Providence, RI
Fortis Investments, Boston, MA	Prudential Investment Management LLC, Newark, NJ
Frazier Technology Ventures, LP, Seattle, WA	Pyramis Global Advisors, Boston, MA
Furman Selz Investors, LP, New York, NY	Sanford C. Bernstein & Co. LLC, New York, NY
Galen Partners, LP, New York, NY	Saugatuck Capital Company, LP, Stamford, CT
Genesis Asset Managers, Ltd., London	State Street Global Advisors, Boston, MA
Goense Bounds & Partners, LP, Lake Forest, IL	T3 Partners, LP, Fort Worth, TX
Gores Capital Partners, LP, Los Angeles, CA	TCW Asset Management Co., Los Angeles, CA
Green Equity Investors, LP, Los Angeles, CA	Thomas H. Lee Equity Fund, LP, Boston, MA
Hamilton Lane Co-Investment Fund, LP, Baja Cynwyd, PA	TPG Partners, LP, Fort Worth, TX
Hamilton Lane Secondary Fund, LLC, Baja Cynwyd, PA	Tukman Capital Management, Inc., Larkspur, CA
Harvest Partners, Inc., LP, New York, NY	W. Capital Partners, LP, New York, NY
Highway 12 Venture Fund, LP, Boise, ID	Western Asset Management Co., Pasadena, CA
Ida-West Energy Fund LLC, Boise, ID	Zesiger Capital Group LLC, New York, N
JH Whitney & Co., LLC, New Canaan, CT	

More specific information on the above-mentioned investment professionals can be found on pages 64 through 67 in the Investment Section of this report.

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Public Employee Retirement
System of Idaho

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox

President

Jeffrey R. Emmer

Executive Director



Public Pension Coordinating Council

***PUBLIC PENSION STANDARDS AWARD
For Funding and Administration
2008***

Presented to

Public Employee Retirement System of Idaho

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

Organizational Chart

Retirement Board

Donald Drum Executive Director	Open Deputy Director Larry Sweat Technical Writer	Joanne Guilfooy Deputy Attorney General	Cheri Campbell Management Assistant
Robert M. Maynard Chief Investment Officer	Richelle Sugiyama Investment Officer	Rose Marie Sawicki Administrative Assistant 1	Investment Managers See Investment Section for a list of managers - pp 64-65
James E. Monroe Financial Officer	Debbie Buck Senior Accountant Cecile McMonigle Portfolio Accountant Tess Myers Administrative Assistant 1	JoAnne Dieffenbach Financial Technician Sharon Simon Financial Support Technician	Diane Kaiser ESC/DC Plan Manager Alice Brown Financial Technician Steve Jones Financial Technician Linda Whitney Financial Technician
Carol Boylan Information Technology Manager	Nancy Fauver IT Database Analyst Dotty Cluck Customer Service Rep. Vacant IT Information System Tech Sr.	Joy Fereday IT Programmer Analyst Sr. Vacant IT Program System Specialist	Ryan Evey IT Programmer Analyst Sr. Stacy Parr Web Developer
Judy Aitken Answer Center Manager	Kimberlee Hall PAC Supervisor Kari Caven Retirement Specialist Catherine Atchison Retirement Specialist Frank Dye Retirement Specialist Graydon Wood Training Specialist	Melody Hodges Retirement Specialist Lisa Conn Retirement Specialist Lisa Mabe Retirement Specialist Jami Davis Administrative Assistant 1 Mike Mitchell Training Specialist	Kathi Kaufman Customer Service Rep. 2 Roberta Rice Customer Service Rep. 2 Lynne Yowell Customer Service Rep. 2 Austin Haro Customer Service Rep. 2
Susan Shaw Processing Center Manager	Penny Walls Retirement Specialist Julisa Adams Retirement Specialist Susan Strouth Retirement Specialist Lynn Duncan Retirement Specialist	Shasta Luper Retirement Specialist Jennifer Whitley Retirement Specialist Marian Van Gerpen Technical Records Specialist 1 Lenna Strohmeyer Technical Records Specialist 1	Heidi Andrade Technical Records Specialist 1 Karen Miller Technical Records Specialist 1 Kay Prince Technical Records Specialist 1 Cathy Andrews Imaging Specialist
Patrice Perow Public Information Officer	Betsy Griffith Administrative Assistant 1		
Project Coordinator Vacant Position			

THE SYSTEM

The Public Employee Retirement System of Idaho (the System) is the administrator of six fiduciary funds including two defined benefit retirement plans, the Public Employee Retirement Fund Base Plan (PERSI Base Plan) and the Firefighters' Retirement Fund (FRF); two defined contribution plans, the Public Employee Retirement Fund Choice Plan 401(k) and 414(k) (PERSI Choice Plans); and two Sick Leave Insurance Reserve Trust Funds – one for state employers and one for school district employers.

The Retirement Board consists of five members, each appointed by the Governor to fulfill a 5-year term. The Board meets monthly to conduct System business, usually on the fourth Tuesday of each month at 8:30 a.m. at PERSI's office in Boise.

Administrative expenditures consisting of the personnel costs, operating expenditures, and capital outlay necessary to operate the System are limited to those approved and appropriated by the Legislature for that purpose. In Fiscal Year 2008 (FY08), these costs totaled \$5,984,571, including \$196,360 in depreciation, which is not a cash expenditure and, therefore, not appropriated.

The majority of the System's 63 staff works in the headquarters office at 607 North 8th Street, Boise, Idaho. There are two staff members in the Coeur d' Alene office, and three in the Pocatello office. The Executive Director and investment personnel are exempt positions appointed by the Retirement Board to serve at its pleasure. The Deputy Director and Public Information Officer are exempt positions serving under the Executive Director. The Deputy Attorney General is assigned to PERSI by the Office of the Attorney General. All other staff members serve under statutes and personnel rules governing classified state service.

The System staff oversees the investment of the trust corpus and new contributions with professional investment managers and funding agents. The Retirement Board maintains fiduciary responsibility for investment policy, asset allocation, and the selection of individual investment managers as discussed in the Investment Section.

SUMMARY OF PLAN PROVISIONS

DEFINED BENEFIT "BASE PLAN" PROVISIONS

Note: The items in parentheses are the provisions applicable to members designated as either PERSI firefighters or as PERSI police officer members for retirement purposes.

MEMBER CONTRIBUTION RATE

The employee contribution rate is set by statute at 60% (72%) of the employer rate. As of June 30, 2008, it was 6.23% (7.65%).

EMPLOYER CONTRIBUTION RATE

The employer contribution rate set by the Retirement Board was 10.39% (10.73%) as of June 30, 2008.

SERVICE RETIREMENT

ELIGIBILITY

Five years of service and age 65 (60, or between 60 and 65, depending on the ratio of police officer/firefighter service to total credited service).

AMOUNT OF ALLOWANCE

For each year of credited service, the monthly service retirement allowance as of June 30, 2008, was 2% (2.3%) of the monthly average salary of the member's highest 42 consecutive months.

MINIMUM MONTHLY BENEFIT ALLOWANCE

Until February 28, 2008: for each year of service, the monthly minimum benefit allowance was \$22.54 (\$27.05) to a maximum of the member's accrued benefit. Effective March 1, 2008, the monthly minimum benefit allowance was \$22.99 (\$27.59).

NORMAL FORM

Regular retirement allowance for retiree's life only, plus a lump sum death benefit if the retiree dies before allowances are paid, total accumulated employee contributions and interest.

OPTIONAL FORMS

Retirees may also choose 50% or 100% contingent annuitant options as well as Social Security "bridge" options. These are actuarial equivalents of the normal form based on the mortality and interest assumptions adopted by the Retirement Board. The allowance is payable for the life of the retiree and designated contingent annuitant.

EARLY RETIREMENT

ELIGIBILITY

Five years of service and age 55 (50, or between 50 and 55, depending on the ratio of police officer/firefighter service to total credited service).

AMOUNT OF ALLOWANCE

Unreduced accrued service retirement allowance if age plus service, upon separation from employment, total 90 (80, or between 80 and 90, depending on the ratio of police officer/firefighter service to total credited service); otherwise, the accrued service retirement allowance is reduced 3% for each of the first 5 years by which the early retirement date precedes the date the member would be eligible to receive the unreduced benefit, and by 5.75% for each additional year to a maximum of a second 5 years. The unreduced benefit entitlement may be either at the service retirement eligibility date or the date eligible for the rule of 90(80).

FORMS

Regular retirement allowance; contingent annuitant allowances for the life of the retiree and a designated contingent annuitant; Social Security level income option for the life of the retiree only or for the life of the retiree and designated survivor.

DISABILITY RETIREMENT

ELIGIBILITY

Active members must have 5 years of service, be unable to perform work of *any* kind, and be expected to remain disabled for life. They are eligible from first day on the job if the disability is due to occupational causes.

AMOUNT OF ALLOWANCE

Projected service retirement allowance based on the highest 42 consecutive month average salary at the time of disability. The benefit is calculated using the accrued service at the time of disability plus the service which would have accrued through service retirement age had the disability not occurred. If a member has less than 360 months of service as of the date he is eligible for disability retirement, he will be given credit for the months of service he would have

earned from the date of disability to the date he would have reached Service Retirement Age (65 for general members/62 for police and firefighters) had he not become disabled (360 months of credited service maximum). In other words, PERSI will give members up to 30 years of credit or to Service Retirement Age, whichever comes first. Monthly allowance is payable after all temporary compensation ceases and is offset by the amount payable as income benefit under worker's compensation law, except when offset by Social Security.

NORMAL FORM

Regular retirement allowance to normal service retirement age when retirement benefit changes to service retirement allowance with its optional forms available.

DEATH BENEFITS

AFTER RETIREMENT

Under the normal form of the retirement allowance, a Social Security adjustment option, or a disability retirement, the balance, if any, of the member's accumulated contributions and interest at retirement over all payments received is paid to the beneficiary in a lump sum. In the case of a disability retirement, the beneficiary may waive the lump sum if the retiree is married so that the spouse will receive a lifetime monthly allowance, or the beneficiary may take a lump-sum payment of two times the amount in the member's account at the time of disability retirement minus any amount paid. Under the contingent annuitant options, the designated annuitant receives a lifetime monthly benefit following the member's death. If the survivor dies before the balance of the member's accumulated contributions and interest has been paid, the balance will be paid to the beneficiary in a lump sum. If the member's designated contingent annuitant predeceases him/her, the member's allowance will be recalculated to a single life payment.

BEFORE RETIREMENT

- 1 Non-vested Members: Beneficiary receives a lump sum payment of the member's accumulated contributions plus interest.
- 2 Vested Members:
 - a Beneficiary receives a lump sum payment of two times the member's accumulated contributions plus interest.
 - b If the member is married, and the spouse is the sole beneficiary, the spouse may select a lump sum payment or a lifetime monthly benefit.
 - c If the member is married, but the spouse is not the sole beneficiary, the beneficiary may waive the lump sum, in which case, a lifetime monthly benefit is available to the surviving spouse.
- 3 A \$100,000 death benefit for duty-related deaths for police officers/firefighters became effective July 1, 2003.

SEPARATION BENEFIT

Accumulated member contributions with regular interest is payable upon becoming an inactive member separated from eligible employment. The Regular Interest Rate in effect for FY08 was 11.69% per year compounded monthly from July 1, 2007 through December 31, 2007, and 19.46% from January 1, 2008 through June 30, 2008.

POSTRETIREMENT ADJUSTMENTS

An annual postretirement adjustment based on and limited by a cost-of-living factor reflecting the changes in the Consumer Price Index (CPI) is effective in March each year. If the CPI change from August of the previous year to August of the second previous year is 1% or more, a 1% mandatory adjustment is made. The Board may authorize additional discretionary adjustments based on the CPI increase (up to a total maximum annual COLA of 6% or the CPI rate, whichever is lower) if it determines that the System can do so and still maintain an appropriately funded position as required by Idaho Code Section 59-1355(1). Adjustments in excess of the 1% authorized by the Board must be reported to the Legislature. If the Legislature has not acted by the 45th day of the legislative session, the COLA becomes effective March 1 of each year.

The Board is also authorized to award postretirement adjustments for prior years in which the actual amount of adjustment was less than the CPI for those years. If the CPI change is downward, in no event will any benefit be reduced below its initial amount.

The COLA authorized and implemented March 1, 2008, was 2%.



November 17, 2008

Governor C.L. "Butch" Otter

Retirement Board
Jody B. Olson, Chairman
Jeff Cilek
William W. Deal
Clifford T. Hayes
J. Kirk Sullivan

Executive Director
Alan H. Winkle

PHONES
Answer Center 208-334-3365
Fax 208-334-3805
Toll-free: 1-800-451-8228

Employer Service Center
1-866-8887-9525

Mailing Address
P.O. Box 83720
Boise, ID 83720-0078

BOISE
607 North 8th Street
Boise, ID 83702-5518

POCATELLO
850 East Center, Ste. "D"
Pocatello, ID 83201

COEUR D' ALENE
2005 Ironwood Pkwy.
Coeur d' Alene, ID 83814

Choice Plan Record Keeper
1-866-437-3774

Dear Governor Otter, Legislators, and Members of the Retirement System:

We are pleased to present to you the Public Employee Retirement System of Idaho (the System) comprehensive annual financial report, for the fiscal year ended June 30, 2008 (FY08). This financial report is a historical perspective of benefits, services, and fiscal activities of the System. Included is a summary of our actuarial valuations, an independent auditors' report, an investment summary, and a statistical section.

Generally accepted accounting principles require management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The System's MD&A can be found immediately following the independent auditors' report.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to PERSI for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the 17th consecutive year PERSI has achieved this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

For the 6th consecutive year, PERSI has been awarded the Public Pension Coordinating Council Standards Award. This award signifies that PERSI complies with the standard benchmarks for public defined benefit systems in the United States. The standards require a high level for the following: comprehensive benefit program, funding adequacy, accepted actuarial and audit practices, investment policy and evaluation, and member communications. This award is given to only 50 to 60 public retirement systems each year.

This Letter of Transmittal is intended to serve as an overview of the System and to convey information on the topics that follow.

PLAN HISTORY

The Public Employment Retirement System of Idaho (PERSI) was created by the Thirty-seventh Legislature, Regular Session of 1963 with funding effective July 1, 1965. It is a tax qualified, defined benefit system to which both the member and the employer contribute. Participation in the System is mandatory for eligible state and school district employees and available to other public employers and their employees on a contractual basis.

When the Teachers Retirement System of Idaho was abolished, members of that system were integrated into PERSI, and all other eligible school district employees became PERSI members effective July 1, 1967.

Legislative amendments since 1965 have made it possible for municipal police officer retirement funds to merge with the System, and two of the five police officer systems have since merged. The other three are being phased out, and police officers hired since 1969 have become PERSI members.

Legislation in 1979 mandated the Firefighters' Retirement Fund be administered by PERSI effective October 1, 1980. Paid firefighters who were members of the original system retained their original benefit entitlement, while paid firefighters hired after October 1, 1980, were entitled to PERSI benefits. An actuarial valuation of the firefighter member benefit entitlement is conducted at least every other year, separate from the annual PERSI valuation.

In January 2001, PERSI implemented a "Gain Sharing" program as a way to distribute \$155 million in excess investment earnings back to our active members, retirees, and employer members. Retirees received their gain sharing as a "13th check." Employers received their share as a contribution "holiday." Some 53,000 eligible active members received their portion as deposits into newly created defined contribution (DC) accounts. This new plan, called the PERSI "Choice" Plan, supplemented PERSI's traditional Defined Benefit (DB) "Base" Plan. It allowed employees for the first time to actively participate in saving for their retirement.

The Choice Plan is somewhat unique in the public sector. PERSI obtained permission from the Internal Revenue Service to expand a grandfathered State 401(k) to our members statewide. While some public employees were familiar with 457 or 403(b) plans, a 401(k) was something new to them. Many of our members had never had the opportunity to make such pre-tax voluntary contributions.

SERVICES PROVIDED

The ability of the System to serve both employee and employer members at the local level through the Boise, Pocatello, and Coeur d' Alene offices remains a key factor for efficient administration. The merging of other retirement systems with PERSI, plus statutory amendments over the years, have produced both multiple and diverse member benefit entitlements and administrative requirements. These can best be analyzed and explained to the members through personal contact with knowledgeable System staff members.

In its 43rd year of operation, the System continued a wide range of services to both employee and employer members. Members may visit the PERSI Web site, call, email, or visit one of the three offices for personal information and assistance regarding credited service, account balances, eligibility, benefit options and amounts, and other retirement matters.

Members receive advance notice of service retirement qualification and are provided with estimates of monthly allowances. They also receive information regarding the availability of alternate forms of retirement payments. Retirement applications are processed in a timely fashion, and monthly payments are made promptly. Direct deposit of benefit payments is available to retired members as is withholding for income tax, medical insurance, or other purposes.

Introductory Section

System retirees are provided notices whenever their net benefit amount changes. This notice gives retirees a list of their itemized deductions from their gross benefit. Retirees may also access the past 24 monthly notices on the PERSI secure web site, as well as past 1099 tax statements.

Separation and death benefits are paid in an orderly manner and as rapidly as possible. In some instances payments are expedited to avoid placing a financial hardship on a member. Employee contributions and earned interest are posted to individual member accounts each month, and an annual statement is provided to each member confirming their average monthly salary, credited service, contributions, and earned interest. In addition, a report of benefits accrued to date is provided along with an estimate of benefits projected ahead to various retirement ages.

PERSI's employer units are responsible for reporting and handling retirement transactions and activities. They are provided regular training and assistance through monthly newsletters, annual employer training sessions throughout the State, and personal contacts by field service personnel, as needed. Employer records and reporting procedures are reviewed each year for accuracy and compliance with statutory provisions.

Upon request, public employers interested in affiliation with the System are counseled and provided with information regarding employee benefits, cost, and procedures associated with joining. Conversely, employers considering withdrawal are provided information and employee benefit projections to enable them to make an informed decision.

Preretirement and financial planning workshops, offered on a regular basis throughout the State, cover financial planning, budgeting, investment basics, Social Security, and System benefits.

EMPLOYEE AND EMPLOYER MEMBERSHIP

During FY 2008, the number of active PERSI members increased from 65,800 to 66,765. The number of retired members or annuitants receiving monthly allowances increased from 29,619 to 30,912. The number of inactive members who have not been paid a separation benefit increased from 22,690 to 23,712. Of these inactive members, 10,083 have achieved vested eligibility. Total membership in PERSI increased from 118,109 to 121,389 during the fiscal year. There are currently 706 public employers in Idaho who are PERSI members. Participating employers are listed in the Statistical Section of this report.

MANAGEMENT RESPONSIBILITY

The System's management is responsible for the complete and fair presentation of the data and the accompanying disclosures in this report. The financial statements and supplemental schedules included in this report have been prepared in accordance with generally accepted accounting principles for governmental accounting and reporting as pronounced or adopted by the Governmental Accounting Standards Board.

INDEPENDENT AUDIT

The System is audited annually, and for the fiscal year ended June 30, 2008, the audit was conducted by Eide Bailly, LLP, an independent firm of Certified Public Accountants. Refer to the Independent Auditors' Report for the opinion.

INTERNAL ACCOUNTING CONTROL

As an agency of the State of Idaho, the System's administrative expenses are subject to the State's budget controls. Management is responsible for maintaining a system of internal accounting control designed to provide reasonable assurance transactions are executed in accordance with management's general or specific authorization and are recorded as needed to maintain accountability for assets to permit

Introductory Section

preparation of financial statements. Internal control procedures have been established, and a budget report is prepared for the Board. We believe the internal controls in effect during FY 2008 adequately safeguard the assets and provide reasonable assurance regarding the proper recording of financial transactions.

FINANCIAL HIGHLIGHTS

Collection of employer and employee contributions, as well as income and gains from investments, provides the reserves necessary to finance retirement benefits. These income sources totaled \$(42,271,586) for all pension funds during the fiscal year ended June 30, 2008.

ADDITIONS:

Contributions	\$ 519,875,892
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INVESTMENT INCOME:

Net Appreciation in Fair Value of Investments	(853,679,206)
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Interest, Dividends and Other Investment Income	340,572,633
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Less: Investment Expenses	<u>(49,284,067)</u>
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Net Investment Income	(562,390,640)
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OTHER INCOME

<u>243,162</u>

Total Additions	<u><u>\$(42,271,586)</u></u>
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The payment of benefits is the primary expense of a retirement system. The payments, together with the expenses to administer the Plan, constitute the total expenses of the System. Expenses for FY 2008 are as follows:

DEDUCTIONS:

Benefits and Refunds	\$ 515,474,982
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Administrative Expenses	5,984,570
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Transfers/Rollovers Out	<u>7,273,051</u>
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Total Deductions	<u><u>\$ 528,732,603</u></u>
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Contributions and expenses continue to increase at a predictable rate.

ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS

Future benefits include all benefits estimated to be payable to plan members (retirees and beneficiaries, terminated employees entitled to benefits but not yet receiving them, and current active members) as a result of their service through the valuation date and their expected future salary. The actuarial present value of future benefits as of the valuation date is the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Simply put, it is the amount that would have to be invested on the valuation date so the amount invested plus investment earnings will provide sufficient assets to pay total future benefits when due.

The actuarial present value was calculated as part of an actuarial valuation at July 1, 2008. Significant actuarial assumptions used include: an investment return rate of present and future assets of 7.75% compounded annually, (7.25% plus 0.50% for expenses); projected salary increases of 4.50% per year compounded annually, attributable to general wage increases; additional projected salary increases attributable to seniority/merit, up to 6.70% per year, depending on service and employee classification, and; 1.00% per year attributable to postretirement benefit increases.

Introductory Section

At June 30, 2008, the unfunded actuarial liability on a current contribution basis was as follows:

Unfunded Actuarial Liability on Current Contribution Basis (in millions):

	Valuation Date:	July 1, 2008
	Benefit Date:	July 1, 2008
A. Actuarial Present Value of All Future Benefits for Contributing Members, Former Contributing Members and Their Survivors		\$ 14,745.4
B. Actuarial Present Value of Total Future Normal Costs for Present Members		\$ 3,533.6
C. Actuarial Liability [A - B]		\$ 11,211.8
D. ORP Contributions		\$ 60.9
E. Actuarial Liability Funded by PERSI Contributions [C-D]		\$ 11,150.9
F. Actuarial Value of Assets Available for Benefits		\$ 10,402.0*
G. Unfunded Actuarial Liability (funding excess) [E-F]		\$ 748.9
H. Amortization Period on Valuation Date, Based on Contribution Rate Established as of Benefit Date		15.6 years
I. Funded Ratio [F/E]		93.3%**

* The total available assets are \$10,695.2 million, but are reduced by \$293.2 million for assets used in plan operations and funds earmarked to provide excess benefits to former members of the Firefighters' Retirement Fund and the Idaho Falls Police Retirement Fund.

** The Funded Ratio of 93.3% does not include the 2009 COLA. At the time of print, the Board decision on the COLA had not been made. If the full COLA calculated to be 5.4% is implemented, the Funded Ratio will decrease to 91.5% and amortization period increases to 21.9 years.

ECONOMIC CONSIDERATIONS

The System operates within a dynamic economic environment, as do all investment funds. The objective of the Retirement Board is to minimize the effect of these external influences, where possible, by diversifying among a broad range of asset classes and investment management styles, both domestically and internationally. Such diversification, combined with prudent management by experienced investment professionals, increases the probability the earnings objective will be achieved. The return for Fiscal Year 2008 was -4.6% net of all expenses, which is greater than 2% of the benchmark.

PERSI is funded on a sound actuarial basis, which protects future benefits for participants. Over the long-term, the Plan's assets should achieve their expected returns. However, short-term shortfalls in earnings targets could occur in unfavorable economic environments and/or unfavorable actuarial experience. As of June 30, 2008 the fund had an amortization period of 15.6 years.

INVESTMENT STRATEGY AND POLICIES

The Retirement Board utilizes and directs agents to provide whatever investment management and custodial functions best achieve the System's investment objectives. The Board establishes asset allocation policy, diversification guidelines, custodial functions including safe-guarding of investments, and other investment restrictions. Each money manager is generally granted full discretion in making investment decisions within their guidelines. The Board, staff, and consultants monitor and evaluate investment results. The Board, in its administration of this System and management of the investment program, is guided by the fiduciary standards in Section 59-1301 of the Idaho Code and the Idaho Uniform Prudent Investor Act, in Sections 68-501 through 68-514 of the Idaho Code and is empowered in its sole discretion to limit, control, and designate the types, kinds, and amounts of investments.

PERSI's total fund return was -4.6% net of investment expenses for Fiscal Year 2008; due to an overall downturn in the investment market. The policy benchmark return is 7.25%. PERSI continues to rank in the top quartile when compared to our peer universe of other state-wide public pension funds across the country.

The investment mix at fair value as of the end of Fiscal Year 2008 is 54% domestic equity and global equity, 15% international equity, 31 percent fixed income. The System's investment outlook is long term, allowing the portfolio to take advantage of the favorable risk-return characteristics of equities by placing more emphasis on this category. The portfolio is broadly diversified with additional diversification achieved through domestic and international investing. See the Management's Discussion and Analysis and Investment Section of this report for more detailed analysis and information.

FUNDING STATUS

The funding objective of PERSI is to accumulate sufficient assets to ensure funds will be available to meet current and future benefit obligations to participants on a timely basis. If the level of funding is high, the ratio of assets to the actuarial accrued liability is also greater, which means better investment income potential. Each year an independent actuary engaged by PERSI calculates the amount of the annual contribution the plans must make to fully meet their obligations to retired employees. As of June 30, 2008, the PERSI Base Plan has funding of 93.3% of the present value of the projected benefits earned by employees. The closed Firefighters' Retirement Fund remains an actuarially funded plan. For GASB reporting purposes, the Notes to Required Supplemental Schedules on page 53 provides detailed information on each plan's remaining amortization period. The actuarial method for calculating accrued liability for both plans is Entry Age Normal with the objective of maintaining employer contributions approximately level as a percent of member payroll. For a more in-depth discussion of PERSI's funding, see Management's Discussion and Analysis and the Actuarial Section of this report.

MAJOR INITIATIVES

During FY '08, the Education group worked closely with Medicare and Social Security to develop a workshop for active, inactive, and retired members who are nearing eligibility age for these programs. Both Senior Health Insurance Benefit Advisors (SHIBA) and Social Security provided speakers. The surveys from PERSI's internal education program (*Retirement's a Beach*) overwhelming indicate PERSI members need more information on Medicare and Social Security. The goal was to provide a straight-forward program by experts to help PERSI members make informed decisions about Medicare and Social Security, and gain an understanding of how the two programs interact with PERSI.

In the third quarter of FY '08 PERSI began a detailed review and assessment of roles, responsibilities, and training needs, and then created metrics to track workloads and assess work results. PERSI will continue to work in this area through the first quarter of FY '09. The goal will be to clearly identify the effectiveness of previously implemented tracking tools, training needs, and the measurements necessary to assess work unit performance.

Introductory Section

This identification and tracking of the new metrics will be a long-term effort involving adding and deleting metrics to determine those that are accurate measures of performance as well as changing the benchmarks to reflect the appropriate level of performance. PERSI also began the process of creating position descriptions so employee skills can be compared to the duties of each position. This will provide an indicator for identifying internal training needs as the organization continues to move the staff from specialists to generalists.

A rebranding effort for the Choice Plan 401(k) got underway this year. Working with Buck Consultants, a subsidiary of ACS (the plan's record keeper), PERSI held focus groups to learn why some members participate in the Choice Plan 401(k) and other members do not. Based on the feedback, PERSI is rebranding the Choice Plan using a new tagline (*It's Your Choice*), and redoing all of the plan's collateral materials to incorporate a more contemporary look. The name of the plan is also being modified to the "Choice 401(k) Plan." The goal is to increase member participation. The new materials are expected to roll out late in the first quarter of FY '09.

In the last several months, PERSI began conducting an assessment of the current and future viability of its information technology systems, staffing, and infrastructure. This assessment is a preparatory phase for developing and adopting a plan that ensures the organization is technologically ready for current and future requirements. As part of the process, PERSI issued an RFI to gather information from IT experts who could conduct an objective assessment of PERSI's existing system and network. Based on the RFI results (and the results of the internal assessment performed by PERSI's IT staff), an assessment of the risk, benefits, and costs associated with implementing new strategies without completely overhauling PERSI's existing system was prepared. Adding enhancements, making modifications, and developing custom software and/or modifying off-the-shelf software will be part of the solution for maintaining the desired efficiencies required to keep pace with today's business needs.

ACCOMPLISHMENTS

This financial report of the Public Employee Retirement System of Idaho was prepared by staff under the leadership of the Retirement Board. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a method of determining responsible stewardship for the assets contributed by the members and their employers.

This report is being sent to the Governor, State Legislators, and other interested parties.

Respectfully submitted,

Jody B. Olson, Chairman

Donald D. Drum, Executive Director

James E. Monroe, Financial Officer