PERSI

July 5, 2012

Dear Idaho Lawmaker:

The PEW Center on the States has released an update to its 2009 “The Widening Gap” report on state pension systems. Pew assessed the management of each state’s pension and retiree healthcare obligations as of fiscal year 2010 based on funding levels and contribution policies. States were rated as “solid performer,” “needs improvement,” or “serious concerns.”

I am pleased to report that since the Great Recession of 2009, PERSI funding has been steadily climbing. In March 2012, we achieved an historical high asset value of $12.2 billion, about a 65% gain since our low three years earlier. PERSI’s nearly $3 billion funding gap has closed by nearly half. As of June 20, 2012 our unfunded liability had dropped to $1.8 billion. So I was puzzled by the “needs improvement” rating given to Idaho in the latest PEW report. According to Diane Oakley, executive director of the National Institute on Retirement Security (NIRS), “Idaho is one state that has not made plan changes because they have been doing the right things year in and year out.” *Lessons From Well-Funded Public Pensions*, a 2011 NIRS study that looked at pension funding over a 10-year period, reports PERSI’s 2010 “contributions equaled 113 percent of its actuarially required contributions, putting the system at the top of the PEW list for that criteria. For the 10 years of PERSI funding history studied, Idaho contributed 100 percent or more in 9 of the 10 years, with that one outlying year still contributing 97 percent.” According the PEW Center, “Keeping up with the annual required contribution is perhaps the most effective way states can responsibly manage their long-term liabilities for public sector retirement benefits. Pew's research shows states that consistently make their full payments have better funded retirement systems and smaller gaps.” PERSI has always collected required contributions from employers and employees, which has contributed to our stability.

When you read the PEW report, it’s good if you understand smoothing. Most public pension systems “smooth” (spread) their losses over a period of years. PERSI does not smooth because it presents an artificial picture of funding and system stability — and we don’t have to do that to look better. We choose to use a mark-to-market approach instead because it provides a more realistic picture of the fund’s status. So, although the PEW Center dropped Idaho from “solid performer” status (80% funded) to “needs improvement” status (79% funded) in its latest report, I am pleased with our current 85.8 percent funding level (6/20/12) because it is not overstated as it would be with smoothing. True transparency (one of PERSI’s core investment principles) requires that we immediately recognize changes in our asset values.

The major flaw in the report, if any, is the healthcare comparison. Idaho was rated as “a solid performer,” yet PERSI *does not* offer retiree healthcare benefits. PEW chose to interpret the unused sick leave benefit available to state and school members as healthcare coverage, which is misleading. PERSI rules allow eligible members to use a portion of their unused sick leave at the time of retirement for the payment of premiums for employer maintained health, dental, and life insurance programs. In essence, this is a benefit *earned but not used* by an employee while they are actively working. Instead, they use it at retirement to pay insurance premiums. ***PERSI has no funding obligation for retiree healthcare.***

Enclosed is a copy of the PEW report fact sheet on Idaho, although I encourage you to read the full report (http://www.pewstates.org/research/reports/the-widening-gap-update-85899398241). I continue to travel the state meeting with lawmakers. If you would like to meet with me the next time I'm in your area, please call my assistant Erin Duran to check dates and times so we can get together to talk about the PEW Report or other areas of interest relating to PERSI. She can be reached at 208-287-9273.

Best regards,
Don Drum
Executive Director
Enc.

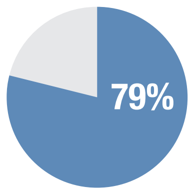
The Widening Gap Update IDAHO

Although Idaho consistently paid, or exceeded, its full annual pension contribution from 2005 to 2010, the system was 79 percent funded in fiscal year 2010 and faced a $3 billion funding gap. Most experts agree that a fiscally sustainable system should be at least 80 percent funded. The state also had a $137 million bill for retiree health care costs, 12 percent of which was funded, exceeding the 8 percent national average in 2010.

TOTAL BILL COMING DUE

Idaho's retirement plans had a liability of $12.7 billion and the state has fallen $3 billion short in setting aside money to pay for it.

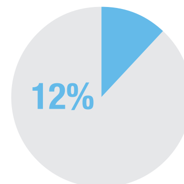
Pensions



$12.6B
Total Liability

Percent Funded

Retiree Health Care



$0.2B
Total Liability

Percent Funded

ANNUAL RECOMMENDED CONTRIBUTION

In 2010, Idaho paid 113 percent of the recommended contribution to its pension plans and just 78 percent of what the state should have paid to fund retiree health benefits.

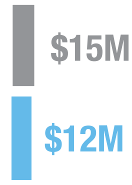
Pensions

Full Recommended Contribution

Actual

Retiree Health Care

Full Recommended Contribution



Actual

HOW DID THIS STATE FARE?

Idaho **needed to improve** how It handled its long-term liabilities for pensions and was a **solid performer** at handling its retiree health care bill.

Pensions **Retiree Health Care**

solid performer | needs improvement | serious concerns

The grades for pensions and retiree health benefits assess how well the states have managed these liabilities. The pension grade is based on being above 80 percent funded (2 points), having an unfunded liability that is less than the payroll for active members (1 point), and paying at least 90 percent of the recommended pension contribution over the last five years (1 point). Plans that got all four points were solid performers, plans with two or three needed improvement, and plans with one or no points were cause for serious concern. Grades for retiree health benefits were based on whether the state's benefits had a funding level above the national average (1 point), whether 90 percent of the recommended contribution was made in the most recent year (1 point), and whether the state's plans were better funded based on the most recent data than they were in the prior year (1 point). States with two or three points were solid performers, those with just one point needed improvement, and states with no points were cause for serious concern. This fact sheet stems from a 50-state analysis of states' retiree benefit obligations by the Pew Center on the States. The full report and 50 state fact sheets can be found at **www.pewstates.org**.