



PERSpertives



Fourth Quarter 2010

Public Employee Retirement System of Idaho

PERSI's HEALTH AND OTHER FACTS --a message from Board Chairman Jody Olson--



Jody B. Olson, Chairman
Retirement Board

Much has been reported about the health of PERSI over the past 18 months. Concerns triggered by reports of the funding crisis facing many pension systems fueled rumors here in Idaho. It has been suggested that it's time to end or overhaul PERSI. The media attention this idea has received increased the number of calls to PERSI from members and retirees looking for reassurance that their

benefits were safe. It is not uncommon for facts to get lost as rumors grow. With misinformation about PERSI reaching epic proportions, I wanted to debunk the rumors and give you the facts.

At the end of the last fiscal year (6/30/10), PERSI had an unfunded liability of \$2.5 billion. Today, thanks to strong market returns and a sound investment policy, PERSI has an estimated asset value of \$11.4 billion. This exceeds the July 1, 2007 value of \$10.95 billion, when PERSI was 105% funded. Our funded ratio has risen from under 75% to more than 87%. Experts agree this is solid performance. Current economic indicators suggest PERSI could be fully funded again in as little as 3-5 years. (See the *Investment News* on back page.)

PERSI has always been funded by investment returns coupled with employee and employer contributions. This design lowers employer costs and dispels the notion of critics that members receive an unwarranted benefit. If total revenues do not meet established assumptions, current state statute requires the Board and/or Legislature to take action.

The two most likely options would be to adjust benefits or contribution rates. Back in 1996, action was taken to reduce contribution rates. Since then, market returns have allowed PERSI to maintain rates *below* the 1996 level.

Most public employees have a compensation package that includes a salary, health care benefits, and retirement through PERSI. Removing the retirement component from this package would reduce already stagnant wages, and employers tell us it would eliminate a valuable tool used to attract and retain quality employees. Despite what cynics have said, the fact is if employers have to increase salaries to compensate for lost retirement benefits,

it would be far more costly than paying PERSI contributions.

PERSI currently serves 740 employers and more than 125,000 members

and retirees, which is approximately 8% of Idaho's population. The average monthly retirement benefit is \$1342, which is far from extravagant. In fact, the National Institute on Retirement Security (NIRS) ranks Idaho 11th nationwide for having the lowest average benefit. Of the more than \$522 million in retirement benefits paid in fiscal year 2010, 89% (\$465 million) went to retirees with Idaho addresses... resulting in a big boost to the state's economy. In a 2009 NIRS report titled

Because the fund is stable, the rate increase slated for July 1, 2011 has been postponed, and a 1% cost of living adjustment (COLA) for retirees is being recommended.

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Insights

UNDERSTANDING POWER OF ATTORNEY

Most people have heard the term "power of attorney," but not everyone understands what it means. To help retirees, PERSI is providing some general information about this legal option.

What Is Power of Attorney?

The American Bar Association defines power of attorney (POA) as a document giving one or more persons the authorization to act on your behalf. This legal document empowers another person to serve as your "agent" to conduct business in a variety of situations. With a valid POA, your agent can take any action permitted by the document.

Why Use a Power of Attorney?

A power of attorney is often used to prepare for situations when you may not be available or when you've become unable to represent yourself. If you do not have a POA and become unable to manage your personal or business affairs, a court will appoint someone to act for you. Most people like the idea of making that determination themselves and setting the limits on what an agent can do.

What Are The Benefits?

By deciding in advance who can make important decisions on your behalf, you maintain some control. In addition, by naming a POA you might avoid the expense and time of waiting for a court-appointed conservator or guardian to handle your affairs.

Will My POA Expire?

Some states still require regular renewal of POA documents to keep them valid. However, today most states permit a "durable power of attorney" that remains valid indefinitely once it is signed. This type of POA remains valid until your death or until you revoke it. Still, you should review your decision periodically to consider if your agent still meets your needs.

State Laws Vary

The law of the state in which you reside at the time you sign your POA typically governs the powers and actions of the agent under the document. If you should move to another

state, generally your POA remains valid; although, this is a good time to evaluate or update your choice.

What Business Can My POA Conduct?

When signing a POA, you can give broad or limited authority to your agent. In addition to managing your day-to-day financial affairs, your agent can implement your estate plan. Although a POA does not allow an agent to revise your will, they can create or amend trusts and transfer assets to trusts you created. Your agent may also make gifts on your behalf, subject to the guidelines you established. Other legal authority granted to your agent can include buying or selling property, making investments, conducting banking transactions, and making legal claims or conducting litigation on your behalf. Before signing a POA, it is important to decide the level of authority you want your agent to have: sweeping or limited.

How Do I Choose My Agent?

Although people often select a trusted family member to serve under a POA, a dependable friend or reliable professional are also possible choices. Remember, you can select more than one agent. If you do so, you must decide the limits of authority for each, and determine whether they must work together or if they can operate independently.

Medical POA

If your health declines to the point you can no longer communicate with others, having a durable power of attorney for health care allows an agent to make decisions regarding your medical care. Preparing a medical POA lets you control, at least to some degree, the health care you'll receive if you're unable to communicate your wishes.

PERSI Power of Attorney

A PERSI POA form is available on the PERSI Web site. It is **only** good for conducting PERSI business on your behalf.

Before signing a power of attorney document, it is wise to consult with an attorney so you fully understand the authority you are granting to another individual and so you know your rights before making a decision.

NEW CHOICE 401(k) PLAN TOOL AND FUND CHANGES

NEW TOOL: A new tool is available to Choice Plan participants to help them determine the potential impact a 401 (k) deferral will have on their take-home pay. The calculator, an external link to Bankrate.com, allows users to enter different scenarios to get an idea of the affect contributions to a Choice Plan account will have on their paychecks. The link is easily found by clicking on the Choice 401(k) Plan icon on the right side of the PERSI Web site homepage at www.persi.idaho.gov.

FUND CHANGES: A new investment option is now available for the Choice Plan. The Short-Term Investment Portfolio (STIP) option has been added to the existing investment options. The SEI Stable Asset Fund is being terminated and will no longer be an investment option effective June 22, 2011. More information is available in the "News Archive" section of News & Events section of the PERSI Web site.

REGULAR INTEREST RATE FOR 2011

PERSI members are paid interest on their pension (Base Plan) account balances at a rate determined annually. Starting January 1, 2011, the regular interest rate paid to members on their Base Plan account will be 10.74%. This is an increase over the 2008 and 2009 regular interest rate of one percent (1%).

INTERPRETER SERVICES

To enhance customer service for non-English speaking members, PERSI has subscribed to an interpreter service. The service can be accessed by phone whenever members come into or call a PERSI office and need assistance. Using a translator now makes language barriers a non-issue.

NEW DISABILITY VENDOR FOR PERSI

PERSI has a new third-party administrator for its disability program. In October, United Review Services (URS) took over from Sedgwick. Though many things will remain the same, there will be some changes.

Why Change Vendors?

PERSI is always cost-conscious, so contracts are regularly reviewed. Following state guidelines, PERSI publishes an RFP (request for proposal) whenever an existing contract is nearing expiration or coming up for renewal. The Sedgwick contract had exhausted the maximum number of automatic renewals.

About URS

URS has provided medical cost management to the insurance industry and self-insured employers since 1988. They were selected by PERSI from the firms that responded to the RFP based on cost and experience.

Like past third-party administrators, URS maintains a comprehensive medical board for disability pension reviews. The board is comprised of physicians, registered nurses, and social workers who review each claim. The doctors are board certified in their area of speciality and hold unrestricted licenses. The board uses established

disability determination guidelines and resources, and will make decisions in accordance with all applicable rules and regulations within Idaho's jurisdiction.

The Paperwork

A PERSI member who files a disability claim will receive a packet of information that includes a physician's report form and other forms used to explain medical problems, plus a release of information form authorizing the URS medical board to obtain the records necessary to make a determination.

The packet will also include a form for the member's employer to complete. It provides URS with detailed information regarding the employee's job description, duties, and whether temporary or permanent modifications or changes have been made to accommodate the employee. The member is responsible for giving the form to his/her employer; the employer is responsible for returning the form to URS.

Online Disability Brochure

A disability brochure is available on the PERSI Web site that provides more information about filing a disability claim.

Pensionomics: Measuring the Economic Impact of State & Local Pension Plans, it was reported that each dollar in taxpayer contributions to state and local pension plans supports more than \$11.45 in total economic activity. NIRS reported that Idaho pension benefits supported more than 4200 jobs, which paid \$203 million in salaries and wages within the state, and resulted in \$76.3 million in federal, state, and local tax revenues.

According to that same NIRS report, the cost to manage a 401(k) style defined contribution (DC) plan ranges from \$1.25 -\$2.00 per \$100 of assets compared to the 10 cents required to manage \$100 in a defined benefit (DB) plan (national averages). DB plans, like PERSI, historically achieve higher investment returns than DC plans. A 1% difference in annual investment returns results in a 26% cost savings over a member's

working career. Higher investment returns coupled with lower management costs keep costs to taxpayers reasonable.

PERSI has gone through market declines in the past, and expects to see them again in the future. We have always remained stable by exercising restraint and prudence, adhering to a conservative investment approach, and working with the Legislature to safeguard the fund while minimizing the risk and cost to taxpayers. State lawmakers were provided with a video about PERSI, giving them many of the facts I've shared with you in this newsletter. The video is posted on the PERSI Web site. I encourage you to watch it. In the meantime, the Retirement Board will continue to expose rumors and set the record straight so members and retirees can rest assured their benefits are secure.

DIGITAL COMMUNICATIONS STILL A GOAL

PERSI previously announced its intention to begin notifying members by email when the quarterly newsletters are posted on the PERSI Web site. That is still the goal. Some members have expressed concern, saying they prefer to continue receiving the newsletter by mail. Naturally, no one has to receive an email notification; PERSI is simply going to make it an option for those members wanting to reduce the amount of mail they receive. PERSI will continue to keep members informed as we move closer to implementation of the optional notification.

PERSI INVESTMENT NEWS

as of December 17, 2010

Value of the Fund:

\$11,435,070,095

Fiscal Year Change in Market Value:

\$ 1,357,045,590

Fiscal Year-to-Date Returns:

14%

Month-to-Date Returns:

2.5 %

*Posted monthly on PERSI Web site: www.persi.idaho.gov



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I D A H O
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