



PERSpertives



Second Quarter 2014

Public Employee Retirement System of Idaho



Jody B. Olson, Chairman
PERSI Retirement Board

The Importance of Independence - a message from Chairman Jody Olson -

The Public Employee Retirement System of Idaho (PERSI) was created by the Idaho Legislature in 1963 and went into service 1965. Since then, PERSI has seen its share of ups and downs. This will be my 28th year on the PERSI Retirement Board, and I'm pleased to tell you that 2014 is shaping up

nicely. As I draft this message, the fiscal year hasn't quite wrapped up, so I'll save the specifics for next quarter's newsletter. Instead, my focus will be on the importance of *independence*, as it relates to your Board of Trustees.

PERSI's five-member Retirement Board is appointed by Idaho's Governor for staggered terms lasting five years. Many of our peer systems in other states are directed by bodies of ten to fifteen trustees, whose appointments are often based on political affiliation or constituency (union or association) representation. PERSI's Board is different; smaller and independent. State law requires that two members of the Board be active PERSI members with at least ten years of service and three members be Idaho citizens but not members of the system except by reason of having served on the board.

Once appointed, and then confirmed by the Idaho Senate, each Trustee's primary duty is to loyally act with an "eye single" to the interests of PERSI's members, beneficiaries, and the fund itself. We work to help employers when appropriate, because without them the system would not function, but again our fiduciary responsibility is to act for the exclusive benefit of the members of the fund. The Board operates in these critical areas:

- Hiring, direction and oversight of PERSI's Executive Director and Chief Investment Officer.
- Oversight of investment activities, asset allocation and funding policy.
- Review and adoption of actuarial assumptions.
- Oversight of PERSI's administrative activities, including approval of PERSI's annual budget.
- Setting contribution rates.
- Awarding discretionary Cost of Living Adjustments (COLAs) to Retiree Benefits, subject to legislative review. The Board has never had a discretionary COLA decision rejected by the legislature.

We do not have the authority to make changes to PERSI's benefit structure - that is up to the Legislature. We generally only submit legislation that affects PERSI administration or operations.

I will close by reminding you that the Board is an independent body, acting on your behalf; it doesn't operate in a vacuum. Our meetings are open to the public, and generally held on the third Tuesday of each month at PERSI headquarters in downtown Boise. I'd like to invite you to attend one, to see first-hand how we treat investment strategy, administrative issues, and how we evaluate the status of the fund. Our service is a result of yours.

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Insights

ENHANCED MOBILE ACCESS FOR CHOICE 401(K) PLAN

The PERSI Choice 401(k) Plan website recently underwent a “mobility” upgrade. The main differences come while viewing the web page with a tablet or smart phone.

Every active PERSI member has a Choice Plan account. If you are already contributing to the Choice Plan, you can access your account by logging into [myPERSI](#) and linking to your account. If you haven't started contributing, you can still log in and view your account through the [Choice Plan Login Page](#).

(Note: you may need to request a PIN reminder letter, which will take several days to arrive in the mail from Xerox - then you can access your account. New employees will not be able to access their accounts for 4-6 weeks after beginning employment)

The main objective for the website update was to allow for a more efficient user experience - starting with the home page. The layout was reorganized to allow more pertinent information to be displayed on one screen, in turn allowing for better mouse-free navigation.

Another aid you'll see when you first log in using a smart phone or tablet is the purple menu button in the top left-hand corner.

Clicking this button expands the menu and allows you to navigate with ease. You should



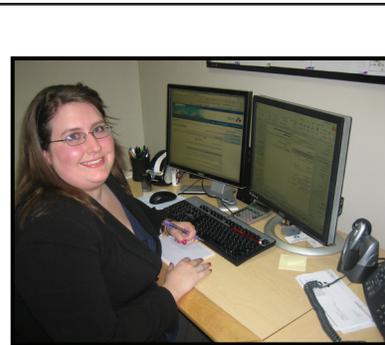
notice that the boxes available for you to click have been sized to make that easier. An example of this is on the Change Future Investment Elections Screen.

You can easily click the box next to the fund you want to be invested in. While you are there you can also click on the individual fund name and be taken to the latest fund fact sheets which will show you how well the funds are currently doing.

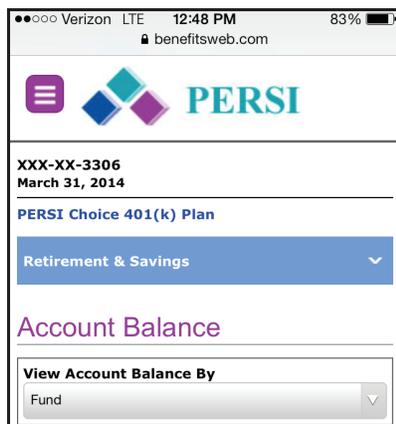
Type Total Contributions		
Fund Name	Current	Enter Your Elections
Fixed Income Funds		
PERSI Short-Term Investment Portfolio	0.00%	0 %
Mellon Aggregate Bond Index Fund	0.00%	0 %
Dodge & Cox Fixed Income Fund	0.00%	0 %

ABOUT THE PERSI CHOICE 401(k) PLAN

The PERSI Choice 401(k) Plan is a way for you to save for retirement. Any active PERSI member can participate. The PERSI Total Return Fund is the default investment and the Choice 401 (k) Plan also allows for loans or hardship withdrawals. You can rollover funds from other qualified pre-tax retirement funds.



Dusty Schild is the PERSI Choice 401(k) Plan Assistant. She is the PERSI Employee of the Quarter and she submitted this article.



THREE KEYS TO ASSESSING A HEALTHY FUND

-- pushing, pulling, balancing --

Three terms you hear a lot in the halls of PERSI are funded status, contribution rates, and Cost of Living Adjustments (COLAs). Each has a very real impact on the other two, and on you. Contribution rates strain employer budgets, yet help to strengthen PERSI's fund. COLAs strain the fund, yet PERSI retirees rely on them to keep up with inflation. Together they have a balancing effect on the fund, and neither can be addressed without considering funded status. COLA and contribution rate decisions are some of the most difficult considerations PERSI's Retirement Board faces. It has long been the desire of the Board to see retiree benefits catch up, and keep up with inflation. The Board is also sensitive to the budgets of active members and employers.

PERSI's Retirement Board relies on actuarial assumptions as well as current funded status information when evaluating decisions such as contribution rate increases and COLAs. In plain terms, a fund is considered healthy if it can reasonably be expected to be able to meet its obligations, long-term. To stay healthy, PERSI relies on required contributions from all active employees and employers, as well as an assumed long-term investment return rate of 7%. This article touches on additional factors used to evaluate funded status and uses a real (unaudited) example from May 27, 2014.

"PERSI chooses to invest in funds that can provide a daily valuation because we want to know exactly where we stand at any given point in time." As of May 27th, PERSI's MVA was \$13.6 billion.

ACTUARIAL ACCRUED LIABILITY

Next, we look at the present value of all future benefits promised to all 130,000-plus PERSI participants. This is the Actuarial Accrued Liability (AAL) and as of May 27th, PERSI's AAL was \$14.7 billion.

NET PENSION LIABILITY

When the AAL is larger than the MVA, a Net Pension Liability (NPL) exists. To calculate NPL, take the difference between Market Value of Assets and Actuarial Accrued Liability. On May 27th, PERSI's NPL was \$1.1 billion. So, on May 27th, PERSI had enough assets on-hand to cover \$13.6 billion of the \$14.7 billion in current and future obligations. That's a funded status of 92.8%. According to the Pew Center on the States, a system funded at 80% or better is considered to be well funded.

PUTTING IT INTO CONTEXT

Idaho statute requires PERSI to erase any NPL over an amortization period of 25 years or less. Generally speaking, the only way to do that is by raising contribution rates. The smaller the NPL, the shorter the amortization period will be, the healthier the fund will be. Continuing with the May 27th example, the amortization period to cover the NPL would be about 12 years.

While all indications point toward PERSI's fund being healthy and stable, contribution rates went up last year, with two additional increases still to come. At the same time, retirees have been waiting for a discretionary cola for several years, and all the while, one sharp drop in the market could blow the ship off course. Understanding how COLAs, contribution rates, and funded status directly affect one another, PERSI's Retirement Board continues to exercise great care and caution while navigating sometimes tricky public pension waters.

PERSI Status as of 07/01/2013 (Audited)

Actuarial Accrued Liability	14,127.6
Market Value of Assets	12,053.5
Unfunded Actuarial Accrued Liability (NPL)	2,074.1
Funded Ratio	85.3%

PERSI Status as of 05/27/2014 (Unaudited)

Actuarial Accrued Liability	14,722.2
Market Value of Assets	13,664.0
Unfunded Actuarial Accrued Liability (NPL)	1,058.2
Funded Ratio	92.8%

MARKET VALUE OF ASSETS

First, we look at the current value of the fund's assets. PERSI is the only major public pension system in the country to determine the Market Value Assets (MVA) on a daily basis. According to PERSI Chief Investment Officer, Bob Maynard,

E-NEWSLETTERS: WE NEED YOUR EMAIL ADDRESS!

At the beginning of 2014, we committed to moving this newsletter in the direction of paperless. We are now officially half-way there.

Our mission in distributing last quarter's electronic newsletter was to work out the technical bugs associated with producing and emailing, as well as encouraging all active members to get signed up for myPERSI. With a goal of going 100 percent paperless by the end of this year, we need a working email address for every active member.

Progress is smooth so far, but we have a long way to go, and we need your help increasing participation. Enrollment in myPERSI has been steady and steep this

year, and we encourage you (if you have not already) to take a moment right now, log in, and set up your account.



It takes only a few minutes, and once you're set up, you'll be able to access information about your base plan and Choice 401(k) Plan accounts, as well as all sorts of helpful retirement planning tools.

CHECK YOUR ANNUAL STATEMENT WHEN IT ARRIVES

PERSI mails an annual Base Plan statement to members every September. The statements are also posted on line. (This is not the same as a Choice 401(k) Plan statement.)

Reviewing your statement for accuracy is important. Check your name, date of birth, mailing address, and

service credit. If you find any discrepancies, be sure to contact your employer. The longer an error exists – especially with data provided by your employer – the more difficult it will be to get documentation to support a correction. If your beneficiary information is incorrect, call the PERSI Member Services Answer Center toll-free at 1-800-451-8228 or 334-3365 from the Boise area.



PERSI INVESTMENT NEWS

for Base Plan as of June 2, 2014 (unaudited)

Value of the Fund:

\$ 14,476,561,143

Fiscal Year Change in Market Value:

\$ 1,720,035,226

Fiscal Year-to-Date Returns:

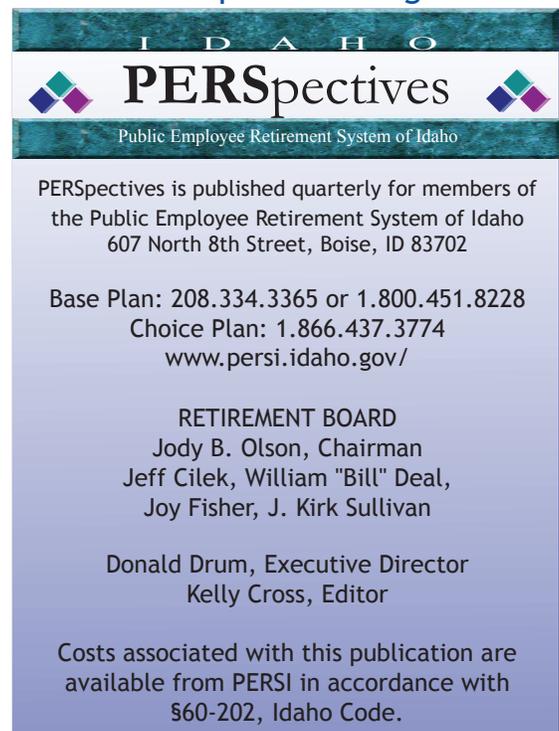
15.4%

Month-to-Date Returns:

0.0%

*Posted monthly on PERSI website: www.persi.idaho.gov
Fiscal Year 7/1/2013 - 6/30/2014


www.persi.idaho.gov



IDAHO
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