



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street, Boise, Idaho 83702

MINUTES OF MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met in-person and via Zoom at 8:30 a.m., July 14, 2021. The following members were present:

Jeff Cilek
Joy Fisher
Celia Gould
Park Price
Darin DeAngeli

Executive Director Don Drum, Deputy Director Michael Hampton, Chief Investment Officer Bob Maynard, Financial Executive Officer Alex Simpson, Deputy Attorney General Cheryl George, and Management Assistant Lena Rupp were also in attendance. Investment Officer Richelle Sugiyama was absent and excused

Along with members of the general public, other persons attending all or portions of the meeting were:

Ann O'Bradovich	Callan Associates	John Bellows	Western Asset
Robert Schmidt	Milliman	Frances Coombes	Western Asset
Robert Klausner	Klausner, Kaufman, Jensen & Levinson		

At 8:35 a.m., Chairman Cilek called the meeting to order. He welcomed everyone to the meeting.

Approval of the Minutes Trustee Fisher made a motion to approve the minutes of the May 17, May 18 and June 25 meetings. Trustee Price seconded the motion, which passed unanimously.

PORTFOLIO

Monthly Portfolio Update Chief Investment Officer, Bob Maynard, provided the investment update as well as general comments on market challenges, investments and the economy. Since March 23, 2020, the fund has risen from a low of \$15.6 billion to \$23.48 billion, the estimated funded status has surged from below 74% to over 105%, and the fund has gained over 55%. PERSI showed a gain of +1.0% in June for a fiscal year return of +27.9% (highest since 1983). The sick leave fund is up +23.2% at \$706 million.

Investment Manager Market Commentary Frances Coombes, Client Services Executive with Western Asset Management Company, introduced John Bellows. Mr. Bellows is a Portfolio Manager focusing on US broad market strategies. He has been with the firm since 2012. Mr. Bellows gave an overview of the national and global investment outlook for the second half of 2021.

Data Aggregator The Board discussed the Callan consulting proposal and scope of work for the search and evaluation of Investment Data Aggregation Services. CIO Maynard stated that this service would result in a double-check on the completeness and accuracy of the custodial pricing for the portfolio group. This would be a supplement to and tentative full replacement of the internal manual daily check currently performed. The cost proposed by Callan for the search and evaluation is \$65,000.

Trustee Fisher made a motion to move forward with the proposed contract and scope of work through Callan. Trustee Gould seconded the motion, which passed unanimously.

EXECUTIVE DIRECTOR

Legislative Ideas Director Drum discussed the historical practice of selecting and submitting legislative ideas each year. Historically, PERSI tries to address changes through rule rather than through code. However, through recent litigation it has been made clear that changes to statute are preferred.

The legislative ideas for this year include: adding definitions of early retirement, service retirement, and employee; add subpoena authority to the powers and duties of the Board; replace the term "liability" with the term "penalty" to the procedure for complete or partial withdrawal of political subdivisions; and replace the term "the same employer" with "an employer participating in the public employee retirement system of Idaho". The changes this year are to also bring PERSI code into more consistent alignment with the Internal Revenue Service.

The final legislative language must be submitted by the August Board meeting. The Board requested a legislation tracking scorecard regarding anything upcoming that may impact PERSI.

Experience Study: Robert Schmidt, of Milliman, reviewed the experience study results. Mr. Schmidt stated that the main goal of moving up the timeline for the experience study is due to the work currently being done regarding updating the funding guidelines as well as assisting with the tentative adjustments to contribution rates. A review and reset of assumptions may be needed in order to keep them in line with the updated funding guidelines which will be adopted in the coming months. Mr. Schmidt reviewed active demographic assumptions, retired mortality assumptions and economic assumptions.

Milliman proposes updating from the Society of Actuaries' (SOA) RP-2000 tables to the most recent SOA public mortality tables which are currently the Pub-2010 tables, adjusting the Pub-2010 tables to account for PERSI's actual experience in fiscal years 2015 through 2019, and updating the assumption for future mortality improvement to be based on the average improvement over the last 60 years (based on latest data from the Social Security Administration).

Based on the results received, Milliman recommends changes to the active demographic assumptions. The last changes were based on the 2016 study of July 1, 2011 to June 30, 2015 and the current study examines experience from July 1, 2015 to June 30, 2020. Milliman recommends updates to the base table as well as updates to the mortality improvement projections scale. The retiree mortality studied was experience from July 1, 2015 to June 30, 2019 (FY2020 excluded due to COVID-19). There were more deaths during study period than expected and Milliman recommends increasing the mortality assumption.

The total liability impact from the mortality and active demographics increases the funded ratio slightly (from the estimated 105% as of July 1 to an estimated 105.8%). The normal cost rate impact from mortality and active demographics also increases by a total of 44 bases points (general members, teachers and public safety combined). The current administrative expense load

and real wage growth assumptions are supported by PERSI experience with no changes recommended. Inflation plus real return (net of expenses) has increased over the last 5-year, 10-year and 25-year averages. According to NASRA data available, the median investment return (net of expenses) is 7.0% and the average investment return is 7.12%. According to the historical analysis of data through the Public Plans Database, the average inflation is 2.59% compared to the current PERSI inflation of 3.00%. Mr. Schmidt reviewed various scenarios showing what adjusting the inflation and real return assumptions will have on the funded ratio and amortization period of the plan. Any COLA above the mandatory 1.0% will also have an impact on the funded ratio and amortization. Currently, for every 1.0% COLA there is an estimated cost of \$100 million. This cost will continue to increase as more members retire. Milliman recommends lowering the inflation assumption to below the current 3.0%.

Benefit enhancements, such as return to work, are having an impact on the system and as the return to work benefit gets extended to more groups the impact is becoming greater. Salary scale increases and retirement patterns are also having an impact. Milliman is currently analyzing the teacher benefit and retirement pattern to see what the actual impact has been and what changes will need to be made in order to make sure each member is paying for their own benefit and not subsidizing other groups. Director Drum stated that the Board will need to be very thoughtful and strategic in proposing rate changes. The reason behind what decisions the Board makes, how changes will be implemented and the long term impact of the changes will be key educational pieces for members and all PERSI stakeholders moving forward.

The Board will continue to review the information provided and will make a decision regarding the economic assumptions at the August Board meeting.

Trustee Gould made a motion to adopt the demographic assumptions as presented. Trustee DeAngeli seconded the motion, which passed unanimously.

DEPUTY DIRECTOR

New Employers As of July 1, four (4) charter schools were added to the PERSI system as mandated in 59-1374, Idaho Code.

Arrivos 2.0 Upgrade Deputy Director Hampton reviewed the proposal to upgrade the internal applications and database to Arrivos 2.0. This would be an appropriated line item in the budget with an estimated cost of \$1.9 million to \$2.8 million (per year). The cost is dependent on the final timeframe to complete the upgrade (36-48 months). This investment keeps the internal solution current, avoids large upgrades in the future and prevents a near-term Request For Proposal for an updated system. Larry Sweat, I.T. Manager, stated that the modernization is primarily to protect PERSI's investment. The upgrade brings the PERSI system onto a more modern platform allowing better and more streamlined communication with devices resulting in greater efficiency and services. The upgrade will be included in the official budget request set for Board approval at the August meeting.

FISCAL

FY2023 Preliminary Budget Requests Financial Executive Officer, Alex Simpson, reviewed the preliminary budget requests for FY2023. The proposed administration budget request includes all standard line items plus the Arrivos upgrade. As Director Drum and Deputy Hampton are working through the process to potentially provide an overall increase to staff salaries. A line item may be added depending on the progress made through the Division of Human Resources before the budget deadline. The proposed portfolio budget request does not include any additional line items.

