



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., November 9, 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, Investment Officer Richelle Sugiyama, Financial Executive Officer Alex Simpson, Deputy Attorney General Cheryl George, and Management Assistant Lena Rupp were also in attendance.

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

Robert Schmidt	Milliman	Dan Bates	Clearwater
Nate Oakley	MPIA	Chris Brechbuhler	Clearwater
Bruce Reeder	MPIA	Scott Zanzig	Attorney General
Matt Lindstrom	MPIA	Brad Berls	Eide Bailly
Bill Palumbo	MPIA	Nate Fisher	Governor's Office

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

Approval of the Minutes Trustee Price made a motion to approve the minutes of the September 30, October 1 and October 22 meetings. Trustee Fisher seconded the motion, which passed unanimously.

Chairman Cilek and Casey Hartwig, Member Services Manager, offered their comments, gratitude and appreciation to Janet Cole who is a retiring long-time PERSI employee. Ms. Cole is retiring from PERSI after over 14-years with the agency. Ms. Cole spent the majority of her time as the front desk person and impacted not only her fellow colleagues but also each person who she made contact with during her time at PERSI. Trustee Fisher also offered her appreciation to Ms. Cole and stated how much she will be missed at PERSI.

PORTFOLIO

Monthly Portfolio Update Investment Officer, Richelle Sugiyama, provided the investment update including general commentary on market challenges, investments and the economy. PERSI has gained +1.2% so far this month for a fiscal year-to-date return of +5.1% at \$24.517 billion (an all-time high). The sick leave fund has advanced +4.0% for the fiscal year at \$728 million. This month

US equities (R3000) have risen +2.2% for a fiscal year +9.0%. International developed markets (MSCI EAFE) are up +1.6% for a FYTD +3.8%. Global developed market equities (MSCI World) have advanced +1.8% for a +7.7% fiscal year and investment grade bonds (BB Aggregate) are up 0.6% for the month (0.7% for the fiscal year). Emerging markets (MSCI Emerging) are flat at 0.0% to remain at -7.1% for the fiscal year. REITs (DJ Select REIT) have gained +2.2% to +12.0% for the fiscal year. TIPS are up +0.8% for +3.7% for the fiscal year. Private real estate has a gain of +7.9% and private equity has gains of +15.2% for the fiscal year. Ms. Sugiyama stated that Ash Williams, Executive Director and Chief Investment Officer at the Florida State Board of Administration, has recently retired from his position with Florida State and has joined on as a new paid advisor to staff for PERSI beginning January.

Investment Manager Market Commentary Ms. Sugiyama introduced Bill Palumbo, Investment Advisor Representative/Principal with Mountain Pacific Investment Advisers, Inc. Mr. Palumbo presented a historical market general overview starting from 2009, Fed policy and the impact on the relationship between stocks & bonds, and expected margin gains.

EXECUTIVE DIRECTOR

Valuation Reports Robert Schmidt of Milliman presented the final valuation reports for the Judges Retirement Fund (JRF), Firefighters Retirement Fund (FRF), Sick Leave Plans and Base Plan.

Trustee Fisher made a motion to adopt the actuarial valuation reports as presented. Trustee DeAngeli seconded the motion, which passed unanimously.

Sick Leave Contribution Rates Holiday Mr. Schmidt reviewed the current sick leave contribution rates to address if the rate holiday should be extended, and if so, how long the extension should last. If the Board does not take any action regarding sick leave holiday, the normal cost contribution rates will take effect on July 1, 2022. Mr. Schmidt reviewed scenario options of what the Board may consider doing regarding school and state sick leave rates including allowing the rate to increase to the normal cost rate effective July 1, 2022, extending the contribution rate holiday through June 30, 2023, extending the rate holiday through June 30, 2026 or extend the holiday indefinitely and the probability of the sick leave plans funding falling below 100% through 2041. Since the plans are separate trusts, any selection made does not have to be for both plans. Each plan may have its own contribution rate or contribution rate holiday. The rates may also vary between existing employers and new employers entering the system. There is also the option of adjusting the cap on sick leave for the state plan, however, this action would take legislation.

After in-depth discussion regarding the different rate options, Trustee Price made a motion to extend the rate holiday for schools to June 30, 2026 and state to June 30, 2031. Trustee Gould seconded the motion, which passed unanimously.

Trustee DeAngeli made a motion to require new school employers entering the sick leave fund to pay the normal cost rate for five (5) years as of the date of their inception. Trustee DeAngeli then amended his motion to include all employers entering the sick leave fund (both state and school) to pay the normal cost rate for five (5) years as of the date of their inception. No vote was taken on the motion.

Trustee Fisher moved that all new employers entering the sick leave fund pay the normal cost rate for five (5) years as of the date of their inception effective immediately. Trustee Price seconded the motion, which passed unanimously.

Deputy Hampton clarified the motion to determine the start date for new employers. The Board confirmed that the motion applies to any new employer entering the sick leave fund as of November 10, 2021.

After additional discussion, Trustee DeAngeli made a motion to rescind the newly adopted motion regarding contributions to be paid by new employers joining the sick leave funds. Trustee Gould seconded the motion, which passed unanimously.

The Board will discuss the sick leave contribution rate for both the school fund and the state fund to determine what rate new employers entering the system should pay and for what time period.

Funding Options Mr. Schmidt reviewed the current contribution rates for safety and general/teacher members. Presently, general and teacher members are in the same class and pay the same contribution rate. Public safety members pay a higher contribution rate and are in a separate class. However, the normal cost rate calculations come out differently for each of these groups. The percentage being contributed to the unfunded liability (UAAL) is also different for each of the groups. General members are currently paying 3.99% toward the UAAL while public safety members are paying 1.10% and teacher members are paying 1.69%. The Board reviewed alternative contribution rate reallocation scenarios for each of the three groups which address the rate discrepancy issues. The scenarios reflect separating out teachers into their own new class.

Mr. Schmidt reviewed the COLA risk profile for the scenarios presented from a 0% discretionary COLA up to a full discretionary COLA of 4.62%. The scenarios reviewed included the amortization periods for different percentages as well as probabilities for a contribution rate increase within the next five (5) years. Mr. Schmidt also reviewed the long term impact on contribution rates when discretionary COLAs are granted. The projections presented assume a 6.30% asset return and 2.30% inflation each year. The COLA scenarios take into account the alternative contribution rate reallocation scenarios presented.

Director Drum stated in statute there are two classes listed. If the Board decides to move forward with a new class for teachers, legislation is required. The contribution rates for each class do not have to be listed in statute. Also, currently there is no UAAL. However, not lowering the UAAL contributions helps stabilize rate increases. Director Drum stated that he has been in regular communication with the Governor's office. They understand that there is a need for a new teacher class and are supportive. The draft legislation to create a new class is the same regardless of any rate decision since rates are not included in statute.

Trustee Fisher made a motion to create a new third class for teachers. Trustee DeAngeli seconded the motion, which passed unanimously.

The Board will further discuss the contribution rate for the new teacher class at the upcoming December Board meeting.

Cost of Living Adjustment As a follow up from discussion during the November 8 meeting, Director Drum reviewed again the impact on funded status for each 1% of discretionary COLA granted. For every 1% granted, there is approximately a 0.5% impact on funded status and a 1.5 year impact on amortization. This is in addition to the 1% mandatory COLA.

The Board does not have to make a COLA decision at this meeting, however, the legislature does have to be notified of a COLA decision before the start of the session. This means the Board needs to make a COLA decision at the Board meeting or during a special meeting sometime

before session starts in January. Mr. Schmidt stated that the cost of discretionary COLAs has also increased. The cost used to be around \$100 million per every 1% granted but that number has increased to approximately \$110 million for every 1% discretionary granted.

The Board will continue their discussion on COLAs at the December meeting. Trustee Price requested that information be provided prior to the December meeting regarding the impacts of different COLA selections from a beneficiary and fund health standpoint. Director Drum will provide positives and negatives of associated with different levels of COLA along with a cost summary.

Director Drum extended his thanks and appreciation to Milliman for all of the work they have done and for always being receptive and responsive to the different analysis requests made by PERSI staff.

DEPUTY DIRECTOR

Service Level Agreement Deputy Hampton provided an update on the status of the Service Level Agreement for IT services through the Office of Information Technology Services (ITS). There are addendums being drafted for section one to include industry standard language and references in the SLA. After the first addendum is reviewed by legal (DAG, Mr. Klauser & Trustee DeAngeli), the addendums for the remaining sections will also be drafted and reviewed.

A team from ITS is coming to the PERSI office on November 16 to have an on-site review to gain a better understanding of the PERSI infrastructure.

Director Drum extended his appreciation to the PERSI IT staff for all of the work they are doing on the ITS project. Chairman Cilek and the Board echoed Director Drum's sentiments and thanks.

New Employers City of Pierce meets the definition of an employer/governmental entity and are active as an employer as of October 5, 2021. They currently have five full time employees and four elected/appointed employees. Filer Cemetery Maintenance District meets the definition of an employer/governmental entity and are active as an employer as of October 1, 2021. They currently have three full time employees.

Contested Case – Billie Cox Deputy Director Hampton presented the Board their options for this case including the following: schedule oral arguments by the parties before the Board prior to issuing final order, remand the matter for further evidentiary hearings or vocational assessment if further factual development is needed, or issue a final order accepting, rejecting or modifying the Recommended Order from the Hearing Officer.

Trustee DeAngeli recused himself from voting on this matter to avoid the appearance of impropriety.

DAG George reviewed the main points of the Cox contested case as well as the process for how the third party provider (MMRO – Managed Medical Review Organization) makes their determination on whether or not the applicant qualifies for PERSI disability and the appeal process. In the appeal process a Hearing Officer conducts a hearing with both the petitioner and respondent (PERSI) which includes all reports and findings of the case to which the Hearing Officer makes a recommendation on whether or not the disability should or should not be granted. The Board is then tasked with making a final order after reviewing all the information presented during the appeal process.

Trustee Fisher made a motion to adopt the Hearing Officer's Recommended Order that the application for disability retirement be approved. Trustee Price seconded the motion, which passed unanimously.

Deputy Hampton stated that for consistency in the process PERSI has an assigned MMRO team. Every case that comes back through to PERSI is reviewed and any issues or questions are addressed. PERSI staff also regularly works with MMRO to make any necessary changes or updates to keep the review process as efficient and consistent as possible.

FISCAL

Budget Revision Alex Simpson, Financial Executive Officer, received a request from the Division of Financial Management (DFM) for an additional revision to the PERSI budget. The revision is for the difference in the annual fiscal year billing from ITS to PERSI for IT services. The change is to increase the total from the approved \$175,600 to an increased amount of \$186,700.

Nate Fisher, with the Governor's Office, stated the cost differences are related to additional adjustments needed in the budget for inter-agency billings stemming from the recent change in the number of positions transitioning from PERSI to ITS. This change impacted the full budget. There should not be any additional adjustments, however, if there are additional changes within the SLA this may result in more billing updates. Mr. Fisher stated he is unaware how a situation of PERSI exceeding the spending authority given by JFAC would be handled but he will work on gathering more information to provide to the Board.

Trustee Gould made a motion to adjust the budget by the requested amount. Trustee Fisher seconded the motion, which passed unanimously.

Trustee Gould amended the motion to approve the adjustment of the budget from \$175,600 to \$186,700. Trustee Fisher seconded the motion, which passed unanimously.

Update/Expense Reports/Travel Financial Executive Officer, Alex Simpson, gave the fiscal update and presented the expense reports. Some out-of-state travel by PERSI staff has resumed.

Interest Rates For the calendar year beginning January 1, 2022 through December 31, 2022 the regular interest is calculated to be 24.69% which is 90% of PERSI's return net of all expenses of 27.43%. The reinstatement interest is calculated to be 5.00%. The June 30, 2021 prime rate was 3.25%. In 2019 the rate was 5.50% and 2020 the rate was 3.25%. The average rate is 4.00% plus 1% which equals 5.00%.

Financial Audit Brad Berls with Eide Bailly presented the results of the financial audit for the fiscal year ending Jun3 30, 2021. The audit was successful and the audit opinion is unmodified. There are no journal entries, no passed adjustments and no new accounting standards. An opinion of "unmodified" is the cleanest opinion that is received from this process. A review of IT was also conducted and no issues or significant comments came from that piece of the audit.

As a result of the GASB Statement 98, the annual report has been renamed to the Annual Comprehensive Financial Report.

Trustee Price stated that during the review of the findings through the audit committee, Mr. Berls was very complimentary of FEO Simpson and all of the fiscal staff. There was lengthy discussion regarding internal controls. At this point there does not appear to be anything pressing that would

justify a need for an independent internal auditor or other auditing standards. Chairman Cilek thanked Trustee Price for his time spent with the audit committee.

Director Drum requested that Mr. Berls work with PERSI IT staff on gathering the details of the IT audit so the information and audit requirements may be addressed in the SLA.

BOARD

The Board reviewed the regular meetings dates for the 2022 calendar year and will begin scheduling those by the December meeting. The PERSI Investment Manager Conference is still on hold and may be considered for scheduling tentatively for June, late fall or held until 2023.

The Board reviewed the draft agenda for the December Board meeting.

Executive Session: At 11:40 a.m. Chairman Cilek stated the Board intended to move to executive session in accordance with Idaho Code §74-206(1)(f).

Trustee Fisher made a motion to go into executive session in accordance with Idaho Code §74-206(1)(f) to communicate with legal counsel for the public agency to discuss the legal ramifications of and legal options for pending litigation, or controversies not yet being litigated but imminently likely to be litigated. Trustee DeAngeli seconded the motion, which passed via roll call vote.

Upon conclusion of the executive session, Trustee Gould made a motion to return to regular session. Trustee Fisher seconded the motion, which passed unanimously.

Regular Session: The Board returned to regular session at 11:45 p.m. Chairman Cilek stated that during executive session the Board discussed legal matters. No decisions were made.

Trustee Gould moved to approve the settlement agreement dated November 4, 2021. Trustee DeAngeli seconded the motion, which passed unanimously.

Adjournment: There being no further business to come before the Board, the meeting adjourned at 11:50 a.m.



Don Drum
Executive Director

12-7-2021

Date



Jeff Cilek
Chairman

12-7-21

Date