



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SCHOOL DISTRICT EMPLOYEE CONTRIBUTION RATE: *CHANGES ON THE HORIZON*

Idaho School Board Association Convention
2021

WELCOME

I will be discussing the following topics:

- ✓ Board's priorities and goals
- ✓ Study and recommendations
- ✓ Demographics and Idaho statute
- ✓ Contribution rates
- ✓ Study and recommendations
- ✓ Growing pains and balance

**Questions will be taken at the end of the presentation.
Thank you.**





BOARD'S PRIORITIES & GOALS

The PERSI Board's primary priority and responsibility is to protect the fund. The Board also has the following equally important goals:

- Contribution rates – keep rates stable for employers and members.
- Actuarial assumptions – set realistic assumptions to predict future revenues and liabilities.
- Cost-of-living adjustments (COLA) – address retirees' purchasing power.

Market volatility and political climate has the ability to influence each of these goals which may impact the fund. The Board is committed to these goals, however, protecting the well-being of the fund is their highest priority. To uphold these goals, the Board recently adopted a Long Range Plan to guide PERSI's future.

Goal 1 in the Long Range Plan, the Board is to “Prudently uphold the financial integrity of the System in accordance with applicable laws and regulations while recognizing the constraints of available resources” and Objective A of Goal 1 says the Board will “Recommend adjustments to PERSI Plans to reflect current and expected changes to member demographics.”

STUDY AND RECOMMENDATIONS

PERSI's actuaries recently completed a comprehensive five-year study (July 1, 2015 – June 30, 2020) examining retired member mortality, active member experience, and economic assumptions.

Their philosophy and advice:

- **Don't Overreact**
 - Make small adjustments more often than big changes
 - Changes in assumptions could be offsetting
- **Anticipate Trends**
- **Simplify**
 - There is no point in complexity that does not improve accuracy

The Board accepted assumption recommendations for these three groups:

- **Retired mortality assumptions**
 - Recommend updates to the base table as well as updates to the mortality improvement projections scale
- **Active demographic assumptions**
 - Recommend changes to the active demographic assumptions
- **Economic assumptions**
 - Recommend lowering the current inflation assumption

HOW DEMOGRAPHICS MAKE AN IMPACT

School district employees are often hired younger and earlier in their career, reach rule of 90 and retire sooner, live longer than general members on average and have the opportunity to return to work after retirement. The cost is highly dependent on:

AGE | **WAGE** | **RETIREMENT** | **MORTALITY**



Economic assumptions reflect PERSI's actual experience but also provide insight to long term expectations of future economic growth for the nation, as well as the global economy.



Active

Active member assumptions consider a member's salary growth, retirement and termination rates, years of service, gender, disability rates and other factors like the option to return to work after retiring.



**Retired
Mortality**

Retired Mortality assumptions are modeled projections of expected death rates used by actuaries. Margins are built to reflect future estimates in mortality rates for school district employees, general and safety members.

CONTRIBUTION RATES

Per Idaho Statute 59-1322(5), if the fund's amortization period exceeds 25 years, the Retirement Board must take action with a proposed contribution rate increase.

Contribution rate increases have the ability to influence the Idaho legislature's decision on proposed cost-of-living adjustments.

Employers have mentioned they are concerned about additional rate increases. Stable employer and member contribution rates are key to plan participation and sustainability.

PERSI actuaries have noticed the normal cost (cost of the benefit) for school district employees has increased just over 8% since 2008. Whereas, general members' normal cost has only increased 2.6%. This means general members are subsidizing school district employees.

PERSI needs to correct this difference to cover the additional cost. We are evaluating the best way to correct the difference. Including rate adjustments and the possibility of creating a separate class for school district employees.

FY2022 CURRENT CONTRIBUTION RATES

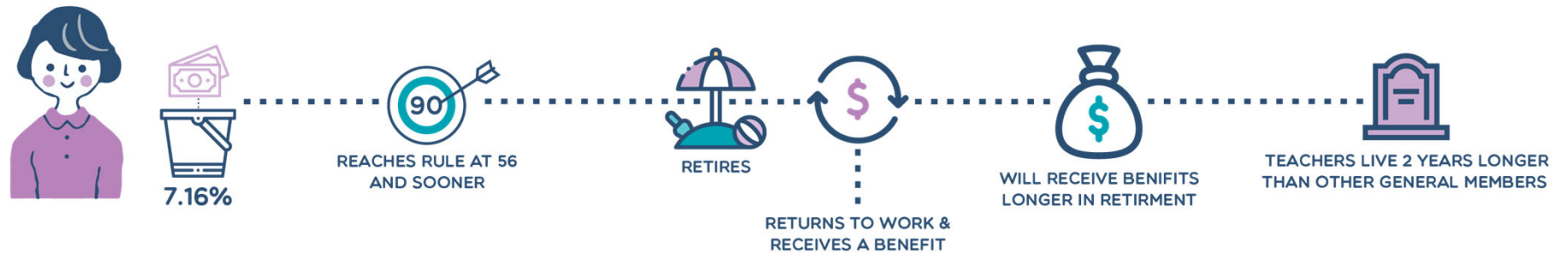
	PUBLIC SAFETY		GENERAL MEMBER	
YEAR	EMPLOYER	EMPLOYEE	EMPLOYER	EMPLOYEE
2019-present	12.28%	9.13%*	11.94%	7.16%

*New section: Idaho Statute §59-1352B PUBLIC SAFETY OFFICER CATASTROPHIC LINE OF DUTY BENEFITS resulted in a contribution rate increase for public safety employees, only. New rate became effective July 1, 2021.

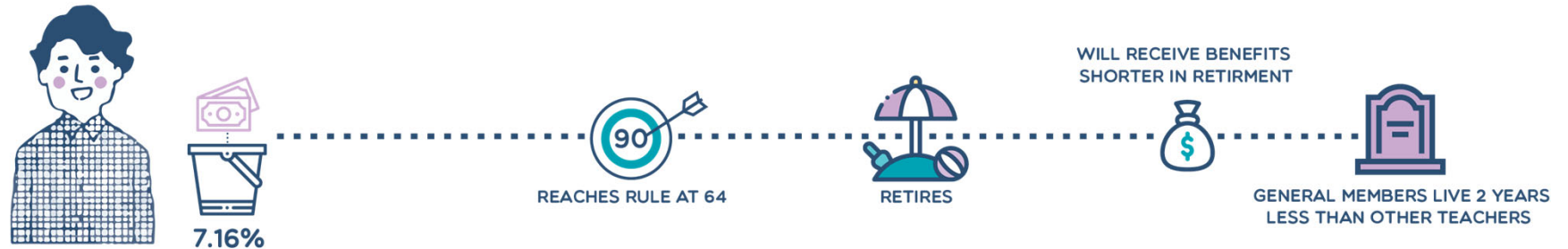
DEMOGRAPHICS, STATUTE & IMPACT EXAMPLE

While Jackson has the same contribution rate as Claire, he will not receive the same in benefits.

Claire (22 years old) just graduated college and is starting her career as a 2nd grade teacher with a school district.



Jackson (34 years old) just started his career as an IT staff member with a state agency.



By benefits being expanded to school district employees, the normal cost rate of their benefit is costing more than a general member. We need to make sure we are each paying for our own benefit. This means PERSI will need to make changes to correct the difference.

THE NUMBERS



Claire / Teacher

Since she started her career at **22 years old**, she will reach Rule of 90 at age **56** and may retire.

In 2018, the average benefit for a teacher was **\$26,710**. (\$12,538 more)

Female teachers on average live to age **84**. (Two years more)

Claire will receive a total lifetime benefit of **\$747,880** at retirement eligibility OR a benefit of **\$641,040** if she retires at Rule of 90.

She will receive **\$351,064** more than Jackson's benefit over her retirement.

\$26,710 per year, beginning at age **56**
28 years in retirement

She has 10 years more in retirement at \$26,710 per year, a \$267,100 difference.



Jackson / IT Staff Member

Jackson started his career at **34 year old**, he will reach Rule of 90 at age **64** and may retire.

In 2018, the average benefit for a general member was **\$14,172**. (-\$12,538 less)

Male general members on average live to age **82**. (Two years less)

Jackson will receive a lifetime benefit of **\$255,096** per year.

\$14,172 per year, beginning at age **64**
18 years in retirement

CURRENT CONTRIBUTION RATES & DIFFERENCE

July 1, 2021	Fire and Police	General	School District Employees	Combined Mix
Employer Contribution Rate	12.28%		11.94%	11.99%
Member Contribution Rate	9.13%		7.16%	7.47%
Total Contribution Rate	21.41%		19.10%	19.46%
Normal Cost Rate	20.31%	15.11%	17.53%	16.68%
Amount Available to Amortize UAAL	1.10%	3.99%	1.57%	2.78%

A difference of 2.42%

WHAT IS NORMAL COST?

The normal cost is the theoretical contribution rate that will meet the ongoing costs of a group of average new employees. Suppose that a group of new employees was covered under a separate fund from which all benefits and to which all contributions and associated investment returns were paid. Under the individual entry age actuarial cost method, the normal cost contribution rate is that level percentage of pay that would be exactly right to maintain this fund on a stable basis. If experience were to follow the actuarial assumptions precisely, the fund would be completely liquidated when the last payment to the last survivor of the group has been made.

SPECIFIC DEMOGRAPHICS

TOTAL NORMAL COST RATE IMPACT – MORTALITY & ACTIVE DEMOGRAPHICS

	School District Employees			Safety Members		
	Female	Male	Total	Female	Male	Total
7/1/2021 Normal Cost Rate for <u>General Members</u>	15.32%	14.86%	15.11%	15.32%	14.86%	15.11%
Member Data	-0.97%	-0.94%	-0.88%	-1.34%	-1.14%	-1.36%
Mortality	+0.22%	+0.22%	+0.22%	-0.22%	-0.20%	-0.20%
Termination	+1.94%	+1.34%	+1.77%	+1.66%	+0.88%	+0.97%
Salary Growth	+0.80%	+1.05%	+0.87%	0.00%	+0.52%	+0.46%
Disability	-0.01%	-0.08%	-0.03%	+0.10%	+0.07%	+0.08%
Cash Out	+0.03%	+0.02%	+0.03%	+0.03%	+0.03%	+0.02%
Retirement	+0.31%	+0.29%	+0.30%	0.00%	+0.04%	+0.04%
Return to Work	+0.11%	+0.20%	+0.14%	N/A	N/A	N/A
Safety Enhanced Benefits	N/A	N/A	N/A	+5.40%	+5.16%	+5.19%
7/1/2021 Normal Cost Rate for <u>School District Employees/Safety Members</u>	17.75%	16.96%	17.53%	20.95%	20.22%	20.31%

A difference of 2.42%

- PERSI actuaries will present an additional study later this year including all school district employees which will provide more specific details.

IDAHO STATUTE IMPACTING SCHOOL DISTRICT EMPLOYEES

This past 2021 Legislative Session, Idaho statute 59-1356(4) and 33-1004H (House Bill No. 203) were amended to also include “person qualified to drive school buses”.

Idaho Statute 59-1356(4) *If a retired schoolteacher, person qualified to drive school buses, or administrator who retired on or after age sixty (60) years, or a public safety officer who retired, and is receiving a benefit that is not reduced under section 59-1346, Idaho Code, again becomes an employee as defined in this section and section 59-1302(14), Idaho Code, as a result of returning to employment with a school district as provided in section 33-1004H, Idaho Code, the retired member may elect to continue receiving benefits and not accrue additional service, in which event no contributions shall be made by the member during such reemployment and any benefit payable on behalf of such member shall continue. However, the school district shall pay the required employer contribution for that employee to the public employee retirement system.*

Our actuaries are finding that this added benefit is contributing to a drift between school district employees and general members’ normal cost rate.

Besides the statute, there are additional factors triggering this drift. The differences are great enough that they need to be addressed and corrected to protect all current member benefits and future member benefits.

POSSIBLE SOLUTIONS

PERSI is looking at different options to correct the imbalance currently within the general member class. We are working with our actuaries and the Board to find the best and simplest solution going forward.

One possibility mentioned is to create a School District Employee class with their own contribution rate. In addition to teachers, administrators, and bus drivers, this option would include all School District Employees including administrative staff, custodians/janitors, and food service workers.

With this option, it might be beneficial to extend Return to Work (Idaho Statute 59-1356(4)) to all School District Employees. This could help school districts recruit and retain more of their employees besides teachers, administrators and bus drivers.

We will thoroughly examine the options and consider the recommendations from our experts.

PERSI does not adjust benefits. The Board may only make contribution rate adjustments per Idaho Statute 59-1322(5). As key stakeholders, your input is essential and greatly appreciated. Please reach out to me to share your thoughts and perspective.



GROWING PAINS AND BALANCE

Since 1965, there have been no significant reforms made to PERSI. This is rare and extraordinary in the public pension sector. Many systems across the nation have made numerous changes to keep up with their own growing pains.

The overall risk, cost, and growth of the PERSI fund is changing. In order to sustain the fund for future generations of public workers, adjustments will need to be implemented. PERSI's Board, actuaries, and staff are actively exploring all options regarding the factors mentioned. However, as you can imagine, it is a delicate balance.

While the Board views their goals as equally important, their priority is protecting the fund.

The Board is aware of the changes occurring with the fund due to the benefit enhancements of school district and public safety employees. While they are not opposed to enhancements, they are opposed to other members subsidizing other members benefits.

Adjustments will be necessary for benefit enhancements to continue.

PERSI will continue to examine and consider all options to protect the fund and ensure that each member is paying for their own benefit.





Questions & Answers

**THANK YOU
FOR YOUR TIME & ATTENDING!**

If there is any discrepancy between this publication and the law, the provisions of the law will prevail.