



Boise | Coeur d'Alene | Pocatello

# **PERSpectives** FOR RETIREES

Public Employee Retirement System of Idaho

Fourth Quarter 2021

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## **FISCAL YEAR 2021 RECAP AND UPDATE**

*from Don Drum, Executive Director*

While the pandemic has created challenges, it has also provided opportunities. We are proud of how our staff at our three locations adapted to the situation and put inconveniences aside during the last two years to successfully serve our membership and the public, onsite and remotely.

### **MARKET AND FUND UPDATE**

Unlike fiscal year 2020, the fund thrived during fiscal year 2021 — resulting in significant returns. PERSI's fiscal year ended (June 30, 2021) with an assets gain of almost five billion dollars and an investment return of 27.43%, net of all expenses.

Even though the markets were often up and down, day-to-day or week-to-week, they balanced out overall and the fund performed as expected. PERSI's investment professionals and staff monitor the markets against our long-term investment strategy very carefully to safeguard the fund.

At the end of fiscal year 2021, PERSI was fully funded at 100% (before any COLA decision). Since there was no amortization period, there are no proposed contribution rate increases for employers or employees. If the amortization period had exceeded 25 years or more, per Idaho

Statute 59-1322(5), the Board would need to take action with a contribution rate increase.

The regular interest rate that active members will earn on their personal Base Plan accounts was announced at the November Board meeting. From January 1, 2022 through December 31, 2022, members will earn 24.69%.

### **MEMBERSHIP**

During the fiscal year, the number of active PERSI members decreased from 73,657 to 73,563. PERSI's retired members or annuitants receiving a monthly benefit increased from 49,573 to 50,891.

The number of inactive members who have not been paid a separation benefit increased from 41,945 to 45,718.

Of these inactive members, 14,539 have achieved vested eligibility. Total membership in PERSI increased from 165,175 to 170,172 during the fiscal year.

PERSI welcomed sixteen new employers and now has 835 public employers in the state who are members.

### **COST-OF-LIVING ADJUSTMENT**

Although the Board has made keeping retirees'

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purchasing power a priority, with more members retiring discretionary cost-of-living adjustments are becoming more and more expensive. The Board is watchful of ongoing market volatility, changing demographics within the plan, and retirees anticipating additional COLA during positive return years.

Future discretionary COLAs, other than those mandated, will require careful consideration. The Board is dedicated to the health of the fund and keeping COLA practices that align with fund sustainability.



At the December 2021 Board meeting, the Board chose to grant a 2.5% discretionary cost-of-living adjustment along with the 1% legislatively mandated cost-of-living adjustment. Since discretionary COLA was granted, it will require approval from the Idaho legislature.

Providing the legislature approves the Board motion, the discretionary and legislatively mandated COLA will become effective on March 1, 2022.

### **BOARD'S PRIORITIES AND GOALS**

During fiscal year 2021, the Board began developing a comprehensive Long-Range Plan for the agency. They received input from staff and surveyed members, employers, legislators, vendors and others involved with the plan. The feedback the Board received resulted in well-defined goals and priorities.

The 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 have the ability to influence each of these goals, which may affect the fund. The Board is committed to these goals; however, preserving the well-being of the fund is their highest priority.

Accurate assumptions are extremely important to the health of the fund. Our actuaries and experts tell us that the next ten years could be more volatile than the last ten years. PERSI's actuaries estimate an average return of 6.47% per year for the next 30 years.

At the August Board meeting, after hearing from experts and a lengthy discussion, the Board approved lowering the inflation assumption to 2.3% resulting in lowering the assumed rate of return to 6.3%. PERSI has one of the lowest assumed rates of return in the nation.

If we had not adjusted our assumed rate of return, we would likely need to increase contribution rates and discretionary COLAs would be few and far between. This adjustment allows for potential discretionary COLAs and the stabilization of rates.

### **STUDY AND NEW CLASS**

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.

The analysis showed that there is a drift occurring in the normal cost between general members and school district employees. We waited to see if the cost would self-correct.

However, with an additional actuarial study spe-

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cifically focusing on school district employees' normal cost and the normal cost for general and public safety members the result shows a 2.4% difference between the groups that needs correcting.

What is causing the difference? Demographics and benefits for school district employees differ from general members due to:

- Being hired at a younger age and earlier in their career.
- They often reach rule of 90 sooner and retire earlier – on average two years earlier.
- School district employees also typically live longer than other general members on average of at least two years.
- Have the opportunity to return to work after retirement.

At the November Board meeting, the Board approved the creation of a new class. The new school district employees class may have a separate contribution rate from general members. This will be discussed by the Board.



Who will be considered a school district employee?

Proposed legislation would include any employee of any school district or charter school employed as instructional staff, pupil service staff, professionally endorsed staff, and staff holding a certificate as determined in Section 33-1201A, Idaho Code, and school bus drivers and resource officers, subject to the provisions of section 59-1302(14), Idaho Statute.

This new proposed class is a realistic modification. Many of our peer pension systems across the nation have a class dedicated to educators. While PERSI is smaller than other state pension

systems, we are growing and need to address issues when they arise. The new class will be presented to the Idaho legislature for approval during the 2022 session.

### OVERALL

PERSI is doing well but we must continue to be diligent to protect the fund and address challenges as they develop. We have a strong group of experts and feel we are moving in the right direction for a sound future.

## TAX DOCUMENTS WILL BE AVAILABLE SOON

If your preferred method of communication is electronic, you will receive an email notification that your 1099R is ready to view and download from the *myPERSI* portal. If not, your 1099R will be mailed to the address PERSI has on file for you.

Empower Retirement, record keeper for the PERSI Choice 401(k) Plan, will mail 1099Rs no later than January 31. Tax forms will be available online beginning on or before February 1 at [www.mypersi401k.com](http://www.mypersi401k.com).

Some PERSI retirees may end up receiving more than one 1099R form, depending on when they took withdrawals in 2021.

If you have question and/or concerns, contact PERSI at 1-800-451-8228 or at 208-334-3365.





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**PROTECT YOURSELF**

**REGISTER & CLAIM YOUR *my*PERSI ACCOUNT**

PERSI strongly urges all members to register and claim their *my*PERSI account.

By doing this, you can greatly reduce the risk to your account, and stop potential fraudsters in their tracks!

Keep your account, and your personal information out of the hands of bad actors.

Learn how to register and claim your account here: <https://www.persi.idaho.gov/docs/brochures/myPERSI-Registration.pdf>

If you have questions, call the PERSI Answer Center at 1-800-451-8228 or 208-334-3365 from the Treasure Valley area.



**UPCOMING HOLIDAYS**

PERSI will be closed in observance of the following holidays:

- Monday, January 17 – Idaho Human Rights Day
- Monday, February 21 – Presidents Day

If you have questions, call the PERSI Answer Center at 1-800-451-8228 or 208-334-3365.

**RETIREMENT BOARD OF DIRECTORS**

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