IDAHO

PERSpectives

First Quarter 2010 Public Employee Retirement System of Idaho

TAX REMINDER FOR BOARD AND COMMISSION MEMBERS

--deductibility restrictions may apply to IRA contributions--

The Tax Reform Act of 1986 restricted the deductibility of Individual Retirement Account (IRA) contributions under some circumstances. If you are a participant in an employer-sponsored retirement plan and you have an adjusted gross income (AGI) that exceeds certain amounts, your IRA contributions may be ineligible for a tax deduction.

The benefits of PERSI membership outweigh the IRA tax advantage for most people. Board and Commission members are often minimally compensated for their services. Because of that compensation, they generally become PERSI members. As members of a qualified retirement plan, the tax-deferred contributions they make to personal IRAs may be subject to exclusions under the law. This could limit the retirement planning options for Board and Commission members. In some cases, these members have accrued penalties and interest on IRA deductions previously taken. Unfortunately, some Board and Commission members think if they refuse the stipend they receive for their services, they can continue tax-deferred contributions to an IRA without any problems. This is incorrect. IRS *Publication 590* states, "If you are eligible to participate in an employer-sponsored plan, you are a member of the plan even if you decline to participate, don't make any contributions, and do not perform the minimum service required to accrue a benefit." By receiving an honorarium instead of a stipend, however, it may be possible for Board and Commission members to exempt themselves from PERSI (Idaho Code 59-509) and open a personal IRA with little or no tax complications.

Most Board and Commission members receive a "minimum" benefit if their average monthly salary from the position is less than the threshold for a regular benefit. The threshold for general members, which went into effect March 1, 2010, is $1172. This benefit is calculated to be a monthly payment of $23.44 for each year of minimum benefit service to a maximum of the highest 3-year average. The member must be vested and age 65 to receive this minimum benefit.

IF your filing status is...	AND your modified AGI is...	THEN you can take...
Single or Head of Household	$56,000 or less	Full Deduction
	More than $56,000 but less than $66,000	Partial Deduction
	$66,000 or more	No Deduction
Married Filing Jointly or Qualifying Widow(er)	$89,000 or less	Full Deduction
	More than $89,000 but less than $109,000	Partial Deduction
	$109,000 or more	No Deduction
Married Filing Separately[1]	Less than $10,000	Partial Deduction
	$10,000 or more	No Deduction

Tax law is complicated, so PERSI urges Board and Commission members to consult with a tax advisor before making a decision to exempt themselves from PERSI membership in favor of a personal IRA. PERSI offers a brochure on its Web site at www.persi.idaho.gov that goes into more detail on IRAs and taxes.

Inside this issue:

I n s i g h t s

NEW CREDIT CARD PROTECTION LAW
-- collapsing America's house of cards--

This is the second article in a series on credit cards. The 4th quarter 2009 newsletter stated the next article would focus on credit card features; however, it was important to get out information about the new credit card protection law, so credit card features will be covered in the next newsletter.

When President Obama signed into law the Credit Card Accountability, Responsibility, and Disclosure Act (CARD) of 2009, the country entered into a new era of credit management. CARD, most of which went into effect February 22, 2010, contains the most far-reaching credit changes in decades. But what does it really mean? In general, more protection; but consumers must still be careful.

OVERVIEW OF CHANGES

- Credit card issuers must now mail your bill 21 days before it is due (up 7 days from the 14-day requirement of the past).
- Consumers under age 21 are required to have an adult co-signer to take responsibility for unpaid balances unless proof of steady and adequate income is provided.
- Statements will now have to graphically show the difference between making only the minimum payment vs. making a payment above the minimum each month. This is to educate consumers about the high cost of carrying credit balances. Card issuers must provide information on how much must be paid monthly to pay off a balance within 12, 24, or 36 months, including the interest.
- While interest rates are not capped, credit card issuers have limits when raising rates. Under this new law, rates cannot be hiked on existing balances unless you become 60-days delinquent on your payments. If this happens, the card issuer must reduce your rate to its original amount if you pay the past-due amount ***and*** make six straight months of on-time minimum payments.

- Rates on future purchases can be raised at any time, and without a reason...although, you must receive a 45-day notification of the intent to increase the rate (up from 15 days previously). You can then "opt out" of the new rate by paying off your balance under the old rate. Declining the new rate means you can no longer use the card, so before opting out it might be wise to have a back up plan.
- With cards carrying different rates for different transactions (purchases, cash advance, balance transfer, etc.), payments in excess of the minimum must be applied to the balance with the highest rate first. In the past, any excess amount was applied to lowest-rate balances first, thereby extending the time it took to pay off high-rate balances.
- Consumers must now "opt-in" to over limit protection. Anyone who hasn't opted in could have a transaction rejected if it exceeds their credit limit. If you decide to opt-in, the law states fees for exceeding a credit limit must be reasonable; but, "reasonable" is not defined.

Continued next page

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- Finance charges on outstanding balances will be calculated based on purchases made during the current billing cycle instead of backing up to the previous cycle. The “two-cycle or double-cycle” billing affected consumers who paid off their balance. They were being hit with finance charges from the previous billing cycle even though the bill was paid in full.
- Consumers holding sub-prime cards and charged an “account opening fee” that consumed available balances in the past, also get some relief. Up-front fees cannot exceed 25 percent of the available credit limit in the first year of the card. In the past, fees sometimes exceeded the actual credit limit.
- Low interest introductory or promotional offers must last at least 6 months.
- Rates cannot be raised in the first year of a card agreement, except for introductory or promotional offers as part of the original agreement.
- Card issuers can no longer charge higher fees for payments by certain methods (i.e., phone or online).
- Gift cards will also be affected by the new law. The biggest change will be that conventional gift cards must be good for at least 5 years. They typically expired after 12 months previously. Plus, there will be limits placed on fees that can be charged on inactive or dormant gift cards.

READ THE NOTICES

Despite these changes, credit card issuers still have plenty of ways to make money off people who are hooked on credit. When you receive notices in the mail, it is important to read them, especially the small print. Unfortunately, a lot of us tend to toss out these notices without opening them. You should also look at notices that come with your statement because they could contain valuable information about changes to your account.

CREDIT CARD ISSUERS GET TRICKY

Many banks and credit card companies claim the new law limits their ability to set card fees or interest rates based on risk. These institutions have already begun looking for ways around these reforms and are enacting new fees as a result.

To make money, many credit card issuers have begun charging annual fees on existing cards that were once no-fee cards. Some banks or credit card companies are even charging a fee to receive a paper statement, and a fee if your card is inactive for a period of time. Others are considering charging fees to reinstate reward points lost because of a late payment.

The prohibition against raising interest rates only applies to fixed-rate cards. To combat this, many credit card issuers are sending out notices that fixed-rate cards are now becoming variable-rate cards. This type of card is typically linked to the prime rate, plus an additional percentage (often 7 percent or more). Since there is no cap on how high interest rates can go, this could add up quickly.

WHAT HASN'T CHANGED

The new law covers a lot, but not everything. For example, business and corporate credit cards are not protected by the new law. And credit card issuers can still close accounts or reduce credit limits without advanced warning.

THE FUTURE

With these new regulations, consumers who once found it easy to get credit, may find it challenging and more costly to get a credit card. Credit card companies may restrict or eliminate the rewards on purchases. Banks and credit card companies know how to adapt to stay profitable, which means there may be fees coming no has even thought of yet.

It took a major recession to bring about credit card reform that makes consumers less susceptible to the whims of banks and credit card companies. But Americans must also exercise some control; after all, we've ratcheted up $900 billion in credit card debt. Anyone currently living “in a house of cards” needs to focus on paying off debt and figure out how to stop relying on credit.

WORKSHOPS ARE CONVENIENT, TARGETED, AND INFORMATIVE

Consistent retirement planning can help just about anyone achieve their retirement goals. With that in mind, PERSI is getting the word out about openings for the Retirement's a Beach (RAB) workshops. The day-long workshops are convenient, targeted, and informative. They are designed to educate members within 10 years of retirement about their PERSI benefits and clear up confusion surrounding Medicare and Social Security. The benefit of estate planning and the tax implications of retirement income are also reviewed as time allows.

PERSI encourages members nearing retirement to attend a RAB workshop well in advance of applying for their PERSI benefits. Besides the RAB workshops, PERSI's education program also includes two 1½-hour workshops held at employer locations. These workshops are geared to younger members and those who want to supplement their PERSI retirement by making voluntary contributions to the Choice 401 (k) Plan.

Pre-registration is required for the day-long RAB workshops. Members can register from the PERSI Web site at www.persi.idaho.gov...just follow the **Education** link on the homepage. To arrange one of the shorter workshops, have your employer call Mike Mitchell at 208.287.9291 to arrange a date and time that's convenient.

NATIONAL RESEARCH CENTER LISTS PERSI AS A TOP PERFORMER

The Pew Center on the States (PCS) named PERSI as a top performer when it comes to managing its long-term pension liability. PCS conducts research, brings together diverse perspectives, and analyzes states' experiences to determine what works and what does not. The organization works with a variety of partners to identify and advance nonpartisan, pragmatic solutions for problems affecting Americans.

According to a newly released report, titled *The Trillion Dollar Gap - Underfunded State Retirement Systems and the Roads to Reform**, PERSI "has consistently met or surpassed its actuarially required contribution levels each year since 1997, and has funded 93 percent of its total pension obligation — well above the 80 percent benchmark set by the U.S. Government Accountability Office."

** Based on fiscal year 2008 data.*

PERSI INVESTMENT NEWS

as of March 18, 2010

Value of the Fund:

$ 10,815,721,389

Fiscal Year Change in Market Value:

$1,740,672,036

Fiscal Year-to-Date Returns:

19.9%

Month-to-Date Returns:

3.8%

*Posted monthly on PERSI Web site: www.persi.idaho.gov

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IDAHO

PERSpectives

Public Employee Retirement System of Idaho

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