PERSI

September 19, 2016

Dear Idaho Lawmaker:

I have spent much of the summer traveling the state, meeting with employers and a few legislators to discuss issues related to PERSI. In this letter, I will talk about the highlights of my conversations with employers. I invite you to schedule a time to meet with me in advance of next year's session to discuss any of these or other PERSI-related topics.

Almost every meeting began with a discussion of Idaho's economy, its relationship to the national and world economies, and investment markets. Some form of the following question invariably came up: "If Idaho's economy is strong, the national economy is stable, and the stock market is at or near all-time highs, why are we facing a proposed contribution rate increase?" The answer is not a simple one. The world economy has grown more and more complex, and it has become increasingly difficult to consistently achieve the same level of investment returns we have been accustomed to. The number of retirees is growing about 5% each year, while active (contributing) membership remains relatively flat. PERSI relies on modest assumed investment returns, and when they fall short, contributions from employers and active members help prop up the fund. The PERSI Board will receive the next valuation in October and will likely be considering an overall (employee + employer) contribution rate increase of approximately 1.00%.

While the employers do not seem alarmed by the potential rate increase, they are telling me the employment market is very competitive. New hires are very focused on take-home pay. Budgets remain tight and they cannot absorb both rate and pay increases in the near future. Controlling compensation and benefits while attracting and retaining quality staff has become very difficult for many employers. The vast majority of PERSI's 780 employers want to protect the benefits -- however some have indicated they are ready to explore adjusting retirement benefits in lieu of more rate increases. Those employers wonder if we could make modest changes to the defined benefit in order to stabilize rates so they could consider future increases in take-home pay. Virtually all employers express concerns about the possibility of changing to a defined contribution plan.

Over 140,000 Idahoans are members of PERSI and are very protective of their benefits. While they are interested in possible changes that protect the sustainability of the fund while helping to attract and retain future workers, they are very concerned that changes could undermine the value of this benefit. I have explained many times that if the employers wish to adjust or to see changes made, they need to communicate with their legislators, as you are the only people with the power to make changes to the PERSI benefit structure. I tell you this because I am anticipating this type of discussion to continue. I am not advocating making changes to PERSI, however, I and my staff are here to assist with any such exploration.

I have heard discussion of specific benefit (or other) changes that may come up in the next session:

- Moving probation officers from Class 1 to Class 2 status – reducing their retirement age from 65 to 60 and their rule from 90 to 80. As stated, this would not appear to have a material impact on the fund. Employer and employee rates would be adjusted to Class 2 rates as outlined in statute.
- Unreduced spousal contingent annuitant benefit for Class 2 members only. Additional actuarial work will need to be done as this idea takes shape. Increased contributions would be necessary to cover the cost, and there may be a question as to the fairness of making this immediately effective, as current members could potentially receive the benefit without having paid for it. Additionally, while some employers may favor this plan, others clearly do not, depending upon their workforce size and needs (rural employers seem to be concerned with this proposal).
- Eliminating the employer's continued contributions into PERSI when a teacher or school administrator retires, then returns to work under Idaho code section 59-1356(4). At the time the law was passed, actuarial analysis indicated a real cost to the fund, associated with these re-employment provisions, so the Legislature required that employer contributions be paid to offset the cost. The cost is associated with a member retiring earlier and thus receiving a benefit for a longer period of time. Requiring ongoing employer contributions may also serve as a disincentive in situations where the re-employment of a retired teacher/administrator is not necessary.
- Finally, potential legislation, or at least discussion about changing PERSI from a defined benefit (DB) pension plan to a defined contribution (DC) 401(k)-style plan. A potentially complicated and costly endeavor, many other public pension systems have explored switching, though very few have attempted it.

You will receive more letters in the coming weeks, with the next one detailing pension reforms other systems have enacted, research they have relied upon, and the results/effects of some of the changes. In the meantime, I am available to meet with you to discuss these or any other PERSI-related topics. Please contact my assistant, Jess Simonds, at (208) 287-9307 to schedule a meeting.

Best regards,

Don Drum
PERSI Executive Director