



PERSpectives

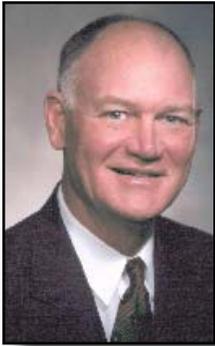


Third Quarter 2007

Public Employee Retirement System of Idaho

A MESSAGE FOR PERSI MEMBERS

from Jody Olson, Chairman of the Board



I'm pleased to report the last fiscal year (ending 6/30/2007) was a spectacular financial success for the Public Employee Retirement System of Idaho (PERSI). A whopping 20.03% was earned on PERSI investments. When the actuarial and performance reports

come in later this year, PERSI is expected to be nearly 105 percent funded and will rank in the top 2 percent of public funds in the country. Chief Investment Officer Bob Maynard and the investment team, with support from the Governor's office and the Legislature, can be credited for this outstanding performance. As a result, our retirees should receive a full cost-of-living adjustment (COLA) in 2008. With the COLA's and retro-COLA's over the years, every PERSI retiree has 100 percent purchasing power equal to the day they retired.

I mention all this to you because the country's aging population has become an integral part of the national discussion. As baby boomers begin retiring, many public pension systems are bracing for the impact. With all the media attention given to the financial troubles of many pension systems, it is easy to understand the concern. An alarming number of pension systems, both private and public, are having trouble meeting their obligations. I can assure you, however, PERSI remains fiscally strong. We are well positioned to meet our obligations to all 118,000 members regardless of when benefit payments are due. And, to meet them in a manner consistent with the budgets of our nearly 700 employers.

On another note, you may have seen news stories regarding the movement for pension systems to divest money from companies doing business in the Sudan. Legislation was proffered in Idaho by a local affiliate of the Washington, DC-based "Task Force for Divestment in Sudan" and supported by some PERSI members. The

Legislature requested that the Board review the issues surrounding divestment and study the impact it would have on PERSI. The Board first reaffirmed that the situation in the Sudan was very grim with unbelievable atrocities occurring on a large scale. Academic experts as well as political observers verified the horrendous nature of the genocide. We then set about examining whether divestment was legal and consistent with Idaho statutes; whether as a policy issue we wished to adopt an investment criteria promoting social, political, or environmental issues; and finally, we began studying what divestment might cost. We also looked at whether divestment from companies doing business in Sudan would be effective in stopping the genocide. Over a 6-month period, the Board reviewed some 650 pages of information gathered by PERSI staff and various other sources, and considered input from experts, members, retirees, and academics. That documentation is available on CD for any member who cares to review it.

At its July meeting, the Board unanimously chose not to follow the recommendation of the Task Force because divestment would have violated the Board's fiduciary responsibility to act solely in the best interests of PERSI members. PERSI's only mission is to provide a secure retirement for its members, the public employees of Idaho. As individuals, we feel deeply sympathetic for the people of Darfur, but as an organization with legal mandates and fiduciary responsibilities, we must stay true to our mission. The Board did, however, vote to establish a new "Sudan free" investment option for the Choice Plan 401(k) that will allow members to invest in a "socially responsible" fund if they so choose (see page 3).

I want to close by saying how proud I am to be

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Insights

HOLD ON TO YOUR WALLET IF YOU'RE GOING TO A "FREE" INVESTMENT SEMINAR

Like many seniors, you are probably bombarded with offers to attend free investment seminars. Free lunch, free dinner, free drinks...free, free, free. But is it? If you haven't received a free-meal invitation yet, be prepared because it's only a matter of time. And if you decide to attend, you need to be informed and hold on to your wallet because "free investment seminars" made the annual list of Top 10 Traps compiled by state securities regulators.

SEC Findings

The Securities and Exchange Commission (SEC) along with the Financial Industry Regulatory Authority (FINRA), and state securities regulators conducted a probe on the practices of securities firms. The findings show the "free seminars" were nothing more than high-pressure sales pitches masquerading as educational workshops. They are fraudulent, make misleading claims, and push financial products not appropriate for most seniors.

"Free investment seminars" are a widespread problem according to the SEC, which claims 100 percent of them are for sales purposes not education. Offering something for free is simply a way to entice someone into attending the sales presentation. In the past, the SEC and FINRA have investigated similar pitches where seniors have been persuaded to retire early and cash out their 401(k) accounts, or take on high-risk mortgage securities investments inappropriate for seniors. Now the SEC and FINRA are taking on free seminars.

Much of the blame for these unscrupulous business practices rests with investment firms that fail to supervise or regulate their employees and choose to ignore the law. The sales pitch used at seminars and the materials provided to the attendees, by law, must be approved by a supervisor in the brokerage or investment firm putting on the event and also be submitted to FINRA for review. The SEC probe showed:

- 59% of firms had weak supervisory practices
- 50% featured exaggerated or misleading advertising claims
- 23% made unsuitable investment recommendations
- 13% had apparent instances involving liquidating accounts without the customer's consent

One fraudulent tactic that's gaining ground is offering to schedule one-on-one meetings with seniors on the pretext of preparing a financial plan, but it's really to gain access to personal information – and in some cases, to actually liquidate assets without permission. The free seminars utilize scare tactics to get seniors to question their current investments, make claims of fantastic returns with little or no risk, and place "ringers" in the audience to offer testimonials about how much they've earned on their investments.

People 60 years of age and older make up 15 percent of the county's population, but account for 30 percent of fraud victims. With three-quarters of the nation's consumer assets (\$16 trillion) held by households headed by people 50 or older, and with baby boomers getting ready to retire, regulators expect an increase in financial scams targeting seniors.

Knowing all this, should you still decide to attend a "free lunch" investment seminar, do your homework on the investment firm hosting the event. Don't make any decision on the spot, no matter how much you are strong-armed. If the representative won't allow you to think about what's being offered, then it's a scam. Reputable firms encourage their representatives to allow prospective clients ample time to consider their options. And hold on to your wallet – and your good sense – so your "free" lunch won't end up costing you a fortune.

associated with PERSI. I have had the honor and privilege to serve on the Board for the past 20 years and was recently reappointed to another 5-year term by Governor C.L. "Butch" Otter, subject to Legislative confirmation. I would also like to encourage members to attend a Board meeting in Boise or other cities in

the state when they occur. It is the best way to learn first hand about PERSI's investment strategies, the status of the fund, and the administrative, legal and fiscal matters that impact daily operations. It's a great time to be a public employee in Idaho!

NEW INVESTMENT OPTIONS FOR THE CHOICE PLAN 401(K)

PERSI diligently monitors the investment options for the Choice Plan 401(k) to ensure participants are provided with a wide array of good investment products. World events and/or questionable performance may cause PERSI to change the options from time to time...and that's exactly what's happening. The call for divestment from companies doing business in the Sudan is an example of how a social/political issue can impact PERSI investment options. And recently, an under-performing fund was identified and is being replaced with a fund expected to produce a higher rate of return.

Social Investment Option

In July, the Retirement Board directed PERSI to find a "Sudan free" investment option for the Choice Plan 401(k) program. The Calvert Socially Responsible Balanced Fund was approved by the Board for this option. This fund screens for several social investment restrictions, including companies doing business in the Sudan. This option becomes available October 12, 2007. Before selecting this or any other investment option, members are advised to review the fund's historical performance and consider the associated fees. A fact sheet on this new option is available on the PERSI Web site. PERSI believes that offering this fund is a way of accommodating members who want to make investment decisions based on non-financial criteria.

Better Performing Option

The second change to the Choice Plan 401(k) investment options is the replacement of the Dreyfus Premier Mid-Cap Stock R Fund with the Mellon Capital Management Wilshire 4500 Index Completion Fund. Extended under-performance prompted PERSI to terminate its relationship with the Dreyfus Fund. The Board approved the replacement at its August meeting. The new option will provide members with a highly diversified, style neutral vehicle that provides access to small and medium sized companies at a very low cost.

The Mellon Wilshire 4500 Index Fund is essentially the Wilshire 5000 index, less the S&P 500 stocks. This option will also be available starting October 12th. Members with assets still in the Dreyfus fund when the termination occurs at 4:00 p.m. EDT on October 11, 2007, will automatically have their balance transferred to the Mellon Wilshire 4500 Index Fund. Members who prefer not to have their balance transferred to the Mellon Wilshire 4500 Index Fund can move their balance to another investment option before or after the automatic transfer occurs. A fact sheet on this option is also available on the PERSI Web site.

Changing Investment Options

Because transfers among the Choice Plan 401(k) investment options can, in most cases, be made 24/7, members have great flexibility in changing the way their money is invested. Selecting these new options will involve the same process as selecting any other option. To change an existing investment choice and/or to transfer money between the fund options, members can call ACS HR Solutions (the plan's record keeper) toll-free at 1-866-437-3774 or go the PERSI secure Web site at www.persi.idaho.gov/choice.htm and select *My Choice Plan Account*. Members should have their Social Security number and 6-digit Personal Identification Number (PIN) ready when they call or log on. Members who don't know their PIN can call ACS or go to the Choice Plan 401(k) Web site and request that a "PIN reminder letter" be mailed to their home.

Be Informed

Before investing in these new funds – or any other fund, members are encouraged to read the fact sheets available on the PERSI Web site at www.persi.idaho.gov. If you have questions about the Choice Plan 401(k) program, contact ACS or visit the PERSI Web site for more information.



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PERSI INVESTMENT NEWS

*as of September 23, 2007**

Value of the Fund:
 \$11,643,900,406

Fiscal Year Change in Market Value:
 \$181,321,993

Fiscal Year-to-Date Returns:
 1.5%

Month-to-Date Returns:
 2.3%

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



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