



## COST OF LIVING ADJUSTMENT

To say PERSI had an interesting year is an understatement; however, we started the new fiscal year with reasonable optimism. Although the fund had an FY'09 loss of 16%, since March 2009 it has seen significant gains. Because of these ups and downs, retirees are naturally curious about their 2010 cost of living adjustment (COLA).

After months of discussion and analysis, at its December meeting the Retirement Board voted unanimously to give PERSI retirees a 2.48% retro COLA in 2010 (subject to legislative approval). This will offset the -1.48% COLA mandated by law. If approved, the increase will appear in the March benefit payments of those who qualify for the retro COLA. To understand how the decision was made, knowing something about the factors that played into it helps.

### CALCULATING THE COLA

The PERSI COLA is tied to the Consumer Price Index for All Urban Consumers (CPI-U) for the 12 months ending in August of the current year. Because the CPI-U was -1.48%, for the first time in PERSI history the Retirement Board had to consider if the fund could absorb a retro COLA and avoid a -1.48% COLA for retirees. The process was complicated, but PERSI wants retirees to understand it:

- By law, the Board had to enact a -1.48% COLA.
- The Board has authority to grant a retro COLA for any previous year where a full COLA was not granted, as was the case last year. (The 2008 CPI-U was 5.4%, but the Board awarded a 1% COLA, leaving 4.4% on the table.)
- The Board did not want to reduce retiree benefits, which is what would have occurred if they took no action other than awarding the -1.48% mandated by law.

- The Board enacted an optional (retro) COLA of 2.48% from the 4.4% left over from last year to bring about a net 1% benefit increase for most retirees.

**Formula: -1.48% mandated + 2.48% Retro = 1% Net COLA**

### BALANCING WHAT'S BEST FOR RETIREES WITH FIDUCIARY RESPONSIBILITY

Although the mandatory COLA is based solely on the CPI-U, discretionary COLAs are based on the CPI-U **AND** the overall health of the fund. Before making a decision, the Board did a lengthy and thorough review of various COLA amounts and the effect each amount would have on the fund. While the Board feels strongly about helping retirees maintain their purchasing power, their mission is to act in the best interest of *all* members and beneficiaries regardless of any compelling or compassionate concerns. To award a higher COLA would have increased PERSI's unfunded liability and required a larger contribution rate increase, neither of which were in the best overall interest of PERSI or its members and employers.

Striking a balance between what was best for the system and what was appropriate for retirees was not easy. Understandably, the Board felt conservatism was appropriate at this time.

### WEB SITE CHART CAN HELP

The 2010 COLA calculation was unique, so retirees will be affected differently based on the date of their last contribution and their retirement date. To assist retirees, by the first of the year PERSI will be posting a chart on its Web site ([www.persi.idaho.gov](http://www.persi.idaho.gov)) showing specific COLA amounts (full or partial) based on dates of last contribution and retirement dates.

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# Insights

## WHICH CREDIT CARD SUITS YOUR NEEDS?

*This is the first article in a series on credit cards. The focus is on all purpose cards (e.g., VISA and MasterCard), not retail credit cards.*

Before you can decide which credit card works best for you, assess your lifestyle. Do you carry balances on your cards or pay in full each month? Are you establishing or re-establishing credit? How will you use the card? Next, assess the various types of cards available to find the best match for your needs.

**Rewards Cards** provide an incentive such as cash back, airline miles, or points you redeem for products or services. You are "rewarded" for using the card. If you charge a lot and pay off your balance each month, this type of card can be a good choice. If you decide on a rewards credit card, be sure to read the terms. Some have higher than normal interest on the unpaid balance and/or annual fees that can end up cancelling out the rewards benefits. Think of it like this: if it takes you five years to accumulate enough points for an airline ticket, you may have paid between \$250 and \$300 in annual fees during that period...which reduces the value of the "reward." Secondly, most rewards cards require that you use the points within a specified period of time. For example, airline cards often require the free mileage be used within three years or the points are lost. And finally, if you don't pay off the balance each month, the interest you are charged may soon outweigh the value of the rebate or points you earned. Make sure you understand how the rewards are calculated and redeemed before signing up.

**Secured Cards** are easy to get and a good way to start building your credit. They can also help you improve, rebuild or repair damaged credit. This type of card can be used like a standard credit card. To obtain a secured card, you must put down a deposit with your application, generally between \$200 - \$250. In addition, they tend to have a higher interest rate; often 14 percent or higher plus an annual fee that can run \$50 or more.

**Pre-paid Credit Cards** can be used for most situations that require a credit card. The issuer does not grant credit based on financial standing; instead, the card holder "loads" the card with their own money. Getting one of these cards is relatively easy, since there is no risk. Holders of pre-paid cards should know that repayment history is not accumulated; therefore, nothing is reported to the credit reporting agencies. So if you want to establish or improve your credit score, this type of card will not help you. You should also be aware pre-paid cards are not accepted everywhere. For example, most hotels and car rental agencies will not take them to secure lodging or a vehicle.

**Student Cards** are an excellent way for a young person to begin building credit while away at school. These cards are specifically for students, even if they have no previous credit history. A student card can be helpful when unexpected expenses pop up. The down side of these cards is they typically carry a higher interest rate than standard cards. And if a student is irresponsible in using the card, they (or the co-signer if the student is under age 21) can end up in debt or with bad credit.

When making your decision about a credit card, consider the interest rate. Many cards offer a low introductory rate, perhaps even zero percent (0%) with a balance transfer; but this isn't the only rate to look at. What will be the interest rate charged on new purchases? Generally, if you transferred a balance, any payments you make will be applied to the low-interest transferred balance; more recent purchases (with the higher rate) will continue to accrue interest.

No matter which type of card you choose, use credit wisely. Pay off your balance each month so you aren't racking up debt. Many financial experts recommend having at least two credit cards, so if one is lost or stolen you have a back up. Remember...do your research so the decision you make will be the one that best suits your needs and lifestyle.

*Next article will cover credit card features.*

# DISPUTING AN ERROR ON YOUR CREDIT REPORT

*This is the final article in a series about credit scores.*

The volume and speed at which credit data is reported is staggering. Equifax alone claims to make more than 2 billion updates each month to its consumer reporting database. Statistics indicate 70 percent of credit reports contain errors serious enough for a consumer to be denied credit cards, car loans, or even a mortgage. The good news is the Fair Credit Reporting Act requires credit reporting agencies to fix mistakes; but your diligence is needed to make sure corrections are made. Monitoring your credit is key to your financial well being.

## Steps to Correct Your Credit Report

**Step 1:** Get a current copy of your report from all three credit reporting agencies (Equifax, TransUnion, and Experian) and check for inaccuracies. If an error is found, proceed to step 2.

**Step 2:** Write a letter to dispute what you think is erroneous. (You can also file a complaint online, but you will not have a record of your filing.) In your letter, list why you believe the information is inaccurate and what should replace it. Include a copy of your report, highlighting the disputed items, and include statements or canceled checks that support your claim. Provide a phone number so you can be reached if additional information is needed. Send the letter via certified mail with a return receipt requested. This will serve as proof you sent the dispute and that the credit bureaus received the letter. Also send a copy of the letter to the creditor involved so they know you are disputing information

they provided to the credit bureaus.

**Step 3:** Once the credit reporting agencies have your dispute letter, they begin an investigation. They have 30 days to investigate your dispute and make changes to your file.

**Step 4:** The creditor involved is contacted by the credit bureau about your claim. The creditor begins an investigation and reports back to the credit bureaus about the findings.

**Step 5:** The credit agencies will update your credit information based on the outcome of the investigations.

**Step 6:** When the credit bureau investigations are complete, you will typically be notified of the outcome within 45 days. The notification letter will explain what, if anything, was changed on your credit report. If your dispute was accepted and you are told the error has been removed from your credit report, you will also receive an updated copy of your credit report. If your dispute was not accepted and nothing was changed, you can try filing another dispute with new or more documentation. You can also have a letter of explanation attached to your credit file that explains the reason for the dispute.

Hopefully, you will never have to dispute information on your credit report; but if you do, you'll know what steps to take. For a pamphlet on disputing credit report errors, go to the Federal Trade Commission Web site at [www.ftc.gov](http://www.ftc.gov).

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## 2010 TAX TABLES

PERSI is implementing the 2010 Internal Revenue Service (IRS) tax tables, which once again include the *Making Work Pay* credit that caused pensioners some confusion last year. An optional adjustment procedure provided by the IRS this year requires complicated programming modifications. PERSI is working to see if it can make those modifications to its system. Retirees should review their tax withholdings and/or check with their tax advisor to ensure they are not over or under withholding in 2010. ***Due to the complexity of the calculations, PERSI cannot provide withholding amounts.*** For more information visit the IRS Web site at [www.irs.gov/](http://www.irs.gov/).



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## **PERSI INVESTMENT NEWS**

*as of December 8, 2009*

**Value of the Fund:**

\$10,550,199,849

**Fiscal Year Change in Market Value:**

\$1,475,150,496

**Fiscal Year-to-Date Returns:**

16.7%

**Month-to-Date Returns:**

1.1%

\*Posted monthly on PERSI Web site: [www.persi.idaho.gov](http://www.persi.idaho.gov)

**RETIREMENT**

**PERS**pectives

Public Employee Retirement System of Idaho

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