



UNDERSTANDING THE 2010 COST OF LIVING ADJUSTMENT

In the last newsletter PERSI announced the Retirement Board recommended a net 1 percent cost of living adjustment (COLA) for retirees in 2010. The COLA formula was unique; it included awarding the mandatory negative 1.48 percent COLA [linked to the negative Consumer Price Index for all Urban Consumers (CPI-U) during 2009], then awarding a positive 2.48 percent discretionary COLA to bring about an approximate net 1 percent adjustment for qualifying retirees. The 2.48 percent came from the 4.4 percent left from last year when a full COLA was not awarded because of growing concerns over the economy and the impact on the fund.

The Board's 2010 COLA recommendation was submitted to the State Legislature with the expectation it would go into effect on March 1st. The Board felt confident because in PERSI's 45-year history the Legislature had never amended a Board recommendation.

THINGS CAN CHANGE

Anyone who read an Idaho newspaper in February remembers the House voted to amend the Retirement Board's recommendation. However, one day before the deadline for any changes (45 days into the current legislative session), the Senate killed the resolution in committee. Sen. John Andreason (R-Boise), chairman of the Senate Commerce & Human Resources Committee, said, "It seemed like the thing to do — this was the best way to handle it. I have a lot of faith in the (PERSI) board. They've always done a good job. We're just following their recommendation."

BOARD AND LEGISLATURE HAVE DIFFERENT ROLES

As the plan sponsor, the Legislature was well within its authority to approve, amend, or reject the Retirement Board's recommendation. As trustees, the Board's primary responsibility as a fiduciary is to act in the best interest of the plan and its members. As the plan

sponsor, the Legislature looks primarily at the plan's sustainability. PERSI Executive Director Don Drum notes, "The Retirement Board and the Legislature have different roles, so naturally they see things from different perspectives. I believe both were committed to acting in the best interest of retirees and the fund."

HOW IS A COLA CALCULATED?

By law (Idaho Code 59-1355), the Retirement Board considers a post-retirement allowance adjustment (COLA) and communicates a recommendation to the State Legislature no later than January 15th each year. The PERSI COLA is tied to the CPI-U for the 12 months ending in August each year, and may not exceed the CPI-U or 6 percent, whichever is less. The CPI-U fluctuates based on inflation. In years of deflation, the CPI-U can be negative...resulting in a negative COLA calculation as happened this year. The Board has authority to grant a retroactive COLA for any previous year where a full COLA was not granted, as was the case last year. By code, a benefit payment cannot be reduced below its initial amount, which became a key factor in the 2010 COLA calculations. The COLA is applied as a percentage increase (or decrease) to a retiree's monthly benefit effective with the March 1st benefit payment.

WHAT'S AHEAD?

The Board hopes to fully restore the purchasing power of retirees at its earliest opportunity after the economy improves, markets stabilize, and PERSI's unfunded liability is reduced. Three-quarters of the way into this fiscal year, PERSI has already made an impressive rebound, leaving the Board very optimistic going forward.

More on PERSI's funding status at www.persi.idaho.gov.

Inside this issue:

New Credit Card Law.....	2
PERSI A Top Performer.....	4
Investment News.....	4

Insights

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

- 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.



PERSI
P.O. BOX 83720
Boise, ID 83720-0078

PRSR STD
U.S. POSTAGE PAID
PERMIT NO. 1
BOISE, IDAHO

PERSI A TOP PERFORMER

According to a newly released report by the Pew Center on the States, 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.” Full report available at <http://www.pewcenteronthestates.org/>.

** 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



www.persi.idaho.gov



PERSpectives is published for members of the Public Employee Retirement System of Idaho
607 North 8th Street, Boise, ID 83702
Base Plan: 208.334.3365 or 1.800.451.8228
Choice Plan: 1.866.437.3774
www.persi.idaho.gov

RETIREMENT BOARD
Jody B. Olson, Chairman
Jeff Celik, William “Bill” Deal,
Joy Fisher, J. Kirk Sullivan

Donald D. Drum, Executive Director
Patrice Perow, Editor

Costs associated with this publication are available from PERSI in accordance with §60-202, Idaho Code