



PERSpectives



Fourth Quarter 2010

Public Employee Retirement System of Idaho

PERSI's HEALTH AND OTHER FACTS --a message from Board Chairman Jody Olson--



Jody B. Olson, Chairman
Retirement Board

Much has been reported about the health of PERSI over the past 18 months. Concerns triggered by reports of the funding crisis facing many pension systems fueled rumors here in Idaho. It has been suggested that it's time to end or overhaul PERSI. The media attention this idea has received increased the number of calls to PERSI from members and retirees looking for reassurance that their

benefits were safe. It is not uncommon for facts to get lost as rumors grow. With misinformation about PERSI reaching epic proportions, I wanted to debunk the rumors and give you the facts.

At the end of the last fiscal year (6/30/10), PERSI had an unfunded liability of \$2.5 billion. Today, thanks to strong market returns and a sound investment policy, PERSI has an estimated asset value of \$11.4 billion. This exceeds the July 1, 2007 value of \$10.95 billion, when PERSI was 105% funded. Our funded ratio has risen from under 75% to more than 87%. Experts agree this is solid performance. Current economic indicators suggest PERSI could be fully funded again in as little as 3-5 years. (See the *Investment News* on back page.)

PERSI has always been funded by investment returns coupled with employee and employer contributions. This design lowers employer costs and dispels the notion of critics that members receive an unwarranted benefit. If total revenues do not meet established assumptions, current state statute

requires the Board and/or Legislature to take action. The two most likely options would be to adjust benefits or contribution rates. Back in 1996, action was taken to reduce contribution rates. Since then, market returns have allowed PERSI to maintain rates *below* the 1996 level.

Most public employees have a compensation package that includes a salary, health care benefits, and retirement through PERSI. Removing the retirement component from this package would reduce already stagnant wages, and employers tell us it would eliminate a valuable tool used to attract and retain quality employees. Despite what cynics have said, the fact is if employers have to increase salaries

to compensate for lost retirement benefits, it would be far more costly than paying PERSI contributions.

Because the fund is stable, the rate increase slated for July 1, 2011 has been postponed, and a 1% cost of living adjustment (COLA) for retirees is being recommended.

PERSI currently serves 740 employers and more than 125,000 members and retirees, which is approximately 8% of Idaho's population. The average monthly retirement benefit is \$1342, which is far from extravagant. In fact, the National Institute on Retirement Security (NIRS) ranks Idaho 11th nationwide for having the lowest average benefit. Of the more than \$522 million in retirement benefits paid in fiscal year 2010, 89% (\$465 million) went to retirees with Idaho addresses...resulting in a big boost to the state's economy. In a 2009 NIRS report titled *Pensionomics: Measuring the Economic Impact of State & Local Pension Plans*, it was reported that

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Insights

UNDERSTANDING POWER OF ATTORNEY

Most people have heard the term "power of attorney," but not everyone understands what it means. To help retirees, PERSI is providing some general information about this legal option.

What Is Power of Attorney?

The American Bar Association defines power of attorney (POA) as a document giving one or more persons the authorization to act on your behalf. This legal document empowers another person to serve as your "agent" to conduct business in a variety of situations. With a valid POA, your agent can take any action permitted by the document.

Why Use a Power of Attorney?

A power of attorney is often used to prepare for situations when you may not be available or when you've become unable to represent yourself. If you do not have a POA and become unable to manage your personal or business affairs, a court will appoint someone to act for you. Most people like the idea of making that determination themselves and setting the limits on what an agent can do.

What Are The Benefits?

By deciding in advance who can make important decisions on your behalf, you maintain some control. In addition, by naming a POA you might avoid the expense and time of waiting for a court-appointed conservator or guardian to handle your affairs.

Will My POA Expire?

Some states still require regular renewal of POA documents to keep them valid. However, today most states permit a "durable power of attorney" that remains valid indefinitely once it is signed. This type of POA remains valid until your death or until you revoke it. Still, you should review your decision periodically to consider if your agent still meets your needs.

State Laws Vary

The law of the state in which you reside at the time you sign your POA typically governs the powers and actions of the agent under the document. If you should move to another

state, generally your POA remains valid; although, this is a good time to evaluate or update your choice.

What Business Can My POA Conduct?

When signing a POA, you can give broad or limited authority to your agent. In addition to managing your day-to-day financial affairs, your agent can implement your estate plan. Although a POA does not allow an agent to revise your will, they can create or amend trusts and transfer assets to trusts you created. Your agent may also make gifts on your behalf, subject to the guidelines you established. Other legal authority granted to your agent can include buying or selling property, making investments, conducting banking transactions, and making legal claims and conducting litigation on your behalf. Before signing a POA, it is important to decide the level of authority you want your agent to have: sweeping or limited.

How Do I Choose My Agent?

Although people often select a trusted family member to serve under a POA, a dependable friend or reliable professional are also possible choices. Remember, you can select more than one agent. If you do so, you must decide the limits of authority for each, and determine whether they must work together or if they can operate independently.

Medical POA

If your health declines to the point you can no longer communicate with others, having a durable power of attorney for health care allows an agent to make decisions regarding your medical care. Preparing a medical POA lets you control, at least to some degree, the health care you'll receive if you're unable to communicate your wishes.

PERSI Power of Attorney

A PERSI POA form is available on the PERSI Web site. It is *only* good for conducting PERSI business on your behalf.

Before signing a power of attorney document, it is wise to consult with an attorney so you fully understand the authority you are granting to another individual and so you know your rights before making a decision.

each dollar in taxpayer contributions to state and local pension plans supports more than \$11.45 in total economic activity. NIRS reported that Idaho pension benefits supported more than 4200 jobs, which paid \$203 million in salaries and wages within the state, and resulted in \$76.3 million in federal, state, and local tax revenues.

According to that same NIRS report, the cost to manage a 401(k) style defined contribution (DC) plan ranges from \$1.25 - \$2.00 per \$100 of assets compared to the 10 cents required to manage \$100 in a defined benefit (DB) plan (national averages). DB plans, like PERSI, historically achieve higher investment returns than DC plans. A 1% difference in annual investment returns results in a 26% cost savings over a member's working career. Higher investment returns coupled

with lower management costs keep costs to taxpayers reasonable.

PERSI has gone through market declines in the past, and expects to see them again in the future. We have always remained stable by exercising restraint and prudence, adhering to a conservative investment approach, and working with the Legislature to safeguard the fund while minimizing the risk and cost to taxpayers. State lawmakers were provided with a video about PERSI, giving them many of the facts I've shared with you in this newsletter. The video is posted on the PERSI Web site. I encourage you to watch it. In the meantime, the Retirement Board will continue to expose rumors and set the record straight so members and retirees can rest assured their benefits are secure.

OFF SITE PAYROLL PROCESSING

-- disaster drill a success --

In late September 2010, PERSI conducted a disaster recovery drill that included running retiree payroll from a remote location. Should something ever happen to PERSI's downtown Boise location, retirees can be confident the agency could still run its monthly payroll without interruption.

In compliance with its *Continuity of Operations Plan*, and heeding Homeland Security warnings about potential disasters, PERSI began scouting for an off site location where basic operations could be maintained for up to 30 days. Besides the hours spent at the off site location on test day, leading up to the actual drill PERSI dedicated hundreds of hours identifying possible locations, preparing a needs

assessment, attending meetings with the Department of Homeland Security, and creating test plans for all functional areas.

During the day-long simulation all critical functions, except those involving financial partners, were tested. Checks were printed from a previous payroll period to ensure the technology and equipment worked as needed. The PERSI staff involved performed their day-to-day jobs from the remote location. As an added safeguard, the remote site has electrical generation equipment sufficient to run computers and other equipment in the event of a major power outage.

PERSI will conduct a similar disaster drill annually.

TAX TIME: 1099R FORMS GO OUT IN JANUARY

Retirees should look for their 1099R in late January. The 1099R is used to report distributions from retirement plans to the Internal Revenue Service (IRS). You will need the form to file your tax returns.

The IRS requires that 1099s be mailed to taxpayers by January 31st of the year following the calendar year in which a distribution occurred. BNY Mellon (the Choice 401(k) Plan trust fund custodian) in

conjunction with ACS (the Choice Plan record keeper), will send a 1099R to retirees who had a distribution from their 401 (k) account during the year. If you are expecting a 1099R for a PERSI Base Plan distribution but do not receive one, call PERSI at 1-800-451-8228 or 334-3365. If you are expecting a 1099R for a distribution from your Choice Plan account but don't receive one, contact ACS at 1-866-437-3774.



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

INTERPRETER SERVICES NOW AVAILABLE

To enhance customer service for non-English speaking members, PERSI has subscribed to an interpreter service. The service can be accessed by phone whenever members come into or call a PERSI office and need assistance. Using a translator now makes language barriers a non-issue.



www.persi.idaho.gov

PERSI INVESTMENT NEWS

as of December 17, 2010

Value of the Fund:

\$11,435,070,095

Fiscal Year Change in Market Value:

\$ 1,357,045,590

Fiscal Year-to-Date Returns:

14%

Month-to-Date Returns:

2.5 %

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



PERSpectives is published for members of the Public Employee Retirement System of Idaho
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