RETIREMENT
PERSpectives
Fourth Quarter 2016 | Public Employee Retirement System of Idaho

COLA AND CONTRIBUTION RATE DECISIONS

During its October meeting, the PERSI Retirement Board made recommendations for a cost-of-living adjustment (COLA) for retired members and a contribution rate adjustment for active members and employers.

COLA RECOMMENDATION

The Board's recommended a 1.1% COLA for retired members for 2017.

Idaho Code 59-1355 requires PERSI to apply a cost-of-living adjustment (COLA) to retirement benefits effective March 1st each year. The COLA is tied to the Consumer Price Index - Urban (CPI-U) for the 12 months ending August of the current year (1.1% for this year), and may not exceed the CPI-U or 6%, whichever is less.

The Board's COLA decision is subject to amendment or rejection by the Legislature. To date, the Legislature has always accepted the Board's COLA recommendation.

CONTRIBUTION RATE INCREASE

The Board has recommended a 1% total contribution rate increase for active members and employers. If approved by the Legislature, the increase will be shared between employers and employees, and take effect July 1, 2018.

Each year, using a June 30th measurement date, PERSI compares the market value of fund assets to the unfunded actuarial accrued liability (UAAL). UAAL is a projection of the amount of money PERSI would need in order to pay all benefits earned, now and into the future, for all PERSI members, as if those benefit payments were due now, in full. Then, applying a standard set of assumptions, PERSI's actuaries calculate the amortization period (number of years) it would take to pay off the UAAL, using the existing contribution rates.

Idaho code 59-1322(5) requires the Board to take action if the amortization period exceeds 25 years. The Board is able to decrease the amortization period by increasing contribution rates.

PERSI's fiscal year 2016 ended June 30th, with a net investment return of approximately 1.5% and an amortization period of 36.6 years.

To lower the amortization period below 25 years, the Board voted to recommend the 1% rate increase.

TAX SEASON REMINDER

PERSI wants to remind retired members that we are not tax authorities, and are not able to provide personal or specific tax advice. We encourage members to seek tax advice from a qualified tax professional. The customer service team in the PERSI Answer Center did some research, and found some alternatives where retirees might be able to obtain tax payer assistance:

- The Boise Senior Center, 690 Robbins Rd., Boise, Idaho – (208) 345-9921
- The Volunteer Income Tax Assistance (VITA) Program – (800) 906-9887
- The AARP Foundation's Tax Aide Program – (888) 227-7669
- The Idaho Care Line – (800) 926-2588
- The Idaho State Tax Commission – (800) 972-7660

These contact numbers may connect you with tax payer assistance or even free tax preparation to those who qualify.

Inside this issue:

Insights

The following article, published by Missouri LAGERS, a peer system to PERSI, is being shared with permission, and explores the idea of "unfunded liability" not as a systemic crisis, but rather something we might consider as individuals.

All retirement systems are not alike. Today, PERSI is one of the nation's best funded public pension plans. At the same time, it is our duty to inform and educate our members -- and we found this article to be educational, informative, and relevant to a subject of national conversation.

THE UNFUNDED LIABILITY NOBODY IS TALKING ABOUT
-- Guest article from a colleague in Missouri --

You hear a lot in the news these days about the looming pension crisis and their mounting unfunded liabilities. When I try to imagine how I would react to these headlines if I did not work in the retirement industry, I imagine that the phrase 'unfunded liability' would sound absolutely terrifying, and that if I ever heard that phrase being thrown around when it came to my employers' retirement plan, I would be concerned. At that point I would probably do what any normal person would do when they hear about something this scary: I'd Google it.

So this morning, I decided to do a little experiment: I typed 'unfunded liability' into my trusty search engine just to see what would come up, and the results were undoubtedly alarming. Headlines reading: "Unfunded public pension liabilities near $5.6 trillion"; "How pensions pass the buck to future generation"; and "$60 billion unfunded liability looms over Pa. as lawmakers move toward pension vote" were just the beginning of a laundry list of stories listed on the topic.

Now to be clear, I believe that every pension plan should have sound plan design with a solid funding policy, so that, like LAGERS (and many other well-run pensions across the country), the promised benefits are fully funded today and plan participants can go to work and retire with the peace of mind in knowing that their retirement will be secure. Pension plans that are not doing this should be fixed. But what I found most disturbing about my search was that in all the results that popped up about unfunded liabilities, there appeared to be one major unfunded liability that nobody is talking about….yours.

'My unfunded liability?' you may ask. 'I don't have an unfunded liability.' And that is where many of you would be mistaken. Like most Americans, you are probably planning to retire at some point in your life – either at a time of your choosing or perhaps for reasons beyond your control, such as failing health. And when that time comes, you're going to need to have income to live off of for the rest of your life.

In order to be able to quit working or to reduce your work hours in retirement, you need to be saving every month to ensure your nest egg will be large enough to sustain you for the rest of your life. Savers (especially those without pensions) who fail to set aside enough money each month for their retirement are creating a huge personal unfunded liability – a gap between how much they have saved and how much they will need in retirement.

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According to the National Institute on Retirement Security, 45% of American households do not own any type of retirement account, with a disproportionately large number of low-income households saving nothing for retirement. Even more shocking, of households that do have retirement savings accounts, the average balance for individuals nearing retirement (age 55-64) is a mere $104,000; and if we included the households that are saving nothing, that average drops to just $14,500 saved by those who are at the doorstep of retirement.

Author, Elizabeth Althoff is a Senior Communications Specialist for Missouri LAGERS, a peer system to PERSI, and the largest non-profit public pension system in Missouri.

This means that most Americans will be facing their own unfunded liabilities at retirement, and that presents a big problem. If I'm an average saver with $104,000 and I need to draw out $1300/ month to survive in retirement, my savings would not last 7 years…and that's not even taking into account inflation or any unplanned expenses (such as a big medical bill). If I live 20 years into retirement, I need to have saved at least $312,000; and if I live 30 years, I better have $468,000 in the bank. Since I only have $104,000, I have a personal unfunded liability of over $360,000. While granted, my math is simplified, take that average times the estimated 80 million people who will be retiring over the next twenty years and you get upwards of 30 trillion dollars in unfunded liabilities in Americans' personal defined contribution accounts.

I can't help but think to myself, "What is going to happen when these folks can no longer work? What are they going to do when they cannot afford to retire?" As we usher out the era of private pensions, what is going to happen as more and more individuals enter retirement without adequate savings and with a huge personal unfunded liability? What is going to happen when they lose their home because they can't make the mortgage payment, or go without food to be able to afford their medication? As a society and as taxpayers, what are we going to do?

It seems to me that many are suggesting that the solution to these pensions' unfunded liabilities is to replace them with even bigger personal unfunded liabilities by forcing people to plan for retirement on their own. Pensions that have sound plan design and solid funding policies work, and they work well. They don't pass cost onto future taxpayers because the liabilities (benefits) are prefunded, and participants can take advantage of longevity risk pooling and professionally managed investments. And while LAGERS members receive only a modest monthly benefit that often still requires some additional personal savings, their pension is the foundation of their retirement security, and it's one they can count on.

The switch from pensions to defined contributions plans (e.g. 401(k)s) may indeed seem like a simple fix to all the mounting pension headlines, but until we start quantifying the unfunded liabilities in individual retirement plans, many Americans are going to be in for a big surprise when they are ready, but cannot afford to retire.

You can find the original article online here.

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PERSI INVESTMENT NEWS

as of December 19, 2016

Value of the Fund:
$ 15,248,906,726

Fiscal Year Change in Market Value:
$ 402,053,005

Fiscal Year-to-Date Returns:
3.5%

Month-to-Date Returns:
1.1%

*Posted monthly on PERSI website: www.persi.idaho.gov/
Fiscal Year 7/1/2016- 6/30/2017

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RETIREMENT
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