



Attachment 1, Don Drum
PERSI, January 11, 2024


PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
SECURING THE FUTURE

Senate Commerce & Human Resources Committee
2024

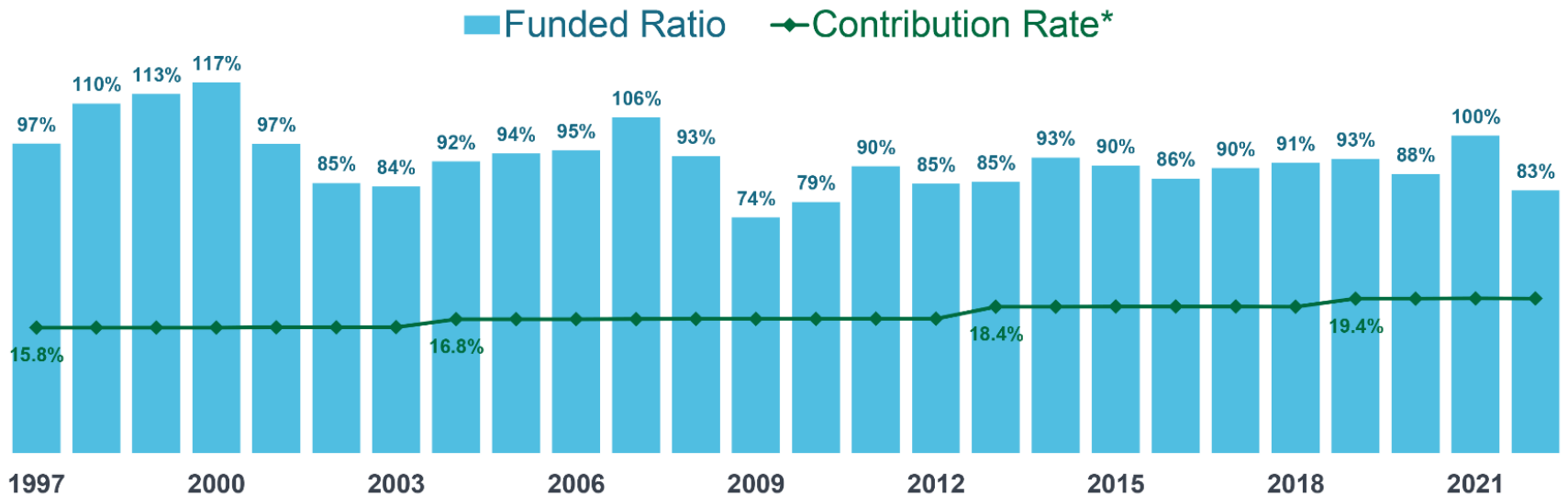


WELCOME

I will be discussing the following topics:

- ✓ Contribution rate history
 - ✓ Factors impacting the fund – there are many
 - ✓ The Board's reasoning and approach, and market volatility
 - ✓ Fiscal year 2023 valuation & contribution rates
 - ✓ Stability and sustainability and cost-of-living adjustments
 - ✓ Decisions will need to be made
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CONTRIBUTION RATE HISTORY



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
PY Asset Return**	19.1%	17.2%	11.2%	12.9%	-6.4%	-7.4%	3.3%	17.6%	10.3%	11.8%	19.5%	-4.6%	-16.4%	12.0%	20.3%	1.2%	8.7%	16.8%	2.7%	1.5%	12.3%	8.5%	8.1%	2.7%	27.5%	-9.6%
Amort Per (yrs)	2	N/A	N/A	N/A	10	39	19	8	6	10	N/A	16	Over 100	18	8	15	13	12	17	37	16	14	11	21	0	Over 100

* Shows total aggregate contribution rate; i.e. the weighted average of the General, Teacher, and Safety employer plus member rates.

** Asset return for fiscal year ended in the year shown; net of investment expenses, but not net of administrative expenses.

Board decisions are based on funded status. Typically, contribution rate changes are not considered until the fiscal year valuation is presented in the fall. The Board may propose rate increases if the fund 's amortization exceeds twenty-five (25) years, per Idaho Statute 59-1322(5).

FACTORS IMPACTING THE FUND

There are multiple factors impacting the fund. Some are expected and some are due to unpredictable conditions and events.

- Market volatility
- Life expectancy of members
- Growth of retirees and the average benefit
- Rising cost of cost-of-living adjustments – discretionary
- Benefit enhancements – since the great recession and affect on normal cost rate
- Return to work (RTW)
- Contribution rates
- Modern work force changes



FACTORS IMPACTING THE FUND

LIFE EXPECTANCY OF MEMBERS

When PERSI was initially designed in the late 1960s, membership in the system was barely 8,000 members (active, retired, and inactive) and only seventy-five (75) employers. The life expectancy for a male was 66.7 years and a woman was 73.9 years.

Today, active membership is almost 77,000, we have 870 employers, and there are over 54,000 retirees. The life expectancy for a male is now 73.2 years and a woman is 79.1 years.

To fulfill benefits earned by Idaho's public workers and remain relevant, adjustments to the system will be necessary from time to time to protect the fund and its members.

FACTORS IMPACTING THE FUND

GROWTH OF RETIREES AND THE AVERAGE BENEFIT – ANNUAL & MONTHLY

RETIREE & BENEFIT GROWTH



YEAR	TOTAL NUMBER OF RETIREES	AVERAGE ANNUAL BENEFIT	AVERAGE MONTHLY BENEFIT
1997	20,499	\$7,850.00	\$654.16
2005	27,246	\$12,592.00	\$1,049.33
2010	33,625	\$15,644.00	\$1,303.66
2015	42,657	\$17,681.00	\$1,473.41
2020	49,573	\$20,168.00	\$1,680.66
2023	54,680	\$21,799.00	\$1,816.58

FACTORS IMPACTING THE FUND

MARKET VOLATILITY

Many factors seem to be impacting the market:

- The pandemic
- China's Economy
- The Ukraine war
- Politics
- Inflation
- Climate change
- The war in Israel
- Union strikes

THE BOARD'S REASONING & APPROACH

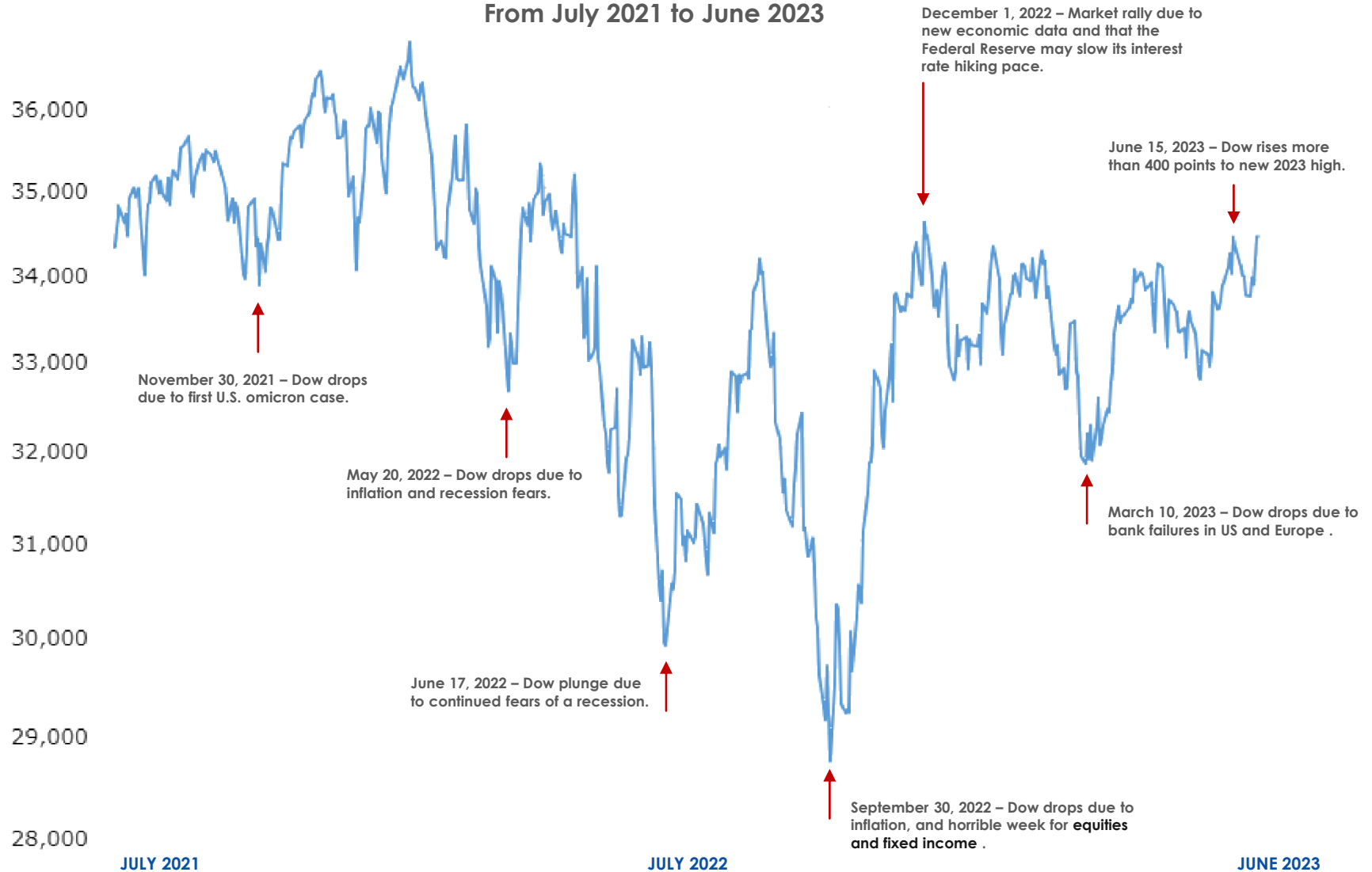
The Board takes its responsibilities to all members very seriously. They do not make decisions lightly and understand their decisions impact all members. When they make decisions, they receive the most current metrics of the system and possible outcomes of their decisions.

In 2021, Board lowered the investment return rate from 7.0 to 6.30% in addition to a reduction in the inflation assumption from 3.0 to 2.3% and leaving the real rate of return at 4.0%. The Board approved the creation of a new class for school district employees and the proposed class was approved by the legislature.

During 2022, the Board chose to adjust contribution rates, a fairness adjustment, for public safety and general members, and a new contribution rate for the new school employee class. The new rates ensure fairness for all members.

MARKET VOLATILITY

DOW JONES – LAST TWO (2) YEARS From July 2021 to June 2023



FISCAL YEAR 2023 VALUATION

FISCAL YEAR 2023

	Actuarial Accrued Liability ⁽¹⁾ (in millions)	Market Value of Assets	Unfunded Actuarial Accrued Liability (in millions)	Funded Ratio	Amort. Period (years)
July 1, 2022 Valuation	\$23,426.7	\$19,349.5	\$4,077.2	82.6%	100+
Board Approval of Contribution Rate Increases ⁽²⁾	(100.2)	-	(100.2)		
July 1, 2022, Results Incorporating the Rate Increases	\$23,326.5	\$19,349.5	\$3,977.0	83.0%	15.4
Expected Change Between Valuation Dates	913.4	781.0	132.4		
Expected at July 1, 2023	\$24,239.9	\$20,130.5	\$4,109.4	83.0%	14.4
Effect of Actuarial Experience Gains and Losses:					
• Investments [Gain]	-	539.3	(539.3)		
• Salaries [Loss]	215.2	8.3	206.9		
• Membership Growth [Loss]	30.9	29.6	1.3		
• Benefit Payments Higher than Expected	(11.9)	(11.9)	-		
• Retired Member Experience [Loss]	10.7	-	10.7		
• Active and Inactive Member Experience [Loss]	207.2	-	207.2		
Total Experience Gains and Losses	452.1	565.3	(113.2)		
Effect of Assumption Changes [none]	-	-	-		
Effect of Plan Changes [Return to Work Provision]	22.9	-	22.9		
July 1, 2023 Valuation	\$24,714.9	\$20,695.8	\$4,019.1	83.7%	13.5

This significant action helped FY2023 results, greatly.



Along with market improvement, contribution rate increases helped lower the amortization period.

1. Amounts are net of expected future ORP Contributions.

2. In October 2022, the board adopted a 1.25% contribution rate increase effective July 1, 2024, an additional 2.50% increase effective July 1, 2025, and an additional 3.75% rate increase effective July 1, 2026.

IDAHO STATUTE 59-1322 (5)

- PERSI must adhere to Idaho Statute 59-1322(5) when the fund's amortization period exceeds twenty-five (25) years.
- The Retirement Board must propose contribution rate increases to get the funded status below twenty-five years.
- Increasing contribution rates could also influence the Idaho legislature's decision on proposed cost-of-living adjustments.

CONTRIBUTION RATES

FY2024 CONTRIBUTION RATES (FAIRNESS ADJUSTMENT) AS OF JULY 1, 2023

	PUBLIC SAFETY		GENERAL MEMBER		SCHOOL EMPLOYEE	
YEAR	EMPLOYER	EMPLOYEE	EMPLOYER	EMPLOYEE	EMPLOYER	EMPLOYEE
FY2024	13.26%	9.83%	11.18%	6.71%	12.69%	7.62%

PROPOSED FUTURE FY2025 CONTRIBUTION RATES BEGINNING JULY 1, 2024

	PUBLIC SAFETY*		GENERAL MEMBER		SCHOOL EMPLOYEE	
YEAR	EMPLOYER	EMPLOYEE	EMPLOYER	EMPLOYEE	EMPLOYER	EMPLOYEE
FY2025	14.65%	10.83%	11.96%	7.18%	13.48%	8.08%

PROPOSED FUTURE FY2026 CONTRIBUTION RATES BEGINNING JULY 1, 2025

	PUBLIC SAFETY		GENERAL MEMBER		SCHOOL EMPLOYEE	
YEAR	EMPLOYER	EMPLOYEE	EMPLOYER	EMPLOYEE	EMPLOYER	EMPLOYEE
FY2026	15.44%	11.40%	13.53%	8.11%	15.04%	9.02%

PROPOSED FUTURE FY2027 CONTRIBUTION RATES BEGINNING JULY 1, 2026

	PUBLIC SAFETY		GENERAL MEMBER		SCHOOL EMPLOYEE	
YEAR	EMPLOYER	EMPLOYEE	EMPLOYER	EMPLOYEE	EMPLOYER	EMPLOYEE
FY2027	17.62%	12.97%	15.87%	9.52%	17.38%	10.43%




STABILITY AND SUSTAINABILITY

PERSI employers have mentioned they are concerned about significant rate increases. Stable employer and member contribution rates are key to plan participation and sustainability. If the need to increase contribution rates continues, this could potentially lead employers to consider withdrawing from PERSI, defaulting on payments jeopardizing the employer and its employees, and/or future employers rethinking whether they want to participate in PERSI.

The Board's main priority is keeping the fund sustainable and to fulfill benefits earned by Idaho's public workers. This means making tough decisions to protect all members earned benefit.

Historically, if the Board proposes rate increases, they do not offer a discretionary COLA. The Board receives weekly reports showing the estimated amortization and funded status. The Board often knows in advance of the fiscal year end whether they need to propose rate increases. This means going forward, discretionary COLAs will likely be challenging to fund. The board had no desire to deviate from historical practices when rate increases are proposed and thus, they choose to follow past historical practices.



PERSI BOARD APPROACH TO DISCRETIONARY COLAS

The PERSI Board understands that retirees live on a fixed income. The Board understands that COLAs are important to sustaining a retiree lifestyle in retirement.

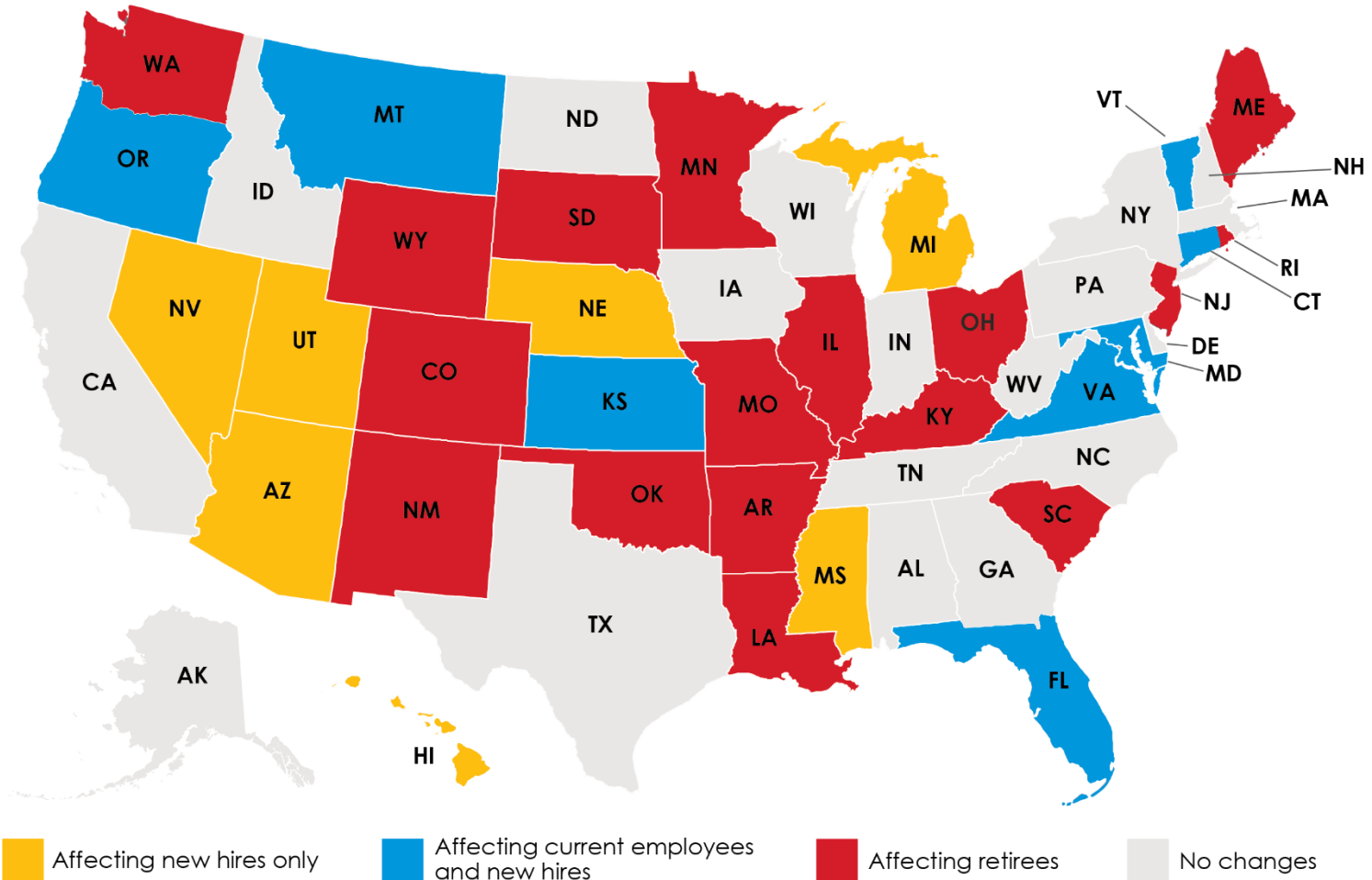
The Board's number one priority is to protect the fund and members' benefit, and to do their best to provide COLAs which enable retirees to protect their purchasing power.

COST-OF-LIVING ADJUSTMENTS

- Cost-of-living adjustments are now more expensive than they were in previous years.
- Based on Consumer Price Index for Urban workers (CPI-U) for the 12 months ending August of current year.
- Idaho Statute 59-1355 – POST RETIREMENT ALLOWANCE ADJUSTMENTS. Provides a 1% cost- of-living adjustment to retirement benefits, each fiscal year.
- The Board's funding policy guidelines for PERSI, takes a strategic and conservative approach to COLA since the cost of COLAs continues to increase.
- COLAs and contribution rates are linked, and employers continue to express concerns about rates increasing.

NATIONAL COLA TRENDS...

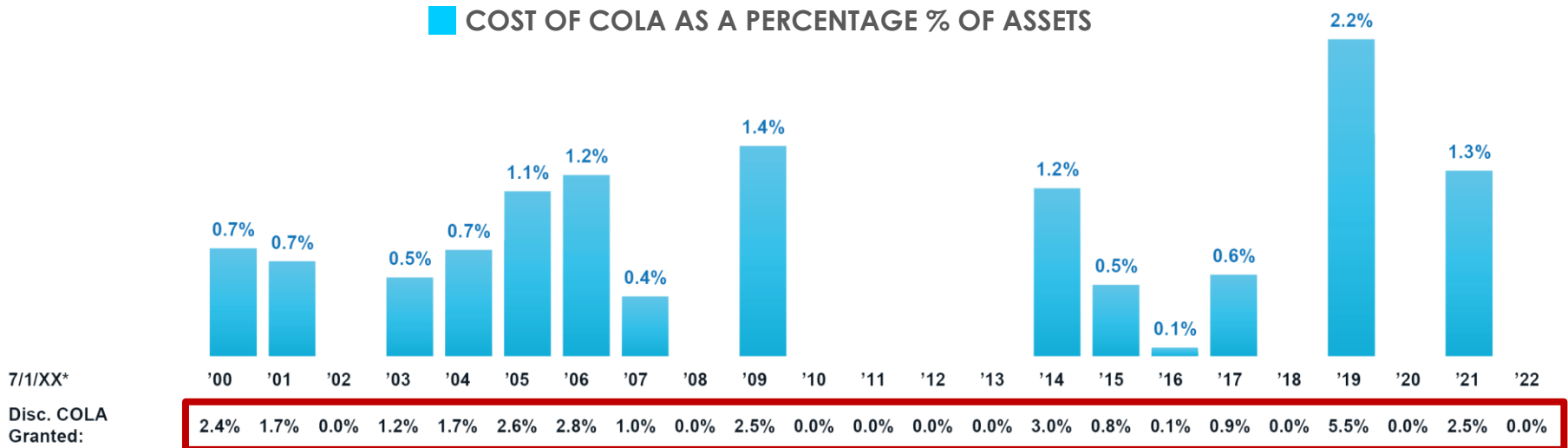
Since 2009, thirty-two (32) states have undergone some type of cost-of-living adjustment (COLA) reform. The National Association of State Retirement Administrators (NASRA) reports that some changes are affecting only new hires, whereas other states' changes are impacting current employees and new hires. In seventeen (17) states, the changes are affecting retirees.



HISTORY OF DISCRETIONARY COST-OF-LIVING ADJUSTMENTS

GRANTED DISCRETIONARY COLAS OVER THE YEARS

■ COST OF COLA AS A PERCENTAGE % OF ASSETS



7/1/XX*

Disc. COLA
Granted:

'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20	'21	'22
2.4%	1.7%	0.0%	1.2%	1.7%	2.6%	2.8%	1.0%	0.0%	2.5%	0.0%	0.0%	0.0%	0.0%	3.0%	0.8%	0.1%	0.9%	0.0%	5.5%	0.0%	2.5%	0.0%

NOTE: THE 2014 DISCRETIONARY COLA INCLUDES A PORTION TO RESTORE THE COLA FROM 2008, 2010, AND 2011, ALONG WITH THE DISCRETIONARY COLA FOR 2014. THE 2015 DISCRETIONARY COLA CONSISTS ENTIRELY OF A RESTORATION FROM 2011. THE 2019 DISCRETIONARY INCLUDES A PORTION TO RESTORE THE COLA FROM 2011, 2012, 2013, AND 2018, ALONG WITH THE DISCRETIONARY COLA FOR 2019.

*COLAS ARE ACTUALLY GRANTED ON THE MARCH FOLLOWING THE VALUATION.

- When able, the Board does grant discretionary COLAs to retirees.
- The Board is aware that PERSI retirees compare PERSI COLA and Social Security COLA. Keep in mind, PERSI is not associated with the Social Security Administration. PERSI must adhere to the laws that the Plan Sponsor/Idaho Legislature put in place for the fund.

DECISIONS TO BE MADE BY EMPLOYERS AND PLAN SPONSOR

PERSI is the Plan Administrator and does not make decisions for the plan. The Idaho Legislature is the Plan Sponsor and is responsible for plan changes.

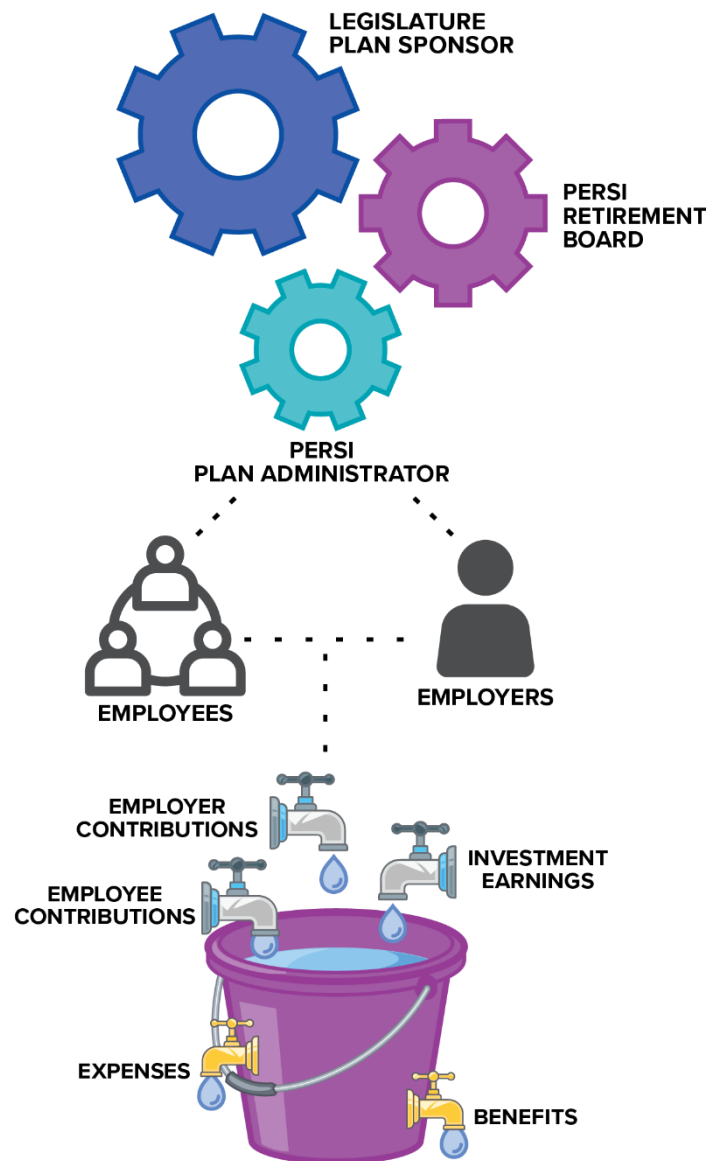
Many public pension plans have made adjustments to control plan costs or the impact of changing employer environments.

We can learn from other systems when their Plan Sponsor or employers explore cost controlling changes. It is better to carefully study other systems than rush into design adjustments.

Industry experts, NASRA, say that “Changes to pension designs typically are made for certain reasons (lower costs, less employer risk) such changes cause unintended outcomes.”

Is the normal cost rate too much for your fiscal budget? Are contribution rate increases distressing to your employees? Does the PERSI benefit have the same recruiting and retaining power or are employees moving to the private sector?

Employers need to share their concerns, thoughts, and opinions about the PERSI benefit.



Thank you for your hospitality over the years.

It's been a pleasure working with you,
and I'm grateful for the friendships
I have made along the way.



**THANK YOU FOR YOUR TIME
& ATTENDING!**

If there is any discrepancy between this publication and the law, the provisions of the law will prevail.