



PERSI

Public Employee Retirement System of Idaho

HELPING YOU BUILD A SECURE RETIREMENT

February 3, 2020

Rakesh Mohan, Director
Office of Performance Evaluations
Sent by Email

Governor
Brad Little

Dear Director Mohan,

Retirement Board
Jeff Cilek, Chairman
Joy Fisher
Celia R. Gould
Park Price
Darin DeAngeli

In accordance with Idaho Code §67-461(2), please consider this as a formal response to the Office of Performance Evaluations (OPE) report on Chained Consumer Price Index.

Executive Director
Donald D. Drum

PERSI has reviewed the report in total and wishes to address one item noted in the report.

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“Changes to the method used to calculate cost-of-living adjustments, such as switching to the chained CPI, may invite legal challenge if applied to current members as a violation of the implicit contract with those members. Both PERSI management and its independent actuary shared these concerns. However, the Legislature could change cost-of-living calculations for new hires and avoid these concerns.”

PERSI appreciates OPE including this caution in the report on Chained Consumer Price Index, but wishes to expand upon utilizing the Chained Consumer Price Index in cost of living adjustments (COLA) for retirement benefit programs, as outlined in the U.S. Government Accountability Office (GAO) report dated January 28, 2019.

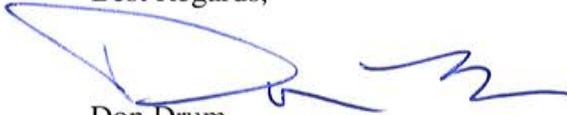
- As noted in the statement above, PERSI and the independent actuary believe changing the index may invite a legal challenge if applied to current members.
- Changing the index will add ongoing administrative burden and system costs to track retirees separately to determine the appropriate COLA calculation.
- The impact of implementing the Chained CPI would not be realized until new hires impacted by this legislative change would begin retiring.
- The Chained CPI-U was first published in 2002 and has only been documented in a relatively low inflation environment. It is uncertain

how high inflation would affect hypothetical COLA calculations. (slide 16, GAO-19-218R COLA Adjustment for Older Americans)

- Lower-income beneficiaries tend to be more sensitive to changes in income, so changes in COLAs would affect them more so than others. In 2015, SSA projected that changing Social Security's COLA to be based on the Chained CPI-U would move about 456,000 people into poverty by 2050. (slide 22, GAO-19-218R COLA Adjustment for Older Americans)
- Chained CPI-U may require agencies to determine how or whether to address data lags of up to 1 year. The Chained CPI-U is produced in stages: 1) Initial Chained CPI-U (monthly, subject to revision), 2) Interim revised data (quarterly, subject to revision), 3) Final Chained CPI-U (10-12 months after initial data). (slide 27, GAO-19-218R COLA Adjustment for Older Americans)

Thank you for the opportunity to provide a formal response to OPE's report on Chained Consumer Price Index.

Best Regards,



Don Drum
Director

cc: Retirement Board