MINUTES

HOUSE COMMERCE & HUMAN RESOURCES COMMITTEE

DATE:	Wednesday, January 23, 2013
TIME:	1:30 P.M.
PLACE:	Room EW05
MEMBERS:	Chairman Hartgen, Vice Chairman Anderson(31), Representatives Loertscher, Anderst, Hancey, Harris, Holtzclaw, Mendive, Romrell, VanOrden, King, Woodings
ABSENT/ EXCUSED:	None
GUESTS:	The sign-in sheet will be retained in the Committee Secretary's office until the end of the Session. Following the end of the Session, the sign-in sheet will be filed with the minutes in the Legislative Services Library.
	Chairman Hartgen called the meeting to order at 1:31 p.m.
MOTION:	**Rep. Woodings** made a motion to approve the minutes of January 17, 2013. **Motion carried by voice vote**.
RS 21655:	**Jeff Sayer**, Department of Commerce, presented **RS 21655**. He stated that this proposed legislation would amend the membership requirements of the Economic Advisory Council to clarify that no more than four (4) members from any one political party can serve, which is consistent with other boards and councils. It also contains clean-up language to confirm that advisory council members serve at the pleasure of the Governor. There are three advisory councils at the Department of Commerce, and Mr. Sayer stated that the Department does try to ensure that a balanced political presence exists on each one.
MOTION:	**Rep. Hancey** made a motion to introduce **RS 21655**. **Motion carried by voice vote**.
RS 21660:	**Bob Fick**, Department of Labor, presented **RS 21660**. He stated that the Federal Trade Adjustment Assistance Extension Act of 2011 requires states to amend their unemployment insurance law to impose a monetary penalty on benefit claimants whose fraudulent acts result in overpayments. It also requires states to require the first 15% of an assessed civil penalty to be paid into the Employment Security Fund, and to prohibit employers from being relieved from charges to their unemployment insurance accounts when their actions lead to improper benefit payments. It states that an experience rated employer's account may not be relieved of charges and a reimbursing employer may not be relieved of liability for benefits paid to a claimant that are subsequently determined to be overpaid in certain cases including a failure to respond to inquiries in a period of seven days from the date the inquiry is mailed. Additionally, in this proposed legislation, the definition of "rehire" in the State Directory of New Hires will be amended to include individuals previously employed by an employer who were separated from that employer for at least 60 consecutive days prior to reemployment.

In response to questions, **Mr. Fick** stated that there will be a seven calendar day period during which employers are required to respond to inquiries. At the end of seven days, the Department of Labor will contact the employer by phone to attempt to secure a verbal response. If no response is gathered, the employer will be liable for benefits paid. All changes in this proposed legislation are required by the United States Department of Labor. It does not change any penalties that are currently in place under the law. Last year, approximately 150 million dollars were paid out for cases that involved quits or dismissals. Twenty percent of employers in those cases did not respond to inquiries, meaning that approximately 30 million dollars were paid out with information received only from the claimant.

MOTION: **Rep. King** made a motion to introduce **RS 21660**. **Motion carried by voice vote**. **Rep. Harris** requested to be recorded as voting **NAY**.

DOCKET NO. 17-0209-1201: **Tom Limbaugh**, Industrial Commission, presented **Docket No. 17-0209-1201**. This Proposed Rule was before the Committee on Thursday, January 17, 2013, and was held until time certain, today, January 23, 2013. Mr. Limbaugh thanked the Committee for allowing the Industrial Commission the opportunity to discuss this Proposed Rule with concerned parties and return to the Committee today. He requested that the Committee approve the Rule, which will be adjusted with a new Temporary Rule before the July 1, 2013 effective date.

In response to questions, **Mr. Limbaugh** stated that the Senate Commerce and Human Resources Committee approved this Rule yesterday, January 22, 2013.

Pam Eaton, Idaho State Pharmacy Association, thanked the Industrial Commission and the Committee for allowing discussions to take place. She stated that an agreement has been reached and she supports the approval of the Docket.

MOTION: **Rep. Anderst** made a motion to approve **Docket No. 17-0209-1201**. **Motion carried by voice vote**. **Rep. Harris** requested to be recorded as voting **NAY**.

Don Drum, Public Employee Retirement System of Idaho (PERSI), gave an informational presentation to the Committee. He stated that the contribution rate system for PERSI is complicated. He provided the following history: In 1996, the fund was 85.5% funded. In 1997, the fund was 97.3% funded. In 2000, a temporary rate reduction was made permanent. In 2002, the fund was 116% funded, and a portion of the assets in the fund were allocated back, which brought the fund down closer to 100% funding. By 2003, the fund was down to 83.5% funded due to a drop in the market. In 2004, the Board proposed three 1% rate increases. The first of those increases went into effect in 2004. The increase was split between employers and employees. The next two rate increases were delayed and by 2007, 100% funding was again achieved. In June of 2008, the fund had dropped to 93.3% but there was not a need for rate increases. There was concern at that time about how the market was performing. In June of 2009, the fund had dropped to the point that State Law required action from the PERSI Board. The Board decided to adjust contribution rates. At that time, the market curve was going back up and the Board understood that rate increases might or might not actually have to go into effect. Three rate increases were passed: the first was a 1.5% increase, split equally between the employer and employee. The second was another 1.5% increase, also split equally, and the third was a 2.31% increase, also split equally. The rate increases were postponed when the market improved. In 2010, the Board received letters from both the Governor and the Senate Pro Tem requesting a delay. The fund was recovering and the increases would have been difficult for contributors during already difficult financial times. A decision was made to delay the increases and in 2011, a funded status of 90.2% was reached. At that level, the Board could have removed all three rate increases. They decided to leave them in place due to concerns about problems in Europe and China, as well as concern about the Fiscal Cliff. While the rate increases were not removed, they were also not implemented and were postponed until 2012. In June of 2012, funding status had dropped to 84.7%. A decision was made to postpone the rate increase from July 1, 2012, to July 1, 2013.

In response to questions, **Mr. Drum** stated that with a 1.5% rate increase, the employers' share would be a little over 24 million dollars. The State's portion would be a little over 11 million dollars. He estimates the employee portion at around 18 million dollars. The fund is not required to be 100% funded. The amortization period must be at or below 25 years. Since 1996, there have been four years when the fund was at or above 100% funded. Most public pension systems are not 100% funded. The idea is to take only what is needed. PERSI does not try to build a reserve. At 100% funding, the amortization period is zero. As the plan's sponsor, the Legislature sets the benefits of the plan. The Board cannot make changes to the benefit structure. They must allow the Legislature to vote and set guidelines and do what they are instructed to do by the Legislature and Governor, within Idaho Code. At this point in time, the State and all employers have unfunded liability. Upcoming changes in law will require unfunded liability to be reported on balance sheets. PERSI looks at historic returns and the worldwide economy when discussing expectations. Last summer, the Board took action to reduce the rate of return to a net rate of 7%. Inflation accounts for 3.5%, and the other 3.5% is real return. Seven percent per year is required to maintain the fund. The PERSI Board believes that 7% is an achievable number. Some reallocation was done in October of 2012. The Board can adjust rates and propose benefit changes. The Legislature would have to act on proposed benefit changes. Funding status is at 88.3% today. Gains and losses are impacted by inflation and assumptions of wage increases. There are individuals or groups who advocate using a lower rate of assumed return, which does increase unfunded liability. Historically, the PERSI fund has achieved in excess of an 8% rate of return.

Robert Schmidt, Milliman, appearing as an actuary for PERSI, responded to a question. He stated that corporate accounting standards are based on a market valuation of the company. This standard does not apply to a government entity or to public pension funds. If corporate accounting standards were applied, yes, liability could appear higher.

Mr. Drum responded to additional questions. He stated that almost all asset classes are part of the PERSI fund portfolio. They do stay in the main market. PERSI is the only public pension fund that Mr. Drum is aware of that receives a daily reconciled valuation. They do stay away from hedge funds and derivatives. The Cost of Living Adjustment (COLA) does impact funded status. A 1% COLA costs the fund an estimated 50 million dollars. If the Consumer Price Index - all Urban Consumers (CPI-U) is greater than 1%, the Board has the authority to recommend a COLA. They submit a letter with their recommendation to the Legislature, and the Legislature has 45 days to respond.

Mr. Drum stated that the fund's current asset value is approximately 12.8 billion dollars. This is an all-time high. Today the fund is 88.3% funded. PERSI is among the best funded pension systems nationwide. PERSI's Unfunded Actuarial Accrued Liability (UAAL) is among the lowest nationwide.

In response to questions, **Mr. Drum** stated that employers do understand that a rate increase is coming, and while they may not welcome it, they do understand it and want to protect the PERSI fund. Employers have indicated that this benefit is necessary for them to attract and maintain staff members. Rate increases can be adjusted. If 2008, a prediction was made that in five years, the PERSI fund would come back to 100% funded. It is now believed that 100% funding will be achieved again within two to three years.

ADJOURN: There being no further business to come before the committee, the meeting was adjourned at 3:15 p.m.

Representative Hartgen Chair	Mary Tipps Secretary