MINUTES

HOUSE COMMERCE & HUMAN RESOURCES COMMITTEE

DATE: Wednesday, February 05, 2014

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: Luci Willits, Department of Education

Chairman Hartgen called the meeting to order at 1:30 p.m.

MOTION: **Rep. Anderst** made a motion to approve the minutes of January 29, 2014. **Motion carried by voice vote**.

RS 22703: **Luci Willits**, Department of Education, presented **RS 22703**. She said there have been two instances of recruiting difficulty for the Department based on the current sick leave statute. Currently when a school district employee comes to work for the Department, (s)he can bring existing sick leave. If that same employee decides to go back to work for a school district, (s)he may or may not be able to take sick leave back to the school district, based on different interpretations of the law. **RS 22703** would provide consistency, guaranteeing that employees are able to transfer sick leave when they move from one position to another. Additionally, under current statute an employee in a district who comes to work for the Department is required to work for the state for five years in order to use sick leave for retirement. **RS 22703** would eliminate the five year requirement.

MOTION: **Rep. Woodings** made a motion to introduce **RS 22703**. **Motion carried by voice vote**.

Don Drum, Public Employee Retirement System of Idaho (PERSI), presented an annual update to the Committee. He introduced **Kelly Cross**, the new Public Information Officer for PERSI. Mr. Drum said that the current value of the Fund is $13,872,622,168. At the beginning of FY14, PERSI was funded at 85%. As of December 31, 2013, PERSI was funded at 90.7%. A fund that is over 80% funded is considered to be "solidly funded." In 2009, the Board proposed rate increases for employers and employees. The first rate increase was postponed and took place on July 1, 2013. Mr. Drum said at the beginning of the Great Recession, many funds were using a high rate of return assumption, which requires using high risk investments. Idaho uses a 7% rate of return assumption, which is low. Generally accepted accounting principles in the public sector allow amortization periods up to 30 years. PERSI is required to be at 25 years or fewer. PERSI has continued to see improvement in their funded ratio and amortization period since 2009. Since 2008, 48 states have pursued changes to DB (defined benefit) plans to make them more sustainable. They have generally found that substituting DB pensions with DC (defined contribution) accounts is inefficient. Closing DB pensions and switching to DC accounts does not address under funding and entails significant costs from unfunded liability growth. DB pensions persist among large private employers. Common changes being made in public pension systems include increases in employee contributions, higher age and service requirements for normal retirement, and reductions in post-retirement benefit increases.

Mr. Drum addressed cost of living increases (COLAs), saying since 2008, the Board has only allowed a 1% annual increase, leaving retirees behind inflation. This 1% COLA costs approximately $70 million. The primary funding source for PERSI is market revenue. The 47-year average return is 8.16%, making the 7% net return assumption reasonable. In FY13, PERSI paid out $619,485,729 in benefits. $592.5 million of those benefits went to retirees living here in Idaho, which helps support Idaho's economy.

Responding to a question about funding, **Mr. Drum** said actuaries project out the benefits the System would have to pay out for every participant to the end of their lives, as if they will all continue to be employed by the State of Idaho and will retire, and then will receive benefits for life. The projected benefit total is then compared to the current assets on hand. If a fund is 80% funded, it contains 80% of what would be required to pay all of the projected benefits.

In response to additional questions, **Mr. Drum** said Idaho Code spells out how contributions are divided between employers and employees, as well as vesting rules and COLAs. Any change could result in a legal challenge. In FY13, PERSI saw an approximate 9.1% increase in the fund. This represents investment gains and contributions brought in, minus benefits going out. Contributions are currently less than payouts. Benefits are determined based on a high 42 month average salary, plus months of service, with a multiplying factor that is then divided out. PERSI adjusts projections every four years as they consider changes in projected life spans. There is not a percent return specified in Code.

Mr. Drum responded to additional questions, saying cash balance funds allow employees to accrue funds that are given as lump sums at retirement, and can then be rolled into 401Ks. He said from his perspective, PERSI is working fine as it is. If there are concerns about cost or benefits, or if plan sponsors have other concerns, there could be value in examining changes to PERSI. He said, however, states that have made changes have done so in response to problems with their existing systems. If the balance of the PERSI fund continued to grow and exceeded payouts to 100% funding or higher, contribution rates for employees and employers could be reduced. Currently gain sharing would kick in if the fund was 113% to 114% funded. If PERSI switched to a cash balance approach, the State of Idaho would need to determine who would pay in, and how much.

In response to a question about making health care costs part of retirement benefits, **Mr. Drum** said no, PERSI has not been asked to fold a health care package into the current system. He said the fund would be much more difficult to sustain if health care was added in. PERSI is sustainable as it currently stands. He said the PERSI Choice Plan is a 401K plan that supplements employee pensions. There are additional supplemental plans offered as well. Approximately 17% of PERSI members currently participate in the Choice Plan, and the Board would like to see a higher rate of participation. He said Social Security and regular PERSI benefits will not sustain an employee's current standard of living during retirement; a supplemental plan is necessary.

ADJOURN: There being no further business to come before the committee, the meeting was adjourned at 2:30 p.m.

________________________	________________________
Representative Hartgen	Mary Tipps
Chair	Secretary