



**PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO**  
**WITHDRAWAL OF POLITICAL SUBDIVISIONS**

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*Attachment 1*

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*Mike Sampson*

# INTRODUCTION

I will be discussing the following topics:

- ✓ Complete withdrawal defined
- ✓ Partial withdrawal defined
- ✓ Withdrawal liability
- ✓ Collection of withdrawal liability
- ✓ Re-entry into system after withdrawal
- ✓ Looking forward



# IDAHO STATUTE 59-1326

**Title:** Procedure for complete or partial withdrawal of political subdivisions from the system — calculation of withdrawal liability — indemnification

Complete withdrawal requirements:

- Resolution by governing body, by two-thirds votes, declare intent to withdraw.
- Secret ballot vote by all active members to approve withdrawal with more than fifty percent approving withdrawal.
- Governing body of employer certifies to the Retirement Board the results of the voting by active members; OR
- Complete withdrawal occurs the first day of the month following the date the employer ceases to employ active members.

## IDAHO STATUTE 59-1326

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Partial withdrawal requirements:

- Employer's average membership declines from one fiscal year to the next by more than twenty-five members AND twenty-five percent.
- The withdrawal liability for a partial withdrawal is treated the same as if a complete withdrawal had occurred (Idaho Code 59-1326(8)), utilizing the ratio of average membership of current year compared to prior year.

# IDAHO STATUTE 59-1326

**Title:** Procedure for complete or partial withdrawal of political subdivisions from the system — calculation of withdrawal liability — indemnification

Withdrawal liability:

- The calculation of the withdrawal liability is set in Idaho Code 59-1326(7).
- Independent external actuaries currently determine the requirement for a withdrawal liability after the completion of the annual valuation.
- The withdrawing employer shall enter into a contract for payment of its withdrawal liability.
- Contract term and interest rate are set in Idaho Code 59-1326(9).

# PROPOSED IDAPA 59.01.01.549

## **Title:** Collections of a withdrawal liability from and employer

### Withdrawal liability:

- I.R.S. Revenue Procedure 2013-26 states an operational failure of a plan occurs when there is a failure to follow the terms of the plan document.
- Consequence of an operational failure is a technical disqualification of the plan because there is a statute violation.
- The plan can self-correct an operational failure when a disqualifying event is identified, i.e. a withdrawing employer fails to pay its unfunded liability.
- Proposed IDAPA 59.01.01.549 outlines the steps the plan will take to correct the non-payment of a withdrawal liability.
- Actuarially determined forfeiture of benefits is the last necessary step. This step protects the plan from operational failure and the other employers/members from uncompensated risk of funding a withdrawn employers liability.

# LOOKING FORWARD

## **Title:** Current Issue(s) and possible scenarios

### Withdrawal liability:

- Historically, the plan has not had an issue with collection of withdrawal liabilities.
- Chapter 9 – Municipal Bankruptcy. The purpose of Chapter 9 is to provide a financially-distressed municipality protection from its creditors while it develops and negotiates a plan for adjusting its debts.
- Associations are not considered a municipality and would not qualify for protection under Chapter 9. PERSI has recently been contacted by an association that will be dissolving within the next 30 days.
- Charter schools are mandated to be part of the plan. Charter school authorizing entities are specifically indemnified from liability for acts, omissions, debts or other obligations (Idaho Statute 33-5204). The assets of a charter school that closes shall be distributed first to satisfy outstanding payroll obligations for employees, including any tax, public employee retirement system and other employee benefit obligations (Idaho Statute 33-5212).
- Small employers who contract out eligible positions may inadvertently withdraw, as they may have no further active members.





## Questions & Answers

**THANK YOU FOR YOUR TIME  
AND THE OPPORTUNITY PRESENT!**