



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

2023 CEC PRESENTATION

January 18, 2023

WELCOME

I will be discussing the following topics:

- ✓ Fiscal year 2022 update
- ✓ Board decisions
- ✓ Return to work
- ✓ Future of the fund



FISCAL YEAR 2022 UPDATE

Fiscal year 2022 was very busy for PERSI. The system revised return-to-work, added a new employee class, made a fairness adjustment to contribution rates and proposed future contribution rate increases.

All year, volatility has been up and down. This has made many of us feel like the markets are on a roller coaster. The ups and downs are uncomfortable. However, how people react can often be more problematic. They see the ups and downs as a call for action. PERSI on the other hand has been here before. We know patience pays off and we are already beginning to see small improvements in the markets.

However, the fund ended fiscal year 2022 with an amortization period over twenty-five years and 82.6% funded. The Board proposed future contribution rate increases to reduce the amortization period to under twenty-five years. The increases will be phased in over a three-year period beginning FY2025 (July 1, 2024). The Board will review each year if the increases are still necessary.

As I have mentioned, in past years the fund has been able to bounce back. In some cases, proposed contribution rates have either been postponed and/or canceled. Due to current market conditions and global events, it is nearly impossible to predict or estimate what the funded status will look like a year from now.

FUNDED STATUS AS OF JULY 1, 2022

- Fund value: \$19,915,745,533
- Funded status: 82.6%
- Amortization period: Over 100 years

FY2022 MEMBERSHIP

- 74,409 active members
- 53,190 retirees
- 840 employers

BOARD DECISIONS – CONTRIBUTION RATES

CURRENT AND ADJUSTED FOR THE THREE CLASSES

	Current Contribution Rates	Safety	General	Teachers	Total
(a)	Employer Contribution Rate	12.28%	11.94%		11.99%
	Member Contribution Rate	9.13%	7.16%		7.47%
	Total Contribution Rate	21.41%	19.10%		19.46%
(b)	Normal Cost Rate	20.31%	15.11%	17.53%	16.68%
➔ (c)	Amount Available to Amortize UAAL [(a) - (b)]	1.10%	3.99%	1.57%	2.78%
	Adjusted Contribution Rates	Safety	General	Teachers	Total
(a)	Current Rates	21.41%	19.10%		19.46%
(b)	Change [(c) - (a)]	+1.68%	-1.21%	+1.21%	0.00%
(c)	New Rates [(d) + (e)]	23.09%	17.89%	20.31%	19.46%
(d)	Normal Cost Rate	20.31%	15.11%	17.53%	16.68%
➔ (e)	Contributions Available to Amortize UAAL	2.78%	2.78%	2.78%	2.78%

Assumes that employer contributions during RTW are eliminated with legislation that creates third class for teachers. Therefore, those contribution are excluded from analysis of current contribution rates as well as the alternative rates.



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NEW MEMBER CLASS – SCHOOL DISTRICT EMPLOYER & EMPLOYEE

During fiscal year 2022, a new class was added to the PERSI system – school district employer and employees (SDE). Who is considered a school district employee? Any employee of any school district or charter school employed as instructional staff, pupil service staff, professionally endorsed staff, staff holding a certificate as determined under I.C. 33-1201, school bus drivers, and school resource officers, subject to the provisions of I.C. 59-1302(14).

The Board is aware of the changes occurring with the fund due to benefit enhancements of school district and public safety employees hence the new class. They are not opposed to benefit enhancements but are opposed to other members subsidizing other members benefits. The Board also notices that there is similar drifting occurring within the public safety class. They are watching closely.

BOARD DECISIONS – CONTRIBUTION RATES

FY2022 CURRENT CONTRIBUTION RATES UNTIL JUNE 30, 2023

YEAR	PUBLIC SAFETY		GENERAL & SCHOOL DISTRICT EMPLOYEE	
	EMPLOYER	EMPLOYEE	EMPLOYER	EMPLOYEE
2019-present	12.28%	9.13%*	11.94%	7.16%

FAIRNESS ADJUSTMENT The Board chose to adjust contribution rates 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 and be considerate of budget cycles. *Effective July 1, 2023*

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

YEAR	PUBLIC SAFETY		GENERAL MEMBER		SCHOOL EMPLOYEE	
	EMPLOYER	EMPLOYEE	EMPLOYER	EMPLOYEE	EMPLOYER	EMPLOYEE
2023	13.26%	9.83%	11.18%	6.71%	12.69%	7.62%

*Idaho Statute 59-1322(5) requires increase. SOURCE: Milliman

IDAHO STATUTE 59-1322(5)

Per Idaho Statute 59-1322(5), if the fund's amortization period exceeds 25 years, the Retirement Board must propose a contribution rate increase. Contribution rate increases could influence the Idaho legislature's decision on proposed cost-of-living adjustments.

Employers have mentioned they are concerned about additional rate increases. Stable employer and member contribution rates are key to plan participation and sustainability.

CONTRIBUTION RATE OPTIONS

OPTIONS EVALUATED IN OCTOBER 2022

Options	Increase in Total Contribution Rates				7/1/2022 Amortization Period	Min FY23 return needed to stay within 25 years*
	7/1/2024	7/1/2025	7/1/2026	Total		
1 (min)	+0.63%	+1.27%	+1.90%	+3.80%	25.0 years	5.7%
2	+0.78%	+1.57%	+2.35%	+4.70%	21.5 years	3.0%
3	+0.88%	+1.77%	+2.65%	+5.30%	19.7 years	1.0%
4	+0.93%	+1.87%	+2.80%	+5.60%	18.9 years	0.0%
5	+1.08%	+2.17%	+3.25%	+6.50%	17.0 years	-3.0%
6	+1.25%	+2.50%	+3.75%	+7.50%	15.4 years	-6.0%
7	+1.40%	+2.80%	+4.20%	+8.40%	14.2 years	-9.0%

*The minimum return needed in FY2023 such that the 7/1/2023 amortization period will still be 25 years or less.

- Assuming no liability gains or losses or future discretionary COLAs
- The Board doesn't have to pick an option from this list
- Member and employer contribution rates by class shown in appendix

BOARD DECISIONS – PROPOSED PHASED IN CONTRIBUTION RATES

FUTURE CONTRIBUTION RATES* – Proposed future contribution rate increases to be phased in over a three (3) year period beginning FY2025 (July 1, 2024). The Board will review each year if the increases are still necessary.

PROPOSED FUTURE FY2025 CONTRIBUTION RATES BEGINNING JULY 1, 2024

	PUBLIC SAFETY		GENERAL MEMBER		SCHOOL EMPLOYEE	
YEAR	EMPLOYER	EMPLOYEE	EMPLOYER	EMPLOYEE	EMPLOYER	EMPLOYEE
FY2025	13.98%	10.36%	11.96%	7.18%	13.48%	8.08%



BOARD DECISIONS – PROPOSED PHASED IN CONTRIBUTION RATES

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%

REMINDER: Per Idaho Statute 59-1322(5)

- If a valuation shows an amortization above twenty-five (25) Years, the Board must propose a contribution rate increase for all classes to reduce the amortization period.
- Grace periods may delay the rate up to one (1) year.
- No more that two (2) grace periods may be used in any four (4)-year period.



BOARD DECISIONS – FUNDING GUIDELINES

The PERSI Retirement Board has completed a comprehensive outline concerning funding guidelines for the PERSI Plan.

The Board's primary priority is to protect the fund, maintain long-term sustainability, and adhere to Idaho Statute.

While the fund remains sustainable, the Board must consistently take steps to maintain long-term sustainability.

BOARD DECISIONS – COST-OF-LIVING ADJUSTMENTS

IDAHO STATUE 59-1355 Cost-of-living adjustments are tied to the Consumer Price Index (CPI-U) for 12 months ending in August of a current year. By being tied to the CPI-U, COLA *attempts* to keep retirement payments equal with inflation and PERSI retirees purchasing power. Idaho Statute 59-1355 provides a mandatory COLA ranging from -6% to 1% depending on the change in the CPI-U over the calculation period. This amount is not subject to legislative review.

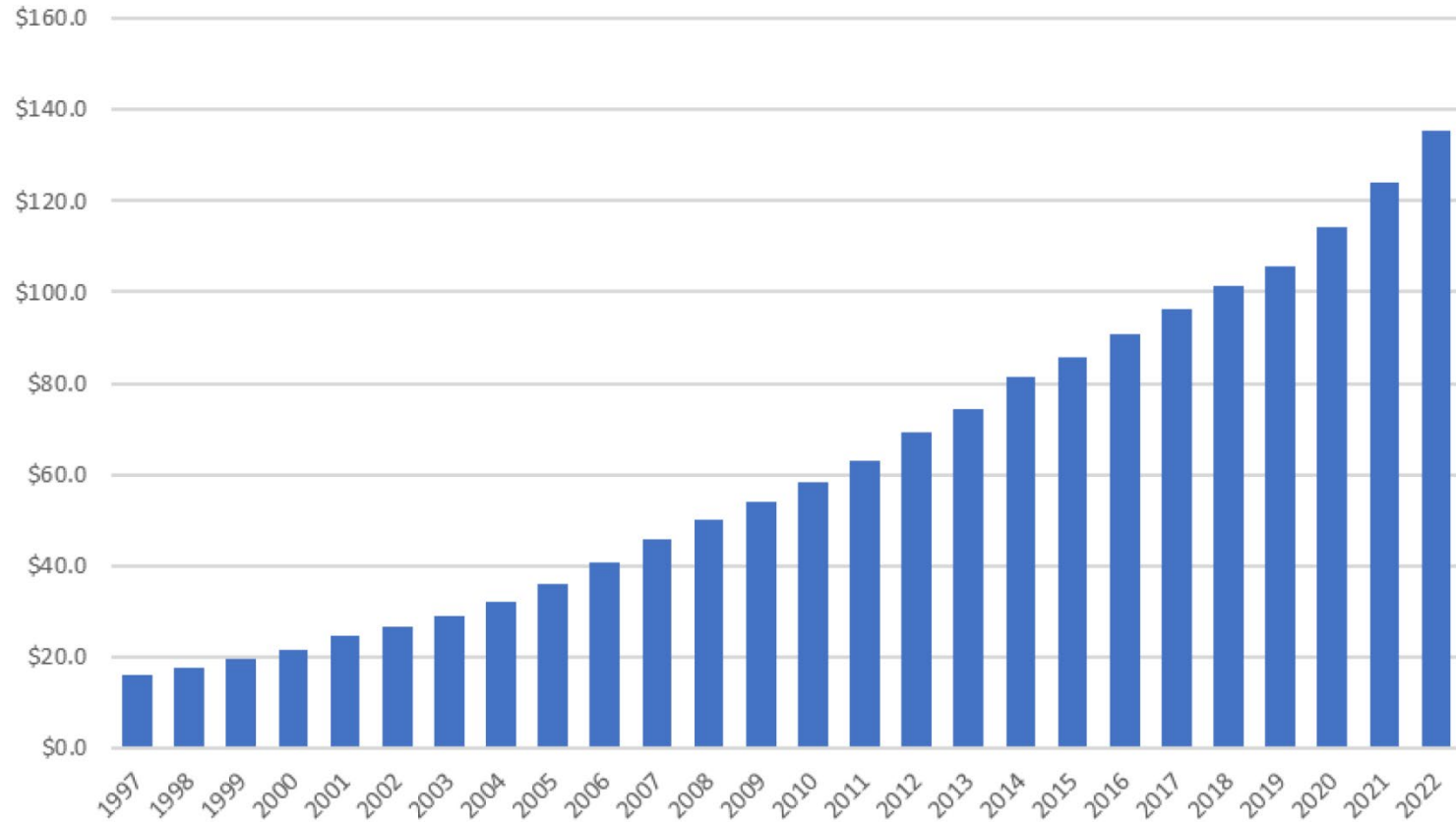
If the CPI-U is greater than 1% and the PERSI Board finds that the fund's actuarial assets equal or exceed the actuarial liabilities, including the cost of any adjustment, the Board *may* recommend a discretionary COLA to bring the total COLA up to the CPI-U amount or to a **maximum** of 6% (mandatory 1% included in calculation).

BOARD'S APPROACH GOING FORWARD In December 2019, Chairman Cilek stated that “How the COLA is handled moving forward is a challenge and the Board struggled with this decision for the past year. The Board will review the current funding policy as granting COLA in the future will only get harder and not easier.” Trustee Fisher stated that “This decision has been a long time coming and is a historical moment for PERSI.”

FY2023 COST-OF-LIVING ADJUSTMENT The legislatively mandated one percent (1%) cost-of-living adjustment (COLA) will go into effect on March 1, 2023. PERSI has received questions regarding the one percent (1%) COLA, whereas Social Security is giving an 8.7% COLA . Director Drum has been working with PERSI's actuaries and will present their findings concerning the 1% COLA in a webinar. He will also address the questions and concerns PERSI has received.

HISTORICAL OVERVIEW OF COLA

ESTIMATED COST PER 1.0% OF DISCRETIONARY COLA / \$ IN MILLIONS

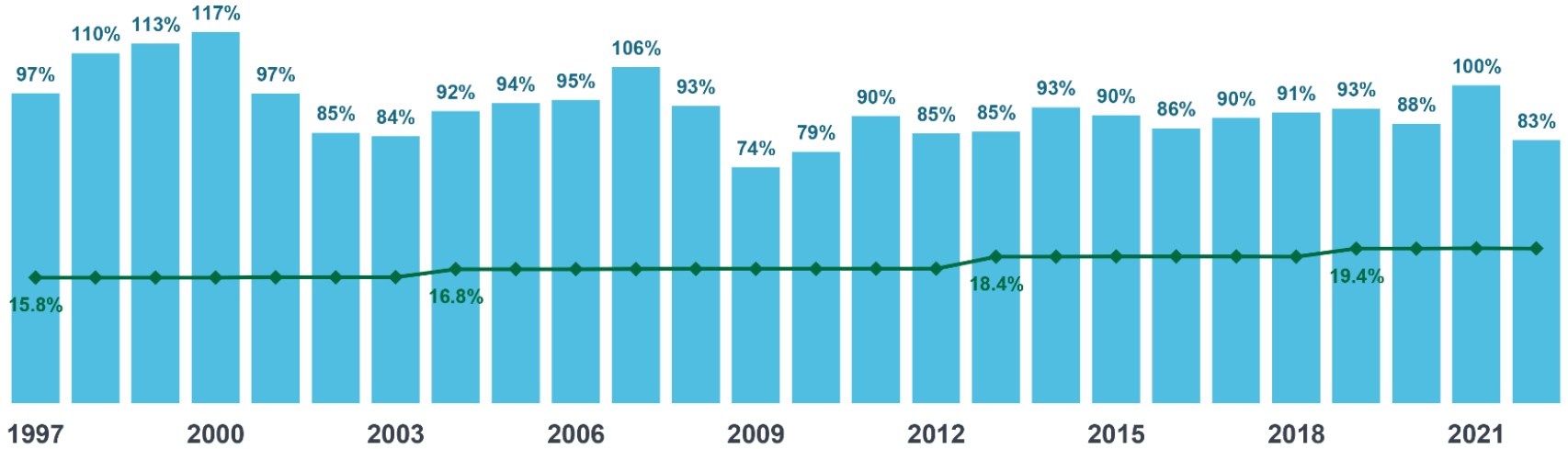


■ The cost of granting a discretionary COLA has increased significantly over the past 25 years.

■ The amounts shown in this graph represent the approximate increase in the System's liabilities for granting a 1.0% discretionary COLA. If the System were to grant the maximum discretionary COLA of 5%, the liability increase for 2022 would be around \$650-\$675 million.

BOARD'S HISTORICAL APPROACH TOWARDS COLA

■ Funded Ratio ◆ Contribution Rate*



	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.

RETURN TO WORK

RETURN TO WORK FOR ALL RETIREES PERSI members who retired prior to January 1, 2022, may return to work full time with a PERSI employer without impacting their benefit. A retiree returning to work will not accrue additional retirement benefits.

Please be aware that there is a sunset provision concerning a retired member as defined in I.C. 59-1302(27), including the subsection that shall no longer be effective after June 30, 2026. However, other provisions of this section shall remain effective and applicable to all employment.

FUTURE OF THE FUND

The overall risk, cost, and growth of the PERSI fund is increasing. In order to sustain the fund for future generations of public workers – modest changes and adjustments may need to be implemented. PERSI’s Board, actuaries, and staff are actively analyzing all options concerning the factors mentioned. PERSI’s Board, actuaries, and staff understand their priority is protecting the fund.

PERSI is one of many state pension systems making modifications to protect members' benefits. Many public pension plans have lowered their assumed rate of return. States like Maine, Mississippi and Arkansas also lowered their assumed rates of return.

While experts say the US economy is strong, they also believe a US recession is the “most likely outcome” says former Federal Reserve Chairman, Alan Greenspan.*

PERSI closely watches the markets, economic trends and speaks with our investment managers, frequently. Our Board is very involved and understands their role and primary concern – protect the fund and the benefit of members.



Questions & Answers

THANK YOU FOR YOUR TIME!