

**MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON GOVERNMENT AFFAIRS**

**Seventy-Fourth Session
February 14, 2007**

The Committee on Government Affairs was called to order by Chair Marilyn K. Kirkpatrick at 8:00 a.m., on Wednesday, February 14, 2007, in Room 3143 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. Copies of the minutes, including the Agenda ([Exhibit A](#)), the Attendance Roster ([Exhibit B](#)), and other substantive exhibits are available and on file in the Research Library of the Legislative Counsel Bureau and on the Nevada Legislature's website at www.leg.state.nv.us/74th/committees/. In addition, copies of the audio record may be purchased through the Legislative Counsel Bureau's Publications Office (email: publications@lcb.state.nv.us; telephone: 775-684-6835).

COMMITTEE MEMBERS PRESENT:

Assemblywoman Marilyn Kirkpatrick, Chair
Assemblywoman Peggy Pierce, Vice Chair
Assemblyman Kelvin Atkinson
Assemblyman Bob Beers
Assemblyman David Bobzien
Assemblyman Chad Christensen
Assemblyman Jerry D. Claborn
Assemblyman Pete Goicoechea
Assemblyman Ruben Kihuen
Assemblyman Harvey J. Munford
Assemblywoman Bonnie Parnell
Assemblyman James Settlemeyer
Assemblyman Lynn D. Stewart
Assemblywoman RoseMary Womack



STAFF MEMBERS PRESENT:

Amber Joiner, Committee Policy Analyst
Scott McKenna, Committee Counsel
Mary Kay Doherty, Committee Secretary

OTHERS PRESENT:

Dana K. Bilyeu, Executive Officer, Public Employees' Retirement System
of Nevada
Tina M. Leiss, Operations Officer, Public Employees' Retirement System
of Nevada
Ken Lambert, Investment Officer, Public Employees' Retirement System
of Nevada

Chair Kirkpatrick:

The Assembly Committee on Government Affairs is called to order.

[The Roll was called.]

I would like to invite Ms. Dana Bilyeu up to the table.

Ms. Bilyeu, for the Committee's benefit and for efficiency we will hear your presentation, but will stop and ask questions.

Dana K. Bilyeu, Executive Officer, Public Employees' Retirement System of Nevada (PERS):

Thank you, Madam Chair. With me today, at the table, are Tina Leiss, my Operations Officer and Ken Lambert, our Investment Officer. We are going to divide the presentation between the three of us. I want to take a moment to recognize our Board Chairman who is in the audience, Charlie Silvestri.

In your packet ([Exhibit C](#)), we started with the history of the retirement system because, obviously, this is a very long-running program. We are in our sixtieth year.

In 1947, the Legislature created the Public Employees' Retirement System (PERS) to fill a void for the public sector employees. By federal law they were prohibited from participating in the Social Security system. It was thought, at that time, the Federal Government could not mandate payment from the public treasuries of the states. When they created the Social Security program all public sector workers were excluded from participating. Of course, over time,

as you are aware, that has changed. Still, a number of states do not participate in Social Security.

In 1947 the State of Nevada had three or four smaller retirement systems for various public employers; a couple of the school districts, a couple of the cities had retirement systems. Being very, very small, it was difficult for them to consolidate for investment purposes and things like that. The Legislature gave the State a couple of years to consolidate all of the public employers into one. We [PERS] began paying benefits in 1948. We had 3,000 active members and about 90 retirees at that time. The system has grown, obviously, and we will talk about those statistics a little bit later in the presentation.

When we were created, there was a very minimal type of benefit; a minimal contribution was paid by both the employer and the employee, about 5 percent of pay. It was really designed to match the Social Security contributions. There was no true investment pool. The investment program was actually invested in a lot of municipal bonds and school district bonds and those sorts of things. We did not have the same kind of program that Ken [Lambert] will speak of today. From 1947 through the 1960s the benefits were enhanced, but the Legislature did not change the contribution rate structure during that time.

In the early 1970s, as a result of an audit, the Legislature determined it was appropriate to look at the retirement system. There was a study commissioned in 1971, called The Harris, Kerr, Forster Study. This outside consulting agency studied the structure of the system and what was occurring with system management, and made several recommendations to the Legislature. As a result, and over the course of about nine years, three or four sessions, the Legislature made a lot of the recommended modifications to the retirement system.

The Legislature made the system an independent agency that sits outside of State government and all the other governments that participate. We are like a special improvement district, if you will. We have a duty of loyalty to all 163 employers in the system and no one individual employer can dominate the system.

At this point our largest employer is the Clark County School District. It has 8,000 more employees than any other State agency. Technically most of our employees are school district employees. They are the majority of public workers in the program.

In 1977 PERS was made independent, the actuarial valuation approach was taken, and we began valuing the liabilities of the system of that time. Prior to

then the State was not looking at what the actual costs of the system were, valuing it, or trying to match the contribution rates to what those liabilities were.

The *Nevada Constitution* was amended to create the trust fund in the 1970s. The Interim Retirement and Benefits Committee of the Legislature was created, and there was interim oversight for the retirement system. We still meet with that Committee in the interims and talk about how the retirement system is doing and how we manage the assets and the liabilities of the fund.

In 1967 a Legislative Retirement System was created. It remains the same benefit structure today that was first created, which is \$25 per month, per year of service. Behind the appendix tab at the back of the presentation, ([Exhibit C](#)) is a very brief overview of the benefits provided by the Legislative Retirement System.

In 2001 the Judicial Retirement System was created. Prior to that time the judge's retirement system was what we call, "a pay as you go" system. Every session the Administrative Office of the Courts would come to the Legislature, and ask for an appropriation to simply pay those retirement benefits.

Prior to 2001, a study was completed to determine how to convert that [pay as you go] system to a full actuarial, accrual basis, which measures the liabilities, and assesses the contribution rate to help fund it over a period of time. In 2001 the Legislature enacted it and we have been managing the money for that program since July of that year. This was brought in a little bit later than the other two funds. We will talk a little about that in just a few minutes.

Page 4 describes the structure of the Public Employees' Retirement System. We are corporate in nature, governed by a retirement board of seven members. Three members represent employees, three represent employers, and one represents the retirees.

We have members from the school districts, police departments, the City of Las Vegas, Clark County, all represented on the board. It is a fiduciary board: Once the members take on their role as board members, they are fiduciaries to all 88,000 active members and 33,000 retirees equally. They do not represent the individual employers or employee associations when they come to the retirement board. They are nominated and appointed out of particular statutory groups. Once they assume the mantle of a board member they must be fiduciaries to all.

The daily operations of the retirement system are managed by the executive staff; the three of us you see here, we are split by duties. As the Executive Officer, I manage the actuarial relationships and the overall management of the system. Tina [Leiss], our Operations Officer, manages all the operational divisions, taking in all reporting from our employers and making payments to 33,000 retirees. Ken Lambert manages the investment staff and our independent investment managers and he will talk a little bit more about that when we get there.

There are four divisions below us: Employer and Production Services does the lion's share of all calculations, and, of course, all the balancing of the payroll reports when they come into the retirement system; Member and Retiree Services counsels and performs all interface with the membership and the retiree groups; Accounting, obviously, prepares our financial statements and manages the movement of money in and out of the system; and since 1981, Information Technology is handled in-house at the retirement system. The reason the system is responsible for its own information technology is, as fiduciaries, we are required to make payments on time and take reports in on time.

The Harris, Kerr, Forster Study recommended that anything requiring a fiduciary transaction must be handled or managed by the retirement system to support its fiduciary role. We could not delegate that duty to another agency unless it could guarantee us first priority for all retirement checks and payroll reporting. In 1981 the System moved to its own information technology department and manages those responsibilities.

On page five in your book, there are some legal considerations I want to speak to briefly with the Committee. First, we are a constitutionally created trust fund. It is one of the recommendations from the Harris, Kerr, Forster Study, and it means that while the monies in the retirement system are in the public treasury, those monies can be used for no purpose except to pay the benefits and the expenses of the retirement fund. It is a "dedicated trust fund," as required by federal tax law.

Question 1—1996, many of you might remember, was a question which added some constitutional provisions to our particular section of the [Nevada] Constitution: assuring independence of the retirement system; requiring the retirement board be the hiring force for the actuarial valuation; and assuring there is an independent actuary to value the system. The retirement board is also required to hire the executive officer. We are prohibited from loaning money to the State or investing in obligations of the State. Public municipal bonds, state bonds, those sorts of things, are tax-exempt typically. Because we

are already a tax-exempt organization, such an investment does not actually help the investment pool because we are already on a tax-deferred basis.

The Constitution also requires that benefits for our members are vested. There is a case called *PERS v. Washoe County* which determined that, I believe in 1989, the very first day that a member comes into the public sector he/she is guaranteed that benefit structure. There can be no diminution of that benefit structure unless there is a commensurate benefit given back to the member at that time. The benefits can be changed, but they must be equal in nature to what the individual came in under. It has been challenged a number of times and through a number of cases and that is still the law today.

The Internal Revenue Code has particular provisions for "qualified defined benefit retirement programs." PERS qualifies under that Internal Revenue code. In fact we went through the process with them, several years ago, to get a qualification letter from the Internal Revenue Service. This acknowledges that all of the benefits structures and the requirements, in both our Charter and our adopted official policies of the retirement system, comply. This is a very important thing for our members and beneficiaries because if the system, for some reason, was to become a non-qualified plan, the yearly accrual of the benefit would be taxable to the individual upon accrual, not upon payment. They would be paying a tax prior to receiving any benefit for it. It is very important for us to maintain that "tax qualified status" for the members and the beneficiaries of the system.

This is just one page because I know there has been a lot of confusion in many of the press accounts concerning the Governmental Accounting Standard Board's (GASB) requirements for the OPEB (Other Post Employment Benefits) liabilities. The Public Employees' Retirement System is the main retirement benefit, and we are governed by different GASB Compliance rules. In 1997 and 1998 GASB 25 and GASB 27 were adopted. These govern how we report our financial statements. We are in compliance with both of those requirements, and have been since their adoption. There is no new reporting coming out of GASB 43 and GASB 45 to the retirement system. These do not apply to retirement benefits. They apply to "other post employment benefits," such as health care. We want to make this very clear. I know it has been confusing to us when reading the press accounts concerning those issues.

In fact our GASB financing program has been part of the process for the State of Nevada. The State, over the last few years, sought bond rating upgrades for those bonds issued by the State, and we were participants in those meetings with Standard & Poor's, Moody's, and Fitch. The State did receive those bond upgrades, partially because of the way the retirement system is financed, and,

quite frankly, the way the Legislature has been dedicated to the financing of the system over time.

Chair Kirkpatrick:

Thank you, Ms. Bilyeu. At this time I would pause and see if anybody has any questions. That way if we can stop periodically we will not get too far ahead of ourselves.

Assemblyman Christensen:

I have two questions. First, it looks like there is a worker to retiree ratio; it is three to one. There are 33,000 currently retired and 98,000 in the work force. Will you be going through that or can we get just the x/y axis for the next 20 years with the baby boomer effect and other issues? In ten years, what would that ratio be?

Dana Bilyeu:

The Retirement System is different from the Social Security system. That x/y ratio is a very important part of the financing of Social Security. As you have fewer workers to retirees, the ratio is going to end up somewhere about 2 to 1 in approximately 15 to 20 years. This is a huge deal when it comes to Social Security since Social Security is an inter-generational transfer tax. Active workers' monies go into the United States Treasury and immediately go out to pay current benefits to retirees.

The Retirement System is not funded in the same fashion. We are very concerned about the ratio, but when an individual comes into the public sector, that individual starts accruing benefits and paying for the benefit immediately. It is set aside and invested into the markets.

Our contribution rate, which I am going to talk about in a few minutes, has three components. The normal cost component funds the yearly accrual of our benefits. In essence, we set aside today's monies to fund benefits into the future. Each of us is being paid for as we accumulate. Rather than being concerned about current "actives" paying current "retirees," as with Social Security, we actually take the monies that come in through contributions and fund overtime. Fully 86 percent of our benefit is funded through the investment pool, not from the contributions themselves.

We can try to get a projection of what we think the active member and retirement population will be.

Assemblyman Christensen:

That would be good. You mentioned contribution and benefits so I imagine you are going to address the defined contribution and defined benefits.

Dana Bilyeu:

It was not part of the presentation, but I am happy to walk through the difference between those two types of programs, if you would like me to.

Assemblyman Christensen:

That is probably something that I would be interested in doing after the meeting; specifically, how this program has been put together as a defined benefit. There has been a lot of talk about possibly changing it to a defined contribution. If we could go through that it would be great.

You mentioned that if the plan changes for any reason, midstream, a member can challenge that and the decision always has to be equal benefit to the member. Who decides that? Is it the Board?

Dana Bilyeu:

No, that would be the courts. There was a Supreme Court case that came down saying that vested benefits cannot be changed without an equal benefit given back to the individual member. Actually, this is a wonderful transition to page 7, which is Plan Design.

The system's plan design that Assemblyman Christensen referred to is a defined benefit plan. The Legislature set up PERS to be a cost sharing, multiple employer trust. What that basically means is that we currently pool all employees in that trust, and we value the benefits based on what the demographics of the entire population is. We do not value individual employers. The State, the Clark County School District, Douglas County, they are all pooled into one group, all 98,000 active members of the program at one time. We also pool the risk. When you pull your demographics, it is called The Insurance Principle, because the bigger your demographic pool, the more likely the possibility is to smooth whatever spikes you will have in demographic experience.

The 33,000 retirees were part of that pool. As employees move their way through the active part of their career and then move into the retirement portion, they are still part of the demographics of the system we look at year to year.

It is very important to look at the assumptions with which this program is managed. We "value" the system every year, and every three to five years we

conduct an experience study of the program because the Retirement Board adopts the assumptions. We want to assure that the assumptions track very closely the actual experience of the plan. By doing that, we are not funding on a loss basis. We recognize the actual cost of the program annually and are funding accordingly.

We measure every year the actual experience of the program against the assumptions of the program, and we arrive at a contribution rate. Contribution rates change only every other year, but we still look at it every year, checking any emerging trends that might need attention. Most Defined Benefit Public Pension plans across the country do not require public employees to share equally in the cost of the contribution rate.

In Nevada, since the 1970s, that has been one of the hallmarks of this plan. Regardless of the plan, and we are going to talk about the contribution rate plans in a few minutes, we take the rate and split it exactly in half: half is paid by the member; half is paid by the employer. Most states do not do that. They set the employee contribution rate in statute and it remains the same, no matter the experience of the program. It becomes the employers' burden to fund those many unfunded, accrued liabilities.

In Nevada, since the 1970s, and this is part of the strength of the program, employees share equally in the cost of paying the unfunded accrued liability. There are maybe one or two other state systems that do that. I think this is rather innovative.

We look at the plan on a yearly basis, but what we are really looking at is cost stabilization over the long term. The financing horizon for the Public Employees' Retirement System is different from the period in which we pay the unfunded accrued liability in the program. The financing period can be anywhere between 40 and 60 years for an individual member. There is the active period, typically 25 years as an active member, and then there is the period of retirement. It can be anywhere from 20, 40 to 60 years, if you have a 30-year retiree who is in retirement for 30 years. We have taken the money that has come in during their active membership and have invested it. That money stays out in the markets over that entire period of time, even into retirement. They are drawing down only at the beginning. We have a very long period of time during which we invest the assets of the program to pay for the benefits. Because of that we look at cost stabilization from a very long-term perspective.

Ken will talk a little bit about the volatility of the markets in a few minutes. We try to focus past that in managing the system long-term for the benefit of the members and the beneficiaries. Because the State has to do a biennial budget,

our cities and counties do annual budgets, and biennial projections. We try to make sure there are predictable costs associated with this program, not unpredictable based upon what the markets are doing. We spend a lot of time trying to stabilize the contribution rates going out and still recognizing the cost of the plan in a fiscally responsible way.

Assemblyman Goicoechea:

Is there still the availability, since 1986 or 1987 for an employee to request a benefit and then withdraw the benefit contribution?

Dana Bilyeu:

There are two contribution programs in the system. One is called The Employee/Employer after Tax Contribution Program. The State is the largest employer still using it. Employees have the opportunity, if they leave the public sector, to withdraw their employee contributions.

Assemblyman Goicoechea:

Again, when you are hired you have to enter into that program. Is not that correct?

Dana Bilyeu:

You have to choose it. That is correct. With that I am going to turn it over to Tina who will walk through the Mission of the system.

Tina Leiss, Operations Officer, Public Employees' Retirement System of Nevada:

We will start with the Mission of the system. The Mission was set forth by the Legislature in 1947, when it created the system. And, that Mission has remained unchanged.

The first part of the Mission is to attract and retain outstanding public employees. That is really to give the benefit of the employees' training and experience to all members and all citizens of the State of Nevada. Retraining employees can be a very expensive proposition when you lose the institutional knowledge and experience of public employees, particularly given the types of public employees that we have, such as teachers, policemen, and firemen. So, retaining good quality employees is a vital mission of the system.

To attract and retain those members, we need to provide, and I am jumping ahead to the third portion, that reasonable base income that we seek. It is the cornerstone of how we accomplish our Mission. Providing a reasonable base income in retirement gives public employees the security of knowing they will be able to retire at the end of their careers. Otherwise, as in 1947, with no Social Security and no retirement program, you would see a situation called

"hidden pensioners," that is, people who, because they had no retirement system, were unable to retire. They retired at their desk. That prevented the employer and the employee from planning for retirement. It prevented the employer with work force issues from being able to plan for those issues. It also prevented the employee from planning for retirement because there was no mechanism to fund their own retirement system, particularly without that base benefit of Social Security in this State.

This leads me to the second portion of the Mission, to promote the orderly transition into retirement. This is a very important mission for both employers and employees. The way that our system is currently designed, an employee, at the beginning of his career, knows exactly what benefit he will have if he stays with public employment. It is also very important to entice these people to stay with public employment, and it is also important to the employer to know how long he will have the services of each public employee, to be able to plan for the work force, to plan for the retirement, to make it predictable. People will be retiring at certain stages in their career. It also allows for the orderly promotion of younger employees up through the ranks of the system. It prevents the unfortunate situation of people being unable to retire when they reach retirement age. In 2000 and 2001, when the investment markets were down, this predictability, this reasonable base income allowed all public employers and employees to plan for retirement.

That brings me back to the third portion of the Mission, and that is the reasonable base income. The goal of the system is to provide the reasonable base income, allowing public employees to maintain their standard of living through retirement. We use what is called, the "income replacement ratio" that is needed to maintain that standard. It is not a tool of wealth building. This is a tool to allow people to live in the manner to which they have become accustomed without becoming impoverished.

Our goal is to fulfill this Mission at a reasonable cost. As Dana mentioned, fully 86 percent of the benefits of the average member is funded through investment returns. And, of course, we must send those contributions out into the markets. It is the goal of our agency to administer this system in a cost-effective manner so that every dollar that we send into the markets goes there, to fund the benefits of the members and of the system.

On page 9 there is a graph that speaks to the retention of this system and how we are doing in retaining public employees in this State. This shows annual turnover rates for public employees. There are three bars in this chart. The top bar refers to PERS, and that is all public employees who participate in the system and all 163 employers participating in the system. The second bar is

state and local government throughout the country. Nevada PERS is also included in the second bar. The third bar is the total U.S. private sector work force. You will see on the top bar that PERS employees' annual turnover rate is very, very low compared with state and local government and the total U.S. This is extremely important because it takes anywhere from one to two year's salary to retrain an employee when there is turnover. So, this annual turnover rate shows that we are fulfilling the Mission of keeping public employees in the work force, allowing us to take advantage of their training and experience throughout their careers.

On page 10 we have a few statistics for you regarding the average active member and benefit recipients. There are two funds, the Regular Fund, in which the lion's share of the employees participate, and, the Police/Fire Fund, the fund for our police officers and firefighters.

The primary difference between the two funds is that there is an early retirement provision in the Police/Fire Fund because the mission of that system is to promote a youthful and vigorous work force for the frontline protection of the public.

In the Regular Fund, we have approximately 87,000 active members. The entry age into that fund is 36.6 years. That is the age when the average public employee is first starting public employment. You can see we are attracting folks into the public system that have some experience behind them. They have been out in the work force before coming to public employment. The average recorded system in the Regular Fund for average members is \$41,929 dollars, per year. That is reported income. The average years of service for members in the Regular Fund are 8.5 years. That indicates we are retaining these members.

Police/Fire Fund demographics are a little different. It is a much smaller fund with approximately 11,000 members and their average entry age is 29.6. That supports the purpose behind this fund, promoting a youthful and vigorous frontline safety force, capable of protecting the public from physical harm. The average reported income in this fund is just over \$64,000 a year. That salary reflects the hazardous duty of those particular positions. The average years of service in that fund is 9.9 years, which also supports the goal of retaining public employees, and, particularly, the trained police and firefighters.

On the retiree side of the Regular Fund, we have approximately 25,000 beneficiaries receiving an average annual benefit of \$25,000 per year. As you can see this provides a reasonable base income, but it is not, as I said, a wealth-building tool. It is just the reasonable base income to allow public

employees to move into retirement. The average age at retirement for the Regular Fund is 60 with approximately 18.5 years of service, indicating that we are retaining those public employees. The retirees in the Police/Fire Fund are a little bit different again. There are about 3,700 beneficiaries in that fund. The average benefit is approximately \$3,387 per month, or about \$40,000 a year. The average age of retirement is 55. You can see the lower age of retirement reflected in the different purpose of that system. The average is about 22 years of service and that really shows two reasons why their average benefit is slightly higher. They have a slightly higher average compensation and they are staying in the system a little bit longer. Retirement averages about four more years of service than the regular members.

Assemblyman Goicoechea:

Since we have the two funds, can you, for instance, have 10 years in the Police/Fire Fund and then do another 15 years in regular service and qualify for early retirement?

Tina Leiss:

The early retirement is based on the number of years actually served in the Police/Fire Fund, and ten years of Police/Fire service is the minimum for an early retirement at a certain age.

Assemblyman Goicoechea:

So, if you had 10 years in the Police/Fire Fund you could then do 15 years, for example, for a local county road department, and end up with a 25-year retirement?

Tina Leiss:

That is correct.

Assemblyman Goicoechea:

I have another issue for clarification. A number of volunteer fire departments are, in fact, paying an assumed wage and, I realize it is minimal, but would it be possible then to reach that 10-year threshold as a volunteer fireman at that assumed wage?

Tina Leiss:

Yes. The volunteer firefighters do not participate in the Police/Fire Fund. They do not have the early retirement provisions.

Assemblyman Goicoechea:

So, the volunteer under the assumed wage would end up in the Regular Fund?

Tina Leiss:

That is correct.

Assemblyman Stewart:

I was amazed on the retirement. They retire at 60 and the average service is 18 years. That means they begin at age 42? That seems incredible.

Tina Leis:

The average member starts around the age of 36. We do have some turning, for lack of a better word, of members. So those who are staying for the 18.5 years may be those who start at a little bit older age. Those are demographics; that is just how it works. Many times, what you see is that our average member is not necessarily staying through their entire career, although that is our goal. With the average years of service at 18.5 and the average age of retirement at 60, the figures do not necessarily correlate to show the average entry age is at age 42.

Assemblyman Stewart:

Page 7 says 33,000 retirees, and, if I add this right, we have 25,000 in the Regular Fund and about 4,000 in the Police/Fire Fund. That would be about 29,000 retirees?

Tina Leiss:

Assemblyman Stewart, those are survivor beneficiaries, they are not retirees of the system. They are under a different program. It is the combined total of benefit payments versus retirement. We are looking at two different groups. There is another subset of individuals that are children and beneficiaries receiving benefits from us.

Chair Kirkpatrick:

I have a question. What is our reasoning or how are we trying to bring the younger generation into the public employee system? Thirty-six seems to be the middle of life. How do we get the younger generation involved? What is the key factor for someone waiting until they are 35 to join it [public employment]?

Tina Leiss:

That is a very good question, Madam Chair. I think it depends on the individual employer's requirements for employment. For instance, many police forces require that you be at least 21 when you start. I am not sure we can answer how the design for recruitment is going on. Our mission, at the retirement system, is to ensure that once they get there, that we keep them as long as possible. I think it is individual to each of the separate employers participating in the system.

Assemblyman Goicoechea:

I believe you can retire at any age with 30 years of service, unless you are in law enforcement or fire. As an overview, I believe the reason the average age is 36, and 29 at entry level, is probably because of the pay scale. We can work for Danny Thompson and the construction industry when we are younger and make a lot more money. Ultimately, when you are about 40 years old, you end up looking for a little softer job, and you go to work for the county.

Tina Leiss:

On page 11, we re-emphasize that there is no Social Security for public employees in this State. There are approximately seven states and a number of teacher and public safety plans that do not participate in Social Security at this time. It is so very important that this benefit [PERS] be there for our public employees. It is likely the only source of retirement income that career employees will have in the State of Nevada.

Assemblywoman Parnell:

I am just curious what the status of that is now. I have heard rumblings that this might be changed, that Congress is looking at this again. Could you give us an update about not getting your Social Security if you are in PERS?

Dana Bilyeu:

What Assemblywoman Parnell refers to are the amendments made in 1983 to the Social Security Act. Also, there were two offsets for other public retirement benefits placed into the Social Security Act. They are called the Windfall Elimination Provision or WEP, and the GPO, the Governmental Pension Offset. These provisions are applied in two different ways. The WEP is called the windfall elimination and applies to an individual who is working in the public sector. The GPO applies to the beneficiary of a Social Security recipient. The WEP says the longer a career in a non-Social Security covered position, the higher the offset. If your entire career is in the State of Nevada public sector, your Social Security benefit is going to be significantly reduced. If the lion's share of your career is in Social Security covered positions, and you have only a five or six-year benefit out of PERS, that offset is less. You remain at a higher level at Social Security.

The GPO applies to any individual who is a beneficiary of a Social Security recipient, but had a working career in a public sector position. When one individual participates in Social Security, and the other participates in Nevada PERS, and if the individual on Social Security dies, the beneficiary participating in the PERS system goes to Social Security to get that benefit. They [Social Security] take the entire PERS benefit and overlay it on the Social Security

benefit. If the PERS benefit is more than the widow's benefit from Social Security, the Social Security benefit will be wiped out. Repealing those two provisions carries a very high price tag for Congress. Last time I checked it was a little bit over \$4 billion for each, or an \$8 billion price tag to Social Security. In this era of reform, they are actually looking for added revenue for the Social Security System rather than reduction in revenue. I am not anticipating movement on Capitol Hill at this time concerning either one of those benefits.

Assemblywoman Parnell:

I have a quick explanation for people who may not understand what many people find themselves doing. Teachers may have worked before they ever went into that field. They did summer jobs. All of us who worked as teenagers actually got those 40 Social Security credits and in most cases, will not see anything back from those work quarters. Many people do not understand it. They get ready to retire, they think they are going to have their PERS and they are ready to go into the Social Security office to plan on that benefit too, and then find out about this [overlay]. It is something that a lot of us hear about when dealing with public employees.

Assemblyman Claborn:

I think Assemblywoman Parnell answered my question. You must have 40 credits, is that correct?

Dana Bilyeu:

Yes.

Assemblyman Goicoechea:

Again, the 40 quarters will qualify you for Medicare?

Dana Bilyeu:

That is correct. After 1986 all public employers were required to participate in Medicare. If you are a retiree who had a day of service prior to 1986, you did not participate or pay the taxes into Medicare and you are ineligible. New hires, after 1986 are.

Assemblyman Goicoechea:

If you had 40 work quarters and you were hired pre-1986 you would be eligible?

Dana Bilyeu:

Absolutely.

Chair Kirkpatrick:

That question was asked of the school district yesterday. We have research, and my intern is getting a packet together with that information so everybody is clear on it.

Tina Leiss:

Page 12 in your packet is a brief overview of the benefit design for the system. This is a benefit in the PERS plan. It is a Defined Benefit plan. As you can see, there is a sample calculation on this page. The benefit itself is based on the member's years of service and average compensation at time of retirement. The average compensation is defined as the highest 36 consecutive months of compensation: compensation has a specific definition within our statute that includes certain types of pay that a member will receive and excludes other types of pay.

Our service time multiplier is 2.67 currently, and that is all service after July 1, 2001. Prior to July 1, 2001, the service multiplier was 2.05 percent. For ease of calculation, we will view someone with 20 years of service prior to July 1, 2001. Multiply 20 years times the service time multiplier, which is 2.05 percent, and their benefit would be 50 percent of their average compensation. So a 20 year career, at a 2.05 percent multiplier with a \$3,000 average compensation would give the member a \$1,500 a month benefit for his or her lifetime.

The member may elect to take a modified benefit to allow beneficiary coverage for one person after he dies. That person is selected at the time of retirement, as is that option. The benefit is modified. It is reduced to account for beneficiary coverage that will continue after the member's death. The benefit is actuarially equivalent to the benefit the member would have received if he chose no beneficiary coverage.

Retirement eligibility for regular members is 5 years of service at age 65, 10 years of service at age 60, and 30 years of service at any age. For police/fire members the retirement eligibility is a little different. They are able to retire at age 65 with 5 years of service, at age 55 with 10 years of service, at age 50 with 20 years of service, or they may retire at any age with 25 years of service. There is also a reduced benefit possible if a member retires prior to the eligible retirement age.

The program also includes certain disability and survivor benefits for those members who become disabled during their working careers. Essentially that benefit is calculated in the same manner as a service retirement benefit. The only difference is there is no reduction for age. Also, we have survivor benefits.

Those are benefits for our active members who die while employed, that is, prior to retirement, and there are certain survivors who will be eligible for benefits in that situation. In all cases the benefits cannot exceed 75 percent of average compensation for members who were hired after July 1, 1985.

Assemblyman Goicoechea:

I believe though, your compensation is, in fact, calculated on your highest three years. Is that correct?

Dana Bilyeu:

That is true.

Assemblyman Goicoechea:

You can do 22 years in some \$1,000 a year job but end up with three years of a significantly higher paying job, so this example of 50 percent of three years equals \$1,500 would not necessarily be correct. Do those three years have to be consecutive?

Dana Bilyeu:

That is correct.

Assemblyman Goicoechea:

Any time in your career?

Dana Bilyeu:

It can be any three years at any point in your career. In this example the \$3,000 is the average compensation of the highest 36 consecutive months.

Assemblyman Munford:

I am a retired teacher of 36 years. The benefit of the 90 percent eligibility that you get in relationship to your years of service, that is non-existent. So, the 85 percent is now the top rate that you can receive toward your retirement benefit. What does it mean that it will not be in any way an incentive for teachers to stay for 36 years? I guess they all leave at 30 years or 25 years? Is there some type of program for teachers, since they do not have the benefit of the 90 percent, to somehow improve their chances of a higher retirement?

Dana Bilyeu:

At the present time, the statute caps anyone hired after July 1, 1985, at 75 percent of pay. That reduction happened in the 1985 Legislative Session, in part to offset some other benefit increases that were being put into place. At this time the retirement system is not designed for any incentive past a 30-year career. That is the target that the Legislature set for us.

Assemblyman Munford:

What if a teacher wanted to stay beyond 30 years? There would be no increase of benefit at all?

Dana Bilyeu:

As Tina mentioned, the calculations are actually based on two parts. The multiplier, which you are talking about, is able to go up from 75 to 90 percent. The other part is the average compensation calculation. There is a benefit to working past the accumulation phase of your service time multiplier. The average compensation will continue, typically, to go up at the end of your career. When we do the average compensation review, we determine where the retiree's 36 highest months are, typically at the end of the career. So, there is an advantage, from a benefit perspective, for an individual, even when past the multiplier accrual phase, because there will be a higher average compensation. That, currently, is the way the system is designed.

Chair Kirkpatrick:

Seeing no more questions, we will move on.

Dana Bilyeu:

At this time we are going to have Ken Lambert talk about the investment program for the Committee.

Ken Lambert, Investment Officer, Public Employees' Retirement System of Nevada:

I direct you to the tab in your packet labeled Investment Objectives beginning on page 13. As we have discussed a couple of times this morning, the investment program is a critical component to the funding of retirement benefits. As with any investor, when we construct an investment program, we begin with establishing the objectives for that portfolio.

In our case our objective is to fund the benefits for the members of the system while taking as minimal a risk as possible. Putting that into numbers, we are targeting an 8 percent, long-term average annual return from the investment program. Since inception we have generated a 10.6 percent return. We have been fortunate to exceed that 8 percent objective.

Concurrent with that return goal we want to generate that return while taking the least amount of risk possible, to contribute again to the overall cost stability of the program. In fact, we have been successful at that. We have one of the lower risk pension investment programs in the country. In fact, one of the metrics that we look at is called Risk Adjusted Return. On a Risk Adjusted Return basis, the Nevada pension fund, since inception, ranks in the top

10 percent of pension funds nationally. That tells us a couple of things. One, we are accomplishing our objective of taking as little risk as possible in the program. In the investment markets, if you want to generate return you have to take some risks, but we want to control that as much as possible. That statistic also tells us that we are doing a good job maximizing the return when we take risks. Essentially we are squeezing every dollar we can out of the risk we take in the investment programs. The result is the program is very efficient, when we compare it to our peers.

We are focused on maintaining a high-quality, cost-effective program. When I say high-quality I mean the types of securities we hold are generally considered in the market to be high-quality securities: blue chip stocks, U.S. Treasury Securities, and investments in developed markets internationally, such as the UK Developed Europe, and Developed Asia. It is a very conservative approach but one that we are very comfortable with and has served the fund well.

We are also focused on a cost-effective structure. Results of investments are driven by three factors: the return, the risk, and the cost. While we can try to project return and risk, the only factor we know for certain is cost. So, we focus on maintaining a low-cost investment program and, in fact, our program's costs are 60 percent below the industry average. It is a savings of over \$37 million per year when compared to the average public pension fund our size.

Over the course of a retired member's lifetime, and as Dana [Bilyeu] was talking about, the 40 to 60-year funding horizon that we are looking at generates billions of dollars in savings to the members of the system. In fact, in the last few months, the Retirement Board has re-negotiated fee savings of nearly \$1 million for some existing managers. It is something we are focused on.

Finally, we emphasize a consistent and transparent strategy. In investments, typically, a consistent strategy is one of the hallmarks of success. The plan that is set forth for your individual investment portfolio, be it for the pension fund or you personally, is almost not as important as the consistency of maintaining a strategy year in and year out, regardless of what happens in the markets. Typically, consistency will generate a lot of money for an investor over the long term. It is something we are very focused on.

Since this is a public pension trust, transparency is very important to us. We want to have a program that our members, our benefit recipients, and the Legislators can feel comfortable with. They understand the program, it makes common sense, and it does not have an abundance of derivatives and esoteric investment strategies. It is the kind of, frankly, plain vanilla investment structure

that you would want 140,000 people's money in. We think that is an important responsibility on our behalf, to make it clear why we are invested, where we are invested, and that it makes sense to our members and benefit recipients.

On page 14, there is an update on the structure of the investment program. We administer the Public Employees' Retirement System retirement program and also the retirement program for the Legislators and the judges in the State. By statute the investment pools must be kept separate.

Essentially, we run a similar investment strategy but in three separate pools of assets. At fiscal year end, June, 30, 2006, the first fund had \$19.5 billion in it, the Legislators' fund had a little more than \$4 million, and the Judicial Fund had \$26 million. As you see, the other funds are quite a bit smaller.

This actually is a benefit for the Legislators and judges, because with the focus on cost, and since we have a \$19.5 billion pool of assets, we can negotiate extremely low fees for legislative and Judicial Funds. In fact the fees in those two portfolios are 0.05 of 1 percent, which, based on our research, is the lowest-cost institutional investment program in the country. We are very proud of that as well as the performance we generate in both of the smaller portfolios.

Chair Kirkpatrick:

How is it that the Judicial Fund has so much more money when it was the latest formed?

Dana Bilyeu:

It is not the investment return that has generated that difference between the two funds. There is a slightly different funding mechanism in the statutes for both of those programs. The Legislators' fund is funded on an actuarial appropriation. Every two years we do a valuation of the system. We tell the legislative staff what that is. A certain amount of money comes over to the system and we are paying off the unfunded liability of that over time. The contributions into the program come out of each of your paychecks for the first 60 days of the Session; you actually contribute 15 percent of your pay to us, as well. So, those contributions come into the retirement system and are invested. The assets are much smaller because, quite frankly, the benefit structure of this particular program is much smaller. It is \$25 per month, per year of service. Your benefit does not require as large an actuarial contribution over to the system to go out into the markets.

Contrast that with the Judicial Fund where we received seed money of approximately \$5 million in 2001. There was a process by which we had to counsel each of the judges participating in the PERS Regular Fund and, if they

chose to move over to the Judicial Fund, the statute required that we transfer 100 percent of the assets associated with their liability over to that fund. There were some significant transfers out of PERS into the Judicial Fund—significant to the Judicial Fund; not significant to the PERS fund, given the relative sizes of the two. That amount over time, plus the yearly payment on the unfunded accrued liability for that system, which is a little bit over \$1 million each year that the Legislature has appropriated it, has made that system build quite significantly compared to the Legislators' fund.

Chair Kirkpatrick:

Quite honestly, I was not concerned about the Legislators but I wondered, if there are 98,000 employees in the \$19.5 billion fund, how many judges are there creating the \$26.7 million fund?

Dana Bilyeu:

It is very small. The Judges' Fund, I believe, has approximately 60 active members and maybe 55 retirees. That system has also been made slightly bigger by the last session's bill that allowed municipal court judges and justices of the peace to participate if their participating employer elected to allow them to. We have had a growth in that population of, I think, nine justices of the peace and municipal judges. It has the opportunity to grow a little bit larger, but there is a very small group of individuals who participate in it.

Assemblyman Settlemeyer:

What is the percentage of funding for the Judicial Fund? I see that PERS is at 74.9 percent, what is it for judicial? Then I have another question.

Dana Bilyeu:

The Judicial Fund is not as well funded as PERS, at this point. I will have to look at their valuation. I apologize. I do not know that number off the top of my head.

Assemblyman Settlemeyer:

If you could get that to me I would appreciate it. If that fund [Regular] is 74.9 percent does that mean that the unfunded liability for PERS is \$4.8 billion?

Dana Bilyeu:

It is presently \$6.2 billion when you combine both.

Assemblyman Settlemeyer:

If the current funding is in ratio to the contribution, do you have any idea what that percentage is compared to overall debt in the future?

Dana Bilyeu:

Yes, absolutely. Actually there is a slide in the presentation that breaks down the way we pay it off over time.

Ken Lambert:

On page 14, if you focus on the top pie chart for the PERS fund, you will see it is a broadly diversified portfolio. We actually hold over 5,000 individual securities in the U.S., in developed international markets, stocks, and bonds. We also hold private real estate, typically referred to as REITS, (Real Estate Investment Trusts) in the marketplace, as well as a small amount of private equity. Again, the intent is to diversify the portfolio as much as possible, to stabilize returns on a year-to-year basis.

Page 15 is a brief investment performance update comparing our performance for one year; that is the year ending June 30, 2006, our fiscal year. This is the number that is put into our actuarial valuation process. You can see that we were able to generate essentially 8 percent returns for all of these periods. We obviously monitor the portfolio during the fiscal year. We have done very well, fortunately. We are seven months into this fiscal year, and we know the market can take away our gains very quickly, but up to this point the PERS fund has generated a return of 10.5 percent and a profit of \$2 billion in the last seven months. We have our fingers crossed that the markets will let us keep those gains for the remainder of the fiscal year. So far we are pleased with the progress we are making and we hope we can keep it up for the rest of the year. Short term, progress is at the whim of the market as much as anything else.

That brings us to the final investment slide on page 16. It gives a feel for some of the year-to-year volatility we have experienced in the markets. Because we are essentially investing in the health of the global economy, in corporations and fixed income securities that make up the global economy, over short-term periods, we are at the behest of the volatility of the markets. Our diversified structure has definitely created some stability in our returns.

On this chart, each bar is the annual investment performance for the PERS fund. The black bar is the 8 percent objective, and over the long term we have generated 10.6 percent, we have beaten that 8 percent objective. Yet, as you can see, there are years that we under-performed the objective.

To give you a feel for how the diversification works in our program, look at 2001-02 when our return was about negative 1, negative 2 percent. In that same year, U.S. stocks lost over 20 percent of their value. You can see the power of diversification to minimize the downdrafts and also, in some cases,

minimize the updrafts in the market. We are not going to generate 40 percent if the stock market generates 40 percent. Rather, we are going to have a more consistent return pattern.

As I mentioned, very humbly, about our performance thus far, and as we wait for the next months to unfold to June 30, 2007, these market volatility factors will have as much an impact on our performance as any individual investment decision we might make over the short term.

The bottom line is we are very comfortable with the investment program. It is a very healthy program. We are pleased with the results. And, all in all, considering the market environment, we are optimistic about the future.

Assemblywoman Parnell:

I think that you all need to toot your horn a little bit louder. I think it is important for all of us to recognize that in the 2001-02 period, the "Enron years," when many public pension programs across the country collapsed, yours, as I recall, was probably one of the strongest in the country. That needs to be on the record.

Assemblyman Stewart:

I assume that all three of you are under the PERS program personally, is that right?

Ken Lambert:

Correct.

Assemblyman Stewart:

As one who receives a PERS check it is very comforting to know you have this vested interest. I would like to thank you. I have been retired for two and a half years and I have gotten my check every month. I appreciate it, and my life style has not diminished that much. I am still eating two and a half meals a day.

Ken Lambert:

Possibly equally important, my mother is a retiree of the system, and so I do not think she would let us get out of line.

Assemblyman Munford:

Is there any type of ceiling or cap for a PERS beneficiary? For instance, can they have a part-time job?

Dana Bilyeu:

There are a number of re-employment restrictions for our retirees if they come back to work in the public sector. If you go to work in the private sector there are no caps. If you return to the public sector and are in a position that is ineligible for participation in the Public Employees' Retirement System in a less than half-time position, you are limited to one-half of the average salary, which is \$40,000 from the Regular Fund. You would be limited to half of those earnings. If you return to a position that is eligible for participation or more than a half-time position, we stop your benefit. You have the right to re-enroll in the system or not have to re-enroll in the system. It is a choice.

Part of the way to finance a pension fund is counting every position. If we are paying you, but are not receiving new contributions, we are going to stop your benefit. Again, it is part of the plan design to provide an orderly transition to retirement, to ensure people are actually retiring and not simply retiring and coming back into the active work force soon after they have retired.

There is an exception to that rule which is the Critical Labor Shortage Exemption. It is commonly referred to as the A.B. No. 555 of the 72nd Session exemption. It is used mostly in the educational arena. We have about 300 positions designated as critical labor shortage, and 90 percent of these are in education if you include the Nevada System of Education in that number. It is coming up for review at the 2009 Session since it is on a "sunset" provision for July 1, 2009.

Assemblyman Munford:

There is a dire need for different slots or positions for teachers. Even I received a letter to return to the classroom.

Chair Kirkpatrick:

I have one question. You have talked about Nevada being in better shape than most other states. What are the top three things you attribute that to, within statute? The reason I am asking is there are several bills in to change the PERS system. I believe you know the three things setting us apart from other states and making our PERS system beneficial.

Dana Bilyeu:

The first thing making us unique is having equal contribution sharing with the employees. It is an extremely important tool from an ownership perspective. Members own the way the system is run because they pay half.

That, in turn, leads us to Contribution Rate Stability, which is what we focus on at the pension fund. Rate stability benefits both the employer and the employee, and is something that sets us apart from most other states.

As Assemblywoman Parnell pointed out, there were periods of time in the late 1990s, we kind of called them the go-go nineties, when the investment markets were just going up and up, and up. Many states became fully funded because of their exposure to the stock market. That is different from our profile. As Ken [Lambert] mentioned, we are much more conservative in our approach than most pension funds.

Then, when the market corrected itself in 2001-2002, those states went from being 110 percent funded down to 60 percent funded. Those pension funds went to their legislatures and said, "We need \$400 million, right now."

They had been on a Contribution Rate Holiday. The Contribution Rate Holiday is a time for a diversion of contributions to other programs when the markets are so high. California was paying a certain amount of contributions. Then a Contribution Holiday happened and the legislature, correctly, appropriated the money to other programs, but soon the retirement system said it needed an infusion of cash.

That will not happen here because of the nature of the funding mechanisms put into place by the Legislature. Those mechanisms are extremely positive things. The Legislature has focused on long term financing for this program.

Does that mean we are the least expensive? I would say no. Does it mean we are the most stable in cost? Are we the most predictable for members and employees? I think we are. Actually we are one of the most predictable across the nation, particularly when you have members paying on unfunded liability as we do.

I am not sure if that was three, but those are hallmarks.

Chair Kirkpatrick:

Going back to the page in the plan design, you hit two out the three. I would think that the other part is the pooling and the number of people that we actually put into it.

Dana Bilyeu:

That is a very good point. The fact that the Legislature designed this program as a multiple employer/cost sharing plan, in which we pool everyone, is also different from many other states. Many people look at California and say, "How

do we look compared to it?" California-PERS is not a multiple employer/cost sharing program. It is a multi-employer program. It actually values each individual employer separately and determines the contribution rate on a separate employer basis. It uses a different financing program, neither good, nor bad, but different from how we do things.

Because Nevada has been such a small state, the creation of a multiple employer trust has assisted in how we finance the program over the long term.

Chair Kirkpatrick:

There seem to be no more questions. Please go on.

Dana Bilyeu:

As I mentioned, we are funded on an actuarial reserve basis; we set aside funds today to pay for the benefits out into the future. As I pointed out, we are approximately 75 percent funded at this time. It is not the top of the heap, if comparing pension funds across the country. We are right smack dab in the middle of the financing.

We have an unfunded liability of about \$6.2 billion at this time. Twenty-five percent of the benefits promised at this time are not funded. It does not mean we have to pay a bill of \$6.2 billion today. It means that we have to pay it off, not unlike how you pay off a mortgage, over time.

We [PERS] currently fund using a Rolling Thirty-Year Closed Amortization Payment. Presently, the average payment period, to make us 100 percent funded, is 28.3 years. This means the lion's share of our unfunded liability is in its 28th year of financing. Next year we will be down to 27 years. So, we have a big piece that will be retired over the next 28 years.

If there are newly created unfunded liabilities, a drop in the market or something unexpected happens with demographics, it will be assigned a new 30-year amortization period. This is to provide inter-generational equity for current participants in the program.

Our purpose is to identify the causal effect that is creating the unfunded liability to provide an opportunity for me, other members of the program, and the employers, to finance it over time.

In the past, however, when funding an unfunded liability, we went to an enclosed amortization and counted down to zero. The problem with such a financing program is if there is a large unfunded liability occurring in year 36,

and there are only three years to pay it, contributions will have to be increased to match this huge unfunded liability in those remaining years.

We want to make sure that everybody who participates in this program has the same opportunity to finance as those who started in 1983 and 1984. Thus, the purpose of changing to a rolling 30-year amortization was to provide an inter-generational equity and to finance the program on a smooth basis for the lifetime of the individual member and employer.

As Assemblyman Goicoechea pointed out, we have two contribution plans; the Employee/Employer Plan and Employer Pay Plan. The Employee/Employer [after-tax employee contribution] plan carries a refund provision. It is a limited program and the State is the biggest employer using it; there are a few local government jurisdictions also using it. This plan is slightly more expensive from a funding perspective because the opportunity to refund also means we will not use the funds in the markets to finance.

The Employer Pay Plan [pre-tax employee contribution], is a program in which the employees' portion is paid on a pre-tax basis through reduction of salary or in lieu of offsetting pay increases. Regardless of which program you choose, the employees and employers share equally in the cost, under the statute.

On page 18 you will find the results of our June 2006 actuarial valuation. The first one reflects employer pay. We always list it first because it is the largest contribution plan and it is the one that carries the most individuals. The existing statutory rate is 19.75 percent, and it will be in place until June 30, 2007.

The actuarial valuation rate, where our actuary comes in and looks at all of the demographics and investment returns, and then values the plan, was found to be 20.44 percent. It represents the difference between the current statutory rate of 19.75 percent and the valuation rate of 0.69 percent.

The Employer Pay Plan has a rounding mechanism in the statute. If the contribution differs more than 0.5 percent from the current statutory rate, we must raise or lower the rate, depending on the direction it is going. We then must round it to the nearest 0.25 percent.

Presently, if the valuation rate comes in at 20.44 percent, the closest 0.25 percent is 20.5 percent. Beginning July 1, 2007, it will become the rate for regular members contributing under the employer paid program. This covers about 80 percent of the Regular Fund plan; about 18 percent participate under the Employee/Employer plan.

Police/Fire rates are significantly different. There are a couple of reasons for this. First, their fund has a much smaller group of individuals. There are about 11,000 members in the fund and not as big a demographic pool for spreading the costs. Additionally, the cost of earlier retirement is recognized in the rate, and impacts the differential rate. The system is not as well funded as the Regular Fund. We mentioned this composite funding ratio of about 75 percent; that is a composite function between the Regular Fund and the Police/Fire Fund. The Regular Fund is actually about 76 percent funded; the Police/Fire funded ratio is about 69 percent.

When combining the two ratios on a weighted basis, it comes to about a 75 percent funded ratio. The Police/Fire rate will be going up by 1.55 percent, the difference between the current rate and the valuation rate, and we are rounding that rate to 33.5 percent.

The other thing that affects this plan from the Regular Fund is the salary growth in its system; it has a much higher salary growth than the Regular Fund which is recognized in the assumptions, making that plan slightly more expensive.

Page 19 has the same slide, but indicates only the Employee/Employer contribution plan. The existing statutory rate is 10.5 percent; the employer pays 10.5 percent and the employee pays 10.5 percent, separately. The valuation rate came in at 10.665 percent. The difference is .165 percent. By statute that rate has to be different by at least 0.25 percent to change the rate. Because the rate was within that 0.25 percent, the rate will not change. It will remain at 10.5 percent in employee and employer costs.

The Police/Fire Fund rate will go up again as in the Employer Pay program from 16.5 percent to 17.25 percent. It uses the same rounding mechanism as for the regular members. It has to be just 0.25 percent difference for a rate change, and in this instance it is at about 0.71 percent difference. So, we are making the change in those rates.

I spoke to the State budget director in November when this valuation came out. We have a very good working relationship with them. The adjustments to the payroll numbers seen by the money committees are based on the valuation. It has been built into the State budget.

I want to take a moment to talk about the Contribution Rate Efficiency on page 20. We took another look at ourselves and plotted ourselves nationally against other public pension plans. The top bar is the PERS Employer Pay rate and is where most members participate. It indicates the current rate of 19.75 percent and is divided equally, half to the employer and the other half to the employee.

The middle bar is the average non-Social Security eligibility. Remember Tina Leiss referred to the seven states who do not participate in the Social Security system. You can see the employer rate we plotted for those seven states; it is higher than the employer rate in our State. We are very competitive with the average non-Social Security states, slightly lower. Because our rates are going up, we will be in the same range of those other seven states.

However, I want to point out the difference between our rates and those states which have Social Security. The source of this [the bottom bar] is the Public Funds Survey. The 103 largest statewide public pension plans participate in it. The first light blue bar is the Social Security contribution of 12.4 percent; each paying half, 6.2 percent by both the employee and the employer. If you plot that number, [the employers' contribution and the employees' contribution] you see the average total contribution rate for retirement benefits for a member in a Social Security eligible state is a little over 25 percent.

So if you look at PERS on a comparative basis, the way the system is managed in Nevada, it is quite competitive and provides a good retirement benefit for a very competitive cost.

The funded ratio is always an important component of the system. I know the Legislature is very interested in it too. This slide plots our funded ratio back to 1987; it is a twenty-year history of the funded ratio of the program. If we went back three or four years before then, the system was about 55 percent funded.

What I take away from a picture like this is "the slow and steady wins the race" approach used at the retirement system. We do not take huge risks, and there are not huge gains in the funded ratio when the markets are really moving up, because we believe slow and steady is appropriate. As we make that turn in 2000 and 2001, we also see a slow and steady decline, recognizing those losses from the down market cycle.

Then it flattens out between 2005 and 2006. We are taking in more gains and less losses in that period. That funded ratio is sort of bottoming out. I think all things being equal, and we continue to do as well as we are currently doing in the market, the June 30, 2007, number will start moving back up.

The pattern is an important one. It speaks to the long-term financing horizon. You will never hear us say to you we have gone from 75 percent to 85 percent funded because, if we do that, it means we have taken a significant amount of risk in the markets. You will see us incrementally moving up on our funded ratio. If we made a 10 percent jump in the funded ratio, and then, if there is a down market cycle the next year, there would be a 20 percent drop in the

funded ratio. The very long term, very smooth process of making the funded ratio go up is what stabilizes the contribution rates over the long term.

My last slide plots the Contribution Rate. It is the dark blue line of the retirement system over a decade. You can see how flat it is. Again, we are plotting the Employer Pay rate because that is where the lion's share of the liabilities is found. That rate is extremely flat.

The pink line represents the return of the Standard and Poor's 500, the broad benchmark we use to measure the equity markets. The yellow line indicates the return of the system for that same period of time.

We are smoothing out those tremendous dips in the market because we are focusing on maintaining the predictability of the contribution rate over the long term. It helps the financing over a forty to sixty-year cycle, over which the retirement system is financed.

With that, Madam Chair, I am happy to take any more questions the Committee may have.

Assemblyman Settlemeyer:

So, you are indicating it has a 20 percent contribution rate from the employer, and a 20 percent contribution from the employee. Is it 40 percent funded by rates?

Dana Bilyeu:

No, it is a 20 percent total contribution; it is 10 percent by both the employer and the employee. That rate is divided into three components. I apologize. I did not make this clear when I was talking about the rates themselves.

The three components to our contribution rate are the normal cost, or yearly accrual of the benefit; a payment on the unfunded accrued liability; and there is an administrative expense which is set at a flat amount of 0.15 percent, designed to capture the cost of the agency over the long period of time.

The normal cost of the benefit is approximately 15 percent of the total 20 percent of the contribution rate; about 4.5 to 4.75 percent is the payment on the unfunded accrued liability, in essence the mortgage payment. It is being paid on a percentage of the payroll over a 30-year period.

Assemblyman Settlemeyer:

So, back to the question I asked earlier. Using the current funding and multiplying it by the benefits liability ratio, how much money, percentage wise,

are we putting in compared to how much the liability is going to be in the future?

Dana Bilyeu:

We are retiring the liability at the rate of one twenty-eighth of the liability in each year. In essence the liability is going to grow as the assets grow. We have both sides growing at the same time. That is probably a useful tool for you. The liabilities of the system grow with payroll as the assets grow with payroll. Those two are relatively static with each other, but you will see the funded ratio kick up to the liability amount over a 28 year cycle, currently.

Assemblyman Beers:

I am not sure if this question is really germane to what you do, but it is one that came to me. You mentioned that the Police/Fire plan was not funded as well partially because of an earlier retirement age. What would advancing that retirement age to age 60 do?

Dana Bilyeu:

That is a difficult question for me to answer. It involves the type of valuation the actuary must do for us.

Assemblyman Munford:

By statute, how do retirees receive any raise in their benefits?

Dana Bilyeu:

There is a formula in the statute called the Post-Retirement Increase Formula. It is on a sliding scale. When you retire there are no post-retirement increases until you are retired a full three years. After that time there is a 2 percent post-retirement increase for years four, five, and six. Then it goes to 3 percent for seven, eight, and nine and so on.

Chair Kirkpatrick:

You can stop there. I am sure that after three years he would be happy with that answer.

Dana Bilyeu:

I do want to make one caveat. When applying the post-retirement increases to an individual's account we also look at their accumulation of post-retirement increases over the life of the benefit. If they have kept pace with inflation, the post retirement increase, whatever it is, is capped at the CPI, (Consumer Price Index). You cannot exceed the rate of inflation, so to speak. You are given a certain post-retirement increase, and because of that set-back and no increase in the first three years, inflation has eroded your benefit away. So there is no

cap for a long time. Presently, we have about 1,100 individual retirees who are getting a capped CPI type of post-retirement increase.

Chair Kirkpatrick:

Are there any other questions? Thank you very much for coming before Government Affairs. It was very informative. We asked a lot of questions. We look forward to working with you in the future.

At this time there are no sign-ins for public comment. Is there anyone wishing to speak on public comment? There were none.

The meeting adjourned at 9:38 a.m.

RESPECTFULLY SUBMITTED:

Mary Kay Doherty
Committee Secretary

APPROVED BY:

Assembly Member Marilyn K. Kirkpatrick, Chair

DATE: _____

EXHIBITS

Committee Name: Committee on Government Affairs

Date: February 14, 2007

Time of Meeting: 8:00 a.m.

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
	C	Public Employees' Retirement System of Nevada (PERS)	Handout