MINUTES OF THE
SENATE COMMITTEE ON GOVERNMENT AFFAIRS

Seventy-Seventh Session
February 13, 2013

The Senate Committee on Government Affairs was called to order by Chair David R. Parks at 1:34 p.m. on Wednesday, February 13, 2013, in Room 2135 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to Room 4412E of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. Exhibit A is the Agenda. Exhibit B is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

COMMITTEE MEMBERS PRESENT:

Senator David R. Parks, Chair
Senator Pat Spearman, Vice Chair
Senator Mark A. Manendo
Senator Pete Goicoechea
Senator Scott Hammond

STAFF MEMBERS PRESENT:

Patrick Guinan, Policy Analyst
Heidi Chlarson, Counsel
Gwen Barrett, Committee Secretary

OTHERS PRESENT:

Keith Wells, Administrator, Motor Pool Division, Department of Administration
Evan Dale, Administrator, Administrative Services Division, Department of Administration
Joel Cryer, Sales Manager, Fleet/Government, Carson Dodge Chrysler Jeep
James R. Wells, CPA, Executive Officer, Public Employees' Benefits Program
James Richardson, J.D., Ph.D., Nevada Faculty Alliance
Ronald P. Dreher, Peace Officers Research Association of Nevada; Washoe School Principals' Association; Washoe County Public Attorneys' Association
Martin Bibb, Executive Director, Retired Public Employees of Nevada

Chair Parks:
We have a presentation on the Motor Pool Division by the Department of Administration.

Keith Wells (Administrator, Motor Pool Division, Department of Administration):
I have a presentation on the Department of Administration's Motor Pool Division (Exhibit C). Evan Dale is here to review the final page of my presentation, budget request highlight E225, purchase of the Las Vegas facility.

Evan Dale (Administrator, Administrative Services Division, Department of Administration):
The Motor Pool Division rents a facility in Las Vegas at approximately $334,000 a year. The lease agreement has scheduled increases, which will adjust the annual rent to approximately $375,000 by April 2017. The proposal in this budget is to use monies from the General Fund to exercise an option to purchase the facility for $2.5 million. The proposal would have the Motor Pool Division pay the General Fund back over 20 years at $125,000 a year.

When the annual rent of $330,000 and the option to purchase of $125,000 are compared, the option to purchase offers a significant savings, ranging from $215,000 to $250,000 a year over the coming years. That translates to about a 63 percent to 67 percent decrease in the Motor Pool Division costs for a Las Vegas facility.

The facility is about 5 years old, with a remaining life of 40 years. On a simple payback analysis, the State would recover all of its money within 86 months. On a discounted payback at a 5 percent discount rate, the recovery would be 107 months. The more conventional term for an analysis like this is known as an internal rate of return or return on investment. This investment shows almost a 14 percent return, including a conservative estimate of maintenance costs of $3,600 per year and a major maintenance project of $100,000 every 5 years. The maintenance cost estimates are conservative and have been verified with the State Public Works Division.

Chair Parks:
You are covered under *Nevada Revised Statutes* (NRS) 336. You are operated as an internal service fund. Address how risk management is handled and the State insurance for all vehicles as part of a master policy. Is there any accounting factor incorporated into your operation?

Mr. K. Wells:
The Risk Management Division factors the insurance; it is not factored into Motor Pool Division operations.

Chair Parks:
How are you able to track fuel costs?

Mr. K. Wells:
Managing fuel is challenging. Drivers are supposed to enter the odometer reading; they are not good at it. We currently utilize two fuel card lock systems: a State-contracted fuel provider and Nevada Department of Transportation. All fuels purchased through either system capture all pertinent data of the vehicle: vehicle identification, point-of-sale purchase, total gallons, total costs and any taxes; it also tracks the odometer reading. The odometer is rarely correct. We take the data and enter it into the fleet management system, allowing us to track the total gallons used and the total costs of the fuel by an asset over its life cycle. The challenge is estimating the current miles per gallon. Once a month, we randomly target an agency and audit its mileage and fuel used. An in-depth analysis is performed on that particular agency to keep the controls in place and driver behavior up.

Chair Parks:
Who makes the determination of a long-term assignment versus a short-term assignment?

Mr. K. Wells:
If the vehicle is needed for more than 14 days, it is not cost-effective to have a short-term assigned vehicle. When a vehicle is requested, we help the agency determine the length of time it will be needed. The decision is ultimately made by the agency or department, with my recommendations.

Chair Parks:
Is the Las Vegas facility sufficiently large to meet the State's needs for the reasonable future? Where is the location of this facility?

Mr. K. Wells:
A lot of planning regarding long-term needs took place when the facility was constructed in 2007. The current location is adequate for the distant future. Travel patterns have declined since 2008 because of budget reductions, and it

will take many years for that to recover. We are confident the building will be satisfactory for the next decade. In the distant future, if we had to change something, we could expand the maintenance operation by leasing a small facility in a location such as North Las Vegas.

The facility is located on La Cienega Street near Warm Springs Road. It is directly one block east of the McCarran Rent-A-Car Center, allowing business to be conveniently conducted on a daily basis with our private sector partners. The facility is located next to the freeways.

Chair Parks:
We will now move on to the first bill of the afternoon, Senate Bill (S.B.) 5.

SENATE BILL 5: Revises provisions relating to the purchasing and labeling of motor vehicles by the State. (BDR 27-285)

Mr. K. Wells:
The intent behind Senate Bill 5 is to make two changes to NRS 334.010.

First, the current language requires State vehicles to be labeled by painting the words “State of Nevada” and “For Official Use Only” on the vehicles. Our intent is to clean up the language and move it from statute into the *State Administrative Manual* (SAM). It is a rule, not a regulation. Moving it into SAM allows the State to quickly and efficiently make rules and changes when applicable.

Second, S.B. 5 would allow the State Board of Examiners (BOE) to designate to a designee, such as the BOE Clerk, the ability to approve vehicle purchases. If an agency wants to purchase a State vehicle, the full BOE approval is required. The meetings are only once a month and purchasing can take time as well. When government contracts are put in place to purchase vehicles, there is only a short window of opportunity to do so. For example, in March and April 2012, many vehicle manufacturers shut down vehicle orders. This can be a big problem for some agencies; the Nevada Highway Patrol (NHP) is an example. If a new NHP purchase is required immediately, and the NHP is unable to complete the purchase in a timely manner, it could become a hassle. Allowing the BOE’s Clerk to approve the vehicle purchase will expedite the process. The BOE will still be involved because the Clerk or designee can make the decision to get full BOE approval. This will streamline the process of purchasing State vehicles.

I am trying to streamline our government operations without removing any approval levels or oversight.

Chair Parks:
Over the years there has been a lot of controversy relative to the labeling. It is usually when a public employee is misusing a government-owned vehicle. Have you considered how this change would affect local governments?

Mr. K. Wells:
This will have no effect on local government. The NRS specifically mentions the State.

We have additional key points. A requested revision to S.B. 5, dated February 8, has been submitted (Exhibit D). Currently, S.B. 5 requires the Director of the Department of Administration to develop regulations to address this issue, requiring placement in *Nevada Administrative Code* (NAC). That is not the intention of S.B. 5. The intention is to get the requirement out of statute and put it in SAM. Then section 1312 of SAM specifically exempts unmarked vehicles from the labeling requirement.

Chair Parks:
We will want to look at the requirements with regard to NRS on local government vehicles. I am well aware of the need to acquire vehicles in a timely manner, that manufacturing plants shut down, and sometimes you can get great buys at certain times of the year when at other times there is nothing to be had and getting a particular vehicle can be troublesome.

Joel Cryer (Sales Manager, Fleet/Government, Carson Dodge Chrysler Jeep):
I am in favor of S.B. 5. The passage of S.B. 5 would streamline the process and allow the State vendors to do business on a more efficient level.

The BOE process requires the Purchasing Division to release vehicle bids in September or October; manufacturers cut off ordering in March or April; most of the agencies are required to have their materials in a request 30 days prior to that; BOE only meets on a monthly basis and sometimes the meetings are canceled. There is a short window of opportunity in the production life cycle, and the BOE process shortens the window further. This past summer, Governor Brian Sandoval put together a group to discover what the State could do to improve the process of doing business with the State. The process of the vehicle procurement was brought up by Carson Dodge Chrysler Jeep, explaining how the process impacts a vehicle purchase.

Chair Parks:
We will close the hearing on S.B. 5 and open the hearing on Senate Bill 46.

SENATE BILL 46: Changes the name of the Motor Pool Division of the Department of Administration to the Fleet Services Division of the Department. (BDR 27-284)

Mr. K. Wells:
The goal of S.B. 46 is to change the name of the Motor Pool Division to the Fleet Services Division. The name Motor Pool Division does not represent what we do. The name completely misrepresents us. This Division provides fleet management services to Nevada. I want this agency to move us into the future, and I want a name that represents us well, that represents who we are and what we do—provide fleet management services.

Chair Parks:
Does this cover the changes in all the accounting?

Mr. K. Wells:
Yes.

Chair Parks:
We will close the hearing on S.B. 46 and open the hearing on Senate Bill 34.

SENATE BILL 34: Makes various changes relating to group health insurance provided by the Public Employees' Benefits Program. (BDR 23-377)

James R. Wells, CPA (Executive Officer, Public Employees' Benefits Program):
I am here to discuss Senate Bill 34. I will begin with a presentation (Exhibit E) that gives the rationale behind S.B. 34.

Our vision on Slide 3, as approved by the Public Employees' Benefits Program (PEBP), is to operate a well-managed group insurance program that promotes a healthy population and protects members from catastrophic financial loss. Our mission statement reads: "recognizing the fiduciary responsibility of the Board, promote wellness, transparency, ease of use, communications and integration of PEBP programs centered around the people that we serve." The Board has adopted philosophy statements, including attempting to be an innovative health benefit program; believing that protection from catastrophic expense is core to our program; making personal responsibility a cornerstone to the health and welfare of our members; providing tools to assist our participants in managing their health care; and maintaining transparency and clear communications.

The governance of PEBP, as shown on Slides 4 and 5, are found in *Nevada Revised Statutes* 287 and the *Nevada Administrative Code*. The PEBP is governed by a board of nine, eight of whom are appointed by the Governor; the ninth is the Director of the Department of Administration or his or her designee. The NRS 287.043 states that the Board shall establish and carry out a program of group life, accident or health insurance through fully insured products or by self-insuring or establishing other applicable benefits excepting those pursuant to NRS 286. According to NRS 287.043, the Board sets rates and ensures the program is funded on an actuarially sound basis.

The Board contracts with Nevada local governments to provide group insurance for active and retired employees; appoints a CPA to perform an annual financial audit; appoints an attorney for a biennial review of the legal compliance; adopts regulations to carry out statutes; and makes recommendations to the Legislature as deemed necessary regarding the PEBP program.

Benefit options, Slides 6 and 7 of the presentation, in effect since July 1, 2011, are current through this fiscal year (FY) 2012-2013 and go into the plan year (PY) 2013-2014 that begins July 1.

Medical coverage is provided to active employees and non-Medicare or early retirees through a self-funded, consumer-driven health plan which meets the definition of a high-deductible health plan under IRS rules and is coupled with a Health Savings Account (HSA) or Health Reimbursement Arrangement (HRA) that is partially funded by the program. The program puts money into the HSA or HRA to offset the first-dollar costs for PEBP participants. Health Maintenance Organizations (HMO) are another option for employees and retirees inside the State of Nevada.

Mr. J. Wells:
Medicare retirees eligible for premium-free Medicare Part A are covered under an individual market exchange and have the option of a Medicare Advantage or a Medicare Supplement plan. Prescription drugs and dental and vision plans are available through the Medicare Exchange. Reimbursement is made through an HRA. For the purpose of reimbursement, active employees and non-Medicare retirees receive a subsidy toward their monthly premiums. Medicare retirees receive a monthly allotment to purchase the Medicare Supplement plan or Medicare Advantage plan. A health and wellness program is available for active employees and non-Medicare retirees. Effective July 1, it will be available for all participants on both the self-funded plan and HMO. Dental is provided; the dental plan is voluntary for participants covered through the Medicare Exchange.

Slide 7 shows how we offer basic life insurance, long-term disability and a variety of voluntary products.

Slide 8 shows how the Board establishes the subsidization policy with a standardized differential between the base plan, which is the consumer-driven self-funded plan, and any other plans offered. If you are covered under the high-deductible base plan, PEBP pays 93 percent of coverage for the participant and 73 percent of dependent coverage costs. An HMO plan is subsidized at 78 percent for the participant and 67 percent for dependent costs. The retiree side is slightly less and the base subsidy amount is adjusted for years of service for retirement after January 1, 1994. Starting in 2011, the statewide HMO rate is blended. There is one contribution rate regardless of the HMO. The idea here is to give participants a choice between a higher premium with lower out-of-pocket costs, an HMO or paying a lower premium subject to higher costs, which is a preferred provider organization.

Slide 9 shows how PEBP is funded. Total costs are based on projected medical inflation and projected enrollment changes; plan utilization that actuaries provide; federal health care reform, including the elimination of lifetime and wellness expenditure caps and covering children to age 26; potential shifts in costs as a result of the expansion of Medicaid; cuts to reimbursements given to providers for Medicare; and closing the problem with the Medicare prescription drug coverage, often called the donut hole.

The funding, based on enrollment projections, breaks down between State and non-State revenues. The State portion is broken down between active employees and retirees. The active employee subsidy receives a fixed dollar per month and is transferred to the operating account, based on plan and tier selected by individual participants. The retiree subsidy receives funds based on a percentage of payroll and is transferred to the operating account based on plan and tier selection of retirees and the amounts for HRA contributions for Medicare retirees.

The premium revenues consist of the State employee and retiree contributions and non-State employee and retiree contributions and any non-State employer subsidies. The other revenues include interest, drug subsidies and drug rebates. The reserves are amounts carried forward from one year to the next primarily to fund the incurred but not reported liability, the catastrophic reserve, which ensures the solvency of the program, and a reserve to cover any unused health reimbursement allocations.

Chair Parks:
You made a statement that the cost was based on a percentage of payroll. Please clarify that.

Mr. J. Wells:
Retiree subsidies are funded by a percentage of active employees' payroll. It is deposited into a budget account that funds the amount needed to pay for the subsidies for retirees.

The Governor's recommended budget for the 2013-2015 biennium is on Slide 10. The PEBP will receive the following: 55 percent of its resources from the State employee and retiree subsidies—the State subsidy increased from 50 percent in FY 2013 to approximately 55 percent next biennium, reflecting the State subsidies, which, while not going up in total dollars, are going up because it is a larger percentage of a smaller pool; 24 percent from contributions from participants and non-State employers; and 21 percent carried forward from previous years. The near 0 percent includes interest income, prescription drug rebates and retiree drug subsidies that are part of the Medicare program.

Uses for the 2013-2015 biennium funds include the following: 42 percent to pay medical claims to providers; 9 percent to HSA and HRA for participants to use toward out-of-pocket costs; 27 percent to fully insured products, including HMOs, life insurance and long-term disability; 19 percent to reserves for incurred but not reported liability, catastrophic reserve and HRA for unused allocations; 2 percent to self-funded administration, which pays for a third-party administrator, pharmacy benefit manager and network costs; and 1 percent to fund the PEBP offices.

Mr. J. Wells:
Slide 11 is a historical view of reserves by fiscal year all the way back to the inception of PEBP. In the early years, this plan was not solvent. In order to continue to pay claims, two infusions of cash were made: the first in 1999, when the fund was created, and the second in 2002 during the 18th Special Session. To avoid asking for future cash infusions, the program was allowed to create a catastrophic reserve fund in 2005.

Because of the impact of benefit changes in 2003 and 2004, PEBP has more money than anticipated. To spend down the reserves, premium holidays were instituted in 2007 and 2008. In 2009, the program was required to extend its plan year from 12 months to 16 months, which was followed by a short plan year to get us back on the July–to-June cycle. The cost estimates for that long plan year had to be built into the rates in the short plan year and the subsequent plan year. Estimates were high; those reserves start to come up and then come down in 2013 and continue to do so through each year of the next biennium.

The PEBP priorities and performance-based budget activities are on Slide 12. The primary function is the group insurance program that provides group health insurance to active and non-Medicare or early retirees. The remaining functions are the Medicare exchange program, care management program and wellness program.

Slide 13 covers other post-employment benefits (OPEB), a liability to the State for the costs to provide subsidized health insurance to retirees. It is comprised of both a cash subsidy, the amount that comes out of the retired employee group insurance account, and an implicit subsidy, commingling the experience of more expensive retirees with less expensive active employees. The OPEB is earned during the working career and is considered deferred compensation. Under the Governmental Accounting Standards Board (GASB), OPEB is required to be in financial statements when it is incurred, not paid. The calculation is based on the current plan design, the number of employees and retirees eligible for it; the amount that they have already earned; life expectancy, an estimate of how long they will receive the benefits in the future; investment earnings of any money set aside to fund it; and the estimated medical trend associated with clients in future years.

Slide 14 has changes to the eligibility requirements for the cash subsidy portion of OPEB. Prior to 2010, 5 years of service was required to be eligible for a cash subsidy. Fifteen years are required, effective January 1, 2010. In 2011, A.B. No. 553 of the 76th Session eliminated the subsidy for anyone hired after January 1, 2012. Everyone continues to receive the implicit subsidy. The base subsidy amount is determined each Legislative Session. It is a base amount for any retiree who retired prior to January 1, 1994, and the amount is adjusted based on the statutory requirements for between 5 and 20 years of service.

Slide 15 shows the GASB valuation as of July 1, 2010. The present value of benefits is $1.8 billion—the news often reports a trillion-dollar employee health care liability; Nevada's portion is the $1.8 billion. Slide 15 also shows the total amount of expected benefits to be paid in the future for all existing employees, including amounts they will continue to accrue throughout their working careers. The present value of $1.8 billion is down from $3.3 billion the year before and from $4 billion in 2008. The reduction is primarily due to changes in going to the high-deductible health plan and the implementation of the Medicare Exchange.

The actuarial accrued liability is $977 million, a snapshot of liability for those employees as of July 1, 2010. The number is down from $1.9 billion in 2010 and $2.2 billion in 2008.

The annual required contribution of $119.9 million is comprised of the cost of benefits earned during FY 2011 plus a 30-year amortization payment on previously unfunded liabilities. The number is down by $100 million from 2010 and by $167 million from 2008.

Pay-as-you-go subsidy payments are about $47 million, the actual amount paid each year to subsidize Medicare and non-Medicare retirees.

Slide 16 reviews eligible PEBP participants. All State active employees, including the Nevada System of Higher Education, Public Employees' Retirement System, Legislators and LCB staff, all boards and commissions are eligible to participate in the PEBP program. Retirees are eligible to participate at the time they retire, or they may have one lifetime break in service and reenroll during the annual open enrollment period. The open enrollment period is the month of May.

Mr. J. Wells:
Active employees are permitted to participate providing their employer participates in the program. A group of retirees from non-State, nonparticipating organizations enrolled beginning in 2003 when A.B. No. 286 of the 72nd Session opened the program to non-State retirees, offering a subsidy that was funded by their previous employers in the same amount that the State pays. In 2007, S.B. No. 544 of the 74th Session created an all-in or all-out policy and froze entrance for nonparticipating retirees as of November 1, 2008.

That brings us to S.B. 34, Slide 17, which revises the method of commingling our claims experience, meaning we take all participants and combine them into a single pool, whether active employees or non-Medicare retirees.

We currently have two pools: one for State employees and retirees, one for non-State employees and non-State retirees. The non-State retiree pool is a retiree-only pool; there are fewer than 70 remaining active employees and almost 4,000 non-Medicare retirees. This has become an expensive and volatile pool as we move forward.

Chair Parks:
Please repeat the numbers on the last part for the non-State employees and retirees.

Mr. J. Wells:
Fewer than 70 non-State active employees are left on our program. There are almost 4,000 non-State, non-Medicare retirees pooled into that single plan.

Slides 18 and 19 give historical and projected enrollment for the next 2 years. In PY 2002, there were 31,900 participants in PEBP. The number decreased to 30,900 in PY 2003, which was a short plan year, 6 months, when we went from the January–to-December plan year to a July-to-June plan year. Enrollment then begins to go up rapidly, topping out at 43,647 people in PY 2010. Enrollment has dropped to 40,258 this year and is predicted to drop below 40,000 for each of the next of the 2 years of the biennium.

The chart on the right shows non-State active and non-State retiree enrollment. In PY 2002 there were 2,300 non-State active employees and 1,676 non-State retirees in the non-State pool. The plan was opened to non-State, nonparticipating employers in 2003, showing a rapid increase in enrollment, almost mimicking the total enrollment increases over that period of time. We maxed out at 9,400 non-State, nonparticipating retirees and are anticipating to have about 7,000 by the end of PY 2015. A decrease in enrollment is partially due to cost increases; last year these exceeded 20 percent on two of the three plans. At the same time, the 2,300 active employees decreased to 62 in PY 2013 and will decrease to almost zero by PY 2015.

The explanation for the decrease is that an option exists for employers that have only active employees; the employers can leave PEBP, thus eliminating the subsidization of higher cost retirees. At least every other year, another group of employers leave PEBP because they can find more affordable coverage for their active employees.

The following example indicates the problem with the non-State pool. The City of Elko left with 150 active employees on July 1, 2012. Those 150 employees were subsidizing thousands of retirees who came from other school districts, counties and cities that did not provide subsidized retiree health care. The City of Elko was informed by companies bidding on its plan that it would be cost-prohibitive to take all the retirees. The City discovered that it could leave some of those retirees with PEBP and only had to cover a small handful of retirees. Elko found the same coverage through PEBP for less money.

State active and retiree populations are charted on Slide 19. The State active population is 22,500 in PY 2002, capping out at 26,244 in 2008 and dropping to 23,390 in PY 2013. It is anticipated that number will be roughly flat for the next biennium.

There is a more steady increase in the number of State retirees; just short of 5,400 in PY 2002, 8,800 in PY 2013, rising slightly over the next 2 years of the biennium to just over 9,000 retirees.

With regard to current and future operations, the chart on the right, ratio of active employees to retirees, is most critical. The bottom line shows the number of non-State active employees compared to retirees. There were 1.38 active employees for every retiree in the non-State pool in PY 2002. Currently, there are 0.01 active employees for every retiree.

Mr. J. Wells:
The State side is the upper line of the chart. There were 4.18 active employees for every retiree in PY 2002 and 2.6 in PY 2013. A decline to 2.43 is anticipated during the next biennium. The steady decline in the ratio of active employees to retirees is a result of people retiring and going directly to the plan or coming back for subsidized retiree health care that is not available in most private sector organizations.

Slide 20 shows the retiree impact, which is total self-funded medical paid claims by age group with no prescription drugs or dental. Both PY 2011 and PY 2012 show the average medical cost and the percentage of average per age group. As an example, the age group costs and percentages are higher in the 55-59 years of age group versus the 35-39 years of age group. As the ratio of active employees falls, the lower cost population becomes less capable of offsetting the increasing costs of the population that is joining.

Senate Bill 34 would revise the current commingling policies and would allow us to add new non-State employers to the active employee population. There are two benefits: increasing the number of active employees on that pool and relieving the administrative burden of obtaining insurance on the employers' own, especially some of the smaller governments.

We submitted a written statement (Exhibit F).

Senator Spearman:
How have the personnel reductions affected PEBP's operating costs?

Mr. J. Wells:
The PEBP has maintained about 30 full-time employees (FTE) almost the entire period of time that you see on the chart. We went from 30,000 participants with 30 FTE in our office to 44,000 with 32 FTE. We currently run between 30 and 32 full-time positions. Furloughs have had some impact. I run a small organization; we outsource the vast majority of the big work we do, having very little bearing on my office operations.

Senator Spearman:
What about the beneficiaries? Every time there is a reduction, then there is an increase in the cost to the beneficiaries.

Mr. J. Wells:
State employment enrollment peaked at 26,530 people in June 2008 and is now about 23,500. The decrease in lower cost active employees is not offsetting the higher cost retirees who are continuing to increase in enrollment. Overall costs to employees are going up because there are fewer of them to subsidize the retirees who are joining PEBP.

Senator Spearman:
What does that mean to your average employer dollarwise?

Mr. J. Wells:
Refer to Slide 20. As an example, in PY 2012, age group 55-59 is $411 and age group 35-39, our average enrollment age, is $170. If you take $170 plus $411 and divide by 2, you are looking at about a $285 difference. This costs about $105 to the average participant active employee for subsidizing a retiree. The calculation is more complicated than that, but it is significant.

Senator Spearman:
What effect does this have on the active employees? If someone is making $30,000 per year and there is an additional cost of $200 a month, that is probably significant.

Mr. J. Wells:
The State subsidizes 93 percent of that $100, which is really costing the employee $10 more per month. It also takes up a bigger piece of the General Fund as far as dollars that it puts toward the program.

Senator Goicoechea:
The family rates continue to escalate much faster. Is it almost out of hand?

Mr. J. Wells:
The State still subsidizes at 73 percent, which makes 27 percent the additional cost for a dependent coverage.

Senator Goicoechea:
A 27 percent paycheck deduction, where net paychecks are already declining because of the 2.5 percent pay cut and furlough days, is significant. Subsidies being where they are, I am looking forward to reviewing the bill in order to get clarification.

Senator Spearman:
Does family coverage include domestic partnership?

Mr. J. Wells:
Domestic partnership is covered, provided the domestic partnership is registered with the Secretary of State. Domestic partnerships and marriage are subsidized the same way. Federal tax treatment is different on a spouse as opposed to a domestic partnership.

Let us look at S.B. 34. It is a nine-page bill, some of it is moving language and subparagraphs. The primary sections of the bill are 4 and 5 where the two pools are recreated.

Section 1 defines a nonparticipating local government agency, meaning a county school district, municipal corporation, etc., that does not have an agreement in place with us, pursuant to NRS 287.025, to cover active employees.

Section 4, subsection 2, paragraph (c) redefines the pools to say that for the purposes of our setting rates and establishing actuarial data to determine rates and coverage, we will consider officers and employees of the State as well as their dependents and retirees, as well as active and retirees of participating local governments. That group has entered into an agreement with us to provide insurance to their active employees. It also keeps the retiree-only pool available.

Section 5, referring to NRS 287.0434, creates the same pool structure in both sections of NRS 287.

Senator Goicoechea:
I want to clarify that it does create two separate pools, even though we do commingle, because any retirees from nonparticipating entities are in a separate pool.

Mr. J. Wells:
It now works with two pools: A State pool, State employees and State retirees, and non-State pool, non-State employees and non-State retirees. Senate Bill 34 will take the non-State employees, whose employers have entered into an agreement with PEBP, and any retirees from those organizations and combine them into a single pool with State employees and retirees. The second pool will remain for the non-State retirees from those entities that are not participating with their active employees.

Senator Goicoechea:
Is that about 70 people?

Mr. J. Wells:
About 62 active employees would join the State pool if this were in effect today.

Senator Goicoechea:
What will happen to the 3,800 nonparticipating retirees in a separate pool?

Mr. J. Wells:
That pool is going to do what it is doing now—it will continue to get more volatile and quickly increase. A provision in statute requires local governments to offer reenrollment of their retirees into their program in even-numbered years, allowing them to go back to their former employer and obtain insurance coverage. That is why you see that number drop; we have had some retirees go back to their former employer because the 20 percent increases were too much. The big piece of this is that we have been approached by a number of people who would have joined had this law been in place.

Senator Goicoechea:
Hopefully, those 3,800 people have not previously opted out and have another opportunity to join PEBP.

Mr. J. Wells:
The reenrollment provision is specific to State retirees. The biennual reinstatement continues to exist, and they can go back every even-numbered year. The one-time break in service only applies to State retirees.

Senator Goicoechea:
If the 3,800 nonparticipating retirees opt to leave you, they never have the opportunity to go back to the State.

Mr. J. Wells:
That is correct, unless the nonparticipating active employees join. Once the retirees leave, they can never come back.

Senator Goicoechea:
At the point they leave and go back to the nonparticipating entity, in most cases they lose their subsidy. If that nonparticipating entity ratchets it up just a little bit, it is a tough scenario, especially for retirees. They must consider their subsidy versus what is offered by the nonparticipating entity and where that could go. There is no safety net.

Mr. J. Wells:
There would be no safety net, they would be stuck with the program their former employer offered.

Chair Parks:
Could you provide us a list of participating entities?

Mr. J. Wells:
I can get you a list of participants, it is mostly small general improvement districts that are left.

James Richardson, J.D., Ph.D. (Nevada Faculty Alliance):
We are concerned in recent years over the dramatic changes that budget problems have forced upon us. This fairly simple bill should be supported.

We do have a small group of local entities that fully participate in the plan with their actives and retirees. They are being hammered right now. That is not fair and is an unintended consequence of some good-meaning efforts in past years. Putting them in the State pool will not affect the rate for State employees. This small group is not going to have an impact. Senate Bill 34 will certainly relieve the burden on that small group of people.

As Mr. J. Wells said, it froze a real opportunity to smaller public entities in this State that might decide to join the larger State pool, therefore taking advantage of the rate structure that could be negotiated by the State for health insurance. It could help out some of those smaller employers.

The problem developed some years ago when, in an effort to help out some of those smaller employers, the Legislature did allow some smaller employers to send their retirees to the State health plan. Some very large public employers in the State noticed that provision and the lack of limitation on the population of the entity. Now we have 9,000 or 10,000 non-State retirees in the plan. A bit over half have been shifted off with Medicare Exchange where they are no longer part of PEBP. That is a whole separate issue.

There was some discussion at the PEBP Board meeting and concerns expressed by some of you on what we are now calling the orphan retirees. This group of several thousand non-State retirees is going to be separately rated. They are trying to find alternatives, and I do not blame them. It would be useful for you to have a good estimate of the costs to integrate the orphan retirees for non-State entities into the larger plan. I am not saying you should do it, using this bill as a vehicle, but I am saying it would be interesting information for you to have. These folks are suffering, their premium rates have gone up 20 percent a year the last couple of years. You may want to address this problem. This bill leaves them as orphan retirees. It does take care of one little group of people that needs be put into a State plan. It will not hurt anybody and it will help them. I urge your support for that.

Ronald P. Dreher (Peace Officers Research Association of Nevada; Washoe School Principals' Association; Washoe County Public Attorneys' Association):
Our concern is that we do not know what may happen to those non-State retirees in the future. I respect Dr. Richardson's comments and ask you to consider the end portion of his presentation. Right now, we cannot support, we cannot oppose, we cannot even be neutral. We just want to see what happens as a result of what he has done.

Senator Hammond:
What is your opinion on this bill?

Mr. Dreher:
I cannot say that I am neutral, and I cannot say I am for or against because of the way the bill is written. There will now be two separate groups: commingling

and non-State retirees. Those non-State retirees, the nonactives, cannot go back to their previous employers because the employers do not offer post-retirement medical. As the retirees age, as you see by the charts that Mr. J. Wells presented, their group is shrinking. The subsidies will be higher because of increased risks. Dr. Richardson said these increases of 20 percent will continue.

Senator Hammond:
Are you saying "I have to try and guess where you are leaning, and I will reserve judgment until after the comments from the gentleman to your right"?

Mr. Dreher:
If I had to lean one way or the other, I would ask that Mr. J. Wells consider bringing those people into the group. You are talking about 2,500 in the biennium of 2015, and right now there is about 3,500. If you commingled them into a group of 40,000, would that have an impact on that group? Absolutely not. Would it have an impact on those 2,500? Absolutely, because their rates may stay status quo. The subsidies from local governments may be diminished. My point is that what I do in the local government levels is negotiate collective bargaining agreements, with health insurance being a critical issue at the negotiation table. That is why I have taken my position.

Martin Bibb (Executive Director, Retired Public Employees of Nevada):
I speak on behalf of some 40,000 retired public employees, 9,500 whom are members of Retired Public Employees of Nevada.

It makes sense to put active and pre-Medicare retirees of local governments, who come into PEBP as an entity, in the same pool with those folks.

Our concerns have to do with leaving fewer than 100 active employees and about 3,200 non-State, pre-Medicare retirees in a pool by themselves. We do not know the precise costs. Senator Goicoechea hit the nail on the head when he said that you really have to look at the numbers. The PEBP Board met last May and considered there to be approximately 4,500 Medicare retirees and 4,500 pre-Medicare retirees, with an estimate of $9 million to absorb them into the group. One of the Board members brought up the issue that the $9 million estimate for the orphan retirees was based upon 2010 figures. The 2010 figures were based upon 4,500, and we are now looking at possibly 3,200 people for FY 2013 based on 2012 figures. Forthcoming details would be helpful in reviewing the plight of this group.

The self-funded plan was created by the action of the 1983 State Legislature. A legislative study was conducted during the Session. Legislators appreciated the challenges of being in a contract for a year or two with a pretty good premium rate but having the premium bumped up in the next couple years. Self-funding made sense. In that process, local governments joined that plan, with both active employees and retirees. Over the years, a lot of things have happened, including a 4-year legislative study of PEBP. There have been a lot of issues and efforts to involve local governments.

We are looking at 2,800 people, or 2,400 people with the 2015 estimate, and the number will diminish from that point forward. Many folks in that pool are ineligible for Medicare Part A, primarily due to a career in public employment, and they have come to reply upon this plan over the years for their coverage.

Getting a good handle on the numbers and the impact makes good sense. It is a very complex situation.

Chair Parks:
We have quite a bit of work to do on S.B. 34. We want to develop some resolutions to some of the problems that have developed over time. We have often approached it that way, only to find that we have created new problems.

Dr. Richardson:
Mr. J. Wells mentioned A.B. No. 553 of the 76th Session. It had a simple goal to preclude any subsidies for a retiree hired after January 1 of last year. I did not think that bill was a good idea, but it passed. I want to put on the record that the new policy, which I do not think was seriously considered by the Legislature, has put the Nevada System of Higher Education at a disadvantage in hiring and retaining faculty. We compete in a national labor market for faculty. New faculty hires are not eligible for any subsidy after they retire.

The Legislature should quickly revisit that bill. We rushed through testimony, but A.B. No. 553 of the 76th Session was an administration bill that went through. It does have the effect of lowering the GASB liability, as if that is the most important thing.

Senator Goicoechea:
Mr. J. Wells, because you are creating this pool that will be commingled between retirees and actives, do you anticipate an influx of some of the non-State employees from county school districts? It will clearly be a better program because the actives and retirees are completely commingled.

Mr. J. Wells:
We have been approached by two localities that would have joined had this been in effect at the time. There is interest from smaller communities as well. The interest is there for active employees to join PEBP. The City of Elko was clear it would not have left had Senate Bill 34 been in effect.

Senator Goicoechea:
Do you see your rates adjusting or going down a bit with this? Clearly, the entities are not there today, especially with their active employees, because they could find cheaper premiums in other places. Will commingling help you get your rates low enough to be competitive?

Mr. J. Wells:
The reason these entities left or have not joined is the non-State pool is too expensive. They are subsidizing those higher cost retirees. We already have the benefit of 2.5 actives to every retiree. That relationship is what makes the State plan less costly than the non-State plan with 0.01 active employees. State employee rates may not drop a lot, but if the entities were able to join the State pool, it would be competitive with what they can get already.

Senator Goicoechea:
I counter that a lot of the smaller local governments are not as loaded with retirees as your existing program; schoolteachers who came out of more urban areas have loaded that retirement pool.

Mr. J. Wells:
I do not have the exact numbers, but I will tell you that of the 9,000 retirees, almost half of them are former Clark County School District employees. Another fairly significant chunk were Washoe County School District teachers.

Senator Goicoechea:
I am struggling for answers. If we put these numbers together, maybe it does make sense to pass a bill and commingle them, possibly bringing back some of

these cities and counties that previously left. It would probably be beneficial for everybody because you would get some actives back and offset those retirees that we are loaded with.

Chair Parks:
Mr. J. Wells, could you get a list of where those employees came from and numbers or a range you indicated? When is the next PEBP Board meeting?

Mr. J. Wells:
Our next full Board meeting is scheduled for March 21. A review of legislative updates, via teleconference, is scheduled for March 7.

Senator Spearman:
Is there a way to get more demographic information in terms of the age of those who joined?

Mr. J. Wells:
We can attempt to get some age breakdowns. The raw numbers of retirees by employers is relatively easy to get, the age ranges not quite as easy. The vast bulk of them are over the age of 55. Most came on toward the end before the pool was closed in 2008. They took penalties to retire from their employer in order to get the subsidized retiree health card that we offer. Thirty years of service at any age is the requirement for retirement, or 60 years of age and 10 or more years of service. Most of the ranges in penalties did not go much below the age of 50, so you are looking primarily at people in the 55- to 64-year-old range plus the 65-year-olds who are not eligible for the premium-free program.

Chair Parks:
We have received written testimony from Sandie Mix (Exhibit G). We will close the hearing on S.B. 34. Meeting adjourned 3:29 p.m.

RESPECTFULLY SUBMITTED:

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Gwen Barrett,
Committee Secretary

APPROVED BY:

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Senator David R. Parks, Chair

DATE:______________________________________

EXHIBITS				
Bill	**Exhibit**		**Witness / Agency**	**Description**
	A	1		Agenda
	B	6		Attendance Roster
	C	23	Keith Wells	Presentation
S.B. 5	D	1	Keith Wells	Requested Revisions
S.B. 34	E	21	James R. Wells	PEBP Presentation
S.B. 34	F	2	James R Wells	Written Statement
S.B. 34	G	1	Sandie Mix	Written Testimony