

**NON-EXECUTIVE AGENCY
FISCAL NOTE**

AGENCY'S ESTIMATES

Date Prepared: March 31, 2015

Agency Submitting: Public Employees' Retirement System

Items of Revenue or Expense, or Both	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Effect on Future Biennia
Total	0	0	0	0

Explanation

(Use Additional Sheets of Attachments, if required)

Sections 4, 16, and 27 provide for increased benefits in certain, limited circumstances and the remaining sections provide benefit modifications for members with an effective date of membership on or after July 1, 2015 within the Public Employees' Retirement System (PERS), the Judicial Retirement System (JRS), and the Legislators' Retirement System (LRS). In the attached letter, the System's actuary has estimated the overall cost impact as a net savings gradually realized over the course of the next 20 to 30 years. The full impact of the savings will not be realized until all members of each system has a membership date on or after July 1, 2015 and the rate at which the savings rolls in over that time depends on the rate at which these new members join the Systems. The estimated savings once all members have a membership date on or after July 1, 2015 is 1.95% of payroll for PERS' regular members, 1.11% of payroll for PERS' police/fire members, 2.91% of payroll for JRS, and \$930 per year for LRS. The savings will be realized by all public employers and employees through contribution rate savings. As the savings will roll in over time and is estimated as a percentage of future payroll, the dollar amount and timing of the savings cannot be determined at this time. However, the ultimate overall savings may be significant. For example, 1.95% of current regular fund payroll is approximately \$83,000,000, 1.11% of current police/fire fund payroll is approximately \$9,400,000, and 2.91% of current JRS payroll is approximately \$551,000.

Name Tina Leiss

Title Executive Officer



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March 24, 2015

Ms. Tina Leiss
Executive Officer
Public Employees Retirement System of the State of Nevada
693 West Nye Lane
Carson City, NV 89703

RE: Analysis of Senate Bill No. 406

Dear Tina:

Per your request, we have analyzed the changes to the Public Employees' Retirement System (PERS or System) proposed in Senate Bill No. 406 (SB 406) as described in BDR 23-1049.

The bill would affect the PERS System, Judicial Retirement System (JRS), and Legislators' Retirement System (LRS) as described below:

- Persons who become members of PERS, JRS, or LRS on or after July 1, 2015 and are convicted of or plead guilty (or nolo contendere) to a felony will forfeit, with limited exceptions, all rights and benefits under the System.
- Postretirement increases would be reduced for members who become participants on or after July 1, 2015. The new annual increases would be 2% per year following the 3rd anniversary of commencement, 2.5% per year following the 6th anniversary, and the lesser of 3% or the preceding year's increase in the Consumer Price Index annually following the 9th anniversary and thereafter.
- The spouse of a member of PERS, JRS, or LRS killed in the line of duty would be entitled to a benefit, payable for life, equal to the greater of
 - 50% of the salary of the member on the date of the member's death, or
 - 100% of the member's accrued retirement benefit, with no reduction for the age of the deceased member.
- Members hired after July 1, 2015 of the PERS Regular plan and JRS would be eligible to retire at age 55 with 30 years of service, and at any age with 33 1/3 years of service. Currently, new participants may retire at any age with 30 years of service.

- Purchased service would be excluded from being used to determine eligibility for benefits. Currently, purchased service increases both the service used to determine eligibility for benefits and the service used in the calculation of benefits.
- For members hired after July 1, 2015, the compensation used in determining benefits would be limited to \$200,000. This amount would be adjusted annually based upon changes in the Consumer Price Index. Currently, the compensation used in determining benefits is limited to the amount specified in IRC Section 401(a)(17) (\$265,000 in 2015).
- The amount of benefits for PERS Regular employees hired after July 1, 2015 would be determined by multiplying the member's average compensation by 2.25% for every year of service. The current formula for new hires uses a multiplier of 2.50% for every year of service.
- Members of the Judicial Retirement System would contribute 50% of required contributions to the System. Currently, JRS members do not pay contributions into the System.
- The amount of benefits for JRS employees hired after July 1, 2015 would be determined by multiplying the member's average compensation by 3.1591% for every year of service. The current formula for new hires uses a multiplier of 3.4091% for every year of service.
- The term "spouse" would include a domestic partner for purposes of determining eligibility to receive retirement benefits from PERS, JRS, and LRS.

Cost Analysis

Because of changes to the benefits paid, the bill would have an effect on the costs of the System. Most of the changes would occur for participants hired after July 1, 2015. As a result, the cost change would occur over the next twenty to thirty years as participants subject to the new plan provisions replace those covered under the current plan provisions. In each case, the changes associated with the bill would result in a cost savings, as outlined below.

Member Group	Ultimate Cost Savings (% of Covered Payroll)
PERS Regular	1.95%
PERS Police/Fire	1.11%
JRS	2.91%

The savings associated with this change for the LRS plan would be approximately \$930 per year (or \$23 per active legislator).

JRS members do not currently contribute to the plan. The bill would require that JRS members contribute 50% of required contributions to the System. This would represent an immediate employer savings of 16.18% for State Judges and 9.59% for Non-State Judges in addition to the long-term cost savings above.

Other Considerations

As discussed above, the bill would exclude eligibility service from service purchases. Currently, the cost of individual service purchases is determined using actuarial factors. The bill would require that new actuarially neutral factors be applied. Since these factors would reflect the new purchase provisions, this portion of the bill would have no effect on the costs of the plan.

Compliance

Retirement benefits under the System are currently non-forfeitable. The provision that would forfeit benefits for participants due to conviction of a felony should be reviewed to ensure that it complies with applicable state statutes and the contract provisions of the state constitution.

These cost estimates were made using generally accepted actuarial practices and are based on the June 30, 2014 actuarial valuation results, including the participant data and, unless otherwise noted, actuarial assumptions on which that valuation was based. Calculations were completed under the supervision of Mark Hamwee, FSA, MAAA, Enrolled Actuary.

As mentioned above, we have not reviewed this legislation for compliance with applicable State of Nevada law. We recommend that you address all State law issues with the System's counsel.

I look forward to discussing this with you further.

Sincerely,

A handwritten signature in blue ink, appearing to read "Brad Ramirez", with a stylized flourish at the end.

Brad Ramirez, FSA, MAAA, FCA, EA
Vice President and Consulting Actuary

/cz

cc: Cheryl Price

Attachment

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