MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON GOVERNMENT AFFAIRS

Seventy-Eighth Session
March 3, 2015

The Committee on Government Affairs was called to order by Chairman John Ellison at 8:20 a.m. on Tuesday, March 3, 2015, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, 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/App/NELIS/REL/78th2015. In addition, copies of the audio or video of the meeting may be purchased, for personal use only, through the Legislative Counsel Bureau's Publications Office (email: publications@lcb.state.nv.us; telephone: 775-684-6835).

COMMITTEE MEMBERS PRESENT:

Assemblyman John Ellison, Chairman
Assemblyman John Moore, Vice Chairman
Assemblyman Richard Carrillo
Assemblywoman Victoria A. Dooling
Assemblyman Edgar Flores
Assemblywoman Amber Joiner
Assemblyman Harvey J. Munford
Assemblywoman Dina Neal
Assemblywoman Shelly M. Shelton
Assemblyman Stephen H. Silberkraus
Assemblywoman Ellen B. Spiegel
Assemblyman Lynn D. Stewart
Assemblyman Glenn E. Trowbridge
Assemblywoman Melissa Woodbury

COMMITTEE MEMBERS ABSENT:

None

GUEST LEGISLATORS PRESENT:

Assemblyman Pat Hickey, Assembly District No. 25
Assemblyman Randy Kirner, Assembly District No. 26

STAFF MEMBERS PRESENT:

Jered McDonald, Committee Policy Analyst
Aubrie Bates, Committee Secretary
Lori McCleary, Committee Secretary
Olivia Lloyd, Committee Assistant

OTHERS PRESENT:

Victor Joecks, Executive Vice President, Nevada Policy Research Institute
Lance Christensen, Director, Reason Pension Reform Project, representing Reason Foundation
Dan Liljenquist, Consultant, Action Now Initiative
Terry Kennedy, President and CEO, Appreciation & Financial Services, LLC
Mike Duncan, Regional Vice President, National Life Group
Tray Abney, Director, Government Relations, The Chamber of Reno-Sparks-Northern Nevada
Paul J. Moradkhan, Vice President, Government Affairs, Las Vegas Metro Chamber of Commerce
Vicki Cameron, Private Citizen, Henderson, Nevada
Martin Bassick, President, Service Employees International Union, Local 1107
Barry Gold, Director, Government Relations, AARP Nevada
Rosemary Ensign, Private Citizen, Las Vegas, Nevada
Ron Dreher, Director, Government Affairs, Peace Officers Research Association of Nevada
Teresa Ghilarducci, Professor of Economics, The New School for Social Research
Tina M. Leiss, Executive Officer, Public Employees' Retirement System
Marty Bibb, Executive Director, Retired Public Employees of Nevada
Paula W. Petruso, Private Citizen, Henderson, Nevada
Ruben R. Murillo, Jr., President, Nevada State Education Association
Shelley Seeberg, Regional Director, American Federation of State, County and Municipal Employees
Warren Wish, representing Nevada State Education Association
Jeff Church, Chief of Recruiting, Diversity Recruiting Specialists Law Enforcement Consulting

Wendy Boszak, Private Citizen, Reno, Nevada
Peggy Lear-Bowen, Private Citizen, Reno, Nevada
Maurice White, Private Citizen, Carson City, Nevada

Chairman Ellison:
[Roll was called. Committee rules and protocol were explained.] First today is a work session for Senate Bill 119.

Senate Bill 119: Revises provisions relating to educational facilities. (BDR 28-732)

Jered McDonald, Committee Policy Analyst:
We have one bill on work session today, Senate Bill 119, which revises provisions relating to educational facilities.

The bill was heard in this Committee on February 26, 2015 and is sponsored by Senator Harris and Senator Kieckhefer. [Continued reading from work session document (Exhibit C).]

Chairman Ellison:
I will entertain a motion.

ASSEMBLYMAN STEWART MOVED TO REFER SENATE BILL 119 TO THE FLOOR WITHOUT RECOMMENDATION.

ASSEMBLYMAN SILBERKRAUS SECONDED THE MOTION.

Chairman Ellison:
Is there any discussion?

Assemblyman Stewart:
I want to make it clear, I am not voting for the bill at this time; I am referring it to the floor. I reserve my right to change my vote on the floor.

Assemblywoman Spiegel:
Chairman Ellison and members of the Committee, this is highly unusual. We do not do things this way. We make recommendations to the floor. We have a very strong system of committee work where our colleagues understand the committees vet the bills and make recommendations. Bringing something to the floor without a recommendation is really something that should be saved for the end of session when there is not enough time to vet bills properly. I stand opposed.

Assemblywoman Joiner:
In light of Assemblywoman Spiegel's comments, I concur and I would like to move to amend the motion to delete all sections of the bill except for sections 2 and 7. I think our recommendation to the floor should be amend and do pass with the deletion of all sections except 2 and 7.

Chairman Ellison:
This has happened several times and is nothing new to committees. We are going to refer it back to the floor so everyone can have discussions in their own committees and bring it back to the floor. We will make the recommendation on the floor.

Assemblyman Silberkraus:
I will support moving the bill to the floor, but I reserve my right to change my vote on the floor.

Assemblyman Trowbridge:
I have some serious concerns with the totality of the bill and referring it to the floor without having amendments that would be appropriate. We spent many hours listening to testimony from people both for and against each element of the proposal. To just send the bill to the floor without giving due consideration to the input we received is inappropriate. I have concerns with many segments of the bill and want that on the record. I could give a 45-minute speech about my objections and the changes that need to be made. Not having the opportunity to get the amendment suggested is inappropriate.

Assemblyman Moore:
I would like to echo Assemblyman Trowbridge's comments. I, too, have a big issue with this bill. I think the bill should be separated so each issue can stand on its own merits. I keep hearing all this talk about amendments, but I have yet to see one. Until I see an amendment, I do not support this, and my vote will be no.

Assemblywoman Neal:
I would have to vote in opposition to move this bill to the floor without a recommendation. There were a lot of questions asked of the sponsors of the bill. They did not provide those answers. It was requested that they clarify provisions in the bill that were unclear. We are the Committee that vets these bills, and we are the Committee who is responsible for getting those answers. Moving it to the floor limits our ability to get those answers. Our colleagues on the floor did not get the benefit of the hearing, nor the promises of information that we expected to receive after the hearing. I will be in opposition.

Chairman Ellison:
I agree, Assemblywoman Neal. However, there are so many other people involved in this process who want to have a voice on this. That is why we want to move it to the floor, where all the committees can actually voice their opinion.

Assemblywoman Dooling:
I also have some issues with this bill. I will vote to move it to the floor, but I would like to reserve my right to change my vote.

Assemblyman Carrillo:
I would like to acknowledge Assemblywoman Joiner's motion. In addition, having an amendment would make it right. That is very important for the people of Nevada, and it is something we need to address. I will be voting no.

Assemblywoman Shelton:
I am going to vote yes to move this bill to the floor without a recommendation. However, I do reserve my right to change my vote on the floor.

Assemblyman Trowbridge:
If this bill were to pass through this Committee with no recommendation, I want to go on the record that I will aggressively oppose it on the floor.

Assemblyman Flores:
I want to state my concerns in following this path. We are setting a precedent for future hearings. I feel we are undermining the voices of this Committee when we do not fully address all the questions that are put on the record. I am also in opposition to this motion.

Chairman Ellison:
I have the same issues. We are hearing from a lot of people on both sides of the aisle who say they have problems and want to be involved in the process. I am going to reserve my right to change my vote on the floor. However, I will be voting yes to move this bill to the floor. If there is no other discussion, we will vote.

> THE MOTION FAILED. (ASSEMBLYMEN CARRILLO, FLORES, JOINER, MOORE, MUNFORD, NEAL, SPIEGEL, AND TROWBRIDGE VOTED NO.)

Chairman Ellison:
We need to introduce a bill draft request. Do I have a motion?

BDR 28-540—Revises provisions governing public works. (Later introduced as Assembly Bill 215.)

ASSEMBLYMAN STEWART MOVED TO INTRODUCE BDR 28-540.

ASSEMBLYWOMAN WOODBURY SECONDED THE MOTION.

THE MOTION PASSED UNANIMOUSLY.

Chairman Ellison:
I will open the hearing on Assembly Bill 190 and welcome Assemblyman Hickey and Assemblyman Kirner to the table.

Assembly Bill 190: Revises provisions governing public employees' retirement. (BDR 23-184)

Assemblyman Pat Hickey, Assembly District No. 25:
Thank you for allowing me the opportunity to briefly introduce the sponsor of this bill. I am especially proud to introduce Assembly Bill 190, the Public Employees' Retirement System (PERS) act, and its sponsor. No one is more qualified to bring this bill to you than Assemblyman Kirner. He served as vice president of human relations at one of this state's largest private corporations, International Game Technology. Practically speaking, he was involved in a very intimate way with thousands of employees' benefits that obviously were very important to them. He has also been involved in very intimate ways with benefits that are just as important to our public employees in this state, as he served for 12 years on the Board of the Public Employees' Benefits Program, including a stint as its first private sector chairman.

It takes some courage to bring this bill, as evidenced by the snickers in the background and the fears and uncertainties regarding change. To bring this bill, Assemblyman Kirner has paid a price. In the circles of my party, we now affectionately call him "Landslide Kirner" because in his last election, he won by 11 votes. A big reason for that was because he took on this very difficult issue. I would just say to everyone here that this is an issue that needs to be raised. We are not talking about ending PERS as we know it, but saving PERS because we are going to need it in the future. Yes, this individual before you today to present this bill is a voice crying in the wilderness of the 21st century, but I think that voice needs to be raised now.

We need to start looking at the ark, if you will, that we need to build in order to sustain and protect PERS and to have it work for our future employees. In that regard, I urge your open-mindedness and support. I hope this bill will not die in the sands of the Assembly Committee on Government Affairs, but will reach its day in the minefields of the Assembly Committee on Ways and Means, where Assemblyman Kirner will probably get more potshots than he did in Vietnam.

Chairman Ellison:
I would like to get one thing on the record. We want to show respect to everyone who is presenting on either side.

Assemblyman Trowbridge:
I appreciate your introductory remarks. It reminds me of an article that I read recently by a famous author entitled "A Profile in Courage, Nevada Style." You may recognize some of the literary work of that individual. The punch line was about Assemblyman Kirner having the gumption to pursue this because he feels very strongly about it. I applaud the tenacity and the aggressiveness with which you pursue these changes.

I would like to remind everyone that my primary concern with any changes to PERS is that it not negatively impact any current employee or retiree. The bill, as presented, does provide for those protections. When we are going through the deliberations, pro and con, we need to realize we are not talking about a bill that is going to hurt any current employee or any retiree on the surface, but there may be other documentation that is presented to the contrary.

Assemblyman Randy Kirner, Assembly District No. 26:
I have invited a lot of my friends here today. Many of them have written to me expressing their concerns about Assembly Bill 190. I do have a sense of humor around this sort of thing. I understand it is a change I am proposing and some of them may be concerned. The fact of the matter is, the message I want to send is this does not affect current employees. We have made a promise to them in terms of their retirement benefits and that promise needs to be kept. That is message number one.

Message number two is I heard about a week ago that the system is not broken, so we do not need to fix it. I argued then that the management of the system is not broken, but I did not touch on the system itself. I want to say today that I think the system does need some work. I do not know if I would call it broken or not, but I think the system needs some work, and I would like to present that information.

The third message is that we are in a policy committee and not a money committee. When we look at PERS, it is pretty hard to separate the policy side from the financial side. I am sure some of you may want to ask questions about the financial side. I know there are some cities and counties that have put fiscal notes on the bill, which is fine. However, that is not a discussion for this Committee. I am going to try to stay away from the fiscal side of things and talk more to the policy.

I have a PowerPoint presentation (Exhibit D) I would like to share. First, I want to talk about what PERS is, so we are all on the same sheet of music. The Public Employees' Retirement System is a defined benefit pension plan. What a defined benefit plan boils down to is there is funding that goes on, which is a separate issue. The second part is when one retires, there is an assigned formula that calculates what that retirement benefit will be. The formula really does not mean anything when it comes to the funding. Those are two separate issues.

The objectives of the system are simply to provide reasonable base income for retirement and to encourage long service to the public employer. I would say to you, I think the first objective is being achieved. The second objective is something we can have a discussion about. Forty-three percent of our plan includes teachers. The teachers in this state have the highest turnover, with many of them not lasting beyond five years. I have had that experience with my own daughter-in-law, who only worked for five years because she could not take it anymore.

We have to keep in mind that this is two legs of the classic three-legged stool. That is, we have no social security for employees of the State of Nevada, so PERS represents social security for them and the first leg of the stool. They also represent the second leg of the stool, which is an employer's retirement plan. The third leg of the stool is personal savings. In our state, one of the hallmarks of our plan is that the contributions are shared 50/50. Currently, regular employees pay 25.75 percent, and police, fire, and safety employees pay 40.5 percent in contribution levels. In theory, that is 50/50. State employees' salaries are reduced by half of 25.75 percent. If you are an organization that is represented by an association or a union, oftentimes, through contract negotiations, the employee share has been picked up by the sublevel government in lieu of salary increases. For example, the Washoe County School District teachers are paid their salary, and the school district, through contract negotiations over the years, picks up the entire 25.75 percent contribution. That may be changing. I know there have been some recent contracts where they try to get the associations to share, so there may be a little bit of a mix there.

Why this bill, at this time [page 4, (Exhibit D)]? Pension reform is a bipartisan issue. I will talk more about that later. When we look at the total state and local unfunded liabilities in the United States, it is estimated at $4.6 trillion in unfunded liability. In Nevada, our PERS unfunded liability exceeds $12 billion. Policymakers on both sides of the aisle are addressing one of the largest financial problems that has faced the states, and this is a big one for Nevada. In fact, if you were to take the $12 billion and divide it by the number of people in the state, you will find the average obligation is quite large. We have approximately 3 million people in the state. It is a little more than $4,000 per person in the state.

Chicago Mayor Rahm Emanuel recommended an increase in retirement age and freezing the cost-of-living adjustment [page 5, (Exhibit D)]. I do not know if many of you saw this, but just last week, citing an overwhelming pension burden, Moody's Investors Service dropped Chicago's Moody rating to Baa2, which is two notches above junk status. A downgrade could trigger penalties of about $58 million on interest rates tied to the city's bond issuance unless people can negotiate these terms. The bottom line is Chicago, which is a pretty large city compared to the state of Nevada, has four pension plans that have about $20 billion in unfunded liability, which is not much more than ours, and has a considerably larger population than ours. Beginning next year, PERS is going to have to dissect the unfunded liability and assign it to the various sublevel governments, so it will begin showing up in their balance sheets. The question we need to ask ourselves is what will that mean to their individual bond rating?

Rhode Island Treasurer Gina Raimoudo, who is now the governor, sponsored reforms in a heavily unionized state. There are lawsuits pending, but they created a hybrid retirement plan, much like I am talking about. Even in California, Governor Jerry Brown has sponsored substantive changes to California PERS. I will talk about a few of those in a moment. In Utah, State Senator Dan Liljenquist led the initiative to restructure their defined benefit plans. I am proud to say Senator Liljenquist is here today to speak to this bill. Similarly, I think Nevada must address our retirement system.

What are the issues [page 6, (Exhibit D)]? There are six issues that I see: unfunded liability of $12 billion, investment returns, contribution levels, benefit payments, the active-versus-retiree ratio, and the world of work changes.

I would like to talk about unfunded liabilities first. Unfunded liability is an actuarial term that is the difference between what PERS owes to the participants when they retire, which is a liability, versus what they are holding in terms of assets. The goal, obviously, would be 100 percent funded, which is having assets equaling liabilities.

I am not sure how well you can see this map [page 8, (Exhibit D)], but Nevada is about 71 percent funded. The states in red are those states that are 79 percent funded or below. The states in blue are 80 to 99 percent funded. There are a few states in green that are above 100 percent funded. That would be our goal. Certainly, when I talked to PERS management, that is their goal also. There is no question that is where they are headed.

If you look at where we have been this century [page 9, (Exhibit D)], we started with our regular plan just slightly above 85 percent. The police, fire, and safety were just a little below 80 percent. There is a definite downward trend, but it has been a tough decade, for sure. The good news is that the police, fire, and safety unfunded liability started turning upward beginning in 2010. In fact, this past year, the unfunded liability for regular employees has begun turning upward again. Where they need to be is at the 100 percent mark.

On investment returns, they use a 5-year smoothed rate on investment (ROI) [page 10, (Exhibit D)]. The line across the 8 percent is the goal, which is a rate of return of 8 percent. I would argue that we have had years that the 5-year smoothed ROI is above 8 percent, but there are enough years below. We have had a couple of small recessions at the beginning of the century and a larger recession beginning in 2008. The investment returns have not been all the way up to 8 percent. The problem is when there is a year, for example fiscal year 2003, where there is a 4 percent return, the next year we need to make 8 percent plus 4 percent. By fiscal year 2004, we had a little bit more than 4 percent. Now we have the 4 percent you have to make up from fiscal year 2003, the 4 percent we have to make up from fiscal year 2004, plus the 8 percent, plus the 8 percent. When these start accumulating, there is a big issue. It is also time value of money, if you understand that term.

How does that compare to the world at-large [page 11, (Exhibit D)]? The top 100 U.S. companies use a 7.5 percent average rate of return. We are using an 8 percent rate of return. The 10-year Treasury bonds pay less than inflation, most of them under 2 percent. There is instability and turmoil in the international financial market, which affects PERS as well. We do have some arbitrage and international investments, which could be a higher risk than a more conservative investment. California PERS, seeing these things, lowered their rate of return to 7.5 percent. Their actuary recommended 7.25 percent. When you lower the return on investment, that adversely affects the unfunded liability. There have been shortfalls in the investment returns resulting in higher contribution levels, which is one of the ways we fund PERS.

If you look at the contribution rates [page 12, (Exhibit D)], you will see an interesting trend. You can see the trim lines for both regular employees and police and fire employees. The fact of the matter is the trim line is going up. One of the things I was asked last week was if I had read the report to the Retirement Board from PERS, which was done by Aon Hewitt (Exhibit E) about how great our system is. Yes, I have read it, but our contribution rates are among the highest in the country. Granted, we do not have social security, so that drives the rate up, but we are still going up. For the State workers who do pay the contribution rate of 15 percent out of their paycheck, every time we raise the PERS rate 2 percent, it is a 1 percent cut in pay for State employees. Our State employees have not only incurred furloughs, but they also had a 2.5 percent pay cut in addition to the 1 percent more for PERS. I have a lot of sympathy for my friends in the audience who may be State employees.

The fourth area of concern for me is the benefit payments. As we can see here [page 13, (Exhibit D)], the benefits and payments at the beginning of the century were at $421 million. Last year, they were at $1.8 billion. Basically, more than three times what they had been, so they are growing at a very rapid rate. If you look at the number of beneficiaries [page 14, (Exhibit D)], it is also growing. As there are more beneficiaries in the system who are not contributing to the system, it creates a burden.

Assemblywoman Spiegel:
You said our employees not being in social security drive our rates up. My understanding is that we actually pay less by not having our employees in social security. Could you please clarify that?

Assemblyman Kirner:
I do not understand your question.

Assemblywoman Spiegel:
My understanding is that if we were to have our employees in social security, it would cost the state more money. Could you clarify that or is there someone in the room who would have the exact data.

Assemblyman Kirner:
I am not sure I can answer the question. You are starting to move into the fiscal area. If we had social security, the state or local government would pay their 6.2 percent and the employee would pay 6.2 percent, then there would be the second leg of the stool, which is the retirement plan. Would it be less? Of course it would be less. Is that what you are asking?

Assemblywoman Spiegel:
My understanding is that at the time the decision was made for Nevada employees to not participate in social security and to have their entire retirement

through PERS, that decision was made on the fiscal recommendation that it was less expensive for the state to not have employees in social security. Similarly, a migration to have our employees in social security and having that federal safety net would cost the state so much money that it would be cost-prohibitive. I just want some clarity on the record of that point.

Assemblyman Kirner:
That decision not to be a part of social security was made 30 or 40 years ago. I do not think State employees have ever been in social security. The PERS representative can testify to that when I am finished. She will be testifying in opposition today.

Chairman Ellison:
If the rest of the Committee could please take note of the slide number they have questions on, it would be helpful so we can come back to them.

Assemblyman Kirner:
The next slide [page 15 (Exhibit D)] is the unfunded liability increase. You can see at the beginning of the century we were a little over $2 billion. We were at a high of $12.9 billion, and we are now down to $12.5 billion. Some people would characterize that with having an equity position and an unfunded position with a home mortgage. It is not reasonable to expect that the mortgage will be paid off. What you see here is an example of where you refinance every year. As a result of refinancing, your obligation goes up. If I had a mortgage and I was just paying it off month by month, my obligation would go down.

The next slide [page 16, (Exhibit D)] deals with active employees versus retirees. This is an interesting issue. In 2002, we had four active employees per retiree. In 2012, we had two active employees per retiree. Today, it is slightly less than two. We have about 55,000 beneficiaries and about 100,000 active employees. In theory, it should not be a problem because retirement payments should be coming out of your assets. What we are doing is paying out 80 percent of our assets, and 20 percent is coming from new money.

According to the U.S. Department of Labor, Bureau of Labor Statistics [page 17, (Exhibit D)], the median years of tenure between 2000 and 2010 in the private sector was 4 years, state government was 6.4 years, local government was 7.5 years, and education was 4.1 years. What this says is the world of work is different today. When my parents and my parents' parents worked, they often worked a lifetime for one company. My parents may have had three job shifts in their lifetime. However, today many will make employment shifts. Many of you here may have already made some shifts in your career. I guarantee you, the millennium generation is not looking to work for the State or a sublevel government for 30 years. I think the world of work has changed, and as a result of that, when people are looking at jobs, they are looking at different kinds of benefit structures, not simply a 20-year or 30-year career.

I am proposing a program that only affects new employees hired after July 1, 2016 [page 18, (Exhibit D)]. The reason I say July 1, 2016 is because I want PERS to have a full year to work on this. I believe PERS is doing a fine job of management and there is no reason why they should not manage this system. The defined benefit portion of the plan recognizes long service and the runaway costs we have, or the building of the unfunded liability, which begins to be controlled by the defined contribution plan. The defined contribution plan would be portable. There is ownership in your own plan because you vest at 20 percent a year and after five years, you own that plan. It provides a choice of retirement investments. Some people would say it sounds like a 401(k), but it is a little different in government. The Public Employees' Retirement System would put together a safety net. In other words, if you do not know where to invest, PERS would recommend a solid investment. The defined contribution funds can be passed to your heirs. For example, my mother-in-law passed away, and my wife inherited her individual retirement account (IRA). There is also a higher retirement benefit for long service employees.

This slide [page 19, (Exhibit D)] shows how the contributions would work. In a defined benefit plan, regular employees would pay nothing and the employer would pay 6 percent. Police and fire employees would also pay nothing and the employer would pay 6 percent. In a defined contribution plan, it would be 6 percent for both the employee and the employer. The employee would actually have to contribute 6 percent, much as every other regular person in the state contributes to social security. Police and fire would pay 9 percent, as would the employer. Because we know there is an unfunded liability sitting in the current pension plan of $12.5 billion, this particular design would contribute back to that plan.

This is not a new plan. Some people say we are closing the old plan, but it is still one bucket of money and the assets are all measured together. We are not closing the first plan. Some would argue that, but that is an issue I will take up with the Assembly Committee on Ways and Means, if this bill makes it there.

Let me illustrate how this would work [page 20, (Exhibit D)]. If you are a regular employee hired at age 30 and retire at age 65, the total service would be 35 years. Because the multiplier is 1 percent for regular employees and 1.5 percent for police and fire, the value of that defined benefit plan would be

35 percent after 35 years for regular employees and 37.5 percent for police and fire. The defined contribution plan would yield 45 percent for the same amount of time and 41.5 percent for police and fire employees. Today the income replacement value, which is what you need to think about, is at 75 percent. Under this model, it is at 80 percent and 79 percent respectively.

The important thing, too, is your defined contribution. When you retire, you may not continue contributions to the defined contribution plan, but it does not go away. It continues to earn value.

How do we make the defined benefit plan work [page 21, (Exhibit D)]? The salary cap would be 133 percent of your base salary for the highest three consecutive years. Purchase of air time/service credit, which is an archaic concept, would go away. I talked to the Executive Officer of PERS about the history of air time/service credit. It is interesting to look at the history and think about how that happened. I know of no other system where air time or service credit is allowed. Full retirement has changed in terms of the social security age. People are living longer, so for regular employees, it should be the social security age. For firefighters, the retirement age would be the social security age minus ten years, because obviously we do not want older people doing that type of work. Contributions would not be subject to collective bargaining. It would be up to the actuary and the PERS board to make any adjustments in those contribution rates.

This slide [page 21, (Exhibit D)] shows the defined contribution plan features. Members who are in what I would call Tier 1 versus Tier 2 of the plan could transfer their existing plan to the hybrid plan. It would be an irrevocable decision. Supplemental contributions can be made to the defined contribution plan. There are investment choices and a safety net, which we talked about earlier. Employees would vest at 20 percent per year and would be fully vested after five years. There would be no hardship withdrawals or loans, which is a significant difference compared to what you would find in a 401(k) plan. Distribution options could be many things, but one of the options is an annuity. The governance of the plan would be by PERS. As I stated, I have complete faith in the PERS management system. They would be working with a vendor on investment options, education, communications, and member services.

In conclusion, there have been some discussions about whether this plan is closed or not closed and whether it would mean another fiscal note on the part of counties, cities, and school districts. I have a different point of view than the Executive Officer of PERS and the Board in terms of this element. That difference of opinion will be taken up with Ways and Means, not in this Committee. I am open to questions.

Assemblyman Trowbridge:
You mentioned the PERS Board would work with the vendor. What does "work with" mean? Who gets to make the final decision? How would that vendor be selected?

Assemblyman Kirner:
I do not have the bill in front of me, but I can speak to it. The PERS Board has done a notable job in terms of managing the defined benefit plan we have today. There is no reason in my mind why that Board and management team could not select a vendor to manage the 401(k). I am going to call it a 401(k), but it is not a 401(k), it is a defined contribution plan. They would have the authority to select the vendor, but it is not in the bill. There are some prerequisites in the bill that speak to stability and former lawsuits, but they are generic. Did I answer your question?

Assemblyman Trowbridge:
Yes, you did. There is something in the bill about the vendor being chosen through competitive bid or some kind of open process.

Assemblyman Kirner:
Again, PERS would handle that. There may be some unanswered questions. If you understand PERS, and I know Assemblyman Trowbridge does, the fact of the matter is it is a very complex system. There are questions that have not been defined in the bill that we would leave to PERS management. A question posed to me by the PERS actuary through a letter was what about funds that transfer. There are no funds that transfer. If you are in a defined benefit plan now and a defined benefit plan going forward, there is a little different plan design, but the assets are all the same. The assumptions may be a little different, but those assets are group assets. There is no transfer of funds. If someone moves from defined benefit plan 1 to defined benefit plan 2, there is no reason to transfer assets.

Assemblyman Trowbridge:
Both of us have spent careers in human resources, and we understand the concept. You mentioned the world of work and numbers I certainly cannot challenge. Those are some shocking numbers and, as human resources people, we understand the impact of the cost of turnover in training new people and the reduction in productivity. Government, in general, has some unique career fields that result in people getting certifications and licensing. Once they acquire those, they become marketable commodities. They have the ticket, while the employer bore the expense of training them to get that ticket. I understand the attractiveness of making the 401(k) portable so when the time came, the person could pick up and move. A very significant element of this is

it simply removes career incentives or "golden handcuffs." If you are a public employee having worked eight to ten years, you are halfway home, so there are reasons for your licensed, qualified, and most productive employees to stay. If you change the rules so they can take their retirement and go, you have lost that incentive for them to remain. How would you respond to those thoughts?

Assemblyman Kirner:
Remember, this is a hybrid plan, so part of it is a defined benefit, much like we have today. If employees decide to leave after seven or eight years, the value is whatever the value is. They do not take that with them. The only portion they could take is the defined contribution. When we are trying to attract new employees, they see an opportunity in the defined benefit plan that grows over time. It is not valued much at six years, it is valued a little more at seven years, a little more at eight years, but it does not really kick in until after 15 years. By that time, there is substantial investment in the defined contribution plan. An employee can stay where they are or take it with them. There is a little of both, because if an employee leaves, he leaves behind a pretty good benefit plan and has no social security credit for those years. I am trying to strike a balance here.

Assemblywoman Neal:
You had made the statement that 43 percent of the plan includes teachers and, therefore, they have the highest turnover. What I did not hear is what that means. Because teachers have the highest turnover, what is the effect of the relationship to the plan and that high number?

Assemblyman Kirner:
The fact is that of the 100,000 active employees, 43 percent are teachers, at least the last time I checked. Teachers historically have the least amount of tenure. That is true in our state, as well. The impact on the system is when those teachers leave, depending on when they leave, they may leave with nothing. I used the example of my daughter-in-law. She worked five years as a teacher and was vested, but she received no money when she left. She will have about enough for a cup of coffee in her retirement plan. She has five years into the plan, all the money contributed to the plan stays in the plan in terms of building assets, but the value to her is very small.

Assemblywoman Neal:
I want to be clear about this. In the slide presentation, you showed the differences between 2003 and 2008 and how the recession challenged the growth in PERS. I looked at the 2008 PERS report. I could not find the 2003 report. In 2008 in the PERS Annual Comprehensive Report, it said that

although PERS was unable to generate the 8 percent goal, it did out-perform the market objective and ended with $22 billion in assets. In 2007 it was $22.8 billion. Is your plan recession-proof so we will not encounter those kinds of dips?

Assemblyman Kirner:
The answer to that is no. Nothing is recession-proof. In some respects, it does not matter what that return on investment is because when you retire, it is a benefit formula that calculates your retirement. The objective is to get the benefit formula, the payout, and the assets, to be the same. When there is a recession like the one we have had, it affects our assets. Moving forward, the redesign of the defined benefit is only using a 6 percent return on investment in order to achieve the goal. It is a smaller chunk of an employee's retirement, but it is much easier to achieve a 6 percent return consistently than the 8 percent return consistently. In fact, when you talk to financial analysts and ask what the next 20 years look like, I submit to you that there is not a lot of confidence that we will hit 8 percent year after year for the next 20 or 30 years. We have a better opportunity to hit that 6 percent number. Did I address your question?

Assemblywoman Neal:
I do not want to take up too much of my time because I want to discuss the bill later.

Assemblyman Kirner:
Once again, I am trying to stay away from the fiscal aspect of this bill, and your question was a fiscal question.

Assemblywoman Joiner:
I have previously mentioned in other hearings that I am a vested member of PERS. As the deputy director of one of the agencies in the state, I had to recruit and retain quality public employees. For me, this is a very personal issue, and I also have many constituents who are vocal about it. For me, it really comes down to the practicality and the math. I was going to ask you why you are bringing this bill, but I think you answered it in one of your slides. You talked about the unfunded liability, and you made the argument that this bill helps the unfunded liability in the end. I am looking at the math and cannot make it add up. I am hoping you can explain it to me. Obviously, you have done studies or have somehow calculated that these new contribution rates help reduce the unfunded liability. I am telling you, I do not see it and I will tell you why. Anytime you take funds from a defined benefit plan and put it into a defined contribution plan, you are taking funds out of the plan, and the

contribution rates are much lower than what we currently use. If you could help me with the math, that would be helpful.

Assemblyman Kirner:
That is a fiscal note question and not a question for this Committee. That question needs to be in Ways and Means. This is not pulling numbers out of thin air. We have had actuaries look at this and provide actuary reports. When the PERS actuary testifies, presumably in Ways and Means, and the actuary who helped me with these numbers testifies, then those things will be sorted out. I understand your question. It is like many of the folks in the audience. They feel their benefits are going to be taken away, and that is not the case at all. Their benefits are protected.

Assemblywoman Joiner:
I do understand you are not planning to touch current members. However, in the future, if we want to recruit and retain quality workers at the state level, we do need a quality program. For me, I cannot make a policy decision. I am not asking you how much the fiscal note is. I cannot make a policy decision about moving these funds around, or whether these contribution rates are appropriate without understanding the math. That is all I am asking. If you say the actuaries will come up later, I will wait to ask the question.

Assemblyman Kirner:
I am not planning to have the actuary testify today because, again, this is not a fiscal committee. I am planning to bring them forward in Ways and Means, presuming this bill goes to Ways and Means.

In terms of hiring employees, I am sure as a deputy director, you experienced turnover of staff. I talked to people from the Department of Public Safety, Nevada Highway Patrol, for example. We spend a lot of money training the officers, and then they go to a local agency. I had a town hall meeting over the weekend where one of our state officers, someone in charge, mentioned they had a safety employee in Elko who was a Harvard graduate who left the state to work for the local police department. He received a raise immediately because state employees pay their 15 percent and county employees do not. It is not good to have that kind of turnover. I was not in your agency, so I do not know what kind of retention rates you had, but I think it is tough these days for state employees. I believe this bill would help that situation from a policy perspective.

Chairman Ellison:
Can I get a show of hands of people who have slide presentations? I would like to get the screens down so the individuals on the other side can see.

Assemblyman Stewart:
Thank you, Assemblyman Kirner, for having the courage to bring this very difficult issue to the forefront to try to make improvements. If this plan were implemented, do you have a scale of how we would go from 71 percent funded to 80 percent or higher? Do you have a rough idea of how long it would take?

Assemblyman Kirner:
I do not have that number in front of me. One of the things I am currently working on is a 30-year forecast of what happens to our plan if there are no changes made. I would hope to have that ready for Ways and Means, assuming we get there. I think that would answer your question, but as far as having that number in front of me, I do not.

Assemblywoman Spiegel:
My first question is regarding section 3, subsection 1(a) that states there is a cap on annual benefits that must not exceed 133 percent of the average social security rate. My policy question is if you are asking employees to take all of the downside risk of the investment portfolio, why would they not be entitled to have all of the upside risk?

Assemblyman Kirner:
I am not asking them to take the downside risk. I am asking them to take the upside risk. There is a better benefit in the defined contribution than there is under the defined benefit plan today. That misconception should be squared away. You saw the 80 percent and the 79 percent [page 20, (Exhibit D)].

Assemblywoman Spiegel:
I have also seen my own 401(k). We can have a disagreement on your numbers, but if you are capping the upside at 133 percent, and if the investment portfolio performs as well as you think it is going to perform, then why could the employee not get a higher return?

Assemblyman Kirner:
I think the employees can get a higher return. What I am capping is the portion that goes into the defined benefit plan. Currently, to avoid spiking, which has been a problem in the past, we are saying we should leave it at 133 percent. It is like changing the retirement age.

Assemblywoman Spiegel:
Would you clarify the wording in this bill? The bill seems to be saying something different from what you are saying.

Assemblyman Kirner:
Which part of the bill?

Assemblywoman Spiegel:
Section 3, subsection 1(a) states, "Include a cap on annual benefits...."

Assemblyman Kirner:
It is a cap on the three-year average.

Assemblywoman Spiegel:
You are saying two things in contradiction to each other. The bill basically states that the employee would not be able to participate in the upside. If you are saying that it says something different, then I am asking you to change the language to clarify your legislative intent that the employee could have all of the upside benefit that could accrue through the investments made.

Assemblyman Kirner:
I think you are misreading the paragraph. Are you familiar with the benefit formula?

Assemblywoman Spiegel:
Not really.

Assemblyman Kirner:
Then I am not sure I can answer your question intelligently. You have the final average salary over the highest consecutive three years times the multiplier times the number of years of service. The final average three years cannot exceed 133 percent of your base salary. That is a way of managing the spiking, so someone does not spike his last three years to artificially drive up his retirement plan. There is no upside or downside, it is just a way of managing spiking. By the way, 133 percent is a pretty generous number.

Assemblywoman Spiegel:
Section 10, subsection 4 talks about establishing an advisory committee to advise the PERS Board.

Assemblyman Kirner:
I think that is existing language.

Assemblywoman Spiegel:
Has the advisory committee completed the study that is outlined in this section and, if so, what are the results?

Assemblyman Kirner:
Again, that is existing language.

Assemblywoman Spiegel:
There should have been a study and there should be results, but we have not seen them to consider. Is that correct?

Assemblyman Kirner:
There was a study and the advisory committee is an advisor to the PERS Board. I will let the PERS representatives talk to you about what they have done and not done.

Assemblywoman Spiegel:
I would like to know the possible effects of the hybrid retirement program that the study should reveal.

Assemblyman Kirner:
Again, that is existing language. I did not change existing language.

Assemblywoman Spiegel:
Do you have the findings to support this bill?

Assemblyman Kirner:
No.

Assemblyman Silberkraus:
In the early '80s, police and fire contributions were around 17 percent. I believe it is now over 40 percent.

Assemblyman Kirner:
It is 40.5 percent.

Assemblyman Silberkraus:
Almost every year since then, it has increased a certain amount. Do you know if the current system shows any projections about whether that will continue to increase, plateau, or is there a potential for reduction?

Assemblyman Kirner:
Once again, I think the PERS management team, and the study, would say that if we maintain all of the assumptions, then over the amortization period, which is 20 years for new employees and 23 years for existing employees, in theory they would be 100 percent funded. There is a complex process they go through to determine what the employee/employer contributions would be.

The idea is they are always striving to get to 100 percent funded. They have just never gotten there.

Assemblyman Carrillo:
Section 8 of the bill states, "The Board shall annually determine the amount of the estimated unfunded liability of the System that is attributable to members who are or were employed by the State...." The entire premise of this bill is to basically decrease the unfunded liability. If the unfunded liability begins moving backwards after this plan becomes effective, what safeguards are in place if this plan does not work? This is supposed to be the end-all-be-all bill to solve all of our problems regarding the unfunded liability. There are many different studies that have taken place and different states using this plan that show it as questionable.

Assemblyman Kirner:
Constitutionally, the actuary does assessments of the system and they are the ones who set the contribution rates. Section 8 talks about the work of the actuary in regards to part 2 of the defined benefit. I do not intend to usurp *The Constitution of the State of Nevada*. The board shall annually determine the amount of the estimated unfunded liability, which they are basically doing now, that is attributable to members who are or were employed by the State and by each public employer. That is the actuary's job and by *Constitution*, not by *Nevada Revised Statutes*, that is what they would have to do.

Assemblyman Carrillo:
One thing I do not see applying to this bill is the Judicial Retirement System. Are they not in PERS as well?

Assemblyman Kirner:
There are four funds in PERS, and two of those are the Legislative Retirement System and the Judicial Retirement System. This bill only affects regular employees and police and fire employees. It does not affect Judicial.

Assemblyman Carrillo:
If this is such a great idea, why is the Judicial Retirement System not tied into this as well?

Assemblyman Kirner:
Those are different plans completely.

Assemblyman Carrillo:
So their plan works?

Assemblyman Kirner:
I do not know if their plan works or not, but they are a lot smaller. The Legislative PERS plan is a lot smaller than the regular employees and police and fire employees. We are only dealing with regular employees and police and fire employees.

Assemblyman Trowbridge:
I have a follow-up question regarding section 3, subsection 1(a). I understand the 36 consecutive months, but it provides a cap on annual benefits that must not exceed 133 percent of the average social security wage. Is the intent of this section to eliminate calculating the retirement benefits to only be base salary? The average social security wage is, I would certainly hope, significantly less than an entry-level public employee.

Assemblyman Kirner:
I am not sure of that data.

Assemblyman Trowbridge:
I can tell you what my social security benefit is.

Assemblyman Kirner:
This is not the benefit, this is the social security wage.

Assemblyman Trowbridge:
I do not know what you mean by social security wage.

Assemblyman Kirner:
It is base salary.

Assemblyman Trowbridge:
Base salary, then, would be acceptable rather than social security wage. I find that a confusing element. If social security means base wage, then I understand.

Assemblyman Kirner:
There are a number of people I brought along today to testify in favor of the bill, and you may be able to ask them more specific questions.

Assemblywoman Neal:
I have a question on sections 7 and 9 of the bill. In section 7 there is language that states, "…shall be deemed to have consented to the revision or termination of the provisions of the hybrid retirement program…." I thought of two things, but you clearly have more expertise in this area than I do. Will the automatic

consent provision comply when it becomes policy, or even now, with the Employee Retirement Income Security Act (ERISA)? Under ERISA in 29 U.S.C. § 1022(a), it requires companies to write a summary plan or a description of the plan in a manner that is understood by the average participant so it apprises them of their rights under the plan. When you have an automatic consent to the revision or termination of the provisions of the retirement program, would it meet that requirement?

The second question regarding section 7 is when an individual has vested after five years, there is a provision in the fiduciary responsibilities under ERISA that speaks to this automatic consent and whether or not automatic consent is something that should happen with a person who is under the five years or who does not meet the $5,000 threshold. I want you to help me understand what is happening in section 7 and are those two provisions being affected by other pieces of law?

Assemblyman Kirner:
Government plans are not covered under ERISA.

Assemblywoman Neal:
Why do you have automatic consent when it is going to deal with the revision or termination?

Assemblyman Kirner:
The automatic consent is to clarify in statute that a new employee understands this is what their retirement program is. It is no longer the old retirement structure. If you were to hire someone today, in effect there is automatic consent to the benefit plan as it is defined now. Section 7 is so a new employee will understand they are consenting to a hybrid plan.

Assemblywoman Neal:
Anyone who would come under this plan would understand what their rights are and what they are automatically consenting to give away in terms of termination of employment. Is that correct?

Assemblyman Kirner:
They are not giving away anything. They are automatically consenting to the design of the plan, much like if you were hired today, you are basically consenting to the design features of the current defined benefit plan.

Assemblywoman Neal:
Section 9 states, "Any provision in a collective bargaining agreement entered into or renewed on or after July 1, 2016...." Since "renewal" is used, are we

going to run into a contract violation on one end of the spectrum where the collective bargaining agreement results in a separate contract where certain terms are agreed to? In your language, could there be a collective bargaining agreement that allows a greater public employer contribution, or does this provision nix that ability? Are we going to run into a situation of a contract violation on one end where there is a lawsuit by an employee who has relied on the original contract to his detriment and this particular retirement plan nixes the collective bargaining provision that he thought was going to be his right?

Assemblyman Kirner:
The purpose of this section is to say that the hybrid plan design is not subject to collective bargaining. For example, we have had experience today where cities, counties, and school districts have negotiated in lieu of. That would not occur under this plan, much like social security is not negotiated.

Assemblywoman Neal:
How would it work on the renewal? I see what you are saying in terms of any provision in a collective bargaining agreement entered into. However, when it is a renewal, that means it was an existing contract that came before 2016. That means there are provisions that may exist in that contract where the language could be construed where there is a substantial modification of terms because it says "or renewed." That means there is existing language moving forward now getting new retirement plan language attached to it.

Assemblyman Kirner:
Any language that existed prior to July 1, 2016 in a collective bargaining agreement refers to the existing plan. If it were renewed, it would be renewed around the existing plan. What section 9 is trying to say is those collective bargaining agreements which do not discuss the hybrid plan are void. The hybrid plan stands without collective bargaining.

Assemblywoman Neal:
I see it, I am just wondering if it is legal.

Assemblyman Kirner:
As you know, the Legislative Counsel Bureau (LCB) drafts these bills, and it goes through six layers of approval, including constitutional approval. If it made it to me, in the view of LCB, it is legal. You are the attorney.

Assemblywoman Neal:
That is why it struck me as odd, because if I am entering into a contract, I do not want anything voided in the future without my assent or my ability to negotiate what those terms would be.

Chairman Ellison:
I would like to hear from the gentleman who has a slide presentation so we can get the screen down.

Victor Joecks, Executive Vice President, Nevada Policy Research Institute:
The Nevada Policy Research Institute (NPRI) strongly supports A.B. 190, and I am grateful for the chance to share a few slides (Exhibit F). I think these slides show the extent of the PERS math problem, which Assemblyman Kirner did a very good job of talking about.

There is always a debate over how big the PERS unfunded liability is. While we do not have time for an in-depth discussion, this slide [page 1, (Exhibit F)] simply shows what the unfunded liability for PERS is at various future rates of return. I should note this is not the work of NPRI, but from the PERS' Aon Hewitt report (Exhibit E). As you can see, in 2013, at an 8 percent future rate of return, there is unfunded liability of $11 billion. At a 6 percent rate of return, that unfunded liability grows to $25 billion.

Why does PERS have this unfunded liability if it has averaged over 9 percent returns over the last 30 years, as PERS officials like to claim? Because including returns from 1985 and 1986 of over 25 percent significantly skewed that average. These are PERS' actual investment returns [page 2, (Exhibit F)] and comes straight from PERS. You will notice that in the 1980s, PERS averaged 17 percent returns. In the 1990s, PERS averaged 12 percent returns. However, since 2000, PERS has averaged just 6.6 percent returns. The Public Employees' Retirement System actually looks at things on an actuarial investment return basis, which is a way of smoothing the returns. I think what this shows is really a better picture of what is happening in the long term. Everything is very cyclical, but the cycles are trending down. As I mentioned, since 2000, PERS has averaged just 6.6 percent, which would put the unfunded liability at around $20 billion.

This slide shows what has happened to contribution rates [page 4, (Exhibit F)]. Because in the 2000s returns had been around 6 percent, contribution rates have skyrocketed. To get to Assemblyman Silberkraus' question, in the Aon Hewitt report about contribution rates, they assume that police and fire contribution rates will go up to 44 percent. They also assume regular contribution rates will go up to 28.7 percent. I think that is on page 28 of the report (Exhibit E).

This is the math problem PERS is facing. At the same time, NPRI recognizes that we have made a commitment to retirees and current employees. We applaud that A.B. 190 protects the benefits and pensions of both retirees and current employees. However, for new employees, A.B. 190 offers a system that provides greater flexibility and is more suited to today's younger work force. Those entering the workforce today primarily see themselves as working at their current jobs for just a few years, not 30 years, as was the case a generation ago.

Let me share a personal story of how this system is not equitable for more mobile employees. My wife used to work for the Clark County School District (CCSD). When she left CCSD, we called PERS to roll out her pension contributions. We were told we could not because she had not worked for five years and had not vested. She ended up with nothing. This story is not about my wife, but the fact that local government employees with fewer than five years of employment get nothing in the current system.

Assembly Bill 190 will provide a personal and portable system that would provide greater equity for Nevada's future and increasingly more mobile government employees.

Lance Christensen, Director, Reason Pension Reform Project, representing Reason Foundation:
I travel the country talking with distressed municipalities and state governments about how to deal with their retirement benefits and unfunded liabilities so we can make sure we keep the promise to the public employees. I am going to skip all the problems because I think that has been well documented by both Assemblyman Kirner and Mr. Joecks.

As we look at this bill, we realize that over the last many decades, this problem has manifested itself, so it is going to take some time to make this system more sustainable. To dig out of this problem, it is not going to happen all at once, but A.B. 190 represents a start to that process.

We are also in the process of producing an actual analysis to look at the numbers and what Assemblyman Kirner's bill will do. Once we have that finished, we will make it available to the Committee and the public.

I would like to point out that if the system is not fully funded without reform, we are compounding our debt and moving money away from one set of commitments to another, which are usually debt payments and interest payments. That means we avoid paying for those things that are important to us. In the last several years, states like Michigan, Alaska, Utah, Rhode Island, Kentucky, and Oklahoma have moved from their overburdened defined benefit systems to defined contribution, or hybrid, systems, and some even cash balance systems. Just like what we are doing with A.B. 190, we are moving to a hybrid system.

In pursuing pension reform, we have three principles to guide our efforts. A retirement savings program should be affordable, sustainable, and secure. It should be a fair, workable plan to pay down the accumulated pension debt as quickly as possible. It should also have processes and practices that ensure the government adequately funds their retirement promises. We believe A.B. 190 follows these principles. It is an affordable, sustainable, and secure plan. It caps hemorrhaging costs, reduces unfunded liability, and does not impact the pensions for anyone already in the system. It manages and mitigates risk for both workers and taxpayers. This hybrid plan with a baseline defined benefit component enables the government to predict its contribution pensions and does not create more unfunded liability. It also ensures a productive and stable workforce for the government, and provides that benefits are portable and secure.

[Assemblyman Moore assumed the Chair.]

There are a lot of criticisms to this bill, but I think it deals with a lot of these issues. We are happy to see that it restricts loans from the system, reduces leakage, provides an annuity option, and addresses some of the unfunded liability with the 6 percent contribution. These numbers can be debated as to whether they are the correct numbers or not, but I want to make sure we are clear that this bill does not do a few things. It does not close the current defined benefit system, it does not cut benefits to anyone already in the system, it does not raise taxes, it will not lead to riskier investment decisions, and it does not require a shortened amortization period.

I am happy to provide more information to the Committee as we go forward and work with the Committee on making sure this sort of legislation is fair, transparent, and sustainable. [Written testimony was also provided (Exhibit G).]

Dan Liljenquist, Consultant, Action Now Initiative:
I am with the Action Now Initiative, but I am also a former State Senator from Utah. I ran our reforms in Utah in 2010. A lot has been covered on the issues, but I want to speak briefly about three things likening what we did in Utah to what Assemblyman Kirner is attempting to do here.

The 2008 market crash was a tragedy for everyone, including, and maybe even more importantly, our state workers in Utah and here. When you lose that much of your funds, it creates massive unfunded liabilities that now cost hundreds of millions of dollars and the additional spending that goes away from budgets into the market to chase bad returns. In Utah, we did not realize at the time of the 2008 crash that we were bearing that much risk as a state. We found that one year's worth of market losses was going to cost the state of Utah 10 percent of the general fund spending for 25 years to pay it off.

We also realized if we have another year like 2008, we were not sure we would be able to meet our commitments to our current employees and retirees. It is hard to say you are going to have a secure retirement if you are laying people off because there is no money to operate government. That was the situation we found ourselves in. We decided to move forward with reform with three objectives. Our number one objective was to make sure we met every penny of the commitment we made to current employees. That is an important piece of this reform. Assemblyman Kirner has gone through the data showing where Nevada is now. If we have another year like 2008, all bets are off, not only for Utah, but for states like Nevada. The only thing you can really do as policymakers is to seek to cap the liabilities as much as possible with the intent of making sure the state is able to meet its commitments to current employees and migrate to a new system where new employees come in under a different deal. Over time, person by person, it reduces the risk of another crash like 2008 damaging your ability to operate and also make your commitments.

There are three key portions of reform. I have helped not only Utah, but Kentucky, Rhode Island, Kansas, and other states, work on finding real retirement solutions. The first thing is you have to make sure you are meeting your commitment to current employees. That means making your full required contributions. Second, you have to make sure you are moving to a new plan where there is shared risk between the employer and the employee. A hybrid plan like Assemblyman Kirner's does that. Third, you have to make sure the new plan has sufficient contributions to ensure retirement security. This plan does that as well.

Assemblyman Trowbridge:
You mentioned that this particular plan provides for portability as an attractive element. You also said it contributes toward workforce stability. How do those two things fit together if you enable them to move, but at the same time say it causes them to stay?

Lance Christensen:
Assemblyman Kirner addressed that. If you look at some of the competing local agencies, there is the ability to move back and forth. We are also dealing with reality here in the 21st century where there is simply a more mobile workforce. If you have a system that provides a retirement replacement income that is higher than what it is now, that is discussed and understood more

broadly with those coming into the system, I think they would want to stay in a little longer too. There are a lot of pieces to that point.

[Assemblyman Ellison reassumed the Chair.]

Dan Liljenquist:
You know there is only a certain amount of money for compensation. Budgets are tight every year, locally and everywhere else. We found that there was a certain bucket of compensation. In Utah, we typically funded pensions first and health care second. Whatever pennies were leftover went to wages. What we found in the circumstances with contributions skyrocketing was wages fell further behind. In fact, we did a study in Utah that showed our wages for public sector workers were 20 percent below market, while total compensation was above market. The difference was massive pension costs that really were chasing bad returns on Wall Street. If you can stabilize pension costs going forward, you can address things like wages. I heard several people talk about job-hopping, and it is typically because people are following the wages. Unfortunately, wages for public sector workers are depressed, often because of very high pension costs. If you can stabilize pension costs, you can work to systematically repair wage, which is an important policy consideration that we faced in Utah, and I am certain you face here.

Terry Kennedy, President and CEO, Appreciation & Financial Services, LLC:
Our mission is to help people make and save money. We are a Nevada company and care deeply about the success of our state's economy and the well-being of our hardworking civil servants.

I join the concerned Nevadans and lawmakers and recognize that Nevada is headed straight for a disaster. We commend you for having the foresight to take action. The bottom line is simple, and we saw it in the presentations. Nevada's public pension system is going to fail. You can act now and protect the hundreds of thousands of hardworking people in our state with this bill, or you can do what other states have done and kick the can down the road until disaster looms.

We did not think bankruptcy was ever an option, but now in Stockton things have happened that everyone said would not happen. Things are happening in a big way, and we need to address it now. My company represents about 3 percent of the active PERS employees, and about 3,000 or 4,000 employees are our clients. We meet with them every day. The current system is not the Holy Grail. It has taken care of a lot of people, but it has also let a lot of people down. If you have ever sat through a retirement meeting, they have to make decisions. If an employee wants to take care of his spouse, he has to take a huge reduction in his monthly benefit. Some employees cannot afford to do that, so they take the maximum monthly benefit. If they pass away a year later, all of the employee's contributions and the state's contributions are gone. When we ask if the current system is the way to go, we see it is unfunded and they are using money from people who do not get all the benefits. I sat with these people for 16 years. It is not working. There is going to be opposition, but I support Assemblyman Kirner's bill.

Chairman Ellison:
Do you believe the system will eventually be broke?

Terry Kennedy:
All current projections show that it will. We are headed down a road with a dead end. It will take some sort of state or federal bailout. It will end up in some sort of bankruptcy court and a judge will have to figure it out. Currently, the trend is that is what is happening across the country. New Jersey just had to freeze their plan.

Chairman Ellison:
With the billions of dollars in assets PERS has, can they not be liquidated to help fund some of the liability?

Terry Kennedy:
There were a lot of questions asked about whether the costs go up if this hybrid plan is implemented. The answer is it could go up. There would be more people retiring and less people paying into the current defined benefit plan. That is noted. However, as people pass away, it will come back down. Over time, it could go up and then go back down. What we are doing for the future is eliminating that by the money going into a defined contribution plan, so when people do retire, the state is not on the hook for it down the road.

Assemblywoman Neal:
You are making broad assumptions in saying the system can fail. We had those conversations in 2003 and 2008, yet the fund is still performing. The Aon Hewitt report says they have taken very prudent risks. They have made sure what they invested in was going to be solid and returned back to the employees and that they were protected. That was one of the key issues. When the Moody analysts rated PERS in 2011, it was a double A. I do not like the "woe is me," "the sky is falling," and all of this ridiculousness because at the end of the day, these are public employees who want to come to Nevada because of the good retirement. It is a good retirement, and it has helped save families. I know families in my district who have benefited from this system. I appreciate your comments, but I want to be real about the fact that it has

been proven it can withstand trials. For at least 10 to 20 years it has withstood trials. Do not say things that are not accurate.

Terry Kennedy:
How were those trials overcome? They were overcome by raising the funding levels.

Assemblywoman Neal:
I want to be respectful, so I am not going to debate with you. We can have a dialogue privately.

Assemblyman Stewart:
Do you have a ballpark figure as to when you think the system would be at the point of bankruptcy? If this plan were implemented, do you have any idea of when the unfunded liability would be over 80 percent?

Terry Kennedy:
The current reports are being put together with that information, and there will be statistics in the future. We can give them to you at that time.

Assemblyman Stewart:
How soon?

Terry Kennedy:
We are relying on a couple of other agencies, so I am not sure.

Assemblyman Carrillo:
You mentioned you are in financing, correct?

Terry Kennedy:
Yes, actually with teachers in the Clark County School District.

Assemblyman Carrillo:
Basically, you deal with stock market investments, correct?

Terry Kennedy:
Yes.

Assemblyman Carrillo:
September 18, 2008. Do you remember that day?

Terry Kennedy:
Yes.

Assemblyman Carrillo:
What happens if we have another day like that and all these public employees have invested in a defined contribution plan and they are banking on the fact that their retirement is not going to sway one way or another compared to a defined benefit plan. I do not know how badly PERS was hit, but I am sure it was not hit as badly as a lot of people who were planning on retiring in six months to a year. Those people are probably still working to get back to where they were prior to September 18, 2008. How is this going to be advantageous to the people who are working to make sure there retirement will be sound?

Terry Kennedy:
Let me state for the record that I do not sell securities, and I am not in the stock market. Do I know about it? Yes. I do not believe in the stock market, to be honest with you. We work with insurance companies that guarantee these incomes. I know there are many plans through insurance companies that can guarantee it. Frankly, that is what Nevada PERS is. It is a form of insurance and a pension through the pension plan. If the right plan is put in place and people have choices, they can be in plans that have been guaranteed and are not underfunded. There are insurance companies that are not underfunded.

Assemblyman Carrillo:
Are you saying people would not have to worry about another scenario like the one in 2008?

Terry Kennedy:
None of our clients who were with these insurance companies ever had one worry.

Assemblyman Carrillo:
Of course we can play it safe all the time, but that would depend on whether you are going for the long term, and it would determine how much of a benefit you are ultimately going to get, how long the return is going to be, and how long it would take to get there. As you stated, you are not in that part of it, but we have to look at the big picture and whether that would be a factor.

Terry Kennedy:
The gentleman before me showed that PERS has only returned 6.6 percent. There are insurance companies that are now in those ranges and able to guarantee that. When you are talking about a long-term horizon trying to make 8, 9 or 10 percent, it is not feasible anymore.

Mike Duncan, Regional Vice President, National Life Group:
I work for a very large insurance company. There have been some great questions asked, and I would like to address just a few of them. The one thing that keeps coming up with a defined benefit plan, which we have not talked about much, is that we need to create a certain interest rate so there is not an unfunded liability. However, we have yet to talk about mortality rate. I think the assumptions in the mortality rate, as we get older and older, will create a bigger cost. One of the reasons the unfunded liability keeps growing is because we are getting older and older. We are not living to age 70 anymore; we are living to age 85. That is why the plan will fail, in my opinion. I do know that in corporate America, every one of us, including my company, has done away with the defined benefit plan because we see the train wreck in the future. Companies like The Coca-Cola Company, Verizon Wireless, Motorola, Inc., Lockheed Martin, Boeing Company, and National Life Group, whom I work for, saw it in 2006. We saw the problems occurring, so we did away with it. The current employees in PERS will not be affected. They get the promises you have given them. However, the new employees will have a new plan. If you put as much money into a defined contribution plan and give them choices, I think their retirement will be as good as or greater than the employees retiring today.

There are ways to keep the money in the plan. You can keep them from taking it out early by setting it up so they cannot take it out in a lump sum. They have to annuitize it over a lifetime or two lifetimes. There are a lot of options. I am not trying to sell insurance or an annuity today. I am just trying to tell you that we and other large corporations have recognized the problem, and the states are starting to recognize it today. We feel that even an 8 percent assumption is way too much. We have been in business for 165 years. We pay out payments every day, guaranteed for a lifetime. We have never missed a payment, and we are way overfunded. One of the reasons is because the insurance companies know how to look at this. My thinking is states should not take the risk. Let the insurance companies take the risks and take it off your shoulders. That is a much better way to do it, in my opinion. It is headed down a bad road, in my opinion. I can tell you, most of those big corporations, and there are thousands of them, have switched. They know what they are doing by stopping the defined benefit plan and moving to a defined contribution plan. You can have a great retirement plan if you do it right. If you put as much money in a hybrid retirement plan that you are putting in today, I can promise you, you will have a great retirement plan. That is our goal. We want everyone to have a great retirement plan.

Tray Abney, Director, Government Affairs, The Chamber of Reno-Sparks-Northern Nevada:

We support A.B. 190. There are three key points. I think it extends the life of the current defined benefit issue we have now, there are portable benefits, which we have already discussed, and we can ensure that we can pay for the benefits we have promised to the current workers.

There is a lot of talk about the middle class, but we have to think about what the middle class in Nevada will look like. If you do not do something here, in the future you are going to be talking about either cutting more spending or increasing taxes to pay for it. We need to talk not only about the middle-class workers who are in the system, but those who are outside the system who also helped fund it as well.

Every dollar we spend on this issue is one less dollar we spend on education or mental health. Every dollar the local governments spend on this issue is one less dollar they can spend for current salaries, parks, and everything else local governments do. There may be a lot of arguments that this is not a perfect bill, and there need to be changes. I think we should have all those discussions. I have never seen a perfect bill in the five or so sessions I have been here. However, we cannot just stick our heads in the sand and say the status quo is fine, we should not look at it, we should not talk about it, and we should not do anything about it. We need to do something. It will get more expensive. I am not going to sit here and tell you it is going to be destroyed or collapse in two years, or four years, or six years. As long as you have money, you will be able to keep putting money into the system to prop it up, but we will need to do something or it will affect all the middle-class people, those in the system and outside of the system. We support A.B. 190.

[Assemblyman Moore assumed the Chair.]

Paul J. Moradkhan, Vice President, Government Affairs, Las Vegas Metro Chamber of Commerce:

The Las Vegas Metro Chamber of Commerce would like to offer its support of A.B. 190. The ideas of portability, choice, and cost bring forth in this bill the merits the Metro Chamber believes are based on strong fiscal practices, public policy, and accountability to Nevada taxpayers. There needs to be a serious dialogue about Nevada's PERS, and we welcome the discussion today that we have had in this room.

[Assemblyman Ellison reassumed the Chair.]

The Metro Chamber has, for the last several sessions, advocated for reform to PERS. Over the past decade, we have commissioned several reports relating to this topic that are available on our website. I would like to clarify that the Metro Chamber is not advocating any benefit changes for any current public employee or recipients that are currently receiving any benefits from PERS. Promises were made to these employees, and we respect and honor that.

We believe this bill will address two significant and distinct problems associated with PERS, as you heard today, regarding the unfunded liability and the cost. Part of that focus in the dialogue and discussion should be regarding the taxpayers' cost providing the benefit and reducing the unfunded liability for the stability of the retirees and the employees of the system. We believe the concepts in this bill address those concerns.

The intent of this bill is to offer a balanced approach between the benefit recipient and the taxpayer. I thank you for allowing me to share with you the Chamber's perspective on A.B. 190.

Chairman Ellison:
Are there any questions from the Committee? [There were none.] This is a fair Committee, and we want both sides to be heard. At this point, I would like four people in Las Vegas who are in opposition to the bill to make their way to the table so we can hear their testimony. We will then come back to Carson City to hear others in opposition. We will go back and forth from Las Vegas to Carson City.

Vicki Cameron, Private Citizen, Henderson, Nevada:
I am testifying today to let you know I am opposed to A.B. 190. I am concerned about the costs of setting up an additional pension fund, as well as the ongoing costs of running two pension plans at once. [Continued to read from prepared text (Exhibit H).]

Martin Bassick, President, Service Employees International Union, Local 1107:
The Services Employees International Union represents 17,000 middle-class employees across the state of Nevada. Assembly Bill 190 is not about saving money, it is not about protecting Nevadans, and it is not in the best interests of the taxpayers. Nevada's pension system, rated best in its class, is a system that survived the financial crisis of 2008. Changing to a hybrid system could leave the state deeper in debt, leave state workers with less retirement security, and put our local economy on a regressive path.

What is this bill really about? Banks and hedge funds want to do to public employee pensions what they did for the country's mortgage industry. The Nevada Policy Research Institute wants to replace Nevada PERS with a 401(k)-style account. If you have ever worked in a private company, you are probably acquainted with 401(k) plans. If so, how do you feel about your retirement prospects if a 401(k) is your primary retirement plan?

There are a few points I would like to make on A.B. 190. First, there is more cost and less benefit. This bill is a cut-and-paste copy of Assembly Bill No. 342 of the 77th Session. That bill came with a fiscal note of $745 million in additional costs over two years. Of that $745 million, $685 million was estimated as new costs to public employers and $60 million as new costs to the employees. This bill involves spending more money for less retirement security. It is good for Wall Street, but bad for Nevada's middle class.

Second, there is more risk and less retirement security for new employees. Public employees in Nevada pay the highest contribution rate in the country for their retirement security. Risk is shared equally by employees and employers. Under A.B. 190, employers would have a fixed cost of 6 percent, and the new employee would have the ultimate risk.

I would request that the Committee oppose A.B. 190. Rather than tearing each other down in a race to the bottom towards failing wages, eroding benefits, and poverty retirement, why do we not unite and chart a course that will offer a better life for all working, middle-class Nevadans.

Barry Gold, Director, Government Relations, AARP Nevada:
As advocates for the state's 50-plus population, we are very concerned with the stability of retirement security, both for current retirees and future retirees. It is well-documented that hybrid plans reduce guaranteed retirement income. As stated before, when talking about the three-legged stool for retirement security, two of those legs are currently PERS. Having a two-legged stool stand all by itself means we need to be careful before we make any changes.

A hybrid plan design does nothing to reduce a system's unfunded liability. Instead, a lot of the contributions and investment income is diverted to the new plan. Under these circumstances, our state will no longer have what was labeled as a "best in class" retirement system from the independent actuarial firm Aon Hewitt in 2013. While ultimately the money committees will decide if some of these costs are pro or con and whether they will go with it or not, those costs, which are substantial to switch to this type of plan, should be part of the policy that this Committee considers.

In closing, please recognize that A.B. 190 does not save our state or local governments any money, it does not reduce the unfunded liability of the existing defined benefit plan, nor does it improve benefits in any way. Instead, it would increase costs for Nevada families, it would increase costs for localities, and it would shift risk and uncertainty on to our teachers, police officers, and firefighters who stand ready to protect us each day. For those reasons, AARP Nevada, on behalf of our 314,000 members across the state, urge you to oppose A.B. 190.

Rosemary Ensign, Private Citizen, Las Vegas, Nevada:
I am a resident of southern Nevada, and I work for the Southern Nevada Health District (SNHD). I am here on behalf of the 500-plus workers, not any group or organization, just the regular employees. I have worked for SNHD for 17 years. My partner has worked for 15 years. We are planning on retiring with PERS. The majority of employees at SNHD have been there over five years. Two tiers will not work because there will come a time when the new tier will outnumber the protected group, and they can vote the plan and protection away.

Assemblyman Kirner stated he is not talking about the fiscal aspect, but it is all about the money. It appears to me if we give PERS to a vendor to help manage, we will be paying them. We will use the benefit plans to be paying those costs when they could go to the employees. Higher yields create higher risks. If reform is needed, A.B. 190 is not the answer.

Chairman Ellison:
We will now hear from testifiers in Carson City.

Ron Dreher, Director, Government Affairs, Peace Officers Research Association of Nevada:
I am representing a number of organizations, including the Professional Fire Fighters of Nevada, Clark County Firefighters, Peace Officers Research Association of Nevada, Las Vegas Police Protective Association, Southern Nevada Conference of Police & Sheriffs, Nevada Association of Public Safety Officers, AFSCME Retirees, Service Employees International Union, Clark County Association of School Administrators and Professional-Technical Employees, Nevada Association of School Administrators, and others. We are here to yield our time to an expert witness in the area of pension reform who flew from New York to testify in this hearing this morning. I am proud to introduce Professor Teresa Ghilarducci, whose excellent resume I submitted to the Nevada Electronic Legislative Information System (NELIS) (Exhibit I) so you can see her outstanding qualities. She has been testifying in front of Congress and a number of other states. She is familiar with Utah, Rhode Island, and

everything else Assemblyman Kirner talked about today. With that, I yield my time and will turn it over to her.

Chairman Ellison:
The agencies you named are yielding their time?

Ron Dreher:
Yes, but she will not take up that much time.

Teresa Ghilarducci, Professor of Economics, The New School for Social Research:
I have submitted written testimony for the record (Exhibit J), so I will be short. I am very pleased to be here because I have been travelling around the country since 2008 dealing with basket cases. I live in New Jersey, and the pension funds there have had to cut benefits. In fact, 35 states have looked at design changes much like A.B. 190. These kinds of bills have been dropping into state legislatures over the past five years.

I am a professor of economics, of labor economics, and pension finance. Relevant for you all is I am now on a national bipartisan policy commission to look at retirement crises, and I was a trustee when I was a professor at the University of Notre Dame for 27 years with Indiana PERS. I am also a court-appointed neutral trustee for two funds, one worth $53 billion in Detroit. I come here with practical experience.

I am pleased to learn about Nevada PERS because it is best in class. It follows what we call the "best pension hygiene practices." You fund the annual required contribution, you have not taken a pension holiday, your actuarial assumptions are the ones recommended that many plans cannot resist the temptation to change, you have a very conservative actuarial process, and you also have a portfolio that takes seriously the call to spend your dollars on pension benefits efficiently. Your portfolio has very low fees, as they are mostly in index funds. You have resisted overweighting in real estate hedge funds and private equity. It is a really good place for the state to place a dollar of pension money because you get a big return.

Thirty-five states have rejected a plan design such as the one you are considering for three reasons. One is that it does cause a double-payment problem. If you divert money that you would otherwise spend to bring the plan to full funding in a defined contribution or a 401(k)-type plan, you actually deprive the fund of money. That happened in Alaska and in a small unit in Indiana, the Bureau of Motor Vehicles. It is happening in Michigan, and it will happen in Utah. The Alaska change brought their funding levels from

71 percent down to 36 percent. I have overseen an employer who switched to a defined contribution plan to come back to the defined benefit plan. I would imagine that would happen in Nevada. If you pass A.B. 190, you may be back here in ten years trying to undo it. It has the double-payment problem and makes the defined benefit funding worse.

More importantly, if your goal is to provide a retirement income for life for your employees, diverting to a defined contribution plan will undermine that goal. Assemblyman Kirner showed you the assumptions behind the defined contribution plan he is proposing to help supplement the lower cutback to the defined benefit plan. He assumed the funds would earn 6 percent into the future for 30 to 40 years. He also assumed that based on a salary increase, that would go up 4 percent every year. If you use an Excel spreadsheet, you could actually get a defined contribution plan to replace 20 to 30 percent of retirement income, but no one invests that way.

Over the 40 years these types of plans have been looked at and compared, defined contribution plans have never beaten defined benefit plans. In fact, on Monday, the President of the United States pointed out that when you add in the fees of a promised 6 percent, it will often be reduced by half. If you look at the rate of return on an individual-directed account that pays these high retail fees, often 1 or 2 percent is likely. For some people, investing on their own gives them a negative return because of the fees. It is very unlikely that defined contribution projection will ever meet its goals of achieving retirement adequacy for public employees. This is very important because unlike corporations that have frozen their defined benefit plans, they are not dealing with the impoverishment or the near poverty of middle-class retirees that they have created, but the states, the cities, and the municipalities have.

I was recently named to be on the State and City of New York advisory commission to look at the retirement crisis. In New York we are worried about dealing with the impoverished public employees who will avail themselves of Medicaid, long-term care insurance, and housing. A state has to look at the adequacies of the long-term benefits. Many states are seeing this. In Alaska and Utah, having middle-class public employees become poor or near poor retirees is a problem.

The third reason, workforce impact, has been discussed. I was pleased to hear it because a lot of states and witnesses do not actually look forward. It is good to talk about the workforce impact of a lower defined benefit plan and a defined contribution plan.

I would like to talk about teacher productivity and teacher pensions. I have been testifying for the past five years on the appropriateness of defined benefit plans for teachers. Over the past 40 years, the short tenure of new teachers has been well known. The first five years are a weeding-out process of people who cannot take it or are not very good teachers. They are often young and just out of school, and they need to see if teaching is a good job fit. It is very predictable that teachers would have high turnover. Giving a pension to people who are job shopping is not the best use of pension money. The rate of return for teacher productivity peaks at about 7 years, it slowly goes up to about 15 or 20 years, and then it levels off. Losing people between 7 and 15 years is a huge waste of money. A defined benefit plan has the greatest incentive for keeping people after they have had 10 years in the system. It is an excellent plan design for that occupation.

The other canard is that somehow the world of work is becoming a lot different than it was in the past. Assemblyman Kirner said his parents had the hope of a long-term job and now people do not. It may be true for his parents, but it is not true for the nation's workforce. Job tenure is actually increasing from what it was in 1951, when 26 percent of workers had a job for more than ten years by the time they retired. Now 30 percent of workers have had a job for more than ten years, and an increasing share had their job for 20 years. Women's job tenure is increasing. A design benefit plan is very appropriate for today's workforce and very appropriate for employers who complain about high turnover and losing their investment, and for employers who complain about not finding skilled workers, losing them to other states, or to private employers.

I would be happy to answer any questions about Alaska, Utah, Michigan, or Rhode Island. In closing, I want to say I was very pleased to get to know about your plan. I am going to take it as a best in class example. I urge you to investigate the 35 states that have rejected a plan like A.B. 190. I do want to compliment the administration and the trustees of your system for having a plan going forward to put Nevada PERS on sound footing.

Assemblyman Trowbridge:
Tell me a little more about Utah's plan because we had an advocate from Utah in favor of the plan.

Teresa Ghilarducci:
The Utah plan is a carve-out plan. They are taking money away from their defined benefit plan to fund the defined contribution plan. The projections for retirement readiness for Utah public workers just went down because of the decrease in their defined benefit plan. Utah did not take care of the low rate of pension participation by Utah residents. I urge you to go forward with pension

reform in Nevada, but worry about the 75 percent of Nevadans who do not have any pension plan at all because a lot of the public plans are going to help support the private sector workers that have nothing. The Utah defined benefit plan is worse funded because of their change.

Assemblywoman Joiner:
Your information has been very helpful. I love hearing what other states are doing because it is always valuable history for us to have. I would like to renew the question I asked earlier of the bill sponsor about the math in the bill. I am curious if, in your expert opinion in looking at other states, whether these percentages and dividing them out to have a defined contribution plan really will get at the primary goal, which is the unfunded liability?

Teresa Ghilarducci:
There is no way that diverting money from the defined benefit plan will help revenue raising in the defined benefit plan. The prediction is it will lower the funded ratio. The expense is one of the reasons why the privatization of social security never came about.

Assemblyman Flores:
Could you please expand on your third point? Previously, Assemblyman Kirner presented a slide (Exhibit D) that talked about how a defined benefit plan was not necessarily the best road to continue down because of people changing jobs. In your experience, is that what is happening, and do you have data regarding this issue?

Teresa Ghilarducci:
A lot of people say the world of work is different, and there is more job shopping. It so misrepresents the facts that the U.S. Department of Labor, Bureau of Labor Statistics has a corrective note on their website. They have many studies showing job tenure is increasing, mainly because women are expanding the workforce and are staying in the workforce for good. Men and women, as they are getting older, are much more sensitive about the benefits of a defined benefit plan. In 1951, men had a job tenure of 9.3 years. In 2010, men had a job tenure of 10 years. In 2014, men had a job tenure of over 11 years. For the past 40 years, the job tenure for men has increased, and for women it has doubled. In 1951, the job tenure for women was only 4.5 years, and it is now over 10 years. People are staying longer in the jobs they find. There is always job shopping for the 20- or 30-year-olds, which is good because they find their best fit. Once they have a job with good employee benefits, they stay.

Ron Dreher:
Those that I represent oppose A.B. 190.

Tina M. Leiss, Executive Officer, Public Employees' Retirement System:
The Public Employees' Retirement Board has not yet had an opportunity to take a position on this bill, but consistent with past board positions, staff will be recommending the Retirement Board oppose A.B. 190. This opposition is based on a number of implementation and administrative issues within the bill. There are provisions in this bill we do not believe can be implemented consistent with federal law. We also believe there are constitutional issues, funding issues, and also inconsistencies with legislatively determined policy of the state regarding the Public Employees' Retirement System.

I will note, as the head of the agency that would be charged with implementing this bill, I respectively cannot provide you all of the issues in three minutes. [Written testimony was also submitted (Exhibit K).

With us today is the PERS independent actuary the board has hired pursuant to *The Constitution of the State of Nevada*, Brad Ramirez of The Segal Group, Inc. He is here to answer any questions you may have.

Chairman Ellison:
I would like to get those individuals in favor of the bill in Carson City to the table. We are going to move back and forth between here and Las Vegas. We are running out of time, and we would like to get as many people on the record as possible. All written testimony should be given to the Committee Secretary so it will be part of the record.

Tina Leiss:
I would like to make clear a couple of things. Section 10 of this bill is not existing language. It would create an advisory committee of actuaries to, in my estimation, compete with the PERS actuaries. I believe that violates at least the intent of *The Constitution of the State of Nevada*. The board-hired actuary recommends the actuarial assumptions. I want to put on the record that Assemblyman Kirner testified section 10 was existing language, but it is not.

Second, I would like to clarify the investment returns. They are actuary returns and market value returns. The actuary returns you saw (Exhibit F) is one way of looking at things. The other way is the market rate of returns. I find it very interesting that when discussing the actuary returns, it was not noted that was a smooth return and it was not noted that we have $2.1 billion in unrecognized gains that were not taken into account. Our 1-year return is 17.6 percent, our 3-year return is 10.8 percent, our 5-year return is 12.8 percent, our

10-year return, which includes 2008, is 7.3 percent, and our 30-year return is annualized at 9.6 percent.

I have serious concerns that the system would be adequately funded under the new plan. You cannot put less money in and expect to pay off the unfunded liability. Changing to a hybrid-defined contribution is your purview, but you need to make sure you fund the current unfunded liability because it does not go away, and you cannot put less money in and expect it to go away. We are currently scheduled to be fully funded in 22 years.

This is designed to replace social security. A 1 percent multiplier is not an adequate social security replacement plan under the provisions of social security. There are many implementation issues included in my written testimony (Exhibit K). I do want you to know, as this bill is written, I do not believe we could implement it by July 1, 2016, and I want to make sure you are aware of those issues.

Chairman Ellison:
I see this bill definitely going to the Assembly Committee on Ways and Means. You will be able to testify at that hearing also.

Marty Bibb, Executive Director, Retired Public Employees of Nevada:
We, too, support Ms. Ghilarducci's remarks and the remarks made by the Executive Officer of PERS, Ms. Leiss.

Paula W. Petruso, Private Citizen, Henderson, Nevada:
I am a single lady who retired after working 29 years for the State of Nevada. I started in 1979 with a starting salary of $4.30 per hour, which exceeded the minimum wage of $3.00. I want to put another human face on this issue. I speak in opposition of the bill. I paid into the state retirement system with part of every paycheck for 29 years. When I retired, I had a good, steady, stable income that I could depend on.

I am a taxpayer and a voter. When I retired, I did not seek further employment. I have become active in civic affairs, and I volunteer for a number of nonprofit organizations. In fact, several members of this Committee may recognize me from those endeavors. I work for the betterment of my community and the sustainability of our future. I am here to defend PERS because it is one of the best public retirement systems in the nation. The system has been overseen by smart people who have the members' best interests at the foremost of their decisions. They were not motivated by private profit.

Investments are directed with the help of professionals, and there is always a firm commitment to minimizing risk and administrative costs, including investment fees. I do not think you will find that is true in any 401(k) plan. The simple philosophy of PERS has been to invest at a steady rate without regard to markets and to diversity holdings, which is the golden rule of investments, and it has worked. Assemblyman Kirner seemed to pretend that his investments were in a different market. We are all in the same financial market, and we all experience ups and downs over the years.

I live on those investments now. I do have a small social security income. I was entitled to $200 per month and receive $80 per month. My earned social security income was penalized because of my public pension.

As a single woman who is not educated in finance and investment, I have greatly benefited by pooling my investment funds with the thousands of other employees of this state. The amount of our combined retirement trust fund is impressive and has resulted in keeping management and investment fees in check, and the ability to participate in many diverse investment opportunities that would not have been available to me as a single, small investor. [Written testimony was also submitted (Exhibit L).]

Ruben R. Murillo, Jr., President, Nevada State Education Association:
I would like to make some brief comments about how teachers and support staff are impacted by this bill. It is good to hear that everyone has our best interests at heart, but I do not believe A.B. 190 does.

Our employees are impacted by the Government Pension Offset and the Windfall Elimination Provision, and they do not receive social security. This pension plan is a lifeline for many people.

When you talk about recruiting and retaining new teachers, it was mentioned that about 50 percent leave after five years. How do we recruit employees to Nevada when we do not pay them enough? If you look at all the money they say comes to an average salary, you are basically looking at $70,000 as the top salary. In addition to all the work hours teachers put in to serve the children, it is hard to recruit teachers into Nevada. If you approve A.B. 190, it is going to be even harder to recruit teachers and support staff.

Two out of ten teachers who have been hired since the beginning of the year have already left the state. There are approximately 650 substitute teachers sitting in Clark County schools. We need tools to recruit teachers, and A.B. 190 will not help us do that. [Written testimony was also provided (Exhibit M).]

Shelley Seeberg, Regional Director, American Federation of State, County and Municipal Employees:
I am here representing over 20,000 State employees. We are opposing A.B. 190. As you have heard, State employees do not get social security benefits and PERS is really our safety net. State workers have given to the state of Nevada with the continuing furloughs and no pay increases. This bill takes away the retirement security for public workers in this state.

We are asking you to put Nevada public workers first. Our workers live here, vote here, and spend their retirement dollars here. Do not boost the earnings of Wall Street or the life insurance companies we have heard about this morning. Make sure you put Nevada workers first.

Warren Wish, representing Nevada State Education Association:
I am a retired member of PERS. Let me begin my statement by taking this Committee to task. The first 2 hours and 15 minutes were for the supporters of this bill. The last 45 minutes have gone to the opponents. When you only have three minutes to hear from the Executive Officer of PERS, something is wrong. When the independent actuary from The Segal Group, Inc. is not allowed to testify, something is wrong. You have a lot of missing information. I would like to suggest a continuance so you can actually take the testimony of those people who have the information you need to make a proper decision.

Chairman Ellison:
Those who are in favor of the bill, please stand. Those in opposition of the bill, please stand. I am 90 percent positive this bill will go to Ways and Means. For those of you who do not know, Ways and Means is often the graveyard of bills. However, in this case, I do not know. There is a fiscal note attached to this bill. We have 200 people opposed to the bill in Las Vegas and 180 people opposed here in Carson City. There is a lot of concern about the bill, and we will make sure everyone has a voice by the end.

Is there anyone wishing to testify as neutral on this bill? [There was no one.] Assemblyman Kirner, do you have any final comments?

Assemblyman Kirner:
There are obviously disagreements and differences of opinion. This is a change, so I am not surprised. I appreciate your hearing the bill and hopefully we can move it to Ways and Means so we can discuss it in greater detail.

Chairman Ellison:
Those who are interested in the financial issues of this bill, please submit your testimony or appear at the hearing in front of Ways and Means. We are going to take a short recess.

[Meeting recessed at 10:54 a.m. and reconvened at 11:16 a.m.]

Chairman Ellison:
I am closing the hearing on Assembly Bill 190. [(Exhibit N), (Exhibit O), (Exhibit P), (Exhibit Q), (Exhibit R), (Exhibit S), (Exhibit T), (Exhibit U), (Exhibit V), and (Exhibit W) were presented but not discussed.]

Is there any public comment?

Jeff Church, Chief of Recruiting, Diversity Recruiting Specialists Law Enforcement Consulting:
I am not savvy enough to weigh in one way or the other regarding A.B. 190. I do have concerns about some of the existing laws, especially regarding spiking, which does appear to be a concern. For the record, as an example from my neck of woods in Reno, in 2009, we had a deputy chief who worked only through June 11, and he made $376,707 for six months. I do think there are issues within PERS, such as spiking and buying time, that do need to be addressed, regardless of the defined benefit.

Wendy Boszak, Private Citizen, Reno, Nevada:
I am a retired teacher. I came to Nevada in 2000. I had 17 years of experience, but I was only placed on the sixth step based on Washoe County's pay scale. That meant I made less than where I was, which affected my current pension. I did not get a very large pension from where I came from because I had only taught there about six years. I am also affected by the Windfall Elimination Provision, which cut my social security $200 per month.

Peggy Lear-Bowen, Private Citizen, Reno, Nevada:
Please do not privatize or politicize my PERS. To make private, to make poverty, they seem to equate with one another. I do not want to pay the bankers or the insurance companies the fees that PERS already has in place. I would suggest we create a more stable work situation in all of Nevada, perhaps passing a law that all employers have a retirement system within our state in order to give a future to our workers and have them be longer term in their present state. Maybe we could offer PERS as an organization format model to run other retirement programs. Please make that retirement exist in whole for our future so we do not look at a lesser workforce who receives training and then moves on.

We as teachers were pleased when you had at-risk school teachers getting one-fifth PERS retirement earned each year for working at that particular school. I had a young teacher come to me and ask where the one-fifth retirement was she was promised when she was hired. Because you have to be vested to earn any of that retirement, many teachers taught those first five years without getting their approved and recommended benefit that was promised for working in our at-risk schools. If you want to retain teachers, let the nonvested teachers have a PERS saving plan for teaching in those harder schools, and do not just throw them in the lion's den as newbies. Encourage the elder teachers to go to the harder schools where they have to deal with children of poverty who do not have breakfast. Approach it in a fashion to sustain what it is that you want to do. Make the PERS system even better.

Maurice White, Private Citizen, Carson City, Nevada:
I stand opposed to A.B.190. [Also submitted written testimony (Exhibit W).]

Chairman Ellison:
I am closing public comment. We are going to reconsider Senate Bill 119. We have already heard discussion on the bill, and the Senate just introduced Senate Bill 207. I will entertain a motion.

Senate Bill 119: Revises provisions relating to educational facilities. (BDR 28-732)

ASSEMBLYMAN STEWART MOVED TO REFER SENATE BILL 119 TO THE FLOOR WITHOUT RECOMMENDATION.

ASSEMBLYMAN SILBERKRAUS SECONDED THE MOTION.

Assemblyman Trowbridge:
I am a freshman here, so please bear with me as I continue to learn. The first lesson I am learning is this is not a sprint, it is a marathon. Early actions taken on one bill certainly affects the way subsequent bills are addressed and even which committee they may be before in order to avoid things. What I am about to do in no way changes my concerns over Senate Bill 119. However, some of my concerns can be addressed by amendments at the caucus level and, therefore, make the proposal more palatable. I also believe the actions we just took to kill the bill here denies other legislators the opportunity to express their vote on the issues, be it for or against. I do not think that is proper. In order to broaden the base of input regarding S.B. 119, I feel the appropriate thing to do is let this bill get out of Committee with no support. It would then go from the Committee to the floor. Prior to it going to the floor, there is the opportunity for the various caucuses to get together and discuss amendment proposals. I have

several amendment proposals that would make S.B. 119, in its totality, more palatable to me personally. For those reasons, I am afraid I am going to have to let this bill get out of Committee.

Assemblywoman Joiner:
Since we have all been sitting here in Committee, I have not had an opportunity to read Senate Bill 207. I am curious if you know what the provisions of that bill are?

Chairman Ellison:
All I know is the Senate put this bill in as an emergency bill. It deals only with the rollover of the bond.

Assemblywoman Joiner:
I will restate what I said on the first motion. I think we have the opportunity to do the right thing here, which is to pass the bond rollover for our children and our families without any prevailing wage strings. I was wondering if you would entertain the proposal that we amend the motion to only have sections 2 and 7 in the bill.

Chairman Ellison:
We already have a motion and a second. I want to see what can be amended on the floor. I do not think that will happen unless it goes to the floor. We have a lot of people with concerns about prevailing wage that we need to address. I believe the only way we can do this is to have both caucuses get together to come up with some resolutions. If they do not, the bill will fail. We need to see if we can work it out.

Assemblywoman Neal:
I am going to be in opposition to referring this bill to the floor without a recommendation. The Senate had their chance to vet this bill. Some of our members had the chance to watch the hearing in the Senate and in the Assembly. We gave an extensive amount of time on this bill, and you were so fair, Chairman Ellison, in allowing discussion. If people feel that their voice is not being heard, I do not understand why they did not feel they had an opportunity during our hearing or the Senate's hearing to submit an amendment. I feel we did what we were supposed to do and jurisdiction is in this Committee. People are playing politics, and I am not on board with politics this session. I am going to vote no on a movement to the floor.

Assemblywoman Spiegel:
As Assemblywoman Joiner said, having an amendment from this Committee to have only sections 2 and 7 of the bill remain would still allow the possibility for

there to be possible amendments on the floor. However, it would also allow this Committee to move forward with a bill that would allow us to build schools and do what is right for our children and our workers. If we could submit an amendment, I would be very supportive. If we cannot, I will also be voting no.

Chairman Ellison:
I agree with you, Assemblywoman Spiegel. I think what we need to do is work this out. There are so many people who have concerns, and many people who say we need to put a cap or a threshold on prevailing wage. We might be able to address both at one time. I think that is why it is so important that both committees meet.

Assemblyman Carrillo:
I want to understand the legality of the motion being reconsidered. I believe the motion was improperly moved by Assemblyman Stewart. Is this proper protocol?

Jered McDonald:
As far as I am aware, we are following the rules correctly, and we can reconsider this bill.

Assemblyman Moore:
By this Committee reconsidering this bill, I am in no way supporting it in its current form at all. I want that on the record, and I want everyone to understand it. I will vote no on the floor and I will vote no all the way through until we get what we want out of this bill.

Chairman Ellison:
We will have a roll call vote.

THE MOTION PASSED. (ASSEMBLYMEN CARRILLO, FLORES, JOINER, MUNFORD, NEAL, AND SPIEGEL VOTED NO.)

Chairman Ellison:
The meeting is adjourned [at 11:30 a.m.]. [(Exhibit X) and (Exhibit Y) were presented but not discussed.]

RESPECTFULLY SUBMITTED:

Lori McCleary
Committee Secretary

APPROVED BY:

Assemblyman John Ellison, Chairman

DATE:

EXHIBITS

Committee Name: Committee on Government Affairs

Date: March 3, 2015 **Time of Meeting: 8:20 a.m.**

Bill	Exhibit	Witness/Agency	Description
	A		Agenda
	B		Attendance Roster
S.B. 119	C	Jered McDonald, Committee Policy Analyst	Work session document
A.B. 190	D	Assemblyman Kirner	PowerPoint presentation
A.B. 190	E	Assemblyman Kirner	Aon Hewitt report
A.B. 190	F	Victor Joecks, Nevada Policy Research Institute	PowerPoint presentation
A.B. 190	G	Lance Christensen, Reason Foundation	Written testimony
A.B. 190	H	Vicki Cameron, Private Citizen	Written testimony
A.B. 190	I	Teresa Ghilarducci, The New School for Social Research	Curricula Vita
A.B. 190	J	Teresa Ghilarducci, The New School for Social Research	Written testimony
A.B. 190	K	Tina M. Leiss, Public Employees' Retirement System	Written testimony
A.B. 190	L	Paula W. Petruso, Private Citizen	Written testimony
A.B. 190	M	Ruben R. Murillo, Jr., Nevada State Education Association	Written testimony
A.B. 190	N	Rusty McAllister, Professional Fire Fighters of Nevada	Link to Rolling Stone article
A.B. 190	O	Ron Dreher, Peace Officers Research Association	Brown Center on Education Policy
A.B. 190	P	Ron Dreher, Peace Officers Research Association	Economic Policy Institute Issue Brief
A.B. 190	Q	Ron Dreher, Peace Officers Research Association	Case Studies of State Pension Plans

A.B. 190	R	Stan Olsen, Nevada Association of Public Safety Officers	Written Testimony
A.B. 190	S	Trevor Alt, Private Citizen	Letter in opposition
A.B. 190	T	Trevor Alt, Private Citizen	Second letter in opposition
A.B. 190	U	Bernadette Anderson, Private Citizen	Letter in opposition
A.B. 190	V	Andrew J. Feuling, Carson City School District	Hybrid retirement plan information
A.B. 190	W	Maurice White, Private Citizen	Written Testimony
S.B. 119	X	Senator Harris	Response to questions
S.B. 119	Y	John Madole, Nevada Chapter Associated General Contractors	Amendment