

**MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON WAYS AND MEANS**

**Seventy-Eighth Session
April 15, 2015**

The Committee on Ways and Means was called to order by Chair Paul Anderson at 8:10 a.m. on Wednesday, April 15, 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 Paul Anderson, Chair
Assemblyman John Hambrick, Vice Chair
Assemblyman Derek Armstrong
Assemblywoman Teresa Benitez-Thompson
Assemblywoman Irene Bustamante Adams
Assemblywoman Maggie Carlton
Assemblywoman Jill Dickman
Assemblyman Chris Edwards
Assemblyman Pat Hickey
Assemblywoman Marilyn K. Kirkpatrick
Assemblyman Randy Kirner
Assemblyman James Oscarson
Assemblyman Michael C. Sprinkle
Assemblywoman Heidi Swank
Assemblywoman Robin L. Titus



STAFF MEMBERS PRESENT:

Cindy Jones, Assembly Fiscal Analyst
Stephanie Day, Principal Deputy Fiscal Analyst
Linda Blevins, Committee Secretary
Cynthia Wyett, Committee Assistant

Following call of the roll, Chair Anderson opened the public comment. There being no public comment to come before the Committee, the Chair closed public comment and opened the hearing on Assembly Bill 190.

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

Assemblyman Randy Kirner, Assembly District No. 26, introduced [Exhibit C](#), "Public Employees Retirement System Preservation Act," a PowerPoint presentation. He began the presentation noting that the Nevada Public Employees' Retirement System (PERS) was a defined benefit pension plan. The objectives were to provide a reasonable base income for retirement and to encourage longer service. Retirement considerations for the average person consisted of Social Security benefits, pension plans, and personal savings. For Nevada PERS members, the pension plan and Social Security benefits were combined. State employee salaries would be reduced by 14 percent for retirement contributions effective July 1, 2015. The state would match the 14 percent contribution amount for PERS.

Assemblyman Kirner testified that as a result of union contracts in the 1970s and 1980s, the cities, counties, and school districts began paying the employee portions of PERS contributions in lieu of salary increases.

In the opinion of Assemblyman Kirner, pension reform was nonpartisan. It was a math problem. Pension reform was one of the largest problems facing state and local governments. There were over \$4.6 trillion in state and local government unfunded liabilities in the United States. The unfunded liability in Nevada was over \$12 billion.

According to Assemblyman Kirner, there were six issues for the PERS program:

1. A ballooning unfunded liability.
2. A lack of consistent investment returns.
3. A growing trend in contribution levels.
4. Benefit payment growth.
5. The active versus retiree ratio.
6. Changes in the world of work.

Assemblyman Kirner explained that the goal of Assembly Bill (A.B.) 190 was to provide an improved pension plan for public employees. The proposed plan would affect new employees after July 1, 2016. Current employees would stay on the plan now in effect. He believed the proposed plan would provide sufficient funding for the current plan.

Assemblyman Kirner defined unfunded liability as the difference between what PERS owed to the participants when they retired (liabilities) and what was currently in the fund (net assets). The goal would be to become 100 percent funded. Unfortunately, this was not the case with the present system.

In fiscal year (FY) 2000, when Assemblyman Kirner began tracking the unfunded liability, the number was about \$2.3 billion. In FY 2013, the peak reached nearly \$12.9 billion and in FY 2014, the unfunded liability dropped slightly to \$12.5 billion. The unfunded liability grew to more than five times the amount in FY 2000, as shown on page 6 of [Exhibit C](#).

As shown on page 7 of the exhibit, the funding had never been at 100 percent and, in fact, had been trending downward, although there was a slight improvement shown from FY 2013 to FY 2014.

Assemblyman Kirner moved to page 8 of the exhibit, showing the annual percentage value change. This demonstrated how net assets were affected by economics. Using 2000 as the base year, 2001 was flat. Assemblyman Kirner stated that what was remarkable was that in 2008 and 2009—the recession period—the chart showed a severe drop in earnings. The red line across the page represented an 8 percent return per year. Following the 2009 recession, there was no recovery. This was similar to the problems faced in Utah when the system was unable to recover from a significant decline.

The chart on page 9 of the exhibit showed the PERS experience from 2000 to 2014. The net assets held in trust were over \$33 billion; however, the same starting assets with an 8 percent return would be over \$39 billion. That amounted to a shortage of \$5.6 billion.

Assemblyman Kirner pointed out that in 2011, Warren Buffett, Chairman and CEO, Berkshire Hathaway, stated:

State and local governments use unrealistic assumptions . . . in determining how much they had to put in the pension funds to meet the obligations. The pension fund assumptions of most municipalities, in my view, are nuts. But there's no incentive to change them. It's much easier to get a friendly actuary than to face an unhappy public. I would say that when they have pension assumptions that are assuming they're going to earn 8% [such as ours] or something like that when bonds are yielding what they are now, that's crazy.

The chart on page 10 of the exhibit displayed the contribution rates for the employer plan. The contribution rates had risen. The chart showed that in addition to the 2.5 percent pay cuts and the furlough days, the state employees had consistently taken a 1.0 percent [effective pay] cut for five years because their contribution rates had increased. Assemblyman Kirner believed this plan was not doing a good job for state employees.

Assemblyman Kirner addressed the benefit payments on page 11 of the exhibit. In FY 2000, the benefit payments for PERS were \$421.2 million and in FY 2014, the benefits paid had increased to over \$1.8 billion. He was concerned these trends were causing a serious problem.

He believed that the active versus retirees should never be a problem for PERS. The plan should be fully funded so there was no concern whether the ratio was four active employees per retiree [4:1] or less than a 2:1 ratio. The current retiree pensions were paid by 80 percent investment returns (assets) and 20 percent from new money (contributions) that would never be invested.

Assemblyman Kirner moved to page 13 of the exhibit, "World of Work." He stated there needed to be incentives to attract new state employees. The state was not paying the best salaries, and salaries could not be increased materially. There could be some improvements put into place; however, the changes would not surpass city or county government. The work world had changed over the years. According to the U.S. Department of Labor's Bureau of Labor Statistics, the median years of tenure with current employers from the years 2000 to 2010 were:

- Private sector, 4 years.
- State government, 6.4 years.
- Local government, 7.5 years.
- Education, 4.1 years.

The system was not geared to retain employees, but was geared to fund those who happened to stay for 20 to 30 years. There was no incentive, according to Assemblyman Kirner. The average retirement in the state system was after fewer than 20 years of work.

Assemblyman Kirner discussed page 14 of the exhibit, "Proposed Hybrid Plan." The proposed plan would be effective for new members hired after July 1, 2016. He believed the defined benefit plan rewarded members with long service. The hybrid plan would control the unfunded liability because of the defined contribution component. That part was portable and, therefore, more attractive to new members. The new employees would not have to stay for 20 years before retirement. The employees could make their own investments and pass the plan on to their heirs.

Assemblyman Kirner explained the spiking in retirement funding. The retirement formula for the defined benefit part of the hybrid plan retirement formula would be capped at 133 percent of the base salary for the highest paid three consecutive employment years. The purchase of airtime and service credit would be prohibited under this plan. The employee could no longer purchase up to five years of retirement credit.

Additionally, the multiplier was changed for the defined benefit program. There would be a 1.5 percent per year of service multiplier for police and firefighters and a 1.0 percent multiplier used for other members.

Assemblyman Kirner further explained the full retirement age for police and firefighters would be the Social Security retirement age minus ten years, and for the other members, it would be the same as the Social Security retirement age. Contributions would not be subject to collective bargaining.

In addition, members could transfer from the existing plan to the hybrid plan. Assemblyman Kirner did not anticipate many members would transfer from the existing legacy plan to the hybrid plan. Other changes to the plan as shown on page 16 of [Exhibit C](#) included:

- Supplemental contributions to defined contribution plan.
- Investment choices and a safety net.
- Cliff vesting after five years of service.
- Distribution options might include annuity. This was not a 401(k) plan, but a 401(a) plan.
- No hardship or other loans allowed.
- Governance by PERS. This was a choice for PERS of working with the vendor on investment options, education, communications, and member services.

Assemblyman Kirner described the hybrid plan design with the chart shown on page 17 of the exhibit. In the defined benefit part, the employee contribution rate would be zero, and the employer contribution would be 6 percent. In the defined contribution part, the employee contribution and employer contribution would both be 6 percent. To support the legacy plan, the contribution for the employee would be zero, and the employer would contribute 6 percent. This would make the total contribution 6 percent for the employee and 18 percent for the employer. The current plan rate was a combined 28 percent, effective on July 1, 2015. The police and firefighter hybrid plan was similar, with a final combined contribution rate of 9 percent for the employee and 21 percent for the employer.

An example on page 18 of the exhibit showed that someone hired at 30 years of age who retired at age 65 with 35 years of service would receive 35 percent replacement value under the new defined benefit plan, with 45 percent from the defined contribution plan, for a total replacement value of 80 percent. This was an increase of 5 percent from the plan currently in place.

Assemblyman Kirner referred to the *Constitution of the State of Nevada*, Article 9, Section 2, Paragraph 4:

The public employees' retirement system must be governed by a public employees' retirement board. The board shall employ an executive officer who serves at the pleasure of the board. In addition to any other employees authorized by the board, the board shall employ an independent actuary. The board shall adopt actuarial assumptions based upon the recommendations made by the independent actuary it employs.

Assemblyman Kirner stated that the Public Employees' Retirement Board (Board) made the decisions on the 8 percent actuarial assumptions, not the actuary. The actuary would tell the board the scenarios for the percentage being used.

In closing, Assemblyman Kirner said he believed the current PERS failed to accomplish the objectives of reasonable base income. He thought this was because of spiking. There was no encouragement for an employee to stay in the system. One example was the turnover rate for teachers.

According to Assemblyman Kirner, the testimony in the March 3, 2015, meeting of the Assembly Committee on Government Affairs given by Tina M. Leiss, Executive Officer, Public Employees' Retirement Board, declared that A.B. 190 was not sufficient to qualify as a Social Security alternative. He suggested rereading the *Code of Federal Regulations*, Title 26. In his opinion, the hybrid plan proposed in A.B. 190 met the qualifications for being an alternative Social Security plan. The Nevada System of Higher Education (NSHE) had a defined contribution plan for more than 40 years and had not paid into Social Security.

At the Assembly Committee on Government Affairs meeting, Ms. Leiss referenced a study by the National Institute on Retirement Security, as well as the Teacher Retirement System of Texas that concluded a defined benefit program, such as currently in place in Nevada, provided benefits at the lowest cost of any alternative plan. Assemblyman Kirner suggested Ms. Leiss visit with NSHE. In fact, the cost ratio was less than the PERS plan. According to Assemblyman Kirner, Ms. Leiss acknowledged the alternative program for new hires fundamentally altered the current funding mechanism in place and required substantially increased payments because of closing the payroll with the proposed plan.

Assemblyman Kirner said Ms. Leiss' comment was not true or just partially true, because the proposed plan merely created another tier of benefits. He noted there were multiple tiers already in place: those hired prior to the mid-1980s could receive up to 90 percent of their earnings, while the benefit for those hired after that time was limited to 75 percent of earnings. Assemblyman Kirner also noted the benefit multiplier was increased in the early 2000s and then reduced for new employees in 2009. In his opinion, those changes created three separate tiers in the current benefit plan.

Assemblyman Kirner testified that Ms. Leiss expressed concern that the plan left too much to the discretion of PERS as it related to disability retirement benefits, survivor benefits, and post-retirement and cost-of-living allowance (COLA) increases. Assemblyman Kirner stated that the original purpose of the bill was to allow the Board to manage the system; however, Ms. Leiss wanted more direction. Therefore, Assemblyman Kirner proposed an amendment to A.B. 190 ([Exhibit D](#)).

Ms. Leiss also expressed concern, according to Assemblyman Kirner, regarding the employees' ability to elect to move under the hybrid version of defined benefits. She inquired about the accrued service, any unfunded liability, and assets. When someone moved, the seniority moved with the person. There was no money involved. There was a pool of money to fund whatever the retirement formula dictated. There were different actuarial calculations based on this plan design, and the retirement benefit varied based on the particular plan design; however, there was only one pool of money. Assemblyman Kirner said that many states had multiple tiers of benefits, including New York State, which had six different tiers.

According to Assemblyman Kirner, Ms. Leiss was concerned about the salary cap used in calculating the final retirement benefit. That had been clarified in the amendment ([Exhibit D](#)). The legislative intent was to cap what would be applied to determine retirement benefits, which would become the basis for all future adjustments.

Ms. Leiss was anxious that the plan design was moving away from the current 50/50 split. The contributions to the defined benefit portion would start off with no contribution by the employees and just a 6 percent contribution by the employers. Assemblyman Kirner believed that to be better than the 50/50 plan. He said that Ms. Leiss testified that it was unclear whether the retirement age tied to the Social Security Act of 1935 only applied when A.B. 190 was put into law or whether it was intended to adjust with any future changes. Assemblyman Kirner explained that any future adjustments would reflect changes in the Social Security retirement age. There would be no problem with that portion of the bill.

Assemblyman Kirner noted that Ms. Leiss had expressed concern about a third-party administrator at the earlier hearing. The proposed amendment would give PERS a choice whether to manage the plan internally or to hire an outside administrator. Assemblyman Kirner believed there were third-party administrators who had the expertise to manage the plan beyond that available to PERS.

According to Assemblyman Kirner, Ms. Leiss said that the system continued to pay for what the state was not fully funding through the contributions. She wondered whether this was an intent to provide a loan. Assemblyman Kirner stated that was not the case. Currently, retirement benefits were being paid even though the system was not fully funded.

Another problem raised by Ms. Leiss was the extra financial contribution to the legacy plan and that the bill provided it would cease when the plan was 85 percent funded. Assemblyman Kirner said he had no problem with that request. He was amenable to reaching 100 percent funding.

Assemblyman Kirner pointed out that he was willing to work with PERS on the amendments to A.B. 190; however, PERS was putting obstacles in the way. He believed there had been a concerted effort to advise the public that the bill would take away benefits, truncate retirements, and negatively affect public employees and PERS retirees. He stated that was far from the truth. Assemblyman Kirner testified that the promises made to retirees should not be truncated, and changes should be made so that benefits would continue to be paid. There were many cities in the country where retirees were told there was no money to pay benefits. Assemblyman Kirner stated that was not acceptable, but with the growing unfunded liability trend, he was concerned.

According to Assemblyman Kirner, Ms. Leiss raised the question whether section 8 of the plan requiring "the System to provide individual actuarial valuations for the State" would be a problem. In the opinion of Assemblyman Kirner, if the bill drafters missed the point, it would be a simple correction. He was comfortable with restating the section to define the intent in a way that the new standards of the Governmental Accounting Standards Board (GASB) required the unfunded portion of the pension liability be apportioned among the participating employers. In his opinion, that was the same as the GASB provisions.

Assemblyman Kirner said that Ms. Leiss questioned whether section 10 might be unconstitutional. As shown in [Exhibit D](#), that section had been removed. He did not believe the section was unconstitutional, and there was not an assessment from the Legislative Counsel Bureau suggesting that it was unconstitutional.

In summary, Assemblyman Kirner stated he believed the current defined benefit retirement program established by the Legislature in 1947 did not maximize objectives or reflect current employee needs. The current plan was not designed to attract, retain, or motivate employees. There were many problems related to plan funding and the assumptions used to justify the plan. The plan was not optimal to deliver its objective. Program funding had fallen about \$5.7 billion below where it should be since the turn of the century. Another recession could be catastrophic, and PERS could not count on having a steady 8 percent return for the next 20 to 30 years.

Assemblyman Hickey thanked Assemblyman Kirner for presenting [A.B. 190](#) to the Committee. Assemblyman Hickey thought a big problem was that there were not sufficient people in the retirement plan to pay for the system. Page 12 of the exhibit showed the ratio of active to retired was 4:1 in 2002, which had dropped to less than 2:1 in 2014. He requested clarification of what the ratio meant to the system.

Assemblyman Kirner explained there were approximately 100,000 active state employees and nearly 55,000 retirees. When a person retired, he was no longer contributing to the plan. Therefore, the 100,000 people in the plan at this time were contributing to their own retirement needs and to the investment fund. The investment returns would pay benefits to the 55,000 retirees. The ratio would not be a problem if the plan was 100 percent funded.

Assemblyman Sprinkle stated that Assemblyman Kirner's comment regarding PERS was insulting for an organization trying to look out for the retirement of every public employee in the state. Regarding [Exhibit D](#), Assemblyman Sprinkle directed attention to the language on page 2, line 14, of the proposed amendment. He asked Assemblyman Kirner how this would be an incentive for new employees to come to Nevada, especially in light of comments regarding taking benefits away from current employees.

Assemblyman Kirner responded that he did not believe he had insulted PERS. The Board members knew about the defined benefit plan currently in place; however, they did not know much about alternative plans. Regarding the language referenced in [Exhibit D](#), that provision addressed the employees in the current legacy plan. Those employees could transfer to the new plan if they so desired. After a person became vested in the legacy retirement plan, they had no reason to transfer to the new plan. In his opinion, the most likely person to leave the plan would be someone not yet vested in the plan. When someone changed to the hybrid plan, it would be a positive change for the unfunded liability. Assemblyman Kirner wanted to ensure that individuals were advised about the benefits of staying in the plan.

Assemblyman Sprinkle pointed out that the bill stated, "the member understands the risks of transferring." He asked Assemblyman Kirner to explain what the risks would be.

Assemblyman Kirner explained that with a defined benefit plan, there was a guaranteed formula. When moving to a hybrid plan, the defined benefit portion was guaranteed, but the defined contribution could fluctuate with earnings. That was an inherent risk.

Assemblywoman Titus referred to line 26 on page 4 of [Exhibit D](#), which stated "Prohibit loans to members." She noted that with her personal 401(k), she was able to borrow from herself and pay herself back. She asked why this was prohibited in the design of this bill.

Assemblyman Kirner said this was a 401(a) plan, and the objective of the plan was to provide a suitable income replacement at the end. History had shown that when people took out loans, they were not always diligent with the repayment. This was protection for the employees.

Assemblywoman Dickman inquired whether other states had adopted a hybrid or alternative plan and, if so, what the outcomes had been.

In response, Assemblyman Kirner said there were many states that had adopted such plans. Although not all plans had been successful, it was typically a funding problem. The Nevada plan had always been funded.

Assemblywoman Dickman said that Nevada could learn from the mistakes made in the other state plans.

Assemblywoman Benitez-Thompson referenced language starting on page 3, line 20, of [Exhibit D](#). The amended language, it appeared, said that for new hires after July 1, 2016, when entering the plan, the contribution rate must cover the unfunded liability. She asked about the length of time the Board would have to recover the unfunded liability and the anticipated contribution amount.

Assemblyman Kirner clarified the new plan design. There was no annual required contribution (ARC) or unfunded liability in the new plan. There was, however, unfunded liability in the legacy plan. Assuming a rate of return less than 6 percent, there would be an unfunded liability in the new plan and a change in the amount of contribution.

Assemblywoman Benitez-Thompson understood the new plan would never have an unfunded liability. Assemblyman Kirner responded that the Board would set a rate to address any unfunded liability. Assemblywoman Benitez-Thompson was unclear what portion of [A.B. 190](#) addressed unfunded liability.

Assemblyman Kirner explained that the current law required the Board to run the system. There was the normal cost to pay the system, but the ARC was designed to pay down the unfunded liability.

Assemblywoman Benitez-Thompson needed further clarification. If PERS moved to the new plan with employees having an option other than the legacy plan, she asked whether the unfunded liability would be addressed. The process was unclear.

Assemblyman Kirner indicated the actuarial plan would be addressed in later testimony.

Assemblywoman Kirkpatrick commented that she had met with officials in Rhode Island where governments had failed to make contributions to the retirement system for 40 years. The employers agreed to put in a portion for employee retirement; however, it was not done. She wanted Nevadans to be aware that the state had contributed to PERS funding. With PERS, the employees assumed the money would go toward their retirement because they received less money in their paychecks.

Assemblywoman Kirkpatrick wanted to understand how there would be sufficient money when employees moved away from the current plan. She thought that A.B. 190 was a small bill that made big changes, and she wanted more discussion of the issues.

In response to comments from Assemblywoman Kirkpatrick, Assemblyman Kirner explained that the current PERS program was not like a mortgage where the principal was paid down over time. He compared the current retirement plan to a credit card with charges being added continuously, but with no payments being made to reduce the "principal" over time, allowing the liability to grow each year.

Assemblywoman Kirkpatrick thought any retirement plan might produce the same scenario. Assemblyman Kirner interjected that was not the case with the proposed plan. He wanted to put a cap on the unfunded liability, not increase it. That was why the defined contribution part was included.

Assemblywoman Kirkpatrick expressed that she was unable to locate the language in the bill to that effect. Referring to section 5 of the proposed amendment, Assemblywoman Kirkpatrick wondered why only the Governor, the State Treasurer, the Senate Majority Leader, and the Speaker of the Assembly were allowed to see the report when 63 legislators determined how the system operated. She suggested the report should be sent to the Interim Finance Committee, Legislative Commission, and Fiscal Analysis Division staff for review.

Assemblyman Kirner said that federal law required a specialized report for the persons listed. Other reports could be generated as requested.

Assemblywoman Kirkpatrick thought everyone should share in the ownership of the program.

Assemblywoman Kirkpatrick referred to section 6 of A.B. 190 and the contribution rate of 6 percent of each employee's compensation. She asked how that would work for the local governments. She asked whether the employer would be paying the 6 percent, noting that line 37 on page 5 of the proposed amendment ([Exhibit D](#)) referred to section 2. Additionally, she was concerned because PERS had been in statute since 1947 and changes had been made; however, there was nothing in A.B. 190 about adopting regulations or protecting the definition of the plans. Assemblywoman Kirkpatrick thought it was a good idea for people to have a choice of options, but the details did not appear to be defined in the bill.

Assemblywoman Kirkpatrick pointed out that typically, when something new was put into statute without regulations, there was the potential for problems because of the lack of flexibility. Because the Legislature met every two years, it was difficult to make changes.

Assemblyman Kirner responded that page 4 of the proposed amendment addressed the option of a third-party administrator if the cost was lower than the costs that would be incurred by PERS. The Board would be in control of the plan.

Assemblyman Kirner noted that the Legislature made rules and law, and in fact, Assemblywoman Kirkpatrick was proposing a bill this legislative session to make changes in the process.

Assemblywoman Kirkpatrick advised that her proposed legislation had died and would not be brought forward. The bill she proposed had been very limited. A.B. 190 dealt with the financial piece, and there should be guidelines the Board could address.

Assemblyman Kirner was not certain whether the Board would be required to prepare a request for proposal (RFP). As an independent agency, the RFP could be optional.

Assemblywoman Carlton said she had many questions regarding A.B. 190, but she was willing to postpone all of the questions but one, relating to survivorship and heirs. She needed to ensure that the proposed changes would not

adversely affect the family income if something happened to the state employee after retirement.

Assemblyman Kirner explained the same choices would apply to the defined contribution piece in the new system. The defined contribution plan could be inherited. Under the current defined benefit plan, there were options from which to choose. That would not change. On page 3, line 3, of the proposed amendment, the survivor and disability benefits were defined.

Assemblyman Armstrong asked whether estimates were made regarding the 40 percent of active state employees who were eligible to retire soon. The rate of return on the investment in the system was above 8 percent over the past two years, but the unfunded liability continued to grow. Because there were fewer employees supporting the system and because the system was paying benefits to employees for a longer period, he wondered whether the system was stable enough to ensure that the promises made to employees could be kept.

Assemblyman Kirner responded that information would be included in the actuarial discussions.

Assemblywoman Swank recalled the millennials and the portability of the plan. According to Assemblywoman Swank, a study from the *Washington Post* showed that in the late 1980s, about 50 percent of 20-to-25-year-old employees were changing jobs each year. However, that number had dropped to 35 percent. Millennials were not job-hopping but were looking for the stability of long-term employment. She wondered how the proposed changes to PERS would attract the millennials who were looking for stability in the economy.

Assemblyman Kirner replied that the data shown in the presentation came from the U.S. Department of Labor, not the *Washington Post* or other newspaper. The data suggested that young people tended to move from job to job more frequently.

Assemblywoman Swank clarified that the *Washington Post* study was not conducted by reporters but by economists. Usually job-hopping between ages 20 to 25 happened once a year. Those who were not millennials also left jobs for many reasons based on their own choices.

Anthony Randazzo, Director of Economic Research for the Reason Foundation, presented [Exhibit E](#), a slide presentation titled "[AB190](#) Pension Reform Actuarial Analysis." The Reason Foundation was a nonprofit think tank operating across

the country to help lawmakers put best practices in place. Two aims of his work on pensions were to reduce taxpayer risks and to ensure solvency for public employee pension benefits. Mr. Randazzo said he wanted to present the actuarial work performed by the Reason Foundation on A.B. 190 and the proposed amendments.

Mr. Randazzo stated there were four elements he wanted to discuss:

- The fiscal effects of the legislation.
- How the legislation changed taxpayer risks.
- How benefits for new employees would compare to legacy employees.
- Why the proposed amendments to A.B. 190 were important for getting pension reform right.

On page 3 of Exhibit E, Mr. Randazzo described the blue bars on the chart as representing the unfunded liability in the current PERS plan. This chart assumed that all actuarial assumptions were correct. The unfunded liability had been growing because actuarial assumptions had not been accurate; however, if they were correct, the unfunded liability would drop over the next 20 years. The challenge for the state, according to Mr. Randazzo, was that while the unfunded liability was declining, the combined employer cost [yellow line on the chart] would grow. The trend line was not only growing up to 23 percent in 2014, but would continue growing to a combined rate up to 33 percent. The upward trend in cost was one thing the bill attempted to address.

Mr. Randazzo took the baseline model shown on page 3 of Exhibit E and adjusted it based on A.B. 190 and the proposed amendments. The result was the chart shown on page 4 of the exhibit. The blue bars were the unfunded liabilities assuming all actuarial assumptions were correct as shown on page 3. The green line was the unfunded liability if A.B. 190 was adopted. This line followed the path of the blue bars, because the amendment said the actuaries should keep the amortization schedule as fixed as possible relative to the baseline. There would not be an increase in employer costs relative to changing how the unfunded liability was paid off. The primary difference was in employer cost. The yellow baseline employer cost was the same on the page 3 and page 4 charts.

The orange line represented employer cost under A.B. 190 at a stable rate of 27 percent, the projected combined employer cost. Mr. Randazzo explained this created a fiscal savings. The amortization schedule would remain the same. By keeping the amortization schedule the same, the state would see a savings. The primary difference in the fiscal note presented for A.B. 190 was a change to how the debt was amortized and that it sped up paying off the debt. If the

state wanted to speed up paying off the debt, that would mean less paid out in the long run but higher costs in the short run. This was similar to paying off a mortgage faster. Currently the law would keep the amortization schedule the same, and there would be no change in how the debt was paid off. Without change, there would be the less expensive hybrid plan under A.B. 190, which over time removed employees from the current plan. Eventually, there would be more hybrid employees and fewer legacy employees.

Assemblywoman Benitez-Thompson requested clarification regarding the chart on page 4. It appeared the yellow line was the current plan and the orange line was the plan under A.B. 190. The biggest gap appeared to be a \$2 million savings per year at about year 2029.

Mr. Randazzo confirmed Assemblywoman Benitez-Thompson's understanding. When looking at fiscal year (FY) 2034, the difference in employer cost was 27 percent of payroll versus 33 percent of payroll, when considering both public safety employees and other public employees. In that one particular year, there was about \$2 million to \$2.5 million difference in savings.

Assemblywoman Benitez-Thompson asked for additional information regarding the unfunded liability in year 2034 and the difference with the legacy plan and A.B. 190.

Mr. Randazzo explained that at this point, the unfunded liability was getting paid off. After year 2030, the projections were very rough. He believed the most important calculations were for the next 10 years; however, when projected out 20 years, the unfunded liability was eventually paid off. There would never be a negative, because the state would change the method of paying pension benefits.

Assemblywoman Benitez-Thompson noted that in 2025, it appeared that the status quo and A.B. 190 were in tandem.

Mr. Randazzo agreed that the number of hybrid-plan employees would start off small. Every year legacy employees would retire and be replaced by new hybrid-plan employees. Each year the magnitude would grow. In the first few years, there would not be a massive fiscal change. The fiscal difference for year one was about \$14 million.

In response to an inquiry from Assemblywoman Benitez-Thompson, Mr. Randazzo explained that if the actuarial assumptions were not correct, there were substantive implications for the fiscal stability of PERS. The purple line shown on the chart on page 6 of the exhibit represented the declining unfunded

liability. If investment returns were 6 percent rather than the projected 8 percent, the unfunded liability represented by the yellow line would increase dramatically. This was a concern. Any defined benefit plan would contain risk factors. By adding the defined contribution component as in A.B. 190, the amount of the pension plan exposed to the risks was reduced.

The slide on page 7 of Exhibit E showed the effects of A.B. 190 with investment returns of 6 percent. According to Mr. Randazzo, the near-term unfunded liability grew more slowly in this scenario because there was a portion of the risk replaced by the defined contribution component.

Returning to page 5 of the presentation, Mr. Randazzo explained the actual fiscal effects of A.B. 190. This assumed the amortization schedule was kept the same. The combined employer cost-savings calculation for FY 2017 was \$14 million. Over five years, it would increase to \$216 million. At 20 years, the difference between the status quo and the plan proposed in A.B. 190 was about \$2.42 billion savings in employer costs. That was the fiscal effect of adopting a more affordable plan.

It was important to look at not only the fiscal effects, but also the effects on the employees. Mr. Randazzo discussed the benefit replacement rate shown on page 8 of the exhibit, assuming the defined contribution accounts had the same returns as the defined benefit plan. The defined benefit plan assumed an 8 percent return, so an 8 percent defined contribution return was assumed. The percentage in the replacement rate showed how much the pension benefit replaced the income of the employee. Under the status quo baseline for a regular employee hired at age 25 and retired at age 52, the pension benefit would replace 41 percent of income. If retired at age 62, the pension benefit replaced 72 percent of income. Under A.B. 190, if the regular employee retired at age 62, the pension benefit replaced 79 percent of income. The numbers were larger for public-safety employees. For full-career employees, the benefits offered under A.B. 190 were as good, if not better, than benefits offered under the status quo. The reason money could be saved under a more affordable plan while increasing benefits was because of the growth in the defined contribution account at an 8 percent rate. If the defined contribution account did not earn 8 percent, the numbers would be different.

Mr. Randazzo testified that the model he outlined was consistent not only with A.B. 190, but also with the amendments. The key difference was how the debt was being paid off. He proposed keeping the amortization schedule the same for the legacy debt status quo. There was no requirement that the state must change how the pension debt was paid off. The Segal Group's analysis attached to the PERS fiscal note changed the amortization schedule. This was

an acceptable change the state could make. However, the tradeoff was paying the debt faster in exchange for an increase in current contributions. Also included in the analysis were the same disability benefits and the same cost-of-living allowances as existed currently.

Responding to Assemblywoman Bustamante Adams, Mr. Randazzo explained that whether the state could earn 8 percent was a matter of what was anticipated from institutional investing. If it was impossible to earn 8 percent, the current system would have exploding debt.

Assemblywoman Bustamante Adams questioned why the benefit replacement rate assumed an 8 percent earnings rate.

Mr. Randazzo replied that PERS assumed the 8 percent rate; therefore, he assumed the same rate when preparing the presentation. He stated that he could have presented the report assuming 6 percent earnings rate on investment.

Assemblywoman Bustamante Adams asked to see the numbers at a 6 percent investment rate for comparison.

Mr. Randazzo said at a 6 percent rate, the public-safety employee replacement rate would be above 75 percent. The replacement rate would always be better for public-safety employees at age 57 and above. The primary difference would be that under the current plan, an individual could be hired at age 25 with a starting salary of \$30,000 per year, retire at age 55, and have a better replacement rate under the status quo. Under A.B. 190, because part of the benefit was in a defined contribution account, the individual would have to work longer than 30 years using a 6 percent rate. The biggest benefit of the status quo was that it allowed persons hired at an early age to work 30 years and retire in their 50s. Assembly Bill 190 encouraged those individuals to stay in the system until the federal retirement age.

Assemblywoman Kirkpatrick thought that working 30 years was a long time. Since 2009, there had been changes made to PERS to discourage early retirement. She was aware that not all jobs were appropriate for someone to work until age 70. In Nevada, many jobs were grueling, even for state employees. She asked Mr. Randazzo to provide specific numbers to put into the formula to make it easier to comprehend.

Mr. Randazzo explained that to develop the numbers used in the presentation, he used the Comprehensive Annual Financial Reports (CAFERs) and evaluations from PERS, the investment history of PERS, and related data to develop the

report. The information was not gathered from federal or other state numbers. This model was built specifically for Nevada. He agreed that such modeling had limits. The replacement rates were based on benefits offered under PERS with adjustments based on the language of the bill. Mr. Randazzo agreed that not all employees could work an extended number of years at a particular job. He could only provide a general snapshot of the retirement plan. It was his experience from reviewing other state retirement systems that having a portion of the benefits as a defined contribution was beneficial for a system in which there was an assortment of jobs to be performed.

Mr. Randazzo further stated that if the salaries were increased, thereby increasing contributions, that would not be sufficient to address the problems in the system. If there was a 6 percent versus 8 percent return, the increase in unfunded liability would amount to about \$25 billion. Salaries would have to be increased so much that the state would not be able to account for the net fiscal balance.

Assemblywoman Kirkpatrick understood that many things could change between now and 2035; therefore, she requested some realistic projections for the short term.

Assemblyman Kirner responded that a worker making \$38,000 per year would be contributing \$5,320 under the current PERS plan. In the proposed A.B. 190 plan, that same worker would be contributing \$2,080. In effect, this gave the employee a \$3,000 pay raise. He thought this would help attract workers to state employment. There would no longer be a 1 percent of payroll PERS increase every biennium.

Assemblywoman Kirkpatrick was concerned that many employees were not participating in the additional PERS contributions.

Assemblyman Kirner said that every employee entering the new system would be paying less into retirement than current employees contributing to PERS. There would be a higher take-home pay for the new employees. That was a monumental change for employees, and he thought the change would attract, retain, and motivate people.

Assemblywoman Carlton stated that the PERS plan was based on the amount of contributions being able to fund the unfunded liability. Hearing that people would be paying in less money and with fewer dollars, there could be an effect on current employees. She was unable to find anywhere in A.B. 190 that fenced off current employees.

Mr. Randazzo explained that ideally a pension system should operate in such a way that every year the state saved the exact amount of money necessary to pay for all of the benefits offered. An actuarial assumption was made about how much money the plan would earn over time, the actual value of the liabilities promised in the given year was estimated, and the actuarially determined contribution for each year was made. This was all that should be saved. That would be ideal. However, if A.B. 190 was adopted, that principle would not change. The pension that existed for the future employees should not be paying the unfunded liability. The future employee benefits on a financing basis might look like that was what was being funded, but future employees should not be paying off the unfunded liability that existed for today's employees. As the employees shifted and there were more hybrid employees than legacy employees, the state would retain the responsibility to pay off the unfunded liability. However, the state would not pay off the unfunded liability out of the dollars of future employees, but out of the amortization payment.

Assemblywoman Carlton said that common sense told her that "less money going in means less money coming out." The dollar amount was on a per-member, per-month basis and split 50/50 fairly, and the current plan had great respect across the country. Employee dollars came from tax dollars, some of which the employees were paid. All of the money in this state made a circle. She wanted to ensure that everyone was aware that eventually the Legislature would have to fund this plan in some way, shape, or form to keep the promise to state employees whole.

Assemblyman Sprinkle recalled Mr. Randazzo's statement that once transferred to the defined contribution plan, the risk for the state system would decrease. He thought this meant it was a transferred risk. As the employees were putting more into the plan, the employees were assuming much of the risk.

Mr. Randazzo agreed with Assemblyman Sprinkle.

In reviewing the graphs on pages 4 and 5, Assemblyman Edwards noted the unfunded liability was at about \$12.5 billion and the maximum cost savings over 20 years appeared to be about \$2.42 billion. This seemed to conclude an unfunded liability of nearly \$10 billion at the end of 20 years.

Mr. Randazzo pointed out that the chart on page 5 showed a combined savings of \$2.42 billion at the end of 20 years after paying off the unfunded liability and other costs. This included all of the PERS assumptions. If the PERS assumptions were not correct, all of these numbers would be off,

including the fiscal note. The benefit of A.B. 190 was that it reduced the taxpayer risks should the actuarial assumptions be incorrect.

Chair Anderson requested public testimony in support of A.B. 190.

Dan Liljenquist, consultant for Action Now Initiative, said he was the chief architect of a 2010 pension reform program for Utah. He wanted to inform the Committee what had been achieved in Utah and how it applied to Nevada pension reform. Mr. Liljenquist submitted [Exhibit F](#), written testimony from David Draine of the Public Sector Retirement Systems for The Pew Charitable Trusts supporting A.B. 190.

Mr. Liljenquist said that Utah was similar to Nevada in that the pension system was funded through the same methods using the full actuarially required contribution. In 2008-2009, the market crash created a 30 percent revenue reduction and a \$6.5 billion unfunded liability. The contributions to the retirement system increased 75 percent because of a one-year market loss. The primary goal of A.B. 190 was similar to that of the Utah plan. The state of Utah had to ramp up to a 75 percent higher contribution for the retirement system for 25 years until the liability was paid. Nevada was in a similar predicament.

The primary goal of A.B. 190 was to ensure that if there was another year like 2008, the state would be in a better position to handle it financially. Mr. Liljenquist agreed with Mr. Randazzo's statement that the cost would decrease. The new benefit would be such that it would generate cost savings to the state. For Utah, without the pension reform, another year like 2008 would have been devastating. It was not possible to put another 20 percent of payroll into pension costs and still be able to pay employees. The idea was to cap the liabilities and meet every penny of the commitment made to current employees and retirees.

Mr. Liljenquist testified that if there was another year like 2008, the state would be able to handle the financial situation with A.B. 190, which was built on the same principle as the Utah reform. There were many other states with hybrid legislation, and he believed it had been thoroughly tested. The plan was similar to the federal employees' retirement plan.

Mr. Liljenquist opined that the plan was very good. There had been a comment made about employees working longer. He thought that was reality for the new workforce. The replacement rate with a 5 percent rate of return at the end of a career would be 82 percent. This bill would not only cap liability for Nevada,

but also ensure adequate retirement security for new employees entering the system.

Assemblyman Armstrong commented that the fiscal notes indicated it would cost approximately \$800 million per year. He asked for additional information from Mr. Liljenquist regarding the transition costs for Utah.

Mr. Liljenquist responded that the fiscal notes made no sense. He explained that Utah had no transition costs in the legislation for setting up the hybrid retirement system. The legislation was clear, and the costs of the existing liability would be amortized over all of the employee base, including new employees. The employers of every new hire would have to pay toward the unfunded liability of the existing system. He stated that A.B. 190, in the current form, would establish the same procedure. The Utah legislation was a new tier and did not generate a fiscal note. He agreed that the fiscal note should be revised based on the new language of the bill.

Assemblywoman Kirkpatrick inquired whether the other states that enacted similar legislation participated in Social Security. This would be a different variable than the Nevada retirement system.

Mr. Liljenquist replied that the Social Security system varied by jurisdictions. He thought it was important to note that the requirement for replacement of Social Security exceeded federal guidelines. There could be a Social Security replacement plan that was a straight defined contribution plan. This plan, with the defined benefit core and a substantial defined contribution on top of it, easily met the federal requirements and would not be a problem.

Assemblywoman Kirkpatrick said that it would be helpful to see numbers from Utah. She thought the Utah system was different than the Nevada system. She also wanted to know who handled the investments for Utah.

In the opinion of Mr. Liljenquist, the situation in Utah was similar to Nevada. There was an independent investment board to manage the investments. He agreed to provide additional information on the Utah plan for the Committee.

Responding to a question from Assemblywoman Bustamante Adams, Mr. Liljenquist believed the language in A.B. 190 was very similar to the Utah legislation. When moving to the new system, the employer was responsible for paying the amortization or losses, and the employee paid into the normal cost of the new benefit to be received. It was his understanding that in the current draft of A.B. 190, the employer would be responsible for paying off the unfunded liability or amortization portion of the actuarially required contribution.

The required contribution consisted of two components that made up the amortization rate: the normal cost of the benefit and the cost to pay off the liabilities. As A.B. 190 was currently drafted, it was clear that employers were going forward with paying the amortization expense for the current system and the current employees, and the fiscal note could be removed. There would not be anything changing the plan or changing how the liabilities were amortized.

Pete Constant, Senior Fellow, Pension Reform Project, Reason Foundation, believed that all government agencies had a moral obligation to address the looming pension crisis. There was an obligation to the thousands of employees throughout the state and the country, as well as the thousands of retirees who had put their time in and made contributions to the fund. Mr. Constant supported A.B. 190, saying that it provided a thoughtful approach to addressing the growing unfunded liability and would responsibly continue to pay on the unfunded liability while reducing the risk to the taxpayers and operating budget.

Geoffrey Lawrence, Assistant Controller, Office of the State Controller, spoke in support of A.B. 190. Over the past 30 years, the annual required contribution had doubled to keep the program whole. Because there was a 50/50 split shared by the employer and employee, employees had less take-home pay and the operating budgets were constrained. When actuarial assumptions were not met, there was a contingent unfunded liability, annually increasing the required contribution. He believed that A.B. 190 would be a way to cap the debt and begin to pay off the liability without incurring future debt.

Assemblywoman Kirkpatrick wondered why the Office of the State Controller (Controller's Office) was supporting A.B. 190. She was not aware of the Controller's Office testifying for this type of legislation in previous legislative sessions

Mr. Lawrence responded that the statutory charge for the Controller's Office was extremely broad and included providing recommendations to improve the fiscal management of the state or to improve the understanding of the state's fiscal processes. Mr. Lawrence believed that previous Controllers had not fully availed themselves of the full statutory charge given to the office, but the decision made by the current Controller was to fulfill that charge.

Assemblywoman Kirkpatrick was hopeful the Controller's Office would continue the discussion at the State Board of Examiners' meetings if the subject was on the agenda. She thought that was a more appropriate forum.

Mr. Lawrence said that the State Controller also sat on the Board of Examiners and would continue to be an active participant in policy debates related to fiscal affairs of the state.

Steven Elliott, private citizen, Reno, Nevada, was a Nevada PERS retiree, and he wanted the Committee to know that change was sometimes necessary to make employee benefits sustainable. He was in support of A.B. 190.

Chair Anderson thanked all those who testified in support of A.B. 190 and asked for testimony from those opposed to the bill.

Tina M. Leiss, Executive Officer, Public Employees' Retirement System, testified that the Public Employees' Retirement Board had taken a position in opposition to A.B. 190. The opposition was based on concerns with operational and administrative matters, federal laws, constitutional issues, funding concerns, and inconsistency with the mission of the system. She wanted to focus on the funding concerns, because she believed this was the appropriate committee for those discussions. She did not believe that the policy concerns had been fully vetted.

Ms. Leiss introduced Brad Ramirez of the Segal Group. Mr. Ramirez was an independent actuary hired by the Board pursuant to the *Nevada Constitution*. She also introduced Cathie G. Eitelberg, Director, Public Sector Market, Segal Group. Ms. Leiss noted that Mr. Ramirez was a Fellow of both the Society of Actuaries and the Conference of Consulting Actuaries, a member of the American Academy of Actuaries, and an enrolled actuary. He had a bachelor's degree in mathematics and a master's degree with an emphasis in abstract algebra from the University of Nevada. She pointed out that the *Constitution* required an independent actuary be hired, and *Nevada Revised Statutes* (NRS) required that the plan be funded on an actuarial reserve basis. The prior speaker who testified about the actuarial analysis of the system was an economist. However, as dictated by constitutional law, PERS had hired Mr. Ramirez, an actuary.

Ms. Leiss also pointed out that other states, such as Utah, were Social Security states. The hybrid plan used in Utah had a 1.5 percent multiplier, whereas A.B. 190 proposed a 1.0 percent multiplier. In the Social Security alternative program, she had testified that the defined benefit portion of A.B. 190 did not qualify as a Social Security alternative because a 1.0 percent multiplier did not qualify. If the state was attempting to replace the retirement system, she opined that the hybrid plan might not be effective.

Ms. Leiss said that Utah had an employer-paid plan and the employees did not contribute to the retirement plan. When Utah moved to the hybrid plan, it was able to keep an open payroll. Utah was continuing to pay the unfunded liability based on the open payroll. However, that was not the proposal in A.B. 190.

According to Ms. Leiss, Utah's all-in employer cost for its retirement for public employees in 2012 was 24 percent for the employer. This cost included Social Security, the hybrid plan, and the unfunded payment to the legacy plan. The all-in employer cost in Nevada as of July 1, 2015, was 14 percent. These differences should be considered by the Committee. Local plans, such as that of the city of San Jose, were very different than the statewide plan.

Ms. Leiss continued her presentation with the following testimony:

The system was created in 1947 to provide retirement benefits because we do not have Social Security. We are established as a cost-sharing plan so that all state and local governments contribute equally. Our members have equal benefits, they pay equal contributions. We are fully cost-sharing: 50 percent to the employer, 50 percent to the employee. That is done either through after-tax deduction, salary deduction, or in-lieu of a pay increase, but every employee pays half, including on the unfunded liability.

Nevada has strong constitutional protections in place that protect both the funding of the system and the contract rights of members and beneficiaries. I believe A.B. 190 goes straight to the heart of these constitutional issues and would need to be addressed.

Question 1 in 1996, which was passed by a vast majority of the voters, says as follows:

The public employees' retirement system must be governed by a public employees' retirement board. The board shall employ an executive officer who serves at the pleasure of the board. In addition to any other employees authorized by the board, the board shall employ an independent actuary. The board shall adopt actuarial assumptions based upon the recommendations made by the independent actuary it employs.

One of the driving forces behind question 1 in 1996 was examples from other states of political interference in the appropriate funding of the plan [and] appropriate adoption of actuarial assumptions, which leads to underfunding and potential raiding of pension plans.

Bottom line is, this system is funded based on the actuarial assumptions recommended to us by the independent actuary. We are currently on schedule to pay the unfunded liability in 22 years, half by the employees and half by the employers. Implementing a hybrid plan for new hires will not eliminate the current unfunded liability. This is liability already incurred, and it needs to be paid. What I have not heard this morning is how that is going to be paid. That goes to the heart of the fiscal note.

Currently, in the regular fund, the unfunded payment is about 11 percent of payroll: half paid by employees and half paid by employers. We have a payroll-growth assumption that we use to determine how that is made. What I have heard this morning is that in A.B. 190, the new employees will not be paying on that, and the employers will be paying 6 percent, not the full 11 percent that currently is in place. What I have not heard this morning is how the payments for the current unfunded liability will be paid. If we do not continue to get the same amount of money to pay that under the current funding policy, it will grow, even if you put a hybrid plan in place, because what you do not pay today causes interest tomorrow, and it will grow if you do not make appropriate payments. If you do not make appropriate payments, which we are doing now, it eventually puts the funding of the system in jeopardy. If you put the funding of the system in jeopardy, you put the benefits that these members have a contract right to, in jeopardy.

Pursuant to NRS 286.410, NRS 286.421, and NRS 286.450, the contribution rate that is required from all public employers and employees currently in the system is that which is required to actuarially fund the system. If the payments are not being made on the unfunded liability through the open payroll on A.B. 190, which there is no provision in the bill to do so, the payments will be made under the current mechanism, which required actuarial funding. That will be from current employees and employers. That will be a 15 percent increase in the contribution rate based on the independent actuary's analysis, or about \$700 million per year.

Ms. Leiss explained that in Utah the employer was paying the entire unfunded liability in the beginning, even when the unfunded liability increased. In Nevada, the employees were paying half. Making the shift in A.B. 190 would mean the employees would have to increase their payments.

Ms. Leiss pointed out that the language in A.B. 190 said the employer would pay 6 percent and the employee would have to pay the balance. She did not see an analysis of how much that would fund, especially with disability and survivor benefits and cost-of-living allowance included.

It appeared to Ms. Leiss that section 3 and section 8 of the bill would change from a cost-sharing plan to a multiple-employer plan. She was not aware of what that would mean to the employers.

In conclusion, Ms. Leiss stated that PERS had been advised by the consulting actuarial firm and legal counsel with tax specialization that it was possible section 206 of A.B. 190 could not be applied consistent with federal law. In the mock-up of the amendment ([Exhibit D](#)), it appeared to require PERS to prepare benefit estimates for over 100,000 employees under both the new plan and the old plan, and to make sure each member acknowledged the differences in the plans. That would be a substantial cost that could not come from the current trust fund.

Assemblyman Sprinkle inquired about the third-party administrator mentioned in section 4, subsection 4, paragraph (a) of the proposed amendment to A.B. 190 and the associated costs. He was curious to know whether the costs would be paid through employee contribution and what services a third-party administrator would provide.

Cathie G. Eitelberg, Senior Vice President and Director, Public Sector Market, Segal Group, explained that a third-party administrator would perform the record keeping, collect the contributions, and send dollars for choices made by individuals to direct their investments.

Ms. Leiss added there were also legal fees and education costs to bring the new system on line. These costs were not included in A.B. 190. The PERS had an 8 percent return assumption. Previous speakers had applied the same return assumption to a defined contribution account. A number of studies had shown that institutional investors, such as Nevada PERS, achieved a higher rate of return for various reasons. There was generally a different fee structure between a defined contribution plan and what was paid by the institutional investor in a defined benefit plan. Also, there were different return

issues because of individual investors versus an institutional investor. Clearly, a third-party administrator must build a profit into that model.

Ms. Eitelberg interjected that the investment fees and administrative fees in a defined contribution plan were charged to the participant—not to the plan. This would reduce the overall return on the participant's account.

Assemblyman Hickey noted the 8 percent annualized earning rate had been brought into question. It was mentioned that at the time of the recession, the Utah plan took about a 30 percent loss. He asked what effect the recession had on the Nevada plan.

Ms. Leiss responded that the return for Nevada during the recession was a 15.99 percent loss. The Nevada system was conservatively structured to survive those downturns better than other pension plans. Since 2009, Nevada had added over \$14 billion to the trust fund, while still paying out benefits of nearly \$8 billion.

Assemblyman Hickey agreed that the Nevada PERS was one of the better plans. He acknowledged that A.B. 190 represented the need to review the pension plan. Although the ratio of active employees to retirees was now at a 2:1 ratio, at one point it was as high as 4:1. This appeared to be a challenge for this type of system. He wondered whether there was a reasonable cause to consider changes to the system now or in the future. Should there be another downturn, Nevada could face additional challenges if no changes were made to the system.

Ms. Leiss thought that there could be conversations regarding changes for the system; however, the unfunded liability must be funded. There was no language in A.B. 190 to continue funding the unfunded liability. In a prefunded plan, there should not be a concern with the ratio of active employees to retirees as there would be with Social Security.

Assemblyman Hickey said that while PERS acknowledged it was able to pay some of the unfunded liabilities down, employee contributions went up during that five-year period. This was an ongoing reality facing employees and taxpayers.

Ms. Leiss agreed that was an ongoing reality. No matter how the plan was changed, there was an unfunded liability to pay. The unfunded liability was not just created from investment returns—gains or losses—but for many different reasons over the past years, including such things as benefit improvements included in the plan that were not completely funded.

Assemblyman Armstrong commented that Social Security benefits would probably not be available for millennials. His understanding was that current employees were paying 5.5 percent toward the unfunded liability of those currently retired. He was aware that the unfunded liability had multiplied about 5.5 times from 2000 to 2012. Active employees should be contributing to their own retirements, but they were required to pay increased contributions for the unfunded liability. The younger generations were questioning whether they were contributing for their own retirements or for those who were already retired. This was true for both Social Security and public employees' retirement systems.

Ms. Leiss clarified that the unfunded liability payments were not only for unfunded liability to retirees, but also for the unfunded portion of the liability for the active member. There was also a component for active members to pay for half of the normal cost for their own retirement. This would be a policy discussion. She reiterated that no matter how the debt was created, the unfunded liability must be paid, because it was a contract right of the members and beneficiaries. The best way to do that was to continue funding the unfunded liability. Nevada had been diligent in making the payments, even when the rates had gone up.

Assemblyman Armstrong agreed that the state should keep the promises made, but it appeared there were promises made by people who were no longer around. That was a generational question.

Ms. Leiss explained that was why there was a 22-year amortization period. In this way, each generation would pay for its share. If the amortization period was lengthened in an attempt to eliminate the fiscal note to make the change without making the payments, that would entail pushing the costs onto future generations. Ms. Leiss wanted to ensure that would not happen.

Assemblywoman Carlton was happy to hear about the 22-year amortization period mentioned by Ms. Leiss. She wanted to hear the changes that had been made over the past few years with fewer employees, lower pay, and other issues when the first 22-year amortization was developed. The Legislature had changed the dynamic and, she believed, caused the unfunded liability to shift because of the amount of money people were making, the retirement ages, and when workers were looking at working their last three years without pay raises. Consequently, many people retired earlier than anticipated. All of these situations had an effect on the unfunded liability. It seemed the more employees there were, the shorter the amortization could be.

Ms. Leiss agreed with Assemblywoman Carlton that there were many parts to the funding of a public pension system. It was not only about investments, but also about when people retired, salaries, payroll, and other pieces. There were a number of variables during the past ten years that had an influence on retirement rates to the detriment of the retirement system, in some cases. When people retired earlier than anticipated, the plan had to pay the person for a longer period of time. An example would be changes made for local government employees in 2007 that caused a large influx of new retirees. This was a group of people who retired earlier than originally planned. There were many factors that went into the unfunded liability other than investment returns.

Assemblywoman Carlton requested Ms. Leiss put the information together into a document that could be shared for future discussions. Ms. Leiss agreed to prepare the information for the Committee.

Brad Ramirez, Vice President of The Segal Group and a consulting actuary for the PERS pension plan, stated that he had been working on the PERS pension plan over the past ten years. Following are Mr. Ramirez's comments regarding the projections for the pension plan:

1. The current baseline projection provided by the economist mentioned that the unfunded liability under the 8 percent assumption would be zero in 22 years. Mr. Ramirez agreed.
2. The economist said the contribution would increase over time. Mr. Ramirez understood that the contribution worked in two pieces: the normal cost and the unfunded portion. As the unfunded portion went to zero, that portion of the contribution would get smaller. As the end of the 22 years drew closer, the projections would show the contribution rate would go down.
3. The third point was the statement that this was not a political issue, but a math problem. Mr. Ramirez explained there was an unfunded liability payment that was being made for this plan. This took into account both the current and future members of the plan. For the regular group, the contribution required to close the unfunded liability over the 22-year period was 11 percent of pay. It appeared that A.B. 190 supplied 6 percent of pay to close the unfunded liability. Mr. Ramirez questioned where the 11 percent would come from. For the police and fire employees, it was 12 percent of pay. In looking at the fiscal note, if the future pay was cut off for that group and the group was closed, that pay could no longer be take into account. Regardless of what the statute

mandated to use as an assumption, Mr. Ramirez was bound by ethics to use realistic assumptions. Realistically, if people were not coming into the plan and paying a share of the unfunded liability, the cost for the group currently in the plan would go up. The calculation determined by Mr. Ramirez was approximately 15 percent of pay. He was told there were other changes proposed for A.B. 190 that might allow for more contributions. He was amenable to discussing those options and performing additional analyses. At this point, there was 11 percent of pay on the unfunded liability that needed to be paid.

4. The defined contribution and the defined benefit used an 8 percent investment return assumption for the projections. Typically, an assumption that was 1.0 percent to 1.5 percent lower was used to determine defined contribution versus defined benefit plans. Defined benefit plans had inherent efficiencies that defined contribution plans did not have. If the defined contribution plan only earned 5 or 6 percent, the benefits would be affected for those people. If a defined benefit plan earned 5 or 6 percent, benefits would not change

Assemblyman Armstrong remarked that defined benefits did not decrease during the recession, and the state offset that by asking those currently employed to pay more. The millennial generation would have less base pay because they would be contributing more to make up for the deficit. Additionally, Assemblyman Armstrong noted, there was conflicting testimony. There was testimony that said PERS had an unfunded liability that was increasing. There was testimony that said the unfunded liability would be paid off in 22 years. It appeared to Assemblyman Armstrong that the state was at the peak of unfunded liability. He asked what assumption Mr. Ramirez was making to determine that the unfunded liability would not increase.

Mr. Ramirez responded that the key assumption was the 8 percent return. The other assumption was that contributions would continue to be paid.

Assemblyman Armstrong pointed out that PERS had a higher than 8 percent increase since 2012 and was asking for contribution increases. If the rate of return was higher, he was uncertain why the contributions would have to increase to reduce the unfunded liability.

Mr. Ramirez explained that a part of the actuarial analysis was knowing that the plan was ongoing and long term. The actuary would smooth the return on assets, setting aside both good and bad returns over a five-year period. Over the past few years, the returns had improved and would be smoothed into

the forecasts. The effect would be seen over the next few years. This served to delay contribution increases and decreases.

Assemblyman Armstrong wanted to know why the decreased rates were not smoothed in 2008 and 2009. It seemed that if they were smoothed properly, the unfunded liability would not have been as great.

Mr. Ramirez replied that they were smoothed.

Ms. Leiss added that under the smoothing process, there was \$2.1 billion in gains that had not been smoothed. Looking at the market-value basis without the smoothing, the unfunded liability dropped by \$2 billion. The losses had been rolled in, but the gains had not been.

In response to Assemblywoman Benitez-Thompson, Mr. Ramirez explained that the mechanism was a five-year smoothing period. It was essentially an average of the returns over the last five years. That number was used to determine all of the costs. The idea of smoothing was to be responsive to the market. If there was a sustained period of downturn, it was necessary to make sure that contributions increased without overreacting. Nevada was unlike many plans in that the contribution rates that he calculated actually affected paychecks.

Assemblywoman Benitez-Thompson commented that when looking at the bigger picture over the next ten years, the unfunded liability was beginning to decline.

Mr. Ramirez agreed, noting that there was about \$2 billion unrecognized that would be included in the next four years. That would serve to lower the contribution rate because the unfunded liability would be getting paid down.

Responding to Assemblywoman Kirkpatrick, Mr. Ramirez said that there was \$2 billion available, but it had not been taken into account because of the budget. The idea was that it would serve to offset a market downturn.

Assemblywoman Kirkpatrick commented that she was aware the Board met regularly, but she was not certain whether that provision was in statute.

Ms. Leiss said that the Board was statutorily required to meet on a monthly basis. Under the *Nevada Constitution*, the Board was also a trust fund and had a duty to govern the system. The members had a fiduciary duty to manage the trust fund in a prudent manner.

Assemblywoman Kirkpatrick noted that in A.B. 190, section 4, there did not appear to be anything stating that the Board would still be available. She asked whether that was outlined under another statute.

Ms. Leiss replied that it was her understanding that the mock-up of the bill did not delete any of the current statutes. In section 4, it talked specifically about the defined contribution portion of the hybrid plan. Anything in section 4 regarding responsibility of the Board would only apply to the defined contribution portion of the new plan.

If A.B. 190 were passed, Assemblywoman Kirkpatrick stated that she did not understand how the Board would oversee the plan.

Ms. Leiss believed that the Board's responsibilities would not change, even under section 4 of A.B. 190. [Exhibit D](#), the proposed amendment, allowed the Board to have the discretion to determine whether it would be better for the Board to run the defined contribution portion or to hire a third-party administrator.

Assemblyman Sprinkle was interested in reviewing the fiscal note attached to the bill. The PERS Board had an approximate \$809 million fiscal note attached to the bill, Clark County had about a \$60 million fiscal note, and there were others attached. He asked whether there was language in the proposed amendment that would help eliminate any of the fiscal notes and how the \$809 million fiscal note was determined.

Ms. Leiss said that the proposed amendment did not provide for the continued payment of the unfunded liability on that portion of the payroll that would no longer be subject to paying unfunded liability. The calculated rate was a 15 percent increase on the contribution rate effective July 1, 2015, for the current members and employees. The Board members could not assume a payroll that was growing when they knew legally that it would not be growing because this bill did not make the payroll available for contributions. The 15 percent increase, based on the current payroll, was calculated by the actuary based on assumptions adopted by the Board. The calculation was half for employee and half for employer and came to about \$700 million. She thought that some of the local government calculations for the fiscal notes were done in the same manner; therefore, there could be some duplication in the amounts.

Mr. Ramirez added that it appeared there was a payment toward the unfunded liability on the new employee side. He had heard conflicting testimony about where that was originating. The current unfunded liability rate based on the

current payroll needed to be 11 percent. If the full payroll was contributing 11 percent, there would not be a cost associated with the new plan.

Assemblyman Edwards asked whether the smoothing procedure considered both large investment losses and large investment gains for the actuarial analysis. He expressed confusion about the \$2.1 billion in assets that was not included in the analysis and noted that was a significant part of the roughly \$12.5 billion in unfunded liability. He was concerned, because the information he had related to PERS funding had been incomplete, as well as confusing, and he asked that the numbers being presented be clarified so that he could better understand the problems and respond to constituent concerns.

Ms. Leiss said that Assemblyman Kirner gave a \$12.5 billion number for the unfunded liability. There was an actuarial funding component and a Governmental Accounting Standards Board (GASB) disclosure requirement. In all of the valuations and financial statements, the figures for the market-value funded level and the actuarial value funded level, the market value less the liabilities would be about \$10 billion. The \$12.5 billion was an actuarial funding number, because the gains and losses were taken into account to smooth out the contribution rates. The numbers were disclosed and available.

The problem, according to Assemblyman Edwards, was that the numbers had changed overnight. He asked whether that had an effect on the fiscal note, changing it from \$800 million to \$600 million.

Ms. Leiss stressed that the numbers had remained the same. For the June 30, 2014, valuation, there was a market-value unfunded liability of \$10 billion. That was taken into account in the overall analysis. The fiscal note had not changed.

Mr. Ramirez said the correct number for the dollars in the fund was \$12 billion, which included the \$2 billion. For purposes of budgeting and contributions, the actuarial value was used. This was the smoothed value. The Board's funding policy was to use the actuarially smoothed number. Any fiscal note derived would use that actuarial number.

Assemblyman Edwards expressed concern that he had been using the wrong numbers to calculate the plan. He thought that many people had a fear that the numbers were not correct.

Ms. Leiss agreed it was a complex subject and difficult for anyone who was attempting to understand the numbers in a short period of time. The numbers had not changed.

Assemblywoman Dickman referenced section 8, subsection 2, paragraph (b), of the proposed amendment ([Exhibit D](#)), which said, "Must use a System-wide payroll growth assumption" Assemblywoman Dickman asked whether that had been used in the calculations.

Mr. Ramirez thought that the language meant because the group as a whole must be considered going forward, that the current payroll growth assumption should be used. The calculations had been made assuming new workers would be coming into the plan and contributing. That would bring the cost down for the current group if leaning on future contributions. He was not certain whether the new employee contributions could be used on that basis. If not, there was a problem using a payroll assumption that was not based on reality. If payroll increased at 6 percent next year and the statute required using a 12 percent increase, it would be difficult to write an accurate report to PERS. He believed the bill was attempting to get to the payroll issue for the cost of funding, but ultimately the benefits would not change, and the \$12 billion unfunded liability had to be paid.

Assemblywoman Dickman asked Mr. Ramirez whether the bill would change the benefits for those currently in the system who were happy with the system. Mr. Ramirez responded that he did not believe the benefits would change for those enrolled in the system, but the bill would increase contributions. The contribution was currently calculated projecting more people entering into the plan, which would lower the liability because the future payroll would be larger and cover some of the cost. When the payroll was reduced, it could not be taken into account. Because future workers would not be contributing, current employees had to contribute more.

Assemblywoman Dickman said she thought that contributions would increase anyway; however, Mr. Ramirez said projections showed the contribution rate would decrease.

Kim Wallin, former Nevada State Controller, testified in opposition to A.B. 190. Ms. Wallin said that she agreed with the expert testimony in opposition to the bill, because it did not pay for the unfunded liability. She feared passage of the bill would cost public employers, employees, and taxpayers millions of dollars in taxes.

Martin Bassick, representing Service Employees International Union Nevada 1107, testified in opposition to A.B. 190. He believed the bill was not in the best interest of taxpayers. The Nevada pension system survived the financial crisis of 2008. Changing to the hybrid system, in his opinion, would leave the state deeper in debt and provide less retirement security for pensioners.

Warren Wish, representing Nevada State Education Association (NSEA), testified in opposition to A.B. 190 and provided [Exhibit G](#), a letter from Ruben Murillo, Jr., President, Nevada State Education Association, opposing the bill. Mr. Wish believed that Assemblyman Kirner was sincere about improving PERS and providing economic benefit to the state; however, he believed A.B. 190 would have the opposite effect.

Assemblyman Armstrong asked whether the NSEA had performed any surveys regarding the point at which contributions to the plan would no longer be feasible or acceptable to the teachers.

Mr. Wish did not think a survey had been done that included that question. In many states, employees did not contribute to their plans. The Nevada teachers recognized this as a deferred compensation benefit, and they were willing to take money from their salaries to prepare for retirement.

Assemblyman Armstrong was curious to know what percentage level of contribution would no longer be acceptable to teachers.

Mr. Wish could not answer on behalf of teachers, and he reiterated that no survey had been conducted. He believed that retirees would agree the Nevada PERS was a good system and they felt secure in their retirement.

Assemblyman Armstrong commented that those retirees had not had their contributions doubled.

Mr. Wish believed Assemblyman Armstrong was mistaken. The contribution rate reflected a series of elements, including public employee salaries, longevity, and working careers.

Assemblyman Armstrong did not believe he was wrong. Teachers had never been asked to contribute 14 percent of their salaries to the retirement plan.

Chair Anderson opined that in the current system, there had been increases each year for the past several biennia, and Assemblyman Armstrong was asking at what point the increases would become too much for employees to accept.

Mr. Wish responded that he thought that if A.B. 190 was passed, there would be a tremendous effect on the ability to attract and retain public employees. This was a negative bill that destroyed a plan that was nearly 70 years in existence.

Chair Anderson appreciated the comments; however, the current system was heading upward, and the Committee wanted to understand where the teachers stood on the current system.

Mr. Wish replied that the teachers were in full support of PERS and the actuarially determined contribution rate.

Martin Bibb, representing Retired Public Employees of Nevada (RPEN), testified in opposition to A.B. 190. The bill would drastically change a PERS that was an example of how systems should be run and funded. The reputation came from a best-in-class rating recognized by an independent actuarial study by Aon Hewitt, a nonretained actuarial firm. The independent study was performed in 2013. According to Mr. Bibb, RPEN believed that if Nevada changed to a hybrid system, there would be no new funding coming into a closed plan for today's retirees and for current employees, which could threaten the solvency of the plan in the future.

Rusty McAllister, representing Professional Fire Fighters of Nevada, testified in opposition to A.B. 190. Mr. McAllister said he had been involved with PERS since 1999 as a committee member and with the Board. The major concern for Mr. McAllister regarding the bill was the fiscal note. If the bill was passed, Mr. McAllister said that he would have an 8 percent pay cut. The proposed hybrid plan design made costs more predictable for employers; however, the benefits and contribution rates would be less predictable for employees and would require public employees to work longer.

Maurice White, retired private citizen, Carson City, Nevada testified in opposition to A.B. 190. The PERS plan was set up to replace Social Security. Mr. White pointed out that NRS Chapter 286 clearly outlined the responsibilities of PERS. He stated that because he could not trust Assemblyman Kirner to accurately represent the law, he could not trust A.B. 190 to do what Assemblyman Kirner said it would do for the employees.

Assemblyman Armstrong appreciated Mr. White's comments. He noted that currently Social Security was 6.2 percent up to \$118,000 of your wages. It was quite different than PERS contributions.

Mr. White commented that to determine how PERS worked, he welcomed the Committee to view his personal PERS file and see how he came to his decision to retire.

Assemblywoman Bustamante Adams asked whether Mr. White had received any assistance regarding how to set up his retirement plan.

Mr. White replied that PERS periodically provided workshops, literature, and personal counseling. It was difficult to understand retirement until faced with the challenges.

Melissa Johanning, representing Las Vegas Police Protective Association Civilian Employees, testified in opposition to A.B. 190. Ms. Johanning stated that many of the civilian employees had inquired whether this proposed legislation would affect them. On July 1, 2015, the regular members in PERS would have a 2.25 percent increase to the contribution rate that was shared with their departments. Per NRS, the employees would be able to negotiate through a cost-of-living allowance, a 1.125 percent decrease in their base wage. There could be an additional 8 percent pay cut in July 2016 if A.B. 190 passed.

After listening to the testimony, Assemblyman Edwards commented that there was an unfunded liability, and it appeared that those now in the system should somehow fund that liability. If PERS was performing adequately, he wondered where the disconnect happened with the unfunded liability.

Ms. Johanning responded that was outside of her realm of expertise. She had been told that the 2.25 percent increase was based on the fact that over the past few years, new employees had not been hired. Additionally, there had been no pay increases.

Richard McCann, representing Nevada Association of Public Safety Officers, testified in opposition to A.B. 190. Mr. McCann believed that hybrid systems would not work in Nevada and violated the fundamental purpose of NRS Chapter 286, which was to provide reasonable basic income and encourage long-term service to public employees. Many people believed that in 20 years, the unfunded liability would be the major problem with the system. Earlier testimony indicated that was not the case. Mr. McCann said that with the \$700 million in unfunded liability annually, he could not support the bill.

Katherine A. Murders, retired teacher, Washoe Valley, Nevada, testified in opposition to A.B. 190. Ms. Murders stated there were thousands of teaching positions open in Nevada. Nevada teacher salaries were below the national average. The defined contribution plan considered by the Legislature carried acknowledged risk to the employee. Ms. Murders retired in 2008 because of changes in health insurance.

Priscilla Maloney, representing Retiree Chapter, American Federation of State, County and Municipal Employees, AFL-CIO, provided written testimony ([Exhibit H](#)). Ms. Maloney testified in opposition to A.B. 190.

For the record, Ms. Maloney read testimony regarding the Nevada Pension Protection Act from former Assemblyman Dean Heller, as documented in the minutes of the Senate Committee on Finance, June 2, 1993:

Assemblyman Heller contended the biggest threat to government pension funds today is not the fluctuation of the stock market, nor the fluctuation of interest rates, but the manipulation by government administrators.

Assemblyman Heller declared the basic thrust of the initiative is to protect the Public Employees' Retirement System from raids orchestrated by the administration or any legislative body. He explained to accomplish the objective, the state constitution would be strengthened in the following respects: the constitution would prohibit the administration or any legislative body from taking loans from the pension fund; the constitution would declare that a retirement board will have sole and exclusive authority for managing the PERS assets and for administering the benefit delivery system; the constitution would assure the independence of the executive director by requiring employment by a retirement board; and the constitution would also declare that a retirement board has the sole and exclusive power to provide for actuarial services.

Ms. Maloney recognized there had been extensive discussion regarding the actuarial analysis and that the Executive Officer was not only an employee given tasks, but the duties were embodied in the *Constitution of the State of Nevada*. Ms. Maloney pointed out that if A.B. 190 passed, on July 1, 2015, there would be certain things that constitutionally must happen.

Ms. Maloney stated that former Executive Officer of PERS, Dana K. Bilyeu, testified at the Legislature in 2009 that the contribution rate had three components. The contribution rate had a piece that was relatively small for the administration of the benefits, it funded the actual cost of the benefit, and it funded the unfunded liability obligation. Ms. Maloney noted that the contribution rates could conceivably be reduced.

Assemblyman Armstrong pointed out that A.B. 190 was not a cure-all for the problems. The policy discussion needed to take place. It appeared that with each PERS shortfall, the future employees became responsible for the increased debt. There was a question of how much it would cost the future employees. His question was how much was too much for the benefit.

Ms. Maloney agreed that it was unfair to expect the younger employees to pay for older employees' retirement. There was a national discussion going on because people lived longer. It had to be determined how to provide retirement security in both the public and private sectors. It seemed the defined benefit system was stable and a good system.

Assemblyman Armstrong commented that Social Security was not expected to be available for the younger generation.

Michael Ramirez, representing Las Vegas Police Protective Association Metro, Inc., testified in opposition to A.B. 190.

Ron Dreher, representing Peace Officers Research Association of Nevada, testified in opposition to A.B. 190. In 2009, there were intense discussions regarding changes to PERS. Law enforcement officers were allowed to retire with 25 years of service; however, A.B. 190 would change that and raise the age from 50 to 57. Law enforcement agencies wanted a younger force. Additionally, the multiplier was reduced in 2009 from 2.67 percent to 2.5 percent. Having a reduced multiplier had reduced some of the contributions and would reduce the unfunded liability over time.

Yolanda King, representing Clark County, testified in opposition to A.B. 190. Ms. King addressed the Clark County fiscal note. The fiscal note was prepared based on the information provided by Ms. Leiss. There were two components included in the fiscal note. The first was an automatic 15 percent increase. The increase would be shared by the employee, which translated to a 7.5 percent salary decrease. The remaining 7.5 percent would be an increase to the employer. Also, section 6 of the bill stated that local governments would pay an additional 6 percent. That was not split and would amount to a 13.5 percent increase for local government. Over the four-year period, the Clark County estimated a \$192 million financial effect.

Peggy Lear Bowen, retired citizen, Reno, Nevada testified in opposition to A.B. 190. She believed it was important for Nevadans to take care of each other. The retirement system should be kept in place.

Tracey Thomas, private citizen, Sparks, Nevada, testified in opposition to A.B. 190. She believed that PERS was a good system, but there was room for improvement. She thought that people should be given an option regarding whether they wanted to participate in the hybrid program.

There being no additional testimony in opposition to A.B. 190, Chair Anderson invited testimony for those neutral on A.B. 190. Hearing none, Chair Anderson requested that Assemblyman Kirner provide closing comments on A.B. 190.

Assemblyman Kirner addressed comments regarding the retirement system for Utah. He noted that there was an \$800 million fiscal note on A.B. 190, which was to reduce the unfunded liability. If the bill was not passed, the \$575 million unfunded liability would have to be addressed annually. Under A.B. 190, there would be new hires entering the plan. He believed the fiscal note from Clark County was inaccurate. Assemblyman Kirner thought Clark County paid 100 percent; therefore, if the contribution rate was increased 2.25 percent, Clark County would pay the entire amount. This was unlike the state employees who were required to pay for the increase. The proposed legislation would assist the state employees.

Assemblyman Kirner pointed out that many businesses and local governments had moved away from defined benefit plans. The plan was not working effectively and needed to be changed. According to Assemblyman Kirner, every year since 2000, PERS had indicated the unfunded liability would be paid within a specified period. However, the unfunded liability had not been reduced, but had increased.

Assemblyman Kirner stated that all of the testimony had shown problem areas in the PERS plan. He was aware that not everyone agreed. The actuarial services did not say the amortization needed to be 22 years. The PERS Board made that decision, according to the *Nevada Constitution*.

Assemblywoman Dickman pointed out that higher education faculty were in the defined contribution plan, and she had been told that it was very successful.

Assemblyman Kirner agreed that the defined contribution plan was always fully funded. This was the reason he believed the change was sensible.

Mr. Randazzo wanted to clarify that he was an economist and worked with a team that included three actuaries and combined expertise of over 100 years doing actuarial analysis. The data was as strong as that presented by the Segal Group, and he was confident that if Segal adjusted its model based on the amended language, its numbers would be in concert with his.

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Chair Anderson closed the hearing on A.B. 190 and opened the hearing for public comment. There being no public comment, Chair Anderson adjourned the hearing at 12:44 p.m.

RESPECTFULLY SUBMITTED:

Linda Blevins
Committee Secretary

APPROVED BY:

Assemblyman Paul Anderson, Chair

DATE: _____

EXHIBITS

Committee Name: Assembly Committee on Ways and Means

Date: April 15, 2015

Time of Meeting: 8:10 a.m.

Bill	Exhibit	Witness / Agency	Description
	A		Agenda.
	B		Attendance Roster.
A.B. 190	C	Assemblyman Randy Kirner, Assembly District No. 26	Public Employees Retirement System Preservation Act.
A.B. 190	D	Assemblyman Randy Kirner, Assembly District No. 26	Proposed amendment 6110.
A.B. 190	E	Anthony Randazzo, Reason Foundation	A.B.190 Pension Reform Actuarial Analysis.
A.B. 190	F	Dan Liljenquist, Consultant, Action Now Initiative	Pew Charitable Trusts testimony from David Draine in support.
A.B. 190	G	Warren Wish, representing Nevada State Education Association	Letter from Ruben Murillo, Jr., President of Nevada State Education Association, in opposition.
A.B. 190	H	Priscilla Maloney, representing Retiree Chapter, American Federation of State, County and Municipal Employees, AFL-CIO	Written testimony in opposition.