MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON GOVERNMENT AFFAIRS

Eighty-First Session
February 4, 2021

The Committee on Government Affairs was called to order by Chair Edgar Flores at 9:04 a.m. on Thursday, February 4, 2021, Online. 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/81st2021.

COMMITTEE MEMBERS PRESENT:

Assemblyman Edgar Flores, Chair
Assemblywoman Selena Torres, Vice Chair
Assemblywoman Natha C. Anderson
Assemblywoman Annie Black
Assemblywoman Venicia Considine
Assemblywoman Jill Dickman
Assemblywoman Bea Duran
Assemblyman John Ellison
Assemblywoman Susie Martinez
Assemblyman Andy Matthews
Assemblyman Richard McArthur
Assemblywoman Clara Thomas

COMMITTEE MEMBERS ABSENT:

None

GUEST LEGISLATORS PRESENT:

None

STAFF MEMBERS PRESENT:

Jered McDonald, Committee Policy Analyst
Erin Sturdivant, Committee Counsel
Judi Bishop, Committee Manager
Zachary Khan, Committee Secretary

OTHERS PRESENT:

Tina M. Leiss, Executive Officer, Public Employees' Retirement System
Steve Edmundson, Investment Officer, Public Employees' Retirement System
Laura Rich, Executive Officer, Board of the Public Employees' Benefits Program
Doug Unger, University of Nevada, Las Vegas, Chapter President, Nevada Faculty Alliance
Laura Naumann, Private Citizen, Henderson, Nevada
Marlene Lockard, representing the Retired Public Employees of Nevada
Kent Ervin, Legislative Liaison, Nevada Faculty Alliance

Chair Flores:
[Roll was called.] We are going to continue with the spirit of giving presentations to allow the Committee to become familiar with important topics and how agencies operate in this state. For those of you who have the agenda, we have two presentations scheduled for today from the Public Employees' Retirement System (PERS) and the Public Employees' Benefits Program. At this time, we will go ahead and open it up for our first presentation for today from PERS.

Tina M. Leiss, Executive Officer, Public Employees' Retirement System:
To my right is Steve Edmundson. He is the investment officer of the system. We will both be presenting to you. I will do the first part of the presentation. Mr. Edmundson will then finish off the presentation with the investment program. Unless there are any questions before we get started, we will go straight to our PowerPoint presentation.

The first page [Exhibit C, page 2] basically answers the question, what is Nevada PERS? First and foremost, we are a constitutionally created trust fund. We are created through the *Nevada Constitution*, which we will cover in the next couple of pages, to provide retirement benefits to state and local government employees in the state of Nevada. We are a multiple employer, which means that we cover virtually every public employer in the state of Nevada from the school districts to the state, the cities, the counties, your general improvement districts. Pretty much everyone that is employed in a state or local government program is in our system. We are cost sharing, which means we share the cost amongst all those employers and employees, which means there is the same cost to everyone and there is the same benefit structure to everyone. We are a defined-benefit pension plan, and what that means is the benefit is defined. It is a lifetime benefit for the member once they retire. That benefit is in place for however long they live in retirement. It is a benefit that the employee cannot outlive. The benefits are based on a statutory formula. That means that the benefit structure is set by the Legislature. That is in *Nevada Revised Statutes* (NRS) Chapter 286. They are what we would call the plan sponsor. The Legislature tells the system what benefits to administer, and then the system is responsible for funding those benefits, paying those benefits out, and making sure that all our members and retirees have that secure retirement for when they can no longer work.

One of the things that is important to keep in mind about Nevada PERS is that we are in place of Social Security and an employee-sponsored retirement benefit. Our employees do not participate in Social Security. That means that a career employee most likely will not have a Social Security benefit when they retire. We are designed to really be two different programs. We are in place of Social Security and we are in the employer-sponsored retirement benefit. You may have certain employees that, from prior service, have some Social Security benefits. I also would note that the federal government does offset Social Security benefits against our benefits. So even if our employees do qualify for some Social Security benefit, it likely will be reduced by Social Security. We are one of about ten states that do not participate in Social Security. That is important when you look at our benefit structure and our contribution rate, to make sure that you compare apples to apples, keeping in mind that we do not pay that 12.4 percent to Social Security from our employers and our employees.

On the next page [page 3] we have our constitutional authority. Prior to 1996, in the *Constitution* was the provision that any money paid for the purpose of funding and administering a public employees' retirement system is segregated and can never be used for any other purpose. The money in the system is held for our members and beneficiaries. That is also a provision in the Internal Revenue Code. The money in PERS can only be used for the benefit of our members and retirees. In 1996, amendments were made to the *Constitution* by a vote of about 70 percent of the people that voted. The first one is any money paid for the purpose of funding and administering the system must not belong to the state or be invested to purchase any obligations of the state. That amendment was added in 1996, Article 9, Section 2 of the *Constitution*. The next portion of the *Constitution* I want to talk about is our government structure. The *Constitution* provides that the public employees' system must be governed by a retirement board. We have a seven-member board that is established in the *Constitution,* but the membership of that board is set by the Legislature by statute. Currently, our seven-member board is appointed by the Governor and must come from certain categories of employer representatives, employee representatives, or retiree members. Keeping in mind that our employer representatives cross all levels of government of the state, we have local government and state government representation on our board.

The next provision is the board shall employ an executive officer, that is me, who serves at the pleasure of the board. We have an independent actuary and, by the *Constitution*, the board adopts the assumptions upon which we fund the system based on the recommendations of the independent actuary. That ensures that the funding of the system through the actuarial assumptions that we make is set by the board. *Nevada Revised Statutes* Chapter 286, in keeping with the constitutional provisions, also sets us up with a certain level of autonomy from any other level of government other than the Legislature. We are relatively independent of the Executive Branch of state government or the executive branch of any other level of government by design because we do function as the system for all levels of government. We want to make sure that each level of government has the same level of representation at the system. We do have an Interim Retirement and Benefits Committee at the Legislature that we report to, typically twice during each interim session, but otherwise we are set up to be somewhat independent. We are exempt from the State Budget Act, except for certain provisions. For instance, our budget goes to the Legislature for approval but it does not go through the Executive Branch for approval. It goes through the Executive Branch for information only. In addition, our funding is through per capita debits from the trust fund. We are not funded through the State General Fund, but rather, we are funded through the trust fund itself.

Next, I want to cover the mission that the Legislature has given us [page 4]. This mission has been in place, virtually unchanged, since we were created in 1947. We were created in 1947 because of the Social Security issue and the fact that public employees in the state of Nevada had virtually no retirement program. That created what they called in the 1940s, "hidden pensioners," which were public employees who were unable to retire because of the lack of Social Security and the lack of a retirement program. The mission that we have had for decades is to provide to public workers and their dependents a retirement program that provides a reasonable base income for retirement or periods for which disability has removed a worker's earning capacity. The second portion of the mission is to encourage those workers to enter into and remain in government service for such periods of time to give the public employers in Nevada the full benefit of their training and experience. This is really an important tool for our employers to attract and retain good employees. It is very expensive to train a lot of public employees, and hopefully our benefit is being used by the employers to attract and retain those employees. The third portion of the mission is to provide an orderly method of promoting and maintaining a high level of service to the public through an equitable separation procedure available to employees upon retirement or upon becoming disabled. That is where we want to make sure that you have an orderly transition. You can have the promotion in the ranks of newer employees as well by being able to retire out those who, by age or disability, it is in their best interest to then be able to retire.

The next page [page 5] shows you the multiple-employer, cost-sharing structure of our system. On the right-hand side, you can see we have 111,815 active members. Those are all the active employees that are contributing to the retirement system as of June 30, 2020. Our employees pay one-half of the contribution rate to the system either through a direct deduction from their paycheck or by salary reduction or in lieu of a pay increase. Half of that circle is the employees' share of the contribution. The other half represents our employers. We have approximately 215 public employers that participate in our system. The largest of those employers is the Clark County School District. The next largest is the State of Nevada. That is minus the Nevada System of Higher Education, which reports to us separately. The third largest is Clark County, then the Washoe County School District, then the Las Vegas Metropolitan Police Department. The remaining 210 public employers have the remaining membership of our system. That shows you how our membership is broken down and gives you a little bit of the flavor as to why the Legislature created us to be somewhat independent of the state Executive Branch because, of course, we serve all those levels of government.

In our regular fund membership, we have two funds [page 6]. The regular fund is everyone that participates who is not in an approved police officer or firefighter position. The regular fund, as of June 30, 2020, had 98,228 members. That was up from 96,072 members from the prior year. The average age is 45.7 years, which did not change from the prior year. The average years of service was 9.7 years, which also did not change from the prior year. The average annual salary changed from $52,000 to approximately $53,000 from 2019 to 2020. This is before their retirement contributions have been deducted. The next page [page 7] shows our police/fire membership. The police/fire fund was created for the purpose of ensuring that the public has a youthful and vigorous frontline public safety workforce to protect the public. Sometimes it gets confused that the police/fire fund was created to reward our police/fire members for hazardous duty, but that is not the reason the Legislature created the separation for the police/fire fund. The main difference for the police/fire fund is the early retirement feature for the police/fire folks, so we can maintain the more youthful and vigorous frontline public safety force. When members retire earlier, we tend to pay their benefits for longer periods of time, which makes their benefit structure a little bit more expensive than the regular fund, and that is reflected in their contribution rates. You will also see that it is a much smaller piece of the retirement system. As of June 30, 2020, it had 13,587 members. You can see the purpose of the fund, that being the more youthful workforce, in the average age of 39.5 years for the police/fire fund. This is a little bit down from 39.8 years in June 30, 2019. The average years of service is also down a little bit from 2019. The average annual salary in the police/fire fund is significantly higher than the regular fund. That would be where you would see the reward, or compensation if you will, for the more hazardous duty that the police/fire members will have. Because they have the higher salary, you will tend to see higher benefits in the police/fire side because our benefits are based on years of service and the members' average compensation during their working career.

The next page [page 8] gives you a taste of our benefit recipients. As of June 30 of last year, we currently pay 72,741 benefit recipients a monthly benefit. Of those, 63,376 are benefits on account of the regular fund and 9,365 in the police/fire fund. We have broken it down by the different categories that we pay. We have service retirees, who are the lion's share of the liabilities of the system. The service retirees would be those that you would typically think of coming out of our system. They work their career, they meet their requirements to retire, and they retire and take that service retirement. You can see in the regular fund that average monthly benefit is $3,136. The average age of those retirees is 70.4 years. Keep in mind that these, for the most part, are people that will not receive Social Security or will receive reduced Social Security.

We also have a disability program where members can draw benefits before reaching the required age for service retirement if they meet the requirements for a disability retirement. That is an earned benefit. There is no floor benefit or benefit that they obtain on account of being disabled. Their benefit is calculated exactly the same, which means it is whatever they earned. It just allows them to collect it at an earlier age because of that disability. We have 2,467 disability retirees in the regular fund. You can see a lower average age because of the disability retirement requirements. There is a lower average benefit because they have had a shortened career and did not have as much time to attain a higher level of benefit.

The beneficiary category is where our service retirees or disability retirees can choose to take a reduced benefit to pay for their own beneficiary coverage. They can take a reduced benefit and when they pass away, they can name one person to be covered for the remainder of that person's life. You can see we have about 4,500 beneficiaries that we are paying from the regular fund. Survivors are those eligible survivors of public employees who have passed away prior to retirement. On the police/fire side you can see the same categories. The police/fire benefits tend to be somewhat higher. That is a function of their higher salaries. Police/fire do tend to have a bit more service credit than the average member at time of retirement.

The next page [page 9] shows a little bit about how we fund the benefits. The benefits are lifetime benefits based on the members' service credit, average compensation, and age at retirement. We do not know what the cost of the benefit is going to be because we do not know how long each individual person is going to live. We do not know precisely what their average compensation will be at time of retirement. We are funding a benefit that relies on assumptions as to how long people will live, when people retire, how much service credit they will have when they retire, and what their salary is when they retire. We make a lot of assumptions to determine what those benefit costs are. The plan design is what determines what those benefits will ultimately cost along with other features, such as how long people will live. The Legislature sets what those benefits are based on our mission to provide a reasonable base income for our members to live comfortably in retirement.

When we make those estimates of what those benefit costs will be, we then have two ways that we fund that benefit. We have contributions. Employees and employers prefund those benefits. Day One, when a member starts working, they and their employer make contributions to us based on what our actuary says we will need to fund their benefit out into the future. We take those contributions and Mr. Edmundson, our investment officer, has established the investment program that will then invest those contributions. The majority of the benefits that we pay come from the investment return itself. The contributions prime that, but the investment return is where the majority of the benefits will come from.

On the next page [page 10], we will show you our funded ratios. The funded ratio tells you how many assets we have on hand today to pay those benefits that we will owe out into the future. This is one measure of the health of the retirement system. There are other measures. What is important is to look at the trends and to keep in mind this is for benefits that we do not necessarily owe today, tomorrow, or the next day, but these are benefits that we owe out decades from now to all our members that are currently employed and our retirees. We have given you the values of what our assets are as compared to our long-term estimated liabilities from 2011 to 2020. What you can see generally is the trend going up. Slow and steady wins the race. We do not want to see big fluctuations on the funded ratio, up or down, because that really affects our members and employers as to how the contributions are being made. We are making that slow and steady progress on the funding for the future benefits to all of our members and retirees.

The last part I am going to talk about before I turn it over to Mr. Edmundson [page 11] is to show you a representation of the growth of the assets versus the growth of the unfunded liability, that is the amount we are paying to make sure that we have those assets on hand to pay the long-term liabilities. The black bars on this chart are the actuarial value of the assets. You can see the steady growth of those assets while we are paying out our benefits. Because of that prefunding, we have the money to pay out those benefits. Our assets, because of the investment returns, the contributions that are religiously paid by both our employers and employees, are growing. The unfunded liability bar is fairly steady and not growing at the same rate as the assets. This gives you a visual representation of the assets versus the unfunded liability. With that, I will turn it over to Mr. Edmundson to talk about our investment strategy.

Steve Edmundson, Investment Officer, Public Employees' Retirement System:
I am jumping in at this point in the presentation to provide a summary-level overview of the investment program at Nevada PERS, including investment return data through the most recent fiscal year-end and a summary of Nevada PERS investment strategy, which is depicted on the pie chart of the provided material [page 12, Exhibit C]. Nevada PERS investment program had $46.6 billion in assets as of June 30, 2020. Nevada PERS investment program is fairly well known throughout the institutional investment world as being "the simple fund." When I say simple, I mean that Nevada PERS' investment structure is more of a traditional approach. Over the last couple of decades, and really more over the last 10 to 15 years, institutional investment portfolios, endowments, and public pension funds have grown increasingly complex. We have distilled the program down to its most simple version that we have today, which really emphasizes an allocation to high-quality, large-cap, develop marketing, United States large-capitalization stocks. Our bond allocation is 100 percent U.S. Treasury Bonds which is designed to offset the volatility that is affiliated with owning equity, and we do have a 12 percent targeted allocation to private market assets, and in that allocation is a 6 percent target allocation to private real estate and a 6 percent allocation to private equity. If you were going to look at the average public pension fund or university endowment investment portfolio and you put their similar pie chart up on the screen, what you would see is a pie chart with a lot more colors. You would see things like hedge funds, commodities, portable alpha high-yield bonds, et cetera—lot more complication.

How did we get to this simple version that we employ here today at Nevada PERS? First and foremost, as we built this program out, we looked at the evidence, and ultimately, history told us that we could build an investment portfolio in a traditional manner with a very simple approach that could be competitive over time. In addition to that, we sat down and decided what our core competency is here at Nevada PERS and where we have a competitive advantage relative to the rest of the universe of institutional investors out there. Ultimately, what we determined was that we wanted to focus on the things that we knew that we have control over. Specifically, we can be disciplined. We can spend a lot of time focusing on how we respond to markets rather than how we are going to predict markets. We did not think that we necessarily had a specific advantage in our ability to predict the future. However, we do know that we have the ability to be disciplined and patient.

In addition to that, one of the things we know we ultimately have control over are the costs of the program. We spent a lot of time trying to keep our investment costs as low as possible.

The simple portfolio design that we put together helps facilitate that process. We are 100 percent indexed across all public markets, which is unique in the industry. By eliminating some of the more complex and esoteric strategies available to investors in the marketplace, we are able to keep our fees amongst the lowest in the industry. I do not have raw data that specifically says Nevada PERS is the lowest fee investment program in the public fund universe. However, I do know that we are among the lowest and possibly the lowest in the industry. Nevada PERS' annual investment costs are 12 basis points of total fund assets. That is relative to the median large public pension fund, which fees are roughly 53 basis points. Every year, we start the year with roughly a 40-basis point advantage simply by keeping our costs under control. To put that into perspective, PERS' investment program ended the last fiscal year with a little over $46.5 billion in assets, and that 40-basis point fee advantage at that asset level equates to approximately $190 million a year in fee savings over the median public pension fund. If you compound $193 million over the course of a decade at 7.5 percent, that is a little over $2.5 billion over the course of a decade, simply in fee savings. We want every dollar available to compound investment returns for the benefit of our members and beneficiaries, rather than paying out those assets in fees.

The next page [page 13] depicts three other funds which we are also responsible for. In addition to the large PERS portfolio, we also manage three additional portfolios: the Legislators' Investment Fund, which as of June 30, 2020, has a little over $4.5 million in assets; the Judicial Retirement System at $140.9 million in assets; and we also manage the Retirements Benefits Investment Fund, which is technically an entirely separate structure from Nevada PERS and has its own board. Those assets are invested to fund other post-employment benefits, health benefits, postretirement for participating entities. That fund has grown to $603.8 million as of June 30, 2020. While we employ the simple approach in the larger PERS portfolio, these are really the most distilled version of the simple approach in that they utilize 100 percent public market assets. They do not employ private market assets, as we do in the Nevada PERS portfolio, simply because their size does not facilitate the ability to invest in private real estate and private equity in the manner that we do within the PERS portfolio. What we have found with these smaller portfolios is that we were able to put together an asset mix which is designed to mimic the risk and return profile of the larger PERS fund, and these smaller portfolios have performed roughly in line with Nevada PERS over time. Over extended time periods the return of these smaller portfolios are within 10 basis points of the larger PERS portfolio. They exhibit a little bit higher volatility, a little bit higher realized standard deviation, because they do not have the benefit of those private market assets. However, over extended time periods, returns have been roughly in-line. With a relatively simple mix of assets, we can put together an investment portfolio that will deliver returns in line with the much larger program.

The next page titled, "PERS Investment Returns," [page 14] depicts Nevada PERS investment results for various time periods ending June 30, 2020. The furthest left column represents the Nevada PERS return through the most recent fiscal year ended June 30, 2020. Nevada PERS had a return of 7.2 percent which we were very pleased with. It was an extremely volatile year in financial markets for obvious reasons. It ended up being a relatively strong year due to the sharp recovery in stocks from March through June. Over extended time periods, you will see Nevada PERS return 8.1 percent annualized for three years, 7.6 percent annualized over the last 5 years, 9.5 percent over the last decade—it has been a really terrific decade to be an investor—and over the last 36 years, 9.2 percent annualized return net of fees, so that is since Nevada PERS' inception.

An additional touchstone that you will see in the next page as to the effectiveness of our simple approach is our Nevada PERS returns relative to the universe of other large public pension funds. What you will see on this page is a restatement that Nevada PERS' simple approach is not only cost effective, but it can also be and has proven to be effective from a return standpoint as well. Over the most recent fiscal year, Nevada PERS' portfolio was in the second percentile, the top one or two funds in the country last year, with a return of 7.2 percent. The median public pension fund last year had a return of 2.4 percent. There was a fairly wide dispersion in returns last year. I think that was primarily due to the extraordinary volatility experienced over that 12-month period. Over longer time periods, which are really more important than a single time period, Nevada PERS returns have proven to be highly competitive with the simple approach relative to the median fund. The Nevada PERS returns over the last three years is the best return in the industry, in the second percentile over the last five years, seventh percentile over the last seven years, eighth percentile over the last decade, twelfth percentile over the last 15 years, top sixth percentile over the last 20 years, and in the top quartile of large public funds since inception. Over those longer time periods, Nevada PERS returns have proven to be highly competitive.

I will mention one caveat. When I mention relative returns compared to the universe of public funds, while Nevada PERS returns have proven to be resilient over longer time horizons, in any given year we expect to see our returns bump around in that database. For instance, over the last 20 years, Nevada PERS is in the sixth percentile of large public pension fund investment programs. However, within that same time period, Nevada PERS returns was in the bottom quartile or worse five different times. So roughly a quarter of the time in individual years, we can expect to see Nevada PERS towards the bottom of the database, and that is to be expected if we are going to design an investment program that is different than everybody else. We know there will be time periods when Nevada PERS returns look different. Sometimes we will be towards the bottom of the database in single years and over short and median time periods. So if I am presenting before you in a couple of years and we are closer to the bottom over a one- or two-year period, that is one of those things that we expect to happen roughly a quarter of the time. However, we do continue to believe that Nevada PERS' simple, low-cost approach will continue to be effective and competitive relative to the more complicated portfolios in the universe over extended time periods. We just expect to see a little bit of volatility within that universe over shorter time periods. We also expect to see that same volatility in returns relative to the public fund universe on an absolute basis as well.

The chart that you see on this page [page 16] depicts Nevada PERS' fiscal year returns since 1985 on an annual basis. The red line across the middle of the page depicts Nevada PERS' 7.5 percent long-term investment return assumption. It is absolutely critical to always remember that that 7.5 percent return assumption is a long-term assumption. It is not an assumption we expect to hit each and every single year; it is not an assumption we expect to hit even over median time periods as well. It is a long-term assumption, a multidecade assumption. Over shorter time periods, we expect to see a pretty wide dispersion around that red line. And that is exactly what we have seen happen. There have been years where we have been well below it. During the financial crisis, 2008 and 2009 were very difficult years. For a couple of other years in the early 2000s there are negative returns associated with the tech bubble collapse. There will be years where we are both well above and below that red line, and we expect to see that continue out into the future as well. Every long-term investor, whether a retail investor, an individual investor, or a big institutional investor like Nevada PERS, needs to expect to encounter all sorts of periods in financial markets, both good and bad. The important thing to remember, and what I think we have been particularly good at here at the retirement system, is when we run into those tough spots as we did in 2008 and 2009 and 2001 and 2002, we do not alter course; and we continue to implement what has been an effective program. We continue to implement it with absolute discipline through all market cycles. Above anything else, that has probably been the key to our success. That concludes my prepared remarks.

Chair Flores:
Thank you both for your presentation. I know there is a lot of material there, but it was very informative and it gives an opportunity for all of our members to understand exactly the history and how we got to where we are and how important our public employees are and how much they have stepped up to the plate over the years for the benefit of the state. Thank you both, again, for the presentation. With that, I will open it up to questions.

Assemblywoman Thomas:
I have a question about pages 7 and 8, about the police and fire fund. I do not understand why your assessment of that fund is combined. Would a truer assessment be separate? I wonder if the police and firemen retire at the same rate, at the same age, if they have injuries that are the same. It feels like I am not getting the full picture, and I wonder why that is?

Tina Leiss:
We have the police/fire fund so that the police and fire can retire at a younger age because of the physical demands of their job. They do tend to retire at a younger age. They are combined with the entire fund. For instance, we have one full trust fund, and we do account for the assets separately so we can account for the cost separately, but it is one trust fund that is available to pay for both the benefits on the police/fire side and the regular side. In the police/fire fund, they do retire younger. They also tend to start younger. Their average entry age into the system tends to be a lot younger than the regular fund. They start younger on average, retire younger on average, but they retire with more service credit because they started at a younger age. Right now, we are on the same mortality table for regular and police/fire, which is telling us, on average, our regular and police/fire have about the same longevity. The police/fire tend to start younger, to retire younger, but they live to about the same age. I am not sure if that really gets to your question or not, but I would be happy to follow up.

Assemblywoman Thomas:
You say the police and fire start at a younger age and, I assume, retire at a younger age. When you say an early age, what is that age? For fire, what is that age? What is the retirement age? Is the longevity for fire longer than police? Is there a trend of retiring earlier in the police department relative to the fire department? If I can be able to get a clearer understanding of how much money the fire and/or police contribute to PERS, that would give me a clearer understating of how they are assessed in PERS. To average out an annual salary for police and fire to almost $80,000 when one makes more money than the other, I do not think that is a true assessment.

Tina Leiss:
Of the about 13,587 members as of June 30, approximately 2,500 of those are firefighters, the remaining are police officers. They have the same benefit provisions. Typically, their eligibility for retirement is age 50 with at least 20 years of service. That is your most common eligibility. You are looking at retirement at about age 50. Not everyone retires when they are eligible to. Some people will retire a little bit later. Because we pay them a combined rate, we do not break out the police/fire. I believe I could break those out for you as far as ages and salaries, but that is not something I have on hand this morning.

Assemblyman Matthews:
I want to ask about something that you touched on, which is the PERS unfunded liability, something that comes up quite a bit when one discusses the Public Employees' Retirement System. The Federal Reserve recently did a review of the PERS system, and the year I wanted to ask about was actually 2016. For that year, the estimates from officials with PERS were that the unfunded liability for the system was about $12.56 billion. That same year, the Federal Reserve estimated the unfunded liability to be about $43.3 billion. Now, that is a very significant gap. I wonder if you might be able to speak to what you feel may account for that significant difference. I am not sure how familiar you may be with that Federal Reserve review, whether you believe there may have been a flaw in their analysis and what that flaw may be. Can you offer something to account for that very, very significant difference?

Steve Edmundson:
I am somewhat familiar with that study. I think that what you would see if you looked at that study was a fairly wide discrepancy between the unfunded liability reported by public pension funds across the board, including Nevada PERS. The primary difference in the Federal Reserve study was that they used different underlying assumptions. I do not know what underlying investment return assumption was used in that particular study, but I think it was significantly lower than what the median public pension fund assumes for their investment returns. It is because of the primary difference between those two numbers.

Assemblyman Matthews:
The number from 2016 according to PERS officials was $12.56 billion. Are you able to tell us what that unfunded liability according to PERS' estimates would be currently?

Tina Leiss:
As of June 30, 2020, the unfunded liability is about $14.5 billion, from the last actuary evaluation.

Assemblyman Matthews:
Just a point of clarification: you said $14.5 billion, an increase from $12.56 billion four years ago. Is that correct?

Tina Leiss:
That is correct, but the funded ratio increased because of the increase in the assets as well.

Assemblywoman Considine:
I understand the benefits to the employees for this program. Can you tell me what the benefits are to the state for having this type of program?

Tina Leiss:
In essence, the benefits to the state are to help attract and retain employees to the system. For instance, the employers might find it harder to recruit if there were no retirement benefits provided to them through their employment. Also, the retention piece of it, because it is something that a lot of public employees value very highly, having that defined benefit pension plan that they are earning through their career. For the employer, it is to attract and retain those employees that they have invested in to train.

Assemblywoman Anderson:
My question has to do with page 3. When it comes to the independent actuary, is it that their recommendation has to be adopted or may be adopted? That is my first question, and I have a second question that is kind of from the same time frame, but I did not know if you wanted them separate or not.

Tina Leiss:
Under the *Constitution*, the word is "shall." "The board shall adopt actuarial assumptions based upon the recommendations made by the independent actuary." We do believe the board is somewhat limited. It shall adopt the assumptions based on what the actuary recommends, and the actuary is fully independent of state government to make sure there are no political influences on those assumptions. So, it is a "shall."

Assemblywoman Anderson:
Thank you, I appreciate that clarification. You had mentioned that the members of the PERS Board are appointed. How long are these appointments, and are they staggered? That way there is a mix of individuals. Or are they all starting brand new every single time that we have a new governor?

Tina Leiss:
They are four-year terms which are set by the Legislature, and they are somewhat staggered. We have certain years where we have three new members, or potentially three new members

as they are always eligible for reappointment. We have one year where we do not have any terms ending. They are four-year terms. They are governor-appointed, but they do not start with the new governor For instance, the members will stay on even through a new governor until their term ends, then the governor will appoint when those terms become vacant.

Chair Flores:
Is there anybody else wishing to ask a question? [There was no one.] I do not believe we have anyone else wishing to ask a question. I want to thank you both again for your presentation. Members, as we move forward, I encourage you to reach out to them. They have a wealth of information, and I am sure they are very accessible. At this time, I am going to close out this presentation from the Public Employees' Retirement System.

Next, we are going to open up the presentation from the Board of the Public Employees' Benefits Program (PEBP).

Laura Rich, Executive Officer, Board of the Public Employees' Benefits Program:
A little bit about our agency [page 2, Exhibit D]: PEBP is a group health program. We have about 45,000 primary participants and those primary participants cover 27,000 dependents. Overall, we cover 72,000 lives. We offer comprehensive medical, prescription, dental, vision, and life insurance to all of our members. Similar to the Public Employees' Retirement System PERS, PEBP is also governed by a board, a ten-member board, under *Nevada Revised Statutes* (NRS) Chapter 287. We have 34 staff, so we are a fairly small agency with a lot of responsibility. Public Employees' Benefit Program is funded not by the State General Fund but by employer contributions. Those are agencies that are contributing the employer portion, which is a legislatively set amount. The other part of the funding is the employee/retiree premium payment. The way that PEBP receives all of its funding is through employers and employees. We have one of the largest budgets in the state. We have a $1 billion biennial budget.

Our mission is to provide employees, retirees, and their families with access to high quality benefits at affordable prices [page 3]. We do this through the different values that you see here: service, innovation, accountability—transparency is big, we try to be as transparent as we possibly can—fairness, integrity, compassion, sustainability, and collaboration. We have a lot of different public employers that we cover, and collaboration is very important.

Who can participate in PEBP [page 4]? We typically refer to the two different categories as either state or nonstate. State is considered to be state agencies, boards and commissions as well—or example the State Board of Nursing—also the Legislature, and the Nevada System of Higher Education. These are active, full-time employees. Full time is considered to be anything over 80 hours in a month. Retirees are eligible to enroll at the time of retirement, or they do have one opportunity to reenroll during an annual open enrollment phase. What I do want to point out here is that those employees who were hired after January 1, 2012, are not eligible for subsidized health insurance when they retire. Moving forward, anybody hired after 2012 will not receive those subsidies that we offer retirees today. The other category is nonstate. Those are local governments and municipalities out there. They are active, full-time employees, also over 80 hours in a month, but the employer has to participate in the program. Currently, I believe we only have a handful of active employees under that nonstate category. When I say it is a handful, it is about ten. We offer the retirees eligibility through our program as well. But it is an all-in or all-out policy after 2007. That means if a nonstate entity would like to participate in PEBP, they have to bring not just their retirees, but their active population too. They have to come with their entire population, not just one or the other.

We have three plans today [page 5], or we will be offering three different plans starting in July 2021. We have a statewide, consumer-driven health plan, what we call a CDHP [Consumer Driven Health Plan]. It is a high-deductible PPO plan. We will be offering, coming July 2021, a new statewide, low-deductible plan as well. We have two regional plans, one in the north and one in the south. Essentially, they mirror each other. They are almost the same plan, but they are covered under different entities. One is the exclusive provider organization (EPO) in the north and the other is an HMO in the south. For our Medicare retirees, we offer an individual Medicare marketplace exchange. This is where our Medicare-eligible retirees can purchase those Medicare plans. We provide to them a health reimbursement arrangement (HRA) contribution to help offset some of those costs as well. On top of the basic medical coverage that we offer, we also offer supplementary benefits through a voluntary platform. These are things such as short-term disability, voluntary life insurance, long-term care, and flexible spending. We also have car insurance, home insurance, and things like that that we offer through group plans as well as through voluntary platforms. This gives our employees and our members access to additional benefits that are not necessarily subsidized by the state but are offered by the state.

You are going to hear a lot about upcoming plan design changes in this session. Throughout the entire year of 2020, the PEBP Board made a lot of changes to the program as a result of all of the budget challenges that we have had to face. We did offer, as I just mentioned, a new low-deductible plan. We have modifications to the existing plans as well. We made some out-of-network billing changes where, instead of using their health standards to negotiate out-of-network bill charges, we are moving to a 140 percent of Medicare model. That saves the plan a lot of money. We have implemented a few different pharmacy prescription programs that essentially narrow the network but provide not just the plan but the members some savings as well. There were some basic life insurance reductions as part of the basic benefit package. The Public Employees' Benefits Program offers its members a basic life insurance policy. Today that life insurance policy is $25,000 for an active employee and $12,500 for a retiree. That was reduced to $15,000 and $7,500, respectively. I will go into the elimination of the long-term disability insurance in a moment. That is also part of the basic package that PEBP members receive as part of their enrollment into PEBP. The Medicare exchange health reimbursement arrangement funding was reduced from $13 a month per year of service to $11 a month per year of service.

This grid here [page 7] demonstrates where we are at today and what the board chose and approved back in November as a result of the 12 percent reductions that we were asked to make by the Office of the Governor's Office of Finance in November. That actually came out of the Governor's recommended budget. You will see here in that last column under "Gov Rec," that is what the proposed changes are to the July 1, 2021, plan year. You will see that some of those deductibles changed on the CDHP and the new low-deductible plan has a very low deductible, $500 and $1000 for the family. We have the EPO/HMO, which is your typical copay-based HMO plan. We did introduce a very small, new, low deductible to that one as well. Overall, in the Governor's recommended budget, we were able to maintain a lot of those benefit levels because a lot of the extra funding was directed towards the medical side of our benefits versus some of the ancillary products that we have.

As you can see, the rates are likely to maintain and be very stable moving forward. Those rates will not be set until the March board meeting. These are just example rates being shown today. Our actuaries need much more experience in trend and utilization in order to be able to model those rates.

This is where we were at as of December. Those rates are expected to be pretty stable for those employees and retirees on our plan. As you can see, the basic life insurance, long-term disability, and Medicare HRA contributions down on the lower left-hand side were changed from what the board recommendations were back in November.

Why did we introduce a new plan [page 8, Exhibit D]? First of all, back when all agencies were asked to submit agency request budgets, we were asked to submit flat budgets. For PEBP, because essentially your dollar does not go as far with health care cost increases and utilization increases, your flat budget is approximately a 5 percent cut. We knew right away that this was going to impact the current plan design if we did not change things. With a high-deductible plan, the only levers we had at the time were to reduce the health savings account (HSA) funding that we provide on that high deductible plan or to increase deductibles and out-of-pocket maxes and things like that. We thought, What else can we do to mitigate the pain of flat budgets? And this was before we even knew there were going to be additional budget cuts moving forward. There was also a desire for a low-deductible option. Prior to the last Great Recession, PEBP did offer a low-deductible plan to employees. As a result of that recession, we moved to a high-deductible plan. We have heard through public comment and through advocacy groups that there was a strong desire for that low-deductible option to come back. We worked really hard to make sure that was introduced, even despite our budget challenges that we are facing today. The basics of the new low-deductible plan are very similar to our high-deductible plan. Members have access to a robust, nationwide provider network. They also do not require referrals from a primary care physician. This is different; usually in an HMO model they do. It is very important to note that many services are copay-based and do not require the member to meet the deductible. For example, there is a copay associated with going to see your primary care doctor or your specialist. You are not required to meet that deductible for those types of benefit levels. Also, copays do apply to the out-of-pocket max; they do not apply to the deductible.

I wanted to touch a little bit on the elimination of long-term disability because this is something that you are going to hear about during this session [page10]. Long-term disability is a benefit that pays a percentage of your salary when you become disabled and are unable to work for an extended period of time due to a chronic illness or a debilitating injury. This long-term disability is something that PEBP offers members who are enrolled in our program at no cost. This is just part of the basic package. The reason that this is included as part of the basic package, as you heard from Ms. Leiss when she spoke about the Public Employees' Retirement System, is that we do not pay into Social Security. Social Security Disability is not an option for those folks who have not paid into Social Security before they started with their state employment. This benefit does come at a pretty significant cost to the program. The benefit is at the 60 percent level, so that is 60 percent of your salary being covered under this disability benefit. It comes at a $9.2 million-a-year cost, and at the 50 percent level it is $6.3 million. It is quite a hefty cost to the program, which is why it was eliminated. I think in the Governor's recommended budget there was a desire to maintain and preserve any of those health insurance benefits and ensure that those stayed intact, to ensure that especially during a global pandemic that our employees have access to medical benefits. What I wanted to point out here is that there are some states that do pay for it. Just a quick glance in the western states: Utah and Washington do pay for those benefits for their members; Colorado, New Mexico, and Oregon offer it as an opt in and they have employees pay for this benefit, if those employees want to. There is, as Ms. Leiss covered during her presentation, PERS disability retirement. While it is not the same benefit, it is a similar benefit where if you do become disabled, those that pay into PERS do have that disability retirement benefit. Also, if they do have Social Security—for example a new employee who has only been at the state for several years came from the private sector—they would likely have Social Security and may have access to Social Security Disability Insurance. We are also looking at offering, through PEBP, this type of benefit through the voluntary platform moving forward. Those employees who wish to purchase this benefit are going to have access through our voluntary benefit platform, we are hoping, as of January 1, 2022.

Other plan changes that were made throughout the year are to make the program more actuarily sound. You have heard me say that PEBP does use independent actuaries that we contract with and that assist us throughout all of our processes in administration of the program. There were a few gaps where the actuaries historically had done their job and PEBP came in and did something else to it, making it less actuarily sound. What we did, and what the board did, is make some policy decisions to ensure that this did not happen and ensure that that actuarial process was maintained from beginning to end. Some of the things that were done is the board decided to approve the underwriting of all self-funded plans [page 11]. Basically, we have two risk pools that are statutorily required. We have the state and the nonstate risk pool. While we maintain those risk pools separately, we have underwritten all the self-funded plans into one single risk pool. All of those plans, for example, the CDHP, the EPO, and the new low-deductible plan, are all PEBP's responsibility, and so they are all considered as one group and are all underwritten that way. This creates stability among all the different plans. If you have, for example, one or a group of highly sick individuals who are on one plan, and during open enrollment they move to another plan, it affects the risk of that plan and there is a lot of instability in premiums and experience in general. If you see people migrate into one plan over another, there is what we call a "death spiral" of that plan. This eliminates the impact of that plan migration. We also, in the past, have favored one plan over another. That really does not make sense because a PEBP plan is a PEBP plan. We should not care what plan our members are in and we should contribute to those plans equally. The policy was changed so all plans will receive an equal, flat-dollar subsidy amount. That is that subsidy amount that I mentioned earlier that the Legislature approves. This produces more accurate budget projections, and that variable of plan selection is removed as well.

We have simplified the HSA and HRA funding. In the past we have funded our high-deductible plan with employer contribution. The state has funded, or our program has funded, that HSA account for those people on the high-deductible plan. We funded it by giving the employees a basic amount and then, depending on the number of dependents, we would give them additional amounts. The board chose to eliminate that strategy and instead fund it basically on an employee-only level. What this does is eliminate the dependent variable. There is a lot of guessing and projections that happen in our program, and that has a very significant impact on our budget. The more variables we have, the more times we have to guess right. This eliminates that dependent variable and simplifies the funding strategy so that we can have improved budget projections.

We also did a streamlining of tier factors. To ensure the rates were actuarily sound, historically we have had our actuaries propose the overall rates for the program. They use actuarial methodology for this. Then, they give it to PEBP, and PEBP has come along and said, Okay, now we are going to add all our administrative fees to this. That has taken away from the soundness of what those actuaries have done. We changed this strategy recently so that the actuaries are very heavily involved from the beginning to the end. This strategy now includes more traditional actuarial underwriting. The actuaries are very involved in the inclusion of the plan's administrative costs that are worked into the overall administrative rates.

What is self-funded [page 12, Exhibit D]? We are a self-funded plan. This means that PEBP is responsible for member claims. We are the insurance company. We pay those claims that come in. How do we pay those claims? Those, again, are paid through the employer and employee contributions. They have to be sufficient to cover the cost of claims in that plan year. This is why we use actuaries. Actuaries do the projections and they essentially report to PEBP, This is what we project, based on cost, based on trend, and utilization, this is what it is going to cost the program to run, and this is what you need to charge in plan premiums. This is a requirement to include those actuarial consultants to determine those overall rates.

How does it work? PEBP leases networks. Members access providers under those networks. Then, when a member goes and uses a provider—say they go to a primary care physician—that provider then bills PEBP. That billed claim is then repriced. There is a billed claim and there is a paid claim. They are very different in pricing. The billed is what the provider bills and the actual paid claim is the repriced claim at the network-contracted rates, which are usually quite a bit lower. Our third-party administrator pays the claim, and then they also apply the member accumulator. When I talk about an accumulator, an accumulator references those deductibles and out-of-pocket maximums. That is the tracking that goes along with it. This is also a very, very simplified version. Obviously, this is a lot more complicated, but I did not want to get into the weeds on this. If there are more questions, I am happy to answer them.

We also have reserves [page 13]. We have some required reserves. Those are incurred but not reported, also referred to as incurred but not reported (IBNR). Those reserves are for claims that have transpired but have not been reported yet. These are people that have gone to the doctor, but we do not know about it yet. We have not been billed for it. We are required to fully fund this at a 95 percent probability to cover all the claims that are submitted for that plan year as determined by our actuaries. One of the questions I received at a different presentation was, "Why does your IBNR increase every year?" It is because it is tied to claims. The higher the claims, the more we have in liability, the more IBNR we have to have in reserves as well. This is the same for catastrophic reserves as well. We are a self-funded plan. We cannot get ourselves into a situation where we cannot pay our claims. These reserves are intended to cover those unprojected claims and losses that we have not accounted for. For example, the actuaries make those projections every year: This is what we think your program will cost to run. But for example, just recently we had an individual who had $7 million in claims. That was not a projected cost and that is a very, very significant impact to the program. This is something that would be outside of the norm, and if you have enough of those, you have to dip into catastrophic reserves. Those reserves are funded at a level equal to 50 days of claims payments. Again, these are actuarially determined as well. This is a required reserve as well.

There is also the HRA. These are reserves intended to cover the unused HRA balances. You heard me say that the Medicare exchange folks, our retirees who are on the Medicare exchange, get contributions from the program on a years-of-service basis. Currently, there are members with 20 years—that is the maximum—who receive $260 a month to offset some of their Medicare premiums. Those accumulate, they accrue. We have our HRA reserve to cover those, because the HRA is not a payment to the members, it is a reimbursement. We have to have a sufficient balance to reimburse those claims. Those are also funded at an 80 percent level, and it is also a required reserve.

The last category is excess reserves. In the past, the Legislature has heard a lot about excess reserves because the plan and the program had accrued quite a significant level of excess reserves. There was a push to get the program to spend down those excess reserves and put them back into the plan to offset some of those costs coming into the plan. That has now been reduced to acceptable levels, I think. Basically, that is the difference between the cash received and the cash spent at the end of each fiscal year. It is what we are left over with. With a budget as large as ours, and based on so many projections, especially in a year with a lot of health care challenges, we want to see them, but we do not want very, very high balances of excess reserves.

Plan year 2022 changes are for the upcoming plan year which starts in July [page 14]. We have a new eligibility and enrollment system which goes live in January. We do not want to do this over open enrollment. We do not want to roll something out during the time everyone is selecting their plans and there is a lot of activity in our program, so we are waiting until January to roll this out. Essentially, this is going to be a front-facing system that any PEBP member will be using, as well as the administrative side. All of our staff, internally, will be using it as well to manage and administer the program. We have new voluntary benefit options starting in January of 2022 when that new system rolls out. We also have a new statewide provider network that is going to be implemented in July upon the approval of the Board of the Public Employees' Benefits Program next week. This provider network will change the providers that are available compared to what they are today. There will be a disruption. In some ways there will be additions to the provider network. For example, for those of us in the north, we will have access now to St. Mary's Regional Medical Center, which is not something that PEBP members have had access to at least in the last decade. This is a big win for us in the north. But there will be some provider disruption. We will be reaching out to anybody who has a provider today who is projected to not be in network moving forward in July. This is going to be a big communications reach out to those members.

Then, we have potential plan year 2023 changes. We have a lot of contacts that go out to bid. Not only are there a lot of contracts, but they are the very, very significant contracts that may potentially change. We could potentially see ourselves with a new pharmacy benefit manager. They are the vendor who processes those pharmacy claims. Then, we have a potentially new third-party administrator. All of the medical claims go through the third-party administrator. You can already see there is going to be a significant member impact. Whether you use PEBP for your medical or for your prescriptions, you are going to see a change if these vendors change hands. We are likely going to have a new HSA/HRA administrator, telemedicine provider, shopping comparison tool provider, and also potentially more national and statewide changes as well. We are gearing up for plan year 2023 to really have everyone, members and staff, prepared for these potential changes moving forward. It will be a challenging year, to say the least.

You have heard me say over and over again that our budget is very dependent on a lot of different projections, and should any of those projections be off, it changes things considerably [page 15, Exhibit D]. As you have heard me just discuss, we have gone through a lot of different contract changes in this fiscal year (FY) 2022. Luckily, for the dental network and some of these that we have already gone out to bid for, we have maintained the same vendors, so there are not going to be a lot of changes there. However, you did just hear me talk about the in-state medical network that will be changing. Not only is there an impact to the members, but this is a very, very significant impact to PEBP and to our budget, because those contracted rates through that network will have a significant impact on the budget, because the majority of our budget is claims. For any changes in claims, you will see changes in our budget or in our expenditures. Luckily, we are projected to save several million dollars out of this network change, so we are happy about that. But we also have different changes. We have maintained our HMO in the south. It is the same vendor there. We are changing our financial auditor, our health plan auditor, and our benefits management system. Those are all contracts that affect our budget. As you just heard me say, we have a lot of contracts that are renewing in FY 2023 as well. Those are going to have major cost implications.

COVID-19 has affected everybody, but it has definitely affected our program. We have been receiving reimbursements for COVID-19 claims costs through the Coronavirus Aid, Relief, and Economic Security Act, but it is an unknown as to whether that is going to be available moving forward. While vaccines are free, there is still a cost to the program. Similar to, for example, a flu vaccine, the program is administered for a fee. It is a cost that the provider charges the program. It is a low fee, about $25, but if you are talking $25 and everybody receives a vaccine, that is an unprojected cost in the program that we have not budgeted for. There are plan design changes as well. We are going to introduce a new plan. Usually it takes a couple of years before we actually see a stabilization in utilization. For the first couple of years there is kind of an up and down in utilization, and it is hard to project a trend. We also have medical and pharmacy trends. Typically, on any normal year we would have fairly solid projections as to what we think trends will be. Unfortunately, COVID-19 is really, really impacting trends. While we have made aggressive projections on trends based on COVID-19 having an effect, it introduces that level of unknown. Should that trend be different than what was projected, it could definitely affect our program as well.

Public Employees' Benefits Program has some proposed legislation out there [page 16]. You will see Assembly Bill 48 this session. Basically, this is to fix a problem that we were having where there is a disparity between the state and nonstate employees. State retirees who are on the exchange do have one opportunity to leave and come back. By statute, nonstate employees do not. What was happening was they were mistakenly disenrolling from our program. They would enroll through our vendor, and then they would go to a health fair or something, and you have a retiree approached by a health plan—let us say AARP—and they would say, Hey look, we have this great health plan, and you should enroll through us. That retiree would enroll, and that would subsequently disenroll them from the PEBP program, because they were enrolled in a different Medicare plan, and they would lose all of their benefits. If they were getting the $260 a month that I mentioned, they would lose it. Statutorily, it could not be reinstated, because those nonstate retirees would not have the ability to come back to the program. This just gives the nonstate retirees the same ability to reinstate, that one-shot opportunity to come back to the program and reinstate their benefits should they make a mistake like this.

That concludes my presentation, so I will open it up for questions if there are any.

Chair Flores:
Members, I know there was a lot of material that was thrown at you, but I do not know if there is any way to have this conversation without doing it this way. We will go ahead and open it up for questions.

Assemblyman Ellison:
From what I gathered, somebody can retire after ten years, is that correct? At the tenth year, they can take an earlier retirement. But, say they tried to come back in or they want to buy back into the system. Is that possible?

Laura Rich:
It does not matter to the program when a member retires. If they have drawn retirement, they are then eligible to come back once as a retiree. But that is it. It gets a little muddy because we do have some legislative employees who come back temporarily, and I am happy to provide you some of the exceptions to all of these. I do not know if it would be wise of me to provide you with all of the details right now. I am happy to provide them to you in writing. There are some exceptions to a lot of these rules; however, generally now when you retire, you start drawing retirement and that is your opportunity to come on to the program. You have one additional opportunity to come onto the program if you were to disenroll for any reason.

Assemblyman Ellison:
Somebody asked me that question and I could not answer it. I am glad you did. That gives me an idea of which way to go. If I can get some information from you, I will get it to them. I really appreciate that.

Assemblywoman Anderson:
My question has to do with the board itself. It was interesting to hear about all the money situations and the money decisions, but I think we are more about the policy on this Committee. My question has to do with the board members that are appointed. They make the decisions. Can the Governor's Office of Finance make a decision and then not give it back to that board? I am really asking this more about the long-term disability insurance. Was that a decision of the board of PEBP or was that a decision made out of the Office of the Governor?

Laura Rich:
The board has the ability to make policy decisions. The board is ultimately appointed by the Governor. All ten members are appointed by the Governor. Unlike PERS, PEBP is subject to the Budget Act. We do go through the Governor's Office of Finance. I will go through the steps so you understand. Agencies typically submit an agency request budget. The way PEBP goes about it is we present options to the board and the board makes those decisions and ultimately approves what the agency will submit to the Governor's Office of Finance. At that point, the Governor's Office of Finance has the ability to make different budget decisions. Unfortunately, with our program, every budget decision is a plan design decision as well. When you add or take from the program, there are levers. The Governor's Office of Finance definitely has to work with staff. In this situation, during the budget challenges that we were facing in November and December, there was obviously not a lot of time. We had a board meeting at the end of November. We submitted our 12 percent budget proposals to the Governor's Office of Finance, and once the Economic Forum met, they discovered there was a little bit of wiggle room and they were able to reinstate some of the funding to the program.

At that point, it is in the Governor's hands. It is ultimately the Governor's budget. It was a recommendation that was proposed by the Governor and that was voted on by the board and ratified in our meeting in January. While yes, the Governor's Office of Finance does have only budgetary authority to make those changes, with our program ultimately it affects the plan design. It is not outside of the norm. I believe that during the last recession, something similar to this happened where the Governor's Office of Finance had to make decisions that were outside of the board, based on the situation at hand at the time. Hopefully that answers your question.

Assemblywoman Anderson:
It does to an extent, but not as fully as I would like, so I may be doing a conversation with you offline, if you are okay with that. I do have a quick follow-up. With that decision, were individuals in the Governor's Office of Finance Budget Division aware or have the expertise that the PEBP Board has? That is one reason why they are appointed, because they have knowledge of the different systems. The second question is, was the loss of the long-term disability approved by the PEBP Board, in the January board meeting, or did I misunderstand that?

Laura Rich:
Yes. It was approved by the board in January. The Governor's recommended budget was presented to the board in January and was approved as presented. To your other question, the Governor's Office of Finance, while they do not have the PEBP-specific expertise, they understand the PEBP budget, and we have a budget analyst that is specifically assigned to the Public Employees' Benefits Program. There is a level of understanding as to how it impacts budgetarily. They also do follow all of our board meetings, but they are not tasked with the specific requirements that the board is tasked with.

Assemblywoman Torres:
My questions are going to be focused around the elimination of long-term disability, which was mostly covered on page 10 of the presentation. As I am looking at it, we have talked a little bit about the voluntary long-term disability. How much would it cost the employee for that?

Laura Rich:
Long-term disability is very dependent on the age of the person. It is also dependent on the salary of a person. As you heard me say, the benefit levels are at a percentage of the salary. Obviously, that is going to be very individualized. It will definitely be a significant cost to the employee. I do not know for certain what the cost will be, and I would hate to quote something. I am not a long-term disability expert nor am I an insurance agent of any type, but it will definitely be a significant cost—something along the lines of, I would say, upwards of $50.

Assemblywoman Torres:
And would that be $50 per paycheck?

Laura Rich:
This would likely be per month. This is just a guess based on what I have heard anecdotally, and it would depend on what those salaries are. Someone making $35,000 obviously would pay a lot less than someone making $135,000.

Assemblywoman Torres:
Thank you. I appreciate that, and I understand it might be hard to give an exact number when there are so many other factors that come into play. I just have some concerns with the long-term disability, if we have looked at or assessed whether or not getting rid of that could have a greater impact in other places for the State of Nevada. I imagine if an individual qualifies for long-term disability, then they are probably not able to get back to work in another capacity. Is there any other economic impact that we as a state can expect from individuals that might not qualify for long-term disability and are incapable of working?

Laura Rich:
As I mentioned earlier, there are options for those people who find themselves in that situation. It is not the same; there are alternatives, but not exact alternatives. For example, if someone has paid into Social Security, they would have access to Social Security Disability Insurance. They would also have access to the PERS disability retirement benefit as well. There are definitely alternatives to that. Now, whether there would be impacts down the road, there has not been an assessment done on that. That is certainly something that we can look into.

Assemblywoman Torres:
I would definitely appreciate that. I can imagine that would be draining on our other social services as well, and the economic impact of that might not be worth the savings that we would otherwise see.

Chair Flores:
Do we have any other questions? I do not believe we do, but I want to make sure that we did not accidentally go over someone's question here. [There were none.] Seeing none, I want to thank you for your presentation and, as previously stated, members, reach out to Ms. Rich with questions as we move forward throughout session. You have somebody in front of you who has a wealth of information and somebody who is always willing to work with us. With that, I am going to go ahead and close the presentation for Public Employees' Benefit Program. If we could go to public comment, do we have anybody wishing to speak?

Doug Unger, University of Nevada, Las Vegas, Chapter President, Nevada Faculty Alliance:
Dr. Kent Ervin, in his written comment [Exhibit E], has raised issues of process with the way the PEBP plan designs presented to you today have come into being. Our southern Nevada faculty share these concerns. But more than this, we sense in the plan designs presented to you that there may be entrenched, outdated convictions by the powers that be that premiums must be kept low or flat at the expense of other benefits. The impact of this approach is obvious. High out-of-pocket maximums in the new CDHP and new PPO plans shift costs to

the sickest state employees who can least afford that burden. Cutting $2 per month to retiree contributions is a regressive tax on members living on a fixed income, and the proposed elimination of long-term disability insurance is dangerous and cruel for workers who by state and federal agreement are not covered by Social Security. Thousands of PEBP members do not have enough accumulated in PERS to be able to survive being disabled for very long. And the 7,000 higher education faculty in our state would be left with nothing should they face an illness or accident that prevents them from working or if they contract COVID-19 and be among the growing number of cases who suffer long-term disability.

I am hearing daily from frontline professionals in our state's fight against the pandemic: doctors, nurses, and staff at the University of Nevada, Las Vegas School of Medicine; nursing faculty from the College of Southern Nevada; and education professionals who must engage one-on-one with the public and our Nevada students. The elimination of long-term disability (LTD) insurance is asking these most courageous of our state workers to do their jobs on a tightrope without a net. That is just not right. I was a bit distressed that Executive Officer Rich made the comparison to Oregon state employees and their voluntary LTD insurance. Oregon state employees have Social Security, so voluntary LTD insurance is an add-on for them. Furthermore, the costs are much more than $50 a month for most. Board member Michelle Kelley priced it out at the last PEBP Board meeting. You can see it on the record, and she could not find a policy for less than $200 a month. This just is not right. And it is a most urgent issue for state employees. We hope we can all reach out to the Governor's Office, the PEBP Board, and the vigilant committees of the 81st Session for acceptable solutions. Thank you all for your service.

Laura Naumann, Private Citizen, Henderson, Nevada:
I am submitting public comment today to ask the Legislature to consider restoring the long-term disability benefits that were eliminated in the Governor's recommended budget. While those of us impacted by the changes in PEBP are grateful that the cuts were reduced from 12 percent to 6 percent and projected premiums were brought back down, many faculty and staff within the Nevada System of Higher Education (NSHE) are deeply concerned about the loss of benefits, particularly the loss of long-term disability benefits, given that we do not pay into Social Security and would not be eligible for Social Security Disability benefits in the unfortunate and often unforeseen circumstances of severe injury and disability. It is particularly difficult to watch the PEBP Board try to navigate the new recommendations from the Governor's budget proposal. In the November board meeting, PEBP voted to reduce the long-term disability benefit from 60 percent coverage to 50 percent coverage, recognizing that reducing the benefit, in lieu of eliminating it outright, was the preferred option. During last week's board meeting, it was clear that the appetite of the board was to keep the 50 percent long-term disability benefit, but were advised that they could not go against the Governor's recommendations and that it would be up to the Legislature to address this. I understand that few people are actually using the long-term disability benefit, but that is the point of insurance. You hope to never have to use it, but you have peace of mind knowing it is there if you did. During the meeting, Laura Rich gave alternatives for those who may find themselves in this unfortunate situation. I am an NSHE employee who is not in the PERS retirement system, so I am not eligible to take that long-term disability benefit.

I also do not pay into Social Security, so I would be ineligible for Social Security Disability benefits. To Assemblywoman Torres' question, I and other employees who share similar enrollment would be taking on Medicaid, so there would be downstream consequences to the other elements of the state budget. I ask that you consider this as you develop responses to this. Thank you for your consideration.

Marlene Lockard, representing the Retired Public Employees of Nevada:
I think what has been lost in this discussion has been that PEBP met the Governor's budget requirements with the first budget that was presented. And, so, the budget office not only substituted their policy decision for the PEBP Board's, but also, the preference of the advocates who absolutely represent active state employees and retirees. Through the board meetings we have made and testified what our preference would be in making these difficult cuts during these tough budget times. We are representing the very membership that PEBP was created to provide the employee benefits for. I want to make that point and also state that, several sessions ago, we had a bill that strengthened the requirements and qualifications of PEBP Board members; and I, in my opinion, think we have one of the strongest, most qualified in this industry, PEBP Board that we have had in a very long time. And lastly, I cannot leave without reiterating my concern about Medicare retirees. As Laura Rich mentioned, Medicare retirees were thrown out of the PEBP system in 2011. As a result, Medicare retirees at that time left money in the PEBP budget. On an ongoing basis, Medicare retirees saved the state millions of dollars every year. The Public Employees' Benefits Program no longer pays any claims whatsoever for Medicare retirees. The state appropriates more money from Medicare retirees than the employees that feed them. And so, each year the Medicare retirees leave money in the state budget and we get no other benefit from the state. To reduce the employer contribution from $13 per month per year of service to $11 and really reduce the life insurance at the most vulnerable stage of a retirees' life is really a very bitter pill to swallow.

Kent Ervin, Legislative Liaison, Nevada Faculty Alliance:
The independence of the PEBP Board is a policy concern for the Legislature and the Committee on Government Affairs this session because the recommendations and priorities of the PEBP Board on plan design decisions were overridden in the *Executive Budget*. My submitted written comments [Exhibit E] provide additional details. In the 1999 Session, Senate Bill 544 of the 70th Session created the PEBP Board to replace an advisory committee on benefits within the Department of Administration. That was after a scandal in the early 1990s when the contracted third-party administrator stopped paying claims and the Legislature had to bail out the program. The 1999 Legislature saw fit to give the PEBP Board the full authority to run the program on behalf of participants. The board is required to have expertise in benefits programs, and board members serve as fiduciaries to participants and the program. When they were required to make the very deep 12 percent budget cuts in November, the board made those difficult decisions to reduce medical benefits, increase employee premiums, and they trimmed but did not eliminate life insurance and long-term disability insurance. Fortunately, the Governor's budget reduced those cuts to PEBP by about half, which is greatly appreciated. But, in a departure from two decades of allowing the PEBP Board to make difficult plan design decisions in the best interest of participants,

the Governor's budget went against the priorities of the board and completely eliminated the long-term disability insurance benefit, which as you have heard, is the essential safety net for a state employee who has become disabled. Now we can only hope that the budget committees will find funds to restore long-term disability insurance for state employees. As the policy committee overseeing PEBP, the Government Affairs Committee should consider now whether the statute in NRS Chapter 287, establishing PEBP Board with the authority over plan design, needs to be strengthened.

Chair Flores:
Thank you for your comment, and we did get to see your written testimony that was sent in, so thank you for that. Could we please go to the next member of the public wishing to speak? [There was none.] I want to thank those members of the public who had an opportunity to speak today. This is your place to be heard, and it is our obligation to listen, so I appreciate your participating in this process.

With that, I do not think we have anything else on the agenda. However, several members of the public brought up issues specifically referring to PEBP, and I believe we still have our executive director on the line. Laura Rich, I do not know if you wish to address any of those concerns, but in the interest of avoiding a back and forth, or because we do not have the opportunity for members of the public to do that, I ask that if you have the opportunity to listen to that testimony, that you provide anything in writing for the entire Committee to entertain and look at. I did commit to allowing Assemblywoman Anderson to ask a quick follow-up question.

Laura Rich:
I am here.

Assemblywoman Anderson:
For some of the testimony that was brought up, particularly Dr. Naumann's, were there other discussions and/or considerations as opposed to completely getting rid of the long-term disability? Has there been any consideration of decreasing the amount instead? We realize the PEBP Board is advisory but was the impression given that they could not vote against the Governor's recommendation accurate?

Laura Rich:
At the November board meeting, based on the 12 percent budget proposals that the program had to come up with and submit to the Governor's Office of Finance, yes, the board chose to not eliminate long-term disability completely. As I mentioned earlier, everything in our program is levers. You add one thing, you have to take it away from somewhere else, so the result of that was that the premiums were going to be significantly higher as were out-of-pocket expenses and deductibles and things like that. Everything comes at a cost. I am happy to share this information with you and give you more of a detailed response as to what happens if you do this or if you do that; but if you want to add something back, you have to take something else away. I think that the Governor's recommended budget focuses on keeping those premiums stable so that there is no significant increase to PEBP members and

then also keeping that first dollar coverage, anything that could present a barrier. For example, if you are on the CDHP, that deductible today is $1500. The plan does not pay anything until you have met that $1500 deductible. That could be quite a burden on folks if you raise that to even $2000. Again, yes, if those benefits are reinstated, you have to then reduce other benefits. What benefits? There is that question. Hopefully, that explains it.

Assemblywoman Anderson:
It did. Thank you. Was it basically presented that this is the Governor's recommendation? That it is this or nothing at all, is the other question, but I understand there is a little more nuance to that as well. We can have that conversation offline if you would like.

Chair Flores:
Again, Ms. Rich, I appreciate your staying on the call and coming back. I do want to encourage you to please, if you would like, provide any additional material to the members in writing in response to anything that may have been brought up during public comment. Give yourself an opportunity to do that, if you find it prudent and necessary to clarify, if there was anything that you believe was not fully stated and/or there is a different perspective. Members, I appreciate everyone's participation and attentiveness in this conversation.

Having nothing before this Committee, I would like to adjourn in honor of our Sergeant at Arms, Mr. Robin Bates, someone whom a lot of people in this building saw both as family and as a role model, someone who has set an example for so many people. I do this with the utmost respect for the family and those of you who may not have a blood connection but also saw him as family for generations to come, and an example on how to conduct yourself and how to operate yourself in such a professional, respectful manner. It was a tremendous loss for this building. We will adjourn in his honor. Meeting is adjourned [at 11:18 a.m.].

RESPECTFULLY SUBMITTED:

____
Zachary Khan
Committee Secretary

APPROVED BY:

____
Assemblyman Edgar Flores, Chair

DATE: ______________________________

EXHIBITS

Exhibit A is the Agenda.

Exhibit B is the Attendance Roster.

Exhibit C is a copy of a PowerPoint presentation titled "Briefing on the Public Employees' Retirement System," dated February 4, 2021, presented by Tina M. Leiss, Executive Officer, Public Employees' Retirement System, and Steve Edmundson, Investment Officer, Public Employees' Retirement System.

Exhibit D is a copy of a PowerPoint presentation titled "Public Employees' Benefits Program," dated February 4, 2021, presented by Laura Rich, Executive Officer, Board of the Public Employees' Benefits Program.

Exhibit E is written testimony dated February 4, 2021, from Kent Ervin, Legislative Liaison, Nevada Faculty Alliance.