EMPLOYER PAYMENT OF EMPLOYEE CONTRIBUTIONS TO THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Bulletin No. 77-9

LEGISLATIVE COMMISSION
OF THE
LEGISLATIVE COUNSEL BUREAU
STATE OF NEVADA

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Senate Concurrent Resolution No. 33—Committee on Finance

FILE NUMBER 116

SENATE CONCURRENT RESOLUTION—Directing the legislative commission to study the feasibility of permitting or requiring public employers to pay the entire amount required to provide for employees' retirement.

WHEREAS, Various proposals have been made in committee hearings upon the financing of public employees' retirement, either to require or to permit the public employer to make on behalf of its employees the contribution now required of them to the public employees' retirement system; and

WHEREAS, This concept is attractive in the context of providing additional benefits to enhance the attractiveness of public employment while attempting to mitigate the financial burden on public employees imposed by the constantly rising cost of living; but

WHEREAS, The fiscal impact of such a change with its related effect upon the withdrawability of contributions is complex and the administrative feasibility of a mixed system (where only certain employers would make such payments) is undetermined; now, therefore, be it

Resolved by the Senate of the State of Nevada, the Assembly concurring, That the legislative commission is directed to study the feasibility of payment by the public employer of all contributions required to provide for public employees' retirement, in lieu of the present system of joint contribution, including specifically:

1. Whether it is administratively feasible to make such payment elective on the part of the public employer, or whether all employers must be treated uniformly with respect to contribution; and

2. The fiscal impact of elective payment (if feasible) and mandatory payment of total retirement costs upon the respective classes of public employers, state and local, and the requisite total rates of contribution; and be it further

Resolved, That the legislative commission report the results of its study, with any recommended legislation, to the 59th session of the legislature.

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REPORT TO THE LEGISLATIVE COMMISSION

To the Members of the 59th Session of the Nevada Legislature:

This report is submitted in compliance with Senate Concurrent Resolution No. 33 of the 58th session which directed the legislative commission to study the feasibility of permitting or requiring public employers to pay the entire amount required to provide for employees' retirement. The report contains the methodology, the advantages and disadvantages, and the findings and recommendations of your subcommittee appointed to conduct the study.

The subcommittee wishes to express its appreciation to all the public employers and employees who provided information on this subject to the subcommittee. It would like to give special thanks to Mr. Vernon Bennett and the staff and members of the public employees' retirement board for their cooperation and technical assistance.

Respectfully submitted,

Senator Floyd R. Lamb
Chairman
Senator Gary A. Sheerin
Vice Chairman
Senator Mary L. Gojack
Member
Assemblyman James J. Banner
Member
Assemblyman Darrell H. Dreyer
Member

Carson City, Nevada

SUMMARY OF RECOMMENDATIONS

1. The subcommittee recommends the continuation of the optional employer-paid program and allowing it to "sell itself" to the public employers and the public employees on its own merits. As of this report date, the optional employer-paid program has been in effect for just a little over 1 year. The information developed from this relatively short time frame of operation does not at this point justify mandating the program. Contrarily, the subcommittee has found no evidence which would justify the discontinuance of the optional program.

2. The subcommittee found that there is a savings or cost avoidance for the public employer under the employer-paid program. It is, therefore, recommended that public employers consider implementation of the employer-paid program as a means of holding down or avoiding costs in the future.

3. The subcommittee recommends that the 1977 legislature strongly consider legislation to be sponsored by the public employees' retirement board dealing with the employer-paid program with regard to:

    (a) Changing the method for calculating retirement benefits for members under the employer-paid program to provide that a member's average compensation shall be increased by 50 percent of the contribution rate for each month that the member is under the employer-paid program.

    (b) Providing survivor benefits to vested members regardless of whether or not they were under accredited contributing service at the time of death and providing for either a lump sum refund of 50 percent of the contributions made by the public employer under the employer-paid program or the monthly survivor benefits.

    The subcommittee has not included proposed legislation in this report since the public employees' retirement board will be submitting a complete legislative package to the 1977 legislature. This will include all legislation dealing with the public employees' retirement act.

4. Although not specifically within the scope of this study, the subcommittee recommends that the 1977 legislature consider further study of the public employees' retirement system with the following objectives:

   (a) Determine the liability of the unfunded liability of the system. (Is the state alone liable, since the system was created by the state legislature, or are all public employers liable?) This determination is important because, in the future, the bonding capacity and bond ratings of public employers may be affected by this outstanding liability.

   (b) Determine the most appropriate method and time frame to eliminate, or at least contain, the unfunded liability of the system.

   (c) Determine the possible impact of pending federal legislation to place public retirement systems under federal supervision and control. In this regard, the subcommittee expresses strong opposition to any federal supervision, regulation, or control of Nevada's public employees' retirement system.

   (d) Continue to measure the impact the employer-paid program has on the retirement system and the question of a mandated versus optional program.

REPORT TO THE LEGISLATIVE COMMISSION OF ITS SUBCOMMITTEE ON EMPLOYER PAYMENT OF EMPLOYEE CONTRIBUTIONS TO THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM

I. INTRODUCTION

In 1975, the 58th session of the Nevada legislature adopted Senate Concurrent Resolution No. 33, which directed the legislative commission to study the feasibility of permitting or requiring public employers to pay the entire amount required to provide for employees' retirement. Pursuant to this resolution, the legislative commission appointed a subcommittee consisting of Senator Floyd R. Lamb, Chairman, Senator Gary A. Sheerin, Vice Chairman, Senator Mary A. Gojack, Assemblyman James J. Banner and Assemblyman Darrell H. Dreyer.

The concept of financing public employees' retirement, prior to legislation passed in the 1975 legislature, was through a joint contribution system--employers and employees made equal contributions to the system. Legislation passed at the 1975 session provided for an employer-paid program as an optional method of financing public employees' retirement. The major concerns of the subcommittee, and as directed by S.C.R. 33, were to review the impact of the optional employer-paid program with specific emphasis on identifying:

1. The advantages and disadvantages of such a program for the public employer.
2. The advantages and disadvantages for the public employee.
3. The advantages and disadvantages to the retirement system.
4. The fiscal and administrative aspects of an elective or optional program versus a mandatory program.

Subcommittee Hearings and Methodolgy

The subcommittee conducted two public hearings in Carson City and one each in Reno and Las Vegas in an effort to obtain input from all levels of governmental employers and employees in the state as well as interested citizens.

The first hearing, held in Carson City on August 13, 1975, was an orientation and organizational one at which time representatives of the public employees' retirement system provided the subcommittee with technical information on the retirement system. Additional information was provided by the State of Nevada Employees' Association regarding its position on the employer-paid program.

On October 16, 1975, a public hearing was held in Las Vegas. All employer and employee groups in the Las Vegas area were invited to attend to provide the subcommittee with their views on the program. Also, representatives of the public employees' retirement system provided a "factsheet" on the employer-paid program and were available to answer technical questions dealing with the retirement system.

A public hearing was held in Reno on November 4, 1975, for hearing testimony from all employer and employee groups in the northern part of the state. Representatives of the public employees' retirement system were also available at this hearing to provide technical assistance to the subcommittee and to answer questions on its "factsheet," which was reviewed with those in attendance.

The final public hearing was held in Carson City on March 25, 1976, where further testimony was received from employer and employee groups, the Nevada League of Cities and the retirement system.

II. MAJOR COMPONENTS OF NEVADA'S PUBLIC EMPLOYEES' RETIREMENT SYSTEM

The public employees' retirement system, established on July 1, 1948, by the Nevada legislature, is governed by the public employees' retirement board whose seven members are appointed by the governor. Board members serve for a term of 4 years.

Public employees who are required to participate in the system include the following:

1. Those employed prior to July 1, 1971, in positions requiring 1,200 or more hours of employment per year and paying a salary of at least $150 per month.

2. Those employed prior to July 1, 1971, pursuant to a school contract requiring 800 or more hours of employment per year and paying a salary of at least $150 per month.

3. Those employed after July 1, 1971, in positions requiring half-time or more and paying a salary of at least $3,600 per year.

4. Those employed after July 1, 1975, who are under age 55 at time of employment and work at least 40 hours within a given month. A person over age 55 at time of employment may become a member.

5. Elected officials or persons appointed to elective positions who are elected or appointed after July 1, 1975, except where excluded by NRS 286.330. (Members of boards or commissions of the State of Nevada or of its political subdivisions when such board or commission is advisory or directive and when membership thereon is not compensated except for expenses incurred are excluded. Receipt of a fee for attendance at official sessions of a particular board or commission does not constitute compensation.)

Regular or Service Retirement Benefits

All employees except policemen and firemen with at least 10 years of service are eligible to retire at age 60, or at age 55 with at least 30 years of service. Policemen and firemen with at least 10 years of service are eligible to retire at age 55, or at age 50 with 20 years of service provided the last 5 years and at least one-half of total years' service was performed as a fireman or policeman.

Monthly retirement benefits are computed at the rate of 2.5 percent of final average salary for each of the first 20 years of service plus 1.5 percent of final average salary for each year of service over 20 up to a maximum of 30 years. Maximum unmodified allowances are 65 percent of final average salary. Final average salary is defined as the highest average salary for 36 consecutive months in the last 10 years of service.

Survivor Benefits

In order to qualify for survivor benefits, an employee must have had 2 years of accredited contributing service in the 2 1/2 years immediately preceding his death and 6 months of accredited contributing service in the 7 months immediately preceding his death. Basic benefits to eligible survivors if member dies after May 19, 1976, are:

1. Unmarried children under age 18, or 18 to 23 and attending school on a full-time basis: $150 per month per child to a maximum of $450 per month. Payments cease upon the child's attaining age 18 (23 if full-time student), unless child is incapacitated; or upon marriage, adoption or death.

2. Spouse married to deceased member for at least 2 years immediately preceding death: $200 per month (can exercise option and withdraw member's contributions in lieu of the $200 per month). Payments cease upon death or remarriage.

3. Spouse of deceased member eligible to retire who was married to deceased member for at least 2 years immediately preceding death: greater of $200 per month or option 3 benefit under regular retirement benefits that would have been payable if deceased member had retired on date of death.

4. Dependent parents: $150 per month each. Payments cease upon death or remarriage.

Vesting

Members must have 10 years' service and leave contributions in the system at termination. The vesting benefit is accrued service retirement benefit payable upon attainment of age required for regular retirement.

Actuarial Valuation

The most recent actuarial valuation of the system, for the fiscal year ending June 30, 1976, was completed by the Martin E. Segal Company, Consultants and Actuaries, New York, New York.

This actuarial valuation of the system was based on: the benefit and financial provisions of the system currently in effect, characteristics of active, inactive and retired members of the system, assets of the system which had a book value of $368,429,800 and the actuarial assumptions approved by the public employees' retirement board.

One significant actuarial assumption used in the 1976 report which was not used in the previous report was that 50 percent of the membership would be under the employer-paid program within 5 years and all members within 10 years.

The actuarial valuation statement, as of June 30, 1976, indicated the unfunded accrued liability of the system totaled $233,522,200 as shown in the tabulation below:[1]

Accrued Liabilities as of June 30, 1976*

Accrued Liability For:	All Employees	Regular Employees	Policemen And Firemen
Active Employees	$418,437,700	$353,111,600	$65,326,100
Inactive Members	38,118,800	34,745,300	3,373,500
Pensioners and Beneficiaries	140,184,200	126,108,100	14,076,100
Survivors	5,211,300	4,688,000	523,300
Total Accrued Liability	$601,952,000	$518,653,000	$83,299,000
Assets	$368,429,800	$326,119,600	$42,310,200
Unfunded Accrued Liability	$233,522,200	$192,533,400	$40,988,800

* Figures assume all employer-paid after 10 years.

According to the Harris, Kerr, Forster and Company report which was submitted to the State of Nevada public employees' retirement system's legislative study committee in September 1972:

> There are two causal factors which have contributed to the unfunded liability problem:

1 Public Employees' Retirement System of the State of Nevada, Actuarial Valuation as of June 30, 1976, Martin E. Segal and Company, Incorporated (1976).

*When employers originally entered the System all employees were given automatic credit for service prior to 1948; neither the employer or the new members were required to pay lump sum contributions equivalent to the value of those past service retirement credits (the employer and employee had the option of picking up credit for service from 1948 to the date of the employer's entry into P.E.R.S. by making a lump-sum payment of contributions for that period; otherwise no service credit was allowed for the period between 1948 and entry into P.E.R.S.). In essence, some members have been receiving retirement credit for service prior to 1948 and eventually will receive retirement benefits for which no moneys have been contributed into the System.

*As increases were authorized in the level of benefits, provisions were not made to cover the total cost of such improved benefits. This would not only affect new members without prior service credits but compounded the problems with respect to those members who were awarded unfunded prior service credits.

The net effect of these two actions has been to provide benefits to members well in excess of the contributions paid to fund the benefits, resulting in accrued benefits liabilities which have not been funded (the unfunded liability).[2]

In 1968, the unfunded liability was $117 million. As of June 30, 1971, the unfunded liability had grown to $264 million and it was $367 million on June 30, 1974.

According to the actuary, the significant differences from the results of the 1974 actuarial valuation and the results of the 1976 valuation were as follows:

1. Changes in actuarial assumptions adopted by the public employees' retirement board, particularly the increase in the percentage point differential between the assumed rates

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2 Vol. 1, Final Report to the State of Nevada Public Employees' Retirement System Legislative Study Committee, Presented by Harris, Kerr, Forster and Company, September 1972, Page 24.

of interest and salary increases (7%-4% compared to 5%-3% in 1974) and the increase in the assumed payroll growth rate. With respect to police and firemen, the increase in the assumed average retirement age from 57 to 58 also tended to narrow the differential in calculated costs between regular employees and police and firemen.

2. The 1975 amendments to the public employees' retirement act incorporated in Senate Bill No. 336, which included an increase in the basic employee-employer contribution rate from 7% to 8% of salary and the elimination of automatic annual post-retirement increases of 1 1/2% of the original base benefit (the post-retirement increase provisions accounted for about 8% of the total cost in the 1974 valuation).

3. The very substantial improvement in the actual rate of investment earnings during the past two fiscal years.

4. The growth of the system and changes in membership characteristics between June 30, 1974 and 1976, particularly the increase in the total payroll of covered police and firemen and the increase in the number of regular employees with annual salaries of less than $5,000.[3]

The actuary also testified to the retirement board that considerable additional savings were generated by the elimination of free prior service and by the adoption of the optional employer-paid program. The savings generated from the employer-paid program will increase as more employee groups enroll in the program and refunds are eliminated over time.

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3 Segal, Op. Cit., p. 37.

III. 1975 LEGISLATURE--S.B. 336, CHAPTER 575

The 1975 legislature passed S.B. 336 in an effort directed toward fully funding the system over a period of years as well as improving the benefits to public employees. This legislation, which became chapter 575 of the 1975 Statutes of Nevada, made some major revisions to the public employees' retirement act. The legislation is summarized as follows:

1. On and after July 1, 1975, basic contributions to the system under the joint contribution program by employee members (other than policemen and firemen) enrolled prior to July 1, 1973, were increased from 7 to 8 percent of gross compensation. Contributions to the system by employee members (other than policemen and firemen) enrolled on or after July 1, 1973, were increased:

   (a) From 7 to 8 percent of gross compensation if under age 36,

   (b) From 9 to 10 percent of gross compensation if age 36 through 45, and

   (c) From 11 to 12 percent of gross compensation if age 46 or older.

2. On and after July 1, 1975, the basic contributions to the system under the joint contribution program for public employers (other than policemen and firemen) were increased from 7 to 8 percent of gross compensation paid to employee members.

3. On and after July 1, 1975, the basic contributions to the system under the joint contribution program for policemen and firemen enrolled prior to July 1, 1973, were increased from 7.5 to 8.5 percent. Contributions to the system by policemen and firemen enrolled after July 1, 1973, were increased:

   (a) From 7.5 to 8.5 percent of gross compensation if under age 36,

   (b) From 9.5 to 10.5 percent of gross compensation if age 36 through 45, and

(c) From 11.5 to 12.5 percent of gross compensation if age 46 or older.

4. On and after July 1, 1975, the basic contributions under the joint contribution program for public employers of policemen and firemen were increased from 7.5 to 8.5 percent of gross compensation.

5. Employers were permitted, on an optional basis, to pay basic employee contributions. For those employers who exercise this option, the total contribution rate is 15 percent except for police officers and firemen. The rates for employers of police officers and firemen is 16 percent in fiscal year 1975-76, 17 percent in fiscal year 1976-77, 18 percent in fiscal year 1977-78 and 19 percent beginning July 1, 1978. (Policemen and firemen pay one-half of the total basic contributions in excess of 16 percent.)

6. A separate police and fireman's retirement fund was created.

7. The legislators' retirement law was amended increasing contributions from 10 percent to 15 percent and their retirement allowance was changed to $25 per month for every year served up to a maximum of 30 years.

8. Employees were allowed to purchase previous service time with a public employer and to purchase up to 5 years' out-of-state governmental service time and up to 5 years' military service time.

9. All monthly benefits for survivors of persons who die after May 19, 1975, were doubled. Child survivor benefits were extended to age 23 if the child remains a full-time student and earning restrictions for surviving spouse were removed.

10. A cost-of-living increase for present retirees and a $50 per month across-the-board increase for those members who retired prior to July 1, 1963, were provided.

Employer-Paid Program

Much of the controversy associated with S.B. 336 at the 1975 legislative session was centered around the optional provision for the employer-paid program. The first draft of this legislation contained the optional provision but was amended by the Senate Standing Committee on Finance by removing the option. When the bill was presented to the full senate for consideration, there was an unsuccessful attempt to amend the bill on the floor to restore the provision. The bill was then sent to the assembly where it was referred to the Assembly Standing Committee on Ways and Means, which did amend it by restoring the employer-paid option. The assembly passed the bill as amended and, after the senate failed to concur in the amendment, a conference committee from both houses was appointed to resolve the differences. As a result of the conference committees' deliberations, S.B. 336 was finally passed containing the employer-paid option.

NRS 286.421 deals with the optional employer-paid program and reads as follows:

> **286.421 Payment of contributions by employer on behalf of employee; compensation adjustments.**
>
> 1. Except as limited in this section, any participating public employer may pay on behalf of its employees the basic employee contributions required by subsection 1 of NRS 286.410. The state board of examiners shall elect on behalf of all state agencies which have employees within the classified service of the state, as established by chapter 284 of NRS, whether to pay such contributions.
> 2. Payment of employee contributions shall be:
>
> (a) Made in lieu of equivalent basic salary increases or cost of living increases, or both; or
>
> (b) Counterbalanced by equivalent reductions in employee salaries.
>
> 3. The average compensation from which the amount of benefits payable pursuant to this chapter is determined shall be increased by 7 percent with respect to each of the first 36 months in which an employee's contributions are made by his public employer, with respect to members who retire on or after July 1, 1975.
> 4. Employee contributions made by a public employer shall be deposited in either the public employees' retirement fund or the police and firemen's retirement fund as is appropriate. These contributions shall not be credited to the account of the member and they shall not be refunded to the member upon his termination.
> 5. The membership of an employee who became a member on or after July 1, 1975, and all contributions on whose behalf were made by his public employer shall not be canceled upon the termination of his service.

6. If an employer elects to pay the basic contribution on behalf of its employees, the total contribution shall be, in lieu of the amounts specified in subsection 1 of NRS 286.410 and subsection 1 of NRS 286.450:

(a) For all employees except police officers and firemen, 15 percent of compensation.

(b) For police officers and firemen:

From	To	Amount
July 1, 1975	June 30, 1976	16 percent
July 1, 1976	June 30, 1977	17 percent
July 1, 1977	June 30, 1978	18 percent
July 1, 1978	continuing	19 percent

Each police officer or fireman shall pay one-half of the amount by which the total basic contribution made on his account exceeds 16 percent. A public employer which has elected to pay the basic contribution on behalf of its employees may, if the respective percentage rates of such contribution are increased above the rates set forth in this section on May 19, 1975, require each employee to pay one-half of the amount of such increase.

7. For the purposes of adjusting salary increases and cost of living increases or of salary reduction, the total contribution shall be equally divided between employer and employee.

8. An election by an employer to begin or to discontinue paying the basic contribution on behalf of its employees becomes effective at the beginning of the fiscal year next after notice of such election is received by the board.

(Added to NRS by 1975, 1042)

IV. IMPLEMENTATION OF THE EMPLOYER-PAID PROGRAM

NRS 286.421, the law governing the employer-paid program, provides that a public employer may elect to pay the employee portion of the retirement contribution and, if he so elects, this payment shall be: (1) in lieu of an equivalent salary or cost-of-living increase, or (2) counterbalanced with an equivalent salary reduction. It further provides that, for purposes of adjusting salary or cost-of-living increases or for salary reductions, the total contribution shall be equally shared.

Since the total contribution under the employer-paid program is 15 percent of compensation, a public employer electing the employer-paid program could implement the program in either of two ways:

1. In lieu of a 7.5 percent salary or cost-of-living raise, or by

2. Reducing an employee's salary by 7.5 percent.

The law further provides that, for purposes of determining the average compensation upon which retirement benefits are to be based, the employee's compensation shall be increased by 7 percent for each of the first 36 months the employee is under the program. (Note that this adjustment is 7 percent, whereas, the in lieu or cost-of-living adjustment or the salary reduction was 7.5 percent. This adjustment is only for the first 36 months that the employee is in the program.)

The most important provision of the employer-paid program, particularly to the employee and to the retirement system, is the prohibition of refunds upon termination of an employee. Under the joint contribution system, if an employee terminates he may withdraw his contributions but, since the employer makes the total contribution under the employer-paid program, the law prohibits any refund to a terminating employee. (Contributions made by the employee up to the time he enters the employer-paid program are still refundable.)

Public Employers Implementing Employer-Paid Program

Subsection 8 of NRS 286.421 provides that an election by an employer to begin or to discontinue paying the basic contribution on behalf of its employees becomes effective at the beginning of the fiscal year next after notice of such election is received by the board. According to information provided by the retirement board, the following public employers implemented the employer-paid program at the beginning of their respective 1976 fiscal years:

SCHOOL DISTRICTS

Clark County School District (all employees)
Elko County School District (administrators)
Esmeralda County School District (certified employees)
Eureka County School District (administrators)
Storey County School District (certified employees)
Washoe County School District (teachers)

POLICE AND FIREMEN

City of Las Vegas Fire Fighters
Clark County Fire Department
Las Vegas Metropolitan Police Department

OTHERS

Carson-Truckee Water Conservancy District
City of Las Vegas (classified employees)
Clark County Health Department
Lyon County Health Department
Regional Planning Commission of Reno, Sparks and Washoe County
Reno-Sparks Convention Authority (nonadministrative employees)
Washoe County (includes some police and firemen but not all)
Washoe County Conservation District

According to the retirement board, as of August 1976, the following public employers will implement the employer-paid program at the beginning of their respective 1977 fiscal years:

Boulder City
City of Henderson
City of North Las Vegas
Douglas County School District (administrators)
Elko County School District (certified teachers)
Esmeralda County School District (noncertified employees)
Lincoln County School District
Nye County School District
Pershing County School District
White Pine County School District (administrators)
Las Vegas Housing Authority
Lincoln County Power District No. 1

The total number of public employees under the employer-paid program at the end of the 1976 fiscal year was 9,314. It is estimated that this will increase to approximately 10,972 employees by the end of the 1977 fiscal year.

The retirement board informed the subcommittee that all employers implementing the employer-paid program at the beginning of their 1976 fiscal years did so under the in lieu of an equivalent salary or cost-of-living increase method. According to information available as of August 1976, all employers, with the exception of the City of Henderson, the Elko County school district (certified teachers) and the White Pine County school district (administrators), who enter the program at the beginning of their respective 1977 fiscal years will do so under the in lieu method.

Subsection 1 of NRS 286.421 calls for the state board of examiners to elect on behalf of all state agencies, which have employees within the classified service of the state, whether or not to pay employees' retirement contributions. As of the date of this report, the board has not elected to implement the program.

V. EMPLOYER-PAID PROGRAM PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Advantages

1. According to the June 30, 1974 actuarial report, the mandatory employer-paid program provides a savings to the retirement system of approximately 2 percent of compensation because the normal employee contributions are made by the public employer, deposited in the public employees' retirement fund rather than the employee's individual account and are, therefore, not available for refund. The 2 percent of compensation savings is shared equally by the retirement system and the public employer. Under the employer-paid program, a total contribution rate of 15 percent is required compared to the total rate of 16 percent, equally divided, between the employer and employee, under the joint contribution program. This, then, represents a net savings to the public employer which is equally shared with the employee.

   The estimated saving to the retirement system under a mandatory employer-paid program, as calculated by the retirement actuary in the June 1974 actuarial report, is $371,000 per month or $4,452,000 per year. These savings accrue because refunds are prohibited and all contributions remain in the retirement fund.

2. The June 30, 1976 actuarial valuation, prepared by the Martin E. Segal Company, provides an unfunded liability equivalent to $233 million. The actuary determined that the cost for present benefits would be 11.1 percent under total employer-paid, 11.7 percent on a combination of employee-employer paid and employer-paid and 11.9 percent for no employer-paid. The actuary testified before the retirement board that the savings under the employer-paid program would continue to increase as more groups enroll under the employer-paid

program and as time passes. This is due to the fact that many of the members now under the employer-paid program still have employee contributions in their account made prior to enrolling in the program which are available for subsequent refund. Additional savings will be realized as those persons are terminated and refunded and the ratio of members without employee contributions available for refund is increased. The actuarial study estimated that with an all employer-paid program the cost for present benefits plus amortization of the unfunded liability over a 40-year period would be 13.1 percent and 13.6 percent over a 30-year period. With no employer-paid program, the cost for normal benefits plus funding the unfunded liability over a 40-year period would be 13.7 percent and 14.1 percent over a 30-year period.

3. From June to September 1976, the number of employees covered under the employer-paid provisions increased by almost 2,000 or by almost 20 percent. The total normal cost for present benefits in dollar amounts per year is equivalent to $37,831,200 under all employer-paid and $40,472,100 with no employer-paid. This indicates an annual savings for total normal cost equivalent to $2,640,900 under the total employer-paid program.

4. The accounting and administrative requirements for operation and maintenance of the system would be reduced substantially under the employer-paid program.

Disadvantage

The retirement board has indicated that it can adequately handle the administration of an optional program. This, however, does require added administrative procedures to keep track of the employer and the employee groups who are under the program as opposed to those who are not.

VI. EMPLOYER-PAID PROGRAM PUBLIC EMPLOYER

Advantages

1. The employer-paid program provides for an approximate 1.5 percent savings for the public employer when the method used to implement it is through a salary reduction. The employer's salary costs are reduced by 7.5 percent while at the same time his retirement costs are

increased by 7 percent. The retirement rate is then applied to a reduced salary base. Considering salary and retirement costs only, this can be shown in the following example:

Current costs for an employer with an assumed payroll of $100,000:

Salaries	$100,000
Retirement @ 8%	8,000
Total Salaries and Retirement	$108,000

Costs if employer-paid program is implemented through a salary reduction:

Salaries	$100,000
Less 7.5% Salary Reduction	-7,500
New Salary Total	$ 92,500
Retirement @ 15%	13,875
Total Salaries and Retirement	$106,375

Savings Equals $1,625 or 1.5%

As previously mentioned, the City of Henderson, the White Pine County school district (administrators) and the Elko County school district (certified teachers) will implement the employer-paid program under the salary reduction method at the beginning of their respective 1977 fiscal years. The total estimated savings for these public employers is $118,923, which is calculated by applying the 1.5 percent savings to their estimated gross annual salaries plus 8 percent retirement for the 1975-76 fiscal year.

Table I, on page 21, shows the estimated savings for non-participating public employers, other than state government, if they were to implement the employer-paid program under the salary reduction method. Table II, on page 21, shows the estimated savings for state government.

The estimated savings shown on these two tables are calculated by applying the 1.5 percent savings to the estimated gross annual salaries plus 8 percent retirement for the public employers for the 1975-76 fiscal year. Of course, as gross annual salaries and retirement contribution rates change, the estimated savings change accordingly.

TABLE I

EMPLOYER-PAID PROGRAM IMPLEMENTED THROUGH SALARY REDUCTION NONPARTICIPATING PUBLIC EMPLOYERS OTHER THAN STATE GOVERNMENT

Public Employer	Salary Reduction Est. 1.5% Savings
School Districts	$ 463,882
Counties	710,483
Cities	454,281
Utilities	21,286
Hospitals	401,095
Others	59,583
Total Estimated Savings	$2,110,610

TABLE II

EMPLOYER-PAID PROGRAM IMPLEMENTED THROUGH SALARY REDUCTION STATE GOVERNMENT

State Government	Salary Reduction Est. 1.5% Savings
University of Nevada	
Classified Employees	$ 173,340
General Fund Agencies	601,020
Sub-Total General Fund	$ 774,360
Highway Fund	$ 356,400
Nevada Industrial Commission	61,560
Federal and Other	603,288
Total Estimated Savings	$1,795,608*

* Does not include University of Nevada professionals but does include unclassified positions.

2. The employer-paid program provides for an approximate 1 percent cost avoidance for the public employer when the method used to implement it is in lieu of an equivalent salary or cost-of-living increase. The employer, instead of having to provide a 7.5 percent salary or cost-of-living increase, picks up an additional 7 percent in retirement which is applied to the same salary base. Considering salaries and retirement costs only, this can be shown in the following example:

Current costs for an employer with an assumed payroll of $100,000:

Salaries	$100,000
Retirement @ 8%	8,000
Total Salaries and Retirement	$108,000

Costs with a 7.5 percent salary increase:

Salaries	$100,000
7.5% Pay Raise	7,500
New Salary Total	$107,500
Retirement @ 8%	8,600
Total Salaries and Retirement	$116,100

Cost Increase Equals $8,100 or 7.5%

Costs if employer-paid program implemented in lieu of salary or cost-of-living increase:

Salaries	$100,000
Retirement @ 15%	15,000
Total Salaries and Retirement	$115,000

Cost Increase Equals $7,000 or 6.5%

Cost Avoidance Equals $1,100 or 1.0%

Table III, on page 23, shows the estimated cost avoidance for participating public employers who implemented the employer-paid program through the in lieu of salary or cost-of-living increase method at the beginning of their respective 1976 fiscal years.

TABLE III

PARTICIPATING PUBLIC EMPLOYERS
IMPLEMENTATION BEGINNING OF 1976 FISCAL YEAR
IN LIEU METHOD

Public Employer	In Lieu of Salary or Cost-of-Living Increase 1.0% Cost Avoidance
School Districts	$ 672,341
Counties	112,233
Cities	102,178
Police and Firemen	222,425
Others	7,121
Total Estimated Cost Avoidance	$1,116,298

TABLE IV

PUBLIC EMPLOYERS
IMPLEMENTATION BEGINNING OF 1977 FISCAL YEAR
IN LIEU METHOD

Public Employer	In Lieu of Salary or Cost-of-Living Increase 1.0% Cost Avoidance
School Districts	$ 30,589
Cities	84,791
Others	16,275
Total Estimated Cost Avoidance	$131,655

Table IV, on page 23, shows the estimated cost avoidance for those public employers who will implement the program at the beginning of their respective 1977 fiscal years.

All public employers who implemented the program at the beginning of the 1976 fiscal year did so under the in lieu of salary or cost-of-living increase method. Those implementing the program at the beginning of their 1977 fiscal years will also do so under the in lieu method with the exception of the City of Henderson, the Elko County school district (certified teachers) and the White Pine County school district (administrators).

Table V, on page 25, shows the estimated cost avoidance for all other public employers, except state government, if they were to implement the employer-paid program using the in lieu method.

Table VI, on page 25, shows the estimated savings as they apply to state government.

The cost avoidance figures shown in Tables IV, V and VI are calculated by applying the 1.0 percent cost avoidance figure to the estimated gross annual salaries plus 8 percent retirement for the public employers for the 1975-76 fiscal year. For Table III, the estimated gross annual salaries plus 8 percent retirement for the 1974-75 fiscal year were used.

3. Since implementation of the employer-paid program affects gross salaries paid, additional savings would be realized through reduced Nevada industrial commission and unemployment compensation payments. Also, state government agency payments for controller and personnel assessments would be less. These payments are based on total gross salaries, which are reduced under the employer-paid program. These savings, however, would most likely disappear since the rates necessary to fund the NIC, the unemployment compensation, the controller and the personnel costs would probably be increased in the future to continue adequately funding them.

4. The recordkeeping requirements of the public employer are reduced. The public employer no longer would be required to deduct retirement contributions from employees' paychecks nor certify refund requests for employees whose entire employment was under the employer-paid concept.

TABLE V

EMPLOYER-PAID PROGRAM
IMPLEMENTED THROUGH IN LIEU METHOD
NONPARTICIPATING PUBLIC EMPLOYERS
OTHER THAN STATE GOVERNMENT

Public Employer	In Lieu of Salary or Cost-of-Living Increase 1.0% Cost Avoidance
School Districts	$ 309,249
Counties	473,649
Cities	302,849
Utilities	14,188
Hospitals	267,393
Others	39,718
Total Estimated Cost Avoidance	$1,407,046

TABLE VI

EMPLOYER-PAID PROGRAM
IMPLEMENTED THROUGH IN LIEU METHOD
STATE GOVERNMENT

State Government	In Lieu of Salary or Cost-of-Living Increase 1.0% Cost Avoidance
University of Nevada	
Classified Employees	$ 115,560
General Fund Agencies	400,680
Sub-Total General Fund	$ 516,240
Highway Fund	$ 237,600
Nevada Industrial Commission	41,040
Federal and Other	402,192
Total Estimated Cost Avoidance	$1,197,072*

* Does not include University of Nevada professionals, but does include unclassified positions.

5. Costs for future salary increases will be less since they are normally provided as a percentage of gross salaries, which is less under the employer-paid program.

6. Substantial contribution rate increases may be avoided in the future.

7. Public employers may have the opportunity of providing additional employee benefits or salary increases than might otherwise be possible.

Disadvantages

1. This program could require the public employer to provide larger salary increases than originally intended. According to current statutes governing the program, however, implementation must be done either through a salary reduction or in lieu of a cost-of-living or salary increase. If certain employer's budgets would not allow for a salary or cost-of-living increase, the employer could implement the program through a salary reduction.

2. The public employer will be required to absorb the total increase in retirement contributions resulting from future salary increases. This is, however, partially offset by the fact that future salary increases will be applied to a reduced salary base and also by the saving incurred upon implementation of the program.

3. Employees may not recognize the employer-paid contributions as a legitimate raise. Once the program is implemented, employees may tend to forget this benefit and not consider it as part of their compensation package.

4. Since the employer-paid program is optional at this time, comparability between compensation schedules of those who have exercised the option with those who have not becomes difficult. Making the program mandatory would eliminate this problem. An alternative would be to require employers to maintain two compensation schedules for comparison purposes.

5. Mandating the employer-paid program would preempt collective negotiation with employee groups on this issue. Keeping the program optional would allow it to continue as a bargaining issue and allow local elected officials to maintain a voice on this item of compensation for their employees.

6. Transferability of employees from one governmental unit to another might be adversely affected. Employees who are under the employer-paid program may not want to accept a transfer to another public employer who is not under the program and vice versa. This could reduce the market for qualified employees available to the employer.

VII. EMPLOYER-PAID PROGRAM--PUBLIC EMPLOYEE

Advantages

1. If the employer-paid program is implemented through the salary reduction method, salaries are reduced by 7.5 percent and the requirement for employees to pay 8 percent in retirement is eliminated. Combined with a reduced income tax burden, this provides for an approximate 2.2 percent increase in take-home pay for the employee. Considering retirement and withholding costs only, this is shown in the following example:

   Take-home pay for an employee under the joint contribution program with an annual salary of $12,000:

Salary	$12,000
Retirement @ 8%	- 960
Withholding @ 12.3% (married with 2 exemptions)	-1,480
Net Take-Home Pay	$ 9,560

   Take-home pay under employer-paid program implemented through a salary reduction:

Salary	$12,000
Less: 7.5% Salary Reduction	- 900
New Salary Total	$11,100
Retirement	- -
Withholding @ 12% (married with 2 exemptions)	-1,327
Net Take-Home Pay	$ 9,773

   Increase Equals $213 or 2.2%

2. The employer-paid program provides an approximate 3.0 percent greater increase in take-home pay if implemented in lieu of a salary or cost-of-living raise. Instead of receiving a 7.5 percent increase in salary, the employee receives the same salary but does not pay the 8 percent retirement. The employee, therefore, receives the same salary, pays nothing for retirement and pays the same amount in income taxes. Considering retirement and withholding costs only, this is shown in the following example:

Take-home pay for an employee under the joint contribution program with an annual salary of $12,000:

Salary	$12,000
Retirement @ 8%	- 960
Withholding @ 12.3% (married with 2 exemptions)	-1,480
Net Take-Home Pay	$ 9,560

Take-home pay with a 7.5 percent salary or cost-of-living increase:

Salary	$12,000
7.5% Salary Increase	900
New Total Salary	$12,900
Less: Retirement @ 8%	-1,032
Withholding @ 12.7% (married with 2 exemptions)	-1,633
Net Take-Home Pay	$10,235

Increase Equals $675 or 7.1%

Take-home pay under employer-paid program implemented in lieu of a salary or cost-of-living increase:

Salary	$12,000
Retirement	- -
Withholding @ 12.3% (married with 2 exemptions)	-1,480
Net Take-Home Pay	$10,520

Increase Equals $960 or 10.1%

Additional Increase Provided Equals $285 or 3.0%

3. The employee pays no income tax on retirement contributions until such time as he receives them in retirement benefits. At that time, he should be in a lower tax bracket.

4. Added take-home pay increases for the employee would develop from future salary increases since he would not be required to make retirement contributions on those increases.

5. Could provide employees with a higher pay increase than might otherwise be possible.

Disadvantages

1. Retirement contributions made by the public employer in behalf of the employee are not refundable to the employee. This works to the disadvantage mainly of the nonvested or noncareer employee. Upon implementation of the employer-paid program, his salary will either be reduced and his employer will pay his retirement contribution or, in lieu of a salary or cost-of-living increase, his employer will pay his retirement contributions. If he cannot withdraw these contributions when he terminates, then he will have lost 7.1 percent in take-home pay under the salary reduction method and 6.6 percent under the in lieu method.

   This can best be shown by looking at an example of a nonvested employee earning an annual salary of $12,000 before and after implementation of the employer-paid program and assuming termination at the end of 1 year.

   Take-home pay for an employee under the joint contribution program earning $12,000 annually (assuming termination at the end of 1 year):

Salary	$12,000
Retirement @ 8%	- 960
Withholding @ 12.3% (married with 2 exemptions)	-1,480
Net Take-Home Pay	$ 9,560
PLUS RETIREMENT REFUND ON TERMINATION	960
Total Take-Home Pay	$10,520

Take-home pay under the employer-paid program implemented through salary reduction (assuming termination at the end of 1 year):

Salary	$12,000
Less: 7.5% Salary Reduction	- 900
New Gross Salary	$11,100
Withholding @ 12.0% (married with 2 exemptions)	-1,327
New Take-Home Pay	$ 9,773
NO RETIREMENT REFUND ON TERMINATION	- -
Total Take-Home Pay	$ 9,773

Loss in Take-Home Pay Equals $747 or 7.1%

Take-home pay with a 7.5 percent salary increase (assuming termination at the end of 1 year):

Salary	$12,000
7.5% Salary Raise	900
New Gross Salary	$12,900
Less: Retirement @ 8%	-1,032
Withholding @ 12.7% (married with 2 exemptions)	-1,633
Net Take-Home Pay	$10,235
PLUS RETIREMENT REFUND ON TERMINATION	1,032
Total Take-Home Pay	$11,267

Take-home pay under the employer-paid program implemented in lieu of salary or cost-of-living increase (assuming termination at the end of 1 year):

Salary	$12,000
Withholding @ 12.3% (married with 2 exemptions)	-1,480
Net Take-Home Pay	$10,520
NO RETIREMENT REFUND ON TERMINATION	- -
Total Take-Home Pay	$10,520

Loss in Take-Home Pay Equals $747 or 6.6%

This represents a disadvantage to any employee who, for one reason or another, might at some date want to withdraw his contributions from the system. The advantages apply only to those employees who actually retire from the system.

If, however, this "no refund" provision was removed from the law, there would be no saving accruing to the retirement system. It is because of this saving that the contribution rate under the employer-paid program is 15 percent as opposed to a total rate of 16 percent under the joint contribution system.

2. The tenure of department or agency unclassified administrators normally coincide with gubernatorial terms. They generally will not benefit from the employer-paid program since vesting occurs only after 10 years of service. This, of course, could be remedied by excluding unclassified employees from the program.

3. Retirement contributions made by the public employer on behalf of the public employee are not available for refund to the surviving spouse of a member whose death occurs prior to retirement. Currently, the survivor's benefit to spouse only is $200 per month cancelable upon remarriage. In some cases, the spouse of a career employee would benefit by taking a lump sum refund of contributions and investing the money, rather than accepting the regular monthly benefit which is subject to cancellation.

   Additionally, if a vested member does not meet the eligibility criteria for survivor benefits at the time of his death (member must have at least 2 years out of the last 2 1/2 years and at least 6 of the last 7 months immediately preceding his death of accredited contributing service to be eligible), his surviving spouse is not entitled to survivor benefits nor a refund of the retirement contributions made in his behalf.

   The retirement board's actuary studied the effect of providing survivor's benefits coverage to any <u>vested</u> member regardless of whether or not he is under accredited contributing service at the time of death. (The employer-paid program, where the employer is paying the total retirement contributions, is considered as accredited contributing service.) He has concluded that the cost of this additional coverage would be minimal.

4. The average compensation, which is the base for calculating retirement benefits, is reduced. (Average compensation is defined as the average of a member's

36 highest salaried consecutive months within the last 10 years of service.) The employee receives a 7.5 percent decrease in average compensation but, upon retirement for the purpose of calculating retirement benefits, the average compensation is increased only 7 percent and only for the first 36 months the employee is under the employer-paid program. This represents a 1/2 of 1 percent loss in average compensation provided the member retires within the first 36 months under the employer-paid program and a 7.5 percent loss for each month thereafter because the average compensation is not increased after the 36th month.

The retirement board will be recommending legislation in the 1977 session to provide that a member's average compensation for retirement and purchase-of-service purposes shall be increased 50 percent of the contribution rate for each month that the member is under the employer-paid program. This will solve the loss of compensation problem for those employees who entered the employer-paid program under the in lieu of salary or cost-of-living method, but will not completely solve the problem for those who entered through the salary reduction method. This can be shown as follows:

Average Monthly Salary	$1,000
Less: 7.5% Salary Reduction	- 75
New Monthly Salary	$ 925

Upon retirement, the new monthly salary of $925 would be increased 50 percent of the contribution rate or 7.5 percent:

New Average Monthly Salary	$ 925.00
Plus 7.5%	69.37
Compensation for Retirement Calculations	$ 994.37

Loss Equals $1,000-$994.37 or $5.63 Per Month

(Actual Loss for Employee Retiring with 20 Years' Service = $2.82 Per Month)

5. Future employee salary increases will be less since most salary or cost-of-living increases are negotiated as a percentage of present salaries. Under the employer-paid

program, salaries are either reduced or not increased. The salary base for future increases, therefore, is less than would otherwise be the case.

It should, however, be pointed out that employers can maintain two salary schedules--one showing current salaries and the other showing what those salaries would be if the employer-paid program had not been implemented. The Washoe County school district currently maintains two salary schedules--one for negotiation purposes and one for compensation purposes--for its teachers who are under the program.

6. Some employees and employee groups contend that, if they are not actually making retirement contributions to the system, they will lose any influence they may have in that system. Two members of the board, however, are appointed by the governor from candidates recommended by member groups and three members are appointed by the governor from members who have had at least 10 years of service, either as employees of the state or its political subdivisions. Additionally, any changes in contribution rates or benefits must be approved by the legislature. Perhaps the interest of public employees might diminish somewhat, but their actual influence in the retirement system should not be affected by the employer-paid program. Employees would continue to pay the administrative fee, currently 80 cents per month per member and, therefore, would continue to maintain some financial interest in the system.

7. Making the employer-paid program mandatory might infringe on collective bargaining for employee groups. The only thing negotiable would be the method used to implement the program--a salary reduction or in lieu of a salary or cost-of-living raise. By keeping the program optional, it does remain as a negotiable item in collective bargaining.

VIII. FINDINGS AND RECOMMENDATIONS

Findings

The public testimony provided by public employers and employees who have implemented the employer-paid program was overwhelmingly in favor of continuing it. Employers and employees expressed a recognition of the need to have a strong, financially sound retirement system for public employees at a reasonable cost. They expressed concern over the increasing contribution rates needed to fund the system and felt that the employer-paid program took a positive step toward accomplishing this goal.

Those employer and employee groups testifying at the public hearings who had not implemented the program expressed concern over making it mandatory. They favored continuing the optional provision for the program and letting it "sell itself" to those wishing to implement it at some future date.

The major concerns expressed by employers with regard to mandating the program were centered around the removal of locally elected officials from collectively bargaining with employee groups on such an important fringe benefit. It would remove from local officials a voice on compensation for employees in their jurisdiction.

The Nevada League of Cities conducted a survey of the 17 incorporated cities in the state regarding the merits of a permissive versus a mandatory program. Even though Boulder City, Henderson, Las Vegas and North Las Vegas have elected, or are negotiating, to implement the program for all or certain segments of their employees, all the incorporated cities were opposed to a mandated employer-paid program. The three basic reasons given for this were:[4]

1. Loss of employer's prerogative and responsibility to negotiate with employees concerning an important employee benefit.

2. Loss of income upon termination of public employees with less than 10 years of public service.

3. Loss of employee involvement in the public employees' retirement system.

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4 Nevada League of Cities' Survey, (1976).

Public employers also expressed concern over the costs associated with the implementation of the program. The subcommittee, however, is not certain that these employers gave sufficient study as to how the employer-paid program might affect their costs. For example, if an employer was planning to provide his employees with salary raises of at least 7.5 percent, he could avoid at least 1.0 percent in added costs if he were to implement the employer-paid program in lieu of the raise.

Employees, in this case, would have experienced an approximate 10.1 percent increase in take-home pay. Or, if the employer could not give his employees a raise, he could reduce his employees' salaries by 7.5 percent and save approximately 1.5 percent in costs. His employees, in this case, would experience an approximate 2.2 percent increase in take-home pay. (See numbers 1 and 2 under Public Employer--Advantages, pages 19 and 22.)

All school districts who testified generally favored the employer-paid program, but also thought it should remain optional and not be mandated by the legislature. School districts were concerned about their short-term and part-time employees such as schoolbus drivers. These employees, because they normally would not work long enough to retire, could not receive a refund of contributions when they terminate. The two largest school districts in the state--Clark County for all employees and Washoe County for teachers--have implemented the program.

Among the employee groups who testified before the subcommittee were the State of Nevada Employees' Association, the Nevada State Education Association, the Las Vegas City Employees' Association, the Las Vegas Police Protective Association and the Washoe County Teachers' Association.

The State of Nevada Employees' Association (SNEA), through its executive secretary, expressed considerable opposition to mandating the program. It did not, however, express any opposition toward continuing the program on an optional basis. SNEA's principal concern was centered around the "no refund" provision of the program, and the adverse effect it has on the noncareer employee who does not vest in the system and who does not retire.

The Nevada State Education Association (NSEA) strongly endorsed the employer-paid program because of the increase in take-home pay for its teachers and the saving to the school districts. It had no position on whether or not the program should be mandated for all public employers, but definitely favored continuing the optional program.

There are several areas in the current provisions of the employer-paid program which the majority of employer and employee groups felt needed legislative attention. Section 3 of NRS 286.421 provides that the average compensation from which the amount of retirement benefits is determined shall be increased by 7 percent with respect to each of the first 36 months in which an employee's contributions are made by his public employer. Most employers and employees contend that this section should be amended to provide that the average compensation shall be increased to the amount that it would have been had the employee not entered the program. Additionally, this adjustment should be made for the entire period that the employee is under the employer-paid program. (See number 4 under Public Employee--Disadvantages, page 31.)

The other area most employers and employees felt needed legislative attention deals with survivor benefits. In order to qualify for survivor benefits, an employee must have had 2 years of accredited contributing service in the 2 1/2 years immediately preceding his death and not less than 6 months of accredited contributing service in the 7 months immediately preceding his death.

Under the employer-paid program, if a vested employee dies at a time when he is not actually employed and, therefore, is not under accredited contributing service, there are no survivor benefits nor refunds available to his spouse. Also, even if the employee was under accredited contributing service at the time of his death, his spouse is only entitled to survivor benefits and cannot choose, as an alternative, the return of contributions made by the employer in behalf of the employee. Under the joint contribution program, a surviving spouse can choose between survivor benefits or a refund of contributions. (See number 3, under Public Employee--Disadvantages, page 31.)

The executive officer of the public employees' retirement system, or his authorized representative, attended all the subcommittee meetings and provided valuable technical assistance and information to the subcommittee and its staff. The board, recognizing that the employer-paid program presents certain advantages and disadvantages to public employers and employees, as well as to the retirement system, and also recognizing the deficiencies in the present employer-paid program, recommended the following:

1. That legislation be introduced at the 1977 session to provide that a member's average compensation for retirement and purchase-of-service purposes shall be increased 50 percent of the contribution rate for each month that the member is under the employer-paid program.

2. That legislation be introduced at the 1977 session to provide for survivor benefits to any vested member regardless of whether or not he is under accredited contributing service at the time of death and providing for either a lump sum refund of 50 percent of the contributions made by the public employer under the employer-paid program or the monthly survivor benefits.

3. That the subcommittee be informed of the board's opposition to any employer-paid program which involves a refund of employer-paid contributions to a member upon termination.

The first recommendation would eliminate the present problem in the employer-paid program where, in lieu of a 7.5 percent salary or cost-of-living raise, the employer pays the total retirement contributions, but average compensation for retirement purposes is increased only 7 percent and then only for the first 36 months the employee is in the program. This recommendation, however, will not totally eliminate the problem if the program is implemented through the salary reduction method. (See number 4, under Public Employee--Disadvantages, pages 31 and 32.)

The second recommendation will eliminate one of the major objections to the employer-paid program and will do so at a minimal cost to the system.

The third item establishes the retirement board's opposition to an employer-paid program which would provide a refund of contributions made by an employer in behalf of an employee to a terminating member. The refund would eliminate any saving to the retirement system as well as to the employer and the employee.

Summary of Subcommittee Findings

The subcommittee's findings can be summarized as follows:

1. The employer-paid program does provide an increase in take-home pay for the employee, does reduce or avoid costs for employers and does take a positive step toward adequately funding the public employees' retirement system at a lower contribution rate than may otherwise be required.

2. The program, however, is advantageous to the public employee only if he works to retirement or vests in the system and eventually receives retirement benefits. Employees who do not retire or vest in the system do not benefit from the employer-paid program.

3. The public employees' retirement system was established, and should be maintained, for the purpose of providing benefits to public employees at a time when they have earned them, that is, upon retirement.

4. The optional employer-paid program can be adequately operated by the retirement board and the public employers without placing an undue administrative burden on the system or the public employers.

5. Mandating the program would remove from locally elected public officials their authority and responsibility to bargain collectively with employee groups on this important fringe benefit.

6. Keeping the program optional should not adversely affect salary comparisons of public employees. Employers can maintain two salary schedules--one showing current salaries and one showing what those salaries would be if the employer-paid program had not been implemented.

RECOMMENDATIONS

1. The subcommittee recommends the continuation of the optional employer-paid program and allowing it to "sell itself" to the public employers and the public employees on its own merits. As of this report date, the optional employer-paid program has been in effect for just a little over 1 year. The information developed from this relatively short time frame of operation does not at this point justify mandating the program. Contrarily, the subcommittee has found no evidence which would justify the discontinuance of the optional program.

2. The subcommittee found that there is a savings or cost avoidance for the public employer under the employer-paid program. It is, therefore, recommended that public employers consider implementation of the employer-paid program as a means of holding down or avoiding costs in the future.

3. The subcommittee recommends that the 1977 legislature strongly consider legislation to be sponsored by the public employees' retirement board dealing with the employer-paid program with regard to:

   (a) Changing the method for calculating retirement benefits for members under the employer-paid program to provide that a member's average compensation shall be increased by 50 percent of the contribution rate for each month that the member is under the employer-paid program.

   (b) Providing survivor benefits to vested members regardless of whether or not they were under accredited contributing service at the time of death and providing for either a lump sum refund of 50 percent of the contributions made by the public employer under the employer-paid program or the monthly survivor benefits.

   The subcommittee has not included proposed legislation in this report since the public employees' retirement board will be submitting a complete legislative package to the 1977 legislature. This will include all legislation dealing with the public employees' retirement act.

4. Although not specifically within the scope of this study, the subcommittee recommends that the 1977 legislature consider further study of the public employees' retirement system with the following objectives:

   (a) Determine the liability of the unfunded liability of the system. (Is the state alone liable, since the system was created by the state legislature, or are all public employers liable?) This determination is important because, in the future, the bonding capacity and bond ratings of public employers may be affected by this outstanding liability.

   (b) Determine the most appropriate method and time frame to eliminate, or at least contain, the unfunded liability of the system.

   (c) Determine the possible impact of pending federal legislation to place public retirement systems under federal supervision and control. In this regard, the subcommittee expresses strong opposition to any federal supervision, regulation, or control of Nevada's public employees' retirement system.

   (d) Continue to measure the impact the employer-paid program has on the retirement system and the question of a mandated versus optional program.