



POLICY AND PROGRAM REPORT

Public Employees' Benefits Program



April 2016

The State of Nevada, like most states, offers certain benefits for its employees. Along with retirement benefits, the State of Nevada also offers its employees various health benefits. The first group insurance program was created in 1963 and restructured into the Public Employees' Benefits Program (PEBP) in 1999 by Senate Bill 544 (Chapter 573, *Statutes of Nevada*). Over time, the State's health insurance program has evolved into a self-funded program that is also open to local governments wishing to join. The Legislature oversees PEBP, but it has an independent board with an executive officer who handles the day-to-day operations.

PUBLIC EMPLOYEES' BENEFITS PROGRAM

The PEBP is a State agency that administers the health plan for State and other public employees. It is legislatively mandated to provide group life, accident, or health insurance, or any combination of these (*Nevada Revised Statutes* [NRS] 287.043).

The PEBP currently administers various benefits, including: health insurance benefits such as dental, pharmacy, and vision insurance; accidental death and dismemberment insurance; basic life insurance; long-term disability insurance; group travel accident insurance; and flexible spending accounts. Voluntary insurance products are also available, including short-term disability, long-term care, home and auto, and additional life insurance.

The program serves over 40,000 participants, plus approximately 29,000 family members and survivors. Participating government entities include:

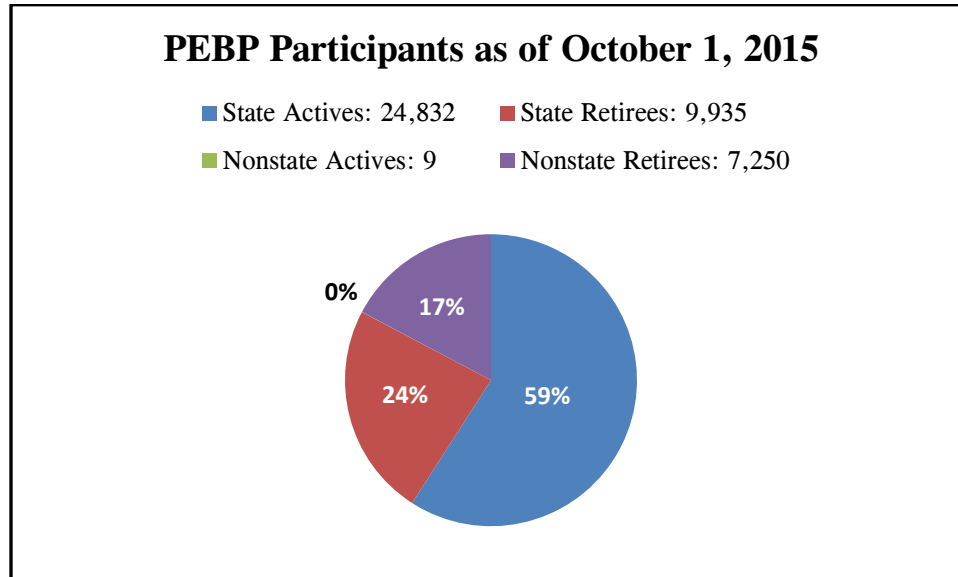
- State employees and officers;
- State retirees;
- State legislators;

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Government

- Certain Nevada System of Higher Education (NSHE) professional employees;
- Nonstate participating public agency employees and retirees; and
- Certain nonstate, nonparticipating public agency retirees.



A nonstate active participant is a person who is currently employed by a local government that opted to join PEBP pursuant to NRS 287.045. A nonstate retiree is a retired public employee from a participating local government or a retired employee from a local government who opted into PEBP individually but whose former employer does not participate in PEBP.

Prior to 1969, only school districts with 25 or fewer employees were eligible to join the State health insurance plan. In the 1969 Legislative Session, the Legislature enacted a bill allowing all counties, municipal corporations, political subdivisions, and school districts to negotiate with the State's group insurance for inclusion. Senate Bill 278 (Chapter 304, *Statutes of Nevada*) in the 1993 Session allowed participation by those retirees who were employed by local governments that did not take part in the State's group insurance program. Prior to 1993, separate treatment of retirees and rating pools were not addressed in the statutes; however, in 1993, the Legislature prohibited "commingling" of the claims experience of nonstate retirees with other groups when setting insurance rates.

The commingling issue has been addressed repeatedly in past legislative sessions. Assembly Bill 564 (Chapter 546, *Statutes of Nevada 2001*) required the commingling of State active employees and State retirees for purposes of rate-setting. Due to large rate increases for nonstate retirees, A.B. 286 (Chapter 493, *Statutes of Nevada 2003*) dictated that nonstate active employees and nonstate retirees be commingled when setting rates thereby creating a larger pool and improving chances for a better claims experience. However, the number of nonstate participating agencies has decreased steadily, leaving a nonstate pool consisting mostly of retirees. Nonstate active participants have left PEBP purportedly because they found less expensive insurance elsewhere; the resulting rates for nonstate participants are significantly higher than the rates for State participants as noted in the chart on page 4.

The PEBP Board brought forward S.B. 34 for consideration by the 2013 Legislature to require the commingling of the claims experience of State active and retired employees with nonstate active and retired public employees, for the purpose of determining group health insurance rates and coverage, except for nonstate retirees whose last public employer does not participate in PEBP. However, the bill failed to pass.

James R. Wells, C.P.A., Executive Officer, PEBP, advised the PEBP Board on April 18, 2013, of a deteriorating employee-to-retiree ratio for both nonstate participants and State participants. He noted that, from 2003 to 2013, the number of State employees per State retiree decreased from 4.2 to 2.7 and was projected to decrease to 2.4 by the end of 2015.

The rule allowing retirees of nonparticipating local governments to join PEBP changed significantly in 2007 under S.B. 544 (Chapter 496, *Statutes of Nevada*). If a local government's active employees do not participate in PEBP, then its retirees may not join PEBP upon retirement unless they enrolled in PEBP on or before November 30, 2008.

As of October 1, 2015, there were nine nonstate active employees. During the 2015 Session, the Nevada Association of Counties proposed A.B. 426 to address this issue. Under the provisions of the bill, counties would be allowed to offer a subsidy to nonstate retirees to purchase health benefits outside of the PEBP system; however, the bill failed to receive a vote in the Assembly Committee on Government Affairs.

FUNDING

State Appropriations and Subsidies

The operations of PEBP are funded through legislative appropriation as part of the budget. Insurance plans within PEBP are funded through contributions of program participants and their employers. State employees are subsidized by their State agency employer for their health insurance coverage, and State agencies must build the cost of providing the active employee subsidy into their budgets. State retirees are subsidized by the State based on the number of years employed in State service in an amount determined by the Legislature each session. In the 2011 Session, A.B. 553 (Chapter 503, *Statutes of Nevada*) ended retiree subsidies by the State for State employees initially hired on or after January 1, 2012.

Nonstate Subsidies

Nonstate participants may also receive a subsidy from their participating local government while they are actively employed. As required by A.B. 286 of the 2003 Session, nonstate retirees with at least five years of service with a local government and who joined PEBP upon retirement from the local government employer must receive a subsidy from their local government employer that is proportionate to the subsidy paid by the State for State retirees. In the 2009 Session, eligibility for these subsidies was modified for PEBP participants hired on or after January 1, 2010, as set forth in S.B. 427 (Chapter 426, *Statutes of Nevada*).

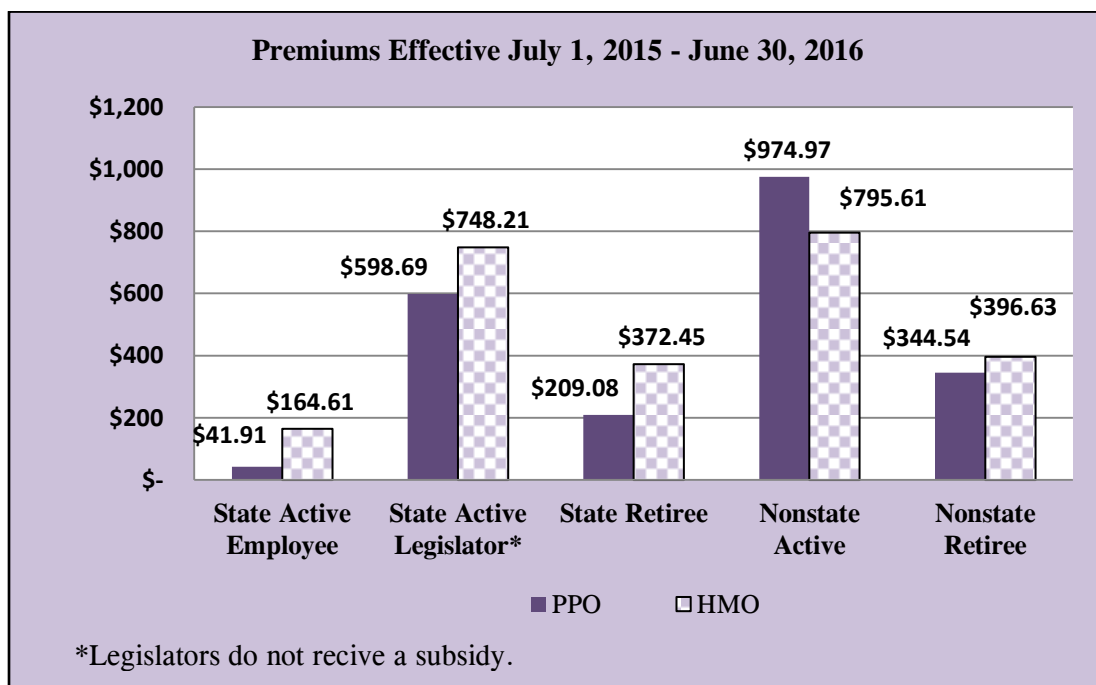
Investment Fund

In the 2007 Session, the Legislature required the Public Employees' Retirement Board, acting as the Retirement Benefits Investment Board, to establish a fund for the purpose of investing money from State and local government trust funds created to fund liabilities associated with post-employment benefits other than retirement. The Retirement Benefits Investment Board established and administered the Retirement Benefits Investment Fund.

PLAN OPTIONS AND RULES

Insurance plan options available for PEBP participants include a self-funded preferred provider organization (PPO) and a statewide Health Maintenance Organization (HMO). Levels of participation in the PPO and HMO are approximately evenly split.

The plan rates depend upon whether the PPO or HMO is chosen, whether the participant is an active employee or retiree, the date of retirement, and how many people in the family are covered. Rate charts are available on the PEBP website at: <http://www.pebp.state.nv.us>. A bar chart illustrating the premium rates effective July 1, 2015, through June 30, 2016, is provided below.



LEGISLATIVE CHANGES IN RECENT SESSIONS

To address budget concerns, the 2009 Legislature made a number of changes to health benefits for public employees. The provisions of S.B. 427 changed subsidy requirements for PEBP participants who are hired on or after January 1, 2010. The State will pay only subsidies for such employees who continuously participate in PEBP after retirement and who have at least 15 years of service or at least 5 years of service and receive disability payments from the Public Employees' Retirement

System (PERS) or the NSHE retirement program for professional employees. Local governments must pay the same subsidy as the State if the local government retiree has participated continuously in PEBP since retirement and has at least 15 years of service or at least 5 years of service and receives disability payments from PERS or the NSHE retirement program for professional employees.

The 2011 Legislature made more changes to public employee health benefits, although most of the changes were made by the Board of the Public Employees' Benefits Program to address an \$85 million budget shortfall. Looking to the future, A.B. 553 eliminated retiree subsidies for State employees who are hired on or after January 1, 2012, but allowed them (as retirees) to participate in PEBP until they reach Medicare age. Among the changes made by the PEBP Board was the decision to move Medicare-eligible retirees to an individual market Medicare exchange, making Nevada the first state to offer a Medicare exchange to its retirees. The Legislature supported this decision by providing subsidies to Medicare-eligible retirees to offset the cost of purchasing supplemental coverage (A.B. 562 [Chapter 502, *Statutes of Nevada 2011*]).

The biennial reinstatement period was eliminated by A.B. 76 (Chapter 120, *Statutes of Nevada 2011*), but eligible persons may now re-enroll annually before the start of a plan year. The bill also clarified that some retirees may only reinstate coverage once, and some retirees may not reinstate coverage if they are covered by certain other plans or trusts. Assembly Bill 80 (Chapter 453, *Statutes of Nevada 2011*) updated Nevada law to comply with the federal Patient Protection and Affordable Care Act by removing the cap on the age of a dependent child and addressing the exclusion of preexisting conditions. Finally, A.B. 365 (Chapter 202, *Statutes of Nevada 2011*) provided that the option for groups of 300 or more State employees to leave the Program requires the departing group to include both its active and retired members.

The 2013 Legislature made some changes relevant to retirees participating in the PEBP. Assembly Bill 419 (Chapter 412, *Statutes of Nevada*) increased the number of members on the PEBP Board from nine to ten with an additional member who is retired from public employment and appointed by the Governor.

To comply with provisions of the Affordable Care Act, the 2015 Legislature approved S.B. 472 (Chapter 281, *Statutes of Nevada*), which revised the date on which certain public employees, State officers, and members of the Legislature become eligible to participate in PEBP to: (1) the date of hire or first day of the term of office of the public employee, State officer, or member of the Legislature if that date is the first day of the month; or (2) the first day of the month immediately following the date of hire or first day of the term of office of the public employee, State officer, or member of the Legislature.

To remove a disincentive for employees to return to state service after previously leaving, S.B. 513 (Chapter 483, *Statutes of Nevada 2015*) provided, with certain exceptions, that a State employee who returns to work at the same or another State agency after a break in service of more than one year does not lose the subsidy that would otherwise be paid toward his or her health benefits upon retirement.

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