Research Division, Nevada Legislative Counsel Bureau

POLICY AND PROGRAM REPORT

Public Employees' Retirement System

April 2016

The State of Nevada, like most states, offers certain benefits for its employees. The Public Employees' Retirement System (PERS) provides retirement and disability benefits to State workers as well as other public employees. Participation in PERS is mandatory for public employees and provides retirement portability for persons in government service—an important incentive in attracting and retaining public employees. The Legislature oversees PERS, although PERS has an independent board with an Executive Officer and staff who handle day-to-day operations.

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CREATION OF PERS

The PERS is a statewide entity that administers the retirement plans for State and other public employees. Originally established in 1947, PERS was substantially restructured in 1971 in response to a legislatively commissioned study. Based on recommendations from the 1971 study, PERS moved to full actuarial funding, and the *Nevada Constitution* was amended to create a trust fund and independent board.

Article 9, Section 2 of the *Nevada Constitution* reads, in relevant part:

> 2. Any money paid . . . for the purpose of funding and administering a public employees' retirement system, must be segregated in proper accounts in the state treasury, and such money must never be used for any other purposes, and they are hereby declared to be trust funds for the uses and purposes herein specified.

3. Any money paid for the purpose of funding and administering a public employees' retirement system must not be loaned to the state or invested to purchase any obligations of the state.

To provide legislative oversight, the Interim Retirement Committee was created in 1977. Later renamed the Interim Retirement and Benefits Committee, the Committee also monitors the Public Employees' Benefits Program.

OPERATION OF PERS

Today PERS is run by a seven-member board in conformance with the *Nevada Constitution* and Chapter 286 ("Public Employees' Retirement") of *Nevada Revised Statutes* (NRS), as well as applicable federal law, including Internal Revenue Service (IRS) regulations. The PERS provides a tax-qualified defined benefit plan for public employees in Nevada and is a consolidated system with two subfunds (Regular and Police and Firefighters' Retirement Fund) that are pooled for investment purposes. According to the *Comprehensive Annual Financial Report* of the PERS for Fiscal Year (FY) ended June 30, 2015, the net position (total assets less total liabilities) of PERS increased from $33.6 billion in FY 2014 to $34.6 billion in FY 2015. The funded ratio increased from 71.5 percent in FY 2014 to 73.2 percent in FY 2015 with full funding targeted using rolling 30-year periods.

DECLARATION OF STATE POLICY FOR PERS (NRS 286.015)

It is the policy of this State to provide, through PERS:

1. A reasonable base income to qualified employees who have been employed by a public employer and whose earning capacity has been removed or has been substantially reduced by age or disability;

2. An orderly method of promoting and maintaining a high level of service to the public through an equitable separation procedure, which is available to employees at retirement or upon becoming disabled; and

3. A system which will make government employment attractive to qualified employees . . . and which will encourage these employees to remain in government service for such periods of time as to give the public employer full benefit of the training and experience gained by these employees while employed by public employers.

Membership

With 195 public employers participating in the system, PERS serves over 103,000 active members (approximately 91,124 regular members and 11,984 police and firefighter members), along with over 58,000 retirees and beneficiaries. Members include State employees, police and firefighters, nonprofessional staff at the Nevada System of Higher Education, county and city employees, and school district and other local district employees.

Separate retirement programs have been created for State legislators (Legislators' Retirement System) and Supreme Court justices, district court judges, and local judges (Judicial Retirement System).

The Board of Regents of the University of Nevada is required by statute (NRS 286.802) to provide a separate retirement and death benefits program for its professional staff.

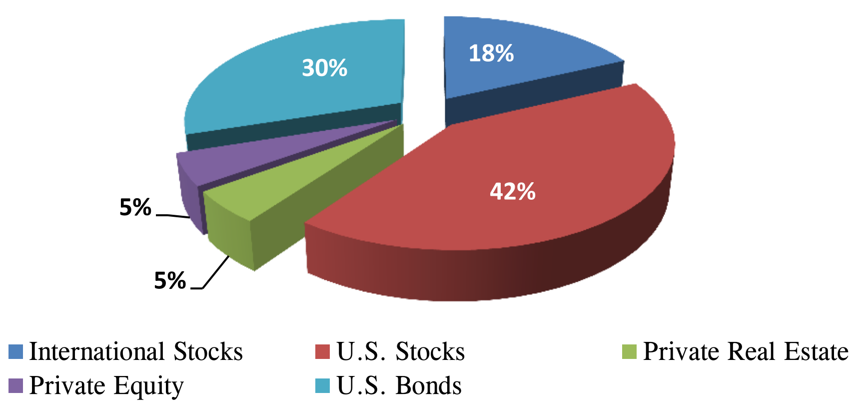
Investment Strategy

The investment objectives of PERS are to:

- Generate an 8 percent average annual return;
- Minimize risk; and
- Structure an investment program which is sufficiently uncomplicated to control the ability to consistently meet return and risk objectives.

According to PERS, the fund has generated an average annual return of 9.6 percent over the past 31 years, since its inception.

PERS Target Asset Allocation as of June 30, 2015



RECENT LEGISLATION

Comprehensive reforms to the PERS were enacted by the 2009 Legislature (Senate Bill 427 [Chapter 426, *Statutes of Nevada*]) and the 2015 Legislature (S.B. 406 [Chapter 471, *Statutes of Nevada*]). The 2009 legislation affected members newly hired on or after January 1, 2010, and the 2015 legislation primarily affected members hired on or after July 1, 2015. Many of these changes are reviewed later in this report; however, two changes are highlighted below.

After some well-publicized corruption scandals in Nevada and other states, S.B. 406 requires the forfeiture of retirement benefits if a member is convicted of a felony involving: (1) accepting or giving, or offering to give, any bribe; (2) embezzlement of public money; (3) extortion or theft of public money; (4) perjury; or (5) conspiracy to commit any of these aforementioned crimes.

Senate Bill 406 also provided an additional benefit option for the spouse of a member—or a survivor beneficiary if the member was unmarried at the time of death—who is killed in the line of duty, in the course of employment, in the course of judicial service, or in the course of legislative service. This additional option authorizes the surviving spouse, or survivor beneficiary, to receive a benefit that is equivalent to either 50 percent of the salary of the member on the date of the member's death, or 100 percent of the retirement allowance that the member was eligible to receive based on the member's years of service obtained before the member's death without any reduction for age for the deceased member, whichever is greater. These benefits must be paid to the spouse, or the survivor beneficiary, for the remainder of that person's life. This benefit is effective for any member killed in the line of duty on or after July 1, 2013.

Four other bills were enacted by the 2015 Session relevant to the PERS and the Judicial Retirement System (JRS) as summarized below.

1. Assembly Bill 180 (Chapter 57, *Statutes of Nevada*) requires the PERS to select an audit firm every four years and prohibits PERS from selecting the same firm in consecutive periods;

2. Senate Bill 12 (Chapter 261, *Statutes of Nevada*) eliminates the Assistant Investment Officer's position and changes it to Chief Financial Officer;

3. Senate Bill 69 (Chapter 502, *Statutes of Nevada*) changes certain requirements for a retired judge or justice to become reemployed with the Nevada Court System and still qualify to receive allowances under the Judicial Retirement Plan for the duration of his or her active service; and

4. Senate Bill 420 (Chapter 381, *Statutes of Nevada*) adds a General Counsel position to the PERS administrative staff.

PLAN FOR REGULAR MEMBERS

PERS Contributions

Depending upon their employer, public employees may have a choice of contribution plans: (1) employee/employer joint contributory plan; or (2) employer-pay plan. Under the employee/employer joint contributory plan, the member pays 50 percent of the retirement contributions through a payroll deduction, and the employer pays the other 50 percent. Under the employer-pay plan, the employee pays for their portion of the contribution through a salary reduction and the employer plays 100 percent of the retirement contributions to PERS. Employees pay one-half of the contributions towards their retirement under either plan. Employees under the employee/employer plan may withdraw their contributions upon termination or voluntary departure from State service and forfeit any retirement benefits, but under the employer-pay plan, the member does not accrue refundable contributions and retains their service credit in the event of termination.

The statutory contribution rates are adjusted on July 1 of each odd-numbered year, based on the actuarially determined rates for the immediately preceding year (NRS 286.410).

Statutory Contribution Rates for Fiscal Years July 1, 2015, Through June 30, 2017		
	Regular Employees	Police/Fire Employees
Employer-Pay	28 percent	40.5 percent
Employee/Employer	29 percent	41.5 percent

According to a one-time independent comparable study performed by Aon Hewitt in 2013, the PERS police/fire contribution rate, then at 20.25 percent, was the highest contribution rate charged to members in a survey of 126 public pension plans, and the contribution rate of regular members of PERS was the third highest at 12.25 percent. It is important to note that one factor in the differing contribution rates is that PERS members are not covered by Social Security.

Retirement Ages, Vesting, and Service Credits

Eligibility for retirement differs depending on the retirement plan. As of June 30, 2015, the average age at retirement for regular members is 66. Fifty-nine percent of the new regular fund retirees retired with less than 20 years of service, and forty-one percent retired with 20 or more years of service.

Members are fully vested after five years of service and are then eligible to purchase up to five additional years of service credit. The cost to purchase a year of service credit, on average, is about one-third of the employee's annual pay; it is the full actuarial cost associated with the employee's age and average compensation at the time of the purchase. For members hired on or after July 1, 2015, purchase of service credit does not count toward eligibility unless there is a qualifying family medical emergency or credit is purchased by the State for the purpose of work force reductions. The purchase of service credit would still count toward the benefit calculation to increase the amount of the monthly benefit, but it will not, except in limited cases, allow them to retire earlier. Eligible members with active military service in Operations Desert Storm, Enduring Freedom, or Iraqi Freedom may purchase up to three additional years of service credit depending upon the number of months served.

Benefit Factors	Date of Hire Prior to January 1, 2010	Date of Hire On or after January 1, 2010	Date of Hire On or after July 1, 2015
Benefit Eligibility	Regular Members 5 years at age 65 10 years at age 60 30 years at any age Police/Firefighters 5 years at age 65 10 years at age 55 20 years at age 50 25 years at any age	Regular Members 5 years at age 65 10 years at age 62 30 years at any age Police/Firefighters 5 years at age 65 10 years at age 60 20 years at age 50 30 years at any age	Regular Members 5 years at age 65 10 years at age 62 30 years at age 55 33.3 years at any age Police/Firefighters 5 years at age 65 10 years at age 60 20 years at age 50

Benefit Factors	Date of Hire Prior to January 1, 2010	Date of Hire On or after January 1, 2010	Date of Hire On or after July 1, 2015
Purchase of Service Credit	May purchase up to 5 years once vested and counts toward eligibility.	May purchase up to 5 years once vested and counts toward eligibility.	Purchase of service credit does not count toward eligibility unless there is a qualifying family medical emergency or credit is purchased by the State for the purpose of work force reductions.

PERS Benefits

Determination of benefits is calculated based on years of service, age at retirement, and compensation. First, a percentage is derived by multiplying the number of years of service times a multiplier. The resulting percentage is then applied to the average monthly compensation (defined as the highest 36 consecutive months of earnings) to determine the monthly retirement benefit.

Benefit Factors	Date of Hire Prior to January 1, 2010	Date of Hire On or after January 1, 2010	Date of Hire On or after July 1, 2015
Service Time Multiplier (75 percent maximum benefit if hired on or after July 1, 1985)	2.5 percent prior to July 1, 2001; 2.67 percent after July 1, 2001	2.5 percent	2.25 percent for regular members; and 2.5 percent for police and firefighters.
Average Compensation	Member's highest 36-month average compensation.	Member's highest 36-month average compensation with proviso that each 12-month salary period may not increase greater than 10 percent unless promotion or assignment related.	Member's highest 36-month average compensation with proviso that each 12-month salary period may not increase greater than 10 percent unless promotion or assignment related.
Salary Cap reportable to PERS	Federal limit.	Federal limit.	$200,000 per year.
Post Retirement Increases	2 percent in the 4th, 5th, and 6th years of retirement; 3 percent in the 7th, 8th, and 9th years; 3.5 percent in the 10th, 11th, and 12th years; 4 percent in the 13th and 14th years; and 5 percent every year thereafter.	2 percent in the 4th, 5th, and 6th years of retirement; 3 percent in the 7th, 8th, and 9th years; 3.5 percent in the 10th, 11th, and 12th years; and 4 percent every year thereafter.	2 percent in the 4th, 5th, and 6th years of retirement; 2.5 percent in the 7th, 8th, and 9th years; and, for every year thereafter, the lesser of 3 percent or the Consumer Price Index cap.

For post-2009 employees, the calculation of average monthly compensation is subject to a cap on salary increases of no more than 10 percent per year in the 24 months leading up to, and during, the

36 months of highest compensation. This is an "anti-spiking" provision, so while the average monthly compensation is still determined based on a 36-month time period, the 24 months preceding the 36-month time period may now impact the calculation of average compensation by limiting any spike in compensation to no more than 10 percent. Assignment-related and promotion compensation are not subject to the cap. Persons whose retirement benefits are affected by this cap are entitled to a refund of contributions related directly to the affected pay. Post-2009 employees are also restricted as to what type of "call-back pay" is considered as compensation for purposes of determining their benefits.

If a member desires to retire early, the monthly benefit is reduced by 4 percent for each full year prior to regular retirement age. For post-2009 members, the monthly benefit is reduced by 6 percent for each full year. The retirement plan also offers survivor and disability benefits to qualified persons. Retirees may choose one of seven benefit options, and the option selected may change the monthly benefit amount.

There are also different restrictions on post-retirement increases for members hired on or after January 1, 2010, and July 1, 2015.

Sample Calculation of Determination of Benefits

20 years multiplied by 2.5 percent = **50 percent**

50 percent multiplied by **$2,000** (monthly salary)

= $1,000 monthly benefit

$1,000 is the monthly benefit
for a person retired after 20 years of service at 2.5 percent

NOTE: The PERS website (http://www.nvpers.org) offers calculators that can be used to determine monthly benefits based upon a number of variables, including age, years of service, and average compensation. The information on calculations for retirement benefits provided above is for general information purposes only.

PLAN FOR POLICE AND FIREFIGHTERS

The 1975 Legislature created the Police and Firefighters' Retirement Fund with the enactment of S.B. 336 (Chapter 575, *Statutes of Nevada*), later clarifying in 1977 this was to be a retirement fund separate from the public employees' retirement fund. In some instances, police and firefighters may retire at a younger age than regular members. As of June 30, 2015, the average age at retirement for police and firefighter members is 60 years. Twenty-six percent of the new police/fire retirees retired with less than 20 years of service, and seventy-four percent retired with 20 or more years of service.

LEGISLATORS' RETIREMENT SYSTEM

The Legislators' Retirement System (LRS) was created in 1967 and, although overseen by PERS, is a separate retirement system. As of June 30, 2015, the LRS is 83.5 percent funded with full funding targeted for 2027. Legislators contribute 15 percent of their pay each session, and the employer contribution is determined actuarially. Legislators must serve at least ten years to vest in the system. The LRS has survivor (but not disability) benefits. Legislators who leave before vesting have the option of withdrawing their contributions.

The LRS defined benefit is calculated by multiplying $25 by the years of service to determine the monthly benefit Chapter 218C ("Legislators' Retirement") of NRS. For example, a legislator with ten years of service would receive a monthly retirement benefit of $250.

JUDICIAL RETIREMENT SYSTEM

Members of the JRS include Supreme Court justices and district court judges, as well as local judges. In 2001, the Legislature enacted A.B. 4 (Chapter 4, *Statutes of Nevada, 17th Special Session*) to replace a prior judicial retirement plan with the JRS, and some justices and judges are still members of PERS or have vested under the prior judicial retirement program. To establish parity between the JRS and the PERS, S.B. 406 of the 2015 Session requires members who have an effective date of membership on or after July 1, 2015, to pay 50 percent of the required contributions to the JRS. Prior to this legislation, members were not required to contribute to the JRS. The JRS plan and benefits are essentially the same as PERS; however, benefit calculations are made using a higher multiplier, which was decreased from 3.4091 percent to 3.1591 percent for every year of service for new members on or after July 1, 2015.

The JRS for the state-level justices is 77.2 percent funded with full funding for state-level justices targeted for 2038. The JRS for local judges is fully funded.

REEMPLOYMENT OF RETIREES

In 2001, legislation was enacted that permits the rehiring of retired employees in positions designated as "critical labor shortages," without loss of retirement benefits (NRS 286.523). These statutes were originally set to sunset in June 2005 but were extended twice. Senate Bill 406 of the 2015 Session repealed the June 30, 2015, sunset of these provisions.

RETIREMENT BENEFITS INVESTMENT BOARD

The 2007 Legislature required the Public Employees' Retirement Board, acting as the Retirement Benefits Investment Board (NRS 355.220), to establish a fund for the purpose of investing money from State and local government trust funds created to fund liabilities associated with Other Post-Employment Benefits (OPEB) such as retiree health insurance but not retirement. The Retirement Benefits Investment Board created the Retirement Benefits Investment Fund subject to the powers, duties, and limitations set forth in Chapter 287 ("Programs for Public Employees") of NRS. As of June 30, 2015, this fund has eight participating public employers and assets of approximately $290 million.

ADDITIONAL RESOURCES AND PERS CONTACT INFORMATION

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Public Employees' Retirement System website: http://www.nvpers.org

Reports on the subject of retirement benefits for public employees or websites with additional information include:

- Aon Hewitt, *Report to the Retirement Board of the Public Employees' Retirement System of Nevada*, 2013: http://www.nvpers.org/public/publications/2013_independent_comparable_study.pdf.

- National Association of State Retirement Administrators offers numerous issue briefs on the following website: http://www.nasra.org/content.asp?contentid=132.

- Nevada Policy Research Institute, *Reforming Nevada's Public Employees Pension Plan*, November 2011: http://npri.org/docLib/20111102_Biggs_PERS_Study.pdf.

- The Pew Center on the States: http://www.pewtrusts.org/en/projects/public-sector-retirement-systems.

- Wisconsin Legislative Council, *2012 Comparative Study of Major Public Employee Retirement Systems*, December 2013, at: http://docs.legis.wisconsin.gov/misc/lc/comparative_retirement_study.

Government

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