MINUTES OF THE
NEVADA LEGISLATURE'S
INTERIM RETIREMENT AND BENEFITS COMMITTEE
(Nevada Revised Statutes 218.5373)
January 8, 2007

A meeting of the Nevada Legislature's Interim Retirement and Benefits Committee (IRBC) was called to order by Chairman Morse Arberry Jr., on January 8, 2007, at 1:08 p.m. in Room 2134 of the Legislative Building in Carson City, Nevada.

COMMITTEE MEMBERS PRESENT:
Assemblyman Morse Arberry Jr., Chairman
Senator Bob Beers
Senator Bob Coffin
Assemblywoman Ellen Koivisto

COMMITTEE MEMBERS ABSENT:
Senator William J. Raggio (Excused)
Assemblyman Bob Seale (Excused)

OTHER LEGISLATORS PRESENT:
Assemblyman John Marvel

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:
Mark Stevens, Assembly Fiscal Analyst, Fiscal Analysis Division
Gary Ghiggeri, Senate Fiscal Analyst, Fiscal Analysis Division
Bob Atkinson, Senior Program Analyst, Fiscal Analysis Division
Melinda Martini, Program Analyst, Fiscal Analysis Division
Brenda Erdoes, Legislative Counsel, Legal Division
Joel Benton, Senior Deputy Legislative Counsel, Legal Division
Cheryl Harvey, Secretary, Fiscal Analysis Division

EXHIBITS:
Exhibit A: Agenda and Meeting Packet
Exhibit B: Attendance Record
Exhibit C: Presentation to the Interim Retirement and Benefits Committee provided by PEBP staff
Exhibit D: Report of Findings and Recommendations prepared by AON at the request of PEBP: Biennial Compliance Review of the Public Employees' Benefits Program for the review period of September 2006

I. ROLL CALL

Chairman Arberry called the meeting to order. He requested the secretary take roll; it was determined that a quorum was present.

II. <u>APPROVAL OF THE MINUTES FROM THE JUNE 12, 2006, MEETING</u>.

Chairman Arberry requested a motion for approval of the minutes from the June 12, 2006, meeting.

> ASSEMBLYWOMAN KOIVISTO MOVED FOR APPROVAL OF THE MINUTES FROM THE JUNE 12, 2006, MEETING OF THE NEVADA LEGISLATURE'S COMMITTEE ON INTERIM RETIREMENT AND BENEFITS.
>
> SENATOR COFFIN SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

III. <u>PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)</u>.

A. <u>Report on actuarial valuation for the Public Employees' Retirement System as of June 30, 2006</u>.

Ms. Dana Bilyeu, Executive Officer, Public Employees' Retirement System, introduced herself and referred to tab III-A of the meeting packet, <u>Exhibit A</u>. She began addressing the 2006 actuarial valuation of the retirement system for both regular and police/fire members of the system. Actuarial valuations determine liabilities of the plan and contribution rates needed to fund the system on an actuarial reserve basis. Several areas are analyzed during the course of an actuarial valuation, including: plan design; member demographics; economic assumptions such as salary growth; and investment return.

Ms. Bilyeu explained that by statute, contribution rates change on July 1 of each odd-numbered year as determined by the previous even-numbered year's valuation. Therefore, the valuation being presented today for the 2006 plan year will affect contribution rates beginning July 1, 2007.

Ms. Bilyeu referred to page 26 of the meeting packet to a chart showing the results of the 2006 valuation and the impact on Employer Pay Contribution (EPC) rates for the regular and police/fire funds. She said that 87,000 of the 98,000 active members of the system are in the regular fund and 82 percent of those members participate under the EPC plan. Of the 11,000 members of the police/fire fund, about 85 percent participate in the EPC plan.

Ms. Bilyeu described EPC as a shared rate split equally between the members and employers either through salary reduction, as with the state, or by forgoing equivalent pay increases.

Continuing, she said the first line in the chart (page 26, <u>Exhibit A</u>) shows the existing statutory rate. The second line shows the 2006 actuarial rate. The third line shows the difference between the two rates and the bottom line shows the new rate that will begin July 1, 2007.

For regular members in the EPC plan, rates are increasing from 19.75 percent to 20.5 percent which is split equally between the employer and employee. For police/fire members in the EPC plan, the rates are increasing from 32 percent to 33.5 percent, which is a 0.75 percent increase to the member and a 0.75 percent increase to the employer.

Ms. Bilyeu referred to the chart on the bottom of page 26 showing the employee/employer contribution plan. She said that plan was a shared, after-tax contribution plan, in which the member has a payroll deduction for retirement contributions. The same process is used to show the difference in the rate for the regular fund. The current rate is 10.5 percent and the new actuarial rate based on 2006 was 10.665 percent. The difference is .165 percent, which is not enough to trigger a rate change, so the rate will continue to be 10.5 percent for the coming biennium.

The employee/employer contribution plan rate for police/fire is 16.5 percent for members and employers. The actuarial rate is 17.215 percent. The difference is .715 percent. The new rate will be rounded to the nearest one-quarter of one percent at 17.25 percent. The police/fire rate tends to be quite a bit more volatile than the regular fund rate due to the size of that fund; there are only 11,000 members. Because of that, the pooling is not quite as significant, so there can be a more dramatic change in rates than in the regular fund.

Ms. Bilyeu referred committee members to highlights from the actuarial valuation on page 27 of Exhibit A. Average salaries and average benefits for both regular members and police/fire members were included, as well as information relating to the size of the trust fund as of the valuation date. More information on the size of the trust will be given in the investment report on agenda item III-B. Ms. Bilyeu referred to the bottom of page 27 to a chart demonstrating the actuarially-determined contribution rates for the regular EPC fund for the last decade. She said that is where the lion’s share of the liability is in this system. Because members and employers share equally in funding the system, one of the principal goals of the PERS Board has been to manage the system with as much stability in contribution rates as possible given the relative volatility of the investment markets. This chart reflects that contribution rate history for the most recent decade, and for the most part, it remains fairly static from year to year. In the last two years, the rate was identical; the 2005 valuation and the 2006 valuation show the exact same rate.

Ms. Bilyeu reminded the committee that Nevada does not participate in Social Security for public workers. She referred to page 28 of the packet to a chart comparing the EPC contribution rate to other non-Social Security states, as well as to funds in states that do participate in Social Security. Nevada’s rate is slightly below the national average for public funds without Social Security, and significantly below the contribution rates for states that participate in Social Security.

Senator Coffin recalled the decision of the PERS Board in 2004 to change from the 40-year fully-funded method to the new method in order to smooth out cycles. He thought the new system was supposed to keep a 30-year horizon, but he saw that it was 40 to 60-year long-term financing. He asked if that was the same as full funding.

Ms. Bilyeu said the financing horizon for the retirement system was not the amortization period used to fund the unfunded liability. Rather, it refers to the cycle of financing an individual member's career – the 20 to 30 years a participant remains in the public workforce and the period of time the participant receives benefits. Typically, this runs between 40 and 60 years. Sixty years would be the outside period for a 30-year career followed by a 30-year retirement. That is the financing horizon for the individual members in the plan. The amortization period is currently below 30 years for the fund. Referring to page 29 of the meeting packet, Ms. Bilyeu said the amortization period was 28.3 years for full funding.

Senator Coffin said the charts show how far the fund is from being fully-funded.

Ms. Bilyeu stated that despite the decline in the last five years, the system has had a minor reduction in the funding ratio when compared to other public sector plans across the country. That is partially because of the type of financing used in the state and what the legislature has done over many years to focus on amortizing the unfunded liability over time. Because the system is a very conservative investor, comparatively speaking, with a very concerted effort to make contributions in accordance with the actuarial valuations, there was a decline over the last five years reflecting the investment down market cycle. Ms. Bilyeu explained that PERS uses a tool in rolling in gains and losses over a five-year period. Since the height of the funded ratio in 2000, the state has lost about 10 percent of the funded ratio; the funded ratio is about 74.9 percent. That reflects the process of bringing in those losses from that prior down market period. Some of the most significant losses included about $1 billion in 2001. Now, with three years of gains banked, there is still one year of a negative market return that is going to be brought into the 2007 valuation. Of course, Ms. Bilyeu remarked, it is hoped that the market continues as it is currently. The process of bringing in those losses resulted in a decline in the funded ratio.

Ms. Bilyeu reiterated that the average length of the amortization period is 28.3 years. The process PERS uses for amortizing gains and losses into the system allows it to provide each year's gains and losses its own amortization period. The bulk of PERS' unfunded liability is in its 28th year of being financed. After that, each individual piece that is added or lost in a year will be given its own amortization. The lion's share of the unfunded liability will be paid off in about 28 years. After that, it will be done on a rolling 30-year period. That is why the weighted average is currently 28.3. It is always going to be weighted to that first payment because that is where the significant unfunded liability is. Next year it will be in the year 27, and the following year, 26.

Ms. Bilyeu concluded her remarks on the actuarial valuation by offering to answer any questions.

Senator Coffin said he was not happy with the past decision of the PERS Board because now there was a big increase in contributions required to maintain the system. He asked whether the contribution increase would have been smaller if PERS had stayed with the previous system.

Ms. Bilyeu said she had anticipated this question, so she had the numbers available. She said the rate would also have increased under the previous system. For the regular fund, the rate would have increased from 19.75 percent to 22.58 percent to maintain the shorter amortization period. For the police/fire fund, the rate would have increased from 32 percent to 37.63 percent. For the employee/employer pay contribution plan (the after tax plan) the rate would have increased from 21 percent to 23.47 percent and from the combined 33 percent to 38.51 percent. That is why the PERS Board made that decision. Because employees share equally in the cost of funding, there is a need for some measure of predictability over time as to those contribution rates. The closed amortization period over time brought a level of volatility to the contribution rates that is unpredictable from year to year. There could be huge gains or losses. For instance, if PERS had stayed on the old amortization approach and in year 2020 the investment experience was similar to that of 2001, the rates would be extremely high. The PERS Board was trying to balance long-term financing needs of the unfunded liability over time against the short-term financing costs to both employers and members by ensuring a level percent of payroll over time.

Senator Coffin said it was known that there would be higher rates, because the system had to take that "medicine" in order to become fully-funded. There would be pain, but in the process, the system would be within 16 years of being fully-funded if the PERS Board had not made that change. That is assuming constant investment results, but nevertheless, the system would be closer. Under the old schedule the legislature knew the future costs of pay raises. If a pay raise was given, retirement rates would need to increase, so the legislature took that into account in terms of long-term costs. The new system hides the long-term costs and the legislature ends up with an artificial feeling that we are not doing too bad. But in fact, it will really never be amortized. That is why the public is concerned about the liability under the GASB rules. They suddenly realized that the state has a liability to be paid.

Chairman Arberry asked for any other comments. There being none, the Chairman moved to the next agenda item.

B. <u>Update on investment earnings – PERS, Legislators' Retirement and Judicial Retirement Funds</u>.

Ms. Bilyeu introduced Ken Lambert, the new investment officer for PERS.

Mr. Lambert referred the committee to <u>Exhibit A</u>, tab III-B, to an update regarding the investment programs for the PERS, Legislators' and Judicial funds. The packet information summarizes PERS' objectives, strategy, and performance for fiscal year 2006. He said he would also provide updated performance information for fiscal year 2007 to date.

Starting with page 34 of the meeting packet, the central objectives for each fund are to:

- Generate an 8 percent average annual return
- Manage risk and minimize volatility
- Emphasize high-quality investments while aggressively managing costs

Mr. Lambert directed the committee to page 35 of the meeting packet to a summary of investment performance for the PERS, Legislators' and Judicial funds for a number of periods. The first column on the left reflects the performance for fiscal year 2006. The Public Employees' Retirement System generated an 8.6 percent return, net of all fees, which exceeded the 8 percent actuarial funding objective. The Legislators' and Judicial funds also met the objectives for the year with returns of 8.06 percent and 8.11 percent, respectively.

Mr. Lambert continued, stating that for the first half of fiscal year 2007, the securities markets have been strong. While it is not known how the markets may react during the remainder of the year, at this point, the PERS, Legislators' and Judicial funds have generated returns exceeding 8 percent fiscal year to date. Currently the PERS fund totals $21.3 billion, the Legislators' fund $4.5 million, and the Judicial fund $31.2 million.

Mr. Lambert explained that the annualized inception numbers in the last column on page 35 (<u>Exhibit A</u>) differ due to different start dates. For the last 22 years, PERS has returned 10.6 percent average annual return. This ranks in the top 10 percent of public pension funds nationally on a risk-adjusted return basis. The Legislators' portfolio, since inception, has ranked in the top 1 percent of all public pension funds in the country on a risk-adjusted return basis.

Mr. Lambert referred to a graph on page 36 reflecting PERS' net fiscal year-by-year results, adding that this is the history that Ms. Bilyeu referred to in her testimony. The horizontal line in the center of the chart depicts the 8 percent actuarial objective. While PERS has averaged 10.6 percent per year for 22 years, the markets have generated more volatile results on a year-to-year basis. Even though PERS' portfolio is conservatively structured, it is still subject to the volatility inherent in the domestic and international financial markets.

Mr. Lambert noted that the same data for the Legislators' and Judicial portfolios could be found on the following two pages, and that while the performance inception dates are different, the return patterns are similar.

Moving to page 39, Mr. Lambert explained that the Investment Strategy details PERS' diversified investment structure. The fund contained $19.5 billion in assets as of the end of the fiscal year. The fund is at $21 billion currently. Mr. Lambert said that showed the market growth. While the funds are statistically similar, the Legislators' and Judicial portfolios depicted on page 40 differ modestly from PERS' due to the smaller size which makes it possible to more efficiently invest those smaller portfolios with a slightly different asset allocation.

Mr. Lambert said diversification is a key risk control measure for all three plans. The portfolios are allocated to U.S. and international stocks and bonds, as well as real estate and in the case of the PERS fund, there is also private equity. The Public Employees' Retirement System employs 20 investment managers and holds more than 4,000 individual securities to diversify risk and stabilize returns.

Mr. Lambert noted there were a number of exhibits which provide detail requested on other occasions by the committee. Information includes performance benchmarks, fees and mandates for each portfolio (pages 41-46 of Exhibit A).

In closing, Mr. Lambert stated that the Retirement Board's focus continues to be on security and stability, while maintaining the opportunity to generate an 8 percent return over the long term. The program's success is the result of a commitment to consistency, quality and cost-effective management. This will continue to be the focus in the future.

Mr. Lambert welcomed any questions from the committee.

There being no questions from the committee, Chairman Arberry moved on to Agenda Item III–C.

C. Status report on Assembly Bill 555 (2001), Senate Bill 439 (2003), and Senate Bill 485 (2005) - Critical labor shortage exemptions from PERS' reemployment restrictions.

Ms. Bilyeu introduced Tina Leiss, Operations Officer, and Karen Kimball, Executive Assistant.

Ms. Bilyeu referred to page 47 of the meeting packet to a status report on Assembly Bill 555 (2001), commonly referred to as the critical labor shortage exemption from PERS' reemployment restrictions. The memorandum in the packet outlines specific reemployment restrictions and describes the necessary conditions that a governing body must meet in order to evaluate whether a position meets the criteria for critical labor shortage.

Ms. Bilyeu said, to date, 330 retirees have been reemployed in positions designated as critical labor shortage. Of those 330 individuals, 73 have since left the critical labor shortage positions and have re-retired. The number of reemployed retirees has increased significantly from the 180 individuals on the last report. The increase is because Clark County School District increased recruitment efforts to its own retirees in this most recent period.

Ms. Bilyeu noted that approximately 90 percent of retirees who were reemployed in positions designated as critical labor shortage are in the education category, if the Nevada System of Higher Education is included.

Ms. Bilyeu referred to the table beginning on page 49 of Exhibit A describing each position designated by the various jurisdictions as meeting the definition of the critical labor shortage.

Ms. Bilyeu offered to answer any questions.

Senator Coffin asked Ms. Bilyeu if there was a table that summarized the positions by occupation to show how many positions were in the science and math fields.

Ms. Bilyeu stated PERS does not currently have a chart showing specific occupations, but offered to provide that information. In response to a request from Senator Coffin, Ms. Bilyeu did not know whether that information would be available immediately, but she would send it to him as soon as it was available.

Mr. Arberry asked how the cost of A.B. 555 affects PERS under the sunset clause, and how it would affect PERS if it were made a permanent feature.

Ms. Bilyeu explained that A.B. 555 was enacted with a sunset provision to go into effect on June 30, 2005. It was extended to June 30, 2009, so PERS could conduct a more significant experience study. More experience gives PERS better statistical analysis to determine the cost associated with the benefit. By extending the sunset clause to 2009, there will be a longer period that the benefit is in use and the actuary can then value the cost to the plan.

Ms. Bilyeu said the difference between this provision having a sunset clause or being a permanent feature of the program has to do with the contract rights of the individual members of the program. Because the program included a sunset date, the PERS individuals had a right to the benefit only for as long as it is in place. If it were to be made a permanent feature of the program, then it cannot be taken away under the contract rights theory without an equal benefit being given back. When PERS does an experience study, a particular cost in the contribution rate associated with this particular benefit will be assigned. That must be recognized in the contribution rate going forward so PERS can maintain the actuarial integrity of the program.

Hearing no questions, Chairman Arberry moved to the next agenda item.

D. <u>Status report on benefit provided under NRS 391.165 – One-fifth of a year purchase of service for certain education employees</u>.

Ms. Bilyeu directed the committee to agenda item III-D in the meeting packet beginning on page 57: An update of the benefit provided to certain education employees pursuant to NRS 391.165. The benefit is an incentive for education employees only; it exists in the education statute and not in the Retirement Act. She said it allows individuals who are employed in particular categories or at particular schools to have one-fifth of a year of service credit purchased on the employee's behalf if the employee qualifies under the Retirement Act and meets certain other eligibility requirements. Page 58 of the packet shows a table with the number of purchases made by each school district and the total cost for the current year. Ms. Bilyeu explained that the amount ($20,359,946.63) is in addition to amounts reported in prior periods, resulting in a total cost to date of approximately $40 million.

Referring to the table on page 58 of the meeting packet, the "Amount Remitted" is the actual money that the school district gave to PERS for the service credit. The "Number Issued" is the actual number of agreements that PERS issued for members of the system under this particular provision. The "Number Ineligible" column shows the number that did not meet the criteria within the Retirement Act or other eligibility criteria; either the employee had already purchased five years or was not vested in the system, both fundamental requirements to purchase service in the program. There were a little over 6,300 purchases made and 314 were ineligible, although the employees were working in the right areas or with the right designations at the time.

Senator Coffin voiced his concern that librarians were excluded from this benefit by some of the districts. He said it appeared the district had the authority to do that. He asked how many of the 6,300 issued were for librarians. Ms. Bilyeu stated she believed the librarians were still not added to the statute, by definition. Senator Coffin said they were allowed, by permission. Ms. Bilyeu said the information is not kept by employee type because the purchase program itself is done on the qualifications. Either an employee meets criteria, or not. When the information comes to PERS from the school district, it does not include position titles or whether the employee is at a school that needs improvement. The Public Employees' Retirement System evaluates whether or not the employee meets the criteria under the Retirement Act: whether or not the employee is vested, and whether the employee had already purchased five years of service credit. Ms. Bilyeu offered to request that information from the Department of Education.

Senator Coffin said that should have been a subject for discussion under this agenda item because it came up in the last session. He asked to receive that information from the Department of Education as soon as possible. He recalled that, during the session, the committee attempted to include librarians, then money was removed and the districts were allowed to make eligible whomever they liked. Senator Coffin said he was promised at that time that librarians would be eligible as long as they were certified licensed teachers. He wanted to know how many librarians were actually allowed to participate. Ms. Bilyeu said she would contact the Department of Education to get that information for Senator Coffin.

Chairman Arberry asked if PERS was requesting a new position. In response to Chairman Arberry's question, Ms. Bilyeu said prior to the inception of this program, PERS ran about 800 purchases of service in any given year. The Legislature granted an overtime budget for the last two years to process the volume of purchases currently under this particular benefit. Because that has been going on for a couple of years, PERS decided it was more appropriate to create a position to perform the work.

Senator Beers asked whether the superintendents preferred to give higher salaries rather than one-fifth retirement credit. Ms. Martini said that was true. Senator Beers then asked if the PERS budget would be changed to include overtime, or include the proposed position.

Ms. Bilyeu said if this particular benefit were not in existence, anything tied to it would be reduced in the PERS budget.

There being no further questions, Chairman Arberry asked the committee to move on to the next agenda item.

E. <u>Status report on implementation of Senate Bill 438 (2005) – Participation of Justices of the Peace and Municipal Court Judges in the Judicial Retirement Plan</u>.

Ms. Bilyeu referred the committee to Agenda Item III-E on page 59 of the meeting packet (<u>Exhibit A</u>) to an update on the implementation of S.B. 438, which provides the opportunity for limited jurisdiction judges to participate in the Judicial Retirement System.

Ms. Bilyeu said the bill allowed (but did not make mandatory) local governments to cover limited jurisdiction judges in the Judicial Retirement System. When a local government opted to cover judges, individual judges were then offered the choice to enroll in the Judicial Retirement System.

Ms. Bilyeu moved on to page 60 of the packet (<u>Exhibit A</u>) to a table showing the jurisdictions that have opted for coverage for judges, as well as the number of judges who have elected to move to the Judicial Retirement System. To date, 8 cities and counties have opted for the Judicial Retirement System, and 11 members have elected to move over. As new judges are elected in jurisdictions that have opted to cover judges, PERS offers counseling and benefits comparison on an individual basis.

On a related note, Ms. Bilyeu said the final employer reporting for calendar year 2006 for the Judicial Retirement System is due to PERS on January 15, 2007. Once it is reconciled, the information will be transmitted to the actuary for purposes of conducting the actuarial valuation. She hoped to have that valuation to the PERS Board at its March 2007 meeting so that it can be adopted. When that is done, the results will be transmitted to the committee and Fiscal staff. The report will break out the costs associated with the individual cities and counties, and each jurisdiction will pay its appropriate contributions for its members beginning July 1, 2007. Currently, even the limited jurisdiction judges are paying at the statewide rate because a half a year experience in the program last calendar year did not provide enough experience to rate the judges.

There being no questions, Chairman Arberry moved to the next agenda item.

F. <u>Status report on Senate Bill 346 (2005) - Voluntary participation in the Legislators' Retirement System</u>.

Ms. Bilyeu indicated that agenda Item III-F is an update on S.B. 346 of the 2005 Legislative Session, which makes participation in the Legislators' Retirement System optional. Staff of PERS sent letters to all new legislators providing them with information on this election. No new information has been received that would change the chart in the packet (page 62, <u>Exhibit A</u>) as to who has taken refunds and the amount of those refunds. Seven legislators have opted out of the fund and taken refunds totaling $24,415.20.

There being no further questions, Chairman Arberry moved to the next agenda item.

IV. PUBLIC EMPLOYEES' BENEFITS PROGRAM (PEBP).

A. Report from Independent Certified Public Accountant as of June 30, 2006, (NRS 287.043).

Mr. Arberry congratulated Ms. Johnstone on her new position as Executive Officer of the Public Employees' Benefits Program.

Ms. Leslie Johnstone, Executive Officer, Public Employees' Benefits Program (PEBP), introduced herself as well as Nicola Neilon, CPA from Casey, Neilon and Associates, LLC, the accounting firm for PEBP, and Jon Hager, Chief Financial Officer, PEBP.

The Public Employees' Benefits Program provided a paper copy of the PowerPoint presentation (Exhibit C). Ms. Johnstone began with comments on the audited financial statements, which were summarized the financial statements on pages 4 and 5 of Exhibit C. Current assets had increased $31 million since June 30, 2005. The increase was primarily in the area of cash. The program created revenue in excess of expenses last year of approximately $20 million. Most of the current asset increase was due to cash-on-hand. The Public Employees' Benefits Program increased its accounts receivable by approximately $5 million, which Ms. Johnstone indicated would be discussed in more detail. There is an increase to assets as well as current liabilities of approximately $6 million for the collateral on loan securities, which was required for the GASB statements.

Ms. Johnstone stated liabilities increased approximately $13 million over last year. Again, approximately $6 million of this was due to the collateral on loan securities. Four million dollars was due to the bank overdrafts. Ms. Johnstone indicated this is not as bad as it sounds; the program switched over to a zero balance account with the State Treasurer's Office last year and PEBP no longer maintains a separate checking account. The Public Employees' Benefits Program had a $2 million increase in accounts receivable and a $1 million increase in unearned revenue due to an accounting change in the state assessment for active employees. The non-current liabilities represent the Incurred but Not Reported (IBNR) reserve.

Continuing on page 5 of the handout (Exhibit C), Ms. Johnstone explained the summary of the income statement. After all the accounting adjustments, the operating revenue exceeded expenses by approximately $17.3 million.

Ms. Johnstone introduced Ms. Nicola Neilon, CPA from Casey, Neilon and Associates, LLC, formerly with KBCA, LLC, which is the accounting firm that performed the audit.

Ms. Neilon referred to the audited financial statements which began on tab IV-A of the meeting packet, Exhibit A. She said that because Ms. Johnstone went through most of the numbers on the financial statements, she would limit her comments to the opinion. Ms. Neilon described the opinion as being "unqualified," which is the highest level of assurance that is given on financial statements; in general terms, it is an "A."

Ms. Neilon stated her company was very happy to give this opinion. An unqualified opinion indicates that the financial statements represent fairly the financial position of the plan. Ms. Neilon said the balance sheet and income statement were summarized as Ms. Johnstone had indicated. Ms. Neilon asked if there were any specific questions. There were none.

B. Biennial report from attorney on PEBP's compliance with federal and state laws relating to taxes and employee benefits (NRS 287.043).

Ms. Johnstone summarized the major findings of the program's biennial legal compliance review. The report was completed in accordance with NRS 287.043(2)(j), the duties and powers of the PEBP Board, which required that it be done every two years. The executive summary of the report starts on page B-1 of "The Report of Findings and Recommendations: Biennial Compliance Review of the Public Employees' Benefits Program for the Review Period of September 2006" (Exhibit D). The report begins with comparisons to PEBP's compliance with federal statutes. The major findings have to do with privacy language that should be added to the flexible spending account summary plan document, and letters for the continued coverage under COBRA regarding the flexible spending account. Ms. Johnstone stated there were also some recommended language changes regarding COBRA to be included in the letters to newly terminated employees. The other item under federal compliance is procedural in nature. It is a recommendation that PEBP document and follow through on a procedure to test for discrimination for highly compensated employees. The Public Employees' Benefits Program had no worries that this kind of discrimination existed, but it would be documented for the next review.

The detail for each of the federal compliance issues was included in section E of the report (Exhibit D).

Section F had to do with compliance with state statutes and the detail for each of those findings is included (Exhibit D). The findings were generally in the areas of clarifying the language in PEBP's master plan document, eligibility, coverage, claims, and the complaint procedure. Also in the areas of coverage, claims and complaint procedures, AON noted conflicts within the Nevada statutes between insurance law and what is applicable to the self insurance program.

Ms. Johnstone stated that, overall, the report improved from two years ago. The Public Employees' Benefits Program looks forward to implementing the enhancements that had been noted, and further improvement in the review that will be completed in 2008.

Chairman Arberry asked if the PEBP Board appointed an attorney who specialized in employee benefits as per NRS 287.043(2)(j).

Ms. Johnstone replied yes and explained that the attorneys that work for the consulting company that performed this review made a qualification that they do not provide legal advice, but this review was done by a licensed attorney. There is a distinction between "advice" and "review." Chairman Arberry asked if the attorneys were hired by AON. Ms. Johnstone replied that the attorneys are employees of AON, an employee benefits specialist firm. Chairman Arberry asked if that presented a conflict. Ms. Johnstone explained that the attorneys do not write the master plan document for PEBP or any of the letters, so it truly was an independent review. Chairman Arberry said even AON indicated that its findings should be reviewed by PEBP's legal counsel. Ms. Johnstone said that may have been included in the 2004 review, but that is not in the 2006 review. Reading from page A-2 of Exhibit D, Ms. Johnstone said, "AON does not engage in the practice of law, and the consulting advice we provided is not, and not to be intended, as legal advice." However, she noted, according to the bios on page A-1 in Exhibit D, the individuals were attorneys.

Chairman Arberry noted that NRS 287.043(2)(j) states that to make the report complete, it should be reviewed by legal counsel. He asked Ms. Johnstone to discuss this with Legislative Counsel Bureau staff.

Ms. Johnstone replied that the issue has been discussed with Legislative Counsel Bureau staff in the past, and the reason that the report needed to be reviewed outside of the Attorney General's Office was that there were no attorneys specializing in the area of employee benefits. The Public Employees' Benefits Program contracted with AON because the company had staff with that expertise.

There being no further comment, the Chairman moved to the next agenda item.

C. Presentation and update on various scenarios for providing post-retirement health benefits to retirees of the state of Nevada and resulting impact of Statements 43 and 45 of the Governmental Accounting Standards Board (GASB).

Ms. Johnstone remarked that this is a very complicated matter. Public Employees' Benefits Program staff summarized the information in a number of different ways in the hope that readers would not be confused. This item relates to GASB pronouncements 43 and 45, dealing with post-employment benefit obligations. The presentations began during the 2005 Legislative Session and originally the actuarial valuation was based upon data that was obtained in March of 2005. This is a very resource-intensive effort that involves lots of data gathering, primarily from the Public Employees' Retirement System (PERS) requiring PEBP to coordinate with other entities and contract with the actuary to perform the work. AON is the consulting firm that did this work.

Ms. Johnstone said that in 2006, PEBP provided different scenarios showing what could be done to the benefit program design and what impact each scenario would have on the liability. The different scenarios were presented to the ACR 10 Committee, as well as the Interim Retirement and Benefits Committee, in June 2006.

Ms. Johnstone referred the committee to page 79 of the meeting packet (Exhibit A), which provides more information on most of the same scenarios and includes three additional scenarios. In this effort PEBP is working with other state offices – specifically LCB Fiscal Analysis Division and the Executive Budget Office – to provide meaningful information to this committee and others. She remarked that, if the committee thought this information could be provided in another format that would be more helpful to the decision-making process PEBP would be more than willing to provide that.

Ms. Johnstone explained that GASB Statement 43 dealt with reporting requirements for plans that were established before July 1, 2007. Per the pronouncement, the state of Nevada does not currently have a plan, as defined. As of right now, this statement does not apply, in most respects, to the state of Nevada; rather, it requires footnote information to be provided by the Controller.

Ms. Johnstone told the committee that GASB Statement 45 was more significant. On page 83 of Exhibit A, PEBP provided a list of definitions that will be used throughout the discussions. Generally, OPEB would refer to other post-employment benefits, which is the financial liability to pay retiree benefits for health insurance and the benefits that PEBP provides, other than retirement benefits. The liability was to be disclosed on the Comprehensive Annual Financial Report (CAFR). For a plan of PEBP's size that would take effect in fiscal year 2008. Only the unfunded portion of the annual required contribution (ARC) is to be reported.

The ARC includes future costs associated with the current year service plus a portion of the benefits that had been accrued to those employees and retirees for service already provided. It is an amortization of the past years' costs, and GASB 45 allows that to be amortized over a maximum of 30 years. The liability includes an explicit and an implicit subsidy for the retirees. Ms. Johnstone said she would explain the terms explicit and implicit later in her presentation.

Ms. Johnstone said that throughout the presentation there would be a range of the liability, and that range is based upon the different assumptions about prefunding. If the liability were pre-funded, it would allow a market rate to be used for investment return. The Public Employees' Benefits Program has been using 8 percent, which is pegged at the PERS investment return.

However, if the plan was on a pay-as-you-go method, GASB required a lower investment return rate to be used and the estimates that PEBP has done to date have used a treasurer's rate of about 3.5 percent. If the liability had been partially funded, a blended rate would be determined after it was known how much was funded.

As an example, Ms. Johnstone said if in ten years an individual needed to save $10,000, he would not have to put as much aside each year if he was earning 8 percent than if he was earning 3.5 percent. So, the liability is smaller with the larger investment return than on a pay-as-you-go basis.

Ms. Johnstone reminded the committee of the following points related to GASB and the state's liability. The Governmental Accounting Standards Board rules do not require prefunding, so the term "Annual Required Contribution" (ARC) is a bit of a misnomer. It is possible that this liability could have an impact on bond ratings. She had not heard anyone articulate how to tell the exact impact of that bond rating. It is thought that the bond rating agencies would compare Nevada's plan and approach for this liability against other jurisdictions. If most jurisdictions were prefunding, it may be looked upon negatively if this plan were not pre-funded.

Assemblyman Marvel asked Ms. Johnstone what this might do to the state's bonding ability. He had heard about an unfunded liability of $4 billion. Ms. Johnstone answered $4 billion was the total unfunded liability. She said that was estimated using the March 2005 data; that was not the liability that would have to be recorded on the state's financial statements. Ms. Johnstone stated the $4 billion is the total liability if the plan stayed on the pay-as-you-go basis and had a lower discount rate applied. Ms. Johnstone said she was trying to provide information on how to influence the ARC, which is the amount that the bond rating agencies will see on the financial statements. She said she would walk through the different scenarios to respond to Assemblyman Marvel's questions.

Senator Coffin congratulated Ms. Johnstone on her promotion to PEBP Executive Officer. He said that it seemed that she was suggesting an approach that was going to fully pay through the pre-pay. He said that was an admirable approach. He said it would be exactly what the PERS program changed three years ago, which was a method to fully fund.

Ms. Johnstone replied that she wanted to be specific that she was not making a recommendation; if she seemed to be hinting at something – that was accidental. She was trying to provide information about what impact different actions would have. This is a very significant policy decision. In the meantime, the PEBP Board is operating as fiduciary for the current plan and has not taken a position on the GASB liability.

Senator Coffin said he would be receptive to that approach and that the Governor would also have to approve. Senator Coffin said it was ironic that she found a way to do this, which is the way it used to be with PERS until three years ago. Essentially, PERS was prefunded by having a closed amortization period of 40 years.

Ms. Johnstone said no financial impact from any of these scenarios has been incorporated into the agencies' budget requests. She does not know the specifics of the funding, just what has been in the newspaper.

Assemblyman Marvel asked if Ms. Johnstone had spoken with the Governor or the Budget Office. Ms. Johnstone replied that she was scheduled to meet with the Budget Office.

Assemblyman Marvel said that he and Senator Beers had discussed this, as they were on the Governor's transition team.

Ms. Johnstone continued, saying there are two primary assumptions under GASB. One is that the state has an agreement with its employees to provide OPEB regardless of whether there is a bargained agreement with employees. The other assumption under GASB is that the funds would be available if the state were to go bankrupt. Part of prefunding is setting aside an irrevocable trust fund that could only be used for retiree benefits.

The assumptions the actuaries used in putting together the information in 2005 are included on page 84 (Exhibit A), but most significant were the cost increases for health care going forward. Ms. Johnstone reported the following fiscal year 2006 trend increases: medical, 13 percent; prescription, 16 percent; and dental, 5 percent. The economic thinking was that the economy cannot handle these kinds of increases indefinitely. At some point in the future, the increases have to be modified. No one knows how that will occur; that is not part of the theory. But the expenses would overtake the gross domestic product if the medical and prescription industry continued to increase at its current pace. In that spirit, the assumptions include a reduction in the medical trend in just nine years from 13 percent to 4.5 percent, and for prescriptions from 16 percent to 5 percent over 11 years, with dental reducing slightly from 5 to 4.5 percent. Ms. Johnstone said the actuaries have cautioned over and over again that projecting these costs as far out as 60 years – which is what was done for this exercise – makes the results very sensitive to any slight variation in the assumptions. She emphasized that the numbers will need to be updated with current demographic data, as well as current economic information. She explained that the material provided in the meeting packet was the relative impact of different options that could be followed.

Senator Beers asked if the percentages represent the combination of increased participation and inflation, or if there is one component that represents inflation and another that represents new enrollees, or net growth in the plan. Ms. Johnstone said the net growth in the plan would be an addition for the increases for enrollment. Senator Beers asked if this was just the assumed cost of medical inflation. Ms. Johnstone replied the numbers that have been represented are for the participants who were in the plan as of March 2005 when the data was gathered. These are increased for inflation, increased utilization (more tests being done and more visits), and increases in medical technology.

Senator Beers reported that a trustee of the Culinary Union's plan said that the plan is experiencing roughly 6 percent medical inflation right now. Ms. Johnstone stated that PEBP's medical inflation, by itself, was about 8 percent; the rest of the increase was primarily due to utilization.

Senator Beers asked if that was because doctors ask for more tests than they would have three years ago. Ms. Johnstone agreed and added that the new tests could also be more expensive than the tests that would have been performed three years ago.

Senator Beers asked if there were other plans with which to compare data. Ms. Johnstone stated that information could be gathered. The Public Employees' Benefits Program's trend this year is 11.4 percent medical and prescription combined. This data is a little bit dated, as it was done in 2005.

Senator Beers stated it appeared the cost figure on the income statement was up about 10 percent, and that would include an increase in the number enrolled in the plan as well. He asked how the growth in enrollment plus inflation equals 10 percent.

Ms. Johnstone explained the primary reason for the difference was that the data was two years old. Over the last 12 months, PEBP experienced a reduction in the trend increases, which is part of the reason that the program generated more revenue than expenses. That is another area that would need to be updated with actual plan experience. Senator Beers asked if it was possible the assumptions were a little high based on recent experience. Ms. Johnstone replied that it was possible.

In response to a question from Senator Beers, Ms. Johnstone said the PEBP Board met the previous week and talked about plan changes. That discussion is part of a later presentation that Ms. Johnstone had planned. The Public Employees' Benefits Program wanted to present to the committee, and have ready for the legislative session, information on impacts of different options. Because of the time involved for a full actuarial study, PEBP authorized the consultants to use data from plan year 2005. They honed in on a few areas in which there was a special interest. She explained that it was an iterative process.

Senator Coffin asked about the inflationary factors affecting durable medical equipment (DME). He explained that he has a forced air machine to help him sleep and avoid apnea. The DME provider on the plan charges a hefty price for maintenance and parts. There was a huge difference in the price of the parts on the open market. He learned that PEBP was buying the machine through Sierra. He asked if that made the plan captive to whatever Sierra negotiated, if it even chose to negotiate. It may be that, if the equipment costs more, Sierra makes more.

Ms. Johnstone confirmed this was true and said the same scenario applies to hospital care and physician care when PEBP uses the network's contracts, so the network dictates the cost. In the overall financial analysis of the different networks that submitted a proposal last year, PEBP selected the lowest cost network. There may be areas that are high or low. She said that the DME contracts were about to expire and the network was having the same concerns as PEBP. The Public Employees' Benefits Program often uses the contracts that the network's fully-insured products use, placing PEBP at the mercy of the network for those contracts, but the two have some common concerns. The plan has taken the position for the last several years that PEBP is not in the business of negotiating direct contracts and wants to use network contracts to take advantage of populations larger than just the PEBP participants. She did not recall the contract terms for DME, but offered to provide that information.

Senator Coffin said that when the self insurance plan was started 22 years ago, PEBP did its own bargaining and negotiated prices. He does not recall when that was farmed out to a third-party. Ms. Johnstone said the reason for the change was that in a larger network with other employers, PEBP should be able to get lower costs than on its own. Senator Coffin said that it might help PEBP's bargaining posture if the networks thought PEBP might decide to negotiate on its own.

Ms. Johnstone stated that, using the March 2005 valuations, if the state had been able to put aside $1.62 billion, it would have been considered fully-funded and would not have had any liability to record. If the plan continued on a pay-as-you-go basis, the state would have had a total value on its liability of $4.1 billion. With regard to the financial statements, the most important numbers are those under the annual required contribution (ARC). The pre-funded number would have been $114 million, so the $1.62 billion was a little overstated. In that year, the state would have had to set aside $114 million in order to not have a liability to record on the financial statements. It would have been another similar, larger number for the subsequent years. For pay-as-you-go, the state would have recorded a liability equal to the $215 million, less what the state was already paying for retiree benefits – roughly $30 million. The unfunded portion of that $215 million would have been recorded as a liability, about $185 million. In 2006 it would have taken approximately $114 million in funding to not have a liability to record, $30 million of which was already included in the budget.

Ms. Johnstone continued on to the next chart (page 93, Exhibit A) saying it was made to simplify the timelines and the dollar amounts attached. The total present value includes all benefits that have been earned, plus benefits earned from this year's service, as well as projections for future service. The ARC is an amortization of the past service plus the current year's cost. All of these numbers would have to be updated each biennium, or whenever there was a plan change, in order to have the financial statement certified.

Ms. Johnstone referred to page 14 of Exhibit C, saying she would explain the implicit subsidy using a very simple example. She explained that the numbers were made up and not based on reality, and the example assumes the employer pays all of the cost. An implicit subsidy occurs when there is commingling of expenses between retirees and active employees. The higher expense of a non-Medicare retiree is partially funded out of the assessment charged to active employees. She said there were 30 participants in the example. Claims cost were $300 per active, higher for a non-Medicare retiree and lower for a Medicare retiree. Total claims for the entire population would be $13,500; that amount is divided by 30 participants for a commingled rate of $450. The state would pay $450 a month, and that is referred to as the explicit subsidy. The explicit subsidy and the direct subsidy are the same. The implicit subsidy is the difference between the actual costs for each group less the direct subsidy. For the active employees, the actual cost is $300 per month and the direct subsidy is $450, so there is a negative implicit subsidy. She explained that the situation was opposite for the retirees in this example. Of the $900 for a non-Medicare retiree, $450 is included in the direct retiree subsidy in the Retired Employees Group Insurance account, and $450 is embedded in the subsidy the state pays toward actives. The math is similar for Medicare retirees.

Ms. Johnstone said there is a subtle difference between the implicit and explicit subsidies because PEBP has to look at the state's costs beyond what are in the Retired Employees Group Insurance account. Some of the costs attributable to retiree benefits are included in the active assessment as well.

Continuing on page 15 of Exhibit C, Ms. Johnstone presented information on updated scenarios. She hoped to focus on the relative impact of each of the comparisons. Again, she noted, this information is based on March 2005 data. The scenarios could have varying impacts on retention, recruitment and overall quality of the workforce. She said medical inflation is assumed to continue at the current pace for a short period of time, and then decline. The Public Employees' Benefits Program has not taken a position on GASB. This is a very large policy discussion, and the PEBP Board will maintain the program as it is currently structured.

Ms. Johnstone remarked that this is obviously a very complicated matter, and there are many ways to compare the information. She offered to work on other ways to present the information in future presentations if asked. There are also other options; the following were the options most commonly asked about:

Base – Current benefit and subsidy structure.

1. Eliminate the subsidy for new entrants July 1, 2008.
2. Decrease the subsidy 50 percent July 1, 2008, and then grow the subsidy at the rate of medical inflation.
3. Freeze the subsidy at the current level.
4. Eliminate the subsidy for people retiring on or after July 1, 2012. The date was set with the idea that it would allow time for people to make financial provisions for costs beyond those five years.
5. Decrease benefits so that plan inflation does not exceed the Consumer Price Index (this scenario was not updated because it was difficult to see how the program would not be decimated, the actuaries would not attest to the numbers in this situation).
6. Pool retirees and actives separately; each group would stand alone and there would be no implicit subsidy.
7. Commingle retirees age 65 and older separately from early retirees and actives (this scenario was not updated because it would cause an increase in the liability).
8. Eliminate the subsidy for retirees eligible for Medicare Part A & B. Once they were eligible, they would no longer have benefits.
9. Eliminate the subsidy for all retirees with less than 20 years of service effective July 1, 2012. Currently the subsidy begins with five years of service and continues up to a maximum value of 20 years of service.
10. Eliminate the subsidy for dependents of people retiring on or after July 1, 2012. This is another new scenario. Right now the state pays a portion of the dependent cost.

Ms. Johnstone directed the committee to pages 80-81 of the meeting packet, Exhibit A. These pages provide information on the 2008 current year cost and the ARC. Each scenario was compared to the current or base benefit package. The same information was provided as of year 2037, with a variance in percentage to show the relative impact of each of the scenarios.

Page 19 of Exhibit C ranks the scenarios by the pay-as-you-go cost projected out for the year 2038. If nothing changed, and these numbers were perfect, the pay-as-you-go amount would be $608 million in 2038. Ms. Johnstone said the amount goes down with each of the scenarios, and each varies from the base value dramatically. The middle column is an annual amount for the year 2038 assuming that the state had pre-funded the liability each year, and shows the difference between pay-as-you-go and the amount required to fully prefund that ARC amount. The third column provides, for each scenario, which year the plan would break even, or which year it would become less costly to pre-fund than to pay-as-you-go. She noted that the break-even year varies from years 2009 for scenario 3 to 2053 for the base scenario.

Turning to page 20 in Exhibit C, Ms. Johnstone explained the graph shows a 30-year view of the pay-as-you-go costs by year. Rather than the dollar amount, the graph shows the rate of increase – or leveling off – depending on the scenario. In all of the scenarios, the base would be the highest cost. For the most part, the first tier of the scenarios remains in the same order. For example, scenario 6 is the second highest cost; scenario 10, which eliminates the subsidy for dependents, tends to be the third highest cost; scenario 9, which eliminates the subsidy for fewer than 20 years of service, tends to be number four, and so on.

Senator Beers complimented Ms. Johnstone on the chart and said it would have helped the ACR 10 Committee. He was surprised that scenario 8 accelerates over time, because 10 years from now, anyone with 30 years with the state will have Medicare.

Ms. Johnstone said the plan has a very small population age 65 without Medicare Part A, which is paid through payroll taxes. There are currently only about 300 people who do not have Part A, so it is not significant in this analysis.

Senator Beers asked for clarification.

Jon Hager, Chief Financial Officer, PEBP, explained that in 20 years there will be another group of pre-Medicare retirees for whom cost will be much higher. There will always be pre-Medicare retirees.

Senator Beers asked if that is because employees can retire from the government before they are eligible for Medicare, and Mr. Hager replied that was true.

Ms. Johnstone continued, saying the chart on page 21 of Exhibit C shows the ARC if the amount were pre-funded under each of the scenarios. It is a 30-year view of prefunding the ARC. There is a lot of variance in the first five years, and then patterns start to emerge. This is very similar in order to the pay-as-you-go, although the dollar amounts are different. Scenarios 8 and 1 are in opposite order and scenarios 3 and 4 are in opposite order, but the top tier is ranked in the same order.

The next graph (page 22 of Exhibit C) shows the ARC on a pay-as-you-go basis over 30 years. Compared to pre-funding, only scenarios 3 and 1 change order. The dollar amounts are very different, but the order of the scenarios is similar.

Ms. Johnstone then moved to page 23 of Exhibit C which shows the base net benefit cost, or the current cost of pay-as-you-go versus prefunding for each scenario. For each scenario, the current base benefits were compared to the change of the plan for that scenario as well as a policy change to pre-fund. The following observations can be made:

- Compared to the base pay-as-you-go, prefunding crosses over in the year 2053. That is not shown on this chart, but is on page 24 of Exhibit C.
- For Scenario 1, eliminating the subsidy for new hires, the cross-over point for the pay-as-you-go for the current plan and prefunding is 2025.
- Scenario 2, reducing the subsidy, crosses over in the year 2033.
- Scenario 3, freezing the subsidy, crosses over in 2010.

- Scenario 4, which eliminates the subsidy for retirees after 2012, would cross over in 2022.
- Scenario 6, which separates the commingled buckets between the actives and the retirees, crosses over in 2049.
- Scenario 8, which eliminates the subsidy for Medicare Retirees, would cross over with pay-as-you-go in 2016.
- Scenario 9, which eliminates the subsidy for those who have less than 20 years of service, crosses over in 2037.
- Scenario 10, which eliminates the subsidy for dependents, takes until 2046 to cross over.

Ms. Johnstone stated the last chart on page 24 of Exhibit C brings the same information out 60 years instead of 30 years. It shows the overall, long-range pattern of the cost. As one might expect, the base plan is the most expensive.

Ms. Johnstone offered to answer questions or listen to input on how this report could be more helpful.

Senator Beers asked if Ms. Johnstone's presentation had been heard by the Budget Office.

Ms. Johnstone replied that the Budget Office has the same numbers, but this meeting was the first presentation.

Senator Beers thanked Ms. Johnstone for a job well done.

D. Report on financial status of Public Employees' Benefits Program.

Ms. Johnstone stated this financial report included the current year status as of September 2006 and PEBP's projection for the current year. In addition, Ms. Johnstone would add information about outstanding retiree subsidy payments from non-state employers.

Ms. Johnstone reviewed the plan's budget status as of September 2006 from page 26 of Exhibit C. She explained that the realized funding available is the difference between premium income and expenses. As of September 30, 2006, PEBP had drawn down about $10 million of the reserve. The plan was projected to draw down the reserve by about $21 million in the current year. It is hard to judge with only three months of data, but that was where it was for the first quarter.

Ms. Johnstone said the current year revenue was up by about $17 million compared to the previous year, mostly due to enrollment and more current collections of the Retired Employees Group Insurance revenue. There was a delay in getting those collections last year because of a procedural change.

On the topic of "all other revenue," Ms. Johnstone said the fiscal year 2006 number was an anomaly. The Public Employees' Benefits Program received an insurance rebate from Anthem, the northern health maintenance organization. The rates on the contract were deemed to have been higher than needed, and PEBP recovered about $2 million. There was also $4 million brought in as revenue from the outside checking account when PEBP converted to the zero balance account with the Treasurer.

The next area of focus was insurance expenses, which were up $5.7 million due strictly to enrollment changes. Ms. Johnstone stated she would show further how enrollment has exceeded projections.

Ms. Johnstone said the next area of comparison was operating expense, which was up slightly, primarily due to the implementation of PEBP's new information system that was scheduled to go live on February 1, 2007.

The final item was net realized funding available. The state's financial system, as of the end of September, will show $84 million realized funding available. Ms. Johnstone said PEBP wanted to recognize how much was in reserve specifically for the Incurred but Not Reported (IBNR) and the catastrophic reserve, or the rate stabilization reserve so the net realized funding available would be referred to as "excess reserves."

The chart on page 27 of Exhibit C shows how quickly the plan grew. This evolved primarily since 2003 when the non-state retiree subsidy was established, along with an increase in the number of members entering into retirement. The overall population was growing much faster than it had. For instance, this year PEBP budgeted for an average of almost 34,000 participants, but as of December there were 38,000 participants. That increase impacts many areas within the budget.

Senator Beers asked if there was data on where those people were from. Ms. Johnstone replied there was and she would provide it to the committee.

Ms. Johnstone went on to page 28, of Exhibit C to discuss the financial projection for fiscal year 2007, noting that it was a little bit early to predict, since most claim activity occurs during the latter part of the year. The projected premium income appeared to be very close to what was budgeted. The enrollment increase that occurred – beyond budget – as of December, looks to be completely offset by the premium holiday put in place for July. The miscellaneous revenue was projected to be slightly higher due to a new, fully transparent contract with the pharmacy benefit manager. The estimate for rebate increases was conservative; she hopes it will be somewhat higher.

With the increased cash on hand plus the higher earnings of the Treasurer's Office, PEBP realized much higher interest revenue than what was projected in the budget.

Regarding expenses, Ms. Johnstone said all categories other than the ones listed are included in administration, which was very close to the budgeted amount. The fully-insured program cost was considerably over budget, due primarily to enrollment. Much of the enrollment increase came from non-state retirees in the south. The HMO rates in the south are much more attractive than the self-funded rates. Self-insured administration costs are slightly over budget. Most of the contracts are paid on a per-participant level and there was a slight increase there. The self-insured claims cost appears to be a little lower than budgeted. Even with the enrollment increase, the claims trend had been brought down almost a full percent from what was included in the original budget. The large claims have not appeared yet, so it appears the budgeted amount will be able to absorb the enrollment growth with the lower trend. Ms. Johnstone noted that this is all summarized in the projected reserves. The budget called for $72.6 million for the combined total of the reserve for rate stabilization and the IBNR. The projections total $71.9 million, or within about one percent of the budgeted amount.

Ms. Johnston referred to page 30 of Exhibit C. She directed the committee's attention to the impact on some of the outstanding employers' subsidies. The city of Caliente and Caliente Public Utilities were contesting subsidy payments for retirees and have been since the inception. Currently, the city of Caliente has a total due to the program of $38,038.42. The issue is now in the legal arena. The Public Employees' Benefits Program pursued a tax intercept, but decisions were made to return the cash to the jurisdiction. Right now the Attorney General's Office expects the decision to be a long, drawn-out process. Each party has dug its heels in on its respective position.

The Las Vegas Metropolitan Police Department is also contesting its payments. As of November 2006, the total owed by the Las Vegas Metropolitan Police Department was $529,917.93, for a grand total of $567,956.35 for the three entities.

Senator Coffin asked if there was a budgeted figure for the legal costs. Ms. Johnstone said an estimate of the total costs has not been given by the Attorney General's Office. She would ask for an estimate of the total cost for Senator Coffin.

Senator Coffin wanted to make sure the situation had not gone past the point of compromise.

Ms. Johnstone said the legal argument is slightly different between the two jurisdictions, but PEBP thinks the state has a good standing with each of the entities.

Ms. Johnstone continued to discuss the outstanding employer subsidies (page 31, Exhibit C). She said the situation is unprecedented; PEBP has never had a situation where the retiree or the employee paid his share in good faith, and the employer did not pay what was billed. The Board feels a fiduciary responsibility to not carry these kinds of account receivables into the foreseeable future. Payments were made out of the plan and rates were calculated in good faith that the expenses would be reimbursed through the contribution.

The PEBP Board took action to direct staff to pursue a legislative remedy. Public Employees' Benefits Program staff cautioned the PEBP Board that the action taken could create a precedent with other non-state employers. These are the only jurisdictions arguing the legal merit A.B. 286.

Ms. Johnstone continued, saying the PEBP Board thought it was necessary to notify the participants that their previous employers were not paying their share and to pursue transitioning those participants from paying only their share to paying the entire amount.

Ms. Johnstone said that will not be a popular notice and she was not looking forward to that action. Retirees will be given 60 to 90 days to make a choice. Participants will not be asked for back payments, but if their employer does not pay its portion of the premium, the participant will be under a different set of rules going forward. The Legislature and the Governor would be notified. Finally, group billing procedures will be revised to address a situation where only part of the bill is being paid.

Mr. Marvel asked what the employers' rationale is for non-payment. Ms. Johnstone said the Las Vegas Metro Police Department (METRO) does not feel it is subject to A.B. 286. There are two different arguments: 1) the form in which the METRO trust was created, and 2) whether retirees already in the plan at the time A.B. 286 became effective were subject to the subsidy. Mr. Marvel asked if that would leave the retirees with no option. Ms. Johnstone stated she was not sure if the METRO plan would allow the retirees who participated in PEBP to return to the METRO plan.

Senator Beers asked if the state was still accepting non-state retirees. Ms. Johnston replied yes. Senator Beers asked if that was an area in which the legislature could make a change, and Ms. Johnstone again replied yes. Ms. Johnston explained to Senator Beers that the statute provided that upon retirement, a non-state retiree can stay in his employer's plan for health benefits or opt into PEBP. If the non-state employee opts into PEBP, his employer is to pay a subsidy equivalent to what a state retiree would receive.

Mark Stevens, Assembly Fiscal Analyst, Fiscal Division, clarified that the non-state retirees that opt into PEBP are rated separately. Ms. Johnstone agreed that state and non-state participants are rated separately.

Ms. Johnston answered a question from Chairman Arberry by affirming that non-state retirees could enter the plan with pre-existing conditions.

E. <u>Review of 2007-09 biennial budget request submitted by PEBP</u>.

Ms. Johnstone discussed the various components that went into the agency budget request, including enrollment projections; performance indicators; reserves, maintenance enhancements; and the assessment calculations. Ms. Johnstone added that the packet contained information on an updated agency request that was submitted to the Governor in late December 2006. The Governor asked PEBP to update the agency request based on trend and population changes and incorporate plan changes that the Board was considering.

Ms. Johnstone said that enrollment inflation, based on the more recent trend, was included at 5.2 percent increase for fiscal year 2008 and 7.3 percent for fiscal year 2009 (page 34 of <u>Exhibit C</u>). Medical and prescription claims together were assumed to increase 11.4 percent for actives and retirees. The dental claims increase was left at

7 percent per year. IBNR claims trended up at 11.4, or 12 percent per year, at the same rate as the medical claims. The insured product inflation was increased at 10 percent, which was consistent over the last several years.

Senator Beers asked if PEBP had the enrollment inflation forecast by source of new enrollee. Ms. Johnston said yes, and she would provide that.

Ms. Johnstone moved on to the topic of enrollment projections (page 35 of Exhibit C) explaining that they were broken down by state and non-state and within each of those categories by actives, early retirees (retirees with no Medicare coverage) and Medicare retirees. There are two very different participant groups: 1) of the state group of 33,000 in fiscal year 2007, for instance, approximately 80 percent were active employees; 2) for the non-state group in fiscal year 2007, with 4,500 total, approximately 17 percent were active employees.

Mr. Stevens asked if the total state early retiree number included early retirees and state retirees not eligible for Medicare, or just early retirees. Ms. Johnstone answered that just early retirees were included; if a state retiree only had Medicare Part B coverage, the retiree was included in the Medicare count. Ms. Johnstone said a year ago there were about 300 in that situation.

Moving on to performance indicators (page 36, Exhibit C), Ms. Johnstone said the fast enrollment growth allowed PEBP to keep the expense ratio near the 7.6 percent rate from fiscal year 2006. The expense ratio is projected at 7.9 percent for fiscal year 2008 and 6.4 percent for fiscal year 2009. The claims loss ratio, which is the percent of the premium expected to be paid out in claims, was around 93 or 94 percent. The Public Employees' Benefits Program continued to see an increase in generic drug utilization and has made plan design changes that should cause that utilization to increase to 60 to 63 percent. Medical and dental network use has been relatively constant, with some slight increases projected. The appeals ratio in fiscal year 2006 had come in at .15 appeals per 1,000 participants. Ms. Johnstone said that the budgeted performance indicators for the current biennium were too high because the previous tracking mechanism was not very reliable, since the appeals were recorded even if they were turned down.

Ms. Johnstone continued saying the total fiscal year 2008 budget request is $362.7 million, of which $322 million is the expenses of the program with the balance being reserves. The fiscal year 2009 budget was $421.5 million, of which $365 million was operating expenses and claims and the balance being reserves.

Continuing on page 38 of the handout, Exhibit C, Ms. Johnstone explained PEBP has two reserves. One is the rate stabilization reserve, also known as the catastrophic reserve. The fiscal year 2007 catastrophic reserve is approximately $24.1 million, and the agency requested it to increase to $28.5 million in the upcoming biennium. Ms. Johnstone said that PEBP is asking the actuaries to provide an update to validate this amount, and that should be available in late January 2007. The latest IBNR reserve figure for the financial statement was $21.5 million, and PEBP trended that up at the same rate as medical and pharmacy at 11.4 percent, which would bring the total reserve to $29.7 million at the end of the next biennium. The IBNR is where the excess reserve is recorded in the financial system for the state and those excesses would be reduced to zero by the end of the biennium as well.

Ms. Johnstone defined the term "excess reserve" as the amount above and beyond catastrophic and above and beyond the IBNR. As of June 30, 2006, PEBP had realized funding available at $94.1 million, less the actuarial estimate for the IBNR and the rate stabilization reserve, which brought the estimated excess reserve to $48.5 million. The budgeted loss in fiscal year 2007 was $21.5 million; the projected loss was very close to that amount at $22.5 million. The projected increase of $2.5 million in the IBNR was at the medical trend rate in fiscal year 2007. She said PEBP staff expected an excess reserve as of June 30, 2007, of $24.5 million. The revised budget given to the Governor proposed to draw down the reserve in a couple of ways (page 40, Exhibit C):

- Increase catastrophic reserves to $28.5 million. That would use $4.4 million of the reserve.
- Increase in the IBNR reserve to $29.7 million by the end of the biennium to use $5.8 million. These are reserves that can be retained without charging through the premium or the subsidy.
- Expand the wellness program by $6.1 million.
- Adjust the increase of the state subsidy as well as the participant contribution at a cost of $8.3 million.

Senator Beers asked if the $8.3 million was adjusted evenly over the two years. Ms. Johnstone stated yes, and that was included in the agency request, as was displayed on page 41 (Exhibit C).

Moving to page 42 of Exhibit C, Ms. Johnstone explained the maintenance decision units as follows:

- M-100 – Statewide Inflation was a minor adjustment.
- M-101 – Self-funded claim and fully-insured product inflation are very substantial amounts because of the size of the plan.
- M-102 – Balancing decision unit to isolate any adjustment made to the ending reserve. This was an attempt to have all the other decision units balanced out with premium revenue and then settle the reserve amount as part of M-102. These adjustments were necessary to bring about the reserve level spoken of previously.
- M-150 – Adjustments to base budget.
- M-200 – Enrollment growth cost increase.

Mr. Hager, Chief Financial Officer, PEBP, stated that it was important to recognize that the increase in M-101 and M-200 are costs that will be borne by the state and also by non-state entities and premium receipts from individuals. These increases were not solely increases in state costs.

Moving on to the enhancement decision units, Ms. Johnstone stated E-251 provides for quarterly audits to be conducted of the enrollment and eligibility records. The Public Employees' Benefits Program has vendors that audited its financial statements and the third-party administrator, but PEBP wants to audit itself because if enrollment records were not correct, that could lead to errors on claims and incorrect billings to employers. The estimate would provide for quarterly audits by an outside party at a cost of $19,200 per year.

Ms. Johnstone went on to explain E-325, the wellness program on page 44 of Exhibit C. The wellness enhancement unit was basically the expanded use of a cardiac wellness test project that the plan undertook this year. It is a novel approach to addressing cardiac wellness. The protocols that the providers followed were different. They included a "therapeutic lifestyle," with nutrition and exercise counseling and an approach that considered the whole person rather than addressing a symptom. The wellness program was a little bit more expensive in the short-term than normal medical practice. The physicians spend much more time with the patient to find out what is driving health issues than they would in a normal office visit. The Public Employees' Benefits Program would like to proceed with the cardiac wellness program in a structured manner using about 1,250 participants. Over the course of one year and again at the second year mark, PEBP would evaluate the economics of this modified approach to cardiac wellness before rolling it out to the entire population.

Senator Beers asked if the benefit was experienced over too long a duration to measure immediately. Ms. Johnstone replied the providers think that the impact on risk factors can be measured, and then utilization and long-term costs can be projected using predictive modeling. There were some administrative issues with this kind of program because a different type of plan with different benefits must be set up. The providers are paid at a more attractive rate for the physicians to spend the time with the patients. Some tests that are in the wellness program are included with no co-pay or deductible. The Public Employees' Benefits Program would have to monitor the compliance of these individuals as well, which is why PEBP suggests using a smaller group of 1,250. The Public Employees' Benefits Program did not increase the overall wellness benefit. There is a $2,500 wellness benefit now, and it is underutilized. The Public Employees' Benefits Program hopes that focusing on the cardiac program will get the word out to more participants, as well as benefit the plan in the long term. The Public Employees' Benefits Program did a small test group of 30 participants and the outcome in three months was phenomenal in several areas of risk. Because this was a pilot program, PEBP was asking for approximately $3.0 million each year to be funded out of the excess reserve for this decision unit. Then PEBP would evaluate whether or not to incorporate those plan changes for the rest of the population.

Ms. Johnstone spoke on the topic of decision unit E-326, communications, on page 45 of Exhibit C. Last year the Legislature approved additional funding for the program to enhance communications. Results were seen in a newsletter that PEBP issued, as well as some in-house document production capabilities that were more cost effective. This decision unit would expand the mailings and travel budget so that PEBP could put out more educational information about the wellness program and the benefit structure in general. The Public Employees' Benefits Program still gets feedback that individuals do not know what the plan provides and many participants are still unaware of the wellness benefit. The Public Employees' Benefits Program tried to address that issue with additional communications with the participants, as well as more focus group meetings in different areas of the state. The Public Employees' Benefits Program has been conducting focus group meetings in the fall of each year, and would like to conduct the focus groups more frequently. The Public Employees' Benefits Program staff thought advertising had an impact on the attendance of the open enrollment meetings last year, so some funding would go toward newspaper advertisements.

Ms. Johnstone went on to explain that decision unit E-710, equipment replacement, was a standard item for PEBP as the program is very information-system dependent. The Public Employees' Benefits Program has a document scanning system, so no data entry is needed within the system for approximately 99 percent of the information, resulting in lots of data storage issues.

On page 47 of the handout, Exhibit C, Ms. Johnstone stated the graphics show how the state contribution is determined for the participants. The plan establishes a base plan, which in PEBP's case is the $2,000 high-deductible plan. To entice individuals to join that plan, PEBP provides the employee cost 100 percent through the state contribution. Dependents are subsidized 85 percent in the high deductible plan. If the employee enrolls in the low deductible or HMO plan, the percentage is 95 percent for the employee and 75 percent for a dependent. Based upon last year's actual enrollment and mix between plan selection and tier, the overall state contribution for benefit costs was 90 percent for the active employees.

For retirees, the percentages varied but the dynamics were very similar to actives. For the base plan, the retiree 15-year subsidy provides 73 percent for the retiree and 51 percent for the dependents. The retiree 15-year subsidy covers 67 percent of the cost for the retiree and 45 percent for the dependents in the low deductible and the HMO plans. Based upon last year's enrollment, plan selection and tier, the overall state share is 59 percent of the total retiree cost.

Using the same calculations with the agency requested budget, Ms. Johnstone said page 49 of Exhibit C summarized the state contribution for active employees and the base retiree subsidy for the current biennium against the revised agency request. For fiscal year 2007, the active assessment was $500.20 and the retiree base amount was $336.97. Those amounts rose only 4 and 5 percent from the previous year, primarily because this was the year PEBP was drawing down the excess reserve and programmed to lose approximately $21 million, so the smaller increase was one-time in nature. In fiscal year 2008, the request increases the amounts by 11.4 percent for actives and 8.4 percent for retirees. That was due to updating the plan selection and tiers to come up with the overall state subsidy level to be consistent with the percentages that are shown on page 48 (Exhibit C). In fiscal year 2009, the percentages even out and the increase is approximately 12.4 percent. Each year of the increases utilizes approximately $4 million of the reserve to go towards claims costs; these lower the amount of the increase somewhat.

Ms. Johnstone said page 50 of Exhibit C was one way to look at the recap of the overall funding sources. She would discuss the first two columns; the patterns were similar for the subsequent years. The carry-forward was the only thing that changes from year to year as PEBP continues to draw it down to the actuarially accepted level. The premium revenue (AEGIS – active employee group insurance assessment) funds approximately 49 percent of the budget in the current year. The retiree assessment funds approximately 9.8 percent of the budget, and the premium revenue from the participants and the non-state employers funds approximately 12.3 percent. The main change in the subsequent years was the amount of balance forward.

Ms. Johnstone informed the committee of the plan changes considered by the PEBP Board. The Board approved changing the method by which benefits with other insurance programs (primarily Medicare) are coordinated to the standard coordination of benefits method. In most cases, the plan would pay the balance that the primary insurance did not pay. There was a cost associated of approximately $70 per month per Medicare retiree. With commingling, that amount would be spread across the entire population. Using the September 2006 enrollment information, that was an increase of approximately $4.3 million in the total cost of the program.

Senator Beers asked if the $70 cost was spread across all groups. Ms. Johnstone stated yes, with state and non-state retirees being separately rated. The state group had to pay for its retirees and the non-state had to pay for its retirees.

Secondly, Ms. Johnstone stated a change was approved to the method by which the program reimburses the Medicare Part B premium. A couple of years ago the plan began to reimburse, by separate check, 80 percent of the cost of Medicare Part B to each retiree. In 2006, 80 percent was $70 per month. For a participant plus spouse, both with Medicare Part B, two checks would be issued to that household. The Board made a change so that rather than issuing a separate check, PEBP would reduce the retiree contributions by a like amount. The $70 would be taken off of the monthly deduction that was drawn from the retiree's PERS check. It should be a wash in most cases, except for 1,300 individuals who either had no deduction to reduce, or a deduction that was less than the amount of the Medicare Part B premium. There was some savings to the plan because, the deduction would not be reduced below zero, effectively, and PEBP would just bring the retiree contribution down to zero or as close as possible with the Part B reimbursement. Ms. Johnstone went on to explain there was an estimated savings – using the September 2006 enrollment – of about $800,000 to the plan because of the situation with those 1,300 retirees.

The next item was relatively minor but would reduce the out-of-network dental provider reimbursement for self-funded participants to the same reimbursement rate the in-network providers receive. There was approximately $200,000 in savings with this plan change.

Through a request for proposal process for a prescription benefit manager (PBM), PEBP was able to get a fully transparent agreement. As prescription drug prices change, PEBP receives the same discount throughout, so there is no retention of pricing discounts by the pharmacy benefit manager. The Public Employees' Benefits

Program also received full pass-through of rebate funding. The offset was that PEBP's administrative costs for the pharmacy benefit manager rose about tenfold. But overall, PEBP estimated it would save about $3.5 million per year with the new contract structure. At least once a year an auditor will verify that PEBP is receiving all it should under the transparent arrangement.

Senator Coffin asked why administration costs rose tenfold. Ms. Johnstone stated the PBM had been making money off of some of the pricing it passed through and/or rebates it withheld. When those were passed through to the plan, they were offset with the increases in administrative costs. That was also included in the bids from all other contractors.

Senator Coffin said PEBP was a slave, in a sense, to network service provided by Sierra. Sierra was in a fight with Sunrise, so the plan loses three hospitals in Southern Nevada until that dispute is settled. He asked if the same could be true for DME, whether it could be split off and whether that would hurt the contractual rate with Sierra.

Ms. Johnstone said that the individual items could be split, and she did not know that removing DME, in and of itself, would hurt the rate. In the case of Sunrise, the other half of the PPO network (Hometown Health) agreed to negotiate an arrangement with those hospitals on PEBP's behalf and is supposedly very close to reaching a settlement. That is one area in which the joint network between Sierra and Hometown Health was a benefit. It was not in Sierra's interest, per se, to negotiate something specifically for the state of Nevada. Hometown has done it, and in the process, included other employers that will also benefit from those negotiations.

Another pharmacy benefit change was to mandate over-the-counter drug coverage. The plan would pay for over-the-counter drugs when the drug was shown to be as effective and lower cost than its prescription counterpart within the same drug class. This is not something that the plan has done before, but opportunities exist because more items are going over-the-counter. One area identified was for stomach ulcers and that was estimated at an annual savings of $900,000 per year. The plan would still pay the expense but it would be for over-the-counter drugs and would have to be managed through a prescription from the physician. The Public Employees' Benefits Program was not paying for all over-the-counter drugs, only those prescribed by a physician.

The next item was to eliminate the "two-for-three" co-pay on mail order drugs. In the past, the price differential was much lower to obtain maintenance drugs through mail order. To incentivize participants in that direction, PEBP only required two months co-payment for a three month prescription bill. With the new contract arrangement the price differential between retail and mail order was not as significant. It is not cost effective for the plan to continue the incentive toward the lower co-payment. That would result in a savings of $1.5 million per year for the plan. The participant will still be able to get maintenance drugs three months at a time at the local pharmacy and not have to go through the mail order.

Senator Coffin asked if the savings were strictly from the members. He asked how much costs could rise.

Mr. Johnstone said it would depend on whether the drug was generic. The co-payment would be $15 for retail, compared to $10 for mail order. The formulary is more significant because it is $40 per fill, so instead of being $80 it is $120.

Other prescription benefit changes were that the plan has a $50 prescription deductible, and this change would mean that if the prescriptions were generic, they would not be subject to the annual co-pay. Initially, this cost the plan about $223,000, but even one percentage point increase in generic utilization would result in savings to the plan because participants would switch to a lower cost drug in order to avoid the annual deductible.

There are some contractual issues that the PEBP Board wants to pursue in the area of specialty drugs, price negotiations with oncologists and utilization of legal Canadian pharmacy suppliers for which no fiscal impact can be attached.

Ms. Johnstone said an additional item was limited genetic testing. The PEBP Board wanted to proceed in the direction of limited genetic testing in cases where it is deemed to be helpful in treatment. The PEBP Board is taking baby steps in this area because new technology and new protocols are being developed all the time. Two initial areas were identified:

1. A genetic marker for cardiac risk. This is not a screening for cardiac illness, but rather an indicator of risk for facing cardiac problems that was implemented with the wellness program. It has an impact on the treatment plan that provides information on diet, alcohol consumption, and what drugs are most helpful.

2. A bracket test for women who have been diagnosed with breast or ovarian cancer. This is in very limited use in cases where the physician feels it would be helpful to identify the most effective treatment protocol. Through identifying the best treatment method more quickly, there may be an overall reduction in costs in those cases.

Ms. Johnstone concluded her summary of the PEBP Board's plan design changes. She said PEBP staff was working to get the 2008 plan year rates to the PEBP Board in March 2007.

Senator Coffin asked if the genetic screening was voluntary and private. Ms. Johnstone replied that it was voluntary and private; only the provider, the patient and the lab would know the outcome of the screening.

Senator Beers commented that Ms. Johnstone did a fine job on her presentation.

V. PUBLIC COMMENT

Mr. Jim Richardson of the Nevada Faculty Alliance congratulated Ms. Johnstone on an excellent presentation.

He said the hearing was very informative and some developments occurred recently, as were alluded to in the newspaper. He said big decisions have to be made about dealing with the GASB problem. As a representative of the Nevada Faculty Alliance – an important employee group – he recognized and appreciated her efforts and would like to participate in those discussions. Regarding the scenario that removed any retirement subsidy unless someone had been in state service for 20 years, he recalled that currently some benefit accrues in a staggered formula after 5 years of state service. He wondered if there was some value in costing out the impact of something between 5 and 20 years. The idea of having someone work 19 ½ years and not be eligible for any subsidy at retirement seems a bit drastic and could affect efforts to recruit senior-level people in the university system.

Mr. Richardson said he was not clear exactly what assumptions went into the scenario that cut subsidies for those on Medicare. Is there an assumption that those people would drop out of the state plan? If so, they would lose dental and vision coverage, if not other things. He said this may not be the time to go into all the details, but he wondered how that would work in terms what happens to these folks.

Mr. Richardson said he would make a plea that if some plan is devised to deal with A.B. 286 of the 2003 Session, that Ms. Johnstone do the best she can to protect that statute as it has done a great deal to allow lots of people to stay in a system with some health care. He recalled that in the 2003 Session, lots of people, most of them retired teachers whose health plans did not include benefits for retirees, commented that they were being charged $1,000 or $1,200 per month. Assembly Bill 286 took care of that problem except for the two entities that were mentioned. He hoped a solution could be found without doing away with the statute.

Mr. Richardson said he was extremely pleased that a decision has been made by Governor Gibbons to establish a trust fund to start dealing with the GASB obligation and protect the state's bond rating. He did not know the details, only what he read in the paper. He was delighted enough to write a letter to the editor complimenting the Governor on this decision. He was extremely relieved that the Governor is using foresight in trying to deal with this problem. He also urged that other ways be found if a trust fund is established to put funds into it. He would not want to second guess the PEBP Board — he served on the precursor to that board for many years — he suggested that when they start talking about excess revenue, now and in the future, that a place to make good use of excess revenue would be to direct those excess funds to go into the trust fund to help deal with the GASB liability. He thanked the committee for the opportunity to speak and looked forward to seeing them over the next months.

Mr. Marty Bibb of the Retired Public Employees of Nevada (RPEN) said that, as a regular attendee of the monthly PEBP Board meetings, he recognized the hard work of Ms. Johnstone and PEBP staff. One of the major issues affecting public employees over the years is the Medicare carve out. He said his group was very pleased in her recommendations of changes for the plan year that begins in July 1, 2007. It is a return to what she termed a standard coordination of benefits or full coordination of benefits. The Retired Public Employees of Nevada believes it is much more easily understood and inherently fairer. As the committee may have heard in testimony over the years, not only in the respective committees of both houses, but also in the PEBP ACR 10 Committee, RPEN thinks dealing with the prefunding issue is critical. The Retired Public Employees of Nevada are certainly supportive of that, as was Dr. Richardson in his testimony. Additionally, as most of you also know, there are a lot of savings to the plan by virtue of the first priority payer position that Medicare holds. As I mentioned, that Medicare carve out and the subsequent proposed return to the full coordination of benefits is a big one. There are lots of scenarios in front of both houses, and in front of the Legislature's money committees in particular, and we do look to working toward those with you. We think that Dr. Richardson's idea of a ten year subsidy option might give some more flexibility. In conclusion, Mr. Bibb said he appreciated the opportunity to appear before the committee.

VI. ADJOURNMENT.

The meeting was adjourned at 3:45 p.m.

Respectfully submitted,

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Becky Lowe, Transcribing Secretary

APPROVED:

____
Assemblyman Morse Arberry Jr., Chair

Date: _______________________________________

Copies of exhibits mentioned in these minutes are on file in the Research Library of the Legislative Counsel Bureau, Carson City, Nevada. The library may be contacted at (775) 684-6827.