MINUTES OF THE

LEGISLATIVE INTERIM RETIREMENT COMMITTEE

LEGISLATIVE COUNSEL BUREAU

Carson City, Nevada

A regular meeting of the Legislative Interim Retirement Committee was called to order by Chairman William J. Raggio, on Tuesday, May 7, 1996, at 10:00 a.m., in Room 119 of the Legislative Building, in Carson City, Nevada.

COMMITTEE MEMBERS PRESENT:

Senator William 3. Raggio, Chairman

Senator Bob Coffin, by Teleconference to Room 4401 in the Grant Sawyer State Office Building, Las Vegas

Senator Ann O'Connell, by Teleconference to Room 4401 in the Grant Sawyer State Office Building, Las Vegas

Assemblyman Morse Arberry, Jr.

Assemblyman John W. Marvel

Assemblyman Douglas A. Bache, by Teleconference to Room 4401 in the Grant Sawyer State Office Building, Las Vegas

LEGISLATIVE COUNSEL BUREAU STAFF:

Daniel G. Miles, Senate Fiscal Analyst

Mark W Stevens, Assembly Fiscal Analyst

Brenda Erdoes, Legislative Counsel

Judy Jacobs, Secretary' to Committee

Before commencing with committee business, Chairman Raggio acknowledged the attendance in Las Vegas of three members who were unable to make the trip to Carson City. Senator O'Connell noted the presence in the Grant Sawyer Building of Marvin Leavitt, member of the Public Employees Retirement Board, and three members of the public who wanted to testify before the committee.

A. Roll Call.

After the secretary' called the roll, Chairman Raggio announced that a quorum was present.

B. Approval of September 13, 1995, Interim Retirement Committee Meeting Minutes.

Mr. Miles called attention to the fourth page of the minutes, found on page 7 of the meeting packet, in which a reference to "a 50 percent fixed income component" was printed in error and should read "a 60 percent fixed income component."

MR. ARBERRY MOVED TO AMEND AND APPROVE THE MEETING MINUTES OF THE

LEGISLATIVE INTERIM RETIREMENT COMMITTEE FOR SEPTEMBER 13, 1995, AS STATED. SECONDED BY SENATOR O'CONNELL AND CARRIED.

Mr. Marvel was absent for the vote.

C. Request for Interim Retirement Committee Approval of Salary Increase for Executive Staff of the Public Employees Retirement System.

George Pyne, Executive Officer, Public Employees Retirement System of Nevada (PERS), introduced Laura Wallace, Investment Officer; Ken Lambert, Administrative Analyst; Paul Seaman, Manager, Information Systems; Ann Sebleich, Chief Accountant; and Barbara Houger, Administrative Assistant, who is about to retire.

Mr. Pyne reminded the committee 5 percent increases for all members of the executive staff were approved for FY 1996 at the last meeting, and 3 percent increases for FY 1997 were approved for the Manager of Information Systems and the Administrative Assistant. He explained the increases minor those given to state employees in the classified service. He pointed out salaries for the Executive Officer, Investment Officer and Operations Officer had not been fixed for FY 1997 pending a study to be conducted by an outside consulting firm. Should increases be recommended, it was the intent of the Public Employees Retirement Board that they be implemented during the biennium.

At the November meeting of the hoard according to Mr Pyne, a decision was made to conduct the study in-house in time for the May meeting. He stated the Department of Personnel was assisting in the study, and the staff will report results to the board at their upcoming meeting. He noted any pay increase recommendations made as a result of the study will be included in the FY 1998- I 999 budget. Therefore, he said, the board voted at its April meeting to provide the three officers cited above with the same 3 percent increases that employees in the classified service will receive effective for FY 1997.

Mr. Pyne reported a new Administrative Analyst position, equivalent to a grade 41, step 1, an unclassified position filled by Ken Lamben, was added. Based on what Mr. Pyne described as Mr. Lambert's outstanding job performance, the board has recommended an upgrade in pay for him equivalent to a grade 41, step 3, which would include the 3 percent raise effective July 1,1996.

Senator O'Connell wondered why the position would jump from a step 1 to a step 3.

Mr. Pyne responded it is normal for the state to jump classified service personnel in odd increments. Mr. Miles interjected there are 15 steps in the state salary schedule, but normally odd steps are granted because that represents an approximate 5 percent increase on an annual basis.

Chairman Raggio called attention to a letter in the packet to the chair from Mr. Pyne dated April 18, 1996, which sets forth the effective salaries for the three officers and the Administrative Analyst position.

Senator O'Connell wanted to know if comparisons to the private sector were used when the study was performed. Mr. Pyne replied the study included not only state employee salaries, but also salaries for comparable public employees in neighboring states and municipalities, including 80 percent of the states west of the Rocky Mountains, the City' and County of San Francisco, and Los Angeles County. He said those carrying out the study, including the Department of Personnel, did not feel it would be appropriate to use data from the private sector.

MR. MARVEL MOVED TO APPROVE THE REQUEST TO INCREASE SALARIES FOR THE EXECUTIVE STAFF BY 3 PERCENT FOR FISCAL YEAR 1997 AND TO APPROVE AN

INCREASE IN FISCAL YEAR 1997 FOR THE ADMINISTRATIVE ANALYST POSITION TO A GRADE 41, STEP 3 EQUIVALENT AS OUTLINED BY MR. PYNE. SECONDED BY MR. ARBERRY AND CARRIED UNANIMOUSLY BY VOICE VOTE.

D. Actuarial Report.

Mr. Pyne referred to the charts in the legislative packet found under tab D. He recalled the chief charge to the system's actuary is to determine the payroll contribution rate needed to fund the system. He explained one of the major tasks of the actuary in calculating the liabilities of the system is to predict uncertain future events. The actuary takes three areas into consideration, including plan design. As an example, Mr. Pyne stated the retirement eligibility age is considered, as well as provisions for early retirement penalties, the type of post-retirement increases included in the plan, or the provisions for disabilities or survivor benefits.

All those impact the fund, he said. He added predictions for uncertain future events must be calculated, such as how fast salaries may increase, or projected returns on investments.

Mr. Pyne declared the third matter which must be considered involves member demographics, such as the age when the person enters the system, anticipated longevity, and life expectancy after retirement. Directing attention to the first page under tab C, he said the information reviewed in 5-year increments assists the actuary in making a determination regarding population trends. He noted the membership has increased at about 3.5 percent compounded annually over the last 19 years as depicted, with a prediction it will grow at a similar rate into the year 2001. He opined that may be a conservative estimate given the overall growth in the state with commensurate increases in the system.

A similar trend is apparent regarding benefit recipients, said Mr. Pyne, who have increased at the rate of 7.5 percent annually over the last 19-years, and who are expected to increase by 6 percent in to the year 2001. He noted a significant decline in the ratio of active members to benefit recipients which drops from 8.3 active members per benefit recipient in 1976 to an estimated 3.3 percent in 2001. He asserted that indicates the need to set aside reserves today to pay for future benefits because Nevada uses an actuarial reserve system rather than a pay-as-you-go system like Social Security. He surmised the actuarial reserve system is more advantageous than a pay-as-you-go system.

Mr. Pyne averred assets are equally important. He recalled the portfolio had a value of $400 million when he came to the system, whereas today it is worth approximately $6.5 billion. He estimated 80 percent or more of the benefits paid out by the system are derived from investment income and appreciation on investments, not from contributions paid into the system. Me pointed out the liabilities have had similar growth, with assets standing at approximately 73 percent of liabilities. He reminded the committee that in January' 1984 a 40-year amortization schedule was commenced to pay off the system's unfunded liability, which has increased the funded ratio from 61 percent in 1976 to 73 percent in 1995, with 80 percent projected for 2001 and full funding by 2024.

Mr. Pyne commented the Legislators' Retirement Fund was approximately 50 pcrccrit funded as of January 1, 1995, at which time its assets were just over $2 million with close to $4 million in liabilities and with annual payouts of approximately $300,000 in benefits.

Turning to a discussion of contribution rates, Mr. Pyne said the figures were revised after the actuarial report was published as of July 1995. Subsequently an error was discovered by the Martin Segal Company, a correction was made and the board adopted a new actuarial evaluation. He pointed out the figures depicted for members under the employer-pay contribution plan are now correct as of July 1, 1995. He noted the contribution rate for

regular members is 18.83 percent instead of the reported the 18.75, while the police-fire contribution rate is 27.39 percent rather than 27 percent. He explained the contribution rate,

service retirement, disability and post retirement increases that are attributable to cost-of-living increases are considered normal costs of benefits. He indicated the differences between regular members and police-fire members can be ascribed to earlier retirement age for the latter, who retire earlier on average than regular members.

As to unfunded liabilities, Mr. Pyne explained from time to time benefit enhancements are added to the plan which may have an affect on benefits for those already retired, so current and future members of the system are obliged to pay for them by spreading the cost over the amortization period.

According to Mr. Pyne, the error regarding contribution rates was made at the very end of the actuarial evaluation process. He explained the actuaries assigned to the account by the Martin Segal Company keyed in the wrong number and generated an erroneous contribution rate, but their own internal audit process caught the error, it was corrected and a revised report was sent to the system. He asserted there is no effect on planning since the erroneous valuation was done in an odd-numbered year, and only those valuations done in even-numbered years under current statutes actually impact the rates that are paid by employers and employees. He reported the Segal Company has taken several steps to correct the problem by assigning an additional actuary to review all of the input. Also they have automated their report-writing process, and, hereafter, when an actuarial evaluation is received from the Segal Company, if the rate moves significantly, a gain-loss attribution analysis will be made in which they will specifically point out why the rate moved. Mr. Pyne stated such changes could be ascribed to a lower age of entry-level persons coming into the fund, or to better investment experience.

Mr. Pyne reported on an experience study conducted by the Segal Company. He indicated both economic and non-economic assumptions were used by the actuary to compare plan experiences over the past 5 years from which recommendations were made for the board's use in the 1996 actuarial valuation. He said changes made using non-economic assumptions took into consideration the new-member-withdrawal rates in which it was determined that in certain age categories for policemen and firemen, members were leaving sooner than expected, while in other categories some members were staying longer than projected. From that a recommendation was made to modify withdrawal rates. He added the disability rate was modified to reflect a greater increase in disability retirements. As an example, he said, 6 or 7 years ago an average of 8 persons came before the board regarding disabilities, whereas the average rate today is more nearly 14, and sometimes there are as many as 22 or 23 claims before the board in any one month.

Mr. Pyne indicated no substantial change was made to the assumed retirement rate for either regular or police/fire members. A new mortality table was adopted by the board for members who retire under a disability. He said previously those life expectancy figures were grouped with regular members of the plan, but common sense dictated that disabled retirees do not have the same life expectancy as healthy retirees.

Mr. Pyne acknowledged economic assumptions carry greater weight in an actuarial valuation than non-economic assumptions. He pointed out no changes were made to the investment return assumption, but the actuary recognized that payments have not risen as quickly as anticipated in the salary schedule, so the board adopted new age-related salary schedules which should have the impact of bringing rates down. He advised the committee that, as a result of an asset-liability study on the investment program offered as a second opinion by Bear Steams Fiduciary Services, Inc., the investment return assumption and age-related salary schedule will be revisited.

Chairman Raggio called attention to a list of the PERS portfolio managers found on page 21 of the legislative packet which had been requested during the last meeting of the committee. He asked that a report on the yield rate for each of the managers be soot to committee members as soon as possible, and lie also wanted a report on how frequently investment managers are changed.

Ms. Wallace turned to page 17 of the packet to give an investment update, including a second opinion review, portfolio characteristics of both the Legislators' Retirement Fund and the PERS fund, and investment performance. She declared an exhaustive analysis of the investment program for both funds was made as part of the second opinion review. She said the board spends most of its time on asset allocation which she asserted is most significant in the investment performance of the fund. She advised the committee both funds target 40 percent of their investments into stocks. She reported PERS targets 50 percent into bonds and 10 percent into real estate, but the Legislators' Fund invests the maintaining 60 percent only in bonds. She indicated the review sought to determine if those policies were reasonable for institutional investment practices given the long term liabilities of the plans, which was affirmed.

There were two caveats to that conclusion, according to Ms. Wallace, which indicated that although the practices may be deemed reasonable, there are alternatives to the present asset-allocation strategy. She acknowledged the asset allocation policy for both funds is very' conservative within institutional standards. As an example, she noted other states invest an average of between 55 and 60 percent in stocks. However, she declared Nevada's policy for both plans insures a high probability of being able to match future liabilities.

Ms. Wallace stated nothing noteworthy was uncovered in the review manager- specific issues such as hiring, funding and monitoring practices. She said as a result the board adopted specific policies ill each of those areas reflecting existing practices.

Chairman Raggio asked how often the asset-allocation formula is reviewed. Ms. Wallace answered it is reviewed once each year in September. In response to another query by the chairman, Ms. Wallace said Bear Steams Fiduciary Services was used for the second opinion review after several investment consulting firms were solicited.

Senator Raggio wondered if Ms. Wallace was proposing that something higher than a 50 percent proportion be allocated to equities. She responded it was not her suggestion, but the board continues to contemplate changes in the stock position. She referred to the asset-liability study, saying it will tell more about the patterns of growth of liabilities and from that a review of investment assumptions may indicate if there is a better allocation ratio. She opined there is some likelihood that the stock component may increase modestly. Agreeing that the formula is conservative, Chairman Raggio opined it is advisable.

Asking if he had read it was in the range of 14 percent, Chairman Raggio inquired as to the overall yield. Ms. Wallace responded the number may have appeared as an inception-to-date figure for the PERS fund going back to July 1, 1984. She noted current return numbers are listed on page 24 of the packet showing the actual return for the PERS fund for the fiscal year to date is 11.28 percent. For the 10 years ending in December 1995, she said, the return was 11.7 percent.

Continuing her discussion of page 18, Ms. Wallace said suggestions as a result of the second opinion review were made regarding portfolio monitoring. Those included improving quarterly reports on portfolio characteristics by addressing price-earnings ratios and capitalization limits. She said no significant suggestions were made regarding the asset-specific issues which might alter what is being practiced.

Turning to page 19, Ms. Wallace reminded the committee current activities include the asset-liability review in which patterns in the growth of liabilities will be studied in order to assure a match with growth of assets. She called attention to the question mark regarding 40 percent equity which she declared is at the root of adding growth to investments and will result in recommendations from the staff and the board regarding changes in stock equities. After that determination is complete, she said, manager-structure evaluations must be made to decide if the best mix of managers is being utilized in the stock portfolio in order to capture objectives.

Ms. Wallace called attention to an update of the PERS fund characteristics displayed on page 20. She asserted the most important figure shows total assets as of March 31, 1996, at $7,466 billion while the 8 percent targeted return has been maintained. She noted the schedule showing asset allocations in equities, fixed investments and real estate. Calling attention to the following page, she explained it depicts which organizations manage those assets and the dollar amounts for each. In response to a previous request, she pointed out the fees paid by the fund are set forth at the bottom of page 21. She said fees are monitored against standards in the investment management business and it appears PERS is consistent with the average or a little on the low side.

The Legislators' Fund characteristics found on page 22 show $3.2 million in total assets, with the same 8 percent return assumption. According to Mrs. Wallace, although the asset-allocation is different, both portfolios are well-diversified and folly indexed. She noted the management fees for the Legislators' Fund could be found on page 23.

Ms. Wallace explained the last two pages depict the performance of the funds compared to long-term actuarial targets. She declared recently it has been relatively easy to outperform die targets due to the low level of inflation in which die equity markets have been auspicious. She acknowledged a shorter-term view of the PERS portfolio comparing it to benchmarks for each segment shows the stock portfolio has fallen behind the Standard and Poor 500 Index (S&P) both on a fiscal year-to- date basis and on a 10-year basis. She opined that may continue as long as domestic stock market returns continue at the present rate. In contrast, Ms. Wallace noted the bond portfolios have outperformed the market benchmark, as have investments in real estate.

Turning to data for the Legislators' Fund on page 25, Ms. Wallace attributed differences from the PERS fund to different allocations, but she noted the actual return for the year at 10.81 percent exceeded the actuarial target at 5.51 percent, and the 5 ¼ year actual return of 12.28 percent exceeded the 5.99 percent target. She explained the portfolio was structured on a 5-year basis in 1991 when an equity component was added. She declared as more experience is gained and more data for actual numbers becomes available, the Legislators' Fund actual return and target market benchmarks will track more closely because they are fully indexed.

Senator O'Connell asked Mr. Leavett to comment. Mr. Leavett commended the Executive Officer and the Investment Officer for their diligence and for keeping the board informed. He reported they provide the board with monthly updates on the portfolios and compare them to the markets. He acknowledged the investment mix may be more conservative than the average, which he said is deliberate even though the return may fall slightly behind in a rapidly-rising market, but also it provides protection against a downturn.

Chairman Raggio thanked Mr. Leavett for his remarks and agreed the performance has remained above standard which indicates the policies set by the board are prudent.

F. Operations Report.

Mr. Pyne stated the report revolves around strategic planning. He acknowledged the need to be proactive rather than reactive, and to review past activity in order to assess the future of the system. He read the PERS mission statement on page 27 in the packet, which he described as good public policy. He asserted the policy' will encourage workers to enter into and remain in government service, thus providing employers and the citizens of the state with the benefit of their training and experience. He called attention to the outline on page 28 depicting the method supported by the Department of Administration to be used for development of strategic planning.

Speaking first to external assessments, Mr. Pyne responded the scope of services being provided by the Segal Company has been broadened beyond the narrow focus of actuarial services to assist in formulation of an overall benefit plan. The review will include mandatory Social Security, competitiveness, the adequacy of the benefit provided, and federal legislation and regulations, and the Segal Company will advise the state how to react to federal changes.

Mr. Pyne admitted the issue of mandatory Social Security' has been on the agenda since he arrived in 1 977. He pointed out there are several federal committees assigned to find ways to strengthen the Social Security System, and though there are several approaches to the problem, the one common element is that all new public workers should be included. He warned it is a very real threat which could occur as early as October 1997, and which will carry a very significant cost, which be projected at around $30 million a year for employees of public employers in the State of Nevada. He declared it would be cost-prohibitive to add 6.2 percent to the 18 percent already being contributed by employees. He suggested different formulas of contribution may be necessary to create various tiers of benefits for new people entering government employment. To prepare for that contingency, Mr. Pyne said the services of the Segal Company are being utilized.

Mr. Pyne averred PERS probably has as generous a benefit structure as any in the public sector, yet he avowed the need to analyze what is being provided and whether those benefits are reasonable. Continuous review needs to be made of what length of time should be considered career employment in the state, what kinds of benefits should be provided after That period of time, how benefits compare to various income-replacement ratios, and how they compare with other states such as Arizona, Utah, Colorado and Oregon. Mr. Pyne pointed out Nevada is one of only 8 states That do not have a plan combined with Social Security in some way.

According to Mr. Pyne, such strategic planning should assist the board in establishing objectives and policies for the future, and in devising specific action plans. Not only will affordability of benefits be considered by the board, but also purchase of service, eligibility requirements, and retiree health care, he said. He indicated a list of priorities will be prepared for the 1997 legislative agenda.

Mr. Pyne warned a determination has been made that Internal Revenue Code (IRC) non-discrimination rules, previously thought to apply to private pension plans only, will be applicable to public pension plans effective July 1, 1999, unless some action prevents it. He noted Senator Orin Hatch of Utah is proposing legislation to exempt public plans from those regulations. He explained that The IRC regulations were imposed to prevent corporations from crafting retirement plans that benefitted anyone paid $65,000 per year or more, while those receiving lower salaries were unable to accrue similar benefits. While declaring that type of plan design is inapplicable in Nevada, Mr. Pyne declared there is the possibility the state could be found in noncompliance with the regulation. He explained that although any public employee in the state can purchase service, if it was determined only those in the higher salary brackets were actually buying service, the tax status might be withdrawn.

Mr. Pyne said a technology plan is being developed internally to mirror business interests, to be addressed by Paul Seaman. As far as plan simplification, Mr. Pyne cited the goal of completing rewriting the retirement act for the upcoming legislative session, started last year, to remove some of the redundant and obsolete language in order to make it easier for members and retirees to understand, and for PERS to administer, without jeopardizing the fiscal integrity of the plan.

Mr. Pyne said an internal assessment of staffing is being carried out. He noted there were 44 staff members in 1987, while today there are only 37, one of whom is assigned to Las Vegas. While acknowledging the advantages of new technologies, Mr. Pyne pointed out the increase in counseling, requiring personal involvement, which cannot be done by computer. He

called attention to the caseload indicators on page 29 which show the growing number of those being counseled, from 2,195 in 1987 to 3,524 in 1995.

Mr. Pyne asserted the staff is being strained. Not only have the number of members and retirees increased, he said, but also benefit members are aware of retirement options with a commensurate necessity for more calculations. He explained many members make inquiries not only as to benefits at age 60, but also as to benefits at earlier ages, what may happen if they quit and freeze benefits until age 60, or what they will receive after 30 years. He said it is not uncommon for staff members to send three or four different estimates to members. He noted the caseload indicators and need for increased staff will be reflected in the upcoming budget request.

Mr. Arberry asked where additional staff would be housed. Mr. Pyne replied most would be in Carson City, but it is possible one additional staff member may be requested for Las Vegas.

Mr. Seaman addressed the subject of strategic planning for technology. He stated PERS has a "legacy system," defined as any system that has been in use for a long period of time. He pointed out such systems lack the millennium issue, meaning there is no provision in the information that has been maintained over the past 20 years to account for the year 2000. He related in order to save space on disks in the 1980s, when the PERS system came into use, data processing left "19' out of the data base not only for PERS, but also for most other agencies. He said any time a calculation is made using the year 2000 or beyond a minus figure appears. He cautioned this will put the entire technology system in disarray if the problem is not resolved soon.

Even though PERS has lived with the "legacy system" since the early 1980s, Mr. Seaman declared the system has some of the most "state-of-the-art" equipment and software available. He said PERS has maintained the "legacy" hardware while combining it with local area networks and personal computers. He noted everyone in PERS uses a computer, and they are all connected.

In the future, Mr. Seaman asserted, the technology must support the business direction and must be accurate. He said the "legacy" system inhibits the ability' for PERS to remain accurate, and therefore something must be done for the benefit of the system. He suggested there is no choice but to replace the whole accounting system, because any alternative would be cost-prohibitive. He said there is no project staff, so outside sources of technology expertise from the pension fund industry must be accessed. He said a consultant has been selected to prepare a request for proposal (REP) to replace the financial accounting system, which he called critical. He admitted the membership, benefits and investment systems need

to be addressed, but they are not as critical and it may be possible to physically take care of the millennium issue within those systems. He reported PERS will appear before the Interim Finance Committee (IFC) tomorrow to request an augmentation of $143,000 for the technology consultant to prepare the REP, and he anticipates returning to IFC in the fall to request funds to replace the system at an estimated $ 1 to $2 million.

Chairman Raggio inquired who was selected to prepare the REP. Mr. Seaman replied the board approved L. R. Wexler, Ltd., of Fairfax, VA, selected from a field of four finalists.

Mr. Arberry wanted to know how the estimate of $1 to $2 million was reached. Mr. Seaman responded it was a "ball-park" figure established through discussions between the PERS office and the consultants. He said the consultants based their fee of $l43,000 on an estimate of the cost of a new accounting system for a pension fund the size of Nevada's.

Mr. Arberry asked if the $1 to $2 million will be the total required, or if it reflects only the cost for the first phase and another $1 to $2 million will be needed in another year or two. Mr. Seaman responded, following replacement of the accounting system, the plan is to address the other attributes of the system, which include membership, benefits, investments, and the millennium issue. He acknowledged PERS' intention to include funds for a complete replacement of all PERS systems in the operating budget to be presented to the next legislature. He estimated the overall cost of replacing all systems prior to the millennium, including the accounting system, at $4 to $5 million.

Mr. Arberry wanted to know if training for employees is included in those estimated figures. Mr. Seaman answered training is part of the entire process, that it is essential to the success of the change of technology. He asserted the biggest risk for PERS in such a large undertaking is a shortage of resources to complete the change, of which the consultant is aware.

Mr. Marvel asked if the Department of Information Services will face the same problem. Mr. Seaman replied, "Absolutely." He said the millennium issue and "legacy" systems are key issues facing all the systems in every agency in the state which have been running for close to 10 years. He noted even newer systems have a problem with the millennium issue. Mr. Marvel commented extraordinary costs will have to be faced at the next legislative session.

F. Public Testimony.

Senator O'Connell reported there were members of the public present in Las Vegas who wished to bring some matters to the attention of the committee.

First to speak was Kip Botitin, Assistant Chief of Police, City of Henderson, who read portions of a statement (attached as Exhibit A) provided to Senator O'Connell in which he described his situation. The statement indicated he would have to forfeit his PERS benefit after 30 years' service if he should take a lull-time teaching position at a community college within the state. Speaking on behalf of representatives of the Community College of Southern Nevada, he said recruitment was tendered to three Nevada citizens for the last two full-time teaching positions in criminal justice at CCSN who declined because they either could not take the cut in pay or could not afford to give up their retirement benefits in order to accept the teaching offer.

Steve Waugh identified himself as a member of the PERS system for nearly 30 years. He said in July 1995, after service with the Las Vegas Metropolitan Police Department (METRO) and as assistant sheriff, he retired. Prior to and subsequent to his retirement, he said, he was offered positions within other public agencies which he felt obliged to refuse because the pay would have been about half of his salary at the time, or, in the case of an appointment offered by the Governor, would have been $30,000 less than his retirement benefit. He suggested much talent not only from law enforcement people, but also from administrative or other agency experience is being lost because technically those people will be punished by the PERS regulations if they take another, lower-paying job.

Citing his experience, Mr. Waugh said he spent 15 years involved in collective bargaining for METRO, but because he cannot contract with METRO or other public agencies and earn more than $14,000 he now works in collective bargaining in the private sector. He felt the skill he gained in his position would have been of great benefit to other government agencies which cannot afford salaries generally paid for experience such as his. He noted he refused a job as chief of police for Boulder City because his pay would have been reduced and his retirement benefit jeopardized, and which was subsequently given to a man from Arizona. He said others have left the state to perform public service, which he called loss of great resources. He declared it was somewhat unfair because, had he run and obtained public office, he would have been eligible to receive his benefits. He suggested a person should be able to retire, take his benefits, but be able to go into another public service and negotiate a salary above $14,000 per year.

Jim Santor, resident of Henderson, stated he has been a Professor of Criminal Justice at CCSN since 1977. He stated CCSN is the most rapidly growing institution in the state, he was its first full-time employee in the criminal justice program, and in the past 2 years the

program has added 3 new faculty members. Also, he said, another full-time person was hired for the recently created Southern Nevada Regional Criminal Justice Training Center. Observing that the pattern will continue, he voiced concern over the ability to recruit the highest-quality, best- prepared people for the college staff. He echoed Mr. Waugh's opinion that in some instances qualified people have not made themselves available because they did not feel they could take the position.

Mr. Santor said he has seen an exodus to other states over the past few years of people retiring from police departments who would be extremely well-qualified for positions, and who, on various occasions, have taught part-time or have been guest speakers at the colleges. He asserted they are qualified not only due to experience in southern Nevada but also by their educational background. He expressed hope a change in PERS regulations would be made at least to allow an exception for public safety personnel, including police, fire and emergency medical technicians, who are employed in state agencies, to enable them to transfer to the community colleges without such a loss of income. He said many of those leaving are young enough to have an impact but they cannot afford the pay cut, generally substantial, because PERS has determined they would have to forfeit their retirement and live off the college salary until such time as they finally retired.

Senator O'Connell asked if there is a way to calculate how much was spent by taxpayers for training for either Mr. Waugh or Mr. Botkin. Mr. Botkin replied he graduated with 3 months' training for police administrators from the Federal Bureau of Investigation National Academy, he attended several other training classes in Washington, D.C., and he estimated he has received in excess of 2,000 hours of in-service training. Also, he said, his agency reimburses employees for college courses that directly relate to their service positions, and he received a degree in Criminal Justice from the University of Nevada, Las Vegas, for which the City of Henderson reimbursed many of his tuition expenses. He said he could not give the senator a dollar figure, but all his law enforcement training has taken place while he has been employed.

Mr. Waugh estimated over $100,000 has been spent on his education and training by METRO, the city or the county. He, too, graduated from the FBI National Academy, the community college, UNLV, three weeks at the Senior Management Institute for Police at the Kennedy School of Government in Boston, and other seminars or training classes throughout the United States for which many of his fees were paid by his employer.

Chairman Raggio invited comment from the staff. Mr. Pyne agreed to address the concerns in Mr. Botkin’s letter and advised him the board generally considers requests for proposed legislation at the June meeting each year.

Mr. Pyne suggested there is a logical reason for the reemployment provisions, which he averred are somewhat generous. He pointed out the word "retirement" means to retire or depart service. He noted the statute allows a person to return to public employment and to re-enroll in the system and accrue additional retirement benefits, or it is permissible for the person to work up to half-time and earn approximately $15,000 or $16,000 per year without forfeiture of any retirement benefits. He surmised the system is not forcing anyone into an unsatisfactory position. While agreeing to inquire into the matter, he noted it is a matter of philosophy and public policy.

Chairman Raggio asked if retirement benefits would cease if a person retired after 30 years' service at a hypothetical 560,000 salary and then took a position at $30,000. Also, he inquired, would the subsequent retirement benefit be based upon the highest last 3 years within a 5-year period with the result the person would lose vested benefits. Mr. Pyne replied there is a maximum benefit accrual, but the additional service benefits earned would be added to the previous benefit. He thought the person could add a higher second salary to the average wage of all previous wages, resulting in an increase; but if the second salary paid less, he thought by refunding previous benefits paid to them they could eventually retire with benefits paid based upon the highest years of salary, regardless of whether it was the first period of employment or the second period of employment.

Chairman Raggio opined it would be appropriate to have a response drafted to the concerns voiced during the meeting to enable the committee to understand the potential issues and which issues may require further legislative consideration. He suggested those who had spoken during the meeting should take the opportunity to testify before the Public Employees Retirement Board meeting in June, since it would be inappropriate for this committee to make a recommendation on a subject that was not agendized. He advised those who bad made comments to provide their names and addresses to the staff to be conveyed to Mr. Pyne.

Mr. Pyne reported the meeting will be held in Carson City, although he was unable to give an exact time, but he agreed to inform the testifiers and provide a response to their concerns.

Mr. Marvel asked if a fully-vested retiree can receive full benefits from PERS if the retiree takes public employment in another state. Mr. Pyne confirmed the query, explaining that only within this state are there various conditions which must be met. He reiterated if the position is not eligible for membership in PERS, less than half-time, the person may earn up to approximately $l5,000 per year without suspension of benefits. On the other hand, he

explained, if the position is eligible for membership in PERS, i.e. more than half-time, the benefit is forfeited and the person must comply with re-enrollment rights and recalculation of benefit rights. He acknowledged the later provisions are complicated and he felt a need to review the statute to make a proper response.

Chairman Raggio proposed the response should include a discussion of the statute with respect to re-entry into the system.

G. Adjournment.

Chairman Raggio thanked retiring Barbara Houger for her many years of service and wished her well.

There being no further business to come before the committee, Chairman Raggio adjourned the meeting at 12:05 p.m.

Senator William J. Raggio, Chairman

Interim Retirement Committee

Lorne Malkiewich, Director

Legislative Counsel Bureau, and

Secretary, Interim Retirement Committee