MINUTES OF THE
NEVADA LEGISLATURE'S
INTERIM RETIREMENT AND BENEFITS COMMITTEE
(*Nevada Revised Statutes* 218E.420)
February 8, 2022

The first meeting of the Nevada Legislature's Interim Retirement and Benefits Committee (IRBC) was called to order at 1:02 p.m. on February 8, 2022, via videoconference. Pursuant to NRS 218A.820, there was no physical location for this meeting.

COMMITTEE MEMBERS PRESENT:

Assemblywoman Maggie Carlton, Chair
Senator Chris Brooks
Senator James Ohrenschall
Senator Heidi Seevers Gansert
Assemblywoman Heidi Kasama
Assemblywoman Sarah Peters

STAFF MEMBERS PRESENT:

Sarah Coffman, Assembly Fiscal Analyst, Fiscal Analysis Division
Alex Haartz, Chief Principal Deputy Fiscal Analyst, Fiscal Analysis Division
Eileen O'Grady, Chief Deputy Legislative Counsel, Legal Division
Donna Thomas, Committee Secretary, Fiscal Analysis Division

EXHIBITS:

Exhibit A: Meeting Notice/Agenda and Packet
Exhibit B: Public Employees' Benefits Program (PEBP) Presentation

I. ROLL CALL.

SARAH COFFMAN (Assembly Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau [LCB]) called roll; all members were present.

II. PUBLIC COMMENT.

DOUG UNGER (Chapter President, University of Nevada, Las Vegas, Government Affairs Representative, Nevada Facility Alliance):
This is the season of great resignation. According to the U.S. Department of Labor's Bureau of Labor Statistics, an unprecedented number of workers (approximately 3.9 million) are quitting their jobs. Nevada is also experiencing worker flight in almost all state offices and the Nevada System of Higher Education. Understaffing in the Nevada Department of Corrections is now a crisis and a civil rights concern. Among the reasons for the loss of state workers were the inadequate cost of living increases (COLA) during the 2021 Legislative Session and substandard health insurance and benefits from

budget cuts to PEBP during the COVID-19 pandemic, which have not been restored. The state took back $25 million in its employer contribution holiday, which was the first time the Legislature has swept PEBP in this way without restoring benefits.

Recent state contributions to PEBP were at least $20 million less per year than three years ago. Out-of-pocket maximums are now $5,000 for an individual and $10,000 for a family, which feels like a deliberate punishment. Life insurance has been cut in half, and long-term disability insurance has been eliminated during a time when, because of the risk of contracting long-term effects of COVID-19, the likelihood of disabilities has increased. The Nevada Facility Alliance has repeatedly asked the Committee and the Office of the Governor to use American Rescue Plan Act (ARPA) funds to remedy the drastic cuts to PEBP benefits, with the requests being denied without the courtesy of an explanation for the denial; no wonder state workers are leaving their jobs. Please restore PEBP's budget to pre-pandemic levels, as this is the right thing to do.

TERRI LAIRD (Executive Director, Retired Public Employees of Nevada [RPEN]):
Founded in 1976, RPEN lobbies on behalf of all public employees in Nevada to protect the pension and health care benefits that these employees earn through their public service. RPEN has nearly 8,000 members, many of whom are retired and enjoying their well-deserved pension. RPEN has been closely aligned with Nevada's Public Employees' Retirement System (PERS) and PEBP since its inception. Executives from both PERS and PEBP write a regular column in RPEN's member newsletter which is mailed out six times per year to keep RPEN members up to date.

Over the last two years, the COVID-19 pandemic has had a drastic impact on PEBP participants, who have seen benefits slashed, including life insurance and long-term disability. PEBP is now proposing to impose a COVID-19 surcharge on all unvaccinated state employees beginning in July 2022. While RPEN understands the need to cover additional costs that PEBP has incurred due to the COVID-19 pandemic, state employees should not face additional cost increases, especially those employees earning entry-level wages. The state has received nearly $3 billion in ARPA funding to be shared with all state agencies impacted by the pandemic, and RPEN hopes that PEBP can benefit from receiving some of this funding to possibly restore benefits to pre-pandemic levels. PERS continues to outperform similar-sized pension funds with its conservative investments, but there are some groups that would like to see PERS reformed from a defined benefit system to a hybrid defined benefit/defined contribution 401K for new hires only. RPEN has previously testified against such a plan, and with another legislative session approaching, RPEN hopes the Legislature will continue to support PERS and keep the defined benefit system in place; what is not broken should not be fixed.

KENT ERVIN (Nevada Faculty Alliance):
I want to congratulate PERS for its extraordinary investment performance in FY 2021, during which it also changed assumptions on future returns and payroll growth to more conservative values; this makes PERS fiscally stronger in the long term. PERS' unfunded liability is projected to be paid off by FY 2034, after which contribution rates will drop

drastically. However, the assumption changes will lead to higher contribution rates for the next several years, which state workers cannot afford with wages that are lagging far behind inflation. PERS can and must use actuarially sound methods to smooth out the contribution rates and not increase these rates again.

PEBP's budget is being cut by nearly $25 million per year in FY 2021, FY 2022, and FY 2023. The slashing of PEBP's budget is targeting vulnerable employees with chronic conditions resulting in higher out-of-pocket maximums. The elimination of PEBP's long-term disability insurance targets employees who may be disabled in the future, which is cruel. Coronavirus Aid, Relief, and Economic Security Act funding reimbursed PEBP with approximately $14 million for COVID-19 medical claims through December 2021. I do not understand why ARPA revenue loss funds have not been allocated to PEBP for COVID-19 incurred costs or to restore benefits until at least FY 2023. With revenue from the state's Gaming Percentage Fee Tax and State 3% Room Tax at an all-time high, it is painful that state workers have not been made whole after working on the front lines throughout the COVID-19 pandemic. State agencies including PERS, PEBP, NSHE and the Department of Corrections are having difficulty hiring and keeping employees in part because of noncompetitive salaries and benefits. Benefits must be restored for the state to have the high-quality workforce needed to achieve the goals of ARPA and the state.

III. APPROVAL OF THE MINUTES OF THE DECEMBER 16, 2020, MEETING.

ASSEMBLYWOMAN PETERS MOVED TO APPROVE THE MINUTES OF THE DECEMBER 16, 2020, MEETING.

SENATOR BROOKS SECONDED THE MOTION.

THE MOTION PASSED. (Senator Seevers Gansert and Assemblywoman Kasama abstained from the vote.)

IV. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), JUDICIAL RETIREMENT SYSTEM AND LEGISLATORS' RETIREMENT SYSTEM.

1. Approval of executive staff salaries (NRS 286.160).

TINA LEISS (Executive Officer, PERS):
Agenda Item IV.1 begins on page 45 of the meeting packet (Exhibit A) and outlines the executive staff salary modifications approved by the PERS Board (Board) at its December 2021 meeting to begin in FY 2023 pending the Committee's approval. The proposed FY 2023 maximum salary for all positions except the Deputy Investment Officer position reflects the maximum salaries previously approved by the Committee and the Board. PERS made the modifications for a cost-of-living adjustment (COLA) approved by the Board which is equal to the COLA granted to state employees by the 2021 Legislature. The COLA has also been adjusted to reflect the reduction in salary for the contribution rate change effective July 1, 2021.

The Deputy Investment Officer position was created during the 2021 Legislative Session and is currently being paid in accordance with the legislatively approved budget. Should the Committee approve the salaries as fixed by the Board pursuant to *Nevada Revised Statutes* (NRS) 286.160, a 1% COLA will be applied to all nine statutory positions shown in the table on page 46 of (Exhibit A) as of July 1, 2022. Per statute, the positions are required to be paid under PERS' employer paid plan. The Board respectfully requests the Committee's approval of the salaries for the nine statutory positions of PERS as fixed by the Board.

CHAIR CARLTON:
It is common for the Committee to approve positions in this manner.

SENATOR SEEVERS GANSERT:
The retirement contributions of the nine statutory positions are employer paid, and no contributions will be made by the employees. Is the employer paid contribution portion covered by the state?

MS. LEISS:
Yes, that is correct. Under the employer paid plan, the salary has been reduced for what would have been the employees' portion of the retirement contribution. For example, the FY 2022 rate reflects a reduction in salary for the contribution rate increase on July 1, 2021. Since the contribution rate was reduced, the employer paid the employers and employees' portion to PERS. Therefore, there will be no further reduction in the rate for contributions of employees after contributions are made for retirement.

> ASSEMBLYWOMAN PETERS MOVED TO APPROVE THE 1% COST OF LIVING INCREASE FOR EXECUTIVE STAFF SALARIES OF THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM.
>
> SENATOR BROOKS SECONDED THE MOTION.
>
> THE MOTION PASSED UNANIMOUSLY.

2. Report on actuarial valuation for the Public Employees' Retirement System as of June 30, 2021.

MS. LEISS:
Agenda Item IV.2 begins on page 47 of the meeting packet (Exhibit A) and provides an update on the FY 2021 Actuarial Valuation of PERS. By policy, the Board conducts an actuarial valuation to monitor the assets and liabilities associated with the PERS pension plan. Per statute, the valuation must be conducted on a biannual basis; however, by practice, the Board conducts the valuation annually. The statute requires potential contribution rate changes based on the actuarial valuation to be conducted in even-numbered years for implementation in odd-numbered years. Since the current actuarial valuation is occurring in an odd-numbered year, it will not affect contribution

rates. This is the annual valuation that the Board conducts to keep up with projections, but it is not the valuation required by statute.

To project the costs and liabilities of PERS, the Board adopts assumptions about future events that affect the amount and timing of benefits. As part of the valuation process, actual experience is compared against projected experience and any deviations are recognized as gains and losses in the valuation process. Each year's actual experience will impact the actuarially calculated contribution rates and may ultimately impact the statutory contribution rates that are adjusted pursuant to NRS 286.410 and NRS 286.421.

The use of appropriate assumptions is important in monitoring and maintaining adequate funding. To review assumptions, the Board conducts an experience study through its independent actuary every four to six years. In September 2021, PERS' actuarial firm, Segal Consulting, performed an experience study in accordance with the Board's Monitoring and Reporting Policy covering the period from July 1, 2016, through June 30, 2020. Based on trends in the data, Segal Consulting recommended modifications to certain actuarial assumptions which the Board approved at its September 16, 2021, meeting. These assumptions were utilized in preparing the actuarial valuation for June 30, 2021.

The demographic assumptions that were modified because of the experience study include retirement rates, mortality, termination rates, and disability rates. Economic assumptions that were modified include the investment return assumption, inflation, individual salary increases, and active member payroll. Demographic assumptions were modified to reflect actual experience more closely, and in the case of mortality, to move to a fully generational mortality table. The assumed investment rate of return was reduced from 7.5% to 7.25%. The assumed payroll growth was reduced from 5.5% to 3.5% for the regular fund and from 6.5% to 3.5% for the police/fire fund; however, there was negative payroll growth in FY 2021.

Modifications to the actuarial assumptions may have increasing or decreasing effects on the contribution rates. Generally, the changes to the assumptions based on the 2021 experience study had increasing effects on the actuarial rates. Changes in the payroll growth, investment return, retirement rates, and mortality assumptions will likely have the largest impact on actuarially calculated rates. The increasing effects of the assumption changes were magnified when applied to the 2021 valuation because of negative payroll growth in FY 2021.

As part of the experience study, the Board considered a recommendation by Segal Consulting to adopt an actuarial contribution phased-in approach for the contribution rate impact associated with the assumption changes. At its October 21, 2021, meeting, the Board adopted this actuarial approach for use beginning with the FY 2021 valuation. This approach smooths the impacts of the assumption changes over four years, similar to the five-year asset smoothing that PERS currently has in place. This actuarial method allows the liability changes from the assumption changes only (from the experience study) to be recognized like PERS' assets are recognized in that time period so there is no disconnect

between the liability and assumption changes. Therefore, PERS is not smoothing assets, as it is taking in the liability changes for assumptions all at once.

The 2021 valuation brought a unique set of circumstances, a large investment gain, substantial assumption changes from the experience study, and negative payroll growth that make it difficult for PERS to predict where the contribution rates will be in the next few rate-setting years. PERS can predict there will be upward pressure on the rates because of the assumption changes. However, because of the other factors currently in play, PERS cannot predict where the rates will be by the next valuation. The assumption changes in PERS' recent experience, lack of payroll growth, increased rate of retirement, and higher post-retirement increases will likely have increasing effects on the rates. Additionally, PERS experienced a large investment gain over its assumed rate of return, but due to asset smoothing, only 20% of the gain has been recognized so far. Therefore, the 2021 valuation only recognizes 20% of that gain and then 20% per year until it is fully recognized over a five-year period. This has left PERS with approximately $7.5 billion in unrecognized investment gains that will be recognized in the next four years with future investment gains and losses.

The asset smoothing is in place to ensure that PERS does not have a lot of contribution rate volatility based on the fluctuating investment markets. Currently, the asset smoothing is working in a manner resulting in PERS having $7.5 billion in unrecognized gains as of June 30, 2021. The unrecognized gains will likely have decreasing effects on the contribution rates that will partially offset the increases due to the liability changes. However, there are other factors in play that make predicting rates or predicting what will happen in FY 2022 difficult. These factors include where the future active membership of PERS goes, rate of retirements, inflation (which affects PERS' post-retirement increases), and mortality, because given the current environment, these are all factors that have not been acting as expected over the last few decades.

The charts on pages 51 and 52 of (Exhibit A) show the changes in active membership in the regular and police/fire fund. The 2021 Actuarial Valuation shows an overall decrease in active membership from 111,815 to 106,910, which is a significant decrease over one fiscal year. Payroll rate decreased by 2.89% in the regular fund and by 1.23% for the police/fire fund. Lower than assumed total payroll resulted in lower levels of contributions collected, as contributions are paid as a percentage of payroll.

The charts on pages 53 and 54 of (Exhibit A) contain information on PERS' retiree membership and the average benefit amounts. The charts on pages 55 and 56 of (Exhibit A) show the actuarially calculated rates for FY 2021, with the rate reflecting both the asset smoothing and the rate impact smoothing of the assumption changes. The actuarially calculated rates would require, if this were a rate-setting year, an increase in contribution rates in both the regular fund and police/fire fund of approximately 2.0% and 4.0%, respectively.

The charts on pages 55 and 56 of (Exhibit A) also show what the actuarially calculated rates would be if PERS continued with asset smoothing and no rate impact smoothing.

The final rates shown in these charts are what the actuarially calculated rate would be if PERS had no asset smoothing and no rate impact smoothing. In this case, the regular fund increased with no asset or rate impact smoothing and would be lower than the actuarially calculated rates; the police/fire fund would be a little higher than the actuarially calculated rates. The different scenarios show the impact of the unrecognized gains and the assumption changes. It is difficult to predict where the contributions will go in the rate setting year until PERS has next years' experience.

The ultimate impact will not be known until FY 2022 and beyond, depending on how liability changes and the approximately $7.5 billion in unrecognized gains roll in. For example, if PERS fully meets its investment assumptions, all the gains will be rolled in, resulting in a significant impact on where the rates go. Ultimately, if PERS must net those gains with losses in the future, then there will not be as big of an impact on the rates. The Board is working with Segal Consulting, under its constitutional authority, to review all actuarial methods and assumptions to ensure the ultimate recognition of the assets and changes in liabilities are done in an actuarially appropriate and responsible manner that makes sense for PERS. Current circumstances are unique considering the large investment gains and negative payroll growth, which would normally not be experienced in the same year.

The chart on page 57 (Exhibit A) shows the change in actuarially determined contribution rates broken down into experience categories to show the origins of the increases and decreases. The rates shown are an average of the employer paid and the employee/employer paid retirement plans. There are gains in investment returns, salary increases, and normal costs, but these were offset by the losses due to payroll growth, contributions being less than expected, post-retirement increases being more than expected, and assumption changes.

The estimated period until both the employer paid, and the employee/employer paid retirement plans are fully funded continues to decline. Based on the 2021 valuation, the amortization period for the regular fund is 15.4 years and for the police/fire fund is 15.3 years based on data from June 30, 2021. Page 58 of (Exhibit A) contains information on the actuarial funded ratio of PERS which is based on the actuarial value of assets. The actuarial funded ratio was based on the actuarial value of assets to smooth the ups and downs of the investment market. The actuarial liability declined to 75.3% for regular members and 75.6% for police/fire members, totaling 75.4%. However, on a market value basis, which PERS' financials are based on under the Governmental Accounting Standards Board (GASB), the market value of assets is used for the funded ratio, which reflects the unrecognized gains. On a market value basis, PERS' overall funded ratio increased to 86.5%.

Pages 59 and 60 of (Exhibit A) provide information regarding the market value of assets, the actuarial value of assets and actuarial liabilities, which highlights the impact of the large unrecognized gains that PERS currently has. The total unfunded liability is approximately $9 billion for the market value of assets and about $16 billion for the

actuarial value of assets. Since it is a non-rate setting year, PERS will have more information on the rate setting valuation by June 30, 2022.

ASSEMBLYWOMAN PETERS:
Please discuss what factors are contributing to the actuarially determined contribution rates being greater than the statutory rates for the 2021-23 biennium.

MS. LEISS:
For each valuation period, PERS measures the experience, gains, and losses against the assumptions. For instance, PERS assumes there will be a certain value for salary increases, a certain amount of payroll growth, a certain number of deaths, and a certain number of retirements. When it conducts a valuation each year, PERS looks at the experience against its assumptions and determines if any gains or losses occurred. However, the gains and losses were not the largest contributing factor in the current valuation.

In the actuarially determined contribution rates, an experience study is done every four to six years, with PERS looking at the mortality and payroll growth assumptions to see if the experience has deviated consistently from the assumptions; if the experience has deviated, then PERS will make changes to the assumptions. When changes are made to these assumptions, it will ultimately raise or lower the cost of the benefits. For example, if the mortality assumption was changed, it would raise costs because PERS would be assuming that people will be living a year longer than what it previously assumed; this could be for people who are already retired or currently working, which could contribute to the unfunded liability and normal costs. Therefore, when changes are made to assumptions to reflect the experience and the costs of PERS, it can increase contribution rates.

The increase in contribution rates in the current valuation comes from changing the actuarial assumptions to more truly reflect the experience that PERS has seen over the five-year period. From a cost perspective, the biggest change is the fact that payroll growth is lower than assumed, meaning PERS is not receiving the contributions that it assumed it would be receiving. In addition, PERS had to make a significant adjustment to its retirement rates based on recent experience. When people retire earlier or more expensively than assumed, it increases PERS' costs, which are factors for PERS when projecting ultimate costs and contribution rates and is the reason the contribution rates in the current valuation show an increase. Essentially PERS had to true up those assumptions, which then makes the benefits that PERS must pay somewhat more expensive.

ASSEMBLYWOMAN PETERS:
Does PERS use statistical analysis, or a more qualitative and less quantitative method, when interpreting its experience values? Does PERS utilize outlier series and other ways to address some of the unique factors that occurred during the last four to six years, or is this just a point-in-time look at the overall six-year period?

MS. LEISS:
An actuarial analysis is conducted by the independent actuary hired by the Board. The "nuts and bolts" of the process is a question for the actuary that analyzed the data and recommended the assumptions to the Board. The actuary has actuarial standards of practice that need to be followed when conducting an analysis. The experience study usually covers a five-year period, but depending on the nature of the assumption, the study may cover a longer period. For instance, an experience study analyzing economic assumptions such as rate of inflation, investment rate of return, and payroll growth may take longer than five years. Demographic assumptions dealing with mortality and rate of retirement involve shorter experience studies, with the actuary determining how far PERS has deviated from the experience before using actuarial methods to place the assumption. Regarding the mortality assumption, the actuary analyzes a large dataset from PERS which includes mortality data before choosing the published mortality table that most closely fits where PERS is seeing the longevity of its members.

Historically, Nevada public employees were lagging in most mortality tables, which means that Nevada state employees were generally dying earlier than most public employees; this resulted in PERS having to customize its tables. This situation is not being seen quite as much now, and PERS does not have to customize its mortality tables as often as it used to. Regarding retirement rates, the actuary looks at who is retiring and when they are retiring before using that data to come up with an assumption. The actuary uses projections from consultants, which are a little more forward looking, when determining the investment rate of return for economic assumptions and inflation.

ASSEMBLYWOMAN PETERS:
The actuarial analysis process is interesting, and I would like additional information regarding the method used by the actuary in the PERS experience study. I would also like to know more about how the Board worked with the actuary in addressing the novel issues that the state has experienced over the last couple of years. Can PERS research this information and provide it to the Committee and Fiscal staff at a later date?

MS. LEISS:
PERS will provide additional information regarding the method used by the actuary in the experience study, how the data and values derived from the experience study were incorporated into the actuarial valuation, and how the Board worked with the actuary in addressing actuarial experience deviation.

ASSEMBLYWOMAN KASAMA:
Regarding timelines, an actuarial valuation is conducted on June 30 of every year with contribution rates being set the following year. On what date do the contribution rates become effective?

MS. LEISS:
The Board will not receive the June 30, 2022, valuation until November 2022. The data is cut off as of June 30 every year as the actuary needs a certain amount of time to work with the data. PERS will receive the valuation in November 2022, and if the actuarial

rates deviate from the current statutory rates by more than 0.5% on the upside, then statute requires the contribution rates be increased to equal the actuarial rate rounded to the nearest 0.25%; this would become effective July 1, 2023. Possible rate changes come in by July 1 of odd-numbered calendar years. Whether or not the rates change, the rates will be effective for two years. Under the current statutory mechanism, the next review will occur on July 1, 2025.

ASSEMBLYWOMAN KASAMA:
Will the contribution rates only increase by 0.25% under the current statutory provision?

MS. LEISS:
If the rate the actuary uses in the valuation is more than 0.5% over the statutory rate, the statutory rate will adjust to the actuarial rate before being rounded to the nearest 0.25% so there will be no odd numbers on the contribution rate. There is no collar on the upside but there is a small collar on the downside. However, the actuarial rate will still be rounded to the nearest 0.25%.

ASSEMBLYWOMAN KASAMA:
The assumed annual inflation rate, which was reduced from 2.75% to 2.50%, will be considered in the next actuarial valuation because inflation is increasing; this means the actuarial assumptions will also change. Regarding investment gains, was the average of the past five years used for the asset smoothing or was a rolling five-year average used? Last year was profitable for the entire fund, but I do not think the current year will be as successful.

MS. LEISS:
Regarding asset smoothing, if there was a $1.0 million gain for the current year, PERS would recognize 20% of that gain, which would be recognized with 20% of the gains or losses from the prior five years. Essentially, the gains or losses are averaged over the five-year period. For instance, in the current valuation, PERS knows what the gain or loss layer is for next year, and it estimates a number for 20% of the last four years. PERS will then put in 20% of the gain or loss in FY 2022 before rolling that number into the average.

ASSEMBLYWOMAN PETERS:
The investment return is smoothed over five years, with this process having already started. Therefore, the contribution smoothing would be for four years. Is this meant to combine the numbers so that the smoothing will happen over the same period of time?

MS. LEISS:
It is a similar amount of time, but the four years for the smoothing of the liability changes or the impact to the contribution rates of the liability changes for the assumptions changes was recommended as a four-year period by the actuary to match the periods between experience studies. Potentially, PERS will change the assumptions every four years, and the actuary wanted to match the four-year period to roll in the impact. Essentially, another

experience study will be done when PERS fully rolls in the impact; this will take place within a year of the asset smoothing.

ASSEMBLYWOMAN PETERS:
I am concerned for people that are transitioning in and out of state employment during the smoothing periods. If it takes two years to fill positions, some employees will be accounted for in the smoothing period during their first few years of employment while other employees will only be accounted for during their last couple of years of employment. Has an analysis been done on the impact of people as they enter and exit PERS? I am concerned with the equity of this process on employees that are vested in PERS.

MS. LEISS:
PERS has not conducted an impact analysis other than looking at matching the amortization period to working careers for people that remained in state employment; this was not done for people who transitioned in and out of state employment regularly. However, the Board and actuary are looking at several things and are interested in working with the Legislature, as the plan's sponsor, regarding equity issues and additional impact analyses.

CHAIR CARLTON:
In previous years, transitioning in and out of state service would not have had as much of an impact because the average length of service for employees was ten years. State employees do not have as much institutional knowledge now as they previously did. Additionally, the state has not fully recovered from the last recession and it is now facing another economic downturn. It has been hard to get PERS fully funded as there have not been enough state employees paying into it. If PERS has extra gains, why are the excess reserves not put toward the unfunded liability to lower the 15-year amortization period?

MS. LEISS:
There are retirement systems that will go to a full market value of assets to determine the funded ratio of PERS to determine contribution rates. The caution going to a full market value of assets is that investment markets are very volatile, which can be good when there is an unrecognized gain. Asset smoothing is also good when there are losses. If PERS moved to asset smoothing, the smoothing would have to be done on the upside and the downside. Therefore, as a precaution, if going to a full market value of assets, PERS must be able to ride the time periods when there are large market losses and ride those losses when contributions are extremely volatile. If PERS experiences a loss on investments over the next one or two years, the unrecognized gains will be netted and may never roll in. Also, any losses that are netted will not roll in. Moving to a full market value of assets will make the contribution rates volatile, and probably not in a way that will make it comfortable for employees and employers.

CHAIR CARLTON:
The lack of volatile rates is a benefit to state employees, as budgets can be planned while knowing that there will be good years and bad years to smooth things out.

SENATOR SEEVERS GANSERT:
The PERS retirement plan is in better shape than it has been in decades. Asset smoothing is the right way to go, because otherwise, there will be more volatile rates. The four-year versus five-year periods are not matched up as far as the new approach when it comes to assumptions. Usually, the experience valuations are done every four to six years, but the current valuation was done earlier. Does PERS anticipate the smoothing of the assumptions will change to five years if the Board goes with five-year intervals between analysis? If the experience study is over a five-year or six-year period versus a four-year period, will it automatically trigger a different time period for the experience studies based on the analysis?

MS. LEISS:
The four-year period was recommended by the actuary for the valuation based on the intervals between the last few experience studies. This is also something that the Board will look at with the actuary over the course of the current year and between the time of the next valuation because it could make more sense to look at the study from a five-year or six-year perspective. Best practices generally include five-year intervals for experience studies. PERS used the four- to six-year intervals because it strives to keep the experience studies in non-rate setting years. Therefore, the experience study was done on an even-numbered cycle of either four or six years. PERS will be looking at the different time periods and scenarios regarding asset smoothing with the actuary before the next valuation.

SENATOR SEEVERS GANSERT:
The rates are high because the state has been trying to catch up for many years. The asset smoothing will help because of the huge investment return for the current year. If next year is not as great, asset smoothing will help to ensure the contribution rates are not fluctuating as much.

3. Report on actuarial valuation for the Judicial Retirement System as of June 30, 2021.

MS. LEISS:
Agenda Item IV.3 begins on page 61 of the meeting packet (Exhibit A) and outlines an update on the FY 2021 Actuarial Valuation for the Judicial Retirement System (JRS). By policy, the Board conducts an annual actuarial valuation for the JRS. Like PERS, the rate setting mechanism is done once every two years, making it a non-rate setting valuation for the JRS. The JRS covers state judges, municipal judges, and justices of the peace of local jurisdictions that opted to participate in the JRS. If local jurisdictions have never opted to participate in the JRS, the judicial officials from those jurisdictions will still be under PERS. Unlike PERS, the JRS is not a cost-sharing plan, meaning the state has

its own costs and the local jurisdictions have their own costs based on assets, liabilities, and memberships.

Pages 63 and 64 of (Exhibit A) show demographic information for both state and non-state judges. Generally, the active membership and payroll in the JRS is stable as the positions participating in it are only judgeship positions. The positions tend to be filled when vacant and typically have a statutory salary; therefore, PERS can closely predict membership and payroll within the JRS. Variations in membership and payroll generally happen when a JRS judge is replaced by a PERS judge, or vice versa. Page 65 of (Exhibit A) displays benefit information for both state and non-state retirees, showing an increase of state judge retirees from 47 to 56 in the last fiscal year.

Page 66 of (Exhibit A) displays the contribution requirements for state judges. The state contribution rate is a percentage of payroll for normal costs and administrative expenses only. The JRS was recreated with an unfunded liability in 2001 because it took in all the judges who had not made contributions to PERS and was previously a pay-as-you-go system. As a result, the state makes the unfunded liability payment in a lump-sum amount once a year. Page 66 of (Exhibit A) shows the percentage of payroll PERS receives from the judges and the lump sum payment that the state pays on the unfunded liability.

There is an error on page 66 of (Exhibit A), as the current statutory rate for judges is 22.0%, not 22.50%, which makes the contribution surplus difference 0.89% instead of 0.39%. The amortization payment that was calculated for FY 2021 was $1,350,461 compared to $1,322,000 from the prior year valuation. The contribution requirements for the state judges if this were a rate-setting year would be comparable with the last valuation. Page 67 of (Exhibit A) shows the contribution requirements for local jurisdiction judges in aggregate.

The actuarial funded ratio of the JRS decreased from 94.4% to 92.0%; however, the funded ratio on a market value basis increased from 94.0% to 104.5%. The unfunded liability on the actuarial value of assets increased. However, the JRS has unrecognized gains of $21.0 million, which is larger than the unfunded actuarial accrued liability. Therefore, if the JRS went to a market value basis, it would be in an overfunded situation and would not have an unfunded liability.

4. Report on actuarial valuation for the Legislators' Retirement System as of June 30, 2021.

MS. LEISS:
Agenda Item IV.4 begins on page 69 of the meeting packet (Exhibit A) and provides an update on the FY 2021 Actuarial Valuation for the Legislators' Retirement System (LRS). The even-numbered year valuation for the LRS determines the contributions of the state for the system. Since this is an odd-numbered year valuation, the current valuation does affect contribution rates. The provisions of the LRS allow legislators to opt out of participation or to terminate membership in the system.

In 2021, the active membership in the LRD decreased from 32 members to 27 members. The number of retirees decreased from 56 to 55, while the overall number of beneficiaries, which includes survivors, decreased from 73 to 70. The funded ratio of the LRS on an actuarial basis increased from 95.9% to 98.8%. The funded ratio on a market value basis increased from 96.6% to 113.4%. The actuarial unfunded liability decreased from $199,443 to $61,732, and the effective amortization period for the LRS is approximately 0.9 years.

Page 70 of (Exhibit A) contains demographic and funding information for the LRS. Page 71 of (Exhibit A) shows that the calculated amortization payment is larger than the entire actuarial unfunded liability. This is a function of how the layers for the amortization method work. PERS will be working with its actuary to look at alternatives for this scenario if the amortization payment exceeds the entire unfunded liability again next year. This is a function of the market value of assets having unrecognized gains.

5. Update on investment earnings – PERS, Legislators' Retirement and Judicial Retirement Funds.

STEVE EDMUNDSON (Chief Investment Officer, PERS):
Agenda Item IV.5 begins on page 73 of the meeting packet (Exhibit A) and provides an update on the status of the investment programs for PERS, the LRS, and the JRS. Page 75 of (Exhibit A) summarizes investment results and returns for all three funds for various time periods within FY 2021. The first column on the left of the chart on page 75 depicts returns for the most recent fiscal year, which by any measure was an exceptional year for returns. PERS' portfolio generated 27.3% net of fee return, representing PERS' second strongest fiscal year on record. PERS' portfolio finished the year with $58.3 billion in assets, which is an $11.7 billion increase over the prior fiscal year.

Over the last 37 years, PERS has generated 9.6% average annual return net of all fees. In FY 2021, the LRS fund produced a return of 27.7% and ended the period with $5.7 million in assets, while the JRS fund finished FY 2021 with a 27.6% return with $178.6 million in assets. Page 76 of (Exhibit A) details PERS annual performance and investment returns for each of the last 37 fiscal years. The horizontal line across the middle of page 76 depicts the long-term actuarial assumed rate of return for PERS, which was 7.5% through FY 2021. However, the long-term actuarial assumed rate of return was one of the assumptions that the actuary recommended to be reduced to 7.25% going forward.

It is important to emphasize that the long-term actuarial assumed rate of return is a long-term assumption. Both the experience and expectations are that in any single year, PERS should expect returns to be both well above and below the long-term number. Over the last 37 years, PERS has delivered a 9.6% net of fee return on average. However, in 11 of the last 37 years, the individual year return was well below the long-term objective. The pattern of individual years and midterm periods with returns both well above and below the long-term assumption should be expected going forward. Pages 77 and 78 of (Exhibit A) depict the same annual performance information for the LRS and the JRS.

Page 79 of (Exhibit A) details the investment strategy of PERS. The investment strategy is unique in the industry, as PERS employs a simpler approach with a larger allocation to high-quality and publicly traded U.S. stocks. PERS only owns U.S. Department of the Treasury (Treasury) bonds in its fixed income allocation and is the only large public pension fund in the industry that utilizes 100% indexed management across all its publicly traded asset classes. Additionally, PERS deliberately avoids more complicated and expensive investment strategies that include the utilization of leverage or hedge funds. One of the biproducts of the simpler approach used by PERS is that PERS is one of, if not the lowest-cost, large public pension funds in terms of investment management fees. PERS' investment management fees on an annual cost basis translate into more than $240.0 million per year in savings relative to a similarly sized large public pension fund with more complex structures.

In addition to being low cost, PERS' simple investment approach has produced returns that are competitive relative to the industry over the years. Over the last 3- to 20-year time periods, PERS' returns ranked within the top 15th percentile or better of large public pension funds; for several periods, the returns were within the top decile of other large public funds. PERS does not expect to be at the top of the database every year; however, it remains confident that its simple low-cost approach will remain competitive over longer time periods. The report I have presented provides an update on the performance of PERS' investments through the most recent fiscal year. Currently, in FY 2022, PERS' portfolio is up approximately 4.0% with approximately $60 billion in assets. However, it would not be surprising to see returns moderate over the next few years given the low level of interest rates and the fact that the market is now seeing a removal of some of the fiscal monetary combination that has flooded PERS with liquidity over the last few years.

ASSEMBLYWOMAN PETERS:
I am wondering how PERS' investment market will be impacted over the next few years. It is heartening to know that PERS has a strong investment strategy that looks to be less volatile than expected given the turn in the investment markets. Is there any additional information you can provide regarding how PERS' investment returns are currently looking?

MR. EDMUNDSON:
It has been a volatile start for the current calendar year. PERS' investments are up 7.4% through the December 2021 quarter. Currently, PERS' investments are up 4.0%, which is a good touchstone as to the type of volatility expected in any single year. It has been a relatively good start to FY 2022, especially when coming off a period of extraordinarily strong returns. It was not only a great year with a 27.3% return during FY 2021, but over the last decade, PERS' portfolio is up 10% annualized. Over time, PERS has witnessed that periods of extraordinarily strong returns are often followed by periods of returns that are more muted.

If PERS' portfolio over the next ten years delivers an annualized return of 5.0%, this would average out over a 20-year period to be 7.5%; this is one of the things that PERS needs

to look at. In any single year, and looking out over the next few months, PERS currently has returns of 4.0%. How the fiscal year will end is anyone's guess. PERS can continue to be confident that if it truly embraces a longer time horizon, it can ultimately achieve its goals.

SENATOR BROOKS:
Are there plans or discussions to use fund-to-fund investments, private equity, or hedge funds as a percentage of the PERS portfolio?

MR. EDMUNDSON:
PERS does not have any current plans to alter the simple approach it takes regarding investment strategies, as the approach has proven to be highly successful through nearly four decades of experience. There will be times when PERS is at the bottom of the database, which it experiences about one-third of the time. Additionally, there will be times where volatility swings the portfolio a bit, but PERS remains confident that its simple approach will continue to produce competitive returns over time. However, with that said, the pieces of PERS' investment program that are fully indexed are the public market pieces, such as U.S. stocks, international stocks, and PERS' fixed income portfolios. PERS feels that its investment strategy remains sound and is where the bulk of cost savings come from. The evidence suggests this approach is good, but it is not the entirety of PERS' investment program.

PERS has a 12% dedicated target to private market assets, a 6% private real estate target, and a 6% target allocation to private equity. The private equity piece of PERS' investment strategy, although not abundant, is similar and could almost be considered a separate account of fund-to-funds in that PERS has a fully discretionary manager that manages that portfolio. Under the umbrella of private equity funds, there is an excess of over 200 individual private equity partnerships. PERS has had a history of success with its private equity program, and it has grown over time; originally, it was around 1.0% of PERS' total fund assets. Currently, PERS' target for its private equity market is 6.0% of total fund assets. However, the private equity market is running a little above the 6.0% target because returns for the private markets were so strong that the private equity portfolio was up 67% last fiscal year, which is above target.

PERS' private real estate portfolio is different and is much more conservative than portfolios in typical public pension funds in that PERS' private real estate portfolio does not utilize leverage and consists entirely of unlevered core assets. PERS' private real estate portfolio has been incredibly competitive relative to other programs that involve more risk. PERS will continue to stick with its current structure and will consider expanding it on the private market side at some point in the future. PERS will be reviewing its asset allocation in the Spring of 2022. PERS does not anticipate any dramatic structure changes and is often considered a simple fund because it is 100% indexed. However, PERS has a 4.0% target allocation to private assets including private equity.

ASSEMBLYWOMAN KASAMA:
I would like to see a percentage column added next to the asset size and FY 2021 fees columns for each fund manager in the Nevada PERS Investment Managers/Fees chart on page 85 of (Exhibit A). This will make it easier to see the percentage of the fees attributable to each fund manager handling PERS' investments and assets. Please explain how the asset sizes and fees work.

MR. EDMUNDSON:
Additional columns for percentages will be added to the Nevada PERS Investment Managers/Fees chart going forward. Regarding the size of the portfolios and the fees associated with them, the AB portfolio on page 85 of (Exhibit A) is an S&P 500 Index mandate, which has extraordinarily low fees. Therefore, the fees on the AB portfolio are less than one-half of the basis point. Even though the AB portfolio is a large portfolio with $12.9 billion in assets, on an annual basis, it only costs PERS $682,000 to access that market; this is a biproduct of the indexed portfolios. Across the board, PERS' index mandates have very low fees associated with them. PERS' fees are approximately 40 basis points below the median fund investment fees. PERS starts off each fiscal year off with a 40-basis point fee advantage over the median fund, which has proven to be accurate over the years.

Private market portfolios include AEW Realty and Invesco Realty Advisors from page 85 of (Exhibit A), which also shows the high amount of fees associated with the Pathway Capital Management portfolio (the private equity mandate). The private equity fees are the highest fee asset class. This is something that PERS has scrutinized over the years, being reluctant to increase its allocation to the asset class largely because of the higher fees. It is important to note that included in the private equity fees are fees for all the underlying general partnerships within the portfolio. Private equity fees are reported differently across all funds, as some funds will only report a portion of the fees.

For transparency, PERS tries to include all the fees associated with the private equity mandates, including the underlying general partnership fees. Private equity fees are high, and it is a hot debate in the industry as to what constitutes a fee in private equity. Returns for private equity are always reported net of all fees. PERS does not cut a check for each of the fees noted on page 85 of (Exhibit A), as the fees are netted out of the distributions that are returned to PERS in terms of the distributions received from the partnerships. PERS does not get an invoice for the private equity fees, but the fees are accounted for in the fact that they are retained by the general partner and not distributed back to PERS.

Private equity funds have proven to provide a few benefits despite the large fees. PERS takes its investment approach seriously and strives to remain the lowest cost public pension fund. However, if there is an opportunity for PERS to include something in its portfolio that will still be accretive on a return basis while also providing some diversification benefits despite the costs, PERS will include it in its portfolio even though PERS has the propensity to keep its fees as low as possible. Private equity is an asset class that over the years has proven to deliver a premium above and beyond what public

markets have delivered and has also provided some additional diversification benefits to the PERS fund.

ASSEMBLYWOMAN KASAMA:
I do not mind fees being higher when returns are higher. However, it might be helpful to add another column to the chart on page 85 (Exhibit A) to show the five-year average of returns from private equity funds. It would be nice to have a snapshot of the portion of the asset management attributable to each of PERS' private market portfolios and what the percentage of fees are for each asset base. I would also like to know what the returns from each private equity fund are.

MR. EDMUNDSON:
In FY 2021, U.S. stocks were up around 40%. However, the private equity portfolio was up over 67% net of all the fees. Fiscal year (FY) 2021 was one of the years where fees from the private equity portfolio were higher, but PERS would also be happy to take the net of fee premium. It is important to scrutinize the expensive asset classes because PERS wants to ensure it is getting its money's worth. PERS will include information to show the five-year average percentage of returns from the private equity funds going forward.

SENATOR OHRENSCHALL:
I appreciate the conservative approach of PERS, but does it have any investments in cryptocurrency? How would PERS temper the speculative nature of the cryptocurrency market? How is PERS preparing for a downturn in the investment markets?

MR. EDMUNDSON:
PERS does not have any direct investments in cryptocurrency or own any bitcoin in its portfolio. Cryptocurrency is an asset class that has not been widely adopted by large-scale institutional managers. I am aware of only one other large public pension fund that has begun to include direct exposure to cryptocurrencies in its portfolio. PERS does not anticipate that cryptocurrency will play a meaningful role in its portfolio in the near term. At this point, cryptocurrency remains a speculative asset class, but PERS will watch to see how it evolves over the years. In its private equity portfolio, PERS did have a small exposure to a related company, Coinbase, which went public and operated as an exchange in the cryptocurrency markets. However, PERS does not have direct exposure to cryptocurrency and does not plan to include it in its portfolio in the near term.

PERS is always considering protecting its portfolio if there is a downturn in the investment markets. PERS does not know when downturns will happen and how deep they will be, but it is aware that market downturns will occur. To help offset a downturn, PERS' portfolio is broadly diversified across asset classes, owning both high-quality U.S. stocks and developed market international stocks. To offset some of the volatility that is associated with risk asset stocks and equity in PERS' portfolio, PERS has a large allocation to Treasury bonds. PERS' fixed income allocation is unique in the industry in that it consists entirely of Treasury securities. There is no credit in that portfolio, so PERS

has specifically removed all the equity-linked risks out of its fixed income portfolio, and the portfolio acts as a pure diversifier when equity markets face a downturn.

With just over 70% of its portfolio being in risky growth assets such as stocks, equity, and private real estate, PERS has a larger allocation to the diversified assets and Treasury bonds than the median fund. On one side PERS has more high-quality U.S. stocks, but it has Treasury bonds to mute the impact of downturns. However, when market downturns do occur, there is only so much that PERS can do to protect its portfolio. PERS will experience the ups and downs of the markets but will do its best to smooth out its portfolio as the years go by.

6. Status report on one-fifth of a year purchase of service benefits for certain education employees provided under the former provisions of NRS 391.165.

MR. LEISS:
Agenda Item IV.6 begins on page 87 of the meeting packet (Exhibit A). The purchase of one-fifth of a year of service credit was designed to be an incentive for certain employees to work at schools that have been designated as needs improvement or those schools where at least 65% of the pupils are children who are at risk. Additionally, any teacher holding an endorsement in mathematics, science, special education, or English as a second language and has employed for one year in the area of endorsement and has met all other eligibly requirements are also entitled to the benefit. Section 4 of Assembly Bill 1 (23rd Special Session) repealed the benefit effective July 1, 2007, and phases it out over time. If an employee elects to continue in the program, participation ceases when the employee has received, after election, one full year of service credit pursuant to the program; one-fifth of a year would equate to five years of participation in the program.

Teachers and educational employees go in and out of the program and some employees are still eligible for the benefit. The spreadsheet on page 89 of (Exhibit A) reflects the purchases for calendar years 2020 and 2021. In calendar year 2020, PERS received $470,253 for 81 purchases and in calendar year 2021 PERS received $266,965 for 44 purchases. Since inception of the program, PERS has received approximately $148 million for over 41,000 purchases. PERS is getting closer to phasing out the program, and it will be finished when any remaining employees have had their full year of service credit purchased.

CHAIR CARLTON:
I do not want PERS to institute a program of this kind again in the future.

7. Status report on critical labor shortage exemptions for PERS' reemployment restrictions (NRS 286.523).

MS. LEISS:
Agenda Item IV.7 begins on page 91 of the meeting packet (Exhibit A) and contains a memorandum outlining PERS' current reemployment restrictions and the critical labor shortage exemption from the reemployment restrictions. Also included, pursuant to NRS 286.523 (6), is a report on the compilation of the forms received from each designating authority that designated a position as a critical need position effective during the 2029-21 biennium. Assembly Bill (A.B.) 488 (2009 Legislative Session) significantly restricted the use of critical labor shortage exemptions from PERS' reemployment exemptions. Generally, PERS retirees have restrictions from reemployment with a public employer, and the critical labor shortage exemption provides an avenue to hire retirees without running afoul of the reemployment provisions. However, to do so, A.B. 488 requires a declaration of the critical need of the position, which must be an extreme need. The legislation also requires that employers who seek a declaration of positions as critical need make the determination based on the appropriate necessary delivery of services to the public and requires employers to hold a hearing in an open public meeting and make findings to support the critical need designation. The employer must file a report with PERS as to the findings and PERS must then prepare a report for the IRBC on a biennial basis.

The critical labor shortage provisions were set to sunset on June 30, 2015, but Senate Bill (S.B.) 406 (2015 Legislative Session) removed the sunset date and made the provisions a permanent feature of the plan. Effective for the 2019-21 biennium, 156 positions were declared as critical need by 48 employers, including 6 positions designated by the state; 91 positions designated by school districts and charter schools; 8 positions designated by counties; 47 positions designated by hospitals; 2 positions designated by cities; and 2 positions by fire protection districts. The designations are valid for two years and must be redesignated to remain in effect. The declaration of critical need is position-driven not individual specific. Therefore, one position designation, such as a special education teacher at a particular school district, may have many employees hired under the designation. Additionally, the fact that a position has been designated does not necessarily mean that it is currently filled with a retiree.

Pages 94 through 100 of (Exhibit A) show a listing of all the positions designated as critical need effective during the period of the report, along with the original date of designation. During the 2021-23 biennium, there were more positions designated as critical need than in the 2019-21 biennium; most of the positions appear to be in the hospital and health-related areas, which make sense given the experiences of PERS over the last two years.

CHAIR CARLTON:
A critical need position is not necessarily a person, it is more related to the classification, and there could be multiple employees within that position. Is this correct?

MS. LEISS:
Yes, that is correct. The critical need designation is position-driven because there is a critical position that cannot be filled. For example, special education teacher positions have historically been hard to fill, and if a school district designates a special education teacher position as critical need, this is one designation but 15 employees across the district could be employed under the one designation.

CHAIR CARLTON:
The charts on pages 94 through 100 of (Exhibit A) show that positions have been designated as critical need since 2009, demonstrating that this has been occurring for some time.

MS. LEISS:
Many of the critical need positions have continually been redesignated every two years by the appointing authority. PERS is not involved in the designation, as the designation is requested by the employer who is aware of the organization's needs. Historically, particularly in education, there have been certain positions that have been designated as critical need from the time the original critical labor shortage legislation was established in the early 2000's.

8. Status report on administration and investment of the Retirement Benefits Investment Fund (NRS 355.220).

RICK COMBS (Investment Board staff, PERS):
Agenda Item IV.8 begins on page 101 of the meeting packet (Exhibit A). The Retirement Benefits Investment Fund (RBIF) was created through the enactment of S.B. 457 (2007 Legislative Session). The bill was requested on behalf of the Committee on Local Government Finance to address two primary issues related to Governmental Accounting Standards Board (GASB) Statement 45. First, GASB 45 provides that in order for assets held by a governmental body to offset future liabilities for post-employment benefits, the assets must be deposited in an irrevocable trust fund. The intent of S.B. 457 was to authorize local governments to create irrevocable trust funds.

Local governments in Nevada are constitutionally restricted in the way they can invest funds. The Committee on Local Government Finance wanted to create a mechanism that allowed the trust funds to be set aside for long-term type investments rather than the short-term investments to which local governments are normally restricted. Senate Bill 457, as enacted, authorized local governments to create other post-employment benefits (OPEB) trust funds. Each trust fund is required to have a board of trustees appointed by the governing body of the local government to act in a fiduciary capacity for the beneficiaries of the trust. Senate Bill 457 also requires the RBIF to serve as a pooled investment vehicle for the OPEB trusts and assets of PEBP. The OPEB trusts are not required to pool assets in the RBIF but are authorized to do so if their board of trustees, acting in a fiduciary capacity, believes it is in the best interest of beneficiaries to do so.

The final version of S.B. 457 created the Retirement Benefits Investment Board (RBIB) to manage the RBIF, but the RBIB does not act as a fiduciary with respect to the money contributed to the RBIF. The RBIB consists of the same members as the PERS Board but is a separate legal entity with separately agendized meetings. The RBIB is authorized to employ staff and contract for services as deemed necessary to administer the RBIF and is authorized to charge administrative costs to the RBIF. From the inception of the RBIF in 2008 until 2020, PERS staff provided administrative support for the RBIF. In October 2020, the RBIB approved a contract for administration of the RBIF, but PERS staff still provides investment, legal, and accounting services for the RBIF.

As of June 30, 2021, the balance in the RBIF was $773.8 million. Consistent with the PERS, LRS, and JRS funds, the return on investments for the RBIF in FY 2021 was high, being 27.5%. The return on investments since the inception of the RBIF in 2008 is 7.9%. The RBIF is required to be managed in the same manner as the PERS investment program, but there are some differences in structure between the funds due to the smaller size of the RBIF portfolio. The policy risk allocation between the RBIF and PERS fund is identical, which is demonstrated by the fact that over the past ten years, the returns in the RBIF have been within 0.2% of the PERS returns. The table on page 103 of (Exhibit A) reflects the market value of each participating OPEB trust as of June 30, 2021. There are now 12 local government OPEB trusts participating in the RBIF. A decision was made by PEBP to withdraw all its liabilities from the RBIF, which reduced the number of participants in the RBIF from 13 to 12 trusts.

ASSEMBLYWOMAN KASAMA:
Was the RBIF created because of the GASB 45 requirements and for accounting purposes for local governments? Considering that money in the RBIF must be invested in a similar manner to money in the PERS fund, why was the RBIF not combined with the PERS fund?

MR. COMBS:
When S.B. 457 was originally introduced, the RBIF was designed to be combined with PERS. However, PERS had concerns regarding having PERS staff managing its assets and was considering the fiduciary responsibility that the PERS Board had its fund. Ultimately, when S.B. 457 was enacted, it was amended to create two separate funds managed by two separate boards. Although the membership of the boards is the same, the boards are two separate legal entities.

PERS could have complied with GASB 45 without creating the RBIF, but the creation of the RBIF allowed various local governments to pool their investments in the liabilities that they would face for other post-employment benefits. Additionally, the local governments would be able to achieve better returns because they were able to invest in long-term investments rather than the short-term investments that local governments are typically limited to.

ASSEMBLYWOMAN KASAMA:
Does the RBIF serve as a vehicle for local governments to invest in a state-level program per economies of scale?

MR. COMBS:
Yes, that is correct.

SENATOR SEEVERS GANSERT:
The table on page 103 of (Exhibit A) shows that the investment of money from OPEB trusts varies by participant within the RBIF. I am aware that OPEB trusts and PEBP are not required to invest in the RBIF. How do municipalities that do not invest in the RBIF manage outstanding liabilities not related to retirement benefits?

MR. COMBS:
The OPEB trust balances in the RBIF are primarily for health benefits for retirees. Each local government has their own method for offsetting liabilities, or they can choose not to offset their liabilities. Therefore, each local government is making separate decisions regarding which assets are set aside to offset future liabilities. Each local government has a choice to use the RBIF for all the money they set aside or part of the money they set aside, or they can opt not to participate.

SENATOR SEEVERS GANSERT:
Local governments are not obligated to invest in the RBIF. PERS is a property right, but health insurance is not. Will a local government still comply with GASB 45 requirements if it does not create a fund to cover future liabilities? Does GASB 45 apply to PEBP in the same manner that it applies to PERS?

MR. COMBS:
GASB 45 does have applicability standards. However, I am not a GASB expert. GASB Statements 43 and 45 relate to the OPEB trusts that government entities maintain records of, but there are issues regarding how liabilities are reported. The OPEB trusts allow the local governments to report liabilities on their financial statements, which allows them to offset those liabilities by showing that there is also an OPEB trust fund that has money set aside to offset future liabilities. If a particular government agency does not have any assets set aside for liabilities, they would not report any offset to the liabilities that are recorded.

SENATOR SEEVERS GANSERT:
Do all the local governments have to provide a comprehensive annual financial report to disclose information regarding liabilities and any trust funds that have been set up?

MR. COMBS:
Yes, that is correct.

9. Status report on the implementation of PERS' pension administration system authorized by the 2019 Legislature.

KABRINA FESER (Operations Officer, PERS):
Agenda Item IV.9 begins on page 107 of (Exhibit A) and provides an update on the implementation status of PERS' pension administration system (PAS). PERS began work with its vendor, Tegrit Software Ventures, Inc. (Tegrit) on February 22, 2021, on the implementation of the PAS project. There was an in-person project kickoff with the vendor and PERS staff on July 13, 2021. There are seven phases to the PAS project, with Phase 1, Project Initiation and Startup; Phase 2, Infrastructure and Project Prep; and Phase 3.1, Web-based Employer Reporting Requirements being completed.

An employer advisory group was established, which has been a beneficial resource for communication and collaboration. PERS has monthly meetings to provide the employer advisor group with any process changes, and the employer advisory group has looked at PERS' sample formatting. PERS uses the employer advisory group as a resource for any communications with liaison officers and employer representatives. Additionally, data cleansing efforts have been ongoing since 2019, with approximately 93% of PERS' data ready for deployment to the new PAS.

CHAIR CARLTON:
I am glad the PAS project is going according to plan.

ASSEMBLYWOMAN PETERS:
What is the status of development for Phase 3 of the PAS project? You said Phase 3 was completed, but the meeting materials show that Phase 3 will not be completed until August 2022. Is Phase 3 on target to be completed by the deadline?

MS. FESER:
Phase 3, Employer Reporting, is split into two parts. Phase 3.1 pertains to employer reporting requirements. During Phase 3.1, PERS staff met with Tegrit to develop the design process needed to go live with the employer reporting processes. Phase 3.1 has been completed. Phase 3.2 pertains to file-based reporting, which is scheduled to be complete in June 2022; however, PERS is on track to complete this phase early. PERS recently started its user acceptance testing, and its staff will be working on this component of the PAS project before any additional meetings are scheduled with employer representatives to present the finalized format of the project.

V. PUBLIC EMPLOYEES' BENEFITS PROGRAM (PEBP).

LAURA RICH (Executive Officer, PEBP):
A high-level overview of PEBP and its services is provided on pages 2 through 4 of (Exhibit B). PEBP covers active state employees and retirees and their dependents, as well as non-state actives and non-state retirees. PEBP uses the term "non-state" when referring to its members from local governments and school districts and their dependents. PEBP provides its members with health insurance benefits including

medical, vision, dental and other ancillary benefits such as basic life insurance. PEBP also provides a multitude of voluntary benefits.

PEBP is funded using two methods, the first involving the legislatively approved employer subsidy that is determined during PEBP's budget hearing during a legislative session. The legislatively approved employer subsidy amount is the portion of PEBP's premium that is paid for by employers (the State of Nevada). Typically, for employee-only coverage, the subsidy covers between 92% to 96% of the total premium depending on the plan year. The remainder of the subsidy is the amount employees pay for their monthly premium. Although PEBP does not receive General Fund appropriations, agencies are funded using General Fund dollars to pay the subsidy to PEBP for each employee in their agency. Because retirees are also offered insurance benefits, agencies also pay a percentage of payroll to fund retiree benefits.

PEBP offers several plans, the majority of which are self-funded. PEBP's plans include a Consumer Driven High Deductible Plan (CDHP) that is offered statewide, and an Exclusive Provider Organization (EPO) plan offered in Northern Nevada. PEBP also began offering a Low Deductible Plan beginning in Plan Year (PY) 2022 that is offered statewide. Additionally, a fully insured plan (Health Maintenance Organization [HMO]) is offered in Southern Nevada by Health Plan of Nevada (HPN). For its Medicare retirees, PEBP offers a Medicare Exchange to help retirees and their Medicare eligible dependents enroll and purchase insurance plans. PEBP also provides a Health Reimbursement Account (HRA) to its Medicare retirees based on years of service.

1. **Presentation on the health (medical, pharmacy, dental), life and disability insurance plan design and policy changes considered, and adopted, by the Board of the Public Employees' Benefits Program for the plan year beginning July 1, 2022 (PY 2023).**

MS. RICH:
Agenda Item V.1 is described on pages 4 through 9 of (Exhibit B) and is a synopsis of upcoming changes adopted by the PEBP Board for PY 2023. The first change involves employer mandated COVID-19 testing for state employees. Previously, the Department of Health and Human Services (DHHS) administered the employee testing program using American Rescue Plan Act, Coronavirus State Fiscal Recovery Funds, but this function and funding will be shifted to PEBP effective February 21, 2022; information and notices went out to state agencies yesterday regarding the change.

Although the Occupational Safety and Health Administration (OSHA) mandatory testing requirement for unvaccinated employees was struck down by the Supreme Court, the state will continue to enforce a similar testing policy. Previously, if 70% of employees in a state office were vaccinated, the remaining unvaccinated employees were exempt from weekly testing; this is no longer in effect. Therefore, 100% of unvaccinated employees will be subject to weekly testing. The cost of testing unvaccinated employees, based on available data from December 2021 when the PEBP Board met and approved the option, is based on the number of employees that are unvaccinated.

As of December 2021, approximately 6,000 state employees are unvaccinated, which is estimated to cost approximately $18.5 million per year for testing. PEBP will be recouping the testing costs through COVID-19 premium surcharges beginning in July 2022. Effective February 21, 2022, PEBP will begin administering rapid antigen tests to all state agencies for distribution to employees. Some agencies have selected to directly mail the tests to their employees' homes instead of distributing them in-house. The administration of at-home tests is proctored through a telemedicine provider and the results are logged so the state can follow up on which employees have tested and those that are still subject to testing.

PEBP's COVID-19 surcharges are described on page 6 of (Exhibit B) and are meant to recoup costs associated with weekly testing of unvaccinated employees, higher testing and treatment costs associated with unvaccinated members, and hospitalizations. The COVID-19 surcharges are modeled like a tobacco surcharge, which has been deemed legal and appropriate and has been used by other insurance programs for years, subject to the Affordable Care Act (ACA) affordability rules. Because of the ACA affordability rules, surcharges are capped for state employees but are not capped for dependents. The surcharge for state employees will be $55 per month per unvaccinated employee and $175 per month per unvaccinated dependent over 18 years of age. The surcharges begin on July 1, 2022, and PEBP will be working with the Office of the Governor to establish a medical and religious exemption process, which will be in place in advance of the surcharges beginning on July 1.

CHAIR CARLTON:
Does the State of Nevada currently impose a tobacco surcharge?

MS. RICH:
PEBP does not impose a tobacco surcharge, but there are plenty of insurance plans that do. The legality of the COVID-19 surcharge is similar to a tobacco surcharge. PEBP modeled its COVID-19 surcharges on similar tobacco surcharges of other insurers.

CHAIR CARLTON:
Does the PEBP Board plan on implementing a tobacco surcharge in the future? Tobacco surcharges can often cause long-term problems and can result in higher costs for insurance plans.

MS. RICH:
The PEBP Board has not contemplated a tobacco surcharge, but this is something that could be explored moving forward.

CHAIR CARLTON:
The PEBP Board has historically taken a wellness approach of rewarding employees for improving their health rather than penalizing them. Therefore, the COVID-19 surcharge is a distinct departure from the wellness approach PEBP has taken in the past. PEBP is now taking a punitive approach regarding certain actions of state employees.

MS. RICH:
This is a departure from the wellness approach PEBP has taken in the past, but current circumstances are slightly different because there is no funding in PEBP's budget to cover the cost of COVID-19 testing. Therefore, PEBP had to find funding to cover the cost of testing unvaccinated members and to cover the costs associated with the hospitalization and treatment of employees who have tested positive for COVID-19.

CHAIR CARLTON:
The free tests that can be accessed by different methods are not being utilized. The tests for the unvaccinated members would be a separate test that is proctored by PEBP. Is that correct?

MS. RICH:
Yes, that is correct. However, as an insurer, PEBP is still paying for the eight free COVID-19 tests that members are eligible for every month. The eight tests are free to members but are not free to PEBP.

CHAIR CARLTON:
Will PEBP members have to pay a surcharge to cover the costs of the free tests?

MS. RICH:
The Biden Administration mandated that health insurance plans provide a certain number of free COVID-19 tests to members. PEBP and health insurance plans across the country are working on a process to facilitate this benefit for members so that members can receive free over-the-counter tests. Mandating that unvaccinated members must be tested for COVID-19 is being done for employer purposes; because of this, the mandatory tests must be proctored.

ASSEMBLYWOMAN KASAMA:
$18.5 million is a lot of money for COVID-19 testing, but I do understand the importance of the tests. The number of people testing positive for COVID-19 is declining. Who made the decision to continue enforcing a testing policy that is similar to the OSHA mandate that was struck down by the Supreme Court?

MS. RICH:
The decision to mandate that unvaccinated members be tested was made by the Office of the Governor. PEBP has been working with the Office of the Governor to coordinate and ensure that the mandatory testing policy can be carried out by PEBP, DHHS, and other state agencies.

SENATOR OHRENSCHALL:
The COVID-19 surcharges are meant to recoup costs associated with the weekly testing of unvaccinated employees, but what is the rationale for charging a $175 surcharge per month for dependents of unvaccinated employees over 18 years of age? This is over three times higher when compared to the $55 surcharge for unvaccinated employees.

MS. RICH:
PEBP had to determine a mechanism to bring in sufficient funding to cover the approximate $18.5 million yearly cost associated with employer mandated testing. Because of the ACA affordability rules, there is a cap on what can be assessed in terms of how much it would cost to test employees. The total monthly premium must be deemed affordable, with federal poverty levels and minimum wage being used to determine costs. To remain under the ACA affordability levels, PEBP's COVID-19 surcharge had to be capped at $55 per unvaccinated employee. There is no ACA affordability rule for dependents, so the $175 surcharge is estimated based on the remainder of the $18.5 million that PEBP needs to collect to make its budget whole.

SENATOR OHRENSCHALL:
Is there a surcharge for unvaccinated dependents under the age of 18?

MS. RICH:
No, there is not.

CHAIR CARLTON:
In essence, state employees are paying for the cost of testing through surcharges. It does not make sense that PEBP is trying to deal with an affordability threshold by changing the rate of the surcharge which will end up being paid by state employees anyway.

MS. RICH:
Hypothetically, if employees subject to testing went to a testing facility to test each week, the employee would be charged for each test. At the beginning of the COVID-19 pandemic, insurers were required to cover 100% of the costs of COVID-19 tests. When this policy was being discussed at the federal level, a concern emerged that employers across the nation could either cover the costs of testing or pass the costs on to unvaccinated employees. However, unvaccinated employees can go to any pharmacy or testing facility to get a test at no cost because insurers are required to cover diagnostic testing but not surveillance testing.

PEBP was concerned that if a testing requirement was implemented, every state employee would get tested as much as they could, with each test averaging around $130. If an employee gets a weekly polymerase chain reaction test that costs $130 because their employer required them to do so, the costs would be charged to PEBP. Regardless, PEBP ends up paying for the tests in one way or another. Therefore, PEBP wanted to contain the costs of the tests, especially since at the time PEBP did not know if the OSHA mandate was going to be implemented or struck down by the Supreme Court. However, there are exceptions, since whenever I go to get tested for COVID-19 I have never been asked for insurance information. In these cases, the test costs are either state-funded or billed to the federal government. PEBP tracks, plans, and contains the costs of tests to ensure it is not paying $130 for each test. PEBP is steering people towards cheaper tests, such as those that are approximately $33 per test.

CHAIR CARLTON:
I am concerned that PEBP's implementation of a COVID-19 surcharge will lead to additional surcharges in the future, which defeats the idea behind insurance and insurance pools. This is a unique situation for the state and its state employees. PEBP had to determine how to address all the issues involved with testing employees, paying for vaccines, and meeting mandates while still maintaining other insurance components.

2. Reports from an independent certified public accountant regarding audited financial statements, for the year ending June 30, 2021, pursuant to NRS 287.0425 for:

a) Fund for the Public Employees' Benefits Program (NRS 287.0435).

b) State Retirees' Health and Welfare Benefits Fund (NRS 287.0436).

There was no discussion on these items.

3. Report on utilization of PEBP by participants for the plan year ending June 30, 2021, including an assessment of the actuarial accuracy of reserves (NRS 287.0425).

MS. RICH:
Agenda Item V.3 begins on page 7 of (Exhibit B) and pertains to PEBP's plan benefit design restoration. Prior to the COVID-19 pandemic, PEBP was projected to all but eliminate any excess reserves, but pandemic-related claims suppression altered this course. Due to shutdowns and delayed healthcare throughout FY 2020 and FY 2021, PEBP's self-insured plans have accrued an excess of reserves. Many of the medical and dental expenses naturally occur in a normal year were not happening during the pandemic as people were not seeing their health care providers due to office closures. Additionally, many people were not having elective surgeries because providers and hospitals were focused on pandemic-related care and containing the spread of the virus. Therefore, many of the healthcare costs that PEBP typically plans to incur did not happen resulting in excess reserves.

Members are addressing their delayed health care needs, and the PEBP plan is experiencing a significant spike in claims that is expected to continue. The additional volatility of general healthcare costs and the state of the economy, along with inflation factors, have caused PEBP to be hesitant to spend all its excess reserves. There is a good chance that actual claim expenditures are going to be higher than budgeted, and PEBP will need to use the excess reserves to cover the rebounded claims. With the assistance of actuarial modeling, the PEBP Board decided to use a portion of the projected excess reserves to fund the restoration of certain benefits that were eliminated due to pandemic-related budget cuts. The focus was to restore deductibles and out-of-pocket maximums to pre-pandemic levels and to be able to fund the restoration for three years to ensure consistency in plan design. PEBP sought to use the same

smoothing technique that PERS employed so that PEBP does not continue to "yo-yo" benefits year-over-year.

Page 8 of (Exhibit B) shows a snapshot of PEBP's claims experience month-over-month. The black line on the chart shows what PEBP has budgeted for. The green line on the chart pertains to the overall rolling trend for medical, dental, and prescription and shows that there was large claims suppression in FY 2020 with lower-than-normal claims. The chart also shows that claims started to increase around March 2021 with the spike continuing through July 2021. PEBP receives updated reports on claims, and month-over-month the spike in claims continues. The difference between the black line and green line on the chart illustrates the claims that PEBP will have to cover due to increased expenditures that were not in its budget. The chart on page 9 of (Exhibit B) shows the decisions that were made by the PEBP Board for PY 2023. In most cases, PEBP will restore plan designs to pre-pandemic levels and will be able to restore medical plan benefits specifically relating to medical expenses that were cut during the last round of budget cuts. PEBP will be able to fund the medical expenses for the next three years, which is a big win for PEBP and its members.

CHAIR CARLTON:
I am grateful that PEBP is trying to bring some of its deductibles back to pre-pandemic levels as the cost of deductibles can have a significant impact on the families of state employees. How did PEBP evaluate its low-deductible plan, which did not exist prior to the COVID-19 pandemic, to come up with its deductible amount?

MS. RICH:
PEBP did not have a low-deductible plan for PY 2021, as the plan was introduced for PY 2022. The point of having different plan options is so that members can choose a health plan that meets their needs. The CDHP, as a high-deductible plan, usually has the lowest premium, but the plan has a significant deductible of $1,500 for employees and $3,000 for families before it will pay any claims. Members who are relatively healthy or do not use their insurance a lot tend to like the CDHP because the premiums are low. Members of the CDHP do not usually plan on having to meet their deductible, but they still need the safety net of having insurance.

PEBP's EPO plan in Northern Nevada and HMO plan in Southern Nevada tend to be utilized by people with health issues that might access their benefits more often. These members are often more comfortable with paying a higher premium knowing that when they go to the doctor, they will be charged a $20 or $40 copay depending on the type of benefit accessed. This is known as actuarial value and is the difference between what a person pays up front versus what is provided in benefits. PEBP spreads the actuarial value out so that people have different health plans to choose from. If there are three plans with the same actuarial value, there is not a choice of plans because all the plans are identical. In spreading out the actuarial value of the plans, the EPO plan is in the middle between the CDHP and the HMO. PEBP had to tweak its plan design to spread out the actuarial value, which is why there is a slight difference in the HMO plan and the out-of-pocket maximum for the other plans.

ASSEMBLYWOMAN PETERS:
I would like the chart on page 8 of (Exhibit B) to go back to 2016 to show what the rolling 12-month trend looks like over a longer period. I am concerned that the difference between the black and green lines on the chart equates to unbudgeted claims. During the 2021 Legislative Session, it was discussed that the reason PEBP was proposing to keep its Incurred But Not Reported (IBNR) reserve and Catastrophic reserve levels so high was to help it endure unpredictable swings in the market.

MS. RICH:
The IBNR and Catastrophic reserves exist to pay unpredictable and extraordinarily large claims that were unforeseen by actuaries and unbudgeted for by PEBP; many of the large claims are related to COVID-19. PEBP strives to avoid using its IBNR and Catastrophic reserves as much as possible because the reserves must be backfilled. Reserves must be backfilled, with the cost of backfilling being passed along to employees in the form of higher premiums and rates. Extra funding must be collected in the future to backfill reserves. PEBP's reserve categories exist as a safety net to help the plan fund high-cost claims that are anomalies when compared to trends.

ASSEMBLYWOMAN PETERS:
PEBP's reserves have been increasing over time, and PEBP is currently putting funding into its reserve categories by collecting premiums. How will using reserve funding increase PEBP's premiums? I don't understand how using reserve funding will increase premiums if the premiums are already consistently increasing. Is there a cap or floor on PEBP's premiums? If the cap or floor is exceeded, is PEBP required to increase its premiums?

MS. RICH:
PEBP's reserves can be compared to a savings account. There is a certain amount of money in a savings account that is relative to a person's yearly income. As a person's paycheck increases, their savings account typically increases. However, if a person dips into their savings due to furloughs or unemployment, they will have to earn more money in the future to backfill their savings account. PEBP's IBNR and Catastrophic reserve levels fluctuate based on PEBP's claims experience. If PEBP's claims increase year-over-year, its reserve levels will be required to increase yearly. Health care costs are increasing while PEBP's membership levels are staying steady or increasing, resulting in PEBP's reserve levels increasing relative to expenditures of the plan. PEBP's reserve levels are required to be refilled if they are dipped into.

SENATOR OHRENSCHALL:
What were PEBP's excess reserve levels at the beginning of PY 2022, and how much of PEBP's reserves have been allocated to benefit changes in PY 2022 and PY 2023? What specific benefit changes have PEBP's reserves been allocated towards?

MS. RICH:
PEBP projects its excess reserve levels, which are a moving target based on claims experience. The reserve projections from January 2020 looked a lot different than the projections from February 2021. PEBP has gone out to bid on almost all its contracts over the past two years with many of the contracts being renewed; some of the contracts come with significant projected savings. When the PEBP Board met in December 2021 to discuss and approve the plan's policies, it had to consider the renewal of contracts when projecting excess reserve levels because contract savings were not built into PEBP's budget.

PEBP projects to have approximately $46 million in excess reserves at the beginning of PY 2022. Some of the approximate $46 million in reserves is already allocated to expenditures related to PEBP's Medicare HRA. The PEBP Board had originally cut the HRA copays to $11 per employee year of service, but during the 2021 Legislative Session the Legislature allocated PEBP's excess reserves to restore copays. Additional tagged expenditures also brought down PEBP's reserve levels. PEBP has used approximately $26 million of the $46 million spread out over three years, equating to approximately $8.7 million per year. The $8.7 million will be on the agenda of the Interim Finance Committee meeting for February 9, 2022. The $26 million in reserves that PEBP has already used is spread out over three years even though excess reserves are only projected for PY 2022 because of the volatility of health care premiums. PEBP does not feel comfortable spending down all its projected reserves due to the current state of affairs.

MS. RICH:
PEBP's PY 2021 ran from July 1, 2020, to June 30, 2021. Information regarding the utilization of PEBP for PY 2021 begins on page 12 of (Exhibit B), with the utilization of PEBP's CDHP being described on page 13 of (Exhibit B). Medical costs of the CDHP decreased by 6.8% on a per-member, per-month (PMPM) basis, but overall medical spending was down 8.3% in PY 2021 when compared to PY 2020 due to claims suppression. People postponed receiving health care services due to pandemic-related shutdowns, and PEBP is now seeing an increase in utilization of services due to the scheduling of delayed services. Delayed care also increased more costly health care procedures as people's conditions often worsened by the time care was received. Many of the costs that were not incurred in PY 2021 are now being incurred in PY 2022.

High-cost claimants are PEBP members with claims over $100,000. PEBP monitors its high-cost claims very closely because just a few of the claims can have a significant impact on the plan. High-cost claims can be related to premature babies whose births can cost over $1 million. Additionally, COVID-related claims are new to PEBP's high-cost claims category. If a member is hospitalized and put on a ventilator due to COVID-19 and potentially needs to be airlifted to a hospital to receive a higher-level of care, costs can quickly increase and will fall into PEBP's high-cost claims category.

The top three costs by clinical classifications for the CDHP stay consistent year-to-year, with cancer always being at the top of the list. Emergency room (ER) and urgent care

visits dropped during PY 2021, but the costs per ER visit increased by 87.8% largely due to the pandemic and the high-degree of emergent COVID-19 cases. Prescription drug utilization was not as affected by the pandemic, with overall costs in this category increasing 5.4%, which is to be expected. The PEBP plan picked up most of the increased prescription drug costs, with members paying less than 1.0% more in PY 2021 over PY 2020, while the plan paid almost 70% more for prescription drugs.

Page 14 of (Exhibit B) describes the utilization of PEBP's EPO plan, which is similar to its regional HMO plan. Despite claims suppression, medical costs of the EPO plan still increased during PY 2021, with overall costs being up by approximately 2.3%. When considering the reduction of primary participants on the EPO plan, the PMPM medical costs of the EPO plan increased by approximately 8.9%. PEBP did not experience the same claims suppression with its EPO plan as it did with the CDHP during PY 2021. High-cost claims account for almost one-third of the medical costs of the EPO plan, with the plan seeing a higher volume of high-cost claims in PY 2021. Cancer is on top of the clinical classifications list for the EPO, similar to the CDHP. Infections was also one of the top three highest cost clinical classifications which is unusual for the EPO plan; the infections were probably related to COVID-19.

The costs of ER room and urgent care visits were similar between the EPO plan and the CDHP except ER costs for the EPO plan did not increase by as much. Network utilization is high for the EPO plan as it is a regional plan and there is no out-of-network benefit. The prescription drug utilization rates between the EPO plan and CDHP were similar for PY 2021, with overall prescription drug costs increasing by approximately 8%.

PEBP added a new copay assistance program to the EPO plan that takes money that drug manufacturers are willing to give to new patients and spreads that money out throughout the year so that PEBP can leverage every dollar provided by the drug manufacturers. Without the copay assistance program, PEBP will only get a percentage of the money the drug manufacturers are willing to provide in copay assistance. Once PEBP members meet their out-of-pocket maximums and deductibles, the drug manufacturers stop providing copay assistance. The copay assistance program benefits members as they typically can get their prescriptions at little to no cost, with PEBP applying the unused portion of the money to reduce overall spending. Because the money saved through the copay assistance program is not considered in the overall data collected by PEBP, numbers look skewed for the first year of the program. For example, PEBP members on the EPO plan did not pay 38% more for prescription drugs as is shown on page 14 of (Exhibit B), as the total member cost increased closer to 2% to 4% when drug manufacturer dollars are applied.

The impact that COVID-19 had on PEBP's self-funded plans for PY 2021 is detailed on page 15 of (Exhibit B), with the bulk of costs being related to treatment and hospitalization. Actual utilization of COVID-19 testing was much higher than what is shown. Many of the costs associated with being tested for COVID-19 are not billed to PEBP as the costs are being covered by federal programs or by other funding channels offered by the state. PEBP COVID-19 costs related to vaccines are attributed to administration fees. The

COVID-19 vaccine is free and PEBP is not charged, resulting in lower-than-expected vaccine costs. However, as is the case with most vaccines, there is usually an administrative cost associated with the COVID-19 vaccine. Many of the costs associated with vaccinations are not billed to the insurer because no insurance information is being collected when a person gets their COVID-19 vaccination.

Page 16 of (Exhibit B) describes the utilization rates for PEBP's fully insured HMO plan that is offered in Southern Nevada. Being fully insured means that PEBP does not track and handle the claims. PEBP instead pays HPN a monthly PMPM fee to administer the HMO plan and pay the claims. Like all other fully insured products, the Department of Business and Industry, Division of Insurance has oversight and authority over PEBP's HMO plan. The HMO plan did not experience the same claims suppression as other insurers in PY 2021 because of its capitation model. Similar to its self-funded plans, PEBO's HMO plan experienced a spike in high-cost claims. A combination of the capitation model and high-cost claims resulted in an approximate 19% increase in HMO medical costs.

Diabetes is a large chronic condition cost driver for the HMO plan. Emergency room and urgent care utilization were down while costs were up, similar to what was seen with the EPO plan. The average number of prescriptions per person is high on the HMO plan and is 50% higher than on comparable peer plans. Utilization for inpatient services dropped on the HMO plan while outpatient services remained steady, while utilization of professional services increased by 8.7%. The number of inpatient bed days increased by 25% on the HMO plan, while on the CDHP inpatient bed days decreased. Treatment for mental health disorders increased by nearly 13.0% on the HMO plan while the spending on these disorders increased by over 100%. Alcohol-related disorders on the HMO plan increased by approximately 241.0%. Mental health and alcohol disorders also increased for PEBP's self-funded plans, but to a lesser extent with a 20% increase in costs for the self-funded plans versus 100% increase for the HMO plan.

CHAIR CARLTON:
Being able to track the utilization rates of PEBP's plans over the next few years will help determine what the actual long-term impacts of COVID-19 are and will provide more information on the recovery rates of PEBP's members.

4. Report on material provided generally to participants or prospective participants in connection with enrollment in PEBP for the plan year beginning July 1, 2020 (PY 2021) (NRS 287.0425).

MS. RICH:
Specific dates and information regarding PEBP's communication plan can be found on pages 249 through 260 of (Exhibit A). A high-level overview of the methods that PEBP employs to communicate with its members is also detailed on page 18 of (Exhibit B). PEBP has communicated a lot with its members in PY 2022 due to the plethora of changes PEBP has experienced with contracts, vendors, and COVID-19. PEBP has released pandemic-related communication on health care coverage and where members

can go to get flu shots. Newsletters and emails regarding plan benefit changes have been released, and different communication mechanisms are used based on the type of information being provided. PEBP has been offering virtual open enrollment meetings for the last few years and will continue to do so for PY 2023. The virtual meetings are interactive, with PEBP finding success by using webinars to allow members to ask questions and get answers in real-time. PEBP continues to host flu shot clinics and has held a few COVID-19 vaccine clinics.

For its Medicare members, PEBP continues to offer its pre-Medicare meetings to ensure that members aging into Medicare understand the process and PEBP's requirements for transitioning into Medicare. In November 2020, PEBP implemented a cap for its HRA accounts and has been sending out reminders regarding the cap before it is implemented in May of every year. During every Medicare open enrollment period, PEBP has Medicare retirees who fail to use the PEBP vendor to enroll in Medicare plans, causing PEBP to lose these members as they terminate off the PEBP plan; this can cause issues for members. PEBP works with Retired Public Employees of Nevada to spread awareness regarding Medicare open enrollment.

CHAIR CARLTON:
It can be difficult for eligible PEBP members to enroll in Medicare, and I appreciate the work that PEBP does to ensure that all its members who are retiring receive the necessary information.

5. Report of the July 1, 2020, independent actuarial valuation of post-employment health and welfare benefits for current and future state retirees for the year ending June 30, 2021, provided by the State of Nevada, pursuant to Statement Number 75 of the Governmental Accounting Standards Board (GASB) for Fiscal Year 2020 (NRS 287.0425).

ANDREW WITTE (AON Consulting):
Over the past year, AON's job was to value the State of Nevada Postretirement Health and Life Insurance Plan. PEBP has a plan it uses to provide benefits to members who are no longer working for the state and accounts for these members while they are still employed. PEBP also maintains a dedicated reserve to fund future retiree health insurance costs. Oftentimes, the pay-as-you-go costs (estimated by AON to be approximately $50 million per year) are lower than accounting costs which are projected to be approximately $80 million per year.

Page 266 of (Exhibit A) shows that the OPEB accounting expense under GASB 75 was approximately $75 million for FY 2020 and approximately $85 million for FY 2021; this contrasts with PEBP's benefit payments which were around $40 million to $50 million per year for post-employment benefits. Many states have postretirement medical benefits but a lot of entities, including the State of Nevada, have reduced the postretirement benefits they offer. Any employee hired after December 31, 2011, is not eligible to receive a subsidized benefit from the PEBP plan. Since 2012, the number of members and the amount of liability related to PEBP's postretirement benefits has been decreasing.

In 2018, there were approximately 13,000 active employees eligible for PEBP postretirement benefits; in 2020, this number decreased to 10,000 eligible employees. The number of employees eligible for postretirement benefits will continue to decline due to the plan's attrition rates. Accounting costs are calculated using the look-back method, which involves estimating the growth in benefits and accounting expenses from the previous year to provide numbers in a timelier manner; expenses can be calculated during the year instead of waiting until the year is over. PEBP's FY 2021 accounting costs are based on activity from July 1, 2019, through June 30, 2020.

The State of Nevada Postretirement Health and Life Insurance Plan is unfunded and there are no assets backing it up, and interest rate discounts for future liabilities are below 3%; this makes the plan appear expensive. For PY 2021, PEBP's net unfunded OPEB liability was calculated at $1.5 billion. However, the current discount rate for PY 2021 is below 3%.

VI. PUBLIC COMMENT.

KENT ERVIN (Nevada Faculty Alliance):
The Nevada Faculty Alliance works to empower faculty to be fully engaged in its mission to help students succeed. I thank the Committee for its oversight of PEBP. State employees hired in 2011 will have 15 years vested in health care benefits by 2026. After 2026, retirees from state service will be left without state subsidies for their health care benefits. Conversely, other public employees of the state, counties, and local municipalities will have postretirement benefits but will be contributing to the non-COVID nature of state employment.

VII. ADJOURNMENT.

The meeting was adjourned at 4:07 p.m.

Respectfully submitted,

_____
Tom Weber, Committee Secretary

APPROVED:

_____
Senator Marilyn Dondero Loop, Chair

Signed on behalf of Assemblywoman Maggie Carlton, Chair

Date: _____