Written Testimony on Assembly Bill 190
David Draine
Pew Charitable Trusts
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Nevada policymakers are currently being asked to consider a side-by-side hybrid pension plan design for newly-hired state and local employees participating in the Nevada Public Employees' Retirement System (NVPERS). These written remarks provide context on the side-by-side hybrid plans used by other states and local governments, and discusses specific implications of enrolling new workers in Nevada to the hybrid plan described in Assembly Bill 190.

The most common way states and local governments provide retirement benefits are through final average salary defined benefit plans. Policymakers in a number of states have considered alternative plan designs, including both defined contribution plans and various hybrid approaches. The most common alternative plan in use in states is a side-by-side hybrid similar to the design in AB 190.

A side-by-side hybrid incorporates a final average salary defined benefit (DB) along with a defined contribution (DC) plan—the eventual retirement benefit is based on the combined DB and DC components. The most common approach provides a defined benefit with a retirement benefit of 1% of final average salary per year of service (a 1% multiplier) along with a defined contribution plan with an average combined default employer and employee contribution of 6% of salary (employees can contribute more, and in many plans employers will provide matching contributions). Examples of states with a mandatory side-by-side hybrid for new workers include Indiana, Michigan, Oregon, Rhode Island, Tennessee, Utah, and Virginia. Ohio and Washington offer optional hybrid plans—a new worker can choose that plan or a final average salary defined benefit plan.

The hybrid plan proposed in AB 190 follows the common model of a 1% multiplier for the defined benefit. The mandatory DC contributions total 12%: 6% from employer and 6% from employee—this is higher than the typical hybrid plan design, presumably to address the fact that Nevada employees do not participate in the Social Security retirement benefit. The defined benefit includes a cost of living adjustment (COLA) that follows the current policy applied to NVPERS retirees. The employer contribution for the DB portion of the benefit is capped at 6% of pay—any additional costs that may result, for example from investment losses during a future downturn, are paid for through employee contributions. Total employer costs are thus capped at 12% of pay. This is most similar to Utah's hybrid pension plan which has a combined employer contribution to the DB and DC components of 10% of salary with employee contributions making up any difference.

If Nevada enrolls new employees in the proposed hybrid, we anticipate the following:

- Employer costs will be predictable. Nevada and local governments in NVPERS will have much more predictable costs—with a cap for those hired under the new plan of 12% of pay.
- Employee benefits and contributions will be less predictable. Employee DC benefits will vary based on investment returns. Employee contributions will make up for the entirety of any increase in DB costs above the 6% cap.
- Workers will need to retire later to gain the full retirement benefit. The new plan sets the normal retirement age at the full Social Security Retirement age—67 for someone joining NVPERS at age 25. Under the current plan the retirement age is after 30 years of service or age 60 with at least 10 years of service. Based on those provisions, someone joining at age 25 could retire at 55. Both the current plan and the proposed hybrid allow early retirement in exchange for a reduction in benefits.
- The existing unfunded liability will not be affected. In most situations, changing plan parameters for new workers can impact future costs and future cost variance but does not reduce, increase, or otherwise change the liability for those currently employed or retired.
- A career worker starting at 25 will get a larger benefit at retirement under the hybrid proposal than under the current plan, but would have to wait 12 years longer to collect. Under the current plan, a worker starting at 25 would be eligible to retire at 55 with 75% of final average salary—furthermore his or her benefit is actually capped at 75% so working an additional year would not increase the replacement rate. Under the hybrid proposal, the expected benefit level is 82-118% of final average salary, depending on investment returns to the DC account. A worker starting at 25 would be first eligible for normal retirement at 67—at that point the DB benefit alone would equal 42% of final salary. The level of the defined contribution depends on what investments would do—assuming 8% returns during the worker's career, following the salary projections assumed by NVPERS, and using a 4% investment assumption and plan longevity assumptions to calculate an annuity gets an estimated replacement rate at age 67 from the DC account of 76%—a combined replacement rate of 118%. This analysis depends on investment returns—if DC account investments were just 5% rather than the 8% assumed by the retirement system, the estimated DC replacement rate becomes 40% for a combined replacement rate of 82%.
- A worker under the hybrid plan could choose to retire earlier than the Social Security full retirement age with a reduced benefit. A worker who retired at 55 instead of 67 would get 8% income replacement from the hybrid DB due to the early retirement reduction and 33% replacement from the DC for a combined benefit of 41%. If instead that worker waits to age 63, he or she would get 26% of final salary from the DB and 53.5% from the DC for a combined benefit of 79.5% of salary—greater than the capped benefit for a worker under the current plan.

- A worker who entered service in Nevada at 25 and left at 40 after 15 years of service would also get a larger benefit under the hybrid plan but would have to wait 5 years longer to collect. The current plan would provide a replacement rate of approximately 14% of salary at age 62, the year he or she could start collecting the benefit. The hybrid plan would provide an estimated replacement rate of 42% at age 67 if DC returns match the plan assumption of 8% and 19% if DC returns are instead just 5%.
- The analysis is similar for a worker joining later in career. An employee entering the Nevada public workforce at age 40 would be eligible to retire at 62 under current benefits with a pension replacing 55% of salary. Under the hybrid benefit that same worker would have to wait until 67 to get a benefit replacing 63% of pay with 8% DC returns and 51% of pay with 5% returns.
- Public safety workers get an enhanced multiplier and lower retirement age—a police officer or firefighter joining the plan at age 25 would be able to retire at 57—10 years prior to his or her full Social Security Retirement age.

The proposed hybrid plan design would make costs much more predictable for employers and benefits less predictable for employees. It will require public employees to work longer but will give a greater expected benefit to workers once they do hit retirement eligibility. Nevada policymakers will need to look at these tradeoffs and decide which approach better matches the Silver State's fiscal, workforce, and policy goals.