

# **Assembly Bill 190**

## **Public Employees' Retirement System Preservation Act**

Assemblyman Randy Kirner  
Assembly District 26  
April 15, 2015

# A LITTLE ABOUT NEVADA PERS

- Public employee “defined benefit” pension plan
- Objectives:
  - Provide reasonable base income for retirement
  - Encourage long-service to public employer
- Two legs of classic 3-legged retirement stool
- Contributions are shared 50/50 – in theory

# Why this bill ? Why now?

- Pension reform is nonpartisan. It's a math problem
- Total state and local unfunded liabilities in the U.S. are estimated at \$4.6 trillion. PERS unfunded liability is *over \$12 Billion*
- Policy makers – on both sides of the aisle – are addressing one of the largest financial problems facing states today

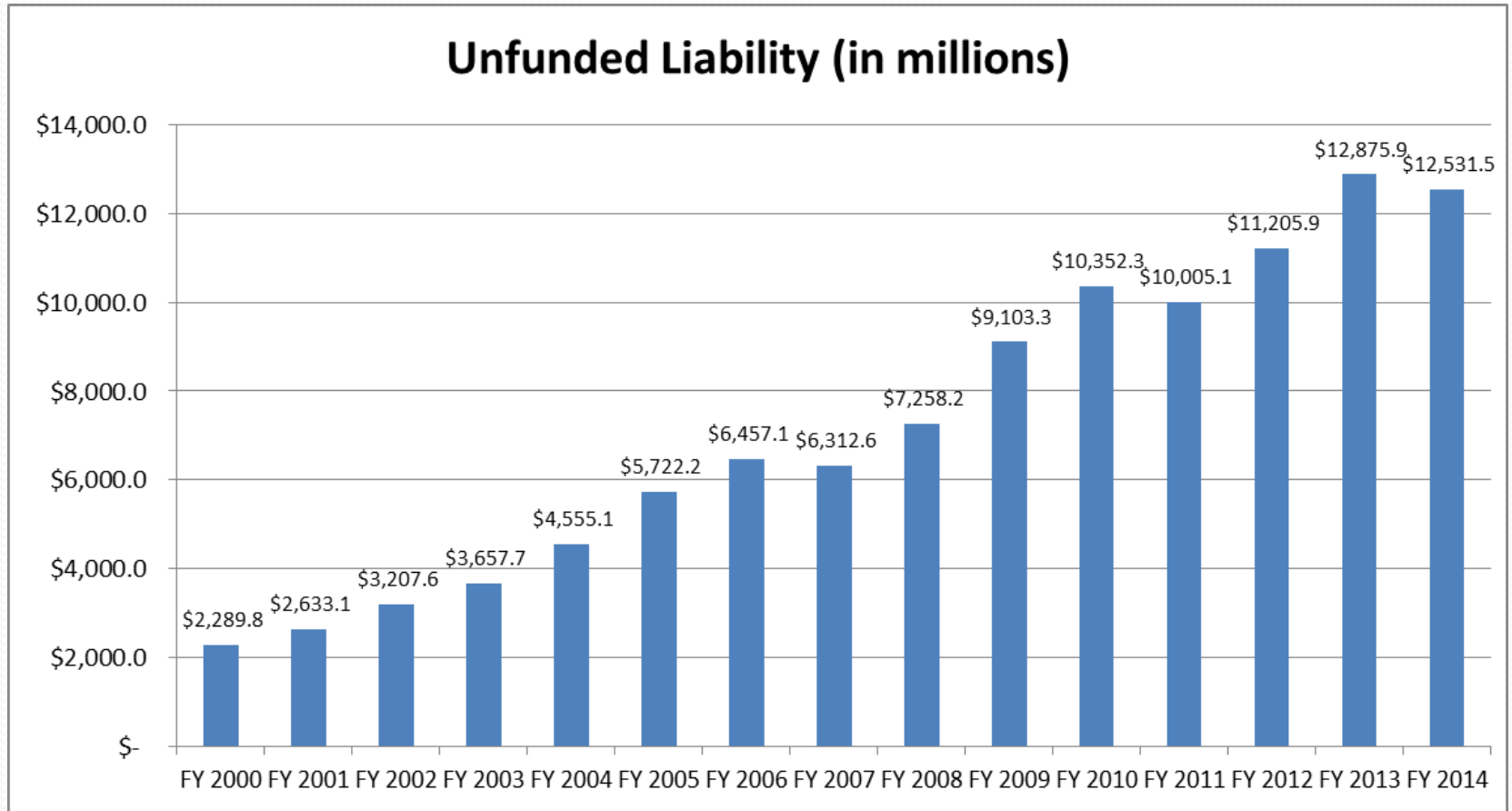
# What are the issues?

1. A *ballooning* unfunded liability
2. Lack of consistent investment returns
3. *Growing trend* in contribution levels
4. Benefit payments growth
5. Active-versus-retiree ratio
6. Changes in world of work

# 1. Unfunded Liabilities

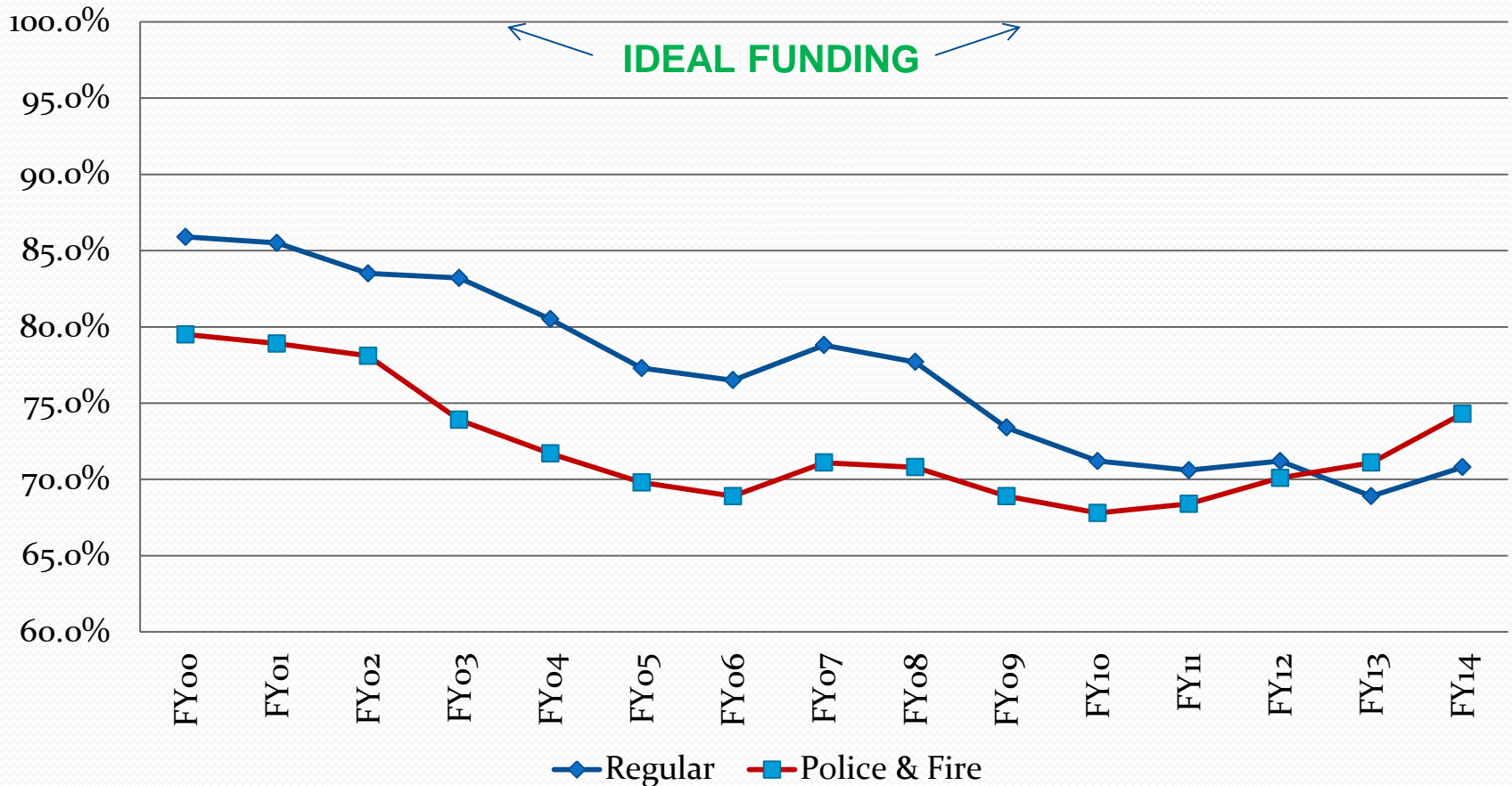
- Definition: “Unfunded liability” is the difference between what PERS owes to the participants when they retire (liabilities) and what is presently in the fund (net assets)
- Goal: When a defined benefit plan is properly funded by its sponsor, its net assets should be approximately equal to its liabilities, i.e. **100% funded**

# Unfunded Liability / Promise



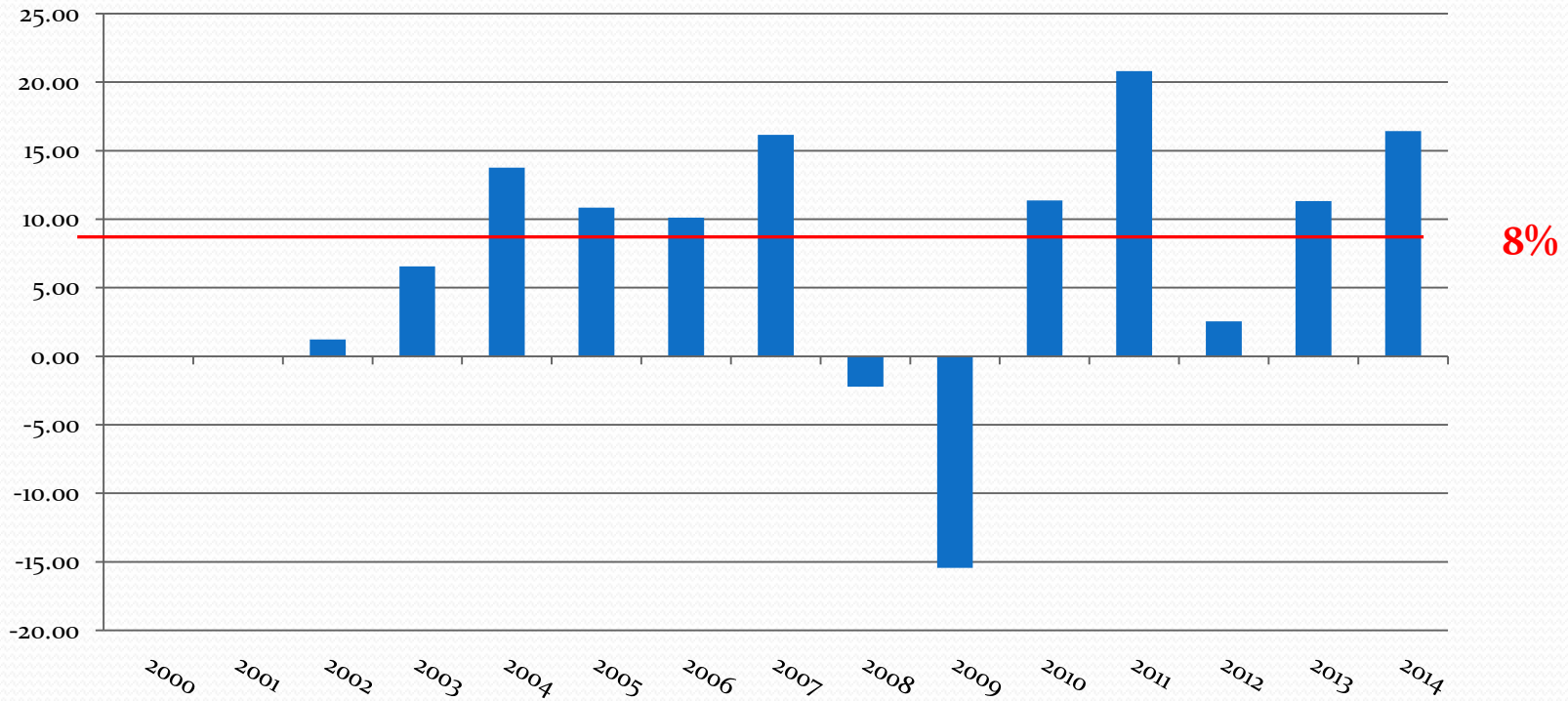
A growth of 547% in 15 years

# Actuarial Funding Level



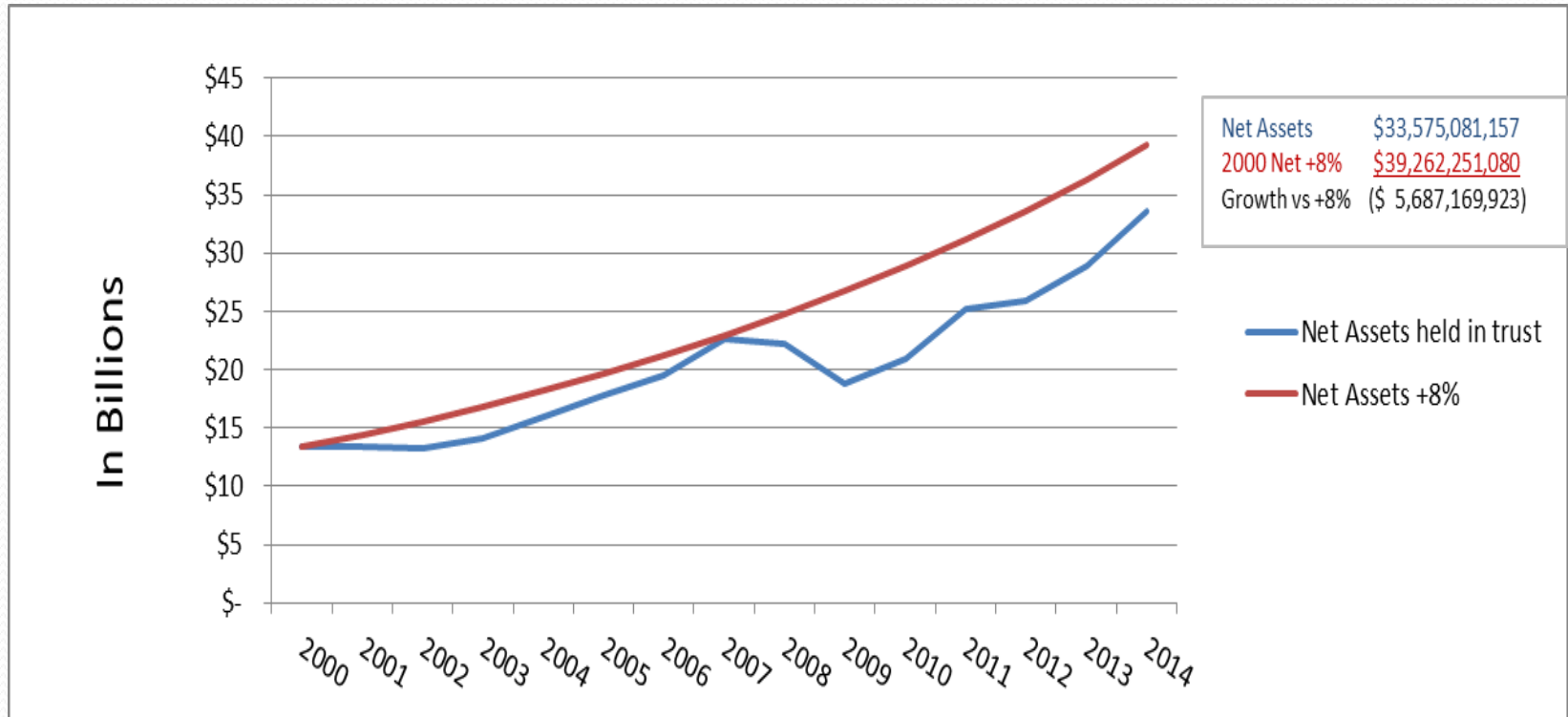
## 2. Annual Percentage Value Change – Net Assets Held in Trust by PERS

Severe Economic/Political Factors Suppress Growth/Recovery

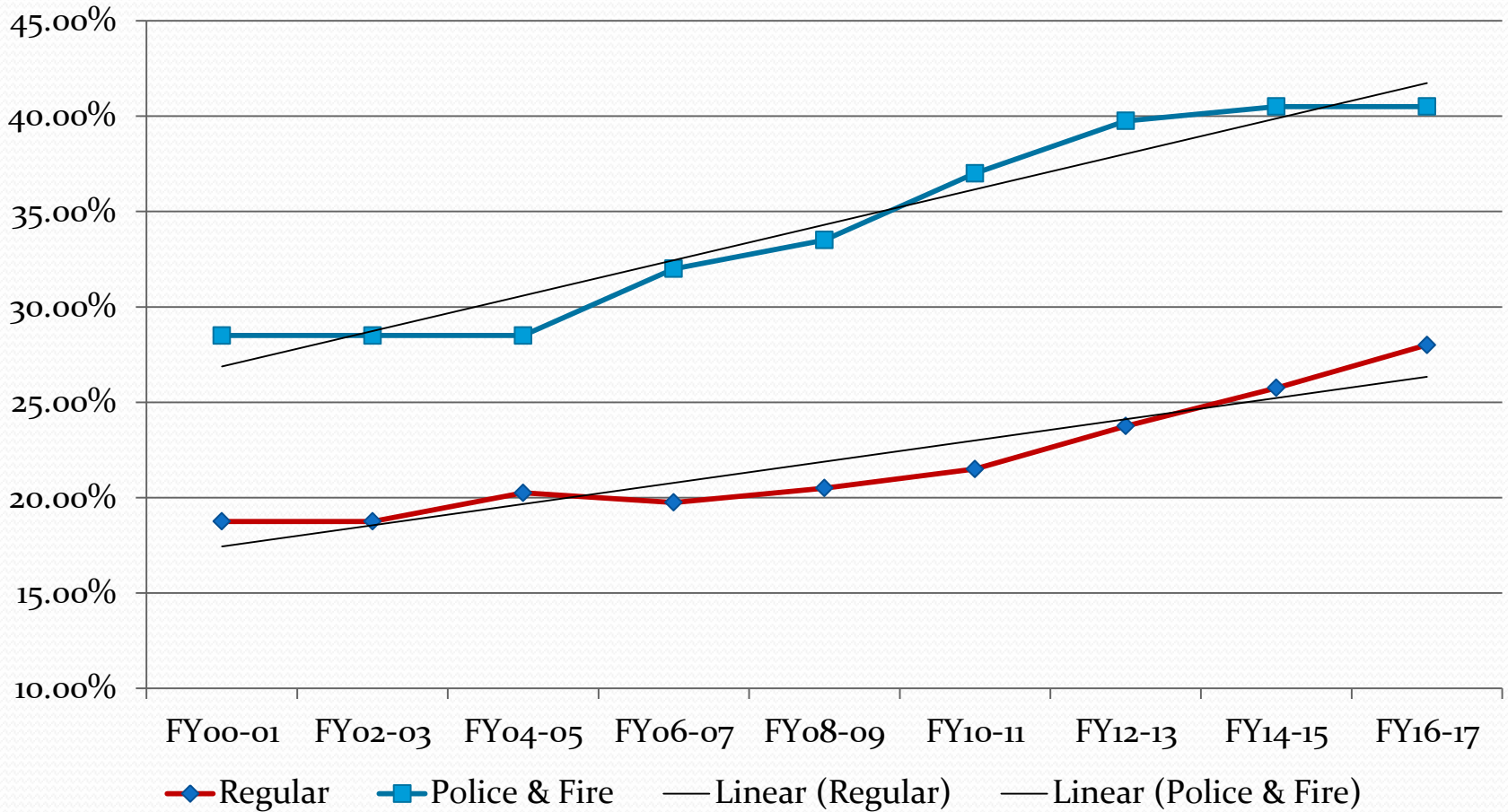




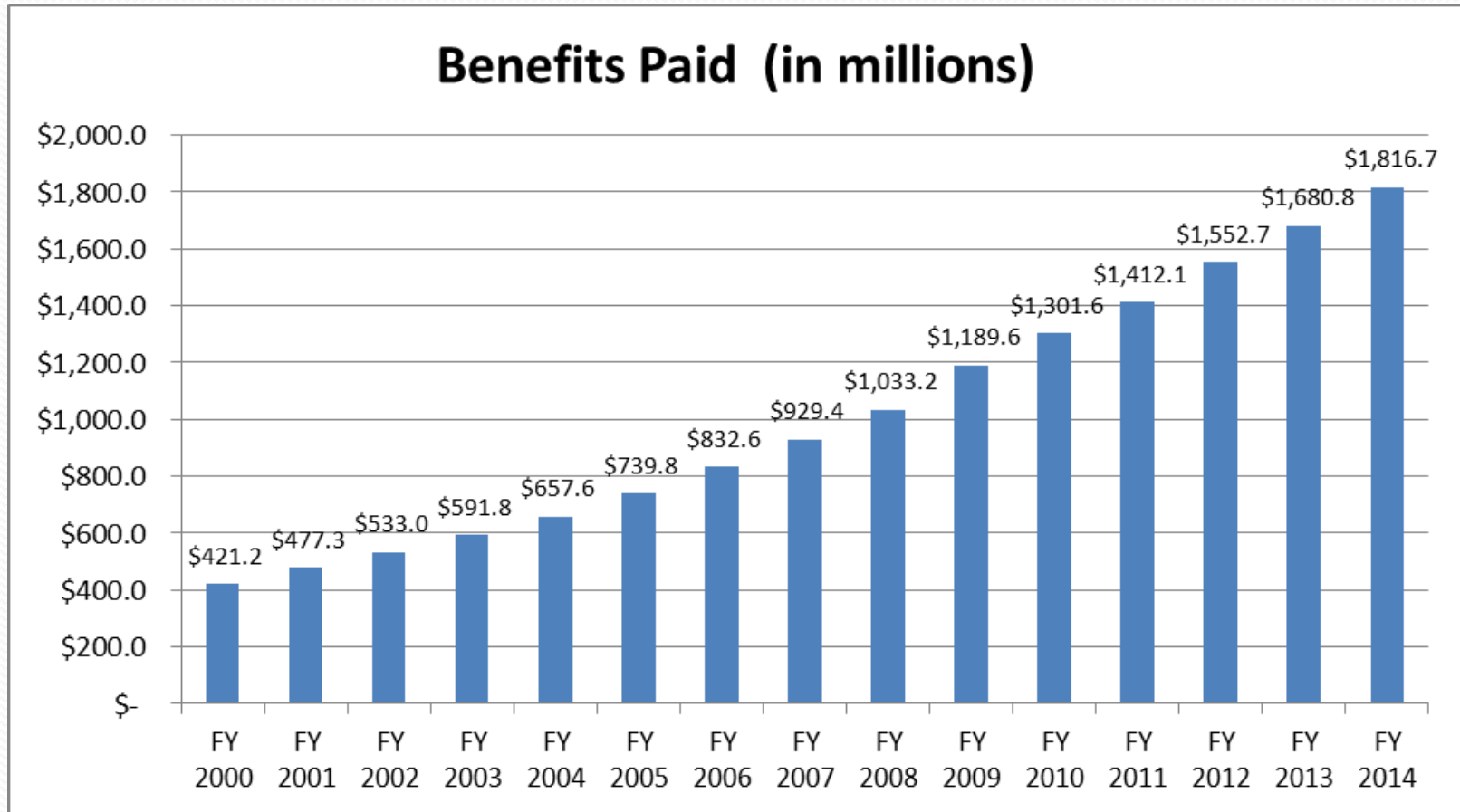
# PERS Experience 2000-2014 – Compared to Straight 8% Compounding



# 3. Contribution Rates Employer Plan



# 4. Benefit Payments



A growth of 431% in 15 years

# 5. Active versus Retirees

- 2002: 4:1

Four active employees per retiree

- 2014: <2:1

<Two active employees per retiree

- Current retiree pensions paid by:

- 80% investment returns (assets)
- 20% new money (contributions)

## 6. World of Work

- According to U.S. Department of Labor, Bureau of Labor Statistics – median years of tenure with current employer (2000–2010):
  - Private sector = 4.0 years
  - State government = 6.4 years
  - Local government = 7.5 years
  - Education = 4.1 years

# Proposed Hybrid Plan

- Prospective: new members hired **after July 1, 2016**
- Long-service rewarded by DB plan
- Runaway UL controlled by DC plan
- Portable = More attractive to today's workers
- Ownership/choice of retirement investments
- DC plan funds may pass to heirs
- Higher retirement benefits for long-service

# AB190 – Hybrid Plan: Defined Benefit Plan Features

- Retirement Formula = 133% of base salary for highest 3 consecutive years
- Purchase of airtime/service credit prohibited
- Multiplier: 1% for regular members
- Multiplier: 1.5% for police/firefighters
- Full retirement:
  - Regular members = Social Security retirement age
  - Police/firefighters = Social Security retirement age minus 10 years
- Contributions not subject to collective bargaining

# AB190 – Hybrid Plan: Defined Contribution Plan Features

- Members may transfer from existing plan to hybrid plan (irrevocable election)
- Supplemental contributions to DC plan
- Investment choices; safety net
- Vesting = Cliff vesting after 5 years
- No hardship or other loans allowed
- Distribution options may include annuity
- Governance by PERS – Choice of working with vendor on investment options, education, communications, and member services



# AB190 – Hybrid Plan Design

|                            | Regular    |            | Police/Fire  |            |
|----------------------------|------------|------------|--------------|------------|
|                            | Employee   | Employer   | Employee     | Employer   |
| <b>DB Plan</b>             | 0%         | 6%         | 0%           | 6%         |
| <b>DC Plan</b>             | 6%         | 6%         | 9%           | 9%         |
| <b>Legacy Plan Support</b> | 0%         | 6%         | 0%           | 6%         |
| <b>Total</b>               | <b>6%</b>  | <b>18%</b> | <b>9%</b>    | <b>21%</b> |
| <b>Legacy Plan</b>         | <b>28%</b> |            | <b>40.5%</b> |            |

# AB190- Hybrid Plan Design

## Income Replacement Value

| Regular                                      |
|--|
| Hired at 30 years of age                     |
| Retired at 65                                |
| Total service = 35 years                     |
| New DB = 35% replacement value (1% per year) |
| New DC Plan yields 45%                       |
| <b>Total Replacement Value = 80%</b>         |

| Police/Fire                                      |
|--|
| Hired at 30 years of age                         |
| Retired at 55                                    |
| Total service = 25 years                         |
| New DB = 37.5% replacement value (1.5% per year) |
| New DC Plans yields 41.5%                        |
| <b>Total Replacement Value = 79%</b>             |

Assumptions: salary growth at 4% annually; and Rate of Return on DC Plan of 6% annually

# ***Constitution of the State of Nevada***

## **Article 9, Section 2, Paragraph 4**

“The public employees’ retirement system must be governed by a public employees’ retirement board. The board shall employ an executive officer who serves at the pleasure of the board. In addition to any other employees authorized by the board, the board shall employ an independent actuary. The board shall adopt actuarial assumptions based upon the recommendations made by the independent actuary it employs.”

# AB190- Hybrid PERS Plan

## Closing Comments And Questions