Joint Meeting

SENATE FINANCE COMMITTEE
MINUTES OF MEETINGS
MARCH 22, 1973

The joint meeting with Assembly Ways and Means was called to order at 8:30 a.m. Senator Lamb was in the chair.

PRESENT: Floyd R. Lamb, Chairman
Warren L. Monroe
B. Mahlon Brown
James I. Gibson
William J. Raggio
Clifton Young
Archie Pozzi

Don Mello
Jack Schofield
Darrell Dreyer
Rawson Prince
Bob Robinson
Randy Capurro
Tim Hafen
Bode Howard
Hal Smith

Earl Oliver, LCB Fiscal Analyst
Bob Tripp, LCB Deputy Legislative Auditor
John Dolan, Chief Deputy Fiscal Analyst
Cy Ryan, UPI

Corydon D. Hurtado, President, Cyberserv International Co., Tahoe Paradise, California
Sidney T. Kaufmann, President, Actuarial Systems, Inc., Consulting Actuaries
Gray Presnell, Public Employees Retirement System
Carl W. Shannon, "
R. C. Weems, "
Donald D. Anderson, "
James H. Sullivan, "
Clarence Swain, "
Elbert B. Edwards, "
Donald L. Ream, "
Robert Bruce, Washoe County
Bob Gagnier, SNEA (Nevada Employees Association)
Mary Berryman, Carson City
Clara Wallace, "
Nellie Laird, National Assoc. of Retired Persons
Earl Wooster, NRTA-AARP "
Douglas Byington, Nevada Association of School Administrators
Don Perry, NRTA-AARP
Russ McOmber, WCEEA
Margaret Pilkington, NRTA-AARP
R. J. Dunn, SS&C
K. J. Henriksen, Peace Officers & Fire Fighters
Bob Kerns, Federated Fire Fighters

Helen Marie Smith, NSNRTA, Las Vegas
Julius Coneyliaro, Secretary, Las Vegas Fire Fighters Union
Harry Dondero, Clark County School District
Robert S. Griffin, Reno
Robert Warren, Nevada Municipal Association
C. Schank, Fallon
Ella Hanks, "
Loilia Carl, "
Earl Carl, "
Olga Coburn, "
John Murchie, UNLV Employees Association
W. E. Cadwell, Nevada State Welfare Division
Fay Wallace, Carson City
Dale Lockhard, SNEA
Mary Coffey, SNEA
Wendell Taylor, Banana Flats

RETIREMENT:

Mr. Sidney Kaufmann explained his report of the actuarial study of the Nevada Public Employees Retirement System (See green book in supplemental material #10). These findings are projected for the system for ninty years. See page 30 which represents projection data and expected members in the system over ninty years beginning from July 1971.

The retirement fund at the present time is not solvent primarily because the benefits in the past were increased and the legislature had lifted the ceiling restricting qualifications for benefits, but the legislature did not fund or require sufficient contributions to cover these increases. The fund was also affected by the number of new employees entering the system. At the present rate the fund would be completely depleted in sixty years. If the state could provide employer/employee contributions and interest contributions to the fund at a rate of 17.85% the fund would be sufficient to perpetuate itself forever. Anything less than 17.85% would not provide sufficient funds at some point in the future, and eventually the fund would go to zero.

The present rate of 12% is not sufficient, and would deplete the fund around the year 2033. The fund currently needs another 5.8% in contributions, and if they could raise the interest rate on fund investments from the current 5% to 6% they would need only an additional 2.45% more in contributions.

The study was prepared July, 1971, and at that time if they had raised the investment interest rate to 6% and had had an increase of 2% in employee/employer contributions, the fund would still be 1/2% short of what it would require to be solvent, if there had been no increase in benefits. However, this was not done at that time and the increase of 2% in employer/employee contributions with no increase in benefits and an increase to 6% interest on investments would mean that the fund would need 5% more contributions instead of the 5.8%. The state will have to increase the contributions by 1% each year to make up this deficiency, and after six to six and a half years the fund would then be solvent and would have achieved the necessary 17.85% in contributions.

Dick Scudder of the firm of Stevens and Clark stated that there was $185 million in the fund as of December 31, 1972. He said that amount was yielding 5.4% interest and that they were currently allowed to invest only 20% in common stock. Last year they earned 28.9% from this common stock. He said they could earn 6% from the fund investments if they had the prudent man bill passed as it would give them more flexibility.

S.B. 140:

SUMMARY: Recognizes prudent man investment rule and removes certain public employees' retirement system investment restrictions.

Dick Hanlon, the project director for the Harris, Kerr, Forrest study said he thought this bill must be passed in order to accomplish the desired changes recommended in their report so the fund could accrue a higher interest rate on their investments. Dick Scudder of Stevens and Clark, and Sidney Kauffman of Actuarial Systems, Inc., also supported this bill.

Senator Monroe asked what the effect would be on the fund in the event of a stock market crash as happened in 1929 if they passed this bill. He was told that passage of this bill wouldn't affect it one way or the other, that the fund would be damaged in that event regardless of this bill.

S.B. 143:

SUMMARY: Makes certain administrative changes in funding of public employees' retirement system.

Mr. Dick Hanlon, the project director for the Harris, Kerr, and Forrest study said passage of this bill was necessary to utilize investment of the fund. He said it was possible to get 6-5/8% interest on short term notes for periods of two or three days, but that the fund was located in the treasurer's office and it sometimes would take that long to get checks written, by which time the opportunity would have passed. He said they recommended allowing the funds to be deposited in their own account in banks and utilized for short term investments.

S.B. 161:

SUMMARY: Creates new administrative head and makes certain other changes in administrative provisions governing public employees' retirement system.

The committee discussed this bill.

S.B. 402:

SUMMARY: Provides actuarial valuations of legislators' retirement fund and funding thereof according to accepted actuarial methods.

This bill would provide for actuarial studies of this account and would also provide for computerization of records as they are all kept manually now.

S.B. 321:

SUMMARY: Exempts firemen from certain requirements for disability retirement allowances.

Dick Hanlon of Harris, Kerr, and Forrest stated that he wouldn't recommend that they pass this bill in view of the fact that they were not presented with cost estimates and there was a lack of cost estimates.

A.B. 236:

SUMMARY: Makes general fund supplemental and other appropriations to public employees' retirement fund and district judges' judicial pension fund.

There is a supplemental in the front part of the budget book which provides for this item.

The meeting adjourned at 10:55 a.m.

Respectfully submitted,

Ellen Hocker

Ellen Hocker, Secretary

APPROVED:

Floyd R. Lamb

Floyd R. Lamb, Chairman

NEVADA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

TOTAL INVESTMENT RETURN
on
Common Stock Holdings
Expressed as Average Annual Rates of Compound Interest

	Beginning										
Ending	7/67	1/68	7/68	1/69	7/69	1/70	7/70	1/71	7/71	1/72	7/72
12/67	10.8										
6/68	12.3	13.8									
12/68	13.0	14.0	14.2								
6/69	5.2	3.8	.0	-11.4							
12/69	3.9	2.7	.2	- 4.8	.6						
6/70	-14.3	-16.7	-20.1	-25.8	-29.6	-45.5					
12/70	- .6	- 1.6	- 3.1	- 5.4	- 4.2	- 5.8	55.1				
6/71	4.1	3.6	2.8	1.6	3.6	4.3	37.3	23.6			
12/71	5.1	4.8	4.3	3.4	5.1	5.9	26.6	16.4	10.1		
6/72	9.0	8.9	8.7	8.3	10.1	11.3	27.4	21.2	20.1	29.2	
12/72	11.7	11.8	11.7	11.5	13.3	14.6	27.7	23.2	23.1	28.9	28.7
	5-1/2 Yrs.	5 Yrs.				3 Yrs.				1 Yr.	

Total Return is defined as the dividends received plus the change in market value (whether realized or unrealized) over the period. It should be stressed that each figure is on an annual average rate of return basis.

STATE OF NEVADA

PUBLIC EMPLOYEES RETIREMENT BOARD

P.O. Box 1569

CARSON CITY, NEVADA 89701

STATEMENT AS OF DECEMBER 31, 1972

Value of total fund in stocks and bonds (at cost).

$ 186,000,000.00

Income earned by fund (on an annualized basis).

$ 10,000,000.00

Rate of return - 5-3/8%

Amount in common stocks in the fund at year end.

$ 47,000,000.00 at market value

$ 36,000,000.00 at cost

$ 11,000,000.00 unrealized appreciation

Total investment return* on common stocks in the fund in

1972 - 28.9%

Total investment return* on common stocks expressed as an annual rate of compound interest for the 5-1/2 years from

July 1, 1967 to December 31, 1972 - 11.7%

*Total investment return is defined as dividends received plus the change in market value (whether realized or unrealized) over the period.

SCUDDER, STEVENS & CLARK

Richard J. Dunn

Richard J. Dunn, Vice President
March 22, 1973

NEVADA PUBLIC EMPLOYEES RETIREMENT ALLOWANCES

as of December 31, 1972

RETIREES FROM 1948 THROUGH 1963

RANGE		NUMBER OF PERSONS
$ 35 to $ 70		26
$ 71 to $106		70
$107 to $142		107
$143 to $178		99
$179 to $214		91
$215 to $250		57
$251 to $286		48
$287 to $322		52
Above $322		58
	TOTAL	608

Average Allowance December 31, 1972 - $194.48

INCREASE IN COST OF LIVING INDEX
1964 through 1971

YEAR	INDEX	PERCENTAGE CHANGE	CUMULATIVE PERCENTAGE INCREASE
1964	108.1	1.31%	
1965	109.9	1.67%	
1966	113.1	2.91%	
1967	116.3	2.83%	
1968	121.2	4.21%	
1969	127.7	5.36%	
1970	135.3	5.95%	
1971	141.1	4.29%	
			28.53%

SECTION THREE

RECOMMENDATIONS

The following recommendations are presented for consideration as viable solutions to the problem identified in Section Two.

Recommendation 1. Accept the fact that the System is fiscally unsound and take immediate action to place the System on the road to recovery.

Recommendation 2. Adopt one of the following two funding policies, with preference for a level contribution rate:

(a) Stabilize the past deficit for present members by payment of only the interest on the deficit amount; or

(b) Stabilize the past deficit for present members by payment of level contribution rate into perpetuity, and

Establish a separate distinct contribution rate for the purpose of stabilizing the past deficit arising from present member's benefits. The cost for this purpose should be paid by the employer. (See Table 3-1. Tables referred to in each section are at the end of each section.)

Recommendation 3. Freeze the member contribution rate at the current level and increase the employer contribution rate one percent (1%) per year until the total employer/member contribution rate is sufficient to fund the then current benefits, exclusive of any interim benefit increases. (See Table 3-1.)

Recommendation 4. Add the cost of all future benefit increases to the member contribution rate concurrent with the implementation of the increased benefit, and assure that all proposals for such increases be reviewed and the costs estimated prior to adopting such increases.

Recommendation 5. Perform an annual actuarial valuation commencing July 1, 1973 to measure the effect of increased contribution rates and actual investment performance; and, based upon the results of such valuations, adjust the employer contribution rate upward or downward effective July 1 of the year following the valuation.

Recommendation 6. Implement, minimally, the following numbered recommendations made by Harris, Kerr, Forster and Company in Section Three of their report of September 29, 1972 (the recommendation numbers have been retained for clarity):

Organization - Section 3.3

1. Implement a new organization as depicted and described

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(herein) and implement the new management positions of this organization as described (herein).

2. Require the Retirement Board and their Investment Committee to meet at least monthly.

3. Assign existing P. E. R. S. staff to positions within the new organization structure and recruit the Executive Officer and any unfilled Division Chief positions from outside the present P.E.R.S. staff.

6. Authorize the Retirement Board to appoint an Investment Committee to perform management function over the investment of P.E.R.S. funds.

8. Rescind the statutory authority for the State Board of Finance to approve or disapprove of the Public Employees' Retirement Board's investment program and selection of an investment counselor.

14. Continue the role of the P.E.R.S. Legislative Study Committee over the next biennium to monitor the implementation of all accepted recommendations and to provide assurance that the Retirement Board and its staff are being effective during this implementation period.

Funding Policies - Section 3.4

2. Establish a policy that no changes in benefits will be made without adequate analysis and determination of the funding impact of such change; and with such determination having been made that increases will be made in the total contribution rate to provide for sufficient funding of any benefit changes.

Benefits - Section 3.5

2. During the 1973-75 biennium the Legislature, working jointly with the Retirement Board, should develop recommendations for statutory changes in the NRS (relative to P.E.R.S.) that will eliminate minor inequities and be responsive to the needs of the members for needed improvements in the benefits structure of the System.

6. All proposed System or benefit structure changes should be presented to the Retirement Board for member voting and actuarial or other analyses, four months preceding the next biennial session of the Legislature.

Communications - Section 3.6

2. Publish a semi-annual P.E.R.S. report and newsletter for mailing to all members of the System.

5. Quarterly financial statements reflecting the Retirement Fund's investment performance should be sent to all employers and employee groups for publication and for members to review.

System Design - Section 3.7

1. Implement the new procedures and computer design presented (herein).

6. The Retirement Board should formally adopt the basic accounting principles set forth in the "Accounting and Operations Handbook for Public Employee Retirement Systems" published by the Municipal Finance Officers Association.

9. NRS 286.240 should be modified to allow all income and contributions paid into the System to be deposited directly into the Revolving Fund bank account.

10. NRS 286.250 should be modified to allow all retirement monies to flow in and out of the Revolving Fund bank account.

Investments - Section 3.8

1. Implement effective cash management and cash flow analysis procedures to minimize the amount of idle cash funds.

2. Strengthen procedures to assure timely remittances; eliminate "mail-time" delays through telegraphic transfers from convenient depository accounts.

3. Trades for improved yields should be made; eliminate the requirement for capital losses to be offset by capital gains.

4. Require the Securities Custodian to remit collections promptly.

5. Require the Securities Custodianto bid an interest rate it will pay to P.E.R.S. on the average daily balances of unremitted collections in its possession.

6. Request monthly reports from the Investment Counselor

disclosing the rationale of current investment decisions, market trends and suggestions.

7. The Retirement Board should develop measurable investment return objectives and adopt concise, formal investment policies to augment those in the statutes.

8. Transfer administration of State and local agency bonds to the Investment Counselor, and repeal the authority of the Executive Secretary to make further investments in these types of securities.

9. Remove the administrative restrictions on investments in Canadian securities.

10. Request proposals for original and continuing portfolio monitoring services which use computerized data bank and risk adjusted performance evaluations; and establish a formal program of evaluation of the Investment Counselor's performance in relation to the Board's stated investment objectives.

11. Delete from the statutes all earnings/fixed charge ratios which establish arithmetic formulae restricting investments to only those securities which meet the criteria imposed by these formulae.

12. Eliminate the requirement contained in NRS 286.780.1(b) requiring dividends in five consecutive years.

13. Delete from the statutes, all requirements which impose percentage limitations upon investment in the securities of any one entity.

14. Delete from the statutes, all requirements which limit total investment in any single entity to a fixed percentage of the Retirement Fund's assets.

15. Delete from the statutes, all requirements limiting individual investments to a fixed percentage of an issue.

16. Delete from the statutes, all requirements limiting investments in a given type of security to a fixed percentage of the Retirement Fund's assets; adopt the Prudent Man Rule as the guiding principal upon which the Retirement Fund's assets may be invested in the different types of authorized securities identified in the statutes.

17. In addition to Treasury Bills and Nevada Bank

Certificates of Deposit, insert a provision permitting temporary investments in other types such as commercial paper, savings bank trust company notes, export-import bank short-term discount notes, banker acceptances, time deposits in savings and loan associations and savings and loan association shares.

18. Transfer all securities held by the State Treasurer to the custody of the primary Securities Custodian and place them under the management of the Investment Counselor.

Recommendation 7. Do not adopt a current disbursement (pay-as-you-go) funding policy or sustain the present partial funding approach.

Recommendation 8. Do not assume that changes in the investment policies and statutes will guarantee an immediate and dramatic increase in the rate of investment return.

Recommendation 9. Contribution rates for members should be established on either an equitable aggregate basis, or separated by a combination of entry age, gender and occupation. In any event, the aggregate of all such contributions should be at least equal to the contributions under the aggregate basis.

Table 3-1
ADJUSTED CONTRIBUTION RATE

	Rate of Investment Return		
	5%	6%	7%
Statutory contribution rate	12.00%	12.00%	12.00%
To offset deficiency in the statutory contribution rate	5.85%	2.25%	(-).20%
Total required contribution	17.85%	14.45%	11.80%
Present member rate	6.00%	6.00%	6.00%
Required employer rate	11.85%	8.45%	5.80%
Present employer rate	6.00%	6.00%	6.00%
Increase in employer rate	5.85%	2.45%	(-).20%