SENATE FINANCE COMMITTEE
MINUTES OF MEETINGS
MARCH 23, 1973

The meeting 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

Earl Oliver, LCB Fiscal Analyst
Bob Tripp, LCB Deputy Legislative Auditor
Howard Barrett, Budget Director
Cy Ryan, UPI

Sid Kaufmann, Actuarial Systems, Inc.
R. L. Hanlin, Harris, Kerr, Forster & Co.
C. W. Guyer, "
Donald L. Ream, Retirement Board
Gray Presnell, "
R. C. Weems, "
Earl Wooster, NRTA - AARP (Retired Persons)
Ed Greer, Clark County School District
C. D. Hurtado, Cyberserv International Co.
Ken Buck, Former Retirement Division Secretary
Richard Morgan
Bob Gagnier, Nevada State Employees Association
Dennis Wise, SNEA
Ed Psultis, NSEA
Lonnie Shields, WCTA - NSEA
Vince Johnson, NSEA
Wilma Wilistu, NSEA
Larry Jenkins, NSEA
Don Perry, NRTA - AARP
Helen Marie Smith, NSTRA Las Vegas
Mary Gayle Jensen, NRTA Reno
Ellert B. Edwards, Retirement Board
Janus H. Sullivan, "
Clarence Swain, "
Don Anderson, "
Carl W. Shannon, "
Richard Dunn, SS&C Scudder Stevens & Clark
Jim Gist, City of Las Vegas Employees Association
Wayne R. Silutog, City of Henderson
Nellie Laird, NRTA-AARP, Joint Legislative Committee
Margaret Pilkington, NRTA-AARP "
Julius Conegliaso, Las Vegas Fire Fighters Union
Gary Gray, Clark County Teachers Association
Robert S. Gouffin, Reno Public Employees
J. A. MacEadeen, City of Las Vegas

RETIREMENT:

S.B. 135:

Employees associations are recommending that this be rephrased to read, "An adequate income to employees who have been employed by a public employer to provide for them with dignity."

SNEA supports the prudent man bill.

S.B. 142:

SUMMARY: Directs legislative commission to continue study of public employees' retirement system.

Mr. Morgan and Mr. Gagnier said, "We agree we have to continue actuarial studies. We prefer that this be done through the retirement board and that they be given this authority by the legislature, with the assurance that periodic reports be given to the legislative commission." So far the actuarial studies are only on Mr. Kaufmann's computer, and they plan to put it on the state computer. Once this is done they feel they could do these studies themselves. (However, later in the testimony the actuarial consultants disagreed with this.)

S.B. 143:

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

Mr. Morgan and Mr. Gagnier said they approved of this bill as the committee discussed proposed amendments yesterday. "We had great reservations about the million dollar fund but none now (after the committee had discussed this)."

S.B. 161:

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

Mr. Gagnier said that on page six he felt $19,000 was not adequate for the type of person they are looking for and felt this should be left open for the retirement board's decision.

On Page 8, line 9, he felt they should also add or retirement system so they could perhaps select someone from some other retirement system. However, in later testimony Mr. Hurtado said this would be the worst mistake they could make.

He also felt that on page 9, lines 22 through 27, that once the system is computerized they might be able to do it themselves and that an annual evaluation could be rather expensive.

Senator Lamb said, "Don't you think you should have something for the next two years and then after that maybe we could change that?" Mr. Morgan said, "We have to agree that we need this for the next two years but after that we could do it ourselves." Richard Dunn of Scudder, Stevens & Clark said that the actuary studies cost $24,000. Senator Lamb said, "We could amend that out at the next session of the legislature, but until we get this where it should be this (the actuary studies) will be of real value to the legislature."

S.B. 303:

SUMMARY: Includes employees of Nevada Municipal Association in public employees' retirement system.

Mr. Morgan said, "We think this is a very fine bill with a couple of amendments."

S.B. 358:

SUMMARY: Modifies formula for calculating post-retirement allowance under public employees' retirement system.

Mr. Morgan said, "Mr. Kaufmann and ourselves had a communications breakdown on this and on 8-A instead of costing 20.04% it would cost 2.25%, and 1.79% instead of 18.08% and 1.43% instead of the third figure. We feel the benefit is too costly at the present time."

A.B. 328: (There is a typographical error in this bill, and it should be A.B. 325.)

SUMMARY: Provides increases in salaries for state classified personnel effective January 1, 1973; and makes appropriations for such increases and for certain salary adjustments in the classified and unclassified service.

Mr. Morgan said, "We have never before had a section that defines what type of police or firemen or employees could be included under special benefits for public protection personnel. The employers have always decided who would be covered in early retirement. At the present time we wouldn't really know who all this bill would affect because the present law states only that if the employer thinks the employee should be under early retirement he pays the extra contribution and the employee is then included. The legislature should have the power to define which employees are covered, not the employers.

"There is no group of people whom you want covered who will be cut off to our knowledge." Senator Raggio asked, "What will happen to those who were covered by early retirement and now won't be covered?" Mr. Morgan said, "They would be here in two years wanting the law changed. You may want to put in a clause saying anyone who has been paying for the last two years (into early retirement) could be covered."

A.B. 506:

SUMMARY: Changes composition of public employees' retirement board and provides for electing members.

Mr. Morgan said, "This would change the manner in which the retirement board is constituted. It would be a 7 man board with two statutory state officers (the controller and the treasurer). The other five would be elected by their employee groups. One would represent state employees* one the academic staff of school districts, one city employees, one county employees, one consolidated school districts, hospitals, etc. * and University of Nevada system.

"Presently the board is appointed by the governor, and it would now change to be elected by employee groups. Many states have this including California, Washington, and Oregon.

"Until Dean Weems got on this board we didn't have to good a communications from the board.

"In years gone by the retirement board encouraged 1-1/2% loans and their granting these contributed a great deal of distrust and also contributed to the lack of solvency of the fund."

Senator Gibson said, "When Ray Knisley and Fred Settelmeyer changed this so they could not do this, the state employees nearly lynched them. I guess the employees believed there was a lot of support for it and there was the idea that the fund should be invested within the State of Nevada." Mr. Morgan said, "The intellect of state employees has matured much since those days." Mr. Buck, formerly of the retirement division said, "In those early years the state board of finance handled the fund investments."

Senator Lamb said, "One of the toughest things we have had to cope with was the lack of communication between the retirement system and the employees."

Mr. Reams of the retirement board said, "It would be very appropriate if employees groups made suggestions as to whom they wanted the governor to appoint to the board. Any elected employee is also a member of the system and is also building up retirement. We do not have a representative from the employers or taxpayers. I think those people should very definitely be represented. The controller and treasurer are also in the state employee category.

"Members of that group (employees) are not necessarily qualified to carry on the bast business of the retirement board. I think the governor is better equipped to know which people should represent the taxpayer and employee groups."

A.B. 539:

SUMMARY: Supplements retirement incomes for public employees who retired prior to December 1, 1963.

See attached information. There are 96 persons on retirement who receive less than $106 per month. All of the people affected by this bill are in at least their 70's, 80's, and 90's. Mr. Dennis Wise said, "The Harris, Kerr, and Forster report said let's wait two years and then maybe we can do something about this. When they are this old they can't wait two years. Sixteen percent of these people will pass away each year. We requested a direct appropriation from the general fund (through this bill) for the state to pick up these people in order that they may live their last years a little easier. We have requested that any money remaining in the fund remain in the retirement fund. This is our way of indicating that we recognize their deficiency problems.

"Our request for $30 per month for each of the 608 persons retired before 1963 would be given across the board in order to help the people who are in the most need the most. The persons receiving only $35 a month in retirement benefits will get the same amount as the person at the top of the scale. This means the percentage of increase to him would be more than at the top of the scale.

"There is a typographical error on the bottom of page 1, line 25, in that it should read December 31 instead of the 1st. Our figures were compiled or computed for the December 31 date."

Senator Brown mentioned that some of the retired persons have other incomes and wondered if they should have an affidavit, nothing complicated, to see that the funds went only to those persons needing the money. Mr. Kaufmann said, "It is substantiated that administering a means test is quite expensive and punative. There would probably be some savings, but they might be wiped out by the cost of the means test. You would have to communicate with the retirees, get back the forms, and process them."

Mr. Ream said that they felt the 96 persons receiving less than $106 per month should receive 50% of the funds and also suggested that the funds should not be reverted back to the retirement fund but be kept in a special account for the purpose of relieving the financial problems of this group of retirees.

RETIREMENT:

Mr. Gagnier said, "Assuming that the increase in the retirement contributions is 1/1 this is in principal endorsed by public employees but we ask that the employees contribution rate vary by age. It becomes apparent that those who come into the system at a later age reap better benefits than younger employees. For instance the benefits versus contributions paid into the system by a 60 year old employee with 30 years employment would be different than the same man if he had ten years employment who could get more in benefits than he had actually paid in." He gave the following chart.

EMPLOYER 7% contribution		ASSUMED INTEREST 6% rate	
(7.5% for public safety)		vesting at 10 years	.18%
age 40 and under	7%	30 year retirement	.65%
age 41-50	9%	post retirement	.20%
51 and up	11%	survivors	.11%
Additional .5% for public safety employees		TOTALS	1.14%

Mr. Gagnier said that the figures on the right of this chart would be what Mr. Kaufmann says will be necessary for funding this. Present employees would have a level contribution rate, but new employees would pay a varying rate according to age at entrance into the retirement system (see figures on left of the chart).

Mr. Kaufmann said, "These figures would be adequate if we assumed this was July 1971 and we had been receiving a 6% interest on investments. There is nothing actuarially unsound about allowing employees to buy additional benefits with additional employee contributions. Conceptually what they are proposing to do is sound and is only a philosophical question. If you wanted to make this proposal absolutely equitable you would have to have a different rate for age for every employee.

"Actually they are requesting a 1.14% increase in benefits which is more than the 1% they propose to contribute additionally. This isn't exact and I would recommend that you allow only 1% in benefits for 1% in contributions. The average age of people coming into the system is 35 years, and the proposal to vary the contributions is a philosophical question that would not affect the solvency."

Mr. Gagnier was proposing not raising the contribution for old employees to buy additional benefits (although they would be required to contribute an additional 1% required by the legislature). But he proposed raising by 1% the total contributions of new employees on a varied rate. He said this would pay for itself by stabilizing the system over the next 90 years when at that time there would be 92,000 people in the system instead of the current 25,000, and that the new people would pay for this.

Senator Monroe said, "Retirement after 30 years would allow employees to retire at age 48 possibly. Then the state loses their experience and training. I think what hurts the work force is a-l the retired military personnel who take up jobs from people who really need them."

Mr. Morgan said, "You make a great point for higher contributions at age 40, because Nevada has so many retired military people who come to work and then reap the benefits of a second retirement program."

Mr. Gagnier said, "If someone retires at 30 years he has paid contributions which by law he can only collect a maximum of 65%. Anything above those thirty years he can never collect any additional benefits on. Out of ten employees that come to work at age 20, according to Mr. Kaufmann's figures, only 1.89 will actually be working for us in thirty years." Mr. Keith Hendrickson said, "According to the Wall Street Journal and other material I have, out of those two employees only 10% would actually take out their retirement early." (The others would wait until they reached retirement age.)

Mr. Hurtado of Cyberserv International, said, "The state employees are accepting the spirit of the Harris, Kerr, and Forst report when they propose to fund any new benefits. However, this doesn't address itself to the fact that the fund will go broke in sixty years. The solution would have been on July, 1971, to raise aggregate contributions rates to 17.85% total contribution rate for the current benefits that employees are receiving and to stabilize the unfunded liabilities at that time. However, if you implemented a total contribution rate of 17.85% today, you would still be short by 3/8 of 1%. You would need a total contribution of 18.15 today just to fund the current level of benefits and to stabilize the unfunded liability into perpetuity, assuming the benefits would be frozen.

"You should raise the contribution of employers because employees can draw out their contribution but they cannot take out the employers contribution. The employers could not absorb an increase to 18.35% immediately--you would have employers going broke in the local districts. But you must embark upon a long-range program to reach fiscal integrity and also increase the efficiency of the fund.

"You should raise the employers contributions by 1% per year until its sufficient to stabilize the unfunded liability and pay for present benefits. Actuarial studies should be made every year. To not do so is being penny wise and a pound foolish. That's why your system is in trouble now.

"Each year if you increase your contribution rate, hopefully you will increase the rate on investment so you will be bringing money in from these two important sources. At what year the fund would stabilize would depend on variables such as interest rates from investments, etc. The fund could stabilize in six years. But if you passed legislation requiring an annual actuarial evaluation you are giving everyone insurance that you are not paying more into the fund than necessary or less than is needed to the fund.

Senator Raggio asked how much is drawn out by employees not retiring but leaving the system. He was told this amounted to $4 million a year. They are paying out $800,000 in retirement benefits per month and approximately $10 million per year.

A.B. 649:

SUMMARY: Allows retired public employee to have insurance premium deducted from retirement payments.

Mr. Presnell said it wouldn't cost much because they are on the computer check writing and mailing system. This would allow a deduction for insurance payments for retirees.

A.J.R. 10 of the 56th Session:

SUMMARY: Proposes to amend the Nevada constitution by declaring moneys paid into public employees' retirement fund are trust funds.

Mr. Gagnier said, "This is supported by all of the public employees groups and has been passed once by the last legislative session, and we hope you would pass it again."

RETIREMENT:

The retirement board said they would like to go on record as to priorities: (1) Fiscal integrity, (2) increased retirement benefits for people in dire need (those retired before 1963), (3) ten year vestment. They also support a moritorium on benefits until they are funded.

Mr. Greer of Clark County said that 81% of their budget was for salaries, so this is very important to them. He wanted to see a termination date of July 1, 1973 for the present retirement board members and have the governor appoint from a list of employees groups on a staggered term. He said, "I think one of the most important things for you to do is hire an executive investments officer. You should remove all salary requirements and let the retirement board pay him whatever they need to."

Mr. Morgan said, "The public employees feel we should get the best man possible irrespective of salary." Senator Lamb said they accepted that idea.

The members of the public left the room.

Mr. Kaufmann said, "Increasing the employer's contribution gives you more leverage. There is nothing wrong with sharing equal contributions but that it would be just as easy to reduce the employers rate of contributions later."

Senator Gibson said, "We have a political problem with this. One of the effects that continuously creep in is there is pressure to have the employer pay all of the contribution. By philosophy we have resisted this. My personal feeling is we hate to open the door to this."

Mr. Kaufmann said, "There is something heartening about the proposal for the employees offering to pay an additional 1% for increased benefits." Senator Gibson and Lamb said it bothered them to put in any more in employees benefits until they see what they have.

Senator Raggio said it didn't bother him if they are paying for it through additional contributions. "I say no increase unless the employees pay for the benefits." Senator Monroe said, "I don't want to pay for benefits until we know what its going to be. We don't know what they are going to pay until we see the investment program."

Mr. Hurtado said, "We would agree that you should raise the contributions one and one and concurrently provide for an annual actuary evaluation." Senator Lamb said, "I am going to hold strong for that." Senator Gibson said they propose to have equal one and one contributions.

Senator Raggio said, "I don't agree. I don't think we should be tied to this policy of equal contributions. This insolvency is not of the present employees making. This problem of lack of fiscal integrity occurred in previous years and you are now going to ask the present employees to pay the costs. If we are going to meet our responsibilities I think it is up to the state. That's what Mr. Kaufmann said in his report."

Mr. Kaufmann said, "What's the difference who corrects the solvency problem."

Senator Gibson said, "When I was chairman of the ways and means committee a few years ago they sold us on the idea of taking the lid off the $600 limit and letting retirement apply to full salary and that the rates needn't be changed. They got more benefits but didn't pay enough for them. I think it is essential that any proposal that comes in have an actuary appraisal."

Mr. Kaufmann said, "I recommend a moritorium on benefits but the system doesn't have the ability now to evaluate any cost data for increasing benefits."

Senator Lamb said, "If you were doing this wouldn't you just go ahead and try to correct this fund and just say wait two years--don't muddy the water with any additional programs or charts."

Mr. Hurtado said, "If I were doing it I would fire all of the staff in the retirement system, hire an investment officer, an actuary, a person to improve relations, an individual for the planning systems division (computers), an administrator, and get working with data processing to get the system automated in not longer than a 12-month period, change the retirement board from the present members to one that would make sure the investment was being effective, and raise employer contribution rate 1% per year for X years until it was sufficient to stabilize the unfunded liability and provide for current benefits. I would also freeze the current benefits at their present level. If you freeze the employee benefits and force him to fund the costs of any new benefits you are going to ask him conceptually to buy their own benefits when they ask for them. This is pragmatic. You have an opportunity to pick up 1% and will take their 1% and run with it. Then you could also add 1% to the employers contribution and have an 8 and 8 contribution which would help decrease the disparity. You would be getting a bonus 1% by having them buy their benefits. Dick Morgan will take the responsibility on 1% if employees can buy benefits and you could increase the employer rate to 8% without any bitch."

On page 4 of the green book, supplemental #10, it already states what uneven contributions could be based upon current data and current interest returns on the investment. The uneven contribution rate is acceptable to the consultants, but Mr. Hurtado said that this would present a substantial bookkeeping problem and would be a horrendous burden on the present manual bookkeeping system. He said, however, once it is automated there is no limit on what you can do.

He also added, "They have been working on the cash flow program, and this doesn't happen over night, but results do not show that they have eliminated the cash flow problem. They say they can't afford an actuary, but they have already made an extra $80,000 in the cash flow investments, which we recommended.

"If you have an agreement of raising the 1 and 1 contribution to that as soon as possible, and then July, 1974, raise the employer contribution rate 1% and the employee 1% to fund additional benefits then you would satisfy the employees and the fund." (The second raise would occur in the middle of the biennium.)

They suggested that the chart be redrawn as follows: Have the variable rate for new entrants at ages 35 and under, 36-45, and 46 and up. Do away with the vesting and not allow this, have 30 year retirement at .69, post retirement at .21, and survivors at .13, for a total of 1.03%.

Mr. Hurtado said that Mr. Gagnier's statements that the variable rate for new employees only is not valid in that it wouldn't pay for itself as Mr. Gagnier had stated. He said that charging a variable rate for new entrants would not solve the problem for the existing 25,000 members of the system.

Mr. Hurtado also said that it would be difficult to get a good investment man for the fund at $25,000, and that this figure should be $30,000 to $35,000. He said the biggest mistake they could make would be to hire someone from another retirement system.

Senator Lamb said that this legislature doesn't have the authority to fire the retirement employees. Mr. Hurtado said, "I don't think the retirement board is going to do this either."

The meeting adjourned at 11:25 a.m.

Respectfully submitted,

Ellen Hocker

Ellen Hocker, Secretary

APPROVED:

Floyd R. Lamb

Floyd R. Lamb, Chairman