SENATE FINANCE COMMITTEE
MINUTES OF MEETINGS
MARCH 29, 1973

The meeting was called to order at 8:00 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

Earl Oliver, LCB Fiscal Analyst
Bob Tripp, LCB Deputy Legislative Auditor
Howard Barrett, Budget Director
Cy Ryan, UPI
Glen Mackie, Clark County Teachers
Sid Kaufmann, Actuarial Systems, Inc.
C. D. Hurtado, Cyberserv International Co.
Richard Morgan, Employees Association NSEA
Bob Gagnier, Nevada State Employees Association
Keith Hendrickson, Policemen and Firemen's Assoc.
Ed Psaltis, NSEA
Don Hayden, CCSPA
Doug Byington, Nevada Association of School Administrators
Harold Waddle, Clark County Elementary Principal
Ed Greer, Clark County School District
Robert Taylor, Clark County Classified
Sam Palizzolo, SNEA
Bob Maples, Washoe County School District
Gary Gray, CCCTA Clark County Teachers Association
Harold Woodworth, NJLCPOF
Valerie Cooke, Intern

RETIREMENT:

Senator Lamb received a petition from Glen Mackie in which their letters stated that they did not intend to injure the firement or the police but that they felt they should have the same benefits inso far as early retirement. There was also some feeling that the public safety employees weren't paying in enough for this early retirement.

Mr. Keith Hendrickson discussed with the committee the attached reports. He said that the actual figures available for fire fighters indicate that they have a life expectancy of 57 years, and the general public has one of 67 years. For police officers the life expectancy is 61 years. He said that due to the shorter life expectancy the program early retirement is much less expensive for this group than for all other employees. He mentioned that if you brought other employees in that women due to their longer life expectancy as well as that of other males would necessitate a raise in rates to cover the additional expense.

Later in the meeting Mr. Kaufmann of Actuarial Systems, Inc., stated that on page 3 of their report (see supplemental material #10) they state that public safety employees should be paying 2.7% and are now paying 1% for earlier retirement. He said they figured that there would be a five year earlier retirement based upon 20% of those eligible actually retiring at the earliest age. He said, however, that they drew this figure from national figures and that in general they would only retire at a 10% rate of those actually eligible to do so, so this was overstated. Mr. Hendrickson said, "Is it possible that we (the public safety employees) are paying our own way by this additional 1% (half of which is paid by employees and the other by employers)." Mr. Kaufmann said that's possible.

Mr. Mackie reiterated that the teachers were not opposing early retirement for public safety but they would like this additional benefit. Mr. Gagnier said, "We feel actually that the actuary report is taking a pessemistic approach and we feel we can be more optimistic. We feel if the investment program is successful perhaps more benefits will be possible."

Senator Lamb asked Bob Gagnier and Dick Morgan if NSEA was opposed to early retirement for public safety people, and they said, "No, but at a later date we would like to have early retirement for other state employees but we would pay a higher rate. We agree that this issue is muddying the waters now."

Mr. Hurtado stated that if nothing was changed in the system it would go broke in 60 years, and that with an increase of 1/1 contribution each year the fund could stabilize within 4-6 years, but couldn't be predicted accurately because a lot depends upon the effectiveness of the investment program. Mr. Kaufmann said the increased period of additional contributions would be shortened by the success of the investment program and its return, if that occurs, and that depending upon the investment program perhaps at a later date benefits could be added or rates reduced. (This would be in several years and after stability had been reached.) The unfunded liability is now $325 million.

Senator Raggio said, "I still don't buy the concept that the current employees would have to pay that portion of the unfunded liability that was caused by other factors."

Mr. Hurtado said, "So by the time four years have passed you will have raised the contribution to a total rate of 16%. This would be enough to stabilize the fund, so if the investment returns remain relatively stable you will have more flexibility, but that is an unknown factor."

He also said, "The system was not designed to be a pay as you go system. If it were at the end of 70 years the contribution rate would rise to 56% of employees salaries." (This was in response to an editorial in the Reno Evening Gazette which quoted Ken Buck's (former chief of retirement division) statements that the fund was solvent and was a pay as you go system.)

Senator Lamb asked if when they were talking about the 8/8 contribution in 1974 if Mr. Hurtado was talking about using the employees additional 1% for application toward solvency or a raise in employee benefits. Mr. Hurtado said, "We would prefer that you raise the employer rate. On July, 1973, you will raise the employer and employee contribution 1%, with that total of 2% being specifically directed at bringing the fund into stabilization. On July, 1974, you can raise the employer rate 1% to again provide additional thrust and raise employee rates an additional 1% to fund a couple of these additional benefits which they have requested, and at that point having performed actuarial evaluations you would be in a position following July, 1974, at the next session to determine the overall effectiveness and investment rate returns and you could determine if additional funding increases were necessary based upon this. At that time you would have 15% contributions to the fund which is near the stabilization level, and at the same time you would have met some of the demands put upon you by the employees.

"If you gave a 1/1 raise in 1974 and if the investment rate were still the same as it is today the 1/1 would be going to the stabilization program. However, if you raise the investment to 6% rate of return and this were being realized on June 1974, it is conceptual that the 1% employee contribution could be used for additional benefits if the investments were sufficient to reach the stabilization which you desire to reach.

"You could probably draft legislation that said based upon actuarial evaluations presented to the legislative study committee, and based upon their analysis, approval by the legislative commission and the retirement board that if this is such and such that the employee contribution could be used for funding benefits.

"If you are not agreeable with that then say raise the contributions 1 and 1 and then in the next legislative session look at the benefits at that point."

Mr. Mackie said, "How much money would it take if an appropriation were made to take care of the unfunded liability right now. Mr. Kaufmann said it would require 1-1/2 of total salaries, and that this would possibly be about $3 million dollars if it were 1971. Mr. Dick Morgan, NSEA, said that the basic problem with an appropriation to take care of the unfunded liability would be that it would be a penalty to state employees because you would be picking up the local governments who should have contributed.

Senator Lamb said, "There are so many ifs I would say there is not going to be any benefits until we know what is happening. When we can see a trend then we can say we can give some more benefits."

Senator Raggio said, "We paid $100,000 for the study. Their first recommendation was the employer contribute to take care of this deficit. That seems to be rejected. Their alternative is 1/1% the first year, and 1/1% the next year but giving them additional benefits the second year with the employees share."

Senator Gibson said, "For 15 years our basic philosophy has been to have equal, shared contributions. They have recommended a different approach on this but this isn't the only approach. You can argue if it is the best approach. Many times we have rejected the philosophy that the employer or employee pay the whole thing. We have said this should be shared. I appreciate the study, but I don't think this is the key to the study."

Mr. Kaufmann said, "All we are doing is we gave you some advice. Then having decided how you want to correct the system you can start horsetrading about benefits."

Mr. Hurtado said that the reason they recommended employer contribution raises to correct the system was because it seemed to be a more palatible solution from the standpoint of employee support and that employees may withdraw their share of contributions but the employers contribution is always left in the fund. Mr. Kaufmann said, "It would be more palatible to go back and assess those old employees who were there when the benefits were increased but you can't do that."

Mr. Morgan said the employees groups would like the idea of the employees contributions buying more benefits in 1974 based upon contingency.

Mr. Hurtado said, "Just changing the contribution rate and changing the investment program is not going to solve the problem of itself. Management administration of anything is the function of the people who are doing the work."

Senator Lamb said, "Did you say you would go in and fire the people doing the work?" Mr. Hurtado said, "Well, I might have said something like that in a moment of weakness. I would make that comment on the basis that what is needed is some skills that they don't have over there. I think that the board of finance as it is presently constituted is totally deletorious to the retirement system, and in effect they ought to be totally taken out of the picture.

"At the present time any comment I might make would be from the report and would only be of a personal nature. My only comment would be that as far as the board is concerned we found no evidence that would indicate any kind of mal-performance on the part of the board, so to that extent I could only speak favorably to the board. In respect to their enthusiasm while perhaps not as great as it could be or as some people might like to see it they in the past year or so since the study started have begun to make some progress, but I don't think they are as aggressive as they could be.

"The main objective you want to achieve is to provide the best possible management of the system through the best possible appointment of people to that responsibility. They would need a good executive officer, four division heads which are an investment position with a person as head who has had experience in the investment community, an analysis division whose head had experience and capability in actuarial and data processing fields, an accounting position which would really quite frankly be everything they are doing over there today. Essentially all that unit does over there today is accounting. This would need a competent accountant to oversee the day to day bookkeeping activity. Then there would be a fourth division, a membership relations division and this man would really be the communications link between the legislature and the members both active and retired and he would implement an aggressive public relations program. He would provide annual and quarterly reports and see that output from the system would be received by those others." Senator Lamb noted that with this the people would be better educated about the status of the fund.

Mr. Hurtado said that in the report the position descriptions for those five positions and salaries are detailed in the report and they were reviewed prior to printing with the state personnel division and it has their approval. He said the salary levels were found to be consistent with the standards for comparable positions in other state jobs in this state.

Mr. Kaufmann said, "What you have here is a $200 million company with sales of $25 million a year, whose product is retirement benefits. You have a board of directors, you have an executive committee of the company but you don't have any officers. You have a $200 million company with no president, no treasurer. You have an executive committee as far as operating officers you don't have them. You have shareholders, a board of directors, the only thing you don't have are people to run the company."

Mr. Dick Morgan of NSEA said, "I can't refute what Don says about the current retirement board. I would just like to say one thing and that there is a real crisis of confidence in the current retirement board. I don't know if we can get legislation to elect the retirement board but it would be far better to restore confidence if we could at least nominate to the governor people to be appointed to the board."

S.B. 140:

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

Senator Raggio moved they recommend do pass amended to being effective upon passage and approval. Senator Brown seconded the motion, and it passed unanimously.

S.B. 143:

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

Senator Raggio moved they recommend do pass as amended. Senator Gibson seconded the motion, and it passed unanimously.

S.B. 161:

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

Senator Gibson said, "We always get in trouble when we try to do staffing by statute." Senator Lamb said, "I think we have to." Senator Gibson said, "For example in health and welfare every session we have to change the name of a division to something else and I wonder at the wisdom of giving responsibility and not allowing them flexibility."

Senator Brown said, "Because of this study we have a little better input than we have had before."

Mr. Hurtado said that they should not limit by statute to a specific organization but should just state high level administrator with regard to the executive officer. He said the biggest mistake they could make would be to hire someone from another retirement system because you might get someone who has had twenty years and may end up being another blah administrator.

Mr. Hurtado mentioned that in requiring them to meet at least monthly that perhaps they should pay for the meetings as far as salary. He cited Dean Weems who works at the university and who will be required to leave work to meet monthly instead of quarterly. Senator Gibson said, "We can't pay him because he is already collecting a state salary."

Senator Gibson moved they amend and do pass this bill. Senator Monroe seconded the motion, and it passed unanimously.

S.B. 358:

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

Sid Kaufmann stated that the costs would be high on this bill. Senator Pozzi moved they kill this bill. Senator Young seconded the motion, and it passed unanimously.

S.B. 360:

SUMMARY: Eliminates certain incorrect internal references in NRS.

Senator Monroe recommended do pass. Senator Gibson seconded the motion, and it passed unanimously.

S.B. 183:

SUMMARY: Revises schedule of workmen's compensation benefits.

Senator Pozzi said it cost a lot of money, and employers money. Mr. Barrett said $100,000 is in the budget and another $100,000 is somewhere else but that the fiscal note got attached to the wrong bill. He said this was strictly NIC money and an NIC bill, and nothing would come from the general fund.

Senator Pozzi said, "This will cost 92% more money than it costs the employer now." Senator Lamb said, "We got this by mistake because of the fiscal note attached." Senator Brown moved they return it to the floor to the general file. Senator Young seconded the motion, and it passed with only Senator Pozzi voting no.

The meeting was recessed at 11:10 a.m.

Respectfully submitted,

Ellen Hocker

Ellen Hocker, Secretary

APPROVED:

Floyd R. Lamb

Floyd R. Lamb, Chairman

COATES, HERFURTH & ENGLAND
CONSULTING ACTUARIES
320 CALIFORNIA STREET
SAN FRANCISCO 94104

OFFICES IN
SAN FRANCISCO
DENVER
PASADENA

TELEPHONE
(415) 433-4440

3/29

July 13, 1970

Captain Keith Henrikson
1611 Clemson Road
Reno, Nevada 89502

Dear Captain Henrikson:

Estimated Cost of Providing Certain
Benefits to Police and Fire Members
under the
State of Nevada Retirement System

In accordance with your request of June 18, 1970, and a letter from Ken Buck dated July 10, 1970, authorizing us to use the Retirement System data of July 1968 to make cost estimates for you, we have determined the following:

I. What is the estimated additional contribution as a percentage of payroll required to allow police and fire members to retire at any age after ~~30~~ 20 years of service?

II. What is the estimated additional contribution as a percentage of payroll required to allow police and fire members to retire at any age after 25 years of service?

You have requested that we furnish this information on the following basis:

a) If the estimated additional cost is divided equally between the employee and employer, with the provision that the employee on termination or death receives a return of his entire contributions.

3- 191

b) If the estimated additional cost is borne entirely by the employer.

c) If the estimated additional cost is divided equally between the employee and employer, with the provision that the employee on termination or death does not receive the return of his contributions which are in excess of the present level of contribution (i.e., 6% of payroll).

Indicated below are the results of our analysis expressed as a percentage of payroll:

		Employer	Employee
I.	a)	9.8%	9.8%
	b)	17.7	-0-
	c)	8.85	8.85
II.	a)	2.5	2.5
	b)	4.6	-0-
	c)	2.3	2.3

The indicated additional rates of contribution assume that all members will retire at their very first opportunity after they attain the years of service making them eligible for the proposed benefit. If only a portion of the membership, say 30%, retired when given the first opportunity to do so, the additional rates of contribution would be 30% of those indicated.

Because the greatest expense to provide the proposed benefits is on account of the past years of service during which time contributions were not made in anticipation of these benefits, the introduction of the above increased rates pertains to the present police and fire members, future new entrants into the System will cause this additional rate to reduce.

In connection with this assignment, we have reviewed the police and fire provisions of the following governmental retirement systems:

1. State of Oregon
2. State of Washington
3. California Highway Patrol
4. California Agency - Safety
5. State of Arizona
6. State of Utah (State and Local Police)
7. State of Utah (Firemen)
8. City of San Francisco (Police and Fire)
9. City of Los Angeles (Police and Fire)
10. Wyoming State Police
11. California County Systems

Of those Systems reviewed, none have your precise proposal as regards eligibility for retirement. The California Highway Patrol provides that members may retire at age 50 without a years of service requirement, while the Cities of San Francisco and Los Angeles provide that members may retire at age 50 after completing 25 years of service. However, none of these California Plans provide as liberal a benefit as 50% of final salary after 20 years of service, as you requested.

It should be noted that under your proposals, the value of the benefits to the Police and Fire groups is, on the average, at least double that under the present System. As the actuaries for the Nevada State System, we, as you, are concerned with the soundness of the entire System. Therefore, if your proposals are adopted, we would strongly recommend that in each future valuation of the System, the Police and Fire group be separated from the miscellaneous members and separate experience developed. In this way, rates could be developed specifically for your membership.

You have also requested that we determine the actual dollar cost per member per year if these proposals are adopted, in order that provision might be made to increase various insurance rates in the State to fully or partially provide for the increased benefits.

The cost estimate shown below assumes an average salary of $8,000 per year. Such cost would proportionately increase or decrease, depending on the average salary of the group. In addition, were only 30% of your membership to retire at the first opportunity to do so, under the provision, then only 30% of the developed cost would be required.

Cost for Present Membership

I. If members are allowed to retire after 20 years of service
- $1,416/member/year

II. If members are allowed to retire after 25 years of service
- $368/member/year

The idea of obtaining contributions from insurance premiums collected has been used in other governmental plans. In general, however, this method is not satisfactory, because there is no direct relationship between gross premiums collected and retirement benefits paid.

If we can be of further assistance to you, please feel free to call on us.

Sincerely,

COATES, HERFURTH & ENGLAND
Consulting Actuaries

By____________________________
Sanford M. Jacobson

SMJ/skd
cc: Mr. Donald D. Anderson

COATES, HERFURTH & ENGLAND
CONSULTING ACTUARIES
320 CALIFORNIA STREET
SAN FRANCISCO 94104

OFFICES IN
SAN FRANCISCO
DENVER
PASADENA

TELEPHONE
(415) 433-4440

January 6, 1971

Mr. Donald Anderson
Executive Secretary
Public Employees' Retirement System
State of Nevada
P. O. Box 637
Carson City, Nevada 89701

Dear Mr. Anderson:

This is in reply to your letter of November 19, 1970 requesting us to recap or reestablish the cost for several proposals that may be considered under the Retirement System. All cost estimates have been based on the valuation of the State Retirement System as of June 30, 1968.

The following paragraphs in answer to your letter are numbered the same as the questions in your November 19, 1970 letter:

1. This question had to do with reducing full vesting from twenty years to fifteen years, and reduce partial vesting from fifteen years to ten years. There is little we can add to our previous statements in regard to this item. It is not possible to determine the costs of this reduction of vesting since we have no way of knowing whether anyone would take advantage of it. Since it is being requested, there is someone in the System who will take advantage of it, and some costs will be involved. We believe that an investigation of the experience under the present program should be made prior to any liberalization of benefits in this regard.

2. This question had to do with reducing full retirement age from 60 to 55, that is, by five years. The estimates we have made indicate that an additional contribution by the employer would be required in the amount of 2.05% of payroll along with additional contributions by employees of an equal amount. These contributions are required to fully fund this proposal.

3. This question had to do with our recommendations to completely fund the System or to pay only the interest on the so-called unfunded liability. As previously given to you in our actuarial report, we presented two sets of cost figures depending upon your decision as to whether contributions would be shared equally between the employees and the employer or whether the entire costs would be borne by the employer.