

Assembly

MINUTES

WAYS AND MEANS COMMITTEE - NEVADA STATE LEGISLATURE - 58th SESSION

April 22, 1975

The meeting was called to order by Chairman Mello at 8:00 A.M. in the Ways and Means Committee Room.

PRESENT: Chairman Mello, Mr. Bremner, Mrs. Brookman, Mr. Dreyer, Mr. Glover, Mr. Howard, Mr. Weise and Mr. Wittenberg. Mr. Robinson was excused.

ALSO PRESENT: John Dolan, Bill Bible, Vern Bennett, Senator Ty Hilbrecht, Noel Clark, Don Jessup, Dick Morgan, Bob Gagnier, Ken Hougen, Sherman Arnaud, Bob Maples, George Brighten and Ed Dodson.

SB 336 "Revises Public Employee's Retirement Act." BDR 23-185

over

Senator Ty Hilbrecht referred the committee to the Senate Journal of April 11, 1975, page 9. He explained an amendment which would restore the option of employer paid concept to the Public Employee's Retirement Act. Printing in the Senate Journal for purposes of presentation and study by the committee is a series of illustrations which indicate on Page 10 very graphically the advantages of the adoption of the amendment in the Assembly. The reason why he earnestly urges the Assembly to consider this amendment is because of the benefits which would yield both the public and state employees in a year which there are few tax dollars to spread around in recognition of a runaway inflationary situation. There are benefits to be derived by our employees because if the employer pays the entire retirement contribution it becomes a fringe benefit to the employee and therefore, not includable in the employee's taxable income. Right now the Legislators, having been separated from their gainful employment for several weeks, received \$3600 and paid \$360 in after tax money, which is money which could have been spent on groceries, for their contribution to Legislative Retirement. If the state had put Legislative Retirement on an employer paid basis that would effectively give \$360 to buy groceries with and would allow a rather substantial raise. But this would be a raise of a different nature than just adding \$360 to the paycheck because in turn they would have had to pay another tax on the \$360 which they don't if the employer picks up their share of the contribution. There is also a benefit to be gained through differences in which might be called the forfeiture provisions of a retirement system which is fully paid by the employer. That is there is no situation whereas now the employee, although it is in no sense savings because there is no interest earned, he is on separation of employment entitled to withdraw his contribution to the system. Only half of the money contributed can be used to respond to demands on the system in later years for retirement benefits. With the employer paid concept he becomes entitled to nothing because he has contributed nothing. On separation or termination of service the money stays in the system and continues to draw interest and if he never returns to the system the money is available to fund the system in later years for others who do stay with the system. The Employees Retirement System is to keep employees. If they are hired away, it is the state that loses. On the other hand, even this offers a benefit to the employee because the employee may return under the system without having to come up with a contribution with interest to join the system and picks up his retirement contributions where he left off. Finally, the net result of this is if we were to shift as of July 1 of this year to employer paid under an amendment similar to the one proposed, the net savings to the public employer would be 1% of the contribution he will otherwise have to pay if the bill is not amended. That means, the computations on page 10 of the Journal show that there would be a total savings to state and local governments at every level, of somewhere around \$5 million or \$6 million. This is cold cash available for the political subdivisions to use for pay benefits, or other fringe benefits or to use elsewhere in the budget. He felt that it is a matter that cannot afford to be held for two years, as the Senate has suggested, but take advantage of this money and use it now when it is really needed when inflation is peaking out and our employees

Page 2

really have to have the benefits. He stated there should have been a Senate Resolution turned over to the Assembly calling for a two year study. He is convinced that this thing has been studied many times and the Retirement Board has done a fine and confident job and we now have all the information needed to make an intelligent decision.

Vern Bennett, Public Employee's Retirement System, stated that SB 336 is a result of an 18 month study on the part of the Retirement Board, the employee/employer Retirement groups and in most cases there exists a consensus of those groups. The bill was an attempt to almost completely revise the Chapter on Retirement. There are some sections which are not covered by the bill, but these were sections they felt were completely clear and were not in conflict. The problem we have encountered is that the bill has been amended since 1947 and many of the amendments were for a good purpose, but did not take into consideration the effect it would have elsewhere and we feel that the only way the Retirement Board can properly administer the retirement system is to have a chapter that could be understood and explained to all members. There are Sections in the present law which the Attorney General has advised he has no idea of the intent or the meaning and they are trying to get them clarified.

The bill was heard by Senate Finance and there were 31 amendments. Several of which are technical amendments, a considerable number of the amendments developed because the Senate Finance committee determined that there should be a two year moratorium on adding new groups to the Police and Firemen early retirement eligibility. The bill was also amended to eliminate the optional employer paid and the agency or the employees on their own could elect to go to the employer paid concept or stay with the present employee/employer paid. The bill was also amended to make several corrections to the Legislator's Retirement System. The most significant of which is a 25% increase in benefits for future retirees. A list of proposed amendments was distributed by Mr. Bennett to the committee from the Retirement Board. Several of these amendments are very minor technicalities but since so much work has been put into the bill and even though we are in a late stage of the Legislature, if there is any question about the meaning of a provision they would like to take the time to make it very clear. The major amendment is the last one and, which at the recommendation of Senator Lamb and the Senate Finance Committee, the Retirement Board is suggesting to this committee an amendment to increase the contribution for employee and employer's contributions in the Legislator's Retirement System 25% which would equal the 25% increase in future Retirement benefits.

over

The first few Sections provide the definitions and terms that are very important in Retirement because legality is something they are constantly involved in. The "Actuarial Computation" in Section 3 is fairly standard and prepared by the actuary.

Section 4 "Compensation" was explained. The previous law provided that on compensation a member paid also an expense allowance if he was living in an isolated area and was provided a home he should pay on the value of that and they found this has been almost impossible to administer and is something that is not necessary. They are also providing that compensation cease upon the death of a member. The present law has a real question as to whether a person who dies has to pay the employee and employer contributions on his accumulated leave and then if he pays it, is this leave used to make him eligible for Survivor Benefits. It is a very poor concept to say that a man can earn Retirement after he dies.

Section 5 "Disability Retirement Allowance" is fairly standard.

They have had a problem in the retirement system since 1959 determining just exactly what is a Fireman and a Policeman. The Attorney General and the Legislative Council advised that it is almost impossible to determine and it was recommended that they list those groups that were specifically covered. Section 6 "Firemen" and Section 8 "Police Officer" are listing those people that are presently covered. The Senate Finance determined that there should be a moratorium and amended out that any new group should be added to this for early retirement. What is provided in these two sections represents those people that are covered and have been covered for some time.

Page 3

506

Section 7 "Independent Contractor" had to be defined in detail because our present law prohibits membership for Independent Contractors but allows membership for employees who have a contract for the purpose of security in their employment.

Section 9 "Post Retirement Increase" is fairly standard. The basic difference is on line 36, subsection 3, they are adding people who draw survivor benefits to the coverage for the cost of living increases. To his knowledge, this is the only Retirement System in the nation that does not provide for basic cost of living increases to every benefit recipient. He can find no logical reason that survivor benefit recipients should not be covered as well as disability and regular retirement people.

Section 12 basically defines an employee and these are fairly technical corrections. The definition does not change.

Section 13 continues with the definition of a member and is fairly standard. Any person who has funds in the Retirement System and has not taken a refund even though he may not be contributing at this time is a member.

Section 14 "Public Employer" is a complete technical amendment. No changes have been made at all. Several of the amendments throughout this will be technical and were provided by Legislative Council to agree with terms. There is one place that discusses a Public Employer and another place that discusses a Member Agency and they are trying to develop consistency.

Section 15 "Retirement Allowance" is monthly payments from the retirement fund paid to a retiree for the remainder of his life.

Section 16 "System" remains the same as it is technical only.

Section 17 are technical changes.

Section 18 has no changes whatsoever in the make up of the Retirement Board they only rearranged it so it can be put in proper concept and eliminate on page 4, line 5 the initial development of the retirement board in 1947 because it is out of date. All the Sections that are out of date are being taken out as there is no reason for them to be there.

Over

Section 19 adds the assistant executive officer to an unclassified position. They have been advised by Personnel that every agency is entitled to have two unclassified people and in the 1973 session there was a specific amendment to a bill to place the acting executive secretary at that time in the classified service in an attempt to continue his employment. This person is no longer with the system and they feel that the two top positions in the staff should be unclassified and answerable to the Retirement Board. Page 5, line 14 clarifies the working restrictions of the Executive Officer. The previous law stated that the Executive Officer could not have any other employment or any other activities at any time. Mr. Bennett personally felt that this was a violation of his rights and the amendment provided is that "the Executive Officer shall not pursue any other business or occupation or perform the duties of any other office of profit during the hours when his office is required by law to be open for the transaction of business." This is basically a more equitable provision.

Section 20 improves the planning provisions that were provided in the 1973 Legislation and provides that the Retirement Board shall organize a system which creates a division necessary to administer the system. Under the present law their only employee who works on investments is Skutter, Stevens and Clark Investment Council from San Francisco. Their banking is handled through the Nevada National Bank. They do not do individual investments in-house. There is no logical reason to have a separate division chief to supervise one employee who works parttime on investments. These were some of the things not foreseen in 1973 and they are the only agency that had a breakdown section by section stated in the law. The recommendation was that the retirement board would establish the different divisions and staff in accordance with the personnel act. On line 41 they maintain that no classified employee on the staff of the system may be removed in a manner contrary to the provisions of Chapter 284 of NRS.

Page 4

Section 21 covers the payment per diem for attendance at board meetings. They attempted to increase the per diem from \$40 per day to \$50 per day and had talked to two or three other agencies who indicated that they were going to try to attempt to increase it to \$60 or \$70 per day but they learned in Senate Finance that everybody would draw \$40 per day and it was amended back to \$40 per day.

Section 22 provides the duties of the retirement board. The first section are the things that the board shall do and must do. They have to have an annual actuarial report and an annual audit of the system including the administrative fund by an independent certified public accountant. They have to provide an annual report to the members and only after July 1, 1975 create a Police and Fireman's Retirement Fund Advisory Committee and appoint its members. They are recommending that Police and Firemen be placed in a separate fund within the retirement system to identify their own funding situation and make sure that contributions made by other members would not be used for their early retirement benefits. Their representatives feel, and the Retirement Board agrees that they should have representation on the board and they are recommending that they have an advisory committee that would work with the retirement board on matters that relate to the Police and Firemen's fund. The board may adjust service and make any correction of a member, retiree, or beneficiary records and benefits after an error or inequity has been determined. They feel sure that in effect and in intent the board has this authority and it is not spelled out in the law. Page 6, line 30 (b) adopt an optional annuity program. The Governor has recommended an optional annuity program for state employees and this bill was amended into their bill in the Senate and spells out that it must be a voluntary deferred employee compensation plan. They feel that they were more qualified to handle the plan because they already have individual accounts for each member set up in the computer and would not only be able to handle this for the state employees, but the county and municipal employees as well. The board would have the right to examine and copy the personnel and financial records of public employers. A bill was passed at this session to remove the Legislative Auditors office from the responsibility from going out into the county, municipal and state public employers and making periodic audits of their records so in the future the retirement board will need the right to examine and copy these records because they will have to perform similar audits of a similar nature in the future when they have problems with the public employer where they are not paying the proper amount, enrolling people they should, and they should have the legal right to go in and meet with them and examine their records and copy them, bring them back for presentation to the board. Line 41, page 6 provides for the receipt of requests by State, county or municipal entities which are not presently public employers and shall determine whether or not they qualify for membership. The Attorney General has determined that they cannot deny any public employer membership in the system but that it is the responsibility of the retirement board to determine whether they are indeed a public employer and this will spell that out.

over

Section 23 covers the basic fund of the system, the public employees retirement fund. Page 7, line 6 spells out the things that can be paid from this fund, which are service retirement, disability, post-retirement allowances, survivor benefits and authorized refunds to members and their beneficiaries. They also provide that contributions must be deposited in a Nevada bank and such deposits shall be secured by a depository bond. Line 20 states that all checks have to be signed by two persons and these persons must be bonded.

Section 24 establishes the Police and Firemen's fund. As of July 1, 1975 they will transfer from this fund to their fund all the employer and employee contributions made by the people who are covered for early retirement. They will transfer the money set aside for the retiree and from that day forward any benefit paid to any Police or Fireman will be paid out of that fund. Any contribution from members or the public employers shall go into this fund. This was recommended and endorsed by almost every employer. They have considerable confusion about whether or not the Police and Firemen are fully paid for their present benefits and have some concern on the part of the other employee groups that they do not want their contributions to be used to pay for benefits

to police and firemen. We know that this has not occurred because they have not had sufficient retirees to draw more money out of the system than has been contributed. They feel that by establishing a police and firemen's fund they will make sure that at no time funds paid by other employers will be used to pay this group's early retirement benefits. He also felt that this will help them identify exactly the true cost of the early retirement provided to police and firemen and this was the reason that Senate Finance determined that it would be good to place a two year moratorium on putting new groups into this fund. They say that they should let the fund exist for two years, have two actuarial reports and come back in 1977 and decide if they should let other groups into the fund for early retirement.

Section 25 The board shall establish a fund which shall be known as the retirement administrative fund. This is clarification of their present administrative fund which is paid by a monthly fee of 80¢ per member and employee. The full fee shall be paid on each employment reported to the system regardless of the number of hours worked. This establishes in the law the present rules and regulations that they have been operating under for the last two years.

Section 26 establishes that each member of the system shall have an individual account in which his contribution shall be provided. Line 30 relieves the board of any further liability regarding a member, his estate or a beneficiary upon the return of all employee contributions to the member, his estate or beneficiary or a combination thereof. This is a protection to the board because they are encountering problems which this Legislature has been faced with regarding community property. Their representative of the Attorney General's office recommended that this amendment be included this year and then anything in the law that is changed regarding community property in this session will be changed regarding community property. Adjustments will be made in the 1977 Session so that they can recognize that the retirement contributions made to the system during a marriage will be split so that 50% would belong to each member of the marriage. They are having problems in this area and in 1977 they will have Legislation to definitely establish their position in compliance with the law. In the meantime, this will relieve them of any liability. If they pay the full employer contribution to the member then the person who has the community property claim must take their judicial problem to the member rather than to the retirement system.

Over

Section 27 rearranges the investment committee. They recommend that the retirement board have three members of the investment committee and they have an additional member who is an investment counselor and that the executive officer shall serve as a consultant to the investment committee. Under the present arrangement, the executive officer is a member of the investment committee and the board feels that this position should be filled by another board member and that there should be a definite separation from the board and staff.

Section 28 basically provides the duties of the investment committee and are technical amendments. The investment committee must meet monthly and review the portfolio, recommend appropriate changes and process investment suggestions.

Section 29 provides that any participating public employer or a group of such employers may select an employee as liaison officer to certify records, counsel members, and coordinate matters pertaining to retirement between the system and members or participating public employers. These people are given the right to certify retirement records and they feel it is a good program. Anything they certify is still subject to approval by the retirement staff and retirement board.

Section 30 lists the types of services a member can purchase. They are recommending that a member can purchase service performed out of state in another system provided it is no longer creditable in this system up to five years. They can purchase five years of Federal or military service and any service performed with a public employer in the state of Nevada. There are two ways they can purchase this both of which are designed by their actuary to make sure they incur no cost to the system. First, they can have an actuarial computation prepared by their actuary at the expense of the member. On this computation, he will take into consideration all factors and determine an employee and

Page 6

and employer cost. Secondly, if a member can certify service, they will acknowledge his right to purchase it, then when he retires he can purchase the service by paying the current employee and employer contributions and time his final average salary for retirement purposes. Page 10, line 41, his employing agency will have the right to pay the employer share, but will not be required to. There are some agencies that would like to pay the employer part for their members. Some agencies might do this in the recruiting area if they have one from out of state that they would really like to bring in. They might be willing as part of the initial engagement to pay the employer part for his out of state retirement, but some of the smaller agencies could not be in a position to do this so they left this optional. Line 43 provides that anyone who purchases this service shall pay the full current administrative fees for each month of service purchased.

Section 31 is a technical amendment provided by Legislative counsel regarding judges, their right to membership in this system, their right to cancel membership and provides that they can buy service as a judge but they would have to buy it under Section 300 where they have to pay the full amount. In this system, Judges have the option for membership. If at any time they are in regular retirement eligible under the judge's system they can withdraw their contributions to this fund and then draw retirement benefits. If a judge elects to join this system, he remains a contributing member unless and until he earns eligibility from the judge's system. Once he becomes eligible to retire in the judge's system, he can cancel his membership in this system, withdraw his funds and draw full retirement from the judge's system. The judges do not contribute in their system.

Section 32 removes some previous out of date provisions and also provides that a person who was in a situation that was state service, then goes to Federal service, then comes back to state service can validate that service as the law presently provides, but this was amended to make sure that they have to purchase the service. If this bill is passed, after July 1, 1975 there will be no more free credit in the retirement system.

over

Section 33 lists the requirements for membership. They had to list those things that have been in effect for years past because many people are enrolled under those provisions and this would provide on line 25 that new employees, those employed after July 1, 1975 who are age 55 at the time of employment and work at least 40 hours within a given month shall be required to be a member. A person who is over age 55 at the time of employment may become a member. Age 55 is used as a breakdown because in many agencies there is an age 65 cut off for employment and a person has to have at least ten years in the system to retire. They feel that this is unfair for a man who is 60 years old to be forced to join the system when we realize there is no possible way he is going to earn ten years service and be eligible to retire. So it was left optional for those people who are over 55 when they are employed. Line 28, page 12 requires membership for elected officials or persons appointed to elected positions after July 1, 1975 except where excluded by 286.330. The present law gives an elected official or appointed official the option to join the system. The retirement board feels there should be no option. The exception under 286,330 are commission members who only serve at the time the commission meets. These are people who show up once a month or so. Line 31 provides that anyone who is employed prior to July 1, 1975 who has previously been prohibited from membership, but presently qualifies has the option of joining the system but not required to do so. The present law states that a person must work at least half-time and earn at least \$3600 per year. The new law says you will have to join if you work 40 hours within a month. Line 38 provides that any person who is a member shall contribute on any employment after July 1, 1975 with any public employer regardless of the time involved. If a person goes back to work one day he will be enrolled in the system and get credit for that service provided he has money already in the system. They feel this will accomplish two things: 1, it will eliminate a lot of confusion the public employees and the personnel officers have about who is and who is not a member.

Section 34 lists the persons who are prohibited from membership and this is no basic change from the previous law except inmates of state institutions, independent contractors, and persons providing professional services on a fee or contract basis are prohibited. Line 3, page 13 has

one area in which they are recommending an amendment which should read, "Persons retired" under the provisions of this chapter who are employed by a participating public employer rather than "Persons receiving retirement allowances..." In most systems there is a definite break from active membership and retirement. The present law says if they earn \$3600 per year a person can be a member, and as soon as they quit working they can give them their money back, or you can refigure their retirement and it keeps the retirement system in the air and no one knows what is going on. Once a person retires, he stays retired. Line 5, page 13 excludes membership to the members of boards or commissions who only attend the board meetings and are only compensated for when the board meets.

Section 35 provides clarification of volunteer firemen. The present law requires a unanimous vote to come into membership or to leave membership if it is a volunteer firemen organization. The recommended change is by majority vote. It provides that they establish a basic salary from \$150 to \$350 per month and once this is established, it cannot be changed. This also provides that if they have been in the system they can go back and purchase previous service performed with any volunteer fire department which is also a member agency.

Section 36 provides the methods that membership in the system shall cease: upon the death of a member, the withdrawal of contributions, or if he goes on regular or disability retirement.

Section 37 eliminates the step by step procedure on employee contribution and page 15, line 32 provides that the basic employee contributions on and after July 1, 1975 shall be 8.5% for police and firemen and 8% for all other members. This is a technical amendment to make sure that it is 8% or 8.5% and that they pay on their total compensation. They feel this is logical because they can come back to the 1977 Legislature with two additional actuarial studies and have more up to date figures on what the contribution should be at that time. They still maintain, on line 35 the provision that was placed in the law in 1973 that if a person is over age 36 at the time he is employed he contributes 9% or an additional 2% over the normal contribution and if he is over age 46 he contributes an additional 4% over normal contribution. On page 16, line 3 the Board has established as a rule and this determination was placed in the law, the police and firemen begin making additional employee and employer contributions July 1, 1971 equivalent to 1/2% and they have established, as a guideline, that if any new group is added to the police and firemen that their employees and the agency must go back and pay that additional 1/2% back to July 1, 1971. Line 9 is spelling out clearly the basic principal that the system shall guarantee to each member the return of at least the total employee paid contribution that the member has made that was credited to his account.

over

Section 39 provides the refund procedure. They presently have two ways they can refund: upon termination or go on 30 days leave without pay. They have many employees who go on 30 days leave without pay so they can withdraw their retirement contributions out of the system. They are recommending that this be deleted and that the only way a member can receive a refund is if he terminates his employment.

Section 40 recommends that any member that has been refunded can return and repay the refund at any time he is a contributing member. On page 17, line 29 this was amended by Senate Finance, to which they agree, that the member must return and contribute at least six months before he repays the refund. At present, they have about eight different ways a member can repay a refund, but the most restrictive is that if a person stays out of contributions for five years and has to come back and work ten years before he can repay his refund. This creates a hardship on a lot of members. They feel that if they come back and work six months, they have made a definite intent upon returning to employment and agree that this is a logical time to repay the refund.

Chairman Mello questioned whether a member could withdraw his contributions after he is vested. Mr. Bennett replied that they felt that any member who is vested has the right to make a mistake. If a person who has ten years of service should have the right to withdraw his contributions and forfeit his service and vest right. In most cases this is beneficial to the fund for the simple reason that when the employee's contribution is returned, they keep the employer contribution. Only about 10% of the members who are refunded, return and repay their contributions so they are making about 90% of the employer part. This is

Page 8

a big advantage for employer paid. They also have a refund procedure on computer. The law will spell out that they only mail refund checks. A person fills out the form and the check is mailed rather than having them come in the office and wait. These checks are mailed every Friday and has helped considerably speed up the process and cut down on the cost.

On page 17, line 30 they provide two basic procedures for repayment. There are presently about eight different ways a person can repay a refund. He can repay it by repaying the amount he was refunded plus 6% simple interest per annum from the date he withdraw his contribution to the day of repayment. On line 33 they can enter into an agreement that he either repay in partial payment, but he must pay at least \$10 per month and unless it is an unusually large sum, they would like to terminate the repayment in two years. If he repays the refund he re-establishes all his service that was previously lost.

Section 41 on page 18, line 26 provides the equivalent employer contribution, the 8% for regular members and the 8.5% for police and firemen. They also spell out on line 31 the public employer pays the additional 1/2% for the early retirement for police and firemen back to July 1, 1971 when new groups are added under this provision.

Section 42 are technical amendments changing the word "salary" to "compensation." On page 19, line 5, they spell out the payroll procedure, the reporting requirements and the penalty. The present law says that an agency has 15 days after the period to submit their retirement report and funds. If they do not submit it, then they have to be assessed a 5% per annum prorated penalty. But the present law does not state what can be done if they do not repay the penalty. This will provide that the penalty will be 6%. They also provide on line 9, because of the holidays in one payroll period, the 15 day limit is extended one working day. The Department Head will be notified by certified mail that there is a penalty and it must be paid within 90 days and if it is not there will be an additional penalty of 1% a month that they are delinquent. If it is not paid within 12 months, the public employer is guilty of a misdemeanor. This procedure was recommended by the Attorney General's office. If they still refuse to pay they will be taken to court.

Section 43 spells out the basic retirement formula. The average salary is being changed from the three highest years in the last ten years to the highest 36 months.

Section 44 a member must not be credited for a leave of absence without pay, for overtime, for employment in a position which does not qualify them for participation in the system for more than one day within a day, one month within a month, or one year of service in any 12 months period. They want to make sure a person does not receive duplicate credit.

Section 47 spells out the method service is figured. The crediting of service has been changed by law over the years. Service on or after July 1, 1975 shall be credited on the basis of days or years actually worked by a member, except that intermittent service shall be credited on the basis of one day of service for each eight hours worked and this portion shall be prorated. A person who works half-time gets full credit. This is not fair to the full-time employee and it incurs additional expense to the retirement system.

Section 48 provides the method that they figure service for school districts. Line 25 states that service after July 1, 1975 shall be credited on the basis of a full year if a member works full-time for the school year. This ties in with the one day within a day, one month within a month because a person may work during the school year and then work during the summer for the City or the County. This makes sure they do not get additional three month credit during the summer. Page 21, line 27 states that employment for part of a school year shall be credited on the ratio of one and one-third days for each day worked, but credit shall not be given in advance or until the appropriate period has expired.

Section 49 spells out their right to convert their days months and years to hundredths of a year. This is necessary because we have service in computer on increments and they hope by July 1, 1975, in coordination with the public employers to have a formula for service after that time.

Section 50 spells out eligibility for retirement. Page 22 has no basic

Page 9

change on the basic eligibility. Regular members can retired at age 60 with ten years of service and age 55 with 30 years service. Police and Firemen can retire at age 55 with ten years service and at age 50 with twenty years service. Line 19 there is a basic change. This provision allows any member who has the number of years necessary to retire, has the right to retire any time he wants to even though he doesn't have the full years of service. A person has to have ten years of service to retire at age 60. But if a person is 55 and has ten years service he is not fully eligible for regular retirement, but under subsection 4 he can go ahead and retire at age 55 with a benefit that would be actuarially reduced 6% for every year he is under the required age. The reduction would be for the rest of his life. The retirement board favors this proposal because his benefit is actuarially reduced. He is taking it and bringing it over five more years which he may feel is beneficial. Line 28 provides that the board may adjust the actuarial reduction based upon an experience study of the system and recommendation to the actuary. After a two year actuarial study, they have a third study, and after that they have an experience study. The actuary goes back and takes the three years and contacts against their assumption to determine if the assumptions were correct. They may have been too conservative or too liberal. At that time, if the assumptions are found to be incorrect, they can be adjusted. Board would have the flexibility after an experience study, once every three years, to adjust the penalty reduction based on the recommendation of the actuary from his experience study.

Section 52 spells the retirement formula. A member receives 2 1/2% of his average salary for each year of service from the first to the twentieth year and an additional 1 1/2% for each year from the twenty-first year to the thirtieth year with a maximum benefit of 65%. The average compensation is the average of the 36 highest consecutive months within the last ten years.

Over

Section 53 is a basic change. Under the present law, a person applies for retirement, then an estimate is worked two or three months later the actuary sends the options back, it is mailed back to the member and he decides which option he wishes to retire under. This was necessary in the past because the actuary in San Francisco had all the actuarial tables and made all the computations. As of April 1, 1975, the new actuary has provided simplified tables and formulas, they have been adopted by the board and they now work their own retirement options in house. They are also now able to give retirement counseling throughout the state. They have the member's records, the tables and work the retirement and options wherever they may be. The new law will provide that when a member applies for retirement he gets the retirement estimates before he retires and makes the selection of a retirement plan at the time he files for retirement. Line 45 provides that the retirement form shall not be deemed filed unless it contains the member's selection of option. Retirement becomes effective immediately following the last day of applicant's employment or the day on which the applicant files with the system, whichever is later.

Section 54 is the permissive Legislation which provides a \$50 per month cost of living increase to the people who retired before July 1, 1963. Line 11 states that if the funds are not appropriated they would fall back and draw the basic cost of living increase.

Section 56 lists the old cost of living increases provided in the past. This is necessary because these benefits will be payable as long as these people live. Line 48 beginning on July 1, 1975 a new cost of living increase is begun for people who retired after July 1, 1963 and is on a graduated scale. Every retiree gets a better cost of living increase than they have received in the past. They would like to balance this in this session so that in next session everyone would draw the same percentage cost of living increase.

Section 57 spells out the retirement options. These are the plans a person can take when he retires. The basic thing is the unmodified which is where you take your largest benefit and make no protection for beneficiary. Under this plan, after death, all benefits cease. Option one is being deleted. This provided that no one after 1961 could elect option one. They have no retirees on the role for option one. Options two through five are a continuation of the present retirement plans with one basic exception: Options two and three allow you to select any one you please for beneficiary. Options four and five limit the selection to a spouse. They are recommending that options four and five also

Page 10

allow for the selection to anyone a member pleases for beneficiary. There are quite a few people who retire that do not have a living spouse. The basic change in this Section is that any person who retires may name any one they please.

Section 59 Page 26, line 12 and Section 60 basically provides deferred retirement protection. This is a program where a person who has at least ten years service can elect a retirement option and if he dies before he retires, a monthly benefit will be paid to his beneficiary on the date that he would normally be old enough to be eligible to retire. The actuary does not feel this is a good program and they have some very definite recommended improvements in the survivor benefit program which will eliminate the need for this program.

Section 61 recommends that as of July 1, 1975 no one else can select deferred retirement protection. Those people who already have it can retain it if they want to, but they are being provided an honorable out that between the period July 1 and December 31, 1975 they can select to cancel their deferred retirement and not have the regular retirement benefit reduced. This will phase the deferred retirement out.

Over

Section 62 applies to disability retirement. They are recommending that eligibility be reduced from two years to five years. The reason for this is that when a person is covered for disability under Social Security and terminates his social security coverage, this is extended coverage for five years after he leaves social security contributions. If a person can be picked up after the fifth year he will have no break in the disability coverage. They are providing several economies in the disability program: Removing the procedure to provide coverage under survivor benefits for a disability retiree for the first eighteen months that he is on disability. Survivor benefits apply to members and this coverage should cease when a person retires or dies. The retirement option plan applies to retired persons. They are also providing that a disability retirement will be possible for a person even if he is eligible for regular retirement. The present law provides that once a person reaches the equivalent regular retirement eligibility that he is no longer considered a disability retiree and he loses the IRS income tax break. In April 1974, the IRS changed their ruling and stated that this tax break will continue until he reaches the equivalent of mandatory retirement. This retirement system does not have mandatory retirement. By putting in the provision that a person who is eligible for regular retirement can also apply for disability retirement if he is disabled, they will give to this person the right to go on disability retirement rather than regular retirement and also get the income tax break for the rest of his life. The benefit paid to a disability retiree is identical to the benefit paid to a regular retiree. There is no difference in cost to the system, in benefit to the member and he is given an opportunity to get a tax break from Uncle Sam. Page 29, line 11 is a new provision: that the allowance shall be reduced by the amount of any other benefit received from any source on account of the same disability if such benefit is provided or was purchased by the expenditure of public moneys. This system provides disability coverage for people who are injured on the job or for people who become disabled off the job. They will provide, however, that this benefit will be reduced an equivalent amount of any coverage provided by an insurance policy or NIC. They do not feel that the people should receive duplicate benefits or that they should profit from being disabled. They are also providing on line 36 that they will designate medical advisors who are specialists in their respective fields of medicine and they will have a separate board for the Reno-Carson area and another board for the Las Vegas area. Page 30, line 13, the Senate Finance committee wanted to be very sure that not only did a person who applied for disability retirement have a right to an appeal to the Retirement Board but also the right for Judicial Review in accordance with the Nevada Administrative Procedures Act. Line 32 if a person is on disability retirement and returns to his employment or is no longer disabled he has the right to apply for a refund of his contributions or suspend his monthly benefit until he is eligible for regular retirement.

Section 65 provides the procedure for a person who was disabled and returns to his employment in the field of membership. The proposal will state that a person's contributions are not fully restored, but restored 50% of the monthly benefits that he has drawn.

Section 66 defines the terms for survivor benefits. On page 31, a child is an unmarried person under 18 years of age who is the issue or legally

Page 11

adopted child of a deceased member. Dependent Parent is the surviving parent who is dependent for at least six months. A spouse is the surviving husband or wife of a deceased member who has been married to the deceased member for at least two years immediately proceeding the death.

Section 67 The eligibility for survivor benefits remains the same. The eligibility requirements are not changed.

Section 68 and 69 recommends a considerable change in the benefits. The retirement system has determined and studied and the actuary has agreed that this area is most lacking in survivor benefits. They feel that these recommendations are not the finest but are a definite step in the right direction. They are recommending that the benefit to the minor child be changed from \$75 per month per child to \$150 per month per child with a maximum for three children \$450 per month. Line 45 they are recommending that these benefits be extended to age 18 or up to age 23 if the child remains a full-time student at a bona fide high school, vocational school, college or university and if they remain single. Section 69 provides the same increase from \$100 per month to \$200 per month to a surviving spouse. The benefit will still cease if the spouse remarries.

Section 70 is a counter balancing to the deferred protection which they are recommending be discontinued. They provide that any member who dies who was fully eligible to retire but had not retired, the surviving spouse will be covered under regular retirement option three. This will provide the protection in conjunction with the doubling of the spouse's benefit and minor child benefit.

Section 71 provides the increase to the surviving parent from \$75 per month to \$150 per month and they still maintain that this benefit shall cease upon death or remarriage.

Section 72 they maintain the right that if a member dies and the spouse would rather not take the monthly benefit and would rather take a lump sum refund of his contributions, he would have that option and they also provide that with the police and firemen retirement fund that his wife would have the same retirement privilege.

over

Section 73 clears up the vested right. Any member who has at least ten years service and is vested in the system is guaranteed to draw at least that benefit for the rest of his life, this benefit can be improved on, but once a person becomes vested they cannot take the benefit away from him that he had when he became vested.

Section 74 provides the amendment to the investment program. In 1973 the Legislature provided that they could make investments in securities. It is their understanding that the intent was to provide that they could make investments under the prudent man rule, however, the word "securities" limited them to investments that were recommended or listed on the stock exchange. They are providing that they have the option to make investments that are within the guidelines of the prudent man rule. Page 35, lines 15, 16, and 17 states that they can make investments and the board may invest in every kind of investment which men of prudence, discretion and intelligence acquire or retain for their own account. Investments are made by investment counsel which is Skutter, Stevens and Clark in San Francisco. They have two firms providing investment modifying service and it is their job to measure how well Skutter, Stevens is investing in accordance with their investment objectives and policies. There is another firm that provides trust audits to make sure the bank handles the funds properly.

Section 77 line 20, this provision gives the board the right to invest in property and mortgages. This was amended on line 26 that the mortgage not exceed 70%. Less than 1% of the money is invested in Nevada at the present time. This is because there is no blue chip common stock company located in Nevada and only two small utility companies are in Nevada. A firm of this size cannot put too much money into any one issue so the only other place to invest is in real property and mortgages. They have an option to buy two of the buildings in Capitol Plaza which they will purchase if everything works out.

Section 79 is a technical amendment because of a change in their law.

Page 12

Section 80 refers to the Legislators Retirement System. The first provision provides that the Legislators have never received a cost of living increase for retirees. Subsection 1, on line 10 will provide for them a catch up cost of living increase equivalent to 1 1/2% of base benefit for each full year that they have been retired. Subsection 2 on line 14 will tie in their cost of living increases in the future for the cost of living increases provided for the public employees retirement system.

Section 81 line 29 When the Legislator's System was formed on July 1, 1967 each member of the Legislature had 30 days to elect to stay in this system or have all of his service credit in the public employee's system automatically transferred to the Legislators Retirement System. There was no provision at that time for a recurrence of this transaction. This provides that if one had service credited in their system, not Legislative Service but City, County or Municipal Service in this system and transferred it to the Legislators system, at a later date if they do not retire and use it in the Legislators System, they could transfer it back to the Public Employee's System if they become a member of the system.

Section 82 The present law in the Legislator's System provides that Legislators receive a full year of credit for the year in which they were elected. The amendment here provides that any person who takes office as a Legislator after July 1, 1975, service for this person would begin on the day after his election or appointment and terminate on the day of election of his successor. This does not eliminate the bonus service for people who were elected in the past, but it would eliminate the bonus year for people in the future. They will get credit from November to November on a two or four year basis.

Section 83 is another technical amendment because they are changing their law and there was a reference in their law which no longer exists.

Section 84 and Section 85 are also technical amendments.

over

Section 86 provides that a person who retires from the Legislator's Retirement System in the future shall be entitled to \$25 for each year of service up to 30 years, prorated for fractions of a year. The present benefit provides that a Legislator who retires will receive a formula equivalent to \$20 per month for each year of Legislative service. The present law limits the Legislative service to 25 years. The new proposal provides for up to 30 years. They have a recommended amendment presented by Senator Lamb to also increase the contributions 25% in the Legislator's Retirement System. Both employee and employer will pay for the ratio increase in future benefits for retired persons. It is their understanding that the benefits provided for Legislators at the present time do not compare favorably to the equivalent benefits provided the Public Employees Retirement System. Even with the 25% increase they will not compare favorably to the benefits provided in the Judge's Retirement System. In both the Public Employees Retirement System and the Judge's Retirement System they are allowed retirement up to 30 years of service. The Legislator's System is the only system that has a maximum of 25 years. There are presently three Legislators that have 25 years of service, and there is the potential that there may be more in the future.

Most of the amendments are technical amendments but they feel that considerable work has been done on the bill and they would like to be very sure that all questions are answered.

Amendment 1 can be found in Section 30, page 10, line 42 would like to add "however, no credit shall be validated unless both the employee and employer contributions are paid."

Amendment 2 Section 34, page 13, line 3 provides that they refuse membership to persons who are retired under the provisions of this chapter.

Amendment 3 Section 37, page 15, they want to be sure that they tie in the employee and the employer contributions 8% and 8.5% be of total compensation.

Amendment 5 provides the same as three.

Page 13

Amendment 4 Section 37, page 16, line 16 this provides that a person who is a disabled member who is drawing NIC but has not been terminated and is still on the payroll, will continue to pay his retirement benefits under NIC payments. They want to spell out that the public employer pay the employer contributions under these benefits.

Amendment 6 is merely a spelling correction.

Amendment 7 increases the contributions in the Legislator's Retirement System. They could either amend the present Section and the alternate is at the bottom of the page which increases the employer and employee contribution 25% to pay for the improved benefit.

Noel Clark stated he has a possible amendment to this bill. They are proposing to add a new line to Section 8"(h) An inspector of the public service commission." These inspectors operate on the highway and are subject to abuses and probably injury.

Don Jessup, University System, would like to amend this bill by adding the following to Section 34 "5. Full-time students of the University of Nevada System who are employed by the University System as graduate assistants or on wages accounts." These people are not starting a career and are in and out of the employment market quite a bit and will get into a different kind of employment when they terminate their schooling. They calculate that this will cost \$230,000 over the budget. And, the people effected by this are people making contributions out of their salary and are part-time students.

Another amendment they are requesting is Section 9 read as follows: "The Board of Regents of the University of Nevada System shall contribute on behalf of each participant an amount equal to (7) 8 percent of his gross compensation, but the contributions required by this section shall not be less than those authorized by (subsection 1 of) NRS 286.410 and (subsection 1 of) NRS 286.450. Payment of contributions required by this section shall be made by the disbursing officer for the university to the designated company for the benefit of each participant." The purpose of this amendment is to make the contributions by both employer and employee to the optional retirement fund the same as the contribution included in SB 336.

over

Dick Morgan, NSEA, proposes adoption of the amendment suggested by Senator Hilbrecht for optional employer paid retirement. This was defeated in the Senate because they asked for a study by done for two years. The Legislator's Retirement System is being altered without an actuarial study, the Judicial Retirement System is being reformed without an actuarial study and the major he is proposing has been studies twice and favorably commented on. If this is not adopted, he is asking that the contribution be increased only 1/2% rather than 1%. The actuary stated that only 1/2% increase is needed to make the system actuarially sound. This change would be in place of salary growth.

Bob Gagnier, SNEA, would like to suggest the following amendments: On Page 2 he feels that "police officer" should be changed to "peace officer". The group that is currently covered under the Police Officer provisions is being eliminated. (Section 89). These are the people who work for the school in Elko. These people are being taken out of this system and there is no provision for paying them back the contributions they have made. He feels they should be in and Section 8 should be amended to add "all employees of the Girls School in Caliente and all employees of the Boys School in Elko."

They have questions and problems with an amendment on Page 12, Section 33, l., (d) and 4. This states that a person who is employed 40 hours in any given month is in the system forever. He does not think this is fair because it will interfere with Social Security benefits. NRS 287 provides the social security. Any time a person who works for the state or any local entity and is not covered by the retirement system is covered under social security. There are many part-time employees who work from 16 to 32 hours per month. But if they work any month 40 hours, they have to be in the Retirement System and denied Social Security. He feels this should be changed to "an average of 40 hours per month".

He stated that an awful lot of work has been done on this bill and

it is a great piece of Legislation. However, state employees are opposed to the optional employer paid. They are in favor of the proposal to study this one issue and it should apply to all if any.

Mr. Bennett stated that the Retirement System had enrolled the people at the Girls School and Boys School in the system. Mr. Bob Warenbrock had told Mr. Bennett that they not only did not concur in keeping on but would strongly endorse removing those people from the system. These people were removed by testimony from the large agency. Section 89 retains the protection for the one member who is vested. These were removed for the same reasons that Mr. Clark's public service commission inspectors were removed. There is a different with both of these groups because they are groups that are presently in the system and are not new groups being added. They are in the process of removing them but have not returned their funds until the Session is over and they are sure that they will be removed.

The amendment on Page 12 for the forty hours was the concensus of several employee and employer groups and they feel that they should not be in conflict with enrollment with this system and enrollment in Social Security. The request was to eliminate this type of confusion because the employers were very displeased with having to make one report to Social Security and one report to the Retirement System. He feels the proposals are valid, they have been worked out with many employee agencies and they are opposed to the amendment. They are opposed to the change from "police officer" to "peace officer" because the Attorney General brought out that there is a considerable difference between the two.

The amendment for optional employer paid increases an employee's take-home pay. Also, the statement that an employee would not have a voice in the system if it is employer paid is easily rebutted by the retired persons. They can assure that they have lost no representation by the retirement board since they have stopped contributing to the system.

Sherman Arnaud, President of the Las Vegas City Employees, stated that he would like to pursue the reinstatement of Section 38. The employees he represents are greatly in favor of this option. It would greatly alleviate inflation. They do not propose to force the employer to pay their retirement, but leave it open to negotiation in lieu of or as a part of salary increases. It would stabilize employment, it should greatly reduce the income tax bite, and make the Retirement System more effective.

Bob Maples, Washoe County School District, state that they feel this is a very good bill but see several problems. Page 12, line 25 is the requirement that an employee who works 40 hours per month must become a member of the system. The School District employs many part time employees. These employees will not be making a career out of public employment and most will eventually retire under Social Security. They suggest rather than 40 hours per month, perhaps 20 hours per week.

One other problem on Page 21 leads him to believe that if they have a half-time employee they receive half retirement benefits. He felt that this is equitable. But a half-time employee would be required to work 40 years in order to draw one-quarter benefits. This is inequitable. He urges that this provision be considered by the Retirement Board.

Vern Bennett stated that the proposal on Page 21 was made in conjunction with the classified school employees association. There is a considerable problem throughout the state. This provision provides eligibility for the part-time janitors, food workers, etc. It does not require that they have to work 40 years. This provision provides that any person who works regularly at least half-time for a full year is entitled to a full year's credit for retirement eligibility. After ten years of this half-time work he has qualified for retirement. The problem is that half-time employees have a habit of not staying part-time people.

He opposes Mr. Maples amendment as well but stipulated that they would rather live with Bob Gagnier's amendment rather than this one.

The meeting adjourned at 11:10 A.M.