

MINUTES OF THE
MEETING OF THE SENATE COMMITTEE
ON FINANCE

SIXTY-FIRST SESSION
NEVADA STATE LEGISLATURE
April 21, 1981

The Senate Committee on Finance was called to order by Chairman Floyd R. Lamb, at 8:00 a.m., Tuesday, April 21, 1981, in Room 231 of the Legislative Building, Carson City, Nevada. Exhibit A is the Meeting Agenda. Exhibit B is the Attendance Roster.

COMMITTEE MEMBERS PRESENT:

Senator Floyd R. Lamb, Chairman
Senator James I. Gibson, Vice Chairman
Senator Eugene V. Echols
Senator Lawrence E. Jacobsen
Senator Norman D. Glaser
Senator Thomas R.C. Wilson
Senator Clifford E. McCorkle

STAFF MEMBERS PRESENT:

Ronald W. Sparks, Chief Fiscal Analyst
Dan Miles, Deputy Fiscal Analyst
Candace Chaney, Secretary

OTHERS PRESENT:

Howard Barrett, Budget Division

SENATE BILL NO. 512 - Makes appropriation for certain equipment for Fallon campus of Western Nevada Community College.

Mr. Jack Davis, President of Western Nevada Community College, presented further testimony concerning Senate Bill No. 512. He noted there was a question from the committee regarding business instruction at the Fallon campus involving two IBM electronic typewriters. Mr. Davis indicated this equipment was actually Mag Card equipment utilized by numerous offices. These two are to be used specifically for training purposes.

Senator Lamb asked was there any equipment requested that the school could do without. Mr. Davis said the equipment was the minimum amount needed to open the Fallon campus and had already been paid by \$95,000 before presentation to the committee. He stated the Fleischmann Grant group had been contacted and they indicated they would fund the Carson City campus but not the Fallon college.

Senator Glaser inquired if the college had to provide tools for students of Agricultural, Auto Mechanics, and Welding Construction. Mr. Davis stated the school would provide tool kits that the student would buy, the rest of the tools consisted of those normally supplied by the disciplines the students work in.

Senator Glaser asked if it was necessary to have all the supplies and equipment requested within the next two years. Mr. Davis indicated the materials requested were what was necessary to get the programs operating.

Senator Jacobsen inquired if the college had used any community support, for example, fund raisers, to help provide some of the monies necessary. Mr. Davis noted the companies whose bids had been accepted for the materials had given the college very special prices.

Mr. Davis remarked the request was not any different from any other colleges that were starting out. He added the Fallon campus was

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less fortunate than the Carson campus as they did not receive any Fleischmann Foundation funds.

ASSEMBLY BILL NO. 26 - Provides for optional program of additional contributions under Public Employees Retirement System.

Mr. Vernon Bennett, Executive Officer of the Public Employees' Retirement System (PERS), presented testimony in support of Senate Bill No. 26. (See Exhibit C.)

Senator Glaser asked if an individual already in the retirement program desired to augment his retirement through the additional contribution, could he do so. Mr. Bennett stated this program would not in any way affect the person's earned retirement benefit. He indicated the program would compare more favorably to a mutual fund. If the person would put in so much money a month, then upon retirement would be entitled to a separate check. He would have two or three options on how he wanted that benefit upon retirement. That would be paid technically as a separate, additional benefit, but for PERS practical administration, they would combine the two, in one retirement check. This would not count in the individual's base benefit, cost of living increases, etc.

The Chairman asked what it would cost PERS if the program went into effect. Mr. Bennett replied that it would cost PERS nothing after the three to five year experience. He added that \$50,000 to \$70,000 would have to be expended initially. Senator Lamb asked what the purpose of the program was if nothing was going to be contributed to the individual's retirement. Mr. Bennett stated, as an example, if an individual wished to invest today in the stock market, he might pay anywhere from 5% to 10% in brokerage fees. PERS would only be paying 1/10 of 1% in brokerage fees.

Senator Lamb questioned that this program might be getting away from the intent of the retirement system by getting into the investment counseling business. Mr. Bennett noted the purpose of the program was to set up a method by which PERS members and PERS retired employees could participate in PERS's investment expertise.

Senator Wilson inquired if there was a tax advantage to the employee who contributed extra money to this program. Mr. Bennett said there was not, the program was not a deferred compensation one. He stated the only advantage would be for the individual not having to make an investment decision on his own to realize a better return on his investment and receive an additional retirement bonus. Mr. Bennett noted the major objective brought about by the Ways and Means Committee was to try alleviating the constant need of retired employees for annual cost of living expenses.

Senator Lamb commented this program would give free investment counsel to the retirees. He questioned that if this program were implemented today, would that mean another program was in the offing for the future. Mr. Bennett remarked that this bill was not PERS' legislation but they did favor the bill as they felt the retirees needed help. He noted their Board had agreed to do a two year study with the retired employees and the PERS Actuary to come back to the legislature in 1983 with a long-term cost of living increase program but did not know the way to fund this.

Mr. Barrett stated that the State did have a deferred compensation program which cost the State nothing and gave the State employee a distinct tax advantage. He asked why anyone would want to invest in the program under discussion that did not have a tax advantage. Mr. Bennett indicated one reason would be that there were 127 state, county, and municipal entities which were in the system of which the State was only one. Many of the PERS members were not State employees and did not have available a deferred compensation program. Mr. Barrett noted the major entities had a deferred compensation program.

Senator Wilson inquired as to why could not this mutual fund program be qualified to make it a deferred compensation program so the employee would not have to pay

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tax on the investment. Mr. Barrett commented when the deferred compensation program was implemented, they attempted to do it through the Retirement System. He said there was a Federal/IRS hang-up and were not able to do so.

Senator Echols asked what percentage of the State employees were participating in the deferred compensation program. Mr. Barrett believed there was a very small percentage as the program only started in February or March of this year.

Senator Gibson commented that he did not know if it was a good idea to get the retirement program off on other tangents.

Senator McCorkle thought if the employees were not investing during their employment, that possibly this program should be implemented as an option or provide some kind of alternative.

Senator Lamb asked if those individuals could go to the State as an option. Mr. Barrett said they could if they had a sufficient income. He stated they would not advise people on small incomes to start deferring their compensation because they could not get it back unless they actually retired or quit work.

Senator Glaser did not see anything wrong in providing another option for the public employees. He asked what the return on the investment of this program was. Mr. Bennett said those individuals in the program would be realizing PERS new actual investment experience which would be 14% to 16%. Senator Glaser inquired how much additional time on the part of PERS would the program take. Mr. Bennett said the PERS investment counsellor would not make additional charges for doing the services. There would be additional bookkeeping, accounting, the provision of additional statements at a cost of about \$50,000 per year but the members of the program would pay for it.

Senator Lamb remarked that he hated to see the retirement system delving into other areas as the present retirement system was working so well.

Senator Wilson asked if there was an alternative to this program. Mr. Bennett noted one problem in going to outside investment counsellors was that most investments required a \$10,000 minimum.

Senator Wilson remarked that it would not be necessarily favorable for a person on a retirement income to be put into a circumstance where they feel they have to speculate which might occur if the individual had to deal with a private investment counsellor. Senator Lamb noted the retirement system might leave themselves open for a lawsuit should anything happen to this program and the money invested.

Senator Echols inquired if the retirement counselling pertained to the retirement program only. Mr. Bennett stated PERS counselled the members on retirement, benefits, how to plan for retirement, and how to make the transition but did not actually have members of staff who provided counselling on business and investments.

Mr. Ross Culbertson, representing the Nevada Public Employees' Action Coalition, testified in support of Assembly Bill No. 26 and the program it represented.

Ms. Joyce Woodhouse, President of the Nevada State Education Association, testified in support of Assembly Bill No. 24. She noted her group were willing to pay the administrative cost of the program and trusted PERS and its investment program.

ASSEMBLY BILL NO. 154 - Makes various changes in law concerning retired public employees.

Mr. Vernon Bennett, Executive Officer of PERS, testified in support of this bill. (See Exhibit D.)

Senator McCorkle asked how PERS could provide the 27 million dollars necessary without impacting the 40 year program. Mr. Bennett replied, at the present time, PERS was about six months ahead of schedule in funding the 40 year program. The Actuary had estimated the impact of this program would not be that severe

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spread over a 30 year period. PERS was estimating putting the cost of the 27 million dollars into the two year study and the total funding of the cost of living increase long-term program would reflect the 27 million, as well as, when they would present it to the legislature in 1983 as it would include the cost to the system in employee/employer rates. PERS did not know how they were going to fund long-term increases. They felt that the total cost over the next 30 or 40 years could be as much as 100 to 200 million dollars.

Senator McCorkle commented that to him it sounded like these monies were to be put in on a short-term basis and then it was to be figured out how to pay the monies back at a later date. Mr. Bennett noted the Senator's explanation was technically correct but indicated it was a little more complex. They were, in effect, buying time for two years until the study was completed so as to provide a positive recommendation to legislature in the 1983 session.

Senator Lamb asked what was PERS unfunded liability. Mr. Bennett said it was approximately 380 million dollars total. The Chairman inquired if it had ever been projected as to when that sum would be paid off. Mr. Bennett stated they had. He noted there were on the year 2016 and were six months ahead of schedule. The PERS Actuary felt the agency would fund the system in full by that date.

Senator Lamb inquired if PERS had to be extra cautious with that kind of liability hanging over their heads. Mr. Bennett said they were being very cautious. He noted their official actuarial assumption was 8%.

Senator Glaser, referring to section 1 of the bill, asked if the individual would receive the percentage plus the monthly increase. Mr. Bennett stated the benefits in section 1 went into effect July 1, 1977; those people were drawing that. The PERS agency was recommending that those payments continue for the rest of the individuals lives.

Senator Gibson inquired how the chart on page two worked, was it cumulative or was it exclusive. Mr. Bennett replied that it was cumulative. He noted that until 1979, all cost of living increases were based on the base benefit. The 1979 legislature made the benefits cumulative and gave them parity with all active State, county, and city employees. The Vice Chairman commented that the 10%'s added to each other. Mr. Bennett asked the Senator to keep in mind that the individual would have to have drawn benefits for 14 years to draw 10%.

Senator Gibson remarked that his problem with this bill was that it was the post-retirement benefits that were breaking Social Security and other pension programs. He thought the legislature should be cautious with them. Mr. Bennett concurred. He said their unfunded liability would go up approximately 27 million dollars. Senator Gibson noted the reason the retirement system got into a hole before was because of unfunded benefits. He felt PERS was making too many assumptions and thought the study should be done first, before the benefits were implemented.

Senator McCorkle commented that he was not sure of the rationale of the "bigger the increase for the people who have been in the system longer". Mr. Bennett stated that PERS had used this policy since 1975. He said that public salaries had really accelerated beginning in 1970. Many of the people who had retired before that time were retiring with an average check of \$250 per month. At the present time the average check drawn by a retiree was \$500 in benefits. He indicated, sooner or later, the legislature was going to have to make some very hard decisions about how much they could or were willing to pay for cost of living increases for retired employees. He noted methods of funding were running out. He said it would take around 18 to 20 million dollars to pay for a 3% to 5% rather than a 3% to 10% increase for the next two years. He felt the ones who would receive the substantial increases were the ones who really needed help and there was nothing in the bill that would anticipate future inflation. This was an adjustment for inflation that had already occurred. Mr. Bennett said there had been over double digit inflation for the past six years, yet the retirement employees had never received over 5% a year.

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Senator Gibson stated that he challenged Mr. Bennett's last statement. He said there had not been double digit inflation for the last six years. He commented that they were dealing with the future of people who invested in this fund and felt this procedure was the greatest hazard in breaking the retirement fund. He felt that everyone should be very sure of the impact of what was being proposed. He thought the committee's basic responsibility was to protect the integrity of the retirement fund and before they made changes as the bill proposed, they should be sure of the facts of what they were doing.

Senator Glaser asked if the agency had been investing the 20 million previously appropriated at 14% to 15%. Mr. Bennett said that money had been invested at 10% to 11% as they were immediately able to put the 20 million dollars into a long-term investment. Mr. Bennett stated another alternative would be to consider an increase this year and find some method of funding it for only two years, then, make another decision after the two year program. He indicated no one had come up with a very viable way to fund long-term cost of living increases. One of the ways under consideration was an increase in the employer's contribution rate. He noted a lot of opposition had been received on that particular method. Another approach was to use all of PERS investment return that was over the 8% assumption, but that would still not provide the type of increases necessary.

AMENDMENT TO ASSEMBLY BILL NO. 154

Senator Gibson, referring to NRS 285.674(2), asked if it was restricted to those who were receiving \$100. Mr. Bennett concurred, the other spouses who were drawing the \$200 would not get the increase but would bring equity to those groups.

Senator McCorkle asked how the program in the amendment would be paid for. Mr. Bennett indicated the costs would be absorbed by the system and would be in the total cost of the bill. He felt the cost would be dissolved after approximately six years.

Senator Echols inquired what these individuals referred to in the amendment to Assembly Bill No. 154 were drawing presently. Mr. Bennett stated approximately \$150 per month.

Mr. Warren Fowler, representing the Retired Public Employees of Nevada, testified in support of Assembly Bill No. 154, particularly Mr. Polish's amendment. He noted that the bill affected a very few people.

Senator Glaser inquired if an individual had worked for the State for 20 years, did that individual receive 65% of their base salary. Mr. Fowler said that person would receive 50% of their base salary, 2.5% for every year employed. Senator Glaser asked what the average State employee was retiring at. Mr. Bennett noted it was about \$600 per month. He stated PERS was trying to give a better benefit to the lower paid benefit recipient who had been drawing the longest number of years.

Mr. Fowler noted that it was in the third category when the recipients were getting up to 4% and 5%, and were having income tax taken out of their retirement pay.

Senator Lamb commented that they were all concerned with the retirement system but noted the fact was that individuals drew certain wages years ago, and, when they retired, the benefits were sufficient at that time. Since then inflation had outdistanced those individual's retirement benefits. The Chairman queried as to how to solve that problem without giving everyone the same retirement benefits but thereby bankrupting the retirement system. He stated he did not want to jeopardize the retirement system.

Senator Gibson inquired if Mr. Bennett had an actuarial chart on the schedule. He noted Mr. Bennett said the bulk of the 27 million was in the 3% to 5% range and requested to see a breakdown of those monies. Mr. Bennett stated he would provide such information to the committee the next morning.

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Mr. Orvis Reil, representing the retired teachers and the American Association of Retired Persons, testified in support of Assembly Bill No. 154.

Senator Lamb asked Mr. Reil if he would bankrupt the system to provide the benefits requested in Assembly Bill No. 154. Mr. Reil said he would not but added that in providing benefits to such a small group of people, he did not believe that would bankrupt the system. Senator Lamb asked Mr. Bennett what would happen if all retirees were brought up to the same amount in retirement benefits. Mr. Bennett stated it would bankrupt the system. Mr. Reil indicated they lost a great many of the group affected each year.

Senator Glaser requested, referring to the agency's actuarial study, information in projecting the schedule starting for the first year with 1% and running that up to 5% in the fifth year, and then at the eleventh year to 9%, 10%, 11%, and 12% for the fourteenth year. Mr. Bennett indicated he would also provide that information to the Senator by tomorrow morning.

ASSEMBLY BILL NO. 287 - Increases salary of legislators for service in Interim Retirement Committee.

Mr. Vernon Bennett testified in support of Assembly Bill No. 287. He noted this bill would increase the daily fees for members of the Legislative Interim Retirement Committee from \$40 to \$80 per day. He said he did not know who introduced the bill.

Senator Jacobsen inquired as to how many times the committee met each year. Mr. Bennett stated the committee was scheduled to meet approximately four times a year; in actuality, the committee met two times last year. He noted the committee was made up of three assemblymen and three senators.

ASSEMBLY BILL NO. 168 - Makes various changes in law relating to active members and members receiving disability retirement of Public Employees Retirement System.

Mr. Bennett testified in support of Assembly Bill No. 168, the system's general legislation bill. (See Exhibit E.) He noted the two bills introduced by the PERS agency were Assembly Bill No. 154 and Assembly Bill No. 168.

Senator Glaser inquired as to the difference between option one and option two. Mr. Bennett stated option two was the joint survivorship/100% which was where the spouse drew the same monthly benefit as the retired employee would have drawn. Option three which was currently provided was 50% of option two.

Senator Lamb asked Mr. Bennett what NRS 281.123 was. Mr. Bennett stated that referred to the 95% rule. Mr. Sparks asked if that was 95% of the Governor. Mr. Bennett said it was limited to the Governor.

Senator Gibson, referring to Section 10, inquired if the Board used three days of travel when they only required one day. Mr. Bennett indicated the Board usually met two days a month and usually had one day or travel in addition to the Board meeting day.

Senator McCorkle asked, referring to section 12.2, what PERS did if the individual had another system with a less sound actuarial system so their entitlement was in excess of the money they were transferring in. Mr. Bennett indicated the individuals did not transfer money in; it was not a transfer program but a money purchase program in the PERS system. The individual would pay PERS their full cost.

Senator McCorkle inquired about an individual that left the Nevada system and went to another state. Mr. Bennett said if the employee was not vested, the individual usually took their portion out and PERS kept the employer portion, held it for the individual so that if they ever returned and worked six months, the individual could pay the refund. He noted the more turnover the State had, the better the system was.

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Senator Wilson, referring to section 12.8, asked what the reason for concern was over this section of the bill. Mr. Bennett noted an assemblyman had received a few calls expressing feelings that this section of the bill was unfair. He said those people did not understand that the people already enrolled would stay in; it would only apply to people newly employed after July 1, 1981. He indicated very few of those individuals earned retirement anyway.

Senator Gibson, referring to section 13, asked what the basis for the increase was. Mr. Bennett stated the increase was due to the police and firemen not paying their fair share of the employee/employer pay program.

Senator McCorkle asked, referring to section 17, if PERS was not giving the employee greater amounts of retirement benefits than they had contributed. Mr. Bennett indicated they had not; they paid the full amount on the full-time salary, both employee and employer.

Senator McCorkle, referring to section F on page 12 of the bill, inquired as to why the individual was eligible to receive the benefits if there were alternative jobs that could be performed by the member. Mr. Bennett said section F listed several things a person had to do to apply or qualify for disability. One of the things necessary was a certification from the immediate supervisor that stated when the disability occurred, what the individual could no longer do that was job-related, and whether or not there were alternative jobs that could be performed by the member. He stated the PERS Board policy was if there was another job the individual could do, he would do it.

Senator McCorkle, referring to section 31, asked if that portion of the bill should be left open-ended with regard to cost. Mr. Bennett indicated the agency had no way of knowing what it would cost. It was anticipated to cost anywhere from \$50,000 to \$250,000 if all the other states joined with Nevada. It could cost as much as 1 million dollars if Nevada had to do it by itself.

Senator McCorkle suggested that section be rephrased where Legislative Interim Retirement Committee approval would be needed before any funds were expended with regard to section 31. Mr. Bennett said he had no objection to that.

Senator McCorkle moved to amend Section 31 of Assembly Bill No. 168 by requiring previous approval of the Legislative Interim Finance Committee.

Senator Jacobsen seconded the motion.

The motion carried unanimously.

Senator Wilson moved to amend Assembly Bill No. 168 to include an amendment to NRS 286.676 as follows. "the benefits provided by this section may only be paid to the spouses of members who died on or after May 19, 1975".

Senator Jacobsen seconded the motion.

The motion carried unanimously.

SENATE BILL NO. 512

Senator Gibson moved to approve Senate Bill No. 512.

Senator Glaser seconded the motion.

The motion carried unanimously.

ASSEMBLY BILL NO. 287

Senator Jacobsen moved to approve Assembly Bill No. 287.

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Senator Echols seconded the motion.

The motion carried. (Senator Lamb voted "no")

ASSEMBLY BILL NO. 26

Senator Glaser moved to approve Assembly Bill No. 26.

Senator Wilson seconded the motion.

The motion carried. (Senators Lamb and Gibson voted "no")

BILL DRAFT REQUEST 53-1804 (S.B. 572)

Senator Jacobsen moved to introduce a bill draft request to increase NIC benefits.

Senator Gibson seconded the motion.

The motion carried unanimously.

BILL DRAFT REQUEST 33-1759 (S.B. 573)

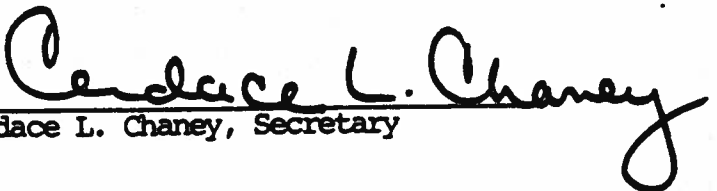
Senator Gibson moved to introduce a bill draft request to allow the State Treasurer to invest monies granted to the Department of Museums and History.

Senator Jacobsen seconded the motion.


The motion carried unanimously.

There being no further business, the meeting adjourned at 10:30 a.m.

Respectfully submitted by:


Candace L. Chaney, Secretary

APPROVED BY:


Senator Floyd R. Lamb, Chairman

DATE: 5/4/81

SENATE AGENDA

COMMITTEE MEETINGS

Committee on FINANCE , Room 231 .

Day TUESDAY , Date APRIL 21, 1981 , Time 8:00 a.m.

SUPPLEMENTAL AGENDA

1. A. B. No. 168 - Makes various changes in law relating to active members and members receiving disability retirement of public employees' retirement system.

VERNON BENNETT
EXECUTIVE OFFICER

WILL KEATING
ASSISTANT EXECUTIVE OFFICER

STATE OF NEVADA



PUBLIC EMPLOYEES RETIREMENT SYSTEM

693 WEST NYE LANE
CARSON CITY, NEVADA 89701
TELEPHONE (702) 885-4200

RETIREMENT BOARD
DARREL R. DAINES
CHAIRMAN
SAM A. PALAZZOLO
VICE CHAIRMAN

MEMBERS
WILLIS A. DEISS
PEGGY GLOVER
BOYD D. MANNING
MARGIE MEYERS
TOM WIESNER

TESTIMONY PROVIDED TO THE SENATE FINANCE COMMITTEE
REGARDING ASSEMBLY BILL 26, FIRST REPRINT, ON APRIL 21, 1981

I am Vernon Bennett, Executive Officer of the Public Employees Retirement System of Nevada. Although AB 26, First Reprint, is not official legislation of the System, it is supported by PERS.

This bill will establish an optional contribution program for members and benefit recipients of the Public Employees Retirement System and the Legislator's Retirement System. The objective of the bill is to allow members an option to participate in the System's investment program and to alleviate the future need for constant postretirement increases for retired employees.

Participants in the optional program will be charged a fee to offset the expenses involved in providing the program. The language provided in this bill will allow the Retirement System to use existing administrative funds to initially set up the program, with repayment being provided through the servicing fees once it becomes operational. The program will be implemented by July 1, 1982, or the date on which 1,000 participants enroll, whichever occurs later. The Retirement System shall develop the program subject to approval of the Legislative Interim Retirement Committee.

We are attaching for your information and assistance a letter of intent which was prepared by the Ways and Means Committee to spell out their objectives regarding this program. We feel that it would be difficult to design the procedures for the investment program at this time as part of the law because we do not know the requirements of the Securities and Exchange Commission or the Internal Revenue Service.

We will be pleased to answer any questions you may have.

Attachment

February 9, 1981

Frank W. Daykin, Legislative Counsel
Legislative Counsel Bureau
Legal Division
Legislative Building, Room 104
Carson City, Nevada . 89710

Dear Frank:

This is a letter of intent regarding AB 26. This bill may be affected by regulations of the Securities and Exchange Commission and the Internal Revenue Service, plus interpretations by the Attorney General's Office and Investment Counsel. We are making this statement for the record because we are unable to put in the bill the specific procedures to be implemented.

It is the intent of the Ways and Means Committee to establish an optional additional contribution program for members and benefit recipients of the Public Employees Retirement System and the Legislator's Retirement System so that they will have the opportunity to improve their income after retirement in some manner.

We intend to allow them access to the investment expertise which is available in the Public Employees Retirement System. We intend for the program to be developed by the Public Employees Retirement System and funded in advance from existing PERS funds to be reimbursed later by contributions from participants. This is necessary because the original start-up cost may range from \$50,000 to \$100,000. We do not intend for this to be a savings program, but rather, a supplement to retirement. We feel that the program should not be implemented unless 1,000 people are enrolled. The normal administrative cost for less than 1,000 participants would be prohibitive.

We intend that this program would not allow withdrawal of invested funds and interest unless the member terminates or retires. The member who terminates should have the option to leave the funds in if he so desires but not be allowed to make additional contributions. Legislators should be allowed to make monthly contributions by submitting twelve postdated checks each year. Upon retirement, the member should have the option to withdraw the funds either in a lump sum, draw an annuity based on investment performance which could be continued to the spouse or take a straight draw of so much per month until the investment income and principle has been exhausted. We feel it would be practical to have the administrative fee deducted annually from earned income.

Mr. Frank W. Daykin
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At initial implementation, we intend that PERS will develop procedures and begin enrollment by December 31, 1981, with implementation and contributions to begin by June 30, 1982, or whenever a total of 1,000 people are enrolled, whichever occurs first. We do not intend for PERS to have to perform the major programming or printing, etc., until they have 1,000 enrollees committed.

We would appreciate if you would make this letter of intent an official part of your records regarding AB 26 so that they will be available for future reference and analysis.

Sincerely,

Roger Bremner
Chairman - Ways and Means Committee

VB:dd
CC: Public Employees Retirement System

VERNON BENNETT
EXECUTIVE OFFICER

WILL KEATING
ASSISTANT EXECUTIVE OFFICER

STATE OF NEVADA



PUBLIC EMPLOYEES RETIREMENT SYSTEM

693 WEST NYE LANE
CARSON CITY, NEVADA 89701
TELEPHONE (702) 885-4200

RETIREMENT BOARD
DARREL R. DAINES
CHAIRMAN
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MARGIE MEYERS
TOM WIESNER

TESTIMONY PROVIDED TO THE SENATE FINANCE COMMITTEE
REGARDING ASSEMBLY BILL 154, FIRST REPRINT, ON APRIL 21, 1981

I am Vernon Bennett, Executive Officer of the Public Employees Retirement System of Nevada. Assembly Bill 154 is the Retirement System's bill to provide cost-of-living increases. This bill is the result of 18 months of negotiation between the Retirement Staff and Board, the System's Actuary and the retired employee associations. Although this bill basically increases cost-of-living increases for the next two years from a 3% to 5% formula which has been in effect since 1975 to a 3% to 10% formula, the System and the retired employee groups recognize that the new benefits do not come close to meeting the need. We have agreed to perform an indepth study during the next two years regarding possible long-term postretirement benefits and funding and hope to provide a complete report to the 1983 Legislature. It is our understanding that the benefits provided by AB 154, First Reprint, are supported by all retired employee groups. There is a group of retired teachers in Las Vegas who are attempting to obtain additional benefits through SB 40.

Section 1 applies to an additional cost-of-living increase passed by the 1977 Legislature for a two-year period which was then extended by the 1979 Legislature until June 30, 1981. This provision was extended in SB 258 of 1979 which is currently listed by the Legislative Counsel under "Special Acts Concerning Public Employees Retirement". The bill drafter's approach is to allow the provisions of SB 258 of 1979 to expire on June 30, 1981, as written and has established the identical benefits in AB 154, Section 1, to be continued July 1, 1981, and thereafter for the remainder of the benefit recipients lives at the expense of PERS.

Section 2 will establish new postretirement increases beginning July 1, 1981 and July 1, 1982, to all eligible benefit recipients. The 1975, 1977 and 1979 Legislatures enacted similar benefits on the 3% to 5% formula. The System has discussed and mutually agreed upon this formula with the Actuary and all retired employee associations. This proposal will extend the increases to 3% to 10% so that a person who has been drawing benefits 14 years or more will receive 10%, 13 years or more, 9.50%, etc. Benefit recipients who have not been drawing benefits a full year will receive a prorated increase. This will eliminate a problem where some employees try to establish their first day of retirement eligibility geared to our postretirement increase program rather than to a date that is appropriate to them and their employer. The cost will be approximately \$27 million to pay the new benefits for the remainder of those persons lives and the lives of their beneficiaries. The cost will be absorbed by the Retirement System.

Assemblyman John Polish has requested an amendment to AB 154 which is briefly as follows:

On page 2, line 22, add the following: 3. In addition to the other postretirement allowances and increases provided by law, the system shall provide a monthly postretirement increase equivalent to \$100 per month beginning July 1, 1981 for surviving spouses drawing benefits under NRS 286.674(2) to be payable as long as they are eligible to draw the survivor benefit.

COMMENT: The 1975 Legislature increased benefits to the surviving spouse of a deceased member from \$100 to \$200 per month on a prospective only basis. Spouses who began receiving benefits prior to May 19, 1975, continue to draw only \$100 per month. The Legislature also removed the \$4,800 per annum earnings limitation for a surviving spouse and authorized the reinstatement of spouses who had previously had their benefit cancelled due to exceeding the earnings limitation. Seven spouses were reinstated at \$200 per month. During a legal appeal last October, it was determined by Attorney General interpretation that the reinstatement should be established at \$100 per month. Therefore, the System adjusted the benefit from \$200 to \$100 per month for those persons. Assemblyman Polish was interested in restoring the \$200 per month benefit to those seven recipients. However, the System and the Attorney General's Office were concerned about the possibility of benefit discrimination and a concern with retroactive application of benefits. The above amendment will resolve the concern by providing a \$100 per month cost-of-living increase to the 152 surviving spouses who are still drawing the \$100 per month base benefit. The cost will be approximately \$182,400 the first year which will be reduced approximately 7% per year thereafter. The cost will be absorbed by the Retirement System. The System supports the amendment and requests your favorable consideration.

We will be pleased to answer any questions which you may have regarding this legislation or the proposed amendment.

VERNON BENNETT
EXECUTIVE OFFICER

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STATE OF NEVADA



PUBLIC EMPLOYEES RETIREMENT SYSTEM

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Testimony Provided to the Senate Finance Committee
Regarding Assembly Bill 168
April 21, 1981

I am Vernon Bennett, Executive Officer of the Public Employees Retirement System of Nevada. AB 168 is the Retirement System's general legislation bill. A breakdown of each section of the bill in layman's terms is as follows:

- Sec. 1 Merely a numbering section.
- Sec. 2 Will provide retirement option 2 benefits to the surviving spouse of a member who was fully eligible to retire at time of death. They currently receive option 3 after 10 years of service. This bill will be retroactive to May 19, 1975, to take care of several unfortunate cases. For example, a member recently died over a weekend with 43 years of service. The actuary has determined that there is no cost impact because members who are fully eligible to retire could have begun drawing benefits earlier and then provided the same option to a spouse. The System actually saves money for each day that a member eligible to retire remains a contributing member.
- Sec. 3 Will allow a public employee, on leave to work for a recognized employee or employer association, to remain a member of the System if retirement contributions are continued. For example, a member of the System may take a one-year leave of absence and serve as an elected officer of an employee association. This will allow those persons to remain contributing members and not forfeit one year of credit. This section will also be retroactive to July, 1947, to cover situations of this nature which have received credit in the past.
- Secs. 4 & 5 Sections 4, 5, 18, 20, and 21 clarify the current disability laws without basically changing the benefits. We are trying to place the disability portion of our law in layman's terms this session as we did the survivor benefits portion last session. We will provide information to you on the respective sections that have any significant change. There were no significant changes to Sections 4 and 5.

- Sec. 6 Will allow retirement contributions for all members on standby and recall pay. The 1979 session allowed contributions on standby pay for a police officer and recall pay for a fireman. We feel this is an equitable provision for all members.
- Sec. 7 Adds firemen of the Airport Authority of Washoe County to the early retirement program. Eliminates naming specific fire protection districts and provides coverage for firemen in any fire protection district. This eliminates legal complications due to several recent reorganization and name changes regarding fire protection districts.
- Sec. 8 Will clarify appointment procedures for the Retirement Board to eliminate the current provision that appointment must be made from a panel of ten persons selected by nomination. We understand this procedure has never been followed. The new procedure will allow the Governor to make appointment from all written nominations submitted, which is the actual procedure. In addition, it will spell out that a nominee must be a member of the group or organization that is nominating him and a member of the System.
- Sec. 9 Will exempt the Executive Officer of PERS from the 95% rule. Our budget request for the next biennium will provide raises equivalent to the SNEA proposal, which is \$100 per month plus 10% the first year and 12% the second year. The current 95% limitation will prohibit the Executive Officer from receiving \$1,000 of this raise the first year and all of the raise the second year. Several positions have been exempted from the 95% rule by law or approval of Interim Finance.
- Sec. 10 Will increase the fees paid to the Retirement Board members from \$40 to \$60 per day. Will also provide payment of fees for necessary travel to attend meetings and to perform official functions. This section will have fiscal impact.
- Sec. 11 Will clarify the required mailing of the System's Annual Report. Copies will go to the Governor, each member of the Legislature, each public employer, each employee and employer association, and to all members upon request. The current law could be interpreted to mean we had to mail a copy to each of our 42,000 members, which would be very expensive to print and mail due to the fact that we do not have individual addresses.

- Sec. 12 Will eliminate the current administrative fee limitation of \$2.20 per police and fireman and \$2.00 for members. This is unnecessary because our budget is approved and adopted by the Legislature. Our current budget and future biennium budget request are well within these limitations. However, we are concerned that this may create a problem in the future if public employee reductions continue. This will eliminate unnecessary accounting.
- Sec. 12.2 Will remove the requirement that in order to purchase out-of-state public service, the employment must have been covered by another public retirement system. The new requirement will require only that the employment must have been with an out-of-state public agency and that the service is no longer creditable in another public retirement system other than Social Security, which cannot be canceled.
- Sec. 12.4 Deleted because SB 13, which has already passed the Legislature, corrected the problem.
- Sec. 12.6 Will allow a person employed by either house of the Legislature or by the Legislative Counsel Bureau to continue their participation in the System if they were either vested or were a contributing member immediately before the Legislative session.
- Sec. 12.8 Will eliminate participation in the System for those persons employed as school crossing guards after July 1, 1981.
- Sec. 13 Will increase the employee contribution rate for police and firemen who are not under the employer-pay program from 8.50% to 9.00% based upon recommendation of the actuary. This will apply only to police and firemen who are State employees because all other police and firemen will be under the employer-pay program by July 1, 1981. We have established a fiscal cost of approximately \$62,000 per annum for the affected employees. This section will have fiscal impact.
- Sec. 14 Will provide that withdrawn retirement contributions must be deducted from the retractive pay of any member whose employment is involuntarily terminated and thereafter reinstated retroactively. The System has experienced problems in the past of collecting necessary contributions from the member. If the amount of back pay granted is not sufficient to repay withdrawn contributions, the member shall pay the balance remaining under a reasonable repayment plan established with the System.

- Sec. 15 Provides the employer increase from 8.50% to 9.00% for police and firemen who are not under the employer-pay program. This will apply only to the State of Nevada. We estimate the cost to be approximately \$62,000 for the next biennium. This section will have fiscal impact.
- Sec. 16 Will make a public employer responsible for collecting and submitting to PERS the back employee and employer contributions, plus interest, for a person who was not enrolled due to employer error.
- Sec. 17 Provides technical cleanup at the request of the University Board of Regents for a program whereby an employee fully eligible to retire may phase out retirement. It will also allow the average compensation to be adjusted to reflect the normal cost-of-living increases provided other employees of the public employer.
- Sec. 17.5 Clarifies that only service performed as a police officer or fireman may be used for early retirement eligibility. Adds that military service may also be used toward early retirement eligibility. Although other service may not be used toward early retirement eligibility, it is used in the computation to determine the amount of monthly benefit.
- Secs. 18-20 Clarify the disability laws without making substantive changes.
- Sec. 21 Allows a disabled retired employee to return to employment provided he forfeits \$1 of benefits for each \$4 of gross income from employment if earnings are under his average compensation and disability benefit. The adjustment will be a \$1 reduction in benefit for each \$2 of gross income if the employment and disability benefit exceed average compensation. This program is designed to encourage disabled retired employees to seek employment and rehabilitation. This section will provide some savings to the System.
- Sec. 22 Will allow the System to withhold money from a refund or monthly benefit check when the person involved owes money to the System. This would correct a current, frustrating situation where we continue to pay out monthly benefits or a refund to a person that we are attempting to collect back debts from.

- Sec. 23 Represents language put in by the Legislative Counsel Bureau. This section was repealed in 1979. However, the Legislative Counsel Bureau now feels that it should remain in the Statutes.
- Sec. 24 Will transfer the jurisdiction for paying monthly Legislator's Retirement System benefits from the Controller's Office and the State Treasury to PERS. This is based upon a request from a benefit recipient of the Legislator's Retirement System who attempted to have income tax deductions withheld from the benefit check and was advised by the State Controller's Office that they were not able to provide this service. The Retirement System has computer programs which provide this service to any benefit recipient. This will eliminate the current procedure whereby the System has to prepare an individual check voucher by hand each month for the benefit recipients of the Legislator's Retirement System. It will also make our new direct-deposit program available to benefit recipients of the Legislator's Retirement System.
- Sec. 25 Will allow members of the Legislator's Retirement System to purchase credit for public employment under the same provisions applicable to members of the Public Employees Retirement System.
- Sec. 26 Will allow legislators to retire at any age less than 60 years, but the benefit that they receive will be reduced by .5% for each month that they are under 60 years of age. This is the same benefit that is provided for members of the Retirement System.
- Sec. 27 Is merely a numbering section.
- Sec. 28 Technical cleanup provision.
- Sec. 29 Will provide that, unless specifically provided in the Legislator's Retirement System Law, basic benefits and provisions will be administered in accordance with Chapter 286, which is the Public Employees Retirement System Law. This will eliminate continuing amendments to the Legislator's Retirement System each time amendments are made to the Public Employees Retirement System Law.

- Sec. 30 Repeals several general provisions in the Legislator's Retirement System Law so they will be administered in accordance with Chapter 286 as provided in Section 29.
- Sec. 31 Will provide legislative authorization for the System to use its funds to sue the federal government if Congress passes a bill to provide mandatory Social Security coverage for public employees of Nevada. Our Attorney General has researched the matter and officially recommended that such a move by Congress will be in violation of state's rights and the prohibition in the Constitution that Congress cannot tax the state. It is possible that Congress may pass such legislation between now and the next legislative session in 1983.
- Sec. 32 Authorizes the State Controller to transfer Legislator's Retirement System funds to PERS in accordance with Section 24.

Senator Wilson has requested an amendment to NRS 286.676 as follows:

3. The benefits provided by this section may only be paid to the spouses of members who died on or after May 19, 1975.

This will extend Retirement Option 3 coverage to the the surviving spouse of a member who is vested at time of death back to the date the original Option 3 survivor benefit was passed. That benefit from May 19, 1975, until July 1, 1979, was provided only to a member who was fully eligible to retire. The 1979 Legislature made it applicable to vested members but did not make the provision retroactive. We estimate that approximately 3 surviving spouses will be affected by this legislation. The Retirement System favors the amendment.

We will be pleased to answer any questions you may have.