

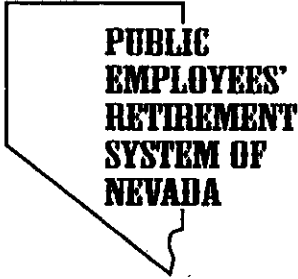
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**Senate Committee on Finance  
Senate Bill 409 - Testimony  
George Pyne - Executive Officer**

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Mr. Chairman, members of the Committee, George Pyne, Executive Officer of PERS. The Retirement Board has not taken a position on SB 409. Staff will recommend the Board take a neutral position at its April meeting.

Paragraph 1 of Section 1 of the bill, beginning at line 3 of page 1, enables Justices of the Peace and Municipal Court Judges to participate in the Judicial Retirement System (JRS) provided participation is allowed by their respective local governments.

Paragraph 4 of Section 1, beginning at line 11 of page 2, allows for the transfer of assets from PERS to the JRS for each judge or justice who decides to participate in the JRS. This language is similar to the language in the Judicial Retirement Act for District Court Judges and Justices of the Supreme Court who move from PERS to the JRS. It is important to note that the service transferred from PERS to the JRS must be accredited in that plan as if earned in PERS. What this means is that all prior service in PERS that gets transferred into the JRS will be at the lower PERS' accrual rate (2.5% or 2.67%) versus the higher (3.4091%) JRS rate. They would earn the higher JRS benefit accrual on a going-forward basis.

It is my understanding that the intent of this bill is to be cost neutral to State government. Therefore, at Section 4 of the bill beginning at line 42 on page 2, you see the segregation of contributions into the JRS between state government for Justices of the Supreme Court and District Court Judges and local governments for Municipal Court Judges and Justices of the Peace.

Paragraph 3 of Section 4 beginning at line 22 on page 3, states that local governments shall pay into PERS, the normal cost of benefits as a percentage of payroll for each member on a monthly basis. Normal cost is the cost of benefits members will accrue each year on a going-forward basis. We estimate the percentage of payroll cost to be 25.8%. We also estimate that 56 active judges/justices out of a total of 95 would switch to the JRS from PERS. Their collective annual payroll subject to contribution is \$4.3 million. The additional annual payroll cost to local governments could be \$236,500 (28.5% - 20.25%) in the first year of the biennium.

This paragraph is somewhat problematic given the normal cost of an agency electing to allow its justices of the peace or municipal court judges to participate in the JRS will not be known without performing an actuarial valuation unique to its members. We don't mind performing the valuation, but it might be better to tie their initial contribution rate to the normal cost associated with the District Judges and Justices of the Supreme Court until the next annual actuarial

valuation is performed. That valuation will then determine the cost associated with their agency.

Paragraph 4, beginning at line 40 on page 3, states that the respective local governments shall pay to the System any additional amounts sufficient enough to pay the benefits of the System. This generally refers to the payment of the unfunded liability associated with these judges/justices. Simply defined, the unfunded liability is the dollar amount associated with promised future benefits not yet funded. Inasmuch as these members would have assets transferred from PERS equivalent to their liability in the JRS, no unfunded liability would exist.

Finally, if this bill were approved, the legal structure of the JRS would change from a single agent plan to a multiple employer agent plan. This means that separate actuarial valuations would need to be produced for each participating employer; up to 35 counties and cities. Also, additional accounting disclosures reflecting the required contribution rates, amortization period, and other items would need to be produced. The System would incur this additional administrative expense at a cost of \$20,000-\$30,000 annually.

Mr. Chairman, that concludes my prepared remarks.