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PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF NEVADA

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Senate Committee on Finance
Senate Bill 439 - Testimony
George Pyne - Executive Officer
Dana Bilyeu - Operations Officer

Good morning, George Pyne, Executive Officer of NV PERS. Senate Bill 439 is the Retirement System's technical or "housekeeping" proposed legislation. This bill carries with it no fiscal note as the modifications proposed carry no additional cost. They merely reflect language modifications or in some instances benefit restrictions. I will address each proposed modification in the order they appear in the bill.

First, approximately 23 sections of the bill change the term firemen to 'Firefighter". This change was requested to make the Retirement Act gender neutral, as is the case with the use of the term "police officer."

Section 3 of the bill deletes language relating to nonprofit corporations to which a public hospital has been conveyed or leased pursuant to NRS 450.500 within the definition of public employer found in section 286.070. This language conflicts with the requirements of NRS 286.486 prohibiting dual coverage in PERS and the Social Security System. Employees of nonprofit corporations are required by federal law to participate in Social Security.

Moving to **Section 6** of the bill, which is the next substantive change, the Retirement Board is requesting that, in keeping with the requirement of a 4 year degree for the Executive Officer, Operations Officer and Investment Officer, three additional executives: the Assistant Investment Officer, Manager of Information Systems, and the Administrative Analyst also must be graduates of a 4-year college or university. Each of the positions mentioned is non-classified and serves at the pleasure of the Executive Officer. They play essential roles in PERS' administration and are likely to be considered for future service as the executive officer, operations officer or investment officer. Therefore, a 4-year degree is critical for each of these positions from a succession planning perspective. The current incumbents in these positions all hold such degrees.

Section 12, page 7 line 38 of the bill deletes language currently contained in the statute, which has no substantive meaning. ("Whose occupant is thereby")

Turning to **section 20** found on page 16 of the bill, this language has to do with the exemptions to PERS reemployment restrictions passed in the 2001 legislative session. Beginning at line 11 and again at line 15, we are requesting the change to clearly state that the member must be fully eligible to retire as to age and service. The language currently contained in this section, that the member receive "an unmodified benefit" is actually a term that has specific meaning within

our statute—and it means that the member has not chosen an optional benefit form to protect a beneficiary. It does not mean a person is fully eligible to retire as to both age and service. The proposed language change clears up this confusion.

Also contained in **section 20, page 17 line 3** is a proposed limitation to the exemption from our reemployment restrictions passed last session in Assembly Bill 555. If the committee will recall, in the 2001 legislative session, PERS requested passage of certain exemptions to PERS reemployment restrictions to assist our employers with recruitment in positions that were deemed by the employers to be positions of critical labor shortage.

This exemption has been working well in that approximately 65 PERS retirees have returned to work in critical labor shortage positions, the lion share of which are in the school districts. Speech pathologists, math teachers, psychologists and several other types of positions have been filled using this able group of candidates.

The Retirement Board is seeking to add one more limitation to the determination process used by our employers when making determinations as to which positions will be certified as critical labor shortage position. We are seeking to limit the designation of a critical labor shortage to a 2-year period after which the employer would have to re-designate the position as one of critical need

if the employer determines again that the critical shortage exists.

This recommended change is consistent with the rationale for provided an exemption in times of critical labor shortage. Our retirees are filling positions in urgent need of occupancy but the duration of the critical need may be for a limited period of time. Two years is a reasonable time frame for the employer to reexamine the positions and re-designate the position as meeting the critical labor shortage criteria if necessary. This change is not anticipated to have any cost impact to the plan and would be incorporated in to the actuary's experience study scheduled for 2004. The critical labor shortage exemption sunsets in 2005 unless the System's actuary determines there is no cost associated with this legislation or the funding is recognized in the contribution rate.

Moving to our next substantive request, **page 20 section 27 beginning at line 43 and sections 28, 29, 30, and 31**. Looking back again to the 2001 session, PERS requested a benefit change in our survivor benefit programwas designed to provide unmarried members with a survivor benefit for an individual of their choice in the event of their death before retirement. All members of the System, regardless of marital status, have been encouraged to make this designation.

Since inception of this new benefit, the System received several member and legislator inquiries to allow for more flexibility in the designation of a single

survivor beneficiary. The primary request is to allow for multiple named beneficiaries. For example, an individual with three children might want to name all three as single survivor beneficiaries, as opposed to just one child. PERS' benefits are annuities that, by definition, are paid based on the life expectancy of a member and/or an individual beneficiary. Therefore, it becomes problematic to determine annuity amounts on what could be numerous beneficiary lives.

A simple approach to rectify this situation is to continue designation of a single individual upon whose expected life benefits would be paid as the single survivor beneficiary, and allow for multiple alternate payees who could receive certain predetermined percentages of the benefit as designated by the member. The benefit would cease, as it does today, upon the death of the named single survivor beneficiary. There would be no funding impact to the System, as the duration of the benefit would remain tied to the named single survivor beneficiary.

As an example, consider a single member with three children. Under today's law, he or she may be unsure as to which child to name as single survivor beneficiary because that person is not legally obligated to share any portion of the survivor benefit with the other siblings. If this proposal becomes law, the member can further designate the portion of the benefit each alternate payee (the other children) is to receive. In this case, the member might have the oldest child named as single survivor beneficiary and the other two children designated to receive 1/3 each of the benefit. This would guarantee an equal division of the benefit between

the three children. Again, there would be no funding impact to the System as the benefit is actuarially calculated based on the age and life expectancy of the one child named single survivor beneficiary.

Moving to **section 33** of the bill, dealing with the newly created Judicial Retirement System.

When the legislature passed the Judicial Retirement Act last session an important piece of that act was left out that has to do with the setting of the contribution rate for that System. **Section 33** of the bill adds language virtually identical to language in the Retirement Act providing the rate setting mechanism, and that it be based upon the biennial actuarial valuation and rounded to the nearest one quarter of one percent. It also provides that the rate will not be adjusted if the existing rate is within one-half of one percent of the actuarially determined rate.

Section 36 of the bill contains language mirroring the 2-year restriction on designations of critical labor shortage previously discussed.

Section 37 of the bill corrects an issue relating to service credit accumulation under the JRS. Under the provisions of the new Judicial Retirement System (JRS), members may accrue up to a maximum of 75% of average compensation with 22 years of service. This equates to a benefit multiplier (also known as a service time factor) of 3.4091% for each year of judicial service (22 years x 3.4091% = 75%).

The JRS also allows current PERS' judges to transfer to the JRS provided their prior PERS service remains credited at the lower PERS' multiplier of 2.5% or 2.67% for service after July 1, 2001. Because of the lower PERS' multiplier, a judge who transfers to the JRS from PERS will not reach the 75% maximum benefit accrual prior to attaining 22 years of service. As an example, a judge who transfers to the JRS with 21 years of PERS' service would be limited to approximately 56% of his average compensation with 22 years of service versus 75% if all service were credited at 3.4091% under the JRS.

The System does not believe it was not the intent of the legislature to limit benefit accruals to less than 75% of average compensation. Unfortunately, the actual reading of the statute limits benefit accruals to 22 years of service. Therefore, PERS is recommending language in the Judicial Retirement Act be modified to reflect a 75% service credit accrual maximum regardless of years of service. This would enable a judge who transfers from the PERS fund, to work

beyond 22 years and continue to add to his service credit accrual until attaining the 75% maximum.

Mr. Chairman, that concludes my prepared remarks.

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