Presentation to Assembly Government Affairs

February 16, 2009 – 9:00 a.m.

Dana Bilyeu, Executive Officer
Introduction

Nevada PERS serves over 220,000 active, inactive and retired employees, including teachers, public safety personnel, and others who provide public services to the citizens of our state. The benefits provided are part of a comprehensive human resource strategy for all public employers to insure a high quality workforce.

The following information is provided as an overview of PERS. The report is intended for general understanding of the System, benefits, financing, operations, investments and economics of the plan.

The information and comparative data is related to the overall administration of the Public Employees’ Retirement System of Nevada (NVPERS), highlighting the efficiencies of the System in meeting its mission. Information related to the positive impact to the Nevada economy of the Retirement System, both from an investment perspective, as well as, the benefits to the citizens of Nevada is also relayed.

The System was established in 1947, as a cost-sharing, multiple-employer defined benefit pension plan. It is a qualified trust under section 401(a) of the Internal Revenue Code, and is created as a dedicated trust in the Nevada Constitution. The System is governed by a board of trustees who must act for the sole benefit of the members and beneficiaries of the trust. The System has paid benefits from the trust for over 60 years.

Mission

The System was designed to attract and retain long-term employees to the public sector, as well as to provide a reasonable base income to those in retirement. The objectives of the plan include stabilization of employment conditions by reduction of personnel turnover, making long-term employment attractive to persons of proven ability and capacity, improving employee morale with the promise of financial security at retirement and the removal of “hidden pensioners” from employment.

The Nevada Legislature designed the System to insure uniformity in application to all public employees in the state and to maximize efficiencies through the pooling of assets and liabilities of virtually all public employers and employees. Pooling of assets and risks lowers the overall costs of financing retirement security by allowing not only the economies of scale but providing opportunity to fund for average life expectancies instead of ultimate life expectancies.

Plan Statistics (2008 actuarial valuation)

- The System covers 173 public employers located throughout the state. The System’s 5 largest employers in descending order are: Clark County School
District, State of Nevada, Clark County, Washoe County School District, Las Vegas Metropolitan Police Department

- **106,123** public employees participate in the System
- **38,130** retirees currently receive benefits from the System
- There are **75,855** inactive vested and non-vested members of the System

**Nevada PERS is a *pre-funded* retirement system.**

This means that contributions to the plan are made over the course of an employee’s career. These contributions from employees and employers are invested and used to pay the benefits an employee has earned. This approach to retirement financing can be contrasted to a “pay as you go” system like Social Security where current contributions are used to pay current benefits. Prefunded systems have the advantage that investment earnings, over the long-term investment horizon (40 to 60 years), will provide a significant portion of the retirement benefit, thereby lowering the cost of the benefit.
Employee/Employer: Shared Responsibility for Retirement Financing

The Nevada Legislature, when crafting the financing mechanism for Nevada PERS, began with the premise that employees must share the burden of financing their retirement benefit. Since the mid-1970s, employees have been required to share the cost of their benefit equally with their employer. Employees take salary reduction, give up cost of living adjustments or pay after tax contributions to the System equal to half the contribution obligation on a yearly basis.

All members of the Retirement System pay one-half the contributions to fund their own retirement benefit.

Most members participate in what is called "Employer Pay," which is a pre-tax contribution plan designed to lower their taxable salary by the percentage paid by the employee to fund the retirement benefit. Most people are familiar with this form of pre-tax salary reduction, as it is similar to the method used to reduce taxable salary for health care premiums or voluntary retirement savings programs such as 403(B), 401(k), or 457 plans. Approximately 18% of members participate under a contribution plan called "Employee/Employer" pay which allows the member to pay their half of the contributions into PERS with after-tax dollars. This contribution plan shows as an after-tax deduction on the employee’s paycheck and allows the member, upon termination of public service, to receive these contributions back in the form of a refund.

Regardless of which fund the member participates in, public employers and employees share equally in the cost of the System. Each pays half the statutory contribution rate, including payment on the unfunded accrued liability.

Contribution Rates

One of the principal goals of the Board of Trustees is to stabilize contribution rates during volatile investment market cycles, to insure cost predictability to employers and members. On the next page is a chart setting forth the combined actuarial contribution rates for the regular plan for the last 10 years, overlaid on the returns of the S & P 500 for the same period. The chart demonstrates the relative stability of the contribution rate during both strong and weak market cycles.
Rate stabilization is key to the long-term financing of NVPERS. It provides predictability to members in their take home pay and in the employer budgeting process. Any event (loss or gain) in a single year that would generate sharp rate changes is managed, not simply reacted to. This is a significant tool for the System to balance short-term swings in costs with the long-term financing horizon for NVPERS (40 to 60 years). While not all volatility can be removed from pension financing, the Retirement Board uses all appropriate tools to manage financing the System for the long-term. In the appendix to the report are the scheduled contribution rates for the 2010-2011 biennium.

The Las Vegas Chamber of Commerce recently issued a report on Nevada PERS. In a national comparison of contribution cost the chamber found:

“When Social Security contributions are included in the analysis for states in which Social Security is in effect, Nevada’s total retirement contributions by both employers and employees falls among the lowest nationally.”

From the “Findings in Summary” section (page 2) of the Chamber Study.

**Funded Ratio—Payment of the Unfunded Liability**

As of June 30, 2008, the market value of assets of the System was $22.2 Billion. The funded ratio of the System was 76.2%. This is a composite of the funded ratio of the regular fund (which contains the bulk of the System’s liabilities) at 77.7% and the police/fire fund at 70.8%.

The funded ratio of NVPERS has been relatively stable during the volatile market cycle. Despite the most recent period’s lack of progress on retiring the liability, the conservative nature of NVPERS’ investment strategy has metered the impact of recent investment losses on the overall funded ratio of the System. The chart on the next page shows the funding levels of NVPERS over the last twenty years.
The amortization of the unfunded portion of the pension liability ($5.3 Billion for the regular fund and $1.9 Billion for the Police/Fire Fund) is accomplished in a manner similar to the financing of a home mortgage. All 173 public employers and 106,000 active members of the System pay the cost of financing the benefits. According to the 2008 actuarial valuation of the System, the current unfunded liability will be fully paid in 26.5 years. The chart below shows the relative distribution of employer and employee responsibility for this payment. The various employer obligations are estimated on the ratio of active participants employed.

The funding policy adopted by the Board of Trustees is compliant with all requirements of the Governmental Accounting Standards Board (GASB) and is designed to finance benefits over time periods that reflect the active working period of our members.
The policy is also designed to provide intergenerational equity to newer workers through the ability to finance newly created unfunded liabilities (for instance—from a market decline).

**Employer/Taxpayer Cost Compared to the Total Public Budget**

For fiscal year 2008, the total public budget in Nevada (excl. charter schools and volunteer fire departments) was approximately $18 Billion (Source: Nevada Department of Taxation). The employer portion of the contributions received by NVPERS in fiscal year 2008 was approximately 3.33% of the total public budgets. As the percentage of total expenditures, the System is a cost efficient method to help our employers attract and retain quality public employees.
Benefits

- The average benefit from NVPERS provides a reasonable base income to the System's retirees. The 2008 average benefit for retirees of the regular fund was just over $2,300 a month, with approximately twenty years of service.

- The 2008 average benefit for members of the Police and Firefighters' Retirement Fund was just over $3,700 a month, also with approximately 20 years of service.

Below is a chart showing the average benefit for the last 10 years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Regular</th>
<th>Police/Fire</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>$1,540</td>
<td>$2,333</td>
</tr>
<tr>
<td>2000</td>
<td>$1,626</td>
<td>$2,445</td>
</tr>
<tr>
<td>2001</td>
<td>$1,719</td>
<td>$2,583</td>
</tr>
<tr>
<td>2002</td>
<td>$1,799</td>
<td>$2,664</td>
</tr>
<tr>
<td>2003</td>
<td>$1,879</td>
<td>$2,862</td>
</tr>
<tr>
<td>2004</td>
<td>$1,961</td>
<td>$3,014</td>
</tr>
<tr>
<td>2005</td>
<td>$2,062</td>
<td>$3,184</td>
</tr>
<tr>
<td>2006</td>
<td>$2,136</td>
<td>$3,387</td>
</tr>
<tr>
<td>2007</td>
<td>$2,216</td>
<td>$3,549</td>
</tr>
<tr>
<td>2008</td>
<td>$2,306</td>
<td>$3,740</td>
</tr>
</tbody>
</table>

NVPERS and Social Security

Public employees in Nevada are among approximately 8 million Americans who do not participate in the Social Security System. Other non-Social Security states include: Alaska, California, Colorado, Connecticut, Georgia (certain local governments), Illinois, Louisiana, Kentucky, Maine, Massachusetts, Missouri, Ohio, Rhode Island (certain local governments), and Texas (certain local governments).

The average annualized benefit in Nevada for the vast majority of the retirees of Nevada PERS is just over $27,000—a reasonable base income preventing poverty (the Social Security role), providing reasonable retirement security—and as stated above—for significantly less cost than most states (on a percentage basis).
Agency Efficiency—Operations and Investments

**Operation Costs**

NVPERS, as an agency, performs the mission of the System in an extremely cost efficient manner. When compared nationally, and against global peers, Nevada ranks near the bottom in cost, median for services provided, and at the top for workload administered per full time employee. The charts below set forth the efficiency statistics of the agency.
Investment Costs

The management costs of PERS’ investment program are more than 50% below the industry average. Nevada’s all inclusive investment costs are 0.14%, while the average large public fund pays 0.29% and the average large institutional 401(k) plan pays 0.40%. For additional comparison, on average, participants in a typical statewide deferred compensation pay 0.68%. Individual investors pay even more. The average individual investor typically pays between 0.50% and 2.0% for investment management.

The result is PERS saves over $32 million per year in fees compared to the average large public fund and over $56 million relative to an institutional 401(k) plan. This savings, compounded over a ten-year period, results in over $532 million in added value to PERS’ members compared to the average large public fund and in excess of $900 million when compared to a similar sized institutional 401(k) plan.
Investment Portfolio, Goals and Performance

The chart below depicts the central importance of the investment program to the financing of NV PERS' benefits as it funds 80% of the average member's lifetime benefit. On average, employer contributions fund only 10% and employee contributions fund 10% of the lifetime benefit.

The goal of the investment program is to achieve an 8% return over the long-term funding horizon of the plan with the least possible risk. Diversification is a key risk control measure for the fund. The PERS portfolio is more defensively structured than most large public pension plans, holding a larger bond allocation, emphasizing high quality assets and avoiding direct exposure to riskier asset classes such as emerging markets and hedge funds. This serves to reduce (although not eliminate) losses in down market cycles.

The pie chart below reflects the investment strategy of the trust as approved by the Board of Trustees. The portfolio is allocated to U.S. and international stocks and bonds, as well as real estate and private equity investments. The System employs nineteen investment management firms, and holds in excess of 5,000 individual securities in over 20 countries.

Nevada PERS' Investment Strategy

- U.S. Stocks: 40%
- U.S. Bonds: 30%
- Intl. Stocks: 15%
- Intl. Bonds: 5%
- Private Markets: 10%
While recent negative stock market results have impacted short-term returns, since inception (1984) PERS has generated a 9.1% average annual return (net of fees).

The chart on the next page compares Nevada PERS’ recent returns to other large public pension plans. The Board’s defensive strategy has resulted in competitive results versus other investors for this time period. For example, for the fiscal year to date, PERS ranks in the top 9% of large pensions across the country. Since inception (1984), PERS’ investment risk ranks among the lowest 5% of state pension plans, and PERS’ risk adjusted return ranks in the top 20% of pension funds nationally.
Nevada PERS vs. Large Public Pension Plans (> $1 Billion) Periods ended December 31, 2008

Nevada Based Investments

NVPERS' investment program has $739 million invested in assets that support the Nevada economy through real estate, publicly traded stocks, and private businesses. The System's real estate holdings are primarily held within our Real Estate Investment Trust portfolio and include an ownership interest in 200 properties within the State.

NVPERS maintains positions in 18 publicly traded companies that make an important contribution to the Nevada economy. These firms include IGT (Washoe County’s largest private employer), Newmont Mining, UPS (employs over 1000 people in Washoe County), Harley Davidson, Las Vegas Sands, Wal-Mart, and Amazon.com. The System also maintains positions in 32 privately held companies such as ClubCorp, DTPI Holdings, and Emergency Medical Services that also make an important business contribution to the State.
The Economic Impact of Nevada PERS

Nevada PERS does more than provide fiscally responsible retirement benefits. It creates an economic “multiplier effect” that stimulates Nevada’s economy and supports job creation. How? Each month, retirees spend their retirement income across the state to buy everything from food to clothing to cars to medicine. When retirees purchase goods and services, Nevada businesses benefit. These businesses then can spend and create jobs for households across the state.

This stimulus is particularly important today as Nevada and the nation face a severe economic downturn. Nevada’s retired public servants know they have a stable monthly income and can continue spending on basic needs during these tough times. In the end, this benefits all Nevadans.

The System recently commissioned a national economic and academic group to perform a study of the System to assess the System’s role in the Nevada economy. The Economic Impact of Nevada PERS analyzes how pension payments made by the system ripple through the state economy. For the first time, we can quantify the economic impact of Nevada PERS and how it touches virtually every county and industry in the state.

Key Findings

- Nevada PERS paid more than $981 million in pension benefits in 2008.
- Expenditures from pension payments supported more than $390 million in income for non-PERS state residents.
- More than 5,700 jobs statewide can be attributed to Nevada PERS pension payments.
- PERS supported more than $1 Billion in total state economic output and more than $433 million in value added.
- Payments made to Nevada PERS retirees supported more than $196 million in federal, state, and local tax revenue.
- Each benefit dollar paid to PERS retirees residing in the state supports $1.28 in total economic output in Nevada.
- Each dollar in taxpayer contributions to Nevada PERS supported $6.21 in total economic output in Nevada.
Nevada PERS pension payments create jobs in virtually every industry in Nevada—from retail to health care to accommodation and food services.

**Job Facts**

5,721 jobs supported by Nevada PERS—more than the state utility industry.

**Clark County** accounted for the largest number of jobs - 2,845 full and part-time positions supported by PERS.

**Retail trade** had the largest employment impact - 1,264 jobs supported by PERS.
Total Economic Output to the Nevada Economy (millions), 2007

Economic Stimulus Facts

$1.017 Billion in overall economic output was supported by Nevada PERS

Clark County accounted for the largest impact among counties, with $513 million in total output attributable to PERS payments

Retail trade realized the largest impact among industries, with some $93 million of total output supported by PERS
Appendix
### Employer Pay Contribution Plan

<table>
<thead>
<tr>
<th></th>
<th>Regular Members</th>
<th>Police/Fire Members</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existing Statutory Rate</strong></td>
<td>20.50%</td>
<td>33.50%</td>
</tr>
<tr>
<td><strong>2008 Actuarial Rate</strong></td>
<td>21.54%</td>
<td>37.06%</td>
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<tr>
<td><strong>Difference</strong></td>
<td>1.04%</td>
<td>3.56%</td>
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<tr>
<td><strong>Rate Effective 7/1/2009</strong></td>
<td>21.50%*</td>
<td>37.00%*</td>
</tr>
</tbody>
</table>

### Employee/Employer Contribution Plan – Matching Rates

<table>
<thead>
<tr>
<th></th>
<th>Regular Members</th>
<th>Police/Fire Members</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existing Statutory Rate</strong></td>
<td>10.50%</td>
<td>17.25%</td>
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<tr>
<td><strong>2008 Actuarial Rate</strong></td>
<td>11.21%</td>
<td>18.915%</td>
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<tr>
<td><strong>Difference</strong></td>
<td>.71%</td>
<td>1.665%</td>
</tr>
<tr>
<td><strong>Rate Effective 7/1/2009</strong></td>
<td>11.25%*</td>
<td>19.00%**</td>
</tr>
</tbody>
</table>
Legislators’ Fund
Total Assets = $4.4 million

Judicial Fund
Total Assets = $37.7 Million

Retirement Benefits Investment Fund
Total Assets = $19.2 Million

June 30, 2008
# Investment Results

## Legislators’ Fund

* (inception 1990)

<table>
<thead>
<tr>
<th></th>
<th>FYTD 09</th>
<th>FY 08</th>
<th>10 Yrs.</th>
<th>Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislators’</td>
<td>-19.74%</td>
<td>-4.30%</td>
<td>5.54%</td>
<td>8.95%</td>
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## Judicial Fund

* (inception 2001)

<table>
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<th>FYTD 09</th>
<th>FY 08</th>
<th>5 Yrs.</th>
<th>Inception</th>
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<tr>
<td>Judicial</td>
<td>-19.96%</td>
<td>-4.31%</td>
<td>7.31%</td>
<td>6.52%</td>
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## Retirement Benefits Investment Fund

* (inception 2008)

<table>
<thead>
<tr>
<th></th>
<th>FYTD 09</th>
<th>Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>RBIF</td>
<td>-18.69%</td>
<td>-1.49%</td>
</tr>
</tbody>
</table>

FYTD 09 data through 12/31/08, all other periods ended 6/30/08

Returns are net of fees