

# PERS NEWS

## 2018 PERS News Volume II



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## Investment costs

The Public Employees' Retirement System of Nevada continues to rate among the best public pension plans in the country for keeping investment costs low.

In a report to the PERS Board in January, Investment Officer Stephen Edmundson said the System's disciplined, common sense approach to investing has worked well for members, retirees and participating Nevada public agencies.

All fees for all types of investments made by PERS in Fiscal Year 2017 totaled \$45.7 million. This equates to 12 basis points in costs, compared to 51 basis points for the median industry average, Mr. Edmundson said.

"It has always been our deep-rooted belief that we would rather have every dollar possible compounding for the benefit of our members and beneficiaries rather than being paid out to Wall Street money managers," he said. "The cost savings have been what we feel is a clear competitive advantage relative to the rest of the industry."

The cost savings equates to \$151 million a year that is instead invested for System participants. Compounding this amount out over 10 years, assuming a 7.5 percent rate of return, is worth in excess of \$2 billion in returns to the fund on fees alone, Mr. Edmundson said.

Board Chairman Mark Vincent noted during the meeting that the simple approach to managing the nearly \$39 billion in PERS investments is generating returns ahead of many other larger public employee retirement funds with more complex investment strategies, while at the same time doing so with minimal fees.

"So you are winning on both fronts," he said.

Mr. Edmundson concluded by saying that no one can control how the stock market will perform.

"So we've spent a lot of our time focusing on the things we can control. And one of the biggest things we can control is how much we pay in fees."

## Liaison Officer Conference Draws Record 300 Public Professionals

A record 300 state and local government public employees who oversee their agency's participation in the Public Employees' Retirement System of Nevada gathered in early May in Reno to get the latest information about the plan that covers more than 106,000 active workers.

The one-day 2018 Liaison Officer Conference is held every other year for PERS Liaison Officers, Human Resource Professionals, and Payroll Professionals.

Attendees representing 206 public employers from around the state received an overview of the retirement system from a number of top PERS officials,

including Executive Officer Tina Leiss, at the event at the Peppermill Hotel.

Attendees were also briefed on the mostly modest changes made to the PERS system for new public employee hires in 2010 and 2015 due to bills approved by the Legislature and signed into law by the Governor.

The changes in the two separate legislative sessions have now created a more complex three-tier retirement system, with benefits based on when a public employee started service.

After lunch, participants broke into groups specific to their employee types, from teachers to police and

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fire to charter school employees, to get more detail-oriented training.

In her remarks, Leiss said PERS, a defined benefit plan for state and local government workers, teachers and police and fire fighters, is intended to be an effective tool to recruit and retain quality employees.

The new contribution rates that will be paid equally by employers and employees beginning in July 2019 will be established by an independent actuary to ensure the continued health of the \$41 billion retirement portfolio, she said. But the rates won't be known until this fall

after the close of the 2017-18 Fiscal Year on June 30.

The actuarial valuations that calculate the contribution rate for the regular employees and the separate police and fire fund will be reviewed and approved by the PERS Board in November for submittal to the Governor and Legislature. The new rates, which could go up, down or remain unchanged, will take effect for two years beginning July 1, 2019.

Attendees also heard from Chief Investment Officer Steve Edmundson, who said PERS is one of the lowest cost public retirement systems in the country. By focusing more on indexing as a way to manage investments, contributions that

otherwise would be used to pay Wall Street money managers are instead invested, he said.

The PERS system pays about \$50 million less in fees each year than comparable funds, Edmundson said.

He also told the participants that PERS invests for the long term, and while economic slowdowns are inevitable, maintaining a consistent investment strategy has paid off over the life of the plan.

"Our focus is on 30 years, not one year," he said.

The next conference will be held in Las Vegas in 2020.

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## Popular Annual Financial Report

An annual report providing highlights of the Public Employees' Retirement System for the Fiscal Year ending June 30, 2017, has a lot of positive news for public employees, participating public agencies and retirees.

The Popular Annual Financial Report (PAFR) provides an overview of financial, investment, actuarial, and statistical information in a simple, easy to understand format. The report shows that the System's financial health is solid and is moving toward full funding of the plan over the next 20 years. The System was 74.5% funded, up from 74.1% over Fiscal Year 2016.

The report shows that the total assets of the plan increased by \$3.7 billion, or 10.5%, to \$38.7 billion over the year. This is the eighth year in a row the System has increased its net position.

The fund's annualized rate of return is 9.5% since inception (33 years) versus the long-term actuarial funding objective of 7.5%.

The number of active members in the System increased by 2.6% in FY2017 to 105,801, the 4th consecutive year of increases.

Increases in active members and total wages resulted in an increase in contributions of 6.2% from 2016 to 2017.

Benefit payments rose 6.9% in fiscal year 2017. The increase in benefit payments can be attributed to cost of living increases and retirement inceptions.

Some facts of note in the report shows that PERS:

- Answered 150,869 telephone inquiries from members, benefit recipients, and employers;
- Received 863,444 hits at the PERS website;
- Responded to more than 5,041 e-mails;
- Provided individual counseling to approximately 16,377 members and benefit recipients;
- Made monthly benefit payments to over 62,300 benefit recipients with a total annual benefit payroll exceeding \$2.3 billion.

Other statistics of interest:

- There were 105,801 active members and 57,199 retired and disabled members;
- The average monthly retiree benefit for regular members was \$2,860. The average number of years of service was 18.88 years with an average retirement age of 67.
- The average monthly retiree benefit for police and fire members was \$5,236, with an average number of years of service of 22.46. The average age at retirement was 60.

PERS Executive Officer Tina Leiss said in the report that one of the principal goals of the System has been to stabilize contribution rates during volatile investment market cycles and demographic changes and to ensure cost predictability to employers and members.

"The 2017 actuarial valuation shows that the tools the Board has put in place to meet these objectives are working, while maintaining the retirement security of all public employees," Leiss said.

The PAFR can be found on the PERS website at: <https://www.nvpers.org/>

# Mark Vincent Q and A

As a way to introduce the PERS Board members to our readers, we reached out to Chairman Mark Vincent on a variety of subjects related to the System.

## Why did I volunteer?

The vast majority of people working in the public sector do so because they have a compelling desire to serve their community. PERS is responsible for managing a \$40 billion pension fund that provides benefits to 160,000 active members and retirees. I believed my 30-plus years of financial related experience would add value to the Board, and I was willing to serve as long as the Governor's Office was willing and able to appoint me to the Board. Serving on the Board has been one of the most fulfilling jobs of my entire career.

## What are the most important accomplishments of Board & System?

My Board appointment started one month after the S&P 500 fell below 677 on March 9, 2009. Even allowing for the market correction we just experienced this February, since then the market has grown over 280%, almost quadrupling its total value. After the financial crisis of 2008 many pundits thought equity returns would never return to pre-recession levels, and in fact some investors succumbed to that pressure and moved assets from equities into other asset classes. But the System stayed the course with its proven philosophy despite naysayers. The Board and the System do not blow with the winds; we don't chase fads. We have a plan that is rooted in holding high-quality assets for long-term results. We expect the markets to be volatile on occasion, and in fact we embrace and lean into that volatility because we know our plan is solid, proven over time. The other major accomplishment of the Board was a conscious decision, after reviewing

empirical data provided by System staff, to replace actively managed portfolios with indexed managed portfolios for everything other than our real estate and private equity asset classes. That decision has saved the System tens of millions of dollars annually in fees and reduced our total System cost as a percent of assets to 0.12%, or approximately one-fourth the cost of our peer pension plans. Not only does our risk adjusted earnings performance place the System in the top 10% of our peers, but our cost to deliver that return over various periods, including inception, makes us one of the lowest cost plans as well.

## What am I most proud of about PERS?

I'm very proud that the System continued to be high performing during one of the more brutal recessions the country has faced in recent decades. During the Great Recession many investors significantly altered their investment programs, but our System held fast. In fact, our asset rebalancing formulas called for shifting assets from bonds into equities when the S&P 500 hit bottom, and our System staff executed that transaction without emotion because it was pre-designed into our investment program (we like to think the System is an unemotional investor). Very few investors could execute that transaction like we did, and many of the uncommitted thought we were being too risky to buy more than \$1 billion of equities at a time when the financial world seemed to be crumbling all around. In the end the System was highly rewarded for that action, which is one of the two basic tenets of investing: buy low, sell high. In recent years the System and our CIO, Steve Edmundson, have received accolades in

the financial press, which has been a nice acknowledgment of our success.

## What are the biggest challenges in coming years?

Two things come to mind. One is that this bull market is getting long in the tooth, and the bear market will eventually growl. That does not mean we need to change our investment strategy, but rather to hold fast to it. But, when the bear comes, the naysayers will opine that the System cannot achieve its investment targets and that the employee and public taxpayers cannot carry the burden. Just breathe deeply, and know that we've been through this before.

The other challenge that comes to mind is the pressure our State Legislature comes under to modify benefits from time to time. I understood, and frankly agreed with most of the Legislature's plan changes in the 2009 and 2015 sessions because they strengthened the System's position moving forward, and they were reasonable benefit changes in my mind. But the changes I most fear occur when market returns and labor pressures are both exceedingly high which tend to enhance or even expand benefits.

## What would I like folks to know about PERS?

PERS requires contributions equally from the employee active members and their employers based on a designed benefit, whereas the contributions to a 401(k) are not targeted to a benefit, but are usually sized based on the employee's opinions and preferences. PERS investments are professionally

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managed with a long-term focus so that timing of bull/bear markets and individual retirement dates are blended into the pool, so to speak. Empirical data shows that individuals managing their personal 401(k) funds can't come close to the System's high return and low cost, and in fact their mutual fund returns often do not beat inflation. That's why many private sector employees delay their retirement into their late 60s and even early 70s.

### **Hobbies?**

I love the Lord's natural creation, and fly fishing is my favorite thing to do when out there. I taught myself to fly fish while in college and I've practiced the craft for over 40 years now. Living on the edge of the Mojave Desert can be an impediment

to fly angling, but I have discovered many terrific waters near southern Nevada (the only part of the state I have yet to fish is the extreme northwest up and around Humboldt County). Along the way I began writing a blog about my adventures. The blog led me to write an article on angling the Wayne Kirch Wildlife Management Area south of Ely, NV which was published in *Southwest Fly Fishing's* November/December issue in 2014.

*Mark R. Vincent is the Chairman of the PERS Retirement Board. He was appointed to the Board by Governor Gibbons in April 2009. He served as the Board's Vice-Chairman from July 2009 to July 2011, and as its Chairman from July 2011 to the present. He resides in Las Vegas.*

