PERS: Structure of Benefits

When taxpayers' contingent liability for Nevada's Public Employees Retirement System is accounted for – through a market-based accounting technique – the system's unfunded liability has approached $41 billion.[1]

Obviously, an unfunded liability of such size means that Silver State taxpayers face a tremendous challenge in meeting obligations promised to Nevada's current and past public-sector workers. Moreover, given such a burden, Silver State taxpayers cannot allow PERS' unfunded liability to continue growing.

The system cannot count on achieving extraordinarily high returns, as it did in FY21, to fully reverse the growth in unfunded pension liabilities. This will also require some restructuring of benefits.

Key Points

Defined-benefits (DB) pension plans are bad for both taxpayers and government employees. The growing unfunded liability to which Nevada taxpayers are exposed stems from the fact that the pension benefits promised to retirees are certain whereas PERS investment returns are not. When a year's investment returns fall short, PERS increases the required annual contributions from taxpayers and employees alike to make up the difference.

Over the past 35 years, required contribution rates have more than doubled from 15 to 33.5% of pay for regular employees and from 17 to 50% of pay for police and fire. Supposedly, half of these required contributions are to be withheld from employee paychecks. However, union contracts increasingly require local-government employers – that is, taxpayers – to fund their entire contribution.[2]

Defined-contribution (DC) retirement plans offer greater cost control for both taxpayers and public employees. Similar to a private-sector 401(k), a DC plan would see taxpayers contribute a set amount into government workers' personal retirement accounts and then a knowledgeable portfolio manager, such as PERS, would invest those assets. Upon retirement, workers could purchase an annuity with the assets they've accumulated and draw a monthly benefit without ever having created any contingent liabilities. That means a DC plan would not continually consume larger portions of employees' take-home pay and would also save taxpayers from perpetually rising matching contributions.

Today's high contribution rates result in an intergenerational wealth transfer. A leading reason why contribution rates to PERS have grown so large is to pay down the accumulated, unfunded amount that's owed to employees in or near retirement. This means that younger workers, along with taxpayers, must pay more to finance the benefits of those who went before them in addition to financing their own future benefits. This inequity of the financing burden reduces take-home pay and makes public employment less attractive for skilled young professionals.

PERS board members are entrenched beneficiaries with a conflict of interest. Current law requires all PERS board members to be participants with at least 10 years' service time. As a result, the board is dominated by senior public employees who benefit from the intergenerational wealth transfer foisted on younger employees, creating the incentive to oppose any structural reform. Consequently, PERS officials routinely testify in opposition to reform legislation, while commissioning studies designed to make the existing DB plan look good by comparing it only to other DB plans with similar problems.[3]

Recommendations

Change composition of PERS board. Assembly Bill 3 of the 2015 session would have added three members to the

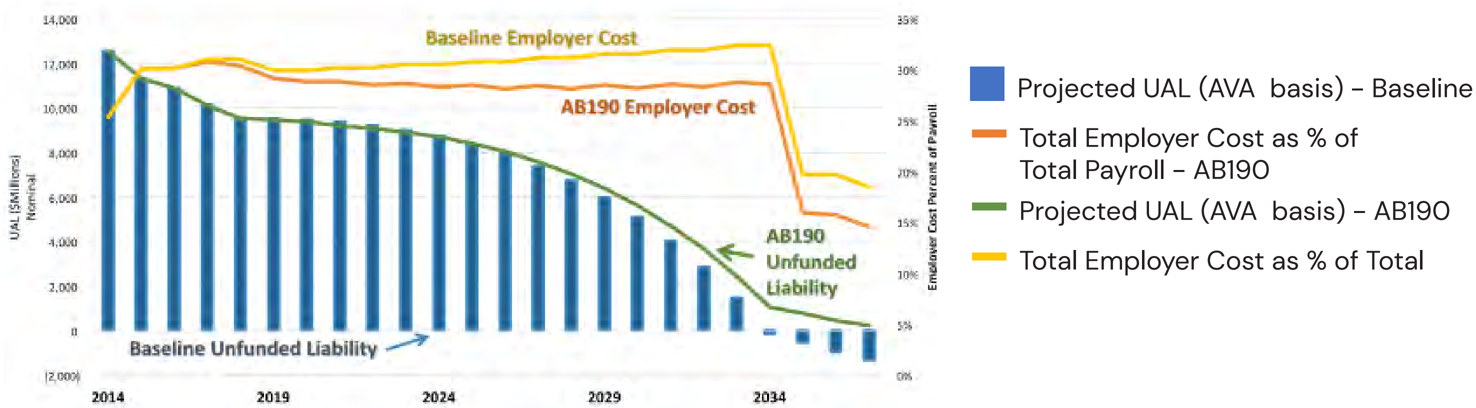
[1] See "PERS: Assessing the Liability."

[2] See "PERS: Local Government Employees."

board who are nonparticipants and have strong knowledge and background in financial planning.[4]

Restructure pension benefits around a Utah-style hybrid system. Assembly Bill 190 of the 2015 session would have transitioned new employees into a DC alternative while keeping the DB plan open to avoid any up-front transition costs.[5] Over time, it would allow the existing unfunded liability to be paid down and required contribution rates to fall back to historic levels, saving money for taxpayers and public employees alike.

Projected Unfunded Liability (AVA basis) and Total Employer Cost Current DB Plan (Combined) vs. AB190



Fiscal Effect of AB 190 Reform Plan: (Cost)/Savings

Inflation adjusted			
Fiscal Year	Regular	Public Safety	Combined Savings
FY 2017	$12 million	$2 million	$14 million
FY 2018	$27 million	$6 million	$33 million
Cumutative Savings			
FY 2017-2021 (5 yrs)	$177 million	$39 million	$216 million
FY 2017-2026 (10 yrs)	$604 million	$150 million	$754 million
FY 2017-2036 (20 yrs)	$1.85 billion	$576 million	$2.42 billion

Monthly Income Replacement Rates in Retirement, Baseline Case vs. AB 190 Reform Case

Retirement Age	Regular Employees		Public Safety Employees	
	Baseline	AB190	Baseline	AB190
52	41%	45%	64%	64%
57	72%	59%	71%	98%
62	72%	79%	71%	127%
67	72%	117%	71%	166%

Source: Reason Foundation, "AB 190 Pension Reform Actuarial Analysis," Presented to Nevada Assembly Committee on Ways and Means, April 2015.

[3] See, e.g., Aon Hewitt, "Report to the Retirement Board of the Public Employees' Retirement System of Nevada," November 2013.
[4] Nevada Legislature, 78th Session, Assembly Bill 3.
[5] Nevada Legislature, 78th Session, Assembly Bill 190.