MEMBER NEWS

PUBLIC EMPLOYEES' RETIREMENT SYSTEM · NVPERS · DEDICATED TO THOSE WHO SERVE NEVADA

Winter 2014

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U.S. Stock Rally Continues

U.S. stock prices have continued their strong rally in 2013. To give some context to the strength of this bull market run, in the last 5 months the PERS fund has gained $2.2 billion and generated a return of 8.7%. This follows a year where PERS generated a return of 12.4%. Clearly, we don't expect total fund returns over 20% in 8 months very often.

The recent run in U.S. stocks has been unique. So far this year the S&P 500 U.S. stock index has generated the best risk adjusted performance since 1962. In addition, 2013 looks like it will be a year where the S&P 500 U.S. stock index does not post a negative calendar year to date return at any point during the year. This also happened in 2012. This phenomenon has only happened 3 times in the last 50 years, and it has never happened two years in a row.

One reason for the gains in stocks has been increased retail investor demand. Fund flows into stocks have broken records for the highest monthly and weekly inflows, and total net stock purchases in 2013 are the highest in over 13 years. As a result, while corporate earnings of U.S. companies have only grown by 4.9% so far in 2013, the S&P 500 U.S. stock index is up over 25%.

While stock prices can extend much farther in relation to fundamentals (as they did in the late 1990's), this demand trend has at times been associated with the later stages of a bull market. Add to that the fact that the S&P 500 U.S. stock index is currently in the third longest bull market in history, and we begin to get a bit cautious.

If stock prices do begin to fall, historically a good "safety net" for portfolios has been high quality U.S. bonds, including U.S. treasury bonds. We estimate that PERS currently has twice the exposure to these securities as the median public pension plan. In addition, we expect to reduce our risk exposure and increase our allocation to high quality bonds in the coming weeks to protect more of the gains that we have earned in this historic rally.

PERS' Funding Facts

***The System is sustainable in the short-term and in the long-term.**

The PERS' trust currently holds $31 billion in assets to support its ability to pay retirement benefits, and the actuarial funding mechanism absorbs current and future pension costs in today's contribution rate. The System's finances are measured, reviewed and audited on an annual basis and comply with all applicable accounting requirements and disclosures.

***There is no funding crisis at PERS.**

The most significant portion of PERS' unfunded liability is being retired over the course of the next 23 years in a prudent and methodical manner that ensures intergenerational equity among current and future employees. PERS is well-positioned to pay retirement benefits in the short and long-term through the current financing mechanism.

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***The contribution rate is shared equally between the employer and employee.**

All PERS members share one-half the cost of financing their retirement. The contribution rate is set based on valuations conducted by independent actuaries so that each employee, along with his employer, prefunds his retirement benefit throughout his entire career. Each employee shares equally with his employer in any contribution rate increases or decreases that the independent actuary determines is necessary to prefund the benefit.

***PERS' retirement benefits are reasonable.**

Nevada law states that part of the mission of PERS is to attract and retain quality public employees by providing a reasonable base income in retirement, and the facts confirm that PERS is accomplishing that mission in a very prudent, cost effective manner. The average teacher or state employee retires at age 64 and receives a monthly PERS' benefit of $2,603.00, without a Social Security benefit.

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Planning to Retire?

If you plan to retire within the next 6 months, you will find that paperwork will be required by many sources. Termination paperwork is required by your public employer and forms may be required by the administrator of your medical plan. Some members may also need to provide information to the Social Security Administration.

With the work involved in contacting these agencies, some members forget to contact the PERS office. We would like to remind you that your retirement cannot be processed unless you first complete and submit a retirement application to the PERS office on or before the date you would like to retire. Some members incorrectly believe that their public employer is responsible for notifying PERS that they are retiring and find out after the fact that this is not true.

It is your responsibility to ensure that your application is on file in order to start your retirement benefit without a delay in payment. We encourage you to contact the PERS office for more information regarding the retirement application paperwork.

When Can Additional Service Credit Be Purchased?

Once you have earned 5 years of service through work, you are eligible to purchase service. Many of our members purchase just before retirement in order to reach a certain level of service credit (for example, 25 or 30 years). It is always a good idea to clearly state your specific needs with PERS staff members when you make your request for an agreement.

Because the timing of "at-retirement" purchases is so important, here are some general guidelines to follow to ensure your purchase is complete and you retire on time:

30 days prior to your last day of employment:

This is the last day you can request a rollover purchase of service agreement. Start much earlier if you have multiple rollovers to complete.

1 day prior to your last day of employment:

This is the last day you can request a lump-sum purchase of service agreement.

Payment due dates:

Your "at-retirement" purchase agreements must be paid by the due date on your agreement or 30 days after your last day of employment whichever is earlier.

Employer paid purchases:

Some employers purchase service for the member at retirement. Remember that the total combined purchases between you and your employer can not exceed 5 years.

Independent Study of PERS Reveals Best In Class

The Retirement Board of the Public Employees' Retirement System of Nevada (NVPERS) commissioned Aon Hewitt to conduct an independent review of certain plan practices, statistics and policies of the Public Employees' Retirement System (PERS), the Legislators' Retirement System (LRS), and the Judicial Retirement System (JRS).

The scope of the review included:

1. A comparison of many features of NVPERS to a large group of other public retirement systems (126 other retirement systems were included)
2. Calculations of liabilities using discount rates
3. Projections of contribution rates and funding levels over the next 30 years
4. A review and opinion on the NVPERS funding policy and recommendations for modifications, if any are warranted.

Results of the Study showed NVPERS is typical of large public retirement systems in that:

- Plan provisions regarding eligibility
- Benefit levels are not overly generous
- Funding levels and discount rates are at median

Some highlights from the study include:

"NVPERS' funded status, retirement eligibility, actuarial funding method, and discount rate are similar to the averages and medians of other large systems, showing that NVPERS is akin to most other large systems in many ways."

"NVPERS, however, is quite different and more conservative in other material ways."

1. One unique aspect of NVPERS is the equal sharing of contributions between members and employers.
2. Another unique aspect is that actuarial gains and losses are automatically reflected biennially in future contribution amounts, rather than after statutory enactments or negotiations occur that often delay contribution rate changes.
3. A third point that makes NVPERS unique is the Board's recent decision to shorten amortization periods from 30 years to 20, which represents a level of conservatism that is not widely seen.
4. "Finally, the actuarial funding policy, including its requirements regarding audits, benefit improvements, funding methodology, and other details, represents a comprehensive, thoughtful and appropriate model that constitutes a best-in-class policy that many other systems do not have."

To expand on the Funding Policy of PERS that was adopted by the Retirement Board in September 2005 and last modified in May 2012, it is sound and represents best practices. The actuarial cost method, asset smoothing method, amortization schedule, actuarial assumptions and other provisions of the Policy are prudent and somewhat conservative measures that are intended to protect both the members of Nevada's plans and the taxpayers of the State from inappropriate volatility or cost increases.

Source: AON Hewitt 2013 Independent Comparable Study of Nevada PERS

If you would like more information, the entire comparative study is posted on our website: www.nvpers.org under Messages from the Executive Officer.

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