

PUBLIC EMPLOYEES' RETIREMENT BOARD EDUCATION SESSION AND
MEETING MINUTES FOR

Thursday, October 19, 2017

The agenda for this meeting was mailed to every public employer, the news media, and other groups and individuals as requested.

October 19, 2017
Education Session

The Retirement Board Education Session of the Public Employees' Retirement Board meeting was called to order by Chairman Vincent at 9:42 a.m., October 19, 2017, in the PERS' Board Room, 693 W. Nye Lane, Carson City. Members present: Mark Vincent, Katherine Ong, Lee-Ann Easton, Yolanda King, Timothy Ross, and Brian Wallace. Members absent: Scott Gorgon.

1. PUBLIC COMMENT

There were no public comments offered.

2. EDUCATION TOPIC

2.1 Brad Ramirez of The Segal Company provided a review and discussion on the actuarial valuation process with the Retirement Board.

3. PUBLIC COMMENT

Ron Knecht, State Controller, indicated that he would be presenting more information later in the regular session. He stated that Mr. Ramirez did a fine job. He mentioned that, when you talk about mortality rates in our population versus the general population, economists and actuaries have a phrase for that, we have adverse selection. He stated this is a backwards view in view of what we are getting and that he has a minor quibble, he indicated that Mr. Ramirez mentioned the expected inflation rate and called it the riskless rate. He said that in cost of capitol finance, the riskless rate is the inflation rate plus a small increment and the riskless rate is generally taken to be the return on treasury securities.

4. RECESS

Chairman Vincent recessed the meeting at 11:08 a.m.

October 19, 2017
Board Meeting

The Retirement Board meeting of the Public Employees' Retirement Board was called to order by Chairman Vincent at 12:17 p.m., on October 19, 2017, in the PERS' Board Room, 693 W. Nye Lane, Carson City. Members present: Mark Vincent, Katherine Ong, Lee-Ann Easton, Yolanda King, Timothy Ross, and Brian Wallace. Members absent: Scott Gorgon.

1. PUBLIC COMMENT

Kent Ervin, speaking on behalf of the Nevada Faculty Alliance, indicated that for full disclosure he is an appointed member of the Nevada Deferred Compensation Committee and the NSHE Retirement Plan Advisory Committee and is speaking only on behalf of himself and the Nevada Faculty Alliance. He stated that about 18% of NSHE faculty are members of PERS, a defined benefit plan, but that most faculty hired since 1986 are on a mandatory 401a defined contribution retirement plan. He said that the repeated proposals over the last few years to convert state employees to a defined contribution or hybrid plan have not recognized the serious drawbacks of a defined contribution plan. Mr. Ervin mentioned that when he retires after 30 years of service the projections are that his 401a defined benefit plan will provide only about half the retirement income stream compared with if he had been in PERS. He stated some of the reasons for this are that: (1) defined contribution (D.C.) plans have higher investment and administrative fees, (2) D.C. plans require each individual employee to manage their own investments, (3) D.C. plans have no pooling of longevity risks, and (4) D.C. plan retirees can suffer from retirement date market risk. He indicated there are pros and cons for both types of plans and no one should believe that a defined contribution plan is a magical solution that works better for everyone. The benefit-to-cost ratio is significantly worse for an individual defined contribution plan. He thanked the Board for the opportunity to put in public comment.

Kevin Ranft, representing AFSCME, stated that there are about 20,000 state employees who have long been advocates of this Board and hope that people will understand what they are going through. He indicated that state employees' voices are often not heard and that for almost a decade the budgets were balanced on their backs. He pointed out that prior to the 2017 legislative session changes were made. He said they do not agree with all of the changes but stated that the changes need time to work. He asked that the 8% remain the same and stated that PERS is meeting that percentage. He brought up that State employees just got a 3% raise. He stated they take one step forward and two steps back and that state employees cannot afford another contribution increase. He asked the Board not to do anything that would ultimately raise contribution rates. He thanked the Board for their time and for everything they have done.

2. DISABILITIES

- 2.1 For the record, Yolanda King stated that Melisa Davies works or worked for the same employer as herself and was at one time a direct report; she abstained from voting on her disability.

On motion of Kathy Ong, the Retirement Board voted unanimously of those present to:

1. Approve permanent and total disability retirement for: Cheryl Allen, Ronald Bloom, Erich Breth, Kelleen Cross, Annessa Daniel, Shelley DiNicola, David Escobar, Amalia Hernandez, John Krall, Stephany Lanave, Kyle McMahan, Gabriele Muench, Melvin Oliver, Sara Reber, Bryan Rice, Ian Ryan, Annie Spencer, Teri Tibbetts, Mary Valencia, Joseph Walker, Mary Wood, and Kelli Woodburn.
2. Approve reemployment requests by disability recipients: Klaus Altemueller, Joseph Arnold, Peggy Bradner, Brian Clark, Everlean Clay-Sampson, Melisa Davies, Teresa Gehman, Chad Mowbray, Tom Powers, Vincent Roberts, Susan Thomas-Wils, and Shawn Wood.
3. Deny reemployment requests by disability recipients: Sheila Rozak.

3. INVESTMENTS

- 3.1 Staff and Julia Bonafede of Jobs Peak Advisors presented a due diligence update on UBS.
- 3.2 There were no recommended changes to the Interim Investment Directives for the PERS', Legislators', and Judicial funds.

4. BOARD

- 4.1 Brad Ramirez of The Segal Company presented the results of PERS' Actuarial Experience Study they conducted using actuarial data from July 1, 2012, through June 30, 2016.

PUBLIC COMMENT: Ron Knecht, State Controller, indicated that he wanted to speak to the Board regarding the points mentioned on page 2 of his handout. His points are as follows: (1) the recommended inflation rates of 3.5% and declining to 2.75% are high; 1.75% would be more reasonable; (2) the proposed investment return rate, or discount rate, of 7.5% is optimistic; 5% would be more reasonable; (3) the recommended payroll headcount growth rate of 5.5% for regular members and 6.5% for police/fire members are high; 2% for each class would be more reasonable; (4) the Segal Report does not demonstrate consistency of the recommended demographic assumptions with the MP-2016 rates; it should do so and modify the proposed demographic assumptions and

estimates to be consistent with the MP-2016 rates; (5) the 70%/30% equity/debt asset allocation is risky; it should be revised to 60%/40%; (6) the policies and practices carry significant risks for employees, for the state's credit worthiness, for taxpayers in the broad public interest; this problem would be remedied in part by adopting recommendations 1-5; suggested a study of the intertemporal equities of the funding practices and policies and the incidence of costs and benefits between retirees and late-career employees be prepared; and (7) PERS' policies and practices concerning disclosure of all assumptions, sources, estimates, data, models, inputs and outputs used or relied on by the PERS Board, any actuary or other consultant that the Board retains are severely lacking in candor, transparency, accountability, and fundamental fairness; PERS should practice and require complete candor, transparency and accountability by the Board, its staff, and all parties before the Board. He also directed the Board's attention to pages 13-21 of the State's PAFR, which he included with his handout. He stated that PERS has done an outstanding job in terms of the results PERS has been getting and the way PERS has gotten the results with index oriented management. He thanked the Board for the opportunity to address them.

Yolanda King disclosed that The Segal Company has contracted services with Clark County and performs actuarial studies for Clark County; she stated that will not influence her decision on the vote. After discussion, on motion of Kathy Ong, the Retirement Board voted unanimously of those present to accept the Actuarial Experience Study and adopt the recommended assumptions as prepared by The Segal Company, as submitted.

- 4.2 On motion of Yolanda King, the Retirement Board voted 4 yeas and 2 abstentions to approve the minutes of the Retirement Board Education Session and Retirement Board meeting held September 21, 2017, as submitted. Kathy Ong and Brian Wallace abstained from voting on this item.
- 4.3 There were no recommended changes to the Retirement Board meeting dates.
- 4.4 There were no recommended changes to the Retirement Board Education Curriculum calendar.

5. ACCOUNTING

- 5.1 Staff explained that NRS 286.190(2)(b) states that the Board shall provide for a biennial audit of the System, including the Administrative Fund, by an independent certified public accountant and that PERS performs the audit annually. Staff also indicated that during the 2015 legislative session the statute was updated to require the RFP process every four years and that the same auditor cannot be used in consecutive four-year periods. Because of that the System's current auditor, CliftonLarsonAllen, cannot be considered during this RFP. We are currently in the fifth year of the contract with CliftonLarsonAllen and staff requests the Board authorize staff to conduct an RFP for financial audit services.

On motion of Kathy Ong, the Retirement Board voted unanimously of those present to approve a search for a Certified Public Accounting firm to perform financial audits for the PERS', Legislators', and Judicial funds.

6. ADMINISTRATION

- 6.1 Staff reviewed the annual Human Resources Report for Fiscal Year 2017. After discussion, on motion of Kathy Ong, the Retirement Board voted unanimously of those present to accept the Annual Human Resources Report for Fiscal Year 2017, as submitted.
- 6.2 A confidential Attorney-Client Conference was held to discuss pending litigation in *Nevada Public Employees Retirement System Board v. Jim Ballard*, Supreme Court Case No. 73363, District Court Case No. CV13-02171.
- 6.3 After discussion, on motion of Kathy Ong, the Retirement Board voted unanimously of those present to approve the settlement terms as presented by staff with the caveat that the settlement will not be fully executed and formally approved until the Full and Final Settlement Agreement and Mutual Release is signed by the Executive Officer and/or the General Counsel and Mr. Ballard and/or his attorney.

7. RATIFICATION AGENDA

On motion of Kathy Ong, the Retirement Board voted unanimously of those present to approve all items on the Ratification Agenda as recommended by staff:

- 7.1 Approve the Administrative Fund disbursements.
- 7.2 Approve the personnel action taken since the last report.
- 7.3 Approve the Final Benefit Audit Report for May 2015.
- 7.4 Approve the Final Benefit Audit Report for June 2015.
- 7.5 Approve the Final Benefit Audit Report for July 2015.
- 7.6 Approve the independent contract with Marcia Robinson for an amount not to exceed \$23,500.

8. DENIALS

9. REPORTS

10. PUBLIC COMMENT

10.1 Individual statements and/or requests by the members, retired employees and/or the public:

Priscilla Maloney, representing AFSCME Retirees, stated it was a good discussion today and very much needed. The AFSCME retirees wanted to make one point for the record which is the concern when discussions are not purely policy driven, when there is a philosophical or political point of view hovering in the background and there are different institutions, think tanks on both sides. She said that discussions always seem to come around to one place—we need to do hybrid defined contribution plans. She stated our plan is solid and the Board is willing to look at the plan design and make adjustments as needed. As Controller Knecht pointed out, we have a very well-run plan. She said there is a conscious choice here, a defined benefit plan is what people love in this country and she wanted to get that on the record.

Terri Laird, Executive Director of RPEN, indicated that she agrees with everything Priscilla said. Ms. Laird stated that she agreed with Controller Knecht when he said that PERS has done a good job and he saluted PERS because they have done so well. She said that RPEN concurs with all of those remarks.

10.2 PERS' General Counsel provided an update on pending litigation.

10.3 Administrative Report by Staff:

Operations Officer: 1. The Operations Officer indicated that staff is still recruiting for the nine new positions but that they are almost done.

10.4 There were no comments or questions from the Retirement Board members.

11. ADJOURNMENT

The meeting was adjourned by Chairman Vincent at 2:13 p.m.

The following is the time schedule for the meeting:

The Retirement Board education session held on October 19, 2017, was called to order at 9:42 a.m. by Chairman Vincent and recessed at 11:08 a.m. A confidential Attorney-Client

Conference was held for approximately 15 minutes at 12:00 p.m. The October 19, 2017, Retirement Board meeting was called to order at 12:17 p.m. by Chairman Vincent and adjourned at 2:13 p.m.