Fact Check
Las Vegas Review Journal Editorial
June 24, 2010

The Las Vegas Review Journal published an editorial today calling for further reforms to Nevada PERS. The editorial calls for closure of the pension plan to new hires and bases this conclusion on work performed by a professor at Northwestern University, a New York Times article and reforms enacted in other states.

The Center for Retirement Research at Boston College responded to the New York Times article and Professor Rauh’s research on June 20, 2010, stating in pertinent part:

The article is largely based on an analysis by Associate Professor Joshua Rauh, at Northwestern University, that calculates the unfunded liabilities of pension funds by assuming that assets only get the same rate of return as U.S. Treasury bonds. By contrast, the standard method for calculating liabilities assumes that pension funds earn a real return of 5.0 percent annually, based on the mix of assets they generally hold.

While the article implies that the state's assumption is overly optimistic, in fact it is a very reasonable assumption, given the current ratio of stock prices to trend earnings.

Even with criticisms leveled at Professor Rauh’s methods, it is interesting to note that in Professor Rauh’s published work, Nevada is one of five states projected to never run out of money (along with Alaska, New York, North Carolina and Florida). Rauh, ARE STATE PUBLIC PENSIONS SUSTAINABLE? Why the Federal Government Should Worry About State Pension Liabilities, pages 3 and 27.

The National Association of Retirement Administrators also published a review of Professor Rauh’s work. [Click here—NASRA] to read the full analysis. The conclusion of the review is stated below:

A recent paper [Rauh] uses unrealistic assumptions to exaggerate the financial condition of state and local government employee retirement systems. The author also recommends changes to these programs that would only serve to exacerbate their financial condition. By vastly underestimating states’ projected future contributions to their pension plans and their expected investment returns, the paper draws dramatic and improbable conclusions regarding the plans’ solvency. The paper further ignores reforms already underway in the states that will restore sustainability to a far greater degree, and with far fewer costs and disruptions, than those proffered in the paper.

2009 Nevada Reforms-- Senate Bill 427

The Legislature passed significant reforms to Nevada PERS in 2009. The Legislature raised the retirement age to match the earliest Social Security retirement age; limited the salary for benefit calculation (anti-spiking); reduced the service time multiplier; removed certain early retirement provisions for public safety members; provided a greater penalty for early retirement; capped cost of living adjustments for retirees and accelerated payment on the unfunded liability of the System- when financial conditions improve.