PERS’ Comparative Investment Advantage

In 1817 famed British economist David Ricardo introduced the concept of “comparative advantage.” The underlying principle he put forth was that different entities maintain natural comparative advantages over their potential competition, and each one should seek to capitalize on whatever those advantages are. For instance, it’s far easier to grow pineapples in Hawaii than in Wisconsin. Because of this Ricardo suggests it would be smart for people in Wisconsin to focus on making cheese and let the Hawaiians grow pineapples.

When it comes to retaining qualified employees and funding their retirement benefits, public defined benefit pension funds like Nevada PERS maintain a distinct comparative advantage over alternate approaches. Specifically, our advantage rests in our ability to invest assets over a long term time horizon that encompasses decades, rather than months or years.

In any individual year, statistically we can expect investment returns that range from strongly positive to very negative. However, given a 30+ year time horizon we can construct an investment program that takes these volatile single year returns and turns them into a more predictable long term average.

In fact, this is exactly what PERS has experienced. Since PERS’ investment performance inception in 1984, the program has experienced four years of negative returns, eleven years of returns in excess of 13% and thirteen years of returns that were between those two extremes. PERS’ average annualized return over that entire period has been 9.3%.

The ability to construct an investment portfolio that is measured in decades rather than single years is one of PERS’ greatest comparative advantages. By taking a longer term view compared to the majority of market participants, we are able to capitalize on short term market overreactions.

By adapting the program to long term shifts in the capital markets, and maintaining a long term view as we buy assets at lower prices and sell them at higher prices during periods of volatility, we are able to add value to the program over time. We expect this disciplined, long term approach to continue to serve the system and its members well.
remember that if you pay holiday premium pay for working on a different day than the day observed by the State of Nevada, the additional wages would not be reportable as Holiday Pay. For example, in the event Christmas (December 25th) lands on a Saturday, the State recognized holiday is Friday, December 24th. Therefore, the additional wages for working on Saturday December 25th, would not meet the definition of holiday pay.

If you have any questions regarding eligible wages please contact our Employer Services Division for assistance.

## Contribution Rate Change

The contribution rates are set to change the first full payroll reporting period after July 1, 2013.

The contribution rates for Regular and Police/Fire members contributing under the EPC and Employee/Employer pay plans are scheduled to increase. There will also be an increase in the rate for Volunteer Fire members. All rate changes are effective with the first monthly retirement reporting period beginning on or after July 1, 2013. Each employer will receive a detailed letter explaining the specific date and contribution report to begin the rates for each employee group.

The contribution rates for Regular members under the EPC plan will increase from **23.75%** to **25.75%** and the contribution rate for Regular members under the Employee/Employer plan will increase from **12.25%** to **13.25%**. The contribution rates for Police/Fire members under the EPC plan will increase from **39.75%** to **40.50%** and the contribution rate for Police/Fire members under the Employee/Employer plan will increase from **20.25%** to **20.75%**. A letter was recently sent to each employer detailing the guidelines to implement the contribution rate changes and the adjustment to your EPC compensation schedules. A certification form will be sent to each public employer to document the method in which their EPC compensation schedules are adjusted.

If you have any questions, please contact our office.
Background on Nevada PERS

The 1947 Session of the Nevada Legislature passed the Nevada Retirement Act. This Act created the Nevada Public Employees’ Retirement System and was signed into law on March 27, 1947, by Governor Vail Pittman. The adoption of a retirement program for Nevada’s public employees was influenced by several factors. First, the Nevada Legislature realized that Nevada was one of the few states that did not have an employee pension plan. In addition, the Social Security Administration of the federal government did not allow local government employee participation. Furthermore, the number of retirement plans in private industry was steadily increasing. All of these factors made government employment less attractive in states like Nevada that did not offer pension protection. In contrast, states with established retirement programs had favorable experience meeting their pension plan objectives. These included stabilization of employment conditions by reduction of personnel turnover, making long term employment attractive to persons of proven ability and capacity, improving employee morale with the promise of financial security at retirement, and the removal of “hidden pensioners” from employment. Employees and employers did not actually begin contributing to the system until July 1, 1948, while payments for service retirement and disability retirement started July 1, 1949. Despite the one-year setback from the time contributions began coming into the System until the date benefits were first paid, the Legislature still had to appropriate $75,000 to meet the initial expenses of the system. Since that time, Nevada PERS has grown significantly. In 2010, the system paid roughly $1.36 billion in pension benefits to 46,578 retirees and beneficiaries. Of this amount, over $1.1 billion was paid to residents of Nevada, because the vast majority of Nevada PERS retirees continue to reside in the State of Nevada. The average regular fund benefit was $2,539 per month, or $30,468 per year.

Why are the contribution rates increasing for this coming biennium?

Contributions are based upon the actuarial experience of the plan, both demographic and economic. The Retirement Board adopts assumptions based upon advice from the independent actuary (in accordance with the Nevada Constitution, Article 9, section 3) that help to forecast costs based upon the experience of the plan. The demographic experience and the economic experience of the plan affect the contribution calculation.

As the Great Recession contracted Nevada's economy, the public workforce contracted as well, losing almost 9,000 employees since the highpoint in 2008. Reported public payroll also has contracted—it is projected to be approximately $330 million dollars less than in the last rate-setting year, 2010. On a System-wide basis, the yearly dollar cost of accumulated benefits remains almost identical to the previous biennium within $20 million of previous contribution levels ($1.56 Billion compared to projected $1.58 Billion in contributions), but the shrinking payroll and employee base means fewer employees and a smaller payroll to spread the costs. These basic facts, coupled with the fact the System has had to absorb losses in the investment markets stemming from the economic downturn, translates to higher per person contributions.

It is important to note that the System is valued on the total experience of all employers (180+) and plan participants (98,000 actives and 50,000 retirees) collectively. Individually, some employer payrolls may not have decreased, but those whose payrolls have not decreased have been offset by employers whose payrolls have significantly reduced in employees.
This publication is intended to provide general information.

If there is any conflict between this information and Nevada law or PERS’ policies, the laws and policies will supersede this information.

Employer News is a quarterly newsletter for Employers of the Public Employees’ Retirement System of Nevada.

Comments or suggestions may be directed to: PERS, Newsletter, 693 W. Nye Lane, Carson City, Nevada 89703.