Las Vegas Chamber of Commerce

FISCAL ANALYSIS BRIEF

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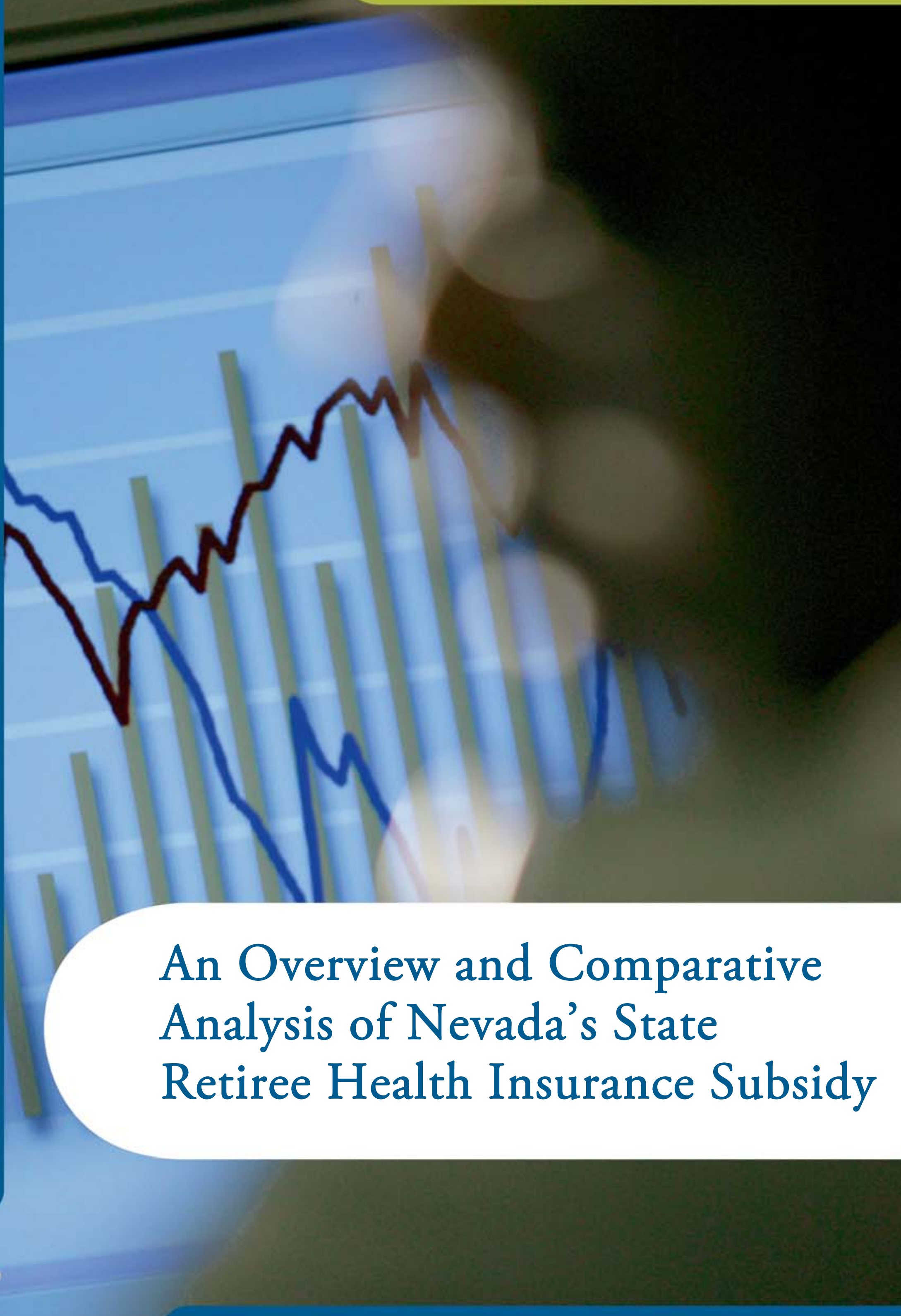

An Overview and Comparative Analysis of Nevada's State Retiree Health Insurance Subsidy

The **Las Vegas Chamber of Commerce** is the largest business organization in the state of Nevada. With more than 7,000 members, the Chamber is committed to building a strong local economy, strengthening, enhancing and protecting business. Since 1911, the Las Vegas Chamber of Commerce has been influencing public policy on behalf of the business community, helping Southern Nevada become a thriving and dynamic marketplace of opportunities.

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An Overview and Comparative Analysis of Nevada's State Retiree Health Insurance Subsidy

Hobbs, Ong & Associates and Applied Analysis were retained by the Las Vegas Chamber of Commerce to review and analyze various state and local fiscal issues. Among the questions presented was how Nevada's Retired Employee Group Insurance subsidy program is structured and compares with such programs in other states. Nevada currently provides a health insurance subsidy benefit to most retired state workers and their families. The Retired Employee Group Insurance subsidy is administered by the Public Employees Benefit Program (PEBP).

As health care costs rise and people live longer lives, the cost of subsidizing health insurance for retired employees in both private and public sectors has attracted considerable interest. This ranges from media coverage of labor issues in the auto industry to reports of unfunded liabilities of governmental entities.[1] Financing this growing cost has also been the subject of proposals by the last two Nevada Governors followed by discussion in the Nevada State Legislature.[2] While Nevada's challenge in subsidizing health insurance for its retirees has been the major catalyst for public debate, that dialogue is but one element of a larger landscape including soon-to-be-implemented financial reporting requirements for "other post-employment benefits" (OPEB) and unfunded liabilities of Nevada's local governments, influenced in large part by past decisions of the Legislature.

This fiscal analysis brief overviews Nevada's Retired Employee Group Insurance subsidy, focusing on the state's program and its unfunded liability. This report includes treatment of the origin and currently estimated magnitude of these obligations as well as recent changes in accounting rules bearing upon retiree health insurance subsidies.

Although local governments have some similar issues, the vast majority of the current and potential future liability for retiree health care subsidies lies with the state as opposed to local governments. Local governments' current subsidy liabilities are almost exclusively the result of a 2003 law enacted by the Nevada State Legislature that allowed local employees to unilaterally enroll in such a program. This law was essentially reversed in 2007. As such, the longer-run issues with the program are concentrated at the state level – this analysis focuses there.

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[1] *See*, The Pew Center on the States, *Promises with a Price, Public Sector Retirement Benefits*. December 18, 2007, page 40 – 54.

[2] *See*, State of the State Address, Governor Kenny Guinn, January 24, 2005; *see also*, Senate Bill 484 2005 session, 2007 Legislative Appropriations Report, page 347, and Senate Bill 547, 2007 session.

Hobbs, Ong & Associates, Inc.

Applied Analysis

September 2008

Findings in Summary

Retiree health insurance subsidy for Nevada's state employees began in the 1970's and is currently administered by the Public Employees' Benefit Program agency. PEBP is overseen by a nine member board appointed by the Governor and subject to laws enacted by the Nevada Legislature.[3] PEBP and its board are not part of the Nevada Public Employees' Retirement System (PERS), which administers retirement pensions. In addition to being organizationally separate, PEBP's Retired Employee Group Insurance program differs markedly in its funding. Unlike the Public Employees' Retirement System pension, which is actuarially funded, PEBP's state retiree health insurance subsidies are not. These long-term unfunded liabilities to the state have recently been estimated at up to $4.0 billion, depending on investment assumptions used in the calculation.[4] This liability is the value of the benefits, as they exist today, for retirees, both currently retired and active employees expected to retire. The majority of this liability (80 percent) is for the currently active employees (future retirees).[5] New accounting rules require that fiscal year 2008 financial statements disclose these liabilities for the first time.

Unless action is taken to significantly redesign the state's Retired Employee Group Insurance subsidy program, or to devise a viable pre-funding mechanism, this liability can only be expected to grow as the state's workforce increases, retired workers live longer and medical costs rise over time. Nevada's Annual Required Contribution needed to make the system whole (i.e., fully funded) in 30 years is currently $287 million.[6] In FY 2008, the state funded only $33.4 million for the current year subsidy owed to current retirees plus only $19.7 million toward the unfunded liability.[7]

Notably this modest effort to begin addressing the state's unfunded health insurance benefit liability has now been suspended as part of the state's budget reductions. As part of budget preparations for fiscal years 2010 and 2011, the PEBP board has recently considered some potential cost reductions, including shifting a greater portion of the cost to participants.[8] These potential mitigating

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[3] *See,* NRS 287.041.

[4] The Pew Center on the States, *Promises with a Price, Public Sector Retirement Benefits*. December 18, 2007, page 40, or Nevada Public Employee's Benefit Program's Retiree Health and Life Insurance Plans Actuarial Report for GASB OPEB Valuation – Final. Aon Consulting, June 30, 2008, page 4, see http://www.pebp.state.nv.us/informed/financial.htm.

[5] Nevada Public Employees' Benefit Program's Retiree Health and Life Insurance Plans Actuarial Report for GASB OPEB Valuation – Final. Aon Consulting, June 30, 2008, page 4, see http://www.pebp.state.nv.us/informed/financial.htm.

[6] *Id.*

[7] *Id*, page 1, and Nevada Legislative Counsel Bureau Budget Account Detail, Special Purpose Agencies, page 40-42 of 143 Part A, 2007 Legislative Session.

[8] *See*, Public Employees' Benefits Program website, Budget Update page, Budget Reduction Decision Unit, September 9, 2008, pages 6-8, http://www.pebp.state.nv.us/informed/informed.htm. 2009-11 and Supplemental Material,

measures notwithstanding, the state currently provides an average annual base subsidy of $4,925 to retired workers and their families and has promised the same to the 26,346 active state workers who will retire in the future and could be eligible for the program as it currently exists.[9]

Importantly, the condition in Nevada, concerning as it may be, is more the rule than the exception. In a 2007 survey of state health benefit programs only 6 of 41 reporting states fully funded their required annual contributions.[10] That said, funding only 15 percent of annual requirement ranked Nevada third lowest among reporting states.[11]

There is increasing concern that a failure to address this issue will simply postpone a mounting liability that will materially affect state government's ability to provide core services. To fully fund the program over a 30-year period, Nevada needed to make a payment of $287 million in 2008. Had it done this, an additional $234 million would have had to have been reduced from other state programs. Assuming all other conditions remain unchanged, failing to make this payment means that the revised liability in 2009 will simply be higher.

Nevada's relative youth and rapid pace of growth have thus far insulated the state from the visible negative impacts of this precarious fiscal policy. Nevada is in the envious position of being able to learn from the mistakes of other entities and enact corrective measures. If it does not, it is difficult to construct a scenario in which funding public employee health benefits that have come due does not have material, negative impacts on essential state services.

August 7, 2008 Board Meeting. Public Employees' Benefits Program, page 14, http://www.pebp.state.nv.us/informed/boardmeet.htm.

[9] *See*, Public Employees' Benefits Program, Presentation to the Joint Ways and Means and Senate Finance Subcommittee, January 24, 2007, Exhibit G, page 34 for recommended 15 years' service subsidy amount for FY09. See Nevada Public Employees' Benefits Program's Retiree Health and Life Insurance Plans Actuarial Report for GASB OPEB Valuation – Final. Aon Consulting, June 30, 2008, page 16, (http://www.pebp.state.nv.us/informed/financial.htm) for active employee figure. For verification of current 15 year subsidy amount see also PEBP FY09 Rate Tables, www.pebp.state.nv.us/plans/rates.htm. Note also that the average annual subsidy may be higher as the base subsidy is based on 15 years of service. The average retiree may have more than 15 years and thus receive a higher subsidy; likewise, those with less years of service would receive a lower subsidy. Additionally, non-Medicare retiree claims cost are commingled with employee claims costs resulting in an implied subsidy.

[10] The Pew Center on the States, *Promises with a Price, Public Sector Retirement Benefits*. December 18, 2007, page 51.

[11] *Id.*

Retiree Health Care Subsidies

The state of Nevada currently subsidizes the health care cost for its retirees and their families. The current amount of the health subsidy is based on years of service. The Legislature sets the "base" amount which applies to 15 years service, and the amounts for other years on the scale provided below are calculated by either adding or deducting 7.5 percent for each year above or below 15. The resulting monthly subsidy costs per retiree for FY 2009 are as follows.

Years of Service	Monthly Subsidy	Years of Service	Monthly Subsidy
5	$102.62	13	$348.91
6	$133.41	14	$379.69
7	$164.19	15	$410.48
8	$194.98	16	$441.27
9	$225.76	17	$472.05
10	$256.55	18	$502.84
11	$287.34	19	$533.62
12	$318.12	20 or more	$564.41

In order to finance the annual cost of these subsidies, an assessment is charged against the state's current payroll. For FY 2009, the assessment was estimated in the Legislatively approved budget at 4.5 percent.[12] The money thus collected by the program is used to subsidize premiums for retirees, spouses, and dependents in amounts which vary based on the insurance plan and deductible level selected by the retiree, on the composition of the insured household and on whether the insured are Medicare eligible (generally age 65 or older).

For FY 2008 and FY 2009, the Legislature approved a subsidy structure that, on average, is intended to provide 73 percent of the premium cost for the retiree and 51 percent of the cost for dependents in the high deductible PPO plan. For

[12] 2007 Nevada Legislative Appropriations Report, published by the Legislative Counsel Bureau in October 2007, page 347.

those in the lower deductible and HMO plans the subsidy is targeted to provide 67 percent of the retiree's cost and 45 percent for dependents. Overall, the funding is intended to provide an average of 59 percent of the cost of premiums for all program participants including retirees and dependents.[13] To illustrate the effect of this approach, some examples of premiums and subsidies are shown in Exhibit I for retirees with 5, 10, 17 and 20 years service.

Public Health Insurance Subsidies, Nevada and Nationally

As reported by the Government Accountability Office to the United States Senate, most states and local governments already have strategies in place to manage and fund retiree pensions, but few have any long-term funding system in place for retiree health insurance subsidies.[14] This is also the case in Nevada, as the Constitution protects retirement pensions as trust funds, and the Nevada Revised Statutes provide for long-term management and actuarial funding for pensions expressed and paid as a percentage of salary.[15] However, despite the fact that retiree health insurance covers a similar population, subject to similar likelihoods for eligibility and human longevity, no such funding system is in operation for the state of Nevada's retiree health insurance subsidies.

Many governments, including the State of Nevada and some of its political subdivisions, subsidize retirees' health insurance costs. Retirements and growth in the workforce have created significant unfunded liabilities for future payments of tax dollars. Until now, governments were not required to even account for, let alone actually fund these future obligations. Instead, governments have been allowed to budget only the "pay-as-you-go" premium cost in the current year, effectively disregarding both previously accumulated and currently accumulating unfunded liabilities.

The problem arises when an employer promises future monetary benefit to employees upon retirement, but sets no money aside during the employee's active working career to fund that benefit when it comes due. In every workforce, there is an average likelihood of working to retirement and an average longevity past retirement, each factor contributing to the public employer's long-term liability. Pension administrators long ago learned that money needs to be set aside during an employee's working career to ensure

[13] *Id*, page 348.

[14] Highlights, State and Local Government Retiree Benefits, Report to the Committee on Finance, U.S. Senate, Government Accountability Office, September 2007.

[15] Article 9, Section 2, Nevada Constitution and Nevada Revised Statutes Chapter 286.

adequacy of pension funding in the future.[16] However, the history of retiree health insurance subsidies has generally been that most employers have not provided adequate pre-funding for retiree health insurance. Such subsidies by major private corporations in past decades are today adversely affecting the viability of those same corporations.[17] More recently, some governments have fallen into crisis by enacting retiree benefits without appropriately funding them. The City of San Diego is a prominent example.[18]

The state of Nevada established a program of health insurance subsidies for its retirees in the late 1970's. In 1979, a modest appropriation for subsidizing the cost of health insurance for state retirees appeared in the Legislative Appropriations Report.[19] As of June 30, 2008, 6,542 state retirees now receive subsidy benefits.[20] Like most such programs in other states, funding for Nevada's program has been based only on what was needed to pay the state's share of current retiree premiums coming due in the current year, not recognizing the rapid accumulation of unfunded obligations every day its active employees are at work.[21] Please see Exhibits II and III, which depict the Annual Required Contribution for 41 reporting states and the share of those contributions actually made in 2006.

Unlike the separate Nevada Public Employees Retirement System where, for each dollar of salary paid, a specific percentage (now 20.5 percent for regular employees and 33.5 percent for public safety employees) is deposited to a constitutional trust to fund pension obligations, Nevada's retiree health insurance subsidy program is treated merely as an annual operating cost without an ongoing provision for structured pre-funding of subsidies coming due in future years. Also unlike PERS, the state's retiree health insurance subsidy is declared by statute to not be an inherent right for employees and retirees.[22]

This fiscal brief focuses on the state's liability. To a lesser extent local governments also have liabilities, generated in large part by a 2003 state law that allowed local government retirees to unilaterally enroll in the state's retiree subsidy program, thereby creating a liability for their former local government

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16 *See*, The Pew Center on the States, *Promises with a Price, Public Sector Retirement Benefits*. December 18, 2007.

17 *See*, "Bankrupt Nation", washingtonpost.com, Phillip Longman, June 15, 2008; *see also* "2006 Annual Report", Ford Motor Company, March 7, 2007.

18 State and Local Government Retiree Benefits, Report to the Committee on Finance, U.S. Senate, Government Accountability Office, page 35, September 2007.

19 1979 Legislative Appropriations Report, page 124.

20 Nevada Public Employees' Benefit Program's Retiree Health and Life Insurance Plans Actuarial Report for GASB OPEB Valuation – Final. Aon Consulting, June 30, 2008, page 16, see http://www.pebp.state.nv.us/informed/financial.htm.

21 The Pew Center on the States, *Promises with a Price, Public Sector Retirement Benefits*. December 18, 2007, page 51.

22 NRS 287.0485 Statutes of Nevada 2007.

employer regardless of whether that employer offered or provided this benefit. This mandate has now been repealed. As a result of Senate Bill 544, passed during the 2007 legislative session, non-state employees (which includes most police, firefighters, and teachers) retiring after September 1, 2008 can no longer join PEBP, unless their last local government employer participates in PEBP with its active employees.[23] Therefore, local governments are no longer mandated by law to provide this benefit for those retiring after September 1, 2008. This repeal, coupled with the fact that local governments were not required to pay for this benefit prior to 2003, means that local governments and school districts may be able to limit their liability. There is evidence that collective bargaining units have already pressed school districts and local government employers to extend this benefit to their respective constituencies as a benefit enhancement. However, the state, with its subsidy still in effect after four decades, remains far more exposed.

New Government Accounting Standards and the Status of Unfunded Liabilities

Effective for fiscal year 2008, the State of Nevada and large local governments are required by the Governmental Accounting Standards Board (GASB) to account for the true cost of retiree health insurance either by (1) making annual payments to a trust in an amount representing the liability accumulated in the current year plus an amount to retire the previously accumulated liability in no more than 30 years (the Annual Required Contribution or "ARC"), (2) recording the entire liability in a combination of their financial statements and footnotes thereto, or (3) a combination of (1) and (2) if only part of the ARC is paid.[24] Compliance with GASB rules is critical as entities failing to issue financial statements in accordance with these rules may receive adverse audit findings, potentially impacting bond ratings and generating justifiable public concern over the management of tax dollars. Therefore, non-compliance is not a viable option.

The Actuarial Report for GASB OPEB Valuation as of June 30, 2008, reports the Nevada present value of future retiree health insurance subsidies for Nevada's Retired Employee Group Insurance program as $4 billion.[25] In other words, this amount, if now invested in lump sum at four percent annually, is estimated to be sufficient to pay the future cost of health insurance subsidies for the state's

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[23] *See*, Public Employees' Benefit Program website, Legislative Update page, http://www.pebp.state.nv.us/informed/straight.htm.

[24] Governmental Accounting Standards Board Statements 43 and 45.

[25] Nevada Public Employees' Benefit Program's Retiree Health and Life Insurance Plans Actuarial Report for GASB OPEB Valuation – Final. Aon Consulting, June 30, 2008, page 4, see http://www.pebp.state.nv.us/informed/financial.htm.

current retirees and for those in the present workforce when they retire. If this liability were funded on an annual basis rather than by lump sum, the actuarially sufficient yearly payment (again, the annual required contribution or ARC) would be $287 million assuming four-percent interest or $175 million assuming eight-percent interest.[26] Regardless of whether it would be funded in a lump sum or annually, or what rate is earned on investments, this unfunded liability has accumulated because money has not been set aside to pre-fund these future obligations as they have accrued over the last three decades.

The next logical question to ask is: *what is the status of financing this unfunded liability in Nevada?* Today, the state is not financing this unfunded liability. Rather than pay the Annual Required Contribution of $287 million, the state will pay approximately $44 million in FY 2009,[27] representing only the current year cash cost of premium subsidies for present retirees and actually a lesser amount than that paid in FY 2008, due to the fact that in FY 2008 there was a contribution made as part of a prefunding effort. Stated otherwise, virtually no money has been set aside for future benefits for either present retirees or current employees who will later retire and be eligible for subsidies under current law. Worth noting, Nevada's percentage contribution in 2006 was only 15 percent of the state's Annual Required Contribution, the third lowest contribution rate in the nation.

It is also worth noting that for the first time since the PEBP program started in the 1970's, the 2007 Legislature earmarked $25 million annually for pre-funding, a small amount compared to the Annual Required Contribution. However, the June 30, 2008 actuarial valuation points out that only $19.7 million was contributed beyond the immediate pay-as-you-go requirement and that this minimal prefunding effort was eliminated for FY 2009 largely due to the state's budget reductions.[28] As release of the audited financial statements for FY 2008 by the State Controller is still pending, some adjustments to the amount of FY 2008 contributions may take place. That said, it is clear that the state recognized the problem, intended to commence prefunding, and has now abandoned any such efforts. To further illustrate the magnitude of shortfall in the state's funding of this program, $44 million represents less than 3.0 percent of covered payroll while the Actuarial Report estimates that a payroll

[26] *Id,* pages 4 and 12.
[27] *Id,* page 5.
[28] "Projected General Fund Shortfall". Worksheet by Nevada Department of Administration, April 9, 2008 and Nevada Public Employees' Benefit Program's Retiree Health and Life Insurance Plans Actuarial Report for GASB OPEB Valuation – Final. Aon Consulting, June 30, 2008, page 1, see http://www.pebp.state.nv.us/informed/financial.htm.

assessment of 18.9 percent would be required to meet the Annual Required Contribution.[29]

Options for Managing the Unfunded Liability for Retiree Health Insurance Subsidies

As part of budget preparations for fiscal years 2010 and 2011, the PEBP board has recently considered shifting a greater portion of the cost to participants. The savings from this prospective proposal are projected to be $3.8 million in FY 2010 and $4.2 million in FY 2011, with more significant benefits likely to inure to the state over the longer run depending on which, if any, prospective changes are enacted.[30] These and other measures applicable mainly to current employees, which would require Legislative approval, would help curtail the growth in annual cash cost and the rate at which the unfunded liability grows in the future. However, taken alone, they would not address the overriding lack of an actuarially sound funding system for the program.

Exhibit IV depicts the projected cost to the state for retiree health benefits if the pay-as-you-go method is continued, as well as projected costs under a number of scenarios assuming various benefit reduction alternatives.[31] For example, assuming the state continues to pay as it goes and the current benefit and subsidy structure remains in place, the projected cost in 2038 would be $600 million per year for retiree benefits alone. In 2018, only ten years from today, the projected yearly cost is nearly $150 million per year (compared to under $50 million today). These projections were presented to the Nevada State Legislature in a presentation by PEBP to the Joint Ways and Means and Senate Finance Subcommittee in early 2007. According to the presentation, the information provided was intended to be directional and was based on March 2005 data (the latest available at the time this fiscal brief was drafted). While the figures may be somewhat different today, the order of magnitude of the escalation and the program's current and future impacts are clear. Moreover, the presentation document also provides a meaningful look at the impact of various program changes.

Exhibit V, which also appeared in the PEBP presentation to the Legislature in early 2007, projects the cost of funding the ARC on a pay-as-you-go plan, that is, the amount of money that actuaries calculate the employer needs to

[29] Nevada Public Employees' Benefit Program's Retiree Health and Life Insurance Plans Actuarial Report for GASB OPEB Valuation – Final. Aon Consulting, June 30, 2008, page 6, see http://www.pebp.state.nv.us/informed/financial.htm.

[30] Supplemental Material, August 7, 2008 Board Meeting. Public Employees' Benefits Program, page 14, http://www.pebp.state.nv.us/informed/boardmeet.htm.

[31] *See*, Public Employees' Benefits Program, Presentation to the Joint Ways and Means and Senate Finance Subcommittee, January 24, 2007, Exhibit G, page 47.

contribute to the plan during the current year for benefits to be fully funded by the end of an amortization period, which is currently calculated at 30 years (the maximum period allowed under GASB 43 and 45).[32] As mentioned, the ARC was calculated to be $287 million in FY 2008. By 2038, the ARC is projected to be more than $2.5 billion annually, if the current benefit and subsidy structure remain relative to where they currently stand. Like Exhibit IV, Exhibit V also shows projections given a variety of benefit modification scenarios and the ensuing program cost reductions.

Notably, the modifications to the state's subsidy of retired employee health care illustrated in Exhibits IV and V still provide that the retiree may participate in the group health plan alongside current employees. This opportunity to participate in a group plan with a large contingent of younger individuals is still a significant benefit in and of itself, particularly if a person has health issues that may preclude him or her from obtaining reasonable individual insurance coverage.

In addition to the medical consumer price index (the medical CPI) and insurance plan design, both of which also determine costs for active employees, exposure to retiree medical cost arises from: (1) eligibility conditions; (2) the amount of subsidy paid by the public employer; (3) the duration over which the subsidy is paid; and (4) the assignment of responsibility for payment. Nevada's current approach to each of these factors, all subject to control by the Legislature, is relatively permissive. Eligibility is open to state retirees who meet the years-of-service and, if applicable, age requirements. Eligible retirees could receive a subsidy with as little as five years of service. There is no age restriction other than that which may be imposed by the requirement that beneficiaries must be receiving a Nevada PERS pension (PERS is administered separately from PEBP). It is estimated that 90 percent of eligible employees will participate in the program.[33]

The amount of subsidy is set by the Legislature, and there is no lifetime cap on the subsidy. It is also worth noting that employees do not contribute to the fund from which subsidies are paid. Although many combinations of insurance plan, length of service and household composition result in retirees paying a portion of their premium after retirement, there are some combinations which result in the subsidy paying the entire premium so that the employee contributes nothing either while working or after retirement.

In 2005, Governor Guinn proposed prospective elimination of this subsidy for new state hires, but that proposal was not adopted despite an estimate at that

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[32] *Id*, page 49.

[33] Nevada Public Employees' Benefit Program's Retiree Health and Life Insurance Plans Actuarial Report for GASB OPEB Valuation – Final. Aon Consulting, June 30, 2008, page 1, see http://www.pebp.state.nv.us/informed/financial.htm.

time by staff of the Public Employees Benefit Program that prospective repeal could avoid $500 million in cost over 30 years.[34] Some possibilities that have been considered in Nevada or by other states for reducing future costs include prospectively eliminating the option entirely; reducing the amount of subsidy by changing its calculation method or establishing a lifetime total; requiring employee contributions; reducing the duration of the subsidy through a fixed cap on time or by imposing age restrictions to reduce the average time between commencement of the subsidy and Medicare eligibility, which reduces the cost of non-Medicare insurance; or changing to a defined-contribution approach.

While exercising any of the above options or taking other action to govern the long-term costs of these subsidies will be challenging, given that the unfunded liability under current assumptions exceeds the state's annual general fund appropriations, it appears evident that taking no action would be a particularly tenuous policy decision.

Methodology

This analysis is based on data obtained from several sources. Comparative information for the nation was obtained mainly from the Pew Center on the States report on public sector retirement benefits published in December 2007.[35] Premium rate information, state subsidy amounts, and data regarding health plans offered were obtained from Nevada PEBP.[36] Information regarding current legislation, as well as audited and unaudited financial information, is also available on the PEBP website.

Actuarial information, as well as other current statistics, was obtained mainly from the Nevada Public Employees' Benefit Program's Retiree Health and Life Insurance Plans Actuarial Report for GASB OPEB Valuation, for the fiscal year ending June 30, 2008, prepared by Aon Consulting.[37]

Additional information referenced throughout this analysis regarding legislative discussion involving retiree health benefits was obtained from a variety of fiscal notes, committee minutes, presentations and other documents, which are

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[34] Senate Bill 484 Fiscal Note, James Wells, Accounting Officer. Public Employees Benefit Plan, March 30, 2005. Note: Legislative fiscal notes are typically prepared within a five day time limitation and it is unlikely that detailed and current actuarial information was available at the time this fiscal note was prepared.

[35] The Pew Center on the States, *Promises with a Price, Public Sector Retirement Benefits*. December 18, 2007.

[36] *See*, http://www.pebp.state.nv.us/index.htm.

[37] Nevada Public Employees' Benefit Program's Retiree Health and Life Insurance Plans Actuarial Report for GASB OPEB Valuation – Final. Aon Consulting, June 30, 2008, see http://www.pebp.state.nv.us/informed/financial.htm.

available either through the Nevada Legislature's website or at the Legislative Counsel Bureau Research Library in Carson City, Nevada.[38]

Analysis Limitations

As with any analysis, there are important limitations that must be considered when drawing conclusions from the data utilized. Primary among these are comparability and completeness issues. In making comparisons nationwide, it is important to note that no two public employee benefit plans are exactly alike in terms of benefits and health plans offered, subsidization of premiums or lack thereof, or group characteristics which affects actuarial risk, among other factors.

Additionally, reported data are not always complete. For example, the analysis prepared by the Pew Center on the States regarding ARC versus actual payments contained data for 41 states, which represents the vast majority, but it is not a census. Additionally, some analysis was based on reports and presentations by and for the Nevada Legislature. Most data was corroborated by information in the available financial statements and the most recent actuarial valuation report, but not all information could be compared to similar data from other sources and some differences in figures were noted.

It is also important to note that this is a single analysis addressing a single issue. It is not intended to be comprehensive nor are the underlying data appropriate for all purposes.

[38] *See,* Nevada Legislature's website and online law library, http://leg.state.nv.us/Law1.cfm.

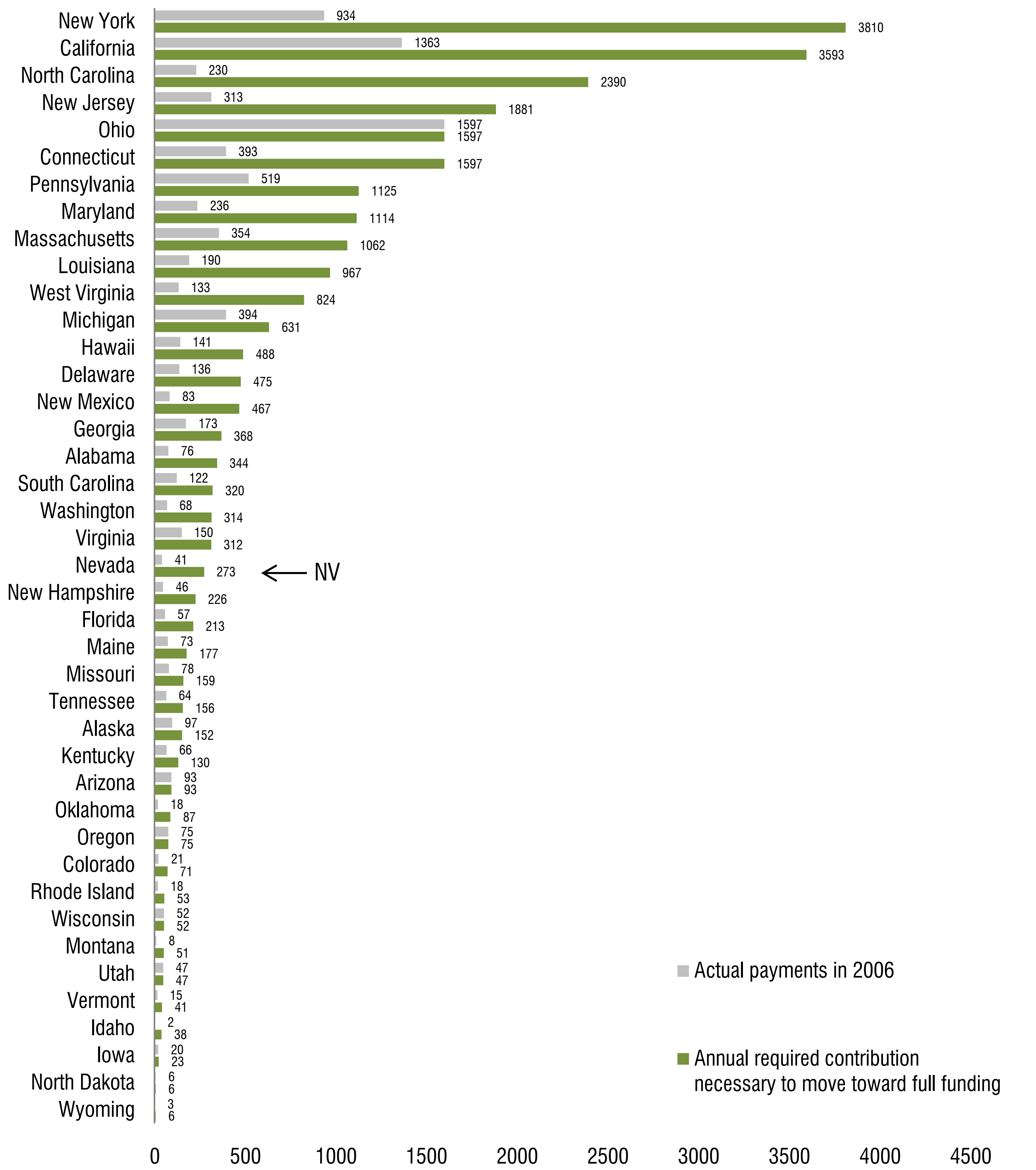
Exhibit I: Example Premiums and Subsidies Based on Years of Service
PLAN YEAR 2009

	High Deductible PPO			Low Deductible PPO			Northern HMO			Southern HMO		
	Premium	State Subsidy	Retiree Pays	Premium	State Subsidy	Retiree Pays	Premium	State Subsidy	Retiree Pays	Premium	State Subsidy	Retiree Pays
5 Years Service												
Non-Medicare												
Retiree Only	488.06	48.42	439.64	545.98	57.95	488.03	531.42	48.19	483.23	328.33	0.00	328.33
Retiree & Spouse	1,141.90	381.88	760.02	1,280.18	388.34	891.84	1,196.51	347.48	849.03	670.54	66.12	604.42
Medicare												
Retiree Only	258.98	0.00	258.98	284.05	0.00	284.05	263.98	0.00	263.98	188.59	0.00	188.59
Retiree & Spouse	604.02	94.71	509.31	663.42	87.08	576.34	595.23	51.98	543.25	385.58	0.00	385.58
10 Years Service												
Non-Medicare												
Retiree Only	488.06	202.35	285.71	545.98	211.88	334.10	531.42	202.12	329.30	328.33	66.05	262.28
Retiree & Spouse	1,141.90	535.81	606.09	1,280.18	542.27	737.91	1,196.51	501.41	695.10	670.54	220.05	450.49
Medicare												
Retiree Only	258.98	57.23	201.75	284.05	56.67	227.38	263.98	43.22	220.76	188.59	0.00	188.59
Retiree & Spouse	604.02	248.64	355.38	663.42	241.01	422.41	595.23	205.91	389.32	385.58	94.98	290.60
17 Years Service												
Non-Medicare												
Retiree Only	488.06	417.85	70.21	545.98	427.38	118.60	531.42	417.62	113.80	328.33	281.55	46.78
Retiree & Spouse	1,141.90	751.31	390.59	1,280.18	757.77	522.41	1,196.51	716.91	479.60	670.54	435.55	234.99
Medicare												
Retiree Only	258.98	258.98	0.00	284.05	272.17	11.88	263.98	258.72	5.26	188.59	188.59	0.00
Retiree & Spouse	604.02	464.14	139.88	663.42	456.51	206.91	595.23	421.41	173.82	385.58	310.48	75.10
20 Years Service or More												
Non-Medicare												
Retiree Only	488.06	488.06	0.00	545.98	519.74	26.24	531.42	509.98	21.44	328.33	328.33	0.00
Retiree & Spouse	1,141.90	843.67	298.23	1,280.18	850.13	430.05	1,196.51	809.27	387.24	670.54	527.91	142.63
Medicare												
Retiree Only	258.98	258.98	0.00	284.05	284.05	0.00	263.98	263.98	0.00	188.59	188.59	0.00
Retiree & Spouse	604.02	556.50	47.52	663.42	548.87	114.55	595.23	513.77	81.46	385.58	385.58	0.00

Source: Prepared by Applied Analysis and Hobbs, Ong & Associates based on public employees' rate tables at www.pebp.state.nv.us-py09rates.
Note: Where state subsidies allowable under NRS 287 exceed the cost of plan selected by the retiree, such subsidies are shown here as equal to plan cost. Any excess between allowable subsidy based on years of service over the cost of plan selected is credited back to the Public Employees' Benefit Program.

Prepared by:
Applied Analysis and
Hobbs, Ong and Associates

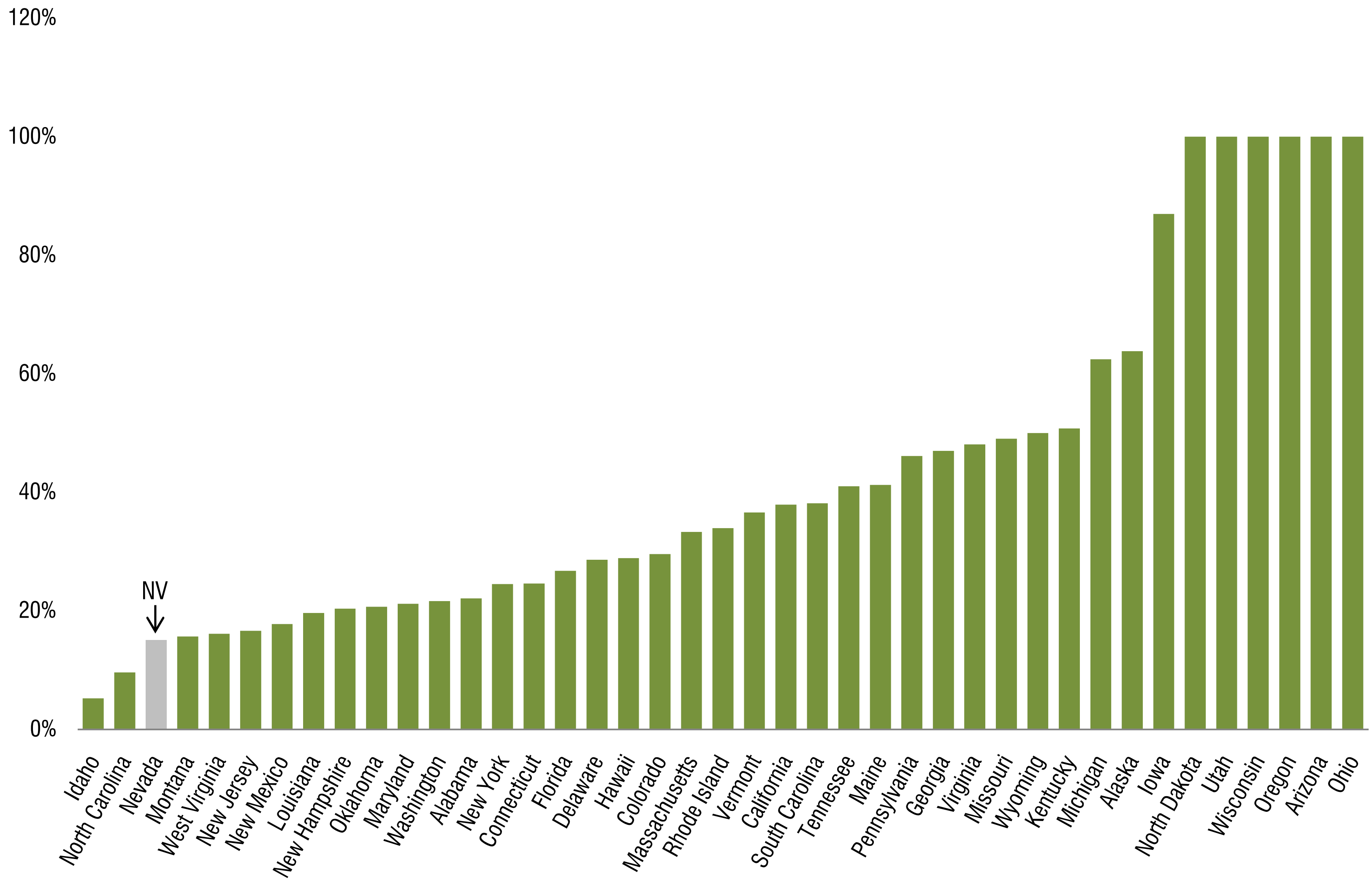
Exhibit II:
Comparison of Annual Required Contribution (ARC) and Actual Payment for Public Employee Health Benefit Systems



Source: The Pew Center on the States, *Promises with a Price, Public Sector Retirement Benefits*. December 18, 2007.

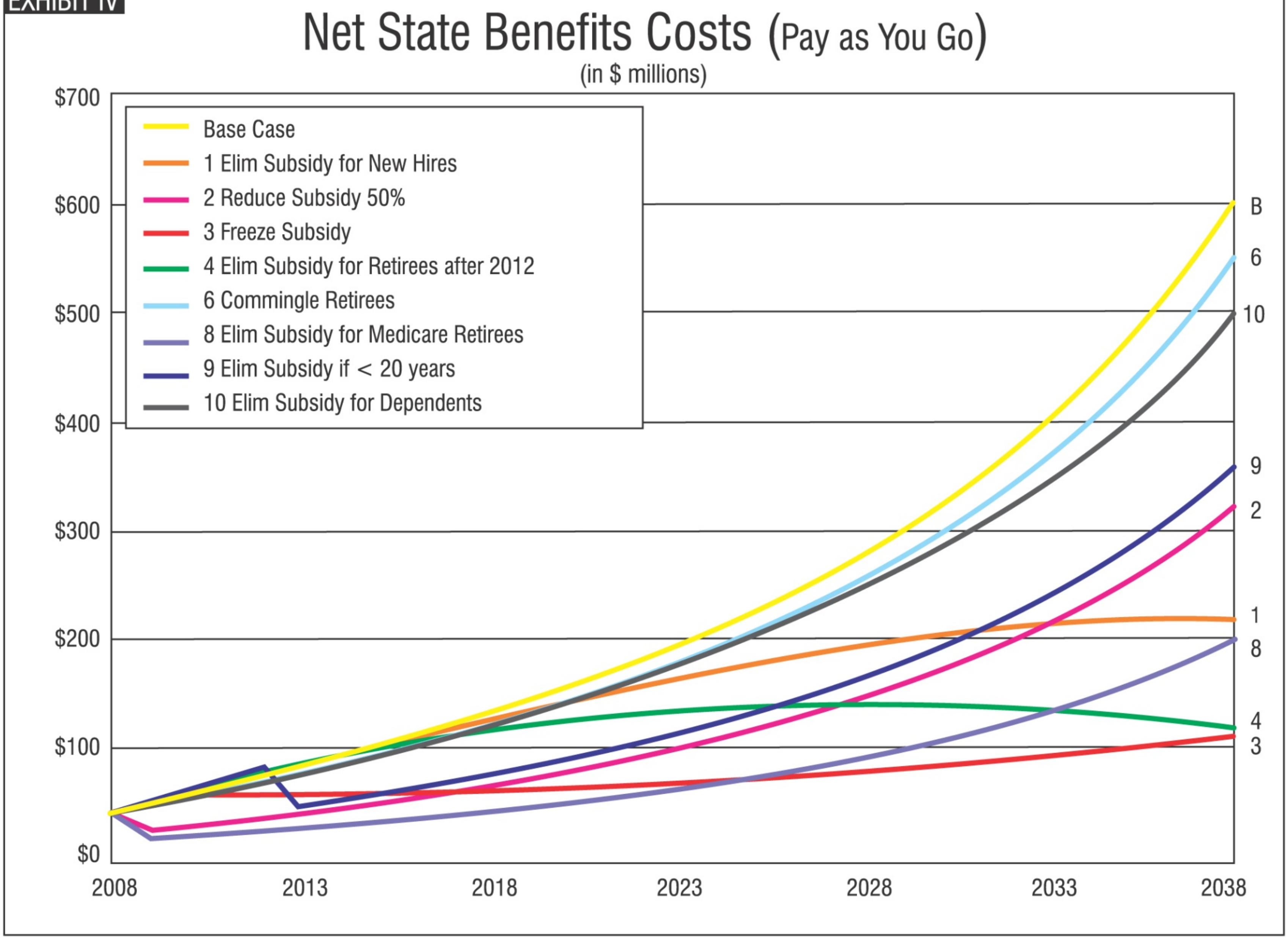
Prepared by:
Applied Analysis and
Hobbs, Ong and Associates

Exhibit III:
2006 Health Benefit Contributions as a Percentage of Annual Required Contribution (ARC)



Source: The Pew Center on the States, *Promises with a Price, Public Sector Retirement Benefits*. December 18, 2007.

EXHIBIT IV



Source: Exhibits IV and V are taken directly from the Public Employees' Benefits Program's Presentation to the Joint Ways and Means and Senate Finance Subcommittee on January 24, 2007, Exhibit G, pages 47 and 49. The presentation indicated that the projections are based on March 2005 data and are intended to be directional only. PEBP noted that a reduction in benefits may affect recruitment and retention. Also, PEBP noted that medical inflation will exceed CPI for an unknown length of time. Note that the base case assumes current benefit and subsidy structure.

Prepared by:
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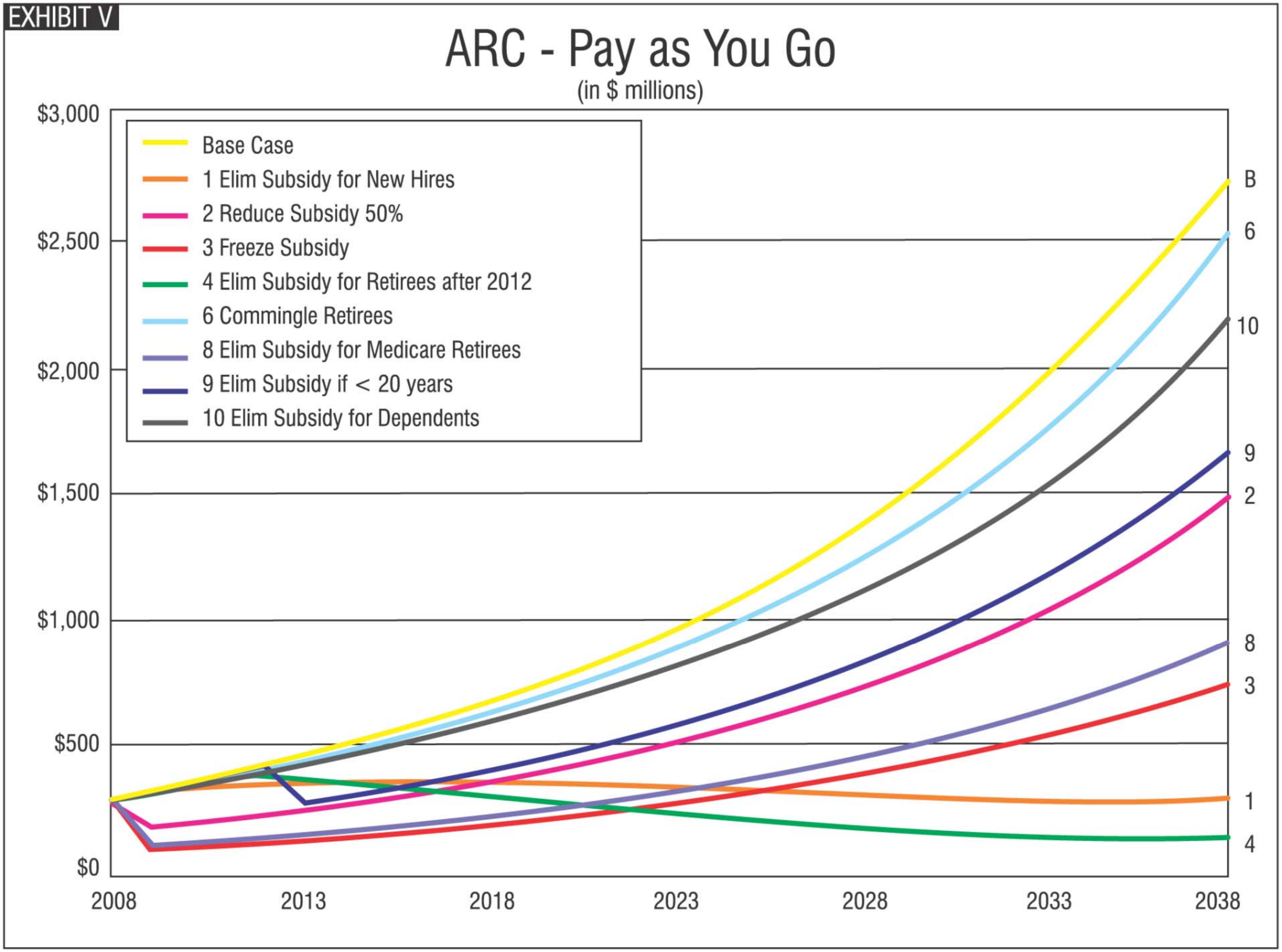
EXHIBIT V



Source: Exhibits IV and V are taken directly from the Public Employees' Benefits Program's Presentation to the Joint Ways and Means and Senate Finance Subcommittee on January 24, 2007, Exhibit G, pages 47 and 49. The presentation indicated that the projections are based on March 2005 data and are intended to be directional only. PEBP noted that a reduction in benefits may affect recruitment and retention. Also, PEBP noted that medical inflation will exceed CPI for an unknown length of time. Note that the base case assumes current benefit and subsidy structure.

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