The Nevada Policy Research Institute

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Contact Victor Joecks
(702) 222-0642

PERS' unfunded liability exceeds $40 billion, PERS is only 34 percent funded, says new NPRI study

LAS VEGAS — When examined, the fiscal health of Nevada's Public Employees' Retirement System is in far worse shape than its administrators have led lawmakers, the public and state workers to believe, asserts a new white paper from the Nevada Policy Research Institute.

The study, "Reforming Nevada's Public Employees Pension Plan," was authored by Andrew G. Biggs, a resident scholar with the American Enterprise Institute and nationally recognized public-pension expert. Using a fair-market valuation, the approach endorsed by the vast majority of professional economists, the paper shows that PERS' unfunded liability is over $40 billion and the current system has only 34 percent of the funding needed to meet its future obligations.

"While even PERS acknowledges that Nevada's pension system is underfunded, this study shows how severe the crisis has become," said Geoffrey Lawrence, NPRI's deputy policy director. "When PERS administrators claim it is funded at 70 percent, they are assuming a highly unlikely, risk-free 8 percent rate of return to meet future obligations.

"No investment is risk-free, and any investment portfolio that is expected to earn 8 percent in perpetuity carries a significant amount of risk. In its current evaluations, PERS does not account for that risk and, as a result, significantly underreports its unfunded liabilities.

"Without reforms, annual contributions to cover future pension obligations need to rise from $1.6 billion a year to around $5.8 billion a year — meaning that retirement benefits paid into the system for state and local government employees would be nearly as high as their salaries."

The study also explores the costs and benefits of moving Nevada from a defined-benefit to a defined-contribution pension system. It finds that while some costs are associated with moving to a defined-contribution system, those costs almost exclusively reflect the unfunded liabilities of the current system.

"Moving to a defined-contribution pension system is essential for the long-term fiscal health of Nevada," said Lawrence. "While a defined-contribution plan is not a panacea, a well-designed plan

offers workers comfortable retirement benefits and increased flexibility, and it provides taxpayers with protection from future unfunded liabilities."

Biggs also expressed concern that PERS administrators are not acting in a transparent or neutral way. He noted that while PERS' website contains studies promoting defined-benefit pensions, its Comprehensive Annual Financial Report or actuarial valuations of the plan's finances aren't online. On most state pension plan websites, those reports are available.

"At the end of the day, the bill for Nevada's pension obligations is going to come due," said Lawrence. "Unless the state reforms its system, future taxpayers are going to face enormous bills, and a real question exists whether they'll be able to pay them.

"It is only with a fair-market valuation of pension obligations that we can understand the size of Nevada's pension problems and the approaches that will — and will not — solve it."

An executive summary of the study is available online at http://npri.org/publications/reforming-nevadas-public-employees-pension-plan. The full study can be downloaded at http://www.npri.org/docLib/20111102_Biggs_PERS_Study.pdf.

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The Nevada Policy Research Institute · 7130 Placid St., Las Vegas, NV 89119
Phone: (702) 222-0642 · Fax: (702) 227-0927 · Web site: www.npri.org