

Section 4

Review of the Actuarial Funding Policy

A best practice for public retirement systems is to have a written, long-term funding policy that has been carefully considered and adopted by the governing boards of trustees. While this is a best practice, it is certainly not a common one. Of the 99 public retirement systems in the database that administer the 126 plans we have used for comparisons in this report, the vast majority of them do not have a written funding policy. Consistent with best practice, NVPERS does.

The Actuarial Funding Policy of NVPERS (the Policy) has evolved since 2005 and was last updated in May 2012. It is contained in the “Retirement Board Charters and Policies”, a well-organized compilation of the governing documents for the System. We found the Policy to be one of the most comprehensive and meaningful policies of its type in the public retirement arena.

The Policy clearly states that its purpose is to record the funding objectives set by the Board, to help ensure the systematic funding of future benefit payments for members of NVPERS and to document certain guidelines to assist in administering NVPERS in a consistent and efficient manner. In many public retirement systems the boards do not view funding as “their” issue. They see their responsibility as starting once the contributions have been received by their systems. They limit their focus to administering benefits and making investments and do not get involved with the actuarial stability of their systems. This, we believe, is not the optimal approach for a board to take.

The four goals set forth in the Policy are based upon sound public policy for NVPERS and the State of Nevada. They are:

1. To achieve long-term full funding of the cost of benefits provided by NVPERS;
2. To seek reasonable and equitable allocation of the cost of benefits over time;
3. To minimize volatility of employee and employer contributions to the extent reasonably possible, consistent with other policy goals; and
4. To maintain a policy that is both transparent and accountable to the stakeholders of NVPERS, including plan participants, employers, and residents of the State of Nevada.

The goals reflect the fact that states, unlike corporations, do not have a finite life, but rather are assumed to be operable forever. The goals also recognize that costs cannot be ignored. They