Nevada Policy Research Institute
analysis

Retiring in the lap of luxury

Nevada government pensions are often better than paychecks

by Victor Joecks and Robert Fellner

Executive Summary

Nevada's Public Employee Retirement System faces an unfunded liability of over $40 billion, and only once, from 2002 to 2013, has the system made its 8 percent actuarial investment returns needed to meet its future obligations.

That has required pension contributions to police and fire personnel to jump, over that same period, from 28.5 percent of salaries to 40.5 percent. For regular government employees, the PERS contributions from taxpayers and workers rose from 18.75 percent of salaries to 25.75 percent.

PERS has another, systemic problem. Its inflated payouts to retiring workers are the reason it faces such large bills in the first place.

Only recently, because of a court ruling last year, has PERS had to release retiree names, payouts, years of service and last employer — allowing systematic, independent study of the payout issue for the first time.

Now, however, the new information — combined with seven years of state and local government salary data on TransparentNevada — makes it possible to create one-to-one comparisons of retirees' pay vis-a-vis their pensions.

This analysis examines 10 of Nevada's largest government agencies and compares the full-year equivalent 2013 retirement payouts of 2011-2013 retirees who had 30 years of service or more with their final-year base pay.

The agencies include seven local governments: Clark County, Washoe County, Las Vegas, Henderson, North Las Vegas, Reno and Las Vegas Metro. Also included in the analysis are Nevada's two largest school districts, Clark County and Washoe County, and the State of Nevada.

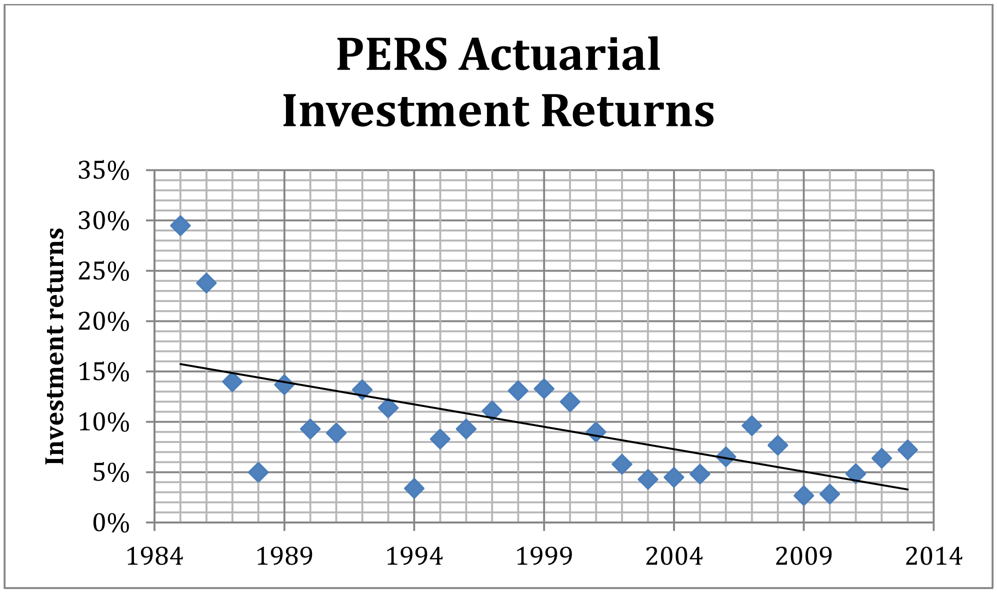
For the seven municipal governments, full-career retirees are receiving pensions worth 100.59 percent of their final full year of base pay. For Clark and Washoe County School Districts, that number was 89.14 percent. State of Nevada retirees received pensions worth 83.71 percent of their final base pay .

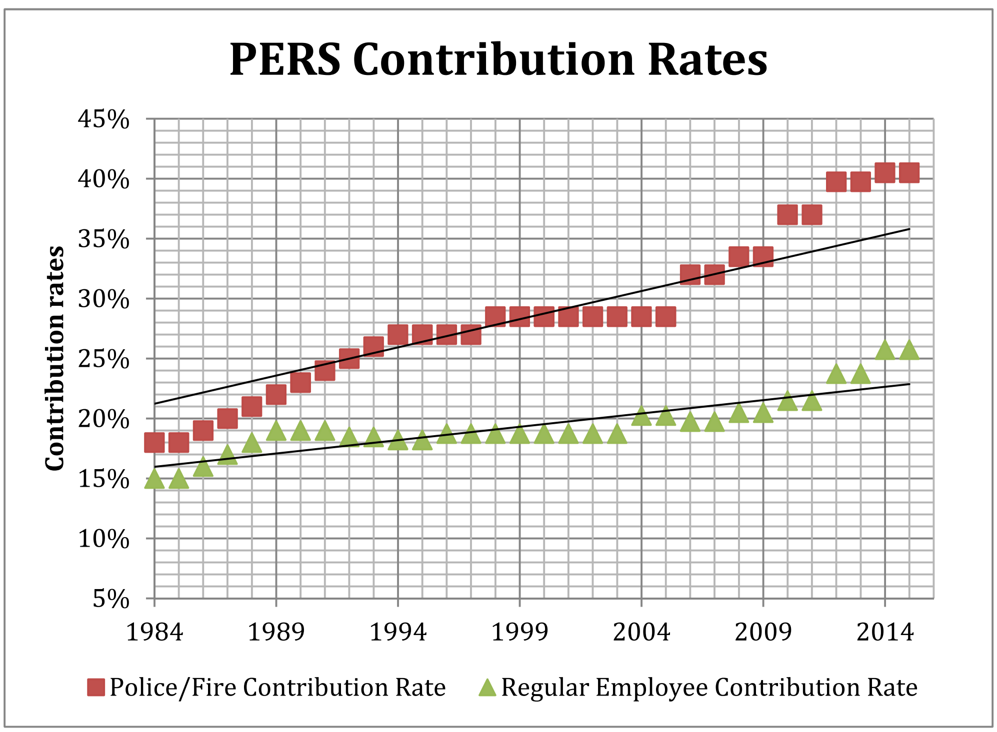
Of all government retirees, police and fire retirees had the highest pensions, which soared to over 114 percent of retirees' base pay.

Nevada taxpayers are providing extraordinarily high pensions — far above what they themselves can expect upon retirement — to what has become, by stealth, a privileged class.

Introduction

Two sides exist to the Public Employees' Retirement System of Nevada's huge math problem. The first is how diminishing investment returns have compelled rapidly increasing contribution rates from taxpayers and an unfunded liability that has [ballooned to over $40 billion].





From 2002 to 2013, [actuarial investment returns] have only once topped 8 percent — PERS' expected rate of return. As a consequence, required contribution rates for police and fire employees have grown from 28.5 percent of salary to 40.5 percent over the same period, a 42 percent increase. Contributions for regular employees have gone from 18.75 percent of salary to 25.75 percent, a 37 percent increase.

These increased contribution rates — kicking in automatically because of existing statutory law — have been a significant factor leading politicians to raise taxes and reduce government services.

The other side of the PERS problem is its hefty payouts to individual retirees. To the best of the public's knowledge, Nevada's system is competently run and free of the corruption and fraud that have plagued other government-employee pension systems, such as those of New Jersey and Illinois. That's the good news.

The bad news is that means Nevada's pension system can't be fixed by catching some crooks: It is running out of money because of *legal* payouts. And until recently, without being able to examine individual retiree payouts, the public had no way of knowing exactly what was going on.

Lawsuit forces PERS to release pension data

That changed in 2014 when the *Reno Gazette-Journal's* three-year legal battle with PERS concluded with the state Supreme Court and a district judge ruling that PERS had to turn over records that do not constitute the individual employee files.

Because of *RGJ's* lawsuit, in late January, PERS sent the Nevada Policy Research Institute and other organizations a monthly payment register, which contained little more than employee names and amount received in January 2014.

In April, Carson City District Court Judge James Russell order PERS — for a second time — to release the public data requested by the newspaper. Russell found that PERS had previously "stonewalled" *RGJ*'s request.

This ruling forced PERS to release more detailed member data to NPRI and public requestors. The data — payout information from 2013 — has recently been posted by NPRI on NVPERS.TransparentNevada.com. That more complete data includes retiree name, last employer, years of service, retirement date and pension payouts.

Pensions higher than base pay

Cross-matching PERS data with the seven years of salary data on Transparent Nevada makes it possible to compare the final pay of recent retirees to the pensions they are now receiving. These findings are not an estimate; they are a one-to-one comparison of an employee's final year of base pay with that employee's full-year equivalent pension from 2013. While base pay in an employee's final year is typically the highest salary earned, in the event that Transparent Nevada had a higher base pay in a previous year, the earlier and higher base pay was used instead.

PERS provided NPRI with a base monthly amount for retirees. So while a 2013 retiree wouldn't have collected a full year's worth of pension checks in 2013, it is possible to compare his or her full-year *equivalent* pension with his final base pay.

This analysis looks at 10 of Nevada's largest government agencies and compares the full-year equivalent 2013 retirement payouts of 2011-2013 retirees who had 30 years of service credit or more. The agencies include seven local governments: Clark County, Washoe County, Las Vegas, Henderson, North Las Vegas, Reno and Las Vegas Metro; two school districts: Clark County School District and Washoe County School District; and the state of Nevada.

Remarkably, for the average local-government employee, retiring meant a pay *increase*. On average, these employees took in 100.59 percent of their base pay in retirement payouts.

Jurisdiction	Number of 2011-2013 full-career retirees	Average years of service credit	2013 pension as percentage of final base pay
City of Las Vegas	29	31.55	98.67%
City of Henderson	15	31.54	88.08%
LVMPD	50	32.07	112.39%
Clark County	107	31.43	102.04%
Reno	17	31.65	92.23%
North Las Vegas	4	30.15	87.48%
Washoe County	41	31.22	93.11%
Total/Weighted Average	**263**	**31.53**	**100.59%**

For retirees from Nevada's two largest school districts, retirement checks come in at over 89 percent of the retired employee's final base pay.

Jurisdiction	Number of 2011-2013 full-career retirees	Average years of service credit	2013 pension as percentage of final base pay
CCSD	253	32.56	90.11%
WCSD	69	31.85	85.58%
Total/Weighted Average	**322**	**32.41**	**89.14%**

Although the Las Vegas Metropolitan Police Department and every other law enforcement agency in the state follows the requirements of the Nevada Public Records Act, the State of Nevada currently continues to violate the Act, refusing to release the names of its non-undercover officers when providing salary information to Transparent Nevada. This made it impossible to compare the retirement pay of state law enforcement officials with their previous salaries. Presumably this is why the "pension as a percentage of final base pay" for state workers is lower than for local-government workers. As seen with Las Vegas Metro, public safety officers usually receive a pension that's a higher percent of their base pay than other government workers. Even without public safety employees, full-career retirees from the State of Nevada collected pensions coming in at 83 percent of base pay.

Jurisdiction	Number of 2011-2013 full-career retirees	Average years of service credit	2013 pension as percentage of final base pay
State of Nevada	205	31.46	83.71%

Police/fire pensions greatly inflated

The data on police and fire employees in local government agencies show that public-safety employees receive significantly greater pension benefits compared to final base pay than the average public employee. Police and fire employees with over 30 years of service received pensions that averaged 114.39 percent of their final base pay.

Agency Name	Number of 2011-2012 full-career retirees, police/fire only	Average years of service credit	2013 pension as percentage of final base pay
Clark County	15	32.17	126.70%
Henderson	2	33.11	104.57%
Las Vegas	8	31.9	113.60%
LVMPD	45	31.95	113.81%
Reno	7	31.3	104.84%
Washoe County	7	30.86	105.02%
Total/Weighted Averages	84	31.87	114.39%

Loophole allows inflated payouts

These findings might appear to contradict state law, which limits pensionable compensation to 90 or 75 percent of an employee's average compensation.

Specifically, NRS 286.551 states that a public employee:

> (a) Who has an effective date of membership on or after July 1, 1985, is entitled to a benefit of not more than 75 percent of the member's average compensation with the member's eligibility for service credit ceasing at 30 years of service.
>
> (b) Who has an effective date of membership before July 1, 1985, and retires on or after July 1, 1977, is entitled to a benefit of not more than 90 percent of the member's average compensation with the member's eligibility for service credit ceasing at 36 years of service.

A casual reading of that statute could give the impression that the above findings are not legal. PERS, however, defines “average compensation” differently than the base salary most citizens equate with average compensation.

For PERS, compensation can include tens of thousands of dollars in additional forms of pay, such as call back, longevity and various forms of premium pay. Secondly, what PERS considers base pay is around 13 to 20 percent higher than the amount that most government employees receive from their employer each pay period.

This is because of the unique way Nevada funds its pensions. If a private-sector worker makes $1,000 a week and wants to contribute $100 to his or her pension account, the worker will have $900 left over.

In Nevada, pension contributions are conventionally supposed to be split 50/50 between the employer and the employee. But rather than an employee taking money out of his check, the government agency withholds funds before the employee gets his or her check. As pension contribution rates have risen dramatically over the last 15 years — with half of those increases supposedly to come from employees — what’s usually happened is that the employer will agree to pay the employee’s increased pension contribution in lieu of a salary increase or often in addition to other salary increases.

For instance, when a local government agency tells Transparent Nevada that a policeman receives $100,000 in base pay and $40,500 in pension contributions, PERS views that as $120,250 in pensionable compensation — plus other forms of pay, including longevity and call back.

This allows local government employees the best of both worlds. Their base pay appears lower for public relations purposes but is boosted quite substantially when calculating their pensions.

Large payouts, early retirements fuel shortfall

While PERS’ investment shortfalls are a big factor in PERS’ current unfunded liability, exorbitant pension payouts are the reason PERS faces such large bills to pay in the first place.

As this analysis shows, the average public-employee pension for a retiring local government worker with 30 years or more of service is over 100 percent of that employee’s final base pay. For retiring public safety officers, that number jumps to over 114 percent.

This represents a significant inequity vis-à-vis private-sector workers, most of who have to work for over 50 years before they retire. Even then, and with Social Security, most private-sector workers only retire on a portion of their income.

This means that state and local governments are raising taxes on private citizens to pay for government-worker pensions that are both more generous than what private workers will collect and that begin 15 to 20 years before private employees can even think of retiring.

Add in the ability of government workers to purchase up to five years of service credit, called “airtime,” and the privileged position of government workers vis-à-vis taxpayers becomes even more pronounced.

Collecting salary-level retirement benefits — plus COLAs in future years — is the norm for public employees with 30 years of service credit.

The problem lies in how NVPERS is structured.

Utah, Rhode Island provide reform models

The math problem facing PERS is the same one that faces government pension plans all around the country. Over the last 15 years, enormous pension payouts to “retirees” in their 40s and 50s, combined with investment returns below unrealistic, politically biased projections, have made the need for fundamental reforms obvious.

The best — and also most politically feasible — reform package would move government workers from a defined-benefit pension plan to a hybrid plan that would include defined-contribution elements for new and current employees.

Both Republican-leaning Utah and Democrat-leaning Rhode Island have adopted such hybrid systems, which protect workers in the current defined benefit system and limits taxpayer liability, while transitioning to a defined contribution system for new employees. Additional information is available in Utah state Sen. Dan Liljenquist’s study, Keeping the Promise: State Solutions for Government Pension Reform.

A hybrid plan would allow lawmakers to honor the commitments that have already been made while improving the flexibility, portability and sustainability of Nevada’s government pensions.

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The Nevada Policy Research Institute is a non-partisan, free-market think tank that promotes public-policy ideas consistent with the principles of free enterprise, individual liberty and limited, accountable and constitutional government.

NPRI focuses its research efforts primarily on fiscal, labor and education policy, with the goal of finding and promoting freedom-friendly solutions to the policy challenges facing Nevada, the West and the nation.

The Institute serves the cause of accountable government through in-depth news reporting, making information on government spending readily available to the public, and litigating to defend constitutional principles through its Center for Justice and Constitutional Litigation.

For more information, or to make a tax-deductible contribution, please contact:

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