



***STRATEGIC PLAN***

Revised August 8, 2007

2007-2012

## INTRODUCTION

The Strategic Plan provides the Public Employees' Retirement System of Nevada with a blueprint for fulfilling our mission as set forth in the Retirement Act, NRS chapter 286. The Strategic Plan guides our business relationships and interactions and sets forth our operational philosophy. The goals and strategies set forth herein highlight the values that are important to the Retirement Board and staff of the System. This Strategic Plan is supported by the Operational Yearly Plan which sets forth the yearly business plan for the System.

## MISSION

It is the mission of the Public Employees' Retirement System to:

- ◆ Provide public workers and their dependents with a retirement program that provides a reasonable base income for retirement or for periods where a disability has removed a worker's earning capacity.
- ◆ Encourage those workers to enter into and remain in government service for such periods of time to give public employers and the people of the State of Nevada the full benefit of their training and experience.

## PHILOSOPHY

The Public Employees' Retirement System will act in accordance with the highest standards of ethics, accountability, efficiency, and openness. We recognize that our members, retirees, and employers are entitled to expect excellence in the conduct of the operation of the Retirement System. To this end, we pledge to conduct our affairs for the exclusive benefit of our members and retirees; to invest the assets of the System in a prudent and well-diversified program; and to deliver service in an accurate, timely, courteous, and efficient manner.

## CORE VALUES

- ◆ ***Service*** Provide the most efficient and effective service to our members, retirees, and public employers.

- ◆ ***Integrity*** Conduct operations in an ethical and fair environment while adhering to the highest standards of professional conduct in our interactions with all stakeholders.
- ◆ ***Leadership*** Develop strong performance through staff development, technology, and innovative leadership and management strategies.
- ◆ ***Work Environment*** Sustain a work environment that promotes quality, respect, communication, cooperation, trust, and personal development.
- ◆ ***Accountability*** Take responsibility for our actions and results.
- ◆ ***Communication*** Implement education and communication initiatives to ensure broad stakeholder understanding of the System and its operations.
- ◆ ***Fiscal Conservatism*** Maintain a realistic recognition of plan costs to govern the System in a fiscally conservative manner that balances the interests of all stakeholders including members, retirees, employers, and taxpayers.

## **ORGANIZATION AND HISTORY**

The System was established by the Nevada State Legislature in 1947. By July 1, 1949, the System had approximately 3,000 members and 64 retirees. At the end of fiscal year 2006, the System had 163 participating public employers, 98,187 active members, and 33,262 retirees and beneficiaries. The System is comprised of two sub-funds, the Regular sub-fund, consisting of members who are not police or fire employees, and the Police and Firefighter's sub-fund.

The System also administers the Judicial Retirement System and the Legislators' Retirement System. As of January 1, 2007, the Judicial Retirement System had 64 active members, five inactive vested members, and 36 retirees and beneficiaries. As of January 1, 2007, the Legislators' Retirement System consisted of 42 active legislators, 21 inactive members entitled to future benefits, and 67 retirees and beneficiaries.

The System is governed by the Retirement Board which consists of the following seven members: Sue DeFrancesco, Chair, Charles Silvestri, Vice-Chair, Elizabeth Fretwell, Purisimo Hernandez, David Kallas, George Stevens, and Warren Wish. The Executive Officer is responsible for the management of the System. The Executive Officer's responsibilities extend to all functions of the System. The Operations Officer and the Investment Officer support the Executive Officer. The Operational portion of the System is divided into four departments each headed by a director: Accounting, Information Technology, Employer and Production Services, and Member and Retiree Services. The Investment portion of the System includes the Assistant Investment Officer. The Internal Audit Division is responsible directly to the Retirement Board and

the Executive Officer.

Senate Bill 457 of the 2007 Legislature requires the Retirement Board, acting as the Retirement Benefits Investment Board, to establish a fund for the purpose of investing monies from State and local government trust funds created to fund liabilities associated with Other Post Employment Benefits. The Retirement Benefits Investment Board has established the Retirement Benefits Investment Fund and is ready to receive funding for the purpose of investment of funds from these trusts.

## **GOALS AND OBJECTIVES**

1. Provide accurate, timely, and understandable service and superior information to retirees, members, and public employers, and maintain accurate and accessible accounting records.
  - (a) Make benefit payments in accordance with statutory requirements and Board policy.
  - (b) Respond to normal-process requests in an accurate and understandable manner, and in accordance with established performance expectations.
  - (c) Provide high quality customer service and education that enables members and employers to make informed and timely retirement decisions, including a detailed statement of salary, contributions, service, and beneficiary information.
  - (d) Apply best practices to safeguard the confidentiality, integrity, and availability of NVPERS information assets, in support of the business objectives of the System.
2. Administer an investment program designed to achieve the System's investment objectives within the framework of the Nevada Revised Statutes, specific policies, and directives adopted by the Board.
3. Conduct a legislative program that is responsive to the majority interest of members, benefit recipients, and public employers while protecting the fiscal and actuarial integrity of the System.
4. Protect the actuarial integrity of the System and strive for a state of fiscal soundness so that each generation of employees will be able to meet the financial needs of their own retirement and so that no financial burdens will be passed on to future employees for past benefits paid.

## STRATEGIES

### *Investments -*

We will administer an investment program designed to achieve the System's investment objectives within the framework of the Nevada Revised Statutes, specific policies, and directives adopted by the Board. To that end, future efforts will focus on:

1. Analysis of the reasonableness of our 8% actuarial objective.
2. Maintaining realistic capital market return and risk expectations.
3. Implementing and managing an asset allocation strategy that balances our return objectives with the Board's risk tolerance.
4. Maintaining a high quality, diversified portfolio.
5. Reviewing investment philosophy and policies, ensuring that the portfolio structure is in-sync with our stated objectives. The Second Opinion Review topics will serve as a "road map" for this review process.

### *Operations -*

1. Staff will use the automated workflow system to monitor, measure, and evaluate our response to inquiries from members and retirees in order to identify those areas where service delivery can be improved.
2. Enhanced web functionality will be a priority to improve our service to members, beneficiaries, and employers.
3. Staff will work to enhance system member and retiree communications, through continued growth of the communications initiative, including publications, videos, and presentations. Staff will update the appearance of PERS' publications to enhance customer usability.
4. Emphasis will be placed on employee training to insure accurate and understandable customer service.

5. Annually, PERS will receive the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting.

### ***Actuarial Management -***

Ongoing efforts to manage funding for the System on an actuarial reserve basis will require careful analysis over the horizon of the strategic plan. Economic trends and their effect on funding will be reviewed. Staff will continue to monitor the System's funding policy in order to maintain fiscal responsibility and enhance contribution rate stability.

### ***Legislative -***

We will conduct the legislative program adopted by the Board, which is responsive to the majority interest of members, benefit recipients, and public employers while protecting the financial integrity of the System.

### ***Public Relations -***

PERS will maintain a reputation of credibility for the System with employers, members, retirees, legislators, and the public.

## **INTERNAL ASSESSMENT**

### **Investment Program**

The primary goal of the investment program is to meet our 8% long term return objective while exposing the fund to the least possible risk. To support our ability to achieve that goal, a comprehensive, independent Second Opinion Review of the portfolio was recently completed. This serves as a timely catalyst to review numerous elements of investment policy and portfolio structure during this strategic planning period.

Our intent is to emphasize Board investment education and promote a collaborative discussion and decision environment. We plan to re-evaluate and document our investment philosophy, and recommend measured, appropriate enhancements to the program. We want to ensure that the program is managed consistent with our stated philosophy and goals, and is focused on the key investment

tenets of consistency, simplicity and cost effective management that have served PERS so well in the past.

## **Operations Management**

### **System Governance**

The current environment of diminishing market returns, rising liabilities, growing risk exposure, and increasingly demanding stakeholders has many retirement systems returning to basics in the hopes of improving pension performance and managing risk more effectively. One of the basic principles of superior pension administration begins with review of the governance framework of the pension system, including governance policies, defining clear roles and responsibilities for Board and executive management. The System contracts with a provider of governance review services for fiduciaries in the public pension sector. The System's existing governance principles, policies, and charters have been revised to better define the role of the Retirement Board and executive management, guide the conduct and decision-making of the Retirement Board, and document and preserve the System's policies for current and future board members and executive staff. The Board will review the charters and policies on an ongoing and regular basis and revise them as necessary.

### **Internal Controls**

Board policy requires an independent examination of management's assertion about the effectiveness of the System's internal controls over financial reporting every five years. The examination was performed by a qualified auditor during fiscal year 2006. The auditor opined that management's assertion that the System maintained effective internal control over financial reporting as of June 30, 2005 is fairly stated. The System is currently implementing recommendations from the auditor to improve the effectiveness and efficiency of internal controls.

### **Staffing**

Ensuring adequate staffing levels to meet increasing service needs, due to member and retiree population growth, will continue to be a primary goal of operations management. Effectively focusing resources to sustain the high quality work force in the agency will drive our review. We will continue to provide System staff with training in the skill sets, policies, and procedures that enable them to perform their respective duties. Staff communication will be enhanced through upgraded technology.

## **Legal Management**

Recent experience of the Retirement System in litigation (both with employers and members) has raised our awareness of the need to review our legal representation. While the Attorney General's Office has consistently provided representation to Nevada PERS, on several occasions in the recent past PERS either experienced conflicts requiring outside counsel, or difficulty in resource availability, given the magnitude of issues and liabilities associated with a trust fund of this size. During fiscal year 2007, the Retirement Board adopted a legal management plan. The plan established the framework within which the System manages legal relationships and determines the legal resources will best serve the interests of the System. During the strategic horizon, we will manage the System's legal relationships in accordance within this framework.

## **Operational Performance Benchmarking**

The System participated in a performance benchmarking service whereby customer response, complexity, workload volumes, and activity cost data are compared to other public pension funds participating in the program. The analysis shows that PERS provides a level of service close to the peer average at a substantially lower administration cost than the peer average. PERS will continue to participate in this performance benchmarking service and periodically review methods to improve customer service in a cost efficient manner.

Staff will examine enhancements to member and retiree accessibility through increased use of the Internet, as well as improvements to our website, to provide for a more interactive experience. Point of contact review will continue. Focus will be placed on enhancing information provided to our customer base, including review of the standardization of information. Efforts will be made to continue to integrate all technologies to improve services to our members.

## **Technology**

PERS technology efforts are driven by business goals as well as statutory and pension fund industry mandates. PERS is dedicated to maintaining a state of the art pension management system that is capable of providing for PERS' operational needs. The PERS' pension management system, C\*A\*R\*S\*O\*N\*, is a first version used for client/server systems and is developed in FORTE. The FORTE product is at end-of-life and will only be supported through October, 2008. After October, 2008, PERS will be unable to upgrade the operating system for the servers. We will migrate the current C\*A\*R\*S\*O\*N to an application that will be supportable. The migration will maintain

the functionality of the system, while enhancing usability and security.

### **Pension Portability and Preservation of Benefits**

An additional study in the area of “pension portability” remains part of our strategic planning process. The central focus of pension portability is to make our pension plan more flexible to the needs of a mobile workforce. Tailoring benefits to meet the needs of all members will continue to be a priority.

### **Retiree Re-employment**

Assembly Bill 555 of the 2001 legislative session modified PERS’ re-employment restrictions to provide an exemption for retirees who fill positions declared to have a critical labor shortage by a public employer. Senate Bill 439 of the 2003 legislative session enhanced the critical labor shortage designation process by requiring employers to re-certify positions as critical after two years. PERS has conducted an experience study with data from the effective date of Assembly Bill 555 through June 30, 2004, in order to determine the relative cost of the benefit. The experience study was approved by the Board in December, 2004 and was presented to the Interim Retirement and Benefits Committee on January 13, 2005.

Senate Bill 485 of the 2005 legislative session extended the critical labor shortage provisions to June 30, 2009 with an experience study to be conducted with data through June 30, 2008. Continued monitoring of this benefit will be pursued during the strategic cycle.

## **EXTERNAL ASSESSMENT**

### **Social Security**

Mandatory Social Security remains a concern during the horizon of the strategic plan. While currently not at the highest federal priority, continued discussions on Social Security reform cause us to remain ever vigilant with respect to mandatory coverage. Our financial projections indicate that the additional cost in the first year of such a mandate would be cost prohibitive to members and employers. The cost would only escalate over time until all public employees in Nevada participate in Social Security.

PERS continues to oppose mandatory Social Security but in the event that it is passed, the Retirement System will explore alternative plan designs that, coupled with

Social Security, provide future retirees with a reasonable base income upon separation from employment. Alternative plans may be necessary given that simply combining the Social Security contribution rate with the current PERS rate may be cost prohibitive. PERS will continue to monitor mandatory Social Security issues as well as efforts to modify the Government Pension Offset and the Windfall Elimination Provision.

### **Plan Design**

Employers, both public and private, are investigating alternative pension plan designs, for a variety of reasons including reductions in cost and workforce planning. In reviewing this issue, PERS must discharge its fiduciary duty to act in the best interests of our members and of our beneficiaries, while maintaining the fiscal integrity of the fund. During the strategic horizon, we continue to analyze this topic and the long-term effects that a change in plan design would carry. Variables under review include benefit adequacy, plan funding, investment risk, plan leakage, portability, and public policy.

### **Economic and Actuarial Management**

The economic downturn of the most recent period may impact budgetary funding for public employers participating in the System. New economic and demographic trends provide challenges to funding and benefit structure. Membership continues to increase as a tighter fiscal environment faces public employers and the legislature. The confluence of these events requires PERS to monitor this issue and participate as appropriate, specifically as it relates to funding for the System.

Managing the funding issue internally to PERS will be paramount to overall success of the System during these difficult times. Contribution rate stability is a key goal of the System. The System continually reviews trends in actuarial liabilities and maintains a realistic recognition of plan costs in order to govern the plan in a fiscally responsible manner. Constant attention to the System's funding policy allows for solid pension plan governance that balances the interest of plan members, employers, and taxpayers.

### **Social Investing**

During the 2007 legislative session, social investing criteria became an issue for the trust funds. Requests were made that the Board of Trustees consider divestment from certain assets held in trust based upon social grounds. The System opposed these efforts since the fund is a trust and the Board must only invest for the exclusive economic benefit of the members and beneficiaries of the fund. The Nevada

Constitution provides the framework for the trust nature of the pension fund. It states:

...  
 2. Any money paid ... for the purpose of funding and administering a public employees' retirement system..., such money must never be used for any other purposes, and they are hereby declared to be trust funds for the uses and purposes herein specified.

Nevada Constitution, Article 9, section 2.

Any investment decision based upon grounds other than the exclusive benefit of the members and beneficiaries of the trust fund raises significant issues of fiduciary liability. During the strategic horizon, we will continue to review the financial impact to the members, beneficiaries and taxpayers of investing based upon social grounds. However, our sole focus will remain on the financial well-being of the trust and the funded status of the System in setting investment policy.

**Other Issues**

Federal developments having a potential financial or administrative impact on our pension plan continue to be monitored. Initiatives to effect change in Washington are very fluid and difficult to project over the strategic planning period.

**PERFORMANCE AND CASELOAD INDICATORS**

Our performance and caseload indicator projections to fiscal year 2010 are:

**MEASUREMENT INDICATORS - FY07 TO FY10**

	<b>FY07 Projected</b>	<b>FY07 Actual</b>	<b>FY08 Projected</b>	<b>FY09 Projected</b>	<b>FY10 Projected</b>
1. Active Members**	101,133	102,090	105,153	108,307	111,556
2. Benefit Recipients**	35,258	35,870	38,022	40,304	42,722
3. Benefit Payroll (millions)**	854.8	929.4	1,031.6	1,145.1	1,271.1
4. Members Receiving Counseling	9,702	9,768	10,354	10,975	11,634
5. Information Programs Offered	150	255	150	150	150
6. Average Response Time for Written Inquiries (days)	10	2.08	10	10	10
7. Written Complaints Received from Benefit Recipients	10	3	10	10	10
8. Administrative Costs per Active Member/Benefit Recipient	60.67	56.22	74.92	71.07	68.46
9. Portfolio-At Market Value (billions)**	21.17	22.50	24.30	26.24	28.34
10. Total Return on Investments	8.0	14.8	8.0	8.0	8.0

11. Real Return on Investments	4.5	12.1	4.5	4.5	4.5
12. Ratio, Net Assets to Liabilities	75.9	*	*	*	*
13. Average Length of Service for Active					
Members: Regular	8.5	*	8.5	8.5	8.5
Police/Fire	9.9	*	9.9	9.9	9.9

\* - These numbers are not available until the completion of the 2007 actuarial valuation in November 2007.

\*\* - These are estimated and will be finalized after the financial statements and actuarial valuations for FY07 are completed.