



***STRATEGIC PLAN***

Revised September 17, 2008

**2008-2013**

## **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.

## **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.

## PLANNING PROCESS

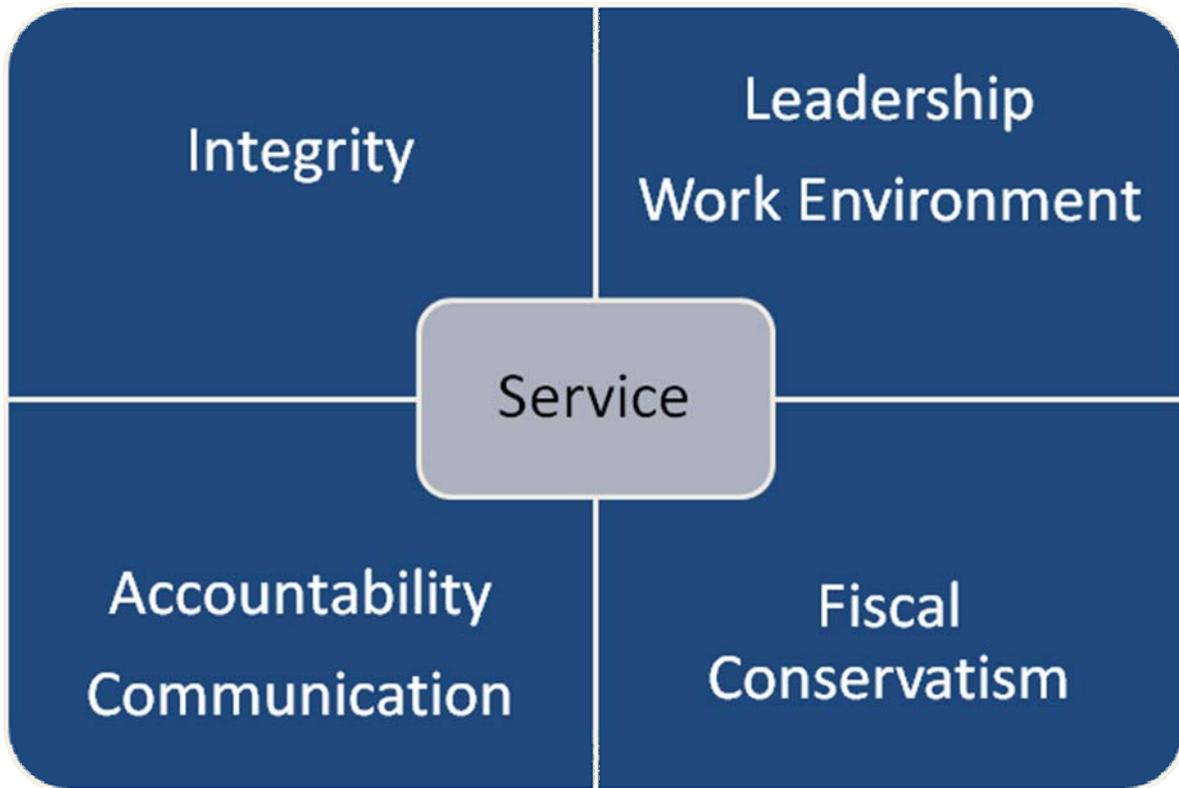
The Retirement Board and System staff members are dedicated to serving members, beneficiaries, and employers to the best of their abilities. The goal of the strategic planning process is to ensure that our organization and business processes continue to efficiently and effectively meet the needs of our stakeholders. The planning process establishes goals and strategies to allow the System to fulfill its mission. The planning process, including this Strategic Plan and the Operational Yearly Plan, sets performance guidelines and measurements to assist in the strategic planning process. Engaging in this process, the System has adopted the following strategic planning and performance monitoring model:



The planning and success monitoring process will be an ongoing loop with the mission at its core.

## CORE VALUES

The following chart depicts the relationship of the System's 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 2007, the System had 166 participating public employers, 103,693 active members, and 35,687 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, 2008, the Judicial Retirement System had 81 active members, 3 inactive vested members, and 38 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 (OPEB). The Retirement Benefits Investment Board has established the Retirement Benefits Investment Fund. As of June 30, 2008, this fund has one participating public employer.

## **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 a 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. Maintaining realistic capital market return and risk expectations.
2. Ensuring PERS' asset allocation strategy can reasonably be expected to generate an 8% return while minimizing risk over the long term.
3. Evaluating the extent to which the current bond return assumptions and allocation support the risk and return objectives of the plan. Explore alternative asset mixes as appropriate.
4. Researching investment opportunities that are not currently included in the program to determine if their addition would enhance the risk/return profile of the fund.
5. Maintaining a high quality, diversified portfolio.
6. Continuing to employ a consistent, cost effective investment approach.

## ***Operations -***

We will provide timely, accurate, and cost effective service to our members and beneficiaries. We will focus on the following:

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.
4. Emphasis will be placed on employee training to ensure 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 goal of the investment program is to meet the 8% long-term return objective while exposing the fund to the least possible risk. Successful investing involves developing a thoughtful, focused long-term strategy and consistently implementing that plan over time. Frequent changes can increase costs and reduce efficiency. As a result, while the Board will make changes to management or strategy as is warranted by circumstances, we will focus on making meaningful, less frequent enhancements to the program.

To support effective program improvements in the future, we will continue to emphasize Board investment education and promote a collaborative discussion and decision environment. Emphasis will be placed on continuity of strategy, oversight, management and simplicity of portfolio structure. This will promote more efficient

monitoring and ensure any future changes to the plan are accretive to the risk/return profile of the fund.

Staff research and Board education will focus on evaluation of bond return assumptions and investment alternatives not currently included in the program. Each option will be analyzed to determine if its addition would enhance the risk/return profile of the fund, while ensuring the total program maintains its consistent, focused, cost effective strategy.

### **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, that define 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.

### **Member Communications**

Timely and effective fiduciary communication with our members, beneficiaries, and employers is a key element in fulfilling the System's mission. Staff will focus on communication to stakeholders so that they understand the mission and performance of the System as well as the structure and value of retirement benefits.

### **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 next internal controls examination will be conducted during fiscal year 2011 to include financial reporting as of June 30, 2010. In the period between examinations, staff will continue to diligently monitor and update internal controls as necessary.

### **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.

## **Disability Retirement and Re-employment Approval Process**

The Retirement Act provides a disability retirement program for members. Disability retirements and re-employment by disability retirees must be approved by the Retirement Board. During the strategic horizon, staff will study the current disability retirement and re-employment process to ensure its continued effectiveness and efficiency given the overall growth of the System and recommend appropriate revisions to the Retirement Board.

## **Board Appeal Process**

The Official Policies of the System provide for appeals to the Board by any member, retired employee, benefit recipient, respective spouse, or any person having a claim against the System. The Retirement Act and applicable case law restricts the Retirement Board's ability to take action in most appeals. During the strategic horizon, staff will study the current appeals process in light of the Retirement Board's constitutional and statutory authority and the interests and expectations of members, retirees, benefit recipients, employers, and other interested parties. Staff will recommend appropriate revisions to the Retirement Board.

## **Legal Management**

Recent experience of the Retirement System in litigation (both with employers and members) led to a review of 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 that will best serve the interests of the System. During the strategic horizon, we will manage the System's legal relationships in accordance with 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.

### **Technology**

PERS technology efforts are driven by business goals as well as statutory and pension fund industry mandates. 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. We will continue to review the standardization of information. Emphasis will be placed on the efficient delivery of information and services to all stakeholders through use of technology.

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. PERS is currently migrating

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.

### **Business Continuity**

During the last strategic planning cycle, the System developed a fully replicated disaster recovery site. Continuous testing of the functionality of each of the System's departments is conducted by business experts to ensure the site's ongoing availability. During the strategic horizon, expanded testing will include response to different scenarios involving various degrees of business interruption.

### **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 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. The System, in conjunction with the independent actuary, will conduct the experience study as set forth in Senate Bill 485 and will deliver the study to the Interim Retirement and Benefits Committee on or before December 31, 2008. Staff will continue to monitor trends in retiree re-employment.

## EXTERNAL ASSESSMENT

### National Issues

#### 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.

The Office of the Attorney General has issued an opinion stating that Article 9, Section 2 of the Nevada Constitution prohibits the Retirement Board from making investment decisions that further a social interest and that are not in the exclusive interest of the members and beneficiaries of the fund. During the strategic horizon, we will continue to respond to inquiries regarding investing based upon social grounds consistent with our fiduciary duties and the Nevada Constitution.

### **Calculation of Liabilities**

There is currently a national debate regarding the method of calculation of liabilities for a public pension plan. This debate includes discussion of the calculation of market value liability in the public pension arena as is currently used for corporate pension plans. During the strategic horizon, we will monitor and participate in this debate, as appropriate.

### **Accounting Issues**

The Governmental Accounting Standards Board (GASB) is recognized by the accounting profession as the body that sets generally accepted accounting principles for state and local governments. GASB periodically reviews all pronouncements that have been effective for at least five years. GASB is currently in the process of reviewing Statements 25 and 27, specific to public pension plans, as these statements have been effective since 1996 and 1997, respectively. During the strategic horizon, we will monitor and provide input to this project, as appropriate.

### **Federal 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.

### **Internal Revenue Code Issues**

The public employees' retirement plan is a tax qualified retirement plan as

designated by the Internal Revenue Service (IRS). Maintaining this status is vital to fulfilling the System's mission. To maintain this status, we must respond quickly and accurately to changes in federal laws and regulations from the IRS and Department of Labor.

To ensure continued compliance with federal law, the System will seek an updated determination as to plan qualification from the IRS for the PERS plan and will seek determination letters as to plan qualification for the Judicial Retirement System and the Legislator's Retirement System. The filings for each of the plans will be presented to the IRS during the filing period designated for public pension plans.

We will diligently review the impact of IRS regulation changes and seek Retirement Board or legislative action, if appropriate, to respond to such changes. During this strategic horizon, we will analyze and take appropriate action in response to changes to regulations regarding normal retirement age and other issues as they arise.

### **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, and public policy.

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.

Issues related to OPEB have become a concern to our members, beneficiaries, and employers. In Nevada, the System has been at the forefront of this issue by implementing the Retirement Benefits Investment Fund, as a separate unit, to assist our employers with pre-funding their OPEB liabilities. We will continue to participate in discussions regarding innovative methods to finance these liabilities to the extent that it will benefit our members, beneficiaries, and employers.

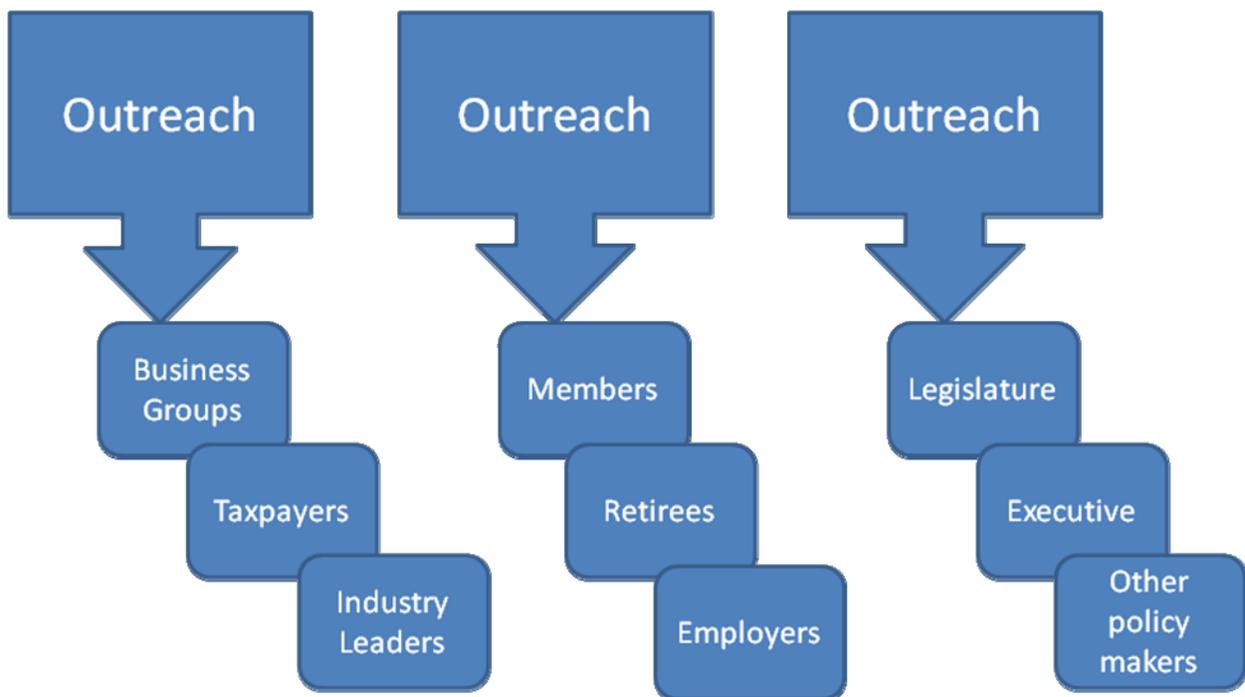
### **Economic and Actuarial Management**

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.

## Public Outreach

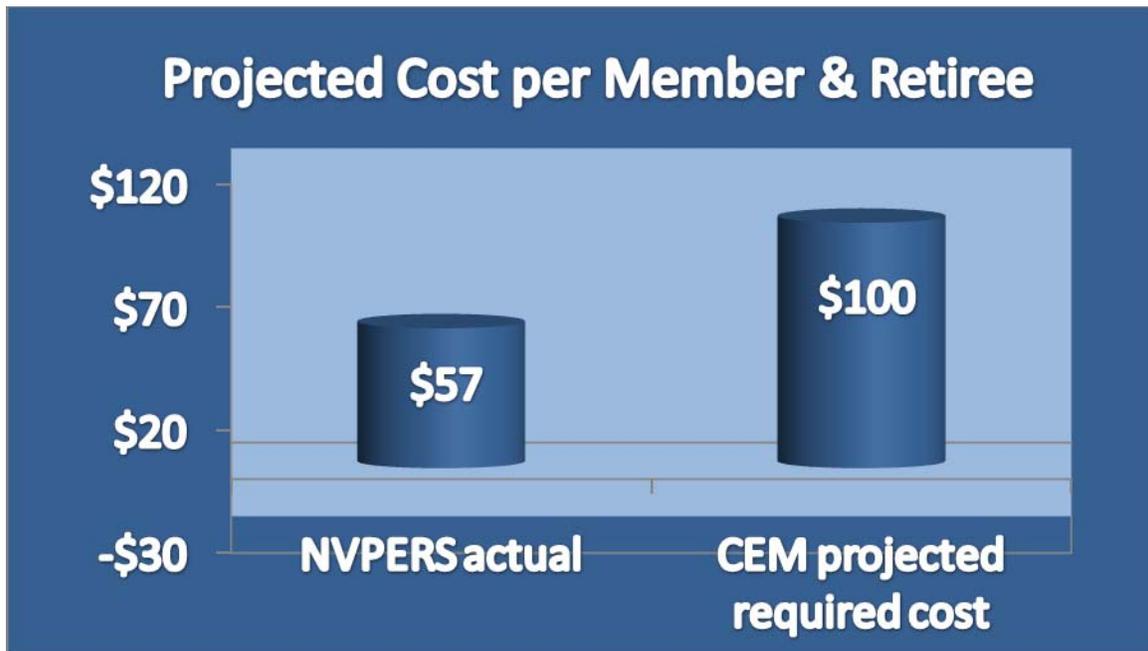
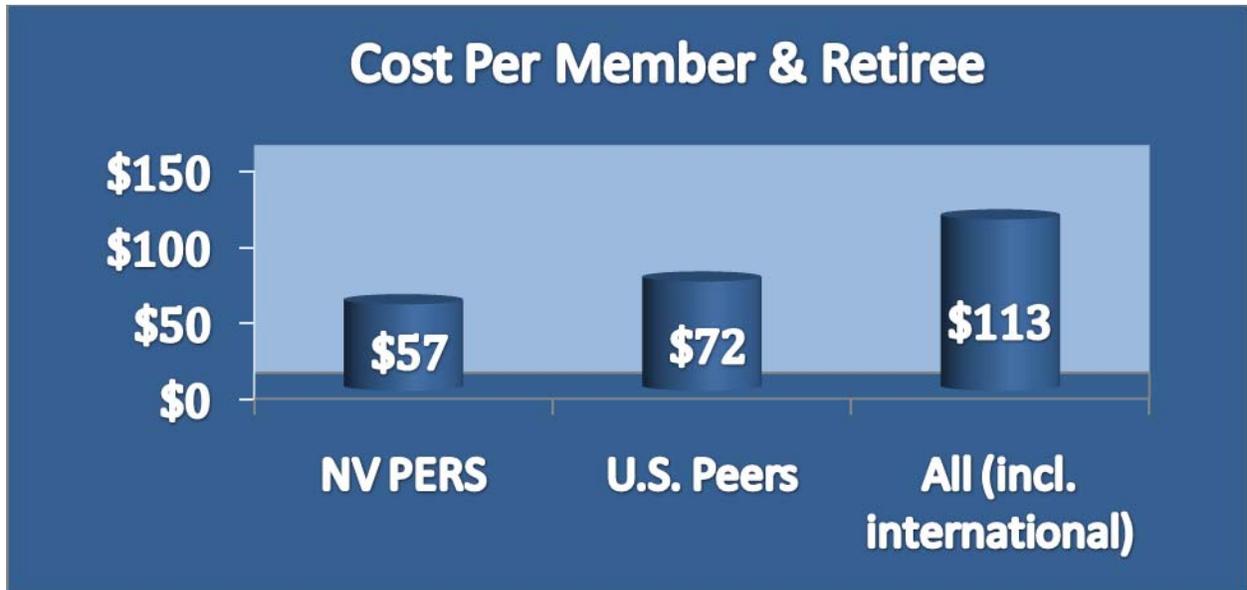
Timely and effective communication to all interested parties, including policy makers, taxpayers, the public, and the media, regarding the mission and performance of the System is a key component of our overall communication strategy to demonstrate that the System is effectively and efficiently fulfilling its mission.



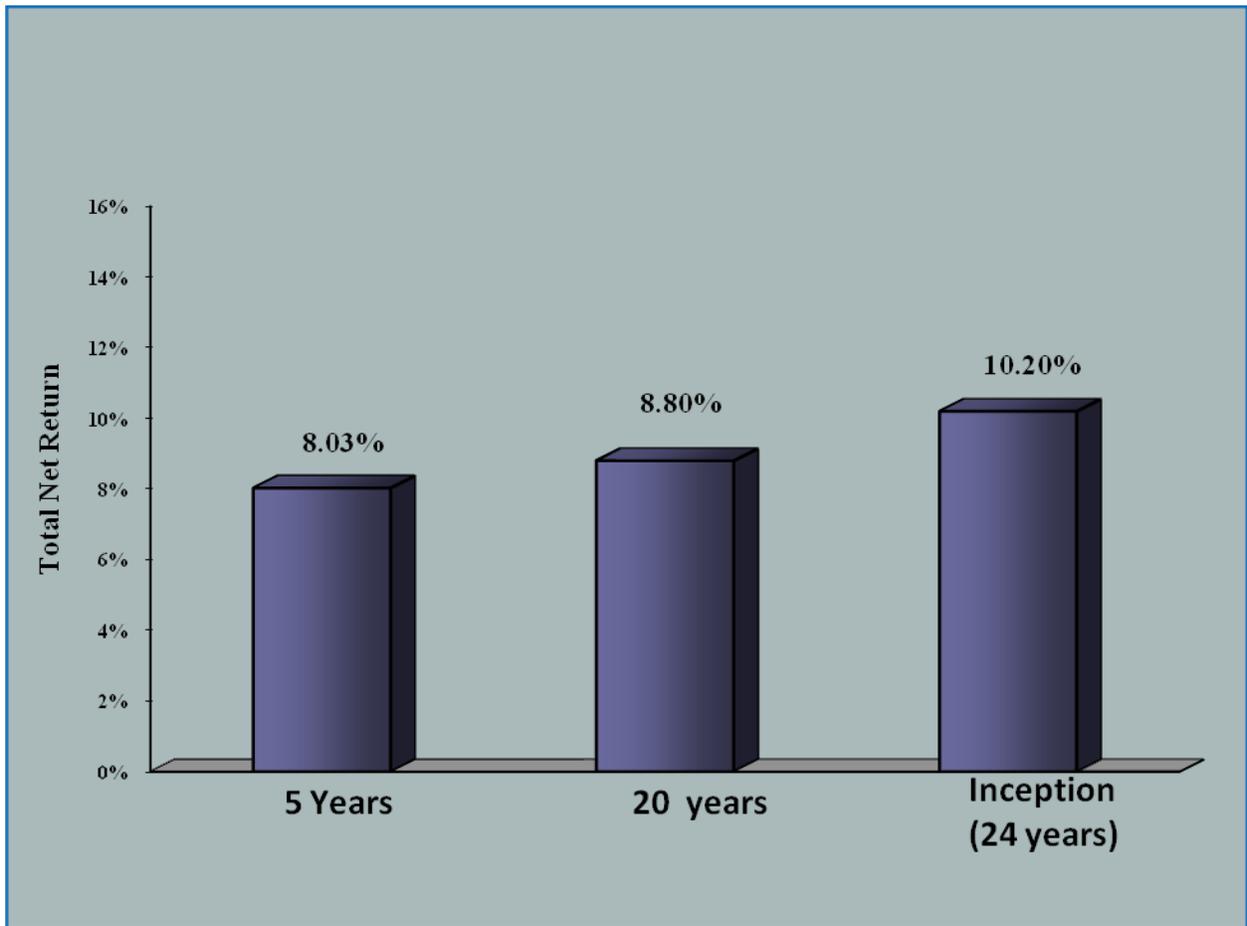
Staff will continue to develop outreach strategies to ensure appropriate communication of the System's mission and performance to all interested parties.

## PERFORMANCE MEASUREMENTS

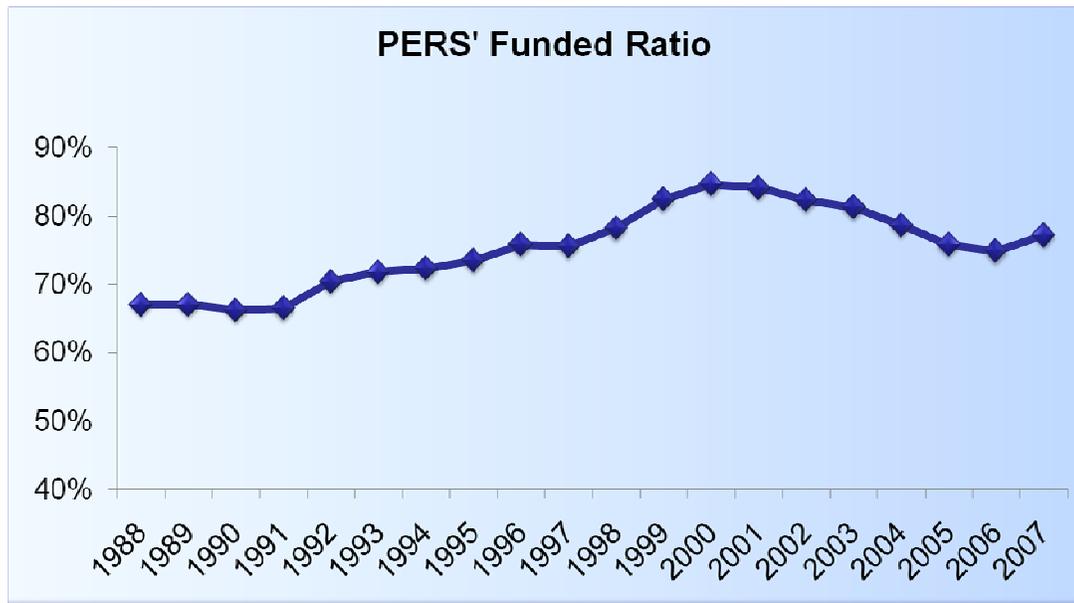
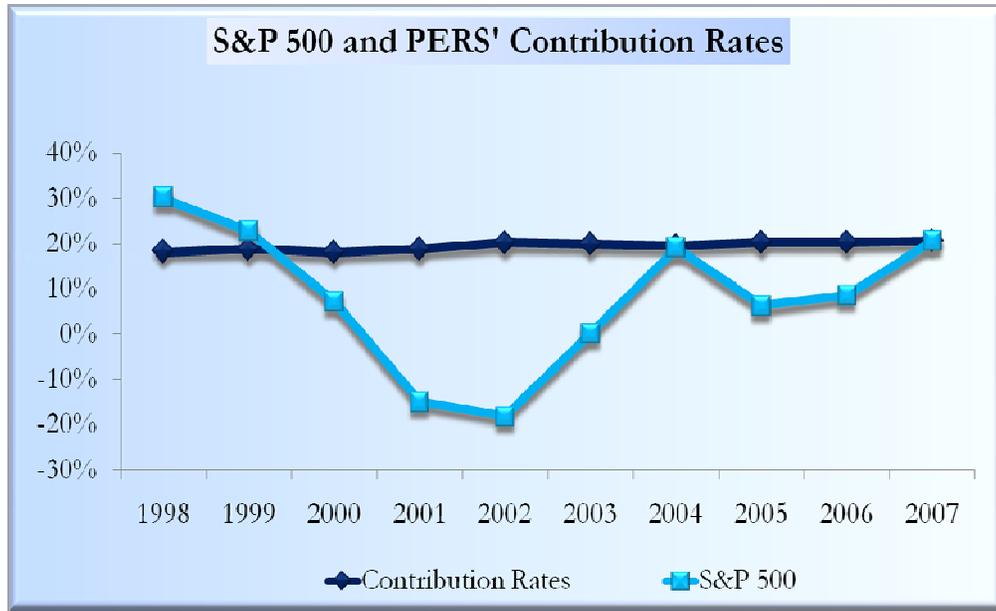
### Operational Costs



**PERS' Investment Return**



## Contribution Rates and Funding



## PERFORMANCE AND CASELOAD INDICATORS

Our performance and caseload indicator projections to fiscal year 2011 are:

### MEASUREMENT INDICATORS - FY08 TO FY11

	FY08 Projected	FY08 Actual	FY09 Projected	FY10 Projected	FY11 Projected
1. Active Members**	105,153	104,852	108,004	111,244	114,581
2. Benefit Recipients**	38,022	38,339	40,639	43,078	45,662
3. Benefit Payroll (millions)**	1,031.6	1,029.3	1,142.5	1,268.2	1,407.7
4. Members Receiving Counseling	10,354	11,411	12,096	12,821	13,591
5. Information Programs Offered	150	198	150	150	150
6. Average Response Time for Written Inquiries (days)	10	3.80	10	10	10
7. Written Complaints Received from Benefit Recipients	10	3	10	10	10
8. Administrative Costs per Active Member/Benefit Recipient	74.92	71.18	70.39	63.18	61.02
9. Portfolio-At Market Value (billions)**	24.30	22.00	23.76	25.66	27.71
10. Total Return on Investments	8.0	-3.4	8.0	8.0	8.0
11. Real Return on Investments	4.5	-8.4	4.5	4.5	4.5
12. Ratio, Net Assets to Liabilities	78.2	*	*	*	*
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 2008 actuarial valuation in November 2008.

\*\* - These are estimated and will be finalized after the financial statements and actuarial valuations for FY08 are completed.