

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the State of Nevada



POPULAR ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2008

PUBLIC EMPLOYEES' RETIREMENT BOARD

Sue DeFrancesco	Chairman	2009
Charles A. Silvestri	Vice Chairman	2011
Elizabeth Fretwell	Member	2010
Purisimo B. Hernandez	Member	2009
David F. Kallas	Member	2010
George W. Stevens	Member	2011
Warren Wish	Member	2009

Terms expire on June 30 of year noted.



Top Row (from left): Sue DeFrancesco, Chairman, Charles A. Silvestri, Vice Chairman, Elizabeth Fretwell, and Purisimo B. Hernandez

Bottom Row (from left): David F. Kallas, George W. Stevens, and Warren Wish

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RETIREMENT STAFF

Dana K. Bilyeu	Executive Officer
Tina M. Leiss	Operations Officer
Ken Lambert	Investment Officer
Steve Edmundson	Assistant Investment Officer

Division Supervisors:

Ann Schleich	Accounting
Brian Snyder	Employer & Production Services
Oliver Owen	Information Technology
Debra Thomsen	Internal Audit
Lynette Jones	Member & Retiree Services

LEGAL COUNSEL

Christine Munro, Senior Deputy Attorney General, Carson City, Nevada

MEDICAL ADVISOR

G. Bruce Nickles, M.D., Carson City, Nevada

POLICE AND FIREFIGHTERS' RETIREMENT FUND ADVISORY COMMITTEE

William Loncar	Chairman	2010
Richard Tiran	Vice Chairman	2009
John Chase	Member	2010
Chris Collins	Member	2009
Raymond McAllister	Member	2011

Terms expire on June 30 of year noted.

THE SYSTEM'S ADVISORS

Consulting Actuary – The Segal Company, San Francisco, California
Independent Auditors – Clifton Gunderson LLP, Baltimore, Maryland
Investment Consultant – Callan Associates, Atlanta, Georgia



Mission Statement

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.

Message From Dana Bilyeu, Executive Officer

It is a pleasure to present the Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2008. This report provides an overview of financial, investment, and statistical information in a simple, easy to understand format.

The information herein is derived from the Comprehensive Annual Financial Report (CAFR). The CAFR is produced in accordance with Generally Accepted Accounting Principles (GAAP) and is independently audited. The PAFR is intended to supplement the CAFR, not replace it. The PAFR does not include all funds administered by the Public Employees' Retirement System of Nevada (System or PERS) nor does it include certain other information required to be in conformity with GAAP.

The System was established by the Nevada Legislature in 1947. By July 1, 1949, the System had approximately 3,000 members and 64 retirees. At the end of fiscal year 2008, the System had 173 participating employers, 106,123 active members, and 38,130 retirees and beneficiaries. The System is comprised of two sub-funds, Regular, consisting of members who are not police or fire employees, and Police and Firefighters (Police/Fire). The Regular sub-fund was established to provide retirement, disability, and survivor benefits for public employees with the exception of those who are police officers or firefighters. The Police/Fire sub-fund was established to segregate accounting for retirement and survivor benefits related to members who are police officers or firefighters. All services provided by staff are performed in order to meet those objectives.

One of the principal goals of the Public Employees' Retirement Board (Board) has been to stabilize contribution rates during volatile investment market cycles and demographic changes and to ensure cost predictability to employers and members. The 2008 actuarial valuation shows that the tools the Board has put in place to meet these objectives are working, while maintaining the retirement security of all public employees.

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the Public Employees' Retirement System of Nevada for its Popular Annual Financial Report for the fiscal year ended June 30, 2007. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.



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In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

An award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. The Public Employees' Retirement System has received a Popular Award for the last two consecutive years (fiscal years ended 2006 and 2007). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

**Public Employees' Retirement
System of Nevada**

for the Fiscal Year Ended

June 30, 2007



M. L. Rott
President

Jeffrey L. Esser
Executive Director



Fiscal Year 2008 Highlights

Legislation

The Nevada Legislature convenes on a biennial basis in odd-numbered years. During the interim between legislative sessions, PERS worked with legislative staff on pension-related issues. Following the 2007 legislative session, the Retirement Board reviewed the System's Official Policies and determined that no changes were necessary as a result of legislative action.

System Governance

During this past year the Board completed a self-assessment process with the assistance of executive staff and a consultant. The Board also completed a review of compliance with the governance policies. The review covered more than 100 separate provisions of the governance policies. The compliance review report concluded that the Board and staff are adhering to the spirit and letter of the governance policies. No major exceptions were identified.

This year the Board Chairman appointed a sub-committee to work with staff to review each policy and charter to ensure the policies remain current and relevant. The sub-committee process provides an opportunity for in-depth discussions on individual policies and a framework for Board feedback to staff on draft changes. The sub-committee is scheduled to complete the review of all policies and charters, with appropriate recommendations to the Board, during fiscal year 2009.

Operational Initiatives

Operations of the System are conducted in accordance with the Operational Yearly Plan. This plan is designed to organize all agency functions by department and to ensure that all duties are performed within the fiscal year. PERS' performance is measured, in part, by total member and retiree workload. During fiscal year 2008, the System completed approximately 92,500 pieces of work. Of this group, 74,000 were directly related to customer requests, with the remainder relating to back office support. Approximately 92% of all work was performed within the ten working day benchmark.

Benefit payments were made to approximately 38,000 benefit recipients monthly. The System completed 7,180 one-fifth of a year purchases for educational employees and 1,466 service credit audits for the Public Employees' Benefits Program (PEBP). The electronic enrollment process was introduced to non-choice public employers for the first time during this fiscal year. This process allows employers to directly enroll new members by submitting a data file which is downloaded into the C*A*R*S*O*N System. Staff will be providing group training for employers during the 2009 fiscal year.

In order to better serve our members and retirees in southern Nevada, a new Las Vegas office was opened in the Summerlin area which is in a location geographically diverse from the System's existing Las Vegas office. The new office was officially opened on January 14, 2008.

PERS continued participation in a benchmarking analysis service in fiscal year 2008. The purpose of the analysis was to help PERS understand how our total administrative costs and service levels compare to our

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peers. The most recently completed report shows that PERS provides a good level of service to the members and beneficiaries at a cost below the median from its peers.

The 4th Annual Liaison Officer Conference was held in Las Vegas on November 15, 2007. The public employer attendees were organized into three groups based on agency type. This grouping provided the opportunity for PERS staff to effectively address the specialized issues related to each employer type. Reviewing the conference attendee surveys completed at the end of the conference revealed 97% of attendees rated the conference good or excellent.

Information Technology

The System continued to work to improve the functionality of the website for our members, retirees, and employers. On-line programs were developed for PERS' service retirement, disability retirement, and purchase of service programs.

The System is migrating the current pension processing system from the Forte product to a Java based system. This migration was necessary due to the announced end of life of the Forte product. The current system came on line in 2001 and has been very successful. The Java migration, which has been underway for approximately nine months, will allow the System to keep the functionality of the current pension processing system, with virtually no interruption to the end users, while migrating to a system that will continue to be supportable. This project is currently on schedule and on budget.

Staff continued to enhance the System's disaster recovery site in fiscal year 2008 through ongoing testing of various System processes. In addition, PERS maintained its security certification through an information technology security consultant and continues to participate in this security review on an ongoing basis.

Strategic Planning

Annually, the Retirement Board reviews the System's strategic plan for updates, including both additions and deletions. Beginning in 2006, after research in strategic planning within the public pension community, the strategic plan for Nevada PERS was significantly modified to better reflect the core nature of the business of the agency. This new format proved helpful in the fiscal year 2008 revision to the strategic plan which included the following sections: Introduction, Mission, Philosophy, Core Values, Organization and History, Goals and Objectives, Strategies, Internal Assessment, External Assessment, and Performance and Caseload Indicators. Language was modified in the Internal Assessment and External Assessment sections to include progress updates on legal management and information technology as well as a section on social investing issues. The updated Strategic Plan is available on PERS' website.



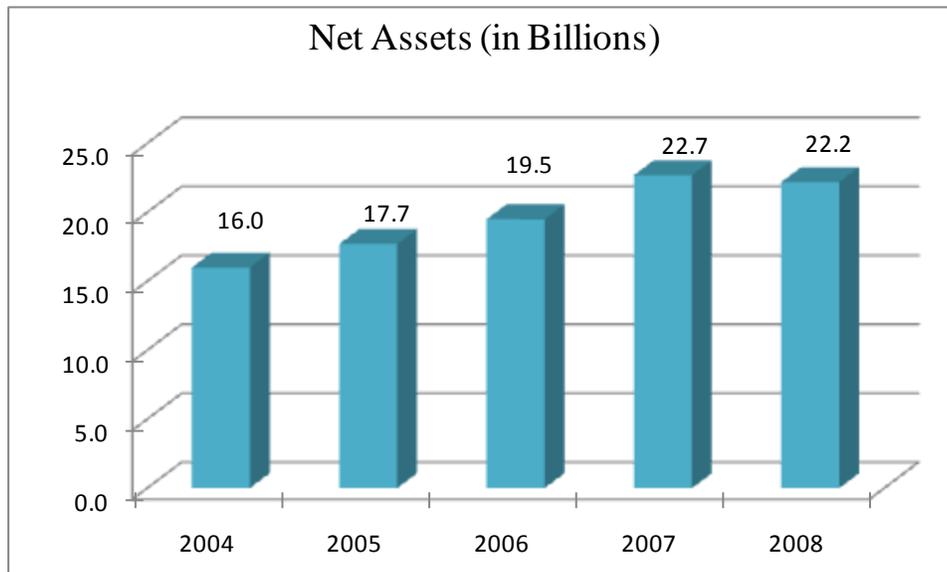
Financial Highlights

Net assets (total assets minus total liabilities) decreased by \$503.4 million or 2.2% to \$22.2 billion as of June 30, 2008.

Total net investment loss was \$743.1 million in fiscal year 2008, a decrease from the \$2.9 billion gain in fiscal year 2007.

Total investments, excluding securities lending collateral, at June 30, 2008, decreased by \$744.0 million or 3.3% to \$22.0 billion.

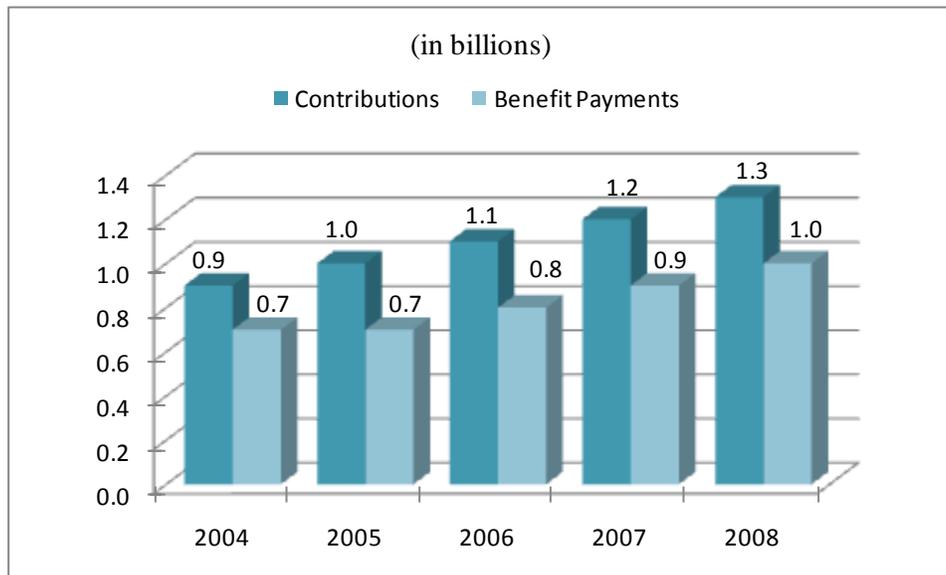
As of June 30, 2008, the most recent actuarial valuation, the System was 76.2% funded, compared to a funding level of 77.2% as of June 30, 2007.



Total contributions for fiscal year 2008 increased by \$123.2 million or 10.5% to \$1.3 billion.

Benefit payments for fiscal year 2008 increased by \$103.8 million or 11.2% to \$1.0 billion.

Refunds of contributions decreased by \$0.6 million or 3.6% to \$16.8 million.



The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. As of June 30, 2008, the Plan held equity and debt obligations of Lehman Brothers Holdings Inc. On September 14, 2008, Lehman Brothers Holdings Inc. declared bankruptcy. The ultimate value of the Plan's Lehman debt securities will not be known until the bankruptcy proceedings are completed.

Although the PERS investment program was unable to generate the 8% actuarial goal for fiscal year 2008, the fund did outperform its market objective and ended this year with approximately \$22.0 billion in investment assets, as compared to fiscal year 2007's \$22.8 billion. After four consecutive years of positive investment returns, due to the weakening economy and severe credit market crisis, PERS posted negative results. Fiscal year to date return hovered near 0% for the majority of the year, but in the last month of the fiscal year the U.S. stock market posted the worst June performance since the Great Depression (78 years).

The State of Nevada as a whole continues to experience steady growth. Contributions have grown along with this trend. Fiscal year 2008 contributions increased 10.5% from the previous year. Other income decreased 27.4% from 2007. Most of this change can be attributed to a decrease in purchases of service between the two years. Withdrawn contribution repayments and purchases of service, by nature, are unpredictable from year to year.

Benefit payments increased 11.2% in 2008 from 2007. This rate of increase is reasonable and consistent with those experienced over the past several years.

The transfer of contributions to the Judicial Retirement System (JRS) increased from 2007 as members continue to transfer from PERS to JRS. During fiscal year 2008, transfers totaling \$2.6 million were made.

The Summary Comparative Statement of Fiduciary Net Assets is a summary of the net assets available to pay future payments and gives a snapshot at a particular point in time.

Summary Comparative Statement of Fiduciary Net Assets

	As of June 30, 2008	As of June 30, 2007
Total assets	\$25,650,928,291	\$27,052,244,143
Total liabilities	(3,452,919,759)	(4,350,884,185)
Net assets available for benefits	\$22,198,008,532	\$22,701,359,958

The Summary Comparative Statement of Changes in Fiduciary Net Assets shows the flow of money in and out of the fund during the year.

Summary Comparative Statement of Changes in Fiduciary Net Assets

	For the Year Ended June 30, 2008	For the Year Ended June 30, 2007
Total additions	\$558,002,173	\$4,115,846,295
Total deductions	(1,061,353,599)	(957,369,949)
Net change	(503,351,426)	3,158,476,346
Net assets, beginning of year	22,701,359,958	19,542,883,612
Net assets, end of year	\$22,198,008,532	\$22,701,359,958

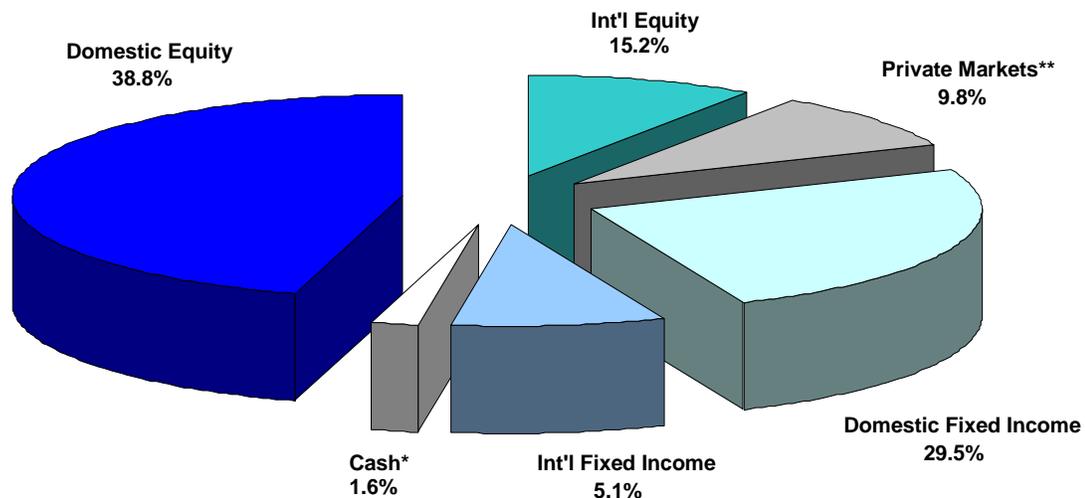
Investments

The System's ability to provide retirement benefits to its members is influenced by the performance of the investment portfolio. Approximately 14% of the benefits the average member will receive in retirement are funded from contributions. The remaining 86% are generated from investment earnings.

The investment portfolio is designed to meet the funding objectives of the System while taking the least possible risk. This cautious stance is defined by the prudent person standard outlined in the statute which sets guidelines for the System's administration. The standard states that the Board may invest the System's funds in every type of investment which persons of prudence, discretion, and intelligence acquire or retain for their own account. By establishing a well diversified investment portfolio, the System has strengthened control over the fund's risk and return parameters.

Asset allocation is one of the most important factors in designing an investment portfolio to provide protection against large fluctuations in portfolio returns and to stabilize the overall investment earnings. Not all categories, styles, managers, and assets react to movements in the investment markets in the same manner. Therefore, one investment that is not favored by the market should be offset by another which is doing well. The Board annually reviews the estimated returns and risks associated with major types of investments to determine the best blend of investments that will meet the risk/return comfort level for the PERS portfolio. The following chart shows the asset mix at June 30, 2008.

PERS' investment portfolio is diversified to control risk and maximize return under a variety of economic conditions.



*Includes cash held by investment managers.

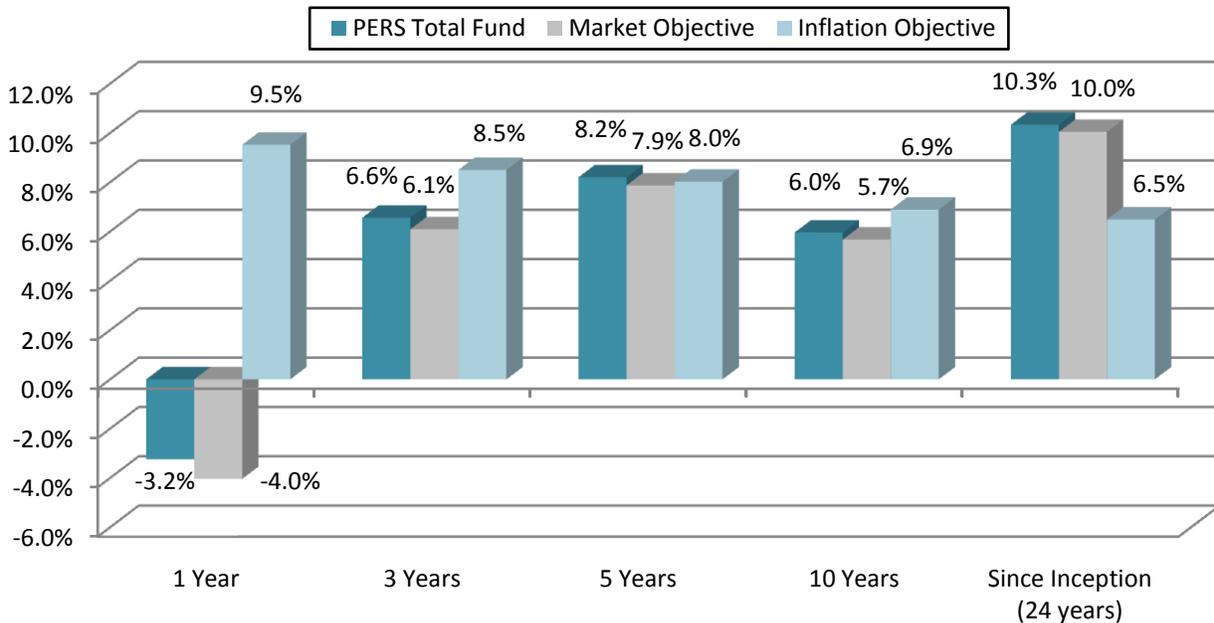
**Includes 2.4% Private Equity, 2.1% REITS, and 5.3% Private Real Estate.



The portfolio return is compared to specific benchmarks as a way of evaluating the fund’s performance. The chart below illustrates PERS’ portfolio performance over a variety of time periods. The fair value of the System’s investment assets at the end of fiscal year 2008 was \$22.0 billion. The fund’s annualized rate of return is 10.3% since inception (24 years) versus the long-term actuarial objective of 8.0%. The fund is competitive on a risk-adjusted basis, ranking in the top 15% of public funds for that same time frame.

Your retirement system experienced a loss of 3.2% in fiscal year 2008. While the fiscal year returns were below our long-term assumptions, they were quite competitive versus other large public pension plans, ranking in the top third of all plans for the year.

**CHART 2
Annualized Total Returns vs. Market Objective and Inflation Objectives
Periods Ended June 30, 2008**



Multiple performance objectives are utilized to monitor the fund at the total portfolio and asset class level. Those objectives include:

- Total Fund - 8.0% long-term return which exceeds the rate of inflation (CPI) by 4.5% by capturing market returns within each asset class.
- Asset Class Objectives
- U.S. Stock - S&P 500 Stock Index
- International Stock - Morgan Stanley Capital International Europe, Australia, Far East (MSCI EAFE) Index (unhedged)
- U.S. Bonds - Lehman Aggregate Bond Index
- International Bonds - Citigroup Non-Dollar Government Bond Index
- Private Markets - Blended return (based on PERS actual allocation) of: the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index, Wilshire Real Estate Investment Trust (REIT) Index, and S&P 500 Index + 4%.



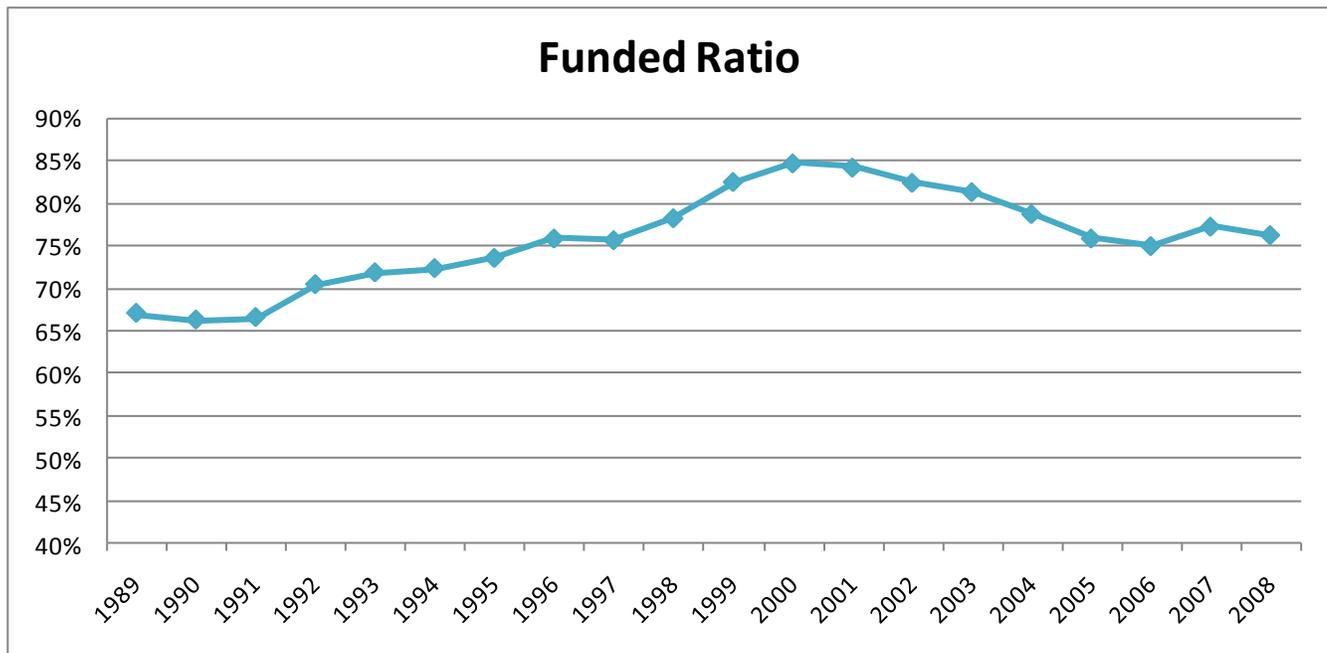
Actuarial

One measure of a pension fund's health is its funded status. To determine the funded status, we compare the assets available to the benefits we must pay. One factor to keep in mind is that all benefits the System is obligated to pay are not due and payable immediately. The System's funding objective is to pay long-term benefits through contributions (and investment return on such contributions) that remain relatively level from year to year. The amount contributed is a percentage of the salaries earned by members. Using this methodology members and employers each pay equally for retirement service accrued by active members in any given year. In order to ensure benefits are available to you, PERS is constantly evaluating the plan's assets relative to the value of the liabilities.

Contribution rates have remained stable during a negative market cycle. According to PERS' actuary, The Segal Company, the plan is strong and sound per their annual review. Although the System receives an annual actuarial valuation indicating the contribution rates required to fund the System on an actuarial reserve basis, contributions actually made are in accordance with the rates established by the Nevada Legislature.

Funded Ratio

The funded ratio at June 30, 2008, is 76.2%. This is a slight decrease of 1.3% from fiscal year 2007. The funded ratio of PERS has been relatively stable during the volatile market cycle. While the System's funded ratio went down in the period from 2001 to 2006, the conservative nature of PERS' investment strategy has metered the impact investment losses have had on the overall funded ratio of the System. Below is a chart showing the funding levels of PERS over the last two decades.



Membership

Our motto at PERS is “Dedicated to Those Who Serve Nevada.” To that end, during fiscal year 2008 we:

- Answered 126,434 telephone inquiries from members and benefit recipients
- Received 496,645 hits at the PERS website
- Responded to more than 2,069 emails
- Provided individual counseling to approximately 11,411 members and benefit recipients
- Conducted 198 informational programs that were attended by more than 9,704 PERS members, benefit recipients, and others
- Processed 2,936 retirement, survivor, and disability benefit applications
- Made benefit payments to approximately 38,000 beneficiaries with a total annual benefit payroll exceeding \$1 billion
- Hosted an employer conference that was attended by 146 representatives from 74 employers

PERS participates in a performance benchmarking service designed to review the System’s operational performance. The most recently completed (FY 2007) analysis showed that PERS provides a good level of service at substantially lower administration costs than other peer retirement systems. Our adjusted administrative cost was \$57 per active member and annuitant versus the peer median of \$72 and the peer average of \$79. Our staff administered 2,191 active members and annuitants per full-time equivalent versus the peer median of 1,632 active members and annuitants per full-time equivalent.

The analysis estimates what our cost should be per active member and annuitant based on our transaction types and volume. This cost is referred to as our total benchmark cost. For fiscal year 2007 our total benchmark cost was \$100 per active member and annuitant compared to our actual cost of \$57 per active member and annuitant.

Web functionality continues to improve for our benefit recipient population, providing retirees with on-line access to individual benefit accounts. Information available to retirees includes deduction screens, check screens, address and bank routing screens, as well as 1099R information.

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The chart below shows a ten-year history of both the active and retired membership of PERS. Total membership has experienced an annual increase of approximately 4.65% over the past ten years. The number of active members has increased at a slower rate than the rate of increase in retired and retired disabled members. As a result, the number of active members per retired/retired disabled member (excluding beneficiaries and survivors) has changed from 4.3 active members per retiree in 1999 to 3.2 active members per retiree in 2008.

Retirement System Membership 1999 to 2008

<u>June 30</u>	<u>Active Members</u>	<u>Inactive Members</u>	<u>Retired and Disabled Members</u>	<u>Beneficiaries & Survivors</u>	<u>Total Membership</u>
1999	77,252	5,212	18,038	2,984	103,486
2000	80,834	5,592	19,482	3,153	109,061
2001	82,890	6,276	20,827	3,250	113,243
2002	85,224	6,965	22,011	3,524	117,724
2003	87,327	7,687	23,371	3,669	122,054
2004	90,242	7,829	24,938	3,830	126,839
2005	93,995	9,182	26,962	4,037	134,176
2006	98,187	10,309	29,025	4,237	141,758
2007	103,693	10,990	31,262	4,425	150,370
2008	106,123	11,593	33,479	4,651	155,846

Statistics

Average Age and Service Statistics for Active Members*

	<u>1999</u>	<u>2008</u>
Regular members:		
Average age	43.9	45.1
Average years of service	8.3	8.4
Police/Fire members:		
Average age	39.3	39.3
Average years of service	9.6	9.8

Average Salaries for Members*

	<u>Regular</u>	<u>Increase</u>		<u>Police/Fire</u>	<u>Increase</u>	
June 30, 1999	\$33,397			\$45,283		
2000	35,185	5.4	%	48,857	7.9	%
2001	36,615	4.1		50,587	3.5	
2002	38,106	4.1		55,628	10.0	
2003	39,193	2.9		56,907	2.3	
2004	40,069	2.2		59,008	3.7	
2005	40,901	2.1		61,277	3.8	
2006	41,929	2.5		64,250	4.9	
2007	43,355	3.4		66,316	3.2	
2008	46,159	6.5		70,194	5.8	
Annual increase 1999 – 2008		3.7	%		5.0	%

* Information provided by The Segal Company

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Average Benefit Payments

<u>June 30</u>		<u>Regular Members</u>	<u>Police/Fire Members</u>
1999	Average monthly benefit	\$1,540	\$2,333
	Average monthly compensation at retirement	\$3,743	\$5,052
	Number of new retirees	1,404	188
	Average years of service at retirement	19.30	20.27
	Average age at retirement	58	53
2008	Average monthly benefit	\$2,306	\$3,740
	Average monthly compensation at retirement	\$5,054	\$7,458
	Number of new retirees	2,710	345
	Average years of service at retirement	19.04	22.30
	Average age at retirement	60	55

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**SCHEDULE 8
PRINCIPAL PARTICIPATING EMPLOYERS**

1999

<u>Participating Agencies</u>	<u>Covered Employees</u>	<u>Rank</u>	<u>Percentage of Total System</u>
Clark County School District	19,886	1	25.75%
State of Nevada	12,019	2	15.56
Washoe County School District	5,595	3	7.24
Clark County	5,330	4	6.90
Las Vegas Metropolitan Police Department	3,051	5	3.95
University Medical Center of Southern Nevada	2,749	6	3.56
Washoe County	2,522	7	3.26
City of Las Vegas	2,457	8	3.18
University of Nevada Reno	1,873	9	2.42
Department of Transportation	1,509	10	1.95
 Subtotal	 56,991		 73.77%
All other	20,261		26.23%
Total 1999 (141 Agencies)	77,252		100.00%

2008

<u>Participating Agencies</u>	<u>Covered Employees</u>	<u>Rank</u>	<u>Percentage of Total System</u>
Clark County School District	32,719	1	30.83%
State of Nevada	15,252	2	14.37
Clark County	7,579	3	7.14
Washoe County School District	7,291	4	6.87
Las Vegas Metropolitan Police Department	5,042	5	4.75
University Medical Center of Southern Nevada	3,582	6	3.38
City of Las Vegas	2,926	7	2.76
Washoe County	2,865	8	2.70
University of Nevada Reno	2,191	9	2.06
City of Henderson	2,116	10	2.00
 Subtotal	 81,563		 76.86%
All other	24,560		23.14%
Total 2008 (173 Agencies)	106,123		100.00%



Reporting Standards

Financial data presented in this report is derived from the information contained in PERS' CAFR. However, it does not include all funds administered by PERS nor contain other information required to be in conformity with GAAP. PERS' CAFR is produced in conformity with GAAP. Please contact PERS if you would like to request a copy of the CAFR.

Contact Information

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Website: www.nvpers.org

Business Hours

8:00 a.m. – 5:00 p.m., Monday - Friday



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