Study: Nevada pension plan receives low marks

By Sean Whaley, Nevada News Bureau

CARSON CITY – The financial health of Nevada's public employee pension plan is cause for serious concern because it is only 70 percent funded as of fiscal year 2010 with a $10 billion gap, a national organization reported this week.

The Pew Center on the States said the funding ratio in Nevada is below the 80 percent benchmark that fiscal experts recommend for a sustainable program.

In 2010, Nevada paid 92 percent of the recommended contribution to its pension plans and just 21 percent of what the state should have paid to fund retiree health benefits, the study found.

Nevada's "serious concerns" grade for its pension plan is the lowest of three in the new Pew report released Monday, which examines the solvency of public pension plans across the nation. The state received a better "needs improvement" grade on the retiree health care issue. The top ranking is "solid performer."

Dana Bilyeu, executive officer of Nevada's Public Employees' Retirement System, said that while she respects the Pew center's efforts to calculate the national pension liability, the heavy reliance on the funding ratio for the state scores presents an incomplete picture.

"Nevada has always made its payments," she said. "Both the employers and the public employees themselves. And to me that is the single best measure for determining if a pension plan is in trouble."

Nevada’s contribution rates are based on an analysis by an independent actuary, and are fully paid each year despite the Pew report findings, Bilyeu said. Some other states take “pension holidays” where they defer contributions to their pensions, yet they have better grades in the study because of higher funding ratios, she said.

“I just disagree that the single driver of the score is the funding ratio,” Bilyeu said. “I have made this comment to Pew in the past but it has not made it into their methodology.”

The new report notes that the Nevada Legislature in 2009 made some reforms to the plan, which covers nearly all state and local government public sector workers, including raising the retirement age for newly hired workers to 62.

Nevada Gov. Brian Sandoval has advocated for a change to the pension plan for future workers from a defined benefit to a 401(k)-style defined contribution plan. Defined contribution plans eliminate any unfunded fiscal liability for states. The 2011 Legislature took no action on the issue but it is expected to resurface in 2013.

Nationally public pension plans lost more ground in the new study, called “The Widening Gap Update.”

“States continue to lose ground in their efforts to cover the long-term costs of their employees’ pensions and retiree health care due to continued investment losses from the financial crisis of 2008 and states’ inability to set aside enough each year to adequately fund their retirement promises,” the report said.

“States have responded with an unprecedented number of reforms that, with strong investment gains, may improve the funding situation they face going forward, but continued fiscal discipline and additional reforms will be needed to put states back on a firm footing,” the report said.

In fiscal year 2010, the gap between states' assets and their obligations for public sector retirement benefits was $1.38 trillion, up nearly 9 percent from fiscal year 2009. Of that figure, $757 billion was for pension promises, and $627 billion was for retiree health care.

The Pew report said that more than half the states' pension plans were fully funded in 2000. By 2010 only Wisconsin was fully funded, and 34 were below the 80 percent threshold – up from 31 in 2009 and just 22 in 2008.

Another group is questioning, however, whether the Pew study is actually understating the financial risk facing taxpayers because of the underfunded public pension plans.

Bob Williams, president of State Budget Solutions (SBS), a nonprofit organization advocating for fundamental reform of state budgets, said the Pew Center report understates the real funding gap for public pension plans.

The actual number for unfunded state and municipal pensions is greater than $4 trillion, he said in a statement issued today.

"The most dangerous deception in the Pew report is the failure to not recognize that public pension funds are putting more taxpayer and worker money into riskier investments," Williams said. "Ignoring this will set taxpayers up for a bigger catastrophe in the future."

"State Budget Solutions urges elected officials to understand the full scope of our nation's pension crisis," he said. "It is vital that pension reform be based on actual numbers instead of Pew's optimistic outlook."

Other analyses of the country's public pension plans, including those by the American Enterprise Institute, put the unfunded liability at much higher levels than the Pew report.

Williams said in a telephone interview that the last time

Nevada’s pension liability was calculated by the organization, it was closer to $33.5 billion, not the $10 billion reported by Pew.

The public pension crisis will be worse than Enron, he said.

“Most of the reforms in the states have addressed new hires,” he said. “They should end the defined benefit program for everyone and switch to defined contribution. It’s the only way out of the system. When you’re in a hole you have to stop digging, and most states aren’t willing to do that.”