

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
of the  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
of NEVADA**

**A COMPONENT UNIT of  
the STATE of NEVADA**



**For the Fiscal Year Ended  
June 30, 2003**

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of the  
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of NEVADA**

**A COMPONENT UNIT of  
the STATE of NEVADA**

**For the Fiscal Year Ended  
June 30, 2003**

**Dana K. Bilyeu  
Executive Officer**

693 West Nye Lane  
Carson City, Nevada 89703-1599  
(775) 687-4200



**Prepared by the PERS' Accounting Division**

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## **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.

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# INTRODUCTORY SECTION





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December 15, 2003



Dear Chairman and Members of the Board:

It is a pleasure to present the Comprehensive Annual Financial Report (CAFR) of the Public Employees' Retirement System of Nevada (System or PERS), a component unit of the State of Nevada, for the fiscal year ended June 30, 2003.

The financial statements included in this report are the responsibility of the System's management and have been prepared in accordance with generally accepted accounting principles as promulgated or adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. In management's opinion, the financial statements present fairly the financial position of the System at June 30, 2003, and changes in fiduciary net assets for the year then ended.

**RETIREMENT BOARD**

CHARLES A. SILVESTRI

Chairman  
SUE DEFRANCESCO  
Vice Chairman

Members  
MARK BALEN  
DAVID F. KALLAS  
PURISIMO B. HERNANDEZ  
GEORGE W. STEVENS  
WARREN WISH

**EXECUTIVE STAFF**

DANA K. BILYEU  
Executive Officer

Operations Officer

LAURA B. WALLACE  
Investment Officer

693 W. Nye Lane  
Carson City, Nevada  
89703  
(775) 687-4200  
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5820 S. Eastern Avenue  
Suite 220  
Las Vegas, Nevada  
89119  
(702) 486-3900  
Fax: (702) 678-6934

Website: [www.nvpers.org](http://www.nvpers.org)

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 2003, the System had 156 participating employers 87,327 active members, and 27,040 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 (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. For more specific information on plan provisions, please refer to the Plan Summary, which begins on page 95.

This CAFR is composed of the following sections:

- ❖ an Introductory Section, which contains this letter of transmittal, a list of Administrative Personnel which includes members of the Retirement Board and principal staff, an organizational chart, and a Certificate of Achievement for Excellence in Financial Reporting;
- ❖ a Financial Section, which contains the opinion of the System's certified public accountants, PricewaterhouseCoopers LLP, the System's financial statements with notes, and certain supplementary information. This section also includes Management's Discussion and Analysis (MD&A). Users of the financial statements are encouraged to review the MD&A, which contains highlights for the year, a statement overview, and a short analysis of the statements comparing the current and previous year;
- ❖ an Investment Section, prepared in conjunction with our investment consultant, Callan Associates, which contains a report on investment activity, investment policies, investment results, and various investment schedules;
- ❖ an Actuarial Section, which contains the Actuary's Certification Letter prepared by the System's consulting actuaries, The Segal Company, and the results of their annual actuarial valuation;
- ❖ a Statistical Section, which includes significant data pertaining to the System's membership and benefit recipients;
- ❖ our Plan Summary.

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## **INTRODUCTORY SECTION**

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We hope that you and the members of the System will find this CAFR helpful in understanding your public employees' retirement system.

### **Major Initiatives**

#### **Legislation**

The Nevada State Legislature convenes on a biennial basis. For 2003, the Nevada legislature passed non-fiscal pension legislation which included certain significant provisions clarifying the Retirement Act, Chapter 286 of the Nevada Revised Statutes. Senate Bill 439, the System's technical or housekeeping bill, contained several technical changes and pension reforms. Highlights include:

- Modifications to the critical labor shortage designation process. SB 439 enhanced the critical labor shortage designation process by requiring employers to recertify positions as critical after 2 years.

- Modifications to the single survivor benefit. SB 439 allows members to designate a single survivor and alternate payees to receive a portion of the benefit in the event of a member's death. This provides our members with greater flexibility in selecting beneficiaries.

## **Operational Initiatives**

Completed in the fiscal year was a board-mandated study of early retirement qualification for police and fire members designed to update the 1987 study completed by the System for report to the 2005 legislature. The board adopted several minor modifications to the police/ fire retirement criteria designed to clarify underlying statutory requirements and further the public policy supporting early retirement for public safety members.

PERS' staff continues to monitor utilization of modifications to PERS' retiree re-employment restrictions passed by the 2001 Nevada legislature. This legislation was designed to assist Nevada public employers with re-employment of retirees in areas of critical labor shortage.

Finally, the System moved, upgraded, and expanded our Las Vegas office, which now includes meeting facilities available for board meetings and training programs. This move provided opportunity for growth in counseling services for our Las Vegas area members, a goal of PERS for several years.

## **Information Technology**

Information technology highlights this fiscal year include development of the interactive web site for our members and employers. eC\*A\*R\*S\*O\*N, as it is known, went live for members at the beginning of April with greatly improved functionality over the previous website version. Members can log into the secure areas of the site and review their personal account information, as well as calculate purchase of service and benefit estimates. This functionality is designed for customer self-service so staff loads are decreased in this area and reallocated to value added services. On the non-secure side of the site, anyone can use purchase and benefit calculators with information the user inputs to the calculator. This tool can be used by our members for financial planning purposes and will provide them with as many "what if" scenarios as they can envision.

Employer functionality allows wage and contribution reporting across the Internet in such a fashion that the employers will be able to edit their reports against PERS' wage and contribution filters. This provides our employers with the opportunity to revise their reports on-line to meet PERS' requirements

## **Strategic Planning**

Strategic and tactical planning are key to the successful management of the System. These plans must address both external and internal elements ranging from financial market analysis to federal legislative efforts to member relations.

Strategic investment management includes validating our long term return and risk assumptions for our asset classes. Other strategic planning issues include continuing to coordinate and review all current communications and development of a new approach to pre-retirement programs in cooperation with our participating public employers. Operational performance benchmarking is targeted for implementation within the strategic horizon through enhanced data collection relating to service, complexity, workload volumes and activity costs such that we may be compared to a peer group of Systems most similar to PERS.

## **Summary of Financial Information**

The System's management is responsible for maintaining internal controls designed to provide reasonable assurance that transactions are executed according to management's authorization, recorded to maintain accountability for assets, and to allow the preparation of financial statements in accordance with generally accepted accounting principles. The internal

controls include written policies and procedures and are reviewed periodically by independent auditors and the System's internal audit staff. Statute requires a biennial financial audit of the System by a certified public accountant. However, the System chooses to conduct such audits on an annual basis rather than biennially.

The System is required by statute to submit a biennial budget proposal to the Budget Division of the State of Nevada, which must be incorporated with the State Executive Budget and approved by the State Legislature.

The following schedule is a summary of the pension trust funds' additions and deductions for the years ended June 30,

	<u>2003</u>	<u>2002</u>
Additions	\$ 1,483,778,835	\$ 393,603,616
Deductions	<u>(619,187,629)</u>	<u>(557,536,785)</u>
Net Additions(Deductions)	<u>\$ 864,591,206</u>	<u>\$(163,933,169)</u>

Additions increased by \$1.09 billion, due mainly to an increase in net investment income of \$1.04 billion. Deductions increased by \$61.7 million due to increases of \$58.8 million in benefit payouts and a one time transfer of \$6.7 million in contributions from the Public Employees' Retirement System to the Judicial Retirement System for judges transferring from one retirement system to the other. These increases were offset by a reduction in refunds of contributions.

### **Funding**

The System's basic funding policy provides for periodic contributions at a level pattern of cost as a percentage of salary throughout an employee's working lifetime in order to accumulate sufficient assets to pay benefits when due.

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 State Legislature.

## **INTRODUCTORY SECTION**

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Level cost, as a percentage of salary contribution rates as determined by the actuary, was calculated using the "entry age normal" cost method and other significant actuarial assumptions detailed beginning on page 70. The System uses this actuarial method to amortize the unfunded liability over a period of 21 years from July 1, 2003. Funding levels are presented on page 36 in the Financial Section of this report. The funded ratio for all members is 81.3% in 2003, a slight decrease from 82.4% in fiscal year 2002.

### **Investment Division**

The responsibility of the System to provide retirement benefits to its members is influenced by management of the System's investment portfolio. Approximately 20% of the benefits the average member will receive in retirement are funded from contributions, the remaining 80% are generated from investment earnings.

The strategy employed to accomplish the goal of earning an appropriate return must be tempered with caution due to the level of risk which accompanies various types of investments. 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 Public Employees' Retirement 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 the most significant factor influencing the return and risk profile of the investment program. Determination of the fund's long-term asset allocation involves estimating the expected return and risk of major types of

investments and blending them into a portfolio which meets the System's needs. This blend of asset types will provide protection against large fluctuations in portfolio returns. In fiscal year 2004, the Board will consider modifications to risk/return expectations and the asset allocation strategy.

The fund is diversified among investment categories, styles of management, managers, and assets. 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 markets should be offset by another which is doing well.

As it relates to management, the Board shifted the International Bond portfolio structure to 50% index / 50% active management last fiscal year to reduce tracking versus the market. Two index managers were subsequently retained. To address active management concerns, three active managers were terminated, two in U.S. Bonds and one in Real Estate. Two new active managers were retained in the U.S. Bond portfolio.

The fair value of the Systems' investments at the end of fiscal year 2003 was \$14.0 billion. The portfolio return objective, as of September 2003, is 3.75% over the Consumer Price Index (CPI) of 2.11%, for a total fiscal year 2003 return objective of 5.86%. The System's total return on investments for the same period was 5.0%, which includes both realized and unrealized gains. This was influenced by disappointing returns from the stock markets. Importantly, the fund's annualized rate of return was 10.9% since inception (19 years) versus our long-term actuarial objective of 8%. The fund is competitive on a risk-adjusted basis, ranking in the top 10% of public funds for that same time frame. The Investment Section beginning on page 45 addresses specific activity and results in the portfolio.

### **GFOA Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Public Employees' Retirement System of Nevada for its comprehensive annual financial report for the fiscal year ended June 30, 2002 (see page 16). This was the thirteenth consecutive year the System has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current report continues to meet the Certificate of Achievement Program requirements and are submitting it to the GFOA for consideration again this year.

### **Professional Services**

Professional consultants are hired to perform services essential to the efficient operation of the System. The Report of Independent Auditors, Consultant's Report of Investment Activity, and the actuary's certifications are included in this report. The System's consultants are listed on pages 14 and 46.

### **Acknowledgements**

This report reflects the combined effort of the System's administrative staff. It is intended to provide complete and reliable information as a basis for making management decisions, determining compliance with legal provisions, and determining the responsible stewardship of assets contributed by the members and their employers.

I would like to express my appreciation to the staff, consultants, Board, and other associates whose efforts ensured the successful operation of the System in 2003.

Respectfully submitted,

Dana K. Bilyeu  
Executive Officer

## **INTRODUCTORY SECTION**

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### **ADMINISTRATIVE PERSONNEL**

#### **PUBLIC EMPLOYEES' RETIREMENT BOARD**

Charles Silvestri	Chairman	2007
Sue DeFrancesco	Vice Chairman	2005
Mark Balen	Member	2006
Purisimo B. Hernandez	Member	2005
David F. Kallas	Member	2006
George W. Stevens	Member	2007
Warren Wish	Member	2005

Terms expire on June 30 of year noted.

#### **RETIREMENT STAFF**

Dana K. Bilyeu	Executive Officer
Vacant	Operations Officer
Laura B. Wallace	Investment Officer
Ken Lambert	Assistant Investment Officer

#### **Division Supervisors:**

Ann Schleich	Accounting
Patti Keyes	Employer & Production Services
Paula Darragh	Information Technology
Mary Pistoresi	Internal Audit
Holly Zimmerman	Member & Retiree Services

#### **LEGAL COUNSEL**

Tina Leiss, Deputy Attorney General, Carson City

**MEDICAL ADVISOR**

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

**POLICE AND FIREMEN RETIREMENT FUND ADVISORY COMMITTEE**

William Loncar	Chairman	2004
Dean Molburg	Vice Chairman	2004
Fred Galey	Member	2006
Raymond McAllister	Member	2005
Richard Tiran	Member	2006

Terms expire on June 30 of year noted.

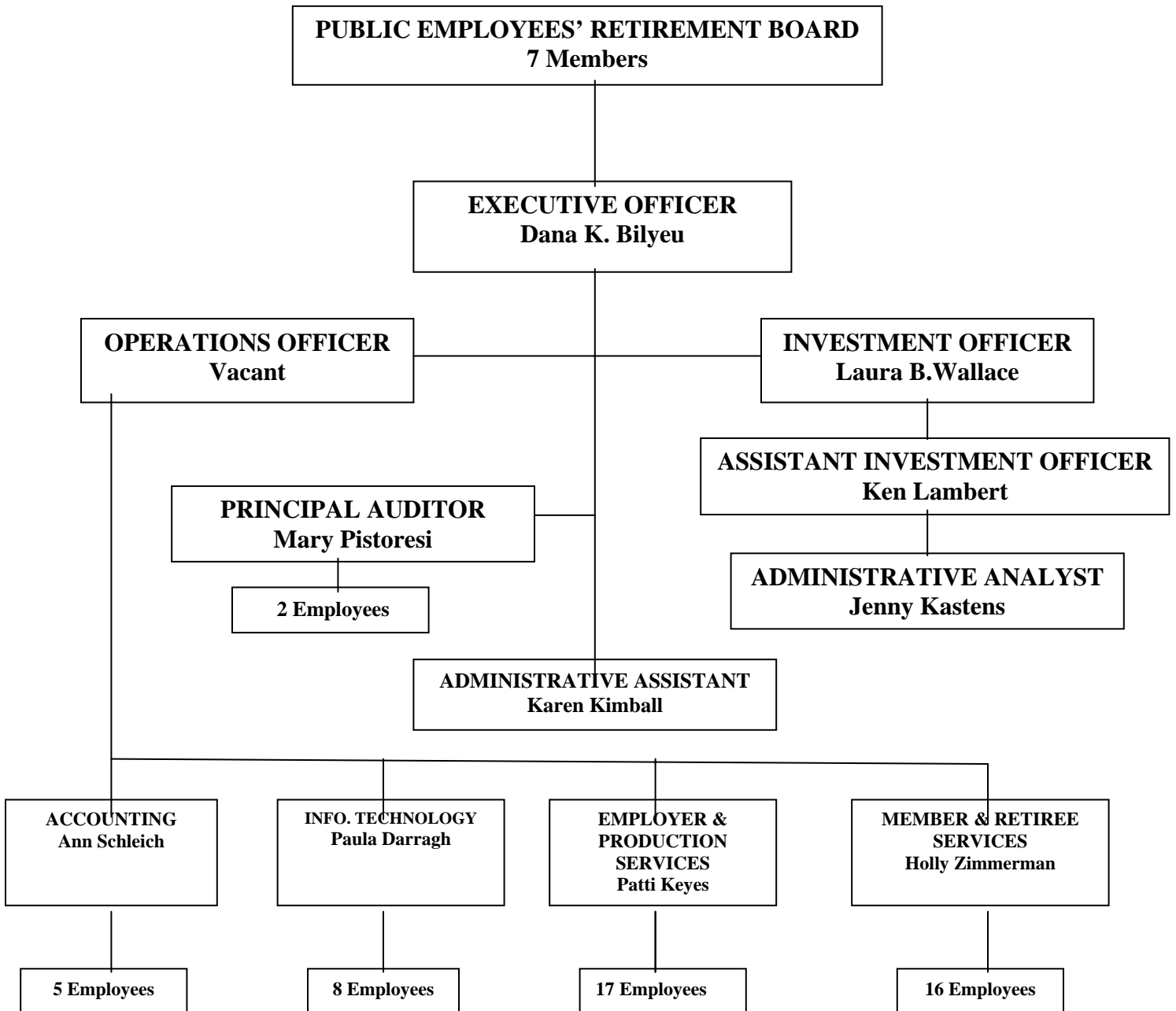
**THE SYSTEM'S ADVISORS**

Consulting Actuary – The Segal Company, Denver

Independent Auditors – PricewaterhouseCoopers LLP, Sacramento

Note: A list of investment professionals who provide services to the Public Employees' Retirement System of Nevada can be found on page 46. A schedule of fees and commissions paid to investment professionals can be found beginning on page 60.

# ORGANIZATIONAL CHART





# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Public Employees' Retirement System of Nevada

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
of NEVADA**

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**FINANCIAL SECTION**



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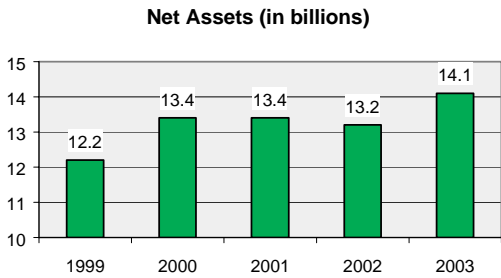
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**REQUIRED SUPPLEMENTARY INFORMATION****MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management's Discussion and Analysis (MD&A) of the financial performance of the Public Employees' Retirement System of Nevada provides an overview of the agency's financial activities for the fiscal year ended June 30, 2003. The MD&A is designed to focus on the current year's activities, resulting changes, and currently known facts. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow Management's Discussion and Analysis.

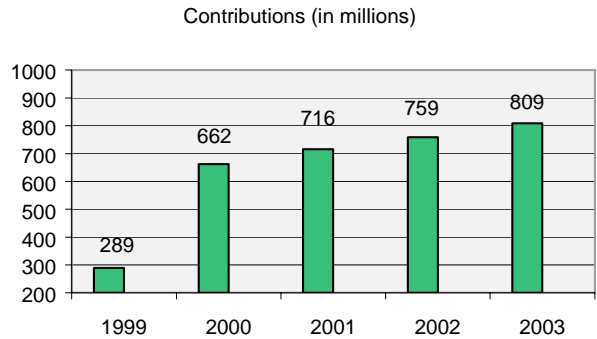
The System is responsible for administering retirement, disability, and survivor benefits for Regular members (consisting of employees within the State of Nevada, school districts, counties, cities, special districts, etc.) as well as Police/Fire members throughout the state.

**Financial Highlights**



- ◆ Net assets increased by \$864.6 million or 6.5% to \$14.1 billion as of June 30, 2003.
- ◆ Net investment income increased by \$1.0 billion or 282.9% to \$672.8 million in fiscal year 2003 from a loss of \$367.9 million in fiscal year 2002.
- ◆ Total investments excluding securities lending collateral, at June 30, 2003 increased by \$641.3 million or 4.8% to \$14.0 billion.
- ◆ As of June 30, 2003, the most recent actuarial valuation, the System was 81.3% funded, compared to a funding level of 82.4% as of June 30, 2002.

- ◆ Total contributions for fiscal year 2003 increased by \$49.5 million or 6.5% to \$808.9 million.
- ◆ Benefit payments for fiscal year 2003 increased by \$58.8 million or 11.0% to \$591.8 million
- ◆ Refund of contributions decreased by \$4.7 million or 30.0% to \$11.1 million.
- ◆ A one time transfer of contributions of \$6.7 million was made to the Judicial Retirement System for members transferring from the Public Employees’ Retirement System to the Judicial Retirement System.



**Overview of Financial Statements**

The basic financial statements consist of the: 1) Statement of Fiduciary Net Assets; 2) Statement of Changes in Fiduciary Net Assets; 3) Notes to the Financial Statements; 4) Required Supplementary Information; 5) Other Supplementary Information.

The **Statement of Fiduciary Net Assets** includes all of the System’s pension trust fund assets, liabilities, and the net assets available at the end of the fiscal year.

**FINANCIAL SECTION**

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The **Statement of Changes in Fiduciary Net Assets** reports additions to and deductions from the pension trust fund during the fiscal year presented. Over time, the increase or decrease in net assets serves as a useful indicator of the health of the System’s financial position.

The **Notes to the Financial Statements** provide additional information that is required by Generally Accepted Accounting Principles.

The **Required Supplementary Information** following the notes to the financial statements consist of schedules and related notes on the funding progress of our defined benefit pension plan, the funding progress broken down between Regular and Police/Fire members and a short history of contributions from employers.

**Other Supplementary Information** details administrative expenses, investment expenses, consultant and professional service expenses, in addition to Schedules of Fiduciary Net Assets and Changes in Fiduciary Net Assets broken down between Regular and Police/Fire members.

**Financial Analysis**

The following are summary comparative statements of the System.

**Summary Comparative Condensed Statements of Fiduciary Net Assets**

	As of June 30, 2003	As of June 30, 2002	Percentage Change
Cash and cash equivalents	\$ 631,076,979	\$ 359,692,666	75.4 %
Receivables	132,867,962	139,163,852	( 4.5 )
Trades pending settlement	467,624,294	297,417,321	57.2
Investments, at fair value	14,012,185,527	13,370,911,143	4.8
Collateral on loaned securities	1,446,475,846	1,436,110,14	0.7
Property and equipment, net	8,134,271	11,579,413	( 29.8 )
Other assets	<u>781,083</u>	<u>557,183</u>	<u>40.2</u>
Total Assets	16,699,145,962	15,615,431,723	6.9
Accounts payable and other accrued expenses	7,857,304	10,918,684	( 28.0 )
Trades pending settlement	1,170,818,130	958,999,418	22.1
Obligations under securities lending activities	<u>1,446,475,846</u>	<u>1,436,110,145</u>	0.7
Total Liabilities	<u>2,625,151,280</u>	<u>2,406,028,247</u>	<u>9.1</u>
Net Assets	<u>\$14,073,994,682</u>	<u>\$13,209,403,476</u>	<u>6.5 %</u>

**Summary Comparative Condensed Statements of Changes in Fiduciary Net Assets**

	For the Year Ended June 30, 2003	For the Year Ended June 30, 2002	Percentage Change
Contributions	\$ 808,868,692	\$ 759,355,592	6.5 %
Investment net income (loss)	672,834,767	(367,856,335)	282.9
Other income	<u>2,075,376</u>	<u>2,104,359</u>	<u>( 1.4 )</u>
Total Additions	<u>1,483,778,835</u>	<u>393,603,616</u>	<u>277.0</u>
Benefit payments	591,791,730	533,012,667	11.0
Refunds of contributions	11,086,193	15,826,195	( 30.0 )
Administrative expenses	9,600,186	8,696,239	10.4

Contribution distributions	6,691,206	0	100.0
Other expenses	<u>18,314</u>	<u>1,684</u>	<u>987.5</u>
Total Deductions	<u>619,187,629</u>	<u>557,536,785</u>	<u>11.1</u>
Net Increase (decrease)	864,591,206	(163,933,169)	627.4
Net assets, beginning of year	– <u>13,209,403,476</u>	<u>13,373,336,645</u>	<u>(1.2)</u>
Net assets, end of year	<u>\$ 14,073,994,682</u>	<u>\$ 13,209,403,476</u>	<u>6.5 %</u>

The recovery in the investment markets during fiscal year 2003 is the primary reason for the increase of 6.5% in net assets and the large increase in net investment income of 282.9% between fiscal years 2002 and 2003. Cash equivalents experienced an increase of 75.4% due to a shift in assets from various investment vehicles to cash equivalents. The System's total return on investments for the year ended June 30, 2003, was 5.0%.

A one time distribution of contributions from the Public Employees' Retirement System to the Judicial Retirement System on behalf of transferring judges resulted in a 100% increase in this item between fiscal years 2002 and 2003.

## **FINANCIAL SECTION**

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### **STATEMENT OF FIDUCIARY NET ASSETS**

June 30, 2003

(With Comparative Totals for June 30, 2002)

<b>ASSETS</b>	<u>2003</u>	<u>2002</u>
Cash and cash equivalents	<u>\$ 631,076,979</u>	<u>\$ 359,692,666</u>
Receivables:		
Contributions receivable	59,875,813	55,290,930
Trades pending settlement	467,624,294	297,417,321
Accrued investment income	<u>72,992,149</u>	<u>83,872,922</u>
Total Receivables	<u>600,492,256</u>	<u>436,581,173</u>
Investments, at fair value:		
Fixed income securities	5,047,147,902	5,006,995,300



Marketable equity securities	4,892,542,687	4,155,258,627
International securities	2,592,081,571	2,385,727,480
Mutual funds	299,349,579	507,866,631
Mortgage loans	3,410,108	3,540,771
Real estate	1,047,855,920	1,177,947,422
Alternative investments	<u>129,797,760</u>	<u>133,574,912</u>
Total Investments	<u>14,012,185,527</u>	<u>13,370,911,143</u>
Collateral on loaned securities	1,446,475,846	1,436,110,145
Property and equipment, net	8,134,271	11,579,413
Other assets	<u>781,083</u>	<u>557,183</u>
Total Plan Assets	<u>16,699,145,962</u>	<u>15,615,431,723</u>

## LIABILITIES

Accounts payable and other accrued expenses	7,857,304	10,918,684
Trades pending settlement	<u>1,170,818,130</u>	<u>958,999,418</u>
	1,178,675,434	969,918,102
Obligations under securities lending activities	<u>1,446,475,846</u>	<u>1,436,110,145</u>
Commitments and contingencies (Note 6)		
Total Plan Liabilities	<u>2,625,151,280</u>	<u>2,406,028,247</u>

### Net assets held in trust for pension benefits

(A schedule of funding progress  
is presented on page 36)

	<u>\$ 14,073,994,682</u>	<u>\$ 13,209,403,476</u>
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The accompanying notes are an integral part of these financial statements

## STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the Year Ended June 30, 2003  
(With Comparative Totals For the Year Ended June 30, 2002)

ADDITIONS	<u>2003</u>	<u>2002</u>
Contributions:		
Employer	\$ 724,030,565	\$ 680,730,753
Plan members	55,442,330	53,922,159
Repayment and purchase of service	<u>29,395,797</u>	<u>24,702,680</u>
Total Contributions	<u>808,868,692</u>	<u>759,355,592</u>
Investment Income (Loss):		
Net appreciation (depreciation) in fair value of investments	222,344,110	(840,939,305)
Interest	272,514,607	307,532,073
Dividends	111,003,853	89,110,971
Other investment income	83,957,150	93,129,707
Securities lending income	<u>25,293,441</u>	<u>49,687,972</u>

	715,113,161	(301,478,582)
Less investment expense:		
Cost of securities lending	(20,250,900)	(43,280,076)
Other	(22,027,494)	(23,097,677)
	<u>(42,278,394)</u>	<u>(66,377,753)</u>
Net Investment Income (Loss)	<u>672,834,767</u>	<u>(367,856,335)</u>
Other Income	<u>2,075,376</u>	<u>2,104,359</u>
Total Additions	<u>1,483,778,835</u>	<u>393,603,616</u>
<b>DEDUCTIONS</b>		
Benefit payments:		
Retirement and survivor benefits	559,882,001	503,793,108
Disability	31,849,644	29,156,180
Post-retirement increases	60,085	63,379
Refunds of contributions	11,086,193	15,826,195
Administrative expenses	9,600,186	8,696,239
Transfer of contributions	6,691,206	
Other expenses	18,314	1,684
	<u>619,187,629</u>	<u>557,536,785</u>
Total Deductions	<u>619,187,629</u>	<u>557,536,785</u>
<b>Increase (Decrease) in Net Assets</b>	864,591,206	(163,933,169)
<b>Net assets held in trust for pension benefits:</b>		
Beginning of year	<u>13,209,403,476</u>	<u>13,373,336,645</u>
End of year	<u>\$ 14,073,994,682</u>	<u>\$ 13,209,403,476</u>

The accompanying notes are an integral part of these financial statements

## **FINANCIAL SECTION**

### NOTES TO FINANCIAL STATEMENTS

#### **NOTE 1 – Plan Description**

##### History and Purpose

The Public Employees' Retirement System of Nevada is the administrator of a cost-sharing, multiple-employer, defined benefit public employees' retirement system which includes both Regular and Police/Fire members. The System was established by the Nevada Legislature in 1947, effective July 1, 1948. The System is administered by the State of Nevada to provide a reasonable base income to qualified employees who have been employed by a public employer and whose earning capacities have been removed or substantially impaired by age or disability.

##### Membership

At June 30, 2003, the number of participating local government employers is:

State of Nevada and Related Agencies	18
University of Nevada System	2
Schools	30
Counties	16
Cities	19
Hospitals	7
Utility, Irrigation, and Sanitation Districts	18

Any local government employer in the State of Nevada may have its Regular, Police, and Fire employees covered by the System. Membership at June 30 is as follows:

Service retirees, disability recipients, and beneficiaries receiving benefits:	<u>2003</u>	<u>2002</u>
Regular employees	22,306	21,098
Police/Fire employees	3,399	3,153
Survivor benefit recipients	<u>1,335</u>	<u>1,284</u>
Total Benefit Recipients	<u>27,040</u>	<u>25,535</u>
Inactive members:		
Regular employees	7,159	6,480
Police/Fire employees	<u>528</u>	<u>485</u>
Total Inactive Members	<u>7,687</u>	<u>6,965</u>
Active members:		
Regular employees	77,569	75,518
Police/Fire employees	<u>9,758</u>	<u>9,706</u>
Total Active Members	<u>87,327</u>	<u>85,224</u>

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 NOTES TO FINANCIAL STATEMENTS
Benefits

Benefits, as required by Nevada Revised Statute (NRS or statute), are determined by the number of years of accredited service at time of retirement and the member's highest average compensation in any 36 consecutive months. Benefit payments to which participants or their beneficiaries may be entitled under the plan include pension benefits, disability benefits, and death benefits.

Monthly benefit allowances for Regular members are computed at 2.5% of average compensation for each accredited year of service prior to July 1, 2001. For service earned on and after July 1, 2001, this multiplier is 2.67% of average compensation. The System offers several alternatives to the unmodified service retirement allowance which, in general, allow the retired employee to accept a reduced service retirement allowance payable monthly during his or her life and various optional monthly payments to a named beneficiary after his or her death.

Post-retirement increases are provided by authority of the NRS. See Note to Required Supplementary Information schedules on page 38 for detail.

Vesting

Regular members are eligible for retirement at age 65 with 5 years of service, at age 60 with 10 years of service, or at any age with 30 years of service. Police/Fire members are eligible for retirement at age 65 with 5 years of accredited police or fire service, at age 55 with 10 years of accredited police or fire service, at age 50 with 20 years of accredited police or fire service, or at any age with 25 years of accredited service.

The normal ceiling limitation on monthly benefit allowances is 75% of average compensation. However, a member who retired on or after July 1, 1977, or is an active member whose effective date of membership is before July 1, 1985, is entitled to a benefit of up to 90% of average compensation with 36 or more years of service. Both Regular and Police/Fire members become fully vested as to benefits upon completion of 5 years of service.

### Member Contributions

The authority for establishing and amending the obligation to make contributions, and member contribution rates, is set by statute. New hires, in agencies which did not elect the Employer-Pay Contribution (EPC) plan prior to July 1, 1983, have the option of selecting one of two contribution plans. One plan provides for matching employee and employer contributions, while the other plan provides for employer-pay contribution only. Under the matching Employee and Employer Contribution plan a member may, upon termination of service for which contribution is required, withdraw employee contributions which have been credited to their account. All membership rights and active service credit in the System are cancelled upon withdrawal of contributions from the member's account. If EPC was elected, the member cannot convert back to the employee/employer contribution plan.

### Termination

Upon termination or partial termination of the System, all accrued benefits that are funded become 100% vested and nonforfeitable.

## **FINANCIAL SECTION**

### NOTES TO FINANCIAL STATEMENTS

#### **NOTE 2 – Summary of Significant Accounting Policies and Plan Asset Matters**

##### Financial Reporting Entity

The Public Employees' Retirement Board (Retirement Board) is the governing body of the System with responsibility for administration and management. This autonomous, seven-member Retirement Board is appointed by the Governor of the State of Nevada.

The System has developed criteria in accordance with standards issued by the Governmental Accounting Standards Board (GASB) to determine whether other state agencies, boards, and commissions, which benefit the members of the System, should be included within its financial reporting entity as component units. A component unit is defined as a legally separate organization for which officials of the System are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with the System are such that exclusion would cause the System's financial statements to be misleading or incomplete.

In accordance with GASB, the following criteria are used when evaluating financial accountability: The ability of the System to appoint a voting majority of the organization's governing body and (1) the ability to impose its will on the other organization or (2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the System. In addition, the System may be financially accountable if an organization is fiscally dependent on the System regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

The System has no relationship with another entity that meets the above criteria, and so has not included any other entity as a component unit of its financial reporting entity.

The System is classified as a component unit of the State of Nevada for financial reporting purposes, in accordance with the provisions of GASB. Assets of the System can legally be used to pay Regular or Police/Fire beneficiaries.

### Basis of Accounting

The System uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned and become measurable. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Employee and employer contributions are recognized in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

### Organization

The System is comprised of two sub-funds.

Regular sub-fund – Established to provide retirement, disability, and survivor benefits for public employees with the exception of those who are police officers or firefighters.

Police/Fire sub-fund – Established to segregate accounting for benefits related to members who are police officers or firefighters.

### Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit and highly liquid financial instruments with original maturities of one year or less.

### Contributions Receivable

No allowance for doubtful accounts has been established since the System anticipates no material collection loss with respect to contribution receivables.

### Investments

The Regular sub-fund and the Police/Fire sub-fund are accounted for separately, based upon actual funds contributed and an allocation of the combined investment earnings. Individual investments are not specifically identified as belonging to either the Regular sub-fund or the Police/Fire sub-fund.

Plan investments are reported at fair value. Fair value is defined as the price at which an asset passes from a willing seller to a willing buyer. It is assumed that both buyer and seller are rational and have a reasonable knowledge of relevant facts. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is based on estimated current values and Member Appraisal Institute (MAI) independent appraisals. Investments that do not have an established market are reported at estimated fair value.

There is no concentration of investments in securities of a single organization that represent 5% or more of the plan's net assets (other than those issued by the U.S. Government).

Investment income is recognized as earned. Net appreciation (depreciation) is determined by calculating the change in fair value of investments between the beginning of the fiscal year and the end of the fiscal year, less purchases of investments at cost, plus sales of investments at fair value.

There are certain market risks, credit risks, foreign exchange currency risks, or event risks which may subject the System to economic changes occurring in certain industries, sectors, or geographies.

### Derivatives

Derivatives are instruments (securities or contracts) whose value is dependent on such things as stock or bond prices, interest rate levels or currency exchange rates. The Retirement Board adopted a formal written policy on the use of derivatives. The types of derivatives used and limits on their use are defined in the System's Investment Objectives and Policies. The System's Investment Objectives and Policies restrict the use of certain types of derivatives. The use of exotic, highly leveraged structured notes such as inverse floaters, Constant Maturity Treasury (CMT) floaters, range floaters, dual index floaters, and other speculative instruments tied to inappropriate reset provisions is specifically prohibited. The System's derivatives transactions are designed to reduce transaction costs, reduce foreign exchange risk, and manage market risks associated with the underlying securities. They may also reduce the System's exposure to changes in stock prices, interest rates, and currency exchange rates.

## **FINANCIAL SECTION**

### NOTES TO FINANCIAL STATEMENTS

The principal categories of derivatives employed and their uses during the year were as follows:

<b><u>Category</u></b>	<b><u>Purpose</u></b>
Foreign exchange forward contracts	Hedge currency risk of investments in foreign currencies
Exchange traded fixed income futures and options	Reduce transaction costs, control portfolio duration, enhance return
Mortgage backed securities	Diversification, enhance return (component of Lehman Aggregate Index)
Asset backed securities	Diversification, enhance return (component of Lehman Aggregate Index)

Generally, derivatives are subject both to market risk and to counterparty risk. The derivatives utilized by the System typically have no greater market risk than their physical counterparts, and in many cases are offset by exposures elsewhere in the portfolio. Counterparty risk, the risk that the "other party" to a contract will default, is managed by utilization of exchange traded futures and options where practical (in which case the futures exchange is the counterparty and guarantees performance) and by careful screening of counterparties where use of exchange traded products is impractical or uneconomical.

Derivative securities are priced and accounted for at fair value. For exchange traded securities such as futures and options, closing prices from the securities exchanges are used. For fixed income derivatives such as collateralized mortgage obligations (CMO), mortgage backed securities, and asset back securities, commercial pricing services (where available) or bid-side prices from a broker/dealer are used. Foreign exchange forward contracts are valued at the price at which the transaction could be settled by offset in the forward markets.

Management believes that it is unlikely that any of the derivatives in the System's portfolio could have a material adverse effect on the financial condition of the System. In addition, the credit, market, or legal risks are not above and beyond those risks apparent by the nature of the type of investment for any of the securities contained within the portfolio.

## Property and Equipment

Property and equipment consists of furniture, equipment, computer hardware, and computer software reported at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line depreciation method over 5 years.

## Administrative Expenses

The funds for administering the System are provided by assessment of an administrative fee for each member and benefit recipient. Monthly fees at June 30, 2003 were \$5.21 for each Regular member and benefit recipient and \$5.44 for each police/fire member and benefit recipient. PERS is required by statute to submit a biennial budget proposal to the Budget Division of the State of Nevada, which must be incorporated with the State Executive Budget and approved by the Nevada State Legislature.

## Financial Statement Presentation

Comparative data shown for the prior year has been extracted from the June 30, 2002 financial statements. It has been presented to facilitate financial analysis, but is not considered full disclosure of transactions for that year.

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NOTES TO FINANCIAL STATEMENTS

Certain reclassifications have been made to the 2002 presentation to conform to the 2003 presentation. These reclassifications have no impact on net assets or changes in net assets for the years ended 2003 and 2002.

### **NOTE 3 – Contributions Required and Contributions Made**

The System's basic funding policy provides for periodic contributions at a level pattern of cost as a percentage of salary throughout an employee's working lifetime, in order to accumulate sufficient assets to pay benefits when due.

Although the System receives an actuarial valuation on an annual basis indicating the contribution rates required to fund the System on an actuarial reserve basis, contributions actually made are in accordance with the required rates established by the Nevada State Legislature. These statutory rates are increased/decreased pursuant to NRS 286.421 and 286.450.

Level pattern of cost as a percentage of salary contribution rates, as determined by the actuary, were calculated using the "entry age normal" cost method. As of June 30, 2003, the System's unfunded accrued liability amounted to approximately \$3.7 billion. The unfunded accrued liability is being amortized over a period of 21 years from July 1, 2003.

Rates in effect for fiscal year ended June 30, 2003, were as follows:

<u>Regular Employees</u>	<u>Funding Basis</u>	<u>Disclosure Basis</u>	<u>Statutory Rate</u>
Employer-pay plan	20.32%	20.91%	18.75%
Employee/employer plan (matching rate)	10.59	10.89	9.75
<u>Police/Fire Employees</u>			
Employer-pay plan	28.81%	30.13%	28.50%
Employee/employer plan (matching rate)	14.79	15.45	14.75

For fiscal year 2003, contributions totaling \$808,868,692 (\$724,030,565 employer and \$84,838,127 employee) were made in accordance with statutory rates.

The Public Employees' Retirement Act requires an adjustment in the statutory contribution rates at the beginning of each odd-numbered fiscal year, based on the actuarially determined rates indicated in the actuarial valuation report for the immediately preceding year. However, contribution rates are only adjusted if the difference between the existing and actuarially determined rate exceeds 0.5% of salary for the Employer-Pay rates, or of 0.25% of salary for the Employee/Employer rates. Contribution rates are rounded to the nearest 0.25% of covered payroll.

Under the Employer-Pay provisions, the contributions made by employers on behalf of employees are not credited to the member's account and are not refunded upon termination. For employees covered by the Employer-Pay provisions, average compensation is increased by half the total contribution made by the public employer and may not be less than it would have been if contributions had been made by the member and the employer separately.

## **FINANCIAL SECTION**

### NOTES TO FINANCIAL STATEMENTS

Actuarially required and statutory employee and employer contribution rates, as a percentage of covered payroll, for Regular and Police/Fire members based on the June 30, 2003 actuarial valuation, and effective beginning July 1, 2003, are as follows:

<u>Regular Employees</u>	<u>Funding Basis</u>	<u>GASB Disclosure Basis</u>	<u>Statutory Rate</u>
Employer-Pay plan	20.07%	20.66%	20.25%
Employee/employer plan (matching rate)	10.51	10.81	10.50
 <u>Police/Fire Employees</u>			
Employer-Pay plan	32.60%	35.00%	28.50%
Employee/employer plan (matching rate)	16.68	17.88	14.75

#### **NOTE 4 – Retirement Fund Contributions of PERS' Employees**

Administrative employees of the System (as a participating employer) are members of the System. All participating public employers make contributions to the System at the same percentage of salary rate for Regular members as required by statute. Actuarially determined contribution requirements for administrative employees of the System are the same as all other employers within the System (See Note 3). Employer contributions for administrative employees were \$423,168 and \$389,192 for the years ended June 30, 2003 and June 30, 2002 respectively.

#### **NOTE 5 – Cash, Cash Equivalents and Investments**

##### Cash and Cash Equivalents

At June 30, 2003, the carrying amount of the System's commercial cash deposits was \$2,607,854 and the bank balance was \$9,324,481. Of the bank balance, \$100,000 was insured by the Federal Deposit Insurance Corporation (FDIC). The remaining bank balance is fully collateralized with securities held by the System's agent in the System's name.

The cash and cash equivalent balances as of June 30, 2003 are:



	<u>Fair Value</u>
Cash equivalents	
Pooled mutual funds	\$ 402,431,413
Commercial paper	72,419,832
U.S. Treasury portfolio	108,986,973
Certificates of Deposit	<u>9,873,630</u>
Total cash equivalents	593,711,848
Cash - Investments	34,757,277
Cash – Administrative	<u>2,607,854</u>
Total cash and cash equivalents	<u>\$ 631,076,979</u>

32 PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF NEVADA

## **FINANCIAL SECTION**

### **NOTES TO FINANCIAL STATEMENTS**

Cash equivalents fall under risk Category 1 as described below, except pooled mutual funds, which are not required to be categorized.

#### Investments

The investments of the System are governed primarily by the “prudent person” standard. The prudent person standard, as set forth by NRS 286.682, authorizes the Retirement Board to invest the System’s funds in “every kind of investment which persons of prudence, discretion and intelligence acquire or retain for their own account.”

The majority of the System’s investments are held by the Depository Trust Company (DTC) in DTC’s nominee name, and trading is conducted through the DTC’s book-entry system. The holder of record for the System is The Bank of New York.

The System’s investments are categorized below to give an indication of the level of credit risk assumed at June 30, 2003. The three categories of credit risk are:

Category 1 – Investments which are insured or registered, or for which the securities are held by the State or its agent in the System’s name.

Category 2 – Investments which are uninsured and unregistered for which the securities are held by the counterparty’s trust department or agent in the System’s name.

Category 3 – Investments which are uninsured and unregistered for which the securities are held by the counterparty, or by its trust department or agent, but not in the System’s name.

All investments of the System meet the criteria of Category 1, except for investments unclassified as to risk. Investments in mutual funds, mortgage loans, real estate, and alternative investments, by their nature, are not required to be categorized and therefore are unclassified as to risk.

A summary of investments as of June 30, 2003 is as follows:

Category 1: <u>Fair</u>	<u>Value</u>
Fixed income securities	\$ 4,427,344,063
Marketable equity securities	4,218,656,704
International securities	2,483,280,016
Securities lending collateral*	<u>1,446,475,846</u>
Total	<u>12,575,756,629</u>
Category 2:	<u>-</u>

Category 3:

-

\*Securities lending collateral also includes \$2,588,675 in securities, making total securities lending collateral \$1,449,064,521

## **FINANCIAL SECTION**

### **NOTES TO FINANCIAL STATEMENTS**

Unclassified as to risk:	
Mutual funds	299,349,579
Mortgage loans	3,410,108
Real estate	1,047,855,920
Alternative investments**	129,797,760
Investments held by broker-dealers under securities loans:	
Fixed income securities	619,803,839
Marketable equity securities	673,885,983
International securities	<u>108,801,555</u>
Total	<u>2,882,904,744</u>
Total Investments	<u>\$ 15,458,661,373</u>

\*\*Alternative investments consist of ownership in funds using the following investment strategies: venture capital, acquisitions, industry consolidations, subordinated debt investments and special situations.

#### Securities Lending

The System maintains a securities lending program by authorization of NRS 286.682, the "prudent person" standard previously described. Securities loaned under this program consist of U.S. Treasury Obligations, corporate fixed income securities, international fixed income securities, equity securities and international equity securities. Collateral received is made up of cash, cash equivalents, corporate fixed income securities, and U.S. Treasury Obligations. The System has no discretionary authority to sell or pledge collateral received or securities loaned. The maturities of the investments made with cash collateral generally match the maturities of securities loaned. At June 30, 2003, the weighted average maturities are 1 day for loans outstanding and 26 days for collateral/reinvestments. Collateral received must equal at least 102% of the market value of the underlying security and is marked to market daily. In accordance with the System's Investment Objectives and Policies, the securities lending agent is authorized to invest collateral only in high quality, short-term investment vehicles. The System has no credit risk exposure to borrowers, because the amount the System owes the borrowers exceeds the amount the borrowers owe the System. As of June 30, 2003, collateral was 103%. In addition, securities loaned may not exceed 33-1/3% of the total portfolio. Loss indemnification due to borrower default is provided by agents. There were no losses during the period, nor any prior period, resulting from default. Therefore, there were no recoveries of prior period losses.

The fair value of securities loaned at June 30, 2003 is \$1,402,491,377. Cash collateral received in securities lending arrangements is reported on the Statement of Fiduciary Net Assets as an asset with a related liability. At June 30, 2003, the System has collateral, consisting of cash and fixed income and equity securities, in excess of the market value of investments held by brokers/dealers under a securities lending agreement.

#### **NOTE 6 – Commitments and Contingencies**

The System has entered into investment funding commitments as of June 30, 2003. For alternative investments, the System has committed to fund an additional \$410.5 million at some future date.

The System is a defendant in litigation involving individual benefit payments and participant eligibility issues arising from its normal activities. Based upon consultation with legal counsel, management believes there will be no material adverse effect on the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets as a result of the ultimate outcome of these matters.

**NOTE 7 – Risk Management**

The System is exposed to various risks of loss related to theft of, damage to, and destruction of assets; injuries to employees; and court challenges to fiduciary decisions. To cover these risks, the System maintains commercial building and contents insurance; vehicle liability and collision/comprehensive insurance; general liability insurance; worker's compensation insurance; and employee fidelity bonds. For coverage included within the State of Nevada's policies, (all but worker's compensation insurance), the System pays its premium directly to the State. The System's worker's compensation insurance is placed with a private insurance company. There have been no reductions of insurance coverage from coverage of the previous year in any of the categories of risk. In addition, there have never been any insurance settlements which exceeded insurance coverage.

**FINANCIAL SECTION****REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF FUNDING PROGRESS****1998 to 2003**

(dollars in millions)

<u>Valuation Year</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Ratio of Assets to AAL</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Annual Covered Payroll</u>
1998	\$ 9,597.0	\$ 12,271.4	\$ 2,674.4	78.2%	\$ 2,556.6	104.6%
1999	11,104.5	13,462.9	2,358.4	82.5	2,682.1	87.9
2000	12,662.1	14,951.9	2,289.8	84.7	2,967.7	77.2
2001	14,031.1	16,664.2	2,633.1	84.2	3,168.9	83.1
2002	15,052.3	18,259.9	3,207.6	82.4	3,417.6	93.9
2003	15,883.0	19,540.7	3,657.7	81.3	3,595.5	101.7

**UNFUNDED ACTUARIAL ACCRUED LIABILITY and FUNDING RATIOS****REGULAR and POLICE/FIRE MEMBERS****1998 to 2003**

<u>June 30</u>	<u>Unfunded Actuarial Accrued Liability (millions)</u>		<u>Unfunded Actuarial Accrued Liability as % of Payroll</u>		<u>Assets as % of Total Actuarial Accrued Liability</u>	
	<u>Regular</u>	<u>Police/ Fire</u>	<u>Regular</u>	<u>Police/ Fire</u>	<u>Regular</u>	<u>Police/ Fire</u>
1998	\$1,969.4	\$705.0	90.3%	188.1%	80.1%	70.2%
1999	1,776.9	581.5	77.5	149.5	83.7	77.1
2000	1,708.9	580.9	67.7	131.5	85.9	79.5
2001	1,954.4	678.7	72.8	140.0	85.5	78.9
2002	2,433.8	773.7	84.6	143.3	83.5	78.1

2003            2,612.5            1,045.2            85.9            188.2            83.2            73.9

The accompanying note is an integral part of the required supplementary information.

**FINANCIAL SECTION**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS  
1998 to 2003**

Year ended June 30	Regular		Police/Fire		Total	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
1998	\$ 423,607,600	95%	\$114,390,100	92%	\$537,997,700	94%
1999	462,040,200	96	127,193,800	91	589,234,000	95
2000	496,794,400	96	129,349,400	99	626,143,800	97
2001	514,992,000	100	140,428,200	100	655,420,200	100
2002	550,513,000	96	158,694,400	96	709,207,400	96
2003	630,511,700	89	173,194,600	94	803,706,300	90

The accompanying note is an integral part of the required supplementary information.

**FINANCIAL SECTION****NOTE TO REQUIRED SUPPLEMENTARY INFORMATION****Actuarial Information**

The funding progress and employer contribution information presented in the Required Supplementary Information schedules were determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation for the System follows:

Valuation date		6/30/03
Actuarial cost method		Entry age
Amortization method		Level percent closed
Remaining amortization period		21 years
Asset valuation method		5-year smoothed market
Actuarial assumptions:		
Investment rate of return (Includes inflation at 3.5%)		8.0%
Projected salary increases	Regular	4.5% - 9.5%
(Includes inflation at 3.5%)	Police/Fire	6.25% - 14.75%
Cost of living (post-retirement) increases		2% after 3 years of receiving benefits 3% after 6 years of receiving benefits 3.5% after 9 years of receiving benefits 4% after 12 years of receiving benefits 5% after 14 years of receiving benefits

Trends are affected by investment experience (favorable or unfavorable), salary experience, changes in demographic characteristics of employees as well as the distribution of employees under employer-pay and employee/employer contribution provisions. Other factors include retirement experience. For example, the number of service retirements could be greater or less than expected for those with shorter or longer service. Changes in benefit provisions and in actuarial methods and assumptions also affect trends. The impact of changes in actuarial assumptions from the June 30, 2002 actuarial valuation increased the actuarial accrued liability by \$388.1 million.

**OTHER SUPPLEMENTARY INFORMATION**  
**Schedule of Administrative Expenses**  
 For the Year Ended June 30, 2003  
 (GAAP Basis)

Personnel Services:		
Staff payroll and benefits	\$3,683,778	
Retirement Board fees	<u>18,560</u>	
Total Personnel Services		\$3,702,338
Out-of-State Travel:		
Staff	15,134	
Retirement Board	9,766	
Police/Fire Committee	<u>1,461</u>	
Total Out-of-State Travel		26,361
In-State Travel:		
Staff	37,989	
Retirement Board	12,449	
Police/Fire Committee	<u>1,865</u>	
Total In-State Travel		52,303
Operating:		
Office supplies	48,406	
Equipment less than \$1,000	262	
Postage and freight	188,955	
Communications	35,883	
Printing	240,065	
Publications and periodicals	1,662	
Bonds and insurance premiums	9,430	
Contract services	401,297	
Vehicle expense	991	
Equipment rental and repair	23,434	
Building rental	197,043	
License and fees	2,111	
Dues and registration	21,584	
Medical expenses	19,650	
Host expense	2,592	
Other	<u>(14,493)</u>	
Total Operating		1,178,872
Equipment and office furniture	6,995	
Depreciation	<u>43,800</u>	
		50,795
Information technology	239,186	
Depreciation	<u>4,225,607</u>	
		4,464,793
Training		9,054
Purchasing Assessment		491
Attorney General allocation		<u>115,179</u>
<b>TOTAL EXPENSES</b>		<u><b>\$9,600,186</b></u>

**OTHER SUPPLEMENTARY INFORMATION**

**Schedule of Administrative Expenses**

For the Year Ended June 30, 2003

(Non-GAAP Budgetary Basis)

Budget vs. Actual

	<u>Budget</u>	<u>Actual Expenditures</u>	Variance <u>Under (Over)</u>
Personnel services	\$ 3,801,498	\$ 3,679,719	\$ 121,779
Out-of-state travel	39,599	26,361	13,238
In-state travel	58,179	52,303	5,876
Operating	1,122,366	1,194,246	(71,880)
Equipment and office furniture	62,513	60,905	1,608
Information technology – Operating	719,821	719,798	23
Information technology – Special Project	287,504	287,504	0
Training	16,032	9,054	6,978
Purchasing assessment	2,780	1,849	931
Attorney General allocation	115,179	115,179	0
Unallocated budgetary authority	200,000		200,000
Total	<u>\$ 6,425,471</u>	<u>\$ 6,146,918</u>	<u>\$ 278,553</u>

**Reconciliation of GAAP Basis Administrative Expenses to Non-GAAP Budgetary Basis**

For the Year Ended June 30, 2003

The budget and actual (non-GAAP budgetary basis) schedules present comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis sometimes differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of resulting differences is presented for the year ended June 30, 2003.

Administrative Expenses (Non-GAAP Budgetary Basis)	\$6,146,918
Adjustments:	
Accrued payroll	22,619
Depreciation expense	4,269,407
Capitalization of system project	(824,265)
Other	<u>(14,493)</u>
Administrative Expenses (GAAP Basis)	<u>\$9,600,186</u>



For the Year Ended June 30, 2003

Investment counselor fees	\$ 13,916,406
Mortgage loans legal and professional fees	117,352
Investment consulting fees	408,902
Depreciation expense	25,561
Equity real estate expense	7,550,640
Custodial banking fees	3,152
Investment monitoring expense	5,481
Securities lending broker rebates and fees	<u>20,250,900</u>
 Total Investment Expenses	 <u>\$42,278,394</u>

**SCHEDULE OF PAYMENTS TO CONSULTANTS**

For the Year Ended June 30, 2003

Actuary		
The Segal Company		\$ 268,669
Independent Auditors		
PricewaterhouseCoopers LLP		89,000
Technology Consultants		
Advance Total Imaging		51,702
Covansys		750,133
L.R. Wechsler, Ltd.		510
Darrin Driscoll		6,701
Administrative Legal Counsel		
State Attorney General		123,941
Groom Law Group		6,362
Medical Consultant		
Dr. G. Bruce Nickles		<u>19,280</u>
		<u>\$1,316,298</u>

Note: Information on payments made to investment professionals can be found on page 60.

**FINANCIAL SECTION**

**OTHER SUPPLEMENTARY INFORMATION**

**COMBINING SCHEDULE OF FIDUCIARY NET ASSETS**

June 30, 2003

(With Comparative Totals for June 30, 2002)

	<u>Regular</u>	<u>Police/Fire</u>	<u>Eliminations</u>	<u>Total Pension Trust Fund 2003</u>	<u>(Memorandum Only) 2002</u>
<b><u>ASSETS</u></b>					
Cash and cash equivalents	\$631,076,979	\$ -	\$ -	\$ 631,076,979	\$ 359,692,666
Contributions receivable	59,875,813	-	-	59,875,813	55,290,930
Trades pending settlement	467,624,294	-	-	467,624,294	297,417,321
Accrued investment income	72,992,149	-	-	72,992,149	83,872,922
Investments, at fair value	14,012,185,527	-	-	14,012,185,527	13,370,911,143
Collateral on loaned securities	1,446,475,846	-	-	1,446,475,846	1,436,110,145
Property and equipment, net	8,134,271	-	-	8,134,271	11,579,413
Other assets	781,083	-	-	781,083	557,183
Due from other funds- equity in investments	_____	<u>2,625,272,961</u>	<u>(2,625,272,961)</u>	-	-
<b>Total Plan Assets</b>	<u>16,699,145,962</u>	<u>2,625,272,961</u>	<u>(2,625,272,961)</u>	<u>16,699,145,962</u>	
<b><u>15,615,431,723</u></b>					
<b><u>LIABILITIES</u></b>					
Accounts payable and other accrued expenses	7,857,304	-	-	7,857,304	10,918,684
Trades pending settlement	1,170,818,130	-	-	1,170,818,130	958,999,418
Due to other funds – equity in investments	2,625,272,961	-	<u>(2,625,272,961)</u>	-	-
Obligations under securities lending activities	<u>1,446,475,846</u>	-	-	<u>1,446,475,846</u>	<u>1,436,110,145</u>
<b>Total Plan Liabilities</b>	<u>5,250,424,241</u>	-	<u>(2,625,272,961)</u>	<u>2,625,151,280</u>	<u>2,406,028,247</u>
<b>Net assets held in trust for pension benefits</b>	<u>\$11,448,721,721</u>	<u>\$ 2,625,272,961</u>	<u>\$ -</u>	<u>\$14,073,994,682</u>	<u>\$13,209,403,476</u>

**OTHER SUPPLEMENTARY INFORMATION**  
**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS**

For the Year Ended June 30, 2003  
(With Comparative Totals for the Year Ended June 30, 2002)

	<u>Regular</u>	<u>Police/Fire</u>	<u>Total Pension Trust Fund 2003</u>	<u>(Memorandum Only) 2002</u>
<b>ADDITIONS</b>				

Contributions:				
Employer	\$ 560,540,473	\$ 163,490,092	724,030,565	680,730,753
Plan members	45,884,520	9,557,810	55,442,330	53,922,159
Repayment and purchase of service	<u>23,089,287</u>	<u>6,306,510</u>	<u>29,395,797</u>	<u>24,702,680</u>
Total Contributions	<u>629,514,280</u>	<u>179,354,412</u>	<u>808,868,692</u>	<u>759,355,592</u>
Investment Income (Loss):				
Net appreciation (depreciation) in fair value of investments	222,344,110	-	222,344,110	(840,939,305)
Interest	272,514,607	-	272,514,607	307,532,073
Dividends	111,003,853	-	111,003,853	89,110,971
Other investment income	83,957,150	-	83,957,150	93,129,707
Securities lending income	<u>25,293,441</u>	<u>-</u>	<u>25,293,441</u>	<u>49,687,972</u>
	<u>715,113,161</u>	<u>-</u>	<u>715,113,161</u>	<u>(301,478,582)</u>
Less investment expense:				
Cost of securities lending	(20,250,900)	-	(20,250,900)	(43,280,076)
Other	<u>(22,027,494)</u>	<u>-</u>	<u>(22,027,494)</u>	<u>(23,097,677)</u>
	<u>(42,278,394)</u>	<u>-</u>	<u>(42,278,394)</u>	<u>(66,377,753)</u>
Net Investment Gain(Loss)	<u>672,834,767</u>	<u>-</u>	<u>672,834,767</u>	<u>(367,856,335)</u>
Other Income	<u>1,893,312</u>	<u>182,064</u>	<u>2,075,376</u>	<u>2,104,359</u>
Total Additions	<u>1,304,242,359</u>	<u>179,536,476</u>	<u>1,483,778,835</u>	<u>393,603,616</u>
<b>DEDUCTIONS</b>				
Benefit payments:				
Retirement and survivor benefits	460,209,111	99,672,890	559,882,001	503,793,108
Disability	24,792,006	7,057,638	31,849,644	29,156,180
Post-retirement increases	50,407	9,678	60,085	63,379
Refund of contributions	8,715,391	2,370,802	11,086,193	15,826,195
Administrative expenses	9,600,186	-	9,600,186	8,696,239
Contribution distributions	6,691,206	-	6,691,206	
Other expenses	<u>18,314</u>	<u>-</u>	<u>18,314</u>	<u>1,684</u>
Total Deductions	<u>510,076,621</u>	<u>109,111,008</u>	<u>619,187,629</u>	<u>557,536,785</u>
<b>Increase (Decrease) in Net Assets</b>	<u>794,165,738</u>	<u>70,425,468</u>	<u>864,591,206</u>	<u>(163,933,169)</u>
Transfers:				
Interfund transfers	(812,773)	812,773	-	-
Transfer of annual investment income	(124,676,282)	124,676,282	-	-
Transfer of administrative fees	<u>683,481</u>	<u>(683,481)</u>	<u>-</u>	<u>-</u>
Total Transfers	<u>(124,805,574)</u>	<u>124,805,574</u>	<u>-</u>	<u>-</u>
<b>Net assets held in trust for pension benefits:</b>				
Beginning of year	<u>10,779,361,557</u>	<u>2,430,041,919</u>	<u>13,209,403,476</u>	<u>13,373,336,645</u>
End of year	<u>\$ 11,448,721,721</u>	<u>\$ 2,625,272,961</u>	<u>\$ 14,073,994,682</u>	<u>\$ 13,209,403,476</u>

## **FINANCIAL SECTION**

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# INVESTMENT SECTION



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## INVESTMENT SECTION

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### INVESTMENT CONSULTANT

Callan Associates

### INVESTMENT COUNSEL

#### Domestic Equities:

Alliance Capital Management

Atlanta Capital Management

Barclays Global Investors

J & W Seligman

Loomis, Sayles & Company

International Equities:

BNY Asset Management  
GE Asset Management  
Putnam Investments

Alternative Investments:

Pathway Capital Management

Domestic Fixed Income Securities:

Banc One Investment Advisors  
Dodge & Cox  
Lincoln Capital Management  
Payden & Rygel  
Standish Mellon  
WestAM  
Western Asset Management

International Fixed Income Securities:

Julius Baer Investment Management  
Payden & Rygel  
Rogge Global Partners  
UBS Global Asset Management

Real Estate:

Invesco Realty Advisors  
L & B Realty Advisors  
SSR Realty Advisors

Securities Lending:

The Bank of New York



September 16, 2003

SAN FRANCISCO

Dear Reader:

NEW YORK

CHICAGO

ATLANTA

DENVER

Callan Associates is pleased to report on the investment activity for the Public Employees' Retirement System of Nevada (PERS) for the fiscal year ending June 30, 2003.

Fiscal year 2003 was another difficult year for the equity markets. Both the domestic and international equity portfolios suffered losses for the fiscal year. The other three asset classes, domestic fixed income, international fixed income and equity real estate, had positive returns. The asset allocation policy remained at 35 percent domestic equity, 10 percent international equity, 35 percent domestic fixed income, 10 percent international fixed income and 10 percent real estate.

For the fiscal year, the total fund return of 5.0 percent falls below the actuarial return assumption of 8.0 percent. Nevertheless, the total fund return was in line with expectations based on the market environment. Compared to other public pension plans tracked by Callan, PERS ranked near the top quartile, well ahead of the median public fund result of 3.7 percent. Longer-term results remain competitive and the return since inception is above the actuarial return assumption.

Investing is two-dimensional – return and volatility or risk. The Sharpe ratio is a measure that defines the amount of return delivered per unit of risk. When compared to other public funds, PERS ranks in the top one-third on the basis of Sharpe ratio over the past five years.

During fiscal year 2003 the Board continued to make adjustments to the roster of investment managers. One real estate manager was terminated, and two new active domestic fixed income managers were hired. In the international fixed income asset class, PERS funded two indexed portfolios to reduce return volatility relative to the benchmark.

We welcome any comments or questions regarding the investment activity of PERS for the 2003 fiscal year.



Paul V. Troup  
Executive Vice President



Ruthann C. Moomy  
Senior Vice President

## **INVESTMENT SECTION**

### **INVESTMENT REVIEW**

#### **Introduction**

The investment program is designed to generate earnings to fund the System's benefits while minimizing investment risk. The structure and administration of the portfolio is defined by the prudent person standard. The standard states that the

Retirement 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 under similar circumstances. By establishing a well-diversified portfolio at the asset class, management, and security level, the System has strengthened control over the fund's risk and return parameters. Through the prudent person standard, the Board has established Investment Objectives and Policies that recognize future funding requirements based on membership demographics.

The System's Investment Objectives and Policies detail the fund's long-term investment goals, management responsibilities, return/risk expectations, and monitoring requirements. These policies are subject to change at any time by the Retirement Board and are reviewed thoroughly at least annually to ensure that they continue to reflect the System's expectations.

### Objective

The investment objective of the System is to:

- Generate 8% by producing a long-term total return from investments which exceeds the rate of inflation (CPI) by 3.75% by capturing market returns within each asset class;
- Invest so the short-term volatility of returns will not cause the System to alter its long-term strategy;
- Structure an investment program which is sufficiently uncomplicated to control the ability to consistently meet return and risk objectives; and
- Maintain a program which operates in compliance with the investment components of the Public Pension Principles (criteria developed by the Public Pension Coordinating Council that are widely acknowledged to be marks of excellence for retirement systems).

Chart 1, on page 51 demonstrates that the investment portfolio, over the last 10 years, has achieved the blended real return objective in 6 of those years (prior to fiscal year 2003 the total fund objective was CPI + 3.5% and prior to fiscal year 2001, the total fund objective was CPI +3.0%). Chart 2, on page 51, details annualized returns for long-term periods ended June 30, 2003. The System has achieved the blended market objective for the 5-year period, and the market, the 8% actuarial earnings goal, and the CPI (Consumer Price Index) plus 3.0 / 3.5 / 3.75% objective for the 10-year and 19-year periods.

Shorter term results were influenced by stock returns that were below long term expectations. Through this period the System's conservative, diversified strategy enabled it to weather the bear market in stocks competitively, as our portfolio outperformed 82% of other public pension funds the last three years. The System's 5% return in fiscal year 2003 was buoyed by U.S. and international bonds, as those markets experienced positive returns of 10.4% and 17.9% respectively. An analysis of asset class results versus the markets is included on pages 57-59.

Note: Inception on Chart 2 refers to July 1, 1984, the date the System began calculating total return versus the annual yield. For all other charts, inception refers to the point at which the System began including that particular investment vehicle in the portfolio.

### Asset Allocation

Determination of long-term asset allocation for the fund involves estimating returns and risk associated with the major types of investments and blending them into a portfolio which meets the risk/return comfort level of the Board. This blend of asset types is designed to provide protection against large fluctuations in portfolio returns and to stabilize overall investment earnings.

The long-term target allocation for the fund as of June 30, 2003 was 35% U.S. Bonds, 35% U.S. Stock, 10% International Bonds, 10% International Stock and 10% Real Estate. The June 30, 2003 actual asset class allocation is shown in Chart 3, page 52.

The Board annually reviews capital market expectations and asset allocation. Changes are expected to be made to both in fiscal year 2004.



## Diversification

In addition to the asset allocation decision, the Board must also determine what investment categories and styles of management will make up the portfolio, and which managers will oversee each investment type. By blending categories (e.g. domestic versus international), styles (e.g. active versus indexed), managers (e.g. different asset selection processes), and assets, the diversity of the fund is enhanced. Not all categories, styles, managers, and assets react to movements in the investment markets in the same manner. Therefore, one manager whose investment style is not favored by the markets should be offset by a manager whose style is doing well. The System maintains a well diversified portfolio. Chart 4, on page 53, shows the market value of the assets under management by investment type, category and manager. A detail of the fund's 10 largest stock and bond holdings based on fair market value at June 30, 2003 is included in Chart 5 on page 55. A complete list of security holdings is available upon request.

## Investment Class Objectives

In order to achieve the total fund objectives, each asset type is assigned return objectives (listed below). Progress toward those benchmarks is closely monitored.

- |                     |                                                                                                                                                                                                                                                                                             |
|---------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| U.S. Stock          | - Produce a total return that captures the Standard and Poor's 500 Common Stock Index over rolling 10-year periods with commensurate volatility.                                                                                                                                            |
| International Stock | - Produce a total return that captures the unhedged Morgan Stanley Capital International Europe, Australia, Far East (MSCI EAFE) Index over rolling 10-year periods with commensurate volatility.                                                                                           |
| U.S. Bonds          | - Produce a total return that captures the Lehman Aggregate Index over rolling 10-year periods with commensurate volatility.                                                                                                                                                                |
| International Bonds | - Produce a total return that captures the unhedged Citigroup Non-Dollar Government Bond Index over rolling 10-year periods with commensurate volatility.                                                                                                                                   |
| Real Estate         | - 1) Produce a total return that captures the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index over rolling 10-year periods with commensurate volatility.<br>2) Produce an income return that exceeds two-thirds of total return over rolling 5-year periods. |

Each of the System's investment managers agrees to a performance benchmark which, when all the benchmarks in an investment class are combined, is expected to produce the class objective.

## Investment Performance

Our investment consultant calculates performance for the total fund, each asset class and individual investment management firms employed by the Board. By policy, the System requires performance to be calculated and presented in accordance with Association for Investment Management and Research guidelines. Performance calculations are prepared using time-weighted rate of return based on market values. Returns in this report are gross of fees.

## **INVESTMENT SECTION**

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Chart 6, shown on page 56, shows a year by year comparison of how the total fund and each investment class compared with its corresponding objective.

Charts 7-11 on pages 57-59, compare 1, 5, 10-year and since-inception returns for each asset class to the corresponding objective for periods ended June 30, 2003.

U.S. stock portfolio returns captured the objective for the 5, and 10-year periods ended June 30, 2003. Since inception, the portfolio trails the S & P 500 Index. This is due to substandard performance from active management. The Board's actions (including structure changes, manager terminations and enhanced underwriting of new hires) in the last 10 years have significantly improved domestic equity performance, even though the 1 year return was below objective.

International stock outperformed its market benchmark for the 5, 10 year and inception periods. It trailed for the 1 year period due to active management. A review of the international stock portfolio structure and management is planned for fiscal year 2004.

U.S. bonds met the objective since inception, yet was below in all other time periods. In response to performance concerns, a number of changes were implemented in the U.S. Bond portfolio the last two fiscal years. These included a strategy shift to 50% active and 50% index management, termination of four active managers and the retention of three new firms. These actions, combined with management changes planned for fiscal year 2004, are expected to resurrect competitive performance.

International bonds captured the objective for the 1-year, and inception to date periods. Results for the 5 and 10 year periods are influenced by the volatility of active management results versus the objective. In response, the Board shifted from a 100% active management structure to 50% active, 50% index management and retained two incumbent managers to oversee the new allocation. This is expected to reduce relative volatility and enhance the program's opportunity to capture its objective.

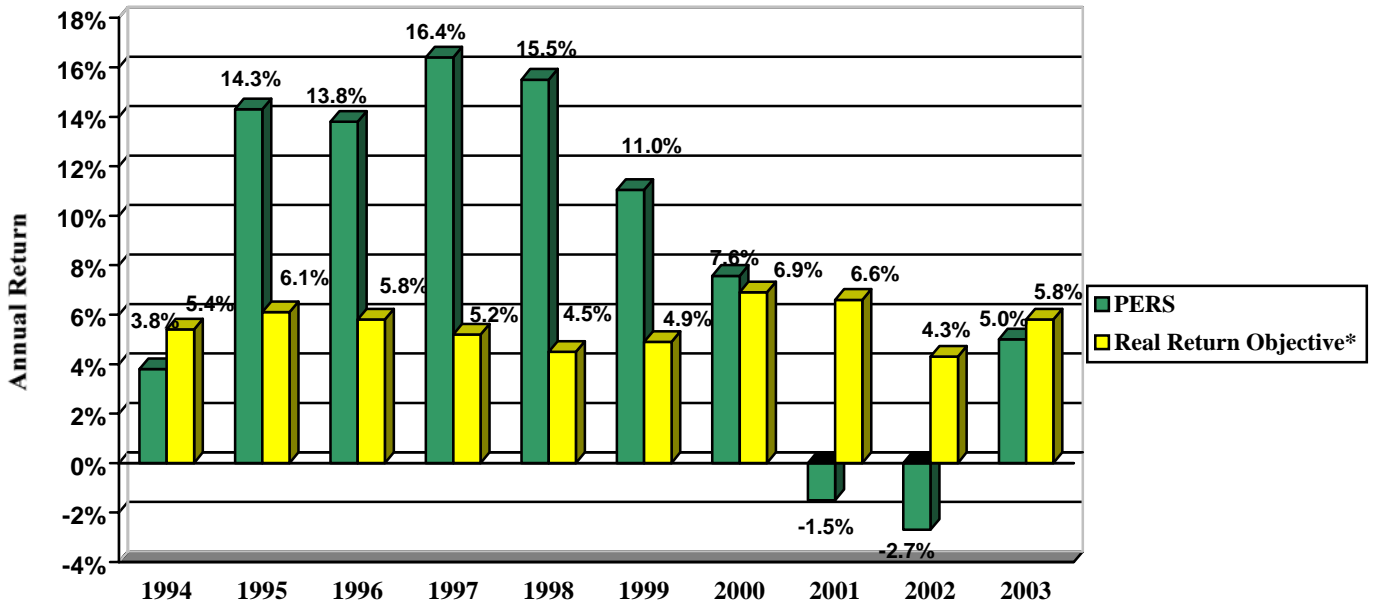
Real estate is below the performance objective for the 1, 5, 10 year and since inception periods. Performance challenges in the 1 and 5 year periods have affected the longer term results. In an economic environment where our portfolio was expected to perform competitively, we experienced market value declines, notably in the portfolio of a manager who was terminated in the past year. The Board has scheduled a review of the portfolio's structure and management in fiscal year 2004.

This report has been prepared in conjunction with our investment consultant, Callan Associates.

**INVESTMENT PERFORMANCE VS. OBJECTIVE**

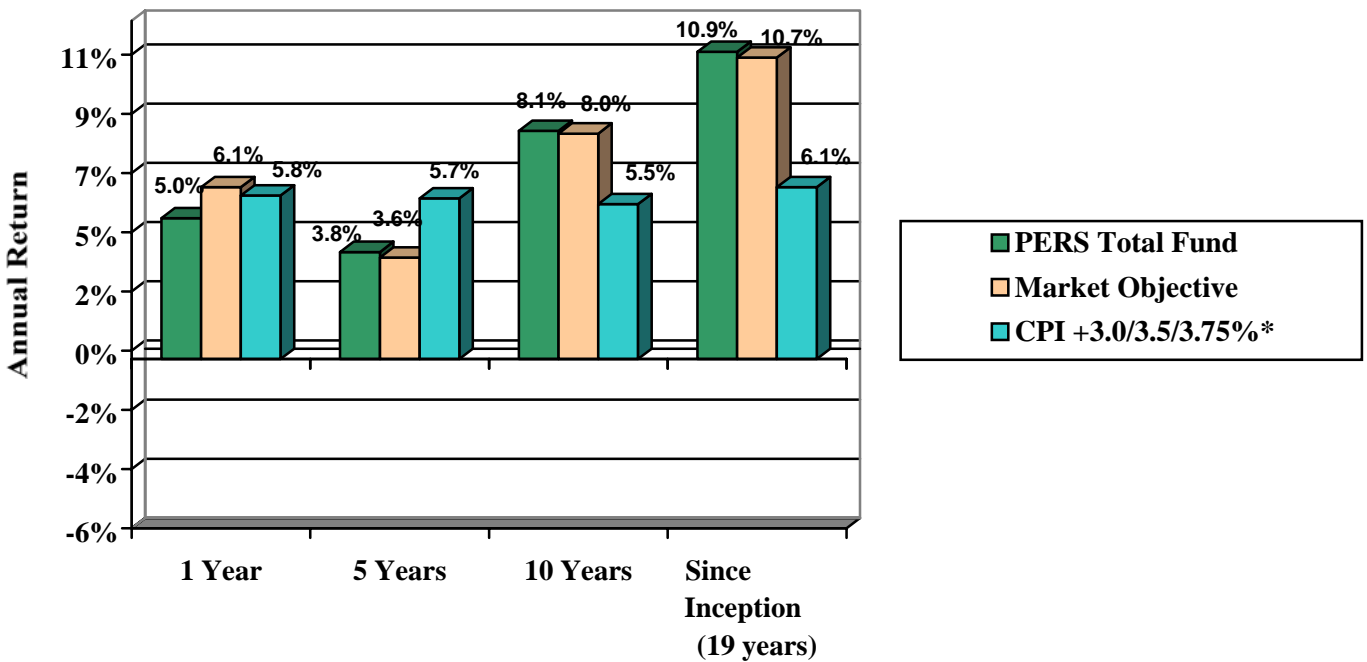
**CHART 1**

## Individual Fiscal Year Return vs. Real Return Objective



**CHART 2**

## Annualized Total Returns vs Market Objective and CPI + 3.0/3.5/3.75%



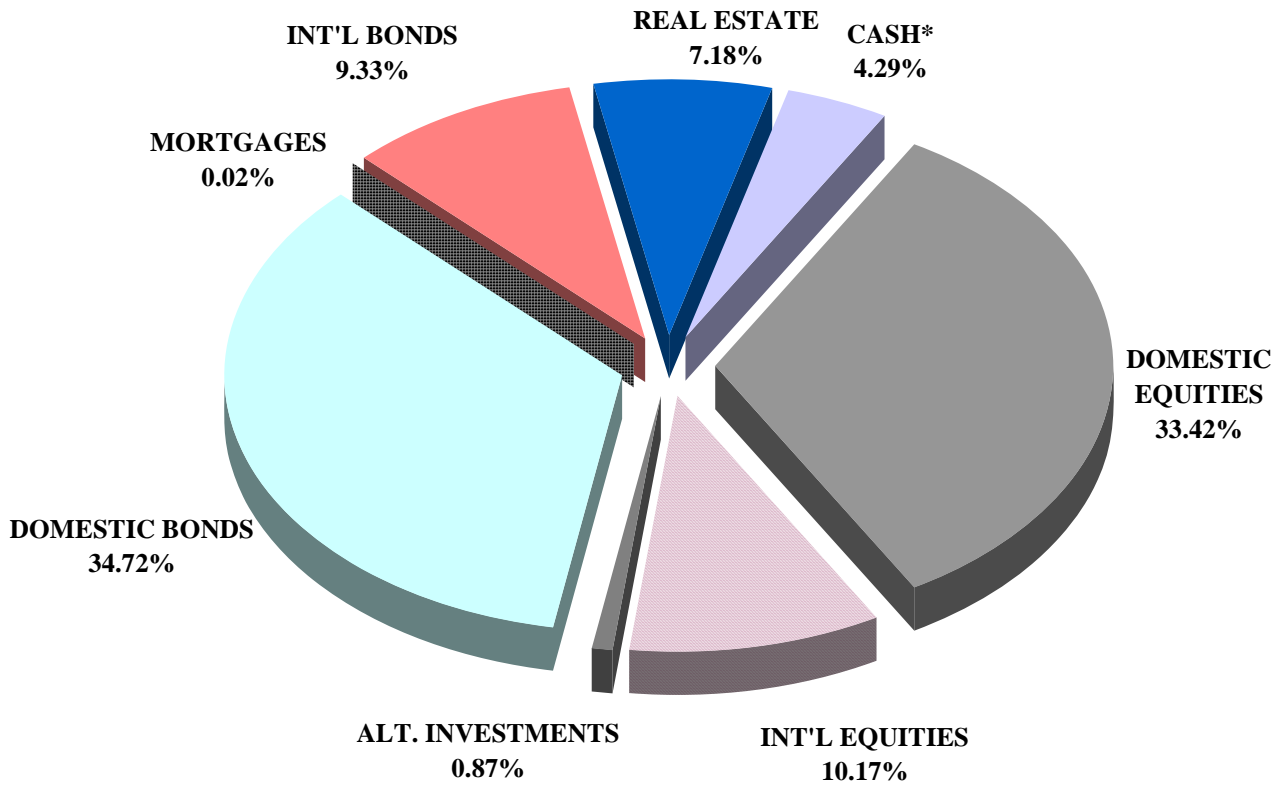
\* CPI + 3.0% until September 30, 2001, CPI + 3.5% from October 1, 2001 through September 30, 2002 and CPI + 3.75% from October 1, 2002.

## **INVESTMENT SECTION**

**CHART 3**

## ASSET MIX

**JUNE 30, 2003**



\*Includes cash held by investment managers

**CHART 4**

**Fair Value by Investment Type, Category and Manager**

June 30, 2003

(Page 1 of 2)

Percent

	<u>Amount Under Management</u>	<u>of Total Managed</u>
<b>EQUITIES</b>		
<u>Domestic Active Managers</u>		
Alliance Growth	\$ 579,603,688	
Atlanta Capital	571,036,459	
Loomis, Sayles	312,337,239	
J & W Seligman	<u>401,897,865</u>	
Subtotal	<u>1,864,875,251</u>	12.74%
<u>Domestic Index Managers</u>		
Alliance – S & P Barra Value	433,872,457	
Alliance – S & P 500	1,293,767,066	
Barclays – S & P 500	<u>1,300,027,913</u>	
Subtotal	<u>3,027,667,436</u>	20.68%
<u>International Active Managers</u>		
Putnam	390,961,417	
GE Asset Management	<u>328,969,439</u>	
Subtotal	719,930,856	4.92%
<u>International Index Manager</u>		
BNY Asset Management	<u>768,553,878</u>	5.25%
<u>Alternative Investments</u>		
Pathway Capital	<u>126,876,550</u>	<u>0.87%</u>
<b>Total Equities</b>	<b>\$ <u>6,507,903,971</u></b>	<b><u>44.46%</u></b>

**FIXED INCOME**

<u>Domestic Active Managers</u>		
Banc One	600,375,019	
Dodge & Cox	608,189,596	
Payden & Rygel	757,844,792	
Western Asset Management	<u>562,282,408</u>	
Subtotal	<u>2,528,691,815</u>	17.27%

**INVESTMENT SECTION**

**CHART 4**

**Fair Value by Investment Type, Category and Manager**

June 30, 2003

(Page 2 of 2)

<u>Amount Under Management</u>	<u>Percent of Total Managed</u>
------------------------------------	-----------------------------------------

Domestic Index Manager

Lincoln Capital	946,814,063	
Standish Mellon	725,843,386	
West AM	<u>882,862,741</u>	
Subtotal	<u>2,555,520,190</u>	17.45%

International Active Managers

Julius Baer Investment Management	220,539,204	
UBS Global Asset Management	299,349,579	
Rogge Global Partners	<u>347,277,181</u>	
Subtotal	<u>867,165,964</u>	5.92%

International Index Managers

Payden & Rygel	201,513,227	
UBS Global Asset Management	<u>297,203,121</u>	
Subtotal	<u>498,716,348</u>	3.41%

Mortgage Loans

Invesco	<u>3,410,108</u>	.02%
---------	------------------	------

**Total Fixed Income** \$ 6,453,504,425 44.07%

**REAL ESTATE**

Invesco Realty	537,383,801
Invesco Takeover	144,652,660
L&B Realty	253,140,670
SSR Realty Advisors	<u>115,600,000</u>

**Total Real Estate** \$ 1,050,777,131 7.18%

**SHORT-TERM INVESTMENTS**

Cash Equivalents	593,711,848
Custodial Cash - Bank of New York	<u>34,757,277</u>

**Total Short-Term Investments** \$ 628,469,125 4.29%

**TOTAL PORTFOLIO** \$14,640,654,652 100.00%

Note: The Statement of Fiduciary Net Assets contains \$2,607,854 in administrative cash, which does not appear on this schedule. Total Portfolio less short term investments of \$628,469,125 equals investments of \$14,012,185,527.

**INVESTMENT SECTION****CHART 5****LIST OF LARGEST ASSETS HELD****Largest Equity Holdings  
June 30, 2003**

<u>Ranking</u>	<u>Shares</u>	<u>Name</u>	<u>Fair Value</u>
1	3,922,019	PFIZER INC COM.	\$ 133,936,949

2	3,034,201	CITIGROUP INC.	129,863,803
3	5,056,019	MICROSOFT CORP COM	129,636,327
4	3,977,132	GENERAL ELECTRIC CO.	114,064,146
5	3,073,067	EXXON MOBIL CORP	110,353,836
6	1,628,589	AMERICAN INTERNATIONAL GROUP	89,865,541
7	1,597,685	WAL MART STORES INC	85,747,754
8	4,329,586	CISCO SYSTEMS INC	72,693,749
9	1,332,096	JOHNSON & JOHNSON	68,869,363
10	867,924	BANK OF AMERICA CORP	68,592,034

**Largest Fixed Income Holdings  
June 30, 2003**

<u>Ranking</u>	<u>Units</u>	<u>Name</u>	<u>Fair Value</u>
1	99,720,000	FED'L HOME LOAN MTGE CORP GRP #E96907	\$ 102,992,062
2	99,330,000	UNITED STATES TREAS NTS 2.00% 5/15/06	100,385,381
3	98,540,000	UNITED STATES TREAS NTS 2.625% 5/18/08	99,433,019
4	76,040,000	GNMA I TBA 30YR SFM 6.50% JUL	79,842,000
5	65,530,000	FNMA TBA 30 YR 5.50% JUL	67,721,159
6	66,265,000	UNITED STATES TREAS NTS 3.625% 5/15/13	66,782,695
7	64,040,000	UNITED STATES TREAS NTS 1.625% 04/30/05	64,460,263
8	61,765,000	FNMA TBA 30YR 6.50%	64,409,314
9	54,430,000	FNMA TBA 30YR SFM 7.00% JUL	57,321,594
10	53,900,000	FEDERAL HOME LOAN BANK DISCOUNT 8/22/03	53,760,549

Note: A complete list of the portfolio's holdings can be obtained upon request.

**INVESTMENT SECTION**

**CHART 6**

**SUMMARY OF ACTUAL PERFORMANCE VS. OBJECTIVES (% Returns)**

	<u>U.S. STOCKS</u>	<u>INT'L STOCKS</u>	<u>U.S. BONDS</u>	<u>INT'L BONDS</u>	<u>REAL ESTATE</u>	<u>TOTAL FUND</u>
<u>Fiscal Year 1994</u>						
Total Return	3.2	19.2	(0.1)	1.0	9.0	3.8
Objective	1.4	17.0	(1.3)	9.5	4.1	5.4

<u>Fiscal Year 1995</u>						
Total Return	23.8	3.9	10.8	14.2	8.6	14.3
Objective	26.1	1.7	12.5	22.7	8.1	6.1
<u>Fiscal Year 1996</u>						
Total Return	26.9	12.6	5.1	12.4	9.6	13.8
Objective	26.0	13.3	5.0	(1.7)	9.6	5.8
<u>Fiscal Year 1997</u>						
Total Return	33.2	14.9	8.0	6.2	9.9	16.4
Objective	34.7	12.8	8.2	2.2	11.5	5.2
<u>Fiscal Year 1998</u>						
Total Return	29.3	6.7	10.4	1.7	11.0	15.5
Objective	30.2	6.1	10.5	0.9	18.0	4.5
<u>Fiscal Year 1999</u>						
Total Return	23.1	9.6	2.9	3.2	12.0	11.0
Objective	22.8	7.6	3.2	4.9	12.6	4.9
<u>Fiscal Year 2000</u>						
Total Return	9.322.3	4.2	(1.2)	10.5		7.6
Objective	7.217.2	4.6	2.4	10.9		6.9
<u>Fiscal Year 2001</u>						
Total Return	(9.1)	(23.6)	11.3	(7.8)	10.0	(1.5)
Objective	(14.8)	(23.6)	11.2	(7.4)	11.2	6.6
<u>Fiscal Year 2002</u>						
Total Return	(17.5)	(9.4)	8.3	15.9	3.9	(2.7)
Objective	(18.0)	(9.5)	8.6	15.7	5.6	4.3
<u>Fiscal Year 2003</u>						
Total Return	(1.2)	(7.2)	10.1	18.3	4.6	5.0
Objective	0.3	(6.5)	10.4	17.9	7.6	5.8

Objectives: U.S. Equity (S & P 500), Int'l. Equity (MSCI EAFE), U.S. Fixed Income (Lehman Aggregate), Int'l. Fixed Income (Citigroup Non U.S. Govt.), Real Estate (NCREIF), Total Fund (CPI + 3.0/3.5/3.75%). Objective was CPI + 3.0% until September 30, 2001, CPI + 3.5% from October 1, 2001 through September 30, 2002 and CPI + 3.75% from October 1, 2002.

**INVESTMENT PERFORMANCE VS. OBJECTIVE**

**CHART 7**



## U.S. Stocks vs. S&P 500

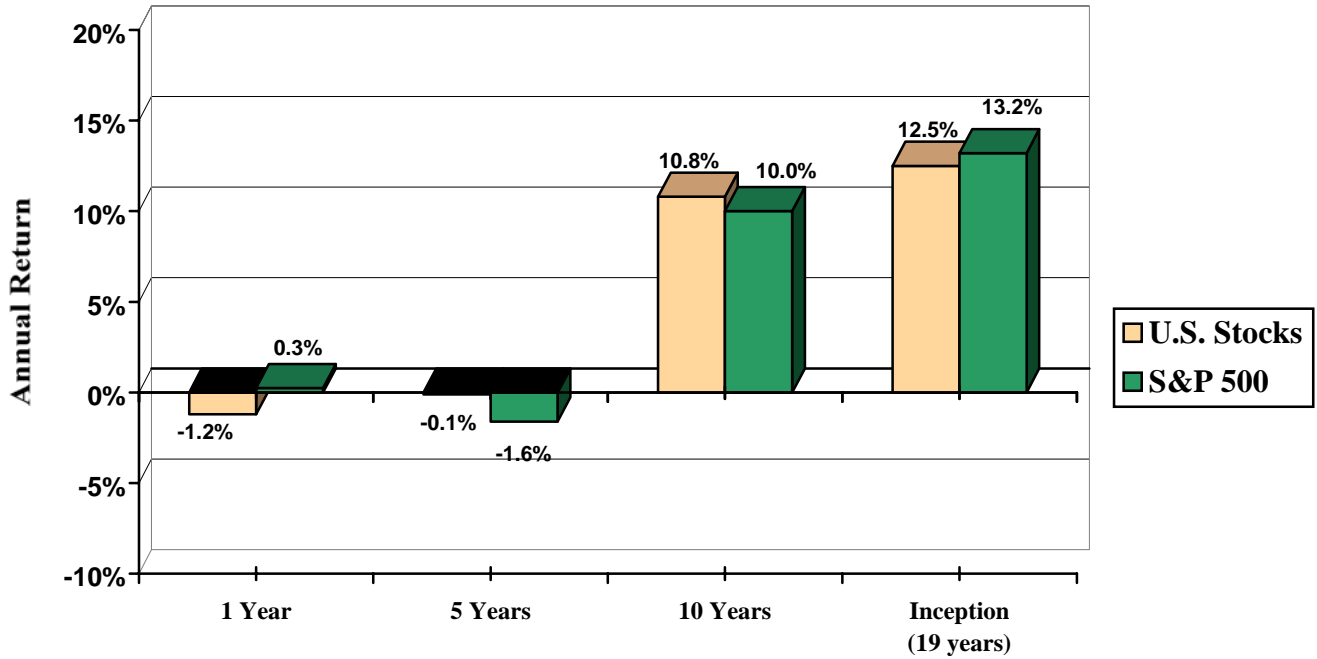
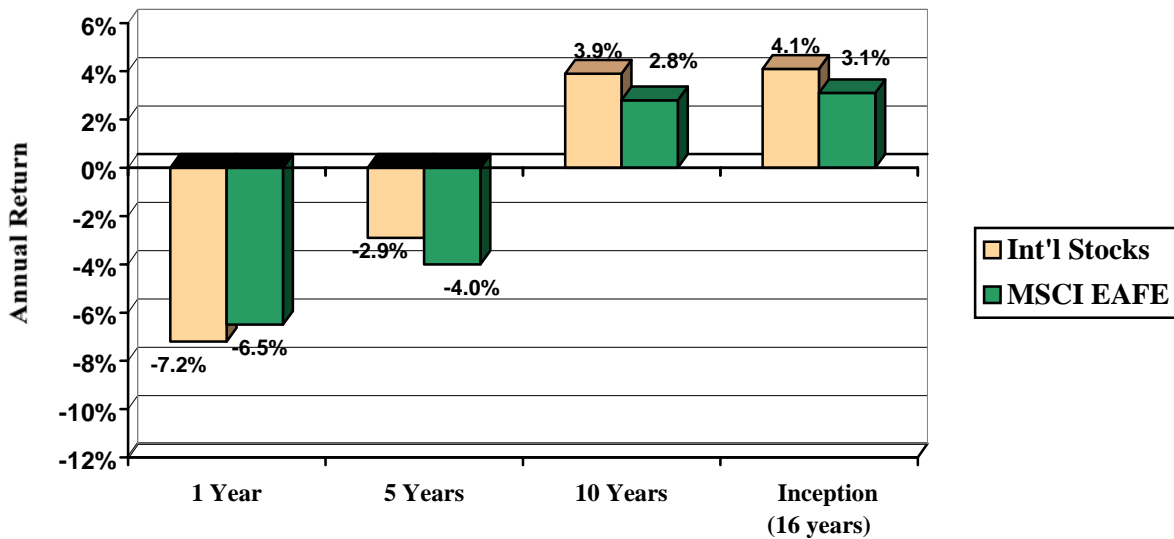


CHART 8

## Int'l Stocks vs. MSCI EAFE



### INVESTMENT SECTION

### INVESTMENT PERFORMANCE VS. OBJECTIVE

CHART 9

### U.S. Bonds vs. Lehman Aggregate

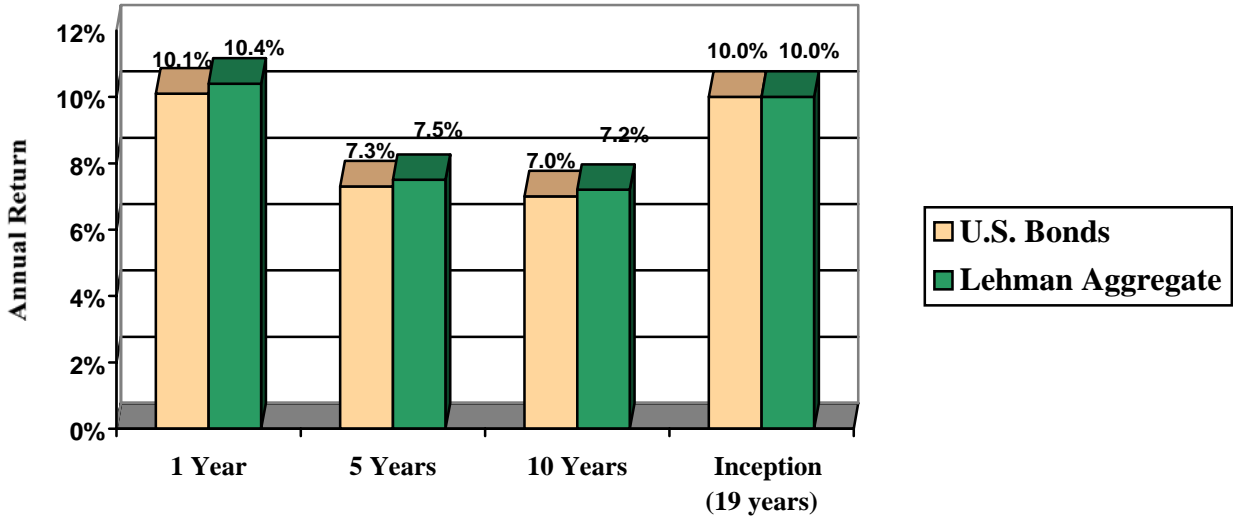
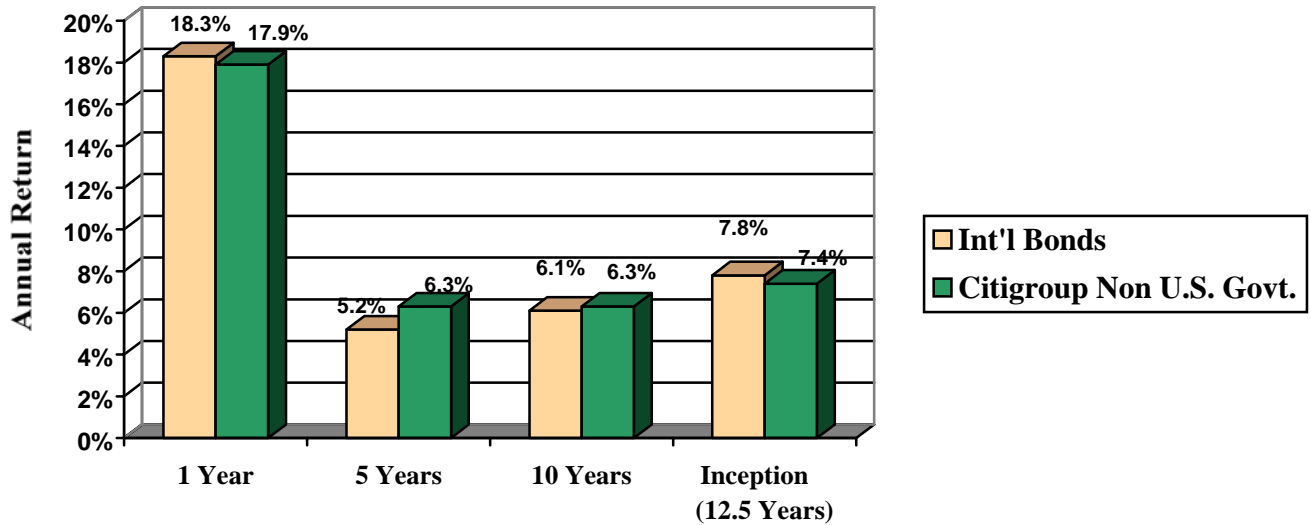
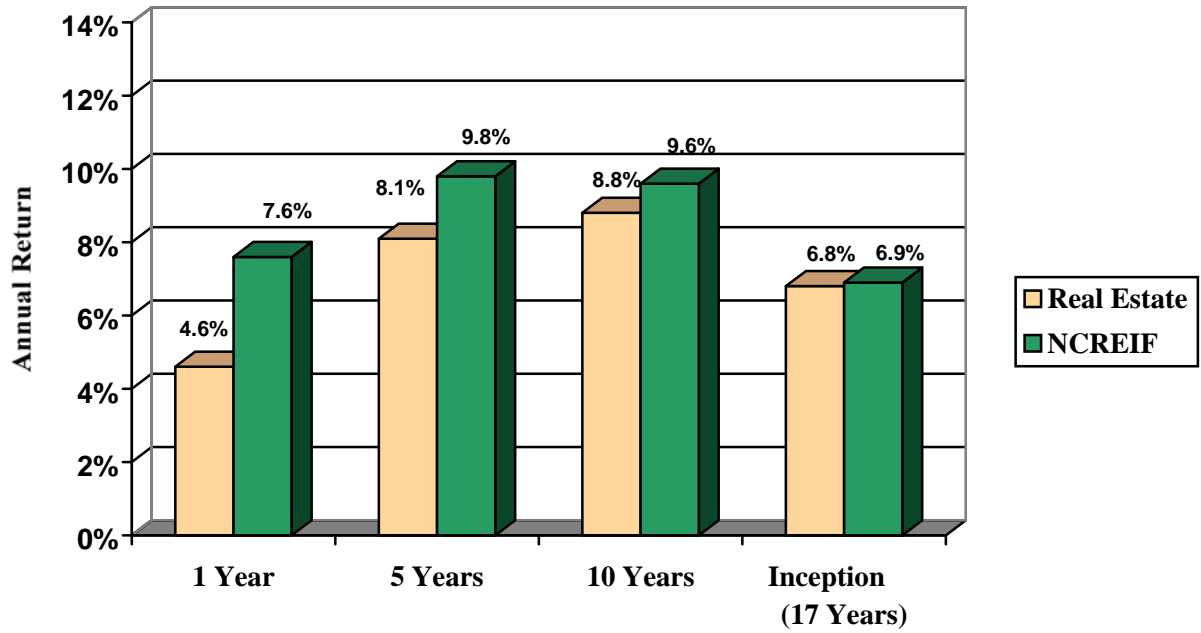


CHART 10

### Int'l Bonds vs. Citigroup Non U.S. Govt.



## Real Estate vs. NCREIF



## INVESTMENT SECTION

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### CHART 12

#### SCHEDULE OF FEES and COMMISSIONS

For Year Ended June 30, 2003

(Page 1 of 4)

Amount Under

<u>Name/Firm</u>	<u>Management at June 30, 2003</u>	<u>Fees Paid</u>
<b>Investment Management Fees</b>		
<u>Domestic and International Equities Managers</u>		
Alliance Capital	\$2,312,448,744	\$ 1,459,458
Atlanta Capital	578,312,372	1,090,138
BNY Asset Management	776,600,858	568,959
Barclays Global Investors	1,301,962,506	230,599
GE Asset Management	338,163,491	1,041,104
J & W Seligman	408,336,399	778,949
Loomis, Sayles & Company	324,390,053	657,371
Putnam Investments	398,729,830	1,139,423
<u>Alternative Investment Manager</u>		
Pathway	129,797,760	781,192
<u>Domestic and International Fixed Securities Managers</u>		
Banc One	608,390,923	624,921
Bradford & Marzec	0	329,568
Dodge & Cox	610,396,741	70,774
Julius Baer	221,154,277	797,176
Lincoln Capital	820,313,372	271,498
Standish Mellon	728,960,160	170,108
Payden & Rygel	829,713,148	1,010,715
Rogge Global	374,450,240	801,619
State Street	0	690,327
UBS Global Asset Management	597,132,957	866,461
West AM	885,239,754	293,192
Western Asset Management	620,828,201	239,954
<u>Equity Real Estate Managers</u>		
Invesco Realty	541,809,528	3,236,146
Invesco Takeover	148,968,346	982,068
L & B Realty	257,170,568	1,870,373
PM Realty	0	668,971
SSR Realty	115,600,000	<u>795,981</u>
Sub-total management fees		<u>21,467,045</u>
<b>Investment Services Fees</b>		
<u>Investment Consultants</u>		
Callan Associates		<u>408,902</u>
Sub-total services fees		<u>408,902</u>

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## **INVESTMENT SECTION**

### **CHART 12**

#### **SCHEDULE OF FEES and COMMISSIONS**

For Year Ended June 30, 2003

(Page 2 of 4)

<b>Broker Commissions</b>	<u>Number of Shares</u>	<u>Commission Paid</u>	<u>Commission Per Share (rounded)</u>
---------------------------	-----------------------------	----------------------------	-----------------------------------------------

A. G. Edwards & Sons, Inc.	1,723,910	86,196	0.05
Arnold S. Bleischroder, Inc.	911,860	31,248	0.03
Avalon Ressearch Group, Inc.	15,000	750	0.05
B-Trade Services LLC	1,725,968	51,629	0.03
Baird Robert W & Co	104,300	5,215	0.05
Banc of America Securities LLC	1,350,278	68,012	0.05
Bear Stearns & Co. Inc.	1,232,825	61,641	0.05
Bear Stearns Securities Corp.	1,244,875	61,909	0.05
Bernstein, Sanford C. & Co.	2,639,601	113,395	0.04
BNY Brokerage Inc.	126,715	6,288	0.05
BNY Clearing Services LLC	20,000	1,000	0.05
Boston Institutional Services Inc.	15,000	750	0.05
Bridge Trading Co.	30,200	1,510	0.05
Broadcort Capital Corp.	8,376	335	0.04
CLKing & Associates	17,000	850	0.05
Cantor, Fitzgerald & Co.	198,540	6,021	0.03
Capital Institutional Services Inc.	467,905	7,514	0.02
Cathay Fncial Corp.	11,600	464	0.04
Charles Schwab & Co.	867,782	3,733	0.04
CIBC World Markets Corp.	460,450	23,190	0.05
Citation Group Chase NYC	543,700	27,185	0.05
Citigroup Global Markets Inc.	3,633,306	179,362	0.05
Cowen & Co.	610,000	30,500	0.05
Credit Suisse First Boston	3,660,031	133,902	0.04
Deutsche Bank/Alex Brown	949,261	27,026	0.03
Direct Brokerage Inc.	137,600	4,128	0.03
Dougherty Company	42,000	2,100	0.05
Factset Data Systems, Inc.	133,900	6,695	0.05
Fahenstock & Company, Inc.	150,000	7,500	0.05
Fiserve Securities, Inc.	150,000	7,500	0.05
Gerard, Klauer, Mattison & Co.	10,000	500	0.05
Goldman Sachs & Co.	10,087,001	234,331	0.02
Guzman & Company	6,800	272	0.04
HSBC Securities, Inc.	2,320,865	116,043	0.05
Instinet Corporation	408,947	7,460	0.02
Investec/Ernst Co.	78,000	2,340	0.03
Investment Technology Group	2,466,039	40,983	0.02
ISI Group, Inc.	60,000	3,000	0.05
Island Execution Services LLC	721,700	7,217	0.01
J P Morgan Invt Mgmt, New York	1,178,450	58,923	0.05
Jackson Securities	73,000	3,650	0.05
Janney Montgomery Scott, Inc.	70,500	3,525	0.05

PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF NEVADA 61

## **INVESTMENT SECTION**

### **CHART 12**

#### **SCHEDULE OF FEES and COMMISSIONS**

For Year Ended June 30, 2003

(Page 3 of 4)

<b>Broker Commissions</b>	<b>Number of <u>Shares</u></b>	<b>Commission <u>Paid</u></b>	<b>Commission Per Share <u>(rounded)</u></b>
---------------------------	------------------------------------	-----------------------------------	------------------------------------------------------

Jefferies & Company, Inc.	594,220	29,637	0.05
Jones & Associates	72,378	1,496	0.02
Keefe Bruyette & Woods, Inc.	294,500	12,245	0.04
Knight Securities	26,700	1,335	0.05
Legg Mason Wood Walker Inc.	1,437,525	68,164	0.05
Lehman Brothers, Inc.	3,537,110	170,463	0.05
Liquidnet Inc.	1,547,800	69,896	0.05
Loop Capital Mkts LLC	30,422	1,397	0.05
Lynch Jones & Ryan Inc.	216,600	10,750	0.05
Magna Securities Corporation	154,500	7,725	0.05
Merrill Lynch Pierce Fenner	9,083,902	368,032	0.04
Merrill Lynch Professional	848,500	26,403	0.03
Morgan Keegan & Company Inc.	89,900	4,495	0.05
Morgan Stanley & Co.	8,747,816	195,017	0.02
National Financial Services Corp.	83,853	4,016	0.05
Neuberger & Berman	1,072,198	50,475	0.05
O'Connor & Co. LLC	10,000	500	0.05
Ormes Cap Markets Inc.	6,200	248	0.04
Pershing & Company	781,200	38,660	0.05
Raymond James & Associates Inc.	175,000	8,750	0.05
RBC/Dain Rauscher Inc.	94,500	4,725	0.05
Robert Can Securities Inc.	7,435	297	0.04
Samuel A Ramirez & Company	8,469	303	0.04
Sanders Morris Mundy	145,950	7,298	0.05
SG Cowen Securities Corp.	397,875	18,894	0.05
Simmons & Company	369,375	18,469	0.05
Soundview Technology Group	160,900	8,062	0.05
Spear, Leeds & Kellogg	9,900	297	0.03
Standard & Poor's Sec. Inc.	266,200	13,310	0.05
State Street Brokerage Service Inc.	9,000	450	0.05
Sun Trust Capital Markets Inc.	825,400	40,446	0.05
The Fourteen Research Corp.	86,300	4,315	0.05
Thomas Weisel Partners LLC	212,402	10,611	0.05
U.S. Bancorp Piper Jaffray Inc.	32,500	1,625	0.05
UBS Financial Services Inc.	6,056	182	0.03
UBS Securities LLC	2,597,180	109,477	0.04
Utendahl Capital Partners	57,467	2,740	0.05
Veritas Securities	536,600	16,098	0.03
Wachovia Secs Capital Market	286,700	14,335	0.05
Wachovia Securities LLC	2,146,082	89,036	0.04
Wedbush Morgan Securities Inc.	10,000	500	0.05
Wedbush Noble Cooke	1,015,389	45,919	0.05

## **INVESTMENT SECTION**

### **CHART 12**

#### **SCHEDULE OF FEES and COMMISSIONS**

For Year Ended June 30, 2003

(Page 4 of 4)

<b>Broker Commissions</b>	Number of <u>Shares</u>	Commission <u>Paid</u>	Commission Per Share <u>(rounded)</u>
---------------------------	----------------------------	---------------------------	---------------------------------------------

Westminster Research Assoc.	124,250	6,213	0.05
William Blair & Company LLC	25,200	1,260	0.05
Williams Capital Group L.P.	50,841	2,344	0.05
Wells Fargo Investments LLC	47,700	2,385	0.05
Sub-total Commissions		<u>2,925,087</u>	
Total Fees and Commissions		<u>\$24,801,034</u>	

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# ACTUARIAL SECTION



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66 PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF NEVADA



THE SEGAL COMPANY

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November 20, 2003

Public Employees' Retirement Board  
State of Nevada  
693 West Nye Lane  
Carson City, Nevada 89703

DIRECT DIAL NUMBER

**303-714-9916**

WRITER'S EMAIL ADDRESS

**[jgarrett@segalco.com](mailto:jgarrett@segalco.com)**

**Re: Certification Letter for Actuarial Section of  
Financial Report for Fiscal Year Ended June 30, 2003**

Dear Retirement Board Members:

This letter is to certify that Segal has prepared an actuarial valuation of the Public Employees' Retirement System of the State of Nevada as of June 30, 2003 and that such valuation is accurate and fairly presents the actual position of the Public Employees' Retirement System of Nevada.

The unfunded actuarial accrued liability is being amortized by level percentage-of-payroll payments over a period of 21 years from July 1, 2003. As of June 30, 2003, the System is meeting its funding objectives. As of this date, the funded ratio is 81.3%.

Actuarial valuations are prepared annually by the independent actuary for the Public Employees' Retirement Board. The basic purposes of annual actuarial valuations are to determine the Retirement System's actuarial liabilities and the lever percentage-of-payroll contribution rates required to fund the Retirement System on an actuarial reserve basis.

For actual funding purposes, to amortize the unfunded portion of actuarial accrued liability under the lever percentage-of-payroll amortization method, the dollar amounts of calculated amortization payments increase in direct proportion to the assumed payroll growth rates of 6.5% per year for regular employees and 8.0% per year for police and firefighters. These payroll growth rates are based on a 3.5% per year inflation assumption.

For GASB 25 reporting purposes only, the unfunded actuarial accrued liability payments are assumed to increase in direct proportion to assumed payroll growth rates of 5.0% per year for both regular and police/fire employees. This payroll growth rate is based on a 3.5% per year inflation assumption.

The actuarial calculations prepared for disclosure requirements under GASB 25 as well as for actual funding purposes were made by qualified actuaries in accordance with generally accepted actuarial principles and procedures based on the current provisions of the Public Employees' Retirement Act and on the actuarial assumptions and methods adopted by the Public Employees' Retirement Board.

**Benefits, Compensation and HR Consulting** ATLANTA BOSTON CHICAGO CLEVELAND DENVER HARTFORD HOUSTON LOS ANGELES MINNEAPOLIS  
NEW ORLEANS NEW YORK PHILADELPHIA PHOENIX SAN FRANCISCO SEATTLE TORONTO WASHINGTON, DC

Multinational Group of Actuaries and Consultants AMSTERDAM BARCELONA GENEVA HAMBURG JOHANNESBURG LONDON MELBOURNE  
MEXICO CITY OSLO PARIS

PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF NEVADA 67

The most recent actuarial valuation prepared as of June 30, 2003 is based on the following major elements:

- **Current benefit provisions** (as specified in the Public Employees' Retirement Act).
- **Membership data as of June 30, 2003** (obtained from electronic files provided by the Retirement System. Membership data contained on the electronic files is examined and tested for reasonableness, but is not audited by the actuary).
- **Assets as of June 30, 2003** (obtained from the System's unaudited financial statements).
- **Trend schedules for financial and actuarial sections of the CAFR as of June 30, 2003** (based upon data from the System, accepted without verification or audit, and upon results of the annual actuarial valuation).
- **Actuarial assumptions and methods adopted by the Public Employees' Retirement Board.**

Each annual actuarial valuation involves a projection of the benefits expected to be paid in the future to all members of the Retirement System. The projection of expected future benefit payments is based on the benefit provisions in effect on the actuarial valuation date. (See the Plan Summary section of this Annual Financial Report for a summary of current benefit and contribution provisions.)

## **List of Trend Schedules**

The following schedules, prepared by Segal, are included in the Financial Section of this report:

- Schedule of Funding Progress
- Unfunded Actuarial Accrued Liability and Funding Ratios
- Schedule of Employer Contributions

## **List of Supporting Schedules**

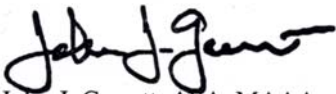
**The following schedules and summaries prepared by Segal are included within this Actuarial Section:**

- Summary of Actuarial Assumptions and Methods
- Schedule 1 - Retirement System Membership
- Schedule 2 - Active Member Valuation Data
- Schedule 3 - Pay Status Participants Added to and Removed from the Rolls
- Schedule 4 - Solvency Test
- Schedule 5 - Analysis of Financial Experience
- Schedule 6 – Summary of Changes in Actuarial Assumptions – Regular
- Schedule 7 – Summary of Changes in Actuarial Assumptions – Police/Fire
- Actuarial Valuation Statement (GASB Disclosure Basis)

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Based upon the valuation results, it is our opinion that the Public Employees' Retirement System of Nevada continues in sound condition in accordance with actuarial principles of level percent of payroll financing.

Sincerely,



John J. Garrett, ASA, MAAA  
Vice President



Wally Malles, ASA, MAAA, EA  
Assistant Actuary

## **ACTUARIAL SECTION**

---

### **SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS**

The actuarial assumptions and methods used in the June 30, 2003 actuarial valuation changed significantly from those used for fiscal year 2002. The new assumptions were adopted by the Retirement Board and were based on the results of the experience review completed in 2003. Summaries of assumption changes for Regular and Police/Fire can be found within this Section, Schedules 6 and 7 respectively.

#### **Economic Assumptions**

The economic assumptions for the 2003 actuarial valuation.

Investment return\* - 8.0% per year.

Salary increases \* - The assumed salary increase rates are shown below:

<b>Regular Employees</b>		<b>Police/Fire Employees</b>	
<b>Years of Service</b>	<b>Rate</b>	<b>Years of Service</b>	<b>Rate</b>
1	9.50%	1	14.75%
2	8.00%	2	10.75%
3	7.50%	3	10.50%
4	7.25%	4	10.25%
5	7.00%	5	10.00%
6	6.75%	6	8.50%
7	6.50%	7	7.75%

8	5.75%
9	5.50%
10	5.25%
11	5.00%
12	4.75%
13 or more	4.50%

8	7.25%
9	6.75%
10 or more	6.25%

- Payroll growth\* (Funding) - 6.5% per year for Regular employees and 8.0% per year for Police/Fire employees.
- Payroll growth\* (GASB disclosure) - 5.0% per year for both Regular and Police/Fire employees.
- Post-retirement Increases - 2.0% per year compounded following the third anniversary of benefit commencement;  
3.0% per year compounded following the sixth anniversary of benefit commencement;  
3.5% per year compounded following the ninth anniversary of benefit commencement;  
4.0% per year compounded following the twelfth anniversary of benefit commencement;  
5.0% per year compounded following the fourteenth anniversary of benefit commencement.

\* Includes inflation at 3.5% per year.

**Non-Economic Assumptions**

The assumed retirement rates, which project the percentage of eligible employees who will retire, are shown below:

<b>Regular Employees</b>				
<b>Years of Service</b>				
<b>Age</b>	<b>5 - 19</b>	<b>20 - 24</b>	<b>25 - 29</b>	<b>30 or more</b>
50 - 54	3%	3%	5%	30%
55 - 59	5%	10%	10%	30%
60 - 61	15%	20%	25%	30%
62 - 64	20%	20%	25%	30%
65 - 69	25%	25%	25%	30%
70 & older	100%	100%	100%	100%

<b>Police/Fire Employees</b>					
<b>Years of Service</b>					
<b>Age</b>	<b>5 - 9</b>	<b>10 - 19</b>	<b>20 - 24</b>	<b>25 - 29</b>	<b>30 or more</b>
45 - 49	--	--	--	15%	15%
50 - 54	5%	5%	15%	15%	35%

55 - 59	5%	15%	20%	25%	35%
60 - 64	5%	25%	25%	25%	35%
65 & older	100%	100%	100%	100%	100%

**ACTUARIAL SECTION**

---

The assumed withdrawal rates are shown below:

<b>Regular Employees</b>	
<b>Years of Service</b>	<b>Rate</b>
0	18.50%
1	14.00%
2	10.25%
3	8.50%
4	6.50%
5	6.25%
6	5.25%
7	4.75%
8	4.25%
9	4.00%
10	3.50%
11 or more	3.00%

<b>Police/Fire Employees</b>	
<b>Years of Service</b>	<b>Rate</b>

0	14.00%
1	7.00%
2	6.00%
3	4.50%
4	4.00%
5	3.50%
6 or more	3.00%

Withdrawal rates end when retirement rates commence.

The assumed disability rates are shown below for selected ages:

<b>Age</b>	<b>Regular Employees</b>	<b>Police/Fire Employees</b>
22	0.03%	0.05%
27	0.03%	0.05%
32	0.05%	0.06%
37	0.07%	0.09%
42	0.14%	0.37%
47	0.25%	0.53%
52	0.40%	0.66%
57	0.55%	0.96%
62	0.40%	1.40%

No disability rates are assumed after age 65.

Mortality Table – For all non-disabled regular members is the 1994 Group Annuity Mortality Table set-forward one year. For all non-disabled police/fire members it is the 1983 Group Annuity Mortality Table. The schedules below show the assumed mortality rates and projected life expectancies for selected ages:

<b>Regular Members</b>				
	<b>Mortality Rates</b>		<b>Expected Years of Life Remaining</b>	
<b>Age</b>	<b>Males</b>	<b>Females</b>	<b>Males</b>	<b>Females</b>
40	0.12%	0.08%	39.2	43.6



50	0.29%	0.16%	29.8	34.0
60	0.90%	0.51%	21.0	24.7
70	2.60%	1.50%	13.77.9	16.6
80	6.86%	4.40%	7.9	9.8

<b>Police/Fire Members</b>				
	<b>Mortality Rates</b>		<b>Expected Years of Life Remaining</b>	
<b>Age</b>	<b>Males</b>	<b>Females</b>	<b>Males</b>	<b>Females</b>
40	0.12%	0.07%	38.0	44.0
50	0.39%	0.16%	28.7	34.4
60	0.92%	0.42%	20.1	25.2
70	2.75%	1.24%	12.7	16.6
80	7.41%	4.29%	7.1	9.7

The mortality table used in the actuarial valuation to project mortality rates for disabled members is the 1983 Railroad Retirement Board Disabled Life Mortality Table set-back six years. Any mortality that occurs in the first two years of employment is assumed to be non-duty related.

## **ACTUARIAL SECTION**

### **Asset Valuation Method**

Assets are valued at actuarial value. The asset valuation method is as follows:

The actuarial value of assets is equal to the prior year's actuarial value of assets plus:

- 1) Net new money (contributions minus benefit payments and administrative expenses)
- 2) Expected investment return
- 3) 20% of each of the previous five years' gain/(losses) due to investment return greater/(less) than expected.

The actuarial value of assets is further limited to be not less than 80% or greater than 120% of market value.

Total net assets at market are allocated to regular employees and police and firefighters based on the book value allocation shown in the System's financial statements.

### **Actuarial Funding Method**

The actuarial cost or funding method used in the 2003 actuarial valuation is the Entry Age Normal Cost Method. Under this method, the total calculated employer contribution rate consists of the normal cost, the administrative expense allowance, plus the payment required to amortize the unfunded actuarial accrued liability over the established amortization period.

The normal cost rate is the level percentage-of-salary contribution required each year to accumulate over each covered employee's projected working lifetime the reserves needed to meet the cost of earned benefits. The normal cost is determined as if the current benefit accrual rate had always been in effect.

The total actuarial accrued liability under the Entry Age Normal Cost Method represents the amount that would have been accumulated as of the valuation date if contributions sufficient to meet the normal costs had been made each year in the past. The unfunded actuarial accrued liability is the amount obtained by subtracting valuation assets from the total actuarial accrued liability.

Actuarial gains and losses under the Entry Age Normal Cost Method resulting from differences between actual and assumed experience are recognized immediately in the actuarial accrued liability.

**ACTUARIAL SECTION**

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF NEVADA**

**SCHEDULE 1  
RETIREMENT SYSTEM MEMBERSHIP  
1998 to 2003**

<u>June 30</u>	<u>Active Members</u>	<u>Inactive Members</u>	<u>Retired and Disabled Members</u>	<u>Beneficiaries &amp; Survivors</u>	<u>Total Membership</u>
1998	74,693	4,511	16,993	2,843	99,040
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

**SCHEDULE 2**

**ACTIVE MEMBER VALUATION DATA  
1998 to 2003**

<u>Number of Active Members</u> Police/	<u>Annual Payroll (millions)</u> Police/	<u>Annual Average Salary</u> Police/	<u>Percent Increase in Average Salary</u> Police/
------------------------------------------------	-------------------------------------------------	-----------------------------------------	----------------------------------------------------------

<u>June 30</u>	<u>Regular</u>	<u>Fire</u>	<u>Regular</u>	<u>Fire</u>	<u>Regular</u>	<u>Fire</u>	<u>Regular</u>	<u>Fire</u>
1998	66,374	8,319	2,181.3	374.9	32,714	44,987	1.8	4.2
1999	68,661	8,591	2,293.1	389.0	33,397	45,283	2.1	0.7
2000	71,793	9,041	2,526.0	441.7	35,185	48,857	5.4	7.9
2001	73,307	9,583	2,684.1	484.8	36,615	50,587	4.1	3.5
2002	75,518	9,706	2,877.7	539.9	38,106	55,628	4.1	10.0
2003	77,569	9,758	3,040.1	555.3	39,193	56,907	2.9	2.3

## **ACTUARIAL SECTION**

### **PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF NEVADA**

#### **SCHEDULE 3**

#### **PAY STATUS PARTICIPANTS ADDED TO AND REMOVED FROM THE ROLLS 1998 to 2003**

#### **RETIREES and BENEFICIARIES**

	<u>Beginning</u>	<u>Added to Rols</u>		<u>Removed from Rols</u>		<u>Rolls at End of Year</u>		<u>% Increase</u>	<u>Average</u>
<u>June 30</u>	<u>Balance</u>	<u>Number</u>	<u>Annual Allowances</u>	<u>Number</u>	<u>Annual Allowances</u>	<u>Number</u>	<u>Annual Allowances</u>	<u>in Annual Allowances</u>	<u>Annual Allowances</u>
1998	\$16,749	1,487	\$32,412,527	(559)	\$ (7,430,211)	17,677	\$326,034,588	11.3%	\$18,444
1999	17,677	1,512	33,750,839	(466)	(6,343,166)	18,723	353,640,024	8.5	18,888
2000	18,723	2,068	48,738,624	(618)	(9,229,879)	20,173	410,076,744	16.0	20,328
2001	20,173	1,979	51,390,672	(663)	(10,102,608)	21,489	463,388,796	13.0	21,564
2002	21,489	2,017	52,934,066	(707)	(11,901,499)	22,799	515,044,612	11.2	22,591
2003	22,799	2,028	54,693,801	(702)	(12,333,157)	24,125	572,093,340	11.1	23,714

#### **DISABILITY RECIPIENTS**

	<u>Beginning</u>	<u>Added to Rols</u>		<u>Removed from Rols</u>		<u>Rolls at End of Year</u>		<u>% Increase</u>	<u>Average</u>
<u>June 30</u>	<u>Balance</u>	<u>Number</u>	<u>Annual Allowances</u>	<u>Number</u>	<u>Annual Allowances</u>	<u>Number</u>	<u>Annual Allowances</u>	<u>in Annual Allowances</u>	<u>Annual Allowances</u>
1998	\$ 950	138	\$2,498,904	(51)	(490,586)	1,037	\$ 11,772,024	18.4%	\$11,352
1999	1,037	158	3,168,216	(66)	(796,614)	1,129	16,081,476	36.6	14,244
2000	1,129	176	2,838,528	(56)	(756,235)	1,249	18,570,132	15.5	14,868
2001	1,249	168	2,842,560	(62)	(759,498)	1,355	21,105,480	13.7	15,576
2002	1,355	181	2,934,072	(84)	(1,322,553)	1,452	23,155,128	9.7	15,947

2003 1,452 183 3,052,989 (55) (753,234) 1,580 26,061,629 12.6 16,495

**SURVIVOR ANNUITANTS**

June 30	Beginning Balance	<u>Added to Rolls</u>		<u>Removed from Rolls</u>		<u>Rolls at End of Year</u>		% Increase in Annual Allowances	Average Annual Allowances
		Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances		
1998	\$1,078	90	\$ 718,922	(46)	\$(228,083)	1,122	\$ 9,195,912	7.9%	\$ 8,196
1999	1,122	102	841,023	(54)	(276,374)	1,170	9,898,200	7.6	8,460
2000	1,170	121	962,676	(78)	(459,838)	1,213	11,266,344	13.8	9,288
2001	1,213	115	1,253,040	(95)	(544,920)	1,233	12,295,476	9.1	9,972
2002	1,233	121	1,244,727	(70)	(720,090)	1,284	13,208,347	7.4	10,287
2003	1,284	121	1,406,944	(70)	(548,713)	1,335	14,487,802	9.7	10,852

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**ACTUARIAL SECTION**

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF NEVADA**

**SCHEDULE 4**

**SOLVENCY TEST  
(millions)  
1998 to 2003**

<u>June 30</u>	<u>Actuarial Accrued Liabilities</u>				<u>Actuarial Value of Assets</u>	<u>Portion of Actuarial Accrued Liabilities Covered by Assets</u>		
	<u>Active Member Contributions</u> (1)	<u>Retirees and Beneficiaries Inactive and Pay-Status Members*</u> (2)	<u>Active Members Employer Financed Portion</u> (3)			(1)	(2)	(3)
1998	\$266.2	\$4,723.5	\$7,281.7	\$9,597.0	100%	100%	63.3%	
1999	272.3	5,338.0	7,852.6	11,104.5	100	100	70.0	
2000	295.6	6,064.9	8,591.3	12,662.1	100	100	73.3	
2001	325.4	6,811.0	9,527.8	14,031.1	100	100	72.4	

\*includes liability for post retirement benefit increases

2002	352.1	7,559.7	10,348.1	15,052.3	100	100	69.0
2003	368.3	8,291.2	10,881.2	15,883.0	100	100	66.3

**ACTUARIAL SECTION**

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**PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF NEVADA**

**SCHEDULE 5**

**ANALYSIS OF FINANCIAL EXPERIENCE**

**Gains and Losses in Actuarial Accrued Liabilities During Year Ended June 30, 2003  
 Resulting from Differences Between Assumed Experience and Actual Experience  
 (millions)**

Type of Activity	Gain (or Loss) For Year	
	Regular	Police/Fire

<b>Age and Service Retirements.</b> If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, there is a loss.	(60.4)	(\$13.7)
<b>Disability Retirements.</b> If disability claims are less than assumed, there is a gain. If more claims, there is a loss.	(10.1)	(2.5)
<b>Death-in-Service Benefits.</b> If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	13.8	1.7
<b>Withdrawal From Employment.</b> If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, there is a loss.	(25.4)	(17.4)
<b>Pay Increases.</b> If there are smaller pay increases than assumed, there is a gain. If greater increases, there is a loss.	55.7	(24.7)
<b>Contribution Income.</b> If more contributions are received than the calculated actuarial cost, there is a gain. If less, there is a loss.	(45.8)	1.6
<b>Purchase of Service.</b> Unanticipated contributions due to service purchase.	23.1	6.3
<b>Investment Income.</b> If there is a greater investment income than assumed, there is a gain. If less income, there is a loss.	(463.8)	(102.4)
<b>Death After Retirement.</b> If retirees live longer than assumed, there is a loss. If not as long, there is a gain.	(40.5)	4.2
<b>Inactive Vesteds.</b> If inactive vesteds commence benefits sooner than projected, there is a loss. If later, there is a gain.	(13.1)	(3.5)
<b>Inactive Showups.</b> Persons in pay status who are added due to delayed reporting. These are primarily students who had benefits reinstated.	(3.3)	(1.2)
<b>Other.</b> Miscellaneous gains and losses result from data adjustments, timing of financial transactions, increases in liability due to service purchase, transfer of Judges liabilities, etc.	<u>88.0</u>	<u>(10.2)</u>
<b>Total Experience Loss During Year</b>	<b>(\$481.8)</b>	<b>(\$161.8)</b>

**ACTUARIAL SECTION**

**ANALYSIS OF ACTUARIAL EXPERIENCE (continued)**  
**Gains and Losses in Actuarial Accrued Liabilities During Year Ended June 30, 2003**  
**Resulting from Differences Between Assumed Experience and Actual Experience**  
**(millions)**

Type of Activity	Gain (or Loss) For Year	
	Regular	Police/Fire

<b>Active New Entrants/Rehires.</b> Unanticipated cost due to new hires and rehires. Some new active members have past service credits reinstated, thereby increasing costs due to the unanticipated liabilities.	<u>(67.1)</u>	<u>(5.7)</u>
<b>Net Loss During Year</b>	<b>(\$548.9)</b>	<b>(\$167.5)</b>
<b>Actuarial Assumptions and Methods.</b> Based upon the recent experience study, changes were made, resulting in changes to the actuarial accrued liability.	473.7	(85.6)
<b>Composite Loss During Year</b>	<b>(\$75.2)</b>	<b>(\$253.1)</b>

**ACTUARIAL SECTION**

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**PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF NEVADA**

**SCHEDULE 6**

**SUMMARY OF CHANGES IN ACTUARIAL ASSUMPTIONS – REGULAR**

<u>Actuarial Assumption</u>	<b>2002</b> <u>Actuarial Valuation</u>	<b>2003</b> <u>Actuarial Valuation</u>
-----------------------------	-------------------------------------------	-------------------------------------------

Inflation	5.00% per annum	3.50% per annum
Salary Increases	Age based rates	Service based rates
Withdrawal	Age and service based rates	Service based rates
Disability Incidence	Age based rates	Age based rates
Retirement	Age and service based rates	Age and service based rates
Post-Retirement Mortality	1983 Group Annuity Mortality (GAM) Table	1994 GAM Table set-forward one year
Pre-Retirement Mortality	1983 GAM Table	1994 GAM Table set-forward one year
Disabled Mortality	1983 Railroad Retirement Board Disabled Life Mortality Table	1983 Railroad Retirement Board Disabled Life Mortality Table set-back six years
Beneficiary Mortality	1983 GAM Table	1994 GAM Table set-forward one year
Dependent Children	No dependent children are assumed	Assume one dependent child who is 28 years younger than employee

**ACTUARIAL SECTION**

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF NEVADA**

**SCHEDULE 7**

**SUMMARY OF CHANGES IN ACTUARIAL ASSUMPTIONS – POLICE/FIRE**

<b><u>Actuarial Assumption</u></b>	<b><u>2002 Actuarial Valuation</u></b>	<b><u>2003 Actuarial Valuation</u></b>
Inflation	5.00% per annum	3.50% per annum



Salary Increases	Age based rates	Service based rates
Payroll Growth	7.00% per annum	8.00% per annum
Withdrawal	Age and service based rates	Service based rates
Disability Incidence	Age based rates	Age based rates
Retirement	Age and service based rates	Age and service based rates
Disabled Mortality	1983 Railroad Retirement Board Disabled Life Mortality Table	1983 Railroad Retirement Board Disabled Life Mortality Table set-back six years
Dependent Children	No dependent children are assumed	Assume one dependent child who is 28 years younger than employee

**ACTUARIAL SECTION**

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**PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF NEVADA**

**June 30, 2003**

**Actuarial Valuation Statement**  
**(GASB Disclosure Basis)**

<b>Normal Cost</b>	<b>Regular Employees</b>	<b>Police/Fire Employees</b>	<b>Total</b>
Employer normal cost .....	\$ 476,864,400	\$ 146,450,600	\$ 623,315,000
Employee contributions .....	57,889,100	10,362,300	68,251,400
<b>Total Normal Cost .....</b>	<b><u>\$ 534,753,500</u></b>	<b><u>156,812,900</u></b>	<b><u>\$691,566,400</u></b>

**Actuarial Accrued Liability**

Active members .....	\$ 8,825,618,800	\$2,423,863,600	\$11,249,482,400
Inactive members .....	299,038,400	27,297,500	326,335,900
Pensioners, beneficiaries and disabled .....	6,281,330,100	1,521,398,400	7,802,728,500
Survivors .....	<u>135,311,000</u>	<u>26,821,500</u>	<u>162,132,500</u>
<b>Total Actuarial Accrued Liability .....</b>	<b>\$15,541,298,300</b>	<b>\$3,999,381,000</b>	<b>\$19,540,679,300</b>
<b>Assets at Actuarial Value .....</b>	<b><u>\$12,928,806,000</u></b>	<b><u>\$2,954,161,800</u></b>	<b><u>\$15,882,967,800</u></b>
<b>Total Unfunded Actuarial Accrued Liability .....</b>	<b><u>\$ 2,612,492,300</u></b>	<b><u>\$1,045,219,200</u></b>	<b><u>\$ 3,657,711,500</u></b>
<b>Payment to amortize unfunded actuarial accrued liability over 21 years from July 1, 2003, based on level percentage of payroll amortization .....</b>	<b><u>\$ 162,510,000</u></b>	<b><u>\$ 65,017,800</u></b>	<b><u>\$ 227,527,800</u></b>
Employer-Pay Rate Payroll .....	\$ 2,882,073,300	\$ 567,118,900	\$ 3,449,192,200
Employee/Employer Rate Payroll .....	<u>494,141,000</u>	<u>68,038,600</u>	<u>562,179,600</u>
<b>Total Rate Payroll .....</b>	<b><u>\$ 3,376,214,300</u></b>	<b><u>\$ 635,157,500</u></b>	<b><u>\$ 4,011,371,800</u></b>

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF NEVADA**

June 30, 2003

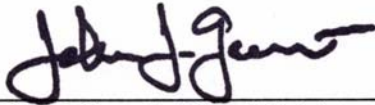
**Actuarial Valuation Statement (continued)**  
**(GASB Disclosure Basis)**

	<b><u>Regular Employees</u></b>	<b><u>Police/Fire Employees</u></b>
<b>Calculated Contribution Rates (as percentage of rate payroll):</b>		
Employer-Pay, statutory rate .....	20.25%	28.50%
Employer-Pay, total rate .....	20.66%	35.00%

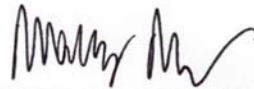
Employer normal cost .....	15.70%	24.61%
Amortization percentage .....	4.81%	10.24%
Administrative expenses .....	0.15%	0.15%
<b>Employee/Employer, statutory rate.....</b>	<b>21.00%</b>	<b>29.50%</b>
<b>Employee/Employer, total rate .....</b>	<b>21.61%</b>	<b>35.76%</b>
Employee contribution rate .....	10.50%	14.75%
Employer normal cost .....	6.15%	10.62%
Amortization percentage .....	4.81%	10.24%
Administrative expenses .....	0.15%	0.15%

The actuarial calculations performed solely for GASB Disclosure were made by qualified actuaries in accordance with generally accepted actuarial principles and procedures, based on the current provisions of the Public Employees' Retirement Act and on the actuarial assumptions and methods recommended to the Public Employees' Retirement Board and as required under GASB.

The Public Employees' Retirement System of the State of Nevada is funded on an actuarial reserve basis. Participating employers are making contributions to the Retirement System based on the results of actuarial valuations and the statutory funding provisions of the Public Employees' Retirement Act.



John J. Garrett, ASA, MAAA  
Vice President  
The Segal Company



Wally Malles, ASA, MAAA, EA  
Assistant Actuary  
The Segal Company

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**PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
of NEVADA**

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**STATISTICAL SECTION**



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**STATISTICAL SECTION**

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**SCHEDULE 1****Additions by Source**

<u>June 30</u>	<u>Member Contributions</u>	<u>Employer Contributions</u>	<u>Employer Contributions as a Percentage of Annual Covered Payroll</u>	<u>Net Investment Income (Loss)</u>	<u>Other Income</u>	<u>Total</u>
1998	\$49,165,085	\$508,112,263	19.9%	\$1,435,177,706	\$1,854,894	\$1,994,309,948
1999	51,889,904	557,544,587	20.8	1,171,826,290	1,935,820	1,783,196,601
2000	56,842,969	604,926,098	20.4	916,992,809	2,162,002	1,580,923,878
2001	60,032,958	656,051,791	20.7	(217,005,186)	1,911,127	500,990,690
2002	78,624,839	680,730,753	19.9	(367,856,335)	2,104,359	393,603,616
2003	84,838,127	724,030,565	20.1	672,834,767	2,075,376	1,483,778,835

## SCHEDULE 2

### Deductions by Type

<u>June 30</u>	<u>Benefit Payments</u>	<u>Refunds to Members</u>	<u>Administrative/Other Expenses</u>		<u>Total</u>
1998	\$336,059,778	\$13,537,992	\$3,983,810	\$	353,581,580
1999	374,252,647	11,315,902	4,250,065		389,818,614
2000	421,171,517	16,362,173	7,065,980		444,599,670
2001	477,319,049	10,031,413	7,570,472		494,920,934
2002	533,012,667	15,826,195	8,697,923		557,536,785
2003	591,791,730	11,086,193	16,309,706		619,187,629

PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF NEVADA 87

## STATISTICAL SECTION

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## SCHEDULE 3

### Benefit Expenses by Type – Regular Members

<u>June 30</u>	<u>Service &amp; Survivor</u>	<u>Disability</u>	<u>Post Retirement Increases*</u>	<u>Total</u>
1998	\$266,544,084	\$10,130,936	\$83,686	\$276,758,706
1999	296,653,150	11,324,548	63,680	308,041,378
2000	333,992,290	13,154,759	63,666	347,210,715
2001	373,685,416	19,039,793	59,521	392,784,730
2002	415,508,147	22,621,743	53,701	438,183,591
2003	460,209,111	24,792,006	50,407	485,051,524

\*Legislative appropriation

## SCHEDULE 4

**Benefit Expenses by Type – Police/Fire Members**

<u>June 30</u>	<u>Service &amp; Survivor</u>	<u>Disability Increases*</u>	<u>Post Retirement Total</u>	
1998	\$55,745,418	\$3,544,464	\$11,190	\$59,301,072
1999	62,142,558	4,058,152	10,559	66,211,269
2000	69,446,322	4,504,802	9,678	73,960,802
2001	78,881,589	5,643,052	9,678	84,534,319
2002	88,284,961	6,534,437	9,678	94,829,076
2003	99,672,890	7,057,638	9,678	106,740,206

\*Legislative appropriation

**SCHEDULE 5**

**Benefit Recipients by Type of Benefit – Regular Members**

<u>June 30</u>	<u>Service</u>	<u>Beneficiary</u>	<u>Disability</u>	<u>Survivor</u>	<u>Total</u>
1998	13,984	1,508	838	969	17,299
1999	14,821	1,585	908	1,016	18,330
2000	15,984	1,681	1,013	1,062	19,740
2001	17,081	1,748	1,090	1,075	20,994
2002	18,014	1,907	1,177	1,123	22,221
2003	19,042	1,976	1,288	1,174	23,480

Information provided by The Segal Company

**SCHEDULE 6**





<u>June 30</u>	<u>Number of New Retirees**</u>	<u>Monthly Benefit**</u>	<u>Age at Retirement</u>	<u>Years' Service at Retirement</u>
1998	1,258	\$1,466	59	18.67
1999	1,404	1,540	59	19.30
2000	1,791	1,626	59	19.27
2001	1,741	1,719	59	18.96
2002	1,582	1,799	58	19.40
2003	1,731	1,879	59	19.32

\* Excluding survivors and beneficiaries

\*\* Information provided by The Segal Company

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## **STATISTICAL SECTION**

### **SCHEDULE 9**

#### **Average Monthly Benefit – Police/Fire Members\***

<u>June 30</u>	<u>Number of New Retirees**</u>	<u>Average Monthly Benefit**</u>	<u>Average Age at Retirement</u>	<u>Average Years' Service at Retirement</u>
1998	201	\$2,229	54	21.43
1999	188	2,333	53	20.27
2000	234	2,445	54	21.44
2001	236	2,583	54	21.24
2002	220	2,664	53	21.64
2003	283	2,862	54	21.78

\* Excluding survivors and beneficiaries

\*\* Information provided by The Segal Company

### **SCHEDULE 10**

#### **Average Monthly Compensation at Retirement**

<u>June 30</u>	<u>Regular</u>	<u>Police/Fire</u>
----------------	----------------	--------------------

1998	\$3,512	\$4,915
1999	3,743	5,052
2000	4,023	5,341
2001	4,091	5,548
2002	4,143	5,637
2003	4,238	5,931

**STATISTICAL SECTION**

**SCHEDULE 11**  
**Participating Employers**  
 (Page 1 of 2)

**State of Nevada and Related Agencies**

Board of Examiners for Alcohol & Drug Abuse Counselors  
 Cosmetology Board  
 Department of Transportation  
 Legislative Counsel Bureau  
 Liquified Petroleum Gas Board  
 Nevada Board of Physical Therapy Examiners  
 Nevada Board of Veterinary Medical Examiners  
 Nevada Rural Housing Authority  
 Public Employees' Retirement System  
 State Board of Accountancy  
 State Board of Architecture  
 State Board of Chiropractic Examiners  
 State Board of Dental Examiners  
 State Board of Examiners for Social Workers  
 State Board of Medical Examiners  
 State Board of Nursing  
 State Board of Osteopathic Medicine  
 State Personnel

White Pine County School District  
 Storey County School District  
 Sierra Nevada Academy

**University of Nevada System**  
 University of Nevada, Las Vegas  
 University of Nevada, Reno

**Counties**

Churchill County  
 Clark County  
 Douglas County  
 Elko County  
 Esmeralda County  
 Eureka County  
 Humboldt County  
 Lander County  
 Lincoln County  
 Lyon County  
 Mineral County  
 Nye County  
 Pershing County  
 Storey County  
 Washoe County  
 White Pine County

**Schools**

Academy for Career Education  
 Andre Agassi College Preparatory Academy  
 Bailey Charter Elementary School  
 Carson City School District  
 Churchill County School District  
 Clark County School District  
 Coral Academy of Science Charter School  
 Douglas County School District  
 Elko County School District  
 Esmeralda County School District  
 Eureka County School District

**Cities**

City of Boulder  
 City of Caliente  
 City of Carlin  
 City of Carson

Explore Knowledge Academy  
 Gateways to Success Charter School  
 High Desert Montessori School  
 Humboldt County School District  
 ICDA Charter High School  
 Keystone Academy Charter School  
 Lander County School District  
 Lincoln County School District  
 Lyon County School District  
 Mariposa Academy of Language and Learning  
 Mineral County School District  
 Nevada Leadership Academy  
 Nye County School District  
 Odyssey Charter School  
 Odyssey Secondary School  
 Pershing County School District

City of Elko  
 City of Ely  
 City of Fallon  
 City of Fernley  
 City of Henderson  
 City of Las Vegas  
 City of Lovelock  
 City of Mesquite  
 City of North Las Vegas  
 City of Reno  
 City of Sparks  
 City of Wells  
 City of West Wendover  
 City of Winnemucca  
 City of Yerington

**STATISTICAL SECTION**

**SCHEDULE 11**

**Participating Employers**

(Page 2 of 2)

**Hospitals**

Battle Mountain General Hospital  
 Grover C. Dils Medical Center  
 Humboldt General Hospital  
 Mount Grant General Hospital  
 Pershing General Hospital  
 University Medical Center of Southern Nevada  
 William Bee Ririe Hospital

Airport Authority of Washoe County  
 Austin Volunteer Fire Department  
 Battle Mountain Volunteer Fire Department  
 Canyon General Improvement District  
 Central Dispatch Administrative Authority  
 Churchill County Volunteer Firemen  
 Churchill Mosquito Abatement District  
 City of Wells Volunteer Fire Department  
 Clark County Health Department  
 Clark County Housing Authority  
 Conservation District of Southern Nevada  
 East Fork Swimming Pool District

**Utility, Irrigation and Sanitation Districts**

Alamo Sewer & Water General Improvement District  
 Beatty Water and Sanitation District  
 CC Communications  
 Carson Water Subconservancy District  
 Clark County Water Reclamation District  
 Douglas County Sewer District  
 Lander County Sewer and Water #2  
 Lincoln County Power District  
 Lovelock Meadows Water District  
 McGill-Ruth Consolidated Sewer and Water General  
 Improvement District  
 Minden-Gardnerville Sanitation District  
 Moapa Valley Water District  
 Overton Power District #3  
 Pershing County Water Conservation District  
 Truckee-Carson Irrigation District  
 Truckee Meadows Water Authority  
 Virgin Valley Water District  
 Walker River Irrigation District

Elko Convention and Visitors Authority  
 Elko Volunteer Fire Department  
 Gardnerville Ranchos General Improvement  
 District  
 Grass Valley Volunteer Fire Department  
 Henderson District Public Libraries  
 Indian Hills Improvement District  
 Kingsbury General Improvement District  
 Lander County Fair and Recreation Board  
 Las Vegas Convention/Visitors Authority  
 Las Vegas Housing Authority  
 Las Vegas Metropolitan Police Department  
 Las Vegas/Clark County Library District  
 Lovelock Volunteer Fire Department  
 Mineral County Housing Authority  
 Nevada Association of Counties  
 North Lake Tahoe Conservation District  
 North Lake Tahoe Fire Protection District  
 North Las Vegas Housing Authority

**Special Districts and Agencies**

Palomino Valley General Improvement District  
 Pershing Volunteer Fire Department  
 Redevelopment Agency of Sparks  
 Regional Planning Agency of Washoe County  
 Regional Transportation Commission  
 Reno Housing Authority  
 Reno/Sparks Convention and Visitors Authority  
 Round Hill General Improvement District  
 Southern Nevada Workforce Investment Board  
 Stagecoach General Improvement  
 Sun Valley General Improvement District  
 Tahoe-Douglas District  
 Tahoe-Douglas Fire Protection District  
 White Pine County Tourism and Recreation

Board  
 Winnemucca Rural Volunteer Fire District  
 Winnemucca Volunteer Firemen

**STATISTICAL SECTION**

**SCHEDULE 12**

**Active Members of the System by Employer Type\***

	<u>Regular</u>	<u>Police/ Fire</u>	<u>Total</u>	<u>% of Total</u>
<u>June 30, 1998</u>				
State of Nevada and Related Agencies	12,330	2,494	14,824	20%
University of Nevada System	2,921	42	2,963	4
Schools	29,830	97	29,927	40
Counties	8,377	1,628	10,005	14
Cities	5,062	2,011	7,073	9
Hospitals	4,064	0	4,064	5
Utility, Irrigation, and Sanitation Districts	555	0	555	1
Special Districts and Agencies	<u>3,235</u>	<u>2,047</u>	<u>5,282</u>	<u>7</u>
Totals	<u>66,374</u>	<u>8,319</u>	<u>74,693</u>	<u>100%</u>
<u>June 30, 2003</u>				
State of Nevada and Related Agencies	12,265	2,577	14,842	17%
University of Nevada System	3,498	42	3,540	4
Schools	37,515	140	37,655	43
Counties	9,731	1,723	11,454	13
Cities	6,265	2,655	8,920	10
Hospitals	3,709	0	3,709	4
Utility, Irrigation, and Sanitation Districts	675	1	676	1
Special Districts and Agencies	<u>3,911</u>	<u>2,620</u>	<u>6,531</u>	<u>8</u>
Totals	<u>77,569</u>	<u>9,758</u>	<u>87,327</u>	<u>100%</u>

**SCHEDULE 13**

**Average Age and Service Statistics for the System's Members\***

	<u>1998</u>	<u>2003</u>
Regular members:		
Average age	43.7	44.8
Average years of service	8.2	8.7
Police/Fire members:		
Average age	39.2	40.1
Average years of service	9.5	10.2

**SCHEDULE 14**

**Average Salaries for the System's Members\***

	<u>Regular</u>	<u>Increase</u>	<u>Police/Fire</u>	<u>Increase</u>
June 30, 1998	\$32,714	1.8%	\$44,987	4.2%
1999	33,397	2.1	45,283	.7
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
Annual increase 1998 – 2003		3.7%		4.8%
Fiscal Year 2003 Consumer Price Index (CPI)		2.11%		

\* Information provided by The Segal Company

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**PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
of NEVADA**

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**PLAN SUMMARY**



**PLAN SUMMARY**

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**Administration**

The Public Employees' Retirement System provides retirement, disability, and death benefits to long-term public employees. The System includes the employees of Nevada counties, cities, schools, state government, and miscellaneous public employers.

The governing authority of the System is a 7-member board appointed by the Governor. Day-to-day operations are managed by the Executive Officer. Operating funds are provided by transfer of an administrative fee assigned to each member and benefit recipient. Monthly fees at June 30, 2003 were \$5.21 for Regular members and benefit recipients and \$5.44 for Police/Fire members and benefit recipients.

**Membership**

An employee of a participating public employer is required to be a member of the System from the first day of service if he or she is employed in a position which is normally considered to be half time or more according to the full-time work schedule established by the public employer. Persons employed in an approved police or fire position are covered under the Police/Fire sub-fund. Persons who are not police or fire employees are covered under the Regular sub-fund. Membership is canceled upon refund, retirement, or death. Membership is not canceled automatically upon termination of employment. A member must apply for a refund, distribution, or retirement to cancel membership.

**Types of Contribution Plans**

All pay earned, with the exception of overtime, terminal leave, and earnings from secondary employment, is subject to retirement contribution. New hires (in agencies which did not elect the Employer-Pay Contribution plan (EPC) prior to July 1, 1983) have the option of selecting the Employer-Pay Contribution plan or the Employee/Employer Contribution plan. Each plan is described below.

**Employer-Pay Contribution Plan (EPC)**

Under EPC, contributions are paid on the employee's behalf by their public employer. EPC contributions are not deposited to the individual member's account and are not available for refund upon termination of employment. The EPC contribution rates, through June 30, 2003, were 18.75% for Regular members and 28.5% for Police/Fire members.

**Employee/Employer Contribution Plan**

Under this plan, through June 30, 2003, the Regular member and the employer each contributed 9.75% of compensation to the System. Police/Fire members and their employers each contribute 14.75% of compensation. Employee contributions made under this plan are refundable upon termination of employment. Employer contributions are not refundable.

Public employees, other than school employees, earn service credit for years, months and days actually worked. School employees, who are not regular 12-month employees, receive service credit on the basis of a full year if they



work full-time for the entire school year. For these same school employees, service for a part of the school year is credited on a ratio of one and one-third days for each day worked.

## **PLAN SUMMARY**

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### **Service**

#### Purchase of Service

Members with five years of creditable service may purchase up to five years of service credit. The member must pay the full actuarial cost associated with age and average compensation at the time of purchase.

#### Refund of Contributions

Members who have contributed under the Employee/Employer Contribution plan may withdraw employee contributions if terminating all employment for which contribution is required or if employed in a position ineligible for membership for at least 90 days. A refund cancels all rights of membership.

#### Repayment of Refunded Contributions

Members who receive a refund of employee contributions and later return to work and re-establish active membership for a period of at least six months may repay the refunded contributions and restore service credit. Repayment, including interest at the actuarially determined rate, may be in the form of a lump-sum payment or by monthly installments. Service will not be restored until the installment agreement is paid in full.

### **Benefits**

#### Service Retirement Vesting

Contributing members of the System earn the right to receive a retirement benefit after five years of service.

#### Service Retirement

Requirements for Regular members - age 65 with five years of service, **or** age 60 with 10 years of service, **or** any age with 30 years of service.

Requirements for Police/Fire members - age 65 with five years of service, **or** age 55 with 10 years of police/fire service, **or** age 50 with 20 years of police/fire service, **or** at any age with 25 years of service.

#### Requirements for an Unreduced Benefit

Members with at least 5 years of service are eligible to receive an unreduced retirement benefit at age 65 or older. Regular members with 10 or more years of service credit can receive an unreduced benefit at age 60 or older. Police/Fire members with 10 or more years of Police/Fire service credit can receive an unreduced benefit at age 55 or older. Police/Fire members with 20 or more years of Police/Fire service credit can retire at age 50 or older and receive an unreduced benefit. Regular members with 30 or more years of service can retire at any age without penalty. Police/Fire members with 25 or more years of service can retire at any age without penalty.

#### Early Retirement Penalty

Members with the years of service necessary to receive a retirement benefit but who have not reached the age for an unreduced benefit may retire at any age with the benefit reduced by 4% for each full year that they retire early.

Important Factors for Determining Retirement Benefits

Benefit amounts are based on three factors:

1. Average compensation – defined as the average of 36 highest consecutive months of compensation.
2. Service credit – years, months, and days worked.
3. Selection of retirement plan – prospective retirees may elect one of seven retirement options.

Option 1 – (the unmodified plan) for Regular members – Pays the full monthly benefit earned but provides no income protection for beneficiary after death.

Option 1– (the unmodified plan) for Police/Fire members – Pays the full monthly benefit earned for the retiree's lifetime. If the retired employee was married to the same spouse at the time of retirement and at the time of death, the spouse is eligible to receive a benefit equal to 50% of the retired employee's benefit earned in police/fire service upon attainment of age 50.

Option 2 – Provides an actuarially reduced lifetime benefit. After death, the same benefit continues for the lifetime of beneficiary.

Option 3 – Provides an actuarially reduced lifetime benefit. After death, 50% of the benefit continues for the lifetime of the beneficiary.

Option 4 – Provides an actuarially reduced lifetime benefit. After retiree's death and upon beneficiary reaching age 60, the same benefit continues for the lifetime of the beneficiary.

Option 5 – Provides an actuarially reduced lifetime benefit to retiree. After retiree's death and upon beneficiary reaching age 60, 50% of the benefit continues for the lifetime of the beneficiary.

Option 6 – Provides an actuarially reduced lifetime benefit to retiree. Upon death of the retiree, this option provides to the beneficiary a specific sum per month, which cannot exceed the monthly benefit paid to retiree.

Option 7 – Provides an actuarially reduced lifetime benefit to retiree. The option provides to the beneficiary, upon retiree's death and the beneficiary reaching age 60, a specific sum per month, which cannot exceed the monthly benefit paid to retiree.

**Post-Retirement Benefit Increases**

Retirees are eligible for annual benefit increases if they began receiving benefits at least 3 years before the effective date of the increase. Benefits are increased annually on the first day of the month following the anniversary of the commencement of benefits. See the Actuarial Section, page 70 for a schedule of post-retirement increases.

## **PLAN SUMMARY**

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### **Benefit Formula**

The formula used for calculating retirement benefits is as follows:

- Total Service Credit Earned before July 1, 2001 X 2.5% = Service Time Factor
- Total Service Credit Earned on and after July 1, 2001 X 2.67% = Service Time Factor
- Total Service Time Factors X Average Monthly Compensation (36 Highest Consecutive Months of Salary) = Unmodified benefit (Option 1).

Maximum benefits are 90% of average compensation for individuals who became members before July 1, 1985, and 75% of average compensation for individuals who became members after June 30, 1985.

Actuarial reductions are based on the member's age and the beneficiary's age at the time of retirement, determined from tables supplied by the System's actuary.

### **Disability Retirement**

Members with five or more years of service who become totally unable to perform their current or any comparable job because of an injury or mental or physical illness of a permanent nature, are eligible to apply for disability retirement. The application must be filed with the System prior to termination of employment. Disability retirement benefits are calculated in the same manner as service retirement without reduction for age.

### **Survivor Benefits**

#### Eligibility

Eligible survivors of a member who dies prior to retirement are entitled to a benefit if:

1. The member had two years of service in the two and one half years immediately preceding death; or
2. The member had more than 10 years of accredited service; or
3. The member's death was caused by an occupational disease or an accident arising out of or in the course of employment, regardless of service credit.

Eligible survivors:

1. Spouse.
2. Each unmarried dependent child under age 18 or up to age 23 if a full-time student.
3. Dependent parents, provided there are no other eligible survivors at the time of member's death.

#### Amount of Survivor Benefits

Generally, if a member dies with less than 10 years of service, the spouse would receive \$450 per month and each dependent child \$400 per month. The spouse would receive survivor benefits for his or her lifetime. Each unmarried dependent child would receive monthly benefits until age 18, or age 23 if he or she is a full-time student.

If a member dies with more than 10 years service credit, the spouse is entitled to a lifetime benefit. The amount of the benefit is based on the member's age, years of service, and average compensation at the time of death. A child would receive the same benefits as previously described.

**PLAN SUMMARY**

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A member is able to designate one survivor beneficiary to receive benefits (as described above) to be paid if the member was unmarried at the time of death. Beginning January 1, 2004, a member may designate additional payees to receive direct payment of a portion of the survivor beneficiary benefit.