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AGENDA ITEM

- Action Item
- Information Only

Date: September 2, 2010
Item Number: XI c
Title: Chief Financial Officer Report

Summary

This report addresses the following topics:

1. June 30, 2010 Budget Status
 - a. Budget Account 1338 – Operational Budget
 - b. Budget Account 1368 – Retired Employee Group Insurance (REGI)
 - c. Budget Account 1390 – Active Employee Group Insurance Subsidy (AEGIS)
2. June 30, 2010 Unaudited Financial Statements
3. State Retirees' Health and Welfare Benefits Fund

Report

June 30, 2010 Budget Status

Budget Account 1338 – Operational Budget – Shown below is a summary of the operational budget account 1338 status as of June 30, 2010 compared to the work program for FY 2010 with comparisons to FY 2009. The budget status is reported on a cash basis and does not include incurred expenses and income owed to the fund.

The budget status report shows Realized Funding Available (cash) at \$72.8 million. This compares to \$76.8 million for last year. After subtracting \$38.4 million for reserves for Incurred but not Reported (IBNR) claims and \$31.1 million for the Catastrophic Reserve, the remaining balance is \$3.2 million. The decrease in net realized funding available is due to:

1. Lower beginning cash;
2. High claims costs during the plan year extension; and
3. Higher reserve requirements;

Offset by:

1. Increased premium revenue caused by higher rates and the premium holiday in July 2008; and
2. Increased PPO Rx rebates and Medicare D Retiree Drug Subsidies.

The budget status is reported on a cash basis. Therefore this budget status report does not include a transfer from the AEGIS budget account to the operating budget account of \$13.9 million made on August 2, 2010 to pay for a portion of June employee subsidies.

Operational Budget 1338

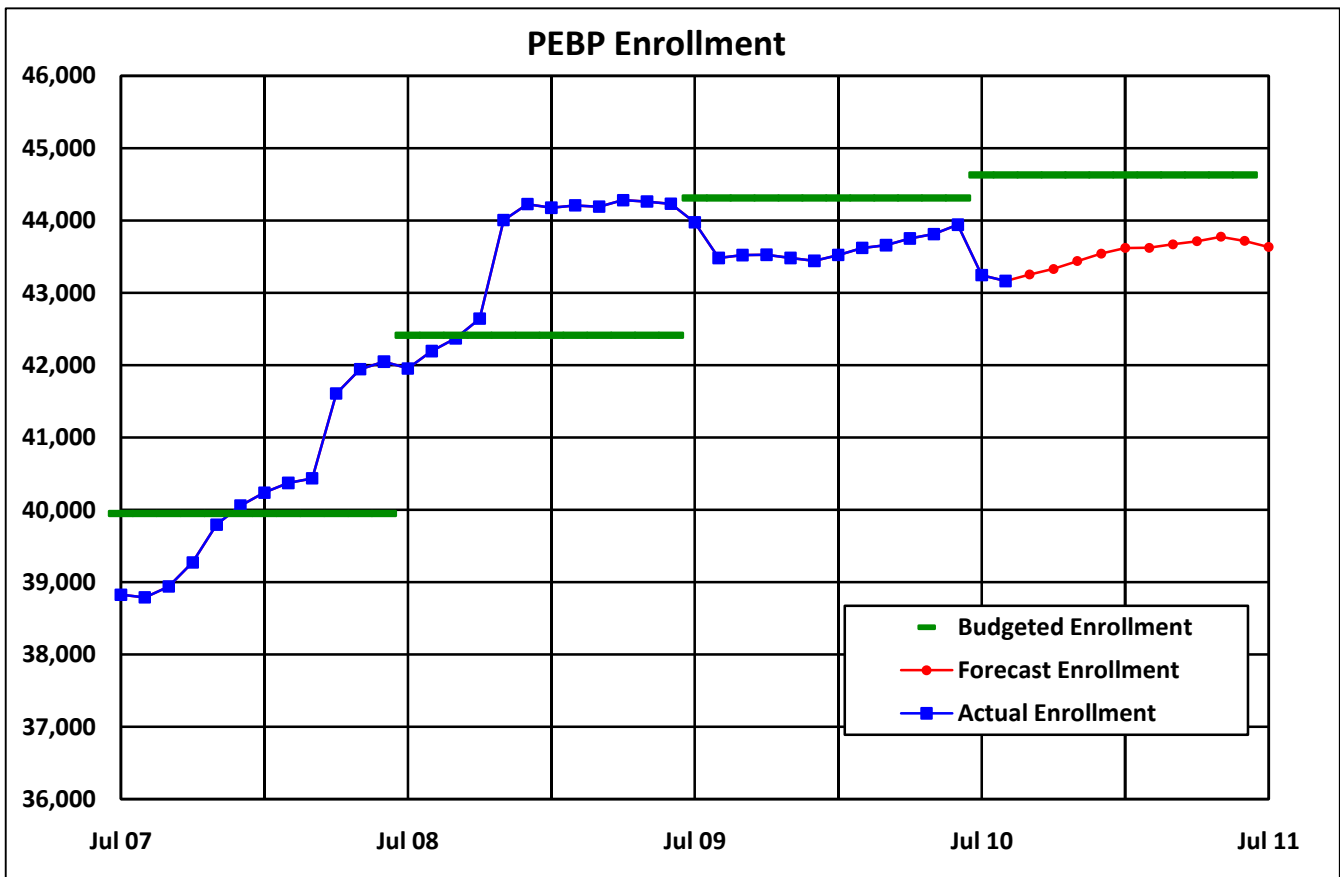
	FISCAL YEAR 2010			FISCAL YEAR 2009		
	Actual as of 6/30/2010	Work Program	Percent	Actual as of 6/30/2009	Fiscal Year 2009 Close	Percent
Beginning Cash	81,003,579	81,003,579	100%	93,428,094	93,428,094	100%
Premium Income	328,181,942	361,576,807	91%	307,196,827	317,495,496	97%
All Other Income	7,178,758	5,557,600	129%	5,416,796	5,699,616	95%
Total Income	335,360,700	367,134,407	91%	312,613,624	323,195,112	97%
Personnel Services	2,042,578	2,164,866	94%	2,189,896	2,286,198	96%
Operating - Other than Personnel	2,033,009	2,251,846	90%	1,994,090	2,029,347	98%
Insurance Program Expenses	338,593,475	360,838,201	94%	324,390,504	330,663,533	98%
All Other Expenses	916,012	954,961	96%	637,629	640,549	100%
Total Expenses	343,585,074	366,209,874	94%	329,212,119	335,619,627	98%
Change in Cash	(8,224,374)	924,533		(16,598,495)	(12,424,515)	
REALIZED FUNDING AVAILABLE	72,779,205	81,928,112	89%	76,829,599	81,003,579	95%
Incurred But Not Reported Liability	(38,427,000)	(38,427,000)		(35,881,000)	(35,881,000)	
Catastrophic Reserve	(31,105,000)	(31,105,000)		(30,556,000)	(30,556,000)	
NET REALIZED FUNDING AVAILABLE	3,247,205	12,396,112		10,392,599	14,566,579	

The actual premium income of \$328.2 million is \$21.0 million more than FY 2009. This increase is due to the premium holiday in July 2008 that did not occur in July 2009. The \$1.8 million increase in all other income is due to increased receipts of prescription drug rebates from Catalyst Rx and the Retiree Drug Subsidy for Medicare Part D eligible members.

Insurance program costs for FY 2010 increased \$14.2 million (4.4%) over FY 2009. Of this amount, \$5.3 million is attributable to HMO rate and enrollment increases. Self-funded claims costs were \$9.0 million (3.9%) higher than FY 2009. Self-funded network

costs decreased \$150,000 due to the elimination of the administrative costs associated with the Health Assessment Questionnaire.

As of June 30, 2010, there were 43,943 participants enrolled in PEBP. This is nearly 400 less than the average budgeted enrollment for FY 2010 of 44,311, mostly due to the contract termination for Southern Nevada Health District. Average enrollment in the self-funded plans decreased by 1.5% from 31,037 in FY 2009 to 30,577 in FY 2010. Average enrollment in the HMO plans increased 4.3% from 12,527 to 13,069 during the same period. Below is a graphical representation of PEBP enrollment since July 2007.



Budget Account 1368 – Retired Employee Group Insurance (REGI) – Budget account 1368 is used to account for Retired Employee Group Insurance (REGI) funds. The budget account disburses funds to the operational budget (1338) based on actual costs of the State retiree subsidy. The budget is funded by an assessment of 2.30% of actual salaries to all State agencies.

Actual revenues for FY 2010 were \$56.3 million, an increase of \$25.8 million from the FY 2009 largely due to the withdrawal of \$24.7 million from the Retirees' Benefits Investment Fund as required by AB 3 of the 26th Special Session of the Nevada Legislature (2010). The \$28.8 million transferred to the operational budget (1338) from REGI is \$1.1 million less than FY 2009 due to a delayed transfer of the June retiree subsidies. The resulting increase in cash of \$27.5 million and realized funding available of \$29.9 million is \$26.5 million higher than budgeted. The difference is largely due to the Board's decision to keep \$24.7 million in the State's General Fund Portfolio instead of low yield investments.

Retired Employees' Group Insurance (REGI) Budget 1368

	FISCAL YEAR 2010			FISCAL YEAR 2009		
	Actual as of 6/30/2010	Work Program	Percent	Actual as of 6/30/2009	Fiscal Year 2009 Close	Percent
Beginning Cash	2,392,505	2,392,505	100%	38,902	38,902	100%
Assessment Income	31,599,252	33,126,879	95%	30,444,599	32,271,451	94%
Transfer from Investment Trust	24,700,000	24,700,000	100%	-	-	0%
Treasurer's Interest	20,554	-	0%	48,834	58,146	84%
Total Income	56,319,806	57,826,879	97%	30,493,433	32,329,597	94%
Transfer to 1338	28,832,501	32,165,781	90%	29,975,994	29,975,994	100%
Transfer to Investment Trust	-	24,700,000	0%	-	-	0%
Total Expenses	28,832,501	56,865,781	51%	29,975,994	29,975,994	100%
Change in Cash	27,487,305	961,098		517,439	2,353,603	
REALIZED FUNDING AVAILABLE	29,879,810	3,353,603		556,341	2,392,505	

Budget Account 1390 – Active Employee Group Insurance Subsidy (AEGIS) – Budget account 1390 is used to account for the Active Employee Group Insurance Subsidy (AEGIS) funds. The budget is funded by a monthly assessment of \$626.52 to all state agencies for each filled benefit-eligible position (excluding those participants who decline coverage). The budget account disburses funds to the operational budget (1338) based on actual costs of the State employee subsidy.

Actual revenues for 2010 were \$196.8 million, an increase of \$15.2 million from last year. Actual disbursements to the operational budget (1338) in FY 2010 were \$184.2 million, an increase of \$12.3 million. Both the increased revenue and disbursements are due to the July 2008 premium holiday that did not occur in July 2009.

As of June 30, 2010, there was \$12.6 million in realized funding available. However, this budget status report does not include post June 30th receipts of \$1.3 million and a transfer of \$13.9 million made on August 2, 2010 to pay for a portion of June employee subsidies. Once this transfer is included, there remains a net deficit of \$2.7 million owed to the

operational budget (1338). This deficit is due to the FY 2009 ending deficit of \$6.2 million which was budgeted to be made up by the end of the 2009-2011 biennium.

Active Employees' Group Insurance Subsidy (AEGIS) Budget 1390

	FISCAL YEAR 2010			FISCAL YEAR 2009		
	Actual as of 6/30/2010	Work Program	Percent	Actual as of 6/30/2009	Fiscal Year 2009 Close	Percent
Beginning Cash	-	-	0%	-	-	0%
Assessment Income	196,822,345	200,996,656	98%	181,604,426	182,105,112	100%
Transfer to 1338	184,209,560	200,996,656	92%	171,839,722	182,105,112	94%
Change in Cash	12,612,785	-		9,764,704	-	
REALIZED FUNDING AVAILABLE	12,612,785	-		9,764,704	-	

June 30, 2010 Unaudited Financial Statements

An unaudited statement of revenue, expenses and changes in fund net assets (income statement) for the year ending June 30, 2010 and the corresponding statement of net assets (balance sheet) are provided in Appendix A. Audited financial statements are planned for inclusion in a later Board agenda.

The income statement shows a net gain of \$4.9 million in FY 2010. Ending Net Assets of \$57.1 million are available to fund the budgeted reserve for catastrophic losses of \$31.1 million, leaving \$25.9 million of excess reserves.

From June 30, 2009 to June 30, 2010, current receivables were increased 3.4 million to 14.7 million. During that period, current accounts receivables (see Assets; Current Assets; Receivables) increased \$921,000 due to increased prescription drug rebates from Catalyst Rx. Current due from other funds (see Assets; Current Assets; Receivables) increased \$2.0 million due to a delayed transfer of retiree subsidies from the REGI budget account. Current due from component units (see Assets; Current Assets; Receivables) increased \$401,000 due to delayed receipt of premiums and subsidies from the universities. Non-current receivables (see Assets; Noncurrent Assets) decreased \$3.1 million to \$0 due to a shift in the AEGIS shortfall described above (100% of which is now categorized as current) from noncurrent to current.

There are several large changes in liabilities from June 30, 2009 to June 30, 2010. Bank overdraft (see Liabilities; Current Liabilities) decreased \$1.4 million due to lower claims costs resulting from the plan design changes implemented effective November 1, 2009 and timelier payment of claims. Accounts payable (see Liabilities; Current Liabilities) decreased \$3.0 million due to delayed claims payments in FY 2009 that were paid timely

in FY 2010. Due to other funds (see Liabilities; Current Liabilities) decreased \$717,000 due to a correcting transfer between the AEGIS and REGI budget accounts in FY 2009 that was not required in FY 2010.

State Retirees' Health and Welfare Benefits Fund

Pursuant to NRS 287.0436, the State Retirees' Health and Welfare Benefits Fund is used to account for the money set aside by the State to partially prefund the State's Other Post Employment Benefits (OPEB) liability.

As of June 30, 2010, PEBP has invested \$26,048,775.23 in the Retiree Benefits Investment Fund (RBIF) managed by PERS. Pursuant to AB 3 of the 26th Special Session of the Nevada Legislature (2010), \$24.7 million was withdrawn from the RBIF and placed in the State's General Portfolio with the State Treasurer on April 8, 2010. These funds will be used to offset employer subsidies in FY 2011.

The State's rate of return since fund inception is -1.11% with an ending value of \$760,739 as of June 30, 2010. The one year rate of return as of June 30, 2010 is 24.05%.

A report to the Retirement Benefits Investment Board regarding the Retirement Benefits Investment Fund is provided in Appendix B.

Recommendations

None.

State of Nevada
Public Employees' Benefit Program
Self Insurance Trust Fund
Statement of Revenue, Expenses and Changes in Fund Net Assets - **UNAUDITED**
for the twelve months ending June 30, 2010, June 30, 2009 and June 30, 2008

	Unaudited June 30, 2010	Audited June 30, 2009	Audited June 30, 2008
OPERATING REVENUES:			
Insurance premiums	341,216,448	315,242,605	276,309,025
Other	4,046,837	3,513,725	2,850,096
Total Operating Revenues	<u>345,263,285</u>	<u>318,756,330</u>	<u>279,159,121</u>
OPERATING EXPENSES:			
Salaries and Benefits	2,142,157	2,304,365	2,144,081
Operating	3,047,855	2,712,582	2,799,922
Claims	236,221,453	238,691,260	206,928,634
Depreciation	57,877	30,156	32,238
Insurance premiums and contractual obligations	98,893,781	93,582,739	79,033,566
Total Operating Expenses	<u>340,363,124</u>	<u>337,321,102</u>	<u>290,938,441</u>
Operating Income (Loss)	<u>4,900,161</u>	<u>(18,564,772)</u>	<u>(11,779,320)</u>
NONOPERATING REVENUES (EXPENSES):			
Investment income	587,811	-	4,638,216
Interest Expense	-	(309,569)	(1,274,876)
Total Nonoperating Revenues	<u>587,811</u>	<u>(309,569)</u>	<u>3,363,340</u>
Change in Net Assets	5,487,972	(18,874,341)	(8,415,980)
Net Assets, Beginning	<u>51,567,140</u>	<u>70,441,481</u>	<u>78,857,461</u>
Net Assets, Ending	<u><u>57,055,112</u></u>	<u><u>51,567,140</u></u>	<u><u>70,441,481</u></u>
Expense Ratio	4.8%	5.1%	5.7%
Claims Loss Ratio	99.6%	108.6%	106.1%

State of Nevada
Public Employees' Benefit Program
Self Insurance Trust Fund
Statement of Net Assets - **UNAUDITED**
as of June 30, 2010, June 30, 2009 and June 30, 2008

	Unaudited June 30, 2010	Audited June 30, 2009	Audited June 30, 2008
ASSETS:			
Current Assets:			
Cash and cash equivalents			
Cash deposits with the State Treasurer	86,226,100	87,441,765	94,325,798
Collateral on loaned securities	-	-	26,508,050
Receivables:			
Accounts receivable	3,275,437	2,354,629	1,789,955
Intergovernmental receivable	4,590,189	4,551,436	4,116,210
Due from other funds	4,688,575	2,669,518	1,103,125
Due from component units	2,100,558	1,699,168	3,731,666
Total Current Assets	<u>100,880,859</u>	<u>98,716,516</u>	<u>131,574,804</u>
Noncurrent Assets:			
Receivables:			
Accounts receivable	-	19,726	46,445
Intergovernmental receivable	-	-	1,238,326
Due from other funds	-	1,998,033	4,704,414
Due from component units	-	1,070,276	3,105,337
	<u>-</u>	<u>3,088,035</u>	<u>9,094,522</u>
Capital Assets			
Property and equipment	506,128	433,902	410,636
Less: Accumulated depreciation	(421,228)	(363,351)	(339,399)
Total Capital Assets (net of accum depr)	<u>84,899</u>	<u>70,551</u>	<u>71,237</u>
Total Non Current Assets	84,899	3,158,586	9,165,759
Total Assets	<u>100,965,758</u>	<u>101,875,102</u>	<u>140,740,563</u>
LIABILITIES:			
Current Liabilities:			
Bank overdraft	5,581,086	6,956,243	6,810,285
Accounts payable	3,543,148	6,514,784	3,943,201
Accrued payroll	95,294	92,017	76,582
Obligations under securities lending	-	-	26,508,050
Due to other funds	8,287	724,915	28,771
Unearned revenue	84,440	13,610	192,991
Compensated absences	86,780	86,780	72,653
Reserve for losses	34,473,000	35,881,000	32,634,000
Total Current Liabilities	<u>43,872,034</u>	<u>50,269,349</u>	<u>70,266,533</u>
Noncurrent Liabilities:			
Compensated absences	38,613	38,613	32,549
Total Noncurrent Liabilities	<u>38,613</u>	<u>38,613</u>	<u>32,549</u>
Total Liabilities	<u>43,910,647</u>	<u>50,307,962</u>	<u>70,299,082</u>
NET ASSETS:			
Invested in capital assets	84,899	70,551	71,237
Restricted for Losses	56,970,213	51,496,589	70,370,244
Unrestricted	-	-	-
Total Net Assets	<u>57,055,112</u>	<u>51,567,140</u>	<u>70,441,481</u>

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Retirement Benefits Investment Board

Memorandum

To: Retirement Benefits Investment Board

From: Staff

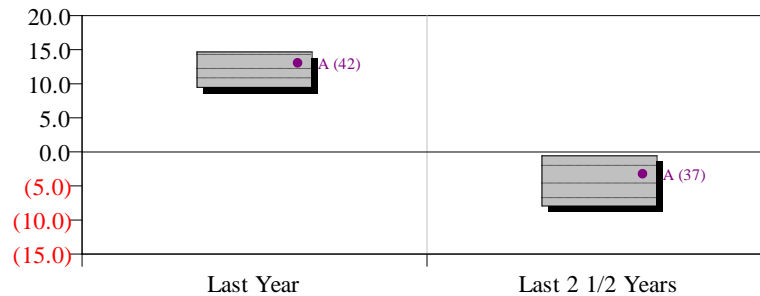
Date: August 5, 2010

Re: Fiscal Year 2010 Performance Review

The Retirement Benefits Investment Fund held \$25.9 million at the end of fiscal year 2010 and generated a 13.0% return for the year. The fund received a \$5.6 million contribution from the Washoe County School District during the quarter. In July Washoe County contributed an initial investment of \$21 million. They expect to contribute a total of approximately \$80 million to RBIF over the course of the next year. With these investments RBIF will bypass the Judicial fund in size, and become the second largest investment pool among the four funds the Board oversees.

The RBIF fund has generated competitive results, ranking above median versus similar sized institutional investors since inception.

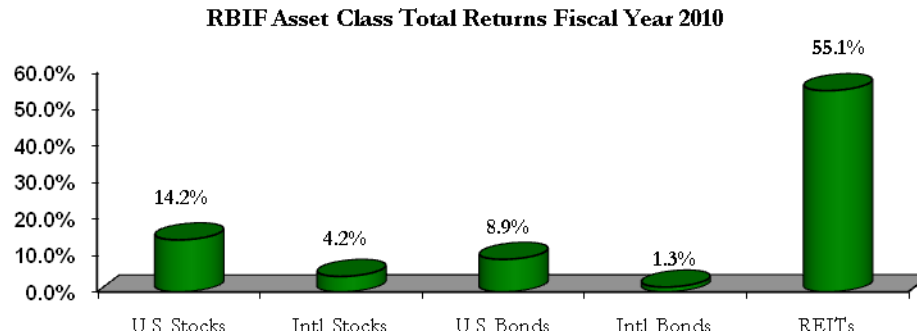
Returns
for Periods Ended June 30, 2010
Group: CAI Public Fund - Small (<100 MM)



10th Percentile	14.69	(0.56)
25th Percentile	14.20	(2.09)
Median	12.15	(4.68)
75th Percentile	10.76	(6.82)
90th Percentile	9.48	(7.94)
Member Count	12	12
NEV RBIF - Total Fund • A	12.98	(3.30)

The inception return rankings are remarkable given the negative equity environment during that time frame. Since RBIF holds 7% more stock than the median pension plan, one might expect it to underperform during poor stock markets. However, RBIF's emphasis on holding only high quality stocks and bonds has helped lower risk and increase return during this volatile market environment. This quality focus, combined with a simple, sound investment strategy and disciplined asset rebalancing process are the keys to the success of the RBIF fund.

Asset class returns for the fiscal year include:



The fund was within 0.1% of its market objective for the fiscal year. Asset allocation compared to the policy target and rebalancing added value and modest negative tracking error versus the index from Exchange Traded Fund (ETF) securities detracted from performance. ETF's are held in the plan because the tax status of these health care assets prevents them from being commingled within investment products offered by institutional investment firms. With the addition of Washoe County's assets to the fund, it will now be large enough that we can replace the ETF's held in the international stock and U.S. bond portfolios with separately managed index accounts similar to those used by PERS. This will enhance returns, increase diversification and reduce costs.

RBIF's asset allocation strategy is included below.

