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From the Executive Office
PEBP Shares in State's Fiscal Dilemma

August 14, 2008

Everyone has heard about the state's economic downturn. All State agencies have been asked to make budget reductions over the past several months. PEBP's involvement in those reductions was to provide the "premium holiday" in July 2008 and to discontinue the pre-funding of retiree subsidy costs that was originally included in the budget. Addressing the financial constraints in the next biennium however will be much more difficult.

The Budget Office has asked PEBP to hold its subsidy for active employees at the same level in FY 2010 and FY 2011 as was granted in FY 2009. PEBP has also been asked to hold its subsidy for retirees at the FY 2009 level for each year in the biennium. What this means in simple terms is that the PEBP Board must determine how to absorb cost increases that are not under its control for at least the next two years. Normally, the cost of medical care increases around 10% per year. Because 2/3's of the Program's revenue comes from the State, and because that amount is being held flat, a higher proportion of these cost increases will be passed on to the employees and retirees than usual.

Unfortunately, there are really only three ways to accomplish this:

1. Shift costs from the State subsidy to participant premiums – participant premiums go up, or
2. Lower the benefits paid by the Program – participants have more out-of-pocket costs when they need medical care, or
3. Some combination of the first two options.

The PEBP Board discussed the preliminary numbers during their meeting on August 7, 2008. Approximately \$55 million needs to be taken out of the State subsidy that would otherwise be requested for the next biennium (FY 2010 and FY 2011). Detailed options will be discussed further during the September, October, and November Board meetings. General direction to staff was to come up with options to meet half of the problem through premium shifts and the other half through benefit reductions.

Nothing about this process or the impact on participants will be easy if, in fact, PEBP has to implement these budget reductions. We encourage you to keep informed by watching the PEBP website for updates as they occur (www.pebp.state.nv.us).