

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
January 26, 2012

[LB916 LB1036]

The Committee on Nebraska Retirement Systems met at 12:10 p.m. on Thursday, January 26, 2012, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB916 and LB1036. Senators present: Jeremy Nordquist, Chairperson; LeRoy Louden, Vice Chairperson; Lavon Heidemann; Russ Karpisek; R. Paul Lambert; and Heath Mello. Senators absent: None.

SENATOR NORDQUIST: Good afternoon. I'm State Senator Jeremy Nordquist, District 7, which is downtown and south Omaha. I'm the Chair of the Retirement Systems Committee and I welcome all of you to the hearing this afternoon. We have two bills before us, LB916 and LB1036. First, just a reminder to silence cell phones. If you're testifying, there are sheets in the back to submit to the committee clerk. There's also a sign-in sheet if you prefer not to testify, but state your position. We will take supporter or proponent testimony, opponent testimony, and then neutral testimony following the introducer. And I will introduce: We have Laurie Vollertsen, our committee clerk, on my far right. Our page today is Justin. Kate Allen, our committee legal counsel, will be joining us shortly. And we'll start over here to my right and we can do some self-introductions.

SENATOR KARPISEK: Russ Karpisek from Wilber.

SENATOR LOUDEN: LeRoy Louden from Ellsworth.

SENATOR NORDQUIST: And we have Senator Paul Lambert from District 2 joining us.

SENATOR HEIDEMANN: Senator Lavon Heidemann from a farm near Elk Creek.

SENATOR NORDQUIST: And given the fact Kate is opening on the first bill, we're going to have to stand at ease for a second. All right. You're up. Thank you.

KATE ALLEN: Good afternoon, committee members. My name is Kate Allen, that's K-a-t-e A-l-l-e-n. I'm legal counsel for the Retirement Systems Committee, and I'm here to introduce the committee bill, LB916, that was introduced at the request of the Nebraska Public Employees Retirement Systems. It contains a number of plan clarifications and Internal Revenue Code compliance updates. The following changes are made to the County, Judges, State Patrol, School, Class V School, and State Employees Retirement Acts. Per diems are removed as compensation for purposes of retirement. It clarifies that an employer is required to notify the Public Employees Retirement Board upon termination of an employee member; provides for a rollover into a Roth IRA. It enables a nonspousal beneficiary to make a direct transfer or rollover into a qualified retirement plan as permitted by the IRS. It provides for a lump sum death benefit direct transfer into a qualified retirement plan. And it implements provisions of

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
January 26, 2012

the HEART Act requiring a member's beneficiary to be entitled to an additional death benefit that he or she would have been entitled to had the member been employed during the period of qualified military service when death occurred. The School Employees Retirement Act includes the following additional clarifications. An employee must have attained the age of 18 in order to be a plan member. A retirement benefit paid in error must be returned to the Retirement System. And voluntary service during the 180 days following termination must be bona fide unpaid voluntary service. LB916 also authorizes the Public Employees Retirement Board to adopt rules and regulations establishing materiality and de minimis amounts for agency transactions, adjustments, and inactive account closures. Since the bill was introduced, there have been several amendments that have arisen and I will identify some of those--I've been working with Jason Hayes, legal counsel, in getting these worked into the bill--an internal reference correction in each of the plans related to IRS compliance updates; additional language clarifying a death benefit provision in the School plan; there's a spelling correction; language inserted regarding Public Employees Retirement Board's notification to plan members if an adjustment is made to the plan member's account balance; deletion of obsolete language regarding school districts' obligation to inform the PERB about salary increases above 7 percent; clarification that when a Patrol member enters the DROP plan he's considered retired, but not terminated; and adding the emergency clause. Jason Hayes will follow me and go into greater detail about the provisions of LB916. [LB916]

SENATOR NORDQUIST: Thank you, Kate. I'll note that Senator Mello from District 5 has joined us. Are there any questions from the committee? Seeing none, thank you. Next proponent. [LB916]

JASON HAYES: (Exhibit 1) Good afternoon, members of the Retirement Committee. My name is Jason Hayes, spelled J-a-s-o-n H-a-y-e-s, and I serve as legal counsel to the Nebraska Public Employees Retirement Systems. I am here today to discuss the technical updates and clarification language contained in LB916. I will be addressing only those provisions that pertain to the retirement plans administered by the Public Employees Retirement Board and not the Class V school system within the bill, although many of these modifications are similar. LB916 makes changes to implement provisions of the Internal Revenue Code and other federal laws. These changes affect each one of the state public retirement system plans. First, the bill implements provisions of the Heroes Earnings Assistance and Relief Tax Act of 2008 or the HEART Act, requiring a member's beneficiary be entitled to any additional death benefit that he or she would be entitled to had the member been employed during the period of qualified military service when their death occurred. Qualified military service under the HEART Act is service while on active or inactive duty, including training periods. This covers all branches of the U.S. military, the Army and Air National Guards, and commissioned corps of the Public Health Service. Next LB916 makes the following changes to adopt IRS changes: It allows a lump sum direct transfer of a death benefit

Nebraska Retirement Systems Committee
January 26, 2012

into a qualified retirement plan. It allows that following retirement or termination the member has the ability to make a rollover into a Roth IRA. And the bill allows a nonspousal beneficiary to make a direct transfer or rollover of the member's death benefit into a qualified retirement plan. In addition to these federal changes, LB916 covers technical updates to the plans and helps clarify statutory language to eliminate possible ambiguities that may exist. With this in mind, LB916 removes per diem amounts from the definition of compensation for the purposes of retirement. Per diems are often referred to or often received by public employees who sit upon public boards and commissions. This change eliminates situations where a public employee appointed to a public board or commission could receive an additional employer contribution match for a per diem amount received. Next, the bill clarifies provisions that public plan employers must affirmatively notify the Retirement Board upon a termination of a public employee member, thereby ensuring that the agency has notice of the terminated member's inactive status. LB916 makes two specific changes to the School Employees Retirement Act. First, the bill would limit membership in the retirement plan to employees who are at least 18 years or older in order to be a member in the plan. There is some uncertainty in school districts that hire temporary student employees each summer as to whether they are required to make retirement contributions after a certain length of employment. This would exempt such student employees who typically provide services such as lawn care during summer months, but who have no intent in becoming long-term employees with a school district. Second, the bill clarifies that voluntary service provided by a member during the 180 days following their termination must be a bona fide unpaid service. Occasionally, former school employees will provide volunteer service on an intermittent basis, and this provision helps clarify that there must be no quid pro quo future compensation in exchange for volunteer services during this 180-day period. IRS provisions require that there is a break in service between employment and the receipt of retirement benefits. This provision helps to further provide guidance to recently retired members who volunteer. Next there is language that specifically enables the Public Employees Retirement Board to set materiality and de minimis amounts for agency transactions, adjustments, and inactive account closures. Such situations may occur when a member withdraws their entire account balance, but then a small amount of interest credit is posted after the account is closed. Current agency policy defines that a de minimis transaction occurs if the adjusted amount is less than \$15. Having an agency de minimis policy reflects recommendations by the Auditor of Public Accounts that such provisions be in writing, and the agency intends to adopt rules and regulations reflecting such current policies. Finally, there were a few amendments, as Kate mentioned, that became apparent after the bill's introduction. These changes were forwarded to the committee for consideration. First, additional language is helpful to clarify the death benefit provision found in the school plan under Section 79-956. Currently, a beneficiary may take a lump sum death benefit that includes the employee's contribution plus their employer match if the deceased member worked between 5 to 20 years prior to their death. But if the deceased member worked more than 20 years, then the beneficiary is only entitled to an annuity or a lump

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
January 26, 2012

sum payment of the employee's share only. This change would eliminate an inequity that exists for members who die while employed with over 20 years of service. Next, the agency requests deletion of obsolete language regarding school districts' obligation to inform the Retirement Board about salary increases above 7 percent found in Section 79-906(2). With the elimination by the Legislature last year of the school salary cap exemptions, such notification is no longer necessary. In addition, the language should be inserted regarding PERB's notification to plan members if an adjustment is made to a member's account balance in 84-1503(2)(i). Often such adjustments need to be processed timely, especially if it concerns an investment selection error. If notice is required to be mailed prior to such change as is currently in statute, then unnecessary delays could result. Such a change requiring notification in earnest following such account adjustment would permit timely adjustment processing. Finally, the agency requests additional language to be inserted in the State Patrol Retirement Plan indicating that even though a Patrol member is deemed to be retired upon entrance into the Deferred Retirement Option Plan or DROP, that a break in service following termination is still required pursuant to the provision found in Section 81-2014(16). There has been some ambiguity given the wording "deemed to have retired" found in Section 81-2041, and this change would help clarify that provision. So that concludes my testimony for LB916. And are there any questions? [LB916]

SENATOR NORDQUIST: Thank you, Jason. Any questions in the committee? Seeing none, thank...oh, do you have a question? Senator Louden. [LB916]

SENATOR LOUDEN: Well, yes. On this summary here, there was pointed out, I think Kate probably wrote it in there, there needed to be some amendments and some clarification and that sort of thing, concerns and amendments. And I was wondering if he had any...if he had any concerns in there where there should be any amendments made to the bill or anything like that. [LB916]

JASON HAYES: Oh, no. We've done extensive communication with committee legal counsel and so we're on the same page with regard to all the amendments. [LB916]

SENATOR LOUDEN: Okay. Thank you. [LB916]

JASON HAYES: Sure. Thank you. [LB916]

SENATOR NORDQUIST: Any additional questions? Seeing none, thank you. Any additional proponent testimony? Seeing none, any opponent testimony? Seeing none, any neutral testimony? Seeing none, that will conclude our hearing on LB916 and I'll turn it over to Senator Louden to chair. [LB916]

SENATOR LOUDEN: Okay. We'll start with LB1036. Senator Nordquist will present that bill. [LB1036]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
January 26, 2012

SENATOR NORDQUIST: Thank you, Senator Louden, members of the committee. LB1036 provides a two-month window between October 1 and December 1 of this year for county- and state-defined contribution retirement members to elect to join the county and state cash balance retirement plans. This new election opportunity for state and county employees moves us closer to having all county and state employees being in the cash balance plans, which was the original goal when the cash balance were created nearly a decade ago. Just a little background, prior to 2002 all county and state employees were in the state-administered defined contribution plans. In 2002 when the cash balance plans were enacted, all existing state and county employees were given the option of joining the cash balance plans. Ultimately at that time, a third of county and state employees exercised the option to convert their accounts over to the cash balance option, approximately 2,100 county employees and 4,200 state employees at that time for a total of 6,300. Since January 1, 2003, all new county and state employees have been enrolled in the cash balance plan. An additional election period was offered in 2007. At that time approximately 1,100 of the state employee DC, defined contribution, plan members and 420 of the defined contribution county plan members opted to join the cash balance at that time for a total of about 1,500...1,600. Currently two-thirds of all county and state employees are members of the cash balance plans and approximately 4,800 active state employees and 1,800 active employees remain in the defined contribution plans. In the past several years, a number of states have begun to look at Nebraska's cash balance plan as a favorable option for public pensions in states' efforts to control public pension costs. In a July 2011 Stateline article, "Is Nebraska Cash Balance Plan a Model?" cited Nebraska's pension plan as historically being amongst the best funded in the country. And one of the reasons cited was because of our cash balance plan in particular. The Stateline article enumerated a number of advantages of the cash balance hybrid model, which is a compromise between defined benefit and 401(k) style plans. They specifically said the state manages the investments in the plan better than the employee. It is a better fit for today's young employees who are more likely to work past...more likely than past workers to change jobs and want to take their vested retirement accounts with them. It guarantees a fixed rate of return at 5 percent and the possibility of a dividend in a good year. It's simpler to administrate and thus has lower administrative costs. The second change contained in this bill was recommended by our state actuary. It eliminates the state and county employee retirement expense fund effective July 1, which were held outside the trust and disallows the use of forfeiture funds to reduce employer contributions. We have a representative from PERB or from NPERS here today that will go into greater detail about this proposed change. And my office is working with NPERS to craft several amendments to clarify implementation if we do move forward with this additional opt-in component. Thank you. [LB1036]

SENATOR LOUDEN: Any questions for Senator Nordquist? Seeing none, thank you. First proponent for LB1036. [LB1036]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
January 26, 2012

JULIE DAKE ABEL: Good afternoon, Chairman Louden and members of the Retirement Committee. My name is Julie Dake Abel, D-a-k-e A-b-e-l, and I'm the executive director of the Nebraska Association of Public Employees/AFSCME Local 61. We are the collective bargaining agent for most of the state employees, and I'm here to testify in support of LB1036. There's approximately one-third of state employees that are in the defined contribution plans right now. Employees before January 1, 2003, and then I believe there was also another date of 2007 had the choice of whether to get into this hybrid model cash balance plan or to stay in the defined contribution plan. All new employees mandatorily go into the cash balance plan. We believe that it would be fair for state employees to have the option again to go into the cash balance plan because, you know, there has been a lot of concern and question of what the stock market is going to do. And last time it was offered because there were losses. There were state employees that opted not to go into the cash balance plan. Like I said, we are in support of this bill. We do believe that it would be another option for state employees. While certainly not a big Cadillac plan, it would certainly be another option that they could use. I'd be happy to answer any questions. [LB1036]

SENATOR LOUDEN: Questions for Ms. Abel? Senator Karpisek. [LB1036]

SENATOR KARPISEK: Thank you, Senator Louden. Thank you, and I think I carried one of the bills one time to let them in. I guess is there going to be a time...how many times are we going to have to still let them in and is there a way to...why don't they do it if they haven't yet? [LB1036]

JULIE DAKE ABEL: Well, I think part of it may depend upon personal philosophy, may depend upon maybe they've had money invested for a long time so they're hoping that the stock market will go up before they retire. They may have...you know, I've talked with a lot of people that may, you know, still be ten years from retirement, so I think that's part of it. I think that if this was offered that I do think more people now would opt in to that because they may want more of a guarantee as, you know, the economy hasn't come back as quick as we had hoped that it would. That's kind of the best answer that I can give you. [LB1036]

SENATOR KARPISEK: Okay. And then at some point we won't have any employees left in the old one, right? Do you... [LB1036]

JULIE DAKE ABEL: I think that stands to reason, yes. [LB1036]

SENATOR KARPISEK: Do you have any idea how long, like the youngest person in that group? [LB1036]

JULIE DAKE ABEL: I do not. [LB1036]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
January 26, 2012

SENATOR KARPISEK: That's fine. [LB1036]

JULIE DAKE ABEL: We may be able to find that out, but I do not have that with me. [LB1036]

SENATOR KARPISEK: I support letting them switch. It just...how many times are we going to ask, and I guess I don't have a real problem with that either, just when there's two different ones to work with. Thank you. [LB1036]

JULIE DAKE ABEL: I understand. [LB1036]

SENATOR KARPISEK: Thank you, Senator Louden. [LB1036]

SENATOR LOUDEN: Other questions? Seeing none, thank you for your testimony. [LB1036]

JULIE DAKE ABEL: Thank you. [LB1036]

SENATOR LOUDEN: Next proponent for LB1036. [LB1036]

BETH BAZYN FERRELL: Good afternoon, Senator Louden, members of the committee. For the record, my name is Beth Bazyn, B-a-z-y-n, Ferrell, F-e-r-r-e-l-l. I'm with the Nebraska Association of County Officials. I'm appearing in support of the bill. I would just echo the comments from the previous testifier. We see this as an option for county officials. It's not often that we get a call from a county official who is interested in switching or if there's an opportunity to switch, but we do get those calls periodically. And this would be nice to be able to tell them, yes, you can switch to the cash balance plan if you'd like. So I'd be happy to try to answer questions. [LB1036]

SENATOR LOUDEN: Any questions? Seeing none, thank you for your testimony. Other proponents. Are there opponents? Anyone in the neutral wish to testify? [LB1036]

PHYLLIS CHAMBERS: Good afternoon. Vice Chairman Louden, Chairman Nordquist, and members of the Retirement Committee, my name is Phyllis Chambers, P-h-y-l-l-i-s C-h-a-m-b-e-r-s. I'm the director of the Nebraska Public Employees Retirement Systems, and I'm here to testify neutral on LB1036. The Public Employees Retirement Board discussed the proposed legislation at their meeting on Monday, January 23, this week and voiced some of the following concerns. When the cash balance plan...when the cash balance plan was originally established in 2002, there were approximately 20,400 state and county employees who were told they had only one opportunity to transfer from the defined contribution into the cash balance plans. In 2002, the financial markets were in decline and members were concerned over liquidating their investment

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
January 26, 2012

funds and transferring at the bottom of the market. NPERS held 56 seminars and provided educational materials for everyone, significant time and money was expended, members agonized over their decision, and finally 31 percent of state and county members, approximately 6,343, elected to transfer. In 2007, the defined contribution members were given a second opportunity to transfer to the cash balance plan. Again, significant time and money was expended and 1,574 members transferred. The current DC members have been given two opportunities to transfer and have not done so. There are issues of fairness, trust, and financial consideration for the current cash balance members who made decisions to transfer based on promises made in the past. There are currently 9,039 members in the DC plan; about 6,400 in the state and 2,500 in the county. We do not know how many would actually transfer nor would we know what the effect on the long-term funding of the plan might be if they do. In 2003, 6,300 members transferred. In 2007, only 1,574 transferred. The market was not performing well in 2002. It was performing well in 2007. There is the potential for a large number of members to transfer this time. We've been through one of the worst financial crisis in history and the DC members are ten years older than they were in 2003, many close to retirement. I spoke with the actuary, Dave Slishinsky, and he is unable to perform an actuarial impact study without knowing the number of members transferring or the demographics of those members. The actuary did state, however, that initially all members transferring into the DC...from DC to cash balance would be 100 percent vested and 100 percent funded on the transfer date. As long as the annual investment return is greater than 7.75, which is our assumed rate for the cash balance plan, the plans will maintain their funding level, which are currently at 93 and 94 percent. It might even increase the funding level for a time. If the market declines significantly below 7.75 percent as it did in '08 and '09, there is a risk that the plan might become underfunded and require a state contribution. Paying the cash balance members the minimum 5 percent guaranteed credited rate would not have a significant impact unless we would earn less than 5 percent, which, you know, our concern right now would be that we would go below the assumed rate, not the guaranteed minimum rate. A major risk to the state is when the members "annuitize" at retirement. This creates a long-term liability to pay a lifetime benefit. More members are "annuitizing" than in previous years, still less than 10 percent, but that number is growing. More members do understand the importance of a guaranteed lifetime benefit as they have seen Social Security threatened and their IRAs and their DC plans rise and fall in volatile markets. With the school, judges, and State Patrol plan, these are defined benefit plans, the state has been able to raise the employee and employer contribution rates when actuarial required contributions have been needed to fund the plan. That does not work with the cash balance plan. If an additional required contribution is needed in the cash balance plan, raising the contribution rates will not improve plan funding. The state would have to make the actuarial required contribution. This is because increasing the employee and employer contributions are credited to the members' individual account and not the plan. Retiring state and county members in both the DC and cash balance plans are eligible for a refund, annuity, or a rollover or any combination. Per the statute, the

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
January 26, 2012

annuity rate for the DC members is the pension benefit guarantee rate, corporation rate plus 75 basis points, which is currently 4.49 percent. In 2007, the DC annuity rate was 5.63 percent, and it's been as high as 6.77 percent in 2009. The DC annuity rate has dropped because the bond market and rates have declined with the economy. The annuity rate for the cash balance is based on the assumed rate of return, which is 7.75 percent. It has remained constant. A number of the DC members are close to retirement and wanting to transfer so they can lock in their account balances, "annuitize," and receive a higher benefit than the DC plan offers them at this time. If the Retirement Committee decides to offer another cash balance election, you may wish to consider lowering the annuity rate 1 to 2 percent for those transferring into the cash balance the selection period. This would help protect those currently in the plan and mitigate the long-term liability risk of allowing this mature member group into the plan. For example, if you lowered the annuity rate for those transferring by 1.5 percent, they would receive an annuity rate of 6.25, which is still better than the current DC rate. This might prevent having to lower the annuity rate for everyone should the plan become underfunded in the future. You may wish to have an interim study to research the impact of this legislation. Offering another cash balance election creates a tremendous workload for NPERS. We would prepare the educational materials, notifications for mailing, answer thousands of phone calls, process the election forms and confirmations, program the IT's system, prepare the data transfer to Ameritas, coordinate with the Investment Council, and audit the results. We would do our best while maintaining our current administrative duties to NPERS' other plans. As the number of members in the DC plans decrease, there may be an increase in cost to the remaining members. We estimate our administrative costs will be approximately 10 basis points at the current time. And I'm talking about those are NPERS' costs, not investment costs. The DC administrative costs have been as high as 35 basis points and as low as 0 where it currently is. It will depend on how many assets are in the DC plan as to what the investment costs will be, but we hope the investment cost will not change significantly. The PERB and the Investment Council have always attempted to keep the plan costs as low as possible while providing high-quality, diverse investment fund options. There were some concerns in 2007 creating some problems for NPERS. If members elect to transfer, I would recommend the statute include language that members shall make only one election during the election period. Last time we had a number of members who wanted to reverse their election after submitting them, especially when the market was volatile, and it was in the fall of 2007. As the market was going up and down, people, again, were concerned whether they should or shouldn't transfer. We would request that members submit their election forms by U.S. mail or in person to our office. We had issues with faxes because of the large volume of elections on certain days, and we would like to make sure that...to avoid any errors. We would like to make sure members notify us within 30 days of any errors in their account, that they be responsible to contact us. In 2007, we had a few people wait until the end of the year to notify NPERS that they were not in the cash balance plan, and they had been receiving statements, quarterly statements all year. This can create gains and losses for NPERS

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
January 26, 2012

and the members. We certainly appreciate that you have included a month to process the election forms and give NPERS, Ameritas, State Street, and the Investment Council enough time to prepare the transfer of accounts and assets. We may even...would almost be nice to have two months as well, given the fact that we don't know. We could have 5,000 or 6,000 people transfer, and in December that could be a heavy workload to get that done by December 31. I spoke with the State Investment Officer, Jeff States, and he thought the various fund transfers would not be an issue except for the stable value fund. The Investment Council might ask the members...that members be prevented from trading any funds after the close of the election period if it's December 1, whatever the close would be, so that the Investment Council can reduce transfer costs and prepare for a smooth transition. And I do have an e-mail from Jeff States with his comments, which I will make available to you. But, primarily, the main cost would be in trying to liquidate stable value funds because those are locked into contracts. Finally, the PERB is in favor of changing the cash balance expense accounts as recommended in the bill. And I would be happy to answer any questions. [LB1036]

SENATOR LOUDEN: Any questions for Ms. Chambers? Well, I have a few here because I didn't sign on the bill to start with. Did I understand that with that plan now you got to have somewhere around over 9 percent in order to make it work? Is that...did I understand that when you gave your testimony? Or what was that you said something about 9.6 percent? [LB1036]

PHYLLIS CHAMBERS: I was talking about the assumed rate of return is 7.75 and so we want to make...as long as our investment return is above 7.75 that doesn't have an impact on the liability, the risk to the state or the plan. We want to make sure that the plan is well funded and it is at the current time. It's at 93 and 94 percent funded for the state and county so. [LB1036]

SENATOR LOUDEN: And it's working at 7, that 7 point whatever it is? [LB1036]

PHYLLIS CHAMBERS: 7.75, right. [LB1036]

SENATOR LOUDEN: Okay. [LB1036]

PHYLLIS CHAMBERS: Now keep in mind that defined benefit plans are 8 percent, so we're a quarter of a percent lower as far as having to maintain that rate of return for a plan. And the rate of return does include inflation, so it's not a straight 7.75 percent. [LB1036]

SENATOR LOUDEN: Okay. And now if these...if a huge number of the people decide to change plans, does that percentage have to go up or will that 7-point-whatever it is still service the plan? [LB1036]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
January 26, 2012

PHYLLIS CHAMBERS: No, it's still 7.75 unless we would have to change it to...if we would have to lower the assumed rate or the annuity rate in order to pay lifetime benefits to those people in the plan because now this time if you open it up, you're going to have a more mature group. And so you're bringing in all these people closer to retirement. You still have that same group, that same DC group. And the youngest person right now would probably be 28 if they were 18 when they came into the plan. The plan is...the DC...cash balance plan is ten years old so you would just...you'd...as more and more people come in, if you intend to open it up again, you're going to have a more mature group coming in each time. The risk to the state is you are going to be paying an annuity to those people who select an annuity for their retirement. And so just so you understand what the risk is. It is a policy decision if you want to have everybody in the cash balance plan. I understand that. It's just that I want you to be aware of the risk involved to the plan that you maintain the funding levels for those and you have those lifetime benefits that you have to fund over the course of their retirement. [LB1036]

SENATOR LOUDEN: Okay. Now as I look the bill over, is there anything in there that they get a 5 percent return or something? [LB1036]

PHYLLIS CHAMBERS: There's a guaranteed minimum 5 percent for everybody in the cash balance. The actual credited rate is based on the federal mid-term rate plus 1.5 percent. And the federal mid-term rate has been below 3.5 for quite some time. So the last three or four years we've been paying the minimum 5 percent and that's in statute what the minimum rate is that we pay. [LB1036]

SENATOR LOUDEN: Now if those investments in there get to where they're not making 5 percent, then the state has to make up the difference? [LB1036]

PHYLLIS CHAMBERS: Right, which that would be...it would be extreme for us to have...to not be able to make at least 5 percent because technically we are...if you look at our long-term returns for the defined benefit, we're still above 8 percent over the last 50 years. You know, we're still way...we're above the 8 percent which is the average annual return. So we're meeting those goals. But when you have a market downturn like we did in '08 and '09, that does have a long-term effect on the unfunded and that drops our funded ratio substantially. So, but we still...all of our plans are 80 percent or above, which is the standard for a healthy defined benefit and/or a healthy cash balance plan. [LB1036]

SENATOR LOUDEN: And that's 8 percent or above over the last, you say 40 or 50 years? [LB1036]

PHYLLIS CHAMBERS: Yeah. Well, I can at least go back to 1983 it's been...the average has been above 8. Obviously it goes high-low, all over. [LB1036]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
January 26, 2012

SENATOR LOUDEN: Does that take in account inflation? [LB1036]

PHYLLIS CHAMBERS: Yes, it does. [LB1036]

SENATOR LOUDEN: Okay. [LB1036]

PHYLLIS CHAMBERS: Yes, it does. [LB1036]

SENATOR LOUDEN: Okay. Thank you. Other questions for Ms. Chambers? Thank you. Seeing none, thank you for your testimony. Anyone else wishing to testify in the neutral? I have a letter here to read in support or to enter into the record for support of LB1036 from Jerry Lee Anderson (sic) or Jerry Lee Jensen, I'll get that straight here pretty quick (Exhibit 2). And do you wish to close, Senator Nordquist? [LB1036]

SENATOR NORDQUIST: Yeah, yeah, just real quickly. [LB1036]

SENATOR LOUDEN: I presume you do since you're in the chair. [LB1036]

SENATOR NORDQUIST: That's all right. Thank you, Senator Louden and members. I want to thank NPERS for bringing those concerns forward. I think there are several of them we can address and talk about and certainly willing to work on a potential tier annuity rate for those people transferring in now, maybe extending the enrollment period and then we can see if it's the will of the committee to move forward on it. Thank you. [LB1036]

SENATOR LOUDEN: All right. With that I guess that closes hearings on LB1036 and also closes the hearings for the day. [LB1036]