[LB553 LB554]

The Committee on Nebraska Retirement Systems met at 12:00 p.m. on Wednesday, February 6, 2013, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB553, and LB554. Senators present: Jeremy Nordquist, Chairperson; Al Davis, Vice Chairperson; Russ Karpisek; Rick Kolowski; and Heath Mello. Senators absent: Danielle Conrad.

SENATOR NORDQUIST: Good afternoon. While we wait for a fourth member to get down here, I'll go ahead with some of the preliminary stuff. I'm State Senator Jeremy Nordquist, representing District 7, downtown and south Omaha. I chair the Retirement Systems Committee. Just a few housekeeping items: If you are testifying today, there are testifier sheets to be completed, and those are in the back corners of the room. If you'd like to...not like to testify but would like to state your support or opposition or neutrality to a piece of legislation, there is a sheet where you can indicate that. Please turn in your testifier sheets to our committee clerk so she can keep a record. Please state and spell your name when you begin your testimony, for the record. And please silence your cell phones so they don't interfere with our recording and transcribing abilities for this hearing. We have two bills today, I will be introducing them, first LB553 and then LB554. Senator Davis will chair the committee while we go over these two pieces of legislation. And we will get started with those as soon as a couple other members join us. Our staff: to my left here is Kate Allen, our legal counsel; Laurie Vollertsen is our committee clerk. Senator Karpisek will be from...is from Wilber; Senator Kolowski is from Millard and west Omaha; Senator Davis is from north-central and northwest Nebraska; Senator Mello is from District 5 in south Omaha; and Senator Conrad from northeast Lincoln. So we'll get going in just a few minutes.

SENATOR DAVIS: Would you do the introduction?

SENATOR NORDQUIST: Yes. All right. Thank you, Mr. Vice Chair. I'm State Senator Jeremy Nordquist representing District 7 from downtown and south Omaha. LB553 was developed over the interim in partnership with various school organizations. The changes in LB553 are structured to address both short- and long-term funding obligations in the School Employees Retirement System. To address the long-term funding obligations, the bill creates a new tier of reduced benefits for employees who begin work for the first time on or after July 1, 2013. The new tier reduces the cost-of-living adjustment, the COLA, from 2.5 percent to 1 percent, and increases from three to five the number of years used to determine the final average salary for purposes of calculating a member's retirement benefit. The new tier of benefits does not apply to employees who are members of the plan prior to July 1, 2013. In addition, as currently drafted, the current 9.78 percent employee contribution ends on August 31, 2013. An unspecified contribution rate with no sunset would begin on September 1, 2013. The state contribution rate, which currently is 1 percent of total compensation, is increased to 2 percent with no sunset for the school employees retirement plan. In the Class V school plan, the 2017 sunset is stricken on the state 1 percent, so it would remain at that level. That issue is addressed in the second bill we'll be hearing today. The 2017 sunset is stricken in Sections 79-1003 and 79-1028.01 on the school budget and lid exclusion for employer contributions, pursuant to the School Employees and Class V School Employees Retirement Acts. Finally, to address our short-term funding obligations, the amortization method is changed from level dollar to level percent of pay, beginning July 1, 2013, with the July 1, 2013, state contribution payment. Changing the amortization method reduces the amount of the actuarially required contribution in the near future. Since it's based on a percentage of pay, the amount will increase as the amount of compensation increases, so the burden remains consistent. However, in future years the increased actuarially required contribution will be offset by the reduced costs of the benefits that I had...the new tier of benefits that I have already mentioned. In essence, what we have, this is right now pretty much the only train on the tracks when it comes to solving our both short-term and long-term funding obligations of our pension plan. If we do not advance some version of LB553, we would be left with two options. One is we could ignore the pension liability and let it compound upon itself like other states have irresponsibly done, like the state of Illinois. And unfortunately, that appears to be the track that our Governor has proposed, because he did not include any additional funding in his budget for our retirement plans to meet this obligation or propose legislation to meet this obligation, so the liability is ignored. Or the second option, if we don't advance this legislation, is to fund it fully out of General Funds, which would be a significant hit to other obligations. So this is an attempt to give...address the short-term obligations, to be responsible for those short-term obligations, but also to bring our plan back into balance, to balance the contributions going in and to balance the benefits being paid out. And that's, in essence, I think...actually, I think Mike Smith may talk on the second bill. I don't want to steal his thunder. But when we're talking about defined benefit plans, there isn't much rocket science to them. It's a pretty simple equation of balancing the contributions and the interest earned on those contributions, and then the benefits paid out and expenses to administer those. And that's what we're trying to do with this legislation and also LB554. Thank you, Mr. Chair. [LB553]

SENATOR DAVIS: Thank you, Senator Nordquist. Any questions from the committee? [LB553]

SENATOR MELLO: Thank you, Senator Davis. And thank you, Senator Nordquist, for your testimony. A couple questions, just clarification purposes for the committee, as well as...as you both...as you know, obviously, we serve together on the Appropriations Committee and this has been a conversation that the committee has started to undertake as well. In 2009 and 2011, what ultimately did the Governor propose and/or recommend to this committee in regards to dealing with the state's statutory obligations towards the School Retirement System? [LB553]

SENATOR NORDQUIST: Well, I know in 2009 we did do a General Fund appropriation of $20 million. I believe it was supposed to be $20 million a year for two years and maybe we pulled back the second year. There was some contribution rate changes at that time. And then in 2011 we made a very substantial increase in contribution rates with legislation that this committee advanced and the body enacted, which took the school employees plan from 7.28 percent to 9.78 percent. I believe when I did the math on that, it was a 22-25 percent increase in their contribution rates over a two-year period, which was a substantial investment of...a substantial contribution increase for those members. The state's share increased from .7 of 1 percent to 1 percent. This...so if you look at the dollars associated with that, as we've tried to address...pretty much address the investment losses, we were in a much better position prior to the markets of '08 and '09. In addressing those losses, we have really done this, up to this point, on the backs of our teachers and our school districts. Ninety percent of what we have put to address the shortfall has been out of teachers and school districts, and the state's share has been less than 10 percent. Others certainly would make the case that this is a state obligation. These are promises the state has made. Many of those promises were made before I was even born, but those are obligations that we have to live up to. [LB553]

SENATOR MELLO: And for process purposes, both in 2009 and 2011, 2009, if I'm not mistaken, Senator Pankonin was then the Chair of this committee... [LB553]

SENATOR NORDQUIST: Uh-huh. [LB553]

SENATOR MELLO: ...and introduced the bill on behalf of the Governor... [LB553]

SENATOR NORDQUIST: I... [LB553]

SENATOR MELLO: ...or introduced it independently of the Governor? [LB553]

SENATOR NORDQUIST: I believe it was in partnership with the Governor. I'm not sure if it was, but I believe it probably was. And my bill was introduced on behalf of the Governor two years ago. His Policy Research Office brought it, asked me to introduce it, I said I would, to increase the contribution rates and to increase the state's share at that time too. [LB553]

SENATOR MELLO: And both bills were ultimately part of the Governor's proposed... [LB553]

SENATOR NORDQUIST: Budget package. [LB553]

SENATOR MELLO: ...balanced budget to the Legislature. [LB553]

SENATOR NORDQUIST: That's right. [LB553]

SENATOR MELLO: And this year the Governor did not propose a piece of legislation regarding...anything regarding retirement and leaving that essentially, that amount, left in statute blank... [LB553]

SENATOR NORDQUIST: Uh-huh. Yeah. [LB553]

SENATOR MELLO: ...for the Legislature to determine. [LB553]

SENATOR NORDQUIST: Yeah, that is an accurate assessment. So the choices the Legislature have, as I said, is to take the Governor's position and ignore this pension obligation or to address it. And that's what this legislation proposes to do. [LB553]

SENATOR MELLO: I guess one final question, and it's something I no doubt will ask of pretty much everybody who will come up and testify. I have those fiscal notes from the previous two bills that dealt with the School Retirement Systems, LB187 from 2009 and LB382 from 2011. And I have the fiscal note for LB553 and I've reviewed it and I find something that's very unique and very odd in the sense of reviewing the Department of Administrative Services--State Budget Division, done by...reviewed by Gary Bush, that lists out a 30-year projection on LB553. And the reason I ask you, as no doubt all senators who have fiscal notes understand that ultimately the Legislative Fiscal Office fiscal note is what we utilize in regards... [LB553]

SENATOR NORDQUIST: Uh-huh. [LB553]

SENATOR MELLO: ...to making our fiscal decisions. But looking at these other previous fiscal notes, I've noticed that there's nothing remotely similar prepared by Gary Bush or the Department of Administrative Services--State Budget Division, and wanted to know if this is something that you've seen in any other legislation that's come before this committee in regards to seeing a 30-year fiscal note being produced on a piece of legislation. Or, frankly, you can indulge me a little bit and determine whether or not you've seen a 30-year fiscal note provided on any piece of legislation that you've introduced in your five years now down in the Legislature. [LB553]

SENATOR NORDQUIST: Yeah. Yeah, I've served on the Appropriations Committee for five years with you and haven't seen any aspects there certainly. I was a legislative staffer for four years prior to my service in the Legislature and don't know that I've seen that. There have been a number of very expensive, long-term bills. For instance, we talked quite a bit about LB84 a few years ago. I don't think anyone took a 20-year add-up of the impact of that to the General Fund. So I do think it's very peculiar that on this piece of legislation they would put a 30-year projection on a fiscal note. You know, you're the Chairman of the Appropriations Committee. I don't know that we build budgets on a 30-year projection. And why this is the case on this bill is rather interesting. [LB553]

SENATOR MELLO: Thank you. [LB553]

SENATOR DAVIS: Any other questions? Senator,... [LB553]

SENATOR NORDQUIST: Yeah. [LB553]

SENATOR DAVIS: ...I just have two questions, Senator Nordquist. [LB553]

SENATOR NORDQUIST: Sure. [LB553]

SENATOR DAVIS: The first one is just a technical question. But if you have an employee who had been a teacher... [LB553]

SENATOR NORDQUIST: Uh-huh. [LB553]

SENATOR DAVIS: ...in the past, then quit, left Nebraska for 10 or 15 years, came back, started in after July 1, 2013, where would they fall? Would they fall in the old category or the new one? [LB553]

SENATOR NORDQUIST: I believe we...and I'm going to have to check with the legal counsel on this. We had this discussion and I believe that we said that if they had already tracked...already had service, I think they were counted. But I'll get clarification on that. And that's a discussion the committee can have also. As we look at, you know, this bill, I think we'll need some changes and we'll certainly have discussion about it. And that's something that the committee can decide on. But I think that we went that way. [LB553]

SENATOR DAVIS: And then a second question, which is kind of along the same line,... [LB553]

SENATOR NORDQUIST: Yeah. [LB553]

SENATOR DAVIS: ...but you know we have staff that retires... [LB553]

SENATOR NORDQUIST: Uh-huh. [LB553]

SENATOR DAVIS: ...and they take early retirement, then go back to teaching in a few years. Would that second retirement then come in under the new schedule? [LB553]

SENATOR NORDQUIST: If they...if they were in a different...if they were going between plans, between the Omaha and the school plan, they would be a new entrant into that plan, yeah. [LB553]

SENATOR DAVIS: If they took...not Omaha but if they took... [LB553]

SENATOR NORDQUIST: Yeah. [LB553]

SENATOR DAVIS: ...but if they took retirement at 55 and went back again and started at 56 and started working on a second set of retirement. [LB553]

SENATOR NORDQUIST: They wouldn't...I don't think they're allowed... [LB553]

SENATOR DAVIS: Not allowed to do that? [LB553]

SENATOR NORDQUIST: All right, I'll get clarification from the legal counsel on that, yeah. [LB553]

SENATOR DAVIS: Okay. Thank you. [LB553]

SENATOR NORDQUIST: Yeah. [LB553]

SENATOR DAVIS: Thank you, Senator Nordquist. [LB553]

SENATOR NORDQUIST: Thank you. [LB553]

SENATOR DAVIS: We'll now take proponents. Proponents. [LB553]

JASON HAYES: (Exhibits 1 and 2) Good afternoon, Vice Chairman Davis and members of the Retirement Committee. For the record, my name is Jason Hayes, spelled J-a-s-o-n H-a-y-e-s, and I represent the 28,000 members of the Nebraska State Education Association. NSEA supports LB553 and thanks Senator Nordquist for introducing the bill. LB553 makes changes to the school employees retirement plan to ensure its solvency, and I'd like to get some information on the record, too. Current funding issues and recent stock market declines have created an additional funding need of $48.1 million in 2013 and $60.2 million in 2014. The long-term actuarial projection indicates that if no changes are made, then the annual funding requirement will continue to grow and reach a high of $138 million in 2018. It should be noted that under current state law, Section 79-966.01, this section requires the state to cover this entire amount. Also, in August of 2012, the state's actuary recommended that the plan's assumed rate of return be lowered from 8 percent to 7.75 percent. It is anticipated that the Public Employees Retirement Board will make that change sometime in 2013. This action would create an additional annual funding need for the plan of about $32 million, and that amount is added on top of the amounts I previously indicated. So to address these funding requirements, LB553 would eliminate all contribution sunsets scheduled in 2017 for employers, employees, and the state. The proposal would continue the school employee contribution rate of...at 9.78 percent of pay with an employer match of 101 percent. The proposal would also increase the state contribution rate to 2 percent of pay, which equates to about $17 million annually. LB553 would also add an adjusted benefit schedule for new school employees. The adjusted schedule would determine the average final salary over the five highest year salaries, rather than the current three highest year periods. The cost-of-living adjustment or cap would be set at 1 percent for new employees during their retirement years. The actuarial accounting method would be changed to a level percent of pay closed method. This is proposed in order to spread the effect of these schedule changes over the entire future cost funding projections of the plan. It will also eliminate the current $48.1 million actuarial required contribution mandated by law to be made by the state this year. Based upon actuarial modeling projections, this proposal will eliminate all estimated funding shortfalls due to both market downturns and the expected PERB change in the assumed rate of return. And I'd like to direct your attention to the handout. It would be the second page of the handout. This was a model ran on the state actuary's modeling software, first graded about two years ago. But you can see on this that the current plan, if left unchanged for the defined benefit school plan, shows a funding need level with that blue curve, and you can see that it reaches...the modeling software doesn't necessarily show good numbers on it in terms of a graph but...or to be able to clearly see it, but it reaches as high as $138 million. The proposed plan encapsulated within LB553 shows the funding level of the red line. You can see a dramatic downturn, which results in a surplus of funding for the plan. Now this surplus appears larger on this graph because what we weren't able to factor in on this graph was the proposed or what we believe will occur with the PERB in terms of lowering the assumed rate of return from 8 percent to 7.75 percent. But it should be clearly noted that LB553 does take into account a lowering of the assumed rate of return from 8 percent to 7.75 percent, so that makes up an additional $32 million of funding from these proposed changes. And then finally, given current state law requirements that I referred to earlier, this plan will save the state approximately $30 million this year and $43 million in 2014, because that's the amount that the state otherwise would have to put into the plan in accordance with current state law. We believe LB553 is a balanced approach and requires each funding source to marginally contribute additional amounts in order to help ensure a financially viable defined benefit plan for our state's public school teachers and employees. And that concludes my testimony. [LB553]

SENATOR DAVIS: Thank you, Mr. Hayes. Are there any questions? [LB553]

SENATOR MELLO: Thank you, Senator Davis. And thank you, Mr. Hayes, for your testimony. Now one quick question before I...my main question was, you said in the end of your testimony that given current state law requirements, that you refer to the plan, LB553 would save the state approximately $30 million this year and $43 million in 2014. That's based off of what currently is in statute that is required, the state, to meet its state actuary obligation? [LB553]

JASON HAYES: Uh-huh, yeah, 79-966.01 would require the state to make those actuarially required contributions. And reading from act, it says, "the actuary shall determine the added contributions required to be paid by the State of Nebraska that constitutes the difference between the actuarially required contribution rate and the rate of all other required contributions." [LB553]

SENATOR MELLO: Okay. Have you had a chance to look at all through NPERS's budget request at all in regards to what they had requested? Is that similar to the number that they requested? [LB553]

JASON HAYES: It's been a while since I looked at that, but I believe it's similar to, along those lines, I believe. [LB553]

SENATOR MELLO: Okay. Have you had a chance at all to review the Governor's executive budget summary at all or the budget that he's produced in regards to the amount of money he has requested ultimately or put in his budget for the NPERS system? [LB553]

JASON HAYES: It's my understanding that there was no amount put in by the Budget Office. [LB553]

SENATOR MELLO: Okay. Well, that leads me maybe to one of my main questions, which, as I said earlier under Senator Nordquist's opening testimony, I'm looking at the fiscal notes. And I know you as a former research analyst for this committee as well as a former legal counsel for NPERS. In the sense of how our fiscal note process is created and ultimately the Legislative Fiscal Office is the final determinant in regards to the fiscal projections and numbers that we utilize, but I'm looking right now at LB553's fiscal note. And I've noticed that NPERS's fiscal note that was prepared by Randy Gerke lists out an expenditure amount of cash funds and a revenue percentage or revenue amount that's somewhat similar each year. That's a little bit...it equates about the same amount as the Legislative Fiscal Office's the first year and slightly less than the Legislative Fiscal Office's the second year. And there's some explanation in the Fiscal Office's fiscal note in regards to why they come up with that higher number the second year. But I'm drawn, once again, to the Department of Administrative Services--Budget Division's fiscal note, reviewed by Gary Bush, that provides a 30-year fiscal note, essentially, on LB553, which I guess to some extent in any of your time as research analyst to this committee or in any of your time at NPERS, have you ever seen a 30-year fiscal note produced for any retirement-related bill for this committee by the State Budget Division and DAS? [LB553]

JASON HAYES: No, I have not. [LB553]

SENATOR MELLO: Okay. Thank you. [LB553]

JASON HAYES: I was somewhat surprised by that as well. And then I'd like to make one other point and that was last week Senator Conrad had asked about some of the funding issues between defined benefit and the cash balance plan, and if I could have the intern come up or, I'm sorry, the page. This is just taken from a state actuary report back in February 2012, just showing the differences in funding between a cash balance style plan and a defined benefit plan. And I won't go into too much detail on that, but I just thought that would be helpful for the committee in reviewing the differences between those two funding levels. [LB553]

SENATOR MELLO: Thank you. [LB553]

SENATOR DAVIS: Thank you, Mr. Hayes. Any other questions? If not, are there any other proponents? [LB553]

MIKE DULANEY: Senator Davis, members of the Retirement Committee, my name is Mike Dulaney, M-i-k-e D-u-l-a-n-e-y, the executive director for the Nebraska Council of School Administrators, and here to support LB553. And would like to tell you a little bit about the process involved here. This, it may seem extraordinary to some when the administrators and the teachers and the school board members of a state get together and work on projects and to try to solve problems. This is not out of the ordinary at all in Nebraska. We're very proud of that, want you to know that. Whether the issue be healthcare or retirement or any number of subject matters, we are very often together working towards solutions and then, and in such as this case, bringing them to the Legislature to try to help with the problem. We understand that there is a funding issue that has to be addressed and I think Senator Nordquist framed it well. We either do something or we watch it get worse, and that's not where we want to be. Just to remind you, the school employees retirement plan, some refer to it as the teachers plan, it is not such, it is the school employees, so that's janitors, cooks, teachers, administrators. All school employees eligible to be in the plan are mandatory members of that plan. And so we obviously have a stake in this and it's not uncommon for NSEA and my group, NCSA, to come together working on retirement legislation, as we've done in the past. So what we did late...well, actually through the interim time, we kept in contact with Senator Nordquist and Kate Allen and kept the conversation going. We talked to the actuary about what the possibilities might be for us to examine. And the concept that kept coming back was the second tier or schedule B, as we prefer to call it now. And so that's what we bring to you. Now we also paid our due diligence to the executive branch. We took the proposal, the three organizations met with Governor Heineman and some of his staff. We made sure to do that because we're not trying to catch anybody off guard. We met with the then prospective Speaker of the Legislature, Greg Adams, and made sure that we touched base with him. So we did the process that I think you would expect us to do. Senator Nordquist has been outstanding to work with and so we bring this proposal as a united education community and hope that that has a bearing in your decision making to move this bill forward. I'll take any questions that you might have. [LB553]

SENATOR DAVIS: Thank you, Mr. Dulaney. Any questions? [LB553]

SENATOR MELLO: Thank you, Senator Davis. And thank you, Mr. Dulaney, for your testimony. And thank you, I will say the same thing to the school boards as well in regards to you're right in the sense of the administrators, the school boards, and the teachers working together to try to find a solution to what we know is a big challenge to the state. And it's something that I know that you've come in front of this committee before. And if you can provide a feedback, it would be appreciated. And if you're unable to, I can understand. In any of the last major bills that we've done the last four years, LB187 in 2009 and LB382, had you ever seen any longer term projections being made in regards to what the impact may be, General Fund-wise or other,... [LB553]

MIKE DULANEY: Yeah. [LB553]

SENATOR MELLO: ...in regards to any fiscal notes being prepared by the administration and the Department of Administrative Services? [LB553]

MIKE DULANEY: Absolutely, I'd be glad to answer that, Senator Mello. The answer is I have never seen that type of thing and I'm one of those nerdy type that enjoy going through that (laugh) information, along with Kate Allen, and we enjoy going through all of that and making sure we understand exactly what people are saying and organizations are saying. So, no, I have not seen that before. [LB553]

SENATOR MELLO: So is it...to some extent I have to assume then you were probably as surprised as I was in the sense of seeing the fiscal note on LB553 that came, not from NPERS, but ultimately the fiscal note that came from the Department of Administrative Services--State Budget Division, reviewed by Gary Bush, that provided a 30-year fiscal projection in regards to the LB553 that went kind of above and beyond... [LB553]

MIKE DULANEY: Yes. [LB553]

SENATOR MELLO: ...or went, some may say, something that is very unique in the sense of anything this committee has seen over the last four years. [LB553]

MIKE DULANEY: It was the most thorough fiscal I'd ever seen in my life. [LB553]

SENATOR MELLO: Okay. All right. Thank you. [LB553]

MIKE DULANEY: Thank you. [LB553]

SENATOR DAVIS: Any other questions? Senator Kolowski. [LB553]

SENATOR KOLOWSKI: Mike, welcome, and thank you for your testimony. [LB553]

MIKE DULANEY: Thank you, Senator Kolowski. [LB553]

SENATOR KOLOWSKI: Good to see you again. [LB553]

MIKE DULANEY: Nice to see you. [LB553]

SENATOR KOLOWSKI: What do you think this particular plan might do as far as our competitive advantage or disadvantage when recruiting people to our state, teaching, administration as well? [LB553]

MIKE DULANEY: Very good question, and we want to tell you how much, and you as policymakers, state lawmakers, are guardians of this wonderful defined benefit plan, and it is just that. It's a blessing. I know our administrators appreciate it. I think teachers, I'm pretty sure teachers do as well. It's a wonderful retirement plan to have and it's one that we should not take for granted, no doubt about that. And...but, you know, the one question we're always concerned about is, would it have an impact on future hires? You know, the truth is, and you know this, Senator, being a former administrator, sometimes you have the young teacher coming in or the young school employee and they don't really care much about retirement. I mean you really have to get them...have the conversation with them to get them at all interested, because to them that's light-years away and so it's, you know, whatever. But I think teachers are coming in more and more savvy about, you know, their future financial stability and what's ahead for them, and so I think more and more this is a big deal and this is something that they look at. I don't think anything in our bill takes away from the beauty of this plan. We keep the rule of 85. We maintain the 2.0 multiplier factor. That's in. The purchasing power adjustment is maintained. And so all of that, it remains, and then what we do change is a very expensive component, as you well know, with the COLA, and that's the piece that is changed in the new bill. So, you know, I still, I'll tell you what, if I was coming out, I'd take that plan any day under LB553. I still think it's good. The other thing I want to comment on--Senator Nordquist was asked this--it's our understanding that if an individual retired and began receiving benefits and then at some point, and by the way, as you know, this is not unusual, then they decide to come back into the employment arena as a whatever, a...you know, a teacher or administrator, if they're receiving those benefits and they declared they're a bona fide retired individual, they would be a new employee under the plan. That's my understanding. They'd be under the schedule B. But if they step away from their employment and have not declared retirement, it's my understanding that they would still be a current member of the existing tier. That's the way I understand it. I don't...I'll let somebody else clarify that if I'm mistaken. [LB553]

SENATOR KOLOWSKI: Mike, a second question, if you could, please. [LB553]

MIKE DULANEY: Yes. [LB553]

SENATOR KOLOWSKI: I know it's an excellent program. My wife and I are both under that as far as our retirement. And having the defined aspect was...it's a powerful program. Are states around us in the same ballpark, going through the same discussions, from your connections as you are connected with a lot of them? [LB553]

MIKE DULANEY: Yes, and my counterparts in other states are...this is a very common conversation. And there's efforts to do things like what we're proposing to try to reduce the liability to the plan. We're not out to hurt anybody. Somebody had said before, we heard this, that we're offering a lesser retirement plan under this proposal. Not the case... [LB553]

SENATOR KOLOWSKI: No. [LB553]

MIKE DULANEY: ...at all. And as we all know, what an individual coming in, when they're hired there is that kind of a contract thing that occurs with regard to the benefit structure. There is really not the same contractual relationship with regard to the COLA. So, yes, it's a lesser COLA, we grant that, but it's still a COLA. And for many retirees, they don't have even that. So I still believe that that's a viable plan and would certainly commend that to your attention. [LB553]

SENATOR KOLOWSKI: Well, that helps to answer my first question also. With the competitive nature of other states and what we're doing,... [LB553]

MIKE DULANEY: Yes. [LB553]

SENATOR KOLOWSKI: ...hopefully we'll remain competitive and continue to draw excellent candidates. Thank you. [LB553]

MIKE DULANEY: Thank you, Senator. [LB553]

SENATOR KOLOWSKI: Appreciate it. [LB553]

SENATOR DAVIS: Any other questions? Thank you, Mr. Dulaney. [LB553]

MIKE DULANEY: Thank you very much. [LB553]

SENATOR DAVIS: Any other proponents? [LB553]

JOHN SPATZ: Senator Davis and members of the committee, my name is John Spatz, and believe it or not, it's spelled S-p-a-t-z, but it is pronounced "Spots" (phonetically). I'm the executive director of the Nebraska Association of School Boards and we are supportive of this today. I know we're running short on time so I'll be brief as I can be. One of the things I really want to do and emphasize with this committee is I appreciate Senator Nordquist and Kate Allen and the process in which they followed to get this done to get to where we are today. This is something that we looked at this summer into the fall. The three organizations worked very well together in trying to come up with a solution. And I want to reiterate what Senator Nordquist said. This is both a short-term and long-term solution, and I think that's very impressive that we've put something like this together to cover both our short-term liabilities and the long-term health of this plan. So I'm very excited about that concept and I really do want to thank Senator Nordquist and Kate and my peer organizations, the NSEA and Mike Dulaney's organization. So I really appreciate that. My organization, my legislative committee looked at this and one of the things they are concerned about moving forward, though, are the contribution rates. And as they approach 10 percent, they really are concerned about the impact that will have on school districts. And they have recognized that they have increased that contribution rate over the years, that we had discussed earlier, and they are concerned about that moving forward. And we really had a long conversation about that. So the introduction of a second tier, which really does look at the long-term health, was something that they were very appreciative of. So working with the other two organizations and with this committee, that is something my organization is very pleased about. So I could go on for a while but I really do want to thank Senator Nordquist and my peer organizations for their work on this. [LB553]

SENATOR DAVIS: Thank you, Mr. Spatz. [LB553]

JOHN SPATZ: Yeah. [LB553]

SENATOR DAVIS: I'll bet Mr. Mello has...Senator Mello has a question for you. (Laughter) [LB553]

JOHN SPATZ: Yes, I suspect he does. (Laugh) [LB553]

SENATOR MELLO: Just one, Senator Davis. Thank you. Mr. Spatz, thank you for your testimony. I'd say the same thing I said to Mr. Dulaney and Mr. Hayes, that I appreciate the three organizations spending the time over the interim working on what we know is a very difficult issue. And it's a big challenge, not just for this Legislature but for all those interested parties involved in regards to ensuring that we have the solvency of our defined benefits. [LB553]

JOHN SPATZ: Uh-huh. [LB553]

SENATOR MELLO: The question, though, no doubt you've heard me ask it of others. And this is...you've followed legislation before on behalf of the school boards. And to some extent, have you seen any fiscal note in regards to education-related issues--I'm going to expand it a little bit more... [LB553]

JOHN SPATZ: Yes. [LB553]

SENATOR MELLO: ...so it's not the same question--but any issues at all regarding education? And let's say, for an example, let's look at TEEOSA. [LB553]

JOHN SPATZ: Uh-huh. [LB553]

SENATOR MELLO: Have your members or yourself or your board ever seen a 30-year fiscal note projection in regard to the TEEOSA funding formula, as this Legislature has debated it over the last four years? [LB553]

JOHN SPATZ: I appreciate that question. While I'm not probably not as nerdy as Mike, (laughter) I haven't seen one. I'm not saying I know for sure there hasn't been something like that, but that's not something that I've noticed... [LB553]

SENATOR MELLO: Okay. [LB553]

JOHN SPATZ: ...in working with TEEOSA types of legislation. But I appreciate the question. [LB553]

SENATOR MELLO: Okay. Thank you. [LB553]

JOHN SPATZ: Yeah. [LB553]

SENATOR DAVIS: Any other questions? Senator Kolowski. [LB553]

SENATOR KOLOWSKI: John, good to see you also. [LB553]

JOHN SPATZ: Yeah. Yeah. [LB553]

SENATOR KOLOWSKI: And thank you for your work and your testimony today. One of the things I think for the future, as teachers would be coming into the state and starting off new, something to think about might be a reemphasis upon their own personal financial planning. [LB553]

JOHN SPATZ: Yeah. [LB553]

SENATOR KOLOWSKI: To rely totally upon the State Retirement System... [LB553]

JOHN SPATZ: Yeah. [LB553]

SENATOR KOLOWSKI: ...or your Social Security on top of that, I hope a three-pronged approach... [LB553]

JOHN SPATZ: Yeah, that's... [LB553]

SENATOR KOLOWSKI: ...would be emphasized to those rookie teachers. [LB553]

JOHN SPATZ: Yeah. [LB553]

SENATOR KOLOWSKI: I have done that with my own nephews and nieces that are in education and really pushing that to them to also pay yourself,... [LB553]

JOHN SPATZ: Yeah. [LB553]

SENATOR KOLOWSKI: ...you know, invest in yourself for that long term and also rely on what will be there as far as Social Security or your state retirement. But I think sometimes that gets overlooked because they're pressured because salaries being what they are when you're starting off is a challenge. And I hope through your organizations you might have more press on that to just ring their bell about paying themselves. [LB553]

JOHN SPATZ: Oh, I appreciate that. And that's something we'd be happy to discuss with our peer organizations. I think that's a great suggestion. And in response to something you'd asked Mike, I think in looking around the nation, looking around some surrounding states, I think we will remain pretty competitive because I think we have been disciplined in the past. And the schools have stepped up. You and your predecessors have paid very close attention to this plan and it hasn't gotten out of control. And I was telling Craig, I was just at a national event and my peers from Kansas had asked me about what was happening in Nebraska. I said we're working on retirement. They said, well, what's the liability? Well, it's about $48 million, and I was roundly mocked and laughed at. They said, ours is in the billions. So again, I'm very proud to be from Nebraska for a variety of reasons, but one of the reasons is that we try to keep up with stuff like this. [LB553]

SENATOR KOLOWSKI: Yeah. Thank you. [LB553]

SENATOR DAVIS: Thank you, Mr. Spatz. [LB553]

JOHN SPATZ: Thank you. Appreciate it. [LB553]

SENATOR DAVIS: Any other questions? Any other proponents? Are there any opponents? Anyone testifying in a neutral capacity? [LB553]

PHYLLIS CHAMBERS: Good afternoon, Senator Davis 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. I'm here to testify neutral on LB553. The proposed bill would improve funding for the school plan by decreasing benefits for new hires and increasing state funding. Both are important to the sustainability of the school plan. The impact of this bill affects the members, employers, taxpayers, the state, and the Retirement Systems. This bill proposes all school members will participate in the same defined benefit plan by creating another tier of benefits for new hires. Administratively, there are definite advantages for NPERS to keep everyone in the same type of plan, both operationally and financially. This makes it easier for employee education, employer reporting. It's easier for benefit estimating, processing and calculations, and it's easier for actuarial evaluations, auditing purposes, and a number of other reasons. So keeping the plan changes simple is good for everyone. NPERS does have some concerns about employees who terminate and return to work. I think you've discussed those a little bit already, but our questions would be: Will employees who have been rehired be in their old tier or their new tier? Will it make a difference if a terminated employee has refunded their account or they still have an account balance? And then which tier would retired members who are receiving a benefit be placed in if they return to work and start a second benefit? We will need some clarification on members who return to work. The school benefit formula for members uses the three highest years of salary, times years of service, times a factor multiplier of 2 percent. The new tier proposes changing the salary period from three years to five years, which would create difficulty for NPERS. Ideally, it would be nice for the retirement staff to push an easy button and calculate retirement benefits. However, before we push that button, we review each retiree's salary, all 36 months that have been reported, to see if there are any errors. Many salaries are correct, but more and more we're finding they are not. There are 265 school reporting employers with varying school contracts, and there are discrepancies in how salaries are reported for hourly and salaried individuals, extra duties, whether it's summer school pay, leave times, expenses, insurance premiums, health benefit, etcetera. We often find mistakes and need to contact the schools. This can delay a retirement. Our practice is to find the mistakes before we calculate the benefit and begin paying it. It's far better to do it right the first time, as you know, than paying the wrong benefit and make adjustments later. If you decide to change the salary period to the five highest years, NPERS will need to review 60 months of salaries instead of 36 months. This will take more time for NPERS, require more follow-up with schools to provide more records and discover more errors, delay retirements, and require more records to be audited. If you're going to make a change to the benefit formula, it would be much simpler administratively if you would change the factor multiplier. I used the actuary's projection software and decreased the formula factor from 2 percent to 1.9 percent. I compared that to increasing the salary period from three to five years, and came up with almost the same funding projection results. The actuary confirmed that this approach would result in an almost equal additional state contribution and actually provide a slightly lower additional state contribution over the 30-year projection period. If it does not adversely affect the members, you might consider changing the formula factor. It would certainly make a difference to NPERS administratively if you lowered the formula factor by one-tenth of a percent instead of increasing the salary period for an extra 24 months. It would ultimately benefit the retirees, too, by processing and paying benefits more quickly. The new tier proposes changing the COLA to 1 percent or the annual change in the CPI-W, whichever is less. The COLA changes would not cause any problems for NPERS and are relatively easy to program. LB553 proposes changing the 30-year amortization of the unfunded liability to a level percentage of pay method. This is an accounting change for calculating the annual funding needs. We currently use the level dollar pay method. Whichever method you use, it does not change the unfunded liability. So sufficient investment returns are essential to the funding of the plan, but we cannot predict what those investment returns will be. If you change the amortization method to a level percent of pay, as you propose, it is important to note that you...that if you pay less in the plan now, which this is designed to do, you will likely be required to contribute more to the plan in future years. Now you have to keep in mind that you've got salary increases, you've got inflation, and you've got the time value of money. So, in essence, it may work out fine, but we don't know what those investment returns will be. And so we don't always know what those future contributions are going to need to be. NPERS provided a fiscal note for this bill, which estimates the initial cost of these changes to be approximately $25,000. Expenses would include $5,000 for an actuarial study and $20,000 for IT programming expenses. I would be happy to answer any questions. [LB553]

SENATOR DAVIS: Thank you, Ms. Chambers. [LB553]

PHYLLIS CHAMBERS: Uh-huh. [LB553]

SENATOR DAVIS: I guess I have one question. Do you have a standardized procedure and process that you use to accumulate the data that you use to set the pensions? [LB553]

PHYLLIS CHAMBERS: To calculate... [LB553]

SENATOR DAVIS: I mean you talked about extra duty and health benefits... [LB553]

PHYLLIS CHAMBERS: ...to calculate benefits? [LB553]

SENATOR DAVIS: ...and those things. [LB553]

PHYLLIS CHAMBERS: Yes. The reporting agents send data and contributions in on a monthly basis from the schools and we do go through those. But we're getting in quite a bit of data every month, so on a routine basis we're looking at, you know, did the right amounts come in and everything. But what happens is we start looking at whether a person got paid their...for example, their summer school pay. They might not have turned in an expense and they got it paid in September, and so then that goes on the next school year. So we take a look at that. We try to put the salaries into the years that they're supposed to be. We...sometimes they'll include expense reimbursements that are not part of salary. We do have a definition of compensation in the statutes. That's interpreted differently by different employers. So we do...it gets very complicated trying to determine what is actually salary and based on their contracts. Sometimes the contracts are worded differently. They might be similar, there might even be similar contracts, but one school is treating it one way, another school district is treating it another way. [LB553]

SENATOR DAVIS: So can you do some education with the boards to try to sort of standardize that process and... [LB553]

PHYLLIS CHAMBERS: We do. We have employer reporting seminars every summer and we encourage all schools to send their employee reporting agents. We also have a manual that we update every year and send out, and if there's anything specific that needs to be addressed immediately, we would send e-mails to all the employers. So we do try to stay in contact, but we're not out in the field. We don't have employees that can...you know, we just don't have the staff to go out in the field and make sure. And we don't get to...we don't review all the contracts year to year what's going on, and every school has their own attorney and there are different contracts, different bargaining. And so we get a mixed bag of reporting. [LB553]

SENATOR DAVIS: Of mistakes. [LB553]

PHYLLIS CHAMBERS: Yes. Yes. [LB553]

SENATOR DAVIS: Thank you, Ms. Chambers. Any other questions? Senator Mello. [LB553]

SENATOR MELLO: Thank you, Senator Davis. [LB553]

SENATOR DAVIS: I thought you might have a question. [LB553]

SENATOR MELLO: And thank you, Phyllis, for your testimony. Obviously, you've no doubt heard some of my questions regarding the proponents regarding the fiscal note surrounding LB553. In the research that I've done in regards to the previous two bills that we discussed on this issue over the last four years, I've noticed there's a significant difference in regards to the drafting of the fiscal note this year by the Department of Administrative Services--State Budget Division in comparison to what they've produced in the previous two years. And in looking at your fiscal note here that was done by Randy Gerke, do you ultimately...do you sign off on the fiscal notes that come from NPERS or is that something that you delegate to other staff? [LB553]

PHYLLIS CHAMBERS: Randy completes them and then I do sign off on them. [LB553]

SENATOR MELLO: Okay. [LB553]

PHYLLIS CHAMBERS: Yes. [LB553]

SENATOR MELLO: And in your fiscal note I've noticed that there's no 30-year projection, so to speak, of any of the costs associated, the potential, or savings that could come long term through the state's actuary plan with LB553. Is that correct? [LB553]

PHYLLIS CHAMBERS: That's correct. [LB553]

SENATOR MELLO: I guess my last question is, did the Department of Administrative Services--State Budget Division, and probably more than likely Gary Bush, did he reach out at all to you or Randy or NPERS in regards to explaining he was going to put 30-year fiscal note projections on LB553 or did he approach you or any of your staff at all asking information about projections you may have on the cost of LB553 for a 30-year period? [LB553]

PHYLLIS CHAMBERS: I believe he did tell Randy that he was going to make a comment. I'm not aware of...I have not seen the attachment that you have so I don't know what was sent in. But I do think he was going to...he did say he was going to provide an explanation or make a comment about it. [LB553]

SENATOR MELLO: Okay. [LB553]

PHYLLIS CHAMBERS: And that's all I'm aware of. [LB553]

SENATOR MELLO: If you'd like to provide the committee further follow-up, written follow-up in the sense of if you need to confer with Mr. Gerke a little bit more and can provide the committee a little bit more follow-up in regard to that, I'd be more than willing to allow that to happen, and I'd make sure to ask Senator Nordquist and Senator Davis to allow that to be at least shared with the other committee members after the hearing. [LB553]

PHYLLIS CHAMBERS: Okay. [LB553]

SENATOR MELLO: Thank you. [LB553]

PHYLLIS CHAMBERS: Certainly will. [LB553]

SENATOR DAVIS: Any other questions? Thank you, Ms. Chambers. [LB553]

PHYLLIS CHAMBERS: Okay. Thank you. [LB553]

SENATOR DAVIS: Any other neutral testimony? [LB553]

COBY MACH: Good afternoon. My name is Coby Mach, C-o-b-y M-a-c-h. I am the president of the Lincoln Independent Business Association, also known as LIBA. We're an organization with nearly 1,200 members here in Lincoln and Lancaster County. I'm testifying in a neutral capacity because LIBA at this point wonders if this bill is a good starting point. The organization appreciates some of the proposed changes to the current system and the concessions being made by Nebraska school employees in an effort to stabilize this retirement plan. And so in an effort to try and be helpful, we just wanted to ask or maybe suggest one other area that might be looked at and that would be increasing the hours per week that school employees work to qualify for the retirement benefits. Currently, the school employees, whether they're a teacher or a bus driver, custodian, district staff, and lunchroom staff, qualify for retirement benefits working 15 hours per week. If we look at the city of Lincoln employees, they are required to work 20 hours per week. And even your own state employees for the state of Nebraska work approximately--I say approximately because it's an interesting formula how it's worded in statute--but approximately 20 hours per week to qualify for retirement benefits. This may or may not have a huge fiscal or financial impact, might require actuarial calculations, but we did want to bring it to your attention. Our teachers, our school employees, we think they deserve a good, comfortable retirement, but the retirement system must be structured so that it's to the mutual benefit of the employees and to the taxpayers. Otherwise, we have something that's not sustainable. It is severely underfunded, as you already know, and so we just want to encourage additional dialogue, whether it's part of this bill or dialogue that continues on in the future. So thank you for your time and I would attempt to answer any questions. [LB553]

SENATOR DAVIS: Thank you, Mr. Mach. Any questions? [LB553]

COBY MACH: Thank you. [LB553]

SENATOR DAVIS: Thank you. Any other neutral testimony? If not, Senator Nordquist, would you like to close? [LB553]

SENATOR NORDQUIST: I'm going to waive closing on that one and get going here... [LB553]

SENATOR DAVIS: Senator Nordquist waives closing. [LB553]

SENATOR NORDQUIST: ...in the interest of time. Thank you.

SENATOR DAVIS: I would remind the body that we have a very short time before we need to move on.

SENATOR NORDQUIST: Yeah. LB554 is structured to address long-term funding obligations of the Class V school employees retirement plan, which is the Omaha plan. The proposed changes are similar to those proposed in LB553, and though these are separate plans, certainly I think it is in the interest of our overall policy to do our best to align the benefits of all the teachers in our state. To address the long-term funding obligations, the bill creates a new tier of reduced benefits for new employees starting July 1, 2013; reduces the COLA benefit from 1.5 to 1 percent; increases from three to five the years used to determine the final average salary. Again, the new benefit tier does not apply to those who are members, and the state contribution to the Class V school employees plan would be increased from 1 percent to 2 percent. And we have unspecified amounts for the rates. Again, like I said earlier, I would...you know, as much as we can align the plans, I certainly think it is in our benefit. And the bill also strikes the lid exclusion for the employer contribution pursuant to the School Employees and Class V Employees Retirement Acts. So with that, is my opening. [LB554]

SENATOR DAVIS: Are there any questions? [LB554]

SENATOR KOLOWSKI: Can I ask one... [LB554]

SENATOR NORDQUIST: Yeah. [LB554]

SENATOR KOLOWSKI: ...if I may, please? Thank you very much, Mr. Chairman. Senator, on the status of the Omaha plan,... [LB554]

SENATOR NORDQUIST: Uh-huh. [LB554]

SENATOR KOLOWSKI: ...how many people are in that plan at the current time, numberwise? [LB554]

SENATOR NORDQUIST: Yeah. We might...we have the administrator of that plan here who could give you those numbers. It's... [LB554]

SENATOR KOLOWSKI: Okay. [LB554]

SENATOR NORDQUIST: I don't know the exact number. Funding statuswise, it's around the state's amount, maybe just slightly below, but it's close to the state's funding status. And the benefits are pretty much calculated along the same lines. There are a few differences, but Mr. Smith can speak to that. [LB554]

SENATOR KOLOWSKI: Okay. Thank you. I'll wait. [LB554]

SENATOR NORDQUIST: Yep. [LB554]

SENATOR DAVIS: And, Senator Nordquist, how different is this from the other plan? [LB554]

SENATOR NORDQUIST: The contribution rates are lower in the Omaha plan right now. We have kind of in the past said, what do you need to keep your plan going? We set those in statute. They're at 9.3 percent contribution for the employee; we're at 9.78 percent for the state. On the benefits side, there is a service annuity that's added on top of the Omaha benefits, and their COLA, their COLA is already lower. It's at 1.5 percent. The state's is at 2.5 percent. So I think those are the main differences between the plans. [LB554]

SENATOR DAVIS: And their COLA will stay at 1.5 percent? [LB554]

SENATOR NORDQUIST: Would go to 1 percent like we would. So we would align. [LB554]

SENATOR DAVIS: So it's going to be the same across the state? [LB554]

SENATOR NORDQUIST: The COLA would be the same as we introduced the bill. I think we will...I think Mr. Smith will talk about the contribution rate. I think we'll set that the same as the state's. They...I think Mr. Smith, who administers the plan, they have a different vision of how some of the...how the benefits would be calculated, but he can speak to that, so... [LB554]

SENATOR DAVIS: Thank you. [LB554]

SENATOR KOLOWSKI: May I ask...? [LB554]

SENATOR NORDQUIST: Yeah. [LB554]

SENATOR DAVIS: Senator Kolowski. [LB554]

SENATOR KOLOWSKI: I'd like to get this on the table... [LB554]

SENATOR NORDQUIST: Yeah. [LB554]

SENATOR KOLOWSKI: ...and during difficult times I think it's appropriate to ask a wide range of questions... [LB554]

SENATOR NORDQUIST: Yeah, sure. [LB554]

SENATOR KOLOWSKI: ...and I think it's one that needs to be looked at, at least as the history of how Omaha is different than the rest of the state. [LB554]

SENATOR NORDQUIST: Uh-huh. Uh-huh. [LB554]

SENATOR KOLOWSKI: And have numbers ever been looked at, if they were a part of the state plan,... [LB554]

SENATOR NORDQUIST: Yeah. [LB554]

SENATOR KOLOWSKI: ...how that would help or would that be more of a challenge for us? I'm not... [LB554]

SENATOR NORDQUIST: Yeah, sure. [LB554]

SENATOR KOLOWSKI: ...advocating anything except show me the numbers. [LB554]

SENATOR NORDQUIST: Yeah. I think I don't know that we've ever had an actuarial analysis of combining what that would mean to state contributions. Omaha has had a plan since 1909. The state's plan I believe is in the '40s and maybe a little earlier than that, 1940s. But for me, I certainly do see a potential discussion along the lines of what it would be like. Obviously, when both plans are seeing long-term liabilities, it's difficult for the state to... [LB554]

SENATOR KOLOWSKI: Sure. [LB554]

SENATOR NORDQUIST: ...take on that kind of an obligation, but I do from an Omaha taxpayer's perspective. We have an obligation to fund the state plan with General Fund tax dollars. If...as a taxpayer in Omaha, if there's a shortfall in that plan, the state doesn't have that obligation, so that comes out of property taxes in Omaha Public Schools. So I do think there's a discrepancy there. And I would see it being potentially beneficial for the plans down the road to be combined, but certainly it's not something that's on the table right now. [LB554]

SENATOR KOLOWSKI: Thank you very much. [LB554]

SENATOR NORDQUIST: Yeah. [LB554]

SENATOR DAVIS: Thank you, Senator Nordquist. [LB554]

SENATOR NORDQUIST: Yep. [LB554]

SENATOR DAVIS: Any other questions? If not, are there any proponents? [LB554]

SENATOR NORDQUIST: Thank you. [LB554]

MICHAEL SMITH: (Exhibit 3) Good afternoon, Senator Davis, members of the committee. My name is Michael Smith, spelled M-i-c-h-a-e-l S-m-i-t-h. I serve as the executive director of the Omaha School Employees' Retirement System. When we talk about funding a pension plan, I would refer you to the very first page of the sheet that we've handed out, because this simple formula is really what funding pension plans is all about. The contributions added to the investment earnings have to equal the benefit promises plus the expenses to pay those benefits. That's just the simple formula. For 90-plus years, members of the Omaha School Employees' Retirement System kept that simple formula in equilibrium. We started in 1909 and it wasn't until the decade of the 2000s that things became troubled. As we all know, in the decade of the 2000s, we had two economic hits, what one refers to a the popping of the .com bubble, followed seven years later by the total market freeze-up, which was referred or initiated by the subprime mortgage crisis. Those two events for the Omaha system took this equilibrium out of balance and the trustees have then been working diligently to bring it back into balance since that time. When I refer you to the "I" component of this particular balance sheet, we use an 8 percent return assumption. We have regularly been able to achieve that 8 percent over decades of periods of time, not each and every year, because with every investment period there are cycles that bring weak periods, there are cycles that bring strong periods. But we have historically been able to exceed the 8 percent and so we continue to use the 8 percent. The key element though is, when do those returns arrive? I'd like to refer you now to the flip side of that formula sheet, because that shows the actuarial analysis if we do nothing. All the actuarial assumptions are met. Everything works out just like the actuary assumes and we earn the 8 percent. The problem is pretty evident as you look at that purple line. We start at 73 percent funded today and in 30 years we've been able to reach 77 percent funded. That is just simply not acceptable, and the trustees have been working on that problem. But I want you also to refer or notice the colored lines below, because we've done what we refer to as sensitivity analysis. What if we continue to have the difficult investment period for the remainder of this decade that we've been experiencing last decade to date? So what if we only earn 7 percent during the next 8 years, which would then have us earning 8.4 percent for the remaining 22, if you look at the key there. What if, on the blue line, we earn 6 percent? On the red line, what if we earn 5 percent? Now every single one of these analyses do earn the 8 percent because we think we can readily earn the 8 percent. But what they show clearly is when the returns arrive is equally as critical as what the returns are, and this no-change graph clearly, to our board of trustees, is not an option. It's not acceptable. So we are grateful to Senator Nordquist for introducing LB554 because we fully agree that change is necessary. When we now move on to the "C" component of our formula, the "C" component is likewise very important. It's the contributions that are going in to fund these benefits. During this period of difficult investment earnings, there have been three specific instances of increases in that "C" component--2008, 2010, 2012--where the members and the school district have each contributed an additional 2 percent combined in each of those instances. Already we've seen a 48 percent increase in the contributions from the members in the school district. The amendments which I have also provided to you that we're proposing take our current 9.3 percent contribution rate and advance it to 9.75 percent. The school district matches 101 percent of that. In so doing, we will have gone up by 55 percent in that contribution component, which is a critical element in healing this patient. Now when we look further at the whole notion of contributions, it is also the state of Nebraska contribution that fits into that "C" component. And we are very appreciative of the 2 percent funding that is being suggested in LB554. We're very much in support of that. It is our perspective that that additional funding is necessary, and I'll show you that in the next couple of graphs, to reach that equilibrium point once again. It's also important to talk about it in terms of how that funding arrives. It is far more important to have regular annual contributions to a retirement plan than it is to wait until the end of the year or the end of the biennium, see what funding hole has been left, and then try and figure out how to fill it. It's far better to be proactive and contribute those dollars over time regularly. The equity component of the 2 percent is also important because, quite simply, that 2 percent is then contributed to all school employees in the state of Nebraska, because those tax dollars are garnered from all taxpayers in the state of Nebraska. So we are supportive of this particular provision in LB554 and are grateful for that support that you provide. We now reach the "B" component, the benefits, because, as has already been expressed, yes, there does have to be a change in the benefit structure. The issue, as already has been expressed, is that the benefit changes cannot be effective for current folk. The benefit changes are effective for folks who have not yet been hired. So that puts us in the position of looking 20, 30, or 40 years into the future and asking, what is the retirement landscape going to look like two, three, or four decades hence? There are three things that I'd like to address. Right now, financial planners tell you that if you can start your retirement with 75 percent to 80 percent of your current gross pay, then you're going to be able to comfortably move into retirement. The current formula provides approximately 50 percent to 60 percent of pay, which, as Senator Kolowski had indicated, means that the Social Security and the personal savings are what's responsible for that additional money needed to be comfortable. Looking 20, 30, 40 years into the future, we do not see that changing. We're still going to need 75 percent to 80 percent in order to be moving comfortably into retirement. Looking into the future what we don't see changing is inflation. Over the last 30 years, inflation has averaged 3 percent per year. We don't see that changing. That's going to happen. [LB554]

SENATOR DAVIS: Mr. Smith, I hate to stop you but we are running a little bit short on time, if you can kind of wrap it up. [LB554]

MICHAEL SMITH: I understand that. I'm trying to express the benefit package that I'm suggesting on amendments. [LB554]

SENATOR DAVIS: Oh, I understand, but we've got to be out of here in a few minutes and... [LB554]

MICHAEL SMITH: I'm sorry. Okay. The benefit component then, I'll just move on to where we see the amendments going. We see the normal retirement age growing in the years ahead. Our recommendation is quite simple--don't change the amount that the member gets, don't take away the protection of inflation over the years, change when a member is able to receive the benefit. Our amendments say move that age to age 65. Right now you can't get Social Security as a young person unless you're 67, and I would expect that will move out to 68, 69, or 70. So 65 is a more rational time to start benefits. Don't continue to keep an unrealistically low rule of 85, 30 years in the future. Move that to rule of 90. Now what happens when that occurs? I refer you to the next two graphs, very quickly. You see LB554 as introduced, and LB554 as amended. What you notice is they're the same. We can fix the problem with either the introduced bill or the amended bill. The question that I leave with the committee is, would you rather repair the system and leave a solid starting benefit that keeps up with inflation over time and ask the member to wait two or three years to begin it, or would you rather continue with an early retirement age and then expect them to live on less in their retirement years? Now we bring these amendments to you. We leave them in your hands. We urge advancement of LB554, hopefully as we have recommended amendments, because we feel that they are a very prudent way to move forward in the retirement future. But I am certainly open to questions. [LB554]

SENATOR DAVIS: Thank you, Mr. Smith. Any questions? [LB554]

SENATOR KOLOWSKI: How many contributors? May I please (inaudible)? [LB554]

MICHAEL SMITH: Eleven thousand seven hundred, approximately. [LB554]

SENATOR KOLOWSKI: Thank you. [LB554]

SENATOR DAVIS: Are there other supporters? And I would ask you to please be brief. [LB554]

JASON HAYES: (Exhibit 4) Yes. Yes. Hello, committee. My name is Jason Hayes, spelled J-a-s-o-n H-a-y-e-s, and I just want to get on the record that NSEA is in support of the bill in its current form. We support any effort to have both the OPS and the state plan be similar. And I will be submitting a letter for the record. [LB554]

SENATOR DAVIS: Thank you, Mr. Hayes. Any other testimony? [LB554]

CHRIS PROULX: My name is Chris Proulx, C-h-r-i-s P-r-o-u-l-x. I'm the president of the Omaha Education Association, the union that represents the teachers in Omaha Public Schools, speaking in support. I'll be brief as I can. Just want to address some of the similar sentiments that Mr. Smith has shared. What I think our members and future members would benefit most from is the ability to maintain what you would receive as a benefit, as our current retirees do now, so that you can have the buying power that you would need when you retire. Pushing back the age of retirement I believe is a very fiscally responsible way to approach the solution that we're all looking for. I don't see anybody retiring at the age of 55 or 60, 40 years from now. Lord knows I won't be here when I'm looking at retirement either. So I think asking people to wait for three or four more years is a very responsible way to approach it. I just want to point out that by pushing back the retirement age, you are getting people to put more into the system because they're going to be putting into the system for additional years of service while they work, and they will actually be pulling less out because that's a few more years that they're not going to be retired. So you are accomplishing both getting more in from the employee and them taking less out by using this approach, so. And any additional comments I have, I'll submit in writing. Thank you. [LB554]

SENATOR DAVIS: Thank you. Any questions? Thank you. Any other proponents? Opponents? Anyone testifying in a neutral capacity? I thank you, Senator Nordquist. I'll turn it back over to you. [LB554]

SENATOR NORDQUIST: All right. That's it. Thank you all. [LB554]