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Nebraska Retirement Systems Committee  
February 12, 2013

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[LB229 LB305 LB306]

The Committee on Nebraska Retirement Systems met at 12:00 p.m. on Tuesday, February 12, 2013, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB229, LB306, and LB305. Senators present: Jeremy Nordquist, Chairperson; Al Davis, Vice Chairperson; Danielle Conrad; Russ Karpisek; Rick Kolowski; and Heath Mello. Senators absent: None.

SENATOR NORDQUIST: All right. Good afternoon. We are going to go ahead and get started here just a few minutes early. I'll go through the procedural issues. Please silence your cell phones. If you are testifying, please fill out a testifier sheet, which are in the back corner. If you'd like to state your support or opposition towards a bill, there are sheets where you can indicate that also. Please hand your testifier sheets to our committee clerk. Please state and spell your name when beginning your testimony. To my left is our legal counsel, Kate Allen; my far right, committee clerk Laurie Vollertsen. And I will begin over to my far right here with Senator Karpisek to introduce the other members of the committee. Now, introduce yourselves, sorry. And then we will...everyone will introduce themselves.

SENATOR KARPISEK: Russ Karpisek from Wilber.

SENATOR KOLOWSKI: Rick Kolowski, Omaha, District 31.

SENATOR DAVIS: Well, I'm Russ Karpisek from Wilber. (Laughter) Al Davis from Hyannis.

SENATOR NORDQUIST: Senator Jeremy Nordquist, District 7 in Omaha.

SENATOR CONRAD: Danielle Conrad, north Lincoln.

SENATOR NORDQUIST: I think Senator Mello had an obligation; he won't be joining us. I will turn the committee over to Senator Davis as I open on these bills. All right. Thank you, Senator Davis, members of the Retirement Committee. I'm here to introduce LB229. In 2009 the Legislature increased the fees assessed on cases of action filed in the courts in order to generate additional revenue for the judges retirement system; the fee was increased from \$5 to \$6 and is currently scheduled to sunset in 2014. Unfortunately, the dollar increase in the fee has not generated the expected revenue that was initially projected. In addition, the defined benefit plan only earned a 1 percent rate of return last year, which is 7 percent below the current 8 percent assumed rate of return. As a result, the actuaries project that in the next five years additional money will be needed to be paid into the Judges Retirement Plan in order to meet the actuarially required contribution. LB229, as introduced, simply strikes the sunset of 2014 and keeps the court fee going to the Judges Retirement Plan at \$6. This certainly is not

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a...the silver bullet or a "solve-all" for the Judges Retirement Plan, but this is one step. And I think over the next few years we will continue to assess where we are with the Judges Retirement Plan and see what the actuary projects. We are continuing to look at issues regarding the amount that this fee is generating. I do think it did not hit projections the last few years, and I think we are going to continue to follow up with the courts to ensure that court fees are properly being remitted to the state for that. With that, I'll take any questions. [LB229]

SENATOR DAVIS: Thank you, Senator Nordquist. Any questions from the committee? [LB229]

SENATOR NORDQUIST: All right. [LB229]

SENATOR DAVIS: Guess you got off easy. [LB229]

SENATOR NORDQUIST: Thank you. [LB229]

SENATOR DAVIS: Other proponents. Welcome. [LB229]

BILL MUELLER: Thank you, Senator. For the record, my name is Bill Mueller, M-u-e-l-l-e-r. I appear here today on behalf of the Nebraska District Court Judges' Association in support of LB229. As Senator Nordquist informed you in his opening, the Legislature did increase the retirement court cost \$1 in 2009 and set that to expire on July 1 of 2014. At the same time--and this is the next bill that you will hear--at the same time, the Legislature also increased each individual judge's contribution rate by 1 percent, with the same sunset date. And we appear here today in support of removing the sunset. In a perfect world we wouldn't need this money, but we don't live in a perfect world when it comes to retirement. And I think we have a very small actuarial deficit this year. But if you look at the out-years, that will increase. I think most if not all of you know, the sources of revenue in a judge's retirement fund include the contribution that the individual judge makes--I believe it's about \$50,000 a year; a state appropriation that goes back to the teacher help money; and then this now \$6 court cost that funds this. There's no other employer contribution that goes into this fund. So if we don't have these court fees, we just don't have sufficient revenues. We had a \$1 retirement court fee for years. We increased that to \$5, I believe; we made a big step from \$1 to \$5. And then, as Senator Nordquist testified, in 2009 we increased that \$1. So we support removing the sunset and would ask the committee to forward this to the floor. We could wait until next session, but then I think we'd get into a situation where we would have to make sure that a bill had an emergency clause so that...because what you don't want, you don't want a month or two where it goes back to \$5 and then it goes back up to \$6. You just don't want that to happen. So it would be our recommendation that we try and pass this this year. I'd be happy to answer any questions that the committee may have. [LB229]

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SENATOR DAVIS: Mister... [LB229]

SENATOR KOLOWSKI: Thank you, Mr. Chairman. [LB229]

SENATOR DAVIS: ...Kolowski. [LB229]

SENATOR KOLOWSKI: Mr. Mueller, is the \$6 enough? Perhaps we should have asked Senator Nordquist that before he left the chair. But is that going to be holding power for the future, as far as meeting obligations? [LB229]

BILL MUELLER: Probably not. Probably not. [LB229]

SENATOR KOLOWSKI: But it would be premature this time to consider a increase? [LB229]

BILL MUELLER: Well, the history of court fees and court costs is well known by your colleagues who have been in the Legislature. There are senators who just philosophically oppose court costs funding the judicial system and funding the retirement system because they believe, I happen to believe rightfully so, that we should not have a user-fee-funded judiciary, third branch of government. So it is always a balancing test between we need these funds to fund the judicial system, or part of it--we need these funds to fund judicial retirement--but at some point, when these fees overall...and, mind you, this \$6 is one of many court fees that we impose on a case. You reach a point where you do affect people's access to the judicial system, which is a concern of the bar association, who I also represent, a concern of judges and certain senators. So, ideally, we would increase this fee to meet the future needs of judicial retirement. But it really is a balancing test between how much should we charge those who utilize the judicial system. It's a long answer to a very short question. I do appreciate the question, because this is not a long-term solution to the problem with the Judges Retirement Plan. And Senator Nordquist, your Chair, and Kate Allen, your legal counsel, know much, much more about this than I do. But I...we've spoken enough that we know that this will not solve our problem long term. [LB229]

SENATOR KOLOWSKI: Well, it seems like no matter what committee we might be on, the conversation continues to come back to what is not funded out of the General Fund and how we're funding those things and how we'll... [LB229]

BILL MUELLER: Yeah. [LB229]

SENATOR KOLOWSKI: ...have to come back and deal with it again and again... [LB229]

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BILL MUELLER: And again. [LB229]

SENATOR KOLOWSKI: ...and again in our future... [LB229]

BILL MUELLER: Yeah. [LB229]

SENATOR KOLOWSKI: ...as we have bake sales, maybe, or something else... [LB229]

BILL MUELLER: Yeah. [LB229]

SENATOR KOLOWSKI: ...to make things... [LB229]

BILL MUELLER: Yeah. [LB229]

SENATOR KOLOWSKI: ...float around here; it doesn't make any sense, so... [LB229]

BILL MUELLER: This may be the year when we should look at going above the \$6. As I say, we were at the \$1 a long time and frankly just didn't keep up, so we had to make a significant increase. And maybe we look at increasing it...and actually we're not increasing it, if this bill is passed; we're keeping it where it is. So maybe we should do another \$1. I think that's something that we should continue talking about. [LB229]

SENATOR KOLOWSKI: Thank you. [LB229]

SENATOR DAVIS: Anyone else? Mr. Mueller, you heard Senator Nordquist make reference to the fact that both revenues and costs...or revenues have been declining. Do you have any answers to why that would be happening? [LB229]

BILL MUELLER: I don't. I talked to your counsel yesterday. Court filings are decreasing, but it looks to us like our revenue from these retirement fees is decreasing much more rapidly than just declining filings. So declining filings is one explanation; it doesn't appear to be the whole explanation. And as I talked about earlier, we have multiple fees that are assessed on a case in every court of our state, and they go to multiple programs. And it appears that either these fees for retirement are not being paid, which I don't understand, or they're being paid but they're not being credited to the retirement fund. And I know that your Chairman and your legal counsel are all over this issue. I know that they've spoken with the Chief Justice and the Court Administrator and the Court Administrator's financial officer, and I know that everybody is trying to look and see what the problem is. There does appear to be a shortfall that I don't think is explainable. We should be generating more money from this. [LB229]

SENATOR DAVIS: Thank you. Any other questions? [LB229]

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BILL MUELLER: Thank you. [LB229]

SENATOR DAVIS: Senator Karpisek. [LB229]

SENATOR KARPISEK: Thank you, Senator Davis. Mr. Mueller, we've...I think last time, or a few years back, the judges kicked in a little extra. [LB229]

BILL MUELLER: Yes. [LB229]

SENATOR KARPISEK: Is that...has there been any talk of having to do that to make up shortfall? [LB229]

BILL MUELLER: There has been. There has been. And we know that before these bills were introduced, Senator Nordquist was kind enough to speak to us, and we were all aware that both this fee and the judges' contribution rate were set to sunset, and that's the next bill that you're going to hear. No one likes to contribute more to their retirement plan. Having said that, we know that there's a shortfall, and that needs to be addressed. And there's another bill pending in another committee that would increase judges' salaries. That bill goes to the Judiciary Committee. And what happened back in 2009 I would expect would happen in 2013, and that is you...the Legislature would choose to look at salaries at the same time that you look at retirement benefits. [LB229]

SENATOR KARPISEK: Sorry, I kind of jumped the gun not reading ahead. [LB229]

BILL MUELLER: No, no, no. No, you're...that's a good question here. It's all part of judicial compensation. Retirement is important; salary is important. And the Legislature has, frankly, treated the judiciary fairly, we don't think overly fairly, but we think fairly. [LB229]

SENATOR KARPISEK: I remember a few judges didn't, maybe, concur with that... [LB229]

BILL MUELLER: Well, I... [LB229]

SENATOR KARPISEK: ...at that time. [LB229]

BILL MUELLER: Yes. [LB229]

SENATOR KARPISEK: (Laugh) Thank you. Thank you, Senator Davis. [LB229]

BILL MUELLER: Thank you. [LB229]

SENATOR DAVIS: Any other questions? Thank you... [LB229]

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BILL MUELLER: Thank you. [LB229]

SENATOR DAVIS: ...Mr. Mueller. Other proponents. [LB229]

JOHN LINDSAY: Thank you, Senator. Members of the committee, for the record, my name is John Lindsay, L-i-n-d-s-a-y, appearing as a registered lobbyist on behalf of the Nebraska County Judges' Association. Our testimony would basically reflect what Mr. Mueller has already spoken to. I represent the county court judges; he represents the district court judges. They're both trial-court-level judges that would be treated similarly. Senator Karpisek, the history that Mr. Mueller touched on was that last time there was an adjustment, both the judges' contribution, which was increased, and the state's contribution was increased, both of those had a sunset. What Senator Nordquist has done is has two bills to address each of those components. I would...I think Mr. Mueller's assessment was correct, in that the question of whether there has to be a commensurate benefit given at the same time that there's an additional requirement on an employee is an issue that's out there; and you've probably heard some grumblings from some of your judges on that. And that is, I think, part of the reason it was combined with a judges' salary increase last time it went around, was that...so that it would strengthen the state's position with respect to judges receiving a commensurate increase. So with that, we appear in support of the bill. And be happy to answer any questions. [LB229]

SENATOR DAVIS: Are there any questions? Thank you, Mr. Lindsay. [LB229]

JOHN LINDSAY: Thank you. [LB229]

SENATOR DAVIS: Other proponents? Are there any opponents? Neutral testimony. [LB229]

PHYLLIS CHAMBERS: Good afternoon. [LB229]

SENATOR DAVIS: Good afternoon. [LB229]

PHYLLIS CHAMBERS: Senator Davis and committee members, I'm 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 LB229. The \$6 court fees contributed to the Judges Retirement Plan are scheduled to return to \$5 in July 1, 2014. This bill does remove the sunset of the court fee contributions, keeping them at \$6. The court fees are important to the sustainability of the judges plan. The current funded ratio of the plan is 91.6 percent. That dropped from 6 percent last year. This is a small plan. There are 166 retired members and 150 active members, according to last year's actuary report. So whenever you have a change in contribution levels, a change in court

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fees, a change in investment returns like we've had with the economy in recent years, those impact this plan. The November actuary report, 2012, shows that the judges plan will need an additional state contribution of approximately \$79,000 and...if the court fees are lowered. And the actuarial analysis also shows that the judges plan would continue to need additional contributions to the fund if the court fees are reduced. So I would be happy to answer any questions. [LB229]

SENATOR DAVIS: Are there any questions? You say if the fees were lowered to \$5, we would...this General Fund would need to kick in the \$79,000, is that what you're saying? [LB229]

PHYLLIS CHAMBERS: Yes. Yes. [LB229]

SENATOR DAVIS: And by leaving the fees where we are, how long are we going to be good? Any idea on that, based on the revenue that is generated? [LB229]

PHYLLIS CHAMBERS: Well, it's...it will depend on what happens with the other bill that's being presented and the investment returns. So the projections are, right now, if everything stays the same, we're looking at \$79,000 this year and about \$600,000 the year after that. So it goes up substantially in the second year and the third year. So we do need to do something about the plan to sustain the funding. [LB229]

SENATOR DAVIS: I would say so. Any other questions? Thank you, Ms. Chambers. [LB229]

PHYLLIS CHAMBERS: All right, thank you. [LB229]

SENATOR DAVIS: Is there other neutral testimony? If not, Senator Nordquist, would you like to close? [LB229]

SENATOR NORDQUIST: I'll wait (inaudible) on that one and go ahead and open on the second bill. Thank you again, Mr. Davis...Senator Davis. LB306, as introduced, strikes the 2014 sunset on the additional 1 percent contribution rate that was added to the judges' employee contribution rate in 2009. The additional 1 percent contribution generates approximately \$200,000 per year. The actuary has projected in the next five years, as Ms. Chambers just said, additional money will be needed to pay into the Judges Retirement Plan in order to meet the actuarially required contributions. The reason we did these in two separate bills, the fee bill and this one, was I was...I assumed that fee bills usually go through Judiciary Committee and, actually, was surprised that we ended up having that bill come to our committee. But...so that was the reason I ended up dividing them up, but...because they both came here. It certainly could have been included in one bill, as a potential package, to address...while it isn't a significant dollar amount, it certainly is a significant amount...I mean, when you compare

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it to the dollar amounts we're talking in the teachers plan. But when you're talking about the size of the plan, it is an amount that we need to try to address in the...either this year or next year. Certainly the fee bill is one step towards that. This bill, certainly we will have a discussion on the state's ability to increase...or to remain...to keep the contribution rate up this additional 1 percent. We will have that discussion with the district court and county court judges and see where that takes us. But a combination of these two bills and also the issue of working to see if there is additional revenue that is not being remitted to the plan through the court fees, that combination, I think, certainly would put us on a good pathway forward for several years to come at least. So thank you. [LB306]

SENATOR DAVIS: Thank you, Senator Nordquist. Any questions? Senator Kolowski. [LB306]

SENATOR KOLOWSKI: Thank you, Mr. Chairman. Senator Nordquist, when you say a number of years this might be projected out that we'll be... [LB306]

SENATOR NORDQUIST: Yeah. [LB306]

SENATOR KOLOWSKI: ...in better shape for a while. [LB306]

SENATOR NORDQUIST: Yeah. We don't... [LB306]

SENATOR KOLOWSKI: To the end of the decade? Or can you give us a better potential reading? [LB306]

SENATOR NORDQUIST: We don't have any...we have a 5-year projection, and I'll have the legal counsel get that around to everyone. That's done on an annual basis. With our Patrol and teachers plan, we paid to have a 30-year model done on those. We did not do that on the judges plan. We made that decision, I think, two years ago, is when the Legislature appropriated money to the retirement board to contract with the actuary to do that. We didn't do it with the judges plan because, at the time, the judges plan was 101 percent funded and has slipped as the '08 and '09 market returns have been smoothed over five years. We're now at the point where all of those negative...that the big negative years have been accounted for in that five-year smoothing. And that's really what has caused the precipitous drop the last couple years in the funding ratio of the plan. But we'll look at the five-year numbers. I believe it...I mean, it certainly would be, you know, those five years, I think, would be addressed, and I'll confirm that with the legal counsel, with these two bills. [LB306]

SENATOR KOLOWSKI: Thank you. [LB306]

SENATOR DAVIS: Senator Nordquist, on the five-year averaging... [LB306]



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SENATOR NORDQUIST: Um-hum, yep. [LB306]

SENATOR DAVIS: ...formula, does that include 2012, or would that be 2011 and back? [LB306]

SENATOR NORDQUIST: Let's see, it would be the five previous fiscal years. So it would have...the last return we're accounting for in the actuary ended June 30 of 2012. So it would have been June 30, 2012, 2011, 2010... [LB306]

SENATOR DAVIS: Right. [LB306]

SENATOR NORDQUIST: ...'09 and '08, yeah. [LB306]

SENATOR DAVIS: So any gains from June to... [LB306]

SENATOR NORDQUIST: Yeah. [LB306]

SENATOR DAVIS: ...December are not accounted for. [LB306]

SENATOR NORDQUIST: And, interestingly, our plan year showed a 1 percent return in the last fiscal year. Now, that is smoothed with the previous four years to give us an actuarial rate of return. But the market rate was 1 percent short of where we needed to be, at 8 percent. The Omaha plan that...now, granted, they may have been making different investment decisions, but probably, you know, probably the mix isn't too far off. Their plan year ends in October, and I believe they were somewhere around 9 percent. So just because of the timing--we had a poor second quarter of 2012--that really impacted where we were. And so the better fall that we had, and winter, will be reflected, hopefully, in the next year. And, I believe, year to date, we're at about 6.6 percent, is what I've heard, at the end of the last quarter. [LB306]

SENATOR DAVIS: And the actuaries are suggesting to dropping the rate from 8 to 7.75. [LB306]

SENATOR NORDQUIST: Yeah, the assumed rate, to 7.75. Yeah. [LB306]

SENATOR DAVIS: Is that a sustainable rate? [LB306]

SENATOR NORDQUIST: It's, you know, that's what the actuary is recommending. If you talk to Ennis Knupp, who is the investment advisor for our Nebraska Investment Council, they're a national consulting firm, they say, on a probability scale, 7.6 is probably your best, 50th-percentile best guess of where we'll be. And I don't know how...I can't remember if they look out 10 years or 20 years or how far out into the

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future they look. Their range around that, you know, is 7 percent to 8, you know. Or 8.2 is kind of the meat of that range. But, yeah, that's what they're saying, 7.6, but, yeah. [LB306]

SENATOR DAVIS: Thank you. [LB306]

SENATOR NORDQUIST: Yep. [LB306]

SENATOR DAVIS: Any other questions? [LB306]

SENATOR NORDQUIST: And I will just say also, I should say, with Senator Kolowski's question, that this is assuming 8 percent rate of return with these changes. We will, you know, right the ship for a few years down the road. But should the assumed rate of return by the Public Employees Retirement Board be lowered, those are changes we'll have to look at and how that impacts the plan. [LB306]

SENATOR DAVIS: Thank you, Senator Nordquist. [LB306]

SENATOR NORDQUIST: Thank you. [LB306]

SENATOR DAVIS: Other proponents for the bill? Any opposing testimony? Neutral testimony. [LB306]

PHYLLIS CHAMBERS: Good afternoon, Senators. I'm Phyllis Chambers, P-h-y-l-l-i-s C-h-a-m-b-e-r-s. And I'm here to testify neutral on LB306. The proposed bill would improve the funding for the judges plan and eliminate the reduction in contributions scheduled for July 2014. The bill would maintain the employee contributions at 7 percent for those with services under 20 years and 1 percent for services 20 years or more for employees hired before July 1, 2004. And it maintains it at 9 percent for services under 20 years and 5 percent for services 20 years and more for those hired after July 1, 2004...on or after July 1. These contributions, again, are important for the sustainability of the plan. The bill also proposes changing the amortization method for calculating the actuarially required contribution from level dollar to level percentage of pay. This is similar to the proposed changes in LB305 for the Patrol plan and LB553 for the school plan. And if you do use the level percent of pay, it requires less contributions paid in early in the 30-year amortization period and higher contributions later in the amortization period. Our fiscal note estimates a cost of \$9,800: \$5,000 of that for the actuarial study and approximately \$4,800 for IT programming changes, if this bill were passed. And I'd be happy to answer any questions. [LB306]

SENATOR DAVIS: Thank you, Ms. Chambers. Any questions? Thank you, Ms. Chambers. [LB306]

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PHYLLIS CHAMBERS: Thanks. [LB306]

SENATOR DAVIS: Senator Nordquist, to close. [LB306]

SENATOR NORDQUIST: I'll go ahead and open that one too. Move right along. Thank you again, Senator Davis. Members of the committee, LB305, the changes in this bill are structured to address both short-term and long-term funding obligations of the Nebraska State Patrol retirement system. To address longer-term funding obligations, the bill creates a new tier of benefits for police officers who began work for the first time on or after July 1, 2013. The new tier reduces the cost-of-living adjustment, or COLA, from 2.5 percent to 1 percent. It increases from three to five the number of years used to determine the final average salary for purposes of calculating an officer's retirement benefit. The benefit remains unchanged for Patrol officers who are members of the Patrol retirement system prior to July 1, 2013. And, like we talked about with the school plan and with the previous judges bill, to address short-term obligations, the amortization method is changed from level dollar to level percent of pay beginning July 1, 2013. Changing the amortization method reduces the actuarially required contributions in the near future. But in future years, those longer-term obligations will be offset with benefits of the new tier. The changes we're making in this tier are the same as we propose on the school plan. This plan obviously, when you look at the dollars required and the number of membership, definitely shows as or even a greater challenge than the school plan. This bill would not completely reduce long-term obligations. It's really a bill to put on the table to discuss what we do for benefits for this plan in the future. The current plan design does not seem to be working. One of the issues that we've certainly had with this plan is we have not been hiring new State Patrol officers at the rate that we had previously, and that lack of new officers paying into the system does create funding problems for the plan. So that is why we're seeing larger actuarially required contributions for the Patrol plan. So I don't anticipate that this new tier of benefits is necessarily the direction we need to go, but I think it's a bill that we'll put in this year and we may have a longer-term discussion over the interim about the direction of this plan. I do think we do...with all of our plans we should change the amortization method to percent of pay. And I think we can work that if we want to take that piece out of this bill and into another bill. That is a possibility. So with that, I'll take any questions. [LB305]

SENATOR DAVIS: Senator Kolowski. [LB305]

SENATOR KOLOWSKI: Thank you, Mr. Chairman. Senator Nordquist, I should have asked this... [LB305]

SENATOR NORDQUIST: Yeah. [LB305]

SENATOR KOLOWSKI: ...at an earlier time, but it just...on the COLA rate... [LB305]

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SENATOR NORDQUIST: Yeah. [LB305]

SENATOR KOLOWSKI: Instead of an adjustment to whatever the cost of living might be... [LB305]

SENATOR NORDQUIST: Um-hum. [LB305]

SENATOR KOLOWSKI: ...it's a guaranteed 1 percent, is that what you're saying? [LB305]

SENATOR NORDQUIST: Yeah. Oh, it would be set at, yeah, it would be set at 1 percent...no greater than 1 percent. If the CPI, or how it's calculated, if those show less, then it wouldn't be. But it would be up to 1 percent. [LB305]

SENATOR KOLOWSKI: And if the CPI is at 3 percent, you get your 1 percent. [LB305]

SENATOR NORDQUIST: Yeah. Yeah. Yeah. It does create the potential of the value of the benefit eroding over time; that is an issue. But COLAs certainly are an expensive component when they...and they do compound upon each other. So if you gain a percent this year and a percent next year, it...that creates a...the cost escalates pretty quickly because of the compounding nature of it. [LB305]

SENATOR KOLOWSKI: Well, just like the teachers plan, those... [LB305]

SENATOR NORDQUIST: Yeah. [LB305]

SENATOR KOLOWSKI: ...employed before that date... [LB305]

SENATOR NORDQUIST: Yep. [LB305]

SENATOR KOLOWSKI: ...are still on... [LB305]

SENATOR NORDQUIST: That's right. [LB305]

SENATOR KOLOWSKI: ...the 2.5 percent... [LB305]

SENATOR NORDQUIST: That's right. [LB305]

SENATOR KOLOWSKI: ...continues that way. Thank you very much. [LB305]

SENATOR NORDQUIST: Yep. Thank you. [LB305]

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SENATOR DAVIS: Senator Nordquist, along the same lines, the 2.5 percent for prior hires is...that's the maximum... [LB305]

SENATOR NORDQUIST: Yep. [LB305]

SENATOR DAVIS: But otherwise it's an adjustable figure. [LB305]

SENATOR NORDQUIST: That's right. Yep, up to. Up to 2.5. [LB305]

SENATOR DAVIS: Up to 2.5 percent. [LB305]

SENATOR NORDQUIST: Yep. [LB305]

SENATOR DAVIS: And where...in terms...do you know, off the top of your head, and it's asking a lot... [LB305]

SENATOR NORDQUIST: Um-hum. [LB305]

SENATOR DAVIS: ...but how well funded is this particular retirement plan? [LB305]

SENATOR NORDQUIST: I can't remember the percentage. If we do nothing, we have an additional state contribution requirement of about...a little over \$11 million in this biennium. And that amount remains roughly about \$6 million a year for the next 30 years if we make no changes at all. Now, level...moving to level percent of pay, instead of having \$6 million a year, roughly, straight for 30 years, a level percent of pay moves you to about \$4 million now, \$9 million 30 years from now, is what you would pay now. As you all know, with time value of money, that \$9 million 30 years from now is less valuable than \$9 million today would be. So when you look at making this amortization change, in terms of real dollars the impact is actually pretty small, but...so that's if we just make the amortization change. But we also, for long-term health of this plan, need to look and have a serious discussion with our Patrol members and their representatives about the structure of this plan and what their benefit package should look like, what they think is a reasonable contribution rate for those benefits in the future. I know we've, you know, two years ago we increased their contribution rate to 19 percent for a two-year period. It's back down to 16 percent. They don't pay into Social Security. But we need to, you know, we need to ask our officers...and these are not, you know, highly paid individuals; you know, they make a reasonable middle-income salary here in Nebraska. For them to be contributing that high a level of salary is something we need to talk about, and, you know...but it's going to be a big discussion about where we...how we move forward with this plan. [LB305]

SENATOR DAVIS: Senator Kolowski. [LB305]

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SENATOR KOLOWSKI: Thank you, sir. Senator Nordquist, has there been any consideration of adding this group to Social Security, or other discussions in the same vein? It does make a difference, of course, but... [LB305]

SENATOR NORDQUIST: I don't think there has been any serious conversations about it. Maybe folks from STAN, the State Troopers Association, can address if they've had any discussion. I know when we've looked at issues of firefighters in first-class cities before this committee the last couple years, they've had, you know, just very general discussions of how would they even opt in to that. And there is a referendum process for them to opt in to Social Security. But I don't know that there's been any dialogue beyond that level with any of these groups that aren't in Social Security. [LB305]

SENATOR KOLOWSKI: And with the national discussions on Social Security... [LB305]

SENATOR NORDQUIST: Yeah. [LB305]

SENATOR KOLOWSKI: ...that might be... [LB305]

SENATOR NORDQUIST: That's right. Yeah. [LB305]

SENATOR KOLOWSKI: ...shaky also. [LB305]

SENATOR NORDQUIST: And I do think I've heard at NCSL recently that there was, you know, there may be a federal push to try to get more groups to pay in, because they can get more revenue into the federal government today. Now, whether they're able to fulfill the promise down the road... [LB305]

SENATOR KOLOWSKI: Sure. [LB305]

SENATOR NORDQUIST: ...is a question. So I think that it would be in the benefit of the federal government to get more people, in the short term, into Social Security. [LB305]

SENATOR KOLOWSKI: Sure. Thank you very much. [LB305]

SENATOR DAVIS: Any other questions? Thank you, Senator Nordquist. [LB305]

SENATOR NORDQUIST: Thank you. [LB305]

SENATOR DAVIS: Are there proponents for the bill? Any proponents? Opponents to the bill? [LB305]

MATT SCHAEFER: Senator Davis, members of the committee, my name is Matt Schaefer, M-a-t-t S-c-h-a-e-f-e-r. And I appear today as a registered lobbyist appearing

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on behalf of the State Troopers Association of Nebraska. We do strongly appreciate Senator Nordquist's attention to the State Patrol plan and this committee's very good stewardship of the state retirement system as a whole. And we do not have great concern over the amortization change in the bill. But we are opposed to the benefit reductions in LB305. As Senator Nordquist mentioned, troopers currently contribute 19 percent of their salary to their retirement plan. In 1994 that amount was 8 percent, so it's more than doubled. On a specific level, the association is opposed to creating a newer, lower set of benefits for troopers who will serve right alongside them in the line of duty. I think I mentioned last week there's concern about recruiting and retention of troopers. If other law enforcement agencies have better defined benefit plans, the state may lose its considerable investment in training officers who would find a better plan in other agencies or police departments. At a broader level, the association believes that this might not be the right moment to make changes to the plan. I don't know if you're familiar, but there is ongoing litigation currently that is challenging the contribution rate changes made by the Legislature over the past few years. That litigation is going on, and it will spell out, I think, more clearly what is on and off the table, in terms of plan changes. The troopers association is certainly willing to be part of a longer-term discussion. We appreciate Senator Nordquist raising these issues, and we would be more than happy to continue to have a dialogue with the committee. Unfortunately, as you know, or as you are learning, there are no easy answers on these topics. I appreciate your time. [LB305]

SENATOR DAVIS: Thank you, Mr. Schaefer. Any questions? Senator Conrad. [LB305]

SENATOR CONRAD: Thank you, Mr. Schaefer. You mentioned a broader public policy issue that I was hoping maybe you could provide a little bit more feedback, in regard to the issue, I guess, of parity or equity when we look at how other law enforcement officials are treated in regard to their salary or benefits at the local... [LB305]

MATT SCHAEFER: Um-hum. [LB305]

SENATOR CONRAD: ...the city or the county level. Do you have just a general sense about how the State Patrol system stacks up against some of those? I'm guessing there's a wide variance, due to... [LB305]

MATT SCHAEFER: Yeah, and I don't... [LB305]

SENATOR CONRAD: ...93 counties, various... [LB305]

MATT SCHAEFER: I don't have figures in front of me, but it is my understanding that there are certainly departments and other law enforcement agencies in the state that have better pay for their officers. [LB305]

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SENATOR CONRAD: Okay. Thank you. [LB305]

MATT SCHAEFER: I'd be happy to try to track down more specific information for you. [LB305]

SENATOR CONRAD: And I appreciate it. There could be a great amount of variance between the different municipalities and the counties, but just from a...a kind of a general sense about where we stack up on the state level, I think that that would be helpful to know. Thank you. [LB305]

MATT SCHAEFER: Absolutely. [LB305]

SENATOR DAVIS: And, Mr. Schaefer, you say "better pay," but do you mean better retirement plans, or do you mean actually better pay? [LB305]

MATT SCHAEFER: My understanding is "better pay." But I'd have to look closer on the retirement plan. [LB305]

SENATOR DAVIS: That might be something... [LB305]

MATT SCHAEFER: Yeah. [LB305]

SENATOR DAVIS: ...that we would need to look at. [LB305]

MATT SCHAEFER: Certainly. [LB305]

SENATOR DAVIS: Any other questions? Senator Kolowski. [LB305]

SENATOR KOLOWSKI: Thank you, Mr. Chairman. Perhaps, Matt, in the same way, the whole benefit package gets considered, because there could be a... [LB305]

MATT SCHAEFER: Absolutely. [LB305]

SENATOR KOLOWSKI: ...great variance, a big shift, at a local level, a city or a county, compared to what the state is picking up when you think of life insurance, dental, everything right down the line, and all the...and how far the family is covered. So there's a lot of dollars that could be on the table with some of those. [LB305]

MATT SCHAEFER: Absolutely. [LB305]

SENATOR DAVIS: Any other questions? [LB305]

MATT SCHAEFER: Thank you. [LB305]



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SENATOR DAVIS: Thank you, Mr. Schaefer. Any other opponents? Any neutral testimony? [LB305]

PHYLLIS CHAMBERS: Hello again, members of the committee. Chairman Nordquist, Senator Davis, I'm Phyllis Chambers, P-h-y-l-l-i-s C-h-a-m-b-e-r-s. I'm here to testify neutral on LB305. This bill would improve funding for the State Patrol plan by decreasing the benefits for the new hires, which is important to the sustainability of the plan. The current funded ratio of the plan is 78 percent. That's down 4 percent from a year ago, according to the actuarial report. This bill does impact the members of the State Patrol, the taxpayers of the state, and the retirement systems. And it's similar to the school plan changes in LB553. Administratively, there are advantages for NPERS to keep everyone in the same defined benefit plan if you do create a new tier of benefits, and also makes it easier for employee education, employer reporting, benefit processing, actuarial valuations, and auditing purposes. NPERS will need some clarification on the return-to-work rules for those who terminate and return to work, whether they are receiving a benefit or whether they're not, whether they have refunded their account or whether they still have an account balance. Also, if you do decide to change the salary period from three years to five years, for the benefit formula, NPERS would need to review 60 months' worth of salary instead of 36 months'. And this will take more time for us to research and require more records to be audited. The formula factor for the State Patrol is 3 percent. If you are going to change the benefit formula, it would be simpler administratively. The actuary estimated that approximately 2.8 percent would be an equivalent factor, compared to the three to...three years to five years and changing the salary period. The new tier of benefits for the 1 percent of the COLA or the annual change in CPI-W, whichever is less...and we would not have any problems. It would be a simple...relatively easy to program that change. Also, the 30-year amortization period, which is similar, it would be...if you are going to change the plans, probably it would be a good idea to have all of them be the same, if you go...decide to change to level percentage of pay. I will say that right now there are 38 members in the DROP plan. Those are the members who have retired and are still working; they're receiving a benefit. It's a special retirement option that's available. Those are your higher...generally higher-paid employees. And so they are not contributing to the plan when they are in the DROP plan. The State Patrol plan is a smaller plan, not as small as the judges plan. But, again, investment returns, contribution levels, all of that, have an impact on...a greater impact than, say, the school plan, which is far larger. The current fiscal note shows that we estimate \$24,500; \$5,000 of that would be for an actuarial study, and approximately \$19,500 for IT programming changes. And I would be happy to answer any questions. [LB305]

SENATOR DAVIS: Thank you, Ms. Chambers. I have one question. You talked about the 38 members in the DROP plan; these are people that have retired from the State Patrol but are still working? [LB305]

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PHYLLIS CHAMBERS: Yes. They commit to within five years of retiring, if they've met...have...if they're 50 years of age, have 25 years of service, they can say: I plan to retire in five years. And so if they meet all those criteria, they can go into the DROP plan. And then they continue working. They don't contribute to the plan; they do receive a salary; and then they...their benefit, instead of being paid to them, is paid into a DROP plan, which is invested in the funds that the member chooses. They have 14 different funds they can invest in, and it's kind of like a 401(k) on the side. So...and then... [LB305]

SENATOR DAVIS: So then when you take their...their retirement is set then. So that extra five years, if they had higher salaries at that point, that doesn't figure in to a negotiation for a higher unemployment, or does it? [LB305]

PHYLLIS CHAMBERS: That's correct. [LB305]

SENATOR DAVIS: It does not. [LB305]

PHYLLIS CHAMBERS: That's correct. Once it's set, it's set. Yes. [LB305]

SENATOR DAVIS: Thank you. Any other questions? [LB305]

PHYLLIS CHAMBERS: And I will mention that we do have an actuarial report that shows the five-year projections in the judges plan. And I brought mine along with me, but certainly for those of you who do not have those, I can certainly provide those to you. You probably have them in your...in the Retirement office...or your committee office. But if you don't, let me know, and I'll be glad to get you those figures, because they probably are important for you to know. [LB305]

SENATOR DAVIS: Thank you, Ms. Chambers. [LB305]

PHYLLIS CHAMBERS: Thank you. [LB305]

SENATOR DAVIS: Any other testimony? If not, that will conclude the hearing. Thank you very much. Senator Nordquist... [LB305]

SENATOR NORDQUIST: No. That's... [LB305]