

Transcript Prepared By the Clerk of the Legislature
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Nebraska Retirement Systems Committee
February 25, 2013

[CONFIRMATION]

The Committee on Nebraska Retirement Systems met at 9:00 a.m. on Monday, February 25, 2013, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on gubernatorial appointments. Senators present: Jeremy Nordquist, Chairperson; Al Davis, Vice Chairperson; Danielle Conrad; Russ Karpisek; Rick Kolowski; and Heath Mello. Senators absent: None.

SENATOR NORDQUIST: Welcome. Welcome to this hearing of the Retirement Systems Committee. I'm state Senator Jeremy Nordquist; I represent District 7, which covers downtown and south Omaha. We have three confirmations today. If you are going to be testifying, there are testifier sheets in the back. Please fill those out and give them to the clerk. Please state and spell your name when testifying. Please silence all cell phones so we're not to be disturbed. To my left is our committee counsel, Kate Allen. To my far right, our committee clerk, Laurie Vollertsen. Members of the committee with us so far this morning are Senator Russ Karpisek, Vice Chair Al Davis, Senator Heath Mello; and, hopefully, our other members will also join us. We will go in the order of Elaine Stuhr first, Darrell Fisher second, and John Conley third. So with that we'll go ahead and invite up former Senator Stuhr. Welcome.

ELAINE STUHR: (Exhibit 1) Good morning, Senator Nordquist and members of the committee. For the record my name is Elaine Stuhr, E-l-a-i-n-e S-t-u-h-r. And I will give you just a little background information. I live on a farm with my husband, Boyd, near Bradshaw, Nebraska, and that is in York County. I am a graduate of the University of Nebraska and am a former teacher; taught for a number of years vocational education, junior high and senior high. Also worked for the University of Nebraska with their student teachers. And I guess you might say that I'm also a professional volunteer, in the fact that I've been involved in a number of activities. And probably the main activity was Women Involved in Farm Economics, and I served as national president of that group for a couple of years and also traveled to Washington extensively. That's sort of when the political bug bit me. [CONFIRMATION]

SENATOR NORDQUIST: Okay. [CONFIRMATION]

ELAINE STUHR: And then in 1994 I ran for the Legislature; was elected in 1995 and served till 2007. I did serve on the Retirement Committee; also served as Chair. So I know some of the issues and things that you are all dealing with. In 2007, I was appointed by Governor Heineman to the PERB Board. And it has been my privilege to serve for the last five years. And I'm here today for a reconfirmation of that appointment. I can say that serving on the board has been very rewarding. The staff works very hard. And the board is also very hardworking and we do our best to administer all of the systems of the Retirement Committee, I would say, in an efficient and accurate way. So I would be happy to answer any questions that you might have. [CONFIRMATION]

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SENATOR NORDQUIST: Well, thank you. Thank you for your continued service on these issues, for your service to this committee and to the full Legislature. Just any additional general thoughts you have about our retirement systems, either the way it's administered or policies? [CONFIRMATION]

ELAINE STUHR: I know that when I was in the Legislature, I think working with the State Auditor was always a challenge. And I think it continues to be today. We built some really great relationships in the last couple of years and trying to work on any points that they might bring to us so that we might have a better system... [CONFIRMATION]

SENATOR NORDQUIST: Okay. [CONFIRMATION]

ELAINE STUHR: ...to serve all of our retirees. [CONFIRMATION]

SENATOR NORDQUIST: Thank you. Any additional questions from the committee? Seeing none, thank you. [CONFIRMATION]

ELAINE STUHR: Okay, thank you very much. [CONFIRMATION]

SENATOR NORDQUIST: Thank you. Any additional testimony related to this confirmation? Seeing none, that will conclude that confirmation. And next we'll invite up Darrell Fisher. Welcome. [CONFIRMATION]

DARRELL FISHER: (Exhibit 2) Good morning. Senator Nordquist, members of the Retirement Committee, my name is Darrell Fisher and I have been asked to serve as a member of the Nebraska Public Employees Retirement Board. I have served the state of Nebraska for over 30 years in one capacity or another. As a contributor and a consumer of the Retirement System, I understand the importance of strong leadership to ensure the stability and security of those programs for the future of our employees. I promise to the Retirement Committee and to my fellow board members my commitment, dedication, and my desire to work hard to guarantee the future stability of these most valuable financial programs. I consider it an honor to have been asked to serve. I hold a bachelor of science degree from Kearney State College, now the University of Nebraska at Kearney. I'm also in graduate school taking classes towards a master's degree in military history. I would be happy to answer any questions that you may have. [CONFIRMATION]

SENATOR NORDQUIST: Well, thank you. And I thank you for your service also to our state. Just regarding the Patrol plan as a whole, how long have you served on the Patrol? [CONFIRMATION]

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DARRELL FISHER: Almost 30 years. [CONFIRMATION]

SENATOR NORDQUIST: Is that right? Could you speak to...we hear often that our defined benefit plans are seen as a recruitment and retention tool. Can you speak from your experience about how you perceive that or how working with your fellow Patrol members? [CONFIRMATION]

DARRELL FISHER: Well, early on in your career I don't think you think very much about retirement. But the closer you get towards the middle part of your career, and certainly towards the end of your career, you realize what a wonderful benefit that is. [CONFIRMATION]

SENATOR NORDQUIST: Um-hum. [CONFIRMATION]

DARRELL FISHER: The Patrol has probably one of the best, if not the best, retirement programs in Nebraska. So it is...it's critical that we keep that viable, we keep that as a benefit to our employees. Again, I don't think they think about it very much when they're...when they first start. They think about service, they think about doing their duty, but they think very little about retirement. But towards the middle and the end of your career, you really start relying heavily on those. So those are...it's a huge benefit. [CONFIRMATION]

SENATOR NORDQUIST: So you see it more, probably, as retention than recruitment. [CONFIRMATION]

DARRELL FISHER: Oh, absolutely. [CONFIRMATION]

SENATOR NORDQUIST: Oh, yeah, great. Any additional...Senator Karpisek. [CONFIRMATION]

SENATOR KARPISEK: Thank you, Senator Nordquist. Thank you, Mr. Fisher, and it's great to have someone with you kind of with one foot in both sides knowing about it. Can you speak a little bit to the DROP Program? I hear, you know, I think some like it, some don't. In your opinion, is it a good thing? [CONFIRMATION]

DARRELL FISHER: I was not a part of DROP. DROP did not...I had already declared my intentions to retire at the end of 2008. That did not start until September of 2008. So in my particular case, if I would have locked in with DROP for the remaining three or four months that was left in the calendar year, I would have lost six holidays. So I would have lost some money in that. So I did not participate in DROP. However, the vast majority of friends that I have did get into DROP, and it's huge. I wish...I wish I would have...well, I wish I would have withdrawn my letter of retirement for other reasons, and that's primarily just for love of the agency and love of the state and love of the citizens. I

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would have loved to have served longer. I did not take that option. But the vast majority of people I know that are in the DROP program, it's huge, they really enjoyed it, they liked it and it's a huge financial impact for them. It's the best savings program in the world, because they no longer contribute to the state program, they contribute to, basically, their own deferred compensation. So it's huge. [CONFIRMATION]

SENATOR KARPISEK: So it's another retention tool. [CONFIRMATION]

DARRELL FISHER: It is, provided that we can sustain it. And I have not done that much studies. From what I have heard, the question is whether or not it can be sustained. [CONFIRMATION]

SENATOR KARPISEK: And I think the people that I've heard speak against it maybe are the people in the middle part, maybe of their...of their career and they feel that they can't move up because the senior people are staying. But... [CONFIRMATION]

DARRELL FISHER: Well, I'm sure that is probably a bone of contention with some of them. However, they're failing to look more globally. They're failing to look at the program as a financial benefit towards them, towards...to the...at the end of their career. Those are probably the people that don't see the light at the end yet. [CONFIRMATION]

SENATOR KARPISEK: I agree. Thank you, Mr. Fisher. Thank you, Senator Nordquist. [CONFIRMATION]

SENATOR NORDQUIST: Great. Any additional questions from the committee? Seeing none, thank you. [CONFIRMATION]

DARRELL FISHER: Thank you very much. [CONFIRMATION]

SENATOR NORDQUIST: Any additional testimony related to this appointment? Seeing none, that will conclude that appointment. And now we will invite up John Conley. Welcome. [CONFIRMATION]

JOHN CONLEY: (Exhibit 3) Thank you. Good morning. [CONFIRMATION]

SENATOR NORDQUIST: Yes, morning. [CONFIRMATION]

JOHN CONLEY: I'm John Conley. And I seek confirmation for my appointment as a member of the Nebraska Investment Council for a term that would expire, I think, in 2000...I'm not sure, -17 or -18, five-year term. [CONFIRMATION]

SENATOR NORDQUIST: Yep. [CONFIRMATION]

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JOHN CONLEY: My background is that...started in the investment business. This is my fortieth year. I graduated from Nebraska Wesleyan and was initially involved with regional brokerage firms, becoming director of research for a firm. But I think it's important that my first ten years were in securities analysis and investment strategy. The last 27 years, I've operated Conley Investment Counsel in Omaha, and we're a money management firm, a registered investment adviser serving clients, largely, in Nebraska but also coast to coast and a few places elsewhere in the world, but we're 27 years as an investment manager. So I'm very well attuned to the needs of different institutional and individual family investment needs that might surface and the range of investments that are managed by the Nebraska Investment Council and supervised by the Nebraska Investment Council. [CONFIRMATION]

SENATOR NORDQUIST: Great. Great. One of the issues that comes up regarding the Investment Council, just general, as a discussion we continue to have on this committee and also in the Appropriations Committee that approves the budget, that drafts the budget, is the mix of in-house versus outside investment managers. And I know you're coming on board, but can you speak from your professional experience of how you see the appropriate balance for the state as an institutional investor of a... [CONFIRMATION]

JOHN CONLEY: Sure. The focus for all of us should be the rate of return that we achieve given a reasonable amount of risk. And a lot of times it's very appropriate to have the assets managed by an outside third party. But in order to do that, there's an investment management fee charged. But we do that in order to gain competencies of those experts that we don't necessarily have in-house. Where it's appropriate to do it in-house is where we can achieve an equal rate of return, but have a better net after all costs, return for all the constituents that we serve. There are \$18 billion that are in this fund, and so it's not a responsibility to be taken lightly. And, accordingly, if we can manage funds in-house and do it in a cost-efficient manner but achieve the necessary returns to satisfy our constituents, then it could be considered to be done in-house. So that's the trade-off, is that... [CONFIRMATION]

SENATOR NORDQUIST: Yeah. [CONFIRMATION]

JOHN CONLEY: But fees paid to outside asset managers don't appear to be excessive in any respect. [CONFIRMATION]

SENATOR NORDQUIST: All right. Well, thank you for that. And I hope you'll, please, correspond with us in the Legislature through the director on those issues... [CONFIRMATION]

JOHN CONLEY: Sure. [CONFIRMATION]

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SENATOR NORDQUIST: ...as we move forward. [CONFIRMATION]

JOHN CONLEY: Would be happy to do so. [CONFIRMATION]

SENATOR NORDQUIST: Thank you. Any additional questions? Senator Davis.
[CONFIRMATION]

SENATOR DAVIS: Mr. Conley, did you have any, you know, just ballpark idea of what kind of rate of return we can expect to have without a lot of risk? [CONFIRMATION]

JOHN CONLEY: I left my crystal ball in the back. (Laughter) No. An actuarial assumption that we're all working off of and pounding our head against the wall is that 8 percent number. [CONFIRMATION]

SENATOR NORDQUIST: Um-hum. [CONFIRMATION]

JOHN CONLEY: And over the last 10 or 12 years, have we been able to achieve that, and the answer is no. Are there investments...subclasses that have achieved that rate of return? Yes. But it's very hard to move an investment portfolio, and, frankly, extraordinarily speculative, to move a lot of assets into one particular asset class that you think are going to outperform all other asset classes or help us achieve that 8 percent. So I think, very appropriately, not only my firm but certainly the Nebraska Investment Council has had a variety of asset classes where it has invested assets. I would like to think that 8 percent is an achievable rate of return. But has it been achieved over the last 10 or 12 years? No. Would I expect it to be achieved over the next 10 or 12 years? And I'd say, perhaps. But so much of it depends on the growth of our own domestic economy. And if that affords us the opportunity to make prudent investments that would allow us to achieve that 8 percent rate of return, then we'll certainly be a participant. [CONFIRMATION]

SENATOR NORDQUIST: Okay. Any additional questions from the committee? Seeing none, thank you. [CONFIRMATION]

JOHN CONLEY: Yes, thank you. [CONFIRMATION]

SENATOR NORDQUIST: We'll take any...entertain any additional testimony related to this appointment. Seeing none, that will conclude the hearing on this appointment and conclude our hearing for today. Thank you. [CONFIRMATION]