[LB552 LB594]

The Committee on Nebraska Retirement Systems met at 12:00 p.m. on Tuesday, March 5, 2013, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB594 and LB552. 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. Happy lunch hour to all of you. I'm State Senator Jeremy Nordquist from District 7 covering downtown and south Omaha, the Chair of the Retirement Committee. We're going to try to get started as quickly as possible. Just reminders. Testifier sheets are in the back corners. Please fill those out. Please state and spell your name when testifying. There are also sheets back there to indicate your support or opposition to a bill should you choose to do that. Please silence your cell phones so it doesn't get recorded in our record of the hearing. To my left, our legal counsel, Kate Allen. To my far right, committee clerk Laurie Vollertsen. Our page is Matthew. Senator Karpisek, why don't you introduce yourself and we'll go around and everyone can introduce themselves.

SENATOR KARPISEK: Good job, Senator. Russ Karpisek, District 32, from Wilber.

SENATOR KOLOWSKI: Rick Kolowski from the Millard area in District 31.

SENATOR DAVIS: Al Davis, District 43, Hyannis.

SENATOR MELLO: Heath Mello, District 5, south Omaha.

SENATOR CONRAD: Danielle Conrad, north Lincoln's "Fighting 46th."

SENATOR NORDQUIST: Great. I got Senator Price here with LB594. Welcome. [LB594]

SENATOR PRICE: Thank you very much, Chairman Nordquist and members of the Retirement Committee. My name is Scott Price, S-c-o-t-t P-r-i-c-e, and I represent the 3rd Legislative District in Nebraska, the beautiful cities of Bellevue and Papillion. I appear before you today to introduce LB594, which is basically a Revisor's bill that seeks to update language for the investment funds for the Nebraska Veterans' Aid Fund. Now it's apropos that today when the committees were busy like that, because we got in here so quickly, it reminded me of my military days, where we would hot-cot and I could still feel the warmth of people who were using the seats before us. (Laughter) Now that aside and in the interest of brevity, I'll be quick in my statement. This fund and its genesis date back to 1921 and continues today as a way that veterans and their dependants may receive emergency financial assistance. The fund exists in the form of investments in a long-term fund previously managed by the Board of Educational Lands and Funds but now managed by the Nebraska Investment Council. Again, in brevity, that's what we're changing. When you look at the green copy, we're changing it from the previous organization to the current Investment Council. And there are subject matter experts behind me who can answer every question you have, but I would gladly entertain any that you have now. [LB594]

SENATOR NORDQUIST: Thank you, Senator Price. Questions from members of the committee? Seeing none... [LB594]

SENATOR PRICE: I will waive my closing. [LB594]

SENATOR NORDQUIST: Perfect. [LB594]

SENATOR PRICE: Thank you. [LB594]

SENATOR NORDQUIST: Thank you. Next testifier in support. [LB594]

JOHN HILGERT: Thank you. [LB594]

SENATOR NORDQUIST: Welcome. [LB594]

JOHN HILGERT: Chairman Nordquist, members of the Nebraska Retirement Systems Committee, my name is John Hilgert, spelled J-o-h-n H-i-l-g-e-r-t. I am the director of the Nebraska Department of Veterans Affairs, and I appear before the committee to speak in support of LB594. First, I want to thank Senator Price for introducing LB594 on behalf of the Department of Veterans Affairs. Plain and simple, LB594 eliminates the outdated reference to the Board of Educational Lands and Funds and replaces those references with the Nebraska Investment Council. This in no way affects the day-to-day administration of the fund in my department but would allow the fund itself to remain relevant and modern through the work of the Nebraska Investment Council. The statutes in the bill deal with the Nebraska Veterans' Aid, which was established, again, in 1921 to provide temporary assistance to veterans for food, shelter, fuel, wearing apparel, medical or surgical aid, and funeral assistance. As the Department of Veterans Affairs was not created as a separate agency until 1947, the Board of Educational Lands and Funds was given original investment authority over the aid fund. Clearly that duty is now vested into the Nebraska Investment Council, and this bill would harmonize current statutes. I'd be glad to answer any questions you might have. [LB594]

SENATOR NORDQUIST: Thank you, Mr. Hilgert. Questions from the committee? Seeing none, thank you. Thank you for your service to District 7, too, in your previous life. [LB594]

JOHN HILGERT: I'm very proud of it. Thank you. [LB594]

SENATOR NORDQUIST: All right. Any additional testifiers in support? Seeing none, any testifiers in opposition? Seeing none, any neutral testimony? Seeing none, Senator Price waived closing. That will conclude the hearing on LB594. And I will turn it over to Vice Chair Davis so I can open on the next bill. [LB594]

SENATOR DAVIS: Thank you, Senator Nordquist. Ready when you are. [LB552]

SENATOR NORDQUIST: Thank you. Thank you, Vice Chair Davis, members of the Retirement Committee. I'm State Senator Jeremy Nordquist from District 7 and here to introduce today LB552. This bill was introduced as a result of the 2012 Retirement Committee interim study on first-class city firefighter pensions. We heard testimony at the LR628 interim hearing on the closure of the firefighter defined benefit plan in 1983 and the goals at that time for the retirement...the goals that were set forth for firefighters to have a worthwhile retirement in defined contribution plans. From a review of the legislative history, it was clear that the intent of all parties involved was to create a DC plan that would provide no less benefits than those provided to firefighters in the defined benefit plan, which included a pension benefit of about 50 percent of salary. The actual report presented to the committee in 1983 indicated that that goal, they thought at the time, was achievable. The committee heard testimony, as I said, on LR628 this fall. And now 30 years later, firefighter DC accounts are only providing about 25 percent of salary at the time of retirement. This creates financial hardship for firefighters because they do not participate in Social Security. This bill is being introduced to provide another alternative for first-class city firefighters. LB552 creates a cash balance retirement plan for first-class city firefighters hired on or after an unspecified date. Current firefighters would have a one-time option to transfer their assets into a cash balance retirement plan. And the plan would be structured similarly to what we have currently for county and state employees in their cash balance plan, which would guarantee a 5 percent rate of return with possible dividends. If the plan is fully funded, additional dividends could be granted beyond that. Employee and employer contribution rates in the bill as introduced would remain the same as they are for current defined contribution plans. And that is, the employee currently contributes 6.5 percent of compensation and the employer contributes 13 percent. The cash balance plan would be administered by the Public Employees Retirement Board, and a representative of first-class city firefighters would be added to the membership of the PERB board to ensure that they have a voice. So essentially we're just giving employees an option to opt into what would be the same type of plan that we have for state and county employees right now, to give these firefighters in first-class cities a little bit additional support at the time of retirement. I know there's a number of people that will testify after me speaking more to the testimony we heard this fall, including a national expert, Ron Saathoff, who will be up right after me to talk about what's going on in cities and states around the country when it comes to public safety pensions. But with that, I'd be happy to take any questions.

[LB552]

SENATOR DAVIS: Thank you, Senator Nordquist. Senator Kolowski. [LB552]

SENATOR KOLOWSKI: Thank you, Mr. Chair. Senator Nordquist, again define for us the group of firefighters and the city, you know, how many would be involved, please? Numbers. [LB552]

SENATOR NORDQUIST: Yeah. Whew, I don't know that I have the numbers in front of me. I think it's just a couple hundred. I think it's between 200 and 300, but we can get that. And it's first-class cities, so anything outside of...smaller than Omaha and Lincoln but greater than 5,000. And I don't remember the number of those communities, but... [LB552]

SENATOR KOLOWSKI: Thank you. See the range. [LB552]

SENATOR NORDQUIST: And they would have to have professional firefighters, obviously, so... [LB552]

SENATOR KOLOWSKI: Again, 200 to 300? [LB552]

SENATOR NORDQUIST: Yeah. That's my... [LB552]

SENATOR KOLOWSKI: Thank you. [LB552]

SENATOR NORDQUIST: ...what I think it is, but I'll confirm that. [LB552]

SENATOR KOLOWSKI: Thank you. [LB552]

SENATOR NORDQUIST: Yep. [LB552]

SENATOR DAVIS: And, Senator Nordquist, one of the objectives is to pool the revenue to kind of cut down on the fees that they're paying locally. Is that correct? [LB552]

SENATOR NORDQUIST: That's absolutely the reason we went in this direction. And what we're seeing and it's happening...you know, it's a discussion that's happening nationally with other people's defined contribution 401(k)s, that a lot of times the return gets eaten up with fees and the return is smaller and that compounds over time. And when you have a pool, a large pool of invested funds, the fees are smaller, you get professional management. And also there's an issue of longevity when you invest the funds. So if I'm doing it as an individual, a young guy like me, I should be aggressive with my investments right now and phase it and tighten it up, be more conservative, towards the end of my work when I'm getting ready to retire. Well, if you don't hit that right when the markets are booming, or they're busting at the wrong time, you know, you could be left with not very much, where if you have a long-term horizon, where you're pooling it for a long-term good, you're not trying to time that, you know, and meet that timing. So it creates a better return overall for everyone in the plan. [LB552]

SENATOR DAVIS: Can you tell us what the metropolitan...what Omaha and Lincoln, I guess, what their situation is? Are they defined benefit plans or... [LB552]

SENATOR NORDQUIST: I know Omaha is. I would have to confirm...I assume Lincoln is a defined benefit too, for their firefighters, but I'll confirm that. But Omaha does have a defined benefit plan for firefighters. And first-class city firefighters until '83 were in a defined benefit plan. And at that time, probably because, and I think folks from the League can speak to it, it was a mandate on the cities without the state really providing any help. And I think they...when cities weren't putting enough aside, it ran into problems in the '80s. So that's how that came to be to get rid of the defined benefit plans for first-class cities. [LB552]

SENATOR DAVIS: Thanks. Any other questions? Senator Mello. [LB552]

SENATOR MELLO: Thank you, Senator Davis. And, Senator Nordquist, I think you mentioned this briefly but if you could provide a little bit, maybe, more background for the record as well as for new members who were not yet a member of this committee over the fall in regards to part of the reason that LB552 is in front of us, is because over the number of years we've seen, unfortunately, kind of a lack of accountability and management from the pension side of the house, so to speak, in municipal governments in regards to not having oversight over what ultimately is being done with some of these defined contribution plans, where they've yielded extremely small returns, now, essentially, where firefighters are left to retire and ultimately are eligible for Medicaid and other state services. [LB552]

SENATOR NORDQUIST: That's exactly right. And we saw during the interim study that there was wide variation between, you know, for some reason I think it was Grand Island had pretty good returns, it seemed like, and other cities had miserable returns. So it really was the variation that these firefighters are seeing, I think, is one reason that we need to look at maybe pooling it into a state fund. But another thing, you're right, that came up at that hearing, and I think maybe some folks after me can testify to the impacts of pension dollars. And when we have public servants who don't retire with what they need to maintain their lifestyle, they do fall, down the road, on other public benefits. And, you know, those are General Fund obligations that the state has to meet at that time. So there are certainly people after me that can speak to that. But that was something that was brought out at the interim study. [LB552]

SENATOR MELLO: Thank you. [LB552]

SENATOR DAVIS: Any other questions? Thank you, Senator Nordquist. [LB552]

SENATOR NORDQUIST: Thank you. [LB552]

SENATOR DAVIS: Okay. We'll take proponents of the bill. [LB552]

RON SAATHOFF: Good afternoon, Senator Nordquist and members of the committee. My name is Ron Saathoff. I'm the pension resources director for the International Association of Firefighters, headquartered in Washington, D.C. The senator has outlined a number of points that I'll reiterate, and was going to make, perhaps in somewhat more detail. From my understanding and research, in 1984, or in 1983, actually, you had a problem. Your fund was underfunded. You were providing a defined benefit that was roughly 50 percent, upon a person's eligibility for retirement. And there was a problem with funding at that point in time. It was partially rectified. The biggest problem, in looking back at the accounts, was that there were lack of contributions going in on a consistent basis. Employers in different regions made decisions about what they would contribute or would not, and there was no statutory requirement for a contribution; and so, therefore, shortfalls ensued. Earnings...the seventies was not particularly a good decade as far as stock market earnings, to begin with, oil embargo, and other things; there was hyperinflation. But to make a long story short, the number one failure of the fund was in fact funding, itself, from the plan sponsors. That was rectified with the 1984 plan. Funding was required: 13 percent for the employer; 6.5 for the employee. The funding was adequate, but the structure that was put in place was not. A 401(k) plan, as the senator has already pointed out, there are several things you have to be concerned about. One is the point in time. You're investing for a fixed point in time. I'm investing with a known date of when I want to retire and I want to have my assets available at that point in time. The investment cost. A typical defined benefit pension plan in the United States runs about 40 to 50 basis points in terms of overall costs for investment. That's professional money management. That's international and domestic in all categories of investment pooled together will run you anywhere, like I say, from 40 to 50 basis points, tops. That's actually on the high side. So that's less than a .5 percent. Your typical 401(k) plan will have investment options, and the typical invested portfolio will run anywhere from 100 to 200 basis points; so anywhere from two to four times as much. And there's fees that are on top of that. In addition to that, you've got adverse selection. Unfortunately, individuals just aren't capable of managing their money as effectively as professional investments, you know, using investment-grade product. You have two problems. Number one is you're investing in what we call retail product. It's mutual funds. It's things that anybody else can buy. When you're in a pool fund, it's institutional product. Many of those products require dollars under management for you to even be able to invest. Twenty million, $50 million may be required before you can even get into a fund like that. So I would refer to that as wholesale product. So you don't have access to the product and you're paying four times the cost for the product. Then you get into your choices. I served on a 401(k) board and I've studied this nationally, and typically individuals simply don't know how to invest their money effectively. If you look at it as a national trend, what you'll see is that when markets go up they buy, and when markets go down they sell. Exactly the opposite of what you should be doing. So there is a risk in terms of their choices because they're simply not equipped to make the kind of financial decisions to invest their money properly. And they should be asset-allocating it, which you will have in a professionally managed fund, where you'll have a mixture of assets to take the ups and downs of the market and give you a level percent of return over time on that portfolio. And in a 401(k) that has to vary based on your age. In other words, the closer you get to retirement, you're going to have to be a little more conservative; when you're younger, you can be more aggressive. With a defined benefit plan, you don't have that time horizon and you invest for a long-term horizon consistently, so you have a better return at lower risk combined with the fees. 401(k)s also have a leakage problem. And that runs into, number one, is you have the issue of loans, if they're available and they're part of your system. And number two is hardship distributions. You can get access to your money under a number of different circumstances which you can't in a defined benefit plan. That money is locked up and is only there for your retirement. The age-based asset allocation we talked about and remain in the work force. One of the issues that's happening with your folks now, you only have, as I understand it, of the 1984 system, one person who has retired as of today; that's 28 years in, into the system. What you're going to see and you are seeing here is that people will not retire. And the reason people will not retire is they can't afford to. As you heard Senator Nordquist refer to, the one individual that retired, the annuity that he would be eligible for were he to purchase in the open market today would provide him about $16,000 a year in benefit, which would be about 25 percent of his preretirement income. Financial experts will tell you, you need 75 to 85 percent of preretirement income to maintain your standard of living upon retirement. Obviously that number isn't going to get it. And in the state of Nebraska, if you look at your thresholds for both Medicaid, for food stamps, and for Section 8 housing, and you throw in the healthcare costs that the individual has to incur--you don't have paid healthcare for retirees, which, that's not wholly unusual; but what is unusual, you don't have access to city-sponsored healthcare. So once someone has retired, they're on the open market. They're basically buying healthcare on a one-on-one proposition. They're buying as any individual would, where typically in the United States city-sponsored or municipal-sponsored healthcare remains available to the retiree, whether paid for by the city or the municipality or paid for by the individual. They have the impact of that group plan and the ability to get into that group plan. Now, contrasting that with a DB similar to what's been proposed, at least in part, you have a rolling 30-year time horizon, so you don't have to concern yourself with trying to change your asset mix based on where you are in that horizon. The cost, the fees we've already covered, are much, much lower. Professionally managed portfolio. Wholesale versus retail. There is no leakage. You can't take your money out. The only way you can take it out is if you leave employment. If you leave employment and you're not eligible, you can take a refund to contributions. Long-term asset allocation, we talked about an incentive. It incentivizes career employees. A 401(k) plan, and to an extent the cash balance plan that is being proposed, actually provides you a greater benefit at a younger age. So what will happen is more money will leave the fund if those folks leave, because they're taking it with them. In a typical defined benefit plan, that doesn't occur. You only take your contributions. You don't get any of the benefit of employer contributions and you get varying degrees of interest that go with it. So there is no encouragement. The benefits are back-loaded. You get your benefits on the back end of the plan, after a career, when you've reached retirement age. And with a defined benefit plan and to a degree a cash balance plan, they're more front-loaded. The benefits occur earlier in the process and actually encourage people. They call it portability. But I don't consider portability a good thing in terms of career employees that you're trying to have in your police and your fire departments. You get more...and now, a little bit I'd like to talk just briefly about your cash balance proposal. I think it's a step in the right direction. It's certainly superior to what you have on the market now. You are going to get some of the benefits that I've described, of pooling investments and asset management, asset allocation, and the access to industrial-grade product. It is still going to pay you more benefits earlier. You know, you're going to have the benefit under a cash balance plan, once you've vested, of taking both your contributions and the employer contributions with you if you should choose to leave. In fact, that's happening now. You have Lincoln and you have Omaha, a sizeable number of their work force, about 20 percent in Omaha--we just looked at this briefly since I got in last night--have come from Class I cities. So people will typically, and this is a trend that exists throughout the United States where you have a 401(k) type or a fixed base retirement system like a 401(k). Typically people will move to a career department that has a defined benefit pension plan, and so they become a training ground. They become someplace where you get in, you get trained, you'll serve four or five years. Typically you will serve until you have the vesting, so that you can take the money with you when you leave. But once you've reached that vesting age, there's a problem. Alaska put in a defined contribution plan for their entire work force, police, fire, and everybody, in 2006. It had a five-year vest. It worked fine for the first five years. Once they got to year six, then people that had been hired at the onset of that started to leave in significant numbers and take jobs in other departments where they had the defined benefit as an option. It is front-loaded, as I mentioned. The other problem with a cash balance or a DC plan like the current 401(k) plan with retired, with firefighters, is we retire earlier. Because of the nature of our jobs, and we have early retirement provisions, you don't want firefighters typically working past 55 years old unless they're in administrative positions. The disability rates will go between 40...between actually 35 and 40, they double; between 40 and 45 they almost double again; and they're up about one-and-a-half times between 40 and 50. So you get significant increase in disabilities as firefighters age. And with your current plan, as I pointed out, the current DC plan, nobody is retiring, because they simply can't go. They don't have enough money. And not only does that create a problem in terms of potential disabilities, it creates a problem in terms of people coming up at the younger end, you know, at the beginning of the pay scale, and working their way through, because these people are stopping up at the upper ends and they going to stay longer, and they are. That's exactly what's happening here, and that trend is all over the United States as we have looked at it. The other thing that I would definitely be concerned about with regard to...or at least in your deliberations in terms of the cash balance plan, there is a provision for both disability retirement in the event that someone is injured on the job and can no longer continue to do that job, and there is a provision for line-of-duty death. Unfortunately, the provision is inadequate. It provides only for a refund of the contributions you have at that point, without penalty. And so what that means is if you have somebody with five years on the job, they may have $20,000 or $30,000 in their account, and if they should pass away as a line-of-duty death or they should be disabled to the point that they can't work, that is what their heirs are entitled to or they are entitled to as a disability. That's what they get. There is no other provision within the plan for disability. Your defined contribution plan does have a 50 percent disability provision in it. So that aspect of it is actually positive. And lastly, I'd like to touch just on the economic impact. This is pretty straightforward, and Senator Nordquist reviewed it. There's been a study done, and I'd be more than happy to make it available for all of the committee. The National Institute for Retirement Security, based in Washington, D.C., did a study based on the impacts of defined benefit pensions throughout the United States. And what they were looking at is what happens when we pay a defined benefit pension. What does it do economically for the jurisdictions, both by state and nationally. And it's pretty straightforward. If somebody is making a living wage, if they're making a decent retirement, they spend that money or that money goes into the economy. That money is being...they're paying taxes on it, whether it's sales taxes or property taxes or state income taxes. They're buying services and products, which is creating jobs and fostering the economy. What is not a well-known fact in terms of a defined contribution plan, for every pension dollar that goes out, on a national basis, 17 cents...I'm sorry, 27 cents was paid for by the taxpayer. Out of every dollar, every pension dollar--this is a national average, it varies; it's anywhere from a low of...I've seen a low of around 15 cents to a high of around 35. It depends on the asset mix of the portfolio, the performance of the plan; but, on average, 27 cents. So that means for every pension dollar that gets paid out, the taxpayer paid 27 cents. Where did the rest of the money come from? Well, it came from the employee contributions and it came from the earnings on all of the contributions over time. So at the end of the day when that pension dollar is paid out, it's literally about a quarter of what was paid out was actually paid by the taxpayer. The rest was investments and other contributions by the employees. And that has a direct impact on the economy. As I said, not only is it this spending, but they did numbers for Nebraska, that the economic impact for Nebraska in terms of jobs created was...their calculation is 7,126 jobs, and their calculation was over $292 million of direct and indirect economic benefit by those pension dollars being paid into the local economy. And we contrast that with our most recent retiree that, by the way, he didn't get 25 percent and he didn't get an annuity at $16,000 a year. He took a lump sum. And the reason he took a lump sum is he can't live on $16,000 a year. And, unfortunately, a lump sum to most of us, certainly to me, $300,000 is a lot of money. That's about what he had after a 28-year career. It's a lot of money until you start drawing it down at $30,000 or $40,000 or $50,000 a year. And you're going to run out. You don't...you have a longevity risk, a very serious longevity risk with a defined contribution plan, and with a cash balance plan for that matter, that you don't have with a DB. So he took that and that's what he decided to go with. But...so his economic impact where he's at is, he will be...once that $300,000 has expired, he's going to be a net receiver of taxpayer services in the state of Nebraska because he's going to qualify for benefits that your state provides for people at that income level. As opposed to generating jobs, having an economic impact that not only supports the community but supports the tax base of the government and what have you. So, in conclusion, I would just like to encourage you to consider as part of your mix and an option, take a look at a defined benefit plan similar to what you had previously at 50 percent, which was the stated goal of what we were trying to achieve. At 19.5 percent of payroll, you can get there. You can get there very easily. There are several systems, statewide and municipal systems, that run at combined contribution rates, employee and employer, that are at or below that level, that provide benefits that are better than the 50 percent, in large part, and include disability benefits and include death benefits and include surviving spouse provisions for the continuation of benefit upon the death of the principal member. That can be done for 19.5 percent. That can be done in a reasonable way to ensure a taxpayer doesn't have future liability. I know that's a concern right now. With the down market of '07-08, everybody's concerned about liability and that the taxpayer has to pick up the tab for those shortfalls. Well, in reality, if you look around the country where that exists, it exists largely in those plans that were underfunded. It exists in those plans where there was not a continuing funding source, where there was a guaranteed source of income. Decisions were made. Decisions were made not to fund the plan. And they underfunded the plan or outright took pension holidays, then they had a stock market downturn. Yes, there's an issue. But at a conservative benefit level at 50 percent with 19.5 percent of payroll invested through your statewide retirement system, not individually invested by individual cities, which is the way your old 1983 plan, or prior to 1984, that's the way it was done. So you had small pools of money all invested by the local jurisdictions at very high fees. [LB552]

SENATOR DAVIS: I hate to stop you, sir. We're under a little bit of pressure of time. [LB552]

RON SAATHOFF: Oh, I'm happy to...yes, sir. I appreciate the time that you've given me. Like I say, in conclusion, I would just ask that you consider the DB option as well as the cash balance option in terms of your deliberations as the most effective, cost-effective way for both the taxpayers of Nebraska and also to provide meaningful benefits to your firefighters. Thank you very much for your time. I greatly appreciate it. [LB552]

SENATOR DAVIS: Any questions? Senator Kolowski. [LB552]

SENATOR KOLOWSKI: Mr. Saathoff, thank you for being here today and thank you for your testimony. Would you elaborate on the exclusion of not being involved in the Social Security system and the goods and bads of that particular (inaudible). [LB552]

RON SAATHOFF: Well, it's a huge issue for firefighters. I'd say nationally about 75 percent of firefighters are not participating in Social Security. So what you have here, as I mentioned earlier, your financial experts will tell you, you need 75 to 85 percent of your preretirement income to maintain your standard of living. Defined benefit plans were never considered to be the only plan. 401(k) plans were written into law as a supplement. They were never written into law as a primary retirement vehicle. They were simply a supplement. Your retirement financial planners will all tell you the same thing: it's a three-legged stool. You have a defined benefit pension plan, you have Social Security, and you have personal savings. That's the three elements of what make up a typical retirement to get you to reach that 75 to 85 percent. A typical municipal plan is not going to do that. You know, you're going to have to have these other elements. Without Social Security, your firefighters in Nebraska depend solely and completely upon their retirement benefit that they receive through their municipal government. That's it. They have nothing else. There is no other benefit for them. And I will say, in honesty, you are in the minority in terms of providing for retiree healthcare benefits. There are very few jurisdictions that provide none whatsoever. And I'm not aware of another, and I won't say there isn't one, because I haven't researched carefully all 50 states, but it is an anomaly to not at least provide the access to group care; meaning that, you know, obviously, if you pool it by group, you get better rates. A one-off rate of 55 or 60 years old is extraordinarily expensive and is just piggybacked onto the fact that the person has a very low starting point to begin with because of the plan design and the returns that they received on that plan at the time. [LB552]

SENATOR KOLOWSKI: Would your recommendation be to be in the Social Security system? [LB552]

RON SAATHOFF: It would not. I think the Social Security system is going to add about 12.2 percent of pay to the system that you have in place now. It is more efficient within a defined benefit placed system that's well designed to take that money and add to the benefits of that system. It's far more efficient. All of your folks are in Medicare. Everybody that was hired after 1986 is in Medicare. You still have some employees that are not Medicare eligible because they were hired before that law went into effect in '86. So unless they have outside qualification by outside employment, they are not qualified for Medicare. So those folks are going to have to rely on their retirement. They're in the old plan. I understand that. They're going to get the 50 percent benefit, but they're going to have to pay medical benefits for the rest of their lives without the benefit of Medicare. [LB552]

SENATOR KOLOWSKI: Thank you. Thank you very much. [LB552]

RON SAATHOFF: Sure. [LB552]

SENATOR DAVIS: Any other questions? Thank you, Mr. Saathoff. [LB552]

RON SAATHOFF: Thank you very much. I appreciate it. [LB552]

SENATOR DAVIS: Next proponent. And I would ask you to try to keep it brief, if you can. Yeah, can we run the lights? Four minutes. Everybody understands the light system. Green light means go; yellow, caution; stop. [LB552]

SCOTT KUEHL: All right. Thank you, committee and senators. My name is Scott Kuehl. I'm the captain of the city of Grand Island Fire Department. I'm also the union president for the Local 647 in Grand Island. What you heard before, the two testimonies before me were exactly right. What I am going to give you is a little bit of a living scenario of exactly what's going on. I've got people living the scenario that we've all talked about. [LB552]

SENATOR DAVIS: Mr. Kuehl? [LB552]

SCOTT KUEHL: Yes. [LB552]

SENATOR DAVIS: Can you spell your name for us? [LB552]

SCOTT KUEHL: I'm sorry. It's Kuehl, Scott, S-c-o-t-t K-u-e-h-l. [LB552]

SENATOR DAVIS: Thank you. [LB552]

SCOTT KUEHL: All right. One of the people that was talked about before, he was one of the first retirees that started right after 1983-84, put in his 25, 26, 27 years, whatever it was, something like that. He couldn't be here today; I wanted him to be here today. You know, my retired firefighter couldn't be here today because he's working, because he has to work. He's trying to live off of about $16,000 a year. He did take the annuity version of his money, his a little less than $300,000, because that would have been less than what he could have got. He was taking the risk to go out and invest, and he is with a local bank and he's trying to invest his money to make as much money as he possibly can. As you know, that's a little bit risky, but he needed the extra money to live on. He has to go out and buy health insurance. He's trying to buy a health insurance policy. He has told me that he has got a very high deductible plan. It's costing him $600 to $700 a month and it's continually going up. So that doesn't leave a whole lot of money left when you have to pay your taxes and you have to pay for health insurance. So he is...he couldn't be here today. Like I said, he's working. One of the things I get a question about a lot of times is, well, you guys can go out and get another job after you retire or you had jobs before you worked with the fire department or maybe you had a part-time job while you were with the fire department; so then you could qualify for that Social Security check and that would supplement your potential pension, retirement, whatever we're calling that today. Well, I did the research on mine. I started with the fire department when I was 27 years old. I worked from '86 or '88 when I started as a teenager out of high school, started paying into the normal Social Security system. And then in 1995 I started with the fire department. And I've got nothing since then putting in there, except for last year I went out and got a part-time job. The reason I did was...is that I had some credits beforehand but it wasn't enough to qualify. I still won't have my 40 credit hours of credits for the Social Security system. But if I continue to work my part-time job, making that amount of money that I made last year until I'm 67, I can get $800 a month. That's what it says on the Web site. I have...at that point, then, I have to do the federal government windfall elimination provision. That's going to take $400 of that money away because supposedly I had this barrel of money that I got in the pension system that really wasn't there. So what we have here is we have people backed into this corner, where we're calling it a pension, we're getting harmed by the federal government like it's a pension, but it's not a pension. I've got just backed into a corner. And this...well, it would also affect my wife if I was to pass away and she was to draw on it, she would even be eligible for less of that Social Security money. She would get my pension money and my lump sum money, but she would be reduced on that. So that's not an argument, a very valid argument, because we don't pay in very much in the beginning. If we do, it's a part-time job in the middle. And then after we retire at 55 or so, you can't work 40 credit hours to get there. [LB552]

SENATOR DAVIS: Go ahead and finish up. [LB552]

SCOTT KUEHL: Okay. All right. And what I would like to also talk about is, is we've got people in our department that are doing exactly what Ron said, is buying high, selling low. I've got one firefighter who has worked for 26 years. He's 57 years old. He wanted to retire at 55. He has got $300,000 in his account. We have another firefighter who is 46 years old, one year less on the job. He's got $400,000 in his account. Because this person is ten years older, he was more worried and more skittish about investing. He bought high, sold low. And any time there's a fluctuation in the market, he gets scared and jumps out of it. Firefighters can do a lot of things; we can't invest. And we need help. This problem needs your help. This building needs to help us out here because we can't do that. We need better people in charge of it. The cost, I just did the cost on our retirement plan versus another state that's around us and has a defined benefit plan, it's five to six times higher in Grand Island to invest my dollar than it is in the other states. It's not working. And I really would like you guys to take a look at this and talk to us, call me, whatever, because we need your help, because still, for the life of me, I can't figure out how we separated the first-class city firefighters from the rest of the firefighters in the state. I mean, that to me seems like some level of discrimination there. It's not a conversation you want to have in my house when I'm talking to my wife about how this is all going to pan out. It's not a very good conversation, so I'll leave it at that. If anybody has any question. [LB552]

SENATOR DAVIS: We'll take some questions. I'm going to ask you one, first of all. If we were to do something like this plan, do you think it would keep more of our firefighters local as opposed to being sort of the training ground that we heard about earlier, where people train in Grand Island, move to Lincoln and Omaha because the benefits are better? [LB552]

SCOTT KUEHL: Perfect timing and perfect question. I just got notified a little bit ago that we have a 24-year-old firefighter that's been in Grand Island for a couple of years. He's going to put in his paper to resign to go to Lincoln. And the biggest reason was, was benefits and retirement, because this is a topic of conversation at every meeting, at every kitchen table, that everybody wants to know what I'm doing when I come up here, and everybody can see what's happened to the past couple of retirees. And he's talked to his captain about it, and that's the major reason, and he's doing it today. And that's not uncommon. We have several that are going other places because of that. And firefighters, the numbers that are in here, I would say that I could, probably, in my union, the firefighters could put more skin in the game. We could put more money towards this to help this whole process out. I don't think that would be a problem. But we need some sort of a guarantee out there. I don't want somebody to take all the liability. We'd be willing to work with you if we have a chance to negotiate this out. But it definitely would help. We have a revolving door of people leaving for benefit reasons. [LB552]

SENATOR DAVIS: Thank you. Senator Conrad. [LB552]

SENATOR CONRAD: Thank you so much for coming down, Scott. I appreciate your time and I can appreciate how difficult those kitchen table conversations are, and so I thank you for sharing that perspective publicly and on the record. What I wanted to follow up a little bit about...because the previous testifier noted the incidence of disability and how that exponentially increases as our firefighters and first responders age. And it got me thinking a little bit about how that increases the risk in terms of public safety and those that you protect and serve. And I didn't know if you had any sort of information about that topic, anecdotally or otherwise, but I did just want to put that on the record and give you a chance to respond. [LB552]

SCOTT KUEHL: Yeah. We do, and this is not a comfortable thing to say. One of the retirees, wants to be a retiree, told me the other day that he at this point hopes that he gets hurt just bad enough to be able to still walk but so he can be pensioned off to get his guaranteed 50 percent. Because his number is literally in the low 20's right now and is the one I talked about before, where he's $100,000 less than somebody who's got ten years less in the job. Yeah, it...he is worried about becoming a liability to the other firefighters in the city of Grand Island, versus an asset. And everybody knows, as you get older you're just not who you were when you were in your twenties when you started. I mean, I would have thought when I was 20 I could say that. But now that I'm 46, I know that that's...would have been...I would have not been true in saying that. So, yeah, you are correct. It is a definite conversation. It's a definite decision-making by the employee in when should I go and what's holding me back. [LB552]

SENATOR CONRAD: Yeah. Yeah, because, really, we have to weigh and balance the different competing public policy issues that are before this body. I think that we have to give graded...we can save a few pennies in one instance, but what does that really cost us in terms of life, health, and safety not only for the first responders but also for the citizens that they serve. So thank you very much. [LB552]

SCOTT KUEHL: Thank you. [LB552]

SENATOR DAVIS: Any other questions? Senator Mello. [LB552]

SENATOR MELLO: Thank you, Senator Davis. And, Scott, thank you again for your testimony. I was at the interim study that the committee heard later this fall in regards to where this issue was first raised. And just for the record, I think it's admirable. Once again, I know we'll probably, no doubt, hear from the municipalities as well, but hearing that the firefighters are more than willing to sit down and negotiate...and even the fact of considering putting more into a system to make it a more worthwhile benefit for you and your members is in good faith, to say the least. So it's good to hear that you guys are willing, obviously, to look beyond just LB552 and look at any other solution that we may need to do to try to provide a secure retirement for you and your members in Grand Island and other first-class cities. So thank you. [LB552]

SENATOR DAVIS: And other questions? Thank you. Appreciate your coming down. [LB552]

SCOTT KUEHL: Thank you. [LB552]

SENATOR DAVIS: Next proponent. Welcome. [LB552]

JOHN CORRIGAN: Good afternoon, Mr. Chairman, Mr. Vice Chairman, and members of the committee. My name is John Corrigan, C-o-r-r-i-g-a-n, and I am an attorney appearing on behalf today of the Nebraska Professional Fire Fighters Association. And I have had the opportunity to represent the firefighters in collective bargaining and in disputes with employers. But a lot of times we run into this position on the part of the employer that we're not going to deal with you on pensions because the statute says what we can do, and we can do no more and we can do no less; we're not going to negotiate retirement. Which drives the discussion to the Legislature: how can we fix the system? And one fact is that...and I don't think this can be disputed, is that this current system is not delivering the promise that the Legislature made, is we want you to get as close as you can to 50 percent. But they passed all of the risk on to the employee and charged them a lot more money in terms of how you were going to fund that and the costs. And you've heard that testimony today. How do we know that that's the case? Just in the city of Grand Island alone, you have pre-'84 people, meaning that they worked pre-'84. They've been making these contributions since '84 and then they have the value of their account. But the city has to give them a 50 percent benefit. And over the last...the last eight people that have left who were pre-'84 people, the average amount of money the city had to come up with to get them to 50 percent was $180,000 per person. That's on top of the contributions that have been going into that fund for several years. Now, LB552 is really intelligent and a good way to look at it, from my perspective, because you have the economy of putting people into a system that exists now and how would we get there. You have to remember the wage replacement benefit under the state's prior plan was not sufficient. And the Buck and Associates study done in 2001 or 2002 demonstrated that we were not saving enough money to put people in a position that they would be at even 70 percent of their income when they retired. And so there had to be some way to get there. In this situation, we're not even getting 25 percent or 26 percent. So that's a huge problem. One thing about the proposed bill, we've heard some concerns about it, and, like, I think, to reiterate, we're willing to talk about it. Because I think, as Mr. Saathoff said, if you're putting in 19 percent, you can do a lot better than what you're doing now. In fact, you can do a DB plan and you don't have...then, hopefully, you won't see...and I can tell you in Lincoln and in Omaha approximately 20 percent of their current rosters are people who came from first-class cities outside those municipalities. But we're willing to talk about other ways to accomplish this, but we have to do something, and the time is of the essence, from our perspective. This current bill, though, make no mistake about it, it's not costing the cities any more money. It doesn't change the contribution rates. It probably would save them money, in the sense that they're not administering the benefit anymore. It doesn't put people into Social Security. It simply has a provision in there that says that the benefits will not be offset by Social Security. And there is, as Mr. Kuehl mentioned, a windfall provision to prevent people who are in non-Social Security employment to get 100 percent of their Social Security. They will reduce it. So the attempt here is, obviously, we don't want to go on under the system any longer than we have to. We'd like to rectify it. If the feeling is, well, let's add a bunch of other people too; it's not fair because you're going to give the firefighters a better deal than you give everybody else. Well, my argument to that is, just because you're holding everybody in the bottom of the barrel doesn't mean that you shouldn't let them up, and if you want to let other people up, too, and there's a way to do it, we're fine with that. We're not opposed to...this isn't just a firefighter problem. It exists in public safety generally throughout the first-class cities, and it can be rectified with the money that's going into these plans at present. With that, I would answer any questions you may have and I thank you for your favorable consideration of this issue. [LB552]

SENATOR DAVIS: Thank you, Mr. Corrigan. Can you tell us how many individuals would be involved in this? [LB552]

JOHN CORRIGAN: We think best estimate is about 280 professional firefighters throughout the state of Nebraska. That is, there's 30 first-class cities; there's probably 15 of them that have paid professional firefighters. And some of those might be, you know, just one guy: a paid fire chief that runs the volunteer department. But we think about 280. [LB552]

SENATOR DAVIS: Thank you. Any other questions? Thank you for coming, Mr. Corrigan. [LB552]

JOHN CORRIGAN: Thank you. You're welcome. [LB552]

SENATOR DAVIS: Next proponent. Any other proponents? Opponents? [LB552]

DAN HOINS: (Exhibit 1) Thank you, Senator Davis, members of the committee. My name is Dan Hoins, city administrator for the city of Papillion. [LB552]

SENATOR DAVIS: Could you spell your name, sir? [LB552]

DAN HOINS: I'm sorry. H-o-i-n-s, first name Dan, city administrator for the city of Papillion. Today I'm representing the United Cities of Sarpy County. The United Cities of Sarpy County have met and discussed this bill and have issued a letter of opposition that's making its way around to you. And I would just like to preface my comments with the disclosure that I'm one of those municipality guys Senator Mello talked about coming up to oppose this. But, in full disclosure, I personally have a background in law enforcement; retired from law enforcement not with a defined benefit but a defined contribution plan in the year 2000. And, philosophically, as we discussed this at United Cities, what we would ask the committee to consider is a more holistic approach to municipal employees, because I can't and won't take issue with many of the reasons that the firefighters want, need, and probably deserve a better pension. But in my position I will tell you that we have taken for many years one of pension equality in the city of Papillion. And whether you are a police officer who today puts in 18.7 percent versus the 19.5, that's less; and that's even after the .5 this body granted them a couple of years ago in the Legislature. We've got city public works employees who climb in the middle of a six-foot hole to deliver water during a storm. It's dangerous work across the board in municipal government. And so we would ask you to consider expanding the scope of whatever you do to all municipal employees and giving us that authority. Because one of the testifiers before me was correct, we are limited in what we can do when we go sit at the collective bargaining table, that, as you're well aware, the state law says you can do this and no more. And so we don't have the option. And that does really--I sit at that table--that does shut that discussion down. But if the Legislature or this committee decides that, you know, it's something you want to look at, to broaden that. I do note the additional costs and I'm not here to debate it. In fact, I mention in my first paragraph that, you know, reading 45 pages of new pension laws is difficult even for those of us that have a lot of resources. And so I'm not sure that we...and it was only this morning that I saw the fiscal note and the statement of intent. So I would add that we'll have discussions in good faith; but the way it's written, I believe it says that, you know, it'll be page 40, I think, line 30, I noted in there that Social Security may be in play here. And if that's the case, that's $174,000 a year to the city of Papillion just for the firefighters; over a half a million if you give everybody 6 percent. And then the issue of Social Security: I think it's important to clarify, too, that they're not part of the Social Security system but they are paid an additional percentage to invest it themselves. So the percentage of money actually, again, is more for firefighters than any other municipal employee. I'd be happy to answer any questions. I see my light is yellow and I'll respect that. [LB552]

SENATOR DAVIS: Thank you, sir. Any questions? Senator Conrad. [LB552]

SENATOR CONRAD: Thank you, Senator Davis. Thank you so much for coming down. And the gist of your testimony, if I understand it correctly, is that it sounds like there's a lot of potentially common ground before us on these issues, that there's an acknowledgement that maybe the existing system isn't working appropriately for everyone and a willingness to move forward in good faith. And is that a fair assessment of your position? [LB552]

DAN HOINS: Yes. That's very fair, Senator. [LB552]

SENATOR CONRAD: Okay. Very good. I'm glad to hear that. Thank you. [LB552]

SENATOR DAVIS: Senator Mello. [LB552]

SENATOR MELLO: Thank you, Senator Davis. And, Dan, thank you for coming down. I know we work on a lot of issues together and I can respect the United Cities of Sarpy's initial opposition. But I think Senator Conrad just kind of alluded to the point that I was going to ask, is, aside from the philosophical issue of exploring, I would say, and kind of a revamping, so to speak, of the public safety pension, the issue at hand is not...there's no real disagreement that the current system with what firefighters or with any public safety officers are paying in, that's not the issue at hand, from the Cities, is the amount that's being put into the plan. Would that be safe to say? [LB552]

DAN HOINS: That's correct, Senator. [LB552]

SENATOR MELLO: So is it more just...I mean, and you heard, I think, a previous testifier from the city of Grand Island, and no doubt if we talked with, perhaps, public safety officers from the city of Papillion, there is an opportunity, even aside, and now I realize that municipal...I was not under the same assumption you were, reading LB552, that it was going to put firefighters back into Social Security. So aside from that, which I believe was never really the intent of the legislation, would...I mean, I would hope that the United Cities would be willing to sit down with Chairman Nordquist and other members of this committee to try to find a way to deal with what appears to be more of a municipal management problem of the pension issues, in the sense of trying to ensure that 19.5 percent is yielding what the Legislature originally proposed back in the early '80s, of trying to provide that 50 percent return on investment of what their wages were for public safety officers. [LB552]

DAN HOINS: That's correct, Senator, but...and I will tell you, and I'm going to branch off a little bit and speak as city administrator now, because I'm the guy in the room at the negotiating table, whether it's police, fire, or public works, representing the mayor and city council. I think on a far broader issue what we're talking about here is, is one of risk and the transfer of that risk. And I allude to that in my letter, that whether it's LB552 or a defined benefit program that they ask you to consider, you're transferring that risk from the individual employee, too, to the taxpayers at large. And even on the fiscal note I see that, and I would I think I need to put this on the record, too, that the state of Nebraska would make up for any actuarial differences. I read that, and I may be reading it wrong, again, that the state of Nebraska is going to fund the shortfalls for first-class city pension firefighters if this bill passes. And I'm not sure if that is the intent, but that's the way I read the fiscal note, not that...my sense tells me that you're going to want the city of Papillion or Grand Island, whatever, to do that at the end of the day. But I don't read either the bill or that doing it. But for every story that we can talk about in Grand Island, though, I think I've read, and I'm sure many of you have, the issues of public safety defined benefit pensions bankrupting municipalities in states across America. And so we've got these two extremes, I think, Senator, that we're willing to sit down and meet in the middle, and always you hear us many times talk about local control, to have some ability to do that. But... [LB552]

SENATOR MELLO: Dan, it's safe to say, though, that the bill, though, is not a defined benefit plan. I mean, I understand that there's always this allusion to that, to defined benefit plan retirement system is going to cause massive potential fiscal problems. But the reality is the cash balance plan that's laid out in LB552, are you aware of the state ever having to make up on the state's cash balance plan for state employees or county employees, ever, in regards to any risk or shortfall that happens with our employees or county employees? [LB552]

DAN HOINS: No, Senator, I'm not aware, and I'm not aware of the plan, for the record. And I only address the defined benefit issue because they asked you to consider that.

[LB552]

SENATOR MELLO: Okay. [LB552]

DAN HOINS: I didn't see that when it came in, but they certainly asked you to consider that. But I do, again, in the fiscal note, would want clarification that it is the state of Nebraska that's willing to make that actuarial difference up and not the city of Grand Island or Papillion or La Vista, whichever it may be. [LB552]

SENATOR MELLO: Okay. Thank you, Dan. [LB552]

SENATOR DAVIS: Thank you. Any other questions? Thank you, Mr. Hoins. [LB552]

DAN HOINS: Thank you. [LB552]

SENATOR DAVIS: Next opponent. [LB552]

DON WESELY: Mr. Chairman and members of the Retirement Committee, I'm Don Wesely, W-e-s-e-l-y, a registered lobbyist on behalf of the cities of Hastings and Kearney, who have asked me to testify in opposition. But I'd just say ditto to that. There is a serious problem. And I was around in '83 when we passed this. I was on the Retirement Committee and became Chair after the end of the session. And it's disappointing to see some of the results. But I think there's just a little concern about how this all fits together, and there's a willingness to talk about it, so look forward to doing that. [LB552]

SENATOR DAVIS: Senator Conrad. [LB552]

SENATOR CONRAD: Thank you, Don. I appreciate your willingness to sit down and continue what I think is a constructive dialogue that Senator Nordquist has helped to further along with this legislation. But it just kind of piqued my interest, and you may be caught in the cross hairs after the previous testifier, so I appreciate it if you don't have... [LB552]

DON WESELY: That's fine. [LB552]

SENATOR CONRAD: ...the information off the top of your head. But there was also a discussion about the policy considerations related to local control in the existing system versus this proposal, which I can appreciate and respect. And, as you know, those issues and policy considerations carry a lot of weight in this body when we're making decisions. But do your clients kind of share that same consideration about the existing importance of the local control factor? [LB552]

DON WESELY: Yeah. And having gone through negotiations on some of these issues when I was mayor, the consideration is always, you know, if you do this for somebody, who comes in line afterwards? And so that's why having a context of everything is kind of critical, and having guys like Dan and others who are actually there working out this situation, it'll make it work better in the long run, so... [LB552]

SENATOR CONRAD: And I'll pose the question to you for your clients, and maybe the previous testifier can follow up with us off the record. But have your clients taken any steps to improve the current situation with the existing local control factor? [LB552]

DON WESELY: That's a very good point, and I don't know the answer to that. [LB552]

SENATOR CONRAD: Okay. Let's just... [LB552]

DON WESELY: I will say part of the problem is with the municipal aid cuts and the Municipal Equalization Fund and kind of the concerns about where things are, there...I think that's part of the concern, so... [LB552]

SENATOR CONRAD: Okay. Very good. Thank you. [LB552]

DON WESELY: Yep. Thank you. [LB552]

SENATOR DAVIS: Thank you, Don. Appreciate it. Next opponent. Welcome. [LB552]

LYNN REX: Hi. Senator, members of the committee, my name is Lynn Rex, L-y-n-n R-e-x, representing the League of Nebraska Municipalities. And very quickly, I'd just like to share with you the background, as with the police pension system. It started in the '60s, when the Legislature mandated an unfunded mandate on first-class cities in the state of Nebraska, did not put any money into it. You did not do that with the judges; you did not do that with the teachers; you did not do that with any other group than the first-class cities. So they started out in the hole, with huge unfunded mandates. And to the extent that some cities had older officers, whether they're firefighters or police officers, then they had a much larger unfunded liability than those that had newer or less experienced officers. That being said, what happened over a period of time is that some cities thought they were fully funded. They had investment advisors between the '60s and 1983 that told them they were fully funded. Other cities thought that putting in the state-mandated amount, which the state...even then, the state had said the cities are going to contribute X amount, the officers will put in X amount. They thought that was sufficient. Other cities thought that, well, they would just pay it on the back end because it's a promise; a defined benefit plan is a promise and simply that. In 1982-83, we had cities with such huge unfunded liabilities that we looked at what could we do to try to address this. And we sat down and negotiated with police and fire, police first and then fire. In both instances, the police officers and the firefighters wanted local investments. My predecessor, who was David Chambers, executive director of the League then, shared with them that he thought that this should be done not run by the state but on a statewide pooling basis, but not run by the state. In other words, do it together. Do it as one, for the reasons that you'll have less administrative costs, it's a better way to do business, and they would have a better outcome. Because again I was very pleased to hear, not just at this hearing but the prior hearing, when you're putting in 19.5 or roughly 18 percent of retirement, that's probably more than any of us sitting around the table are getting. And I can assure you that that is sufficient for a 50 percent retirement benefit. However, when you're negotiating, you have to make compromises, and the compromise we made was that it was extremely important to the police side and the fire side that they make those investments locally; and they're not just doing them independently, they are required under state statute to have a professional investment advisor. They each hire their own invest...each city, and it's not the city but the retirement group. And it's not controlled by the city. And that's...Senator Mello, when you mentioned the concern of municipal management of these funds, I guess I would redirect that. This is management by the firefighters, it is management by the police officers, and the cities are a part of that, but it's controlling. And so in terms...if I was a firefighter, my local investment committee will say, here are the options I have as a firefighter from which to select; and that's the basis on which they can make their determination. In terms of Social Security, during those negotiations it was evident from the firefighters, because they shared it with us, that they did not want to be part of the Social Security system. I, frankly, think, kudos to them. I don't particularly want to be part of it now either, so...but basically they didn't want to be part of that system. And I know my light is turning here quickly. But that is why you'll note that the firefighters have a greater benefit from the city in terms of their amount than do the police officers, because we made up that difference on the Social Security side, with the firefighters side. So we are strongly opposed to going back to a defined benefit plan. You will note from anybody that's looking at this across the country, you are not having folks go to a defined benefit. You're having public sector systems look seriously at the kinds of plans that are being proposed in LB552 and/or a defined contribution plans. And that's happening all over the country. So with that, I would strongly recommend that you not go to defined benefit; certainly, we would oppose that. However, in terms of looking at issues like this, we are concerned the bill itself says, as I read it, that the state does make up the difference if you would go to this kind of a plan. We do have cities that are still concerned about it. And as with the police side, we've heard from some folks that tell us that their folks, they don't believe their local firefighters want to have this done on a statewide basis. And that is at play as well. My light is red, but I'd be happy to respond to any questions that you might have. [LB552]

SENATOR DAVIS: Thank you, Lynn. Any questions? Senator Mello. [LB552]

SENATOR MELLO: Lynn, I'll be quick, and I'll direct some of my concerns with the letter. As I reread the letter from the United Cities of Sarpy County, I can address some of my concerns with some of the language they use. The reality is this, though, from what we've heard from both the interim study and today with what currently is being done, the state is going to pick up the cost eventually through Medicaid, when firefighters are being placed in nursing homes at some point in their life and we're picking up all the medical care coverage. So the question at the end of the day is, how are we going to address what we know is going to be a fiscal issue, whether it's done right now in conjunction...I think, no one is asking for the cities to pay any more into the pension system. We just need to figure out a better way to do it, which I believe, with Senator Nordquist's original bill and the intent in discussing this with him, is what LB552 is intended to do. It's not to move us towards a defined benefit plan. But the reality is, whatever is currently being done with the first-class cities is not working. I mean, is that safe to say that...I mean, I don't want to put you in the position to speak on behalf of all first-class cities right now without speaking with them. But the reality is, is we've heard...this is the second public hearing we've heard on this issue... [LB552]

LYNN REX: Yes. [LB552]

SENATOR MELLO: ...and the reality is, is that we're revisiting the same issue we heard before, which is what currently is being done just isn't producing the results that was negotiated back in the early '80s. [LB552]

LYNN REX: Right. [LB552]

SENATOR MELLO: And, I mean, one way or another we have to move forward on this in one form or another. Would the League...I mean, is it safe to say the League is willing to look at other ideas that may be within LB552 or other ideas outside of LB552 to try to rectify what we know is a looming fiscal issue, whether it's the cities and/or at the state level, in regards to picking up future Medicaid costs from retirees? [LB552]

LYNN REX: Well, especially in light of Dan Hoins's testimony, I think it's very clear we're willing to sit down and talk. I think it's also, though, extremely important to underscore the fact that when the League came forward with a negotiated agreement which resulted in passage of LB237 in I believe it was 1983, which took effect in January 1, 1984, as well as LB531 on the firefighter side, that the contribution levels then would have put in the appropriate amount. Now I guess one could look back at that and say maybe the League should not have compromised and said to them, no, we are not going to go ahead and do local investments; we are going to do a statewide pooling and we're trying to minimize the administrative costs. But negotiations involve compromise, and that was something that was extremely important to them. That was number one on their list. [LB552]

SENATOR DAVIS: Thank you, Lynn. Senator Conrad. [LB552]

SENATOR CONRAD: Thank you, Lynn. Always appreciate hearing the historical perspective from the League, and of course their interests are well represented by you. And so it's always a pleasure to hear from you. But I completely agree with you that compromise is critical when it comes to negotiations. But one place that I don't agree that compromise is appropriate to inject itself into the mix is when it comes to public safety. And I think you were present when you heard my questions to some of the first responders that were here before, not only in regards to their potential for injury or health and safety, but also for our citizens that they protect. And I'd like to hear your perspective on that regard, because I think that's something, again, is probably a common-ground issue, that neither of us would want to see a compromise when it comes to public safety. [LB552]

LYNN REX: You mean the safety of the officer? [LB552]

SENATOR CONRAD: And the public that they protect. [LB552]

LYNN REX: Absolutely. I think that's extremely important. That also, though, applies, as Dan mentioned, the most dangerous job, if you look on the municipal side, is on the utility side. So, now that being said, believe me, I don't have the courage to run into a fire nor do I have the courage to be on the receiving end of a bullet. So I'm not here to tell you that that is something that I'd be prepared to do. I have great admiration for all these folks, and my dad is a retired police officer, so I fully understand that. [LB552]

SENATOR CONRAD: Great. Very good. Thank you. [LB552]

LYNN REX: But we don't want people put at risk at all. But I just think it's extremely important, for the record, to understand that the amounts that were put in here are adequate. And so in terms of looking at a different format and a different way of looking at that, we're certainly willing to sit down with the first-class cities and the interested folks and sit down and talk about that. And I think that's what Dan Hoins was saying as well. [LB552]

SENATOR CONRAD: Great. Thank you. [LB552]

SENATOR DAVIS: Thank you, Lynn. We have about five minutes before we need to wrap it up; and the next proponent, or opponent, I should say. [LB552]

LYNN REX: Thank you, Senator. [LB552]

SENATOR DAVIS: Thank you, Lynn. Anyone testifying in the neutral position? And if you could be brief, I'd appreciate it. [LB552]

PHYLLIS CHAMBERS: All right. Good afternoon, Senator Davis and committee members. This bill is proposing a new plan for the firefighters. [LB552]

SENATOR DAVIS: Your name? [LB552]

PHYLLIS CHAMBERS: Excuse me? [LB552]

SENATOR DAVIS: Your name? [LB552]

PHYLLIS CHAMBERS: My name is Phyllis Chambers. I was being too brief, excuse me, P-h-y-l-l-i-s C-h-a-m-b-e-r-s, and I'm the director of the Public Employees Retirement Systems. This bill would create a new plan for the firefighters of the first-class cities, and it would be administered by the Public Employees Retirement Board and NPERS. We have not created a new plan for a new employee group since the county employees of 1965. We did create new plans for the defined contribution plan and the cash balance plan option for the state and county. But those were not new plans, in the sense that they were assets that were transferred from existing employees. They were reported by existing employers through established relationship with NPERS and Ameritas. So we're talking about a whole new ball game when you're talking about brand-new employees and brand-new employers. Creating a new plan would require substantial analysis by NPERS, defining the rules, programming, planning, and implementation. It is a complex process. With NPERS's current workload, we would need at least two years for implementation of a new plan. Our fiscal note estimates it would cost about $336,000 the first year and $151,000 the second year. The cost includes three new employees, one new board member. And additional costs would include IT programming, employee and employer education, recordkeeping services, an actuarial study, annual evaluations, legal costs for IRS determination letters, auditing, and financial reporting. And since this plan has no connection to any of our plans, the cost would need to be paid for by the state General Funds or the city's. NPERS staff and plan funds could not be used for developing the new plan. Here are some of the issues that we think would need to be addressed: What are the roles and the authorities of the state and the cities related to the plan? Would all the first-class cities participate, or would some opt out? Is the plan mandatory or optional? Is it for existing employees or new hires, for full-time or for part-time? Would effective dates be the same or different for each city? Per the compliance audit, there would need to be a limited time period for members to enroll in the plan. The time period could not be left open for members to join. Would the cash balance rules be the same for firefighters as for the state and county, except for contribution rates investing? It's my understanding the retirement contributions would be paid on compensation base only, and not overtime, expense allowances, or other fringe benefits. There would also need to be specific rules for rollovers: what is acceptable, when, and for what purpose. Rollovers would need to be limited to a specific amount of time, like an initial period of time when the plan becomes effective. It took NPERS 18 months to create the DROP plan. So this would take far longer to develop, define, and program the plan rules and procedures, hire and train new and existing NPERS staff, prepare financial reporting processes using the new GASB rules, promulgate rules and regulations, develop employer processes and establish reporting procedures for the cities, Ameritas, and DAS, and develop an employee handbook and employer manuals, conduct employee and employer training at various locations. And finally I would just comment, we currently have an unfunded liability of $2.4 billion for the three defined benefit plans and the two cash balance plans. The unfunded liabilities as of the last actuarial reports are 2.25 for the school...$2.25 billion for the school, $79.5 million for the Patrol, $11.5 million for the judges' plan, $69.3 million for the state cash balance, and $19.5 million for the county cash balance plan. Adding another cash balance plan would potentially increase the unfunded liability of the state. And I would be happy to answer any questions. Also, the Retirement Committee is willing to work with...we would be willing to work with the Retirement Committee on assisting them with any information regarding the plan. [LB552]

SENATOR DAVIS: Thank you, Phyllis. Don't you have any good news? [LB552]

PHYLLIS CHAMBERS: Well, I thought that...it's factual, so... [LB552]

SENATOR DAVIS: Any questions? [LB552]

PHYLLIS CHAMBERS: Great. Thank you. [LB552]

SENATOR DAVIS: Any other neutral testimony? Senator Nordquist. [LB552]

SENATOR NORDQUIST: In light of the time, I'm going to waive today. [LB552]

SENATOR DAVIS: We'll close the hearing, then. Thank you very much for coming. [LB552]