[ANNUAL REPORTS]

The Committee on Nebraska Retirement Systems met at 12:00 p.m. on Wednesday, March 27, 2013, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on annual reports of Nebraska Public Employees Retirement System and Nebraska Investment Council. Senators present: Jeremy Nordquist, Chairperson; Al Davis, Vice Chairperson; Danielle Conrad; Russ Karpisek; Rick Kolowski; and Heath Mello. Senators absent: None.

SENATOR NORDQUIST: I am Jeremy Nordquist, District 7 in downtown and south Omaha, and Chairman of the Retirement Systems Committee; and welcome to our committee briefing this afternoon. We have two annual reports we'll be receiving. We will just be having the two directors testify to those reports. There won't be our testifier sheets or anything for...since there will be no other testimony. Please silence your cell phones so we don't get...pick that up in the transcription. I'll let our committee members introduce themselves. Senator Russ (Karpisek), go ahead.

SENATOR KARPISEK: Russ Karpisek from Wilber, District 32.

SENATOR KOLOWSKI: Rick Kolowski from the Millard-Elkhorn area, District 31.

SENATOR NORDQUIST: Our Vice Chairman, Al Davis, will be coming, and as well will Senator Mello.

SENATOR CONRAD: Danielle Conrad, north Lincoln.

SENATOR NORDQUIST: To my left is our committee counsel, Kate Allen; to my far right, our committee clerk, Laurie Vollertsen; our page is Matthew and he can help hand out anything that hasn't been distributed already. And with that, we will go ahead, and I believe...shall we have NPERS up first? Yes. Welcome, Phyllis. Welcome.

PHYLLIS CHAMBERS: (Exhibit 1) Thank you. And do you want me to spell my name?

SENATOR NORDQUIST: Please go ahead. Probably for the record, for the transcribers, yeah. Thank you.

PHYLLIS CHAMBERS: All right. Okay. All right. Well, good afternoon, Chairman Nordquist and members of the Retirement Committee. For the record, I'm Phyllis Chambers, P-h-y-l-l-i-s C-h-a-m-b-e-r-s, and I'm the director of the Nebraska Public Employees Retirement Systems. You should all have a handout, a copy of our annual report, at your place, and this has detailed information about all six of our plans. It is prepared in a similar format as we have in our previous reports. You'll find it a valuable resource to keep handy. Anytime you want to look up quick information about the plans, it will be at your fingertips; and if you need an extra copy, please let me know. I've also provided electronic copies. I think Kate has, so that you...we fulfill the statutory requirement of giving you electronic copies as well. I'd briefly like to go through the report with you, especially for the benefit of the new members on the committee. Today I'll be talking about the administration of the Retirement Systems, which is our core responsibility of the PERB and our agency. And it is a great pleasure to report to you that the administration of the Retirement Systems is in excellent shape. So if you want to start with the report. Give Senator Mello a chance to...there you go. Okay. So if you want to open the report, the first page has a listing of our board members and all of the plans that they represent. And I'll try to go through this fairly quickly with you. The third page talks about the Public Pension Coordinating Council, and this is a public pension standards award that we voluntarily applied for. It's a coalition of the three largest public pension associations, NASRA, NCTR, and NCPERS. And they have some voluntary standards for public pension plans, with administration and funding. We applied for it and, along with 65 other retirement plans, we received an award for it this year, this past year, and also in 2011. So we put that in our report this year. Pages 1 through 3 talk about our mission, our goals, and statutory authority and the organizational structure. On pages 4 and 5 are some of our accomplishments this year that have led to our success. And I'd like to briefly highlight some of those. The total number of member accounts in the school, judges, Patrol, state, county, and deferred comp plan grew to a record 117,331 accounts this past year with assets of $9.8 billion at the fiscal year end. We completed the cash balance election for state and county members. That was authorized by the Legislature last year. We developed an automated process for members to go on-line to elect to transfer, or they could fill out written forms and send those in or mail them to us. There were a total of 1,630 members who elected to transfer to cash balance. The breakdown of that is, 1,264 were in state and 366 were in county who elected to transfer. And on January 2, we transferred $271 million in assets from the defined contribution plans to the cash balance plan. That brought our total cash balance assets up to $1.26 billion for both of the plans, and it leaves about 4,800 state employees still in the defined contribution plan and 2,100 county employees in the defined contribution plan. Assets for both of those groups are about $700 million now in the defined comp plan. Administratively, we had a number of operations that we've listed in our accomplishments. The call center answered over 37,000 phone calls and met with over 2,700 members in our office. The benefits specialists processed 1,730 annuity retirements, and we paid monthly benefits to over 20,000 members each month. We've issued refunds and rollovers to over 4,600 members, distributing over $534 million to our members in 2012. The education services department traveled the state and provided 43 different retirement seminars to over 2,800 members. We typically present the retirement seminars to the school members in the spring and the state and county members in the fall. And they're actively, right now, out giving seminars to the school members this spring. Data Services processed all our forms. We processed over 16,000 beneficiary forms; 8,800 changes of information; 2,700 tax withholding forms; and 3,000 direct deposit forms; and a lot of incoming, outgoing mail, and scanning in between times. Our IT department provided the maintenance and support for our system, and they have now for the past two years, and they've coordinated that with the Office of the CIO. But we are doing that internally instead of paying for an outside vendor. We also trained one of our IT members last year to do the IBM server software upgrade, and he was able to do that and save our agency about $100,000 over what the estimate was to have an outside vendor come in and do it. I'm proud to say that we operate a very lean and efficient agency with only 50 employees. Last year our agency budget was $5.1 million, and that is approximately five basis points, which is relatively low compared to other state agencies or state retirement systems in our peers. If you look at page 6, you'll see our goals for the year, our action plan. We plan to transition the actuarial services to the new actuary, from Buck to Cavanaugh Macdonald, effective July 1. We will be implementing the new GASB changes, which are the Governmental Accounting Standards Board changes for public pension plans, financial reporting that's coming...that will take place this year and next year. We plan to complete the CEM Benchmarking study, which compares NPERS operations with our peers. We are going to transition the PERB from a paperless board meeting to electronic tablets. We are looking at implementing all the changes that are made this year in the Legislature for 2013 that comes from the Retirement Committee and is passed. And we will complete the IT server conversion of our hardware over to virtual servers with the OCIO. That will also help us when we move to the new, secure Assurity Building. We are working with AS Building Division to move our offices to the 1526 building. And I do want to mention to you that the PERB and I have some serious concerns about the move to the old Assurity Building. Our biggest concern is adequate parking for the members. NPERS needs to be accessible for the members. When the members drive all the way from Scottsbluff and Imperial and O'Neill and Red Cloud and Omaha, they need to be able to have a place to park and not drive around looking for parking. And those parking needs haven't really been firmly established yet, so we're still waiting to hear on that. Secondly, we have a concern that we have not been allocated enough space for the agency. They gave us the same amount that we have right now, but there is no room for growth. And I realize we're trying to keep expenses down and not grow government, but I will have to say that our numbers are not shrinking, they're growing. And, in fact, we have a new set of members, and those are the beneficiaries of our members. So we have both members and beneficiaries who are living longer and we're servicing more people in our agency. And thirdly, I guess we have a concern about some of the facilities, the rest room facilities and the break room facilities, and we wanted you to be aware of these issues in case they come up in the future. If you would turn to page...also the report has legislation for the last seven years listed, in case you want to look up something. There's also funding information on pages 10 through 13. NPERS worked with the actuary last year on actuarial reports and funding projections for the defined benefit and cash balance plan. Our funded ratios as of the fiscal year-end were...the school plan was 76.6 percent; the Patrol was 78 percent; the judges, 96 percent; the state cash balance, 91.5 percent; and the county cash balance, 92 percent. The actuary performed a five-year experience study, which recommended changes to our economic and demographic assumptions. The actuary also recommended the assumed rate of return used in the DB plans be lowered from 8 percent to 7.75. The PERB is reviewing that matter and will be pending legislation of what changes might be made to the plans this year. Also we want to look at what our investment returns will be June 30, the fiscal year-end. And then also once we get the new actuary on board, we want to consult with them about their recommendations for the assumed rate. The report also has a summary page...summary pages on 14 and 15. I use this a lot when I want to look at what are the retirement plan assets, what are the membership, and how they're broken down per the different plans. And you've got a four-year history of assets and summary of active, inactive, and retired members as well as the activity that took place last year for enrollments, refunds, and retirements. Also on page 16, you'll find our operating budget. It gives you the breakdown of how that's allocated for the different plans. And then, more information about education services, about newsletters, our Web site, and our handbooks, and all the different information we provide to members, as well as some additional services. On page 20 are our internal controls. And I think the Retirement Committee can rest assured that the PERB and NPERS exercise careful control over agency expenditures, over our financial reporting and our governance. Last year, we completed a ten-year compliance audit to make certain we were following the federal and state statutes. We received an annual audit by the State Auditor for the five retirement plans. They do that every year, and then the deferred comp plan is audited once every three years. Our financial statements represent accurate and reliable, transparent information about the plans. Considering the size and scope of our plans, only a small number of minor issues have been reported in our annual audits. An NPERS internal audit team also conducts paper audits of our employers. They're looking at our members being put in the plan who should be, are there people in the plan that shouldn't be, and are the contributions accurate and reflecting what should be attributed for their service and their hourly reporting. So last year, we audited 28 employers and 30...28 school employers and 30 county employers. And we try to do so many every year so that about every five years we're getting to everybody. Then your report, lastly, contains appendices that have more detailed information about the investments offered for the defined contribution, deferred comp, and DROP plans, and lists the 13 different investment choices that they have and the returns for the last ten years. Also are listed your cash balance credited rates and dividend history. Appendix B has information about the benefits that are paid monthly to the members and it shows them by county and by state. And it's interesting to note that 89 percent of the benefits are being paid to residents of Nebraska, so that money is staying in the state and in our local communities. Appendix C has general brief summaries of each of the plans, and, finally, Appendix D has the board policies listed. Board Policy 1 are the duties of the board itself. Board Policy 2 covers code of conduct for board members. Board Policy 3 are the director's duties and limitations. And Policy 4 covers the legal counsel and internal auditor. And then there are a number of other miscellaneous board policies. I would like to comment about the PERB and just to say that we do have a sensational board representing all of the retirement plans as well as the public. They perform their fiduciary duty with the highest regard and commitment to the Retirement Systems and the members. And I would like to invite each of you to attend a board meeting if you have the time or if you just want to come over and meet the board members and stay for however long as you want. Our board meetings are on...generally on the third Monday of every month, and our retreat will be this summer in July at Nebraska City. In conclusion, I would like to thank the Retirement Committee and the legal counsel for your commitment and support of NPERS and our members. You have a very difficult job, especially with the funding and dealing with legislative changes this year. I do want to let you know that we want to communicate with you and provide you with the information that you need regarding the retirement plans. The PERB and I also want you to know that we appreciate all the work you do for the Retirement Systems. And I would be happy to answer any questions that you have.

SENATOR NORDQUIST: Thank you, Director Chambers, and thank you for your willingness to continue to communicate with this committee and our staff. We're...we feel we have a great relationship and can always have an open dialogue about issues when they come forward, so let me say thank you first for that. Just one thing, I'd like to...for your action plan here in 2013, is we're moving to the new actuary. I know you certainly reached out to us as we...and asked for our thoughts on what we would like to see...our issues, like to see in the actuary and the RFP when you did put that out, and I appreciate that. As far as developing the 30-year modeling software, is that something that...have those discussions begun with the new actuary, or will that wait until they're under contract or the contract is being...

PHYLLIS CHAMBERS: We are meeting with them next week, so we can begin discussions about how we want to go about it. I know they have projection software that they have used with Colorado and some of their other systems, so we would probably just ask them to customize it for what we want, so it's not like they would be starting totally new.

SENATOR NORDQUIST: Okay. Okay. Sure. When you get to that point, we'd certainly would be...would like to have...be part of that discussion too, look in different variables that would need to be included in that and would very much appreciate that.

PHYLLIS CHAMBERS: Certainly. I know there are some that we would like to have as well.

SENATOR NORDQUIST: Yeah, great. Other questions from the committee, comments? Seeing none; very thorough, thank you.

SENATOR KOLOWSKI: Well done.

PHYLLIS CHAMBERS: Well, thank you.

SENATOR NORDQUIST: All right. Next, we'll have up Jeff States from the Investment Council.

JEFFREY STATES: (Exhibit 2) Good afternoon, Senator Nordquist, members of the Retirement Systems Committee. My name is Jeffrey States, J-e-f-f-r-e-y S-t-a-t-e-s. I'm the state investment officer, serving the Nebraska Investment Council. I want to start by telling you on behalf of the council and the council staff that we appreciate the interaction we regularly have with the committee, the support that you've given us in our initiatives, and the cooperative nature, I think, of our work together and that of your staff. I believe each of you has a copy of the council's 2012 annual report. We're not quite as pretty as the Retirement Systems, but it contains information on some 30-plus plans that the Nebraska Investment Council has some responsibility for providing oversight. I would say that the state is very privileged to have a highly qualified group of council members, the five appointed members who vote. All our practitioners in the business are academic professionals. We had one change in the council last year and John Conley joined us from Omaha to replace Norm Riffel, who retired, and you met Mr. Conley at his confirmation hearing earlier this year. I would point out on page 6 the council's mission statement which is there, which expresses the general philosophy that they act under in all the activities that we conduct. I will not run through...well, I might just flip to page 11 to start, which gives you kind of just a high-level review of the programs for which we administer money. Fifty-eight percent of those are related to the retirement plans, defined benefit plans, deferred comp. And then, in addition to that, the 3-plus billion dollars that's in the state operating investment pool, oversight for the Nebraska Educational Savings Plan Trust, the General Endowment Funds, which are a variety of trust funds, the Health Care Cash Fund. There's some monies from the university and miscellaneous trusts. I'll give you a quick review of some of the financial market highlights and a brief comment on 2013 and then get right into the report. But, you know, 2012 ended up being a choppy year. At various points during the year it didn't feel good, and there was certainly what we thought was a lot of uncertainty with respect to whether we would kind of have positive...I think we always thought we would have positive returns, but whether those would be low and kind of substandard from a planning purpose investment returns or achieve a higher level. And report in spite of what seemed to be pessimism and uncertainty, the year ended up being surprisingly good when we finished it. And from the low, from 2007 to 2009, although the economy is still kind of weak and growth is slow, we have made significant progress in coming back. You know, the issues that kind of dominated the market and continue to, the top of that list seems to be on-again, off-again issues with European credit and how the European community deals both with the sovereign...there from a sovereign debt standpoint as well as the health of their banks and financial institutions. And we continue to know the issues that are related to the federal deficit and the ongoing debate in Washington, with respect to the outcome of that, which kind of lays a blanket or makes it more difficult for long-term planning. And the fact that unemployment is high encourages the Federal Reserve to continue with a low-interest-rate policy to try and stimulate growth. We know someday that will end. It's been difficult to plan activities around that, but it certainly is an impact on our returns. The annual report itself, we would start just on seven...pages 7 through 9 are the transmittal letter and my report. Assets under management for the council grew by $1.9 billion to $17.8 (billion), and you might more easily follow this by looking at the summary that's on page 12. Net investment earnings for all of the programs were about $1.7 billion. And just as a note, as a highlight, in a sense, 1996, where this data exists, investment earnings in various forms have...make up today about $9.8 billion of the total funds that are there. So over half of the money over time has come from investment earnings, which certainly reinforces the importance of us trying to make good investment decisions on behalf of the state. I will kind of skip over the rest of this page. I would want to point out, as are noted in my letter, a couple of the accomplishments the council had in 2008. We're constantly focused on trying to review and assess the effectiveness of our investment policy. One of the focuses in the last year was reviewing our equity structure for the three sleeves that we invest in: public equity, U.S. equity, global platform, as well as a non-U.S. equity. Primary focus there was to make sure that our manager assignments matched up with our expectations, and we spent a lot of time eliminating what we consider to be some benchmark mismatches. We've changed our benchmarks, but not, maybe, kept manager mandates up, and so we did revise guidelines; that should both improve tracking and, we believe, will ultimately translate to better performance in some cases. As part of that review, we also did, at the end of the year, replace two underperforming managers in the non-U.S. equity portfolio and hired a manager that we think will do better. And we also made some adjustments in the active versus passive management in the portfolios, both for cost effectiveness as well as...again, trying to make sure that we're getting results, where we're paying for active management, from better management. As an accomplishment for the council, we did complete the transfer back to internal management all of the assets of the operating investment pool. We had begun the year by moving half of those back. Many of you will remember, in the height of the crisis, the council had taken the corporate piece of the state's assets that were managed and transferred them to external management, so that staff continued to run the treasury agency piece. But part of that was because we had some names that were...difficulty, they wanted to broaden the diversification of the portfolio. Also, we had a single person kind of managing that and, given the point in time, felt that we needed to strengthen the staff as well as the resources available to be able to do this effectively. I believe that we have accomplished that, and fairly well. We were fortunate to hire a couple of fairly experienced younger gentlemen to come in and take over the active management of the portfolio; and, in sync with the external manager, coordinated kind of how they looked at the market and what we were doing and felt that we created a structure that allows us to do that in a manner that's cost effective for the state. So we're saving about $800,000 a year in fees. And we don't believe...and we think the results show that we're not giving up anything in return in this case. The council is very serious about it, and so every...about every other meeting they've had the internal managers in to go through and explain their strategy and how they're building the portfolio as well as matching it up to what we would have gotten...what we did through the year with the external manager, and generally our performance matched up very well. We completed, and this seemed to be timely since we had one turnover in councilmembers, an orientation and training manual which our consultant helped us build, which is a fairly comprehensive book that kind of lays out duties, responsibilities, and had some thoughts about the management. We, from a staffing standpoint, did a couple things. One, we continued to encourage our staff to seek additional training and education. Two of our investment professionals, again, two are new folks, completed successfully their current stage of the CFA exam, which is a certified financial advisor program. They're both involved actively now in the next stage. The one will, if he's successful, will have completed that program this June, and the second one is one level behind him, coming along. We also completed the implementation of the upgrades and salary comp in staff compensation which your council had been...your committee had been helpful in getting us some funding in our appropriation for. Ultimately, we acted under authority of the council, had to exempt the investment professionals from the state personnel plan and be able to set the compensation to a market level, and think that that was helpful as a resource for both of the people that we did hire, as well as will be helpful in the long term for retention. We've been fortunate, but in this day and age, longevity seems to be less for people as they start their careers and they don't stay as long. I will flip forward to page 15 and get into the things that you're probably somewhat more interested in. The strategic asset allocation that the council has adopted, and I'll tell you today, one of our objectives for this year is to complete a new asset liability study to review this. But to date, we are allocating the assets in the defined benefit plan: 31.5 percent to U.S. equity, 15 percent to global, 13.5 to U.S. equity, 30 percent to fixed income, and then we have investments of 5 percent in private equity and 5 percent in real estate. We try to maintain broad diversification to limit the impact of a single asset class and also diversify investment manager and single security risk. Page 16 begins the performance. You see the defined benefit plans as they started ultimately with a rough year; the defined benefit plans did have a calendar year return of 12.9 percent, a stronger year than we would have expected starting out. And as you can see, looking back over the...on the annualized returns for prior periods, the period that most significantly continues to impact our rolling performance, and is the one that is still a factor issue as we look at performance related to the actuarial cost, is that five-year number, which was significantly impacted by events in 2007 and really in 2008. We expect as we roll that year off, if we can continue to have 8 percent or higher numbers, that we'll...we're going to lose a fairly strong negative year in 2008 here pretty quick, which will help. I would...this page, you know, answer any questions that you have and if not we can just move on to page 23, which provides similar information for the state and county. Well, the defined benefit and the deferred comp. I would just say the cash balance plan, and I haven't commented on that although it's here, is invested to mirror, from an asset allocation standpoint, what's being done for the defined benefit plans, and the performance numbers are very similar. The assets in the deferred comp and defined contribution plan were about $2.2 billion as of the end of the year. Increase from investment earnings of $231 million. As you know, in the defined contribution plan and the deferred comp plan, the participants select their investments and the council monitors the investment choices that are available and makes decisions with respect to what those are and when they need to be changed.

SENATOR NORDQUIST: Do they have the same choices between those two plans, or...?

JEFF STATES: Yes, yes, with the exception that the defined contribution plan has a stable value account, which does not exist in the deferred comp plan, I don't believe. Somebody will tell me I'm wrong, but I...you will...so note pages 28 and 29, well, is a listing of what those options are, and those options include some premixed funds for people who don't want to have to be involved in making their own asset allocation decisions. Three of those based on your risk tolerance and the fourth is a select fund which is designed to kind of mirror our allocation for our defined benefit plan, so people get similar results there. I'll just move on and talk a little bit about the operating investment pool, which would be behind the next tab. And on page 39, the asset chart on this page shows composition of the funds in the OIP. And you can see there, 86.3 percent of the funds represent state agency cash balances. About 15.4 percent of the balances are General Fund, and 1 percent is still in the state's time deposit open account, which is a piece to provide deposits for Nebraska banks. I note, 2009, we've already talked about that, was when, because of market conditions, we moved some assets out. December 31, we basically moved those all back in-house. You can kind of see what's happened, both to the growth in the assets in the operating investment program, so that as of December 31, from various sources, we had $3.3 billion in funds that loosely are classified and invested as operating funds. Because of the size of that and the daily needs, we segregate those assets into kind of two pools, one that is very short-term that meets the daily in- and out-flows for the state. We maintain about three to five hundred million dollars in that pool. The remaining assets are invested in a little longer-duration, intermediate government corporate program. It hasn't necessarily produced a lot of return, because the rates have been low; and one of the factors of an operating fund is it has to be high-quality investment grade, and where you've been able to make money in fixed income has really been in a lower credit. Our primary objectives in this are principal preservation and liquidity, to make sure we can always meet the state's obligations; and so to achieve that, we don't take...we don't take credit risk. I would also be prepared, but I won't go through, talking about any of the other programs that are in here. I might highlight for you just...the two separate handouts I gave you, which, the numbers are highlighted, are mentioned to some extent in the program, are the...really the...based on our current asset allocation, projected returns from our investment consultant. It might focus because the short-term, obviously, is what impacts you more, are the returns for the ten-year period; the left-hand column is our current asset allocation. The second column are the consultant's current projections for performance from each of the asset classes, is their capital market assumptions, noting that, you know, only the equity-type classes are ones that are going to give us returns that are above 7.5 to 8 percent. In fixed income, as rates normalize, they're expected, both because rates are low today but as rates rise, the fact that as rates rise, prices go in the opposite direction, will, in fact, only expect to produce about 2 percent yields over the period. The long and short of that is, when you apply our asset allocation to those numbers, it shows a median result which is 6.9 percent, as the estimate from passive investment. Now, we hope that through the implementation in various asset classes through active management, that we will have a number that's somewhat higher than that. And our experience would say we should get some added value, or we wouldn't do active management. The second sheet I gave you which is the graph. The point of this is to show that that 6.9 percent is a point in time but it's a number generated by the consultant after doing some probability forecasting and estimates of various outcomes. And you can see there over the next ten years that while 6.9 is what they say is the median return, they say that there's a chance that returns could be below 4 percent, and 25 percent of the time...within a range of 25 to 75 percent, up to as high as 9.8. So it just points out that there's a wide range of variability which makes it hard to know where you're going to be. And longer term because there are fewer variables and maybe we have more certainty when we don't really know what's going to happen in 15 or 20 years. The range or the bands lower; we do expect, you know, some shifting in conditions, and the 10-year number to the 30-year number does reflect some different expectations with respect to market outcomes, that the return on the median would go up a little bit. With that, I will close. I think, you know, the end of the report includes a variety of the council's policies that affect how they manage it. We also provide a report on the cost for our external management. The outside management for the portfolio is...today is costing us about 25 basis points of return, which in comparison to our peers is very low. And think that reinforces the fact that the council is very concerned about what it costs to provide external management and is very serious about trying to make sure that if we pay for it, that we get the result. And when we don't, we use indexing. And so, as you note in U.S. equity, a significant portion of what we do is indexed, because we pay a basis point for the management. It's very cost effective and gets us most of the return. I would be happy to answer any questions. I think I already highlighted our asset liability study will be the major undertaking for the year.

SENATOR NORDQUIST: Sure. Thank you. Thank you, Jeff. As far as internal, external management, and just the cost of managing the funds, has the Investment Council recently done any analysis on how we compare, or is there any annual analysis on how we compare to other states for the cost of managing our assets?

JEFF STATES: Yes, and I will get that information back to you. But as the 25 basis points really places us in below...I mean, in the lower half of that process; the average cost for other public funds is somewhere between 35 and 40 basis points. Some of that's more active management. Some of it's probably an allocation, higher allocation to some of the alternatives. Private equity and real estate clearly carry with them significantly higher costs.

SENATOR NORDQUIST: Okay. And then just real quickly, one of the other issues that we've talked a lot about on the Appropriations Committee is the healthcare endowment. Are the...I guess I could look ahead here, but it's...the makeup of that fund, is that similar to the DB plan?

JEFF STATES: The managers are similar. We actually invest that Health Care Fund slightly more aggressive than we do the DB plans. The policy that the council has followed for a number of years is to have a 75 percent equity allocation to 25. Part of the reason that we're able to do that is because of the cash flow that comes in annually, so we're not looking to have to sell into the market. It does introduce a little more...a lot more volatility to do that, but I think that's been consistent since the plan was first established, was an objective to try over time to grow that pool so that it would become sustainable, you know, over a long period of time, and so we've continued to do that. I would point out, because you have the numbers here, it also did benefit, you know, in 2012, and the return for the 12 months there was 14.2 percent. So that higher allocation worked for this period. But if you look at the five-year number, it's still...annualized number for five years is 2.5 percent. So it comes with a little higher volatility.

SENATOR NORDQUIST: Okay. Good. Thank you. Questions from committee? Seeing none, thank you.

JEFF STATES: Thank you.

SENATOR NORDQUIST: All right. That will conclude our hearing today. Thank you all.