[LR191 LR198]

The Committee on Nebraska Retirement Systems met at 1:30 p.m. on Monday, December 2, 2013, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LR198 and LR191. Senators present: Jeremy Nordquist, Chairperson; Al Davis, Vice Chairperson; Danielle Conrad; Rick Kolowski; and Heath Mello. Senators absent: Russ Karpisek.

SENATOR NORDQUIST: (Exhibit 1) Good afternoon, everyone. We're going to go ahead and get going here in just a minute. I think we'll have a couple more members showing up. I'm State Senator Jeremy Nordquist; I represent District 7 in downtown and south Omaha, and chair the Retirement Systems Committee. We have Laurie Vollertsen to my far right; she's our committee clerk. Kate Allen is our legal counsel for the committee. We have Senator Rick Kolowski from District 31; Senator Heath Mello, Chairman of the Appropriations Committee, from District 5; and here's Senator Conrad from District 46 joining us. Today we have two legislative resolutions we'll be hearing. The first is our annual examination of our actuarial reports. The second legislative resolution will be Senator Bob Krist's resolution also to examine the plans administered by the Public Employees Retirement Board. A couple quick reminders. We have testifier sheets. Please complete that if you are going to be testifying, and give it to our clerk. Please state and spell your name, when you come up, for our record. Please silence your cell phone. Senator Al Davis, the Vice Chair of the committee, has just joined us. And I think that is all we've got. First up, we will have...we'll go ahead and invite Pat Beckham and Brent Banister from Cavanaugh Macdonald. They are the new actuaries for the state, and I think this is maybe they're first appearance before the Retirement Systems Committee, at least in this capacity; so welcome. And I'll turn it over to you. [LR198]

PATRICE BECKHAM: (Exhibit 2) Thank you, Senator, members of the committee. It is our pleasure to be here today. I guess I better follow directions, since I preach to my kids. So my name is Patrice Beckham, P-a-t-r-i-c-e, Beckham, B-e-c-k-h-a-m, and I'm a consulting actuary with Cavanaugh Macdonald. [LR198]

BRENT BANISTER: And I'm Brent Banister; it's B-r-e-n-t B-a-n-i-s-t-e-r, also an actuary with Cavanaugh Macdonald. [LR198]

PATRICE BECKHAM: And again it's our pleasure to be with you today serving in the capacity as the consulting actuary to the Nebraska Employees Retirement System. We are located in the Omaha metro area, and we're quite pleased to be working for our home state; so thank you for the opportunity to be here. I believe you all have a presentation that we'll walk through today and hit the highlights of the July 1, 2013, actuarial evaluations for the school system, the State Patrol, and the judges. We have a fair amount of material to cover but I would like to invite you to ask questions at any point as we go through, because really we want to make sure that the one thing we do today is to answer any questions that you might have. So if you'll just flip to slide 2, what we'll cover today again is a little bit of background on the actuarial valuation, what it is and why it's important; the numerical results of the 2013 valuations; and then we have the 5-year and the 30-year projections results to share with you as well. And then again, any questions that you have we would be happy to answer. So slide 3, we always like to start our actuarial presentations reminding folks what it is we do and also what we don't do, because sometimes there's a perception that if the actuary changed something, the costs would change or the funded ratio would change. All we're really trying to do is to assist the Retirement System in funding the benefits ahead of the payment of those benefits--advanced funding. So the assumptions and the methods that we use impact the timing of contributions but it doesn't impact the true cost of the system, because that's driven by the benefit payments that are paid out of the trust; and that depends on what happens to the members. So on slide 4, the purpose of the valuation. It's a little bit like taking an inventory, kind of stop everything on a single date, which for us is July 1, and we measure assets and liabilities. The liabilities are essentially promises to pay benefits in the future. So that's a key part of the valuation. We take that information from the liability and the assets, and through the actuarial methodologies and the funding policy that's set in statute, that drives what we call the actuarial contribution rate. And we compare that to really the fixed contribution rates that are in statute, to see if there's any additional funding due for the year. So we're really evaluating the sufficiency of the scheduled contribution rates. We also get some important information in the valuation as we look back to what happened in the last 12 months that helps us compare the actual experience to what was expected using the assumptions, and get an indication of whether that was pretty close or pretty far off and whether we should keep digging for explanations. And then we're always looking, as we lay the results side by side from all these valuations, kind of over the last several years, if there's any trends that we want to again check into or be aware of, or advise you of. And I think when we get to the judges system, you'll see an example of that. So slide 5: The valuation is what we call a snapshot picture. It's on a single date. We stop everything; we value the assets; we stop the membership and look at everybody who's entitled to a benefit on that date. But it provides important information as of that date. We use the models to help us kind of look forward, a little more of a moving picture over time, as opposed to just that single snapshot. Because the benefit amounts that are ultimately going to be paid from the system are dependent on a number of events that we don't know exactly how that will unfold, with salary increases will be when people will decide to retire; clearly, how long they will live; we make assumptions about those things to help us estimate those benefit payments. And it's important to recognize that while we believe those are reasonable assumptions, there could be other sets of assumptions that are also reasonable but produce different numbers. So the assumptions are an important part of the valuations. So slide 6: I want to talk a little bit about things that have changed since the 2012 valuations. So clearly, we're sitting here today; so that's one change that we need to talk about. Cavanaugh Macdonald is now responsible for the actuarial services for the plans. Part of that process that's very typical is for the new actuary to go back and, what we call replicate, or do the 2012 valuation over, so that we can make sure that we understand how it was programmed and what the provisions are; and if there are any differences, we can quantify the impact of that. And then it gives us a benchmark using our valuation software to measure that experience that we talked about earlier. So we'll talk about that. Overall, it was a clean replication. We did have some recommended changes in methodology that impacted the results, the unfunded liability and the normal cost rate. But I would look at those more as refinements. There wasn't any, you know, problematic big findings there. The second bullet on that page, on slide 6, is talking about the change in the amortization of the unfunded actuarial accrued liability. Prior to the 2013 valuations, the payment schedule on those was calculated to be a level dollar amount for each year. With this valuation and the legislation LB553, we moved to what's called the level percent of payroll methodology; and we'll talk about that more in a minute. So on slide 7: other changes. In the judges system, there was a sunset that would have reduced the employee contribution rate by 1 percent in 2014, that was removed by legislation; and the current court fees had been scheduled to drop to $5 per transaction, and they stayed at $6. It was important. You'll see the impact of that in a couple of slides. For the State Patrol plan, there was a scheduled decrease in both the employee and the employer rate from 19 percent to 16 percent; and that did occur, so we're reflecting that in this valuation. Then for school, there were several changes that you're probably well aware of. The first one, for the Omaha service annuity, there was a change in the actuarial methodology to make it consistent, using the entry age normal level percent of pay. That wasn't a big cost impact. And then again there was a reduction scheduled for employee contributions in 2017 that was removed so that the contribution rate for members is 9.78; and then the state contribution, of course, changed from 1 percent to 2 percent. Now the other big change legislatively for the school plan was the creation of a new tier for members hired on or after July 1, 2013. In this valuation, we did not have any members in the new tier, so it doesn't have an impact. We didn't measure an impact. But as you look at the projections, those projections do reflect the new tier people coming in to replace the current members assumed to leave. Okay, so if you'll flip to slide 8, the change in the amortization of the unfunded actuarial accrued liability was a significant change, and we just...you know, we weren't here last year, so we just wanted to take a little bit of time and make sure that it's clear how those two methods are different and what the implications of that are, so that when we come back next year and share numbers with you, there won't be any confusion over, well, why did that happen? So we're not being critical of the change. It's very common to use this method for financing public retirement systems. But again, just want to...our job is partly to educate folks, and that's what we're trying to do. So when you move from level payment, level dollar payments to level percent of pay, it lowers the contributions. Level dollar is pretty easy for all of us to understand, because it works like our own mortgages, okay? So you have the same payment every year, and part of that payment is interest. In the early years most of it is interest, but there's always a little bit of principal payment. But when we move to the level percent of payroll method, we essentially build in an increase in the dollar amount of contributions, anticipating that covered payroll is also going to increase, okay? So we're putting less in initially, in the earlier years of the amortization, and shoving more of it into the later years, by design, okay? So it's going to result in slower funding of the UAAL, because you're putting less dollars in; and over a 30-year period, assuming payroll is increasing 4 percent, in the early years you won't even cover the interest on the unfunded actuarial accrued liability. And the reason I say it, is so when we come back next year and we show a change in the UAAL, there's going to be an expected change by virtue of the methodology that we're using, okay? And that's built in the numbers; that's expected. So that payment schedule is kind of back-loaded in terms of dollars coming in, and so, you know, pay me now or pay me later. To the extent you pay later, there is interest that has to be reflected in all of our calculations. So if you look at the total dollars of payments, the percent of payroll method will cost more in terms of total nominal dollars. And then the last part that's important to remember is that UAAL rate, when we calculate a contribution--rate--is assuming that covered payroll is going to go up 4 percent. So if it doesn't...and go back to your fractions. The numerator in the top is still going up. That dollar amount is going to go up. The denominator doesn't go up the full 4 percent. The rate--the rate may be higher in the subsequent year. So it's a...before, you didn't really have to worry about that, per se, because you were using level dollar. But now that becomes a factor. And we're, of course, coming through a period right now where, for most systems, covered payroll isn't increasing as quickly as what the assumption is, because, quite frankly, pay raises have been very low for most public employees. [LR198]

SENATOR NORDQUIST: Is that a historical number or is that based on experience? [LR198]

PATRICE BECKHAM: I would say recently, yeah, we've seen that across the board with all of our clients, where the payroll increases are lower. The assumption is more of a long-term estimate, typically tied to what we see in the Social Security Administration, the national wage index there. All right. [LR198]

SENATOR NORDQUIST: Um-hum. Okay, okay. [LR198]

PATRICE BECKHAM: All right. So we like numbers. Most people like pictures, so we did pictures. On slide 9, again just to help you understand the difference, this is just an example. This isn't, you know, the school's UAAL or anything else. This is just an example of what happens with a single unfunded liability base over 30 years. So the level dollar amount is the blue, and you can see that essentially it goes down every year. This is the balance, how much is left every year over the 30-year period. Now the level percent of pay, you can see that the dollar amount actually goes up for a number of years, and you're probably 20 years into it before the balance is back to where you started. Now you're still funding it exactly the way you planned on, but that's the result, okay? So then if you go to the next, slide 10, if we look at dollars of payment, so how much is going into pay that UAAL off. Of course, the level dollar is the blue line. It's flat for all 30 years. The red line is the level percent of payroll where the dollar amount is actually increasing 4 percent each year. So you can see it starts lower but then it ramps up, and it ends up at the end much higher. Now you can't really lay them side by side, but if you could it would be helpful to look at 10 and 11 together because, remember, the system is funded based on payroll--percent of payroll contributions--for the most part. And you can see the same graph where the level dollar amount creates a decreasing contribution rate, and the level percent of payroll produces the level rate; again, assuming covered payroll increases at the assumed rate of increase. So that's just a little bit of background. Again, that was a significant change. It had a different impact on each of the systems as far as how much it changed the contribution rate. But, you know, they changed them, you know, between 3 percent and 9 percent of pay; so pretty significant impact in the results this year. All right, we'll kind of change gears here a little bit. On slide 12, I think you were all familiar with, we do not use the pure market value of assets in our calculations. Due to the extreme volatility, that tends to be not very favorable when you're trying to budget or plan long term; so we use what's called an asset smoothing method or an asset valuation method. It kind of averages out the highs and the lows that happen in the market. The specific method that we use looks at the difference between the actual return and the expected return with the 8 percent on market value, and spreads that equally over five years. One important thing to remember this year is, this is the last year to take the hit from the fiscal year '09 investment loss, okay? So it will be good to have that behind us. On slide 13, again looking at the rates of return. The blue line is the return on market value and the red line is the return on actuarial value. The black line that's straight across is, of course, the 8 percent assumption. But as we look at this, as actuaries, we basically say the smoothing method is doing its job. Now, it's not, you know, as straight and flat as the 8 percent assumption, but it is much smoother than the blue line; and that's essentially what we're trying to accomplish with the smoothing method. On slide 14, just a comparison historically of market value--the blue bars--versus the actuarial value, which is the red line. And again, I think one important takeaway here is to recognize that with the smoothing method, part of the time the actuarial value will be higher than market and part of the time it will be lower. We are back...for this year, you'll see on the far right-hand column, we are back where the actuarial value is lower than the market value. All right. So just a couple of highlights. The rate of return on market value was about 13 percent for fiscal year '13. That was hopeful. It did mitigate the impact of that fiscal year '09 loss. And while it mitigated it, it didn't eliminate it. So you'll see, as we go through the numbers, that there was still a loss on the actuarial value of assets, because that 2009 last installment pulled this down. But we do now have a deferred gain. We're past fiscal year '09 experience. That's all positive. [LR198]

SENATOR DAVIS: What is the fiscal year? [LR198]

PATRICE BECKHAM: Pardon me? [LR198]

SENATOR DAVIS: What months are the fiscal year? When does it...? [LR198]

PATRICE BECKHAM: Oh, I'm sorry. The fiscal year ends June 30. [LR198]

SENATOR DAVIS: June 30. [LR198]

PATRICE BECKHAM: So July 1 to June 30. [LR198]

SENATOR DAVIS: So between July 1, 2012, and this year, we had a 13 percent return. [LR198]

PATRICE BECKHAM: I think the official is 12.7 from the investment... [LR198]

SENATOR DAVIS: Okay, that's good. [LR198]

SENATOR NORDQUIST: 12.9. It's on that earlier page here. [LR198]

PATRICE BECKHAM: Yeah. And we'll talk about that in a minute. Yes, 12.7. And again, we talked about that change to amortizing the unfunded liability and the impact that it reduced the contribution rates. Funded ratios were pretty stable overall. And then, I mean, the good news we'll see in the projections later is that if the full actuarial contributions are made, the funding policy works and the systems get to 100 percent funded, you know, within 30 years. So now if we could we will just kind of walk through each system and look specifically at that information. I may take a little bit of time on the first one. The format for all of them is the same, so once we get through judges, we'll pick up and go a little quicker on the other two, if that's all right. So slide 17, you're looking at asset information for the judges plan. And you can see that, in the 2012 valuation, again the actuarial value was actually a couple million higher than market value. But if you look at 7/1/13, you can see that now market is almost $7 million higher than actuarial. The estimated rate of return on market is 13 percent. On actuarial, remember, we still have that drag from '09; so we actually were at 5.8 percent. And since that was less than 8 percent, that means there's an actuarial loss. Experience was not as favorable as the assumption anticipated. And I mentioned that the official rate was 12.7; and just to avoid confusion, this calculation is one that actuaries pretty typically use that is a simplified calculation, just assuming all the net cash flows are equal throughout the year and it's kind of oversimplified. And that's why it doesn't match the calculation from the Investment Council, and we've already decided the next year we will just use their official number in our valuation reports. I think that will be better. All right, so if you would go to slide 18. I'm not going to go over all these numbers; I just want to hit the more important ones. So row 3, the actuarial accrued liability. Sometimes misunderstood. This number is really where the assets should be given the funding mechanism that you have. The actuarial cost method says we should be funding it for people X percent of pay every year that they work. And if we did that and all the assumptions were met every year, the assets would be equal to the actuarial accrued liability. So it's sort of our theoretical target. We compare that to what the actuarial value of assets is in this valuation. So for this year, $130 million. And the difference is then the unfunded portion of the actuarial accrued liability. So when we look at this, it tells us we're behind schedule, okay? We have to go ahead and fund for the active members who are currently working this year, but we're going to have to have a plan to make up that shortfall for this to be actuarially sound over the long term. You can see that the unfunded actuarial accrued liability went up about $6.7 million. The two biggest components there: There were some changes, there were some changes in the replication that accounted for about $4 million of that, and then the assets for the other

$3 million. Again, the funded ratio dropped 92 percent last year; to 88 percent this year. And that's the ratio of assets divided by the actuarial liability. If we look at slide 19, just looking at the funded ratio historically, this system has been funded very well, very strongly; funded, you know, at or around 100 percent for the majority of this period. And really it's, I think, as the fiscal year '09 experience has kind of unfolded over the last five years, that we've seen a decline in the funded ratio. If you would turn to slide 20, we'll look at contributions. So the top portion, the light blue portion of this table, talks about the actuarial contribution rate. So there's two pieces to that I alluded to just a minute ago. The ongoing cost for people who are actively working is the normal cost rate. This year, that was 21.79 percent. That's up a little bit from last year, again because of some methodology recommendations that came out of the replication. Typically, that number is pretty stable. It does change but not a lot. And then that second piece is again how we're going to pay for the unfunded actuarial accrued liability, and that is set in statute, that each year there's a new base determined that's spread over 30 years, and the payments are a level percent of payroll. So if you add those two pieces together, the total contribution rate this year is just over 27 percent--27.03 percent. The members are expected to put in 7.21 percent, and that leaves the non-member contribution rate at 19.82 percent. Okay. If we take the projected payroll for the current fiscal year that ends June 30, 2014, that gives us the total required contribution non-member of $3.984 million. You can see the expected court fees this year are down from last year. Okay, last year, we were $3.4 million and this year we're close to $3.2 million. So the bottom line, the additional required state piece, is pretty leveraged, because it's whatever is leftover after we subtract everything else. So it's up from $80,000 last year to $803,000 this year. We have noticed that the court fees have been declining for several years, and that could be of concern because, remember, the contributions are developed as a percent of payroll, and payroll generally will increase. So you've got a little bit of a disconnect between how you're theoretically funding them and the money actually coming in. So when we look at the projections, I think you'll see the impact of that pretty clearly. So slide 21, this is the five-year projection. And all of the projections that you'll see today, of course, assume all the actuarial assumptions occur every year, nice and pretty, and actuaries control the world and we don't, and they won't unfold exactly this way, but it does give us a little bit of an idea, again from the snapshot, to look at the moving picture of where we're headed under, you know, our set of reasonable assumptions. So on slide 21, you can see, this is just the non-member pieces, so the blue bars are the court fees, and absent any guidance or information otherwise, we've assumed that those hold steady at the current level. And then the red bars are the additional state contributions. So, you know, again this year $803,000, and you can see just over this short period how that's ratcheting up and it's almost double by the time you get to 2018. [LR198]

SENATOR NORDQUIST: Is the $3.1 million in court fees, that is the actual amount received this year? [LR198]

PATRICE BECKHAM: Correct, for fiscal year-end '13. So again, that's a little bit of that concern, that disconnect between the funding policy and the actual money coming in. And if we look at it over a longer period of time, it's exacerbated, as you'll see in slide 22. In this slide, we do have the member contributions included. So the member contributions are going to increase as payroll increase, but the court fees are not. They're holding steady. And so that additional state contribution is an ever-increasing portion of the total, and that's what we wanted to point out when we talk about trends or concerns. It might be fine but we just want to make sure everybody sees it coming, okay? If you'll turn to slide 23, we think in addition to looking at the contribution side, we should look at the funded ratio. And again, the funded ratio starting out in a pretty strong position; and over time, if these contributions are made and the assumptions are met, you know, you get to that 100 percent target at the end of the 30 years. So just to wrap up judges, on slide 24, we've talked about the, you know, decreasing trend we've seen in court fees; and even if those are constant, the implications of that for the state, additional state contribution over the long term. If that's a concern, then, you know, now is a good time to look at funding mechanisms. And again, that change to level percent of payroll lowered the contribution rate this year. That's a one-time kind of adjustment.

And next year, when we look at the change in that unfunded actuarial accrued liability, we have a piece that we expect to increase because of the way we're financing it. Okay? [LR198]

SENATOR NORDQUIST: Great. [LR198]

PATRICE BECKHAM: All right, we'll go a little quicker through State Patrol and school. So on slide 26, same information you saw for judges. Again, the official rate of return is 12.7 percent. Again, the actuarial return is under 8 percent. That means we lost a little bit of ground because we expected an 8 percent return. Good news is we're past 2009, and in this situation the deferred investment experiences a gain of $15 million. So we're in a little bit better position to absorb some adverse experience. On slide 27, the unfunded actuarial accrued liability increased from $79.5 million and $92.4 million, and you can see the funded ratio went down 2 percent, from 78 to 76. But it held fairly stable. Slide 28, historical funded ratio for the State Patrol system. Again, they're all going to have that tail in the last five years where that painful investment loss is recognized over that period. And then on slide 29, looking at contribution rate, again for State Patrol the normal cost...I don't think I mentioned this before. The normal cost is independent of the funded ratio; so it's kind of nice. It doesn't matter if you're 120 percent funded or 50 percent funded, the normal cost rate is the normal cost rate under this method. And it's reflective of the benefit structure, the assumptions, and the membership. So if you said, you know, what's the value of the benefit structure? This is the closest number we could come up with; so 28.69 percent. And then, again, the amortization on this group is 20.28 percent of payroll, for a total contribution, actuarial contribution, of 48.97 percent. Now you can see, looking at those two columns, that the member and the employer rate again are both down: 19 percent last year, 16 percent this year. So we lost 6 percent of pay there, which will show up when we get to the additional state piece. The LB137 COLA, our understanding that's no longer applicable, so it's zero this year, which leaves the additional required state contribution of 16.97 percent of pay. And then the bottom, if you take the payroll-related contributions that the state makes as the employer, which is $4.4 million, and add the additional required contributions, you get a $9 million for the total, which is still less than last year. And then if we look at the five-year projection on slide 30, again the blue bars are the employer contributions, the 16 percent of pay that's coming in on a regular basis; and the red bars are the additional state pieces. And you can see the additional state piece, it comes down a little bit as the deferred investment gains are recognized over the next four years, and then, you know, holds pretty steady around 4.5. The longer view for State Patrol is on slide 31, the 30-year projection. And you can see that for most of the projection period there is additional state contributions that are needed in order to meet the funding policy goals. And then about 2041, when some of these amortization bases end, there would be no additional state contribution. And then the funded ratios on slide 32, again showing--again, this just reinforces basic actuarial funding--if you make the actuarial contribution and your funding policy is to be 100 percent funded in 30 years, it works. So just to wrap up State Patrol, on slide 33, you know, there's a significant shortfall in the regularly scheduled contributions, the 16.59 percent; which, of course, means that additional state contributions are necessary. And if they're not made, the funding goal of 100 percent in three years will not be reached. And again, you'll see that last bullet on every one of them just to make sure that we're driving that one home. Any questions on the State Patrol? [LR198]

SENATOR NORDQUIST: Looking at just the historical funded ratio, the impact from being, it looks like over 110 percent funded in 2000, to 76 percent funded today, what...do you have any sense of what impact or what, the causes of that, how much is related to investment return versus policy changes; for instance, the implementation of the DROP program? Do you have any sense of how big an impact that has had on these numbers? [LR198]

PATRICE BECKHAM: You know, at this point, Senator, I don't. We can certainly look into that and report back to the committee if that would be helpful, but, you know, to be honest, kind of coming in as the new kid on the block, we kind of have a very limited perspective. But we could dig back to see what impact other changes have had. It's usually fairly easy to isolate the impact of the investment experience. [LR198]

SENATOR NORDQUIST: Okay. Okay. I'll follow up with you on that. [LR198]

PATRICE BECKHAM: Would you like us to do that? [LR198]

SENATOR NORDQUIST: Yeah, yeah, please. We'll be in touch. Any other questions on the Patrol plan? All right. [LR198]

PATRICE BECKHAM: All right, we'll move forward. So, now we'll talk about the school retirement system. So on slide 35, again the asset information looks very similar as far as the rates of return to what you've already seen for State Patrol and judges. The unrecognized investment gain for the school group is almost $390 million on July 1, 2013. If you look at slide 36...and this was the one we probably had the closest replication of the three. The unfunded actuarial accrued liability is up, really just a little bit, from $2.25 billion to $2.28. Funded ratio held steady at 77 percent. Slide 37 shows the funded ratio for the school group. Again you see the little tail, the four or five years there. Slide 38 shows the actuarial required contribution for the school group. Again, the normal cost rate is 11.86 percent. The amortization of the unfunded liability is 8.08 percent. And there I think you can pretty easily see the impact of that change to the level percent of payroll method, because the UAAL is pretty close to the same number from last year, and yet, the contribution rate is down over 3 percent; so the total contribution, just under 20 percent of pay. Members contribute 9.78 percent, employers 101 percent of that; so 9.88 percent. The state contribution of 2 percent. Some good news: there is no shortfall. In fact, there is what we're calling a contribution margin, which means the scheduled contributions are 1.72 higher than the actuarial contribution. I would be remiss if I did not point out that does not mean it's not needed. Any time you want to fund a system with a fixed contribution rate, there are going to be periods which show that you're, quote, putting in more than the actuarial rate, because there will be other times when it will flip-flop the other way. So if you really want to make it work as kind of a fixed contribution, this needs to occur from time to time. [LR198]

SENATOR NORDQUIST: At some point will you be able to determine what the...I guess the right word...normal cost of the new tier of benefits will be? Will you be able to break that out to say this is what we estimate it will take to fund those going forward? [LR198]

PATRICE BECKHAM: Yes. I thought that might come up today, so I brought that with me. Brent, will you speak to that, just because they're probably tired of listening to me. Brent is kind of our model man. [LR198]

BRENT BANISTER: It probably is...I assume you discussed at the time the new tier went in. And it takes a long time for this new tier to unfold. I mean, right now, there's a few new people hired and their payroll is low and their liability is low, the people who have been there a long time; so it takes quite a while. But our projections are, as things kind of unfold over time, that we're looking at, you know, instead of the, you know, high 11 kind of normal cost for you right now, it should drop maybe towards just under 11 percent; say, 10.9 percent. Who knows? I mean, things will change as time goes by, too, but that's kind of current, you know, assuming demographics all behave and that we'll see a drop to just under 11 percent for the normal cost rate. [LR198]

SENATOR NORDQUIST: Great. Great. Thank you. [LR198]

PATRICE BECKHAM: And again, when we look at projections for the school group, you'll...that's reflected in the fact that's what I brought with me was just a printout of the numbers behind the projections that kind of split that by group. [LR198]

SENATOR NORDQUIST: Okay, sure. Great. [LR198]

PATRICE BECKHAM: So good question. All right, so let's look at the five-year projection on slide 39. Again, there's a lot of pieces of contribution here. This is non-member. And probably perhaps of great interest is the very top line in the chart, below it, that says additional state contributions. It's black, but obviously there are no expected additional state contributions. So there's no color on the bar. So that's zero for each of the next five years. And then you've got a little tiny purple piece for the Omaha service annuity that almost doesn't show up. And then the light green bar is the 2 percent of pay that goes to the Omaha school employees retirement system. The red bar is the 2 percent of pay for the state school retirement system. And then the blue bar is the school district, the employer contributions. And then if we look at slide 40, this is kind of our longer term view, the trends. Again, the same information. We've added the member contribution, so we're looking here at total dollars into the retirement system. And this is where you start to see, as current folks leave and new people come in, in the new tier that has a lower cost, it's going to help because the same money total dollars are coming in but if the normal cost is lower, more is available to pay off the unfunded liability. Okay? So if you look at slide 41, this really kind of quantifies it. So the valuation says there's a contribution margin of 1.72 percent of pay. This says, given that and assuming, you know, the money comes in and the assumptions are met, you're basically going to reach your funding goal sooner than 30 years. And you reach, at about it looks like it's 2032, you hit that 100-percent funded; so 10 years earlier than otherwise by, you know, putting in that additional contribution. So we'll kind of wrap up schools on slide 42. You know, basically the legislative changes and then the favorable experience. We also had some favorable demographic experience, largely from salary increases that were not as high as anticipated or expected. But that's resulted in no additional state contribution for the current fiscal year. Again, as Brent mentioned, the impact of tier two will unfold over time, very, very gradually, as more and more payroll is in tier two. The thing to remember, though, the liability...even when the payroll starts to flip over, the liability is still heavily in tier one. That will drive it for a number of years. And then the same comment on moving to the level percent of payroll financing for the unfunded. On slide 43, we wanted to mention something that came up in the valuation this year, because it will have an impact really on next year's valuation; but we want to make sure everybody is aware of it. I know you've heard about the new Governmental Accounting Standards 67 and 68. And this is something that's changing because of GASB 67, which will be effective for fiscal year-end '14; so the current year, the fiscal year that we're in, 6/30/14. Historically, what's happened is the state contribution...so if everything followed the way it normally did, the valuation results we just gave to you, if there were additional state contributions those would be actually made July 1, 2014; they would show up in the systems financials as a contribution receivable, and then the states are payable. And that's worked great. So GASB is going to mess that all up, because under the new GASB standards those cannot be counted as contributions for the fiscal year-end June 30, '14. Consequently, we're going to have a one-year kind of mismatch or lag here where everything is going to look to you like it's just operating the way it always has; but for what we use for a July 1, '14 asset value, we cannot include the contribution that's made July 1, '14. Okay? So it will look like nothing was made, which means the UAAL is a little bit higher, and you know, that's going to get spread over 30 years, so it's not huge. But again, we're just trying to make sure that we're disclosing all the information that we're aware of, as well as NPERS. So we thought we should bring that to your attention this year. And once we get past that, we'll... [LR198]

SENATOR DAVIS: And what's the rationale for that? [LR198]

PATRICE BECKHAM: I will let Brent answer that because I would probably be smart-aleck about it. (Laugh) [LR198]

BRENT BANISTER: Yeah, well, the requirements in GASB to count something...under this new GASB standard, to count something as a contribution receivable requires that it be legally due--I think that's the exact two words that are the key difference--of the date. Well, the contributions that the state puts in July 1, the statutes they're to be put in July 1, they're legally due July 1, not June 30. And so because they're not legally due, even though we all know they're coming and that makes sense, the accounting standards says you can't reflect it as a contribution receivable. So it's that phrase "legally due," that's causing us problems...or causing the accountants problems. [LR198]

SENATOR DAVIS: So it's a one-year anomaly, or it will always be that way? [LR198]

BRENT BANISTER: Well, it will be...what will show up is if you're kind of comparing statements year after year after year, the statement via accounting, you know, asset statements next year will not show a state contribution for that year. And then after that, they'll show the contribution again every year. So it will kind of be a one-year anomaly. [LR198]

SENATOR DAVIS: Just a one year. [LR198]

BRENT BANISTER: Yes. [LR198]

PATRICE BECKHAM: Yeah. And so rather than sort of theoretically having the contribution come in the last day of the plan, it actually comes in the first day of the following plan year. But right, once we get over this transition, then we'll kind of be back in sync. Okay. When we had our joint meeting with the Investment Council, we had a couple of slides included to talk about the investment return assumption. There's always a lot of interest about that, so we thought you might be interested in hearing that as well; so we've included that. There's just a couple of slides, and then we'll be done. So on slide 45, it's important to remember that the investment return assumption is only one of the economic assumptions that is used in valuation. And it's important that that set of economic assumptions be consistent, and price inflation is an important piece of several of those assumptions. When you look at investment return, it's really composed of two pieces: that price inflation; and then a real rate of return to give us the nominal. As we had discussions with the Investment Council, and their investment consultant was at the meeting as well, it was pretty interesting because the real rate of return is really not where differences of opinion lie; it's really in the long-term price inflation. And, of course, actuaries are looking at...I mean, when we say a long term, we're talking 50 years. I mean, we're trying to set...this is a very powerful assumption so we don't want to be changing it frequently or get all sorts of irrational patterns for budgeting, so we want to set it and kind of let it go. So our perspective is definitely longer than most normal people's. And actuaries are not normal people; ask anybody. But again, we follow standards of practice that the American Academy of Actuaries publishes. We're kind of a self-policing entity. And those ASOPs, they're called actuarial standards of practice, provide us with guidance on the selection of economic assumptions. And one part of that standard is very specific that it should not be overly influenced by short term, which is really hard, because human nature is just to remember what's happened. So we're really trying to look very much forward in our analysis in setting that. The board has a mechanism in place to review this assumption, and really all assumptions that are used, in the form of an experience study that I think you had a report last year that they had one in 2012 and the recommendations that came out of that. So that's a good disciplined approach, I think, to evaluating all actuarial assumptions. Slide 47, the board has talked about it. We've had some preliminary discussions just as far as, you know, if we were going to do it, you know, when and how and all that. And we clearly, you know, serve at the board's pleasure; so if they would like us to provide analysis and recommendations with the investment return assumption, we will be doing that. Obviously, the valuations were the first priority, and we do have some other projection modeling, I think, to do, and some service purchase factors to do. So we have a little bit of heavy lifting ahead of us that way. But I think as we move in further into 2014, we likely will go back and revisit this with the board; again being kind of new actuaries, new perspective, we'll provide that analysis. But it will be the whole set of economic assumptions, not just investment return. So that wraps up our presentation. We'd be happy to answer any questions you might have. [LR198]

SENATOR NORDQUIST: Questions from the committee? [LR198]

SENATOR KOLOWSKI: One. [LR198]

SENATOR NORDQUIST: Go ahead. [LR198]

SENATOR KOLOWSKI: Just a clarification. On page 6, slide 6, it's the one called that, on the Cavanaugh Macdonald mentioned there, of all five systems. Would you state what those are again, please...you know, all five of those? [LR198]

PATRICE BECKHAM: Oh, the five systems in Nebraska public. So it's State Patrol, judges, school, state, and county. The state and... [LR198]

SENATOR KOLOWSKI: State and county we added also, but we don't get those here. [LR198]

PATRICE BECKHAM: Correct. [LR198]

SENATOR KOLOWSKI: Right. Thank you. [LR198]

PATRICE BECKHAM: The valuations for those will be January 1, '14. [LR198]

SENATOR KOLOWSKI: Thank you. I thought those were the two. I just wanted to make sure. Thank you. [LR198]

PATRICE BECKHAM: Yes, thank you. [LR198]

SENATOR NORDQUIST: All right. Any additional questions? Seeing none, thank you very much. [LR198]

PATRICE BECKHAM: Um-hum. Thank you. [LR198]

SENATOR NORDQUIST: Now I think our next testifier, we'll have Phyllis Chambers from the Public Employees Retirement Board, has a few issues to discuss. Thank you, Phyllis. I know there are a few issues that we've discussed that you will be presenting on. So whenever you're ready. [LR198]

PHYLLIS CHAMBERS: (Exhibits 3 and 4) Well, good afternoon and happy holidays. It's hard to believe it's December. Chairman Nordquist and Retirement Committee members, my name is Phyllis Chamber, P-h-y-l-l-i-s C-h-a-m-b-e-r-s. I'm director of the Nebraska Public Employees Retirement Systems, and I'm here to report today on the purchase of service for optional service credit in the school plan. You've just heard from the actuaries about how important it is to fund our plans, and it is essential to the health and sustainability of the plans. The Retirement Committee and the Public Employees Retirement Board spend a great deal of time and money on funding analysis and hiring an actuary to perform annual valuations of the plans. NPERS administers the plans and we're working with them from day to day...on a day-to-day basis. And from time to time we bring to your attention issues that might affect the unfunded liability of the plans. A few years ago, we provided some data on the school capping that was affecting the unfunded liability. And as a result, legislation was enacted to eliminate exemptions from capping of school salaries. Today, I wanted to bring to your attention the purchase of optional service credit. The retirement benefit is based on a formula and I think you all know it; it's the final average salary times years of service credit times a factor of 2. Members receive service credit for each year that they work in the school system, and they receive proportional credit if they work more than part time. There are several ways that school plan members can increase their service credit, thereby increasing the formula, increasing their benefit, as well as move up the time of their retirement, move it ahead from what their normal retirement would be. These methods are by repaying a refund, by purchasing out-of-state service, by purchasing a leave of absence, or buying airtime. For out-of-state service, leaves of absence and airtime, the members are paying the actuarial cost of the service they're purchasing. For refunded service, they're not paying the actuarial cost, which is affecting the unfunded liability of the plan. If members buy back their refunded service within three years, they pay an interest charge. If they...and that interest is based on the one-year federal treasury rate for the year that they were purchasing. If members buy back the service after three years, then they're paying the assumed rate of the year that they purchased it. And, right now, that's 8 percent. In either case, they're paying far less than what it would be for the actuarial cost. Right now, the average is about $3,600 that members are paying for each year of service credit for refunded service. Many members wait until their final years prior to retirement to purchase it back because there is no penalty to wait. And so the plan itself is not having the use of the money during all that time; and the member, as it gets closer to retirement, the actuaries will tell you that that service credit is more costly the longer they wait to purchase it. And by my rough estimates, it would be about $15,000 per year per service credit, if...again, if they're purchasing close to retirement. Now I've provided you with a handout, so if you want to look at the one that says "Purchase of Study, 10-Year History." The handout covers: the type of purchase of service; the numbers of members that have purchased the service; the total cost; and the total years of service purchased; the average cost per year; and the average years purchased; and the average service of the member at the time they purchased the service. So if you look at the first row, airtime is service that's purchased in your final year of service. It's basically, I would like to add some service credit. It doesn't apply to any service you've done in the past. It's made up. It's, I want to buy some airtime. And you can buy up to five years of airtime if you have at least five years of service with our system. Over the last ten years, 174 members purchased this service, and it was a cost of about $5.8 million that they paid for the service, 354 years' worth of service, at an average cost of $16,529. So they are paying the actuarial cost. And the average years they purchased were roughly two years, and they had 24 years of service at that time, so that gives them...usually they're buying it so that they can retire a little earlier. They may have legitimate reasons for doing that. You know, they want...they have family they need to care for; their spouse is retiring and they'd like to retire at the same time. There are a number of different issues why a person would want to purchase service. Now, if you'll look at the next row: refunded buyback service; and the second and third row, refund buyback. One is with interest; that is for those that are purchased within three years of coming...returning to work. So a person who works for the system and leaves, takes another job or for whatever reason they're gone, once they've been out of the system 120 days, they can take a refund of their retirement. If they come back to work, they have the option to pay it back. Right now, refunded service, whether it's within three years or later, is not actuarially based. And you can see the majority of our members are purchasing this type of service, about 72 percent of our purchase of service or our refunded service. The total cost that they're paying is about $21 million, and you've got about 6,000 years of service that they're buying, and they're paying an average from $3,200 to $3,600 for that service. And usually they're buying about four years of service, and so that puts them four years earlier into retirement, four years longer that we're going to be paying a benefit. But it's not actuarially been paid for. [LR198]

SENATOR DAVIS: They're only paying $3,200 for that privilege per year. [LR198]

PHYLLIS CHAMBERS: Right. So if you purchased four years of service, that's less than $15,000. [LR198]

SENATOR DAVIS: It's less than one year. [LR198]

PHYLLIS CHAMBERS: And, I mean, who wouldn't want to spend $15,000 and retire four years earlier. [LR198]

SENATOR DAVIS: Phyllis, can you... [LR198]

PHYLLIS CHAMBERS: Yes. [LR198]

SENATOR DAVIS: I'm struggling with this a little bit. Can you run through the dynamics of who they are and why they are doing this? [LR198]

PHYLLIS CHAMBERS: They would be any school employee who is close to retirement or they have left service and then they came back and worked for the system. And in years past, they took a refund on their service and then now they want to buy it back so that they could use it to retire earlier and have more service credit. Is that... [LR198]

SENATOR DAVIS: So when you say they took a refund, you mean they withdrew some of their... [LR198]

PHYLLIS CHAMBERS: They withdrew it all. If they... [LR198]

SENATOR DAVIS: They withdrew it all. [LR198]

PHYLLIS CHAMBERS: Right. If they take a refund, they have to take all of it, not a partial refund. So they might have worked for five years, three years, and just taken that money out. And then they come back and they can buy that three years or five years back at a later date. And 190 people did purchase it back right away, within three years, and then 1,268 purchased it back later, generally toward...right before retirement. Then the other types are leave of absence. Very few people did a leave of absence, but we had about 19 people. If you purchased leave of absence time, prior to 1996, it was with interest; and after 1996, they do charge the actuarial amount. And usually they're just purchasing, like, a year for being gone. It might be to pursue their advanced degree. They might be doing a sabbatical. There may be health reasons. There's a number of reasons why they might do a leave of absence. And then out of state is the next most popular, I would say, purchase of service. And it is actuarial. It is when you work in another state and you come to Nebraska and you decide...and you go to work for a school year and you decide to make Nebraska home, you've worked in the system a while, and you think I would just rather than have two retirements, I'd rather bring that retirement and roll it over to Nebraska. Now, we don't roll it over credit for credit. It's all based actuarially, so. But they can roll that...they can refund it there and have it rolled in to pay for service credit here. And so 353 people did that in the last ten years. It is a good way for them to build their retirement here in Nebraska. Also we have people that do...we do reciprocal with other states. The one thing the IRS does not allow you to do is have duplicate service in two different states for the same service. So we had an instance last year where a person in Kansas transferred here, worked here. Then they bought service here but they didn't refund their service in Kansas; and so they were required to have to refund that. They could not keep both retirements, so. [LR198]

SENATOR CONRAD: Can I ask a question? [LR198]

PHYLLIS CHAMBERS: So anyway, as you can see... [LR198]

SENATOR CONRAD: Phyllis? Sorry. [LR198]

PHYLLIS CHAMBERS: Yes. [LR198]

SENATOR CONRAD: Just on this topic in general, do you have any sense or analysis in terms of is this option typical to plans across the states, or is Nebraska, is this option a little bit unique or different? Are we in line with some of our peers or are we a little out of step? [LR198]

PHYLLIS CHAMBERS: No, it's normal that plans do...defined benefit plans do allow a purchase of service, and it is typical in a lot of the school plans, I would say. [LR198]

SENATOR CONRAD: Okay. Thank you. [LR198]

PHYLLIS CHAMBERS: What's not necessarily typical is that...is whether it's purchased with actuarial cost or whether it's subsidized, so. [LR198]

SENATOR CONRAD: Yes, thank you. [LR198]

SENATOR DAVIS: So the...just to follow up on your question, these two categories that have such low purchased costs, is that a statutory regulation? [LR198]

PHYLLIS CHAMBERS: It is. Yes, it is. So if...just to summarize then, this would...right now, it's in statute. All these different methods are in statute. So it would require a change in statute to make that an actuarial cost. And so I would just bring it to your attention as a possibility for the coming legislative session. And also I would...I would also mention that I don't have makeups on this chart, but we also do makeups for when a member was not put in the plan and they should have been. And so we have to go back...because of audits we have to go back and we view payroll and we see that somebody wasn't in the plan, and then the employer and the employee have to make it up. And, right now, those are just interest-based, as well, and we'd like to see those maybe be actuarial-based as well; so basically, to kind of cover up any areas where we do think that there's a loss to supporting the funding of the plan. Do you have any questions on refunded service or purchase of service? [LR198]

SENATOR DAVIS: I've got one more, Phyllis, just so I know. So the refund buyback with interest and the refund buyback are not actuarial, and also the leave of absence. Those are the three that are not. [LR198]

PHYLLIS CHAMBERS: Well, the leave of absence with interest. And there's very few of those, and that would only be for someone that had a leave of absence prior to 1996. [LR198]

SENATOR DAVIS: Prior to '96. [LR198]

PHYLLIS CHAMBERS: Yes. And that one... [LR198]

SENATOR DAVIS: So the odds of us seeing that are pretty remote, aren't they. [LR198]

PHYLLIS CHAMBERS: Yes, it probably is remote. [LR198]

SENATOR KOLOWSKI: Only four. [LR198]

PHYLLIS CHAMBERS: Um-hum, yeah. Only four in the last ten years, so. Then I was also going to make a comment about the judges plan if you'd like for me to. [LR198]

SENATOR NORDQUIST: Yeah, yeah. Please, yeah. [LR198]

PHYLLIS CHAMBERS: Okay. I've also provided you with a ten-year history of the judges plan. The actuaries brought up the funding of the judges plan, and so I would just like to make a few comments. The judges plan is funded by employee contributions and court fees. The judges pay contributions of 9 percent of payroll, with less than 20 years of service. And then when they...20 years of service, they pay 5 percent. And the normal retirement age for the judges is 20 years. State Patrol is 25. And then the teachers is 35. Prior to 2004, the judges pay contributions were 7 percent for less than 20 years, and 1 percent for over 20 years. So we do have some in both of those categories. The court fees are $6 per case and there are no employer contributions to the plan. The additional contributions needed this year for the judges plan went from $79,800, to $803,000 this year, because of the unfunded liability. Basically identified two main reasons: one is the court fees that's already been explained to you. And those are not keeping up with the increase in the plan liabilities. They are expected to remain at this level as the diagram showed from the actuaries. The other reason is the valuing of the pay increases. The previous actuary did not include pay increases. They used the prior year's salary in their valuations; and the new actuaries are incorporating the expected pay increases. That does impact the additional requirements. If you look at the handouts, you'll see a history of the last ten years. You'll see the number of contributions are going up each year. The court fees went up to a high of $3.5 million in 2010, and then they've dropped back where they're anticipated to stay at that level. The state appropriations were $72,244 for several years. That's dropped off. And there were three occasions in the last ten years where additional contributions were evaluated by the actuaries. In 2005 and 2012 those contributions were not made, and this new contribution would be due July 1, 2014. You can see the actuarial value of the assets has increased. The actuarial liability has increased. And the unfunded accrued liability is interesting: You'll notice that four of the years there was a reserve, in 2007, '08, '09, and '10, where the plan was over 100 percent funded; and now it's dropping back down and it's below 90 percent for the first time in ten years. Now...and then on the second page, just to kind of give you a little more of a picture of what the plan benefits are, you can see the benefits have doubled in the last ten years. The active members have remained very stable. The inactive members, roughly, very stable. And the retired members have increased slightly. The disabilities have remained stable, and the beneficiaries have remained stable. So...but, all in all, there's...you know, went from 158 members receiving benefits to 172, in ten years. So it's not a big change at all in the judges plan. I have discussed the issue of the court fees with Judge Rehmeier. Judge Randall Rehmeier is on our board and he's visited with the Supreme Court, and they are bringing...you know, they were looking into the issue of how to address the funding of the plan. And other than that, I just wanted to report on it, and I think the actuaries have given you a good summary of it. And so those are my comments, and I wanted you to have this spreadsheet. [LR198]

SENATOR NORDQUIST: All right. Any questions? Go ahead, Al. [LR198]

SENATOR DAVIS: Do you know when the court fees were increased last? [LR198]

PHYLLIS CHAMBERS: They've been increased several different times. I do not have the exact dates. They were $5, and increased to $6 within the last ten years. They've raised them periodically. They've also, at times, they've had different prices on different types of court cases, so it's kind of been...there have been a number of different changes. [LR198]

SENATOR NORDQUIST: In 2009, they were raised from $5 to $6, and we had a sunset on and then we removed that this last year, to keep them at $6. [LR198]

SENATOR DAVIS: I kind of thought we discussed that. I just couldn't remember. [LR198]

PHYLLIS CHAMBERS: Thank you. [LR198]

SENATOR NORDQUIST: Rick, did you have a question? [LR198]

SENATOR KOLOWSKI: No, (inaudible). [LR198]

SENATOR NORDQUIST: All right. Any other questions? Heath. [LR198]

SENATOR MELLO: Thank you, Chairman Nordquist, and thank you, Phyllis. I have a question that's more in reference to the actuarial report in regards to investment return assumptions. Can you give the committee an update on conversations, if any, the board has had in regards to lowering the investment return assumption from 8 percent to a lower number? [LR198]

PHYLLIS CHAMBERS: Well, we have looked into it. Last year, we did an experience study with the previous actuary; and so the board does share your concern as well as the Investment Council's concern as to what is the proper rate of return that we should be using for assumed rate. I think right now we're looking at working with the new actuaries, because we wanted to get their feedback. They've worked with three of the plans. They'll be doing the state and county valuations in the spring. They're also going to be doing a new projection model this winter. We hope to have that up and going pretty soon, so that we'll be able to look at projections and kind of see what different assumed rates might do; and I don't know how much of that will be in the model. But certainly, we want to work with the actuaries on it and give them time. I think the board does not want to unnecessarily lower the assumed rate and put a disproportionate burden on the current employees and the current employers, and also the current taxpayers. If you...you know, the idea is to prefund the plans. But if you front-load it, okay, then this group of employees, employers, and taxpayers are paying a big burden. And as the time value of money increases over time, and you've got payroll increasing over time, you know, we're looking at a plan to spread the risk over the next 30 years. And the way our plan is right now, it would be funded prior to that, if the assumptions are met. So at this point in time, we use a 5 percent real rate of return. That's what the Investment Council uses. We're using a 3 percent inflation rate that incorporates the payroll increases, price inflation; whereas, the Investment Council is using about a 2.1, 2.2 percent rate of inflation. We think ours is better long term, but it's not that we wouldn't look at something else. We do want to study this and I think the actuaries pointed out that we don't want to be changing the assumed rate all the time, so we want to...if we do change it, if and when we do change it, we want to make sure we get it right and it'll be something we can use for a long term. So, right now, we're in the mode of evaluating it, and would hope to be able to determine something within the coming year. I don't think anything is going to be...I don't foresee anything being decided before this legislative session. [LR198]

SENATOR MELLO: This fiscal year, you don't see anything. [LR198]

PHYLLIS CHAMBERS: Right. This fiscal year. [LR198]

SENATOR MELLO: This would be next fiscal year? [LR198]

PHYLLIS CHAMBERS: I think we'll wait till the end of this fiscal year to see what the return is again. We'll have...we won't have the losses from 2009 and we'll be able to maybe get a little more sense of what the market is going to be returning to, because the last ten years have been, you know...we've seen a drastic change in the economy, the last ten years, the last decade, so. [LR198]

SENATOR MELLO: Thank you, on that question. And I have one more and it's maybe more of some follow-up that you could provide the committee. Looking at your handout on the NPERS judges plan, the number of judges that are active members dropped, in the last ten years, from 160 to 150. For the members on the Appropriations Committee knows, as we go through the Supreme Court's budget, there's a process in regards to when a judge retires that the state cannot fill that judgeship for a period of time, which means there's a gap anywhere between 3-5 months in which there is no employee contributions going into the plan because there's a judge vacancy. Is there any way you can provide us some historical information in regards to the number of vacancies in any given year in regards to the amount of months that we're losing, so to speak, from the employer contributions? Because that money stays in the Supreme Court's budget when they're not filling those vacancies and they're utilizing it for temporary judges or our retired judge program, and that's something that probably this committee should consider of finding a way of making sure that the judges plan is continually receiving that employer contribution even when there are vacancies in the court. So if you could provide any analysis from NPERS, that would be appreciative for us moving forward. [LR198]

PHYLLIS CHAMBERS: Okay, I will look into that. [LR198]

SENATOR MELLO: Thank you. [LR198]

SENATOR NORDQUIST: Thank you. Thank you, Phyllis. All right, that will conclude LR198. Senator Krist, here for LR191. Hopefully, he'll be on his way down and...hopefully. We'll stand at ease until he arrives, I guess. Welcome, Senator Krist. [LR198]

SENATOR KRIST: Thank you. Sorry for the delay. [LR191]

SENATOR NORDQUIST: Oh, no, that's all right. Please, whenever you're ready, you can go right ahead. [LR191]

SENATOR KRIST: Okay. Bob Krist, K-r-i-s-t. I represent the 10th District in Omaha, Bennington, and unincorporated parts of Douglas County. During the debate last year on the funding, there was considerable discussion about the kind of preparation that this committee does in order to bring the necessary funding levels forward. If you recall, during that debate I said, and I mean it, respect what this committee does. It's a tough job. I'm not sure I'm smart enough to do it, and you guys have now a really tough job ahead, given the kind of reports that you've heard. But I wanted to put an LR in place to allow those that were the loudest in criticizing your efforts the opportunity to come here and talk about their ideas, particularly, my colleagues who decided to make issue out of some of the things that were said. And I don't mean this in a mean or vindictive way; I mean it to give everyone an opportunity to talk about the things that you do because your committee work is so important to the state and to our financial stability. I'll say that those of us who are familiar with the Omaha situation, we know what a guaranteed benefit plan can do to government, and we have probably a tough job ahead of us in the next few years, assuming that I come back. But it's going to be tough. There has to be some changes made. Again, I respect what you do. I was hoping only to have those of our colleagues that wanted to inject any words of wisdom or any ideas the opportunity to come forward; and I guess it's going to be a short hearing, because I don't see any of them behind me today. And thank you for the opportunity to speak to you today. [LR191]

SENATOR NORDQUIST: Thank you, Senator Krist. Any questions Seeing none, thank you. Will you stick around to close? [LR191]

SENATOR KRIST: Yeah, sure. [LR191]

SENATOR NORDQUIST: All right. Any other testifiers on LR191? Seeing...Jason, please. Come on up. [LR191]

JASON HAYES: This probably wasn't intended just for the criticism, but. [LR191]

SENATOR NORDQUIST: That's all right. Welcome. [LR191]

JASON HAYES: Well, I will make this brief. Good afternoon, Chairman Nordquist and members of the Retirement Committee. For the record, my name is Jason Hayes, J-a-s-o-n H-a-y-e-s, and I represent the 20,000 members of the Nebraska State Education Association. First, on behalf of the school employees of Nebraska, we thank this committee for supporting LB553 this past legislative session. Without the adoption of this key piece of legislation, we would not be seeing the current impressive numbers mentioned in the latest actuarial report. The funded ratio for the school employees plan is on track to reaching 80 percent funded status in 2015, and hitting the 100 percent level, funded status by 2032. The plan showed a funding surplus of $9.8 million, or 1.72 percent of payroll; and, most impressively, the actuary has projected there will be no required actuarial state contributions necessary for the school plan during the next 30 years. I will end by saying our school members are wholeheartedly committed to maintaining a healthy school retirement plan now and into the future. When the plan faced financial issues, as it did last year, teachers were willing to make the necessary changes to get the plan on the right track again, and we thank you for introducing it and getting it through. Thank you for your time. [LR191]

SENATOR NORDQUIST: Thank you for your testimony. Any questions? Seeing none, thank you, Jason. Any other testifiers? Seeing none, Senator Krist. [LR191]

SENATOR KRIST: I want to do because I'm here. Once again, I want to thank you all for your hard work and I look forward to working with you in the future. And it should be noted that when given an opportunity, there weren't any fresh ideas lurking around the corner. And if there's anything that I personally can do to help out in the effort, I assure you that I will be there for you. Thank you very much, and thanks for all you do. [LR191]

SENATOR NORDQUIST: Thank you. That will conclude our hearing today. Thank you. [LR191]