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The Committee on Nebraska Retirement Systems met at 10:00 a.m. on Wednesday, November 19, 2014, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on the presentation of reports. Senators present: Jeremy Nordquist, Chairperson; Al Davis, Vice Chairperson; Danielle Conrad; Rick Kolowski; and Heath Mello. Senators absent: Russ Karpisek.

SENATOR NORDQUIST: Good morning, everyone. I'm State Senator Jeremy Nordquist, Chair of the Nebraska Retirement Systems Committee. And welcome to our first interim study hearing of the year...of the interim, I should say. Today we are going to hear the actuarial reports for the state's retirement plans, as well as a presentation of reports from political subdivisions that are coming before us pursuant to LB759 that was passed this last session, Senator Mello's legislation. Just a few notes, a few points for the hearing, please silence your cell phone. If you are going to testify, there are testifier sheets. Please fill those out and turn those in to Laurie Vollertsen, our committee clerk over here. I will have the members of the committee introduce themselves starting to my far right.

SENATOR KOLOWSKI: Good morning. Senator Rick Kolowski, District 31 in the Omaha area. Thank you.

SENATOR DAVIS: Senator Al Davis, District 43 which is north-central and western Nebraska.

SENATOR CONRAD: Hi. I'm Danielle Conrad. I represent north Lincoln's "Fighting 46th."

SENATOR NORDQUIST: Great. And Senator Mello will be joining us shortly. We also have to my left our legal counsel, Kate Allen. With that we are going to go ahead and jump into the presentation on the report on the...our state retirement system and we have Pat Beckham and Brent Banister from Cavanaugh Macdonald to present that information. And for all testifiers, also please state and spell your name for the record. Welcome.

PATRICE BECKHAM: (Exhibit 1) Thank you, Senator Nordquist, members of the committee. Patrice Beckham, P-a-t-r-i-c-e, Beckham, B-e-c-k-h-a-m, with Cavanaugh Macdonald. I believe you all have a bound presentation that we'll use this morning to review the results of the valuation. So we will refer to those page numbers as we go through the presentation. So on page 2, what we'd like to talk with you about today is just a little bit of background, since you really only hear from us one to two times a year, remind you about what this is all about with funding pension plans. And then we'll look specifically at the July 1, 2014, valuation results for the judges, the State Patrol, and the school system. We'll spend a little more time on judges, kind of on conceptual things, not a long time, but then we'll go quickly through State Patrol and school because it follows very similar. And then perhaps maybe of more interest is to look at the projections, both short term and long term, to show you the trend lines both on funding status and contributions. We would like to just take questions as we go through the presentation...

SENATOR NORDQUIST: That would be great.

PATRICE BECKHAM: ...since there are three distinct systems. So anytime you would like to stop and ask a question, please do.

SENATOR NORDQUIST: Great.

PATRICE BECKHAM: So, if I can get the page turned. So page 3, just a reminder about the actuarial valuation, we're measuring assets and liabilities. The liabilities are those promises to pay benefits in the future. There's a challenge associated with that because we don't know exactly the amount, when they're going to start, how long they'll be paid. That's why you need actuaries to assist in the process. So we use assumptions to help us estimate those benefit payments and quantify the liabilities. The difference between the liabilities and assets has to be funded in a systematic way in order for everything to be actuarially sound, for the money to be set aside to pay the benefits while people are in retirement. There's a funding policy that the Legislature set in statute. We follow that to calculate what we call the actuarial contribution rate and that drives the funding requirements for the current fiscal year. The valuation also gives us a chance to look back over the last 12 months and compare the actual experience to what we anticipated with our assumptions and just to see how close or far apart that might be. And we do that with each assumption that's used in the valuation. And then last, but certainly not least, we're looking to see if there are any trends that we should be aware of or we want to get out in front of. And I think you'll see some of those with judges and State Patrol in particular. Page 4, the valuation is what we call a snapshot picture of each of the systems. So we stop everything on a single date. It's a point-in-time measurement, captures all the experience that's happened prior to that point in time. It gives us useful information, but it doesn't really tell us as much about where funding and contributions might be headed in the future. That's why we start with a valuation and then we use the projections to answer those type of questions. I mentioned that in our work we use a lot of assumptions. We believe those are best estimates, but we also know that there are many other sets of assumptions that could be considered reasonable and they would produce different results, perhaps significantly. So we're going to use the valuation as kind of a financial report card for the systems to see what their funding progress has been and more importantly to evaluate the sufficiency of the scheduled contributions. On page 5, actuaries use a technique to put a value on assets for purposes of the valuation. We do not use pure market value. We use a market-related value to try to create a little more stability for funding purposes, works quite well. The specific method that we use for NPERS is we calculate the dollar difference between the actual investment return and the expected return of 8 percent and that dollar difference is spread evenly over five years. And that's the way we smooth. We do that calculation each year.

SENATOR NORDQUIST: And, Pat, the five-year smoothing, is that still the norm for most plans?

PATRICE BECKHAM: That is the most commonly used period. Yes.

SENATOR NORDQUIST: Okay.

PATRICE BECKHAM: And that smoothing, I believe, is in statute. On the next page, page 6, this ties to the actuarial-valued assets. You can see the blue line is the return on market from 1998 through 2014--pretty volatile. The red line is the rate of return on the smoothed value of assets. So the red line moves but, notice, not generally as high nor as low as the blue line. So the smoothing method from our perspective is doing its job. The next page is just a graphic in historically comparing the market value of assets, it's the blue line, to the actuarial value, the red line. And what we wouldn't want to see would be, you know, the blue line always below or always above the red line. And it varies over time. And that again is what we would expect with the smoothing method. So kind of general findings that will apply across the board to all three systems. As you probably know, very strong investment return for fiscal year '14, 18 percent. That helps immensely. You know if we could just figure out a way to get a way to get several of those years in a row.

SENATOR NORDQUIST: (Laugh) Right.

PATRICE BECKHAM: But again, because of the smoothing, and you'll see that when you look at the numbers, the magnitude of the difference between actuarial and market value increased. In fact, it more than doubled. So we have sort of a nice cushion right now between with market value being higher than actuarial value. When the assets do well, the funded ratios tend to improve. You will see that as well. And then, you know, based on the '14 valuation results, when we do our projections, you know, admittedly we assume the actuarial assumptions will be met in all future years and we also assume that all contributions...actuarial contributions will be made to the three systems. But if that all happens, they do reach 100 percent funding. And they should by design. That's how we're funding them. So as long as the money goes in, we'll reach that target. So let's look at the specific result for the judges' system. Now I'm on page 10. So again, this is asset information. So in the prior valuation, 7/1/13, you can see market value was $137 million, actuarial value $130 (million), so $7 million difference there. Contributions, benefit payments, that's all pretty straightforward. If we look at 7/1/14, you can see now that the market value is significantly higher than the actuarial value. And that's what I was referring to before. We've got about a 10 percent cushion there.

SENATOR DAVIS: Can you tell me then what the actuarial value is? I understand the market value, but...

PATRICE BECKHAM: Uh-huh. It's a smoothed value...

SENATOR DAVIS: Okay.

PATRICE BECKHAM: ...where the difference between what our assumption was for the return and the actual return, whether it's positive or negative, is spread over five years. So it's a timing mechanism...

SENATOR DAVIS: Gotcha.

PATRICE BECKHAM: ...thinking that if you have a bad year there may be a good year to help offset that and vice versa. So actuarial is a smoothed value, kind of the easy way to think of that. So our return on market, as I mentioned, was 18. On actuarial, which would reflect the current year as well as the prior four years of experience, it was just over 13. So for the judges, at the bottom footnote, you'll see that they've got this unrecognized investment gain of just over $14 million. Page 11, this just kind of looks at the key metrics from the valuation, incorporating both liabilities and assets. So the present value of benefits is essentially if we took all the benefits we expected to be paid in the future and quantify them in terms of today's dollars, how much would we need? And actually if we had that much in our fund, we wouldn't have to put any more money in for the current members as long as all the assumptions were met--very few plans in that situation. So we're funding the plans over people's working careers so we expect there to be a cost associated with every year of future service. We take that into account. That's the second line, that present value of future normal costs. Those are, you know, we only have normal costs for active people. And that difference then is the actuarially accrued liability, so $156 million. You can kind of think of the actuarially accrued liability like a past-service liability. A portion of that whole present value of future benefits theoretically should be funded because it's in the past. Well, we compare that to the actuarial valued assets, because that's again the value we're putting on assets in the current valuation, about $145 million, and the difference is the unfunded actuarial accrued liability. That's a long-term obligation. That's not a need that that's got to go in right now or, you know, the system will have problems. So it's not a concern as long as it can be financed in a reasonable manner over a reasonable period of time. The funded ratio, which is a number that gets a lot of attention in the media, is the actuarial value of assets divided by the actuarial accrued liability. And again for the judges, you can see that's 93 percent, up from 88 percent last year. If you flip back to the prior page, if you look at the market value assets, it's almost $159 million. And you can see the accrued liability is $156 million. So on a market-value basis, we're over 100 percent funded.

SENATOR NORDQUIST: Right. Right.

PATRICE BECKHAM: We're kind of not counting our chickens until their hatched, holding that excess back.

SENATOR NORDQUIST: Can you...and I know we're going to talk about it on the future plans, so it might be helpful to explain, often hear that 80 percent is kind of a healthy plan benchmark. Can you kind of explain why that...just simply as possible?

PATRICE BECKHAM: Well, I...

SENATOR NORDQUIST: Or if you don't agree with that.

PATRICE BECKHAM: Yeah. Yeah, I don't really agree with that. I think, because pension funding is complex, people like to gravitate to a single metric or number that says it's good or it's bad.

SENATOR NORDQUIST: Right.

PATRICE BECKHAM: We worked on plans that have been 96 percent funded and projected to run out of money in 30 years. We've worked on plans that are 40 percent funded that are projected to be fully funded in 25 years. So that's when I said the valuation tells you kind of you where you are, but not what the trend line is going forward.

SENATOR NORDQUIST: Right. Sure. Right.

PATRICE BECKHAM: Clearly, you know, the more money you have on hand in the bank, so to speak, the lower your costs are in the future. And I think from a sustainability standpoint, that means there's less payments to expect in the future. So certainly the higher the funded ratio the better, but there isn't a magic number like 80 you're fine and 75 you're not or even 60 you're not. That's a great question though.

SENATOR NORDQUIST: Right. Right. Okay. Thank you.

SENATOR DAVIS: But with regard to his question, we'll be at 93 percent, correct?

PATRICE BECKHAM: Yes.

SENATOR DAVIS: Okay.

PATRICE BECKHAM: Uh-huh, 93 percent. And if we went and looked at market, which would say we don't think there will be any losses to offset those deferred gains, we'd be over 100 percent funded. So it's looking very good for judges. And actually the next slide, on slide 12, you can see that this plan has really been well funded for a very long time. So it's kind of coming back from the 2008 and '09 painful investment experience and coming back and turning up again towards that fully funded benchmark at 100 percent. So on page 13, this really looks at the contributions to fund the plan, again the '14 valuation next to the '13 valuation. So the top box, the actuarial contribution rate, again we calculate that based on the guidance in the statutes as far as how to calculate the normal cost and then calculate this payment on the unfunded actuarial accrued liability. The normal cost tends to be very stable and that's by design. The method that you chose is Entry Age Normal and we would expect that to stay pretty stable. The amortization payment is down because your unfunded liability is down. Okay, so it's going to take less to pay that off in the future. So the total contribution as a percent of covered payroll is 25.10; was just over 27 last year. Now the members contribute to the plan to help finance the benefits and there's a couple of different rates that are contributed, which is why you see 7.35 and it was 7.21 last year. It's just different people are contributing at different rates and that's a weighted average. So if we subtract that from the total contribution, the 17.75 is the percent of payroll that needs to come in to fund the plan on a actuarial basis. We take that times the expected pay for the fiscal year and that gives us the required contribution, the $3.85 million in terms of dollars. There are court fees that are collected that help finance the system benefits. And we always kind of take the actual from last year and use it for this year because there's not a very easy way to estimate that. And you can see that was just over $3.1 million. And then the difference between those two falls to the state as an additional contribution. So that bottom line is a little bit leveraged for the state, depending on what happens with other court fees in particular. So it was $803,000 last year, $750,000 for this year. Again, you're better funded; we would expect that to come down.

SENATOR NORDQUIST: Right. And have you looked...do you know...and we've wrestled with it for a couple of years now trying to get to the bottom of court fee reductions and there certainly have been less cases filed and that's led to it, but there seems like there's been some other issues. Have you looked...I mean, is the trend line still downward in court fee collections?

PATRICE BECKHAM: It is down again this year.

SENATOR NORDQUIST: Okay.

PATRICE BECKHAM: If you want to take a sneak peek to slide 17,...

SENATOR NORDQUIST: Okay.

PATRICE BECKHAM: ...we kind of show the history from 2007 through '14. Just to help illustrate, like when we do projections you'll see we hold that number steady,...

SENATOR NORDQUIST: Right. Right.

PATRICE BECKHAM: ...not necessarily that we think that it's going to be exactly the same for 30 years. But when you look at this data it's very hard to estimate what it might be going forward. But the court fees for 2014 were actually lower than they were for 2007. And we had an interesting discussion at the PERB meeting on Monday that might at least address this year's. I don't know that it addresses the trend. But there's sort of an interesting correlation between State Patrol membership and this plan.

SENATOR NORDQUIST: Right. (Laugh)

PATRICE BECKHAM: And State Patrol had no new members in the last fiscal year. And I guess in your early career as a trooper you tend to write a lot of tickets. That brings revenue into the judges' system, as ironic as that seems.

SENATOR NORDQUIST: All right.

SENATOR DAVIS: They go hand in hand.

PATRICE BECKHAM: They do.

SENATOR NORDQUIST: Do you think there's a...kind of a structural issue here? If we're not expect...I mean we have a statutory dollar amount on each court case and if we just aren't projecting those to grow, that you have a part of your contributions going in that is flat, where every other defined benefit plan has a contribution of salary which grows with inflation.

PATRICE BECKHAM: Right.

SENATOR NORDQUIST: I mean is that...

PATRICE BECKHAM: I think you hit the nail on the head.

SENATOR NORDQUIST: All right. Okay.

PATRICE BECKHAM: The costs are determined as the level percent of payroll and payroll grows over time. So when you...yeah, when you have a funding mechanism that's more of a fixed dollar amount and variable at that, you'll see when we look at the long-term projections that that creates that. That shortfall that falls to the state just continues to grow. So I think you're exactly right. On page 14, again this is kind of the short-term projection. So these projections assume that all the actuarial assumptions are met. Well, because we have that 10 percent difference between market and actuarial and we assume 8 percent is earned, it gets to flow through that actuarial smoothing...asset smoothing method over the next four years. And you can see that tends to bring down the contribution rate. And then when we're past that, it kind of jumps back up at the very end. Okay. Then the next page, it's what I alluded to earlier. This is the 30-year, the long-term projection. Again, we've held court fees steady at the $3.1 million simply because we really aren't comfortable projecting anything else. We don't have a sense of where those numbers are going. If that were to happen, you can see that the piece that is the additional state contribution increases over time and becomes very significant towards the end of the period. And even if the court fees were to increase somewhat at different periods over that time, unless they're somehow linked to the covered payroll of the membership as a regular contribution, we're fighting this. The total dollars are going up, and the money to finance it, the revenue, is not keeping in sync with it. The next page, this is kind of interesting, page 16, we're looking at the funded ratio. So again, this is actuarial value of assets divided by actuarial liability. You know, the perfect world is you're 100 percent. And you'll remember when we looked at the valuation results, you were 93 percent, but you were really over 100 on market. But because we're not recognizing that difference, you're still putting some contributions in on an unfunded liability and this projection assumes you're never going to have a loss to offset that gain, so it shoots you over 100. And then you basically get to come back down and you can see at the end of the period you're right on 100 percent. So just to wrap up, again, if we look at the projections, which assume 8 percent on the market value, and we capture the deferred investment gains, that will help keep the state's contribution down around the current level or a little lower. And again, exactly Senator Nordquist's point, the costs are developed as a level percent of payroll, so the total dollars are increasing as payroll will increase. And so that's a challenge. And then again, with the decreasing trend we've seen in court fees, that there's a disconnect of sorts between how you're developing the contributions and how the money is coming in. And I think that is really the issue to deal with, with the judges' system. So I'm going to turn it over to Brent and he'll kind of cover the Patrol and school.

BRENT BANISTER: I'm Brent Banister, that's B-r-e-n-t B-a-n-i-s-t-e-r, again with Cavanaugh Macdonald. I'll be starting on page 19 looking at the State Patrol. Again, these exhibits were just like the exhibits we've just been through with the judges, so I won't go into quite the same detail. Again, you can see the assets. We started off the year with $294, $295 million in actuarial value, almost $310 million in market value, with the essentially 18 percent, rounds a little different here due to the cash flows. The assets at the end of the year were $357 million on market value with basically a $31 million in, nearly 10 percent, out of (inaudible) deferred. And we're holding back, as planned, so if the market goes up or down we have that cushion.

SENATOR NORDQUIST: Any reason why the investment return on market is 17.9? Is that just a rounding issue?

BRENT BANISTER: It's kind of a rounding issue that we...

SENATOR NORDQUIST: Okay.

BRENT BANISTER: ...the cash flows are proportionately a little bit different so we leave the calculation. Yeah, it's just rounding because the money is all invested together.

SENATOR NORDQUIST: Okay. All right. Okay. Yeah, that's what I thought. Right.

BRENT BANISTER: So again, the ultimate obligation, if we had $461 million sitting around right now, the State Patrol would never need a dime again. But $60 million of that roughly hasn't even been earned yet, so we would like to have $401 (million) in an ideal world. We've got $326 million, so it's a $75 million shortfall. But again if you compare to a year ago, it was $92 million unfunded liability. The funded ratio went from 76 to 81 percent, so movement in the right direction, as would be expected. I think page 21 with the historical graph shows there's been that decline, kind of more steeply downward following 2008-2009, no surprise. I'd like to think we've turned the corner, you know, I guess one point going up, maybe it's not really necessarily turning the corner from a statistician's viewpoint, but probably...hopefully with what's going on, that really is now the movement towards heading back up as we'll see when we get to the projections. There's still a long ways to go but moving the right direction. Page 22, the normal cost rate, we've talked...Pat mentioned that we like Entry Age Normal because it is stable. This is about as stable as you can hope for. It changed by .01 percent. That's stable. A little bit of luck to be that stable, but we'll take it. Because the unfunded liability is down, the amortization payment is down by just over 2 percent so that the total contribution requirement went from just under 49 percent to just under 47 percent. It's still a large percentage of payroll but 2 percent less than it was. Under statute, both the member and the employers put in 16 percent of pay each. It's a total of 32 percent, so that still leaves a shortfall. It was just under 17 percent last year, just under 15 percent this year, a difference of $4.7 million last year, $3.9 million this year. So when it comes down to what the state contribution is there is a requirement coming up of $4.1 million as kind of the employer's side of 16 percent of pay, and then a slightly smaller amount of $3.9 million as the state providing backup for the shortfall, for a total of $8 million. That's about a million less than last year, so some improvement there. And slide 23 shows we actually expect the additional piece to decline for the next few years. This is, again, it's really recognizing those deferred gains. As they flow through in the short term, that number squeezes down. Of course the employer piece, at 16 percent of pay, goes up a little bit as payroll is expected to go up. And then on slide 24 we see the longer term projections. The blue and the green bars in any given year are the same, they're each 16 percent of pay. It's sometimes hard to maybe see that tracing through there. And then the red piece is that additional amount. And you can kind of...see it's kind of shrinking for a few years as we kind of recognize those deferred gains. It then begins to grow. Finally, as we get out near the 25, 30 years out, we finally reach a point where we're fully funded. All the bases go away. We're paying, you know, the normal cost rate. The ongoing cost of plan is a little less than 32 percent, so we're covered with just the regular contributions at that point. And page 25 kind of shows this, you know, some expected improvements in the funded ratio, with those gains being recognized in a slow, gradual increase until we reach 100 percent, but it will take a while to get there. So again, the summary on 26 for Patrol, the shortfall of the nearly 15 percent of pay is significant. If those are made...you know, that's what it's going to take is that additional amount being made. If it's not, the fund ratio turns and goes the other direction. In the short term, there's some relief coming through, but with long term there still is kind of this fundamental...getting that unfunded liability paid off is going to take money. There's really no other way around that.

SENATOR NORDQUIST: Right. On the...just the work force issue, so the normal cost is 32 percent. If I'm a new Patrol officer who gets hired, I'm contributing 16, the state is contributing 16. My normal cost for my entire career is under 30, is (inaudible)?

BRENT BANISTER: It's just under 30.

SENATOR NORDQUIST: Okay.

BRENT BANISTER: It's 28.68.

SENATOR NORDQUIST: Okay.

BRENT BANISTER: So there's...if you hired a whole bunch of new people, there would be just a little bit of extra money coming in to pay off the unfunded.

SENATOR NORDQUIST: Right. Right.

BRENT BANISTER: That's why it takes this additional piece. There's just not much difference there.

SENATOR NORDQUIST: Right. The numbers...the legal...Kate, legal counsel, pulled kind of just State Patrol work force and the staggering drop I wasn't aware of. And between 2003 and 2008, we had 480 to...we hit a high of 496 troopers in 2008. Today we're down to 378. And it wasn't in this report, but it was in the one that you presented at PERB, there's more retired members in the plan now than there are active members in the plan. Is that in and of itself problematic?

BRENT BANISTER: Not necessarily. But what it does mean...I mean, when you have fewer people...if we were expecting continued decline of membership of the new...of employees coming in, then our assumption that everything could be financed, growing with a payroll growth of 4 percent, wouldn't be valid. And in fact, we'd have to figure out some other structure. Now to the extent that the additional amount is meant as a contribution, you know, an appropriation of that amount, I guess you could say, would still work. I think there are two new classes coming in, in the next fiscal year. One came in, in August and just missed the deadline here. There's 50-some new...so to the extent that that...this may be a temporary low in kind of the number of officers out there. That will partially correct it. Again, for the most part, you know, one additional officer, the pay coming in...or the contributions coming are basically what's needed, just a little bit more. So unlike some systems where you might say, oh yeah, hire more people and that will solve it. That won't really change much here with the current structure.

SENATOR NORDQUIST: Right. Right. Does hiring new people at the beginning of their career do they...I know the 28 percent is the normal cost for over the course of their career? Does it actually have a positive impact initially? And then...or will that balance out?

BRENT BANISTER: The funding method says...what we do is we sit back and say when they start, what do we...what do we think all the possible outcomes are between now and when they die?

SENATOR NORDQUIST: Right.

BRENT BANISTER: Okay. And we pick a...or calculate the number that provides a level percentage that can be contributed.

SENATOR NORDQUIST: Okay.

BRENT BANISTER: For somebody who leaves a few years in, the contributions have exceeded the value of their benefit to that point, although the Patrol has probably a very low rate of people leaving. But it is designed so that by the time they retire we've, on average, accumulated to the penny what we need.

SENATOR NORDQUIST: Okay, great.

SENATOR DAVIS: We're bringing in the class of 50. Is that...?

BRENT BANISTER: Or two classes of 25 or 30 or something like that.

SENATOR DAVIS: Do we have any idea how many people are at the end of their career (inaudible)...retiring early?

BRENT BANISTER: It's probably a similar...I mean, my sense was in talking to them that they were envisioning...had people going out the door...

SENATOR DAVIS: So no net increase.

BRENT BANISTER: Yes.

PATRICE BECKHAM: But I think there's an expected increase in the number of actives.

BRENT BANISTER: I think there's an expected...right. I think the authorization for troopers had been increased so that the...there would be more...could be more troopers out there as they can kind of fill the pipeline. And again...

PATRICE BECKHAM: Because I think Dennis thought it would go back a couple of (inaudible) around 400.

BRENT BANISTER: Right, yeah, the trooper member on the PERB thought it would be kind of more like it was the year before. We had just this...probably due to the timing, the class came in and just missed the deadline, but it would be somewhat similar.

SENATOR DAVIS: Still down around 20 percent (inaudible).

BRENT BANISTER: Right. And so, you know, if over time because of either, you know, all the different factors that affect that whether sheriffs are used more or at some point the state grows and needs more troopers, those kinds of things will come into play. But again, compared to most plans, the difference in kind of the contribution rate and what the normal cost rate is, is fairly small. So it has less impact on Patrol than probably on most other...

SENATOR NORDQUIST: If we made some changes like we did with the school plan and reduce...made some benefit tweaks for new hires, then that equation would change.

BRENT BANISTER: Right. If instead of they're being about 3 percent of pay, coming in for 4, 5, or 6 percent, that would begin to unfold, over the long term, but that would happen, yes.

SENATOR NORDQUIST: Right.

BRENT BANISTER: All right. So the school system, which as Senator Nordquist mentioned, there have been some changes there. Page 28, sort of a similar picture, just more digits because this is a much larger system. The assets now are pushing $9.5 billion. And the deferred investment gain is over $800 million, so some cushion there against market, kind of, volatility coming up. Page 29, again the funding situation, the actuarial accrued liability there on line 3 of just over $10 million, assets of $8.6 million, so there's a $1.8...or billions...yeah, $1.8 billion (sic) unfunded liability. Funded ratio went from 77 percent to 83 percent. So again, that same pattern we've seen. Everything is up, moving towards the right direction. And again, the graph on page 30 showing historical funded status, you know, the decline kind of accelerated with the market downturn and now, hopefully, movement in the right direction. Slide 31, the normal cost rate is down a little bit. In theory, we will see this number gradually decline a little bit with the new tier coming in with slightly less generous benefits. But it takes a long time for much movement with the new tier. And the amortization of the unfunded liability is down to roughly a percent and a half. So the total contribution rate is down about, again, 1.5 percent. The members are putting in 9.78; the employers put in 101 percent of that. The state puts in 2 percent of pay. The net impact is there's now about 3 percent of pay above what is needed to fund this over the long term coming in, and so the additional requirement is zero. Okay, yeah, again, assuming all assumption are met, yes, yes, which is...

SENATOR NORDQUIST: Right, right, right. But we're contributing...what is that, I'm trying to do a quick math on our total percentage of pay contribution...about 19...21 percent of pay. And the normal cost for a new hire is less than 12 percent.

BRENT BANISTER: Right.

SENATOR NORDQUIST: Right. So every new teacher we hire is going to be...they're contributing a tremendous amount towards that unfunded liability.

BRENT BANISTER: Right. So if, you know...

PATRICE BANISTER: (Inaudible) hire a lot of new people it would help (inaudible).

BRENT BANISTER: Right, yes, yes, so if we have lots of new people move in, well, you need lots of new teachers, it would accelerate. Or if everybody, you know, flip side of that is if population declines and we have fewer teachers, it gets harder. Page 32 shows the short-term expectations. Over the next five years, we don't expect any additional state contributions, kind of the appropriated amount above and beyond the 2 percent. The Omaha service annuity contribution stays in there roughly at about $1 million. That's the piece that the state provides there. The 2 percent of pay contributions for both Omaha and the state, you can see are there, and they grow a little bit as payroll is expected to grow. And then the employer contributions paid by the school districts, again, grow with pay, again, all assumptions being met. Page 33 shows kind of the long-term direction. You can see, basically, every bar in there grows by 4 percent a year roughly over time. And in that...would be as expected. Slide 34 looks different, probably, from those on the other pages (laughter) and just a comment here.

SENATOR NORDQUIST: We might have overshot a little bit.

PATRICE BECKHAM: Read the footnote.

BRENT BANISTER: Yeah. Read the...the footnote again, if all assumptions are met, and once the plan reaches 100 percent funded...or 110 percent, whatever threshold, whatever comfort level that you want, that you still keep putting all the money in, at some point, more than likely, somebody will say, you know, we can reallocate resources here. The members have not historically contributed as much as they are contributing now. It might be that everybody scales back a little bit. But we haven't reflected that.

That's not anticipated and we don't know when it would be or what it would be. And, like I said, we're not probably wanting to spend that money yet. So the comments there again, favorable experience, no additional contributions required. The impact of tier two will unfold over time. But right now I think one would say roughly 10 percent of the members or 8 percent, there's roughly 3,300 tier two members, 37,000 tier one members. Those proportions will, you know, gradually adjust over time. But even as the membership numbers change, remember, the 37,000 school employees who are there on average are earning more than the 3,300 new employees, so the payroll will move more slowly and the liability slower still. So we won't see dramatic changes coming from that immediately, but over time, as that graph indicates, it gradually moves that direction.

SENATOR NORDQUIST: Are you able to model, say, all other assumptions being met except for the 8 percent for us to give us a couple of scenarios? I mean, in 30 years we're going to be 170 percent funded in this plan. What would we be if over that time period we got 7 percent assumed rates? Or after the hearing we can work on that.

BRENT BANISTER: Right. And actually, I was going to say, Kate actually has access to it, too, that model even.

SENATOR NORDQUIST: Right. Yeah, okay, perfect.

BRENT BANISTER: But we can certainly provide it. If there's something that...

PATRICE BECKHAM: Check it if you want.

SENATOR NORDQUIST: Right,...

BRENT BANISTER: ...that she wants us to look at, we're happy to help with that.

SENATOR NORDQUIST: ...because I think we made those changes, you know, thinking long term that if we don't hit 8 percent what...and I think we need to, as we look at the other plans too, think about making similar changes that protect us for the long term.

BRENT BANISTER: Right.

SENATOR NORDQUIST: Any other questions from the committee on any of the plans? That was very thorough. We really appreciate it.

BRENT BANISTER: Thank you.

PATRICE BECKHAM: Thank you.

SENATOR DAVIS: Thank you.

SENATOR NORDQUIST: Thank you. Do we have any other testifiers on the State Employees Retirement Plan presentation? No takers? All right, well, that will conclude that portion of the hearing. And now we're going to turn...all right, we'll turn to the LB759 reporting from political subdivisions. And just as a brief reminder, this was passed this last legislative session by Senator Mello. It requires political subdivisions which have defined benefit plans which were open to new members as of January 1, 2004, they shall notify us that the plans exist. They shall submit a report to...their most recent annual actuarial report to us. And those that either are not meeting their ARC, their annual actuarial required contribution, or are funded at less than 80 percent have to...we've asked them to come and present today. This...certainly this bill came out of what is kind of more national trends, in talking to legislators in other states, of states becoming more involved in political subdivision pension oversight. And certainly with political cities around the country, certainly Detroit being the most prominent of those having significant financial problems to the point of bankruptcy, it's something we want to make sure that, as a Legislature and why we passed this bill, make sure we are at least on top of these issues. We're in constant communication with our political subdivisions to make sure that this isn't happening here and that there are plans in place to make the corrective actions that are needed to underfunded pension plans. And I know some states are taking even more aggressive action. We're not to that point yet where some are requiring or looking at requiring cities to meet their ARCs every year. Some are establishing kind of triage teams at the state level to go in and help political subdivisions address these. So this is just a start. I don't think that...hopefully, we don't ever have to get to those remedies, but we will start today with the political subdivisions that have come forward. We're going to take them alphabetical order. We will have Douglas County, the Lincoln Police and Fire, Omaha Civilian Employees, and then Omaha Police and Fire. So we'll start first with Douglas County. Welcome.

JOE LORENZ: Good morning, Senators. I'm Joe Lorenz. I'm the Douglas...last name spelled L-o-r-e-n-z, and I am the Douglas County finance director.

PATRICK BLOOMINGDALE: And Patrick Bloomingdale, B-l-o-o-m-i-n-g-d-a-l-e. I'm the Douglas County Administrator.

SENATOR NORDQUIST: All right. Go right ahead.

JOE LORENZ: (Exhibits 1 and 2) So I thought I'd start today, take a little different approach than what you just saw. First of all, I'm not an actuary, so I'm not going to go into that level of actuary detail. But just to give you a little bit of my background, I've been the Douglas County Finance Director for about four years now. And before that I worked in the private sector and served on two pension committees for large corporations. So all in all I have over 15 years' experience dealing with defined benefit pension plans. So with that as a background, what I'm going to talk to...that should be in the material in front of you, is the analytical report on the Douglas County defined benefit pension plan. So to begin with, the most recent actuarial valuation which was performed by the Silverstone Group for Douglas County as of January 1, 2014, the report showed that the plan had 3,443 participants, of which 2,072 are active, or about 60 percent. I know, Senator, you raised that question before about actives to inactives. I also think that it's better to have more actives than inactives. And when I look at a plan, you know, a lot of time in mature pension plans what you have to do is look at the contributions that come in versus the outflows that go out. And if you have too many retirees and you get to the state where your outflows are exceeding your inflows, that's when I think you can run into issues on funding in a plan. And many mature pension plans, it's surprising that that number is about the same, that the inflows equal the outflows and then they have a mature investment base that they go ahead and invest between the different fund managers. And that's really what's driving the return of the plan. So to me that's always a critical thing is cash contributions versus outflows to retirees. And...you know, that those...that the in...it should be at least equal.

SENATOR NORDQUIST: Right.

JOE LORENZ: Secondly, the plan had assets of about $258 million as of January 1, and a funded ratio of 64.6 percent, which was up from the previous year's amount of 60.6 percent. So the funding increased 4 points within a year. And really what I want to talk to you about is why the Douglas County plan is only 64.6 percent funded and what the county commissioners and the pension committee of Douglas County are doing to improve that funding ratio. So as a bit of history, in 1996, the Douglas County Defined Benefit Plan was 97.8 funded. In 1996, for law enforcement, i.e., sheriff's officers, and in 1997 for all other plan participants the following two changes were made. There was a provision put in for unreduced benefit upon Rule of 75. And Rule of 75 is when you add the age and years of service. So when you put in Rule of 75, that means if somebody is 50 years old and has 25 years of service they can retire with the full unreduced pension benefit. The other thing that was put in, in 1997 was the benefit formulas increased from 1.5 percent of pay per year of service to 2 percent of pay per year of service. Given that, also in 1998, a 3 percent cost-of-living, or COLA, allowance was given. In 2000, a 4 percent COLA was approved. In 2002, a 3 percent COLA was approved. There was also poor stock market performance at that time which resulted, by the year 2004, the Douglas County plan's funding ratio had fallen to 64.8 percent. So, you know, it had basically lost 30 points of funding within six years. The plan is a contributory plan with the county's contribution equal to the members' contribution, i.e., both sides pay 50 percent. The county's share is max...is only allowed to be 50 percent at maximum. But the county and members' contributions each increased from 5.5 percent of pay in 2005 to its present level of 8.5 percent of pay by the year 2008. Poor stock market performance during the Great Recession also negatively impacted the plan's funded ratio which reached a low point of 57.8 percent in the year 2010. The members of the pension committee and the county board of commissioners recognized that substantive changes had to be made to the plan to ensure the financial viability of the plan for its current participants. Accordingly, effective for all employees hired after December 31, 2011, and we did this only for new employees, because as you're well aware, Douglas County is about 80 percent unionized in terms of our employees with over 10 different unions, 17 collective bargaining groups. And so all these benefits have to be...are a subject of collective bargaining with the groups. And so Patrick has done a lot of work in getting the unions to go along with this. They realized the severity of the problem, so we got them to come on board. So these changes are only put into effect for new employees. But for all those new employees that would have been hired since December 31, 2011, the following new pension provisions were put in place. We eliminated the Rule of 75. There is, essentially, no significant early retiree benefit. We reduced the benefit formula back from 2 percent of pay to the previous level of 1.5 percent of pay per year of service. And we also moved to have the maximum retiree income reduced from 60 percent of a participant's final average compensation to 45 percent. The only ones who weren't included in this plan are the sheriff's deputies, who account for about 10 percent of total plan participation. And they have slightly different plan provisions which provide for increased benefits with early retirement given the physical requirements of their positions. These plan changes, along with no COLA increases being given since the year 2002, have increased the plan funding ratio by 6.8

percentage points from its low point in 2010 to 64.6 percent as of January 1, 2014. These plan changes have also materially impacted the plan's forecast of funded percentage so that the forecast now projects the plan achieving acceptable funding levels in the future, as shown in the following forecast on the next page which was developed by Silverstone in January of this year. And if you look at that you can see that these changes that we put in place...you know, changing...turning around a pension plan takes a long time. I always say it's like turning around an aircraft carrier. That people can make changes to it like they did in 1997 which will impact it and then if you want to unwind those because of the long tail of them, it takes 10, 20 years to really turn around a defined benefit pension plan. But if you look at what the changes we've instituted have put in and based on the projections developed by Silverstone, you see that we increased the funded percentage from 64.6 to within 5 years, 71.8; 10 years, 76.1; and finally, within 20 years the plan...using these planned assumptions, the actuaries calculate that we'd have a funded percentage of 91.6 percent for this pension plan. The other thing that we are currently acting upon is that the Douglas County pension plan was formed in 1964. And at that time it was somewhat common, especially for a government plan, to have a long-term disability program actually be part of the pension plan. And, you know, that really doesn't exist anymore. And so what we're doing is we're actively moving to take the long-term disability piece out, make it a separate benefit plan that's fully insured from an insurance company. And if we did that, it would have immediate impact of increasing our funding by a half percent. But we would have to have grandfathered 30 people currently on long-term disability. But as they wind out over time, so when we get to 20 years out by removing the long-term disability piece, that would also help the funding of the plan by adding probably another couple points of funding to that 91.6, so that we would be close to 94 percent funded on that basis. So we believe the Douglas County pension committee, the board of commissioners, administrative staff believe these aforementioned combinations of actions will significantly improve the financial condition of the Douglas County employee defined benefit plan and ensure the financial viability and payment of benefits to participants going forward. So I'd be glad to answer any questions that you have about our plan.

SENATOR NORDQUIST: One thing when I looked through the report, I didn't...I couldn't quite pull out...are you guys making your full ARC, actuarial required contribution, right now or is that...?

JOE LORENZ: Let's see, I think we're slightly under, if I look at it. If the total...if you took...if you were funding the 30-year amortization of unfunded liability, I think the payment would be $23 million. And last year we contributed $18 million.

SENATOR NORDQUIST: Okay.

JOE LORENZ: So we're not fully there. But I think the trends that we've done over time by changing these provisions, that over time it will put us into a positive space.

SENATOR NORDQUIST: Right. And you certainly are exceeding normal costs, so that is always a positive at least. So all those changes that were made in the late '90s, was that done just through collective bargaining agreement then?

JOE LORENZ: I'll let Pat...I wasn't there. (Laughter)

PATRICK BLOOMINGDALE: So, of course, it was kind of before my time. I've been with the county since 1993, but I did not go into administration until 1998. But what happened was, during negotiations with the FOP (inaudible) sheriff deputies in the late '90s, the Rule of 75 was negotiated with the sheriff's deputies. An employee in another department sued the county saying that if you give it to the sheriff's deputies, you have to give it to everybody else. There was a legal opinion provided by the county attorney's office that agreed with that position that we had to give it to everybody else. It turns out that that was not really an accurate statement of the law. We've since learned that you can have different levels of benefits in the same plan. So we have made the changes since that time. But, yeah, we were in a position to where our backs were up against the wall--once you gave it to the sheriff's deputies your own county attorney is telling you have to give it to everybody else. That's what happened.

SENATOR NORDQUIST: That's a pricey legal opinion. (Laughter)

PATRICK BLOOMINGDALE: Indeed.

SENATOR NORDQUIST: All right. Any questions? Senator Mello.

SENATOR MELLO: Thank you, Mr. Chairman. Thank you, Joe and Patrick, for your explanation and your testimony. I just got a couple of questions. And if it's in the report, by all means just kind of point to the page so I can highlight it. Joe, you said that there's a 60 percent active plan participation right now. What's been the general trend lines in regard to that percentage? Has it been a decrease? Has it been stagnant? Increase?

JOE LORENZ: I think the number of retirees has been increasing slightly, so there's a slight increase. And part of that has been that county employment, especially in the last four or five years given the budget constraints we're under, has been flat to slightly down. So I think that if the actuarial projections project that it goes out, I think the assumption is it be flat instead of down. As long as we keep employment flat that the funding should do what it's suppose to.

SENATOR MELLO: Okay. And then real quick on...I can't...there's not a page number specifically, but in your actuarial assumptions, Douglas County utilizes a 7.5 percent investment return.

JOE LORENZ: Yes.

SENATOR MELLO: Has that...can you give a little history in regards to when...when...has that always been, I guess, the actuarial investment return? Did you change from a higher number to a lower number?

JOE LORENZ: No, it's been our number for quite a bit of time. And we've had a lot of discussion about if that's an appropriate number. Of course, you know, after what happened in 2007, everyone is saying, well, is that number too high? And one of the things that we also did, when I came in, is we commissioned an asset liability study. And in an asset liability study that's when you go in and you specifically have the actuaries look at the exact nature of the liabilities that they're anticipating in the future. And then you work with your investment advisors and try and match the assets to meet those liabilities. And I'm a proponent that I think every plan should do one of those about every five years. But in terms of your question about why we believe 7.5 percent is an appropriate number, over the last three years our plan has earned an average return of 9.8 percent, over the last five years it's been 11.9 percent, and over the last ten years it's been 6.6 percent. So if you look at that...and even if you went back further, a measure I also look at is the...they call it the Ibbotson-Sinquefield Study which is the returns in the market since actually I think 1922 or something like that. It's a database out of the University of Chicago. And if you look at that, I feel that, you know, given the way we matched our liabilities and assets, that 7.5 percent is still an appropriate rate. And it's my personal opinion, if you look at managing a pension plan, there's levers you can pull. And what's more important on your investment rate, if you have 7.5 percent or 7 percent, is what are your provisions on early retirement? Early retirement, if someone can retire at 50 years old with a full pension, it's incredibly expensive to a pension plan. And I can tell you from personal experience out in the private sector, nobody can retire with full benefits until they're 62. So people who are retiring in their 50s with full benefits put a tremendous burden on public plans. Secondly, it's...you know, what's your level of percentage per year? We had it at 2 percent, which I think was pretty rich. We brought it back down to 1.5 percent, which I think is more normal. And the third part that really increases pension costs is if anyone would have a built-in cost-of-living, or COLA, allowance. I mean, so those are the levers I always work with. And if you keep those levers down, it's amazing the impact you'll have on your funding ratio going forward.

SENATOR MELLO: And then I guess my last question is, how does the county pay for...I mean, how does the county actually make its contribution? Is it based just from property taxes? Does it come from inheritance taxes?

JOE LORENZ: Yeah, it...

SENATOR MELLO: Is there a dedicated revenue stream that covers the county's costs?

JOE LORENZ: We pay for it out of the general fund tax proceeds. So every year we calculate when we put the budget together we...the payroll is estimated. We take 8.5 percent and we fund it out of the general fund. So that means it's coming out of a whole combination of our property tax proceeds plus our other sources of revenue.

SENATOR MELLO: So there's not a dedicated revenue source specifically that's only tied directly to...

JOE LORENZ: No, sir.

SENATOR MELLO: Okay. Thank you.

SENATOR NORDQUIST: Any other questions? Seeing none, thank you, guys.

JOE LORENZ: Okay. Thank you.

SENATOR NORDQUIST: Next we have Lincoln Police and Fire. Welcome. The page can...either way...he can help...

SENATOR DAVIS: Welcome.

PAUL LUTOMSKI: Thank you.

SENATOR DAVIS: We're ready when you are.

PAUL LUTOMSKI: Oh, okay. Sorry, I was thinking Senator Nordquist would be here.

SENATOR DAVIS: He'll be back.

PAUL LUTOMSKI: (Exhibits 3 and 4) My name is Paul Lutomski. I am the city of Lincoln, Nebraska, police and fire pension officer. Thank you for inviting me. The Police and Fire Pension is a defined benefit system providing retirement, disability, and survivor benefits for city of Lincoln police officers, firefighters, and their beneficiaries. The system operates under the rules of IRS Code 401(a). As of the last actuarial valuation, which was August 31, 2013, should be getting the next one pretty shortly here, the system was 72 percent funded on both a market value and an actuarial measurement basis. Because the plan is underfunded, below the 80 percent level, I have been invited by the committee to present regarding the condition of the plan and the actions to improve that condition. I've brought two pieces, two documents. The first one is a...the actuarial valuation, the last one that was completed, August 31, 2013, so we're going to review that a little bit, and then additional...a very short report per Nebraska statute. On the actuary valuation, I'm going to start with referring you to the table of contents to give you an idea of what I'm briefly going to cover. I'm not going to go over everything, but I will be looking a little bit at the executive summary. I'll be looking...directing you to the historical funding progress which is in Section 6 on page 24, and then also the appendix that has the summary of benefit provisions. I'm kind of going to work backwards adjusting a little bit with the previous presenters and thanking them for kind of laying out the ground definitions and etcetera. But I thought if I could ask you to turn to page 45, we'll briefly look at the benefit provisions. There's three plans in the city of Lincoln pension system--plans A, B and C. They're lettered kind of backwards too. Plan C is the oldest benefit structure, provides a 54 percent pension, at age 53 and after completion of 21 years of service. Employees contribute 7 percent that are in this plan for only the first 21 years of their service and then after that they don't contribute anymore. There is an additional 2 percent per year of service after a person reaches normal retirement at age 53. So they can earn up to a total of 64 percent. As I said, this is the oldest benefit structure. There are 11 employees in this structure. About 1984 was when some changes happened that created that. Also in 1984, Plan B changes occurred. Plan B is 58 percent instead of 54 percent. Normal retirement, again, is age 53 and 21 years of service. However, this time employees contribute 7.6 percent of their salary, again, for the first 21 years, then they don't contribute. There's an additional 2 percent so if a person stays after normal age in service, retirement age, after 53 they can earn up to 68 percent maximum. There are 80 active members in that plan. In 1995, Plan A was conceived...started. It offered a 64 percent pension for employees if they meet the age 50 and 25 years of service criteria. Our people are generally hired about age 26, so that's why that structure is developed like that. Employee contributions are 8 percent. And the employees contribute for their entire career. There's no stopping after 21 years. So later we'll look at a blended rate for the employees contribute. But when you do that, you'll see that it's trending toward 8 percent because that's where now 480 of our active employees are in that Plan A. There's a couple other benefits that I thought you should be aware of. There's something called deferred retirement option plan, the acronym is a DROP, got started 2001. It's a five-year DROP period. So what this does is allows members to retire for pension purposes, but they can continue working for five years. We also have entry age normal costing so when a person enters the DROP they don't contribute to the pension anymore. Their monthly benefit is deposited in a self-directed account, so there is no guaranteed fixed return rate when we enter DROPs, we don't have any liability issues. The direction is all by the employee given from a menu of mutual funds that our advisor (inaudible)...helps us with. A retirement in fact then, the benefit that was paid into the DROP account every month is then paid to the employee in their checking account.

SENATOR NORDQUIST: How long has the DROP plan been in place in Lincoln?

PAUL LUTOMSKI: It's been in place since about 2001.

SENATOR NORDQUIST: Okay.

PAUL LUTOMSKI: I wanted to point out that our members do not have a...what is normally thought of as a true cost-of-living adjustment. What we have in place of that is something called a 13th check program. It was started in 1992. And what it does is it pays an extra payment, not an actual 13th check like if someone is getting $2,000 a month, they don't get another $2,000, but they do get an extra payment in September if they've been retired for a year. And that extra payment has a cost-of-living escalator associated with it of 3 percent. It helps the people that don't have a big pension payment more than those that do, because the last 13th check was $1,164. So in September, if a person has met full retirement criteria, they're going to get an extra $1,164. Next year it might be 3 percent higher than that, but it's capped by the CPI for the preceding calendar.

SENATOR NORDQUIST: That's a flat amount for all retirees?

PAUL LUTOMSKI: It's a flat amount for everybody. They all get the same thing. It's just added to their September paycheck. It is paid only if there is sufficient funds in the 13th check separate accounting pool to make these payments. So it's different than a COLA that is a liability commitment. This is a contingent commitment. There's plenty of money in there, though. There's $21 million in there and our actuary says that they expect it would take about $15 million to make all the future expected payments. So that portion of the plan is well funded. Finally, the city, as others that have testified, they do not withhold Social Security taxes from our police and fire employees. So if...it...I just want to mention this, if a person does get a Social Security payment then from a different employer, their Social Security payment is reduced because they're getting this pension wherein they did not contribute. It's called the windfall elimination provision. With that, I'm done talking about the benefits. I thought that would give a little context as to where the money is being spent. I'd just like to say that there is...I'm not going to ask you to turn it, but there's membership data in the appendix. There's a lot of things in there. Five hundred and seventy-three active members is the breakdown. There's 1,093 total members. So of those 573, 480 are in Plan A, 80 are in Plan B, 11 in Plan C. We have 48 people in the DROP. Those 48 aren't included in the active member count, basically because the pension considers them retired for all practical pension purposes. However, of course they still do come to work. They need to leave at the end or before the five-year DROP period. We have 448 people receiving a monthly pension, so I think that would qualify us as a mature pension plan. This actually...the plan started in 1895. So it's been around a while with some changes. Twenty-four vested members that have completed ten years of service, which is our vesting requirement, we have cliff vesting at ten years. So it goes from zero and then you're vested at 100 percent at ten years. So these are people that have their ten years in, but they left before age 50 and our payments start at age 50, so they're going to get a prorated amount based upon the years of service they completed. Okay now, let's...if you would please turn to page 24, I'd like to show you our historical funding progress, or lack thereof, which is a similar story. This table shows funding percentages from 1987 all the way through August 31. And the plan year was changed to match up with the city's financial year end in 1991. The second column from the right shows the actuarial funded percentage. And you can see that back in '87 it was 109 percent. And it was over a hundred percent up until 2001. It dipped a little bit, came back to 101 percent in 2007 and then the stockmarket decline hit. Our market value isn't shown on this page, but if it were you would see that after the 2008-09 market declines, our market value assets went down to 72 percent. Our actuarial assets, like other places, are smoothed. We use a five-year period. So it's taken until 2013 for those five-year smoothed actuarial numbers to match up with our market values. So as I said originally, both of those measures are now at 72 percent.

SENATOR NORDQUIST: Yeah, go ahead.

SENATOR MELLO: Thank you, Mr. Chairman. Is it Lutomski? Mr. Lutomski.

PAUL LUTOMSKI: Lutomski, yeah.

SENATOR MELLO: Can I call you Paul?

PAUL LUTOMSKI: Sure.

SENATOR MELLO: Is that all right? All right, thanks, Paul.

PAUL LUTOMSKI: I'll call you Heath.

SENATOR MELLO: That's...I go by a lot...that's nicer than what some people call me. (Laughter)

PAUL LUTOMSKI: All right.

SENATOR MELLO: Looking at page 24, looking at your unfunded actuarial accrued liability and then looking at the percentage, there seems to be a trend line going on in regards to 95 percent to now being 72 percent in the last five years. This committee, obviously, understand the impacts of the Great Recession, but it seems to some extent that your plan has kind of taken, just as anecdotally, a different trajection than what we just heard from Douglas County where they're at a lower, working their way up. Can you give any background in the sense of how that trend line has been declining fairly rapidly in the last five years?

PAUL LUTOMSKI: Well, in the last five years we have earned our 7.5 percent assumption and some. We haven't contributed any massive amounts extra in terms of employer contributions to the pension plan. When we get the next report, it will show, you asked a question about ARC and how the employer contributes to that. For the fiscal year ending 8/31/14, the city did increase its contribution to the ARC amount. And we have been, you know, putting this issue in front of the mayor and the city council for a few years now. And we're increasingly getting more traction and recognition. And I don't know if it was mentioned before, but I guess when our actuary comes he testifies to our city council every year regarding the report and he speaks to the mayor for the last few years on this. The budget, I guess, restraints or requirements of the city in a financial downturn like 2008, it's kind of a double whammy, where the pension fund goes down and the tax revenues go down at the same time. And there are other budget demands being met. So I think that when I get into the how conditions will improve, you'll see that the city is making some strides to fix this.

SENATOR MELLO: And I guess just for clarification, this is last year's actuary, correct? This is not the current one.

PAUL LUTOMSKI: This is the most recent report that has been completed. However, we are...have submitted the data for the 8/31/14 report and we usually get those about in December or so. So timingwise...

SENATOR MELLO: In the future we'll be able to get those before, you think, December 31st in the future?

PAUL LUTOMSKI: No, I think that's about as fast our actuary is going to be able to turn those around.

SENATOR MELLO: Okay.

PAUL LUTOMSKI: But I mean that's for 8/31/14.

SENATOR MELLO: Uh-huh.

PAUL LUTOMSKI: We're expecting to get that four...

SENATOR MELLO: Okay.

PAUL LUTOMSKI: ...about three, four months later.

SENATOR MELLO: Okay.

PAUL LUTOMSKI: So this is just a month short of having that report I guess.

SENATOR NORDQUIST: All right. Senator Kolowski.

SENATOR KOLOWSKI: Thank you, Mr. Chairman. Paul, thank you for your report. I wondered, within your choices for retirees, is there anything like the school program where you may take the money in different ways, like a 15-year guarantee for you or your spouse or family members?

PAUL LUTOMSKI: Yeah. We have three options: straight life, 100 percent joint and survivor annuity, which is a lower monthly payment and than straight life. They're all actuarial present value equivalent numbers, and then a 50 percent survivor payment.

SENATOR KOLOWSKI: And most of the plans have that option or flexibility, do they?

PAUL LUTOMSKI: All three of them have that.

SENATOR KOLOWSKI: Okay. Thank you, appreciate that.

PAUL LUTOMSKI: I know some plans have like a 75 percent survivor plan, and we haven't instituted that yet. But they're all...they all have the same present value, the liability cost as the straight life.

SENATOR KOLOWSKI: Thank you.

SENATOR NORDQUIST: Senator Conrad.

SENATOR CONRAD: Hi. Thank you. I understand that there is some time frame differences in terms of how your reporting and budget cycle works may be in comparison to the information presented today. But you indicated that you have submitted the data. You're waiting for the most recent report to come back in December. Do you have a general sense of what that might look like?

PAUL LUTOMSKI: Actually, no.

SENATOR CONRAD: Are we going to see it look higher than 72 percent, lower?

PAUL LUTOMSKI: We're doing a few things this year. We're doing a five-year experience study. And the actuary is going to incorporate that study into this report which may change some of the underlying assumptions. They're also...I mean it doesn't affect this directly, but GASB 67 and 68 are kicking in this year which means 25 and 27 are no longer applicable. So what used to be known as the ARC, I don't believe is even going to exist in the future. So what we have...we're going to...we need to work with the actuary still on going through the experience study and deciding what of his recommended changes we think are valid and want to include in the report. So that will change things. We did earn 16.4 percent for the 12 months ending 8/31/14. So that should help...

SENATOR MELLO: Market value or actuarial value?

PAUL LUTOMSKI: Market value.

SENATOR MELLO: Market value.

PAUL LUTOMSKI: But I'm sorry, I don't feel comfortable saying it's going to go from 72 to 70 or to 74. I don't know.

SENATOR CONRAD: Would it be a fair assessment, or maybe you just don't have a comfort level, is it going to get worse or are we moving in the right direction?

PAUL LUTOMSKI: It's not...I feel comfortable that I can say it's not going to be worse than 72 percent.

SENATOR CONRAD: Okay.

PAUL LUTOMSKI: I know raises...I was looking at this report quite a bit last night actually. And there's a page back here that talks about annual valuation payroll and how that increases from year to year. It's only running about 3 percent increase. And the actuarial assumption is for a 4.25 cost of living, plus variable increases with our merit step system that can go up to 8.25. So I'm not an actuary, but I think that might be one of the things that they could look at. And their experience study is to reevaluate a realistic cost-of-living inflation factor, maybe lower the 4.25 to something matched up better with our experience and that would lower our liability numbers, which changes the funding ratio. But I really would encourage all of us to wait and get that finalized next report.

SENATOR CONRAD: Uh-huh. Yeah, because this table indicates that we're really at almost a 30-year low right now?

PAUL LUTOMSKI: Yes.

SENATOR CONRAD: Yeah, okay.

SENATOR NORDQUIST: Senator Kolowski.

SENATOR KOLOWSKI: Thank you, sir. Paul, did you say the police and fire are not participating in Social Security. Is that correct?

PAUL LUTOMSKI: Correct.

SENATOR KOLOWSKI: And how common is that in most plans?

PAUL LUTOMSKI: I think it's very common. It's my understanding that...

SENATOR KOLOWSKI: Okay. I know it is in certain states in education also, but not here.

PAUL LUTOMSKI: Yeah. The plans that I look at, I haven't seen police and fire participating in Social Security.

SENATOR KOLOWSKI: Thank you.

SENATOR NORDQUIST: So walk by...walk me through the 13th check again. Is that a...you said it's a separate account?

PAUL LUTOMSKI: It's...the money is accounted for separately. It's invested with all the other pension assets. It is a separate account in that when the pension earns more than 7.5 percent return on its assets, a portion of the excess above 7.5 is deposited into the 13th check pool to provide these 13th check benefits. And this system was started in 1992 and there were several good years when the pension earned above 7.5. New deposits of that portion of those excess earnings were placed into the 13th check pool.

That money, you know, it has new deposits as a possibility, but also the money that's in there is invested along with the other assets and it earns at the rate that those other assets earn also.

SENATOR NORDQUIST: Is there any...is that contractually negotiated, the...that or...?

PAUL LUTOMSKI: Yes, it's in the...

SENATOR NORDQUIST: Okay.

PAUL LUTOMSKI: Well, no, it's not contractually negotiated, but it is outlined in the Lincoln municipal code.

SENATOR NORDQUIST: Okay. So that would have to change for there...I mean, if the plan is underfunded, you would have to change...

PAUL LUTOMSKI: The Lincoln municipal code in order to...

SENATOR NORDQUIST: ...the municipal code to be able to suspend that and...

PAUL LUTOMSKI: Yeah.

SENATOR NORDQUIST: ...use those assets just for the health of the plan overall.

PAUL LUTOMSKI: The code would have to be changed. There's legal aspects of that, that I'm not qualified to advise on.

SENATOR NORDQUIST: Whether or not it's an impairment of contract to.

PAUL LUTOMSKI: But I believe, yes, if...

SENATOR NORDQUIST: Right, at least for current employees.

PAUL LUTOMSKI: Yeah.

SENATOR NORDQUIST: All right. Senator Mello.

SENATOR MELLO: Thank you, Mr. Chairman. Paul, I guess I had to step out real quick. Did you say is the city making its actuarial required contributions now? And is that part of the...is that at all...if the city hasn't been, is that part of the attribution to the pretty steep decline over the last five years? I'm looking still at page 24.

PAUL LUTOMSKI: As of 8/31/2014, they did make the ARC requirement.

SENATOR MELLO: For that year, for 2014?

PAUL LUTOMSKI: Yes.

SENATOR MELLO: But the previous five years though?

PAUL LUTOMSKI: Previous to that, I think we were...the city was a little bit below. I didn't bring those comparison figures with me. Before that, I mean, I guess 2008, which...basically, that was when the UAAL development occurred. And the ARC has a component of paying off that UAAL. The city, I believe, has not kept up with the ARC, probably consistently, since 2008.

SENATOR MELLO: Okay.

SENATOR NORDQUIST: Any additional...? Senator Davis.

SENATOR DAVIS: Just to explore this 13th check a little more, just to follow up with what Senator Nordquist asked you, so I just need to have a grasp of where the funds come from for that 13th check. So portions of them come when the return is over 7.5 percent. Are there other funds that go into that?

PAUL LUTOMSKI: Yeah, it's detailed in the actuary report...can find the...on page 11. This page shows Table 3. It only shows the latest year but gives the funding method to the 13th check. The market value of the 13th check, or COLA pool, on August 31, 2012, is listed. There were additions made to the 13th check pool because the city contributed...or earned above 7.5 percent. There was...item 3 is an investment income that the pool earned by itself. Subtractions include these 13th check payments that were made to the beneficiaries so that you can see the count value changed from 15 to 21 in this year.

SENATOR DAVIS: So how is...how is...how do you determine what you're paying out?

PAUL LUTOMSKI: The 13th check payout was started in 1992 as a flat amount of $600. And that flat amount is increased annually by the lesser of 3 percent or the Consumer Price Index for the preceding calendar year. I think in 1995, the city council just bumped it up to $750. But since then it has...that dollar amount has been increased by the CPI method. So since 1995, it has grown from $75 to $1,164.81 per person, same rate for everybody that has met minimum age and service requirements for retirement, or if they were granted a duty disability pension. For people that left before reaching normal age and service retirement, like the vested deferred folks that I talked about, if they had 15 years of service when they left, they would get a prorated amount of the 13th check based upon their 15 years of service. If they were in Plan B or C, it would be 15/21. If they were in Plan A, it would be 15/25 since they have different years of service requirements. So that's how the payout is determined.

SENATOR DAVIS: Okay. And you have visited with the city council at length about the fact that your assets are deteriorating or your...

PAUL LUTOMSKI: Yes, every year for...at least since 2008, if not sooner, our actuary makes a formal presentation to the city council where he reviews this report and answers any questions they have. As part of this report, if there aren't any other questions, there is an executive summary and then there's a five-year budget or request that the committee might find helpful.

SENATOR NORDQUIST: All right. Any other questions? All right.

PAUL LUTOMSKI: So on to the executive summary, and a lot of this has already been definitionally covered by other people. But I just...I have page 1 here is an overview of what the report's...the actuary report's goals are. And of course it's to determine the employer contribution rate, measure the asset and liabilities, look at the experience of the plan since last time, then analyze trends. I wanted to show you on page 2 in terms of contributions versus expenses. There's a table at the top of the page that shows that the city and member contributions were $9 million; expenses, benefit payments and such were $11.8 million. So that means that $2.8 million has to come from the earnings of the plan. Just quick math, if we have $160 million and we need to pay out $2 million, that's roughly 1 percent earnings will cover the incremental difference in payout. There's administrative expenses that the city reimburses the plan for. And then, of course, the net investment income adds to the story of how we went from actuarial value or market value last year to August 31, '13. The graph in the middle of the page is a brief summary since 2007 that shows system assets versus...well, the net system assets. The green bar is the market value of the assets and the blue line is the actuarial smoothed value. Once again, you can see that 2008 caused the market value to go down. However, since 2010, the value...market value has been going up. However, liabilities have been going up. So we've been basically converging towards the 72 percent rate for a few years. At the bottom of page 2, is the number that we look at called "Unfunded Actuarial Accrued Liability," and it's $65 million. I believe other presenters have pointed that...that number out to you. Our 72 percent represents $65 million underfunding amount. On page 3, kind of talked about this already, but there's a table in the middle of the page. The first three lines show actuarial valuation numbers starting in 2007 and the table goes to 2013, once again showing that actuarially the plan was funded above 100 percent. Market value also above 100 percent, 2007. And then in 2008, down to...well, 2009 was the measurement date, but it was down to 72 percent. And now they've converged both at 72. Let me go to "normal cost." Our actuary, who couldn't be here today as he's presenting to a different group, tells us that the best way that he can think of in terms of comparing one plan to another, operating expenses, is normal cost. The city of Lincoln's normal cost is 19.13 percent. This has been stable from year to year. You see last year was 19.01. I explained that the employees contribute different amounts, different time periods, so the employee...the member financed portion of the normal cost comes out to a blended rate of 6.82 which is trending towards 8 percent as more of the Plan B and C folks that contribute less than that retire, so we expect that to keep going up. Employer portion is just the difference then, so that's 12 percent. The amount as a percent of salary needed to pay off the UAL, unfunded $65 million, is 8.88 percent. So the total employer contribution rate necessary is the 12 plus the 8.8 or 21 percent. And what are we going to do about this, I think is the question. These numbers...well, the 8.88 percent is based upon amortizing the unfunded liability over a 30-year time period. It assumes a 7.5 percent return rate and all the other assumptions, but it's also an open time period. So another change that we're having the actuary make for the report that will be done in about a month is that instead of a 30-year open period we're going with a 30-year closed period. And that will mean that a year from now instead of 30 years it's going to be 29 and 28 and 26. So there's a dedication to get this UAL paid off. The way the UAL was calculated after 2008 occurred, however, was using a 30-year open period every year. So in 2008, 30-year open; 2009, 30-year open. We're switching to a closed period to make a commitment to get that paid off. So in terms of the additional report necessary, we've got this actuary report that I think shows the current condition of the pension plan. One thing that the law asked for was any changes that are anticipated. Currently, there's no benefit changes that the city is anticipating.

There's no employee contribution changes that the city is anticipating. What the city is anticipating doing is going to, page 22, which has been in the report for a few years now, and this shows the city's funding plan, or our budget request. And basically, we just take this right out of the actuary report and this is the pension system's budget request. There are...I'm going to work through this a little bit because there's mandated amounts the city has to contribute and then additional amounts that would be good. But using a valuation payroll, the employer normal cost that I talked about, 12.31, is column two. So the normal cost contribution for this year we're in right now is actually $4.7 million. Admin. expenses for the prior year, actual admin. expenses, and this includes every fee we pay, are added to that so that in the Lincoln municipal code the minimum amount the city can put in, it's called the mandated contribution, is employer normal cost plus admin. expenses from the prior year, so $5.1 million roughly. The recommended percent of salary to pay off the UAL is 8.8 percent, which is another $3.3 million. So our budget request for each of the years is the last column on this number and that is the intent of the city to seek and fulfill that budget request. As I said, these numbers are based upon a 30-year open. We do have a 30-year amortization schedule that is a closed period. The 8.88 percent is going to go probably to about 9.4 percent using that closed amortization period.

SENATOR NORDQUIST: So just real quick, just so minimum payment that the city would make would be their share of the normal cost. So with the employee, employer, and expenses, normal cost and admin. expenses are required by city code to be taken care of every year. Is that right?

PAUL LUTOMSKI: Yes.

SENATOR NORDQUIST: Okay.

PAUL LUTOMSKI: Yeah, at the very least.

SENATOR NORDQUIST: Okay. Do you have a question? Senator Mello.

SENATOR MELLO: Thank you, Mr. Chairman. Paul, looking at page 22, and I appreciate this, this is the answer I think we were all looking for. Is the city...is there...the city with the budget request, is there a dedicated revenue stream in regards to how you're going to meet that recommended UAL contribution or is it general funds?

PAUL LUTOMSKI: It comes out of the general fund. We get our money from property taxes though, not from sales tax.

SENATOR MELLO: So no sales tax would go...I thought sales tax goes into the general fund as well with property taxes.

PAUL LUTOMSKI: Yeah. When I get reports on how much is contributed, it always says "real estate property tax."

SENATOR MELLO: Okay.

PAUL LUTOMSKI: And then there...that is by far the bulk, 99 percent, of the money. And then there's another one that says "sundry taxes and in lieu." I'm actually not sure what that is. It's a very tiny amount, so I think I can say that it's property tax.

SENATOR MELLO: Yeah, I think it's utilities, payment in lieu of tax for utilities. So there's no dedicated stream, you know, no occupation tax that's dedicated to covering this unfunded liability moving forward?

PAUL LUTOMSKI: There is...no, there isn't. But that possibility exists within the Lincoln municipal code already. If the city wants to say, we're going to tax you X, that already is built into the potential system. It's been there for 20 years at least.

SENATOR MELLO: Okay. Okay.

SENATOR NORDQUIST: All right. Go ahead.

PAUL LUTOMSKI: Okay. Good? All right, thank you.

SENATOR NORDQUIST: Yeah, thank you. Any other questions? Thank you. All right. Next we will have Omaha...we can probably go ahead and bring...we'll have them present on employees, police and fire, but come on up. Probably just taken them both at the same time and then...oh, they're different presenters, sorry. Okay, we'll do Omaha employees first then. Great. Welcome. Welcome and whenever you guys are ready kick us off. Go right ahead.

ALLEN HERINK: (Exhibits 5, 6, 9, and 10) Okay. Good morning. My name is Al Herink. I'm with the city of Omaha. I'm the city comptroller. And I also sit on the civilian pension board. And we're going to talk about the Omaha civilian pension right now. We also...Pat and Brent are also our actuaries, so if anything real technical comes up, they're right over here, we can ask them what I don't know. We can get going on this a little bit. First of all, I thought I'd talk about the structure, the way the city's pension board and the city funds the pension plans. The pension board has the fiduciary responsibility to control the assets and to administer the benefits and pay the benefits, make sure everybody is eligible. The pension board invests the assets and secures those things. The city council and the mayor's office, they negotiate with the unions and they set the contribution rates and they also set the benefits through labor negotiations. So that's the structure of how we work. It's...the pension board doesn't have full control of the whole situation. So I've got a handout here and I thought we would just talk about some generalities. Let's just start with the first sheet here. And this is a...kind of gives you a historical perspective of where the plan is at, give you an idea where we're at right now. If you take a look at the 2014 column, we have a actuarial liability of $442 million. We have actuarial assets of $237 million. And we have an unfunded actuarial liability of

$205 million. Our funded ratio for '14 is 54 (percent). It has gone down the last few years and that's both on market value and actuarial value. Our contribution rate should be 38.45 (percent) to fund the thing completely. Right now, we're putting in 21.85 percent, so therefore we have a shortfall on our contributions. And it's been going up just a little bit every year. As you can see, the plan is in serious financial shape. And the city council knows this, mayor's office knows this, the boards knows this and that's the situation today. I thought...the next sheet, I thought, kind of, I'd talk about are investments right now. I thought this was kind of interesting. If you take a look at the left-hand column, it gives you an idea of the different types of investments we have. We have a diversified portfolio. We have domestic stocks, international stocks, fixed income, some real estate, some hedge funds, and a little bit of cash--didn't amount to much. We can talk about the returns just a little bit. Let's go to the one-year column. So far, year...one year, the last year we got 8.9 percent; over three years it's been 11.3; over five years it's been 10 percent...excuse me, over three years it's been 12.1, and over five years it's been 10 percent. Over ten years it's been 6 percent, but since inception we've had 9.4 percent. And it's been since the early '80s that we've...inception. So, that's kind of where we're at. We hire professional investors for us and the fund has done very good. This next sheet here...

SENATOR NORDQUIST: Do you want to ask a question? Do you want to go ahead?

ALLEN HERINK: Sure, get right in here.

SENATOR NORDQUIST: Senator Mello, go right ahead.

SENATOR MELLO: Thank you.

ALLEN HERINK: Sure.

SENATOR MELLO: Thank you, Mr. Chairman. I'm going to call you Al.

ALLEN HERINK: That's great.

SENATOR MELLO: Okay, Al. What's the city...for the civilian plan, what's the investment rate of...expected investment rate of return?

ALLEN HERINK: Eight percent.

SENATOR MELLO: So it is 8 percent.

ALLEN HERINK: Yes.

SENATOR MELLO: Okay. That's all I needed to know right now.

ALLEN HERINK: Yes. If you take a look at the sheet I handed out, it talks about the...where it says "Absolute Objective," it's the 8 percent...

SENATOR MELLO: Okay.

ALLEN HERINK: ...and down on the bottom. Okay?

SENATOR MELLO: And has that been...has that been the actuarial assumption for a considerable amount of time?

ALLEN HERINK: You know, I think maybe 20 years ago it was 7.5.

SENATOR MELLO: Okay.

ALLEN HERINK: But the fund has always done so good. I think maybe 20 years ago we changed it to 8 percent.

SENATOR MELLO: Okay.

ALLEN HERINK: And again, I don't want to get too technical on this, but we have an investor and...that helps us with this, an investment advisor. And they think our chances of getting over 8 percent going forward are better than 75 to 80 percent, based on they think inflation is going to go up and the rise in the stock market is based on that. So based on their long-term projections, they think that's very reasonable. The next sheet is just...is kind of a summary that we hand out to the employees every year, give them an idea how the fund is doing. And if you take a look, it's got the contribution rates for the different bargaining groups. We, right now, have four bargaining groups that participate. We have civilian, the functional, CMPTEC, and AEC. And they all pay approximately the same in. We put over, as you can see, 21 percent into the fund, almost 22 percent. And that's the rates right now. It gives you the cash flows. The fund is cash flowing fine right now. But again, it's in serious financial shape and that's the situation right now. And then the last sheet kind of gives you the roster of the different types of people that are on...retired, the membership. And we have about 1,370 people receiving some type of benefit from the plan. We have a disability protection for these employees that is paid out of this plan also. I think we have about the same amount of active employees that are working, so it's a mature plan. And that's kind of the situation right now. Now here's...I'll give you a little perspective. So right now we're in a situation where all the unions that we have are...their union contracts are up for renewal. And the mayor, the city council, the board, the unions, they all want to get this plan fixed. We've offered all the unions a pension part of the package, their negotiated package that will fix the plan. We've had one union accept the package yesterday, voted...it was 251, was (inaudible) which has the majority of the members there. And so again, we're going to try to fix this plan through negotiations. We have one out of four unions agreed to the plan. Our actuaries told us that if all the unions agree to this plan, the thing will be fully funded, the plan will be fully funded in 24 years. And that's what's in our proposal. The contributions by the city will go up substantially. And the employees will be asking to take...increase their contributions or take benefit cuts to fund the plan. So that's the situation we're in right now. And if you have any questions, Bernard here, he may know some particulars about the proposal or what we need to do.

SENATOR NORDQUIST: Um-hum. All right. All right. Well, I appreciate the overview. And, certainly, I think the word "serious" you said at the beginning is...it absolutely looks like that. But I've been reading actuarial reports for about eight years around here now; I've never seen a, I guess, a bold print in one of them that says that it is a serious situation and...

ALLEN HERINK: Oh, does it say that in there? Okay, okay.

SENATOR NORDQUIST: Yeah, yeah. Bolded, saying that this is a very serious situation and needs...

ALLEN HERINK: No, we've, you know, we're in the market to sell bonds a lot and all that, and we have to have full disclosure to all of our investors and for...we're not trying to hide anything here.

SENATOR NORDQUIST: Right. You mentioned that...

BERNARD IN DEN BOSCH: Can I add about a minute and then...

SENATOR NORDQUIST: Oh yeah, please, go right ahead. Yeah, sorry.

ALLEN HERINK: Oh, get right in here, yeah.

BERNARD IN DEN BOSCH: That because I've been anticipating some of your questions. My name is Bernard in den Bosch. Last name is spelled, first word is lowercase, i-n; second word is lowercase, d-e-n; and third word is capital B-o-s-c-h. I just wanted to hit a little bit on the what are we doing to fix it solution. And Mr. Herink is absolutely correct that we've been in negotiations with...there's actually three civilian unions. And then the AEC group is a group of management employees that the city gets to impose the terms and conditions of employment on, though they typically mirror that that's negotiated for the civilian management group. The largest group, Local 251, our civilian blue-collar workers, did have a vote yesterday and they approved the tentative agreement that was reached between the city and the union. We have...we're actually in the middle...still in negotiations with civilian management group which is the other larger civilian group. In fact, we're going to mediation on December 8 on our case that's pending in the CIR to, hopefully, be able to reach a resolution, though, obviously, we'd much be able to say we have an agreement to do so. But the important thing...and I just wanted to mention, as Mr. Herink indicated, the agreement that we've reached with Local 251, we have a city of Omaha charter provision that requires that the pension system be funded substantially equally between the city and the employees. That's important when you get into the context of can the city unilaterally make payments theoretically under the charter. The city could not. And so in the current negotiations, the city is dramatically increasing its contributions upwards of 6 or 7 percent by the end of 2015. Employees are not receiving a reduction for past benefits, but there is a reduced benefit for years moving forward, including, instead of Rule of 80, Rule of 85; the percentage you get per year being reduced from 2.25 to 1.9 percent per year; smoothing meaning a five-year average as opposed to the highest 26 pay periods in your last five years--a number of things all intended...and those things have all come up with, frankly, with a lot of work with Pat Beckham and Cavanaugh Macdonald on their part. New hires will also be going from the traditional defined benefit plan that we have to what's called a cash balance plan. It is a type of defined benefit plan. Still meets the IRS regulations but much different than the traditional plan. And I suspect you guys are probably more familiar with that type of plan than I am. I've had to do a lot of learning in the last year or two to try to understand it. So we have one big step reached. We hopefully will have another step reached over the next few months if we can get Local 251, roughly, 500 or 600 employees; CMPTEC is roughly 300 employees, actually (inaudible) I guess (inaudible) a little bit bigger than that. But the Functional and the AEC groups are roughly a hundred employees combined. So it really...we've got the...the biggest step is in place and hopefully the others will fall like dominos, hopefully. Anyway, I just wanted to add that before you asked questions.

SENATOR NORDQUIST: All right. On the charter provision that requires substantially equal contributions, how does that...does that apply to the police and fire also, because I saw in their changes that the city was picking up almost 2 to 1?

BERNARD IN DEN BOSCH: Well, it does apply to every system. And there was no question, when you look at the actuarial determination that was made, the city is putting its contribution in through the increased contributions--cash. The police and fire and...frankly, we're asking the same thing of civilians, they're putting their contribution in through reduction of benefits. That is at least the legal theory to say it's substantially equal. We'll put in 7 percent more cash and you're going to take cuts in benefits to equal that 7 percent.

SENATOR NORDQUIST: Okay. I know that, well, it's been my understanding that portion of the dedicated revenue stream went to the police and fire is restaurant tax revenue or...?

BERNARD IN DEN BOSCH: Well, I think...and...

SENATOR NORDQUIST: Or does that just go to the general fund and it's taken out of...?

BERNARD IN DEN BOSCH: ...it goes to the general fund.

ALLEN HERINK: It goes to the general fund. Once the restaurant tax goes into the general fund, it loses its identity with all the other taxes. The revenue streams that will pay for the civilians, again, we have a diversified revenue stream, but we also...they work in different sections. If they work in the GAL Fund, the GAL Fund will pay it. If they work in the ARCing Fund or the sewer fund or whatever, wherever they're working the different funds will pay them. So again, it's a diverse funding for this. The funding is there, yeah.

BERNARD IN DEN BOSCH: But the great majority...the great majority of the funding comes from the general fund. And the occupation tax, or the restaurant tax, which is what you're talking about, those funds all do get paid into the general fund just like property tax and sales tax.

SENATOR NORDQUIST: Okay. All right. All right. And that will just...the additional city contribution will be absorbed through additional budget growth that they're projecting?

ALLEN HERINK: Annual appropriations, just like we do the current debt of contributions.

SENATOR NORDQUIST: Okay. Okay. Other questions?

ALLEN HERINK: In fact, we've already set aside money to retro pay the '13...increased '13 contribution, which was 5 percent. And in 2014, when we did the budget, we put another...about another 2 percent in to get it up to 7 percent contributions. And those will be retroactive once we get the contract settled. The contract did expire at the end of 2012.

SENATOR NORDQUIST: And once the new contracts, if the new contracts are signed, and all the contributions are made, does the city start making the ARC payments?

ALLEN HERINK: No.

SENATOR NORDQUIST: Still short?

ALLEN HERINK: We won't be making the ARC for a few years. And I think this last year we made about...maybe about 45 percent of ARC. But again, the settlement we had is based on the newer employees, their benefits aren't as equal and...more goes to the past pension costs, more of the contributions.

BERNARD IN DEN BOSCH: Anticipate your question: the normal cost is $23.525. I knew you'd ask, so I looked it up before I came up here.

SENATOR NORDQUIST: And the total contributions?

BERNARD IN DEN BOSCH: Currently, are 21.85.

SENATOR NORDQUIST: Okay. Okay. All right. Other questions from the committee on this? Senator Mello.

SENATOR MELLO: Thank you, Mr. Chairman. And thank you, Al, and thank you, Bernard, for your testimony and explaining some of the challenges that, obviously lie ahead for not just for your civilian employees, but, obviously, the city leadership, both the mayor and city council.

ALLEN HERINK: Well, it's exactly right.

SENATOR MELLO: And just a couple...I guess it's just a couple follow-ups, because I've asked pretty much everyone just to make sure we establish a general record for this committee and for the Legislature moving forward. You mentioned that there was a...the act of planned participants, you kind of alluded to it in your testimony that it's about equal, quote unquote, to the retirees. Do you have a specific percentage of active plan participants comparison to retirees?

BERNARD IN DEN BOSCH: I think it's roughly 1,100 active participants, and about 1,350 of retirees.

SENATOR MELLO: Beneficiaries.

ALLEN HERINK: Yeah.

SENATOR MELLO: So that's below 50 percent. And I think the general...we've, generally, had conversation before, and we heard earlier today from another political subdivision that explained that that 50 percent threshold is kind of an alarm bell, so to speak, in regards to when you need to look at possibly some general structural issues as an organization that you have fewer people paying into the system than people who are receiving benefits. Is that at all addressed in regards to the current proposal to deal with the unfunded liability as the, roughly, 45, 40 percent number of payees?

ALLEN HERINK: Yeah. The assumptions for the projection to fully-funded plan takes into account what the hiring...future hiring is going to be and all those types of assumptions.

SENATOR MELLO: So is anything based...I...

BERNARD IN DEN BOSCH: I would say it's indirectly addressed to the point that for current employees, as we move forward, the Rule of 80 moves to the Rule of 85. The minimum age that one could retire moves from 60 to 65. So you have some things there that over a...assuming a constant number of employees, as time passes, people will have to be older before they can retire and you should see that move back towards more of a fifty-fifty. But that's indirect as opposed to direct.

SENATOR MELLO: Okay.

BERNARD IN DEN BOSCH: I think that addresses your question.

SENATOR MELLO: Okay. That does, it answers. And I guess it's maybe a question to Cavanaugh Macdonald at some point, and it doesn't have to be today. We can do...they can do follow-up in regards to...

ALLEN HERINK: Sure. They put hiring projections into those long-term assumptions.

SENATOR MELLO: I imagine that's the case. It's just a question of...you're dealing mostly though...I think those changes that you just explained, I think, dealing with current employees--if I'm correct, nod--which, as we just heard from our own...what the Legislature's reform of our education employees' defined benefit plan creating that tier two system takes for...takes a considerable amount of time for that to fully be enacted. And so I imagine if you're operating in that same pathway that we operated under, that, I guess, if that's the intention and the actuary's analysis that that will address that under 50 percent mark, then I...I mean it's, all we can do is take for what the actuary is going suggest or what they project. But I guess the only other question then, and you kind of answered it but I just want to make sure, clarify. There's no dedicated revenue stream for the civilian employees' pension plan,...

ALLEN HERINK: No.

SENATOR MELLO: No, so it's just a general fund appropriation that goes through the annual city budget process?

ALLEN HERINK: It goes through the budget process, yes.

SENATOR MELLO: Okay. Okay. I think that's all I have. Thank you.

SENATOR NORDQUIST: Yeah. All right.

BERNARD IN DEN BOSCH: And the only thing what he mentioned, the special funds, we have some employees that are funded by use fees: sewer funds, a parking fund. Their contributions would come out of those special use funds. That's a fairly small number, but that's the only slight exception.

SENATOR MELLO: So there is a dedicated revenue stream to some...for select employees.

BERNARD IN DEN BOSCH: Yeah.

SENATOR MELLO: Is there any...is there any efforts to increase those revenues for those funds through...? I imagine they're all through fees, arguably, probably more than anything else.

ALLEN HERINK: Yeah, we try and keep the funds self-sustaining and set the rates accordingly. If we need to raise them to pay the additional cost, we will. The sewer fund is...you know, we just passed a four-year rate increase.

SENATOR MELLO: Yeah. I'm very aware of the sewer fund, believe me. (Laughter)

ALLEN HERINK: There is 164 people that are pay...that contribution is coming out of that fund for their pension.

SENATOR MELLO: So there is...just for the balance sheet purposes, I guess, for us to understand, those employees will see their...let's just assume that the plan that you discussed that was adopted is adopted by all civilian employee unions. That's the plan moving forward. The likelihood is there's...there's a likelihood that you would see fees increase to meet the need for those select employees that are going to be paid for or their increases will be paid for by these select funds so the likely...it's a possibility or likelihood that you would see those funds have to meet an increase to be able to cover those increased in employer contributions.

ALLEN HERINK: Exactly.

SENATOR MELLO: Okay.

SENATOR NORDQUIST: Senator Davis.

SENATOR DAVIS: Thank you, Senator Nordquist. You have around 1,200-and-some active employees. Is that right?

BERNARD IN DEN BOSCH: It's closer to about 1,100.

ALLEN HERINK: (Inaudible) '13 we had a hiring freeze on and we might be down just a little bit. And...but that's pretty accurate figure.

SENATOR DAVIS: So out of those employees, about...any idea how many will be retiring within the next three or four years, I mean to see how this is going to affect you?

ALLEN HERINK: I'm sure it's probably in here, but I don't know right off the top of my head.

BERNARD IN DEN BOSCH: Certainly, I think there's an assumption made by the actuary when you read certain factors that people are going to retire and I...we could...I don't know that any of us know off the top of our head. I would submit to you that, frankly, the sooner that happens the better because then people will go to the new cash balance plan which will put us in a better position more quickly.

SENATOR DAVIS: And again, how does this cash balance plan...you said it is a defined benefit plan.

BERNARD IN DEN BOSCH: It is, and employees and employers both make...both make the...the employee will be expected to make this same contribution as would the employer. You have a fund that is made up of...and I'll massacre it if Ms. Beckham looks through me, and they have interest credits and pay credits that you get. A pay credit is based upon your income and an interest credit that's based upon the funds that are in the system. And you have your...the funds all stay together, but you have your own fund and then at certain points in time you have the ability to buy certain types of annuities out of the fund. And you don't actually buy them, but the fund funds those annuities with those contributions. And there's...you have the ability to change the pay and interest credits over time. If the fund would get to a point where it was actuarially funded at a higher rate, then employees could ask for a higher pay credit or a higher interest credit. But the ones that are initially established and the ones that have been negotiated that are in the proposal, that was accepted yesterday and hopefully will be accepted by the other groups, allows us to be able to help fund that unfunded portion of it that capture that ARC we need to do.

SENATOR DAVIS: And then the final question I think: You have one of these proposals before the CIR today, and that will be the deciding factor as to what CIR decides?

BERNARD IN DEN BOSCH: We have two unions that filed cases in the Commission of Industrial Relations for 2013 wages and conditions of employment. One was Local 251. That has been resolved by the tentative agreement approved yesterday. The second one is our civilian management group. We don't have a deal with them yet. We've exchanged some offers. We've had...they've voted on an offer and we have been ordered to go to mediation with the CIR for the 2013 terms and conditions of employment. If that's unsuccessful, we would have to go to the CIR, but the only thing the CIR would be addressing would be terms and conditions for 2013 and really would not address...

SENATOR DAVIS: Yes. Right.

BERNARD IN DEN BOSCH: ...any long term...any type of pension fix at all. I mean, you did an hourly rate value analysis and it would not help address the pension.

SENATOR DAVIS: Thank you.

BERNARD IN DEN BOSCH: Sure.

ALLEN HERINK: To get back to your rates...do you have the actuary study in front of you by any chance? On page 33, it looks...it give an analysis of all the people. But it looks like there's 1,116 as of the end of '13. And it looks like about half of those are over 50. So when they retire is anybody's guess. But it's an insured plan.

SENATOR NORDQUIST: Senator Kolowski.

SENATOR KOLOWSKI: Thank you, Mr. Chairman. Gentlemen, thank you for your testimony. Just as a resident of Omaha, something was mentioned about the restaurant tax. Do you know the approximate total of what that might bring in this year?

ALLEN HERINK: That brings in about $25 million...

SENATOR KOLOWSKI: Twenty-five million.

ALLEN HERINK: ...$26 million.

SENATOR KOLOWSKI: Okay, thank you very much. I just wanted to get that into the record.

ALLEN HERINK: Sure.

SENATOR NORDQUIST: And I just...question from the letter, so you mentioned that in the absence of full actuarial funding, the city has the taxing capacity to pay future obligations estimated to be $24 million annually in 2014 dollars by increasing property tax levy within established limits. Is that...are we anticipating that even with negotiations or will negotiations close it up enough or that's just (inaudible).

ALLEN HERINK: That's the worst-case scenario.

SENATOR NORDQUIST: All right. All right.

BERNARD IN DEN BOSCH: That's the nuclear option. That information was provided to the...our bond people. An indication of if we can't work out an agreement and if a court were to say the city was responsible for the whole system, notwithstanding the language. And that's the nuclear option.

SENATOR NORDQUIST: Okay. Any other questions on the civilian employee plans? Senator Mello.

SENATOR MELLO: Thank you, Mr. Chairman. And I guess that's...I saw that component, too, and I assume that's why it was probably incorporated there but...

ALLEN HERINK: The bond people or the investors wanted to know can...you know, if nothing gets settled, what is the worst-case scenario. That's one we presented in the official statement on when we sell bonds.

SENATOR MELLO: And I guess to some extent, I mean this would...I have to assume this has been part of the discussions moving forward, at least in regards to how the city is negotiating with the civilian unions, is how is the city going to pay for this dramatic increase in the city contribution? Is it going to...I mean, is it going to rely on property tax increase? Is it going to rely on...

ALLEN HERINK: Yeah. Uh-huh. Like I said, in '13 we set aside 5 percent already. And in '14 we added another 2 (percent). It went through the budget process just like any other expense and we have the money there available to pay for it in '14...'13 and '14. And '15 going on, we'll...it's in the budget for '15 which has been passed. So 7 percent is already budgeted for and years beyond will retain that, just like any other obligations the city has.

SENATOR MELLO: So essentially, you...just so I understand processwise, since we deal a lot with process down here, is that the past couple city budgets have incorporated an appropriation for an anticipated increase in employer contribution that's been passed by the city council, sitting essentially in an account...

ALLEN HERINK: Exactly right.

SENATOR MELLO: ...ready to go into...

ALLEN HERINK: Ready to be paid out when the obligation is incurred.

SENATOR MELLO: Paid out into the system. And then it's...then it would be a continual request on the annual basis as part of the ongoing city budget process.

ALLEN HERINK: Yeah. We knew that all the civilian union contracts expired at the end of '12. And when we did the '13 budget, we put in there that we'd give them a 2 percent increase and a 5 percent increase to the...contribution to the pension plan. And the thing wasn't settled so that money sat in there. And when it's settled, it will go back retroactive to pay those obligations if necessary.

SENATOR MELLO: So that's...what's the dollar amount associated with of that 7 percent then?

ALLEN HERINK: It's, I think, every percent is about a half a million dollars.

SENATOR MELLO: So about $3.5 million, give or take?

ALLEN HERINK: Yeah, $3.5 million, yeah, for just '13. And then it...you know, when you start figuring this stuff, it compounds, because you gave them 5 last year in the wages. So it's a complicated computation, but we do, we set aside money every year when we know we don't have the contracts that are settled.

SENATOR MELLO: Okay. Thanks. And it comes from general fund dollars.

ALLEN HERINK: Again, who...wherever the person is working, we...every...

SENATOR MELLO: Or with the exception of the fund employees.

ALLEN HERINK: Yeah. Right, every, yeah, every fund. We call this the wage adjustment account and we put money in that and appropriate it and we have money to pay back wages and settlements.

SENATOR MELLO: Okay. All right.

BERNARD IN DEN BOSCH: Can I mea culpa on one thing?

SENATOR NORDQUIST: Yeah, please.

BERNARD IN DEN BOSCH: I have to correct myself. I said the normal cost for civilians was 23; it's actually 13...

SENATOR NORDQUIST: Right. So it's much less than that. (Inaudible) Right.

BERNARD IN DEN BOSCH: It's 13.231. I apologize.

SENATOR NORDQUIST: Right. No, that's all right. The unfunded liability was 25, I saw.

BERNARD IN DEN BOSCH: I have my...both my notes, so I apologize.

SENATOR NORDQUIST: Real quick, I know both plans had...and maybe we can have Pat and Brent come up after both presentations. But I know both plans had experience studies done. Do you know any...did any of those have significant changes on the...?

ALLEN HERINK: You know, I think it was very slight. Pat can probably address it a little bit. But I don't think it was material at all for the civilians.

SENATOR NORDQUIST: Okay. We can ask her. Yeah.

ALLEN HERINK: It might have...it didn't affect the contributions by, you know, less than a percent, didn't it?

SENATOR NORDQUIST: Okay.

ALLEN HERINK: Okay. It wasn't...

SENATOR NORDQUIST: Great. Any other questions? All right. Are you doing police and fire, too, or is somebody else presenting?

BERNARD IN DEN BOSCH: No, somebody else is.

SENATOR NORDQUIST: Okay, great. All right. Thank you, guys.

BERNARD IN DEN BOSCH: Except I get to stay.

ALLEN HERINK: I sure enjoyed this. Thanks.

BERNARD IN DEN BOSCH: Thank you.

SENATOR NORDQUIST: Yes, thank you for being here. All right, now we will turn to the Omaha police and fire plan. Welcome. Just give them to Laurie there, we'll pass them around. Thanks. Go ahead whenever you're ready. Thank you.

STEPHEN CURTISS: (Exhibit 7) I am Steve Curtiss, C-u-r-t-i-s-s. I am the finance director for the city of Omaha and I'm the administrator of the City of Omaha Police and Fire Pension System. As we've noted, Pat Beckham is here. She'll have forgotten more about actuary stuff than I'll ever know and she is our actuary, as she is for the civilian one as well. Bernard in den Bosch, who you've already met, is here to kick me if I get off track. And also with me is James Sklenar, a lieutenant in the police department. He is the chairman of the pension board. As Al Herink had mentioned, it's a little bit of a bifurcated system where the city is the administrator but there's an actual board. And that board consists of not only elected civilians, or in this case sworn personnel. It also includes a city council member and then a few appointed people. I think you have my brief information. I probably won't go over some of the same things, other than answering your questions as they come up, that Al did just because the nature of the two pensions is somewhat similar, the structure is somewhat similar. However, the place we are in time is probably a little bit different as you may have seen. One of the things that we probably ought to go over is that the 8 percent return, I think that comes up a lot as a discussion. And I think we all hear that, well, 8 percent for a domestic stock portfolio probably isn't very attainable. And I would agree that 8 percent on a domestic stock portfolio probably isn't very attainable. But as you've all probably ascertained before this, that we don't maintain domestic stock portfolios, so we have quite a diverse portfolio that includes about 32 percent domestic stock. So with that said, our pension has achieved about a 9.5 percent return over the last 34 years, I think it is. So we maintain that 8 percent return. Obviously, if you take any sliver of time it will be different, but, you know, we've had a lot of bull and bear markets since 1980, so it's weathered that test. If we ever come to the conclusion that's no longer attainable, we'd certainly change that. Historically, one of the things that I think we ought to go over for this particular fund is kind of how we got to where we are today. If you go back about 10 or 15 short years, I'd say in the late '90s and early 2000s, this fund was actually fully funded. So if you go back to the early 2001-02, somewhere up in that range, it was fully funded. What occurred after that was a fairly impressive structure change for the benefits of the sworn officers and firefighters. And I think the money would have appeared to back...I can't second-guess what an administration might have done years ago, but it would have appeared to have been attainable. Then, as we all know, 2007, '08, '09 occurred. It began to look fairly unattainable. And what the city did was put together a task force. So they were fairly proactive for this particular pension. They put together a task force in 2008 and it recommended a number of structural changes to the benefit plans and other things that were actually implemented contractually over the last four or five years. I'd say it was about 2010 when the police actually contractually entered a contract that implemented many of the decisions that had been suggested. In 2013, the fire joined along with that. Some of those things they did was, obviously, reduce the benefits, because as we've talked about before, our charter under 6.09 requires there to be a bilateral participation in the funding of those agreements. And it's very open-ended about what being equal means. But we've interpreted that over time to mean that it's not only the actual financial contribution, but the benefits and the values of those can also count towards that equality mark. So what they did was reduce benefits for active and future employees. They eliminated spiking, which was obviously a very controversial practice. They implemented DROP, which is still in the process of really being fully implemented. In fact, we have about another 20 or so...15 or 20 firefighters going on soon. And then we require wage smoothing.

BERNARD IN DEN BOSCH: I just want to add on DROP, one thing that is different from the Lincoln plan that you've heard is our employees who are in the DROP continue to make pension contributions, notwithstanding the fact that they don't attain any more rights to benefits.

STEPHEN CURTISS: And the way they're paid, and I think it's interesting to note, that the way that they are paid is that their contributions actually are paid back to them with a fairly nominal interest rate. And one of the kickers in the calculation for that interest rate is that they first have to satisfy our return of 8 percent and they would only get a return above that. And it's even smoothed over a five-year period. And there's some other intricacies of that calculation. But in essence, it basically says we have to get our return first. With all those things in place, I don't know that our actuarial studies, as they exist today, tell you that a fix is in place exactly. In fact, if you looked...although there is some, I think you would...you'd assess some fairly good news as you look across from this second page of the report I gave you. If you go across, you can see our funded ratio is growing. Our contribution shortfall is shrinking quite a bit. I would tell you from the projection that I think has also been provided to the committee, it shows that our...and I don't know if it shows this specifically, but we would suggest that our ARC will be fully funded year over year, probably over the next few years. I know Pat doesn't seem to be questioning that one, so I'll run with that one. In this projection, too, it shows that it will be at about 80 percent funding within about 13 years, by 2028; will be 100 percent funded within about 20 years, approximately 2035. So with that, I'll turn it over to you for questions.

SENATOR NORDQUIST: Okay. Senator Mello, you want to go ahead?

SENATOR MELLO: Thank you, Mr. Chairman. And thank you, Steve. May I call you Stephen?

STEPHEN CURTISS: Yes.

SENATOR MELLO: Thank you, Stephen. Thank you, Bernard, again. Obviously, I think we've...I think collectively we as policymakers, (inaudible) number of people who...taxpayers in Omaha like myself have followed what's been transpiring over the last few years in respects to specifically the police and fire plan. We know that there's been agreements both on police and fire. Something that was mentioned earlier and I've asked this general question so I kind of know the answer based on what Allen kind of told me before, which is he said that there's no dedicated revenue stream for the civilian plans. Is there a dedicated revenue stream, as you would classify it, for the police and fire plan?

STEPHEN CURTISS: No, my answer wouldn't be any different.

SENATOR MELLO: There's not a...based on your answer, I think we all do know that there's an occupation tax that was created specifically to address the city's increased employer contribution rate. That would be accurate to say?

STEPHEN CURTISS: I think that was postured as one of the reasons why that tax was put in place, yes.

SENATOR MELLO: Okay. That was...I believe it also...was that part of also the tax pension task force report as well that was created in 2008 that gave that as an option was to create an occupation tax to pay for?

BERNARD IN DEN BOSCH: I believe that's fair. I think the Bates commission...Bates task force report...

SENATOR MELLO: The Bates commission. Yeah, the Bates...

BERNARD IN DEN BOSCH: ...contemplated that that would be one of the alternatives.

SENATOR MELLO: So the Bates task force...pension reform task force gave that as a proposal as well. I guess, in the sense of knowing at least the positives, it sounds like that's moving on in the civilian plan. How would the city financially move forward in regards to keeping that employer contribution designated for the police and fire plan if it eliminates the occupation tax?

STEPHEN CURTISS: I think as Al had suggested that those funds go into the general fund.

SENATOR MELLO: Yeah.

STEPHEN CURTISS: And it doesn't alleviate the city of its obligations under that plan. That funding source is just one of many in that whole funding stream and I don't believe it eliminates the obligation of the city...or the other things that they've contractually agreed to in their negotiations.

SENATOR MELLO: So if the city was to move forward with the elimination of the investor occupation tax, it does not negate the city's ongoing employer contribution increase moving forward.

STEPHEN CURTISS: No, in fact if you remember when they first suggested what the occupation tax would be, I think they thought it would be in the $14 million or $15 million range. And as Al had said, it's probably $26 million, maybe $27 million. And so that was...it's always been understood that that's just on the general fund's source but is no way linked to the city's obligations under the pensions.

SENATOR MELLO: So as one general finance person, who deals with public finance, to another, how does the city balance its budget if you eliminate the occupation tax?

STEPHEN CURTISS: I don't have...I'm not sure that that's under consideration. But if they did, I'm assuming we'd have to look at all the funding sources.

SENATOR MELLO: So it's not under consideration right now? The city is not considering, the mayor nor the city council is considering eliminating the occupation tax?

STEPHEN CURTISS: No one has discussed that with me, no.

BERNARD IN DEN BOSCH: I think we are aware. Certainly, the mayor has discussed publicly an interest in looking at it and considering whether it continues. But I think Mr. Curtiss, as we sit here today, there is no plan.

STEPHEN CURTISS: We're not currently in a budget cycle anyway, so those conversations aren't currently occurring. But as you know, it's like any other propositions. You're going to look at all your funding sources, whether it be property tax, sales tax, and everything else, and then view that against your expense obligations and make the two balance as we're all required to do in the public world.

SENATOR MELLO: I completely agree and understand. And I appreciate the testimony. I guess it's just...to some extent I mean it's been sold, I guess, to the public at large when this was passed--and neither one of you, obviously, cast a vote to do that, I understand that--that the occupation tax was solely created to deal with the unfunded pension liability moving forward. The police/fire plan is moving forward in a very positive step, moving in regards to reaching that funded liability. I guess it's just...it's always to some extent when you deal with public finance and budgeting when the discussion or idea is floated of eliminating the one way to pay for this pension solution, so to speak. It raises a little bit of concern as how solid is this pension plan and this proposal moving forward if there is discussions, ideas, promises made to eliminate a funding stream. And

I guess that's the general question I'll leave you with is how solid is this plan moving forward in respects to utilizing the designated occupation tax to bring in a certain amount of revenue to the city to cover its ongoing employer contribution requirements?

STEPHEN CURTISS: Again, I would suggest there is no designated...that was suggested in a prior administration. There's no longer and never really was structurally a designated funding source. The city takes its obligations seriously and it will make sure they're funded.

BERNARD IN DEN BOSCH: And I think it's fair to say, you're absolutely correct that when the negotiations occurred to enter into a contract that incurred these obligations, and they are contractual obligations,...

SENATOR NORDQUIST: Right.

SENATOR MELLO: Yes.

BERNARD IN DEN BOSCH: ...so they're not something that can go away. There was no question that one of the things that was done is let's look for other revenue sources to avoid property tax increases. And the restaurant tax was certainly by...the previous administration said this is a method by which we can fund this additional contribution that we need to have, that we need to make that we're now...that we now contractually want to do so. And absolutely, there was an expectation when they looked at what the anticipated money that would be coming in compared to what the cost of the additional obligation, they were roughly similar. But as...Mr. Curtiss is absolutely correct that there...there certainly was that public discussion. There is no legal tie in to our funding. Restaurant occupation tax, just like any other occupation tax, sales tax, property tax comes into the general fund. And our obligations to make the payments for this solution are in a collective bargaining agreement. They don't get out of the collective bargaining agreement absent a joint agreement by the parties. So I guess from my perspective, I think the solution is a contractual obligation from which the city would have a very difficult time unilaterally exiting at any point in time. And so to that extent I think it's fair to say it is a good solution. I'm hoping the actuary numbers you saw for 2014 is one year of fire being involved in the deal. I'm hoping when we come back next year, if we come back next year, that the numbers will be a little bit better and that that continues in every way. But the city can't get out of the obligation for the pension fix absent an agreement from the parties. And we...that is everybody has a vested interest in making sure it goes. We have a...our city constitution, the city charter makes that obligation of both the employees and the employers. So I don't see any...in that regard, we're tied to the solution.

SENATOR MELLO: Okay. Thank you both.

SENATOR NORDQUIST: I certainly just wanted to commend those that were involved in the agreement and getting to that agreement. I mean the fact that we're looking at projections. And again, assumptions have to be met, but a 20-year pathway to 100 percent funding and, as you said, over 80 percent funding and, what, by 2029 or something like that. So that is significant progress. And the reduction in the actuarial...required actuarial contribution rate, the drop from 62 percent to 52 percent, that's...that was perceived on benefit reductions and investment return combination or...?

BERNARD IN DEN BOSCH: Combination.

SENATOR NORDQUIST: (Inaudible) okay, all right.

BERNARD IN DEN BOSCH: (Inaudible).

SENATOR NORDQUIST: All right. Do we have any other questions of...

BERNARD IN DEN BOSCH: And a reamortization as well.

SENATOR NORDQUIST: Okay. Okay.

BERNARD IN DEN BOSCH: Let's not forget about that.

SENATOR NORDQUIST: All right.

BERNARD IN DEN BOSCH: That's the most important part.

SENATOR NORDQUIST: Right. Okay.

SENATOR MELLO: Jeremy.

BERNARD IN DEN BOSCH: Forgot about that.

SENATOR NORDQUIST: Yes. Senator Mello.

SENATOR MELLO: Just one more question and it's...I...it may not be in the actuary as the question of the number of participants comparison versus...

STEPHEN CURTISS: I calculated that. I knew you were going to ask me that.

SENATOR MELLO: ...beneficiaries. And it's just that 50 percent threshold just heard from Al in the civilians in regards to kind of how they looked at their plan, or the actuary is taking in consideration the changes to keep civilian employees employed longer so there wouldn't be a need, so to speak, to increase the number of new employees to meet that 50 percent threshold. Is police and fire, the contracts for both, do they kind of operate under a similar prospective? I do know the police do have increased police force over the last year, in the last budget cycle, but...

STEPHEN CURTISS: Yes. Well, I would tell you this. We're at about 48.5 or so percent right now on that scale. We are adding quite a few police officers over the next year or two. In fact, we've got a class that's just coming on-line now. So we'll probably be right at about 50 percent.

SENATOR MELLO: Okay.

STEPHEN CURTISS: But I do have to mention, I've not heard that 50 percent, so I'm going to have to look into that as far as structurally its significance to the funding. But I think that's something I'd like to look into and better understand.

SENATOR MELLO: Okay.

BERNARD IN DEN BOSCH: You've got 781 police in the retired system. We're budgeted for, I think, 822 police officers.

STEPHEN CURTISS: And that will be going to 840 to 850, Senator.

BERNARD IN DEN BOSCH: Comes to firefighters, there's...looks like there's 702 in the system. We have roughly 640-...

STEPHEN CURTISS: 650-ish.

BERNARD IN DEN BOSCH: ...650 when you include a (inaudible).

STEPHEN CURTISS: And I don't see those numbers changing dramatically from what we just said.

SENATOR NORDQUIST: Great. Any additional questions?

STEPHEN CURTISS: Thank you.

BERNARD IN DEN BOSCH: Thanks.

SENATOR NORDQUIST: Well, thank you, guys. And maybe...yeah, Pat has a...yeah, I think we have a couple of questions for Pat if she has a second. Just...the one was on the experience study on the two, if there was any changes. And then there was one other comment...one other thing I wanted you to comment on. But was there any...

PATRICE BECKHAM: I would say the changes on the experience study were, for the most part, a refinement of the existing assumptions, some tweaking more than any kind of a radical change. Economic assumptions pretty much were unchanged. The change in the amortization period that Bernard referred to for police and fire, you're all familiar with amortizing your unfunded liability. So the police and fire system had been in a closed amortization period that had gotten down to about 19 years. The fix was clearly long term. So for anybody reading the report, they would be looking at the actuarial rate, like you guys might be,...

SENATOR NORDQUIST: Right.

PATRICE BECKHAM: ...at the actuarial rate and saying, whoa, you're not putting in anywhere near enough money, when in reality the fix over 30 years--and now that's shortened up to 20, 22--works. So they extended that sort of on purpose to be in a better alignment with the financing plan. And then they're, of course, in a similar situation to the school employees' system where they have a new tier that is actually significantly lower than the existing. So with the same dollar amount fixed percent of pay going in over time, they're getting more and more and more to pay their unfunded liability.

SENATOR NORDQUIST: Is there a new tier just for new hires or are they able to negotiate it for current employees too?

PATRICE BECKHAM: For both the civilians and the police and fire, changes were negotiated for current employees. And that's pretty unique. Because the benefits are subject to bargaining, they were able to effect change for current actives. You know, they have about 65 percent of the liability and both of those plans are for inactives. You know, you can't change that. But they made changes for current actives and then future. So police and fire kind of have tiers. They have a couple of tiers for their current active members. And then new hires have a different benefit structure as well that's the lowest cost.

SENATOR NORDQUIST: And then in the report you also recommend performing an open-group projection. Can you explain that?

PATRICE BECKHAM: Right. And I'm not sure what you have. Do you have a copy of the October 10th?

SENATOR NORDQUIST: Yeah.

PATRICE BECKHAM: And that is, in fact, an open-group projection...

SENATOR NORDQUIST: Okay. Okay.

PATRICE BECKHAM: ...similar to what we presented to you on the three Nebraska systems earlier.

SENATOR NORDQUIST: Okay. Okay.

PATRICE BECKHAM: And that has to do with the fact that there are a lot of moving parts and nothing is held static over time.

SENATOR NORDQUIST: Right.

PATRICE BECKHAM: So the only way we can get our arms around it and provide advice is to do an open-group projection, which they did when we did this DROP study.

SENATOR NORDQUIST: Okay. Any other questions for Pat? Okay, seeing none...

PATRICE BECKHAM: Could I offer just an observation, given some of the discussion earlier today? And Brent may want to jump in as well.

SENATOR NORDQUIST: Yeah, please.

PATRICE BECKHAM: A lot of focus on the ratio of retirees to actives, in a pay-as-you-go system like Social Security, that's critical, because the money you're taking in right now is the money you have to use to pay benefits. Part of the reason that pension systems are funded in advance is to build up a fund to provide those assets and for investment income to be able to make up that difference between the benefit payments going out and the contributions coming in. It's almost an expected result of having a pension system that's mature. And you've heard that from every system that's here today, been around for 50, 60, 70 years or more, they're mature. The only real issue, I think, from an actuarial standpoint is you're collecting contributions as a percent of payroll. So the size of your group is going to impact your payroll. If you're perfectly funded, if you're 100 percent funded, it doesn't really matter that much because if you have fewer people, you have lower costs. But it's when you have unfunded liability, in particular when it's significantly a big portion of your contributions, then if your group is getting smaller, your payroll...the dollars might be the same, but the percent of pay will appear to be higher. But I wanted to just kind of set the record straight on that, that it really is not a benchmark that is a panic button at all. And we...like I said, we expect it to happen and when you're funding in advance, you're taking care of that.

SENATOR NORDQUIST: Right. Okay. It's a good point.

PATRICE BECKHAM: Thank you, Mr. Chairman.

SENATOR NORDQUIST: Thank you. Any other questions? Thank you, guys.

PATRICE BECKHAM: Okay, yeah.

SENATOR NORDQUIST: (Exhibit 8) Any other...any other open testimony for anyone regarding any of these plans? We do have a letter that we received from Sergeant Aaron Hanson, who is a member of the City of Omaha Police and Fire Retirement System. He's a trustee member of that plan. So he wanted that entered into the record and committee members have a copy of that; urge you to look at that. If not, I appreciate everyone being here today and that will conclude our hearing.