[ANNUAL REPORT]

The Committee on Nebraska Retirement Systems met at 12:00 p.m. on Wednesday, March 25, 2015, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on the presentation of annual reports. Senators present: Jeremy Nordquist, Chairperson; Al Davis, Vice Chairperson; Mike Groene; Rick Kolowski; Mark Kolterman; and Heath Mello. Senators absent: None.

SENATOR NORDQUIST: Welcome, everyone to the Nebraska Retirement Systems Committee. I'm state Senator Jeremy Nordquist, Chair of the committee. I'll introduce our members. To my right is our Vice Chair Al Davis; we have Senator Rick Kolowski from Omaha; Senator Mike Groene from North Platte. To my immediate left is Kate Allen, our legal counsel; Senator Heath Mello from Omaha; and Senator Mark Kolterman from Seward; also we have Laurie Vollertsen, our committee clerk. Our page is Brandon today and he will assist with any handouts. Please state and spell your name for the record. There are testifier sheets if anyone is going to testify on the two annual reports that we will be hearing today. Please silence your cell phones, and we will go ahead and get started. Our first annual report from Ms. Chambers will be from the Public Employees Retirement Systems. Welcome.

PHYLLIS CHAMBERS: (Exhibit 1) Well, good afternoon, Chairman Nordquist and Retirement Committee members. For the record, my name is Phyllis Chambers, P-h-y-l-l-i-s C-h-a-m-b-e-r-s, and I'm the director of the Nebraska Public Employees Retirement Systems. It's a pleasure to present the NPERS 2015 annual report to you today. I appreciate this opportunity to communicate with the committee about NPERS' achievements for this past year. The report, you'll find, is formatted much the same as in previous years. And for those that are new on the committee, you know, I'll be going through it and giving you some ideas about some of the things that are in it. Our theme this year is about our members, and so we've depicted members on the cover, and we've also depicted generations because we serve our members throughout their career into their retirement, and even after they pass we are providing benefits to their beneficiaries. So this report includes all the basics about NPERS and the retirement plans that we hope you'll need to know. This past year in 2014 was a year of keeping up in almost every category that we measure. We maintained our activity levels or increased them. Our total number of member accounts this year grew to a record 121,920 members with assets of $12.6 billion. We paid out over $654 million in benefits in the form of monthly annuity benefits and retirement refunds, rollovers, systematic withdrawals, and minimum distributions. We also paid out, we processed over 1,900 new annuity payments along with paying out approximately $25,000 monthly annuities throughout the year. Okay. And we paid out 6,700 refunds, which is 2,000 more than we paid in the previous year. Our refunds are up almost 42 percent. So we've been very busy working overtime there. The call center answered over 41,000 phone calls and we met with over 2,300 members for office visits who came in to talk about their retirement plans. If you'll turn to page...let's see, if you'll turn to page 1, you'll see our mission and our vision statement. On page 2 and 3, you'll find our agency goals and statutory authority and our organizational structure. And for those of you who are new, that might be a good reference for you as you look...if you want to know something about the retirement plans. On page 4 and 5, you'll find our accomplishments, and I'd like to highlight just a few of those. We applied for and received our IRS determination letters for this coming five-year cycle. It was amazing to us to get them within one year. We received them for the state, county, school, and judges' plan. We have not received them for the State Patrol plan. We are still responding to questions from the IRS about the DROP plan, and we recently worked with our tax attorney in Washington, D.C., to provide information and respond to some questions. So we'll continue to do that. We implemented the new GASB 67 financial reporting requirements for public pension plans and included required supplemental information that the plans are required now. We also have some other information that they have asked us to put in those reports. NPERS internal auditors audited 33 school employers and 40 counties this year. That's with our internal staff. And we also had seven employer workshops that we've been working hard to make sure that the employers are reporting their contributions and the data properly and that they're enrolling the people in the plan who should be in the plan. That's shown up in our state audits with the state auditors. We only had one audit point in our school, judges, and Patrol plan this year, and only one audit point in our state, county plan audit, so we are very pleased with that. We worked with our actuaries to develop the 30-year projection modeling software for the school, judges and Patrol, and we've added capabilities for not only funding but design as well, and we also worked with them on their actuarial valuations for each of the plans. This year, we paid a cash balance dividend to county plan members of .29 percent on July 25th, and that amounted to about $916,000 for roughly 8,000 members. We paid a cost of living adjustment, COLA, of 2.04 percent to the school, judges, and Patrol members. That was effective in July of this past year. It amounted to about $797,000 for the month of July, and if you...on an annual basis, that would be $9.6 million for that COLA adjustment. The PERB chairman appointed an assumed rate committee to study the assumed rate for the retirement plans for the defined benefit plans. The committee reviewed various reports. They looked at a lot of different information as well as had four different meetings, and they recommended that the PERB maintain the 8 percent assumed rate until they're able to do an experience study in 2016. Our IT department has been very busy this past year. We rely heavily on our IT department to make sure everything is running well with all of our data and all of the member accounts we keep track of. We completed the migration of our servers and backup infrastructure with the Office of the CIO, and now we have...we're using virtual servers and their storage and backup capabilities. Also, our IT programmed the first phase of the changes to the school plan for Tier 2 for those new members hired after July 1, and we also completed an integration of new software with SunGard for the recordkeeping service for Ameritas. Our education services department was active throughout the year. We presented 42 different retirement planning seminars and 4 financial planning seminars to a total of over 2,000 members throughout the state. And our data services department completed a ten-year beneficiary project for the school plan members. We updated and entered over 29,000 beneficiary forms. We've been working on this for a long time. We do it at the end of the day when all of our other work is done. And so we...it's been a project we've been working on and we made a concerted effort the last two years to finish it up, and now we're going to be starting on the state and county beneficiary forms as well. But once those are in the system, now we can access them, search for them, and they're also protected having them in the system. If you turn to page 6, you'll see our action plan for the year. Some of our goals include issuing an RFP for the state and county records service contract that's going to be expiring in 2016. So we'll start on that this fall and have that in time for next year. We will be implementing the changes to GASB 68. Those have to do with financial reporting and proportioning out the unfunded liability to our multiple employer plans. That would be the schools and the counties. So we will be working with the actuaries to determine what those proportionate amounts will be, and we'll provide that to those employers. Then how they want to report it will be up to them, but we will be providing that information. We'll also make it available to you. We will be completing Phase 2 for the programming and testing of the COLA part of the Tier 2 for the school plan for all those new members hired after July 1, 2013. And we're in the process of completing a conversion of our scanning project, our scanning software from FileNet to OnBase, and we're on target to do that in May or June of this year. If we receive our carryover that we asked for from the Appropriations Committee, we plan to convert approximately 14 million of our old member records that are currently on microfilm/microfiche, and old...they're on old paper ledgers, to electronic images that we can also put into our IT system, and that will help us greatly in searching member benefits and member service credits and also beneficiaries. It will help protect that information, too, because it is deteriorating. This report also includes legislation on pages 7, 8, and 9. You'll find the funded status of our plans on pages 10 and 11 and the asset allocation. Our funded status of the plans has improved this year for all the plans and we're on, I think, sound financial ground with all of our plans and on target to be fully funded. We appreciate the great work of the Investment Council because while our...the assets in our plans come from employee and employer contributions and contributions from the state, we also rely heavily on those investment returns to keep us...to keep our plans well funded. The judges plan is now 93 percent funded, school is 83 percent funded, Patrol is 81 percent funded. The state cash balance plan is 99 percent funded and the county cash balance plan is 100 percent funded. We're on target to probably have a dividend again this year for both the state and county cash balance plans with...we had a 6.9 percent return as of December 31 for the cash balance plans. And we will be having our actuarial evaluations presented at the April meeting by the actuaries, and we'll find out if we have...if we meet the criteria for dividend. You'll also find in the report on pages 14 and 15 the summary of our assets and membership, and this is always a good page to refer to if you want to know how many members are in the various plans and what the various assets are for each of the plans and how many are active, inactive, or retired. So you can refer to those pages. On page 16, you'll find our operating budget and information about that. We operate with $5.3...a budget of $5.3 million, and our operating budget for the agency is only about .04 percent of our assets or four basis points, so the assets have come up but our costs have stayed relatively low, so we're operating at four basis points right now. And that is well below the average cost of our peer group of other public retirement plans of our size. The report has several appendices, and you can see on pages 24 you'll find the investments that are available to our members in the defined contribution, deferred compensation plan, and the DROP plan. So these are the investments that they can choose from when they enter those plans, and this is their performance. Also you'll see the cash balance credited rate and the cash balance dividends that have been issued in the past, and you'll notice that we haven't had a cash balance dividend for five years. So we're glad that the plans are back up to 100 percent funding levels. There's also information about the monthly defined benefit pensions payments that go out to the counties and various states in the country, and you'll be able to see that 90 percent of our benefits go to members in the community. Right now, we're paying out approximately $40 million a month to members in Nebraska, and those...in our plans for that includes school, judges, Patrol, and we've added another appendix that shows...that has state and county now. That was something new we added. And, finally, the last section of the book, Appendix E, are the board policies in case you would like to know about those. They are in there. I do want to comment that our Public Employees Retirement Board does an excellent job of administering the plans. They meet monthly and they're very devoted, and they would like me to express their appreciation as well as mine personally to the committee, and we want to thank you and the legal counsel Kate Allen for all the commitment and support that you provide the retirement systems and our members. We know that you serve on other committees and you have other responsibilities, and we appreciate the time that you devote to the retirement systems in our state. So with that, I would be happy to answer any questions.

SENATOR NORDQUIST: Great. Thank you. Questions? Senator Groene.

SENATOR GROENE: Thank you, Chairman. A couple of questions. On page 13, you've got the "Specifically, the ongoing appropriations include," and you've got a $48,347,000 '15-16 request.

PHYLLIS CHAMBERS: Yes.

SENATOR GROENE: What does that all include? Does that include where the judges' plan says we have to add $750,000 and the State Patrol plan says to tactfully say we have to make it whole again, $3.9 million? What...do you have a breakdown of that? What is the...I can't find the number what the contributions were from the employees from each group. Is that in this plan where I can figure the 2 percent that we're putting in that went from 1 to 2 percent?

PHYLLIS CHAMBERS: I can provide that information to you. The majority of that is going to be the 2 percent that's being paid into for the schools, and then the remainder is going to be the actuarial required contributions for the other two plans.

SENATOR GROENE: Does that include the fact that the state is the employer of the judge and the state Patrolman and that includes our matching also?

PHYLLIS CHAMBERS: No. What's...that comes through the employer's budget, their matching contributions.

SENATOR GROENE: So through the State Patrol department.

PHYLLIS CHAMBERS: So these are just the actuarial required contributions that once the actuary does those valuations every fall, they give us the numbers and then we pass them on to the...

SENATOR GROENE: Could we get...could I get a breakdown...

PHYLLIS CHAMBERS: Yes.

SENATOR GROENE: ...of what the $48 million is and what's based on it and what the budget is this year, what the breakdown is of Appropriations Committee? I'm sure the Appropriations Committee has it.

PHYLLIS CHAMBERS: Certainly. Yes. I don't have it with me today, but Appropriations does have it and we just didn't...

SENATOR GROENE: Because I'd be curious how that...what direction that's going.

PHYLLIS CHAMBERS: Okay.

SENATOR GROENE: Thank you.

PHYLLIS CHAMBERS: Yes.

SENATOR NORDQUIST: Other questions from the committee?

SENATOR GROENE: Also, one more.

SENATOR NORDQUIST: Go ahead. No, keep...

SENATOR GROENE: I have one more. Do you have a breakdown of how much of the payouts of our retirees is going out of state?

PHYLLIS CHAMBERS: Yes. So if you look under Appendix B there's some...

SENATOR GROENE: E? B?

PHYLLIS CHAMBERS: Appendix B. It'd be page 29. Okay. That one is broken down by state. And if you look under Nebraska you will see that I believe it's 89 percent, but that includes Omaha. So it's about...if you just look at Nebraska at our plans, it's going to be between 89-90 percent are staying in Nebraska. So then the rest will be going to other states. And as you look at those, many of those are going to be surrounding states or they're going to be the southern sun-belt states, so.

SENATOR GROENE: So it's 11 percent leave the state. That's the good news.

PHYLLIS CHAMBERS: Right, right.

SENATOR GROENE: Thank you.

PHYLLIS CHAMBERS: You're welcome.

SENATOR NORDQUIST: Senator Kolterman.

SENATOR KOLTERMAN: I just have one question and I think maybe I don't read it right. On page 12 under your summary, well, first of all, thanks for this report. It's very, very thorough. Is that based on end of fiscal year 2015, very first statement up there, or should that say 2014?

PHYLLIS CHAMBERS: Should be '14.

SENATOR KOLTERMAN: I just thought I'm not familiar with where...

PHYLLIS CHAMBERS: Right. Yeah, because we're always figuring it a year behind on the...

SENATOR KOLTERMAN: I thought that was the case. I just wanted to point that out.

PHYLLIS CHAMBERS: Yes. Very good. Thank you.

SENATOR NORDQUIST: Phyllis, can you remind me the policy or how the board takes the policy on the dividend so it has to meet a certain funding threshold and then it's...

PHYLLIS CHAMBERS: Right.

SENATOR NORDQUIST: ...at that point, then it is at the discretion of the board?

PHYLLIS CHAMBERS: They compare the contribution rate with the actual to the actuarial. Okay. And then that has to be at least 90 percent. And then the board added another stipulation in their policy to say that the funding level also had to be 100 percent. So it's even...it adds even more of a cushion to the funding levels by having 100 percent.

SENATOR NORDQUIST: Okay. All right. Any other questions? Senator Groene.

SENATOR GROENE: On page 16, your operating budget summary, I'm assuming those are the cost of operating your office.

PHYLLIS CHAMBERS: Yes, yes.

SENATOR GROENE: In most private plans that comes out as a fee to the plan itself, but is that a line item in our budget that we have to fund on top of the retirement or is this like a fee charged to any retirement plan?

PHYLLIS CHAMBERS: So the way our expenses work is it comes out of the trust money of the plans. So the only thing that trust money in the plans can be used for are member benefits or expenses directly related to the operating expenses for the plan. Now we also are expensed with the Investment Council. So the management fees to run the Investment Council and the investments also are charged against the plan. But that's under a separate...under their budget but it does...we then, we submit what we need for expenses to the Treasurer. The Treasurer is the custodian of the money, and so we send them our expense and then they pay us when we need payments for monthly benefits. And the same with the Investment Council. They will request money from the Treasurer and that pays their investments. And I hope I'm speaking...

SENATOR GROENE: So you're .04 percent is your cost?

PHYLLIS CHAMBERS: Just our expenses for our salaries, our staffs, our IT, everything that we run at NPERS.

SENATOR GROENE: It's very low compared to a private.

PHYLLIS CHAMBERS: Very.

SENATOR NORDQUIST: Thank you. Senator Davis.

SENATOR DAVIS: Just along the same line, Phyllis. On page 16, you've got it broken out by category. Is that just as a percentage of the total?

PHYLLIS CHAMBERS: It is, it is. Those...and as you know, the school plan is the largest plan, so.

SENATOR DAVIS: Right.

PHYLLIS CHAMBERS: If we can attribute and expense to a specific plan like when we're working with the DROP plan and this IRS determination orders, we'll charge that plan. But if we're working with maybe a legal issue that applies to all the retirement systems, then we'll apportion it out using these percentages. Our administration is...for those that are on the administrative staff, they'll be apportioned out this way. But if a benefit staff person does strictly schools or does strictly state and county, then we'll apportion them out those expenses.

SENATOR DAVIS: Okay. Thank you.

SENATOR NORDQUIST: All right. Any final questions? Senator Kolowski.

SENATOR KOLOWSKI: Thank you, sir. Phyllis, thank you to you and your staff for the report. How well it's written and laid out, it's very easy to read and utilize, and I thank you for the extra effort that went into that and for the other work you do.

PHYLLIS CHAMBERS: Thank you.

SENATOR NORDQUIST: Finally, Senator Kolterman.

SENATOR KOLTERMAN: Yeah, I just have...and this is not a negative comment by any means, but if you look on page 17, if you're just like everybody else you offer a lot of education opportunities. And I think it speaks for the problems that we have in society that people don't attend your education seminars. I mean, if that's the total number...

PHYLLIS CHAMBERS: We would love to have more people attend.

SENATOR KOLTERMAN: Yeah, because they need to take responsibility themselves for some of these issues. I applaud you for trying to do it but I would encourage you to continue that work because I see that being in the business, it's just very difficult to get people to attend those workshops.

PHYLLIS CHAMBERS: And once they attend, we get glowing feedback from people who go to the seminars and they say, well, I'm going to tell everybody I know. It's just I think people either they're not interested or they're too busy at work to actually take the time off and leave or they're, you know, short staffed or whatever reason they don't always go.

SENATOR KOLTERMAN: Or when they don't have enough money to retire. Then they're unhappy.

PHYLLIS CHAMBERS: Or they don't think that it matters to them. I don't...you know, we do try and we do have some information available on our Web site, videos, and some things like that. So...and we do send out newsletters with information.

SENATOR KOLTERMAN: Okay. Thank you.

PHYLLIS CHAMBERS: Thank you.

SENATOR NORDQUIST: Senator Davis.

SENATOR DAVIS: Phyllis, this isn't a question about this, but did you ever get your parking situation resolved?

PHYLLIS CHAMBERS: Yes. Thank you for asking. A year ago, I did tell you about our parking situation. The six new spaces that they added helped a lot and, you know, I asked recently, we have not had many complaints at all about parking. I think our biggest problem right now with the building is the elevator. We have two passenger elevators and one of them usually is...only one is really working. And so the...you can use the freight elevator or the one passenger elevator that's working. And some days neither one are working, so. But it's an old building. It's an old elevator and they're working on it today as we speak.

SENATOR NORDQUIST: All right. Good. All right. Any final questions? Thank you.

PHYLLIS CHAMBERS: Yes, thank you.

SENATOR NORDQUIST: I guess I'll open it up for anyone that would like to testify on the annual report of the Public Employees Retirement Board. Seeing none, now I will welcome up Michael Walden-Newman from the Nebraska Investment Council to present their annual report. Welcome.

MICHAEL WALDEN-NEWMAN: (Exhibit 2) Thank you, Mr. Chairman, members of the committee. My name is Michael Walden-Newman, that's W-a-l-d-e-n-N-e-w-m-a-n. And, Mr. Chairman, members of the committee, I'm here with some important people from the Investment Council I'd like you all to meet. Ladies first. This is Kathy Dawes. Kathy Dawes, D-a-w-e-s, is the business manager for the Investment Council. And to my right is Joe Jurich, J-u-r-i-c-h. Joe is an investment...part of the investment team and is the deputy state investment officer at the Investment Council. Both Joe and Kathy represent a part of the deep experienced team. They both have 15 years of experience at the

Investment Council to my admitted three months. I've brought for...and I'm glad to have them here. I obviously was not here for 2014 and I thought I should bring along the people who had answers to questions you might have but also give credit to the people by having them present for...to the people who did the work during the year. What I've brought for you all is our 2014, calendar year 2014 investment report. It's a thick document. So what I've prepared, there is an introduction from me in that document. There are tables on performance, asset allocation for the myriad of plans that we invest. But what I brought for you is a couple of pages I thought would be better to have as a cover document for you to speak to today at the meeting. I'm going to tell you some things I know you already know about the Investment Council. But to repeat, the Investment Council is responsible for investing all of Nebraska's money. In plain English, that's what we do. We invest the pension assets for public employees in the state and we instate...and we invest endowments and we invest, just as importantly, the state's operating pool. We do that through collaboration with external investment managers to whom we actually entrust the money for investment. We invest a good piece of it inhouse with some younger talent that we've brought into the Investment Council, and with your authorization and funding, which we appreciate very much, we've been able to save a lot of money in manager fees and doing a good job with the state's operating pool. So I want to thank you for that. We take the charge seriously, and the only thing I'm going to read out of any of the documents that are in front of you is the mission statement for the record. It is the mission of the Nebraska Investment Council to prudently manage the funds entrusted to us by the people of the state of Nebraska. We deliver investment management services to provide direct financial benefit exclusively to the owners of these funds. We are committed to thorough, sound, and informed analysis in order to achieve superior returns while maintaining prudent levels of risk. Mr. Chairman and members of the committee, I can't think of three more important sentences that sum up what I certainly and my team come to work everyday to do. This sentence I put on my e-mail when I came to work at the state of Nebraska so that I would be reminded every time I sent a message out and the recipients of anything from me would be reminded what it is I'm about and what it is we're about at the Nebraska Investment Council. Being fiduciaries is a responsibility not only I and the investment team take seriously, but the board, the Investment Council itself. As you know, the Investment Council is made up of seven members: Five of them are appointed by the Governor of the state of Nebraska and serve five-year terms. They can serve two terms. Some have more than ten years, can have more than ten years of experience on the council because they've assumed the term of a prior member. There are also two ex officio members that are critical to the success of our mission. We have the State Treasurer on our board as an ex officio member and we have the director of the primary beneficiaries in the pension plans. Director Chambers serves as an ex officio member of the board as well to bring her perspective as representing that band of constituents. Of course, the people of Nebraska are represented by all of the council members as well as the team. I am appointed by the Nebraska Investment Council, and we talked about that when I was in front of you before for my confirmation. The Governor of the state of

Nebraska must okay my appointment. And I'm appreciative and my wife is very much for your confirmation as well of my appointment. I want to thank also the members of, overlapping members of the Appropriations Committee who serve on this committee and all of you who are going to be working our budget prior to the end of the legislative session for the support you've shown for the Investment Council. I'm fully aware of the increased support that the council has received from the Unicameral, and I don't take that for granted. I know that you...it's with a lot of consideration that you made those additional commitments and I thank you very much. If you'd turn to the second page of my short handout, you'll see the organizational chart. And I reworked it again to have the mission of the council at the top, the names of the board members who represent quite frankly, you'll know them, and if you don't and read about them you'd know that they represent some deep smarts in the investment field. But more importantly in my opinion they represent people with a lot of good common sense. Because the way I view the investment program and my role is...and the investments in general is investments are just based on common sense. They just happen to have their own lingo. And what we need to do is cut through that lingo and present a program that's understandable and meaningful to all of us. You see then underneath the investment team. I want to specifically thank you for the additions not only to the staff who are part of the team to manage the internal portfolio but also the fact that you've increased funding for an important function of our internal auditor. You've increased that position from a part time to a full time position. You'll see on here one vacancy which was vacant at the end of the calendar year which has now been filled, and that is an accountant who's going to take care, help us manage the money and make sure that it gets moved where it needs to be when it needs to be there. Mr. Chairman and members of the committee, we have over 60 investment firms that we work with and we have over 130 separate investments. There are a lot of moving parts to this portfolio and it takes diligence and attention to make sure that the simple logistics of managing the money happen as well as the returns that we can generate out of the portfolio. There's a breakdown in the lower, back on the first page on the lower right-hand corner of the plan itself, of the $22 billion. You can see the pension share. You can see the endowments. We manage money for the university as well. And then the large operating pool that essentially is the state of Nebraska's checkbook, if you will. If you move to the third page of the document, I thought what would be meaningful in this short amount of time because you can read this report and I'm happy to answer any questions once you've gone over it. But if you turn...I apologize the pages aren't numbered, but if you turn to the third page of my short handout, I thought it would be beneficial for you all to see the difference in the asset allocation. In other words, just where is the money for the two examples of pools that we manage for? The one on the left obviously is for a pension plan, the one on the right is the operating investment pool. And you can see that they're dramatically different. The purpose of taking the one on the right, the operating pool first, being the state's checkbook, that money needs to be available to the people of Nebraska to support state services and to you all to allocate the funding that will provide those services. So those...that operating pool of $4 billion is operated in a way to allow easy access, and it also, more importantly, is not invested in a way that takes on risk that a short-term portfolio can't afford which comes with an investment in the stock market and more importantly in alternatives like a private equity or real estate that would lock those funds up for an up to ten-year period. That's not the purpose of the state's checkbook any more than it is for your checkbook at home. On the other hand, assets that can be managed for the longer term are invested in a different way. You do that at home. We do that at the council. The benefit plans for pensions are invested essentially in perpetuity for the beneficiaries. We look at returns and investments on a quarterly basis, on an annual basis. But I think about returns over a 10-year, long-term period and in fact over a 30-year period much the way the pension system looks at the actuarial soundness and obligation over a 30-year period to the recipients. So given that longer term time horizon, we have the flexibility to...and the responsibility moreover to invest those funds to meet the long-term obligation. And that means not just protecting the corpus, which is the primary goal is to not lose any money, but also to protect those funds for the long term against inflation. And the way to do that is investment in the stock market, quite frankly. So you see on the left-hand side, the pie chart, that shows the investment of the pension plan, be it the DB plan or the cash balance plan. The DB being...the cash balance being for state and county employees versus the other employees who are in the defined benefit plan. The bottom chart shows performance. And you see two performances here. We have the performance for the pension plans on this page, and on the next page the performance for the operating investment pool. The important numbers to look for here are how we're doing, what the number is. But more importantly, how we're doing compared to the benchmark that we've established. In other words, the goal that we set for ourself because we want to meet or exceed the goal. We're paying a lot of money to invest these funds and we want the managers to partner with us to make sure that we're getting where we promised we would be. And where we promised we would be is a combination of our responsibility to protect the funds and manage within risk and try the best we can to meet the obligation for the fund, be it the 7.25 or 8 percent return for the defined benefit plan or producing yield for the operating pool to allow state agencies to operate within the state of Nebraska. And I'm proud to say that we've been able to meet those goals with the asset allocations that we have. The numbers for you are, that the defined benefit plan had...and the cash balance plan both had returns of 6.9 percent for the period ending on December 31. What I've come to appreciate is the fact that there are different fiscal years for the two different plans. So the 6.9 percent in fact...and I have a 50-50 chance of embarrassing myself right now by getting it wrong. But the cash balance plan, which I have as a state employee, ends its fiscal year on December 31st and its, therefore, plan year return was 6.9 percent. The defined benefit plan ended its fiscal year last June 30th and its return at that point was about 18 percent. I did bring for you even though I said I'd only care about returns in the long term, I was thinking you might want to know how it's doing today. So I brought February returns for you, and the February return for the defined benefit plan for the year to date, meaning through February, the first two months, is...would be for cash balance and defined benefit, 2.6 (percent). The fiscal year to date, meaning from July 1 through the end of February was 3.89 percent. The year was a wonderful year in 2014 for the stock market, the U.S. stock market. It wasn't a wonderful thing in every aspect of the portfolio. It was not a wonderful time for international stocks, which were a drag on portfolio performance, nor was it a wonderful time in the bond market. People think you can't lose money in bonds. We learned in the crisis that you sure can and we also learned that fluctuations in the bond market happen throughout the year and you can, in fact, have a drag on a portfolio in what is supposed to be the safest part of your portfolio can, in fact, be drag, and that accounts for what you see in the lower returns through the end of February. Mr. Chairman and members of the committee, I could talk about this all day but I thought instead I'd just hit a few highlights for 2014 and let Joe answer any questions you might have because he, in fact, was here. What you all did is what I did in my prior life. The Investment Council protected the portfolio against the possibility of rising interest rates, which all of us know are on the horizon. It's not a matter of if but really when, and the when keeps getting extended out. But the Investment Council took measures to protect the portfolio against rising rates when bonds...rates go up, your bond portfolio can suffer when the opportunity is to invest at a higher rate and you're holding things at a lower rate. Sometimes you've got to pay people to take those off your hand to free up cash to turn around and invest at a higher rate. The way to avoid having to do that is to add things like bank loans to your portfolio that have an adjustable rate and will ride that rate as it goes up. We did it in Wyoming, we did it here at the Investment Council as well. We also continue to expand the alternative slightly. Private equity can help build up the returns we need over traditional assets by requiring a lock up of funds. We take advantage of that. Real estate in a way can do the same thing but with a yield component to provide income. We increase the real estate assets in the portfolio as well to better guard the portfolio against volatility as much as anything else. And I've made a list of the other highlights that the Investment Council did during the year. Mr. Chairman and members of the committee, I'm just across the street. I've got a crackerjack team who's ready to host any of you any time. I frankly next year intend to have meetings, invite you all over for breakfast. I know you're busy but I'd like to talk more outside of meetings like this about the investment portfolio. Thank you very much. Any questions for Joe? (Laugh)

SENATOR NORDQUIST: Thank you, Mr. Walden-Newman. Questions from the committee? Senator Kolowski.

SENATOR KOLOWSKI: Just off the top of my head, do we own Berkshire Hathaway stock? Is that part of our portfolio?

JOE JURICH: To the extent that they're involved in indices, we do.

SENATOR KOLOWSKI: Okay.

JOE JURICH: We also own some bonds of theirs across retirement pools and also the inhouse portfolio.

SENATOR KOLOWSKI: Thank you.

SENATOR NORDQUIST: Then, Joe, so the $22 billion number, that's a little less than half of Warren's portfolio. (Laugh) Any other questions from the committee? All right. Seeing none, thank you guys. That will conclude...any public comment regarding the annual report from the Nebraska Investment Council? Seeing none, that will conclude our hearings today. Thank you, all.