[LR243]

The Committee on Nebraska Retirement Systems met at 1:00 p.m. on Wednesday, November 18, 2015, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LR243 and presentation of annual reports. Senators present: Al Davis, Vice Chairperson; Rick Kolowski; Mark Kolterman; Brett Lindstrom; and Heath Mello. Senators absent: Mike Groene.

SENATOR DAVIS: Okay, everybody, I think we'll probably go ahead and get started. I want to welcome you all to the Nebraska Retirement Systems interim study on retirement plans. And it's my first day here in this position, so it's a little awkward for me. But I want to introduce the committee members. I think we'll just introduce each other.

SENATOR KOLTERMAN: Senator Mark Kolterman from Seward, District 24.

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

SENATOR DAVIS: I'm Senator Al Davis from District 43, which is western and central Nebraska.

SENATOR LINDSTROM: Brett Lindstrom, District 18, northwest Omaha.

SENATOR DAVIS: Senator Kolowski is here but he stepped out for a minute. He will be back. That's Millard. And then Senator Groene from North Platte will not be here today. I have the committee clerk, Catherine Larsen, over here; our legal counsel, Kate Allen; our pages, John and Brandon. So I think we'll go ahead and get started. I believe Pat Beckham is going to be first. Is that right, Pat?

PAT BECKHAM: (Exhibit 1) All right, good afternoon. Thank you for the opportunity to be here to share the results of the most recent actuarial valuation for the school, State Patrol, and judges defined benefit plans. I think you all have the bound presentation. And I thought I would walk through that with you. Please stop any time and ask me a question. [LR243]

SENATOR DAVIS: Could you spell your name, say your name and spell it? [LR243]

PAT BECKHAM: I'm sorry. I forgot. Yes, it's Patrice, P-a-t-r-i-c-e, Beckham, B-e-c-k-h-a-m, with Cavanaugh Macdonald Consulting out of Bellevue, Nebraska. On page 2, again, just a reminder, a couple of general background slides we'll cover, then we'll jump right into the valuation results. And then perhaps even more importantly than where the systems are right now is where the funding is headed under certain assumptions. We'll take a look at both 5-year and 30-year projections to give you a sense of what the longer term funding looks like for the retirement systems. So page 3, a retirement system is a very long-term proposition. And just like if you started funding for your child's college when they were 2, you wouldn't just set a plan in place and figure it's good until he goes to college at 18. Same thing here. We have to monitor the progress and see if our assumptions are playing out over time. And that's what we do in the valuation. We stop it on a certain date every single year--for these three plans it's July 1; for the cash balance plans it's actually January 1--and we look at the promises that are being made to pay future benefit payments and quantify those. Those are the liabilities of the system. And there have been contributions made in the past and investment income and benefits paid from those funds. And those assets are then compared to the liabilities. And the difference is what is systematically funded based on the funding policy that is in state statute. And that drives what we call the actuarial contribution rate. And the rate that's developed in these valuations is for the fiscal year ending...I should say for the plan year ending June 30, 2016. If there are any additional state contributions, those are assumed to be paid July 1, which is technically fiscal year '17. The valuation also gives us an opportunity to look back over the last 12 months and to compare the actual experience to what was anticipated with the assumptions and evaluate whether there was favorable experience, we'll call that an actuarial gain, or unfavorable experience, an actuarial loss. So that's providing insight to us kind of as we go along. And then about every four to five years we do what's called an experience study where we really dive in to the experience and track each person every single year and figure out, you know, again, whether the assumptions are appropriate or whether we should make some changes. And of course we're always looking for trends in assets, liabilities, contributions. You might remember last year we talked about kind of the decreasing trend in court fees and that was a concern. That's the kind of trends that we're looking for. So on page 4, a couple of things to remember about the valuation process, it's what we call a snapshot of the system. It's a single point in time measurement. So on

July 1, that's what these statistics I'm reporting to you are as of. If we took the picture today, it would look different. Because the future benefits are based on a number of unknown events--we don't know exactly how salaries are going to increase, when people will retire, exactly how long each one of them will live--we use actuarial assumptions to help us anticipate the amount of the benefit, when it’s going to start, how long it will be paid. We have to recognize there is a range of reasonableness for every one of those assumptions. If we used a different set of assumptions, we would get different results. Okay, we're using what's intended to be the best estimate, so kind of the middle of the range--not overly conservative nor overly aggressive. And the bottom line, the information we get from the valuation we're using to evaluate the funding progress and the funded status of the system as well as the sufficiency of the current contribution rates for this year. On the next page, page 5, a couple of slides here that will apply to all three systems because of the nature of it. And the first is really on the asset side of the house. And you may remember, those of you that were on the committee last year, we do not use pure market value in our calculations because of the extreme volatility. That volatility would translate directly through to volatility in the contribution rates. It would be very difficult to try to budget for that. So most public retirement systems use what's called an asset valuation method that kind of smooths the ups and downs that we know come with market value. And the specific method that we use on the Nebraska plans is we calculate the dollar amount of the actual return, and then we turn around and calculate what that amount would have been if the assumption had been met. And that dollar difference is just recognized equally over five years, the current year being the first of the five. So important to remember when we look at return on assets that the actuarial value has got some history. So what happened in the last four years is going to affect the return on the actuarial value. On page 6, you can see a graph that is a convincing argument for using smoothing. The blue line with the diamonds is the rate of return on the market value of assets and the red line is the rate of return on the actuarial value. So although the red line is still moving up and down, it stays much closer to the assumed rate of return and that is exactly what we want the smoothing method to do. Now you'll go...if you go to the far right-hand column of the table at the bottom of that graph, you'll see that for the 2015 valuation, the rate of return on the market value is 3.8 percent, okay, for June, 30, 2015. But the rate of return on the smooth value was 11.5 percent. And that's because in the years when we had 18 percent, 12.9 percent, and 23.3 percent, we didn't recognize all that. So this is a year where it looks really smart to be using smoothing and it's really, really nice to have that kind of return even with a low return on the market value.

Page 7, this the school system assets. It's representative of all three. They use the same smoothing method, have the same rates of return because the money is commingled. And it just is trying to show that over time the market value will at times be higher than actuarial and at times lower. And if we took this over a very long period, like 30 years, we'd expect that to happen about half the time--half the time it would be over; half the time it would be under. So page 8, again, the return on the actuarial value of assets was 11.5 percent. That is above the 8 percent assumed rate of return that created what we call the actuarial gain. That's favorable. It's important to recognize that that 3.8 percent on market did reduce the difference between market and actuarial. So last year, it felt pretty comfortable; we had an almost 10 percent difference with market value being higher. That difference is down to about 2 percent. So we use part of it for smoothing because that's what the method does, but we're not in quite as comfy a place to absorb adverse experience if it occurs this year. So this is a year that might be somewhat unusual. We had gain on assets and a significant gain on liabilities. And that gain on liabilities, remember, those are benefit payments. And that was due to no COLA being granted this year. So there's a COLA that is payable to members that is dependent on the change in the cost of living measured by CPI-W and there was no increase, positive increase, this year. So there was no COLA. And that was a significant gain for all three systems. So when assets go up and liabilities don't go up as much as you think, your ratio, your funded ratio which is just assets divided by actuarial liabilities also goes up. So we're seeing favorable results in all three systems. And then when we take those valuation results and we project it out for the next 30 years if all assumptions are met and all actuarial contributions are paid, those systems all reach full funding within that 30-year period, which is by design what is in the statute. So it does...it works, so to speak. I'll spend just a little bit more time on judges as far as terminology and what things mean, but then we'll go quickly through Patrol and schools. I'm on page 10. And for the judges we had a legislative change. That was the only system where there was a change that impacted the valuation. So LB468 was passed earlier this year and it changed both the revenue side and the benefit side of the house. So there was kind of a two-step increase in the court fees the current year, fiscal year '16, and then again in fiscal year '18, ultimately estimated to increase the revenue to fund the Judges Retirement System by about $1.3 million. And that, I assume, was done to address that concern we had about the decrease in court fees and we talked about last year. On the benefit side of the house, the new tier for members that come into the system on or after July 1 of '15, they will have a higher contribution rate of 10 percent, final average salary will be over a five-

year period rather than three, and the cost-of-living adjustment will be 1 percent instead of 2.5 percent, very similar flavor to the changes that were made to the school system back in 2013. We...obviously our valuation date is July 1, 2015, so we didn't have any new members this year. That part did not affect the valuation. But the court fees certainly did. And absent LB468, there would have been an additional state contribution this year of $480,000 which you'll see when we go through the numbers, there is no additional state contribution for this year. Page 11, a lot of numbers are out in the media about pension funding. Two of those that are pretty prominent are the unfunded actuarial accrued liability and the funded ratio. The funded ratio is, again, just the ratio of assets to liabilities and the unfunded liability is the difference between the actuarial accrued liability and the actuarial assets. The important thing to remember here is the actuarial accrued liability is the target based on the funding plan that's in place, okay? So the state statutes direct us what funding mechanism to use, and if everything was perfect in the world, which it is not, the assets would be about $162 million. Okay? They actually are $157 million. That difference is the unfunded actuarial accrued liability. It's not an immediate liability. It’s not an obligation that is due right now. It's like, I have a mortgage on my house, but I don't have to pay it off tomorrow. If I did, it might be problematic. But I think I got a few more years left. So if I pay that off over the next ten years, it's manageable. It's the same type of thing with the unfunded actuarial accrued liability--perhaps not so much what the dollar amount is, but is there a mechanism or revenue stream to pay it off in the future. So you can see that the unfunded actuarial accrued liability went down significantly. It was $11.6 million last year, down to $4.7 million. Again, that's the favorable experience of both assets and liabilities flowing through. And then if we look at the ratio, the funded ratio using the smooth value is 97 percent, up from 93 percent last year. And actually on a pure market value basis, we're down a little bit. It was 102 percent last year; we're at 99 percent and that's because of the 3.8 percent return. Page 12 is just a look back. I mentioned to you we'll look forward as well. But looking back, you can see that for the most part, the judges system has been well funded, okay? Again, in a perfect world, your assets are equal to your actuarial liability. That means you're 100 percent funded. So you can the number of years it was above 100 percent, a few it was a little below, and then it's just been really, since the financial crisis and the low return for fiscal year '09 where it started going down but now the trend is up and the trend is what we as actuaries are very interested in. On page 13, this is the details on the actuarially required contribution rate. There's two pieces to that calculation. The theory behind the funding is the contributions will be made from the time a

judge in this case, a member, comes into the system until they exit the system. We're going to make a contribution to fund their retirement benefit while they're working, and that contribution is going to be a level percent of pay. Now we think pay is going to increase over time. Most of us know in our own personal history it has. But as the pay increases, the dollars come in but the percent of payroll is intended to be level. And that rate is the normal cost rate. For active members based on the benefit structure, the assumptions being used, the value of that benefit is about 22 percent of pay for the whole group. If you were 100 percent funded, you would still have to contribute 22 percent of pay to stay 100 percent funded because people are working, earning benefits, growing closer to retirement. So we do have that unfunded liability. When we do the calculation, the amortization, the payment schedule for that piece, it adds a contribution of 1.46 percent for a total of 23.4 percent. Many systems that are struggling with funding will have an unfunded actuarial liability payment close to the normal cost rate. So it's a strong advantage to not have to deal with that debt, so to speak, and to really be...most of the money is going to fund the benefits for current members. Of course, the members contribute themselves for their retirement. The 7.65 percent is a blended rate because we have people contributing different rates at different points in time. So the difference between the 23.4 percent and the 7.65 percent is 15.75 percent. That's the additional contribution that has to be paid this year to fund the system. We take that times the expected pay, and that should be fiscal year '16, the $21.974 (million). We get the dollar amount of the contribution that's needed this year. So it's $3.46 million. The expected court fees with the first increase from LB468 is $3.577 (million). So there is no additional state contribution this year. You can see, you know, the numbers compare favorably to last year. On page 14, you'll see the short-term projection which is just the next five years. If you look under the column for 2017, these are valuation dates, so July 1, the July 1, 2017, valuation which is plan year ending 6-30-18, we see the second step in the increase in court fees under LB468. And you can see from the red box, it says "Additional State Contributions" that there are none in the five years, okay? Both this projection and all of them I'll show you assume that all actuarial assumptions are met perfectly every year. And I assure you that even if we're right 30 years from now, they won't be every single year that we were right. They're long-term assumptions and we know there's ups and downs. But it's the trend that we're looking for here. On page 15, we'll look at the 30-year projection, so a longer term view of the system. And this is interesting. So you can see the blue bars are the court fees. So they take that jump in the July '17 valuation. And you can see the dollar amount is level for 30 years. And that's because we have

nothing to base it one whether it will go up or down. And we've learned from the past that it can do both. So the member contribution is the green bar. As I said, payroll is expected to increase, so the dollar amount of the member contributions is increasing. We also have the new tier coming in with a higher contribution rate. So that's increasing. But you'll see way out at the tail, it starts about 2035, a small amount growing, is the additional state contributions. That's because the contribution rate is developed as a level percent of payroll assuming payroll increases. And we only have part of the financing coming in based on increasing payroll. The court fees are static. So that's why at the tail end there's additional state contributions required. Obviously a lot of things can happen in 20 years and we'll continue to share this kind of information with you, and we'll see what happens with court fees between now and then. Page 16, again, a forward-looking 30-year projection of the funded ratio. And you know we're very close to 100 percent now. It just takes a couple of years to get to 100 percent funded. And then you'll notice that the funded ratio is actually above 100 percent and it kind of stays there. And you may not realize, but in statute, if there is surplus--I hate that word--if the assets are greater than the liabilities, which is a great position to be in, we only use a little bit of it. It's amortized over an open 30, which just means every year we say it's 30 years. So we're trying to be conservative using just a little bit of it. And that means we can kind of maintain that funded status. So you see it kind of levels out but we hang on to about 4 percent surplus there. And then just to wrap up judges, on page 17, again LB468 was an important piece of legislation for funding the Judges Retirement System. We had that two-step increase bringing in an additional $1.3 million. The new benefit tier that, even though it's not reflected in the valuation, it's reflected in these projections. That’s going to lower the cost. And then importantly, just to remember that we have a little bit of a disconnect in the way contributions are determined or expected with the percent of payroll and then the big part of the contributions being a fixed dollar amount. So we just need to keep an eye on that over time. Any questions on judges? [LR243]

SENATOR DAVIS: A couple questions, yeah, I have some. The committee have any questions? Senator Kolterman. [LR243]

SENATOR KOLTERMAN: Yeah, thank you. I have a couple. Thank you. I have a couple of questions about the COLA. You indicated since we don't have a COLA this year, it's a neutral effect or actually helps us. [LR243]

PAT BECKHAM: Yes. [LR243]

SENATOR KOLTERMAN: Can you tell me, how often do we see COLA or how often have we seen COLA being implemented over the past few years? Is it something that's...and I know it's based on the CPI-W, you said? [LR243]

PAT BECKHAM: I think it's a change to the CPI-W, is that right, Phyllis? [LR243]

PHYLLIS CHAMBERS: CPI-W. It's based on June 30 of every year. We look back and we see what the previous year was. If it increases, we will give a COLA up to 2.5 percent. If it decreases, there is no COLA. In the last decade, there have only been two times that we haven't had one. [LR243]

SENATOR DAVIS: Phyllis, can you come up and read into the...and if you'd state your name, please, and spell it. [LR243]

PHYLLIS CHAMBERS: I'm Phyllis Chambers, C-h-a-m-b-e-r-s, director of the retirement systems. In calculating a COLA, we look at the CPI-W every June 30. And we look at what happened the previous year. If the CPI-W increased, we can give a COLA up to 2.5 percent of that increase. If it decreases, there is no COLA. In the last decade, there has...there were only two times that there was no COLA given. Generally, we have a COLA. Even prior...the COLA was made permanent, I believe, in year 2000. But even prior to that, it was ad hoc. And I think for a number of years going back there was always a COLA. So I only know of two that we haven't given. [LR243]

SENATOR KOLTERMAN: Okay. Thank you very much. Thank you. [LR243]

SENATOR DAVIS: Any questions? So, Pat, I've got a couple questions. The first one, in talking about the judges and we've been talking about the school plan and the number of new...the number of people who have come in on the second tier. Have you done any sort of look forward on the judges to tell us how rapidly that transition will take place? [LR243]

PAT BECKHAM: We have not. With the 30-year modeling, we could I think dig into those details and get that information if that would be helpful to the committee. But I don't have it right now to share with you. [LR243]

SENATOR DAVIS: I think it might be interesting. And then I've got one other question, but did you have something you wanted to say? [LR243]

PAT BECKHAM: Phyllis was just reminding me of a discussion we had at the PERB meeting earlier this year, that there was discussion. I think there’s been four or five new judges hired since July 1 that would, of course, come in to the new tier. But if you're looking kind of over time, like how long does it take. [LR243]

SENATOR DAVIS: Well, based on prior retirement for judges, I just wonder if we could sort of have at least have a rough idea of where that will go. [LR243]

PAT BECKHAM: Sure. [LR243]

SENATOR DAVIS: Then the other question, of course, it looks on your graph like court fees are going to remain constant over that period. We know that they have not done so over the past. Is that something we need to be concerned about? [LR243]

PAT BECKHAM: I think we need to keep an eye on it. The interesting thing is that there was a period of time where court fees were increasing. They actually increased...I just have kind of a ten-year history, maybe not a full ten years. But they were increasing for the early part, from like 2007 to 2010 and then kind of held level and then it's...really was kind of the last two or three years where we really saw the decrease in court fees. And I'm not sure whether...I know Kate has done some work on whether we really understand why. And that's why it's hard as the actuary to know, you know, do you assume they're going to increase, assume they're going to decrease, are they going to do both? And so it's neutral ground to just say we're going assume they stay level until we see a trend that's evident that we can model. [LR243]

SENATOR DAVIS: And I've got to give Kate a lot of credit. She's done a lot of work on this this summer. We're still trying to sift the numbers out. [LR243]

PAT BECKHAM: It seems rather complicated. [LR243]

SENATOR DAVIS: Any other questions? Go ahead, Pat. [LR243]

PAT BECKHAM: So we'll look at the same information for Patrol on page 19. Again, the funded status using the smoothed value of assets: 87 percent funded, up from 81 percent. And you can see that the unfunded actuarial accrued liability decreased from $75 million down to about $54 million. Okay, and again, significant changes in funded ratio and unfunded liability, on a market value basis held pretty steady. Again, looking back at the historical funded ratio for Patrol, the early period, Patrol was actually over 100 percent funded. It's been kind of a downward trend. If you look at the tail though, it looks like it's turning around a little bit. And we'll look at the forward-looking projections that are a little bit more interesting I think. On page 21, again, the normal cost rate. How much does it just take on an ongoing basis to pay for the benefits for members who are working right now in the current plan year? And it's 28.85 percent. So just about 29 percent of pay needed to maintain or pay for the retirement benefits. The amortization of the unfunded liability is down significantly. Last year it was over 18 percent; it's under 13 percent this year. But if you add those two pieces, the total actuarial contribution rate this year is 41.59 percent of pay. The members contribute 16 percent. The employer, the state as the employer, contributes 16 percent. So we have 32 percent of pay coming in against the requirement of 41.59 percent. So that difference of 9.59 percent is needed, again, to keep the system on the funding track to be fully funded. And that’s $2.7 million, down from $3.9 million last year--it's a good news, bad news. On the next page, page 22, again, the short-term projection. Again, there are additional state contributions each year. That 9.59 percent of payroll doesn't magically go away unless something favorable happens to offset that which would likely have to happen on the investment side. So you can see it stays right around the $2.7 million. There's smoothing flowing through in these future years that moves it a little bit, but it's pretty much holding steady and that's assuming that all assumptions are met and there are no changes in the assumptions or the benefit structure or the contributions. The long-term projection is on page 23. So again, in the near term, the next 20 years, you can see there is an additional state contribution

each year--the red bars. And the member contributions and the employer contributions are trending up with increases in payroll. And then once the system is fully funded, the ongoing 32 percent of pay will cover the normal cost and no additional state contributions would be needed at that point. Page 24 just, I think, reinforces the importance of the additional state contributions or some funding source to move the system to 100 percent funding. So the blue line assumes that those contributions you just saw on the prior graph are indeed made. It moves the system to 100 percent funding in about 20 years. The red line is if those contributions were not made. And you can see the decreasing trend in the funded ratio with the red line. So just to wrap up for State Patrol, although the contribution shortfall is down from almost 15 percent last year to 9.59 percent this year, that's still a significant amount of contribution that's needed. And from all realistic projections, looks like it will be needed for a number of years. And again, if the funding goal is going to be met, it will take additional contributions to get us there. Any questions on State Patrol? [LR243]

SENATOR DAVIS: Any questions? [LR243]

PAT BECKHAM: All right. Great. We'll move on to school. Page 27, the same information you've seen for the other two systems now for school. Obviously school is the largest system as far as membership, so the liabilities are much larger. You can see the unfunded actuarial accrued liability decreased from $1.8 billion in the '14 valuation to about $1.3 billion in this valuation. And again, the funded ratio increased from 83 percent to 88 percent. Definitely moving in the right direction. From a market value basis, about 90 percent. Page 28, again, looking back historically what the funded ratio has been for the school group, it was pretty steady around 90 percent, and then it kind of slipped down to the mid-70s, again, as we recognized the losses from fiscal year '09. And now changes have been made, had some good years of return, additional contributions, and that's got the funded ratio trending upward. The actuarial contribution rate for schools, on page 29, the normal cost rate is about 12 percent of pay. The amortization of the UAAL, about 5 percent. So we need about 17 percent of pay this year if we were going to meet the funding target as in statute. Members contribute 9.78 percent; the employers, the school districts, contribute 101 percent of the member rate, so 9.88 percent; the state contributes another 2 percent. So those three funding sources will provide 21.66 percent of payroll, which is above the 17 percent which means we'll get to full funding sooner. We'll pay off that unfunded liability

more rapidly. So we've labeled that "contribution margin." I wish I had a better word. It's not "surplus," that's for sure. And that will either pay off the unfunded liability more quickly if all assumptions are met, or if there's an adverse experience coming, that gives us a margin--that's where that word is coming from--a margin where the rate can go up and it's still not going to require an additional state contribution. And that margin is up from...last year it was 3.27 percent; this year, 4.63 percent. Page 30 has kind of a lot of numbers because it includes the appropriations for the Omaha service annuity and the 2 percent of pay for Omaha. What's probably more applicable for this presentation are the bottom three lines there. The 2 percent of pay state contributions to the school retirement system. And you can see, you know, that starts out in 2015, 36.9; and then next year, 37.3. Again, that's because payroll is expected to increase and so that contribution would as well and so would the employer contributions. The bottom line, though, the very last line of that table shows their...the additional state contributions are projected to be zero, which is good news. And on page 31, the long-term projection, a 30-year projection, same thing: If there was an additional state contribution, it would be a black bar. You can look at the graph and see there is no black there. So it means that the current contribution rates in statute along with the benefit structure--remember we have a new tier here that started I think July 1 of '13--that if the assumptions are met, it looks like it will be sufficient to provide those benefits and the system will be well funded. Slide 32--I almost didn't want to show this to you--it's perhaps not a realistic projection because I'm pretty sure if that plays out, something will change: contributions, benefits, something. But, in all fairness, we showed you that with the other systems and so this just says if you ignore anything and everything plays out according to the plan, the School Retirement System will be very, very well funded. Looks like it gets to about 100 percent funded in 2022 under this set of assumptions. And even a lot can happen in seven years. That's all I'll say, having lived through (laugh) some hard times. So just to wrap up for school, again, we had favorable experience on both assets and liabilities. Really on all three systems that was true. So the funded ratio is up. We saw that increase in the contribution margin. That's favorable, that's our buffer for adverse experience. No additional state contributions for the current year nor in the projections that we looked at for the next 30 years. It's going to take some time before the new tier really has an impact in the valuation results. Again, we're capturing it in the 30-year projections, but in the numbers I reported to you for the current unfunded liability and funded ratio, there's very little impact. Fifteen percent of the active members are in the new tier, but about nine percent of payroll. And it's going to be a very long time before a lot of the

liability is with that group because all your retiree liability is really the old legacy tier. But funding outlook is positive, and we keep reporting to you. Every year you will get updated information. Happy to answer any other questions. [LR243]

SENATOR DAVIS: Senator Mello. [LR243]

SENATOR MELLO: Thank you, Senator Davis, and thank you for the great briefing as always. I've got a question in regards to the normal cost that you laid out in regards to why the school plan's normal cost is considerably lower than the normal cost for the State Patrol which is the highest cost pretty considerably when you compare the two? [LR243]

PAT BECKHAM: So the main...the normal cost is affected by the benefit structure, the demographics of the group, and the assumptions. And so the State Patrol, if you look at the normal cost rate, has a higher rate. It's got a better benefit structure. And that's the largest driver. There may be some differences in assumptions. And there probably are more State Patrol members going...retiring when they're first eligible, going out with the DROP or retiring. So you've got a more generous benefit structure and you're funding it over a shorter period of time. They both push the normal cost rate up. [LR243]

SENATOR MELLO: Okay. [LR243]

SENATOR DAVIS: Just one other question which I think you're making reference to with regard to the school plan and the 15 percent of employee participants versus 9 percent on the salary, but is that reflected in the data here, that that tier is at 15 percent so there's a cut down in obligation then? [LR243]

PAT BECKHAM: Yes, Senator Davis. [LR243]

SENATOR DAVIS: Okay. [LR243]

PAT BECKHAM: That portion is in the numbers, it just has a very small impact at this point in time, growing over time. [LR243]

SENATOR DAVIS: Right. Thank you. Any other questions? Senator Kolowski. [LR243]

SENATOR KOLOWSKI: Thank you, Mr. Chairman. So the other group you were talking about is a legacy group you called it this morning...this afternoon, is that right? [LR243]

PAT BECKHAM: Yeah, that's my word. It just means the original, the first tier. [LR243]

SENATOR KOLOWSKI: Oh. I've never been called a legacy before (laughter) but that's very good to hear. Thank you very much. [LR243]

SENATOR DAVIS: Any other questions? If not, thank you very much. [LR243]

PAT BECKHAM: Thank you. [LR243]

SENATOR DAVIS: Nicely done. [LR243]

PAT BECKHAM: Thank you. [LR243]

SENATOR DAVIS: I think we're going to take a five-minute break here and then we'll move on with some...I think we have some invited testimony first and I believe somebody needs to go first. Eastern Nebraska Health Agency is first. [LR243]

BREAK

SENATOR DAVIS: So I think we'll reconvene and we'll start first with the Eastern Nebraska Health Agency. I've been a little remiss. This is my first hearing, as I said, as a Chair. So there are blue sheets. Everyone needs to sign those. If you're going to testify, make sure you state your name first then spell it afterwards. Senator Kolowski did come in and, of course, he's been here and has asked a few good questions. If you do not choose to testify, you may also submit your comments in writing and have them read into the official record. We can do that. And if you're...you probably have been sitting here feeling like Senator Davis is using his phone, but I'm trying to turn it off. (Laughter) So make sure you turn your phones down so they don't ring. So

with that we're going to start with the Eastern Nebraska Health Agency who I believe needed to go first.

BOB BRINKER: Good afternoon, members of the Retirement Committee. My name is Bob Brinker. I'm with Eastern Nebraska Human Services Agency, specifically I held the title of director of N-CORPE, hence using the acronyms, serves a five-county area in eastern Nebraska: Dodge, Washington, Cass, Sarpy, and Douglas County. And we provide a variety of human services. My case, I'm (inaudible) with developmental disabilities. We have Eastern Nebraska Office of Aging, and then Alpha School which is a specialty program for school. And then as a participating agency is Region VI Behavioral Health. We're formed under the Interlocal Cooperation Act and been in existence since 1974, here to present the information on LB759 reporting form. I don't know what particular format you'd like me to follow, but just going through the numbers, our agency is a 76 percent funding ratio as of our most recent actuarial valuation which is January 1, 2014. We do the valuations on a two-year cycle. So the next cycle would be for the period ending January 1, 2016. We've made an improvement of our net assets over the last two valuations of approximately $7 million. The unfunded actuarial accrued liability has decreased by $4.5 million. As to what caused their underfunding: a combination of a variety of factors. Equity investments did not meet return assumptions, low fixed rate investments, and then contributions which were insufficient to properly fund. As far as our actuarial methods, recently we updated our mortality table. We do have a 7 percent return assumption that we use for actuarial valuation purposes. Probably most importantly, our efforts related to improving the funding status, approximately five years ago we engaged in a process whereby we were increasing our contributions by .5 percent over a period of time. We did this in conjunction with SilverStone, our actuarial consultant. And our goal was to hit 85 percent funding ratio by 2025. Again, we're working on a slow basis, working money into the budget as we could to improve the funding status as well as trying to meet the needs of all the things that we do within the agency. This past summer, we updated the forecast study and trying to project out where we'd be with our improved contributions. Our original plan called for increasing contributions to 9.5 percent. And so we asked SilverStone to take a look at where we're at at this point in time five years later after increasing contributions and say...and asked them to look at the study from three perspectives. One, if they held at 8 percent contribution rate, where we would be at in 2025? And we'd actually end up at 84 percent. They did another alternative where it

would go to 8.25 percent and then hold at that and then at 2025 we'd hit that 85 percent. They also did a third alternative and said if you kept on increasing by .5 percent a year and all the way topped out at 9.5 percent, where would you be at 2025? And in that study we'd hit 92 percent funding ratio at that point. So we're on track. I do have a collective bargaining agreement. Increasing the contribution was part of negotiation. Ironically, they're voting on our proposal tomorrow. We tentatively agreed to that. Our most recent actuarial experience study was conducted July 2012. We do it on a four-year cycle. The next experience study will be July 2016. And I have provided copies of our actuarial valuation as well as our GASB 68 statement which is required now, provided by SilverStone and submitted to our auditors. And with that, I would answer any questions you may have.

SENATOR DAVIS: Questions? How many employees do you have under the plan?

BOB BRINKER: Under the pension plan, we have 839. In terms of the entity and everybody, staff we have coming to work on any given day, probably, approximately 900 people.

SENATOR DAVIS: And only one tier? There aren't multiple tiers?

BOB BRINKER: No. We have one plan.

SENATOR DAVIS: And did you say your assumed rate was 7 percent?

BOB BRINKER: Assumption rate, investment return is 7 percent, correct.

SENATOR DAVIS: Any other questions? Quick and dirty, thank you.

BOB BRINKER: Thank you, Senators. Appreciate it.

SENATOR DAVIS: So the next group we have on our agenda is the Omaha police and fire.

STEPHEN CURTISS: (Exhibit 2) Good afternoon, Senators. I've Steve Curtiss, C-u-r-t-i-s-s. I am the finance director for the city of Omaha and I'm also the administrator for the city of

Omaha Police and Fire Pension System. I think you've got our report as we filed. I think the page is now giving you another handout that kind of summarizes the information about our pension. So I'll run through that real quickly and then we can get to your questions. This particular pension was founded in 1961. So it's been in existence for quite a while. Per the plan documents, the membership in the plan is limited to the...limited to and shall include only probationary regular uniformed personnel of the police and fire departments. So obviously it is for the police and fire as the name states. Receipts for 2014, which is the last year that we have closed, were approximately $90 million. The disbursements were approximately $70 million. So in the year of 2014, we had about a $20 million reserve surplus for that year. If you go to the second page of the handout I just gave you, it talks about the actual retirees in the system. We have approximately 1,500 retirees in the system. And the system itself covers around 3,000 total including active and retiree. If you go to the next page, this summarizes some of the things out of our last actuarial report. You may recall that not that long ago this particular pension was funded to the tune of about 39 percent and it created a lot of angst on everybody's part. We are now at about 50 percent, 51 percent. And this is the first year that the pension did fund its ARC. I would caution you, there was some changes in the way that we did things like amortization, the DROP program was for the first time fully loaded in here. Had it not been, we were probably actually slightly worse, or as my actuary has told, just slightly...our liability was slightly higher. She didn't like the word "worse" because she didn't believe that was indicative of the actual position. But we did fund our ARC this year. Our actual unfunded liability at the end of '14 was calculated to be about $600 million. So the position, from a (inaudible) standpoint is about the same. If you go to the final page of the handout I just gave you, it shows some of the return information because one of our assumptions still is 8 percent and we realize there has been a lot of discussion about the adequacy or the need for 8 percent. I would have you look at our...if you go to the far right about the middle, it shows 9.3 percent is what we've accomplished over the last 30 years. That’s our average annual return. Obviously in the last year or two, returns have not been that. We'll continually review that, but it is a long-term, 30-year-plus perpetual endowment. So it's not exactly the same as looking at our retirement funds and trying to decide how we might invest our money. I'd also ask you to remember that only about 60 percent of our funds are in domestic, international, or debt instruments. The other 40 percent approximately is in things like real estate, timber, private equity, commodities, a lot of other things that have a completely potentially uncorrelated return to the market. So with that, I think...I would ask you to remember

that even though we look fine now, I think the administration currently is still looking at some additional reform. I think one of the main things they're trying to negotiate this time is just to put everybody on parity as far as their contributions. Right now the police put in a little bit less. And I think there's an attempt to get that parity back. We were with the bond raters about a month ago, and they bring this up as one of the significant reasons why our bond rating is one click lower than it has been historically. They point out both pensions as one of the main reasons. There's also OPEB, which I'm sure you're familiar with--other postemployment benefits. But our pension systems and their underfunding continually hits their radar. So with that, I think that's the...most of the detail that I would hope to share with you. And I'll open it up to you for questions.

SENATOR DAVIS: Senator Kolterman.

SENATOR KOLTERMAN: Thank you, Mr. Chair. I just...my question deals with the unfunded aspect of your retirement plan. What are you doing to correct it?

STEPHEN CURTISS: We have negotiated a number of different changes to all the contracts involved. And we're still working on the final one. Our latest projection, which was done about a year ago, said it would be fully funded in 21, 22 years, something like that. Obviously that depended on returns coming in and all the assumptions are embedded in that. But it does show that we've gone from 39 percent to 50 percent, 51 percent. So we seem to be headed in the right direction. But it took a long time to get sort of out of whack. And it will take a while to put it straight again.

SENATOR KOLTERMAN: The only reason I ask that is if you take a look at the state-managed plans, they're all significantly higher and we think that's bad. I think you need to take a really hard, serious look at that.

STEPHEN CURTISS: I think the administration would say that's been on the forefront since the Fahey administration a while back. It's been a focus of...each administration has attempted to turn this around in the right direction.

SENATOR KOLTERMAN: Thank you.

SENATOR DAVIS: Senator Mello.

SENATOR MELLO: Thank you, Chairman Davis, and thank you, Mr. Curtiss and Mr. in den Bosch, for being here today. I have a couple questions. One, in the report, you indicate, and I'm quoting it, the benefits were increased in the 1990s and even though the cost was calculated, the benefits appear to have exceeded these costs, end quote. Have you determined why these costs exceeded the actuarial contributions?

STEPHEN CURTISS: You know, I don't know that either one of us were actually here during that period. You may have been. I think when the prior administration, because we're now going back a number of administrations, as they bargained and negotiated for what they believed was fair and they came to the conclusion and came to an agreement on contracts, I think whatever they agreed to turned out to be more expensive than what was actuarially calculated at the time.

SENATOR DAVIS: Can you....

BERNARD in den BOSCH: Bernard in den Bosch, deputy city attorney, last name, common spelling for in den Bosch, but it's i-n d-e-n B-o-s-c-h. I think what happened, primarily there's two things that probably led to it. One, when the benefits were negotiated, they were...there were certain...there was an actuarial analysis done just of that benefit. And I'm not sure that the analysis was necessarily done of where it fit in the whole plan. And I think secondly, to be fair to the actuary as well, there were some expected employee conduct. And that that expected employee conduct didn't always result in what was expected. And particularly there was a time when employees were provided some additional comp time with the thought that there was a desire for additional time off. It turns out that the time off wasn't used and people were able to use that comp time to be able to kick up their base pay for purposes of calculating a pension. All those things...that's one example, but there were a series of things like that that occurred. The benefits got better. The economy was not...and of course the benefits got better in the late '90s when the economy was booming, at least for purposes of pension balances. And then things slowed down and then I think some of the actuarial assumptions, I'm not sure the analysis was as

complete and some of the information provided the actuary was probably not as complete as maybe we would have liked.

SENATOR MELLO: Okay. Thank you. Thank you. Can you give us an update in regards to the current status on the negotiations with the Omaha Police Officers Association.

BERNARD in den BOSCH: Yeah...

STEPHEN CURTISS: Just so...be fair to the other senators, Bernard is also the...he's the attorney for the pension system itself and he's also involved in negotiations, part of why he's here, because that's sort of an instrumental piece of this, in case you were wondering why Bernard is here.

BERNARD in den BOSCH: And I'll say generally I guess I'm a little hesitant to get into the specifics of negotiations, but I can repeat what I think has been reiterated in the press. And that is that there’s ongoing negotiations. Obviously at this point in time they've reached an impasse. The parties have a matter pending before the Commission of Industrial Relations. That doesn't preclude the parties from at some point in the future getting back together. I think the...as has been reported in the press, the mayor has made two demands relative to pension. One is that the maximum benefit paid for new hires, those that would be hired prospectively for police officers, would match the same that appear for the other three bargaining groups that are part of the same system. And the second is there was a provision in the last labor agreement where police officers' benefits, their contribution decreased by a percent at the end of the contract. And it's trying to get that percent back to where it was so that it would then be consistent with the others. So I think that part of it is certainly we're always looking at the pension system, but the other part of it is consistency across the different groups.

SENATOR MELLO: Now that would, to some extent, leads to I think what we...most of us know that obviously the CIR in regards to the city and the Omaha Police Officers Association are currently in front of the CIR. Do you have an estimated time line of when you think we could see a potential decision?

BERNARD in den BOSCH: I'll tell you the best I can tell you. Right now, the trial on what cities will be part of the array--so the CIR contemplates that seven to nine cities will be part of the array--is scheduled to occur on January 20 and 21.

SENATOR MELLO: Okay.

BERNARD in den BOSCH: Obviously there will be some time for the CIR to consider the evidence and then they'll enter an order. You know, whether that takes 30 days or 60 days, I would anticipate that it will take some time. Then after that there will be a subsequent trial scheduled which will be for purposes of looking at...doing the wage comparison as well as potentially doing the hourly rate value comparisons for the pension and health insurance. Neither party is going to incur the expense of hiring an actuary to do the hourly rate value comparison for the pension or the health insurance until the array has been selected. That expense approximates somewhere between $10,000 to $15,000 potentially per city that you evaluate. So once the array is determined, let's say it occurs in March, then there's going to be several months of retaining an actuary to do that particular analysis. And then there will be a subsequent trial and then a subsequent decision. So best case scenario, I think mid to late summer is probably the earliest you could see a decision, and that may be optimistic.

SENATOR MELLO: Do you have an expected outcome, I mean, in regards to what the city is looking for from the CIR?

BERNARD in den BOSCH: We certainly have an array of cities that we think are comparable, that meet the criteria established by the Legislature and are similar. We've certainly done an analysis of those particular cities. We are aware of the array of comparable cities that the police union is using. There are three or four that are the same and there's five or six that are different. So you know, I think if you were...if they use the array that we (inaudible) we're pretty comfortable. It's...we're pretty much on course. But what's going to happen is going to be so dependent on the array that's determined by the CIR after they hear the evidence about sizes and comparable cities and similar working conditions.

SENATOR MELLO: Has the city done any estimates at all in regards to potential liability in regards to costs based off a decision from the CIR?

BERNARD in den BOSCH: I don't...not specifically because I don't think anybody...I mean we're still gathering the data on the cities. We just have received our data. We're still in the process of putting it together. That would be the first thing that we could look at. We don't have...we've learned the police union cities within the last several weeks. So we certainly haven't had an opportunity to go and gather...gathering data you'd like to believe is as simple as making a phone call or going and visiting. Unfortunately, it requires someone to go there. It requires cooperation from the other cities. Sometimes they don't have as much incentive to assist a city coming in from out of state as maybe somebody internally would. And the language in the statute that requires them to comply doesn't carry that much weight outside the state of Nebraska (laugh) unfortunately.

SENATOR MELLO: I understand.

STEPHEN CURTISS: Well, and, Senator, remember, too, that we do each year as we budget for our contracts that are open, we put an estimated...we call it wage adjustment. But we do put in our budgeting process money aside to give what we think is...in general it's going to be what the city believes we're going to offer and thinks is reasonable. We can't ever guarantee that it's going to be exact, but there is at least something there that should be in the ballpark.

SENATOR MELLO: I guess my last question is maybe more of a revisiting from last year when you both were in front us in the sense of explaining that essentially the city did I think a very public declaration. The mayor did a press release or a press conference saying that the Omaha Police and Fire System was moving in the right direction. It was going to be funded in 21 years. Your report this year says it's going to be fully funded in 17 years. I guess my question is, is it moving in the right direction? Because it seems like, to some extent, there is mixed messages being sent in regards to all these other reforms and changes need to be made. While you've actually...seems like you've solved the issue in regards to having it fully funded in 17 years, which, as what this committee has gone through the last couple years with our school employees and judges, that's actually in line with kind of the time frame that we've been able to figure out

our pension reforms at the state level. And so it seems like from your previous two reports things are actually moving where everyone expected it to move with the big reforms. But I guess that's the one question I have...I'm struggling with, which is what would be the outcome of the CIR, so to speak, that would have any real impact, so to speak, on the future funding liabilities of your plan knowing that it's going to be fully funded in 17 years?

STEPHEN CURTISS: And without Bernard commenting on that, I think one of the things that we take a lot or get a lot of questions about is our 8 percent return. That is at the high end of what all pension funds use nationally. We certainly haven't achieved that in the last year, year and a half. And so I think there's some legitimate concern about the assumptions that are used to get to a 17- or 20-, 21-year kind of return. Certainly our bond raters don't believe...they don't believe our story. They have their own models and they come up with a quite different story. And they would encourage us to do a lot more. So I guess it's predicated on assumptions that are not easy to meet. And we don't have a recent history of getting there. We haven't agreed to change those assumptions, but they're fairly aggressive assumptions.

SENATOR MELLO: Okay.

BERNARD in den BOSCH: Can I just add something to that, only because I think you're absolutely right. The pension reports that we see and the changes that were made in 2010 and 2012 have been...have put us on a path to go the right direction I think as I indicated previously. Certainly we're going to have to continue to evaluate the assumptions, whether they...you have to evaluate those assumptions annually and make sure that those are in place. The other thing, and I think from...there's also a fairness aspect. And I think when you get to the discussion with the police union--as I said, I'm trying to avoid getting into the discussion--there's a fairness aspect in looking for consistency across the board. The only mechanism that we have in place in the event that somebody says to the city of Omaha, no, we're not willing to negotiate with you at all, is to use the Commission of Industrial Relations. We all know that the Commission of Industrial Relations is not going to change the pension benefits. We know that. But it does have the ability to consider the richness of the pension benefits when it does its hourly rate values. So the only hammer we have, the only way that we can push the change that we think is needed in order to have consistency and fairness and granted, we hope won't...paint an even rosier picture, is the

CIR. So I appreciate the position. You say you're not going to get the thing that you're requesting. To some extent, that's true. But to use that then you would get into negotiations...you'd never be able to negotiate a single healthcare or pension change with the union because they'd say, well, if the CIR is not going to change it, why even bother? Well, the CIR does hopefully, with the changes that were made four years ago, give us an ability to make sure that those are evaluated. And it is our only hammer. So I apologize.

SENATOR MELLO: No, and I appreciate it, Mr. in den Bosch. I've got one follow-up question and I think Mr. Curtiss mentioned it. The city for the first time in some of the historical information showed that you paid the 100 percent payment of your ARC, which is I think for those of us who have been involved in this policy issue for a while knows that's the first thing you have to do to fix pension problems is pay your required contribution annually. Is that going to essentially be the city policy moving forward, that that 100 percent ARC will continue to be paid on an annual basis to help start to rectify what would be some of your unfunded liabilities?

STEPHEN CURTISS: No, because as you know...hopefully it will be in a situation where it can continually fund, but it's really predicated on the contracts, employment, and those percentages that are driven based on employment. Certainly over time you would hope that you've constructed all those contracts and negotiated so that you can continually meet that. But I don't know that there's a guarantee yet implicit in this. It was partially a function of...recalculated because of DROP, putting amortization in back to 30. I think that certainly helped. I think we're in the neighborhood. Whether or not we continue to do it I guess will remain to be seen. I think what Bernard was saying was that the one issue that they're still attempting to get I think would...as much as anything was more of a parity issue just with the other union who could say, well, if they don't have to then why should we? As far as that, I think you're probably familiar with the charter provision that says we have to do everything bilaterally, which is not a bad provision because it makes sure both parties come to the table and they all agree how they're going to fix things. But it does preclude us from unilaterally dumping money in. It doesn't mean that we put the exact same percentages in. That's always bargained: All right, if you'll do this on the employment side, then we'll put a little bit more here. But there is kind of a give-and-take, which I don't think is a bad thing. It was probably a provision that was kind of wise they put in years ago.

SENATOR LINDSTROM: Thank you, Mr. Chairman. Thank you, gentlemen, for being here. Quick question or maybe a couple questions, the potential cities that would be a part of the comparison, what is a typical assumption rate or even a city? Is it Des Moines? What does that look like? And do you know of other assumption rates in a potential city that might be in comparison?

BERNARD in den BOSCH: The CIR establishes a range, cities that are half the metropolitan statistical area to double the metropolitan statistical area. And then it favors proximity over nonproximity. And frankly Des Moines doesn't make it in on the MSA.

SENATOR LINDSTROM: Okay.

BERNARD in den BOSCH: Nor does Lincoln under our current...I mean there are other cities that are potentially in there. You get to some of the Minneapolis-St. Paul; you get to Milwaukee, Madison potentially, Denver, Colorado Springs, Oklahoma City, Wichita, Tulsa, Kansas City potentially; those are the types of cities, Memphis, Nashville, maybe Columbus, Toledo, some of the Ohio cities. So it's almost you draw concentric circles out with those things. And then after you've looked at the metropolitan statistical areas, then you have to do a comparison as to whether the working conditions are substantially similar.

SENATOR LINDSTROM: Are you aware of any of the cities you named that have an 8 percent assumption rate?

BERNARD in den BOSCH: I can't tell you for...I can't tell you one way or the other. My...when we looked at the issue...last time there was much discussion about the issue many years ago, a number of the...8 percent, although maybe aggressive in the private sector, is I think a fairly common assumption in the public sector.

SENATOR LINDSTROM: Okay. I just, clarification, the firefighters pension has three tiers, correct? Is that correct, as far as retirement?

BERNARD in den BOSCH: When you say three tiers...?

SENATOR LINDSTROM: Benefits, they have a top tier, basically guys who have been in the...part of the service for longer, and then it kind of falls from there.

BERNARD in den BOSCH: The fire and police are similar in how they're done, though the percentages might be slightly different. Their pension is based on you have to have been there 10 years to qualify. And there's a percentage for 10 years, a percentage for 15 years, and then from 20 years on your percentage is going to be based on your years of service and it moves up. So the top after 30 years now is 75 percent. At 29 years, I think it's 74 percent. At 29.5, it's 74.5 percent of the base pay. So it...there is the 10, 15, and then when you get 20 and beyond it is based on your years. I think that's what you're asking.

SENATOR LINDSTROM: Yeah, okay. Yeah, that's exactly what I was going for. And I forget the term you used. You might have used employee misconduct or overtime (inaudible). I mean essentially what you're saying was spiking, right, that's the term?

STEPHEN CURTISS: He made it through his whole thing without using the word "spiking." (Laughter)

SENATOR LINDSTROM: I just wanted clarification on that.

BERNARD in den BOSCH: The issue that I was referencing specifically had to do with firefighters. Spiking exists in different places and if we get into it, I'm going to define what I think spiking means because there's different people who think it means differently. But there was, in the 2000s, there was, in exchange for a no...0 percent increase in wages, there was a plan put in place where people would also not get paid for their holidays and they would bank their holidays. And their comp bank was allowed to be up to 500-plus hours. The thought was that people wanted the opportunity to use that leave. And if they used that leave, then of course you wouldn't do it. But the way their contract was written, the could sell comp time whenever they wanted. That issue was resolved through negotiations with something called the career overtime average because you put pension in contributions for each of those hours when they're paid. But the problem is if you're working 2,000 hours your whole career and then your pension is based you earning...working 2,400 hours, there's a shortfall. That's a simplistic version. I'm sure Pat,

Ms. Beckham would have...say it's much more complicated than that. But I mean that basic presumption, so the idea of the career overtime average is let's average your overtime over your whole career and that attempted to address that problem. But that was certainly one of the problems we're talking about dealing specifically with fire. Police spiking was a little bit different problem.

SENATOR LINDSTROM: Okay. Thank you.

SENATOR DAVIS: So I've got a few questions. When was the last experience study done?

STEPHEN CURTISS: We just finished one. It's been a couple years.

BERNARD in den BOSCH: No, it was...it was submitted September 27, 2013. We do them every five years.

SENATOR DAVIS: Every five years. Have you considered in light of investment modification I guess of expectations of maybe lowering that rate?

BERNARD in den BOSCH: I think the pension board has had that discussion each year with the actuary when the actuary makes the report. At this point based on the return and the historical returns, and Mr. Curtiss will probably add to this, there hasn't been...they've considered it but no action has been taken because at least the...you know, you've got a 30-year history as well as even a 10-year history that seems to support it, though you're always leery as times occur because obviously we've had some significant market issues in the past 10 years that have had effects (inaudible).

STEPHEN CURTISS: Well, and you know, maybe said another way, we attempt to keep a fairly long-term look. So you try really hard not to look at these short-term swings. If we ever became convinced that this was a new norm, we'd have to certainly reconsider. We haven't come to the conclusion yet that we can't get the historical returns that we have. But certainly if trends continue in our...we use DeMarche. I don't know if we talked about that. They help us with a lot of our allocation and then actually selecting managers because we use an active manager

approach. And they have not yet said, you know, given the way that we've allocated, that 8 percent is not possible. But we'll continually check that. And if we come to the conclusion one day that it can no longer be counted on, we'll change.

BERNARD in den BOSCH: And that's a change that will have to be made by the pension system. They actually are a self-administering plan as opposed to (inaudible).

SENATOR DAVIS: Oh, yeah. I understand that. It's just deferring a difficult decision doesn't make the decision any easier to make. It becomes more difficult to make. And so I think prudent thought should go into looking at that. And you made reference to the fact that other systems have made those changes. So I mean it's just my suggestion, that you think hard about that. You talked about actuarial valuation changes. Can you elaborate on what those were.

STEPHEN CURTISS: The main change, the change in assumptions was that we extended our amortization period back out to 30, which it had shortened over time. So that assumption had changed which affects the balances. But it was also not in the '14. So the two numbers would have kind of moved in concert with each other. But it was just noted as, hey, that's a different number. It's calculated in a slightly different way. We also had a DROP study. We had paid to have that done maybe a year or so ago and decided that we knew now enough about DROP, the DROP program, and that we had enough people in it where it made sense to go ahead and include the effect of DROP since we were pretty sure we knew what it was into the study. So those were the two main changes this year.

SENATOR DAVIS: And so what was the reasoning for going to 30, for lengthening that?

STEPHEN CURTISS: I might end up having to ask...I think 30 is the more normal time period. I do think it contracts over time. I do think most systems use 30 or something in that range.

SENATOR DAVIS: I think that's...oh, go ahead, Senator Lindstrom.

SENATOR LINDSTROM: I just had one question about the active management. And you said DeMarche is the...and they're based out of, do you know where?

STEPHEN CURTISS: Kansas City.

SENATOR LINDSTROM: Kansas City. Do they have discretion over the account or do they have to make...do they have to call?

STEPHEN CURTISS: They make...they call us. They don't have discretion to make any trades or any calls. It all comes through our investment committee and then we'll consider theirs as advice. And we've pushed back at times, but generally we follow their advice.

SENATOR LINDSTROM: I guess I've been told or heard that it took maybe nine months to a year before any adjustments were made during '08-09. Is that true?

STEPHEN CURTISS: It could be. That was prior to my tenure.

SENATOR LINDSTROM: Okay.

STEPHEN CURTISS: And again, they're taking a very long-term look.

SENATOR LINDSTROM: Sure.

STEPHEN CURTISS: They're trying to look out 30 years and not swing to the...they're trying not to day trade or year trade. They're trying to three-decade trade.

SENATOR LINDSTROM: Sure. Okay.

SENATOR DAVIS: And then I've just got...oh, so go ahead, Senator Kolterman.

SENATOR KOLTERMAN: Thank you, Mr. Chair. I guess I just want to make a point that I...you're going in the right direction. But I think as you're hearing here, our concerns, and I can't speak for everybody, but we as a whole have been looking at lowering our assumed investment rates. Ours are in really good shape. They could always be better. But if you lower that, that's even going to make your funded ratio look a lot worse. I think we'd like to see this as accurate as

possible so we really know what the true picture is. And by keeping it up there at 8 percent, I mean, we're taking a hard look at that, and we did in 2013 from what I understand. And it just needs to be evaluated because the last thing we want to do is have this come back to the state and say, hey, bail us out.

STEPHEN CURTISS: I guess I can't speak for how that future might work out. But no, I think it's on everybody's radar. I don't think we're yet convinced we can't do 8 percent because, remember, you'll have things like inflation that finally kick back in, unless we come to the conclusion we are on a new normal and we need to rethink things. But you know, if you have events like inflation kicking back in and a return of 4 percent or 5 percent, you're getting close to your 8 percent return at that point. But it's understood that 8 percent is aggressive and we understand that.

SENATOR DAVIS: Senator Mello.

SENATOR MELLO: Thank you, Chairman Davis. Real quick, the experience study, is that a board policy? Is that a city ordinance through the Pension Board that you have to do it every five years? Have you considered speeding that up to maybe do it every three years to be able to identify that expected potential rate of return?

BERNARD in den BOSCH: The city charter requires that we do an actuarial analysis every two years and an experience study every five years. We as a policy matter do an actuarial study every year, and we do the five-year experience study. The last experience study, the board actually held off on doing it until after the police and fire pension changes had occurred so that it would be more accurate. Certainly, there has been some discussion about doing it more frequently. I don't think anybody has made the decision to do that. But that's certainly I think, with as volatile as things have been, something that's probably more on people's mind than it used to...than it was 10 or 15 years ago to try to do those more frequently.

SENATOR MELLO: Okay. Thank you.

SENATOR DAVIS: You...we've talked about the experience study, but I don't know if I...maybe I missed this. How many years are you in your smoothing process? Is it four or five years?

STEPHEN CURTISS: I think so. We're about...

_____________: (Inaudible.)

STEPHEN CURTISS: Something less than four.

_____________: (Inaudible.)

STEPHEN CURTISS: Something longer than four. (Laughter)

SENATOR DAVIS: Between four and...

STEPHEN CURTISS: We still have some pickup as I recall, meaning that we could do 6 percent I think this year and we would still meet our 8 percent objective. Obviously that runs out over time, particularly with our experience over the last couple of years, the last two anyway.

SENATOR DAVIS: But when is the end of the fiscal year there?

STEPHEN CURTISS: Pardon me?

SENATOR DAVIS: But when is the end of the fiscal year for the plan?

STEPHEN CURTISS: It's the same as the city's year; it's 12-31.

BERNARD in den BOSCH: December 31.

SENATOR DAVIS: Okay. So we're in the middle of that then now.

STEPHEN CURTISS: Correct, yeah.

SENATOR DAVIS: And what happens between now and the end of the year will be important to you.

BERNARD in den BOSCH: Absolutely.

STEPHEN CURTISS: Yes.

SENATOR DAVIS: And other questions? If not, thank you very much.

STEPHEN CURTISS: Thank you.

SENATOR DAVIS: Next plan is the Omaha Civilians Plan. We've all got our papers so we're all ready.

ALLEN HERINK: (Exhibit 3) I'm trying to bury you in paper here, so bear with me. My name is Al Herink, and it's spelled A-l-l-e-n H-e-r-i-n-k. I'm the city comptroller and I'm also the administrator of the civilian pension plan. The civilian pension plan has been one of the major financial challenges the city has had over the last few years. And we have a number of them. Last year when I came in here I told you folks that the plan was projected to run out of money in 20 years. And we were hoping to get some wage concessions and some settlements and rectify the plan in the next series of negotiations. And I'm happy to report that we were able to do so. We'll kind of walk through this thing and I'll answer your questions along the way and we'll see what...and give you some more information. This first sheet is just a sheet we hand out to the people that are in the system.

SENATOR DAVIS: That's this one, right? That's the handout.

ALLEN HERINK: Yeah, yeah, page one. And it says Civilian Pension System on the front. And this is kind of a five-year analysis and it's kind of interesting to look at it in that respect. From 2000 to 2014, the plan's assets remain the same. Basically in 2010, we had $232 million worth of assets. In 2014, we have $238 million worth of assets roughly. So over the last five years, the expenses have equaled the revenues basically. And it just kind of gives the participants an idea of

what's coming in and out of the plan, where the incomes come from. The next sheet is just a roster of the different types of people that we have on retirement. If you look at the "Total" column, we have a lot of different types of retirement pensions and disability pensions also. We had 1,370 people receiving a pension benefit. And then at the end of 2014, we have 1,400 people. Again, this is just kind of a roster. It lets people know where it's at and how it is. We have what we call a mature pension plan. And that's what we hand out to the employees. The next sheet, you folks talked about this a lot. It has to do with how the fund has returned the last...well, the last...since inception, in the last few years. And if you take a look at this plan, we have a sophisticated asset allocation of investments. Again, we have a number of managers, all of them are active managers. We believe they all provide value to the plan. We have DeMarche that helps us with how much do we put in every asset class and how much we give to each investor. We have DeMarche also help us pick the people that are going to do the investments for us. You have some good investors and you have some...you have some good stock pickers and you have some poor stock pickers. And some come in and out of favor. And DeMarche does a good job, we feel, of helping us pick the right managers. And those managers help give us added boost to the plan you might say. So if you take a look at this, it's got the...if you take a look at the total fund, that's the...and the different columns, that's how much the fund has returned over a period of time. Year to date, we're only up 1.1 percent. Do we all see that? And then after one year we added 2.2 percent. The last three years we did do 8 percent. The last five years we did 8.1 percent. And then in ten years, we kind of had a rough time through 2002, 2008 and that, we only did 5.1 percent. But since inception, we're at 9.2 percent. So the 8 percent, that's a good question. We ask that every year when we look at it. And again, we rely on DeMarche to do that. And they do a risk analysis of our asset allocation. And they factor in a few things like we said earlier, you know, inflation. And once you get a 3 percent inflation and then add growth and profits to these companies, 8 percent is reasonable. The last...and our auditors ask us this every year because they use these percentages, too, to come up with the liabilities. They didn't seem to think that they were too high. And DeMarche said that they felt that we had a 75 percent chance to get 8 percent for the next 30 years going forward. So that's kind of where we're at. But we can look at that as experience goes down in whatever...you know, that's something you have to constantly look at. You can see the different types of funds and types of asset classes we have on this page too. And then when I talked a little earlier, I said that we did a lot of changes at the beginning of '15 to turn the pension plan around and to get it funded within 20 to 25 years. And on this sheet,

it lists the main changes we did. I'm going to have Bernard talk about those a little bit. And he can tell you just what kind of savings we have with these changes.

BERNARD in den BOSCH: Bernard in den Bosch, deputy city attorney; first name Bernard, B-e-r-n-a-r-d, last name, in den Bosch, i-n d-e-n B-o-s-c-h. You have here a summary of the negotiated changes. The city civilian system are represented by three bargaining groups as well as one small group of folks that doesn't have any bargaining power. The changes that were negotiated were negotiated with all three bargaining groups and went into effect for all three bargaining groups at the same time. And some of the changes were backdated. Some of the things were prospective. And I'll try to address that as I kind of go through it. And then these same...the changes were also imposed on the group that does not have bargaining power. So when it comes to the civilian work force, they're consistent as far as what the pension benefits that they're entitled to. And there were changes that were made for current employees, and then there were changes that were made prospective for future employees. So as we kind of go through the document that Mr. Herink provided you, for years of service, the civilian pension is a product of years and you received a pension factor for years of service. For years moving forward from March 1, 2015, employees received 1.9 percent per year as opposed to the 2.25 percent that they received for years prior to March 1, 2015. There was a change. It used to be we had to have the Rule of 80, minimum age 50 and then you could retire at 60 with five years of service because you were vested with five. Now it's the Rule of 85, age 65, five years of service. There were a couple provisions that grandfathered in employees who were within 5 years of retiring and those who were within 10 years of retiring just to ease the change and allow them to change their...frankly their retirement planning. Significantly, there was also a change in how we...the pension is obviously a factor of your percentage plus your average monthly, final monthly compensation. It used to be the highest 26 pay periods in the last 130 years (sic) of your employ. So for most employees, that would either be the last 26 pay periods if you were somebody who was salaried. Or if you were an employee who earned overtime, it might be 26 pay periods where you hit the most overtime in the last 130. That has now been...for employees within 5 years of retirement, it's the highest 78 in a consecutive 130. And for all other employees, anybody who is not eligible to retire in five years, it's the average final monthly compensation over the last five years of your employment. So that is significantly smoothed and frankly limits those things where you might have a couple weeks where you have a bad

snowstorm where somebody earns a lot of overtime or somebody who has one of those kind of quirky things. There was also significant changes in nonservice and service-related retirement pensions. That was perceived as an issue by the city and the union, that there were employees that were taking advantage of that system. It used to be you'd get 60 percent of your average final compensation no matter how long you work. Now it's more a factor. It's 1.75 or 1.5 percent times the years of service you've worked. So that significantly diminished the benefits and diminished the attractiveness of the option. We've attempted to look at some other options to try to make it more palatable as far as...we currently don't have any long-term disability policies. And we're kind of looking at phasing those in maybe to help those that are truly...truly receive the work-related disability. Before I get to five, which was probably the most significant change, this, much like we did with the police and fire unions, we negotiated with the unions. We, the city, negotiated to increase contributions in exchange for a reduction in benefits for active employees. So the city increased benefit, increased its contributions going back to the beginning of 2014. And we made payments, retroactive payments to that effect for 6 percent for the employer and then an additional 1 percent in 2015. So now the city's contributions are about 18.775 percent of the employee's compensation. And the employee's is roughly 10.75 percent of theirs. So roughly between the two you're now close to 30 percent as far as contributions. The most significant change though was the creation of a cash balance plan for new hires. Anybody that was hired after March 1, 2015, is in the cash balance plan. You probably...as you have city...you have state entities that have a cash balance plan so you're probably more experts on a cash balance plan than I am. I know the woman that's sitting behind me is much more of an expert than I am as well. That particular cash balance plan was set up based on advice that we received from Cavanaugh Macdonald, particularly through Ms. Beckham. And obviously in calculating the interest credit, the service credits, we took into account, there's a graduated service credit. So at eight years, it's 13 percent for the first eight years, then 14 percent for the next eight years after that, and 15 percent for the eight years after that. The interest credit is a fixed interest credit of 4 percent with a potential dividend if the system earns more than 7 percent over this rolling five-year average. There's a potential to increase that 4 percent interest credit. But basically the biggest change in the cash balance plan, other than it helps fund some of the shortfall that we have in the system, the biggest change is the risk for variations in the market shifts from the employer to the employee. We now share the risk for those corrections in the market or if the market should have bad conditions. We also share the benefit in the event that the market goes

through a prolonged period of growth. So that's the most significant change in the system. So those are the changes that were negotiated. It was done collaboratively much to the credit of the employee unions as well. I think as the city, getting employee unions to take seriously the willingness to make significant concessions for their employees is always difficult. But that did occur. I think there was a recognition there's a problem. You see some...I think as you look at the report that we filed, the problem...you see some benefits already from what has happened. And hopefully as we come back next year and the year after that and the year after that, we'll start to really see those changes, particularly as the new hires go into the cash balance plan and their...the liability to the system is significantly less when Ms. Beckham determines the actuarial liability, so.

ALLEN HERINK: As you can see...

SENATOR DAVIS: Thank you.

ALLEN HERINK: Go ahead.

SENATOR DAVIS: No, go ahead.

ALLEN HERINK: As you can see, the city stepped up with adding more cash and employees decreased benefits and that was a 50-50 idea that we both had to work on the problem. And going forward, we hope that works. On the cash balance plan, the way I look at it, our liabilities are not going to increase as much...are going to increase at a slower rate. And our...eventually our contributions will catch up to what's needed to fund the liabilities.

SENATOR LINDSTROM: Thank you, Mr. Chairman. This is maybe more of a comment maybe more for the committee.

ALLEN HERINK: Sure.

SENATOR LINDSTROM: If at the form on page 3 that they handed out, and this is nothing against you, I just want to point out something. And maybe somebody can give me clarification on this.

ALLEN HERINK: Sure.

SENATOR LINDSTROM: When you talked about the "Since Inception" date at 9.2 percent, do you see that, kind of under the bold, on the bold strip there?

ALLEN HERINK: Sure.

SENATOR LINDSTROM: What that tells me as you look at the different funds on the left-hand side, domestic, international, some have a ten-year number. None of them have a number from the 1980s. So they...what that tells me is they probably didn't exist at that time. Certainly the global hedge fund didn't exist three years ago, five years ago. So I'd be curious where they got that 9.2 percent number because in the '80s if you just put 100 percent fixed income, interest rates were so high you could easily hit an 8 percent. So I just would like some clarification.

ALLEN HERINK: Yeah, I don't know what the breakdown was in those years.

SENATOR LINDSTROM: Okay. Or maybe somebody from DeMarche could answer that for me because that's a skewed number.

ALLEN HERINK: We'll have to see how that...

SENATOR LINDSTROM: Thank you, thank you.

ALLEN HERINK: Sure.

SENATOR DAVIS: Senator Mello.

SENATOR MELLO: Thank you, Chairman Davis, and thank you, Mr. Herink, Mr. in den Bosch, again. I have a quick question that I could have asked probably when Mr. Curtiss was up. It is in regards to your management fees with DeMarche. It sounds like it's a fairly active management investment firm. Can you give us some background on what you're paying in management fees?

ALLEN HERINK: Okay. DeMarche, we have, I believe, it's a fixed-fee contract. And it's based...it's not based on the...it's based on how many managers they do. We pay our managers I believe between probably, I want to say 50 basis points and maybe 75 or 80 basis points depending on the type of investment.

SENATOR MELLO: Each manager is 75 to 80 basis points?

ALLEN HERINK: Yes. Real estate may be a little higher, maybe 1 basis...would be 1 percent. And I'm just using round numbers. Our fixed income is not nearly that. And what we do when we do this is a lot of times the police and the fire will have the same manager and if that's...we try to get them to group it together because the more you have invested with these companies, the less the management fees are. A small investor is going to pay a higher investment fee than a large investor.

SENATOR MELLO: So it's safe to say then that probably similar basis points would be attributable to...police and fire would be paying about same amount then because you guys pool your investment accounts essentially.

ALLEN HERINK: Right. Yeah, sure, when we can, yeah.

SENATOR MELLO: Okay. The second question I've got is, can you break down a little bit in regards to I know the civilian plan...the civilian plan is funded not just with general fund dollars, correct? It's funded with fees, other sources of revenue besides income...sales tax and property taxes where police and fire is funded mostly with general fund dollars. Can you walk us through how that is a little different?

ALLEN HERINK: Well, yeah. We have about five or six proprietary funds for the city. One would be the sewer fund. One would be the golf fund, the parking fund, the marina fund. And if those employees are paid out of those funds, those types of fees go also to pay the...and city match on their...on the contribution for those employees. So the sewer fund is paying, the golf revenues are paying, and whatever other types of proprietary funds that they're in. Does that answer your question?

SENATOR MELLO: And then in comparison to, and maybe Bernard can answer it, in comparison to the police and fire fund which is...?

ALLEN HERINK: Oh, it's 100 percent general fund.

SENATOR MELLO: One hundred percent general fund.

ALLEN HERINK: That's right.

SENATOR MELLO: So...I just, in the sense of looking at your overall reforms that you made for the civilian plan, it's considerably different when you're able to raise fees on those segregated fee-funded areas in comparison to a purely 100 percent general funded plan.

ALLEN HERINK: Yeah.

SENATOR MELLO: It's just they're different in that nature.

BERNARD in den BOSCH: With one historical exception, and that is in the past we've been able to hire police and firefighters through federal grants. And at least that period of time that they were under federal grant, any contributions would have come from that grant.

SENATOR MELLO: Federal funds also then in the civilian plan also?

BERNARD in den BOSCH: There are employees that are paid out of Community Development Block Grant funds.

ALLEN HERINK: Right. We have a few people like that that are grant-funded and pay into the system. So it's a variety of fees whereas police and fire I would say are mainly general fund.

SENATOR MELLO: So civilian plan general funds, which is property and sales tax, federal funds and fees from city service...segregated city service funds.

ALLEN HERINK: Right.

SENATOR MELLO: Police and fire, 100 percent general funds.

ALLEN HERINK: Well, I would say 99.9 percent or...

SENATOR MELLO: 99.9 percent.

ALLEN HERINK: 99.5 percent or whatever, yeah.

SENATOR MELLO: Okay. All right.

ALLEN HERINK: It's...on the proprietary funds, it's not as easy to raise fees as much as you might think because, well, our golf fund is just based on competition. And just because fees for...expenses go up there, we just can't automatically raise the fees. But you're right, we have a wider basket of revenues to pay the civilian contributions.

SENATOR MELLO: Okay. Thank you.

SENATOR DAVIS: Senator Kolterman.

SENATOR KOLTERMAN: Thank you, Mr. Chair. My question really just deals with both plans.

ALLEN HERINK: Sure.

SENATOR KOLTERMAN: Obviously you've made some major changes to the civilian employee plan implementing a cash balance account...cash balance plan for new hires is what I understand.

ALLEN HERINK: Correct.

SENATOR KOLTERMAN: Have you given any thought to doing the same type of a program for the police and fire?

BERNARD in den BOSCH: I think it's fair to say that during the...when negotiations first started, years ago they considered all sorts of alternatives. Keep in mind that because the benefits have to be negotiated, they can't be imposed unilaterally. I know there was some discussion. I don't believe that we introduced the cash balance plan specifically when we started negotiations five or six years ago. The thought was to do a combination of reducing benefits and increasing contributions. In the most recent round of negotiations, the focus wasn't necessarily on pension reform. It was focused on health insurance and some other things. So that's certainly, I think, in the mayor's consciousness and frankly something that I would not be surprised if either the current mayor or some future mayor tried to make that proposal during negotiations with the police and fire union.

SENATOR KOLTERMAN: Okay. Thank you.

SENATOR DAVIS: I've got just a few questions.

ALLEN HERINK: Sure.

SENATOR DAVIS: With your cash balance plan, so what happens with a rehire? Do they come in on the old plan or with the cash balance plan?

BERNARD in den BOSCH: We have...if you're vested in the old plan, you're going to come in under the old plan. If you're not vested, you're coming in under the cash balance plan and we're actually trying to figure out the processes to do it. But we do allow people who are rehired to...to

provide the money back to the city and...it contemplates that you would get some credit for it. You're going to get credit as far as the years of service, but you're not going to get interest credits or pension credits for past years. That will now...that will start off as the balance as you move forward in your cash balance plan.

SENATOR DAVIS: Okay. And then I'm just looking at your figures and maybe I'm not getting it, but it looks like you've got about a 30 percent employee contribution. I mean by the time the city puts its portion in and the...

BERNARD in den BOSCH: About 30 percent.

SENATOR DAVIS: So are they not...do they not receive Social Security?

ALLEN HERINK: No, we also pay a matching Social Security for the civilians.

SENATOR DAVIS: So they're....

ALLEN HERINK: That's different than the police.

SENATOR DAVIS: So they're paying in Social Security then plus this almost 30 percent.

BERNARD in den BOSCH: Plus almost 11...

ALLEN HERINK: Well,(inaudible.)

BERNARD in den BOSCH: Well, they pay about 11 percent; the civilian (inaudible).

SENATOR DAVIS: The city pays 18 percent?

BERNARD in den BOSCH: The city pays 18 percent.

ALLEN HERINK: Eighteen percent, and it comes up to the thirty-three percent total.

SENATOR DAVIS: Is that common among most cities?

ALLEN HERINK: That's what it costs to fund this plan.

BERNARD in den BOSCH: I don't think there's an alternative not to...those employees have to contribute to Social Security. So, correct, the employees...

SENATOR DAVIS: Well, I thought they did. But you know, when I added those up, I'm like, well, that's pretty significant.

BERNARD in den BOSCH: The numbers here do not...

SENATOR DAVIS: But that's basically 42.5 percent or 43 percent. On page 1 of the handout, just running through this if you would walk me through this a little bit, security lending income, tell me what that is, under receipts.

ALLEN HERINK: Pardon me? What...?

SENATOR DAVIS: Under receipts, the bottom column, right here.

ALLEN HERINK: Sure. I'll tell you what that is. For a number of years, we were in what they call a security lendings program. And I'm trying to explain it the best I can. We have securities with our trustee. And there were sometimes...sometimes there were people that would come in and out of the market and need to borrow our securities overnight. And we would lend it to them overnight or for a period of time, say they bought short or bought long. And this went on for probably 20, 30 years we did this. And 2008 the system didn't work anymore. We didn't have enough in it. These things were backed with AAA bonds from other agencies and things like that. And it didn't fall through and we were...had to cash out of the plan in 2014 and discontinued it. There's other pension plans that were in the same thing. We did get a class action suit against the bank that we did this with. And if you look at it, we broke about even through all the years on what happened. But it was a...it festered since 2008 when we had the financial crash and some of the stuff that was AAA wasn't AAA anymore. The collateral was no good.

SENATOR DAVIS: So is this an ongoing expense then?

ALLEN HERINK: No. This...like I said, 2014 we cashed out of the plan.

SENATOR DAVIS: This is a one-time loss.

ALLEN HERINK: And that was it. And ours was so small compared to some of the bigger plans that were in it. We have a lot of stocks and bonds that we can do this overnight with. But there's plans with a lot more that they didn't even want to mess with our small assets anymore. Police and fire were in the same thing. But ours were in a little different plan.

SENATOR DAVIS: And then so I circled this before I got your explanation.

ALLEN HERINK: Well, I'm glad you brought it up.

SENATOR DAVIS: Under the last five years of financial information, employer contributions are up about $5 million but that's because of the new arrangements, is that correct?

ALLEN HERINK: Yeah. If you take a look at 2014, we put in $12 million compared to $7 million. And that was a retroactive payment for '13 that was in the contracts and it also then included a catchup for '14. So you can see that we stepped up to the plate to put more money into these plans. And then that will be continuous then even though it may be a little overstated in '14 because we have a retro payment for '13. These were three-year contracts. And they're extended out to '17 now. And at that time, we'll take a look at everything and see where these plans are and...the city of Omaha and the employees want to have funded pension plans. And you know, we go with the...work together and get this thing done. And we have no reason to believe this...these things won't be funded.

SENATOR DAVIS: I think that answers all my questions.

ALLEN HERINK: Okay.

SENATOR DAVIS: Anybody else? Senator Mello.

SENATOR MELLO: Thank you, Chairman Davis. I have a follow-up question I think from last year as well, which was I think it was an Omaha World-Herald story that was done in regards to the city of Omaha over, I think, it was close to a decade had prioritized hiring part-time city employees in comparison to full-time city employees, thus you had a drop in regards to the number of people who were actually contributing to the civilian pension plan. Has that been an issue? I know it was something we talked about last year, but has that been something that we've also seen changes at all in regards to city, the overall city management, city structures within agencies of moving away from, quote unquote, part-time employees who are not paying into any of the system, particularly with the new defined...the new cash balance plan?

BERNARD in den BOSCH: I think it's probably fair to say over the past several years, whether it's been the previous administration or the current administration, there's been a cognizant effort to move away from...and typically what you're talking about is people who retire and come back and work part time. They don't put any money in the pension system nor do they accumulate any additional pension credit, but there's a benefit in their experience. The number of employees that have done that citywide, and I appreciate it, it ran in the newspaper so I understand that it's true, I think it's fair to say that the newspaper probably overstates the problem. The number of employees has gone down. I think it's close to 100. Most of those are actually retired police officers that come back and work either the front desk or they work as a school resource officer part time. The number of civilian employees is under 50.

SENATOR MELLO: Okay.

BERNARD in den BOSCH: And then I think that continues to decrease as we move forward.

SENATOR MELLO: Okay. Thank you.

BERNARD in den BOSCH: And we've done some things to make it not as appealing. In not this recent negotiations but the negotiations before, the part-time employees' pay was capped at the

first step of the pay plan as whereas before they frequently would be paid at the high end. So it's not as compelling as maybe it once was.

SENATOR MELLO: Thank you. Great to hear.

SENATOR DAVIS: And I've got one more after we got here. This also is based on 8 percent.

ALLEN HERINK: No, this right here is just a cash flow plan.

SENATOR DAVIS: Okay.

ALLEN HERINK: So there's no assumptions in this. This is actually what happened.

BERNARD in den BOSCH: But the civilian system does have an 8 percent assumption.

SENATOR DAVIS: Does have an 8 percent.

ALLEN HERINK: Yeah. Oh, that's what your question was.

SENATOR DAVIS: Yeah. And is there...I asked the same question to the...well, to you last time. Any talk or the thought about maybe lowering that?

ALLEN HERINK: You know, we look at that every year. And I'm sure we'll ask DeMarche to take a look at it again. You know, it just depends on historical data that we come in and what they see going forward. Again, the last study we did, which was just a year or two ago, they have a 75 percent confidence level that we could get 8 percent in this plan for...based on our asset mixed, for the next 30 years, you know, long-term returns. And if you think about it, the pension board really has, you know, no reason not to believe them or has no stake in whether it's 7.5 percent or 8 percent. It's the liabilities between the city and the unions, not the pension board.

SENATOR DAVIS: Right, but it's still liability.

ALLEN HERINK: Yeah.

SENATOR DAVIS: Thank you.

ALLEN HERINK: I just wanted to kind of...I was reading. Just the other day one of the pension funds went from 9 percent to 8.5 percent. I don't know if anybody saw that. But there's still some out there with 9 percent or 8.5 percent. So you know, I'm sure we're at the top end and we'll keep looking at it.

SENATOR DAVIS: Thank you.

BERNARD in den BOSCH: Thank you, Senator Davis. Thank you.

ALLEN HERINK: Thank you.

SENATOR DAVIS: Douglas County.

JOE LORENZ: Good afternoon. I'm Joe Lorenz. I'm Douglas County finance director and I'm also chair of the Douglas County Pension Committee. So I'm here today to give you an update on our defined benefit pension plan. The most recent actuarial valuation, which we have done by SilverStone, as of January 1, 2015, showed the plan was 66.8 percent funded which was up 2.2 points from the previous year. We had net assets on an actuarial basis of $263.8 million which was up $18 million over the previous year. And the pension fund liability was $131.1 million, which was down $3.8 million from the previous year. The plan has 3,472 participants. And of that, about 2,100 are active with the remainder being retirees. So we have a good active-to-retiree percentage. The plan has an equal contributory rate between the members and the employer of 8.5 percent of pay. Our normal cost was $12.8 million, and the actuarial required contribution was $18.7 million for 2014. And I think the story about the Douglas County Pension Plan, the shortfall, why it's only at 66.8 percent funded is a fairly straightforward story of how we got there and the actions that we've taken to remedy that and why we feel that we've turned it around and are headed in the right direction. In 1996, the plan was 97.8 percent funded. In 1997, the plan made the following two significant changes where the plan introduced an unreduced

reduced benefit Rule of 75. And the benefit...secondly, the benefit formula increased from 1.5 percent of pay per year of service to 2 percent per year of service. And then in 1998, there was a 3 percent COLA; in 2000, a 4 percent COLA; in 2002, a 3 percent COLA. Amazingly--not really--by 2004, the funding ratio had fallen to 64.8 percent. So the county started to take actions. The first one was to increase the contributory rate. As the county and member contributions each increased from 5.5 percent of pay in 2005 to the present level of 8.5 percent of pay by 2008. Poor stock market performance also negatively impacted plan performance, so the plan bottomed out at a funding ratio at a low point of 57.8 percent in the year 2010. So at that point, the members of the pension committee and the county board recognized that significant changes had to be made to the plan to ensure the financial viability for its current participants. Accordingly, effective for all employees hired after December 31, 2011, the following provisions were made...and changes were made to the plan. We eliminated the Rule of 75 for all future new hires. The benefit formula was reduced from 2 percent of pay back to its previous level of 1.5 percent of pay per year of service. And the maximum retirement benefit was reduced from 60 percent of the participant's final average compensation to 45 percent. There were slight modifications of that for the sheriff's deputies given that they're in law enforcement and so there's some early retirement provisions for them. But these plan changes along with no COLA increases being given in the plan since the year 2002 have increased the plan's funding ratio by 9 percentage points. And I would say that when you're changing a defined benefit plan it's like turning around an aircraft carrier: It takes time, but when you do it and you have it pointed in the right direction, you can tell how it's trending. So these plan changes materially impacted the plan's forecast of funded percentage so that the SilverStone projection now forecasts the plan achieving acceptable funding levels of 90 percent in the future as shown in the...by the year...in 20 years from now, by the year 2035. And that's all assuming our return of 7.5 percent that we use. And in addition this year, the plan was originally set up in 1964 with Mutual of Omaha where they had a long-term disability component that was right into the pension plan. And so we've eliminated that year, put that out as a separate, fully insured employee benefit. And by pulling the long-term disability program out of the pension plan, the actuaries have estimated that it will immediately increase the funded ratio by half a percentage point, which will increase to approximately 2 percentage points over the longer 20-year period. You know, Douglas County does have 16 collective bargaining units, but no recent or ongoing negotiations with any of these labor groups are expected to impact the funding of the pension plan. And as we've gone through

our labor negotiations, we've done a big part...an educational program with the employees to show them that's the shape of the pension plan and why we had to make these changes. And they really understood the issues we were facing and went along with it. So we really feel that the pension committee, the board of the commissioners, and the administrative staff, that our actions have significantly improved the financial condition of the employee defined benefit plan. And we're confident that they've ensured the financial viability and payment of the benefits to the participants going forward. And we've been able to maintain and save going forward, that our employees will continue to have a well-funded defined benefit pension. Thank you.

SENATOR DAVIS: Questions? So you had an ARC this year. Was it made?

JOE LORENZ: Yes. Our ARC, I think we were at about 102 percent. You know, it's a contributory plan where it...8.5 percent and 8.5 percent, about 17 percent. And if you look at the past five years, I think I sent you some data, that it's varied between 16.8 percent and 17.2 percent. So the ARC funding looks very appropriate for the level of our plan.

SENATOR DAVIS: So can you give us a little more information on the disability part of it, why it was taken out and why it's going to make this difference.

JOE LORENZ: Well, you know, Senators, I'll tell you, I've been in government for five years but before that I had worked in finance in the private sector and I'd worked on the pension plans for the Quaker Oats Company in Chicago and for Ag Processing in Omaha, which were the pension plans for all the agricultural co-ops in Nebraska and Iowa. And if you got out into the private sector, you never see a disability plan as part of the pension plan. And you know, it's something that might have been done in the 1960s, but certainly in the 21st century it's very rare. And so I looked at that and I said, well, this doesn't really belong here. This is something that should be a fully insured employee benefit. And by pulling it out, it also has the benefit of increasing the funding for the pension plan.

SENATOR DAVIS: Senator Mello.

SENATOR MELLO: Thank you, Chairman Davis. Your sheriff deputies, your law enforcement for Douglas County, do they pay Social Security?

JOE LORENZ: Yes.

SENATOR MELLO: So unlike the Omaha police and fire who do not pay into Social Security...

JOE LORENZ: Right.

SENATOR MELLO: ...your county sheriffs and deputies are all a part of Social Security.

JOE LORENZ: Yes, they do. Everybody in the county pays Social Security, yes.

SENATOR MELLO: Okay. And this is a question I'll probably ask the committee counsel to follow up with the city of Omaha in regards to the investment...your investment firm that you utilize. Has there ever been any conversation in regards to looking to pool investments with the city of Omaha? Or I mean in the sense of having three major defined benefit plans within one county is unique in the sense that all three have, in theory, different investment strategies. You know, they use at least DeMarche so they're both using the same firm. Is that something that there's ever been a conversation in regards to...I know the...oh, city/county mergers on some things work, some things they don’t. But is this one that...?

JOE LORENZ: You know, everybody in...a member of the pension plan has to work as a fiduciary responsibility being on the plan. And to be just perfectly honest with you, I don't think merging our plan or looking at doing things with the city of Omaha would be to our employees' benefit.

SENATOR MELLO: What about merging it with the State Investment Council in regards to having them take over your investment management?

JOE LORENZ: Well, you know, we've talked to them. We had a separate meeting with the State Investment Council a couple weeks ago actually to merge the excess cash for the Douglas

County Treasurer's Office. So we were aware of them. And they explained how they do in their pension. But actually what we do on our pension is we have a consultant, asset consultant group out of St. Louis. We pay them a fixed fee. It's around $30,000, $35,000. You know, we didn't get into that Wall Street game where we pay them a percentage of assets. So we pay them a flat rate. And then they pick out and bring in the different investment managers who we interview and we pick from. And over the past 12 years, our plan has had an average rate of return of 7.3 percent, which is pretty close to a 7.5 percent. And I think we just feel that we have a good handle on our plan and, you know, it's in the right direction. And we're comfortable the way it's being run right now.

SENATOR MELLO: How many basis points are you guys paying them per investment manager?

JOE LORENZ: Oh, per...you know, it...

SENATOR MELLO: I mean, we heard the city of Omaha is about 75 to 80 basis points per investment manager.

JOE LORENZ: Well, you know, Senator, it varies. For a S&P 500 fund that's not actively managed, you might pay 10 or 15 basis points, where if you have an emerging market fund or a small cap fund you might be paying, you know, close to 100 basis points. So I think on average we're probably down in the 40-50 percent rate...basis points.

SENATOR MELLO: Basis points.

JOE LORENZ: Yeah.

SENATOR MELLO: Okay. Thank you.

SENATOR DAVIS: Any other questions? If not, thank you. Appreciate your time.

JOE LORENZ: Thank you.

SENATOR DAVIS: Lincoln police and fire.

PAT BECKHAM: Patrice Beckham, P-a-t-r-i-c-e, Beckham, B-e-c-k-h-a-m, back to visit with you about the City of Lincoln Police and Fire Retirement Plan. I believe that you all have some written materials from the city that you received.

SENATOR MELLO: Who don't you represent? (Laughter)

PAT BECKHAM: Just one or two. We're working on it. (Laugh) And since you mention that, this is a new relationship for us. So I will be presenting information on the August 31, 2014, actuarial valuation, but in fact, Cavanaugh Macdonald did not prepare that report. We're working on the August 31, 2015, report that's not quite ready. It will be about another month before that's issued. So I am sort of the new kid on the block when it comes to this plan and I'm not really used to that. So all the hard questions I will likely ask Mr. Lutomski to come up and answer if I'm not familiar with it because I don't have that longevity with this particular pension fund. I think the LB759 reporting form had asked for historical information. We may have overdone that but we thought it would be helpful for you have a very long historical view on how the system is funded. So one of the attachments you have should be...and I apologize. In hindsight, we could have labeled these much easier. But it's a table that runs from August 31, 1991, through 2014 and has kind of the key actuarial metrics on there for each of those years. And there's some good information that I will likely refer to from that slide and some graphs to show you because I always think those are a little bit easier to follow than tons of numbers, although as an actuary, I love numbers. As of August 31, 2014, the Lincoln Police and Fire Retirement System was 66 percent funded. That's a little misleading because historically the system has been very well funded. And I think you hopefully have this graph of the funded ratio that shows you historically it's been really exceptionally well funded since 1991. And if you look at that graph, you can see for the first ten years it's above 100 percent funded and it drops just slightly below, goes back up to about 100 percent funded before the financial crisis and the bottom fell out for 2008 and '09. And you can see that decrease in the funded ratio for the last five or six years. That's, again, the smoothing mechanism and recognizing what happened in '08 and '09 over that time period pulling down that funded ratio. The 8-31-14 66 percent funded ratio is not directly comparable to the year before because there was an experience study performed that made some significant

changes to the assumptions. Had those changes not been made, it would have maintained the funded ratio of about 72 percent. But with those changes, it dropped the funded ratio to 66 percent. In my mind, the real story is really the rate of return. For fiscal year 2008, it was minus 6.6 percent; and for fiscal year '09, minus 16.7 percent. So it's not just that it's a minus 6 percent or a minus 17 percent, it's that the expectation was plus 7 percent. So the fund really, really dropped from where it was projected to be. And just to try to illustrate that point, we went back and just said, if the system could have just earned the 7.5 percent assumed rate of return from 2008 through 2014, what would the funded ratio look like? And it indeed would have been about 97 percent funded, even including the increase in the liabilities from the change in the assumptions. So maybe if I could talk for just a moment about those changes, and I believe you did get a copy of the experience study as well. Let's hit the highlights there. So there were a number of changes, probably the most significant was a decrease in the investment return assumption from 7.5 percent to 6.75 percent. The salary increase assumption was reduced rather significantly. The mortality tables were updated to, at that time, the most recent table that was published by the Society of Actuaries. And it also incorporates an expectation that mortality will continue to improve in the future. And that's what we call generational mortality. And then the assumed rates of return were adjusted. And with the lower salary increase, the expectation for how covered payroll will grow in the future was also decreased. So the combined impact of all five of those changes was an increase in the actuarial liability of $23 million. And again, the...we don’t have in the experience study the individual impact, but more than likely decreasing the investment return assumption from 7.5 percent to 6.75 percent was probably the biggest factor right there. The corrective action taken to date to try to address the funding of the plan has really been to increase contributions. And if you look at that schedule, that table, on the far right-hand column shows you the employer contributions. And you can kind of see, over the last three to four years, there's been a significant step up in the contributions. If we went back and looked for the five-year period from September 1, '04, to August 31 of '09, the city's contributions have gone up $15.9 million. If we look through September 1 of '09 through August of '14, they were $28.7 million. So that's a significant increase in the contributions by the city. Very, very recently the mayor and city council appointed a citizens task force to take a look at the long-term funding, the sustainability of the Police and Fire Retirement System. They've had one meeting and I believe their second meeting is scheduled for tomorrow night to start that process. And we'll be involved in trying to assist them in any way possible. Their charge is really to study the

retirement system and make recommendations regarding the funding and sustainability of that system. There have not been any recent or ongoing negotiations with the bargaining groups that might impact the funding of the plan. What comes out in citizens task force may indeed lead to some of those discussions. And then again, the most recent experience study covered the five-year period ending August 31, 2014, was issued in December of '14, so just about a year ago. And we talked about the impact of that. Most recent actuarial valuation I believe you have a copy of, again, is the August 31, 2014. And we will soon be issuing the August 31, 2015, valuation report. And I'd be happy to answer any questions you might have.

SENATOR DAVIS: Senator Mello.

SENATOR MELLO: Thank you, Chairman Davis, and thank you, Pat, for a good afternoon of briefings. The only question I have is just maybe from your professional perspective in regards to experience studies. We heard from...city of Omaha does it every five years. Sounds like the city of Lincoln does it every five years. What would be the problem if we required them to do it every three years in regards to being able to try to get ahead of, so to speak, some of the volatility that we know kind of exists in the investment world right now?

PAT BECKHAM: That's a good question. There's actually I think a little bit of theory behind why those may be using five. And I'm really old, so I will say if we go way back to when I first started 30 years ago, almost everybody did five years. The bigger systems have tended to do shorter periods--three, four, or five--but the bigger systems have a lot more data. So remember, an experience study is not just looking at the economic assumptions, we're looking at the demographic assumptions. So when you have smaller systems, you need more data. So you need more years of data to have credibility. And that's...when we look at what actually happened and evaluate, you know, how much weight do we assign to what we're observing, it helps to have more years. So if they're doing it every three years what's going to happen is we'll have to go back and aggregate the prior three on the demographic experience to take a look at it. You know, just because they have an experience study done every five years certainly does not preclude the board from asking to review economic assumptions more frequently. I have one client that does it just about every year because they feel more comfortable, you know, looking at it. Now having said that, I wouldn't encourage that to be done because we're trying to set a long-term

assumption. And for actuaries, long term is 30, 40, 50 years. We don't want to be changing the assumed rate of return every two or three years because it will have a lot of movement in the contribution rate and the funded status. So it's a little bit of a balancing act. Three to five years is pretty much industry standard. But I think for the smaller systems, it's because we need kind of more data on the demographic assumptions to really help us evaluate the experience.

SENATOR MELLO: Okay.

SENATOR DAVIS: Senator Kolterman.

SENATOR KOLTERMAN: Thank you, Mr. Chair. What would one of those studies cost just for like a smaller system like Omaha or Lincoln?

PAT BECKHAM: For a smaller system, an experience study is probably $15,000 to $18,000.

SENATOR KOLTERMAN: Okay.

PAT BECKHAM: So not inconsequential. Their valuation fees are probably about that. So in the year they have an experience study it doubles their actuarial fees.

SENATOR KOLTERMAN: Yeah.

PAT BECKHAM: It does help put kids through college, but.

SENATOR KOLTERMAN: Yeah.

PAT BECKHAM: I'm kidding. (Laughter)

SENATOR KOLTERMAN: Yeah, but it doesn't sound like...you're right, it's not inconsequential. But also if they have more accurate data, they can stay on top of it a little better and adjust.

PAT BECKHAM: Yeah, I think five years is...it may seem like a long time, but remember, we're looking at a continuum that doesn't ever end. So if you make a change a year or two earlier, does it really have a huge impact on a 50-year projection? Probably not. On the other hand, you don't want to wait too long. For example, with plan changes, the longer you wait, the more dramatic they tend to have to be. So it's a little bit of a balancing act and little hard to...a rule that one fits all, one rule fits everybody because everyone is a little bit different. And again, the board is certainly...I mean these discussions about assumed rate of return are going on everywhere I can assure you. This is...I'll have four of them this week. So everyone is aware of that and having those discussions whether they're having an experience study or not. So I think the boards are aware of the issue, they're cognizant of it. A lot of the evaluation does fall to the investment consultants. They're the experts. We as actuaries are taking their assumptions and their estimates and kind of running it through our calculations, but we're relying on their expertise.

SENATOR KOLTERMAN: Yeah, thank you again. Well, and the only reason I ask that is, you know, most of these plans are being funded with property taxes. I mean there's a few that are using some fees. But that's a concern because property taxes are...keep going up. We're looking at how we fund different things like schools. In your work, obviously you've worked with a lot of people that have been here today. Are there ongoing discussions about moving towards a cash balance type of a plan or anything like that? Is that something that you talk about normally when you start looking at plans that are funded 50 percent, 60 percent?

PAT BECKHAM: There are a couple of maybe basics on plan design, and I'll go back to my reference to the old plan as a legacy, legacy plan. There's, in my mind, a legacy cost associated with the plan that's in place for the current members which is why you can't change the funded status of these plans quickly unless you're going to cut benefits that people have already earned, which generally nobody thinks is a good idea. So your unfunded liability really is what it is and it's there regardless of what you change for the future, especially for new hires. So for public safety, we rarely see a defined contribution or a cash balance. A cash balance really kind of walks and talks like a defined contribution plan. We don't see that for public safety because there are a number of issues. They need to retire at an earlier age. You know, if your house is on fire you generally don't want a 65-year-old firefighter trying to save you. So they have to retire earlier. They have significantly different needs for preretirement death and disability benefits.

Defined contributions plans or cash balance plans don't provide those very effectively. So we don't see a lot of interest in those plans for public safety. We are seeing a fair amount of interest kind of nationally in cash balance plans for state and municipal workers. Phyllis spoke to the Kansas legislature a couple of years ago and they were very interested in the Nebraska cash balance plans and they ended up implementing a cash balance plan in Kansas for state, school, and local employees effective January 1 of this year. You heard from the city of Omaha. And I believe it's New Hampshire. New Hampshire is interested in Nebraska's cash balance plan and has been conversing with Ms. Chambers about that. So there is some interest out there. It tends to be again more in the non-public safety or law enforcement groups. And I think the appeal is not necessarily the cost is less, but there's more sharing of risk which helps control the cost. And that's generally where the interest is. But if the 8 percent long-term assumed rate of return or 7.5 percent or whatever your assumption is, if that doesn't play out, the cash balance plan can be designed to essentially lower the benefits so there's...you know, you fund the benefits with contributions and investment income. In a traditional DB plan, defined benefit plan, the "B," the benefit side of the equation doesn't change which means if "I" doesn't work out, guess what? Contributions have to go up. So the cash balance plan, if "I" doesn’t work out, at least "B" comes down part of the way and makes it a little bit more of a shared sacrifice, so to speak.

SENATOR KOLTERMAN: Yeah.

PAT BECKHAM: Does that help?

SENATOR KOLTERMAN: Yeah, and I'm not advocating for that. I just wanted you to explain that and find out what you're hearing in your discussions with the various organizations.

PAT BECKHAM: There is interest, I think, in public plans with cash balance plans, also with hybrid plans that are a more moderate traditional defined benefit plan coupled with a defined contribution, kind of a side-by-side arrangement.

SENATOR KOLTERMAN: Dual options, yeah.

PAT BECKHAM: Yeah. You know, sort of the best of both worlds.

SENATOR KOLTERMAN: Right.

PAT BECKHAM: And a lot of that depends on if the employees are covered by Social Security or not. For example, I work with the state of Colorado and most of the employees there are not covered by Social Security. So there's a different need for a guaranteed benefit there than there is for folks that are covered by Social Security. So there's...you know, that's the interesting and challenging part of public retirement systems is there's a lot of variance as you look across the United States.

SENATOR KOLTERMAN: The other question I would have is are you seeing...do you see many disability plans built into the plans, defined benefit plans anymore, disability benefits?

PAT BECKHAM: Is is not that uncommon for there to be a disability benefit in a...I mean in public safety, absolutely always, duty and nonduty--almost always for law enforcement that I work with. But even in general plans, there's usually a disability benefit. How rich it is, you know, may vary. And again, if it's a cash balance plan it's more, you get paid the account balance which is if you get disabled early in your career it's going to be very small. So that would likely not be adequate. But there are different ways to provide the benefit. You know, you can insure it outside of the plan or try to fund it within the plan. But if you're providing a benefit, there's a...

SENATOR KOLTERMAN: Now we're talking about educating my kids. (Laughter)

SENATOR DAVIS: I've just got a couple of questions. And maybe you don't know the answer, Ms. Beckham, but when they reduced from 7.5 percent to 6.75 percent, what was the rationale?

PAT BECKHAM: That is an excellent question. And I'm basing my conversation with you on what is in the written experience study report. And if you later want to look at it, it's on page 6. And I will try to explain the COLA pool; and if I don't do a good job, Paul, please come forward. So the Lincoln Police and Fire Plan has sort of an interesting COLA in that it is not guaranteed. So it's not part of the regular benefit structure. So there's a separate fund and it's a 13th check. So it's payable, you know, once a year as an extra check. And everyone gets the same dollar amount assuming they had a full career. So it's a little bit different type of a COLA. But those payments

are actually financed by earnings on the pension fund that are above the assumed rate of return. And as I understand it anyway, if the return on market value is above the assumed rate, that earnings differential is calculated and then it's multiplied by a ratio of basically your in-pay liability to your total liability. So if your in-pay liability is half of your total, then half of that additional or excess earnings gets transferred to the COLA pool. And again, that COLA pool is separate and then that's what the benefit payments come out of. But if you think about how investment returns unfold--you've seen them--so if you're chopping off part of the top but you've still got all the bottom, you're lowering your effective rate of return. The move, as I understand stand it, from 7.5 percent to 6.75 percent was reflecting the impact of the transfers to the COLA pool. So a very astute question.

SENATOR DAVIS: So not as much a reaction to pessimism, but more in line with trying to refund what needed to be done.

PAT BECKHAM: I believe that's correct, because the 75 basis point adjustment, which was what historically impacted the returns, dropped the 7.5 percent to 6.75 percent.

SENATOR DAVIS: And so in that 6.75 percent, is there any inflationary aspect of that or is that out?

PAT BECKHAM: There is. Let me find that. Yes, the assumed inflation rate is 2.5 percent. And the expected real return on the portfolio was 5.23 percent. And then the administrative expenses that are paid from the trust are about 22 basis points. So if you make that adjustment, you're really close to 7.5 percent before the 75 basis points for the COLA pool.

SENATOR DAVIS: Great. Any other questions? Senator Kolowski.

SENATOR KOLOWSKI: Mr. Chairman, really appreciate all the presentations today and the excellent job everyone has done. But I'm slightly depressed because I have to cross being a firefighter off my bucket list. (Laughter) It kind of set me off today, but that's okay. Thank you.

PAT BECKHAM: You don't look old enough. I think you could still make it.

SENATOR DAVIS: If there are no other questions, thanks to everyone for coming and, Ms. Beckham, for your patience and intelligent, good answers...

PAT BECKHAM: Sure. My pleasure.

SENATOR DAVIS: ...to everything you do.

PAT BECKHAM: All right, thank you.

SENATOR DAVIS: And if the committee would stick around for a few minutes.