[LR483 LR571]

The Committee on Nebraska Retirement Systems met at 9:00 a.m. on Tuesday, November 22, 2016, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LR483 and LR571. Senators present: Mark Kolterman, Chairperson; Rick Kolowski; Brett Lindstrom; and Heath Mello. Senators absent: Al Davis and Mike Groene.

SENATOR KOLTERMAN: My name is Mark Kolterman, Chair of Retirement. It's a pleasure to have you here today. We have...this is the Seward and Omaha show today. We have Senator Mello from Omaha; Senator Kolowski from Omaha; and Senator Lindstrom from Omaha. Senator Davis and Senator Groene will not be joining us today. We have my staff: Katie Quintero is the clerk; Kate Allen is the legal counsel for the committee; and we have Brenda as our page today. Brenda and who else do we have over there? And Amy. Thank you for coming. The first item on the agenda today is we need to remind everybody to turn their cell phones off. If you want to testify, please come to the front, and then have your sign-in sheets and give them to Katie. Please state your name and spell your name. Please keep your testimony concise. If you have a handout, please leave eight copies. And you are welcome to just leave your testimony in writing if you prefer not to testify. On the agenda this morning, the first presenter is Pat Beckham, defined benefit valuation reports. And so I'd ask Pat to come forward. Welcome. [LR483]

PATRICE BECKHAM: (Exhibit 1) Thank you, Mr. Chairman. My name is Patrice Beckham, P-a-t-r-i-c-e, Beckham, B-e-c-k-h-a-m, 3906 Raynor Parkway, Suite 106, Bellevue, Nebraska. And I believe you all have copy of the presentation that we will walk through today that summarizes the results of the July 1, 2016, actuarial valuations for the judges retirement system, the State Patrol retirement system, and the school retirement system. As you might recall, there are five defined benefit plans that NPERS covers. Three of those have a July 1 valuation date. The two cash balance plans for state and county are actually January 1, so we will not be talking about those today. On page 2, again, I'll give you very little background to make sure you kind of understand the numbers, and then we'll look at the results from the July 1, '16, valuation but, perhaps more importantly, look at the projections as far as how things look in the future as far as contribution requirements, progress on the funded status. Please feel free to ask me questions at any point as we go along. So page 3, just a reminder, I think you'll hear a lot of information about actuarial valuations today. It's essentially a measurement of the assets of the retirement plan versus the liabilities, and the liabilities are the future benefit payments that will be made. We don't know the exact amounts of those, but it is a point...called a point-in-time measurement, a snapshot on a single date. If we took that measurement today or any other day during the year, we'd get a different result, but it's that consist measurement on that day that allows us that comparison to look for trends and indications of any concerns. The results of the valuation create what we call an actuarial contribution rate, which indicates what the funding requirement, the contributions, are for the current plan year which ends June 30, 2017. To the extent there is an additional state contribution necessary, that typically has been made the following July 1, which would be for the following fiscal year, so in this case July 1, '17, which falls in fiscal year '18 for your purposes. The valuation also allows us to review the actual experience that occurred in the last 12 months compared to what the assumptions anticipated to indicate whether we're having gains or losses. Sometimes that's an indication, when we do the in-depth experience study that we talked about in September, what those changes might be coming. And then last, but not least, again we're looking to indicate between the valuation results and the projections. If there are trends or issues we want to get out in front of, generally with pension funding the sooner changes are made the less severe they have to be. On page 4, just a reminder as we look at the metrics from the valuations, they are using what we call an actuarial value of assets, a smoothed value. Because there's so much volatility in the market value, it's very hard to manage a very long-term obligation with such short-term volatility. So it's very common in public retirement systems to use an asset smoothing method, asset valuation method, the resulting number on the asset side that comes out of that process is called the "actuarial value of assets." So when we look at numbers today, unless we specify otherwise, it's always using the actuarial value. The specific method for smoothing we use for the systems, for the state systems, compare the actual dollar amount of return to what would be expected using the actuarial assumption. For this year, that's 8 percent, and any difference is recognized equally over a five-year period. So you kind of have the current year and four more for things to average out. If the actuarial value is greater than market value, you'll hear us talk about that because at July 1, '16, it, in fact, was. That means we have a deferred or unrecognized investment loss. If it's the other way around, and market value is greater, then actuarially we have a deferred investment gain. And again, you'll see on a later slide we kind of switched. When we do the '15 value, we had a deferred gain. Now, we have a deferred loss. It's not uncommon, it's not unexpected. With the smoothing method, half of the time the actuarial value should be above market and half of the time below. Page 5, just a little bit more on smoothing and give you a little bit of perspective on the actual historical returns, the blue line on page 5 are the returns on the market value of assets, and the red line is a return on the smoothed value of assets. So, as you might expect, the red line generally doesn't go as high nor as low, and that's what we're trying to get. We'd like that line to be as close to the black line, which is the assumed rate of return, as possible. With the volatility involved with market value, it's just very hard to get a straight line. So that tells us when we look at it that the smoothing is doing its job, so to speak. Page 6, kind of general findings that affect all three of the plans. Because of this asset smoothing method, despite a return of 1.6 percent on market value, on the actuarial value the return was 7.4 (percent). It's still below 8 (percent), so we did have an actuarial loss on assets, but the magnitude of that loss was much smaller than had it been 1.6 (percent). On the flip side on liabilities, remember the liabilities are future benefit payments, well, the expectation is that certainly for tier 1 folks, that the COLA that will be granted is 2.5. This year it was only .64 percent because of actual inflation. So that spun off a nice size gain that helped us. So you'll see funded ratios that are slightly higher despite the fact that we did lose a little bit of ground on the assets. Page 7, again, we testified before the committee the results of the experience study in September. You know there were, you know, some significant changes that came out of that study. Those will be reflected in the July 1, 2017, valuations, so they're not reflected here in the snapshot numbers, but they are indeed reflected in the projections that we'll share with you. The two most significant changes: the investment return assumption was lowered from 8 to 7.5; the salary increase assumption was lowered .5 percent. And then mortality was strengthened, meaning people were expected to live longer and we sort of built in an improvement in that over time for future generations. Those changes, obviously, are going to increase liabilities; assets stay the same. So what will happen is, the funded ratio declines and the unfunded liability increases along with the actuarial contributions. So let's talk about the judges system first, page 9. You may remember that the 2015 Legislature passed LB468 creating a new tier for the judges for members hired after July 1 of '15. So this is indeed the first valuation that we've done that has members in that tier. Now there are seven of them, about 5 percent of the membership. So, obviously, it doesn't have a big impact on this valuation. But again, when we look at the projections, the new tier is built into those projections. Page 10, I'll take just a minute to walk through these numbers. You'll see them two more times at least today. Again, the actuarial accrued liability, the funding mechanism used is that there is a level percent of paid contribution that's made every year a person is working to fund their benefit. And if that were to occur and all assumptions were met, there's enough money when they retire to pay the benefit until they die. So that's essentially...again if all assumptions had been met, contributions had gone in as scheduled, that's where the assets should be today. So for the judges $168 million, we compare that to what the actuarial value is on the valuation date. In this case it was $164.9 million. That difference is the unfunded liability, $3.2 million. You'll notice that's down from 2015; that's positive. It's a little bit of a debt or an obligation for the retirement system that has to be funded in addition to the ongoing cost for active members who are earning benefits. The funded ratio is another important metric. It's really assets divided by liabilities, rather than subtracting the two. You can see on an actuarial or a smoothed asset basis, the funded ratio increased from 97 percent to 98. Market value, it went down from 99 to 95 because of the return on market was 1.6--very strong funded ratios. Page 11 is kind of a quick look back. Historically, the funded ratio for the judges retirement system has been very strong, you know, hovering around 100 percent. On page 12, looking again at the actuarial required contribution for the judges. The top portion of that chart calculates that as a combination of two items. The normal cost is really what has to go in this year for active members who are again earning benefits. That tends to be very stable. As that new tier comes in, more and more over time, we'll see that kind of gravitate down. And then the second is...remember we said there's an unfunded liability which is an obligation that needs to be paid in addition to the ongoing cost. That's the 1.07. So altogether the total actuarial contribution rate is 23.11 percent. Now, a couple of things to remember: Both the normal cost rate and the amortization payment are calculated intended to be level as a percent of payroll, expecting payroll to grow over time, which means the dollars in the future, even if all assumptions are met, the dollars of contribution will increase as payroll increases. Members contribute to the plan; there are kind of varying contribution rates. The weighted average of those this year is 7.57 percent, which leaves the required contribution rate from other funding sources at 15.54, so down a little bit from last year. If we take that times the expected payroll for current actives, in that bottom section of that table, you can see the total required contributions, $3.577 million. Expected court fees, court fees are kind of difficult to anticipate and what we've typically done is whatever the actual contributions were in the prior year, we used those as the estimate in the current year, unless there's a change in the court fees. So that number is less than the $3.577 million to the tune of about $119,000, so that creates the additional required contribution from the state for the current year. All right. Page 13, kind of the short-term projection. Again the years are valuation years, not fiscal years. So the current valuation, 2016, is the first bar that you see and there's $119,000 that we just talked about. There is a scheduled increase in court fees next year, and so that's why you see the court fees bumped to, you know, $4,059,000 and you'll notice they remain there for the rest of this period, again because we don't have a better estimate, to be honest. Now we have a couple things going on. July 1, 2017, remember the new set of assumptions are used. That increased costs and the state's piece is very leveraged because it's whatever is left over. So, you know, the member contribution remains the same. We're expecting court fees to be the same. That means all that increase falls in the state piece, so you get an increase there. We also have some unrecognized or deferred investment losses that are going to flow through the smoothing method over the next four years. That makes those next couple years a little bit higher as well. So you can see the projection--again, if all assumptions are met--is that the state's additional contribution will increase over this period. It will be about $1 million next year and up to that $1.9 million in the 2021 valuation. A little bit longer term view: Again, this projection has a little less value for the judges system because of this issue where, you know, nearly 70 percent of the funding right now is coming from court fees and we don't...can't predict those very accurately. So, again you notice the blue bar of the court fees and that's held constant throughout this 30-year period. You know, I can assure you that it's probably not going to happen, but we have no better assumption. And then again, the green bars are the member contributions and the red is the additional state piece. So you can see, really during the entire period, it's expected that there will be additional contributions from the state that are necessary in order to meet the funding policy that's in statute. Again the judges is really the only system that doesn't have kind of an employer fixed contribution rate that's based on payroll and that gets exacerbated over time as payroll just continues to grow and a big part of the funding mechanism does not. Page 15, assuming that the actuarial contributions are made each year as scheduled according to the funding policy, there is a drop in the funded ratio in 2017 because of the new assumptions. You can see it drops from 98 to 91 percent. The next couple of years we're recognizing losses, but then there's a steady, you know, incline until we...you know, we didn't quite get to 100 percent in this, you know, 30-year period but it does eventually get there. So it really just says, you know, the funding policy works if the money goes in and the assumptions are met. So again there is an additional required contribution this year, $118,714 is the exact number. We have this mismatch, in my mind at least, that the way the costs are developed as a percent of payroll which means they're going to increase, but the big part of the funding mechanism isn't tied to the same metric. It makes it a little more difficult. And again LB468 did increase the court fees for fiscal year '18 and that increase was reflected in the numbers that you just saw. I'll pause there for a minute just to make sure there aren't any specific questions for judges. [LR483]

SENATOR KOLOWSKI: May I? [LR483]

SENATOR KOLTERMAN: Go ahead. [LR483]

SENATOR KOLOWSKI: Thank you, Mr. Chair. The court fees issue, how many years had it been before the last raising of court fees? Do you know what the time line was on that? [LR483]

PATRICE BECKHAM: I'm not sure if I've got that history, Senator. Let me check. I don't. I think the last change was a two-step, so July 1, '15, there was a bump in the court fees and then July 1, '17. Prior to that, I don't believe I've got that level of detail. [LR483]

SENATOR KOLOWSKI: Probably been a while. [LR483]

PATRICE BECKHAM: Do you know (inaudible)? [LR483]

KATE ALLEN: I'm sorry, what was the question? [LR483]

PATRICE BECKHAM: Do you know the last time the court fees were increased prior to July 1 of '15? [LR483]

KATE ALLEN: I believe...well, the one court fee, the current $6 court fee had been $5 and that was either 2009 or 2010. The one on the individual actions may have been 2005 or earlier. [LR483]

PATRICE BECKHAM: Okay. [LR483]

SENATOR KOLOWSKI: Do you have any recommendations on court fees for the future as we look at this? [LR483]

PATRICE BECKHAM: You know, from my chair, I mean, if possible I don't know how the financing part works on your guys' end, but the best thing for financing would be to have like an employer contribution that's a percent of payroll like Patrol has, school has, state has. Then the money coming in is matching with the mechanism which expects it to increase...or be level as a percent of payroll but increase as a dollar amount. That's what we're struggling with. And you know, it's very hard because court fees are dependent on a number of factors. I'm not even sure I understand all the factors that it's dependent on,... [LR483]

SENATOR KOLOWSKI: Okay. [LR483]

PATRICE BECKHAM: ...but it's difficult to gauge it. Certainly if there was some automatic increase in court fees, that would be helpful so that the court fees kind of keep pace at least with wage inflation. [LR483]

SENATOR KOLOWSKI: Sure. Thank you. [LR483]

PATRICE BECKHAM: You're welcome. [LR483]

SENATOR KOLTERMAN: Any other questions? Then we're going to move on to the State Patrol plan. [LR483]

PATRICE BECKHAM: Right. I'm on page 18. Again, in the numbers that you'll be looking at as of July 1, '16, there were no changes in the assumptions or the methods. The 2016 Legislature passed LB467. That created a new tier for Patrol. That affected members hired after June 30 of '16. Since this a 7/1/16 valuation, we did not have any members in that category. But those changes did change the COLA, the definition of final average salary, the contribution rate, eliminated DROP. Those factors will lower the ongoing cost. Again, it takes many years, 10 or 15 years, to really see a material impact on the valuation results, but that change will have a positive impact over time. Again, the new tier is reflected in projections. So page 19 is similar to the chart you saw for the judges. Again, the unfunded actuarial accrued liability decreased from the '15 valuation to the '16 valuation by about $6 million. That's always a good thing. Funded ratio is up from 87 to 89 percent on an actuarial or smoothed value basis, and down on market value. You'll see that trend in all three of them. Page 20, again looking back, funded ratio at the beginning of this period was very strong, over 100 percent, and then it fell below 100. But the real impact, you know, was from 2009 through '13 as the rate of return and the impact of the financial crisis was reflected. With five-year smoothing, took a while for it to kind of work through the pipeline. The last few years the trend line has been up, which is positive. Page 21, again you've seen this layout before. So the total actuarial contribution rate in the 2016 valuation was 41.14 percent, down, you know, just a little bit under .5 percent from last year. In this system the members contribute 16 percent, as does the employer. Those two, 32 percent, still short of the 41.14, so that difference of 9.14 percent of payroll is an additional state contribution. We take that times expected payroll, the amount is $2.5 million. And if you add that to the statutory contribution rate of 16 percent of payroll, the total state contribution is $7 million, which is still down from the prior year. Page 22, again the short-term projections, so you've got the blue bars, which is the regular employer contributions, the 16 percent of payroll; and then you have the additional state contributions, the red bars. Then you see the big bump in 2017. That's the impact of the new assumptions. And then that amount rose over the next four years to eventually $6.4 million in 2021. Page 23, a little bit longer term view, but you can see, you know, for a number of years, almost the entire period, some additional contribution from the state is needed. That kind of makes sense when we look at the numbers, the shortfall is over 9 percent of payroll. Unless experience is better than expected, we would need that additional funding until we reached the end of the amortization period and the unfunded liability is paid off, which happens, you know, in 2043 in this projection. Page 24, again looking at the funded ratio, we see the similar pattern that we saw for the judges where the new assumptions create a drop. In 2017 the deferred investment losses flow through the next couple of years. We hit the low spot about 2020 and then it steadily increases until it reaches 100 percent in 2043. That does assume that all the assumptions are met, including now 7.5 percent rate of return, and that the additional state contributions are made. So, again, it's kind of reaffirming to know that we see if the actuarial contributions are put in, the system does reach full funding. Page 25, we talked about the shortfall. It is down this year but certainly still significant, over 9 percent of pay. We talked about meeting those contributions to get the system to full funding. Again, I'll pause for Patrol, see if there are any questions before we talk about school. All right. Page 27, the unfunded actuarial accrued liability for the school was about $1.3 billion last year, down to $1.16 (billion) this year, a little bit of improvement there. Funded ratio again up 2 percent from 88 to 90 and down from 90 to 87 on a pure market value basis. Page 28, again really all the Nebraska plans have historically had strong funded ratios. The impact of the financial crisis affected everybody, including Nebraska, and we see that decline drop the ultimate funded ratio below 80 percent. It's come back pretty strongly in the last three valuations and very close to 90 percent. If I had this to share with all of my clients, my life would be a little better. (Laughter) Page 29, again, the funding requirements is what this page is all about. So you can see that the normal cost, what we need to pay for active members who were working in the current year and earning benefits, is just over 12 percent. That's down just a little bit from last year. Again, as we get more and more people in the new tier, that cost is going to trend down. It just takes time. And because the unfunded actuarial accrued liability is lower this year, so is the payment as a percent of payroll. Altogether the actuarial contribution rate is 16.59 this year, down about 44 basis points from last year. The system is financed by contributions from members of 9.78; employers contributed 101 percent of that, and the state contributes 2 percent. So altogether that's 21.66 percent, which is more than 16.59. We call that a contribution margin, it's not an excess. When we're attempting to fund with a fixed contribution rate, we have to have years where more money is going in than appears to be necessary because with the volatility on the market we know years are coming where the opposite might be true. That does mean, however, that there is no additional contribution for the state this year. So with the three systems, you see why I saved this one for last. It was good news. Page 30, again, the short-term projection for the school, lots of bars here. The contribution for the Omaha service annuity, we probably should just take that off as it's so small you really can't see the bar. And that's, as you know, kind of an additional benefit for the members of the Omaha School District. The green bar is the 2 percent of payroll that the state contributes again to the Omaha retirement system. Then the red bar is the 2 percent of pay contribution the state contributes to the school...NPERS school retirement system. The blue bar is the employer contribution, the 9.88. And then the black piece is any additional state contribution, which again you can barely see it. If you go all the way over to 2021, at the very bottom there's a tiny little sliver there. But if you look across the bottom row, you can see the 2020 valuation, you know, there's a very small contribution. It's under a $1 million. In 2021 valuation there's a contribution of $3 million. And I'll talk about that in just a second. I wanted you to see the longer term view here. So the next page, page 31, again the member contributions are included here. They're the orange bars. And then the employer is the blue bars; the 2 percent of pay by the state is the red bars; and then the black bars at the very top, kind of through the middle, are additional state contributions. And it's a little odd, even, you know, we're reflecting the new assumptions here and reflecting the deferred losses, but what's happening is these models are pretty sophisticated the way people exit and we're assuming new people come in, because we kind of have the baby boomer bulge. We have a lot of people leaving at the high end of the pay scale being replaced with new entrants at the low end. So payroll for a number of years is not growing as expected when we calculated in the valuation. We lose a little bit of ground. That means the percent of pay is higher. Okay? What we shared with the board yesterday was a lot of factors are going to impact what things look like even five years out. I think it's good to keep an eye on it, but it's not a particular concern. I think we wait and see how pay unfolds, you know, if the economy picks up. One of our board members is a teacher and she was saying there's been kind of movement where a lot of the pay increases are focused at the entry level. That would help us, you know, as people are leaving at the higher end of the pay scale, if the lower end gets bolstered a little bit. So we keep an eye on it and we keep reporting that to you every year, but that's what's kind of going on in the middle of that section. On page 32, actually the funded ratio in 2016 that's shown in this graph is using the new assumptions, and can thank Kate for catching this yesterday. You remember the funded ratio in 2016 was actually 90 percent. It should look the same. We'll see the drop next year to about 85 percent. But again, you know, we reach 100 percent funding before the end of the 30-year period, so that's, you know, very good news with that significant change in assumptions that we're still on target if the assumptions are met. Page 33, just to kind of wrap up, we certainly did have help on the liability side this year with the COLA percentage being so much lower than what was built in to our expected numbers last year. We also got some help from the smoothing, and as a result the funded ratio increased. The contribution margin increased and no state contribution is required. Again, I believe it was 2012, tier two was created. As more and more of the payroll is in that group, we'll see more of an impact on the contributions. So right now in this valuation, we have 22 percent of active members covered by tier two. That accounted for about 15 percent of the total payroll. So the funding outlook is positive even with the impact of the new assumptions. I think that's very good news. Again, all three systems appear to be very healthy. You know, changes have been made as far as creating new tiers to kind of help with the sustainability of the plan. So from our perspective, this was a good report. Happy to answer any other questions. [LR483]

SENATOR KOLTERMAN: Senator Kolowski. [LR483]

SENATOR KOLOWSKI: Thank you, Mr. Chairman. Any thoughts on the COLA for this coming year or two? Has it looked...do you look ahead on those? [LR483]

PATRICE BECKHAM: Yeah, I'm an actuary; I'm not an economist. (Laughter) I would point out, so next year when the assumption changes to 7.5, the assumed COLA for tier one drops to 2.25. So if inflation stays low, and like I said, I wouldn't even venture a guess on that one. If it does, we will spin off...continue to spin off some gains on the liability side. That gain we had from the COLA this year was greater than the loss reflected on the asset side. So again, it helps us that when we lose on the asset side, we kind of gain on the liability side. But I don't have a prediction. Sorry. [LR483]

SENATOR KOLOWSKI: Sure. Thank you. [LR483]

SENATOR KOLTERMAN: Any other questions? I apologize for talking to Kate while your presentation, but the report you gave us yesterday is broader than the one you gave us today, and I was following along on the wrong pages, (laughter) trying to figure out where is she going with this. [LR483]

PATRICE BECKHAM: I'm sorry, Senator. Yeah, I was trying to make it a little less painful for you guys, especially you, since you had to listen to it yesterday. [LR483]

SENATOR KOLTERMAN: Yeah, they presented this yesterday to the PERB Board and I was there, so. On page 30, there is a question though about you show an 8 percent rate of return. And would that be mislabeled? [LR483]

PATRICE BECKHAM: Yes. It's actually 8 percent for the current year... [LR483]

SENATOR KOLTERMAN: And 7.5 (inaudible). [LR483]

PATRICE BECKHAM: ...and 7.5 thereafter, yeah. Good catch. The projections are always the last thing that's done before the presentation, and I apologize we did not catch that on that particular slide. [LR483]

SENATOR KOLTERMAN: All mine said 7.5, but Kate had the one that said 8, so... [LR483]

PATRICE BECKHAM: Yeah. I should have gone with the one from yesterday. (Laugh) [LR483]

SENATOR KOLTERMAN: ...they didn't correspond. That's why we're... [LR483]

KATE ALLEN: I have that one here too, so. [LR483]

PATRICE BECKHAM: Yeah. [LR483]

SENATOR KOLTERMAN: Any other questions? Thank you very much. [LR483]

PATRICE BECKHAM: You're welcome. Thank you. Have a Happy Thanksgiving. [LR483]

SENATOR KOLTERMAN: Yeah, and you as well. You're going to be back up here, I think. [LR483]

PATRICE BECKHAM: I think so, yes. [LR483]

SENATOR KOLTERMAN: Is there any public comment that anybody would like to make a public comment about? With that, I'm going to close the hearing. We have...the next one starts at 10:00. Would there be anybody willing to move forward with that? Problem? Anybody have... [LR483]

BERNARD in den BOSCH: (Inaudible) City of Omaha, we're all here from (inaudible). [LR483]

SENATOR KOLTERMAN: Anybody else have a problem moving forward with that? Then we're going to move forward. We don't run ahead very often so we're going to move forward. (Laughter) So same rules apply. I think most of you were here. So at this time we're going to talk about the political subdivision underfunded pension plans. So, first on the agenda is Omaha civilian employees, Bernard. Pat, are you presenting as well? If you are, we'll get another chair here. Three of you? Good morning. [LR571]

BERNARD in den BOSCH: Good morning. [LR571]

SENATOR KOLTERMAN: For the record, would you please state your names and spell them for us. [LR571]

BERNARD in den BOSCH: Thank you. My name is Bernard in den Bosch; last name is three words. First word is lowercase i-n, second word is lowercase d-e-n, and the third word is B-o-s-c-h, and I'm the deputy city attorney who works for the city of Omaha and also represents the city of Omaha employee retirement system. [LR571]

ALLEN HERINK: My name is Al Herink, 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. [LR571]

PATRICE BECKHAM: Patrice Beckham, Cavanaugh Macdonald, same information as earlier, actuary to the retirement system. [LR571]

SENATOR KOLTERMAN: Okay. I'd like you just to walk through your report with us and tell us where you're at. [LR571]

BERNARD in den BOSCH: (Exhibit 1) Sure. I thought I'd give a little bit of background. I don't know how much as far as...obviously, we provided you the reports, the various reports that are required, letters required for systems that are underfunded. I'll give you a little bit of background. We've provided an additional handout now which contains some summary information that kind of comes from the other report trying to anticipate maybe some of your questions. But the core system in the city of Omaha is the system for civilian employees. It is governed by a board of trustees that is a separate entity. That board of trustees is made up of three members of the system, employees who are members of the system. There are three de facto members: the human resources director, the city comptroller, and there's a city councilperson who's also appointed. And then the seventh member of the board is a person who's not affiliated with the board or the city that's selected by the other six. That board, in addition to meeting monthly and deciding on whether to grant certain pensions, is also responsible for making investment decisions, creating the assumptions that are used by the actuary. And we've included in the additional materials the asset allocation of the...that has been selected by that group. And Mr. Herink, as a member of the investment committee, can do it. All the contributions and benefits for this particular system are through negotiations. I will point out that effective March 1 of 2015 there were some changes that were made to our system. First, for new hires, all new hires from March 1 of 2015 on are...now have what's called a cash balance plan which is a type of defined benefit system which I know this committee is very familiar with. Roughly 10 percent of our employees are now in that cash balance plan. So in the last nine months or the nine months from March 1 of 2015 through January 1 of 2016 when the actuarial report was done, we had roughly 10 percent for employees hired. We have...I suspect that number will increase as time goes on. There were also a reduction in benefits for current employees for the time that accrued in the future. In the handout, just a couple pages because I anticipated what I think some of the questions might be, page 4 of the additional handout is a report that was prepared by DeMarche and Associates, that is the investment consultant for the city of Omaha employee retirement system. That was provided at the end of the last quarter. Frankly, it was just presented at the board earlier last week, which the line that you see, the double underline--there's a line about three-quarters of the way down the page--outlines the investment return for this particular system for the immediate quarter, year to date, the last year, the last three years, the last five years, ten years, and since inception of the system in 1980. Just to give by way of summary, obviously this year, as you can see, there is was 7.8 percent return through three quarters; one year of 10.5 (percent); a five year of 9.9 (percent); a ten year, which includes that wonderful year of 2008 which we all talk about a lot, of 5.4 percent; and a 9.2 percent return since inception. I suspect you might have more questions, but we wanted to provide that information to you. And then the last page summarizes, I guess, what we consider kind of the highlight of some of the key measures. Obviously, the funded ratio of the system in 2016 matches that of 2015 of...based on actuarial assets. The one thing that obviously is a tremendous positive, at least from our part, is the contribution surplus or the margin, I think as Ms. Beckham spoke about previously, that at this point in time the contributions from the employees and the employer exceed the actuarial contribution rate. That is the first time in many, many years that that's the case and shows the effect, not only the changes but frankly we also (inaudible) some unfunded liability which helped. We anticipate that that will continue as we look forward. The hit on the experience study, you did get a copy of the experience study. That obviously was several years old. We've traditionally done an experience study every five years. Obviously, we're going to be moving that to every three years. But there will be an experience study done in 2017...or move it to at least every four...experience study done in 2017 for the years 2012 to 2016. That study we would expect will be done, finished over the summer and that has traditionally been the time that board obviously looks at the assumptions of the system and evaluates...can evaluate the investment return at any given time and provide instruction on those particular assumptions. But typically the experience study and after receipt of that is when there's a fairly significant review of those particular items. So that's my preliminary remarks. I'll...if Mr. Herink wants to add anything, and then maybe Ms. Beckham can give us... [LR571]

ALLEN HERINK: I think Bernard pretty much covered it all. I will talk about...let's go to page...we'll just run through this handout real quick. There's...he hit on the last two pages. But I do want to point out page 1. This is just a report for your informational purposes and it's a historical perspective of how the fund is doing on kind of a cash basis, this first page. We hand this out to all the members of the pension fund. I'm not going to walk through all this. The second page is just a roster of how the pension fund...the people that are in it. We ended 2014 on January 1, 2015, with 1,400 people we're serving, getting benefits. At the end of '15 we have 1,401 people getting benefits. And that's the different types of benefits in the fund, the fund distributes. But the next sheet I wanted to go through is our asset allocation. We work with DeMarche and Associates to help us with the asset allocation on our part. We think a diversified asset portfolio was important to have. We asked DeMarche...we said we wanted to get an 8 percent return with as least risk as possible. If you take a look at the second column on the left, that's our current allocation targets that we have. And they gave us three options to take. We took the option on the far right. And we just changed the allocation mix just a little bit. We did this last...probably about six months ago. And we look at this every two to three years. And then what we came up with, you can take a look, we have a very diversified asset mix. If you take a look at the strategic expected returns, these are the expected returns for the next three to five years. And DeMarche says that we have an 85 percent probability of the getting those returns. And secular returns are returns over 20 years. And this is kind of what we focus on when we look at our asset allocation mix. So if you take a look at our current one, they expect in the next 20 years the fund to do 8.92 (percent) and then the allocation that we selected is going to do 9.02 (percent). And this is the kind of analysis we go through when we structure our portfolios. So if you have any questions--Bernard went over the last two pages of the report--I'll be glad to answer them. We also have Pat Beckham here to focus in on the actuary study itself if we need to. [LR571]

SENATOR KOLTERMAN: Senator Mello. [LR571]

SENATOR MELLO: Thank you, Chairman Kolterman, and thank you, Allen, Bernard, and Pat. I was just looking at the document that we...the committee received from Allen actually, this letter, in regards to the plan, kind of walking through the 2015 analysis and the 2016 analysis. And could you...and maybe this is a question for Pat more so than Bernard or Allen. How is it that if the Civilian Plan did not fulfill its 100 percent actuarial required contribution in '15, nor did it do it in '16, and it saw an increased unfunded liability from '15 to '16, how did you...how did a margin...how is there a margin created from '15 to '16? And I was just asking Kate Allen, our legal counsel, and she normally would be able to just walk me through this if I wasn't able to connect the dots, and for some reason this was not an answer that she could provide either. [LR571]

ALLEN HERINK: It's pretty technical so we'll let Pat lead this. (Laughter) There's a lot of moving parts there I know. [LR571]

PATRICE BECKHAM: I hope you're not sorry you asked the question at the end of the answer. (Laughter) Actually, it's really not all the complicated. What happened was, and I think Bernard mentioned it, that the unfunded actuarial liability was sort of reamortized, put on a different payment schedule over 25 years. It had gotten down to...I don't remember if it was... [LR571]

BERNARD in den BOSCH: 16. [LR571]

PATRICE BECKHAM: ...16 years. And these plans are funded with a fixed contribution rate. So it seems a little unrealistic to have a really short amortization period getting ever shorter when the fix that was created by the benefit changes intended for about a 25-year period to get to full funding. So the committee, actuarial committee, and the board felt that it was more appropriate or more reflective of the longer term funding needs of the system to reamortize that unfunded over 25 years. Well, it's like any other debt: When you spread it out over a longer period the payment comes down. And that change, again, you know, moving from 16 to 25 as a level percent of payroll has a pretty strong impact. And I believe that the decrease was about 6 percent of pay. So if you sort of look at how we...we had about a minus 5 percent last year and then a margin this year of 1.3 (percent), it's just about the difference. But it was a different...a change in the amortization of the unfunded liability that created really that flip from showing a deficiency to a margin. And again it...the actuarial contribution is not made for these plans. It's the fixed amounts that are in the bargaining agreements. So we feel like that's a better...if you're going to use the actuarial contribution rate as a tool to evaluate your long-term funding, it makes sense that it aligns with what the expectations were when you made these significant changes. [LR571]

BERNARD in den BOSCH: And I think, just to add, I think the other thing is that we do our actual report effective January 1 of each year. So the last one was January 1 of 2015. Prior to the...we did have contributions that were backdated, that's why you see the higher contributions in 2015. But the changes for the reduction in benefits for active employees as well as the change to the cash balance plan for future employees didn't take effect until March 1 of 2015, so after the last actuarial report, the date of it, and obviously nine months before this one. So I think that's another factor for that as I recall Pat's analysis. [LR571]

SENATOR MELLO: So, Pat, as a follow-up then I just want to...maybe it's just an understanding of the state's defined benefit plan differential that we just walked through with our three plans in comparison to the Civilian Plan. And I'm sure these...this will answer the same question I would have for the Police and Fire Plan afterwards, which is, if the city is not paying...if the city is not fulfilling its 100 percent actuarial required contribution, did I just hear you say that that really doesn't serve...that really is more of just a long-term benchmark for the plan in the sense that if they're not meeting that year-over-year, 100 percent required contribution it doesn't really matter because of the amortization that they just did? Because looking at the Civilian Plan, they've yet to hit...they've yet to meet their 100 percent mark, so to speak, that we, at least at the state level, that is what we base our success and failure on year over year is meeting that 100 percent actuarial required contribution. And I guess I'm just trying to understand why...how we created them. Now I understand the margin came from the amortization but the Civilian Plan still has not hit that kind of gold benchmark of 100 percent year over year. [LR571]

PATRICE BECKHAM: Right. So there are really kind of two approaches to funding retirement systems. I mean they're long-term obligations. Some plans fund them with a fixed contribution rate. There are a number of statewide systems that take that approach as well. They still monitor funding progress. They still calculate an actuarial contribution rate. It's just if there is a shortfall, additional money does not come in as it typically does in Nebraska. Okay? And that's really the boat that both of the Omaha plans are in, where there's a fixed contribution rate. Now the changes that occurred in both the Police and Fire System and the Civilian System were a result of recognizing that less than the full actuarial rate was...had been contributed and it was problematic. And projections, in particular for these plans, projections are very helpful; where are we headed? And that showed a rather scary, running out of money in about 20 years. And as you know from the information provided, significant changes were made for both of these plans to try to change that dynamic, slow the growth of liabilities, put a lot more contributions in, and the projections are really pretty optimistic that Police and Fire, the last time we did projection I think was we were projected to reach full funding in 20 years? [LR571]

SENATOR MELLO: I think last year I think it was both 20 years, 25 years. [LR571]

PATRICE BECKHAM: Yeah. And this one was 20 to 25. So it's actually a striking turnaround, you know, given what the initial projections were. But my point is that when you're not contributing the actuarial rate from year to year it's somewhat artificial. I mean it's like me saying, well, you know, I should, like, pay off my mortgage in ten years and if I did, what would that be? Well, that's great but I don't have the money to do it, so I'm going to pay it off in 25. And so for my budgeting I'm going to use 25 because that's kind of what's affordable and that's what sort of baked in to my financial plan. And I don't want to speak out of turn if either one of these gentlemen have something to add. But I think there's sort of this realistic component to the actuarial contribution rate. And once the changes were made and implemented, the thought was it's a better communication tool to set the amortization of the unfunded over a period that is reasonably expected to be met than it's almost misleading to use a short period when we know the fix is a long-term fix. [LR571]

SENATOR MELLO: Okay. [LR571]

PATRICE BECKHAM: Does that make sense? [LR571]

SENATOR MELLO: Uh-huh. [LR571]

BERNARD in den BOSCH: And quite frankly, they could have had you do it over a longer period of time and it would have (inaudible) misleading the other way. [LR571]

PATRICE BECKHAM: Right. [LR571]

BERNARD in den BOSCH: We had that discussion too. [LR571]

PATRICK BECKHAM: Right. [LR571]

SENATOR MELLO: Okay. [LR571]

PATRICE BECKHAM: And the 25-year period on the amortization of the unfunded liability does meet...there are no actuarial standards, per se. But the Conference of Consulting Actuaries has a white paper on retirement plan funding that talks about amortization periods, and this meets that requirement. And the GFOA, the Government Finance Officers Association, also has some recommendations and 25 is the maximum years for that. So the board did not push it beyond 25. And again, that was pretty realistic of where it was when those changes were implemented. [LR571]

SENATOR MELLO: Is that process...I'm sorry. [LR571]

SENATOR KOLTERMAN: Go ahead. [LR571]

SENATOR MELLO: Is that process...just knowing that you also represent NPERS and the PERB, in the sense of what we just went through and walked through with the state plans, what's the difference in the sense then why wouldn't the state consider changing that model as well or kind of adapting, so to speak, or adopting the model that...is that traditional mostly for the for nonstate plans? You just said that some states adopt that model as well. If you're saying that that has more of a longer term view in regards to adapting, so to speak, from the budgeting perspective of what you need to put in, so to speak, from an employer-employee contribution, why would the state...or is that a conversation at all with NPERS? Maybe that's...I'll look at our Chairman. Maybe that's a conversation NPERS is having maybe in regards to changing that model to mirror more what you see with local defined benefit plans. [LR571]

PATRICE BECKHAM: And I would not say that funding the retirement system with fixed contribution rate is typical of municipal plans versus statewide systems. I think we see both in both arenas. I actually wouldn't recommend it. It has other challenges in that it doesn't react to market conditions and it tends to take time for studies to occur and to get, you know in the state arenas, to get statutes changed. So it's much less dynamic on the funding side. And we've worked with a couple of systems that have really struggled. It's taken a number of years to get changes; sometimes through Legislatures take some time. So it's not...I mean in a perfect world where actuaries control everything--which, lucky for you guys, that doesn't occur--everyone would contribute the actuarial rate. And if money were no issue the amortization periods would be very short. But the reality is again these are long-term obligations. They essentially go on in perpetuity. They have to be managed in the short term, but you don't want to overreact. That's why we use things like smoothing, that's why we have amortization on the unfunded liability, all those dynamics. So I think...I mean you looked at the results I just shared with you for the state system. Your funding ratios are very strong. Things look good. You've made changes for it with a longer term view with your new tiers. You know, it's working. I wouldn't change it, my professional opinion. [LR571]

SENATOR MELLO: And I get that and maybe I guess it's just the differential or the understanding is it's mostly it's the amortization period which is longer for the Civilian Plan, the

Police, Fire Plan in comparison to our state plans. And then the fixed ratio or the fixed contribution which is I thought somewhat similar to what we do as well, of course we do it by percentages and/or...by statute, so. [LR571]

PATRICE BECKHAM: Yeah. In a way with a fixed contribution rate, you could almost take a different approach that says, okay, here's a measurement of my unfunded liability, here's my payment stream, how long will it take to amortize the unfunded liability? And every year it varies. In fact, way back, because I've worked for Omaha School Retirement System forever and a day, and back in the day we used to do that. That was the metric in the valuation was how years until the UAL was amortized. But with the Governmental Accounting Standards Board reporting and things, things gravitated to those plans needing an actuarial contribution rate. [LR571]

SENATOR MELLO: Okay. [LR571]

PATRICE BECKHAM: And so over, whatever, 25-30 years, that's kind of been the process. So now they all calculate them, but in reality, you know, again the contributions and the benefits are negotiated. So they may change in the future, but nobody knows how they will change. So it's a more practical approach to...like I said, otherwise it appears that you're not meeting your obligations when in fact you are because the obligations were set over a longer period of time. [LR571]

SENATOR MELLO: Okay. So mostly it's just the obligation has been spread out over a longer period of time and that's why... [LR571]

PATRICE BECKHAM: Yes, to help make it affordable. [LR571]

SENATOR MELLO: Understandable. Thank you, Pat. [LR571]

PATRICE BECKHAM: You're welcome. [LR571]

SENATOR KOLTERMAN: In answer to your question, we are not looking at that (laughter) on a state basis. I have a question for you though. And you can make the numbers look how ever you want and you can change the formulas, but one thing I noticed that we've done on a state basis is we've moved our assumed rate from 8 percent down to 7.5 (percent) which, you know, creates more liability for the state. And yet this is still using an 8 percent assumed rate. So the reality is your investments haven't improved significantly. I mean, you had a good year but it wasn't as good as you're going to need if you're going to get yourself out of the hole that you've dug and... [LR571]

BERNARD in den BOSCH: And you're right, there is no question, and that's where certainly the board has to look at the rate of return and establish it. Obviously, that's part of the analysis that gets done by the actuary. And that's why we included the fourth page of the supplemental materials, because you're right. I mean you can look at a window and you can say you didn't meet it; you can at other windows and say you did. And I appreciate people have different views on whether things are different now than they used to be. The system has been in existence for 36 years and there's a 9.2 percent rate of return in that period of time. The ten-year rate of return, absolutely below 8 percent. It's 5.4 percent. It includes 2008. The five-year rate of return is 9.9 percent. The professional...and I think Mr. Herink, he's probably elbowing me to talk, the professional advice that we're getting from the consultant that we've retained and used for a number of years is that that's a bogie that we're likely to make, the 8 percent. [LR571]

ALLEN HERINK: And we look at this, like I say, every two to three years when we do our allocations. And if they come to us and say, listen, you're not just going to do that or the probability is extremely low, the committees will certainly decide to lower that. We think we can do this. Historical experience shows that we can. The last few years have been real good. And you know, with the elections and the different atmosphere now, it may be probable to do that going forward. Again, they gave us a 20-year projection and we should have an 85 percent probability that we'll get over 8 percent. So that's the kind of things we hire these people to look at and that they do. So it isn't...and the investment committee and the board has no dog in the hunt. We'll set it at whatever we think our consultant tells us we can achieve. [LR571]

SENATOR KOLTERMAN: Okay. Any other questions? I'll have some more questions when we get to the next one. I'm sorry, Senator Mello. [LR571]

SENATOR MELLO: Thank you. Thank you, Chairman Kolterman. And maybe it's just a follow-up from Pat in regards to what we usually see as part of our presentation in regards to kind of the bar chart, so to speak, and the graph charts in regards to the percentage of liability that's been funded in the sense of is that something that you have available that you could share with us? I know this was very helpful in regard to looking at more of your investment understanding, but...and kind of to show you to some extent this is just kind of what we're used to seeing in the sense from Cavanaugh Macdonald. [LR571]

ALLEN HERINK: (Inaudible) valuation report at the year end. [LR571]

SENATOR MELLO: Kind of to some extent kind of like the...not just the historical funded ratio but actually going through the actuarially required contributions, what the projections are, as well as then to some extent the 25...since both plans I think are 20 to 25 to be fully funded. Is that something that you could provide us? In the sense that I think Lincoln as well, since they're going to be coming up after Omaha, in the sense of since everyone uses Cavanaugh Macdonald apparently, is that similar to what you could provide us? [LR571]

PATRICE BECKHAM: We certainly can provide that work. We have not been retained by the city of Omaha--I should say by either retirement system--to provide that on an annual basis. [LR571]

SENATOR MELLO: Okay. [LR571]

PATRICE BECKHAM: So when we went through the plan redesign study in 2014... [LR571]

ALLEN HERINK: It hasn't been updated for years. [LR571]

PATRICE BECKHAM: ...we did projections because, remember,... [LR571]

SENATOR MELLO: Okay, yeah. [LR571]

PATRICE BECKHAM: ...it was projected to run out of money in 20 years. [LR571]

SENATOR MELLO: Yeah, absolutely. [LR571]

PATRICE BECKHAM: So then we did the projection and that's, you know, what showed the plan reaching full funding in about 2038. [LR571]

SENATOR MELLO: Uh-huh. [LR571]

BERNARD in den BOSCH: We can certainly provide the one that was done in 2014... (inaudible). [LR571]

SENATOR MELLO: That was done in 2014 when you did the changes. That would be great, that would be great. [LR571]

SENATOR KOLTERMAN: I just have one last question. Actually I'd like to compliment you on moving to the cash balance with your new hires. I think that's going to answer a lot of your problems. [LR571]

ALLEN HERINK: It takes a lot of the risk off the city and you puts it to the employee. And that should help the plan in the future, definitely. [LR571]

SENATOR KOLTERMAN: But the one question I have and it's just for my own inquisition I guess is, do you know what you're paying for the administration of your plan? What's the total cost of administrating your plan? [LR571]

ALLEN HERINK: When you talk...are you talking what we pay for the...? [LR571]

SENATOR KOLTERMAN: What's it cost you to manage the plan for a year? [LR571]

ALLEN HERINK: Let's go to page 1 of this report here. Really the only...the city picks up all the administration so it's no cost to the plan except the plan pays for the investment counseling fees. [LR571]

SENATOR KOLTERMAN: So that's the $1.3 million? [LR571]

ALLEN HERINK: Yeah. So it's less than 1 percent. But we do all the payroll, the city picks up those costs, Bernard's costs, my costs, the accounting costs. We pay for the actuary studies; that doesn't come out of the plan. So again, those costs are all picked up by the city and not charged to the plan. [LR571]

BERNARD in den BOSCH: So we're saying, the employee, there's obviously an employee cost because we're doing this type of stuff. Out-of-pocket costs, the city, by our code, the city is responsible for paying all the administrative costs of the system. But for the investment, they actually pay for travel if they go to conferences. Those are the only things that come out of the fund. The actual out of pocket of the city, never mind employee time which is probably hard to categorize, is typically less than $50,000 and that includes Ms. Beckham's fee on an annual basis. [LR571]

SENATOR KOLTERMAN: That's above and beyond this $1.3 million? [LR571]

BERNARD in den BOSCH: Correct. [LR571]

ALLEN HERINK: Yeah, well, you know, when we consider we process all their payrolls every month for all the retirees and all that, it's a substantial cost for that if you need a couple per-check costs or something like that. [LR571]

PATRICE BECKHAM: (Inaudible) benefit months. [LR571]

ALLEN HERINK: Yeah. [LR571]

SENATOR KOLTERMAN: Okay. Any other questions? Okay, we're going to move into the...do you want to stay put...? [LR571]

ALLEN HERINK: Thank you. [LR571]

SENATOR KOLTERMAN: Or you don't do the Omaha Police? [LR571]

BERNARD in den BOSCH: No. I get to stay though. [LR571]

SENATOR KOLTERMAN: Yeah, I thought you did. [LR571]

BERNARD in den BOSCH: (Exhibit 2) Good morning, Mr. Chairman, members of the committee. My name is Bernard in den Bosch. First name B-e-r-n-a--r-d, last name three words. First word, lowercase i-n, second word lowercase d-e-n, and third word, B-o-s-c-h. And I'm here on behalf of the city of Omaha Police and Fire Retirement System. [LR571]

PATRICE BECKHAM: Patrice Beckham, P-a-t-r-i-c-e B-e-c-k-h-a-m, Cavanaugh Macdonald Consulting here as the actuary to the retirement system. [LR571]

BERNARD in den BOSCH: And Mr. Curtiss, who's the finance director and serves in the same role as Ms. Herink does for the city system, regrettably couldn't make it today. He had arranged plans that were made long before, unfortunately before this was scheduled. So he passes along his regrets. I'll try not to be too repetitive because many of the same things we could say for the last system as well. This is also a separate legal entity governed by a board for trustees, three of those are members of the system. And this particular system provides pension benefits for public safety: so Police and Fire, sworn, and then also management. There's four bargaining groups amongst those employees. And the human resources director, the finance director, and a city councilperson are standing members of the committee, whoever is in those positions, and then they have a seventh member who is appointed by the remaining board. And much like the last discussion, the board itself is responsible for determining its investments, setting its assumptions, so forth. The contributions for the system are also through negotiations; much like the last system, they are fixed. And there was significant changes made as far as reform. And I appreciate the fact we can talk about the fact that maybe the changes were too long in coming, but there were some significant revisions in October of 2010 when the Omaha Police Union adopted a new labor agreement which made...where the city increased its contribution substantially and the union members took a reduction in benefits. And then the fire union adopted a similar contract in December of 2012, went in effect in early of 2013. The city contributions for this system runs anywhere from 32.965 to 33.67 of income; and then the employees, anywhere from 15.35 to 17.23. The benefit reductions we've talked about in the past, so I won't necessarily bring them up. They're described in the letter, but such things as changing the age, how old...how long you can get to the top pension. There was smoothing, something we called per-overtime average (inaudible), and then also some changes for new hires that occurred at the time that limited their pension to based on base pay as opposed to total pay. We did provide a handout to you again, contains a lot of the same summary information. Since Mr. Herink is (inaudible) to correct me, I'll go through all the pages. But the second page is much like Mr. Herink indicated. It's a summary showing the cash on hand that's prepared. You'll see the various rates of contribution by the different bargaining groups at the top of that particular document as well. The second page, much like what you saw previously, this is broken down between police and fire and sworn. But you can see the number of people who are being served by the system who are receiving pensions and the changes that occur through 2015. The third page, much like the one you saw before, was a page from our most recent quarterly report from the DeMarche and Associates showing the performance benchmarks as far as earnings by the system. This particular system has a different investment allocation and you'll notice that, but you can see the year to date, 1-year, 3-year, 5-year, 10-year, and 36-year standards. And obviously the numbers are somewhat similar, a little bit different but somewhat similar types of return. And then the last page touches on some key measurables. There's no question, as the information that we provided you in the report, last year was not a good year for investment returns. I think as I recall the investment return was I think .2 percent. Notwithstanding that, as you look at the funding ratio, at least on an actuarial asset, increased slightly. We still have a contribution margin. I'm not going to use an other word like "excess" or "surplus" because Ms. Beckham made clear that I'm not supposed to. (Laughter) And indicate that at least since the beginning of 2015 that has been the case. And frankly part of the delay was the changes that were made and the delay between the police implementing the reduction and the changes to the pension system and the fire implementing the reductions to the pension system caused a little bit of the delay that we were seeing. So the funded ratio of the system has increased. It was 44 percent in 2013. It's obviously at 49 percent based on what you see here on market assets. That's certainly not anywhere near 90 or 100 (percent) which is where we would like it to be, but we...I think what it does show is the changes that were instituted, even with not necessarily having great investment returns, are showing some positive changes. Much like I talked about, we are due for an experience study next year. There will be one done. So next year when we come before you, unless some miracle occurs and we're all of a sudden more than 80 percent funded, we're hoping to see positive change. We'll have an experience study at that time that will look at the 2012 through 2016 years. And obviously that will be another time to evaluate the actuarial assumptions above and beyond even investment ones which has return also monitored by the investment committee as well as the discussion comes up each time the actuary gives an experience study as well. That being more background than you probably wanted, I'll let Ms. Beckham speak a little if she would. [LR571]

PATRICE BECKHAM: I think Mr. in den Bosch has done a good job of summarizing for the Omaha Police and Fire Retirement System. Again, significant changes were made on the benefit side and the contribution side. The funded ratio at 51 percent is a concern on its face value, but remember, with the dynamics of pension funding it's not only important where you are on the snapshot date but where you're headed. That's why you received information this morning from us for the state systems on the projections. And I'm to the point where those are really our focus compared to the snapshot. Again, we don't do projections on an annual basis for this retirement system, but the last time that we did projections which I believe were in 2014. [LR571]

BERNARD in den BOSCH: Didn't we do one with the DROP study? [LR571]

PATRICE BECKHAM: Yes, with the DROP study... [LR571]

BERNARD in den BOSCH: 2015. [LR571]

PATRICE BECKHAM: 2015. I stand corrected. It indicated about 20 years, if all assumptions were met. So the board does keep an eye on those projections. It's just not part of the regular retainer work. So... [LR571]

BERNARD in den BOSCH: And we'll get those projections to the committee. [LR571]

PATRICE BECKHAM: Yeah, we can share those letters with the committee and you'll have that information. So really, you know, looking back to 2010, the system has really come a long way because I can tell you projections that show a retirement system running out of money in 20 years will keep an actuary awake at night, even with three children. So I don't want to be too extreme, but again, as the system's actuary and having kind of walked beside them through the process, I think there needs to be some recognition that current members gave up benefits and essentially paid more. We don't see that very often. And I'm sure it wasn't easy for anybody to make those decisions. But both the city and the membership I think recognized the problem and were willing to step up. And a lot of contribution dollars are going in. Again, it will help but it takes time. And these liabilities are very large numbers. As you can imagine, the retiree liability doesn't change much so we only have part of it that we can kind of improve slowly over time. So it's just going to take time. We likely will be back for a number of years absent something that the market really, really blesses us. But I think they're on a good path. I think the projections will show that and perhaps help the committee understand that dynamic that it's important where you are at that point in time, but how much money is coming in and how the liabilities grow in the next 20 to 30 years is also very important. [LR571]

SENATOR KOLTERMAN: Okay. Questions? Senator Mello. [LR571]

SENATOR MELLO: Just one quick one, thank you, Mr. Chairman. I think you explained...you answered both questions under the Civilian Plan and you're absolutely right. The reforms that were done in 2010 and then arguably mimicked in 2012, we had this conversation the last couple years, have really moved this plan in the right direction. The question I've got was on this addendum that you gave us in regards to the investment management fees which in 2015 was roughly $3.2 million. You have about the same number of plan members in the Police and Fire Plan as you do in the Civilian, yet you've got not quite three times the amount but somewhat close, two and a half times the amount, in regards to the investment management fees. [LR571]

BERNARD in den BOSCH: There's very few the questions I could answer on that, but that's one I think I can. And the investment management fees are a percentage of what you're managing. The Police and Fire Pension System has a $600 million amount. The Civilian System is roughly $240 (million), so. [LR571]

SENATOR MELLO: Purely based on the amount. [LR571]

BERNARD in den BOSCH: Since the fees are based on that amount, that's...you're going to see that disparity each year. [LR571]

SENATOR MELLO: Perfect. Thank you, Bernard. [LR571]

SENATOR KOLTERMAN: I just have a couple of questions. So there are two separate plans and I understand that. Two separate bargaining units? [LR571]

BERNARD in den BOSCH: There's four bargaining agreements that are part of the Police and Fire System and there's three separate bargaining agreements that make up the people who are in the Civilian System. [LR571]

SENATOR KOLTERMAN: Well, the question I guess I have or the observation that I would make is you've got two different groups of people investing the money differently, managing the money differently. One got a better return than the other. It all comes from the same pot of taxpayers in Omaha. Is there any way or any reason why you haven't looked at some form of consolidation as a way to maybe control those costs and bring them down a little bit? And then the second part of my question would be I know on the Omaha civilian employees you've got a cash balance plan going forward. Has that been talked about being negotiated with the unions for the police and fire? [LR571]

BERNARD in den BOSCH: Let me answer the second question first. I certainly...certainly in talking with the mayor and with the city's negotiator, I think they've even said it publicly, if there was a mechanism that they could negotiate a cash balance plan with the sworn unions they would be happy to do so and it is something that when negotiations occur it is brought up. To date, it hasn't moved very far. That doesn't mean that it's not going to continue to be part of the administration's...in each administration, the mayor and their administration sets the priorities for negotiations. I would anticipate that as we move forward it will continue to be something that whatever mayoral administration is, isn't interested in doing. Unfortunately we're not able to do it, impose it unilaterally. [LR571]

SENATOR KOLTERMAN: Correct. [LR571]

BERNARD in den BOSCH: Unfortunately, that's the reality, the city can't. [LR571]

SENATOR KOLTERMAN: Because of the bargaining units, different bargaining...? [LR571]

BERNARD in den BOSCH: Because of the bargaining groups, it's a give and take. [LR571]

SENATOR KOLTERMAN: Yeah. Okay. [LR571]

BERNARD in den BOSCH: Yeah, it's a negotiation. And then, you know, the position that I think if it was one raised is we've made substantial reforms four or five years ago, they seem to be working. I think the public safety groups would probably say there isn't a need for it. We, I think, on the mayor and the administration side, of course, would like to see the movement happen more quickly, and for a lot of different reasons. So I...yeah, there's a lot of...that's, to some extent, going to be the...in the prioritization of negotiation and negotiation strategy by whatever mayor administration is there, plays that part. So I think we see the benefit of the cash balance plan with the civilian employees. It does share the risk with...where the employees and the employer share the risk, whereas in the traditional defined benefit system that risk is mostly borne by the employer. So there is some appeal to it. I think that's...we're going to continue to look at it and see if we can make it appealing to the public safety groups as we move forward. In regard to the consolidation and it's an interesting thing and I certainly was not around when the city charter was adopted in the mid '50s which separated the Civilian and the Police and Fire Pension System at that time, and the new systems that were created in 1980 which continued to have that separation. The...and that's why we have the separate funds and appropriate a certain portion of the funds are taxpayer dollars, certain portion...the portion are taxpayer dollars through the employees and they make their contributions. And there may or may not be some advantage to consolidating them. And I think if you look at the rate of returns last year, for example, the Civilian System had a 3.7 (percent) rate or return and the police had a .2 (percent). So obviously, they did far better last year. If you look at the rate of return for this...so far this year, the Police and Fire Pension System has a slightly better rate of return. Historically, the Police and Fire is at 9.3 (percent) and the Civilian is at 9.2 (percent) since 1980, so the Police and Fire has had a slightly better return. They generally also have a larger pool of money to invest. The systems were set up separately. Does that mean they can't have discussion about trying to do it or share some things? They could. I don't know that there's ever been any will to do it. I can certainly go back to them and indicate this committee raised the question and asked them to at least have a discussion and see if there would be any benefits to doing it. [LR571]

SENATOR KOLTERMAN: Well, two points that I would make: You indicate that you feel it's working because of the changes. You know, obviously it's improved but we still saw... [LR571]

BERNARD in den BOSCH: I was saying, my point with the union, I think the union would tell you. [LR571]

SENATOR KOLTERMAN: But we still saw a decrease this year. We didn't make any progress. And that's still at 8 percent, the assumed rate of 8 percent. There's a bigger liability hanging out there than I think anybody is willing to realize. And you're spending $4.5 million for administration on two plans. That's a lot of money. I think there's got to be some economies of scale there somewhere. I know some of the benefits are different, but just asking. [LR571]

BERNARD in den BOSCH: No, I think that's a fair point. [LR571]

SENATOR KOLTERMAN: Yeah. [LR571]

BERNARD in den BOSCH: I can...I'll certainly raise it with the...I'll send something to the systems to ask follow-up. [LR571]

SENATOR KOLTERMAN: Sure. Any other questions? Senator Mello. [LR571]

SENATOR MELLO: Thank you, Chairman Kolterman. And maybe, Bernard, this is trying to recollect maybe from a previous hearing that we've done on this. Part of, I thought, the understanding or maybe it was Director Curtiss who explained last year or the year before, 2014, was the reason that, so to speak...or it was last year's plan because it was when the Civilian Plan came in and discussed the cash balance. The reason the Civilian Plan was shifted to a cash balance plan was because it was, as Pat mentioned, it was going down. It was going in a downward spiral, so to speak, and it was going to be unfunded, more so than on the Police and

Fire Plan which was completely essentially renegotiated six years ago in light of being in a somewhat similar position but they just took a different route instead of the cash balance approach. [LR571]

BERNARD in den BOSCH: Absolutely. There were different approaches and the cash balance plan's concept was not as prevalent five or six years ago when the discussions happened. And there's also no question, even though the Police and Fire Fund was funded at a lower ratio, because of the cash flow issues of the Civilian Plan, the Civilian Plan was in a worse cash flow problem. So I think they're both in some type of...the Civilian was worse. And quite frankly, credit to the negotiators, credit to the administration, the cash balance plan was something that was introduced, discussed, they became educated about, became an important party. And frankly, kudos to the civilian unions that understood how bad a shape the system was and how the sharing of risk which is really one of the biggest elements of the cash balance plan was beneficial to both. Now we took more years to get to the table because the problems with the...I mean the problems with the Civilian Plan and its underfunding were just as much...everyone was just aware of it in 2010 as people were aware of the problems with the Police and Fire Plan, so. [LR571]

SENATOR MELLO: And the maybe it's a point of clarification, if I'm not mistaken, from last year's hearing as you explain this. Part of the difference between the Civilian Plan and the Police and Fire Plan is how they're also funded. And the Civilian Plan is funded in part by fees, city fees. That is different in a sense of the Police and Civilian Plan that's not funded by fees or portions of it being funded by fees. And I believe last year if I'm not mistaken in the record that you mentioned that part of the way of funding the increase of taking care of the unfunded liability for the Civilian Plan was increasing fees in different agencies and departments to help make up their annual required contribution component outside of some of the other benefit changes that were part of the cash balance. I could be mistaken but I did reread last year's testimony in front of this committee before today and I distinctly remember that was part of the difference between the police and fire situation, is that their funding structures just are not the same in light of what the Civilian Plan looks like. [LR571]

BERNARD in den BOSCH: And I...there is something to what you're saying. We have a certain percentage of our civilian employees are funded by fees. We have employees who are in the sewer department who are funded by sewer use fees and we have employees in our street maintenance division that are funded by fuel tax. And so those...now there isn't a direct payment from those fees. It's still...the city makes its contribution, as does the employee make their contribution. But, yes, they are funded out of those fees as opposed to the general fund where the police and fire are, with the exception maybe of a grant for here or there, small period of time, are funded exclusively out of the general fund. [LR571]

SENATOR MELLO: Okay. Thank you, Bernard. [LR571]

SENATOR KOLTERMAN: Thank you. Pat. [LR571]

PATRICE BECKHAM: If I could go back to your prior question, Senator Mello, members of the committee, I wanted to just point out one relevant fact I think for the Police and Fire Retirement System. They're not covered by Social Security. They don't have that safety net. In public safety, you generally want them to retire sooner. Cash balance plans, it's more difficult to deliver higher benefits at younger ages and provide preretirement death and disability in particular. So I think that is relevant maybe to them gravitating to the traditional final pay DB plans. [LR571]

SENATOR MELLO: Thank you for that, Pat. [LR571]

SENATOR KOLTERMAN: Thank you. Oh, I'm sorry. Rick... [LR571]

SENATOR KOLOWSKI: (Inaudible) question. Thank you, sir. [LR571]

SENATOR KOLTERMAN: Senator Kolowski. [LR571]

SENATOR KOLOWSKI: Am I correct that the State Patrol is not Social Security also,... [LR571]

SENATOR KOLTERMAN: Yeah, it's the same way. [LR571]

PATRICE BECKHAM: I believe that's true. [LR571]

SENATOR KOLOWSKI: ...if I remember. And that goes back to the judges' issue when you're talking about those fees. That's why I asked about those court fees. And we're floating fees in different ways. What happens over time if we can move things around or how acceptable is that as far the long range? I'm just asking rhetorically. I'm not asking for a response right now. [LR571]

SENATOR KOLTERMAN: Okay. Thank you for your reports. [LR571]

PATRICE BECKHAM: Welcome. [LR571]

SENATOR MELLO: Thank you, guys. [LR571]

SENATOR KOLTERMAN: Keep working on it. [LR571]

BERNARD in den BOSCH: Thank you. Take care. And Happy Thanksgiving, everybody. [LR571]

SENATOR MELLO: You as well. Thank you, Bernard. [LR571]

SENATOR KOLTERMAN: You as well. [LR571]

KATE ALLEN: Lincoln. [LR571]

SENATOR KOLTERMAN: Okay. Now we have Lincoln fire and police. Pat, you going to stay here? [LR571]

PATRICE BECKHAM: I am (inaudible). [LR571]

SENATOR KOLTERMAN: Paul. Is Paul here? There he is. Welcome again. [LR571]

PATRICE BECKHAM: Thank you. Patrice Beckham, P-a-t-r-i-c-e B-e-c-k-h-a-m, consulting actuary with Cavanaugh Macdonald, actuary to the city of Lincoln Police and Fire Pension Plan. [LR571]

PAUL LUTOMSKI: And my name is Paul Lutomski, P-a-u-l, last name is L-u-t-o-m-s-k-i. I'm the city of Lincoln Police and Fire Pension Officer. Thank you for inviting us. Pat has been retained by the city of Lincoln for this presentation. So I'll leave the heavy lifting to Pat. If you have any questions, maybe I can answer (inaudible). [LR571]

PATRICE BECKHAM: All right. Round four, guys. (Laugh) [LR571]

SENATOR KOLTERMAN: Go ahead. Yeah. [LR571]

PATRICE BECKHAM: All right. And I believe that Paul provided the committee with sort of our formal response to the questions in your letter under LB759 reporting. We'd like to just highlight several items that are included in that and then really spend our time, you know, available to answer questions from the committee. I think we have a positive story to tell for the retirement system, so we're anxious to share that with you. You had asked for historical information on the prior and the current valuation, and just to clarify, the system has a valuation date of August 31. So the most recent valuation right now is August 31, 2015 valuation. We're working on the '16; it's not yet completed. So in addition to information for 2014 and 2015, we actually provided you with kind of comprehensive information from 1991 forward to give you a sense not only of where the system is at this point in time but where it's been historically. And I think there's some important information in those projections. You'll notice that prior to 2009 and really even in 2009, the system was 95 percent funded. And before that there were a number of years where it was 100 percent funded or more. So historically, the system has been very well funded. In the August 31, 2015, actuarial valuation, the Lincoln Police and Fire Pension Plan was 64 percent funded. Again, part of the current funded status is a result of the financial crisis and the low rates of return. Fiscal year 2008 for the system was a minus 6.62 percent return and for fiscal year '09 was almost minus 17 percent. So those are significantly short of the expected return at that time of 7.5 percent. We've had some strong investment performance since, but if we had simply earned the 7.5 (percent) forward we still would have more assets in the fund. The previous report presented last year to this committee was as of August 31, 2014. There were no changes in the benefit provisions from the '14 to the '15 valuation. There was, however, a change in the actuarial assumptions. Two thousand fifteen was the first valuation that Cavanaugh Macdonald provided to the retirement plan. And as a result of that, we did a complete review of the assumptions that were being used and we felt that there needed to be an adjustment to the investment return assumption because of the mechanism where, when there was return above the expected actuarial rate, part of that return went to the 13th check COLA pool fund. So it was a little bit of what we call skimming or where we're losing part of the return on the high end and keeping all of it on the low end. When we did our analysis, the sort of net expected return for the pension plan was 6.4 and then prior to that 6.75 had been used. So we recommended to the city that the assumed rate of return be lowered and, indeed, it was for the 2015 valuation. As you well know, lower assumed rates of return result in higher liabilities and costs. I want to spend just a little bit of time on the 13th check program. It's a nuance that is maybe unique to the Lincoln Police and Fire Pension Plan. There are others in the country that have similar programs but I'm not aware of any others in Nebraska anyway. So firefighters and police officers are paid a retirement check monthly, which is pretty standard. But then there is an additional benefit that's paid in September of each year. And it's...the payment comes from this 13th check fund. It was instituted in 1991 in lieu of sort of a traditional COLA. So it's essentially a 13th check. It is funded by transfers from the general Police and Fire Pension Fund, again, when the rate of return is higher than the actuarially assumed rate. A portion of that--it's really the percentage of the retiree liability to the total liability--is then transferred over. So that's the money that comes into the 13th check fund and then the payments that go out are the 13th checks that occur each September. That check started out in 1991 at $600, where everyone that's a full-service retiree receives the same amount. It increased by the lesser of 3 percent or the actual change in CPI-U for the prior calendar year. In 1995 the base amount was increased by the city council to $750, and then keeping pace with actual inflation, not to exceed 3 percent, going forward. One of the specific questions that you sent was a question about corrective actions that have been taken to improve the funded status of the system. And first, there has been a significant increase in the contributions by the city of Lincoln. From September 1 of 2005 through August 31 of 2010, total city contributions were $17.4 million. If we look from September 1, 2010, through August 31, 2015, the amount was almost $33 million. So that's a significant increase in commitment by the city of Lincoln. The unfunded actuarially accrued liability is funded over a closed 30-year period. So again, even with the city contributing the actuarial rate, it will take a number of years before we see a significant change in the funded ratio absent other changes. The information we really are anxious to share with the committee has to do with the report that was issued by the pension review committee which was jointly created by the mayor and one of the city council members. And I think we might have shared that with you last year. It was just being formed. They've made a comprehensive review of the Lincoln Police and Fire Pension Plan and made recommendations, and one of those recommendations...I believe that report was issued in May of this year, right, May of 2016, and then I believe the city council took action in June, so very shortly thereafter, and the action taken was to merge the assets in the 13th check COLA pool fund into the regular Police and Fire Pension Fund. Now that helped in two ways: one, there were more assets than liabilities in the 13th check COLA pool, but, more importantly, it meant that all the money was together and we weren't losing a piece of those high returns. So it has an impact on the expected return over the long term. So by merging the two funds, we're eliminating that transfer, that skimming and we're allowing the general pension fund to retain full investment return in all years. Cavanaugh Macdonald, again, worked closely with the committee and provided financial modeling that you're familiar with. And the effects of merging the COLA fund were significant. It meant we moved back to an assumed rate of return of 7.5 percent from 6.4 (percent). That's a major, major change. What we saw was the unfunded actuarial liability decreased from a $103 million to $52 million. By making that change, the funded ratio increased from 64 percent to 80 percent. If we hang on to that this year, we might not be back to visit next year. And the city's recommended...actuarially recommended contribution declined from $12 million to about $8 million. So that single change was really a game changer, both from the current funded status but, more importantly, kind of looking forward. [LR571]

SENATOR KOLTERMAN: We have a question for you, Pat. [LR571]

SENATOR KOLOWSKI: Thank you, Mr. Chairman. Pat, that 13th check fund that they got in September of each year, it started in 1991. Were there any years that there was no payment made? [LR571]

PATRICE BECKHAM: I don't believe so. [LR571]

PAUL LUTOMSKI: Payment was made every year. [LR571]

SENATOR KOLOWSKI: Payment was always made. Okay. [LR571]

PATRICE BECKHAM: And I believe the current amount, Paul, do you recall? [LR571]

PAUL LUTOMSKI: I think the latest amount was roughly $1,174 and I think it was...Pat stated the 13th check benefit payment will continue even though the funds have been...the underlying funds have been merged. So it didn't reduce (inaudible). [LR571]

SENATOR KOLTERMAN: So you're just paying it from a different pot. [LR571]

PAUL LUTOMSKI: Right. [LR571]

PATRICE BECKHAM: Right. Before, there were two separate; now it's all together. [LR571]

SENATOR KOLTERMAN: Okay. [LR571]

PATRICE BECKHAM: All the assets are together and all the obligations to pay benefits are together, including the 13th check. [LR571]

SENATOR KOLTERMAN: Does that answer your question? [LR571]

SENATOR KOLOWSKI: And when did that merger take place? [LR571]

PAUL LUTOMSKI: July 2016. [LR571]

SENATOR KOLTERMAN: This year. [LR571]

SENATOR KOLOWSKI: Okay. Thank you very much. Thanks. [LR571]

PATRICE BECKHAM: Sure. And I think we even provided kind of the Web site, if the committee is interested in looking at the full report which, again, included long-term projections. There haven't been any recent or ongoing negotiations with bargaining groups. The most recent experience study covered the five-year period that ended August 31, 2014. So we're a number of years away from a full experience study. We will be revisiting the assumed rate of return in this valuation as a result of the merger of the COLA pool fund with the regular fund. I think that covers the basic information. Again, that single change had a very dramatic impact on the funding of the system all the way around: increased the funded ratio, decreased the unfunded liability, and decreased the actuarial contribution rate. And it followed that that was I think the first recommendation, the key recommendation from the pension review committee. So a lot has happened in the last year and we believe it's positive and we're happy to report that to the committee. Any questions? [LR571]

SENATOR KOLTERMAN: You mentioned a $12 million request and then you ended up paying $7 million. Was that as a result of merging? I just remember reading about the need for $12 million and in form of an ARC. [LR571]

PAUL LUTOMSKI: That was...$12 million was the amount that was estimated as the actuarially required contribution before the 13th check was merged with the base assets. Then after the merger, the liability went from roughly $100 million to $50 million and the funding ratio of 64 percent to 80 percent. Then the actuarially required contribution decreased commensurately down to $7.8 million because the return rate, or assumed return rate in the estimate done at that time, went from 6.4 percent up to 7.5 (percent). Pat's firm... [LR571]

SENATOR KOLTERMAN: That helped you? [LR571]

PAUL LUTOMSKI: Yes. [LR571]

SENATOR KOLTERMAN: Did you make the $7 million contribution? [LR571]

PAUL LUTOMSKI: Yes. [LR571]

SENATOR KOLTERMAN: Okay. Any questions? Senator Kolowski? Thank you. [LR571]

PATRICE BECKHAM: You're welcome. [LR571]

SENATOR KOLTERMAN: Appreciate you coming. [LR571]

PATRICE BECKHAM: Thank you. [LR571]

SENATOR KOLTERMAN: Maybe we won't see you next year. Wouldn't that be nice? (Laughter) One off the list. [LR571]

PATRICE BECKHAM: That would be good, huh? [LR571]

SENATOR KOLTERMAN: Okay, Douglas County employees. Are you staying for that one, Pat? [LR571]

PATRICE BECKHAM: No, unfortunately not. [LR571]

SENATOR KOLTERMAN: Thank you. Okay, you must be Joe, huh? [LR571]

JOE LORENZ: Yes. [LR571]

SENATOR KOLTERMAN: Go ahead. [LR571]

JOE LORENZ: (Exhibit 3) I am Joe Lorenz, J-o-e L-o-r-e-n-z. I'm the Douglas County finance director and I'm going to take you through the pension update that you requested. So hopefully you have the handout in front of you and first I'll take you through the statistics of the plan. For the year ended December 31, 2015, the Douglas County Employee Pension Plan was 67.3 percent funded, which was a .5 percent increase from the previous year. Our assumed rate of return is 7.5 percent. It's been that way for several years now with no anticipated change in the near term. Last year our actual investment return from the actuarial sense was 5.6 percent; based on market it was 2.3 percent positive. We have a member and employer contribution rate of 8.5

percent. It's a contributory plan where both the county and the employees contribute 8.5 percent of payroll. The normal cost last year was 10.7 percent with the actuarially required contribution of $18.7 million, while the actual dollars contributed are expected to be a little over $20 million. Given our funding status and the contribution rate of 8.5 percent, it looks like going forward we will, using that 8.5 percent rate, we will be funding in excess of the ARC payment, which is a good thing going forward. And so you can see that we've been over 100 percent and we anticipate that continuing. So next, if you could go to the next page I'd like to run through you a little bit of history and background on the plan. We use Silverstone Group as our actuaries and their report for the year ended December...or actually January 1, 2016. As I said, we were 67.3 percent funded. We had net assets on an actuarial basis of $274.9 million and had an unfunded actuarial liability of $133.8 million. The plan has a little over 3,500 participants and, as I said, we have equal member and employee contribution rate of 8.5 percent of pay. The normal cost was $12.6 million and the required contribution was $18.7 million. And as I said, the funded ratio actually went up .5 percent last year. So the background on how we got into the situation of only being 67.3 percent really goes back about 20 years, in that in 1996 the plan was 97.8 percent funded. And then some changes were made for, first, law enforcement in 1996 and then for all participants in 1997, which introduced the unreduced benefit Rule of 75 which is years of service and age, if you add those up and they equal or exceed 75 percent (sic), you can basically take early retirement. And the benefit formula was increased from 1.5 percent of pay per year of service to 2 percent per year of service. And then we also, the board at that time, approved three COLAs: a 3 percent in 1998, a 4 percent in 2000, and 3 percent in 2002. And, surprise, by 2004 the plan funding ratio had fallen to 64.8 percent and the realization was there that these changes were having a significant negative impact on the funding of the plan. So certain steps were put in place. Over the period from 2005 to 2008, the contribution required of both employees and the county was increased from 5.5 percent to 8.5 percent of plan. And then this was exacerbated by the performance of the overall stock market so that our fund's funded ratio bottomed out in 2010 at 57.8 percent. At that point, the members of the pension committee and the County Board of Commissioners recognized that significant changes had to be made to the plan and to ensure the future viability and liquidity of the plan. So at that time for new employees the following changes were made effective January 1, 2012. We eliminated the Rule of 75 again. The benefit formula was reduced from 2 percent of pay per year to 1.5 percent of pay per year of service and the maximum retirement income was reduced from 60 percent of a participant's finally average compensation to 45 percent. These were hard changes. They were fairly dramatic changes. But we really felt that these had to be made to ensure the viability of a defined benefit pension plan going forward. The sheriff deputies who account for 10 percent have slightly different rules which allow for increased benefits with early retirement. So these plan changes, along with not having a COLA increase since 2002, have increased the plan funding level by 9.5 percentage points so that now we're up to 67.3 percent and it's a pretty standard upward trend over these past six years. Like I think I've told this committee before that in my mind when you are trying to turn around a defined benefit pension plan, it's kind of like turning around an aircraft carrier. It takes time and it takes effort. And you know, we feel we're doing that but the results take a while before you can really see them occur. So we made these changes. Like I say, we're up to 67.3 percent and we had Silverstone do a projection going forward to what the forecasted funding levels would be going forward. And then you can see that on the next page it trends up from the 67.3 percent so that within 20 years we'd be at 94 percent, at a fairly comfortable level of funding. So the trend and the assumptions I think are there, that we have dealt with the issue. But we continue to tweak the plan and do everything we can to enhance the funding status of it. And in 2015 we made a couple changes to the plan. We took the long-term disability program, removed it from the pension plan and made it a separate employee benefit that was fully insured. And we also, starting January 1, 2016, changed the interest rate when an employee leaves the county. If they're not fully vested, they have the option of taking their contribution back, the 8.5 percent. And for a few years here we were paying out a 5 percent interest on that but we changed that to a market rate and changed that to we would pay for that year the interest rate on a ten-year Treasury Bill as of Nov 1 of the previous year. So just those two actions with the long-term disability and the changing on the interest credit gave...provided a $3.6 million decrease in the actuarial accrued liability and .6 percent increase to the plan's funded ratio. Like I say, we're always looking at things, how we can tweak it. The thing that we've done this year is on the large cap portion of it we've kind of decided that, at least for a large caps, the market is fairly efficient. And so we've gone to index funds which have a much lower investment management fee and so we implemented that. We're now 75 percent of our money invested in large cap funds are in the index. Again, we're anticipating that that tweak should help us on our funding. There is no recent or ongoing negotiations with any employee labor group that's expected to impact the funding of the pension plan. And the pension committee and the Board of Commissioners believe that these aforementioned combination of actions that we've taken are well underway toward significantly improving the financial condition of the Douglas County Employee Pension Plan and will ensure the financial viability and payment of benefits to participants going forward. And with that, I'd be glad to take any questions. [LR571]

SENATOR KOLTERMAN: Go ahead, Senator Kolowski. [LR571]

SENATOR KOLOWSKI: Mr. Lorenz--thank you very much, Mr. Chairman--all over the country communities have had mergers that have taken place over time, city-county mergers. And that discussion certainly goes on in Douglas County, with about 8 (percent) or 9 percent of people in the county living outside of the city limits, a very small percentage as we have that now. In order to...if in our lifetimes this discussion reaches a summit in Douglas County, how difficult would it be to merge programs together to bring the Douglas County folks into the city combination or whatever else would take place? I'm not projecting or advocating anything. I just know that this takes place around the country, and have you studied that kind of topic? [LR571]

JOE LORENZ: We've had some preliminary looks at it. And, Senator, I think mechanically of doing the merger, it could be done. I think where the apprehension would be is that the pension is included in some of our labor contracts and also for...but everyone qualifies for the pension...is that potentially merging with the city of Omaha, I don't...not sure how that could be seen as a benefit from a pension viewpoint given that we feel our plan is on a much better path to being fully funded than theirs and they would have a dilutive impact for our employees' pensions going forward. [LR571]

SENATOR KOLOWSKI: Just one of those questions. Thank you. [LR571]

JOE LORENZ: Sure. [LR571]

SENATOR MELLO: Thank you, Senator Kolowski. Are there any other questions from the committee? Seeing none, thank you, Joe. [LR571]

JOE LORENZ: Okay. Thank you. [LR571]

SENATOR MELLO: Next we will hear from the Omaha Public Power District, presenter Edward Easterlin. [LR571]

EDWARD EASTERLIN: Good morning. [LR571]

SENATOR MELLO: Morning. [LR571]

EDWARD EASTERLIN: Edward Easterlin, vice president and chief financial officer with Omaha Public Power District, last name spelling is E-a-s-t-e-r-l-i-n. With me is John Thurber. John is division manager of finance with OPPD. John's last name is T-h-u-r-b-e-r. So we're here today to basically provide an overview of the information that was submitted to you in October and answer any questions that you may have with regard to the district's pension plan. As you'll recall, we were here earlier in the year, maybe in the spring, to provide an overview of the plan and then we responded to your September 1 letter asking for an additional update. At the highest level we have completed two studies and provided those to you. The first one looks at what the expected rate of return would be on our pension plan given our investment portfolio. We have reduced our discount rate or the expected return from 7.75 percent to 7 percent. And if you look through that study, it would indicate that an active investment...excuse me, a passive investment portfolio with that makeup would be approximately 6.6 percent return. But we do have active management in the portfolio which is expected to have a higher return than just a straight passive. And then that is expected to bring the return from a 6.6 (percent) to a 7 percent. The consultant we used, Segal Rogerscasey, to evaluate historical and projected returns for those investment categories and the portfolio, estimates a expected return of that portfolio between 6.7 (percent) and 7.6 (percent). And so we feel 7 percent falls very nicely within that range of expected outcomes. The second item is we have conducted an experience study and provided that to you. Several of the assumptions that are used in our actuarial calculation were reviewed based on historical assumptions relative to experience and then adjustments were made to try to match up our assumptions with what our experience has been. The retirement and withdrawal rates were updated, so the age of retirement and the withdrawal from the plan, the rates based on each age or categories of age. The retirement age for vested deferred benefits was increased. Compensation increases were updated. What that means is compensation ranges are based on years of experience and generally we try to look at each category of experience or age and look at what their actual rate of salary increase is and make sure that that is reflected in the study, and we also did that. And then the spouse age differential was decreased. So we look not only at the employee's age but then also the spouse, because the spouse also has a life expectancy that would receive benefits if that option is pursued. And so that's reflected in the assumptions. Overall, through that effort, there was a reduction in the liability of the plan with a reduction in the annual funding contribution. Also, the decision to close Fort Calhoun Station was factored into the actuarial valuation which reduced the liability. As mentioned in the letter, the actuarial study is still being completed. We actually did an audit of the retirement plan and that was completed in October, and the actuarial study is based on audited information. I have some preliminary information from it. It's very near completion and we were hoping to have it with us today, but it is close. But we just can't quite let it go because we're still checking numbers and tying things out. But I have some preliminary information and we will follow up with the final report here in the next couple of days. So with that, I would just report that, based on preliminary information, the plan is expected to be funded at approximately...let me get this just right here so I give you the right information. We use two different methods for determining the funded status. The first one is a present value of accrued plan benefits and this looks at compensation in service to the date of the actuarial valuation, so that is the benefit that is earned as of the date of the study. And in 2015 were at 82.7 percent and we're projected to be 76.4 percent at 2016. Now these are preliminary. And then the second method is the actuarially accrued liability which is the present value of the retirement benefits adjusted for assumptions for future increases in compensation in service. So this not only looks at where we are today. But what the future liabilities would be for employees who continue to earn benefit. Based on that, in 2015 we were 72.4 (percent) and we're project to be at 69.2 percent. Now the reason that declined is because our actual returns were a negative 1.07 percent in 2015. And through October of this year, our portfolio has returned 8.5 percent. We did see some give back in October preelection of about 1.5 percent and then we've seen potential increase in November. But, as we know, things change very, very quickly. So we are on the positive side, looking much better than last year, and we did reduce our discount rate from 7.75 (percent) to 7 percent. So could I answer any questions? [LR571]

SENATOR KOLTERMAN: Thank you. [LR571]

EDWARD EASTERLIN: Thank you. [LR571]

SENATOR KOLTERMAN: Appreciate it. Okay, now we have the Eastern Nebraska Health Agency. Go ahead. [LR571]

RENEE NOLTE: Thank you for the opportunity today to speak with you, members of the Retirement Committee and Chairman Kolterman. My name is Renee Nolte. I'm the actuary for Eastern Nebraska Human Services Agency Retirement Plan; that's R-e-n-e-e N-o-l-t-e. I've been working on this plan for nine years as an actuary with Silverstone Group. Last year Bob Brinker spoke with you. He's a former employee of Eastern Nebraska and the plan sponsor for the plan. Before he retired, he asked me to represent the plan here today. He's currently enjoying his pension benefit, I'm sure. Give you an idea of the size of the plan, it's 971 participants, 70 percent of those are active employees so it's pretty healthy in that regard. Assets are at...we did a valuation as of the 1st of 2016. They do valuations every other year. And so it's been a busier year for them and for us. Assets are $33.6 million as of the 1st of the year compared to liabilities of $47.3 million yielding a funding status of 71 percent. This plan will see more fluctuations in that funding status because the assets are based on market value of assets. Rather than any...adopting any kind of smoothing or averaging over a certain number of years, it's the exact market value of assets as of 12/31, the day before the valuation date. The funding status has decreased 5 percent since the prior valuation in 2014. We attribute this primarily to the return on assets being less than their 7 percent assumed rate of return in the plan. One percent of that decrease, of that 5 percent, is due to changes in assumptions adopted this year for the plan. We did an experience study in the summer, spring of this year that indicated that their salary return...or salary increase assumption was probably lower than it should be. So they determined to increase that from a 2 percent assumption to 2.5 percent. We also increase automatically the mortality table assumption. Each valuation we adopt the same mortality table that's required for corporate plans. Those mortality tables have been showing longer longevity with each year's update to the mortality table. So both the salary increase assumption and the mortality table help to draw down to that 71 percent funding status, as well as I mentioned the rate of return being less than assumed. As far as making steps towards improving that, they have received a bargaining...through bargaining negotiations to increase the employer's contribution to 9 percent in 2017. Based on an experience...or a forecast study that we did in 2015, they are...they've remained on track with that forecast study and expect to negotiate to increasing the employer's contribution another 50 basis points for 2018. We'll take another look at that at that time, but that should potentially, based on the forecast study, if all assumptions hold true, provide them to get to above 90 percent by 2025. It is a slowly moving dial. And like I mentioned, there is more fluctuations in this plan without the asset smoothing, but in 2010 they were at 62 percent and now being at 71 percent we do see improvements. They've been really good at not wanting to increase the participants' contribution percentage. They've held that level throughout the years at 2.75 percent. We expect their contributions to be just slightly less than the ARC for 2016 at 97.4 percent, but they should be right at that or above that for next year with their increased contributions, increased pay, and so on. Do you have any questions for me? [LR571]

SENATOR KOLTERMAN: Any questions? I'm just curious, is there any reason why you don't use the smoothing effect on...? [LR571]

RENEE NOLTE: It's been set up that way for...maybe since the beginning... [LR571]

SENATOR KOLTERMAN: Since the beginning (inaudible). [LR571]

RENEE NOLTE: ...of the plan. Didn't really see an advantage to it. It's unusual to switch methods unless you have a valid reason. Maybe the valid reason would be to not dip down below 80 percent some day and have to reappear. (Laughter) [LR571]

SENATOR KOLTERMAN: Yeah. [LR571]

RENEE NOLTE: I don't know. [LR571]

SENATOR KOLTERMAN: Yeah, I was thinking that's a pretty good reason. Okay. [LR571]

RENEE NOLTE: Other than that...yeah, they have about one-third of their assets in fixed and two-thirds in equity investments, so they do see some fluctuation. But that 7 percent rate of return seems very reasonable for them. [LR571]

SENATOR KOLTERMAN: Okay. Seeing no questions, thank you very much. [LR571]

RENEE NOLTE: All right. Senator Kolterman, I just want to thank you for...or commend you on your recognition at Concordia and your service to the community as well. [LR571]

SENATOR KOLTERMAN: Thank you. [LR571]

RENEE NOLTE: I grew up in Seward so that means a lot. [LR571]

SENATOR KOLTERMAN: Yeah. Thank you. Okay, that brings us to our last. So now we have Metro Area Transit. There he is. [LR571]

CURT SIMON: Good morning. [LR571]

SENATOR KOLTERMAN: Good morning. [LR571]

CURT SIMON: I'm Curt Simon, C-u-r-t S-i-m-o-n. I'm the executive director of the Transit Authority of the city of Omaha, Metro Transit. I'm here to answer any questions you have in regard to our responses to the reporting form on LB759. Just as a brief background, the plan is currently funded at 72 percent. This is a negotiated plan between the management of the Transit Authority and the Transport Workers Union of America. The current contribution rates are 6 percent by the members and 6.5 percent by the management. We've done a number of things to lower the amount of the investment returns over the course of the last several years. For example, in 2009 we moved it from 8 percent to 7.5 percent. For this current year that we're in now, we've moved it to 6.75 percent based upon what we actually think we're going to be able to obtain out of it. In 2009 we basically took the entire plan and transitioned it to an index fund plan. Both the asset allocations and the fixed class were moved into that so that we could reduce fees primarily and reduce some of the volatility in the plan. We basically became our own benchmark, if you will, for that. It also significantly reduced the number of fees that we were experiencing because of trades. Again, this is not a plan that's as large as those that you've been talking about today, obviously, but it reduced fees, for example, from $74,000 in 2009 to $19,000 for transaction fees in 2016, which on a plan of this size is very positive. We're currently in labor negotiations with the Transport Workers Union. Obviously, pension is a strong topic that we're discussing both in the form of company contribution and member contributions. I will say that the members and the leadership of the Transport Workers Union have been very cooperative in trying to keep it real, if you will, and to try and solve the problems. So I'm hopeful that we'll have something very positive going forward. And I'd answer any questions you'd have. [LR571]

SENATOR KOLTERMAN: You get by easy today. Thank you very much. [LR571]

CURT SIMON: I guess there's a benefit in being last, huh? (Laughter) [LR571]

SENATOR KOLTERMAN: Yeah. Are there any public comments on anything today? Then I'm going to close the hearing. Appreciate you all coming today. I guess I would thank Senator Mello for his service. This is probably his last hearing. [LR571]

SENATOR MELLO: Retirement hearing. (Laughter) [LR571]

SENATOR KOLTERMAN: We going to have some more Appropriations hearings? [LR571]

SENATOR MELLO: One more or two more. [LR571]

SENATOR KOLTERMAN: Okay. Thank you, everyone. [LR571]