[LB30]

The Committee on Nebraska Retirement Systems met at 4:30 p.m. on Tuesday, February 7, 2017, in Room 1507 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB30. Senators present: Mark Kolterman, Chairperson; Brett Lindstrom, Vice Chairperson; Kate Bolz; and John Stinner. Senators absent: Mike Groene and Rick Kolowski.

SENATOR KOLTERMAN: Welcome, everybody. I'd like to thank you all for coming. If it looks like we're stalling, we are. We...our committee, the Retirement Committee is made up of senators that serve on all the other committees. So there's two from Education, there's two from Banking and Insurance, and at this time there's also two from Appropriations. Appropriations is still meeting and so are Education. I think that Appropriations will be here sooner than Education. We need two more to have a quorum before we can start so bear with us. But while we're waiting, it is a privilege to thank you all for coming. We've had good dialogue with both the unions, as well as proponents of this legislation. A couple of things housekeeping-wise. I'd like to thank Chuck Hubka and Patrick O'Donnell for arranging this. Because we are a special committee, we don't have a set time when we meet other than usually over the noonhour. And in fairness to you, as well as the proponents, and knowing that this would be a big hearing and it's an important matter, we decided to schedule it at 4:30. So if that inconveniences you, I apologize; but it inconveniences us as well. My intent would be if we get a quorum here pretty soon that we start the meeting as soon as possible and hopefully we can conclude by 7:00 p.m. We do have some invited testimony. We have 5 support, 14 opponents, and 1 neutral that have identified themselves as testifiers. Is there anybody here that wants to testify pro or con or neutral that wasn't an invited testifier? I'm not trying to...I want you to be here. I just want to find out what kind of time frame we're up against. Okay, so we have two, three.

KATE ALLEN: I think I saw three. Do you want to ask them to raise their hands again?

SENATOR KOLTERMAN: Yeah, could I see those hands again, pro, con, or neutral that haven't been invited. Okay and I tell you that strictly for managing the clock. Thank you very much. I know that Cavanaugh Macdonald is here and they're the actuary for the five state plans as well as Lincoln's and Omaha's plans. I guess that show you how good they are, right, Pat? So if you'll bear with me a few more minutes, we're going to wait and see if Appropriations finishes their day and comes in. I apologize for the delay, but I don't have any control over a quorum and we need a quorum. So thank you very much. Welcome to the Nebraska Retirement Systems Committee hearing. My name is Senator Mark Kolterman. I'm from Seward and represent District 24--Seward, York, and Polk Counties. At this time, I'd like to have the senators introduce themselves. My Vice Chair is...

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

SENATOR BOLZ: Senator Kate Bolz, District 29, south-central Lincoln.

SENATOR STINNER: John Stinner, District 48, Scotts Bluff County.

SENATOR KOLTERMAN: We also have Senator Mike Groene and Senator Rick Kolowski. They're both on Education. They're on their second bill. They have one more bill. They're Chair and Vice Chair of that committee so they probably are going to be here late. Bear with us though. Also we have with us today my legal counsel, committee counsel, Kate Allen; and my committee clerk, Katie Quintero, on the left over here. We have Robert Larsen and Phillip Levos are pages today. We're here today for the hearing on LB30. If we're full in here, there are some overflow rooms, 1510 and 1023. We'll take up the bill here in a minute. We might have some members coming from other hearings as you know. To better facilitate today's proceedings, I ask that you abide by the following procedures. At this time, please silence or turn off your cell phones. Those willing to testify or wishing to testify should come to the front of the room, be ready to testify as soon as the previous person finishes. We will start with proponent testimony, then we'll move to opponent, and finally neutral testimony. And when...Senator Lindstrom will be running the hearing, so he will invite you to come forward. He's got a list of the testifiers in the order that they've signed up for. Please complete a blue sign-in sheet and hand that to the clerk before you testify. When you come to the table, please spell your name before you testify and state your name, be concise. Try not to repeat as often as possible so we don't hear redundant testimony. If you have handouts, please submit at least eight copies. If you don't have eight copies, raise your hand and we'll have the page make some copies for you. It's important if you choose not to testify in person but want to leave written testimony, you can do so by filling out the white sheet and giving that to Katie along with your written testimony. They will be...written testimony will become exhibits in the permanent record at the end of today's hearing. With that, any questions from the committee? All right. (Inaudible) move forward.

SENATOR LINDSTROM: All right. We will now open the hearing on LB30. Senator Kolterman, whenever you're ready. [LB30]

SENATOR KOLTERMAN: Good afternoon, Senator Lindstrom. My name is Mark Kolterman, M-a-r-k K-o-l-t-e-r-m-a-n, and I represent District 24. I'm here today to introduce LB30. Since 2014, the Nebraska Retirement Systems Committee has required political subdivisions with plans funded less than 80 percent to appear before the committee and describe how their plans got to their current underfunded status and how they plan to make benefit and/or funding changes to improve their plan's solvency. The past two years I have heard the presentations on the metropolitan- and primary-class city police and fire retirement plans and have become increasingly concerned. For example, the Omaha police and fire plan has over $600 million in unfunded liability. And at the present time, according to what we've received, they're 51 percent funded, which hasn't changed that much in the past number of years. I introduced LB30 in order to provide secure retirement benefits for current and future police and fire employees in the metropolitan-, primary-class cities and to keep their pension plans solvent and sustainable. I appreciate the service by these brave public servants who risk their lives every day for all of us. It is not my intent to take any retirement benefits away from current plan members. I want to repeat that. It is not my intent to take any retirement benefits away from current plan members. In fact, my motive for introducing this bill is to ensure that the current plan members receive what they've been promised. I believe that a promise is a promise. I also want to ensure that new members receive an adequate and sustainable pension that is affordable for all of our metropolitan- and primary-class city taxpayers. LB30 requires cities of the primary and metropolitan class to place new police officers and firefighters in a cash balance retirement plan beginning with an unspecified date. We left that date open for the very reason that we wanted to make sure that if this does go through we have ample time to ramp up. LB30 also allows for metropolitan/primary-class cities to provide a supplemental retirement plan to provide an additional benefit since firefighters and police officers in these cities do not participate in Social Security. Under LB30, the cash balance benefit will be equal to the employees' contributions plus interest credits. And if the employee is vested, will also include the city's contribution plus interest credits and any dividend amounts as determined by the bargaining agreement and city ordinance. Cash balance plans are hybrid defined benefit plans because of the guaranteed credit rate. Each employee has an individual account which consists of employee contributions and employer contributions, if vested, with an interest rate...an interest credit that increases the value of the account. Investment losses to the assets of a cash balance plan do not affect benefit amounts promised to the cash balance plan member. This is important. Investment risks are borne solely by the employer. Generally in a cash balance plan, at the time of retirement a member may choose an annuity or a lump sum distribution. If a lump sum distribution is selected, that distribution can generally be rolled over into an IRA or another employer plan if that plan accepts rollovers. Currently, in the private sector most retirement plans offered by employers are what's known as defined contribution plans which have replaced in many cases defined benefit plans. In a defined contribution plan, the employee makes all the investment decisions and assumes all the risk due to the investment losses. What I am proposing in LB30 is not, is not a defined contribution plan. A cash balance plan is a solid and reliable pension plan, and much better than a defined contribution plan because employees do not suffer the funding consequences of a volatile market. State and county employees have been in a cash balance plan since 2003. These plans are solidly structured and were able to sustain the 27 percent investment losses in 2008 and 2009 without requiring any additional funding by the state. I believe that a cash balance plan is a good plan. But I also acknowledge that it does provide a lower benefit than a defined benefit plan. But let me remind you--I'm not taking anything away from current employees. That's the bottom line here. I'm trying to make sure that the promises made to them are promises that we're keeping or their employers are keeping. But it is clear to me that our metropolitan- and primary-class cities are struggling financially to pay their ongoing funding obligations to the plans. This level of funding does not appear to me to be sustainable over the long term. As the union members have found out as well as the proponents have found out, my door is always open to talk with them...interested parties about this bill. In fact, since I introduced the bill I have met with the police and fire union representatives from Omaha and Lincoln; and we had very, very good dialogue. I have invited representatives of the police and fire unions and departments as well as others to testify today, and I look forward to hearing their testimony. I would be glad to try and answer any questions you have. With that, that's my opening remarks. [LB30]

SENATOR LINDSTROM: Thank you, Senator Kolterman. Any questions? Senator Bolz. [LB30]

SENATOR BOLZ: I just have one question, Senator Kolterman. I just want to clearly understand what I think you're saying in terms of the reason for LB30 being in front of us today. And what I hear you say is that it's really related to the stability of the fund over time versus a philosophical change in the way that we should be managing these plans. Is that right? [LB30]

SENATOR KOLTERMAN: Absolutely. That's exactly why I'm proposing this. [LB30]

SENATOR BOLZ: Okay. [LB30]

SENATOR KOLTERMAN: I'd go on to tell you, Senator Bolz, that since I've been Chair and have been on the committee and since I've been here, I've been on record as saying that I don't want to take a good strong benefit away from anybody. And I've held true to that on the five plans that we operate as a state. The difference between them and these plans are they're dramatically underfunded while our state plans are adequately funded and working in the right direction. [LB30]

SENATOR BOLZ: That's helpful. [LB30]

SENATOR KOLTERMAN: Thank you. [LB30]

SENATOR LINDSTROM: Thank you. Any other questions for Senator Kolterman? Seeing none, thank you. [LB30]

SENATOR KOLTERMAN: I will be here to close. [LB30]

SENATOR LINDSTROM: I imagine you would be. Thank you. Like the Chairman stated, we will have invited testimony and we'll start with proponents, Mr. Dan Liljenquist. (Inaudible). [LB30]

DAN LILJENQUIST: Thank you, Mr. Chairman. My name is Dan Liljenquist, that's spelled D-a-n L-i-l-j-e-n-q-u-i-s-t, and I've just used half my time spelling my name (laugh). I'm a former state senator from Utah. I'm here at Senator Kolterman's invitation. I'm also on the board of the Retirement Security Initiative. We are a 501(c)(4) organization dedicated to the issue of pension reform. Senator Kolterman asked me to come and speak a little bit on behalf of LB30 for a couple of reasons. As a state senator, I was the chairman of the retirement committee back in 2009 right at the trough of the 2008 market crash. Utah went into that market crash 100 percent funded in our pension system. And we found out after that crash that one year's worth of market losses blew a 30 percent hole in our pension fund. And we had no idea we were bearing as much risk as we were bearing as a state. Essentially as a state, we're going to have to dedicate 10 percent of our general fund for the next 25 years to pay off one year's worth of market losses. As a state, we looked at that and thought that was too much risk, particularly because we didn't know what the future held for our retirement system. And so we move forward with reform to work to restructure our plan prospectively for new employees so that we could make sure we could meet our commitment to our current employees and retirees. Over the last six years, I worked in almost every state that has done a major pension reform advising the legislature on how to proceed. And our organization really has three objectives: One, to make sure that state and local governments meet every penny of the commitment they've made to current employees and retirees. That means that you've got to fully fund your plans, recognize the liabilities that you are facing, and fund them. And in the situation you have in Lincoln and Omaha, particularly in Omaha, they've been chronically underfunding the pension plan. Second, we've worked to make sure that there are new structures for new employees that help to cap the liabilities going forward and restructure the plans in more sustainable ways that are predictable that can last in the long term. And then our third objective is to make sure that those new plans provide adequate retirement security for those new workers. And again, those three objectives, making sure that people meet their current commitments to their current employees and retirees, again, that is our number one goal. And then make sure that there are new plans that work that are more sustainable and that those plans provide adequate retirement security. With respect to Lincoln and Omaha, I think that, you know, as we go around the state, we actually point to Nebraska as being one of the more successful states for reform because of the cash balance plan you have for most of your municipalities. The exceptions are Lincoln and Omaha. And those plans particularly have, particularly Omaha's plan being close to 50 percent funded, is in really dire straits. If you look over the last several years, if you take the returns that the plan has received in Omaha and also in Lincoln and extrapolate those returns forward, the debts you are facing are far higher than what you're currently reporting. And I don't know if it's different for you, but in Utah when you're looking at 30 to 40 percent of payroll going towards pension costs, it chokes out other investment in the cities. In fact, it's difficult to hire people. You have fewer resources. It crowds out all other investing. And what we look at with respect to pension reform, we've kind of...it's kind of like stumbling across a chemical spill in your backyard. The first thing you do when you come across a spill is you make sure you cap that spill and then you work overtime to clean it up. In Utah when we went through the analysis, we felt it was improper for us to make new 56-year commitments to new employees at the same rate that we were making for current employees when we weren't confident that we had the ability to meet our current commitments. And so what we did, we chose to create a new system for new employees who we felt was fair and sustainable so that we could better fund our current liabilities and make sure over time we reduced and eliminated the pension-related bankruptcy debt. Let me wrap up with this comment. Pension-related debt is the single biggest financial strain that state and local governments face. The debt is anywhere between $1.4 (trillion) and $5.6 trillion depending on how you discount the liabilities. If you discount them at a risk-free rate, it is more like $5.6 trillion. It is the single biggest insolvency risk that state and local governments face. And if you don't think that pensions are at risk, particularly for cities, look at what's happened in Detroit; look at what's happened in other places where pension costs have spiraled out of control and as a result, wages and benefits and also employment has been cut for police and fire. And so I recommend that you proceed with this bill and support it. Any questions? [LB30]

SENATOR LINDSTROM: Thank you. Thank you for your testimony. Senator Stinner. [LB30]

SENATOR STINNER: Thank you for your testimony. And I was trying to get my arms around the national scene and what that looks like. I think we've all read about the Detroits and all the rest of the cities. Compare and contrast Omaha and Lincoln's problems compared to what you're seeing on the national scene. [LB30]

DAN LILJENQUIST: So, look, they're bad. Omaha in particular is bad. When a plan gets around 50 percent funded, it goes into what's called a death spiral. And essentially, it's very, very difficult to pull yourself out of that without substantial investments, increased investments into the plan. You're seeing that now. You're seeing dramatic yearly requirements to fund the plan. The problem is, is that you're still assuming an 8 percent rate of return. And if the markets don't perform, that debt, again, based on the analysis from the Platte Institute and the Reason Foundation, if the market returns for the plan equal what they have over the last 15 years going forward, the debt isn't $630 million. It's more like $1.2 billion. And right now, you're already putting close to 30 percent of payroll into the plan over the next 25 years to pay off the existing liabilities. But if the returns are actually 5 percent, you might be putting half of what you need into the plan. And to me, that's just simply unsustainable as that debt continues to pile up. When is the point where the taxpayers can no longer afford it? When can you afford to continue to run government if more and more of your resources are chasing bad returns in the market? So, yeah, it's a bad situation. I think Lincoln is a little bit better situation, but still assuming 7.5 percent rate of return when risk free, when part of the risk-free rate of return is, you know, 2.5 percent and you're bearing a lot of risk in that plan as well. So again, I think these are not so much mismanagement or even that the benefits proposed being funded are inappropriate benefits. It's just that the structure and given the new normal of what the markets are doing and making it very, very expensive in a way that aren't actually fully being realized. [LB30]

SENATOR STINNER: Just a follow-up question to that, the Omaha folks have come into my office. They said they've made some fairly substantial tweaks, changes to their plan. I think Lincoln has as well. Have you looked at those changes? Have you looked at the growth of the cities? Can they grow their way out of this? Just give us some kind of answer to that. [LB30]

DAN LILJENQUIST: So there's no way you can grow your way out of this problem, no way. If it is, I mean, the first item of pension reform really to pray, really, is to pray your market returns. But if you don't get your market returns, even under the rosiest scenarios, it's going to take 25 years assuming an 8 percent market return to pay off your liabilities. And pumping more money into a system, maybe tweaking it on the margins here or there, but pumping more money into the system is not a plan. It's triage. And this structure is what we're mostly concerned about. Again, the objective in my mind should be to make sure you can meet your commitments to current employees and retirees. And I think it's important again to cap the liability as best you can moving forward. A cash balance plan does that if it's designed right. Again, as Senator Kolterman I think eloquently said, you can design a cash balance plan in a way that provides real retirement security for your police and fire workers which, by the way, you guys have terrific examples of that in the rest of your state. In fact, we hold up Nebraska as somebody who's done it right in every other municipality you have. So I don't think there's a way to grow out of it. In Utah, to grow out of our losses from 2008, we would need to average a 13 percent return year over year for 25 years to grow our way out of it. And that's just not reasonable. So that's why we made the changes we made. [LB30]

SENATOR STINNER: Okay. So I hear you say local level probably can't handle it. You can't grow out of it given the assumptions that are there. Therefore, we have to do something at the state level. [LB30]

DAN LILJENQUIST: Yeah, that's my opinion, yes. [LB30]

SENATOR STINNER: Okay, thank you. [LB30]

SENATOR LINDSTROM: Thank you very much. Senator Bolz. [LB30]

SENATOR BOLZ: Another question on the subject of comparing to other states on other communities. I've heard the concern raised that if we do make this change it will affect recruitment and that will also have an impact on overall sustainability. So in those other communities where similar changes were made, was recruitment down? Did that impact the plans overall? [LB30]

DAN LILJENQUIST: There's no question that if you have a reduction in a benefit that that could impact recruiting. It was hard for us to determine that in Utah because we made these changes at the trough of the 2008 market crash where turnover was low. What we found as the market has started to recover is that we had to put more money into wages which, by the way, frankly we were happy to do. One of the byproducts we found in Utah was because pension costs had increased so much we actually were stuck funding pensions first, healthcare benefits second, and whatever pennies were left over were going to wages. And in many cases, our own police officers qualified for food stamps because we were putting 50 percent of payroll into pensions. So what we've worked on to do is to rebalance compensation to focus more on wages, making sure that we can actually have more sustainable wages for our new police officers coming in, understanding that the retirement benefit is a little bit different. But if...you know, you've got to be competitive in total compensation; and I think a total compensation view would be appropriate. What I think is inappropriate though is making long-term commitments and discounting how we're funding those based on rosy assumption as to what the markets will do going forward. And so, you know, as we've looked at that in Utah, you've got to be competitive. What we did not see was an exodus of our police officers going to other states and taking jobs and we just didn't see that play out. [LB30]

SENATOR LINDSTROM: Thank you. Any other questions? Seeing none, thank you for your testimony. I'll now invite Mr. Jim Vokal. Good afternoon. [LB30]

JIM VOKAL: (Exhibit 1) Good afternoon, Vice Chairman Lindstrom and members of the Retirement Systems Committee. My name is Jim Vokal, J-i-m V-o-k-a-l, and I am the CEO of the Platte Institute. The municipal pension debt crisis could cause economic hardship on the scale of the housing bubble across the country and has already brought major cities to their knees. From San Jose to New York, the public and elected officials, in a bipartisan fashion, have adopted pension reform, moving public employees away from defined benefit systems. In 1983, Nebraska's Legislature passed legislation mandating all municipalities, with the exception of Omaha and Lincoln, to move all future employees out of defined benefit pension systems. Thankfully, because of that legislation, most municipal pension systems in Nebraska are in good standing. This is not the case in Omaha and Lincoln. Meaningful pension reform has met an impasse at the negotiation table in Omaha. Omaha's civilian employees already participate in cash balance plans, but the city's police and fire unions have refused in negotiations to accept cash balance plans for new employees. LB30 updates Nebraska state law by including Omaha and Lincoln in municipal pension reforms from which the two major cities were excluded over 30 years ago. Despite changes made to Omaha's retirement systems in 2015, growing pension debt remains a considerable threat in the coming years without further reform. Changes made to benefits in 2010 and 2013 slightly reduced the growth of unfunded liabilities, but they did not fundamentally change the underlying funding policy factors that have been the drivers of the $1.9 billion in unfunded liabilities for Omaha's Police and Fire Retirement System and the civilian retirement system as well. The Reason Foundation estimates Lincoln's pension debt at $193 million and a funding ratio of 82 percent. Over the past 20 years, Omaha has seen the funded ratio of its pension plans fall precipitously from almost 100 percent funded to the current situation of being less than half funded. Since 2001, the city has missed its required contribution payment every year, with the exception of 2015 for the police and fire system. Collectively, since 1994, the city has paid only 73 percent of the required contribution for police and fire and 62 percent for the civilian system. Omaha's pension plans assume investment returns of 8 percent per year. But both the police and fire and the civilian system for Omaha have been underperforming their long-term assumed rates of return. In 2015, the plans earned just 0.2 percent and 3.1 percent, respectively. Whether a near- or long-term outlook, the average annual returns for Omaha's pension systems are far less than expected, more than 3 percent below the assumed 8 percent return over 15-year averages. If actual returns continue to be lower than the assumed returns, the unfunded liability for the city will continue to grow, increasing the taxpayer risk by hundreds of millions each year. For its most recent year, Lincoln also had one of the worst rates of return in the country at a negative 2.76 percent. In Omaha, the ever-increasing employer contributions required to pay for pension debt will almost certainly crowd out the city's capacity to finance other public services such as public safety, road repairs, and snow removal. Because of the unfunded liabilities, Omaha has seen annual taxpayer contributions to the pension plans increase from $17.7 million in 2005 to $42.1 million in 2015. Omaha has also had its bond rating downgraded specifically due to the uncertainty of growing unfunded pension liability. I sat on the Omaha City Council for eight years and fought for reforms that could have prevented these outcomes, but the city no longer has a way to stop the bleeding on its own. Some opponents will say we should trust in a 20-year plan to take care of the problem, but we can't count on that. Even if their math were right, elected officials come and go. Other bad contracts can undo any progress city administrations make. The only sustainable solution is to cap the pension debt by creating a new system for newly hired workers. If taxpayers in Nebraska's two largest cities are going to be protected from a future paying even higher taxes for fewer public services and further bond rating downgrades, then the Legislature must now demand Omaha and Lincoln have the same pension requirements most other Nebraska cities have had since the 1980s. Cash balance and defined contribution pension systems, with their proper accounting and investment assumptions, have helped other municipalities to avoid major pension debts. Assuring these standards for good financial stewardship in our cities was the Legislature's responsibility in 1983, and that responsibility still exists today. I'm happy to answer any questions. [LB30]

SENATOR LINDSTROM: Thank you, Mr. Vokal. In your testimony you mention the bond rating downgrade. Correct me if I'm wrong, went from a AAA to a AA. Can you... [LB30]

JIM VOKAL: Right, both bond rating agencies. [LB30]

SENATOR LINDSTROM: Moody's and S&P. [LB30]

JIM VOKAL: Correct. [LB30]

SENATOR LINDSTROM: Can you touch on how that affects other projects in, say, in Omaha? [LB30]

JIM VOKAL: Sure. And I know that the folks from Reason behind me and RSI can also attest to that. But it's a higher cost of borrowing for taxpayers in both of the cities, and that obviously leads to higher costs and crowding out of other services and potentially tax increases for residents of those cities. [LB30]

SENATOR LINDSTROM: Okay. Thank you. Senator Stinner. [LB30]

SENATOR STINNER: Let's stay on that subject just for a minute, simply because I believe that Omaha has a storm sewer situation and that's supposed to be well over a billion dollars. [LB30]

JIM VOKAL: Two billion. [LB30]

SENATOR STINNER: Two billion? [LB30]

JIM VOKAL: Um-hum. [LB30]

SENATOR STINNER: So has that been factored into your bond rating for AA or is that something that hasn't been put into a contingent liability side? [LB30]

JIM VOKAL: I think that the collective uncertainty of future liabilities, including the pension debt and the sewer system, have been reflected in those bond rating decreases. [LB30]

SENATOR STINNER: Okay. The 8 percent rate of return that we talk about and in the current environment we always talk about the risk pyramid. Those selections of those types of assets, whether they be treasuries...AAA's rated bonds and stuff are yielding much, much less than an 8 percent. What would be a comfortable number that you would go to? [LB30]

JIM VOKAL: Well, the Reason Foundation which will testify I believe in the neutral capacity can speak to this better than I can. But generally what a safe assumed rate of return would be between 4 and 6 percent. [LB30]

SENATOR STINNER: Okay. [LB30]

JIM VOKAL: And if we use that rate of return and discounts...I should say project the unfunded liability in the future, the unfunded liability is substantially greater. And without, quite frankly, Senator Stinner, the 8 percent hitting those targets, the plan doesn't work. Just last year Omaha hit .2 percent for its annual rate of return. They will have to hit 13 percent next year just to break even and hit that 8 percent. [LB30]

SENATOR STINNER: It's that plus the unfunded piece plus people are living longer are all interwoven, is it not? [LB30]

JIM VOKAL: Correct. And for every year the plan doesn't hit its assumed rate of return, the unfunded liability grows. [LB30]

SENATOR STINNER: Right. Thank you. [LB30]

SENATOR LINDSTROM: Thank you. Any other questions from the committee? Senator Bolz. [LB30]

SENATOR BOLZ: Just to help me think this through, you reference saying that Omaha and Lincoln should have the same pension requirements as most other Nebraska cities. So can you give me some examples of some other Nebraska cities that have cash balance plans for police and fire and how they're doing? [LB30]

JIM VOKAL: The Reason Foundation did a report for the Platte Institute on all the cash balance plans for across the state, and they'd be more likely or better equipped to answer that question. But I believe that's all cash balance systems for across the state for municipalities are in good standing. [LB30]

SENATOR BOLZ: Okay. Thank you. [LB30]

SENATOR LINDSTROM: Senator Stinner. [LB30]

SENATOR STINNER: I do have one more question. Is there a savings by moving to cash balance versus where we're at today? [LB30]

JIM VOKAL: The savings is for the taxpayers and the savings is the assurance by future employees that they're going to have a sustainable plan that's going to provide them the retirement. There's no added transition cost by converting to a cash balance plan for future employees if that's what you're getting at. [LB30]

SENATOR STINNER: That's what I'm asking. Thank you. [LB30]

JIM VOKAL: Thank you, Senator. [LB30]

SENATOR LINDSTROM: Seeing no other questions. [LB30]

JIM VOKAL: Thank you, Senator. [LB30]

SENATOR LINDSTROM: Our next testifier is a proponent, Mr. Coby Mach. [LB30]

JOE NEUHAUS: (Exhibit 2) Good evening, Vice Chairman Lindstrom, members of the Retirement Committee. My name is Joe Neuhaus, not Coby Mach, J-o-e N-e-u-h-a-u-s. And I'm the policy and research director for the Lincoln Independent Business Association, also known as LIBA, and I'm here to testify on his behalf in support of LB30. Lincoln's police and firefighters put themselves in harm's way on a regular basis to keep our citizens safe and we are truly grateful for that. But unfortunately, problems with the Lincoln Police and Fire Pension Fund have brought about a problem for Lincoln's taxpayers. That problem is the fact that the pension is underfunded as has been stated before. It is evident that the current defined benefit plan is not only a problem now, but it will likely become an even bigger problem if something is not done to correct it. LIBA is concerned that the pension problem will lead to future property tax increases. In fact, it already has. I've provided you a copy of a July 10, 2016, press release from the Lincoln mayor's office from which I quote: The Mayor's proposed budget calls for a city property tax levy increase of 1.17 cents. About half of the increase would add about $1 million per year for the Police Fire Pension Fund, end quote. Two weeks prior on June 27, the city of Lincoln increased the pension's assumed rate of return from 6 percent to 7.5 percent. Please keep in mind that the 15-year historical average rate of return from 2001 to 2015 was about 5.2 percent. To put that in perspective, the difference between a 6 percent and a 7.5 percent assumed rate of return is about $40 million. But to make matters worse, in the fiscal year ending

August 2015, the Lincoln plan returned a minus 2.76 percent and was one of the worst performing pension plans in the country. And that's information Mr. Vokal just stated previously. This is a property tax issue. This is a liability issue for our citizens. Lincoln has already been hit with a property tax increase in this budget year to fund pension debt. Taxes won't likely get any lower if Lincoln must continue taxing its way out of the pension problem. Many state senators are searching for ways to help with property tax issues. Here is a way to help Lincoln and Omaha. LIBA has a long history of supporting police. We have donated police dogs to the canine unit, supported the hiring of more officers the last two years, and we recently supported a new sales tax for police and fire stations. We want to provide for a great retirement program, too, but taxpayers also deserve a responsible one. We respectfully ask you to advance LB30. I'd be happy to try to answer any questions. [LB30]

SENATOR LINDSTROM: Thank you for your testimony. I apologize. I said Coby Mach or someone else. [LB30]

JOE NEUHAUS: That's right. [LB30]

SENATOR LINDSTROM: So sorry about that. Questions from the committee? Seeing none, thank you very much. [LB30]

JOE NEUHAUS: Thank you. [LB30]

SENATOR LINDSTROM: Mr. Dave Nabity. I believe we have a couple more proponents, so if you know you're a proponent, if you'd move to the front we'd appreciate it. [LB30]

DAVID NABITY: Senator Lindstrom and committee, thank you for holding this hearing. My name is David Nabity. It's spelled N-a-b-i-t-y. And I'm here just to speak on behalf of Omaha taxpayers. Back in 2009, a group of us did a pretty significant research project on what the pension situation was like in the city of Omaha at that time. And at that time, we found out a couple of things. One is that in the mid-2000s the union was successful at working with the current mayor to increase the pension benefits for people that worked for the fire and police department. And it basically reduced the retirement age by ten years and increased the benefit payout by 10 percent from 65 to 75 percent. And it created such an excellent benefit and perk for the police and the firefighters that some 300 retired in a real compressed short period of time. And the labor contracts back then also allowed for spiking where you could take your sick pay, vacation pay, overtime, all those different things and dump it in the last year and then your pension benefit was based on that spiked income. So it created such a huge liability for the city that it got a lot of people's attention. Our pension liability went from $50 million to something like $640 million in a matter of like eight years. And you couldn't blame the people for retiring because the benefit package was so rich. But what it's done now is it's put the city of Omaha in a terrible financial bind. And so, you know, the first thing I want to say is in today's day and age with the anarchy that's out there and the risk that our first responders are occurring, I mean, we need to pay them well and they need to have a nice pension. But what happened was so over the top compared to what we saw in other communities that the big issue is going to be is how are the young people going to retire? For the people that have retired and the people that are close to retirement, it's a sweet, sweet deal. But for the new firefighters and the new police officers that are coming onboard, I don't know how they're going to be able to keep up with it. And when you talk about the taxpayers of the city of Omaha, I don't know how they're going to be able to do it either. When we were doing our research, we saw that the amount of money that the city of Omaha was paying to fund the police and fire pension package was almost double what peer cities was paying in other parts of the country. And that's kind of what really got our attention. So we did everything we could to try to influence the city council to make changes from the year 2009-2012. And I guess a couple points that I'd like to make. One, a defined benefit plan pushes all the risk on the taxpayers; none of it is on the employees that are covered by it. So if there's mistakes in benefit formulas, if the rates of return don't come close to where they're talking about, there's no risk to the employees; 100 percent of the risk is on the taxpayers. And in this day and age, no private employer does that anymore. And as you can see, you know, as you've heard already, a lot of the municipalities have already moved away from defined benefit plans. So, you know, that's one of the key important things to talk about. Senator Stinner, you were talking about an 8 percent interest rate. And my business, I'm a financial planner, financial analyst, I also do business consulting and I work on all sorts of retirement plans for companies. And I can tell you that if you build a diversified portfolio and you're going to have money in fixed income instruments that are earning maybe 3 percent, something like that, your stock portfolio is going to have to earn 12 percent or more just to be able to bring the average rate of return back to 8. And it's...I wouldn't be so concerned if everything that we were using for formulas going forward was based on a 6 percent rate of return. But that 2 percentage point spread is so significant in today's day and age that I think the chances of this pension package succeeding is very low. And who gets stung is going to be the young guys that we're trying to recruit and bring in. But if the thing goes under, it will sting people that are already retired. Cash balance plans are very common, they're less risky, they're more sustainable, they're easier to budget, and the rating agencies like them. I guess I appreciate the fact that this has come up. The political climate in the city of Omaha is so intense there's very difficult for politicians to have the courage to stand up and say we've got to do things different. Because once they start talking about it, they get pummeled by a lot of the special interest groups that are impacted by making any changes. And I think that's why this group has come to you and said, look, you know, we've got to do something at the state because we just politically can't seem to get it done in the city of Omaha. [LB30]

SENATOR LINDSTROM: Sorry to interrupt. [LB30]

DAVID NABITY: Okay. [LB30]

SENATOR LINDSTROM: Because of the time constraint, we have a red light. [LB30]

DAVID NABITY: Thank you. Any questions? [LB30]

SENATOR LINDSTROM: I do have a question. You touched on 65 percent, 75 percent for 10 years. Can you give us an idea of what that age was from (inaudible)? [LB30]

DAVID NABITY: Sure. Retirement age before they renegotiated their contract was age 55. That was your early retirement age and your maximum pension benefit was 65 percent. In the negotiation that they did I think it was the year 2004, the mayor saw that he could not give pay increases so he went to the union and said, hey, you know, we can't do it this year otherwise there's going to be a tax increase. So they threw a pension redesign package on the table, and that package dropped the early retirement age to 45 and it increased the benefit payout to 75 percent of salary. And in all of our research, we couldn't find any other city in America that would allow a 45-year-old to retire at 75 percent of pay. Now we could find some communities that would give you 90 percent of the pay after 30 years, but it was on base pay. It wasn't base pay plus overtime plus comp time plus all these other perks that got added in that basically just plundered the budget of the city when those 300 or so people retired. So it was a massive error. It was a massive mistake. It was a pension strategy that should have never come to the table. It did and now we're finding ourselves in this situation. And, you know, we've got to have the courage to start turning things in another direction. [LB30]

SENATOR LINDSTROM: I know I find I struggle with this particular issue especially with the age. And as somebody who is in the financial services, Social Security you can...earliest is take it at 62. But I don't think too many of us want police officers, firefighters at an older age... [LB30]

DAVID NABITY: No way. [LB30]

SENATOR LINDSTROM: ...coming out and trying to save the day on some of this, you know. [LB30]

DAVID NABITY: Absolutely. [LB30]

SENATOR LINDSTROM: So I think that we should find some type of common ground there and (inaudible). [LB30]

DAVID NABITY: Yeah. We got to find a hybrid, some sort of a hybrid to be able to cruise our way into something that will work long term. [LB30]

SENATOR LINDSTROM: Okay. Other? Senator Stinner. [LB30]

SENATOR STINNER: I'm glad you're here. [LB30]

DAVID NABITY: Thank you. [LB30]

SENATOR STINNER: When you're modeling retirement plans and programs, when you're doing planning for people in today's environment, what rate of return are you using in the model? [LB30]

DAVID NABITY: No greater than 6. [LB30]

SENATOR STINNER: No greater than 6. [LB30]

DAVID NABITY: Absolutely no greater than 6. [LB30]

SENATOR STINNER: So you're in that 4 to 6 range with a high probability of success. [LB30]

DAVID NABITY: Yep. [LB30]

SENATOR STINNER: And I deal in a lot of probability so if we were at 8 percent, what's the probability in your mind of obtaining that? Is it 50 percent at a time or is it a (inaudible)? [LB30]

DAVID NABITY: I would say the statistical...if you go any 20-year period of time, if you capture any 20-year period and you go back and you look at the statistical probability of being able to earn an 8 percent rate of return, it's probably 60 percent, maybe a little bit higher, if you're all in equities. So if you're not 100 percent in stocks and you have to live off a fixed income bond interest rates, the probability is going to drop way down. And here's the other problem that we've got. You could make money in bonds over the last 20 years because interest rates were super high. And as interest rates dropped, bonds had profits built up in them that made money for the people that held the bonds. We are at such low interest rates now with the bonds it's virtually going to be impossible to have capital gains on holding bonds. So those gains have got to come from stocks. And if you're in a balanced portfolio in a pension fund, you're not going to put 100 percent in stocks. So the chances of hitting that long-term rate of return at 8 percent is going to be really difficult unless we have a...unless our new President gets in there and just has massive, huge economic growth as he likes to talk about it, it's going to be very, very difficult. [LB30]

SENATOR STINNER: We'll have inflation with that so... [LB30]

DAVID NABITY: Yeah, exactly. [LB30]

SENATOR STINNER: ...we won't go into that. What would ever possess somebody to negotiate a deal in good faith with somebody using an 8 percent guaranteed rate of return in their model? Has there ever been a time that you've been around? [LB30]

DAVID NABITY: You know, I think you probably could have gotten away with it in the '90s... [LB30]

SENATOR STINNER: Yeah. [LB30]

DAVID NABITY: ...and maybe in the '80s you probably could have got away with it because bond interest rates were so high. [LB30]

SENATOR STINNER: If it wasn't for the dot-com bubble at the end of that you'd have been in trouble so. [LB30]

DAVID NABITY: Yeah. So we had 2001 we had the economic crisis when the planes hit the building and then 2008 we had it again. The year...the 2000s you were lucky the S&P 500, if the S&P 500 did 3 percent. So that's in ten years. So if you add to that interest rates being at massive lows, I mean, it's a very dangerous thing to be able to pretend that this is all going to work out at an 8 percent forecast. [LB30]

SENATOR STINNER: And you never put 100 percent in equities in a pension fund. [LB30]

DAVID NABITY: No, no. [LB30]

SENATOR STINNER: Okay, thank you. [LB30]

SENATOR LINDSTROM: Senator Bolz. [LB30]

SENATOR BOLZ: You may or may not be able to answer this question, but if we assume a 6 percent rate of return, what impact does that have on the expected contribution of the people who are paying in (inaudible)? [LB30]

DAVID NABITY: Well, that's where you get into a big problem because what that could do is it could almost double the pension liability or it could require massive increase in contributions. And, you know, one of the things that you're going to hear and there is some validity to that, that if you take the young people out of the plan and put them in a cash balance and you leave all the older people in defined benefit plan, you don't have the contributions coming in, in the defined benefit plan for the young people. And that can create some real problems with the viability of the plan. So how you build your crawl out from being 100 percent defined benefit to cash balance is going to be really important. You know, a city might have to issue a bond to cover the liability and fix the liability cost in order to make that happen. But those are adult decisions you've got to make about how to minimize the liability and have a long-term plan that succeeds. [LB30]

SENATOR BOLZ: I mean, I think my bottom line concern is when you're trying to recruit someone new and you're asking them to contribute more to their retirement plan and asking them to risk... [LB30]

DAVID NABITY: Yeah. [LB30]

SENATOR BOLZ: ...life and limb, it gets to be a pretty big ask. [LB30]

DAVID NABITY: Yeah. I will tell you this. You know, people go to work for the Sarpy County Sheriff, they go to work for the Douglas County Sheriff. They don't have pension packages anywhere close to this. There's plenty of law enforcement agencies around that are tough to get on, just like they're tough to get on, you know, the police department. Other municipalities are doing it. So to think that nobody will come to work for Omaha, I just don't agree with that. I think there's plenty of...there's more people that want jobs with law enforcement I think out there. I have a family member who tried and tried and tried to get on the Omaha Police Department, couldn't, finally got on the Sarpy County. And, you know, there were a lot of guys trying to get on and they got weeded out. So I think you probably say more to a young person if they know that their costs for their retirement plans don't eat them alive and you pay them well. I mean, good gosh, with what's going on today, they need to be paid well that's for sure. [LB30]

SENATOR LINDSTROM: Thank you. Any other questions? [LB30]

DAVID NABITY: Thank you. [LB30]

SENATOR LINDSTROM: Seeing none, thank you for your testimony. Next invited proponent is Pete Constant. [LB30]

PETE CONSTANT: Good afternoon. My name is Pete Constant, P-e-t-e, last name C-o-n-s-t-a-n-t. Senator Lindstrom and members of the committee, thank you for allowing me to speak today. I'm a retired police officer, former city councilmember from the city of San Jose, a former pension board trustee on two different public pension funds, and I'm currently the executive director of the Retirement Security Initiative. You heard from one of my board members, Dan Liljenquist, earlier. As we know and as Dan mentioned and others, pension systems across the nation are in crisis; and you're seeing that right here in the state of Nebraska. With even looking at what we believe are unrealistic assumption rates that are used by the plans and their plan actuary, these plans have significant funding problems. We believe that if you use more accurate discount rates that the Omaha pension fund would be more like 33 percent funded and the Lincoln pension plan would be more like 59 percent funded. Keep in mind that even the pension plan's actuary's own numbers at about 50 percent, about 80 percent funded, coincide to a point in time when U.S. financial markets had hit an all-time high yet the pension funds were still suffering significantly. When plans hit this low of a funded ratio, they have a very difficult time recovering. This is compounded here in Nebraska when neither Omaha or Lincoln have been making the full annual required contributions into the plan. The combination of those two are a recipe for disaster. Taking no action threatens the retirement security of every current active police officer and firefighter and every current retiree. Defined benefit plans provide a false sense of security given the high level of guarantees that the government provides. But you can look across the nation and see a number of areas where that hasn't come to fruition. Prichard, Alabama, where one-month retirees got letters saying that the pension fund was insolvent and there were no checks that month. Since then their pension payments have been reinstated, but at a lower level. Central Falls, Rhode Island, where pensioners who have already been retired, who've done their time, made their contributions, have had their pension benefits reduced by a significant percentage. Detroit, that filed bankruptcy and as part of their restructuring all of their employees and retirees took reduced pension benefits going forward. You don't have to look far to see municipalities that have either service level insolvency where they simply can't provide the level of services that their residents are paying for and, quite frankly, demand or bankruptcy. There's a number of municipalities, especially in the state of California, that have faced bankruptcy. I can tell you a couple of different stories of other agencies that have had particular problems. One is from where I served as a councilmember and a police officer and that's the city of San Jose. San Jose, after the 2007-08 recession, suffered significant budget crisis. During my time on the council, our council had to reconcile over $650 million in budget deficits from an operating budget of approximately a billion dollars. In order to keep our pension payments and be able to make the annual required pension payments, we had to reduce the number of police officer positions in our city by over 350 police officer positions were reduced, taken out of the budget just so we could afford the pension contributions. We had every library in the city closed half of the week and four libraries completely closed with fences around them. We weren't able to put any money into deferred infrastructure maintenance or to maintain the potholes and the basic maintenance on our roadways, leading to those unfunded liabilities for those infrastructure related to roadway to rise to a level of $1.6 billion in unfunded liabilities. Contribution rates in Omaha and Lincoln are high now, but they can get higher. We saw that in San Jose. Currently officers in the legacy system, their contributions for police officers and firefighters total contribution exceeds 92 percent of payroll. In Arizona when their plans broke the 50 percent funded ratio, their unions for police and fire went to the legislature and demanded reform so that they would have retirement security. If we want Lincoln and Omaha to honor the promises to active and retired public safety officers, reform of some sort must happen. If Lincoln and Omaha want to recruit police officers and firefighters from the millennial generation or Generation Z, they must recognize that portability and sustainability are top priorities for those incoming work force. By the plan's own accounting and actuarial reports, contributions are going to continue to rise; and in the next five years, they will increase in the millions of dollars. I know I'm coming to the end of my time. I'm available to answer any questions that you may have, including some of those questions that were asked earlier about asset allocation, investment returns, and discount rates. [LB30]

SENATOR LINDSTROM: Thank you for your testimony. Generation Z must be a West Coast thing. That's the first time I've heard of it (laugh). Any questions from the committee? Senator Bolz. [LB30]

SENATOR BOLZ: I'm reviewing some of the information from my city, the city of Lincoln, and it looks like they have taken some pretty extraordinary measures to try to make their system better. So I see the statistics that say we've gotten it back up to 80 percent funded and that the city of Lincoln did their part to try to deal with solvency. So, I mean, I guess you're telling us a story about cities that haven't done right by their folks. But isn't it possible also for us to keep on this path to doing it well and haven't other cities done that too? I mean, isn't it possible to turn it around? [LB30]

PETE CONSTANT: It is possible, but keep in mind what Lincoln did is simply take a new accounting of the situation that they had. They took the money that already existed in the fund and a cost of living fund and just commingled that with the general assets of the fund, which by making that accounting change inflated the funded ratio. They also increased their assumed rate of return in order to help that funded ratio go higher. Moving an assumed rate of return up goes counter to what every pension fund in the nation is doing right now and that's lowering their assumed rate of return given the new normal that has been mentioned. As some of the other speakers talked about, these pension funds invest in a number of different instruments. And 20 years ago it was really easy to get a 7.5 percent rate of return like Lincoln is hoping to get. In fact, they could do that with very little risk. They could have all their money in bonds, a standard deviation of about 6.0 and achieve that. Ten years later, they had to add 50 percent of the risk...50 percent more risk into their asset allocation to achieve that. Fast forward another ten years to 2015, you have to have triple the risk, a standard deviation...a portfolio with a standard deviation of 18 percent in order to do that. And when you do that, you start bringing in assets that are designed to hedge risk, which is great because when the market goes down they don't go down as much. But when the market goes up, they don't go up as much. And for example, many plans now have less than a third of their money in equities, as was mentioned earlier. Well, that means when you have historic run-ups in the market like we're seeing now, you don't get the benefit that you would have when you had a more traditional asset allocation. So while Lincoln has taken some steps, they've been accounting steps. There hasn't been any new funds put in or any structural changes to the plan. [LB30]

SENATOR LINDSTROM: Thank you. With regards to standard deviation, you said 16 to 18 would be what the equity market would typically give you as far as volatility. [LB30]

PETE CONSTANT: Well, if you look at an asset allocation mix that is typical pension funds across the nation, it takes...that asset allocation where you've moved away from the traditional 60-40 equity bonds to bringing in alternatives: real estate, hedge funds, things of that, that's what brings the standard deviation up to the 18 percent mark. [LB30]

SENATOR LINDSTROM: Okay. And I see that Omaha plan is at 51 percent, the Lincoln plan at 80 percent. Have you looked at the underlying allocation of both, maybe how it got here? Do you know the breakdown going back to the equity versus fixed income versus alternatives? Are you familiar with any of that underlying...? [LB30]

PETE CONSTANT: That's a question the Reason Foundation will be able to answer because they look at that specifically in their report. [LB30]

SENATOR LINDSTROM: Okay. May be a question to prep them, right? [LB30]

PETE CONSTANT: Yes. [LB30]

SENATOR LINDSTROM: Okay. Any final questions? Seeing none, thank you very much for your testimony. [LB30]

PETE CONSTANT: Thank you. [LB30]

SENATOR LINDSTROM: (Exhibits 8, 9, 10) That is the end of the invited testifiers. As proponents, we do have written testimony in support. One is from Jerry Pascale; one is from Dean Willson, Jr.; one is from Caroline and Kurtis Fricke. And we will take a quick 5-minute break. We've been at it a little over an hour. I know some people need a quick break so we'll come back in five minutes and start back up with opponents, invited opponents. Thank you. [LB30]

BREAK

SENATOR LINDSTROM: (Recorder malfunction)...five minutes here. And were there any proponents that were not invited testifiers that wish to...are you proponent or... [LB30]

________________: Opponent. [LB30]

SENATOR LINDSTROM: Not proponent. Okay. Okay, we'll move to invited opponents. The first person is Sergeant Aaron Hanson. Evening. [LB30]

AARON HANSON: (Exhibit 3) Good evening. Senator Lindstrom and honorable members of the Retirement Committee, my name is Sergeant Aaron Hanson. I'm a 20-year veteran of the Omaha Police Department. I'm currently an elected trustee and secretary of the city of Omaha police and fire retirement system. Accompanying me today to Lincoln to assist you with any historical or technical questions you may have is board chairman Jim Sklenar who is in the audience, as well as plan actuary, Patrice Beckham with Cavanaugh Macdonald, and plan investment consultant, Adam Strumpf with DeMarche Associates. Adam has been our investment consultant for over...DeMarche has been our investment consultant for over 30 years. They'll be available if you have any questions if you'd like them to fill out the blue paper for any detailed questions. The mid-2000s and especially the financial crisis of 2008 exposed the Omaha police and fire retirement fund to a veritable perfect storm of funding challenges. The market crash and short-sighted political decisions in the early 2000s admittedly put us in a bad spot. The fund reached a precarious 39 percent funding level. In 2010 and later in 2013, the rank and file of the police and fire departments respectively reformed the pension benefit and contribution levels of the retirement fund with a goal of long-term sustainability and full funding. Thanks in large part to the wise guidance of retired Lincoln Financial executive Robert Bates, who was appointed chairman of the pension task force in 2009, our guardrails, as he would call it, for reform were clear. Finger pointing was not going to be productive. The defined benefit retirement plan was a crucial recruitment and retention tool for the city and a crucial part of retirement security for Omaha's police and firefighters who were exempt from the Social Security retirement safety net. The city of Omaha's home rule charter of substantially equal contribution set the stage for an approach of shared sacrifice solution. The solution would not fix the problem overnight, but it must ensure long-term sustainability with an eye on good governance moving forward. The ultimate 50-50 shared solution approach was not only innovative, it was virtually unprecedented across the nation. Police and firefighters would do their half of the fix via a combination of increased contributions and reduced benefits for both active and future hired employees. The city would do their part by adding additional contributions of equal value to the employees' half of the fix, all the while we received careful guidance of actuarial and legal experts to ensure this fix would not only work but it would withstand legal challenges. As a result of this hard work, a late 2014 projection model performed by the plan actuary projected a fully funded status of 1-1-2036. Today the fund is 51 percent funded. Let me be clear. This is not where we want to be, but this is exactly where we expect to be based on our long-term sustainability plan. It has been said that big ships don't turn fast. Folks who expect quick-fix solutions to challenges like pension funding, national debt, or Social Security challenges are destined to be disappointed. Substantive changes to big problems take time. The experiences of 2000s has taught Omaha a valuable lesson. The city and employee groups are much more educated about the actuarial realities of their retirement plans and plan changes. The board of trustees is now more than ever laser focused on acting as the watchdog for the retirement fund giving careful, deliberate, and detailed scrutiny to each decision, whether it be the selection of a new investment manager, the balance of the investment portfolio, or the contemplation of a disability application. The board of trustees, the sworn fiduciaries, stand ready to wave the flag in the event we observe actions that risk the well-being of the fund and fund members. The board of trustees strives to hire the best experts in assisting us in managing this fund. The actuary, Patrice Beckham, who is present today, is a prime example. Another example is Adam Strumpf whose expert investment guidance has resulted in an average return of 8.3 percent when evaluating all 15-year annualized returns over the last 100 calendar quarters. During the ten-year period ending 9-30-16 looking at trailing one-year returns, the median return was 8.87 percent. This time period includes the worst market downturn in recent history. And finally, despite those who predicted otherwise over the last few years, it was determined just this morning that our 2016 investment return was 8.9 percent. Chairman Sklenar and I stand in opposition to LB30. Converting the structure of the DB pension plan to a cash balance plan will not only risk the sustainability plan to pay off today's debt, it also puts the retirement security of current and future Omaha first responders at risk. I ask you to oppose LB30. I'll take any questions you may have; or if they are specifically towards very detailed investment questions or actuarial questions, we do have Chairman Sklenar who is the head of the investment committee and also Adam Strumpf and Pat Beckham to assist with those. [LB30]

SENATOR LINDSTROM: And I might have some questions. If you can't answer it, they'll hear it. [LB30]

AARON HANSON: Sure. [LB30]

SENATOR LINDSTROM: You said 39 percent funded. What was that year again? [LB30]

AARON HANSON: I think that was the lull in either 2008 or 2009. [LB30]

SENATOR LINDSTROM: So the lull of the market. [LB30]

AARON HANSON: It had to be 2009. It was after the 2008 market downturn. [LB30]

SENATOR LINDSTROM: 2009, okay. So from that point, where we sit today at about 51 percent. [LB30]

AARON HANSON: 51 percent. [LB30]

SENATOR LINDSTROM: So in that regard it's been progressing the right way. [LB30]

AARON HANSON: We are on an upward trajectory. [LB30]

SENATOR LINDSTROM: Okay. [LB30]

AARON HANSON: We're happy we are...we're finally now that we've reamortized our debt and both police and fire have their reforms in place, we're making our ARC for the last two years and we're moving upwards. It's a plan that's sustainable. [LB30]

SENATOR LINDSTROM: Okay. Thank you. And the 15-year on average was 8.3. And I'll just ask this question. Maybe somebody could come up. The asset allocation breakdown of how that's trended over the last, say, 15 years in equities versus fixed income, and we had testimony before that said based on where interest rates have been the combination of fixed income and equities, it would be hard to achieve anything north of 6 percent? [LB30]

AARON HANSON: I will tell you, Senator, that I think that that is a question best answered by probably Adam Strumpf. And it seems like it's something that there is interest over. We'd be happy to have him fill out the blue sheet and testify after Pat Beckham just for the purposes of answering those questions. [LB30]

SENATOR LINDSTROM: All right, appreciate that. Thank you. [LB30]

AARON HANSON: Great. [LB30]

SENATOR LINDSTROM: Any questions? Any other questions? Senator Stinner. [LB30]

SENATOR STINNER: I do have some questions and I know you have made some changes. I was trying to dig through this whole pile of stuff that you gave me, and I did kind of read it very quickly. But when do you get to 80 percent? Do you have projections on that? [LB30]

AARON HANSON: I don't want to do Kentucky windage and guess 80 percent. I know that on that 14 projection model that we did, which factored in all the future hires and benefit changes for future hires the 100 percent funding at that time was set for 1-1-2036; 80 percent I could guess, but I... [LB30]

SENATOR STINNER: But 100 percent is, yeah, okay. [LB30]

AARON HANSON: That's right. [LB30]

SENATOR STINNER: And specifically the changes that you made to the plan were... [LB30]

AARON HANSON: Sure. What we did was we required police officers and firefighters to work five years longer to achieve the maximum pension benefit. We increased the measurement period from one year to three years for current employees. Employees hired after 2010 had their measurement period set at five years so the average of five years. And we also eliminated the practice of pension spiking. We pay a pension contribution based on our total compensation, not just regular pay. But what we did was we created a methodology in which you would be entitled to the overtime equivalent of your average overtime hours worked throughout your entire career, not allowing for an artificial inflation of overtime in the last year of your career. [LB30]

SENATOR STINNER: Thank you. [LB30]

SENATOR LINDSTROM: I do have one other question. [LB30]

AARON HANSON: Yes, sir. [LB30]

SENATOR LINDSTROM: We said work five years longer. What was the age at the top end of that? [LB30]

AARON HANSON: The minimum age was increased to age 50. [LB30]

SENATOR LINDSTROM: Okay. [LB30]

AARON HANSON: Current employees still have the ability, the people who were here in 2010, technically they can retire at 45. No one is. [LB30]

SENATOR LINDSTROM: Okay. [LB30]

AARON HANSON: I can tell you on the time on the board of trustees we are back to the old cycle of people retiring in their mid to late 50s after 30 years of employment. People want to maximize their retirement benefit and also go into the deferred retirement option plan, which was also designed to make the system money and help pay off the debt quicker. If you'd like, I can explain what that is. But I'm sure you're familiar with it as with State Patrol. It's different than a typical DROP plan that you see in other plans. Ours is revenue positive for the fund. [LB30]

SENATOR LINDSTROM: Thank you. Senator Stinner. [LB30]

SENATOR STINNER: I would like to make a comment that we're trying to find a solution. This unfunded pension liability is a problem. Obviously, you've heard people from the national side talking about what's happened to other places. We don't want it to happen to Omaha. I don't want to be involved in making long-term promises that basically we can't keep. So that's really about what we're trying to get done here. [LB30]

AARON HANSON: And, Senator, your words ring deep with me because prior to being a trustee on the police and fire retirement system I was the president of the Omaha Police Officers Association. And it was under my watch that we had to negotiate these pension reforms. There was many nights where I could not sleep at night because I wanted to make sure that we not only reformed the plan but we substantially reformed it so that we would be at fully funded status. But that never happens quickly. Even a conversion to the cash balance, the debt doesn't go away the next day. We designed our approach so that it was a win-win for everybody. We could maintain the retention tool, maintain the recruitment tool, maintain a DB plan but also have a plan to pay off this debt in a reasonable amount of time. [LB30]

SENATOR STINNER: So it hasn't affected your recruiting at all in changing the plan? [LB30]

AARON HANSON: I think like a lot of other police departments we have seen some hits to our recruiting. I think a lot of that has to do with other politics in place. But I think that that's one of the things that keeps us competitive is that we do have a pension that is equivalent to other places or at least if it doesn't get them in the door it keeps them in the job once they're there. [LB30]

SENATOR LINDSTROM: Any other questions? One final question kind of touching on the recruitment. When we compete I guess regionally with, say, Kansas City, Des Moines, are you familiar with their plans or what they're doing, where we might lose potential applicant or potential officer to the other department? [LB30]

AARON HANSON: I have done past analysis of other pension plans for comparable cities to Omaha. We don't compete with Lincoln. We don't compete with Sarpy County. We don't compete with outstate Nebraska. We compete with Kansas City, Denver, Des Moines, St. Paul, Minneapolis. Our current DB structure after reform is comparable. It's a competitive retirement plan. And I think that's why we're successful in maintaining longevity. There was a comment earlier about portability. Senator, portability is bad in police work. You need that experience. You want that 20-year detective, 15-year detective who understands the entire background history of family X and why they're dealing with the drama that they are today. Portability is not good when it comes to public safety. [LB30]

SENATOR LINDSTROM: Appreciate that. And if you're familiar, going back to the plans, are any cities comparable to Omaha, do they have cash balance? Is there one that you could point to that might have a plan like the one proposed? [LB30]

AARON HANSON: You know, I've heard of I believe a city down in Kentucky or somewhere down in the southeast that may have converted. From what I've heard, it doesn't sound like it's gone over well. We may have some speakers that can speak to that effect today. [LB30]

SENATOR LINDSTROM: Okay. [LB30]

AARON HANSON: But in our comparable array, Midwest cities of size similar to Omaha there are no cash balance plans that are in our competitive array. [LB30]

SENATOR LINDSTROM: Okay, thank you. Seeing no other questions, appreciate your testimony. Thank you. [LB30]

AARON HANSON: Thank you, Senator. [LB30]

SENATOR LINDSTROM: Next opponent is Chris Bartley. [LB30]

CHRISTOPHER BARTLEY: My name is Chris Bartley, B-a-r-t-l-e-y, and good evening, Senator Lindstrom, rest of the committee. Thank you for allowing me to present to you. I'm a 17-year veteran of the Lexington Fire Department. I'm a fire captain/paramedic, and I'm also the Lexington professional firefighters president. Today I'm going to discuss what has happened in the Kentucky pension reform that happened in 2013, and I'll discuss what happened at the state level which was the adoption of the cash balance plan and its effect on public safety and the local plan of Lexington, Kentucky, also with the pension reform and we were able to maintain a defined benefit. In 2002, the Kentucky retirement system was 111 percent funded. Pension underfunding has resulted, like many, due to inadequate contributions from the state. In this case, there was two decades of lack of state funding as required; and only in the last few years under the new governor has they met and exceeded those obligations. The underfunding in the Great Recession of 2008 left the unfunded liability of the KRS system at 21 percent funding--111 percent to 21--and nearly at the bottom of low statewide. That also had a $30 billion unfunded liability. This led to the widespread pension reform throughout the state and the adoption of the cash balance plan for new hires. Since that implementation, as promised, things were supposed to get better, but it's gotten worse. State government employees' percentage of unfunded liability has dropped now to 15 percent. It is below Illinois. The fund that covers state police has decreased from 33 to 30. The chief plan that covers municipal employees including firefighters and police officers has decreased from 60 to 59. And again, if you look at the total liabilities, those have also increased from $30 billion to $32.6 billion. Even with the required funding and the new cash balance plan, it just hasn't helped the entire system. And although the cash balance plan has been in place for only new hires since January 2013, we've already seen some issues with recruitment and retention, especially when it comes to fire departments in Kentucky. We've seen that it's not a desirable plan, especially for public safety. The majority of firefighters do not receive Social Security and the rigors of the job demand early retirement when compared to the rest of the public. And there's no...there's a lack of disability and a lack of line-of-duty death benefits for surviving spouses and children. Just a few examples of some cities in Kentucky since 2013: the city of Erlanger, Kentucky, has lost over 14 of its 20 full-time firefighters, that's 47 percent of them; Florence, Kentucky, due to the problems with recruiting and retention, the city instituted a 401(k) match of up to 3 percent just for those people in the cash balance fund because they could not switch over to a DB plan again. Alexandria, Kentucky, that district has lost 15 firefighters in the last 3 years and they cannot keep up a full staff of firefighters or paramedics to serve the public. And the fire chief there, Jeff Pohlman, states that the new cash balance plan played a part in that issue. At the same time the exact same year the Kentucky retirement system was going through their change and adoption of the cash balance plan, there was Lexington, Kentucky, did a pension reform for its police and firefighters. It's a separate fund. It doesn't have the city employees. It's just like Omaha and Lincoln. Lexington is on a comparable note with both of those cities. We use them as comparable in pay, and I think we use a lot of data together--similar in size, similar in departments and what we do. A little history on our pension fund, in 1998 the Lexington police and fire pension fund was 100 percent funded and just like a funding we saw that funding decrease and the streams about mid 60 percent funding. Instead of pushing for the cash balance plan, mayor hired a consultant, Public Financial Management out of Philadelphia. And we sat down at the table together, worked on a plan, included business leaders and everything and everybody, all parties there and we came up with a solution. And the pension reform was done to the point now instead of 60 percent funding we're up to 78 in just three years. The mayor, Mayor Gray, commented on the reform: This is a comprehensive, honest, and responsible way to put our police and fire pension system on an affordable, sustainable path while preserving a dignified retirement for our police officers and firefighters. And that's kind of what we're looking at. The bottom line is Lexington, Kentucky, collaborative local effort to fix their pension issue and took all the facts and put them together and all realized the cash balance plan was bad for public safety. And that was another point is that the consultants that we used they actually advised going against the cash balance plan. [LB30]

SENATOR LINDSTROM: All right. Appreciate your testimony. [LB30]

CHRISTOPHER BARTLEY: Yeah. [LB30]

SENATOR LINDSTROM: A quick question: Did the previous defined benefit plan, was that an 8 percent plan as well? [LB30]

CHRISTOPHER BARTLEY: You're talking about the state that we used or... [LB30]

SENATOR LINDSTROM: Yeah. [LB30]

CHRISTOPHER BARTLEY: It was. It started out at 8 (percent), but they had already made some changes in 2008 to go down to 7 percent, 7.5 and then 7 (percent). [LB30]

SENATOR LINDSTROM: Okay. So they made the change and then after that, after the plan wasn't...I guess it wasn't hitting the 7.5, 7 percent? [LB30]

CHRISTOPHER BARTLEY: It's...the, yeah, I mean the assumption stayed the same but the cash balance plan has an institute where you get at least 7 percent, 7.5 percent return. [LB30]

SENATOR LINDSTROM: Okay. Senator Stinner. [LB30]

CHRISTOPHER BARTLEY: Yes, sir. [LB30]

SENATOR STINNER: Was this...the city got into this problem because they underfunded the pension. Is that what I heard you say? [LB30]

CHRISTOPHER BARTLEY: Yes, sir. [LB30]

SENATOR STINNER: Okay. So there's a limited amount of resources that are out there. Did they start to cut other services? [LB30]

CHRISTOPHER BARTLEY: Yeah, and that was one thing we were...they kind of went overboard but started cutting services, didn't hire. We have an authorized strength of 560 people on the fire department and we saw those levels go to the 450s. Since that pension reform and since moneywise for the city, we've got more firefighters than ever at 561. We're building fire stations and we're growing. And the city is building stuff and this pension reform was actually lauded in The New York Times and Governing magazine as a local deal and was done right. [LB30]

SENATOR STINNER: One of the big issues here in Nebraska that we have to confront is property tax, and I mean that's all I hear in my district. I got red ears. They keep pulling on them and they keep saying do something about property taxes. Now obviously that property tax is the big number for cities. Is there a limit to how much people can pay in taxes? And you know, we've got to balance this pie out somehow, so. [LB30]

CHRISTOPHER BARTLEY: Well, I only know Kentucky. So, you know, our biggest thing is actually income tax. It's antiquated and you'll see a tax reform in the state of Kentucky coming soon. But we basically work on income tax coming into the city. Property taxes usually goes to schools. [LB30]

SENATOR STINNER: Okay. [LB30]

SENATOR LINDSTROM: Thank you. Senator Bolz. [LB30]

SENATOR BOLZ: Thanks for coming tonight. I'm the newest member of this committee, so forgive me but I heard you mention survivor benefits. Is it typical in a cash balance plan to not have survivor benefits, or was that unique to the Kentucky cash balance plan? [LB30]

CHRISTOPHER BARTLEY: It is. It can happen but you've got to build them in there. And we're seeing across the country that just isn't happening. You just don't have those protections of that guaranteed defined benefit coverage if that happens. Luckily, we do. We've had some line-of-duty deaths for firefighters and police officers, but they've been under the old system where they've been taken care of. So we've not had any of the new hires within the last two and a half, three years that have been affected and I really don't know what's going to happen. That will obviously shine a light to that issue. [LB30]

SENATOR BOLZ: Is there a way...I mean is there a way to work that in if this were to move forward? [LB30]

CHRISTOPHER BARTLEY: Honestly, the way I would look at it, in the way that our consultants, and when we...we laid everything out on the table and it took a long time to get this plan together. Those cost so much to cover that, that you might as well pay for a defined benefit plan, especially for police and firefighters. [LB30]

SENATOR BOLZ: Okay. Thank you. [LB30]

SENATOR LINDSTROM: Any other questions? Seeing none, thank you very much for... [LB30]

CHRISTOPHER BARTLEY: Thank you. [LB30]

SENATOR LINDSTROM: ...your testimony and coming. Next opponent is Police Chief Schmaderer. Evening. [LB30]

TODD SCHMADERER: Good evening. My name is Todd Schmaderer, S-c-h-m-a-d-e-r-e-r. I am chief of police for the city of Omaha, oversee an authorized strength of a department of 861 officers. I'm opposed to LB30 because I worry about the unintended consequences of this bill. Law enforcement, in metropolitan-class cities especially, face a very difficult task and the macro environment of policing is a challenge. And I note the last several years of the national pressure and scope of policing that everybody has experienced as an example. As a result, the Omaha Police Department and other major cities have faced a sequential decline in applicants. The Omaha Police Department is fortunate to still have a super talent pool to draw from. However, the drop in applicants that we have is nothing to dismiss and it's definitely worth our attention. In addition, on a micro or an individual basis or an individual scale, policing can be difficult. In 2015 the Omaha Police Department lost an officer in the line of duty. As chief I can tell you that a defined benefit plan for X number of years and an incredible community kept officers employed. In the aftermath of an incident like this, if you have a cash balance plan that's portable, you will lose officers. We lost officers at a small concentric circle but not nearly as big as we would have lost officers with a cash balance plan, that portability (inaudible) and been right out the door. So in short, I worry about retention. If a law enforcement employee can just take the cash balance plan and go somewhere else, they'll go to a new career. They may go to a different department. They may go to a smaller department that don't deal with the metropolitan pressures on a daily basis. In conclusion, I prefer local control over this matter so some of the unintended consequences are better understood. In addition, the mayor of the city of Omaha has made great strides addressing the pension issue at the bargaining table. As such, I ask that we leave this in local control where I feel it is in good hands. Be happy to take any questions. [LB30]

SENATOR LINDSTROM: Thank you for your testimony. Any questions from the committee? The average age of an applicant, what is it, 23? [LB30]

TODD SCHMADERER: The average age goes to about 28 to 30 years old. [LB30]

SENATOR LINDSTROM: That's the average? [LB30]

TODD SCHMADERER: That's the average. [LB30]

SENATOR LINDSTROM: Oh, so a little bit higher. [LB30]

TODD SCHMADERER: And they will range. I mean we'll get them as young as 22 at times, as old as 40 at times, but that average is about 28 to 30. [LB30]

SENATOR LINDSTROM: Okay. And in the process, in interviews and things, does retirement come up? Is that something that weighs heavily, one, and how often does that come up in the conversation? How many times do you get asked that question with regards to that? [LB30]

TODD SCHMADERER: As far as the applicant pool goes? [LB30]

SENATOR LINDSTROM: Yeah, just in the interview process. Does it come up, benefits and things like that? [LB30]

TODD SCHMADERER: Sure. Well, let me kind of give you the scale of where we have been. About four years ago we were about 2,000 applicants. [LB30]

SENATOR LINDSTROM: Okay. [LB30]

TODD SCHMADERER: That dropped to about 1,800, then 1,200. In our last go-round we had 980. And we were fortunate and have a great, great 980. We've got a super class in right now. But that's a pretty sequential drop. If you look at other major cities, Omaha or larger, you see drops even larger than that and a lot of that has to do with the macro environment of policing. Historically, when we sift through the police reforms and we sift through and make law enforcement better, you may see those numbers go right back up. The point that I'm trying to make though is there was a lot of pressure on Omaha police officers to maintain their employment with the city of Omaha during that time, especially when you combine that with micro events that really challenge, really challenge their willingness to be police officers. And the defined benefit plan, so an officer can work a certain number of years for X number of benefit, came in play for the Omaha Police Department over this macro environment but definitely during the loss of Officer Orozco. And I just want to make that strong point as chief. That is my feel as to what would happen if we scrap that plan and go to the cash benefit plan. [LB30]

SENATOR LINDSTROM: Okay. [LB30]

SENATOR STINNER: I do have a question. [LB30]

SENATOR LINDSTROM: Senator Stinner. [LB30]

SENATOR STINNER: Thank you, Chief, for being here. [LB30]

TODD SCHMADERER: Sure. [LB30]

SENATOR STINNER: We certainly respect everything that you've said and certainly what you do. In the negotiation process, did they talk about bond rating and how the bond rating is affected by what you guys negotiate? [LB30]

TODD SCHMADERER: Oh, absolutely. I can tell you that the mayor of the city of Omaha is very aware, very aware of the bond rating, very aware of the financial pressures the pension system is facing. And the negotiation process that the mayor has endeavored into has been productive towards easing all of those issues, and that is why I feel it should be left in local control. But certainly very much aware of that. [LB30]

SENATOR STINNER: She probably talks to you also about services that may have to be cut, roads that have potholes that will probably have to be deferred. So you understand that mix of... [LB30]

TODD SCHMADERER: I do. [LB30]

SENATOR STINNER: ...how everything fits together in that pie chart. [LB30]

TODD SCHMADERER: I do, and it's...I will admit this is not an easy task to get out of and those that will tell you that there is an instant solution of a cash balance plan to get you out of this is disingenuous; that there is no easy solution to this. [LB30]

SENATOR STINNER: Thank you. [LB30]

SENATOR LINDSTROM: Any other questions from the committee? Seeing none, thank you very much for your testimony. [LB30]

TODD SCHMADERER: Thank you. [LB30]

SENATOR LINDSTROM: Next testifier is Mr. Steve LeClair. Good evening. [LB30]

STEVE LeCLAIR: Good evening. Chairman Kolterman, members of the Retirement Committee, my name is Steve LeClair, S-t-e-v-e L-e-C-l-a-i-r. I'm the president of the Omaha Professional Firefighters Association, 6005 Grover Street, Omaha, Nebraska. Thank you for the opportunity to appear before you and speak in opposition to LB30, which proposes to dramatically change pension benefits for new employees of the fire and police departments in the cities of Lincoln and Omaha. Briefly about myself, I'm a veteran, having served a tour of duty in support of Operation Desert Shield, Desert Storm, and again in support of our Operation Iraqi Freedom. I've served the citizens of the city of Omaha as a firefighter for 15 years. Like my military service, when I became an Omaha firefighter I, like many of the firefighters that are in attendance this evening and those watching, understood the risks involved in the ways I chose to serve my country and my community. But I also understood that the tradeoff for that service was that in the event that one of us was injured, we would be taken care of. And God forbid, in the event that one of us be killed in the line of duty, our wives and our children would be taken care of. That is a concept that is very foreign to the cash balance model. I sit before you today, this evening now, and marvel that we're still having some of the same conversations after having made such significant reforms to the city of Omaha police and fire retirement systems in 2010 and in 2013 respectively. Contributions were increased and benefits were dramatically reduced. For me and many firefighters in my position, we realized approximately a 15 percent reduction in our pension benefits through a combination of the increased contribution and benefit reduction. But we did this all with an eye to providing responsible management of the system and sustainability. I'm not satisfied with where we are today, up from 38 percent funded to 51 percent funded, but I have an eye on where we will be: projected to be 80 percent funded in 11 years, projected to be 100 percent funded in 18 years. We did what responsible Nebraskans do. We sat with our colleagues, employers with employees; identified a problem and resolved that problem jointly and in good faith with shared pain. Neither party was ecstatic where we were, but a solution had to be derived and it was. Now I sit here listening to a group of folks offering a solution to a problem that, frankly, has already been solved, in my opinion. The proponents sit before you proposing a solution that is nothing more than a carbon copy of a failed concept from San Jose, California. They want us to solve this the California way and, in my opinion, we need to handle this the Nebraska way, sitting at the local table, having tough conversations with our local leaders. Outside interests are here, spending considerable amounts of money, telling us that as Nebraskans we shouldn't sit down at the kitchen table and resolve our issues as we have done already in Omaha; that the home rule charter of Omaha where these pension benefits are created is not worth the paper it's written on. From a local control perspective, the state of Nebraska would not tolerate this broad overreach into state's rights by the federal government, yet we're asked to accept it at the city level. I feel strongly that this is not the precedent that should be established going forward and I urge the committee to not adopt LB30. Thank you very much for the opportunity to speak with you this afternoon. I appreciate the fairness of the hearing and appreciate your service as state senators. I look forward to any questions. [LB30]

SENATOR LINDSTROM: Thank you very much. We appreciate your service. You touched on the reforms back in 2010, 2013. Can you talk about the change between those from 2010 to 2013? [LB30]

STEVE LeCLAIR: Well, when I referenced the two different dates, in 2010 were when the police made the reductions in their plan of benefits. [LB30]

SENATOR LINDSTROM: Sure. [LB30]

STEVE LeCLAIR: We subsequently followed a couple years later in our negotiations in 2013. [LB30]

SENATOR LINDSTROM: Gotcha. Okay. Any questions? Senator Bolz. [LB30]

SENATOR BOLZ: You reference being fully funded in 11 years. Can you, just maybe for the record and may for my clarity, help me understand what assumptions are built into that? Is that assuming that 100 percent of the ARC is paid? Is that assuming an 8 percent rate of return? Can you just help me understand how you get to that? [LB30]

STEVE LeCLAIR: Well, I would refer to, you know, the 10/10/14 projection study that was done by Cavanaugh Macdonald wherein, in Exhibit 3, there is an indication that with meeting all of the assumptions that the fund will be 80 percent funded in approximately 11 years and 100 percent funded in approximately 18 years. [LB30]

SENATOR BOLZ: Okay. [LB30]

STEVE LeCLAIR: But, yeah, you're...that's a correct statement. You know, the assumptions have to be met. But as far as that goes, you know, I've heard a lot of conversation about, well, the rate of return is too high and 80 percent is not attainable, it's not achievable. You know, on a 15-year look-back, it is attainable and it is achievable. And you know, frankly, in my opinion, my humble opinion, you know, one of the smartest people in the room when it comes to pensions as far as I know has never recommended that we reduce the rate of return, and that would be the system's actuary. [LB30]

SENATOR BOLZ: That's helpful. I mean I guess the part for the record is that everyone has to maintain their commitments to achieving that goal. [LB30]

STEVE LeCLAIR: Uh-huh. You know, one thing that was interesting, you know, as I was, you know, listening to a lot of the testimony so far this evening, you know, I made a note that the RSI is dedicated to pension reform. Frankly, in my opinion, they should be holding Omaha up as a model because I'm not aware of anywhere in the country where employee groups have gotten together, sat down with their employers and collectively have made reductions to active employees' benefits. Those were terribly difficult conversations, incredibly divisive conversations that we had. But at the end of the day, you know, the home rule charter says we're going to fund these pensions by substantially equal contributions. And we sat down with our cities, with our counterparts at the city, and we said, okay, let's get this thing done and we're not leaving this room until we get it done. [LB30]

SENATOR BOLZ: Okay. [LB30]

SENATOR LINDSTROM: Thank you. Any other questions from the committee? Seeing none, thank you very much for your testimony. [LB30]

STEVE LeCLAIR: Very much appreciate the time. Thank you, Senator. [LB30]

SENATOR LINDSTROM: Sure. Next invited opponent is Chris Milisits. I hope I pronounced it right. [LB30]

CHRIS MILISITS: My name is Chris, spelling, C-h-r-i-s, last name Milisits, M-i-l-i-s-i-t-s. I'm the president of Lincoln Police Union and I've served in that capacity for approximately five and a half years. Thank you very much for having me speak before you today. I've been a law enforcement officer and certified law enforcement officer in the state of Nebraska since October '95, and have served the community of Lincoln for 21 years as a police officer. The city of Lincoln formed a pension review committee in the winter of 2015 which spent approximately five months dissecting the Police and Fire Pension currently in place. The committee authored a final report in May of 2016. When the committee formed, there was a reported underfunded liability of $103 million and the pension was approximately 64 percent funded. The committee looked at a number of ways in which to solve the underfunding problem and even looked at the idea of closing Lincoln's current pension plan to new hirees and placing them into a new plan. The committee quickly realized that this would be substantially more expensive to the city with an additional $78 million being needed. The report continues on to say that the defined benefit plans are more efficient and cost less than other plans that provide the same benefit. It was the unanimous decision of this committee that Lincoln should retain the defined benefit pension going forward. The committee researched other defined benefit systems in the Midwest and learned that most of them had higher payout benefits than Lincoln's 64 percent, and a large majority of them had some type of COLA attached to the benefit. The Police and Fire Pension does not have a true COLA but has what's described as the 13th check. This 13th check is paid once a year and was meant to boost the pension benefit to make up for cost of inflation. The 13th check fund is separate from the pension fund and was established to work towards providing some type of COLA in the future. The committee also learned that the 13th check fund shared investment returns with the pension fund, which kept the pension fund from earning its full investment return. One of the committee's recommendations was that the city merge the 13th check fund with the pension fund. That change was in fact made by the city council, which increased the funded percentage from 64 percent to 80 percent, which is about where we stand today. This change also allowed the pension fund to realize all of the investment returns as opposed to sharing them with the 13th check fund. The committee also learned that in 2014 actuarial assumptions had been changed to the estimated rate of return and it was lowered three-quarters of a percentage point, which added $23 million of unfunded liability. During the committee hearings, additional information came to light that the city of Lincoln made less than the recommended contribution in 19 of 26 of the last years, and during 11 of those 19 years the pension was 100 percent funded or more. Members of the police and fire unions continued to fund their contribution during that same time. The committee strongly recommended that the city of Lincoln fully fund their portion of the pension contribution to include the normal cost or the ARC, whichever is greater. There was a city ordinance passed in 2011 that requires the city of Lincoln to make the normal cost contribution to the pension every year, but the payment for the ARC has not been addressed. The Lincoln Police Union has concerns that changing the retirement benefit for new hirees will affect the department's ability to hire and retain officers. The Lincoln Police Department has already seen a dramatic decline in the number of people who are willing to put on a uniform and serve the citizens of Lincoln as a police officer. The retention concerns are due to a number of reasons. The defined benefit system currently in place for police officers and firefighters offers a death disability benefit for those officers and firefighters that are injured or killed in the line of duty or unable to perform their duties in the future. I have an example of a Lincoln police officer by the name of Matt Gilleland who was employed for approximately two and a half years before being shot by a suspect while performing his duties in Lincoln as a police officer. Matt went through several surgeries and had a strong desire to return to LPD as an officer, but the disability he sustained to his arm prevented him from returning to duty and his employment was terminated by the city of Lincoln. The pension benefit currently in place allowed Matt to take a medical retirement, which allowed him to provide for his family while looking for employment elsewhere. The committee agreed that due to the dangers and physical demands placed on police officers and firefighters that the death and disability benefit needed to be sustained. The difficulty with establishing a cash balance plan is that contribution rates to the plan would need to be so high that the employee and the employers cannot afford them. Police and fire jobs are physically demanding. I have a hard time believing that the average citizen in Lincoln wants or expects an officer or a firefighter to work until the age of 60 or 65, when their lives depend on our ability to physically do our jobs. A cash balance plan would force police and fire into longer years of service or force us to contribute such a high percentage of our salary that it would be unsustainable to both the employer and the employee. Thank you for your time and I will answer any questions that you have at this time. [LB30]

SENATOR LINDSTROM: Thank you. And you mentioned that the plan right now it at 80 percent funded. [LB30]

CHRIS MILISITS: Yes, it's approximately 80; 78, 79 to 80 percent funded right now, I believe. [LB30]

SENATOR LINDSTROM: And projections, have there been projections as far as how many years out that would be at 100 percent? [LB30]

CHRIS MILISITS: I do not have those projections. I think our actuary would probably be able to answer... [LB30]

SENATOR LINDSTROM: Okay. [LB30]

CHRIS MILISITS: ...those questions for you. [LB30]

SENATOR LINDSTROM: No problem. Thank you. Any other questions from the committee? Seeing none, thank you very much for your testimony. [LB30]

CHRIS MILISITS: Thank you. Thanks for having me. [LB30]

SENATOR LINDSTROM: We'll now have Mr. Ron Trouba. Good evening. [LB30]

RON TROUBA: (Exhibit 4) Good evening, Senators. Thank you very much for your time. I apologize for the speed reading. I realize there's a lot of information here and a short time to discuss it all. My name is Ron Trouba, R-o-n T-r-o-u-b-a, and I'm the president of the Lincoln Fire Fighters Association. I'd like to thank you all for your time. I'm here to speak in opposition to LB30. In Lincoln, not only would LB30 be a solution in search of a problem but it would actually create many new and additional problems. Like many defined benefit plans, Lincoln is not in a horrible state that some will try to portray it to be. GASB standards have changed the reporting requirements but not the health of these plans. Yet, even by GASB standards, at 80 percent funded, Lincoln's pension is considered healthy. It was the bright spot when the actuaries reported to this very committee on November 22. Firefighters and police officers need traditional defined benefit plans. They cannot work up to the same retirement age as other occupations and what this means is that there is not enough time during a firefighter's career to make contributions or earn dividends in a cash balance plan. An individual's retirement account makes its largest gains near the end of one's career, when interest is being earned on a large account balance. Since a firefighter retires around 55 years old, they miss out on the most valuable investment period where that interest is compounding. This would force firefighters to keep working into later years. Not only does this risk the safety of them and the public, but it also has a cost. Keeping the oldest employees means that you are also keeping the highest paid employees and you're not able to replace them with new, younger, healthier, and entry-level waged employees. It also means that you have an increased risk of work-related injuries. In older employees, these injuries could be more severe, resulting in more lost work time, more medical bills, more workers' compensation, more in overtime wages to backfill for those injured firefighters. Traditional defined benefit plans provide a death and disability benefit that is needed for such dangerous occupations. If a young firefighter or police officer with only a couple of years on the job becomes disabled or dies in the line of duty, he would not have accumulated essentially anything in a cash balance plan and would also receive no Social Security benefits, leaving his family with nothing. Firefighters face an increased risk to many cancers--nearly double the risk of the general public for cancers like mesothelioma. Just seven months ago we buried a Lincoln firefighter who didn't even reach his retirement before losing his battle to work-related cancer. Firefighters also do not receive Social Security. This is an important factor because in other occupations there are two retirement benefits to provide for later in life: the Social Security payments and the employee sponsored health (sic) plan combine to give employees a more adequate source of income. Firefighters and police officers only have one benefit. This also means that the cities get to save additional money as they don't have to contribute the 6.2 percent of salary that they would for any other employee. The math is simple. Using any retirement calculator, you can see that in a cash balance plan, with a 5 percent guaranteed rate of return, you'd have to contribute roughly 50 percent of an employee's salary to provide adequate retirement savings given the need to retire at an earlier age. As I met with a few of you prior to this hearing, I showed you some examples. And I challenge anyone to show me a retirement calculator, using a cash balance plan, that provides a livable retirement for police and fire at a lesser cost to the taxpayers and employees. You can't do it. An often overlooked benefit to the city is how the retirees and their incomes continue to support the local economy. The inadequate benefits of a cash balance plan run out and cause those folks to need government assistance. Instead of contributing to a thriving society, they would become a further drain on it. In 2015 the police and fire pension plan in Lincoln paid out $11.5 million to retirees; $10 million of that went to retirees who still live in Lincoln or the immediate surrounding area. That money makes a significant impact on the local economy and would be greatly reduced without the pension plan. Think about this...think about what this bill is asking for. The current defined benefit plan has an outside actuary who determines a prudent assumed rate of return. If we establish a cash balance plan, the firefighters and police officers would negotiate what they want to be a guaranteed rate of return. And then if the plan doesn't make that rate of return, the city is still on the hook for the money. If we went to a cash balance plan and both the city and the employees continue to contribute at the same rate that they do today, which would mean no financial savings, the guaranteed rate of return would have to be nearly 10 percent. Who is maintaining a 10 percent rate of return right now? And I would say no one. If the new hires had a lesser guaranteed rate of return, they would also have a lesser overall benefit. And in the event of a dispute, when we compare like and similar work, wages, benefits, and hourly rate values, this could drive up wages for new employees and even create different pay scales for new firefighters and current firefighters. We have been working with Lincoln's fire chief, who is sitting behind me here today, to address a critical shortage of qualified firefighter paramedics. Since we are not able to attract sufficient applicants locally, the fire department is trying to recruit lateral hires from other agencies outside of the state. The fire chief has even advocated for those employees to start at a higher salary. A reduction in retirement benefits would only worsen the problems of recruiting, hiring, and retaining quality employees. This limits the city's ability to provide services and creates future costs in losing employees and having poor quality employees. Poor quality employees result in additional cost from EEOC complaints, lawsuits, discipline, poor performance, etcetera. Our members are also citizens and taxpayers. Our members want the elected officials to be responsible with their tax dollars and maintaining the current defined benefit plan is the most economical way to provide retirement benefits to our public safety employees. While it is very odd to me that the state would dictate by law the retirement plan for only two occupations in two cities and not commit any funding to it, there is state legislation that would be helpful in both protecting the taxpayers and the employees. As mentioned already here today and affirmed by the actuary in the city's committee hearings, the best requirement would be one that mandates the city pay the greater of the ARC or the plan's normal cost every year. This ensures the plan is stable, earns the maximum potential interest, and eliminates political agendas from a necessary budget item. [LB30]

SENATOR LINDSTROM: Thank you. [LB30]

RON TROUBA: Be happy to answer any questions. [LB30]

SENATOR LINDSTROM: Thank you very much for your testimony. Senator Bolz. [LB30]

SENATOR BOLZ: Can you tell me what percent of salary does the city of Lincoln contribute to pensions? [LB30]

RON TROUBA: So, yes, I can. The actuary put together some information as part of the Lincoln community group on pensions when we worked on this last year for five months, and it was found that in 2015 the percent of salary for the current employees was 14.23 percent, so that is what the city paid in for our folks who are in a defined benefit plan. Now by comparison, the average city employee, somebody who works at Public Works, for example, they can have up to 12 percent that the city contributes plus the 6.2 that the city would pay for Social Security. So if I worked at Public Works, the city would pay in 18.2 percent for me. If I'm a police officer or firefighter, the city pays in 14.23 percent. So that's the normal cost. When the city has to pay more than that it's because they have accrued a debt that they have to pay off to get fully funded. Once they're fully funded, you stay at that normal cost pay rate. [LB30]

SENATOR BOLZ: That's helpful. That's what I was getting at. [LB30]

RON TROUBA: Yeah. The plan is cheaper. A defined benefit plan allows the city to provide a better benefit to the retirees for a equal or less cost than other retirement plans. [LB30]

SENATOR BOLZ: Thank you. [LB30]

SENATOR LINDSTROM: Any other questions from the committee? Seeing none, thank you very much for your testimony. [LB30]

RON TROUBA: Thank you. [LB30]

SENATOR LINDSTROM: We will now have Mr. John Wells. [LB30]

JOHN WELLS: Mr. Vice Chairman, members of the Retirement Committee, thank you for the opportunity to testify here today. I am Sergeant John Wells, the president of the Omaha Police Officers Association. I stand before you in opposition to LB30. You will and have already heard many facts being presented today. Allow me to give a few more from the perspective of the over 800 dedicated professional men and women that make up the OPOA. It is true that in 2008 and 2009 we faced a crisis created by decisions pushed by city leaders to reduce costs by raising pension benefits, thus, avoiding a tax increase. These short-sighted political decisions left our pension in dire straits. A group of experts from various fields and political ideologies came together to form a task force and ultimately issued a report outlining the problems and identifying a workable solution. At the time, OPOA members knew the scope of the problem and also acknowledged that half of the existing debt was their burden. Let me repeat that, because the supporters of this bill seem unable or unwilling to acknowledge this very critical fact. Per Omaha city charter, half of the debt belongs to the employees. As a result, in 2010 OPOA members became the only large public safety group and, frankly, public employee group in the country at that time to voluntarily reduce our benefits in order to properly fund the pension. In 2013 Omaha firefighters followed suit. We received a lot of pushback from a lot of groups across the country, but we did what we believe to be right. This shows an ability and willingness by the men and women of the OPOA to address the problem and also be a part of the solution. Again, just recently we were able to come to a tentative agreement that further addresses the pension issue while continuing to be fair to the employee and the taxpayers. The fact that we own half of the debt makes us laser focused on ensuring the long-lasting health and stability of this fund. The employees share the same concerns and liabilities as the city in this endeavor. This bill would eliminate our ability to address any future issues through negotiations by eliminating local control through a state mandate that does nothing to change or reduce the existing debt. Unfunded debt is bad, but this debt has a funding plan which has been working and will continue to work without outside interference. Additionally, you've heard about the potential negative impact on hiring and retention of Omaha police officers. The out-of-state big money groups behind this measure have taken similar actions in other cities and states with disastrous results. One need only do a simple Internet search to see the news of the hiring crisis in law enforcement in places like Louisville, San Jose, Dallas, and Memphis, just to name a few. In these locales, hiring and retention are severe issues and violent crime is skyrocketing, in some places at an all-time high, as a result of pension changes that did not involve the employees agreeing to such schemes. In fact, two of the leaders of one of these big money groups hatched a similar plan a few years ago in their hometown of San Jose. This was so disastrous, the voters recently voted to overturn and remove the changes the leaders of this think tank enacted. Additionally, these groups issued so called studies in order to try and scare elected officials into action. The problem with these so-called studies is many: from cherry-picking certain facts and conclusions from official documents while ignoring others, to forming conclusions that are outright wrong and don't hold up to the scrutiny from experts. So I ask you, why are we, in Nebraska, going to emulate the failed policies from states like California and Kentucky? Frankly, we are better than this. If this is such a tremendous idea, why are so many experts and leaders, including local elected officials, opposed to LB30? It is because it is a bad idea brought on by those with a purely political agenda. I would encourage you to vote to oppose LB30 and the potential havoc it will create in Omaha. This is too serious an issue to make decisions based on half-truths and misleading information. Don't play politics with the safety of the people of Omaha, I beg you. Thank you for the time here before you, and I would answer any questions you may have for me. [LB30]

SENATOR LINDSTROM: Thank you very much for your testimony. Any questions from the committee? Seeing none, thank you very much. Mr. Frank Lima. [LB30]

FRANK LIMA: Good evening, Senators. My name is Frank, F-r-a-n-k, last name is Lima, like the capital of Peru, L-i-m-a. I'm a LA, Los Angeles city fire captain, 25 years, still active to this day, and I come before you to tell a little bit of the California story which I know very well. In the tenth largest city in America, San Jose, I was a district vice president for the state of California Professional Firefighters, and I'm currently the International Association of Fire Fighters 10th District vice president. I represent the states of New Mexico, Arizona, California, Hawaii, and the island of Guam. Now specifically the California story, really dialing into San Jose, was Mayor Reed, who unilaterally implemented Measure B. You heard all the proponents today, many of them bringing the playbook that Mayor Reed used in San Jose, and then it failed. Measure B passed and in 2012 Measure B decimated the retirement benefits for public safety members. It eliminated disability protections. Hundreds of public safety officers ended up retiring and resigning between the years of 2011 and 2016. Alone there were 652 police officers that left San Jose Police Department in under six years. And at the end of Chuck Reed's term, city services were decimated. Everyone experienced was quitting. Anyone with minimum retirement left, left the job. Firefighters who once worked more than 30 years on the job were leaving with 20 years and 1 day on the job. Cops were lateraling out to other departments, retiring early, and nobody could be hired in the academies. San Jose City Council ended up declaring a state of emergency in August of 2016. There were voids in police contracts to pull homicide detectives onto the street for patrol duties. Arrests were down 49 percent. Priority 2 response times were up from...went from 11-minute call times to 20-minute call times. There was a 71 percent increase in stolen cars. There was...every hour for one year there was a car stolen, 8,759 cars were stolen. Homicide were on pace for a 40-year high. And as a result, fire, EMS, and police times...response times increased; crime increased, homicides increased. The community became outraged and asked for this to be fixed. They were sold a bill of goods by the mayor that Measure B would actually fix things, but it actually made things worse. The promised savings never materialized and San Jose was no longer a competitive employer. Most department heads had left the city and nobody could be recruited, and it was in a death spiral. November 16 there was Measure F, and that's F as in fix. Measure F went into effect after it was negotiated properly at the table, met with labor groups. And Measure F, it was simply put out there to fix everything that you heard earlier on the proponents and that Mayor Reed did on Measure B. And there was a broad coalition, I must...I'd be remiss if I didn't say that there was a broad coalition that supported Measure F, including Mayor Reed. However, Pete Constant, somebody you heard from earlier, he doubled down and fought it all the way and it passed overwhelmingly by 70 percent to the voters. Now as a final note, you know, San Jose, remember, was wiped out, the police force, so bad that they just offered them a contract. This contract, not getting in any super details, but it's over a 20 percent pay raise in three years on wages alone. All of those earlier efforts to reign in costs have now cost them far more as they have to pay premiums to undo the bad will to keep and retain employees. There's punitive action now for leaving the department, you know, early to repay the training expenses. So there have been some fixes in place. But the moral to the story is that unilateral, illegal, uncompetitive, spiteful pension reform efforts are just a form of the pendulum swinging too far in one direction. The public suffers, the politicians suffer, and the public safety officers out there risking their life suffer. Thank you very much for this opportunity. [LB30]

SENATOR LINDSTROM: Thank you. Thank you for being here. Any questions from the committee? Seeing none, thank you very much for your testimony. [LB30]

FRANK LIMA: Thank you, Senator. [LB30]

SENATOR LINDSTROM: We'll now have Mr. Jim Maguire. [LB30]

JIM MAGUIRE: Good evening, Senators. My name is Jim Maguire, M-a-g-u-i-r-e. I'm president of the Nebraska Fraternal Order of Police. As a quick point of clarification, there was a statement made earlier that all cities and counties outside of Omaha and Lincoln are in a cash balance plan, and that's not true. The cities, they're a defined contribution plan. There are some counties that have elected to go to a cash balance plan but talking to one of the deputies before I came on here, they are a little uneasy with the direction that it has provided them. So really the only thing that I want to point out is this has already been studied. This situation right here has already been done. Back in 2011 the state had LR215 and LR216. There were 13 senators that sat on this to review the pension plans throughout the state, and specifically Omaha, Lincoln, and some of the others. And I'm just going to read you two bullet points on the committee findings. And here's bullet point eight: There are policy reasons that favor keeping existing defined benefit plans. Defined benefit plans provide a guaranteed and secure benefit. It encourages career development. The plans are less expensive to operate because investment and administrative fees are lower. The funds are managed by professional investors and generally provide a greater rate of return than a defined contribution plan. The decision to establish a new plan for new employees should be made by the political subdivision. As discussed, there are costs associated with establishing a new plan while maintaining the existing defined benefit plan. Any unfunded liability will need to be addressed and the political subdivision will necessarily be the entity to decide how to address it. Local retirement boards maintain the plans accordingly. The decision to create a new plan rests with the local government entity, not the Legislature. These are coming from your own people. So I would recommend to this committee to follow the recommendations that were just put in place, what, six years ago and just let the local boards handle it. It is a local issue. Thank you. [LB30]

SENATOR LINDSTROM: Appreciate your testimony. [LB30]

JIM MAGUIRE: I'll take any questions. [LB30]

SENATOR LINDSTROM: Senator Bolz. [LB30]

SENATOR BOLZ: I do have a question. [LB30]

JIM MAGUIRE: Yeah. [LB30]

SENATOR BOLZ: It's something I think I struggle with as a state senator a lot is what the role of the state Legislature is versus the role of the localities. And I guess I'm curious, your answer to the question, would there ever be a role for the state to get involved and, if so, when and how? [LB30]

JIM MAGUIRE: Well, I think the speaker...I don't know if it was before me, the role of the Legislature should be to ensure, if you are going to have a defined benefit plan, you have to require the cities or the counties or whoever is maintaining that plan, they have to fully fund that. If they say that, you know, we're going to...the employee is going to contribute 10 percent and we're going to contribute 10 percent, if they choose not to make that, that is a big problem. So the role of the Legislature, in my opinion, would be to say, you...this is a requirement, you have to do this. You can't shortchange these retirement plans because then you get into trouble. [LB30]

SENATOR BOLZ: Thank you. [LB30]

JIM MAGUIRE: Okay. [LB30]

SENATOR LINDSTROM: Any other questions from the committee? Seeing none, thank you very much. [LB30]

JIM MAGUIRE: Thank you. [LB30]

SENATOR LINDSTROM: Mr. Ben Gray, Councilman Ben Gray. My apologies. [LB30]

BEN GRAY: (Exhibit 5) Vice Chairman Lindstrom, members of the committee, my name is Ben Gray. I live at 4942 Nebraska Avenue in Omaha, Nebraska. I'm currently the president of the Omaha City Council. The Omaha City Council, as you will read in our resolution, is diametrically opposed to LB30. We believe very strongly that the...to address the pension liability ought to be done at the negotiating table. You have heard previously from other speakers how we...where we were in 2009 and where we are currently today and where we expect to be in 8 and 11 and 18 years from now. We believe that we can get it done. We believe that we have shown you results that we can get it done. I look at LB30 as the shiny new toy that looks really good on the surface but then, when you really start to look at it, it starts to cause the kinds of problems that you have heard from some of the previous speakers. I found it interesting today, to be quite honest with you, Senators, I found it interesting to listen to the proponents of this bill talk about the dire straits that Omaha is in. Quite frankly, let me give you some of the dire straits that we're in. Two of the last four years we have cut the property tax rate by 2 percent. We have, with help from this Legislature, we have created a land bank that are putting other properties back on the rolls so that we can attain more property tax. With our abandoned building ordinance, we're doing exactly the same thing with the same sort of help that we got from the Legislature. We have hired 17 or 16 new individuals in our Public Works Department to address some of the pothole problems and other problems with our streets. We are doing...and we have had surpluses the last three years. So to assume that the city of Omaha is somehow in dire straits and can't get this problem fixed is a misnomer. If you look simply at the facts, if you look at where we are today and where we were in 2009 as it relates to the unfunded liability, we are making advancements on that. I heard people talk about the bond companies and some of the things that they have said. What we have heard from the bonding companies is that because...not so much because of the unfunded liability but because we had contracts that had not been settled it was...they did not have the ability to determine whether or not we could actually make the actuarial changes that needed to be made that would move us in a forward direction in a reasonable period of time. So again, the city council is diametrically opposed to it. Omaha is not in the dire straits that people would have you believe that we are. We are moving forward with various projects across the city that will benefit property taxpayers in the short term as well as the long term. So again, we are opposed to it. We think that there are better solutions. We think that the better solution is at the negotiating table where we have had very difficult discussions. And we don't make any bones about it, they have been very difficult discussions. But at the end we have been able to move forward and we have gone from 39 to 51 percent and we are continuing to rise. And we're going to do better as we move on. But I think it needs to be done at the local level, at the negotiating table. Thank you. I have any...if you have any questions, I'd be glad to answer them. [LB30]

SENATOR LINDSTROM: Appreciate your testimony. Senator Stinner. [LB30]

SENATOR STINNER: I do have a couple questions. How big of a surplus have you been running at the city? [LB30]

BEN GRAY: Well, we've been running somewhere in the neighborhood of $9 (million) to $13 million. [LB30]

SENATOR STINNER: Nine to thirteen million. [LB30]

BEN GRAY: Yeah, $9 (million) to $13 million. It depends on which year you're talking about. [LB30]

SENATOR STINNER: And you're choosing to lower property tax instead of funding the unfunded liability. [LB30]

BEN GRAY: No, we're addressing the unfunded liability but we're doing other things as well. We are doing...we have street issues that we need to address. We have housing issues that we need to address. I don't think you can look at it in a macro sense. I think you have to look at it in a larger sense as to what we have to do overall to keep the city moving smoothly and to address the unfunded liability that we face. [LB30]

SENATOR STINNER: Okay. And then that $2 billion problem that somebody was talking about,... [LB30]

BEN GRAY: That $2 billion... [LB30]

SENATOR STINNER: ...I'm not (inaudible). [LB30]

BEN GRAY: It's not a problem. If we had addressed it when we were supposed to have addressed it, we would be receiving help from the federal government, quite frankly. But because we didn't do that, we are now doing it through our sewer use fees. And so we are funding the $2 billion sewer separation project and we're doing it through sewer use fees. [LB30]

SENATOR STINNER: Okay. So when we start...you had to prioritize stuff... [LB30]

BEN GRAY: Yes. [LB30]

SENATOR STINNER: ...and have initiatives and you've got a strategic plan over a long period of time, five-year, ten-year period of time. What's your top priorities right now? [LB30]

BEN GRAY: Well, our top priority has to be the unfunded liability and we're addressing that now. But we have other issues that affect Omaha as well that we have to address. We can't ignore...we can't do one thing and ignore the other things. We have to do them in combination. We have to do them in terms of priority, and our top priority is to address the unfunded pension liability and we're doing that. And I think you heard evidence of that from several of the speakers that came before me. [LB30]

SENATOR STINNER: Thank you. [LB30]

SENATOR LINDSTROM: Any questions? Senator Bolz. [LB30]

SENATOR BOLZ: I guess I have a comment, and I don't mean to be redundant, but I'm looking over your shoulder at the introducer of the bill and his opening comments were that the goal is to provide secure and stable retirement benefits. And so hearing your commitment from the Omaha City Council perspective that that's your goal too and you continue to work on it I think is reassuring. So I just sort of want to say it out loud, that I think our visions are similar. [LB30]

BEN GRAY: It's an absolute high priority and we're dealing with it. [LB30]

SENATOR LINDSTROM: Any other questions? I do have one question. When the negotiations were going on from what was discussed earlier, the retirement age of 55 down to 45, were you on the council at the time, Councilman? [LB30]

BEN GRAY: Yes. [LB30]

SENATOR LINDSTROM: Can you tell me... [LB30]

BEN GRAY: When it went down from 55 to 45? Oh, no, I wasn't part of that. No. (Laughter) No, no, no. [LB30]

SENATOR LINDSTROM: I'm guessing no one (inaudible). That's okay. [LB30]

BEN GRAY: Sorry, Senator, no, I had nothing to do with that. [LB30]

SENATOR LINDSTROM: Then I don't have a follow-up question, so. [LB30]

BEN GRAY: Thank you. [LB30]

SENATOR LINDSTROM: No other questions. Thank you very much for your testimony. [LB30]

BEN GRAY: All right. Thank you. [LB30]

SENATOR LINDSTROM: Thank you. We'll now have Mr. Roy Christensen. [LB30]

ROY CHRISTENSEN: Chairman Lindstrom and members of the committee, my name is Roy Christensen, R-o-y C-h-r-i-s-t-e-n-s-e-n. I'm a member at large of the Lincoln City Council. I am not here representing the city of Lincoln or the city council, just myself as a city councilman who has to deal with this kind of issue. I think my testimony has to be characterized as neutral because sooner or later in my testimony I'm going to say something that makes people on both sides of this unhappy. But what I'm going to say first of all is this bill feels like it's doing something to the city instead of something with the city. I say that based on the fact that if this were being done with the city, we would have had a number of meetings, get-togethers, discussions to work out details, hammer out problems, and none of that has happened. So I feel like this is being done to us rather than with us. I went to the city finance office and asked them for just a gross estimate of the budgetary impact this will have on us in the future years and the answer is, we don't know because we don't have enough details. There are not enough details in this legislation. So I would say this may be a really good idea. It may be really good, but I don't know because, again, there's not enough details in the legislation to lead us to any conclusions in that way. Also, this legislation does not really address the elephant in the room, which is the Commission on Industrial Relations. If this were to pass and the city had to deal with it, we would still have to negotiate with the unions and then we would still be subjected to any conditions, overrulings, whatever, by the CIR. So without real meaningful CIR reform, I don't see this really having a positive impact no matter what we do. And finally I would say, on a philosophical note, that pensions are a value statement by the community. We can value long-term relationships with loyalty going both directions, or we can have short-term relationships established through these kind of retirement plans. So I really think, in light of that aspect, that those values need to be a reflection of the community where the firefighters and police officers work and this ought to be a local issue. Any questions? [LB30]

SENATOR LINDSTROM: Any questions from the committee? Seeing none, thank you very much for your testimony. [LB30]

ROY CHRISTENSEN: Thank you. [LB30]

SENATOR LINDSTROM: Next opponent, Ron Saathoff. Good evening. [LB30]

RON SAATHOFF: Good evening, Senators. My name is Ron Saathoff. I'm a consultant with the pension resources department for the International Association of Fire Fighters. I'm sorry, spell my name. First name Ron, R-o-n, last name Saathoff, S-a-a-t-h-o-f-f. I spent the last six years as the director of the pension resources department for the International Association of Fire Fighters, and I've studied retirement plans and systems throughout the United State and Canada, their benefits, their costs, their efficiencies. And I can tell you without a doubt that a defined benefit pension plan is the most cost-effective way to provide a given level of benefits. There simply is no alternative to equal benefits for the same cost. A defined contribution plan, there was recently a study done by the National Institute of Retirement Security entitled "Still a Better Bang for the Buck," indicates that a typical DB plan provides equivalent benefits, retirement benefits, at half the cost of a typical defined contribution plan and 29 percent lower cost than an ideal DC plan modeled with very generous assumptions. That would be modeling close to a cash balance plan with generous assumptions. We don't have a model for the cash balance plan here of exactly what is being proposed. A lot of the testimony that's come forward would liken the problem to be the plan itself. The problem is not the plan itself. The problem is the funding of the plan. I've studied plans, again as I mentioned, all over the United States and Canada, and regardless of what the situation you're trying to achieve regarding investments, if you fail to fund you're going to increase costs down the road. It's just fundamental economics, fundamental math. It's simply the case. That's why we're here. That's not to say the plans were perfect. There were certainly issues and those issues have been largely, if not completely, addressed by the recent round of negotiations to make and correct what were some of the deficiencies and also to provide for some of the cost increment that had been incurred as a result of the underfunding over a period of time. I'm going to focus for a minute on what's going to happen if this were to go into effect, because I think that's critical. The issues being perpended--we're going to solve a problem. You're not going to solve a problem. The current cost of the plan for the existing employees and retirees remains. It doesn't go down. In fact, it increases. It becomes more expensive because of the investment portfolio and fewer people coming into the fund than were previously were in the fund currently. Right now, new employees help offset the cost of the current plan. That will no longer be the case in the event that new hires are put under a cash balance plan. You will still have the cost for the existing employees and that cost will go forward, and you'll have the additional cost for whatever the benefit level is going to be for the new employees. Now in the case of Omaha, where they share that cost fifty-fifty, that cost is going to continually increase. And as that cost increase, it's going to put a greater burden on both the city of Omaha and the employees themselves, either in the form of reduced benefits or higher cost of contribution, to maintain the same benefit level. I know Senator Kolterman indicated that he wanted to maintain, in part of this bill, to maintain the benefits for those employees that were currently in place as a promise made. That simply will not be possible moving forward based on the model of contribution and cost and increasing cost over time of moving to a cash balance plan. There are other secondary problems that have already been basically alluded to and I'll reiterate briefly. Across the nation, those public safety systems that have gone to either a 401(k) or a cash balance model have had significant cost increases. They have not developed cost savings as a result of it for some of the reasons that I just discussed. And they've had significant recruitment and retention problems. It is definitely a problem. It is an issue. It has been addressed in a number of different locations. And simply stated, people vote with their feet. And the reality of it is without a meaningful retirement benefit for public safety in particular, it is a factor in both considering continued employment as well as hiring. And you can check the evidence throughout the United States. And I can give you certainly many examples where that's exactly...San Jose was one particularly extreme example because of the extreme nature of the benefit changes that they made. But it is real and it does occur. Cash balance can't work as a meaningful retirement instrument for two main reasons. You could if you funded it to an extreme amount but it would be a great deal more costly than what you're currently paying for the defined benefit plan. There's two principal reasons for it. Number one is you don't have as long to garner investment earnings. You're only going to have it for 25 years, maybe 30 at the top. The private sector employer, general employee, you'll have 35 or 40 years before you reach retirement age. And the second is that any benefit that you're going to get at an early age at 55 is going to be far more expensive than a benefit would be at 65. So consequently, you have less time to accrue money and the expense of the benefit is going to be that much greater because it has to be paid for a longer period of time. It simply won't pencil for the amount of contributions that are being made today. Literally, as I pointed out, it's about 50 percent of the benefit for the same cost. You have an example of that. It's a DC plan but in Class I cities where the 50 percent benefit was replaced with a defined benefit...or defined contribution plan. Contributions were made at the same level, a total of 19.5 percent. Now that plan has been in effect for over 30 years and the retirement benefit as a percent of pay that was supposed to be and the goal was 50 percent is now averaging in the 20 to 22 percent range after a 30-year career. Why? The investment earnings aren't there. Individual investments, the cost of those investments, the decisions made by the participations. It simply doesn't work. So in the end, you're not going to solve a problem by making this change. You're not going to reduce cost by making this change. Costs are going to increase both for the employee and for the employer, and recruitment and retention will become more difficult. So the system, the solution is already in place. Fund the benefits as they need to be funded from the state level. I totally concur with the earlier problem. The problem is funding. You have to make the contributions. If you do, the costs are reasonable; they maintain reasonable. If you look nationwide, the funds that maintain 100 percent contributions throughout, including all the downturns that we've had, are better than 80 percent funded; many of them are better than 90 percent funded today. [LB30]

SENATOR LINDSTROM: Thank you. Sorry, we're just (inaudible) but maybe we'll have a question. [LB30]

RON SAATHOFF: No, I'm out of time. [LB30]

SENATOR LINDSTROM: No, you're fine. [LB30]

RON SAATHOFF: If there's any questions, and thank you for the opportunity to speak today. [LB30]

SENATOR LINDSTROM: And maybe just walk me through this. If numbers, say over the next several years, for recruitment, for hiring go down and we need those folks to facilitate the folks that are accessing the pension, basically replenish retirement, and those numbers go down, don't we end up in the same place long term if we were to switch to a cash balance, meaning there's not enough folks coming in to replace and to fund the outgoing members (inaudible)? [LB30]

RON SAATHOFF: If you don't hire for vacancies? Is that what you're suggesting? [LB30]

SENATOR LINDSTROM: Sure. Sure, if the numbers of the department go down, don't we end up in the same place? [LB30]

RON SAATHOFF: That will have some impact but not the same because you're not funding a benefit for those individuals. In other words, they're not there so you're not bringing in the new money but you're also not paying for a benefit, you know, for those individuals. So it would have an impact but it wouldn't be the same or as significant as the impact would be if you were hiring people, providing them a benefit and, again, that money is not available to fund, you know, the current benefit. So, yes, there would be an impact. You're correct about that. [LB30]

SENATOR LINDSTROM: Okay. Just...any questions? Senator Stinner. [LB30]

SENATOR STINNER: I just...I don't want to prolong or... [LB30]

RON SAATHOFF: No. [LB30]

SENATOR STINNER: ...go through a long question, but could you provide me information that is...that has what you're saying or backs up what you're saying? I do need to read it, though, the defined benefit versus cash basis, so I can fully understand what you're trying to say. [LB30]

RON SAATHOFF: Yes, sir, I would be happy to do that, Senator. [LB30]

SENATOR STINNER: Okay. Thank you. [LB30]

SENATOR LINDSTROM: Any other questions from the committee? Seeing none, thank you very much for your testimony. [LB30]

RON SAATHOFF: Thank you for the opportunity. [LB30]

SENATOR LINDSTROM: Mr. Tim Dowd. And we have about three or four more invited testimony, so just so everyone is aware. (Laugh) I know it's a late night. [LB30]

MIKE DOWD: Thank you. My name is actually Mike Dowd. Tim Dowd would be my partner, D-o-w-d. I represent the AFL-CIO. Also represent the Omaha Police Officers Association. I'm also a counsel that's had the opportunity to try the only case before the CIR that involved the application and utilization of LB397. LB397 came about as a result of a grand compromise. Labor got together with the League of Municipalities. League of Municipalities had certain considerations they wanted to look at, one of which was to define exactly who we're going to compare to. And they took decades, decades of law and went ahead and codified that inside this particular act. They went ahead also and wanted to have compensation to be fully considered. There was a feeling that there was not a full measurement of value given to healthcare, value given to pension entitlements. And as a result of that, there was a development of a mechanism called the hourly rate value that would measure and compare what one municipality has in comparison to the comparators that would now be selected, and that pension was to be determined based upon the actual derived annual normal cost. It required the use of actuaries to make that comparison. And part of the law which was the request of the League of Municipalities was 48-818(2)(h)(v) that the commission shall not compare a defined benefit program to a define contribution program. Why? Because they're different. They're not the same. They're not even close to being the same. And that was a recognition of the League of Municipalities as early as 2011, when we did this grand compromise. I've heard statements of: We want a solution, there hasn't been that much of a change, we're going to go ahead and cap this problem and clean it up. And when we talk about "we want a solution," there's been a lot of focus on interest rates, but that's like talking about performing CPR but you're only going to go ahead and give chest compressions without even considering whether you're going to go ahead and breathe into that patient that's dying. We have interest rate considerations but we also have structural changes that have been considered and have been made substantially by these parties between 2010 and 2013. The effects of those changes are now being seen, 2015, from an actuarial contribution was exceeded by the actual contribution. It's working. When we talk about there hasn't been that much change from going from 44 years into a funded status to 22 years, a

50 percent reduction. When my wife and I bought our first house, we talked about a 30-year mortgage and, oh, my gosh, how are we going to do that for 30 years? What did we do? We made additional contributions. We paid an extra payment, went down to 15 years. What have these parties done? They've considered that--not only structural changes but additional contributions. I was part of the negotiation of the most recent contract that is before the city council and the Omaha Police Officers Association for consideration. It's going to extend between 2015 to 2020. Guess what? There's additional contributions. Guess what? There's additional structural changes to the benefits that are going to be provided to those employees. We're taking away the widow's benefit where someone gets married after the time of retirement. It creates a savings to the plan. It helps the healing process accelerate further. We have a younger composition of officers that are coming on board. The value of those younger officers is that it's going to help accelerate the healing of that particular plan. So when we talk about: There hasn't been a solution, what is a solution; there hasn't been a change. There is a change. When I heard the Platte Institute, when I heard San Jose or Salt Lake, it's like looking at a sick patient and saying, you know, it's just too much effort; let's just go ahead and pull the plug on that person. But we see it in a different light. We see that person as being a very valuable person and how about we try to go ahead and treat that person? How about we give them some additional medication, additional therapy? Let's do something that's going to go ahead and cure that particular person rather than just going ahead and discarding them. Why? Because we value what is being given. When we talk about a decrease from 2010 of officer applications from 1,979 to 969 in 2015, a 51 percent reduction, now we're talking about the realities here. We're talking about making sure that we have safety within our communities. There was some discussion about what are we going to do about the potholes? Well, I'm going to tell you that reduction in homicides maybe locally is considered to be a greater priority than a reduction in potholes. That decision has to be made by the local government. And as long as there is a reasonable consideration of the ramifications of that, as long as there is a plan in place that is being considered by board members who are fiduciaries to that plan, looked at by investment advisers, looked at by a neutral actuary and they're all reaching the same conclusion that the road to go ahead and the solution is there and allow for it to happen, they are doing what they need to do. Collective bargaining works. Going ahead and retracting the right of collective bargaining raises legal issues and it also, in this particular instance, raises a tremendous issue in terms of the ability of this law to even go ahead and interplay with the existing collective bargaining laws and the laws under the CIR. When we looked at the comparators in this last case, out of the eight comparators, only one had a cash balance plan. And if we can't compare to that person--and that was under consideration by that particular board of commissioners--who are we going to compare to? So if we are a cash balance plan and we're mandated to go ahead and compare to others, who are they? And the answer is, there's no one out there. [LB30]

SENATOR LINDSTROM: Thank you, Mr. Dowd. We're at the five-minute mark. I appreciate your testimony. Any questions from the committee? Seeing none, thank you very much for your testimony? [LB30]

MIKE DOWD: Thank you. [LB30]

SENATOR LINDSTROM: Mr. Dan Olsen. And after Mr. Olsen we will have opponents that are not invited that would like to come up and testify. We'll have you after, so if you are in the audience and want to make your way up to the front, we'd appreciate that. Thank you. [LB30]

DAN OLSEN: Good evening. My name is Daniel Olsen. I'm the current fire chief in the city of Omaha, Nebraska. Senators, respected members of the Retirement Systems Committee, I'm here today to respectfully speak as an opponent to LB30. My position is such that I believe that the city of Omaha's unfunded actuarial liability related to the fire and police department's pension system be dealt with at a local level. Recent history has shown that the city of Omaha, fire and police department administrators, employee bargaining groups have shown the desire, willingness, and ability to negotiate in good faith in order to improve the pension system's unfunded liability. I have confidence moving forward that the current plans that are under local control are providing recovery and stability to the retirement system and will continue to do so moving into the future. I would simply ask that you allow local control of this issue. We have a mayor that is fully aware of this situation and fully committed to remedying the pension deficit. We also have a city council that's supportive. We have administrators from local departments, bargaining employees that are completely and entirely committed to remedying this issue. [LB30]

SENATOR LINDSTROM: Thank you very much. [LB30]

DANIEL OLSEN: Thank you. [LB30]

SENATOR LINDSTROM: Any questions from the committee? Seeing none, thank you very much for coming and for your testimony. We'll move on to opponents, uninvite...or I shouldn't say uninvited...(laugh) that are not on the invited list. We'll move to opponents. Sure. And can I get a showing of hands? Just I think we have two. Okay. Great. Thank you. [LB30]

AL MUMM: (Exhibit 6) It was afternoon, it's now evening. Good evening. My name is Al Mumm, A-l, last name M-u-m-m. I'm president of the Nebraska Alliance for Retired Americans Educational Fund and I'd just like to read a statement. The Alliance for Retired Americans feels that nationally, and this is a part of this issue, is an attack on retirement. There seems to be a concerted attack on Americans' ability to retire by some organizations and political officeholders. Defined benefit pension plans are particularly being attacked, especially in the public sector but in the private sector as well. Those attacking in the public sector do it under the guise of trying to save taxpayers money, though in the long run that does not play out that way. At the national level, Social Security, Medicare, and Medicaid are under attack by those serving Wall Street and insurance companies. At the city, county, and state level, pensions are the target of those short-sighted people. Retirement is supposed to be a three-legged stool--Social Security, pensions, and savings like 401(k) plans. Some public sector unions such as police officers and firefighters do not get Social Security. That one leg of the stool is already missing. Now some in this Legislature wish to remove the leg of pensions, leaving only one leg on the stool--savings plans reliant on a volatile stock market or cash balance accounts which are a miserable substitute for a defined benefit pension plan. During the last Great Recession, millions of Americans saw their 401(k) type plans devastated. Making police officers and firefighters whole retirement to be in the hands of the stock market on a cash balance account which gives them less retirement security is totally irresponsible and wrong. The pension plans of police and firefighters in Omaha are underfunded because the city has for many years failed to live up to its obligations in funding. Police officers and firefighters have again and again agreed to pay more and more of their hard-earned wages into the pension plans. Remember, these police and firefighters pay taxes too and, therefore, are subsidizing their own pay. Recruiting good qualified people to be police officers and firefighters means paying them a good wage and giving them security in their retirement; 401(k)s were never meant to replace pensions. They were meant to supplement pensions as part of the three-legged retiree stool. Telling future recruits to these jobs that they will no longer get a pension and that their retirement will be nothing more than a risky 401(k) plan or a cash balance account is telling them that they are not as valued by the city as those who hired on with a pension in the future and that the city is offering them a retirement in poverty. The police and firefighters unions and the city of Omaha can and are working their way through the issue of pension plan funding. Bills like LB30 are just plain the wrong way to address the issue. The Alliance for Retired Americans fights every day so Americans can retire with dignity. Our slogan, "Let's not be the last generation to be able to retire," speaks to the real threat to Americans having to work till they die. I urge you to kill LB30. [LB30]

SENATOR LINDSTROM: Thank you, Mr. Mumm. Any questions from the committee? (Laughter) Seeing none, thank you very much for your testimony. [LB30]

AL MUMM: Thank you. [LB30]

SENATOR LINDSTROM: Other opponents? [LB30]

JOHN CORRIGAN: Good evening, members of the committee. My name is John Corrigan, C-o-r-r-i-g-a-n, and I'm an attorney in Omaha. I also represent the firefighters--the Nebraska Professional Fire Fighters, Omaha Firefighters Local 385, Lincoln Fire Fighters Local 644--a partner with Mike Dowd. And a lot of things have been said that I agree with by the proponent...or the opponents of this legislation. I do think it's important to reiterate these two cities exist as a result of home rule charters. We have legislatively said you, city of Omaha, and you, city of Lincoln, are able to establish your own priorities, your own systems of government. And both of those home rule charters provide that the cities can create retirement systems, including pensions, and they have taken advantage of those authorizations under their charters approved by their voters. The charter wasn't established by the Legislature. It was approved by the voters of those communities, and so they have this right. And the charter in Omaha, in any event, says that, as Mr. Wells pointed out, half of the benefit for retirement is going to be paid for by the employees and the other half is going to be paid for, in substantially equal contributions, by the employer. And that's the language. And I can imagine that if the Legislature is going to say to the citizens of these two home rule cities that they now have limits placed on their ability to negotiate with their workers, there will be a legal challenge as to whether that obligation to make a substantially equal contribution exists at all. And then the question is, who's obligation is it? Who's going to pay it? Now right now these are thriving cities. There's no question about it. People are moving into Omaha. People are moving into Lincoln. And they have no problem selling the bonds that they issue. Both cities sell their bonds even though they have a bond rating, but maybe not a AAA. Lincoln does have a AAA bond rating by Standard and Poor's. They have no problem. Within 24 hours every time they issue bonds, they're sold because they're a good bet. Ninety-three percent of municipal bond issuers in the United States don't have a AAA bond rating. So, again, we are looking for a problem that doesn't exist. But I can tell you what the other interesting thing about the bond rating is, or the bond issuing, is that the cities have to tell the potential investors what their pension status is. And just looking at the most recent bond issue from the city of Lincoln, they represented to the investors, and they can't libel because that's against the federal law, based on the assumptions of the plan's actuary, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current and active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. Projected future benefit payments for all current pension members were projected through 2114. That's 100 years. And they're saying to their investors, we can...we are good on our money and we are a good bet. And for some reason the Legislature, and I'm sorry I'm over time, but I really don't think you're going to get tax relief, property tax relief in Gering because you have saddled the cities of Omaha and Lincoln with unfunded liability because you took away their ability to negotiate their retirement benefits for their public safety employees. Thank you. I'd be happy to answer any questions. [LB30]

SENATOR LINDSTROM: Thank you, Mr. Corrigan. Any questions from the committee? Seeing none, thank you very much for your testimony. [LB30]

JOHN CORRIGAN: Thank you. [LB30]

SENATOR LINDSTROM: Other opponents? We do have written letters, let me make sure I get this right: one from Susan Martin with Nebraska State AFL-CIO (Exhibit 11); Mark Salerno (Exhibit 12); Carl Mau (Exhibit 13); Mark Ondrecek with Steamfitters and Plumbers Local 464 (Exhibit 14); Rich Martines, president CWA Local 7400 (Exhibit 15); and Jason Hayes with the NSEA (Exhibit 16). We'll now have invited neutral testifiers: Pat Beckham, if you'd like to join us, please. Good evening. [LB30]

PATRICE BECKHAM: Good Evening. My name is Patrice Beckham, P-a-t-r-i-c-e, Beckham, B-e-c-k-h-a-m, 3906 Raynor Parkway, Bellevue, Nebraska. I'm here to testify neutral but as the actuary from the Omaha police and fire retirement system. The committee has spent a lot of time this evening heard a lot of good testimony and I don't want to linger because I know everyone has places to go and listening to an actuary is about the last thing anybody wants to do at 7:30 at night. So I will be brief. I largely wanted to just make myself available to the committee if there are specific questions. But you've heard...I'd like to just reiterate a couple of key issues, I think. You've heard, you know, action has been taken, it's a fifty-fifty proposition. I know the question was made, you know, why doesn't the city take their money and pay off the unfunded liability? Well, the fifty-fifty deal that's in the ordinance that the employees and the city share really kind of restricts them from doing that, even if they wish to do that. I was involved when the negotiations were going on. It was a difficult time. It's very hard to convince people to increase their contributions and decrease their benefits. That was accomplished both in 2010 by the police union and 2013 by fire. We talked earlier, other folks talked earlier about the funded ratio moving from 39 percent January 1 of '09 to 51 percent in January 1 of '16. That may seem like not a very big change, but I can assure you, as an actuary that works on a number pension plans, that is a significant change when you're looking at the size of the liabilities. There's over 50 percent of pay going into this plan right now. The members are contributing 15-17 percent, which is a pretty high contribution rate, and the rest is made up by the city. As you heard earlier, the projections are that the system will be fully funded. That date varies every time the actual experience of the plan varies. So the last time that was measured was 2014. We measured it today, I assure you it will be different, and it's heavily dependent on the investment returns. I wanted to quantify for you in maybe a different way as only an actuary probably is tuned into this, but we calculate a number that's really the ongoing cost of the plan for active members. And some of the members on the committee will recognize that term "normal cost," but that's just what it means: Given the benefit structure, the people that are in the plan, and the assumptions, what's the cost of the benefits? If you look back in the January 1, 2010, valuation was about 29 percent of pay that the benefit cost back then. In the '16 valuation, it's about 22 percent of pay. And if we look at the projections over time, that's expected to go down below 20. Okay. Why is that important? Well, it's a reflection of the lower benefit structure over time as more and more new hires come in and are in that lower-cost tier that we talked about, you know: 75 percent final pay with 30 years for police and 65 for fire. These plans are funded with fixed contribution rates. So as the ongoing cost of the plan goes down there is more money available to fund the UAL, but also, consequently, it's a long-term proposition. You just can't turn these plans from 39 percent funded to 90 percent funded in a matter of a couple of years. It's a long-term proposition, takes time for the additional contributions to go in, for the new hires to come in, and for investment earnings to do their job. So I think that's just a good way to quantify the substantive decrease in the benefits, the ongoing cost of benefits for being funded. The other comment is with the cash balance plan you've heard a number of comments there. Just as a practitioner in the pension plan design world for 30 years, any time you change the plan design there are ramifications. Okay? Good, bad, indifferent, there are ramifications and that needs to be studied particularly for public safety. And you've heard a number of issues from other folks about that group not having Social Security coverage, preretirement death and disability risk higher than certainly a civilian job. So there are a lot of plan design issues that need to be concerned as well as the cost. And you know, in a very simple way, if the costs are lower it's probably going to follow that the benefits are lower. And then that raises a whole nother issue about will people be able to retire when they need to. Again, probably none of us want a 70-year-old firefighter or police officer there because they can't afford to retire. So with that, I'll wrap up my comments and would be happy to answer any questions. One...I did want to mention one thing. These plans do...we do actuarial evaluations every year. We do long-term projections, 30-year projections, periodically every couple of years. And we do an experience study every four years now to look at all the assumptions and the methods. So it's not like, you know, everybody went, oh, the fix is...everything is good and we'll check in, in 25 years. We're monitoring it very closely. If changes need to be made, they'll be made in a thoughtful, you know, comprehensive analysis manner and not as a knee-jerk reaction. We will be performing that experience study for the Omaha police and fire retirement system later this year. So with that, I will... [LB30]

SENATOR LINDSTROM: Thank you very much. Senator Bolz. [LB30]

SENATOR BOLZ: A long time ago when this committee hearing started (laughter) someone referenced the 13th check contribution, and I think the term that they used was an "accounting fix." And I guess what I understood them to be saying was that that was an accounting fix versus a meaningful fix. And I just...I wondered if you had insight or comment on that. Is that something that adds meaning or is it, as that testifier's interpretation of it, more of an accounting fix? [LB30]

PATRICE BECKHAM: I will answer that sort of as an actuary that has information but not on behalf of Lincoln because I'm not here on their behalf. [LB30]

SENATOR BOLZ: Sure, that's fine. [LB30]

PATRICE BECKHAM: But I think it's important for the committee to understand what the situation was there. So I think you heard others testify that there was a 13th check COLA pool fund that was separate from the benefits that were funded kind of on the regular side of things. That COLA pool was financed by investment returns that were above the assumed rate of return. And about two-thirds of the return above that went to the COLA pool fund and could be used to pay only COLA benefits. So it's a word we use that's not very nice but it's called "skimming." So you're skimming off returns on the upside; obviously, you're keeping the plan...funding the basic benefits, keeping all the downside risk. And so the expected return is much lower and, in fact, the case was the expected return reflecting that skimming was 6.4 percent even though the entire portfolio was expected to earn 7.5 (percent). So the change that the city council took action on in June of 2016 was to essentially merge those two and eliminate the skimming. That's why the rate of return was changed from 6.4 (percent) to 7.5 (percent). It's a consistent assumption; it's just reflecting that there's no longer the skimming on investment returns. And in addition, the assets from the COLA pool fund came in but so did the liabilities and those were reflected in the valuation that we just completed as of August 31 of 2016. So it was not an accounting change. As a matter of fact, from an accounting perspective, if you looked at the GASB 67 reports, it's always been treated as one plan using a 7.5 percent rate of return with a change on the funding side because you made a fundamental change in how investment returns are reflected and how the benefits are funded and that was then reflected in the valuation. [LB30]

SENATOR BOLZ: That's helpful to me. Thank you. [LB30]

PATRICE BECKHAM: You're welcome. [LB30]

SENATOR LINDSTROM: Thank you. Any other questions? Thank you very much for your testimony. [LB30]

PATRICE BECKHAM: You're welcome. [LB30]

SENATOR LINDSTROM: And our last invited guest is Daniel Takash. [LB30]

DANIEL TAKASH: (Exhibit 7) Good evening, members of the Retirement Systems Committee. Thank you for allowing me to testify here today. My name is Daniel Takash, D-a-n-i-e-l T-a-k-a-s-h, and I'm a policy analyst for the Reason Foundation's Pension Integrity Project. This January, Reason Foundation authored two reports discussing the pension crises facing Lincoln and Omaha. These reports were co-published with the Platte Institute and distributed to you last month. The findings show that despite recent reforms made by both Lincoln and Omaha, both systems remain in a serious financial situation. We identified three major causes of the current pension crisis. First, both Lincoln and Omaha have failed to make the required contributions to their pension systems. The required contribution is the amount the plan must contribute to fully fund the promised benefits. Failure to make the full contributions means the plan will continue to be chronically underfunded, amassing even more debt. Since 1994, Omaha has made only 73 percent of the cumulative required contribution to the public safety plan. Lincoln has done better, paying about 94 percent of the required contribution over the past 15 years. However, since neither Lincoln nor Omaha made the required contribution between the years 2003 and 2008, when market returns were above the assumed rate, their plans are significantly worse off than they otherwise would be. Second, in recent years the investment returns for plans have underperformed relative to expectations. While booms and busts are a natural part of the business cycle that affect investment returns from year to year, the assumed rate of return for a plan should reflect the expected long-run average. This has not been the case. In Lincoln, the average rate of return for the past 15 years has been 5.2 percent compared to its 7.5 percent assumed return. Over the same period, the Omaha public safety plan only achieved a 4.8 percent return, while it assumed an 8 percent return. These low returns are likely to continue into the future. Economists and financial experts believe we are entering a new normal of low investment returns that will remain so for the foreseeable future. The causes of the slowdown are numerous, but as long as this is the case any plan that assumes a return greater than 6 percent will not be able to maintain its funded status by making the required contributions alone. The only tool available to most pension systems is to invest in risky, high-yield assets, but investing in complicated financial instruments is a difficult task and these volatile assets expose taxpayers to greater losses in the future. Third and most importantly, the reported value of the future liabilities is much lower than the true cost of these obligations. In order to quantify the present value of money in the future, financial economists use what is called a "discount rate" which reflects both the time value of money and the risk premium associated with making a given payment. The higher the discount rate, the lower the total present value of the liabilities. Because the probability of the city making its promised benefits...failing to make its promised benefits is low, the discount rate should mostly reflect the time value of money, also called the "risk-free rate." The yield on a 30-year Treasury bond is the most commonly used proxy for this figure. In 2000, the yield on 30-year Treasuries was 6 percent while the discount rate for Lincoln and Omaha's pension plans were 8 percent. This means the plans implied a risk premium of 2 percent. Today, 30-year Treasury yields are about 3 percent. If we use the same 2 percent implied risk premium as in 2000, the proper discount rate should be about 5 percent. Using this figure, the unfunded liability for Lincoln nearly triples from $44.1 million to $140.9 million, and the plan's funded status falls from 82.2 percent to 59.2 percent. Omaha's public safety system goes from 48.5 percent funded with a $629.8 million unfunded liability to 32.7 percent funded with a $1.2 billion unfunded liability. The effects of this cannot be understated because the use of an improper discount rate means an improper calculation of the total liability and, therefore, an improper calculation of the required contribution. Even if Lincoln and Omaha make the full required contribution and somehow manage to achieve their assumed investment rates of return on average, they would still not be fully funding the liabilities of the plans due to the fact that they are not accurately discounting the promised benefits. To summarize, failure to make previous required contributions have put Lincoln and Omaha in deeper debt than they otherwise would be, but making the required contributions going forward will likely not be enough. This is because the cities currently overestimate investment returns, making contributions lower than they otherwise should be. But most importantly, improperly pricing the future benefit payments by using the wrong discount rate substantially understates the true cost of the unfunded liability. Thank you for your time and I'm happy to answer any questions. [LB30]

SENATOR LINDSTROM: Thank you. I do have a couple questions. We've heard the unfunded liability percentage, 51 percent. Here you use 48.5. Is that the difference between the actuarial percentage versus the market percentage? [LB30]

DANIEL TAKASH: Yes, for all the figures in our papers and all the figures I use, we use the market value. [LB30]

SENATOR LINDSTROM: You use market versus actuarial (inaudible). [LB30]

DANIEL TAKASH: Correct. [LB30]

SENATOR LINDSTROM: So that's why it's down... [LB30]

DANIEL TAKASH: Yes. [LB30]

SENATOR LINDSTROM: ...relative to the actuarial number. Okay. And then I asked the question earlier, probably a couple hours ago, with regards to underlying investments inside of the two different plans. Do you know the breakdown of equities versus fixed income? You know, you talked about the 30-year Treasury being at 3 percent. I think the 10-year Treasury is 2 and change right now. But do you know the breakdown in the two different plans? [LB30]

DANIEL TAKASH: Yes. [LB30]

SENATOR LINDSTROM: Okay. [LB30]

DANIEL TAKASH: In the case of both plans, you've seen a substantial increase in investment risk moving away from fixed-income instruments more towards equities and alternative investments. In the specific case of Lincoln, in 2001, you had about 31 percent in bonds and 41 percent in other fixed-income instruments. In 2015, you saw only 21 percent in fixed-income instruments but 22 percent invested in real estate and alternatives, the rest being invested in equities. And you see similar statistics for Omaha. [LB30]

SENATOR LINDSTROM: Okay. So about, call it, 60/40, maybe a little bit less than that, 55... [LB30]

DANIEL TAKASH: About. [LB30]

SENATOR LINDSTROM: ...of equities. So you got a little bit more...I don't want to use the word "aggressive," but took on a little bit more risk in trying to achieve higher returns (inaudible)? [LB30]

DANIEL TAKASH: Yes, that's correct. If I had to give a round number figure, it would be about 20 percent in alternatives, real estate, about 20 to 30 percent in fixed-income instruments, and about 50 percent in equities. [LB30]

SENATOR LINDSTROM: And within there, is there criteria as far as the range? Could they go 100 percent equities if they chose or... [LB30]

DANIEL TAKASH: I am not aware of any statutory limits on the investment portfolio, so that would...so whatever statutory limits exists on how Lincoln or Omaha is allowed to invest their assets would be the answer to your question. [LB30]

SENATOR LINDSTROM: Okay. Any questions from the committee? (Laugh) I'll take that as a no. I think that's all the questions I had with regards to that. I do appreciate you coming in and your testimony. [LB30]

DANIEL TAKASH: Thank you. [LB30]

SENATOR LINDSTROM: Any other neutral testifiers? [LB30]

ADAM STRUMPF: I'd be happy to answer any questions regarding the asset allocation... [LB30]

SENATOR LINDSTROM: Okay. Just have a seat first, please. [LB30]

ADAM STRUMPF: ...(inaudible) special report. [LB30]

SENATOR LINDSTROM: Yeah. Have a seat first and spell your name and then we'll get into it. Thank you. [LB30]

ADAM STRUMPF: Right. Okay. My name is Adam Strumpf, A-d-a-m S-t-r-u-m-p-f. I'm with the firm DeMarche Associates, who's been the investment advisory consultant for the Omaha police and fire retirement system since 1980. I've been on the account for almost nine years and I can address any questions I think you had about the allocation of the fund. I'll first let you address or ask me questions... [LB30]

SENATOR LINDSTROM: Okay. [LB30]

ADAM STRUMPF: ..but...and I'd be glad to answer. [LB30]

SENATOR LINDSTROM: Any questions? Okay, I'll ask you a question. [LB30]

ADAM STRUMPF: Okay. [LB30]

SENATOR LINDSTROM: Do you want to touch on the underlying investments allocation? [LB30]

ADAM STRUMPF: Sure. The asset allocation has changed over the years addressing the falling yield in fixed income and has not moved...has moved to a lower level of fixed income but has not dramatically increased equities. The overall equity allocation among publicly traded domestic and international is 45 percent as the target. That could go up to a maximum of 60 percent. There are policy minimums and maximums around all asset classes. The fixed income, intermediate term and high-yield instruments have a target of 10 percent with a maximum of 13.6 (percent). And then among the alternatives, most of the alternatives are in more traditionally yield bearing investments, such as core real estate and the exposure to what someone might refer to as a higher risk or more volatile asset class, such as private equity, there's a 13.5 percent allocation. So I think the allocation over the years has addressed the expected return going forward over a long period of time. And we go through a detailed asset allocation study at a minimum of three, every three to five years, where we look at is the portfolio able to achieve the return that the client and actuary has said this is our required rate of return? So since we've been working with the police and fire, the 8 percent assumption has remained and we've continued to find asset allocations that have achieved this long term. [LB30]

SENATOR LINDSTROM: And so based on the breakdown, what I heard you say is you took down the percentage of the fixed income allocation but increased alternatives in there. Is that right? [LB30]

ADAM STRUMPF: That would be right. That would be the net change, that change (inaudible). [LB30]

SENATOR LINDSTROM: Is that because of interest rates? Is that... [LB30]

ADAM STRUMPF: That's because of interest rates. [LB30]

SENATOR LINDSTROM: Okay. [LB30]

ADAM STRUMPF: We recognize that intermediate term securities have the interest rate exposure that the yield is so low that the expected return over the next, say, five years would be potentially nothing. So zero to 1 percent is our estimate. [LB30]

SENATOR LINDSTROM: Uh-huh. Do the alternative investments inside there have a dividend yield attached to it (inaudible)? [LB30]

ADAM STRUMPF: Some of the assets did. So the core real estate has a cash-on-cash yield component. Some of the alternatives are meant to provide a very low correlation to the other assets to actually cause the month-to-month and year-to-year volatility decrease such as fund-to-fund hedge funds, which are a portfolio of a variety of managers of different style, long and short funds. [LB30]

SENATOR LINDSTROM: Sure. And the breakdown, you have an investment policy statement that describes the limitations as (inaudible)... [LB30]

ADAM STRUMPF: Yes, so... [LB30]

SENATOR LINDSTROM: ...equity exposure... [LB30]

ADAM STRUMPF: ...detailed investment policy statement that probably Chairman Sklenar could provide if you need. And it goes through, you know, every asset class, the limitations, manager guidelines to each of the investment managers. I think the investment committee, subcommittee of the board, has done an extremely attentive job in addressing the risks at hand

and...as well as the full board. So every time I go on a quarterly basis to address, to have a formal meeting, it's a whole day affair. So out of all of my clients, I think the Omaha police and fire are some of the most thoughtful as far as understanding that the return is a very important part of the stool. Of course, the benefits are another part. But our task is really to work with the client and actuary and say, okay, do we feel we can put together an asset allocation and implement that so that you'll achieve this return over a long term? I would like to note that the 15-year period that was referred to with a roughly 5 percent return is really within expectations of rolling 15-year periods. If we look at, I think Sergeant Hanson quoted this. He was our first speaker as far as the opponents today, and the data that I put together looking at the plan, if we go back to March 31 of '95 and every quarter we roll forward and say, what was the last 15-year return, the average return of all those quarters is 8.3 percent. And more importantly the median return, meaning the midpoint, so there's just as many returns higher and just as many returns lower, that was also 8.3 percent. So given that data, I'm not a statistician, I'm an investment expert, but given that data one could infer that the return distribution is normally distributed, meaning we can expect...we can make expectations based on the standard deviation of those data points, which was 2.9 percent. So a statistician would say, under normal distribution, 95 percent of the time you should expect a 15-year return between 2.5 percent and 14.1 percent with a mean of 8.3 (percent). So we've designed the allocation based on the last asset allocation study to be approximately 8 percent. I don't have the...it was probably 8.1, 8.2. [LB30]

SENATOR LINDSTROM: Do you feel...and I understand that you're not going to hit the 8 percent on the nose every single year. [LB30]

ADAM STRUMPF: Right. [LB30]

SENATOR LINDSTROM: It's an average. I get that. Do you feel comfortable with being able to achieve that 8 percent? [LB30]

ADAM STRUMPF: Over a long period of time. It's based on our inputs to our models that our asset allocation committee reviews and changes every year. We do inputs on all of the asset classes. The volatility of those asset classes and the correlations as far as how the assets classes work together to minimize risk and maximize return of the entire portfolio. So we feel comfortable that under long periods and not necessarily in the next 15 years but rolling 30-40 years that this is attainable and it has been attained. And one of the most important things to think about when you have folks talk about 5 percent, 6 percent is all we should expect, that may be true for an individual. For an institution such as a defined benefit plan, foundation, or endowment, you're looking at a very long life of the investment and potentially an investment in perpetuity. So the risk profile is very different, you know, than a taxable individual that has a lifespan and then a fixed income or cash flow profile that's quite different than a defined benefit plan. [LB30]

SENATOR LINDSTROM: Okay. I have to disagree with you a little bit on that, but that's for another day. [LB30]

ADAM STRUMPF: (Laugh) Okay. [LB30]

SENATOR LINDSTROM: With the top end of 60 percent in equities, with interest rates where they're...I just...I don't see it. But maybe you have different numbers than me. (Laugh) Any other questions? Okay. Appreciate your testimony. [LB30]

ADAM STRUMPF: Okay. Great. Thank you. [LB30]

SENATOR LINDSTROM: Thank you so much. We will...I think...any other neutral testifiers? Seeing none, Senator Kolterman. Oh, excuse me, we do have one neutral testifier written from Mayor Beutler from Lincoln in the neutral capacity. (Exhibit 17) Senator Kolterman, whenever you're ready to close. [LB30]

SENATOR KOLTERMAN: Thank you. Well, it's been a long hearing. I appreciate the fact that people have stuck around and testified, both pro and con and neutral. I want to make something very clear. When I introduced this bill, as I said early, it wasn't my intent to take any retirement benefits away from current plan members. At the same time, I do not want to reduce promises that were made to them. And you've heard here tonight and this afternoon that these firefighters and police officers have indeed taken cuts in their benefits, and I applaud them for that, and yet I don't think that was necessary. If the taxpayers and the city councils that put these plans into place would have made their obligations and taken care of their financial obligations, we wouldn't be having this conversation today. The reality is I'm somewhat disappointed in the attitude of the councils and their leadership. Past problems have led us to where we are here today. To a certain extent, shame on them. Their obligation, just like our obligation to our plans at the state of Nebraska, is to take care of the promises that are made to our plan holders. When we start talking about the ability to make...continue to make these things happen, there's a couple things that I think that stick out loud and clear to me. When we start looking at the contributions that have been made, and I understand that the firefighters in Omaha and the police in Omaha are doing their fair share, but last year over $62 million went into these plans. The city put $42 million into their plan. Between the city and the employees, they're putting over 50 percent of their income into these plans. If you start looking at the private sector, that just doesn't exist. And the rationale behind that, it's just unconscionable to me. They are making progress. But our job, as outlined by the Unicameral in 19...2013, is to watch that progress and monitor that progress, and if we don't see progress that we think is appropriate is to call attention to it. So that's what we're doing here today. Final thing I would say is $29 million went into...or was in the plan in the form of a 13th paycheck with the city of Lincoln. That...or $27 million infusion didn't hurt how their plan looks today. In other words, it brought it up considerably to where it is. Let me ask this--How long and where are they going to come up with the money in the future? Is the city of Lincoln going to be able to come up with another $27 million this year? They're raising their interest rate projections to 7.5 percent; Omaha is at 8 percent. If they lower that to 7.5 percent, similar to what we did at the state level, that's going to cause a bigger ARC. So we're not done talking about this. The problems are existing and they're not going to go away. They're just compounding themselves and, in my opinion, we're treading water. And again, it's not the firefighters, the police officers that are to blame here because they made their share of concessions. The problems are with our cities that have not made their contributions over the last 30 years like they should have made them. So with that, I want to thank my colleagues for sticking around. I mean we don't do this very often in hearings. I'd like to thank the firefighters that have been here and the testifiers that came from long distances, both in support and in...and as opponents. My door is open. Our committee is here to listen. Ron Trouba, Chris Milisits, Steve LeClair, Sergeant Aaron Hanson have all been in my office. We've talked through some of these issues and I appreciate them coming and talking through this. I don't think we're done, though. I think continued talk, continued negotiations, how do we get them to a point where they are funded adequately to get what's promised to them. So with that, I would try and answer any questions you might have, and thank you for listening. [LB30]

SENATOR LINDSTROM: Thank you. Any final questions? Seeing none, thank you very much, everyone, for attending. Some of the firefighters, police officers, thank you. Have a good night. And that will end the hearing on LB30. (Exhibits 18, 19, and 20) [LB30]