

Transcript Prepared By the Clerk of the Legislature
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Nebraska Retirement Systems Committee
March 20, 2017

[CONFIRMATION]

The Committee on Nebraska Retirement Systems met at 8:30 a.m. on Monday, March 20, 2017, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on an appointment to the Public Employees Retirement Board. Senators present: Mark Kolterman, Chairperson; Brett Lindstrom, Vice Chairperson; Kate Bolz; Rick Kolowski; and John Stinner. Senators absent: Mike Groene.

SENATOR KOLTERMAN: We do have a quorum. Welcome, everybody, to the Nebraska Retirement System Committee hearing. To my left is...

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

KATE ALLEN: Kate Allen, legal counsel for the committee.

SENATOR KOLTERMAN: And to my far right...

SENATOR KOLOWSKI: Oh, go ahead.

SENATOR KOLTERMAN: Katie.

KATIE QUINTERO: I'm Katie Quintero, committee clerk.

SENATOR KOLOWSKI: Rick Kolowski, State Senator, District 31: Omaha.

SENATOR STINNER: And I'm John Stinner, District 48: all of Scotts Bluff County.

SENATOR KOLTERMAN: We are here for a confirmation hearing this morning for James D. Schulz to the PERB board meeting. He'll be replacing Ron Ecklund, and I would just like to say for the record that Ron Ecklund has done a wonderful job in...I think he's immediate past president of the PERB board, the chair. And he will be missed, but now we have to listen to Mr. Schulz. So I would open this up and ask you to tell us a little bit about yourself, Jim.

[CONFIRMATION]

JIM SCHULZ: Great. Thank you, Senator Kolterman and the committee. My name is Jim Schulz, J-i-m S-c-h-u-l-z. And I do have a couple of personal comments I'd like to make along the way. Certainly I have some other comments as well, but maybe I can weave those into my

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answers and take questions that you might have. First of all, I would like to thank Senator Kolterman for representing me and my family over the years. We're Seward County fifth generation farmers from way back when. I left the farm because of math and hay fever, but the rest of the family is still there. And I've always considered District 24 as part of my representation as well. So, Senator, thank you for your able, positive, and collaborative representation of Seward County and your district, as well as the state of Nebraska itself. I've done a little research, obviously, as I looked into this potential appointment, regarding the PERB and NPERS and the committee itself. And I have to say particularly what I've seen the last couple of years has been very positive. It seems like we're moving in the right direction. I've mentioned to Director Chambers a couple of times some things that come to mind. When I get involved with any organization, I'm looking for two things. One, constant states of improvement; and I've seen that in the legislation that has gone through this committee, as well as the work that NPERS has done under Phyllis' leadership. And the second thing is high touch, low touch; high touch being the ability to work one on one with individual retirees and their families, and low touch being doing it yourself. And here again, I think we've done a good job as NPERS and as PERB and as the Legislative Committee in improving both of those again with some continuous improvements. So, you know, those are just some thoughts that I have going into this. And certainly, Senator or the committee, if anybody has any questions I would be happy to answer those. I think my background information is pretty straightforward, but there's some other things that I might be able to fill in the blanks if you have questions. [CONFIRMATION]

SENATOR KOLTERMAN: So questions from the committee? Jim, tell us a little bit about your professional background. You started out in actuarial science, didn't you? [CONFIRMATION]

JIM SCHULZ: I did. And as I mentioned, math kind of moved me from the farm to the university, and actuarial science was the main draw. And at that time, you couldn't major in actuarial science through business administration, so all of my electives were actuarial science courses, which is a little unusual. But that was the route that I took to begin with. And at time, Bankers Life Nebraska, which is now Ameritas, had an actuarial science scholarship that I applied for and eventually was awarded. And part of that also involved the ability to work part-time during the school year. So I worked part-time in the actuarial department at Ameritas, ended up going full-time after school, and eventually went into their pension administration department when ERISA came around in the '70s and restated retirement plans, did some pension administration work and such in the home office before I went out into the field and joined my partner for an employee benefits consulting firm that we built up over the years. And worked primarily with small employers and their employee benefits, my specialty probably being more on the retirement plan side. And my partner and I transitioned our ownership to some of our internal producers at the end of '09, and then I was given the opportunity to come back to Ameritas and be senior vice president of the retirement plans division for a few years before I formally retired from there as well about three or four years ago. Coincidentally, the team

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Nebraska Retirement Systems Committee
March 20, 2017

that...not coincidentally, but factually, the team that handles the record keeping for NPERS and the PERB reported directly to me at Ameritas. And they did such a good job I was never involved in it other than to just watch the work that they've done. And from what I hear, they've done a good job and I felt that they were at the time. So I did retire at the end of 2013 and continued to stay active with some boards and some other things along the way. So I think those are some of the things I wanted to interject in there, Senator. And again, if other questions, I'd be happy to entertain those. [CONFIRMATION]

SENATOR KOLTERMAN: Thank you, Jim. For the record, Senator Bolz has arrived.
[CONFIRMATION]

SENATOR BOLZ: Good morning. [CONFIRMATION]

JIM SCHULZ: Good morning, Senator. [CONFIRMATION]

SENATOR KOLTERMAN: Any questions? [CONFIRMATION]

SENATOR STINNER: I just have one, maybe an observation more than a question. Is that as we try to move from defined benefit plans to more of a cash-based plan, you know, I see that as mitigating some of the unknowns liability-wise and moving to something that I think we can afford to do over a long period of time. [CONFIRMATION]

JIM SCHULZ: Sure. [CONFIRMATION]

SENATOR STINNER: Is that something that you feel strongly about or just where are you at?
[CONFIRMATION]

JIM SCHULZ: Well, in general I feel strongly about that particular issue. Primarily from the ability to continue to provide the benefits that we have been providing on the defined benefit basis and the liabilities that are attached to that, the uncertainty of funding and interest rates and assumptions moving forward. It's just a matter of transferring risk. And we're transferring risk back to the individual if we move to a defined contribution to a cash balance type of plan. That's okay, as long as individuals understand that, as long as they get good direction on how to take care of themselves from a retirement perspective. I've always compared it to parents and their kids. If parents do a good job raising their kids, helping them understand what they need to do, and putting them into a position to be responsible citizens along the way, that's great. But not all parents do that and not all kids listen. Sometimes you transfer the responsibility and the accountability to someone other than yourself. And we're in a world of more personal

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Nebraska Retirement Systems Committee
March 20, 2017

accountability I think moving forward, and part of that has to do with this particular type of retirement plan. In general it makes sense. How we get there, when do we get there is another issue. I like where we've gone with the funding of our plans. I haven't looked into the other states as much as I should at this point, but from what I hear we're way ahead of everyone else in terms of funding for a defined benefit plans. And again, kudos to this group and to NPERS and the PERB for putting us in that position during some pretty turbulent times. Does that answer...
[CONFIRMATION]

SENATOR STINNER: Yes. [CONFIRMATION]

JIM SCHULZ: Or did I dance around it too much? [CONFIRMATION]

SENATOR STINNER: No, that was fine. I also look at investment choices and I think there was a movement, at least on the pension side, to go to private equity. And I personally have a little bit of a problem with that, simply because they're longer-term investments, generally 10 to 15 years. Disclosure is not the best in the world, probably not regulated the best in the world. Is that kind of square with your judgment on it or would you like to see some sort of mix of private equity in with what we're doing? [CONFIRMATION]

JIM SCHULZ: I think a mix is fine, but you need to have the appropriate mix and the appropriate risk levels attached to those compared to your tower block of business. When I was at Ameritas, I was on their benefits committee. And part of our challenge as well was funding our defined benefit plans. And part of that was asset and liability matching. And I know we're doing some of that, and I actually have worked with our actuary Pat Beckham over the years in the private sector. I've worked with her in the past, so I know that she's directing us in the right way. But private equity could be a part of that, but I think Michael has done a nice job of giving us a good diverse mix of investments. Smaller employers either shouldn't be doing private equity or don't have access to it, but we have a wide enough, diverse enough investment portfolio that I think it's appropriate to have some level. What that level is, how risky it is along the spectrum of the whole risk factors, I'd have to look at in a little more detail. Don't have a problem with it if it's at the right level. You know, I'm involved with the bank as well and we look at the risks of some of the assets that we have and the loans that we have. And, you know, you can de-risk yourself to the point where you lose any advantage whatsoever compared to the market. And from what I've seen, I think we've been able to enhance our returns with some diversification and some maybe alternative investments if you will that have helped along the way. I think our returns have been pretty good. [CONFIRMATION]

SENATOR KOLTERMAN: Senator Bolz, you had a question? [CONFIRMATION]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
March 20, 2017

SENATOR BOLZ: Good morning. My apologies, I'm meeting hopping this morning. So I'm sorry if there was previous conversation related to this question, but to what degree have you followed the policies that have come out of the Retirement Committee and through the Legislature in the past couple of years? [CONFIRMATION]

JIM SCHULZ: I've read through...frankly, I've read through all of the minutes that were published, I've read through the policies and procedures. I don't know that I know the history of all of those... [CONFIRMATION]

SENATOR BOLZ: I'm sorry, I just want to make sure that we're communicating clearly. By "read all the minutes" do you mean read the transcripts? [CONFIRMATION]

JIM SCHULZ: The NPERS minutes...or the PERB minutes for the PERB board, not the transcripts of the committee itself. [CONFIRMATION]

SENATOR BOLZ: Okay. [CONFIRMATION]

JIM SCHULZ: But I have looked at the legislation that's passed and some of that. I haven't really gone into the background I guess of what exactly those changes have been. [CONFIRMATION]

SENATOR BOLZ: I'm asking because your concurrence with Senator Stinner's analysis regarding sort of the need for cash balance in the future I'm wondering if that is based on just a general broad philosophy or whether that's based on your analysis of public policy that's come through. I'm just trying to understand why you're comfortable being in that position at this point if you haven't followed. [CONFIRMATION]

JIM SCHULZ: Primarily, well, it was a general comment. Not specific to the state, but in general. Thirty years of employed benefits consulting work with employers, facing those decision is what brought me to that conclusion. We had 300 or 350 corporate clients. And by the time that we had sold our business if we had one that still had a defined benefit I would be surprised. And I know it's a different world. [CONFIRMATION]

SENATOR BOLZ: And describe for me what you perceive those difference being between corporate and public employees benefits programs? [CONFIRMATION]

JIM SCHULZ: I think historical benefits have been provided, compensation levels. Again, most of ours were noncollective bargaining, as opposed to collective bargaining. So again, history comes into play to some extent. And I do see particularly our plans that we have as being

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Transcriber's Office

Nebraska Retirement Systems Committee
March 20, 2017

substantially different from the plans we worked with over the years in the private sector.
[CONFIRMATION]

SENATOR BOLZ: Yeah. You've given me pause by sort of having analysis at this state in the game so. [CONFIRMATION]

JIM SCHULZ: Excuse me? [CONFIRMATION]

SENATOR BOLZ: I said I just needed to take a pause because your concurrence with that analysis just made me hesitate for a second because, you know, we've got to make sure that things are linking up. [CONFIRMATION]

JIM SCHULZ: Oh, definitely. [CONFIRMATION]

SENATOR BOLZ: And I don't know that that move to cash balance plan is a foregone conclusion, especially in the short-term. And just wanted to make sure that that wasn't your analysis at this stage in the game. [CONFIRMATION]

JIM SCHULZ: I didn't mean to imply that we need to move to cash balance, all I was just indicating was some of my past background and what I saw in the private sector.
[CONFIRMATION]

SENATOR KOLTERMAN: Other questions? Jim, thank you. [CONFIRMATION]

JIM SCHULZ: Great. Thank you, Senator. [CONFIRMATION]

SENATOR KOLTERMAN: For those of you who don't know, I've known Jim for many, many years. And we won't go into too much detail there. [CONFIRMATION]

JIM SCHULZ: Time to close the hearing. [CONFIRMATION]

SENATOR KOLTERMAN: Do we have any other proponents? Were you here to testify? Okay. Any opponents? Any neutral? Then we will close the hearing. [CONFIRMATION]

JIM SCHULZ: Great, thank you. [CONFIRMATION]

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Nebraska Retirement Systems Committee
March 20, 2017

SENATOR KOLTERMAN: And you've got a PERB board meeting this morning you're going to go to? [CONFIRMATION]

JIM SCHULZ: We do, over at Ameritas. [CONFIRMATION]

SENATOR KOLTERMAN: Thank you. [CONFIRMATION]