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The Committee on Nebraska Retirement Systems met at 12:00 p.m. on Thursday, May 18, 2017, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on the Omaha School Employees Retirement System valuation report. 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 and we've got some other obligations this afternoon so I think we'll start. My name is Mark Kolterman. I'm from Seward, Nebraska. I represent District 24. Welcome and thank you for coming to the Nebraska Retirement Systems Committee hearing. My committee members are, from my left.

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

SENATOR KOLTERMAN: And to my immediate right.

SENATOR KOLOWSKI: Rick Kolowski, District 31, Southwest Omaha.

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

SENATOR KOLTERMAN: And I believe that Senator Stinner and Senator Groene are planning on being here. I haven't heard otherwise. My staff is Katie Quintero. She's our clerk. And our legal counsel is Kate Allen. And we have Bobby as our page again today. Thanks again, Bobby. He does a great job. I think everybody here pretty much knows how this works. If you're going to speak please sign in. We're not going to limit you to three minutes today, Pat. (Laughter) We'll take up the OSERS valuation report. It's the only item on the agenda today. Please turn off your cell phones. If you want to testify in support or against, please come forward as time permits. With that, we'll open it up to Pat Beckham, our actuary.

PAT BECKHAM: Thank you, Senator Kolterman, members of the committee. It's my pleasure to be back with you today to kind of give you an update about what's been going on with the Omaha School Employees Retirement System. Had a lot of activity in the last several months which includes an experience study and then a valuation as of January 1, 2017. I'll be sharing the results of both of those with you today and I believe you all have hard copies of the presentation we'll use to walk through that. As always, please stop me along the way if you have any questions. So page 2, we talked about. Page 4, a little bit of background on experience studies. We did visit with you last fall about the results of the experience study from the Nebraska Public

Employees Retirement System, but the assumptions have a significant impact on the calculation of liabilities and the actuarial contribution rates. So they're very important. It's a key piece of actuarial work that's performed for every retirement system. The future benefit payments or the liabilities of the system, those are unknown and dependent on a number of contingent events, so we use assumptions that help us estimate the timing of those future benefit payments. That then drives the liability amount and the assumed rate of return helps us develop the contributions that need to go in to fund the benefits. In general, we're trying to shoot for kind of middle ground, we're not...with assumptions. We don't want them to be overly conservative nor overly aggressive because they drive the allocation of costs. And those costs are shared between the members and the employers. So we're, again, shooting for really what we call our best estimate. And then remember, assumptions are just that. They are assumptions. They're your best estimates. There's a lot of work and expertise that goes into that, but actual experience can vary from the assumptions and ultimately over time that's what will drive the cost of the system. On page 5, so the experience study is a chance to take a giant step back, high view, and look at everything that is used in the valuation process, both assumptions and methods, evaluate those assumptions, the actual experience, and really make a decision whether to retain that assumption or perhaps make a modification. The actuary's role is to educate the board of trustees and allow them to have enough information to make an informed decision, but ultimately the choice of the assumptions is their decision. They can adopt all of the recommendations, none of them, or anything in between. And there have been a few instances in my professional experience where boards have not adopted exactly all of the assumptions. Again, the assumptions are not going to impact the true cost. True cost of any retirement system are the benefits that are paid out. These assumptions don't have any impact on that benefit. Slide 6, OSERS has always performed experience studies on a regular basis, but they've been on a kind of a five-year schedule. And the last experience study covered the period from September 1, 2007, through August 31, 2012. They have historically had a valuation date of September 1. That is just changing this year. So the legislation that required a four-year experience study kicked this in to where we have an experience study that I'm reporting to you on that covers the period from September 1, '12, through August 31, 2016. And that's the information you'll see today. On page 7, I mentioned that we look at the actuarial methods as well as the assumptions. And these methods are really the drivers of the contribution calculations, is what we would call the system's funding policy. And that includes the actuarial cost method which is just when we look at the value of all those benefits and we assign it to years of service, how's that going to be done? The assets smoothing or valuation method, and I know we've talked about that probably every time you hear me, that we don't use pure market value in our calculations. We're using a smoothing method that kind of allows the volatile ups and downs of the market to average out. And then the amortization policy for the unfunded actuarially accrued liability is the third leg of that funding policy. So on slide 7, you can see the column that talks about the current method and then the recommendation that came out of the experience study for these three items. So no change to either the actuarial cost method or the asset valuation method, but a recommendation to make a change on the amortization policy. In the past, OSERS have had what we would call one amortization base, which was just every year we recalculate the unfunded liability and whatever that number is, that's what the amortization base is. And then we make a calculation. In the past, it's been 30 years that started in 2013 and has come down one each year but there's just one calculation and that's the amortization amount. I don't know if you're close enough to know, but for the state plans there's a little bit different methodology in place and that's actually the recommendation that we're moving to, that type of amortization where we really are going to have pieces or layers of amortization. So the recommendation is to keep that existing base, what we call the legacy base, on its track, okay? So it's more of a fixed obligation with a fixed payment schedule. And then every time we have variations in the unfunded liability as we measure them in the valuation, that creates a new amortization base with its own payment schedule that's a 25-year payment schedule. So it is similar to the methodology being used by NPERS. The period is 25 for the new bases. I think for like the school retirement system, I believe it's 30. So we're seeing a lot of activity moving from that single base to the layered approach. It kind of avoids that cliff at the end, so you always have these staggered periods. Then as far as assumptions, on page 8, we really have two types of actuarial assumptions that are used in the valuation: economic assumptions and demographic assumptions. The economic assumptions generally are very powerful, in particular, the investment return assumption is a major driver of the cost of the system. But price inflation is very important because it touches a number of the other assumptions, including investment return, kind of general wage growth which then impacts individual salary increases, and then payroll. On the demographic side, those are, you know, what happens to the members. When do they leave? When do they terminate employment? When do they retire? When will they die? For demographic assumptions, there tends to be a lot of reliance on the actuary. We don't tend to get challenged a lot on mortality or that type of an assumption. On the economic assumptions, you know, everybody kind of has an opinion and general information and so there tends to be a little bit more discussion on that. Just again to remind you, as credentialed actuaries we follow actuarial standards of practice which are issued by the Actuarial Standards Board of the American Academy of Actuaries providing guidance to the process that we should follow, not the ultimate assumption to be recommended but the process. And there is a separate standard for economic assumptions and another for demographic assumptions. On slide 10, we use what's called the building block approach for economic assumptions. Again, you can see if you look at the little graphic there that inflation is a component of the investment return, the individual salary increases, the general wage growth. That has to be the same. It has to be consistent. We can't cherry pick, oh, we want to high inflation assumption for investment return but a low one for salary increases. So our standards tell us that. I think it's pretty logical to think about it that way, and then the same with the productivity component for individual salary increases and general wage growth. Slide 11, I know our time is limited today, so I'm picking and choosing what's...where the value is to have our discussions. I mentioned that the investment return assumption is a key driver of costs. Just a reminder that, again, the valuation date for OSERS has been changed to January 1, so we'll be doing valuations every January 1. The trust fund is invested by the Nebraska Investment Council effective with this year. And the long-term asset allocation for OSERS is intended to be the same as for NPERS. So it may take a while to get there, but again we're using...set in this assumption that's a very long-term assumption. So it certainly seems we have the same inflation assumption for OSERS. The money is invested by the Nebraska Investment Council, same asset allocation. It sure seems pretty logical that the rate of return should be the same, the assumed rate of return, and it is indeed. If you look at slide 12, a little bit of a summary on the economic assumptions. So you will see, under the recommended column, that very first line, that we are recommending that the price inflation assumption be lowered from 3 percent to 2.75 percent--that's consistent with the recommendation last fall for NPERS--and the real rate of return lowered from 5 percent to 4.75 percent. That results in a decrease of 50 basis points in the investment return assumption from 8 percent to 7.5 percent. Then inflation again touches the salary component, the general wage growth, on that second set of numbers. So price inflation is 2.75 (percent). Productivity has been 1 percent and we're recommending that go to .5 percent, which brings sort of the general, across-the-board increases for wages down from 4 percent to 3.25 percent. It's been a pretty common trend for our clients as well as when we do actuarial audits we get to see what other actuaries are doing, and it's been pretty consistent. And then because we're amortizing the unfunded liability as a level percent of payroll, we have to make an assumption. How will future payroll grow? And we use the general wage growth for that proxy and that's 3.25 percent. And then a very minor impact on the valuation, it's just members are putting contributions in to fund the system and there is interest that's credited on those and that's essentially tied to inflation. All right, so for demographic assumptions, I mentioned earlier, these are events that happened to individual members. And the OSERS data, you know, it's coming from a single employer so we actually get data that identifies the certificated group from the classified group. And we develop assumptions separately for those groups because the demographic profiles of those members and their behavior is different and we don't have that advantage with the state retirement system. So slide 14, measuring demographic experience, we're really looking what actually happened to each person that's in the system every single year, okay? So if we're doing a four-year experience study, we're tracking that person every year. Did they stay those...each one of those years? Was there one year they terminated employment? Did they retire? That's what gives us the actual experience. And then we compare that with what the assumptions would have anticipated. We kind of do a comparison where we look at the actual number divided by the expected number and that gives us an A/E ratio; that's just a measurement of how well the current assumptions are anticipating experience. An important part of this analysis though is assessing the credibility of the results. And that essentially is just how much weight are we going to assign to that when we consider whether a change should be made. The more data you have, the more credibility you have. So if we were working on CalPERS or CalSTRS, we had lots and lots and hundreds of thousands of actives, there would be more credibility than there is for a group this size. Also, if we have more years of data, that's more credible. We also look if there's odd things that happened during the study period. When we came off of the Great Recession and salary increases were flat we didn't say, oh, they're never going to get a salary increase in the future. So that plays into it as well. Slide 15, just a general idea of how changes in these assumptions impact liabilities and costs. Mortality is kind of an easy one to wrap your head around because we're making benefit payments for as long as people live. So if we assume mortality decreases--that means there's a smaller chance of dying; people live longer--it costs more. It increases your liabilities. With retirement and people retire later, they may get a bigger benefit but it actually lowers costs. You're paying the benefit over a shorter period and you're funding it over a longer period. That's a positive impact for the system. And then, of course, lower salary scale means ultimately lower benefits; that decreases the cost. And termination, if we have fewer people leave, we ultimately have to pay them a benefit, that increases cost. And then refund by members is usually a pretty small part of the equation but if that decreases, again there's an increase. So on page 16, there's a table to summarize the changes from OSERS experience study for demographic assumptions. And I will really just point out on the mortality, we did make a move there to the most recently published table by the Society of Actuaries, the RP-2014 table, and with some age adjustments to get the fit better for this particular group. We did look; the school retirement system uses a variation of the RP-2014 table. That specific table was not a particularly good fit for Omaha, which just reinforces what Brent and I keep telling everybody: One size does not fit all when it comes to mortality. We made some modest changes in retirement. We moved for terminations and salary increases to an assumption that is strictly based on service. Again, that's pretty common in what we see across the country, and then a very minor change for our vested members. They can leave their money in and draw a benefit or they can take their money out. And that refund election was decreased for the classified groups from 50 percent to 40 percent. The cost impact I'll wait and share with you because that was measured in the January 1, 2017, valuation. So page 17, I'll just kind of wrap up the experience study. There were a number of changes in this study which wasn't particularly surprising because the prior study did cover that period after 2008 and there wasn't a lot of credibility assigned to the demographic experience. The most significant though was, without a doubt, the change from 8 percent to 7.5 percent for the investment return assumption. We're scheduled to do these every four years. It's a good practice. There's a reason that that's done. It's good governance. It's continual. We're always looking to see if the assumptions need to be changed because there's such a foundation driving the actual valuation results. So again, they're assumptions. Some people are like, well, don't change anything. The costs are going to unfold as they're going to unfold. What we're trying to do is get ahead of that, make changes when we need to so funding can follow those changes and we can avoid something unpleasant later on. Any questions on the experience study before I dive into the valuation results? No? All right. Very good. So slide 19, the actuarial valuation, again, you'll remember this is a point-in-time measurement. So for OSERS, this is the first time we've done any one, January 1. It's a little bit different because we've always done it September 1, which is closer to the school year. What it's all about is we're trying to measure assets and liabilities, evaluate the funding progress, the funded status, and then based on the funding policy that the board of trustees has developed, look at the sufficiency of the fixed contribution rates that are in statute, and again based on the statutes, if there is a difference between the actuarial contribution rate and the statutory contribution rates, there is an additional funding requirement for the school district. Again, every time there's a valuation that gives us an opportunity to look back at the year, in this case, 16 months that have transpired to see how the actual experience compared with what the assumptions would have anticipated. And then if we're doing models, we're looking to see if there are any trends or concerns. So general findings on page 20, again we're using smooth value of assets, what we call the actuarial value. On that basis, the rate of return, the annualized rate of return, was 4.4 percent. That was less than 8 percent. We were using 8 percent for the prior period. So that created what we call an actuarial loss--less favorable experience than what the assumptions anticipated. On a market value return was about minus 1 percent. And we'll look at the numbers a little bit closer, but the deferred investment experience, which is just the difference between the smooth value and pure market value, has increased to $189 million which is about 16 percent of market value. We generally kind of have a collar around that don't let it go more than 20 percent. So it's getting closer. It was about 8 percent last year in the last valuation. We did have an actuarial loss on liabilities that was due to higher salary increases than anticipated, in particular for members with higher years of service. And if you think about it, if you've got higher years of service, you're probably older and closer to retirement and higher salary and all those things mean higher liabilities. So you take a bigger impact in the valuation if your long service members get high increases than if your new teachers do. So we saw the funded ratio decrease from 73 percent to 65 percent. Accompanying that was, of course, an increase in the actuarial contribution rate. We'll look at membership first, membership assets, liabilities, and contributions in the next few slides. Slide 21 is just comparing the active membership. And again, because we have two groups--the certificated group, the classified group--and now three tiers, it takes several lines to adequately compare all that. But bottom line, the active count is up slightly from the September 1, '15, valuation. You can see the breakdown by tiers. We're going to continue to see Tier 1, the number of members in Tier 1 go down as people terminate or retire and are replaced by folks in Tier 3. Tier 3 was just effective September of '15, I believe...or '16. So we don't have a lot of folks in that group. Page 22, kind of pulling you back a little further looking at the big picture, again, this has the summarized information from the prior slide. You can see, you know, just under 7,500 active members in OSERS on January 1, '17, up about 1 percent from the 9-1-15 measurement. Retirees and beneficiaries, that number tends to go up, tends to be more folks retiring than the number falling off the roll, and then an increase in inactives. So the total membership for OSERS, 13,386, compared to just under 13,000 with the September 1, '15, valuation. So the membership drives the liabilities. All right, page 23, this is an important slide. I mentioned with the experience study that I didn't want to talk about it then, that we'll talk about it here. So you have two columns...three columns of numbers. The far left column that says old assumptions, this is what the January 1, 2017, valuation results would have looked like without any change in assumptions or methods. And the column next to it labeled new assumptions is implementing all the recommended changes and actuarial assumptions and methods. And the far right column is just the difference. So you can see when we look at these changes...and again, the biggest change is moving from 8 percent to 7.5 percent on investment return. The actuarial accrued liability went up from $1.9 billion to about $2.1 billion--so an increase of over 7 percent. Assets don't change, so it's very leveraged when we're looking at the difference of those two numbers. The unfunded actuarially accrued liability increased from $575 million to $713 million. Okay, so $138 million increase in the unfunded liability simply as a result of the change in the assumptions. And that's just again a big reflection, if you're not going to make 8 percent return, your liabilities are higher, less investment income coming in. The bottom half of that chart is looking at the contribution rate, the actuarial contribution rate. Again, this is driven by the funding policy of the board where we have a legacy UAL that's amortized over the remainder of the 30-year closed period, which is 27 years and the new piece for the assumption change over 25 years. So we have two pieces to that contribution--normal cost rate and unfunded actuarial accrued liability contribution. They both go up. This is the problem when you change the discount rate. The ongoing cost of the plan goes up and the unfunded liability of the plan goes up and you have kind of exacerbated the increase. So you can see that the normal cost rate from the ongoing cost of the plan has gone up 1.63 percent to over 13 percent of pay. And then the unfunded liability, we know that dollar amount is up, but also we're not anticipating payroll to grow as high in the future. So that means you have to put more in starting now. So you kind of again get hit with both of those items. The bottom line, the actuarial contribution rate goes from 21.75 percent to 26.29 percent, a difference of over 4.5 percent of pay. Just to refresh your memory, when we look at the pieces--the member piece, 9.78 percent; the school district piece, 9.88 percent; and the state putting in 2 percent--that adds up to 21.66 percent. So you can see under the old assumptions just about sufficient, but a shortfall, a considerable shortfall based on the new assumptions. Slide 24, looking at a little more detail on assets. Again, two columns, the actual market or fair value and then the smooth or actuarial value. Again, September 1 of '15, there was a difference. Actuarial value was higher by $102 million. You can see the cash flows in and out. January 1, 2017, actuarial value is $189 million higher than pure market. And that's...we had deferred losses and then we had market experience that was far lower than assumed, so it's not a particularly big surprise. Slide 25, the funded status, going to look at this a couple of ways, both subtracting actuarial assets from actuarial accrued liability; that's the top half. You saw these numbers earlier on the other slide. When the September 1, 2015, valuation was performed the unfunded liability was $486 million. With this valuation, it's at $713 million and we'll look in minute at the components of change in that. The second way we look at this information, because the numbers tend to be very big and differences in big numbers can be misleading, so we'll look at it as a ratio, as a funded ratio. We like to do that on both the actuarial value and the market value just to keep the full picture in front of you. So again, in the September 1, '15, valuation, the funded ratio was 73 percent on an actuarial value basis and 67 percent on a market value basis. When we did the '17 valuation, the funded ratio dropped to 65 percent and on the market value basis to 56 percent--pretty dramatic changes in the funded ratio. Slide 26 shows you kind of historical funded ratio for OSERS for the last 15 years or so. And you can see in the first part of this period, the funded ratio was generally 80 percent or higher. And then 2008 and '09 happened and it's just been hard. It really hasn't come back from that. And then that last dip at the very end is obviously the impact of the assumption changes forcing that funded ratio down. Would have been closer to the 70 percent funded ratio without that change. The next slide, slide 27, this looks at the component of changes in the unfunded actuarially accrued liability from the prior valuation in '15 to the current valuation, 1-1-17. Again, we start at $486 million. We have a couple of pluses and minuses that are really, in the big picture, not all that material. The big items are, of course, the investment experience. It was an actuarial loss of $63 million. I mentioned earlier the liability experience. So liabilities are higher than what we anticipated of $24 million. So just from actual experience, the unfunded liability increased $87 million. And then you can see the assumption change, $138 million. So the net change of $227 million largely due to those three items and we end up at $713 million. Slide 28, again, looking at a little more detail on the actuarial required contribution, comparing it to the prior valuation. You can see in that very top shaded portion, in the September '15 valuation, the total contribution rate was 20.76 percent, so it was under that 21.66 fixed contribution rates. This valuation we're at 26.29. Kind of subtract out the pieces I had mentioned earlier. And whereas in the '15 valuation we had a contribution margin of just about 1 percent, we now have a contribution shortfall of 4.63 percent. We apply that to the projected payroll, that results in an additional school district contribution of $15.5 million--a pretty big change from the last valuation. As actuaries, it's really important for us to communicate effectively the results of a valuation. And because everyone uses asset smoothing but it's always a good idea to remember it's just a timing issue. It doesn't magically make things change or doesn't make assets higher. If there's 189 of deferred investment loss, eventually that's going to flow through the smoothing method and have an impact on the valuation. So slide 29 is just an attempt to kind of keep those two measurements in front of people so they understand what the trend...remember I said in very beginning we're looking for trends and things to get ahead of. So this is comparing what the valuation results are if we use actuarial value, which are the numbers I just presented to you, or market value, the far righthand column. So again, we have a significant amount of deferred investment experience. So when we move to market, all of that's reflected immediately. So we see the unfunded actuarially accrued liability goes from $713 million to over $900 million; the funded ratio, from 65 percent to 56 percent; the actuarial contribution rate, from 26.29 to 29.78; and the contribution shortfall, from 4.63 percent to 8.12 percent. So what that's telling us is that if there isn't investment experience better than 7.5 percent to mitigate the impact of these deferred losses as they're recognized in the smoothing method, this is the trend we're looking at. I mean it's an upward trend. And because of the way it works where we've got, you know, that the additional contribution by the school district is whatever is left over. It can be very leveraged as it was this year when it went from zero to $15 million. It can bounce around. But again, a considerable increase at 8.12 percent, you're looking at something more like $27 million. So slide 30, again, the funded status is significantly lower. We had actuarial loss on both assets and liabilities. Would hope you get a little bit of help on the liability side to offset the assets. That did not happen, and then a significant change from the actuarial assumptions. I really do believe that this set of assumptions is the best estimate, was appropriate to make all the changes that we recommended, board adopted, but it had a significant impact. The resulting contribution shortfall is 4.63 percent of payroll. There is, you know, the new tier that over time will have a positive impact but it will take time for that to unfold. And in all honesty, it's not likely to have a significant enough impact that it's going to make the additional contribution unneeded. So at this point in time, because we don't know what investment returns will be in the next year, let alone the next ten years, it's just prudent I think to recognize that additional contributions by the school district are likely to be needed unless we go through a period where there's sort of this consistent outperformance on investments. Even one year is not going to be enough to really mitigate that impact. A 16 percent difference and an assumption of 7.5 percent: You have to have one year of over 23 percent to make it go away. So on that rather grim note, I apologize for that, that concludes my presentation and I would be happy to answer any questions the committee might have.

SENATOR KOLTERMAN: Thank you, Pat. For the record, Senator Stinner did come in at 12:05 so he's been here for most of the hearing. I just have a couple of questions and I don't know if I should direct them at...first of all, do you know if the school district and OSERS has accepted this report formally?

PAT BECKHAM: The board of trustees at OSERS has accepted both reports.

SENATOR KOLTERMAN: Okay. I'll...any questions?

SENATOR LINDSTROM: I just have one, Chairman. Thank you, Chairman. Thank you for being here. Just a quick question, have you ever participated in a merger of two or more retirement systems?

PAT BECKHAM: Yes. We're the actuary for the Minnesota Teachers Retirement Association and the Duluth school system merged with TRA I think just a year or two ago.

SENATOR LINDSTROM: Okay, can you talk a little bit about the process, what information and data is required to, say, proceed with something like that, just hypothetically.

PAT BECKHAM: In that situation, was fairly dire situation with the demographics of the school district in Duluth and a loss of students and declining active teacher. So I think there the state ended up sort of being willing to assume the additional cost, because the system said that's fine to merge them in, but it's not fair for our members to pay that cost. So obviously had to have membership data. The benefit structures were similar. There were a few differences I believe on the COLA side if I remember right. So they got the data from their...Duluth's actuary. We were the actuary for Minnesota teachers. And that allowed us to run the liabilities using that benefit structure, their benefit structure and assumptions to quantify the costs. And then there was a question of how those costs would be paid for to hold harmless Minnesota Teachers Retirement System.

SENATOR LINDSTROM: Do you remember what Duluth...the funding percentage was at the time?

PAT BECKHAM: Senator, I don't. I can get that information very quickly and get it to Kate if that would be helpful.

SENATOR LINDSTROM: I'm just curious if it was, say, 50 percent, below 50 percent.

PAT BECKHAM: I don't believe it was below 50 percent. In fact, I'm pretty sure it was not. It had not been that long ago that they were actually pretty well-funded. I mean it was the same thing--coming off 2008 and '09.

SENATOR LINDSTROM: So it was pretty similar to what...the numbers that we see here, is that fair to say?

PAT BECKHAM: Well, yeah, I would have to check. I'm not sure that TRA was as well-funded as the school retirement system is here.

SENATOR LINDSTROM: But Duluth's would be comparable, yes or no or...?

PAT BECKHAM: Yeah, I think, you know, rather than just me try to rely on my memory, I'll just get the information to Kate.

SENATOR LINDSTROM: Sure. I understand. Okay. Sounds good. Thank you.

PAT BECKHAM: You're welcome.

SENATOR KOLTERMAN: Senator Kolowski.

SENATOR KOLOWSKI: Thank you, Mr. Chairman. Pat, the mention of Duluth, they had lost teachers over time then with declining enrollment?

PAT BECKHAM: Yeah, with a shrinking...

SENATOR KOLOWSKI: Okay.

PAT BECKHAM: ...and I think, yeah, expected to maybe at least not reverse and perhaps get even worse.

SENATOR KOLOWSKI: And we find ourselves with Omaha Public, OSERS, in a growing situation. They continue to expand and grow student numbers and, no doubt, teachers and administrators contributing to that. So it's not really apples and apples when you're looking at what you're dealing with, is that correct?

PAT BECKHAM: Yeah, I mean I pointed out the Duluth situation to try to clarify that it may not be precisely the same as Omaha. I know Denver Public Schools merged with Colorado PERA. I wasn't working for PERA...on the PERA account at that time so I'm not sure what drove that merger. But there are folks at my firm that are very familiar with that if you're interested. But, yes, Senator Kolowski...I'm having a hard time talking today. There are different funding dynamics and different reasons for merging that are not actuarial in nature.

SENATOR KOLOWSKI: Sure. Thank you.

SENATOR KOLTERMAN: Any other questions? Yes, Senator Bolz.

SENATOR BOLZ: I'm the newest member of the committee, so forgive a little bit more of an elementary question here. So the funded status significantly went down. Help me understand...and forgive my lack of precise terms, but what's a danger zone versus an area of concerning versus okay versus great? Can you just help me think through what the tiers might be in terms of how we should think about these funded percentages.

PAT BECKHAM: Sure, and actually that's a great question so you shouldn't apologize for it. And there is this tendency to look and say, well, what funded ratio is safe or good? And you know, it really is not...just your funded ratio is whatever has happened to you at this point in time. The real question is, where are you headed? And if there are sufficient resources coming in in the future to pay for that obligation, it's not as problematic, okay? We've seen systems that are 92 percent funded that are projected to run out of money in 25 years. It sounds ludicrous, doesn't it, but it's because they're hardly putting any money in and it's a fixed contribution rate and it doesn't change. So if you run the numbers, you're in trouble. We've seen other systems that are about 45 percent funded but they're throwing 50 percent, 60 percent of pay in that are projected to be 100 percent funded in 25 years. However, when you have a lower funded ratio, you do have more exposure to risk on the investment side. You know, if you have another severe event like the Great Recession, you are much more impacted if you're starting out at 50 percent and you have a minus 25 percent return, it obviously has a different implication than if you're starting out at 80 percent. So there's no doubt the higher the funded ratio, the better. But the real question is, are the resources available to pay off that debt? And it's not unlike our own personal situation--my debt is only a problem if I can't pay it off in a reasonable amount of time.

SENATOR BOLZ: That's helpful. Thank you.

SENATOR KOLTERMAN: Any other questions? Senator Kolowski.

SENATOR KOLOWSKI: Again, would you address the scenario that Omaha went through as far as their investment routines and what ended up with such a shortage.

PAT BECKHAM: Senator, I don't think I'm the appropriate person to answer that.

SENATOR KOLOWSKI: Okay.

PAT BECKHAM: I don't know if anybody...

SENATOR KOLOWSKI: I'm just trying to get...clear the air on, you know, what took place that it does to this particular situation.

SENATOR KOLTERMAN: I could speak a...Michael Walden-Newman normally would have been here, but he's out of town. And just so everybody...just for the record, everybody knows that these investment returns are as of December 31. And so starting January 1 of this year, the Nebraska Investment Council is managing the money. And so hopefully that will help some. It was stated in your report early. But you're correct. It's not...that's not a question for Pat really.

SENATOR KOLOWSKI: Got it. Thank you.

SENATOR KOLTERMAN: Any other questions for Pat, otherwise I have a couple things I'd like to ask. Thank you, Pat. I would like to ask if there's anybody...if, Cecelia, would you be open to just a couple of questions?

CECELIA CARTER: Sure.

SENATOR KOLTERMAN: Cecelia Carter.

CECELIA CARTER: Good afternoon.

SENATOR KOLTERMAN: Would you just spell your name for the record.

CECELIA CARTER: For the record, Cecelia M. Carter, C-e-c-e-l-i-a M. C-a-r-t-e-r, and I am the executive director for the Omaha School Employees Retirement System.

SENATOR KOLTERMAN: Thank you very much. And I don't mean to put you on the spot, I just have a couple questions that I'd like to ask. Can you tell us has the reports been accepted by OSERS as presented here today?

CECELIA CARTER: Correct.

SENATOR KOLTERMAN: And can you tell me, has this report been presented to Omaha Public Schools and do you know if they've accepted the report or not?

CECELIA CARTER: It has not officially been sent to the school. The superintendent received it as a member of the OSERS Board. But I have not officially sent it over to the school board president. That will happen later this week.

SENATOR KOLTERMAN: Okay. The only...and obviously you don't make the contributions. But a concern that I have and I just want to make sure that this gets on the record, when you're looking at the funding ratio going from 73 percent down to 65 percent and then you have a $15.5 million actuarially required contribution for next year, that's going to be very difficult for Omaha Public Schools to attain I would assume. I'm making some assumptions here. Do you know if there's...if your board has talked about any plans on how...making recommendations to change the benefits or have you looked at anything like that?

CECELIA CARTER: No. At this point, it is our intent to file the reports with the school board, let them have a discussion of course with the actuary, and come back with recommendations to us on how they can fulfill that additional employer contribution.

SENATOR KOLTERMAN: Okay. Just wanted to make sure that we understood the process that this was going to go through. It's a...from my perspective, this is of concern to me as Chair of

Retirement. We did make some changes, as you're probably aware, in LB415 that will be beneficial, I believe, going to age 60 for future hires. But that isn't going to be reflected here yet.

CECELIA CARTER: Correct. That should have some additional cost savings.

SENATOR KOLTERMAN: But I think that should save about $50 million over the next 30 years. But that doesn't account for this $15.5 million. We also have in statute I believe that they are required to make those contributions now. So I don't know. I'll have to ask them.

CECELIA CARTER: Correct, LB447 last year made it a requirement for this.

SENATOR KOLTERMAN: Okay. Thank you very much. Any other questions? Yeah.

SENATOR STINNER: I'm just curious about the process. When do the bells and whistles go off and who calls the meeting together that says, Union, you've got to come? We're going to have some kind of a meeting. We need to make some adjustments. This has become critical. Omaha Public Schools comes around the table says this is the resources we have. We need a retirement program that works, works for everybody. When does that happen? And it's a little bit of what Senator Bolz was asking.

CECELIA CARTER: Well, according to the statute, it does say that the board of trustees files...causes the evaluation report to take place every year and then the actuary is to basically present to the school board the results. And we will file that with the school board president. And then that's when I would trust a discussion...once the school board has received it, I would trust that a discussion happens. What are the next steps? As we stated, LB447 says they now have to make the ARC. And $15 million ARC is a bit of a shock. We did some projections before we did the valuation report in order to give the school district a heads up. So they knew it was going to be a significant increase from prior years. And the school district financial officer and I have talked about this. So the powers above us will have to make some decisions on what are the next steps in terms of funding the contributions for the retirement plan.

SENATOR KOLTERMAN: I would just like to say that we are willing to help. Obviously we're not willing...I'm not willing to take over the plan and I don't believe my colleagues would be either. But we are willing to offer what help we can in facilitating that. And I guess I'd leave it at that. But you say you have shared the information with OPS.

CECELIA CARTER: Yes, yes, with the superintendent and just some projections that we were working on before the actual valuation was done.

SENATOR KOLTERMAN: Okay. Thank you. Any other questions? Senator Kolowski.

SENATOR KOLOWSKI: So just to again clarify, Cecelia, is there a longer range thought or plan or discussions that have gone on as far as merging the two programs? I was in the state plan my years in Millard, 38 years. And the difference of having this number of people that you have in your plan outside of our state plan, it makes sense to merge if we can do those things. But it has to be a happy marriage. It has to come together so everyone is agreeable to things and then move on from there. But I hope discussion possibilities will continue and that we might be able to find ways that unite it, we'll be stronger, and do the things that are necessary to have two very healthy plans.

CECELIA CARTER: Well, I can't comment on whether it should or shouldn't merge. We had LB548 earlier this year and that bill is still out there. And as we go through the process, you are correct, we want healthy plans.

SENATOR KOLOWSKI: Absolutely. Thank you.

SENATOR KOLTERMAN: I appreciate you coming up. I just have one final question. You said you shared this information. Do you know the date you might have shared the information with OPS, or was it just that the superintendent got the information when he was at your meeting?

CECELIA CARTER: Let's see, so our last board meeting was May 3, I believe. And that's when the reports were finalized and presented to the OSERS Board of Trustees. Projections were shared maybe at the April meeting or March meeting, yeah.

SENATOR KOLTERMAN: All right. Thank you. Any other questions? Seeing none, is there any...thank you, Cecelia. Appreciate it. Always good to see you. Anybody here that has any other comments they'd like to share? All right, then I will call the hearing to an end. Thank you very much for all your attendance. Appreciate it.