[LR91 LR92]

SENATOR KOLTERMAN: Order in the court. Welcome. Welcome to the Retirement System Committee hearing. Appreciate you all taking time. We're starting early this year. My name is Mark Kolterman; I'm Chair of the committee. I'm from Seward and represent District 24. Committee members, I'll have them introduce themselves. [LR91]

SENATOR BOLZ: Senator Kate Bolz. I represent District 29 in south central Lincoln. [LR91]

SENATOR KOLOWSKI: Senator Rick Kolowski; District 31 in southwest Omaha. [LR91]

SENATOR STINNER: John Stinner, District 48, all of Scotts Bluff County. [LR91]

SENATOR LINDSTROM: Brett Lindstrom, District 18, northwest Omaha. [LR91]

SENATOR KOLTERMAN: And Senator Groene might be joining us as well. We also have with us our staff; our committee clerk, Katie Quintero, and our legal counsel, Kate Allen, to my immediate left. I'd like to ask everybody to fill out the forms if you're going to testify. I guess we don't have to do that today. [LR91]

KATE ALLEN: Probably...well, people that will be presenting. [LR91]

SENATOR KOLTERMAN: Yeah, presentors, please fill out the forms if you would. And turn off your cell phones. We're going to move this along as quickly as possibly because it's really nice outside. (Laughter) And this probably the last place you all want to be this afternoon. We're here today for a hearing on LR91 and LR92. We're going to start out...we're going to take them in that order, LR91. This is your opportunity to give us your position on certain aspects of the bills. We're going to start out with a presentation from Pat Beckham and Brent Banister. So, if you'd...are you here alone today? [LR91]

PAT BECKHAM: Yeah, I'm here alone, Senator. Sorry, it's just me. [LR91]

SENATOR KOLTERMAN: All right. That's all right. Sometimes the committee members are going to come and go. Like I said, I think we're expecting Senator Groene, but he's not here yet and we're going to keep moving on. Turn off your cell phones and let's get going. Go ahead. [LR91]

PAT BECKHAM: (Exhibit 1) All right. Thank you, Senator Kolterman. Members of the committee, my pleasure to be with you today. Hopefully you have a presentation at your spots that we'll walk through. This will cover the results of the July 1, 2017, actuarial valuations for the judges, State Patrol, and the school retirement systems. All right, and I'm on page 2. So we'll look at the detailed results of those valuations for each of the three systems and then both the short term and the longer term projection results. If you have questions at any time as we go through, please feel free to stop me and we'll address those right then and there. On page 3, just a reminder of the purpose of an actuarial valuation; we're measuring assets and liabilities. Liabilities are promises to pay benefits in the future. Once we measure both of those, there's a funding policy in statute that helps us calculate what the actuarial required contribution is for the plan year. We compare that to the statutory contributions to determine if there are additional funding requirements. And this would be for the plan year ending June 30, 2018, so the valuations on the first day of the plan year. We also get important information from the valuation as far as the actual experience that occurred in the last 12 months compared to what the assumptions anticipated. And you'll hear us talk about that difference as an experience gain or loss. And then we lay these valuation results kind of next to each other to see if there's any kind of a trend or concern that we might want to get out in front of. So page 4: the valuation is what we call a point-in-time measurement, or a snapshot. So we measure it on July 1 for these three systems. We took the snapshot today, it would look different. The assets would certainly be different, but so would the liabilities because the liabilities reflect the membership. The difficult part of the actuarial process is the future benefit payments are unknown and they're contingent on a number of variable events; you know, how will salaries change over time, when will people retire, how long will they live, all those kinds of questions, as well as, you know, what will the investment returns be on the fund in the future. So we do an experience study now every four years. And we did one in 2016 for the NPER system and that set of assumptions, those changes are actually being implemented in the 2017 valuations. So you'll see that impact. So we're always looking to refine and fine tune those assumptions, be sure they're the best estimate. And sometimes, as the case this year, where there are changes that increase liabilities or lower expected returns in the future, that is reflected in the valuation results with higher liabilities and higher contribution rates. As you're going to hear a lot of actuarial presentations today, just remember this little simple formula which is basically C plus I equal B. You have benefits to pay and they're either funded by contributions or investment income, so only two revenue sources to pay those benefits. So if "I" goes down, if investment income expected to be lower in the future, it will take more contributions over the long run to fund the benefits. And as I said, the important part that comes out of this valuation, probably...particuarly from the state's perspective is whether there are additional state contributions that will be due for this plan year. So page 5: changes since the 2016 valuations; we didn't have any change to actuarial methods. We did have one legislative change in the 2017 session, LB415. You might recall that that grants the PERB authority to set the actuarial assumptions in determining optional forms of payments for members hired after July 1, 2017. So, members when they retire have sort of a menu of how their benefit can be paid. Sometimes that involves a spouse being covered or a period certain, and that actuarial equivalence is now defined by the board. We obviously had no people covered, since that affects only people hired after July 1, 2017, so there was no impact on the valuation results. That bill also contained a new tier for the school members. That change is effective July 1, 2018, that modifies a rule of 85 by requiring the minimum age of 60, and currently it's 55. Again, no impact on these valuation results because we didn’t' have any members in that tier. And then for the judges system, you'll see that there was in previous legislation an increase in court fees that was effective July 1, '17; so that is reflected in the 2017 valuation. As I mentioned earlier, the assumption changes from the 2016 experience study are first reflected in this valuation. I will look on the next page what those specific changes were. They were fairly dramatic. We changed two key assumptions, which is the investment return assumption and the mortality assumption. And both of those increase costs. A couple of the other changes, the cost of living and the individual salary increase assumption actually decreased liabilities and cost, but net impact was an increase. So the assumption changes affected all three systems, and the inflation assumption was lowered from 3.25 to 2.75. That assumption is a key assumption that is used for all the economic assumptions. So it impacts investment return, salary increases, and COLA. So with that drop of 50 basis points and inflation, the investment return was lowered from 8 to 7.5. Again, a 50 basis point decrease is a pretty significant decrease in the actuarial world. The cost of living adjustments for Tier 1 members, that assumption decreased in 2.5 to 2.25. The individual salary increase assumption, again inflation is component of that, that assumption declined by half a percent. That's, again, the impact of the inflation change. And then the unfunded actuarial liability is amortized as a level percent of payroll, because that's how contributions are coming in to fund the system. So we need an assumption as to how payroll is going to increase in the future. Again, that is influenced by inflation and that assumption declined from 4 percent to 3.5. On mortality, it was sort of a two-fold change. One was the experience showed that there were fewer deaths than the assumption anticipated, so we had to strengthen the mortality, assume people were going to live longer, and then we built in to that an anticipated improvement in mortality in future years; it's called generational mortality. And so, again, we took, sort of, the double hit on mortality, but we've positioned the system to, hopefully, be a better position as mortality continues to improve. There should be smaller adjustments to fine tune that. There were some other changes in demographic assumptions that were specific to each system. If you think about retirement assumptions, it depends on what the eligibility is for retirement, termination of employment, those were much less significant than mortality and the economic assumptions. All right, page 7, just a reminder, it gets a little confusing when we change assumptions. But when we're changing assumptions, we're changing them prospectively. So the 7.5 is looking forward. Our actual experience is looking backward. So for the year that ended, June 30, '17, the assumption was 8 percent. So the (INAUDIBLE) of assumptions apply when we look at experience for the last year. Strong return on assets, 13.8 percent. (INAUDIBLE) gain on assets. A lower COLA was granted than what was expected. Again, the assumption was 2.5; the actual increase was 1.5. So we had an actual gain on liabilities. Any time you have gains on assets and liabilities, the actuary is happy to report. So I'm thankful for a year; we don't always get that. I've spoken to the committee before; I think you're aware we don't use pure market value in the actuarial calculations. That extreme volatility in returns drive you crazy from a budget standpoint. So it's very common in public plans to use an asset smoothing method. It kind of averages out the highs and lows; and that specific method that we use calculates the difference between the actual dollar amount of return and the expected return using the assumption on the market value of assets. And it just spreads it over five years. It's not particularly exciting or fancy, but it does work. When the market is up and the market is down, we get that averaging and we get less volatility on the contribution side. If the actuarial value is higher than the market value, we'll talk about having deferred investment losses. We haven't recognized all the, sort of, adverse experience through the smoothing process and vice versa.

When the actuarial value is less than market, you've got deferred gains. And in this valuation, we'll see that we do have a small, but a deferred, gain as of July 1, 2017. On page 9, this is just a chart of historical asset returns only to sort of illustrate why we use an asset smoothing method. So the blue line is the return on the market value and the red line is the return on the smoother actuarial value. So although the red line is not flat like the expected return that's a black line there, it's clearly smoother than the blue line. And that's what we're trying to accomplish. This kind of just says the methodology is doing what it is supposed to. Page 10 is a comparison over the last 18 years or so of the market value dollar amount of market value versus actuarial value. And again, this is just kind of test to make sure there's not a bias in that smoothing method, that it's not consistently above or below market. It needs to be a market-related value to meet actuarial standards of practice. And it does, indeed, do that. And you can see the red line, the smooth line, is more of a smooth trajectory up as opposed to the blue line which are market values. All right. So we're going to take a little time and look at the details of each system. It's a lot of numbers, hang in there, we'll get through it. So page 12, looking at the funded status of the judges system, you have three sets of numbers. The far left column is the 2016 valuation results. The middle column is what the 2017 valuation would have looked like had we not changed assumptions. And so those two are directly comparable. And then the far right hand column is after the new set of assumptions were implemented. And you will see a consistent pattern with all three of the systems, that there is a very dramatic change in liabilities and contributions as a result of the new set of assumptions. So third row down, you can see the unfunded actuarial accrued liability in the '16 valuations, about $3.2 million. Note, under the old assumptions for '17 valuation, the plan would have had a small amount of surplus. Okay, assets would have been larger than the liabilities and the funded ratio on or around the basis of 100 percent. But the impact of the assumption change, again remember, if we're going to get less from investment income the fund benefits, then essentially the liabilities are higher, the asset number doesn't move, and so the unfunded liability is 11.9 million. So pretty big swing, and the funded ratio moves from 100 percent to 94 percent. Page 13 is a glimpse back, the historical funded ratio for the judges system. You can see really over the entire period the judges system has been well funded. Early part of the period they were pretty much at or over 100 percent. Drop down, kind of high 80s, about 90; and again, this year, if you look at the far right hand side of that graph, it would have been at 100, absent a change in the assumptions. And that's the reason for the decrease to 94 percent. Many, many systems would be happy to be 94 percent. It's a very strong funded ratio. On page 14, looking, same three columns of information, the 2016 valuation; the 2017, no change in assumptions. Far right hand column, is the new set of assumption, but looking on the contribution side of the house. So we have two pieces to this contribution: normal cost, which is paid for active members for funding the benefit while they're actively working, the normal cost is how much goes in each year. And then we have an amortization of that unfunded liability that was created by the change in the assumptions. And you can see, when you go from the second to the third column, old assumptions to new assumptions, both the normal cost rate and the unfunded liability increase, which is why the contribution rate changes so dramatic. Both pieces increase. So the contribution rate, under the old assumption, would have been 22.11 percent, under the new assumption is 27.92. So almost a 6 percent swing. The members contribute to this plan. We look at some of the weighted average of that...those expected contribution at 7.82, that leaves kind of non-member required contribution rate in the '17 valuation of 20.1 percent. Again, it would actually have gone down without the change in the assumptions. And then if we go to the...sort of drop to the bottom line, we look at the required contribution and we subtract out the expected court fees, that difference is, if any, is the additional amount that the state needs to contribute to fund the plan on a actuarial basis. So again, the middle column, and I, you know, I think when the change in the court fees went into place, there was no knowledge of what change was coming in assumption. So that change would have taken care of things this year and there would be no additional state contribution. But because of the change in the assumptions, there is an additional contribution $668,000 for the state to fund the full actuarial amount. Page 15, it's our short-term projection. And I know we have visited with the committee before, but the challenge with the judges...funding of the judges system is that all the contributions are developed as a level percent of payroll. Then payroll, over time, goes up if you have a constant number of active members. But the court fees are very hard to anticipate. And so you'll see, even when we look at the 30-year projection, we're just leaving the court fees where they are for the current year. Now that is probably not realistic over 30 years for sure, but when you don't have a better option, that's kind of what we show. So, even over the five years that may not be a good estimate. It's been hard because in the past sometimes it goes down instead of up. Their design is not easily anticipated. So you can see that the amount of the additional state contribution is increasing. And part that is, even if the contribution rate is level, dollars of payroll are going up, it's going to flow through to the additional state piece because court fees aren't changing. So again, it's very hard to look very far out and know what a reasonable budget amount is, but it certainly appears for the short term that some additional contributions would be needed from state to meet the actuarial required contributions for the judges. On page 16, this is the 30-year projection. And, again, the green bars are member contributions, and there is a new tier with the higher contribution that should grow over time as current members leave and are replaced, but you can see, again, the court fees are holding steady at about $4 million and that is resulting in the increase in the red bars in the additional state contributions. And so for the duration, if the court fees stay level, you would expect there to be an additional contribution in the entire period. Again, that's one we kind of take the year at a time. All right, page 17, looking at the projected funded ratio. Funded ratio is assets divided by liabilities. You can see it kind of moves around in the short term, that's as deferred investment experiences recognized in the smoothing method. And then it's on track to get fully funded by about 2041. And this is essentially the...the actuarial funding is...it works, is what this graph says. If the assumptions are met and you put in the actuarial contribution, this will be 100 percent funded at the end of the amortization period. Okay. All right. So comments on judges, you don't hear this first comment on all three of them and that is most significant impact on the 2017 valuation was the change in assumptions. That was demonstrated very clearly from the judges. So again, would have had slight surplus now and unfunded liability of about $12 million, pushing an additional state contribution of $668,000. And again, this sort of mismatch between how costs are developed and the revenue that comes in to the fund the benefit that's just a challenge that we live with. Any questions on judges before we move on to Patrol? No takers, all right. Page 20, and I'll move a little quicker through Patrol and school because it's the same layout (INAUDIBLE) obviously, just the numbers are different. Judges is a smaller system than the Patrol and school so these numbers are larger, but they're laid out in the same way. Can see in the first row, again, the impact of the new assumptions was significant, $28 million increase, about 6.5 percent increase in the liabilities from the assumption changes that flows straight through to the unfunded actuarial liability because the asset number does not change. And so under the old assumptions, we would have had an unfunded liability about $42 million instead of $70 million. And the funded ratio would have been 90 percent; kind of held steady from the '16 val, instead we're at 85. And 85 still a very respectable funded ratio, especially given the dramatic change in the economic assumptions. The historical funded ratio is on the next page 21. And again, you can really kind of see the impact of the economic factors in the decade, 2000 and 2010, as it kind of work through the smoothing; hits a low of 76 percent in 2013; was rebounding again, the very last data point would have been up, absent the change in the assumption. Page 22, looking at contributions for Patrol. In the contribution rate in the 2016 valuation was 41.14 percent, would have come down to just under 40 percent. In the '17 valuation, using the same set of assumptions, with the change in the assumptions, the contribution rate is 47.23 percent. Members are contributing, the employer contributes a matching amount. We have 16 percent each; and we have a little bit coming in from the new tier. As a percent of pay, the shortfall under the new assumption is over 15 percent of pay, that translates to an additional contribution of 4.3 million, would have been 2.3 absent that change in the assumption. So that, again, the very last piece, after you subtract everything out, is a very leverage, it doesn't take much to make a significant change there. When we look at total state contribution, both the statutory contribution and the additional, again, it was 7 million in 2016, would have been 6.9 million under the old assumptions, but 8.9 would be impacted with the new assumptions. Page 23 is the short-term projection. You see on the top line the additional state contribution holds pretty steady. It bounces around a little bit because in the deferred investment experience so they're flowing through over the next four years, but it doesn't vary too far, it's about 4.5 million, the regular employer contribution and the total. And then on page 24, it's a longer term projection. And, again, the green bars are member contributions, the blue bar is employer contribution, the red bar is the additional state contributions. And so for the next 20 years or so, it's expected, if the assumptions are met, that there would be an additional state contribution required to move the system to full funding. On page 25 is the projection of the fund ratio assuming those contributions are made as scheduled and all assumptions are met. And, again, you see, you know, over this period that the system is projected to reach full funding. Again, page 26, same thing, the assumptions are really what drove the results, the significant change in the 2017 valuation. Again, if the goal of reaching 100 percent funding is to be met, it's going to take some additional contributions from the state in order to get there. All right. We're ready for school. [LR91]

SENATOR KOLTERMAN: Go ahead, Senator. [LR91]

SENATOR BOLZ: Could you...could you just help me understand in a little bit more detail, so we're...for the State Patrol we're meeting the statutorily required contributions, but there's about $2 million that we need for additional required contributions as compared...the old assumptions as compared to the new. I'm trying to get my head around the sense of timing or urgency about that. It's not statutorily required so we don't have to, but what's the difference between have to and should do? Does that question make sense? [LR91]

PAT BECKHAM: It does. And I'm not an attorney, but I think the statute does say that the state will make additional (INAUDIBLE). I think the statutes say the state will make the difference between the full actuarial contribution and the fixed statutory contributions. So that would say that the 4.3 million under statute should be paid. [LR91]

SENATOR BOLZ: Okay. [LR91]

PAT BECKHAM: And that's necessary to be paid if you want to reach, you know, your funding target. I mean, these plans essentially don't work if you don't fund them. There's many systems across the country that could illustrate that. [LR91]

SENATOR BOLZ: Sure. [LR91]

PAT BECKHAM: So that's the importance of putting in, that's maybe that's why it should be but.. [LR91]

SENATOR BOLZ: Okay, that helps. Thanks. [LR91]

SENATOR KOLTERMAN: Pat, would you talk a little bit about the assumed rate... [LR91]

PAT BECKHAM: Sure. [LR91]

SENATOR KOLTERMAN: ...and the actuarial valuations that we make changes. I mean, we knew we...we knew we were going to have those ARCs going in because we knew there was a need to lower the assumed rate. [LR91]

PAT BECKHAM: Right. [LR91]

SENATOR KOLTERMAN: And you... you said it several times that it's pretty significance in your opinion. [LR91]

PAT BECKHAM: Right. Fifty basis point decrease and the assumed rate of return has a significant impact on the cost. [LR91]

SENATOR KOLTERMAN: Didn't the actuarial change make a pretty significant difference as well? [LR91]

PAT BECKHAM: I'm sorry. [LR91]

SENATOR KOLTERMAN: Didn't the actuarial change have a pretty big impact on it as well? [LR91]

PAT BECKHAM: The actuarial change? The mortality? [LR91]

SENATOR KOLTERMAN: The mortality. [LR91]

PAT BECKHAM: Yes, absolutely. And it was because with mortality, we not only sort of strengthen it to reflect what was happening, the good news is the membership is healthy and they're living longer; the bad news is, you're paying benefits as long as they live. So first we had to sort of match the death rates to what we were observing and then we said we want to build an anticipation that people are going to live longer in the future. And so we actually got hit for twice on the mortality assumption change by first strengthening it and then anticipating that improvement over time. And so mortality was a significant impact. So, yes, and the two together is why you're seeing some pretty dramatic changes as far as liabilities and cost. Does that address or do you want to talk a little bit more about the seven and a half. [LR91]

SENATOR KOLTERMAN: Yeah, well, I want to...I guess for the committee's...some of the newer members, we knew this was coming. It's not that we didn't anticipate this, we just...we didn't feel like in good conscious we could continue to put it off and keep it at 8 percent. And talk a little bit about what you're seeing from the national perspective, because I've seen some publication ready to move as low as 7 percent in some instances. [LR91]

PAT BECKHAM: Right. So a couple of comments; remember, you know, actuarial assumptions are foundational to the work that we do and there are so many unknowns that it's important to keep an eye on those assumptions to make sure they're best estimates. Investment return is generally the most powerful assumption that we use, and the single most important factor in the...what's appropriate for an investment return is asset allocation. So, the challenge with that is that we can look at data from 120 plans, but they don't all have the same asset allocation. So, and each board may have, you know, a different perspective on risk, the plan dynamics might be different. Anyway, there are all sort of variables there. But the public fund survey that published by the National Association of State Retirement Administrators does include about 125 large public plans, all the statewide systems, and some large municipals. And we have, since 2012, seen a significant shift down in the investment return assumption. So for years and years, 8 percent was the median; so half of the people were above that, half were below. And it was also the most common, if we looked at kind of percentage. And that has changed to now 7.5 is the median and it's also the most common. And you're right, we continue to see some shift, again, you backed up ten years, I don't know if anybody was under 7, and now we have, you know, a handful of systems that are 6.75, and we used to have systems at 8.5 or higher, and there's really nobody left that high. So how it all shakes out in the long run, I don't know; I mean, these experience studies tend to happen about every three to five years for large systems. So it, you know, it may continue to downshift a little bit. I work with Iowa, they had been at 7.5 and they moved to 7, but they're asset allocations more conservative than most. They have more in fixed income. So, I think you're change is vary mainstream, it's in line with what we see in the peer group. Again, it's...it's more specific to each system and the asset allocation of the portfolio, but if you think about the sort of inflation component and the real rate of return for the portfolio, the real rate of return didn't change, it stayed the same. And so we've basically just said less of the return is going to come from inflation. [LR91]

SENATOR KOLTERMAN: How often does mortality tables...how often do they change the mortality tables to...because we, like you said, we took kind of a double whammy this time. [LR91]

PAT BECKHAM: Yeah, and part..I'm sorry, I didn't mean to interrupt. [LR91]

SENATOR KOLTERMAN: I mean, we built in the ability to move those tables as necessary in the legislation, so how often does that take place, do they update those tables? [LR91]

PAT BECKHAM: The Society of the Actuaries is usually the entity that gathers, you know, it takes a lot of data to create a mortality table. And they usually gather the data, analyze it, you know, do all the number crunching, smoothing, blah, blah, blah. The 2014 table, which is what we moved to, is the most recent table; the one before that was the RP2000 table. There are not on any regular schedule, but those tables are mandated for use by corporate pension plans. So we may see those a little more frequently than every 14 or 15 years. The society is also working on a mortality table that's based on public plan data. The public plan data that was submitted for the RP2014 table was sufficiently different from the corporate plan data that they basically threw it out. They didn't say how it was different, just that it was different enough that they didn't feel that it was appropriate to combine the data. So they're working on one that's based on public plan data. That's not supposed to be finalized until about 2019, maybe a draft out a year from now. So it will be very interesting to see what's observed. So we will take a standard table, like the RP2014, and still look at the actual experience to see if it fits the shape of that curve, those probabilities in death. And if it doesn't, we might...we use age, setbacks or setforwards to make it match better. Sometimes we actually scale the rates to get a better fit because one size does not fit all. If you looked at teacher life expectancy in Mississippi compared to Minnesota, it is vastly, vastly different. And that's why, you know, the retirement systems...the corporate plans are all over America, but the Nebraska Retirement Systems are in Nebraska, for the most part; even the retirees reside here. So it's very specific geographically, there's differences, you know, the joke that the teachers live forever, and that's not far off. And judges tend to have very good mortality. So there's a lot of factors that enter into selecting exceptions and we're trying to, again, do our best to anticipate what's in the future. This change with generation mortality is a very significant improvement in my opinion. I only thought pretty strongly about making that move despite the fact that it does increase liabilities in cost. [LR91]

SENATOR KOLTERMAN: Okay. Any other questions? Go ahead, Senator Groene. [LR91]

SENATOR GROENE: Thank you, Chairman. On page 21, on the State Patrol, you got the chart, in 2000 we were at about 118 percent funded. [LR91]

PAT BECKHAM: Yes, that what it looks like. [LR91]

SENATOR GROENE: What caused, was it benefit increases, mortality? I mean, the last 20 years the terms and the stock market have been not that bad. They probably average more than 8 percent, didn't they? Is the changes in benefits spiking? Longevity? More Employees? [LR91]

PAT BECKHAM: Yes, that's...I don't know, Senator, that I can speak specifically to that. I would say, I think in the early part of 2000s, there was a recession. So we did have some adjustments on the asset side. I believe the drop went in, but I don't remember when that occurred. [LR91]

SENATOR GROENE: And then, just out of curiosity, your charts after that...your charts after that go here forward... [LR91]

PAT BECKHAM: Yes. [LR91]

SENATOR GROENE: ..about we need to do. Do you have any charts showing us what we did in the past? I mean, how much of the chart, like on page 24, how we have had...prior to 2000, how we managed to get the 118 percent, was it because the state threw a bunch of money at it? Was it because... [LR91]

PAT BECKHAM: No, I think you're coming off the 1990s when investment returns were a lot of double digit years. [LR91]

KATE ALLEN: Page 9, shows the investment returns. [LR91]

SENATOR GROENE: Overall, yeah. [LR91]

PAT BECKHAM: Those would be...yeah, for all the systems. Thanks, Kate. [LR91]

SENATOR GROENE: The 2000s. [LR91]

KATE ALLEN: Page 9. [LR91]

SENATOR GROENE: Yes, but it doesn't show what the state put in. [LR91]

KATE ALLEN: No, it just shows the investment returns. [LR91]

PAT BECKHAM: So clearly in 2001 and 2002, there were negative return. Remember, when you see a negative 6, the assumption was plus 8. You were off 14 percent, not...the loss from the actuarial perspective was not 6 percent, it's 14. So a couple of years there and you're now 25, 30 percent behind. But it doesn't manifest itself with smoothing until the five year is over. So that's for the drag down from like 2001 to 2005 is occurring. And there have been benefit changes; I'm not sure about that, Senator. We could get back to you. [LR91]

SENATOR GROENE: I just wondered what happened. [LR91]

PAT BECKHAM: Yeah, it does beg the question. [LR91]

SENATOR KOLTERMAN: We had...we had a drop plan that was added in there. [LR91]

KATE ALLEN: Seven. [LR91]

SENATOR KOLTERMAN: And then we eliminated some of that going forward. We’ve done...we've taken some corrective action to try and change some of that over the last three or four years. [LR91]

PAT BECKHAM: Any other questions? [LR91]

SENATOR KOLTERMAN: Did that answer your question, Senator? [LR91]

SENATOR GROENE: You just told me you can add benefits, but you can't take them away. [LR91]

SENATOR KOLTERMAN: Any other questions? Let's keep moving. [LR91]

PAT BECKHAM: Okay. Slide 28, we'll talk about the school plan; obviously, the largest plan, largest membership, largest liabilities. Again, on page 28, you have the same three columns the 2016 valuation, 2017 under the old assumption, 2017 under the new assumptions. The third row down, you can see the unfunded actuarial accrued liability. Actually decline to $803 million under the old assumptions; bounce back up to $1.6 billion with the new assumptions. Funded ratio would have been 93 percent, instead 87 percent. I mentioned the public funds survey earlier and just to sort of put this in context, with the 87 percent funded ratio, you're about the 80th percentile, so there's only 20 percent of the population is better than that. And that's 87 after a significant change in assumptions. Page 29, again, it's the historical funded ratio for the school group; kind of hovered between 80 and 90. Again, at the end, the trend the last several years has been up; it would have been 93, absent that change in assumptions this year which caused the tail to move down. Page 30, contributions: all right, so, again, in '16 valuation, the total...or the total contribution rate was 16.59. This year, under the old assumptions, it would have been just under 15.5 percent; with the new assumption, we're at 19.31. Members are contributing 9.78 percent for their benefits. The employers are contributing 101 percent of the member rate, 9.88; and the state contributes 2 percent of pay to the plan. We take those fixed contribution rates and compare them to the actuarial rate and there's a contribution margin of 2.35. Now that contribution margin is going to change every year depending on what experience is. They could go away; it could get better, so it's...it does not mean that that money doesn't need to go in. If the goal is to fund it with kind of fixed contribution rates, then some years it's going to look like you're putting more in than you need to get ahead so you don't have to bounce around later. But again, there's no additional state contribution required for the plan you're ending June 30, '18. Page 31 is the five-year projection. Again, a lot of information on the slide. The first couple of rows is information for the Omaha service annuity which is funded through the NPERS Plan, but for the benefit of the Omaha Public School employees. And then the state also contributes 2 percent of pay to Omaha School Employees Retirement System, that's the second row. And then the red bars are the 2 percent of pay of the state contribution going in the school retirement system; the blue bars employers; and then black bars is any additional state. There's no black bars as you will see in the 5-year period. So if the assumptions are met, there will not be any initial state contributions required. Page 32 is the 30-year projection. Again, all these projections are assuming that the assumptions are met in each future year. Again, you'll notice there are no black bars. So even with a significant change in the assumptions, making that change, if those assumptions hold over the long term, there should not be additional state contributions required. And again, dollar amounts are going to go up because payroll is going up and these benefits costs are developed as a percent of payroll. All right, page 33 is the projected funded ratio for the school system. And you'll see that based on the current statutory contribution rates, and assuming all assumptions are met, the system would be at 100 percent funded around 2030. And that's because with the statutory contributions there's a little extra money going in every year to pay off your debt sooner. And that takes us to slide 34, again, the funded ratio would have been 93; under the old assumptions was 87; under the new assumptions that could decrease the contribution margin. Last year it was over 5 percent down to 2.35, but there's no additional state contribution required for 6-30-18. We do have the new tier coming in beginning July 1, 2018. That means costs of that benefit structural will be a little bit less because it requires people to work to at least age 60 before they start drawing benefits. Same amount of money is coming in, so over time that's reflected in these projections by the way. Over time, that kind of helps strengthen the system, there's a little bit more money available to pay the unfunded liability. So all in all, the funding outlook is positive, you know, despite the fact that there was a significant change in both mortality and investment return assumption in this valuation. [LR91]

SENATOR KOLTERMAN: Questions? Seeing none, thank you very much. [LR91]

PAT BECKHAM: You're welcome. [LR91]

SENATOR KOLTERMAN: We’re ahead of schedule. Thank you. Are you going to stick around for some of the other guests now? [LR91]

PAT BECKHAM: I am. [LR91]

SENATOR KOLTERMAN: You have some clients coming in here pretty soon? [LR91]

PAT BECKHAM: I think so. I think maybe I've got some (INAUDIBLE). [LR91]

SENATOR KOLTERMAN: Okay. Pat, thank you for all your work on this. [LR91]

PAT BECKHAM: You're welcome, Senator. [LR91]

SENATOR KOLTERMAN: Do we need a break or should we move into the next hearing? For the record, let it be known that Senator Groene did show up about five minutes late is all. Good job. And Senator Clements has joined us today as a guest; glad to have him here. Okay, we're going to move on then, ahead of schedule. If Lincoln Fire and Police aren't here, we can move past them and then come back to them. I'll close the first hearing and I'll open the next hearing on political subdivisions' underfunded pension plans. We have these meetings every year. We ask you to report based on the fact that, by statute, if they're not funded at, at least an 80 percent level, we'd like to get a report so that we can keep a handle on what's going on across our state with our defined benefit plans. So with that, we'll start out with Lincoln Fire and Police. Paul, welcome. [LR92]

PAUL LUTOMSKI: Thank you very much. My name is Paul Lutomski. I'm the pension officer for the city of Lincoln Police and Fire Pension Plan. Pat is going to take the brunt of the presentation for us. She'll be explaining all the actuarial factors. If there's any nonactuarial questions, I'm here to help answer those. [LR92]

PAT BECKHAM: All right, thank you, Paul. All right, Committee. And I believe I know that the Lincoln Police and Fire Pension Plan submitted information to you and that's really what we intended to cover today, but clearly any questions you have we'd be happy to address. I've already told Paul all the hard ones he's answering. Just a reminder that the valuation date for this plan is August 31 which is a little bit unusual. Typically it's June 30 or December 31. So it may not be comparable valuation datewise to any other plans that you hear from today. But as a result of that valuation date, the most recent actuarial valuation report is actually the 2016 report. So in some ways, this information is a little bit dated but it's the most recent. So that's what we intend to discuss today. And the committee had reflected...or requested information from 2013 to 2017. We kind of like the look at this in a very long-term view. And for this plan that's very appropriate because it's been very well funded, you know, from 1991 all the way to about 2009. And I think you have an attachment entitled Table One that will kill you with numbers but it's got...funded status is Column A. That's the easy one to look at. And you can scan and see that it's been near or above 100, again, from 1991 through 2008, and then 2008 and '09 were rather painful. And again, as those...as that investment experience is recognized over five years and we saw the decline in the funded ratio. There was also a little bit more going on in those years besides just the investment earnings. And we'll talk about that in a minute. In the 2016 valuation, the plan was 79.9 percent funded (laugh), so it technically was under 80 percent and that's why we're here. But it was really, really close. That was a significant change from the funded ratio in the 2015 valuation which was about 64 percent. And that change we'll discuss with you today. We actually visited with the committee about it last year at this hearing because we knew the change had been made and would be reflected in the 2016 valuation. All right, so in the 2015 valuation, if you look at Column B, the investment return assumption that we were using at that time was 6.4 percent. That changed to 7.5 percent in the 2016 valuation. And this gets a little complex but hang with me. So the expected return on assets has been 7.5 (percent) since what, Paul, 1999. But prior to 2016 there was this feature in the plan design. There was a 13th check COLA pool fund. And the money going into that pool, asset pool, to pay the COLA came from investment returns that were above the 7.5 (percent) assumed rate. So if you think about...remember the graph you saw for your system with the ups and downs, if you're chopping off part of the up but you keep all of the down, it doesn't average 7.5 (percent). And that's why we were using 6.4 percent in the '15 valuation. The city council passed an ordinance in June of 2016 that merged the assets of the COLA pool fund with the assets of the regular fund and provided then that the COLA payments came from the regular trust fund. That eliminated that--the word "skimming" is kind of an ugly word--but we were losing a portion of those favorable returns. By merging it in, all the returns stay in the fund and it's 7.5 (percent) is again the appropriate assumption of a long-term investment return. So that explains why we made that change. Again, in actuality the return on the fund has been 7.5 (percent) for many, many years. It's just we were reflecting the impact of that 13th check for the COLA pool and how that was financed. Another corrective action that the city has taken is it passed an ordinance in May of this year to modify the funding policy of the plan. And that change essentially provides that the existing or the legacy unfunded liability in 2016 would be amortized over a closed period, so ensuring that over time it will be paid off and that new experience gains or losses, variations of actual versus expected experience, will be amortized over a new closed period 20 years. So a shorter period is matching sort of the demographic profile of members a little bit more closely. And again, that will happen whether it's a gain or a loss. That is referred to as layered amortization. And Nebraska was again ahead of its time because you've had layered amortization for many years in statutes for the school, Patrol, and judges plans. So that change is intended to strengthen the funding of the plan. The employer contributes the actuarially determined employer contribution rate, which is essentially the employer normal cost and that payment on the unfunded liability as calculated with the layered amortization. And if and when we get to a situation where the assets might be larger than the liabilities, we basically won't spend any of that until it's at least 115 percent funded, so again trying to look ahead. The time to make these decisions is not when you're there but ahead of time and to be a little bit more conservative and not spending what might be a temporary gain. [LR92]

PAUL LUTOMSKI: And actually 115 percent for three consecutive years. [LR92]

PAT BECKHAM: Right, right. So even more conservatism built in. The most recent experience study for this plan covered the five-year period that ended August 31, 2014. We're still a couple of years away from doing another experience study. And I believe that was provided to the committee as well. Again, the assumed rate of return is 7.5 (percent). And the investment professionals for the fund, based again on the asset allocation portfolio, believe that's a reasonable long-term rate of return. And again, you were provided the August 31, 2016, valuation. The 2017 valuation has not been officially published. So I assume when it is that could be provided to the committee. [LR92]

PAUL LUTOMSKI: Absolutely. As soon as the city council is informed of the 8/31/17 valuation, we'll pass it along to the members. [LR92]

PAT BECKHAM: Questions? [LR92]

SENATOR KOLTERMAN: Any questions? Senator Stinner. [LR92]

SENATOR STINNER: I'm trying to understand your layered approach and 20-year amortization. In looking at the schedule it looks like the unfunded accrued liability as of August 31, 2016, was $54 million. Is that the amount that you took and put into the 20-year amortization? [LR92]

PAT BECKHAM: No, that's the legacy. [LR92]

SENATOR STINNER: That's the legacy. [LR92]

PAT BECKHAM: Yes. [LR92]

SENATOR STINNER: Okay. [LR92]

PAT BECKHAM: Let me see, I've got to find the right page, Senator. Are you on the 2016 valuation? [LR92]

SENATOR STINNER: I'm on a Table One. I'm sorry, I'm probably on a... [LR92]

PAT BECKHAM: Oh, you're on Table One. [LR92]

SENATOR STINNER: I'm probably on the wrong... [LR92]

PAT BECKHAM: No, that's okay. That will work too. Yeah, the column that's... [LR92]

SENATOR STINNER: I'm just trying to nail down exact numbers and then do the 20-year "amo." [LR92]

PAT BECKHAM: Right. So that's the legacy unfunded liability. That's sort of when we changed the policy, that's how much the unfunded liability was. [LR92]

SENATOR STINNER: Right. [LR92]

PAT BECKHAM: So that's on a payment schedule over 28 years. [LR92]

SENATOR STINNER: Twenty-eight years. [LR92]

PAT BECKHAM: Twenty-eight years. [LR92]

SENATOR STINNER: Okay. [LR92]

PAT BECKHAM: So when we do the '17 valuation it will be 27 years. And then to the extent that there are pieces of unfunded liability that increase or decrease, those will be funded over 20 years... [LR92]

SENATOR STINNER: Okay, so as we move out... [LR92]

PAT BECKHAM: ...from that valuation... [LR92]

SENATOR STINNER: ...further,... [LR92]

PAT BECKHAM: Right. [LR92]

SENATOR STINNER: ...unfunded liabilities will show up potentially. [LR92]

PAT BECKHAM: Right, pieces, pieces of. [LR92]

SENATOR STINNER: Okay. [LR92]

PAT BECKHAM: And that's where the layers come in. So the first layer is the legacy. [LR92]

SENATOR STINNER: Okay. [LR92]

PAT BECKHAM: And then when we do the '17 valuation we have a gain or loss. When we do the '18 valuation we'll have another gain or loss. You have all these pieces of UAL with their own payment schedule. But that legacy piece will draw down one each year so eight years from 2016, so 2024, everything is 20 or less. [LR92]

SENATOR STINNER: Okay. [LR92]

PAT BECKHAM: And again, that's a trend we're seeing in the industry. [LR92]

SENATOR STINNER: And the attempt is to get away from the ARCs that sometimes pop up that are too big for the city to budget. Is that what they're trying to do? [LR92]

PAT BECKHAM: I don't believe so. And again, this is happening in a number of places. The first thing is to try to get away from what's called an open amortization period where you basically just refinance it every year. [LR92]

SENATOR STINNER: Right. [LR92]

PAT BECKHAM: So you want to close it so it's on schedule to be... [LR92]

SENATOR STINNER: I understand you're adding a little bit of discipline to this that we can budget for... [LR92]

PAT BECKHAM: Right. [LR92]

SENATOR STINNER: ...over a long period of time. [LR92]

PAT BECKHAM: Right. And then it's, to be honest, it's just too expensive to go from like 28 to 20 in one fell swoop. [LR92]

SENATOR STINNER: Yeah. [LR92]

PAT BECKHAM: So we're doing it systematically, drawing it down one each year. But new pieces we're going to keep at 20, knowing that eventually everything will be over a shorter period. With 20 we will have fewer years where the dollar amount of the unfunded goes up by design because we're not paying interest on it. If we start at 30, you know, you have a lot of years where the dollar goes up because your payments are increasing in terms of dollars. So in early years you're not putting in the interest on the unfunded. That's called negative amortization and it's getting very out of vogue. So we're trying to get away from that. [LR92]

SENATOR STINNER: Right. What happens if your investment returns are terrific and you have an excess? Would then... [LR92]

PAT BECKHAM: Twenty years. [LR92]

SENATOR STINNER: ...it would reduce that? [LR92]

PAT BECKHAM: It won't reduce. Again, the legacy piece is set. [LR92]

SENATOR STINNER: The legacy piece is set aside. I'm talking about the layers. [LR92]

PAT BECKHAM: So good experience will be a gain... [LR92]

SENATOR STINNER: Okay. [LR92]

PAT BECKHAM: ...and that would lower the unfunded liability payment... [LR92]

SENATOR STINNER: Okay. [LR92]

PAT BECKHAM: ...because we'll...and that will be over 20 years. [LR92]

SENATOR STINNER: I got you. [LR92]

PAT BECKHAM: But what will tend to happen, Senator, is you'll have gains and losses. [LR92]

SENATOR STINNER: Understand. [LR92]

PAT BECKHAM: It will tend to offset each other over the longer term. [LR92]

SENATOR STINNER: We hope. [LR92]

PAT BECKHAM: Although all gains would be okay. [LR92]

SENATOR KOLTERMAN: Other questions? That answer your question, Senator? [LR92]

SENATOR STINNER: Yeah, I was just trying to go through it numerically, so. [LR92]

SENATOR KOLTERMAN: Well, hearing none, I guess I'd like to thank you for your hard work on this as the city of Lincoln. You made significant strides. I know that there were some concessions made by the bargaining units, but you agreed to them and moved your plan from 64 (percent) to 80 percent funded. And probably won't get to see you next year, which won't hurt our feelings. (Laughter) Keep going in that direction. Let's get it to 90 percent, huh? [LR92]

PAUL LUTOMSKI: That would be great. [LR92]

SENATOR KOLTERMAN: All right, thank you, Paul and Pat. [LR92]

PAT BECKHAM: Yeah. [LR92]

SENATOR KOLTERMAN: Are you sticking around for the next one too, Pat? [LR92]

PAT BECKHAM: Omaha? Yes. [LR92]

SENATOR KOLTERMAN: Okay. So the next one will be the Omaha Civilian Employees. Bernard and Al Herink. Is Al with you today? [LR92]

BERNARD IN DEN BOSCH: Yeah. Right over there. [LR92]

SENATOR KOLTERMAN: There he is. [LR92]

BERNARD IN DEN BOSCH: Good afternoon. My name is Bernard in den Bosch, deputy city attorney with the city of Omaha. I represent the city of Omaha employee retirement system. And obviously you've met Pat Beckham and Al Herink who's the city comptroller, who by virtue of his position sits as a trustee on the system, is also here. We've obviously provided the required reports. You've received both the '16 and then the '17 actuarial report because the report came in after the initial deadline so we supplemented our request. The experience study that you have obviously is one that was dated in January of '13. Ms. Beckham, the fund's actuary, is preparing an experience study. We expect it to be finished and approved hopefully in January of 2018. Obviously when it's done I will provide it to the counsel, the committee counsel, for distribution to the committee. And obviously as part of that we'll obviously be evaluating the assumptions and it's anticipated we'll also do some additional projection modeling since it's been a few years since we've done any. The background information, and Mr. Herink's letter to you, frankly, was similar to the one that was submitted last year. I'll just hit a couple highlights and then we'll let Ms. Beckham talk a little bit about where the system is. All civilian employees hired by the city of Omaha after March 1 of 2015 are now in a cash balance plan. A few of the terms of that cash balance plan are described (inaudible) pay credit that grows when at the time in the system and then an interest credit that has a certain amount that's fixed and then a certain amount that's based on return in the system. That is part of the same...the benefit of a cash balance plan. Since it is a defined benefit plan, the assets can be mixed with the traditional defined benefit plan. As far as existing employees at that time, as part of the same contract negotiation, there were some reduction in benefits for those particular employees. And again, those are kind of outlined briefly and I could answer additional questions if you have them about that. And as of...significantly as of January 1 of 2017, so a year and three-quarters after the change, 18 percent of our work force is in the cash balance plan. So roughly almost a fifth of the work force, (inaudible) work force turned over in a year and three-quarters time period. Obviously we provided a summary table and then we provided an additional summary table once we got the new actuarial report. That's obviously the most useful tool. I wish I could say some of the same things that Lincoln said about being 79.8 percent funded. Clearly that's not the case here. That table shows the funding ratio is relatively flat. (Inaudible) the most positive thing in the table is, with the pension changes that were made, the increased contributions, and the change in benefits, is the system met its actuarially required contribution for the second year in a row, which it had been a number of years before that had happened. So Ms. Beckham will make a presentation relative to the January

17 actuarial report. Mr. Herink is here and he's happy to discuss investment allocation. He's on the investment committee. And then obviously we'll be happy to answer any questions. [LR92]

PAT BECKHAM: Thanks, Bernard. And maybe just to put things in context, Cavanaugh Macdonald started working with the city I think in 2011 and we were heavily involved in the modeling analysis of the changes to address the long-term funding. But this is how significant it was: I mean when we were doing projections in the 2012 and '13 valuations, the system was projected to run out of money in about 20 years if all assumptions were met. Okay. For an actuary, 20 years is a really short time and it can be very hard to turn that around. And that's why we're going to see that funded ratio hold pretty steady for a while before it starts to increase, despite the fact that you can look, far right-hand column, about the middle, the members are contributing just over 10 percent of pay and the city is putting in just under 19. So we have almost 29 percent of pay going into this plan and then we have kind of a lower benefit structure going forward which will help again over time. But it's just going to take time to heal. So it's not going to go from 55 (percent) to 80 percent in one year. I mean the situation in Lincoln was very unique to Lincoln. But as Bernard said, the actual dollars coming in are slightly in excess of the actuarial target, and that's a positive. That says over the long run we're on track to get where we want to be. So there were significant changes in addition to contributions, an increase by the city. If you look again in this table, in 2014 to 2015 these changes are manifested. So you can see the employer contribution in 2014 was 11.775 and in '15 and beyond it's 18.775--significant increase. And if you just go up two rows from that to the normal cost rate, so that's reflective of the value of the benefit structure, okay, given the members that are in it and the assumptions that are used. And there was no change in assumptions from '14 to '15. So the concessions or the employees' contribution to improving the funding of the system was reducing benefits, and Bernard referred to that. And the easy one to understand is a multiplier: you know, your benefits based on X percent times years of service times final average salary. So for future benefit accruals, they had been at 2.25 (percent). That went down to 1.9 percent--15 percent reduction. Retirement got pushed and reduced retirement went from 60 to 65. The rule of 80 went to rule of 85. And salary used to be calculated on kind of a high one-year average and that moved to a high five-year average. That all lowers benefits that are expected to be paid. And this was for current members. And you can see that again manifested because the normal cost rate in 2014 was 13.23 percent and a year later it was 9.88 percent. That's a significant change. And again, this is a situation where it's not the actuarial contribution going in. The fixed dollar...fixed contribution rate is coming in. So when ongoing benefits are cheaper, it means there's more money to finance the unfunded liability. That's the positive here. But again, it takes a long time to really have those additional contributions impact a funded ratio when you're looking at liabilities that are this large. So I wanted to point that out, that really the changes, even though you look at a funded ratio of 55 percent, we don't want to overlook the dramatic changes that were made by both the members and the city. And Bernard will correct me if I'm wrong, but I mean the ordinance is substantially equal contributions. So they're in it together, so to speak. Both the members and the city have to share that cost and that did... [LR92]

BERNARD IN DEN BOSCH: It's actually in the city charter. [LR92]

SENATOR KOLTERMAN: I have a question about that because your city charter actually requires substantially equal contributions, as I understand it. [LR92]

BERNARD IN DEN BOSCH: Correct. [LR92]

SENATOR KOLTERMAN: So that there's a significant difference between what the city is putting in versus what the employees are putting in. [LR92]

BERNARD IN DEN BOSCH: That's absolutely true if you take a snapshot today. But I think what that doesn't take into account is when you took a snapshot back five years ago when those numbers were a lot closer and the difference was based on a lawsuit (inaudible), you have two ways that employees can contribute to the system. You can put in a (inaudible) of your income or you can reduce your benefits. [LR92]

SENATOR KOLTERMAN: Okay. [LR92]

BERNARD IN DEN BOSCH: So at least what happened back in 2012, 2013 with the negotiations was the city put in cash. The city can't take any effect as far as reduction of benefits. The employees contributed their amount by a reduction in benefits. And those things were actuarially determined to make sure that those things were substantially equal. I know that makes it very difficult as you take a snapshot today because there's obviously a huge disparity. I can appreciate that. [LR92]

SENATOR KOLTERMAN: And that was all in your negotiated agreement... [LR92]

BERNARD IN DEN BOSCH: Correct. [LR92]

SENATOR KOLTERMAN: ...as I understand. Is that correct? [LR92]

BERNARD IN DEN BOSCH: It is. It is. And in a number of reports from Ms. Beckham that layout and percentages for each of those benefits to try to make sure that they were...the city and the employees, the bargaining groups were matching in their efforts to find a solution to obviously what is...still is a problem. [LR92]

SENATOR KOLTERMAN: I think I just...I think it's very important for people to understand that, because if the general public is looking at this and they know the charter says "substantially equal," to see that major difference they're going to start asking questions. [LR92]

BERNARD IN DEN BOSCH: Absolutely. [LR92]

SENATOR KOLTERMAN: And so that's why we're here. Senator Groene. [LR92]

SENATOR GROENE: You have two different retirement plans, right, one defined benefit for the older employees and the new employees have a cash balance. [LR92]

BERNARD IN DEN BOSCH: They're actually one retirement plan because the cash balance plan is a type of defined benefit plan. So the pool of resources are actually together. We couldn't...if we had tried to separate them... [LR92]

SENATOR GROENE: But... [LR92]

BERNARD IN DEN BOSCH: But... [LR92]

SENATOR GROENE: But there's two different sets of benefits. [LR92]

BERNARD IN DEN BOSCH: There's two different sets of benefits. [LR92]

PAT BECKHAM: Tiers, yeah. [LR92]

SENATOR GROENE: So the new employee is paying as much of his paycheck and the city is paying just as much, the 18 percent. [LR92]

BERNARD IN DEN BOSCH: Yep. Absolutely. [LR92]

SENATOR GROENE: But that new employee isn't going to get the same benefits. [LR92]

BERNARD IN DEN BOSCH: The new employee is getting a cash balance benefit that may not be as good, absolutely. [LR92]

SENATOR GROENE: So his cash balance, if he puts in 10 percent of his pay does that go into his individual account? Because on a defined benefit, it just goes in the (inaudible). [LR92]

BERNARD IN DEN BOSCH: No, it does not go into his account. All the things are pooled, but there is a notational account that's calculated each year that has a pay credit which is based on a percentage of (inaudible). [LR92]

SENATOR GROENE: So the new employee can go in and look at what he paid over the last 20 years if he's there 20 years from now? [LR92]

BERNARD IN DEN BOSCH: They receive a statement every year that would lay out what their pay credits are, what they contributed and what their pay credits are, and what the interest credit is. [LR92]

SENATOR GROENE: Does it also show in there the city's part of the funding, or does that just go into the pool? [LR92]

BERNARD IN DEN BOSCH: The city's part just goes into the pool. I don't think...I'm not sure that the statement that we send to the employee each year lays out exactly what the city contributes. It lays out what the employee contributed. And when it comes to those that are in the cash balance plan, it lays out their... [LR92]

SENATOR GROENE: So the new employee is helping bail out the old system but not...in the future isn't going to get the same benefits. [LR92]

BERNARD IN DEN BOSCH: They...they're certainly...the cash balance plan is certainly cheaper for the system. They're likely...maybe not likely to get the same benefits, but that's somewhat dependent on some of the factors of the cash...my point is if investment earnings are traditionally good, the disparity between those is less. [LR92]

SENATOR GROENE: So you've got a hybrid system where the money is still pooled but the benefits are different. [LR92]

BERNARD IN DEN BOSCH: Yes. [LR92]

SENATOR KOLTERMAN: And bear in mind that it was part of the negotiated agreement (inaudible). [LR92]

SENATOR GROENE: I understand. I just never understood it. [LR92]

SENATOR KOLTERMAN: Yeah. Senator Stinner. [LR92]

SENATOR STINNER: I'm going to...I've got a couple questions. First of all, we haven't changed the rate from 8 percent to 7.5 (percent). We're still using 8 (percent)? [LR92]

PAT BECKHAM: Still 8 (percent), yes. [LR92]

BERNARD IN DEN BOSCH: Correct. [LR92]

SENATOR STINNER: Okay. We made all of these adjustments in what the employer is contributing, employees at 10 percent, made those adjustments. Interestingly, 2013 we're at 54 percent; today we're at 55 percent. Hardly moved it anywhere because I'd look at what the ARCs are. And what percentage of the ARC that you paid was 68 percent, 71 percent, 84 percent. Finally we hit a 9 percent rate of return on our investment. Do we have the right mix, I guess is what I'm asking, and how long do we wait before we get to 80 percent? [LR92]

PAT BECKHAM: Yeah, how long before 80 percent? We don't do projections every year for these systems. We do them periodically and I think the last ones were in 2014. And I think we'll be doing some when we get to 2018. Do we have that projection? When did we hit 80 (percent)? It takes a while I know. [LR92]

BERNARD IN DEN BOSCH: Twenty thirty-five was the last projection that was done as far as when it would be 80 percent. [LR92]

SENATOR STINNER: Are you comfortable you have the right assumptions that you could get there, because so far historically you haven't hardly moved it at all. [LR92]

PAT BECKHAM: I understand what you're saying, Senator. But remember when you're looking at kind of a five-year snapshot, the only thing that moves the funded ratio very significantly is investment... [LR92]

SENATOR STINNER: Investment returns. [LR92]

PAT BECKHAM: ...return. Because, you know, the liabilities are so big compared to contributions, the contributions have to come in over 20 years to really affect a difference, you know, make a big difference. And you know, 2013 we probably were still feeling some of the pain in smoothing from the recession. [LR92]

SENATOR STINNER: Actually we made 11 percent, 16 percent the next year, 4.71 (percent), 3.1 (percent), and 9.7 (percent), so not terrible. [LR92]

PAT BECKHAM: Right, but that return is on market. And then like your unfunded liability, your funded ratio is on actuarial value or smooth value. [LR92]

SENATOR STINNER: I absolutely get that. [LR92]

PAT BECKHAM: So we've got a little bit of disjointed...we should really be showing both, probably, returns there. But I wanted to mention--I think Bernard mentioned this earlier--we are in the process of doing an experience study for the system, just like we did for NPERS last year. And we look at all the assumptions, not just investment return but all the assumptions that are used in this valuation again to determine that they're still the best estimates. And so we don't know the answer until we do the work. But we will have that report most likely in January that will either substantiate that 8 (percent) is still reasonable or make a recommendation for a change. So we'll know that when... [LR92]

SENATOR KOLTERMAN: That's a question I have. Do you really believe that with all the other plans moving 7.5 (percent), 7 (percent), even some, as you indicated earlier, in the high 6's, you can afford to stay at 8 percent? And then also are you looking at making mortality changes? And how will that all affect the experience study? [LR92]

PAT BECKHAM: Again, we have to do our analysis... [LR92]

SENATOR KOLTERMAN: Right. [LR92]

PAT BECKHAM: ...before we know the answers to those questions. I would say that the asset allocation for both of these plans is a little bit unique for maybe a standard asset allocation. And I think...I don't know if you or Al want to speak to that. I thought you had some data... [LR92]

BERNARD IN DEN BOSCH: Al is going to speak to that. [LR92]

PAT BECKHAM: Okay. Yeah, I think Al has some...do you want to take my spot from me? [LR92]

AL HERINK: (Exhibit 1) Sure. I've got a handout here if you'd like to look at it. We do asset allocations every year and have (inaudible). We do the asset allocations. The last one was done in 2015. Again, my name is Al Herink. I'm the city comptroller. And I kind of wanted to (inaudible) a little bit to kind of give you an idea of where we're at. And I just want to make one note, too, is we're going to do this experience study you were asking about and we're going to review this one more time in the next three or four months and determine whether this is the right one we should use. We're going to talk to our consultant. We have DeMarche put this together right now. But I'm going to walk you through this. I'll show you just how well we looked at, what we came up with on the last asset allocation that we did in 2015. If you take a look at the first column, that's the different type of investments that we have. And I'm not going to go through each one but there's three main categories. We have equities and we have fixed income and we have alternative investments. And we take a look at our current allocation, is listed in the second column, and our consultant gave us three different examples that we could use to fill in what we wanted to do going forward. And if you take a look at the bottom four lines there...or rows, the strategic is the three to five expected returns based on the allocations listed above there. And the strategic is three to five years. And they say our current allocation, the way we have it, is 6.72 percent. We decided when we did this, when we made the selection, we took selection number three. And right now our allocation is based that we think we can get 7.12 percent in the next three to five years. Now we look at these pension funds as 30- to 40-year funds. And when we take a look and set our assumptions, that's what we look at. So we took...we also look at the secular returns. And if you take a look at the same, our old asset allocation, we expected to get going forward 8.45 percent and the allocation we selected was 8.55 (percent). And it's a combination of these different investment types. So that's kind of where we have. So we have sophisticated investment policy here. It isn't just half bonds and half stocks and that's what we decided on. So we spend a lot of time on this analysis and we think that it's...we think it's defendable and our consultant says that. And it might be at the top end but I don't think other pension plans goes through this type of...will go through this type of sophistication putting together investments like this. If you take a look at the next sheet, we talk about that just a little bit. This is what we've done currently. Again, this is the actual investment of how the city has done the last few years on this. If you go through the double line, if go through the double line, if you'd take a look at the first row there, that's the last quarter. We did 3 percent. If you take away the year to date so far, and that's over nine months, we did 9.7. The last year we did 12.2. And we got a three-year there. It's 8.5. Five year is 9.3. And the ten years is 5.3, and the last one, since inception, is 9.3. So that's kind of the history that we've done long term. Again, we're going to take a look at the 8 percent. It's not cut in stone. The city doesn't have a dog in the hunt. We're going to take what we think we honestly can believe. We understand that inflation is down a little bit. We understand that long-term bonds aren't paying what they did five or ten years ago. But again, it's what's going to happen in five years. It might be right up to where we were at. So we're going to take a look at it, listen to the experts and make decisions at that time. Any questions? [LR92]

SENATOR KOLTERMAN: Senator Stinner. [LR92]

SENATOR STINNER: I've seen some of these allocations and analysis done before. [LR92]

AL HERINK: Sure. [LR92]

SENATOR STINNER: And it's the level of confidence that they have or...and I think that's represented in the standard deviation. [LR92]

AL HERINK: Yeah. [LR92]

SENATOR STINNER: And that's what's really kind of broadening now because of what you're saying. [LR92]

AL HERINK: Uh-huh. [LR92]

SENATOR STINNER: The economy is changing, the fed is unloading a heavy balance sheet, how the credit markets are going to respond to that, a whole bunch of stuff out there. [LR92]

AL HERINK: Sure. And that's why we're going to look at it. When this was put together... [LR92]

SENATOR STINNER: But that's why people are going to 7 (percent). They're being more conservative because of the uncertainties out there. [LR92]

AL HERINK: Right. Yeah. When we put this study together, the people said we had an 85 percent confidence level on that. And I'm sure it will change going forward. [LR92]

SENATOR STINNER: Okay. [LR92]

AL HERINK: That's a good point. [LR92]

SENATOR STINNER: Can I ask another question? [LR92]

SENATOR KOLTERMAN: Go ahead. [LR92]

SENATOR STINNER: What's the bond rating for the city of Omaha? [LR92]

AL HERINK: We get the second highest bond rating from Standard and Poor's and the third highest bond rating from Moody's, very high. [LR92]

SENATOR STINNER: Is it stable? I mean is it a stable...? [LR92]

AL HERINK: Our outlook is stable. We just sold bonds this year. We have a very good credit rating. Our bonds sell good and I'm sure most cities are envious of our bond rating. [LR92]

BERNARD IN DEN BOSCH: I think it was downgraded five, six years ago. [LR92]

AL HERINK: Right. [LR92]

BERNARD IN DEN BOSCH: But it's stayed steady since then. [LR92]

AL HERINK: Yeah, we have a stable outlook. [LR92]

SENATOR STINNER: Okay. [LR92]

AL HERINK: Omaha has a diversified economy. We have low unemployment. The city of Omaha has a diversified revenue stream. We're rock solid here in Nebraska and the Midwest. We're one of the best economies in the Midwest. [LR92]

SENATOR STINNER: There's been no discussion maybe to look at financing some of this pension liability? [LR92]

AL HERINK: You know, we've... [LR92]

SENATOR STINNER: Would it make sense? Would it not? [LR92]

AL HERINK: You know, we've talked about it. The problem I personally have and what other people have is when you actually go to finance pension debt, and that's basically borrowing money and then putting it in the stock market, there's some risk right there to do that. But also when you borrow that debt, you can't borrow tax-exempt debt. You've got to sell it as taxable debt and that increases the yields on those bonds, too, and it costs you more money for that money. [LR92]

SENATOR STINNER: But it lowers the...it could lower the city's contribution rate, that would more than offset what the difference is. [LR92]

AL HERINK: Well, only if the stock market goes up higher than the interest on those bonds does. [LR92]

SENATOR STINNER: Well, you are using 8 percent, so. [LR92]

AL HERINK: Yeah. Okay. I understand what you're saying. [LR92]

SENATOR KOLTERMAN: Senator Groene. [LR92]

SENATOR GROENE: Thank you. Dumb question maybe, but unfunded actuarially accrued liability, that's the amount that is unfunded, right? [LR92]

PAT BECKHAM: Right. [LR92]

SENATOR GROENE: So when did your new plan go into effect? [LR92]

PAT BECKHAM: It was in '15, March... [LR92]

BERNARD IN DEN BOSCH: March 1. [LR92]

PAT BECKHAM: ...March 1 of '15. [LR92]

SENATOR GROENE: So in '15 you were $188 million short. In '16, after it was in place, you're $193 million. I would expect those numbers to be going down. In '17 you're $197 million underfunded. Am I reading this wrong? Wouldn't you be expecting, if you're fixing the plan, that those unfunded numbers go down, not up? [LR92]

PAT BECKHAM: You've got the investment experience from that year and the four prior years impacting these. The unfunded liability is the actuarial liability minus the actuarial assets. So whatever happens on the assets... [LR92]

SENATOR GROENE: But this individual here was just saying how great the returns have been the last three or four years on some of your funds. [LR92]

AL HERINK: Well, the unfunded liability is a combination of other things than the return on investment. You know, it could be death and other assumptions (inaudible). [LR92]

SENATOR GROENE: Yes, but the part that says it's funded, wouldn't that be what your investment is worth? [LR92]

AL HERINK: Well, the funded portion is...the unfunded portion is the liability minus your assets. [LR92]

SENATOR GROENE: But if your assets are going up because you're getting good returns, your unfunded should be going down, should it not? [LR92]

AL HERINK: Well, again, we use some of the assets to pay... [LR92]

SENATOR GROENE: I understand. [LR92]

AL HERINK: ...to pay benefits. [LR92]

SENATOR GROENE: But I just don't see the trajectory here going in the right direction. [LR92]

AL HERINK: Yeah. You know, I'm not sure but I think... [LR92]

SENATOR GROENE: Well, maybe I don't understand the numbers as I thought I did. [LR92]

PAT BECKHAM: Maybe...could I just... [LR92]

AL HERINK: Go ahead. You jump in. [LR92]

BERNARD IN DEN BOSCH: Let's let Pat Beckham address this. It's really an actuarial question, not a (inaudible) question. [LR92]

AL HERINK: Okay. [LR92]

PAT BECKHAM: Right. So if you look at the unfunded actuarial liability in 2014 and then again in 2015, you do see that it went down there. That is from the changes the current active members made to take lower benefits in the future. Okay? So that piece we can understand and we see there that the asset value did go up. And remember, there is more going out in terms of benefit payments than is coming in, in contributions. So we have that negative cash flow. But a lot of different things impact the unfunded liability and investment return is a huge one. And just because the fund earned 13 percent in that one year, it may not...it may have had deferred or unrecognized losses from prior years that get offset in there. So it's not a one-to-one correlation because we're not using market value for this purpose. The new tier is going to take a lot of time before it has any kind of a meaningful impact on the valuation results. And even the projections, I mean we're going to hold steady for a long time. [LR92]

SENATOR GROENE: So what timetable are you looking at when the unfunded mandate numbers start receding? I mean is that the long-range plan? [LR92]

PAT BECKHAM: Eventually it will get there. I think what....again this projection is a little dated because it's from 2014 and that assumed that all the assumptions were met. But full funding wouldn't happen until 2038. And the funded ratio, you know, hangs pretty steady below 60 percent until you get to 2025. So you're a little bit treading water for a while until...we're trying to slow the growth in the liabilities and throw a bunch of money in and eventually the assets are going to catch up, because the liabilities are going to grow slower but the assets are going to grow more rapidly and then we're going to get to that point. But it's a long time. It's 2034 before we're 80 percent funded. And then four years later we're 100 percent funded. So as these dollars grow from payroll, we're throwing a lot of money in at the end of that period. [LR92]

SENATOR GROENE: And this might be morbid, but as the defined benefit beneficiaries pass away. [LR92]

PAT BECKHAM: Well, it's really the active people leaving and being replaced by people in the cash balance tier. [LR92]

SENATOR GROENE: But the payments are still out there. I'm taking too much time. [LR92]

PAT BECKHAM: Yeah. I mean we pay them until they die, but we figured that in. [LR92]

SENATOR KOLTERMAN: But we've capped it. Yeah. [LR92]

PAT BECKHAM: Yeah, we figured that in. And we are using generation mortality here, anticipating improvements. [LR92]

SENATOR KOLTERMAN: So a question, Pat, when you do the experience study, obviously you're going to take a look at the assumed rate, you're going to take a look at the mortality tables. Are you going to have a 30-year projection in that experience study? [LR92]

PAT BECKHAM: That's not typically a part of an experience study. [LR92]

SENATOR KOLTERMAN: Okay. [LR92]

PAT BECKHAM: We have made a recommendation to the board... [LR92]

SENATOR KOLTERMAN: Okay. [LR92]

PAT BECKHAM: ...that we do a projection study. I believe the civilians accepted that recommendation. So I think we'll be doing a projection and will actually be doing some additional analysis. [LR92]

BERNARD IN DEN BOSCH: There was a discussion but after the actuarial experience study was completed we would be asking for a projection model. [LR92]

SENATOR KOLTERMAN: Okay. [LR92]

BERNARD IN DEN BOSCH: (Inaudible) projection modeling to be done. [LR92]

SENATOR KOLTERMAN: And then I guess another question I have is has there...and this would be more for the employers, the city of Omaha. Has there been any talk about changing your charter so that more money could be put in other than equal contributions or substantially equal because to me, I'm just like the rest of the people up here. It looks to me like it's going to be a long time before you ever catch up. [LR92]

BERNARD IN DEN BOSCH: And that's one of the potential problems with the solution of the city investing a whole bunch of money because it theoretically would be potentially violative of that section. I'm not aware that there's been any discussion. I didn't represent this at the last charter convention in 2013. That issue certainly wasn't discussed there. But we have those, at minimum, every ten years and it's certainly something that could be considered. But I'm not aware that's it's been discussed. [LR92]

SENATOR KOLTERMAN: And if you do...if you do have those meetings about the charter, can that be handled by the council or does that take a vote of the people? [LR92]

BERNARD IN DEN BOSCH: Amending the charter would require a vote of the people. [LR92]

SENATOR KOLTERMAN: Okay. So it's not...it's easier said than done. [LR92]

BERNARD IN DEN BOSCH: I think the council (inaudible), the council has to adopt an ordinance putting it on the...up for the election and then the people would obviously have to speak. [LR92]

SENATOR KOLTERMAN: Support it. All right, any other questions? [LR92]

SENATOR KOLOWSKI: Just for clarification if you could, could you talk just a second about the whole aspect of continued annexation which has gone on for 30-some years, all the way back to the time I was in Millard in the first years in 1970 when it was first...some pieces were annexed in the city and what's going on there? And then the continuation of the county board on one hand and the city council on the other, you've got overlapping questions within a lot of that going on. And could you just give us a little background on that on what that is, or does it play any part at all? [LR92]

BERNARD IN DEN BOSCH: It really doesn't play any part at all. Obviously, the city then, then depending on the mayor, may have a different annexation policy or be more aggressive or less aggressive about annexations. The only potential that it might play in, I think, in the pension context is whether those annexation require more employees to provide services... [LR92]

SENATOR KOLOWSKI: Absolutely. [LR92]

BERNARD IN DEN BOSCH: ...and whether or not we would then be meeting. I mean quite frankly that's one of these things that will be studied in the experience study is the number of employees, whether it's increasing, because income of the employees is obviously a part of that and that's a product of what people make and the raises they get. But it's also a product of whether there's an increase in the number of employees. So what I can't tell you, and the numbers are in the report, I think, if you look at the number of employees the city has had for the last ten years, it's generally been decreasing. In the beginning of 2017 we actually do have...I think it increased three or four or five people from January 1 of 2016 to January 1 of 2017, which has been relatively rare over that period of time. We've generally seen a decline in the number of employees, which is one of the issues that Ms. Cavanaugh would obviously have to take into account in her experience study. But really that's probably the one area that might tie into the annexation. [LR92]

SENATOR KOLOWSKI: Okay. Does the charter status have an impact on all this, having the Omaha charter as far as options for the future and the things that need to be looked at? Does it need to be relooked and rewritten in some way? [LR92]

BERNARD IN DEN BOSCH: Well, I mean...and that's of course...part of the difficulty we have here is the pension system was in a very deep hole. [LR92]

SENATOR KOLOWSKI: Yes. [LR92]

BERNARD IN DEN BOSCH: There is no question about it, when you're talking about not even having cash. So you have the employees in the city, another (inaudible) mayor's leadership, got together. They negotiated a contract that was unprecedented in some ways in that there was a reduction in benefits. Obviously, we also, you know, you have...new employees have a reduced benefit. [LR92]

SENATOR KOLOWSKI: Sure. [LR92]

BERNARD IN DEN BOSCH: Hence a huge increase in the amount of money that the city was putting into the system. Even with all those changes, as Ms. Beckham has said, none of that was going to happen quickly. And of course as I appreciate, there's two issues that...I mean you're looking at the rate of return on some of these assumptions saying, hey, are those fair? Are those the right assumptions? That's (inaudible) question. And the second part is you're looking at the period of time and saying even with those relatively dramatic changes, you're still talking about something that's going to take 20 years. And you're not going to see big movement for ten years. And then...and I...as outsiders looking in, I understand why that's concerning. It...from the perspective of the city, we rely on the experts. Now there may be some times in the past where we relied on those things because they were obviously...there have been benefit changes in the past and they were always costed out. But the cost didn't...we're not sure that the cost always equaled what they actually cost. The hope is now and even though I know the funding status is staying relatively even, you are starting to see some things that are indicating things are moving in the right direction. But it's not super fast. I mean I can't tell you, I'd be misleading you or saying something that you'd know I wasn't telling you the truth if I told you that. It's obviously slow. And all we can ask for and part of what the experience study and the projection modeling is going to tell us is are we going in the right direction? Do we have to do some further things on the plan? And if the experience study recommends making changes, we all know what a reduction in the interest rate in the investment rate assumption is going to do. That's going to increase and that's going to say now again the parties need to go back to the table and try to see what other things can be done to address the problem. So the only thing I can ask for is patience and I know that's difficult because you see something that looks really bad in comparison to where you'd like it to be. But that's the only way that...I mean, absent a huge infusion of cash, that's the only way we're going to be able to fix this type of a problem. [LR92]

AL HERINK: And when we did fix it back in '15, we knew it was going to be a long time. We knew it would be eight to ten years before we would get over 60 percent funded and it's going to be a long-term solution. [LR92]

SENATOR KOLOWSKI: Thank you for your discussion. [LR92]

SENATOR LINDSTROM: Any other questions from the committee? Seeing none, thank you very much. Just in time. [LR92]

SENATOR KOLTERMAN: Don't have to move very far, Bernard. [LR92]

BERNARD IN DEN BOSCH: No, I'm going to...I'll let Mr. Curtiss have (inaudible). [LR92]

SENATOR KOLTERMAN: Okay, now we have the Omaha Police and Fire Plan. Would you introduce yourself. [LR92]

STEVE CURTISS: I'm Steve Curtiss. I'm the finance director of the city of Omaha. [LR92]

SENATOR KOLTERMAN: Other than that it stays the same, for the record. [LR92]

BERNARD IN DEN BOSCH: And just for introductory remarks I'll kind of do the same thing I did the last time. My name is Bernard in den Bosch, deputy city attorney. I'm also the attorney for the city of Omaha, Police and Fire Retirement System. Mr. Curtiss, by virtue of being the city's finance director, serves as a trustee on the system as well. We provided you, much like we did with the last system, both the 2016 actuarial report because that was the most recent actuarial report at the time that our report was due, the 2017 actuarial report was approved at the November meeting and we supplemented our response by proving that to you and an updated table as well. Again, similar to the civilian system, Ms. Beckham is preparing an experience study. The hope is that will be finished in January and maybe February. That one is a little bit behind the civilian one as far as where it is. That again is going to evaluate the assumptions and will more than likely lead to some recommendations as far as whether the assumptions need to be changed. And then there may be...there will be some discussion at that point in time, though there hasn't been a decision made for sure whether there will be additional projection modeling. Their last projection modeling that was done in the police and fire case was done in 2015. So it's more recent than the civilian. Obviously, the letter of summary provides some of the information. I just want to hit on a few of the things. Much like the civilian, there were some pension changes back for the police and fire system. They occurred. There are four bargaining groups that have employees on the police and fire system: Omaha Police Officers Association, which represents your sworn police officers from the rank of officer through the rank of captain; the Police Managers Association, which represents the deputy chief and chief of police; Local 385 Omaha Fire Fighters Association, which represents firefighters from the rank of firefighter up through the rank of battalion chief; and then the Fire Management Association, which represents the assistant fire chiefs and the fire chief himself. Those management groups are relatively small, four to six people; the others are quite large. The police union adopted...there was a contract adopted between the city and the police union in September of 2010, went into effect in October of 2010 which made revisions, increased the city's contribution, but also resulted in some pension changes for existing employees, staggered in a little bit those who are closer to retirement with less changes, and then also made some substantial changes for new hirees. The fire union entered into a contract with similar changes in late 2012 that went into effect in early 2013. So the plan to fix it where you had everybody who was part of the system being subject to the new terms didn't occur until early 2015. So unfortunately, they weren't necessarily at the same time. And that's...as you look at the summary in part of the discussion you might see some of those changes. This particular system you'll see...notice a change from 45 percent funded to 52 percent funded. Obviously, that's an increase but, obviously, well below what anybody would like to see. I mean there's nothing more than that. The encouraging thing is the system is still meeting its ARC and has been for the last several years. So in any event, that being said, we also had a new contract with the police union that went into...was approved by the city council early in 2017 which contemplates an increase in pension contributions for the police and the city that start on January 1 of 2018 and run for the remainder of the life of that contract. So that is an additional pension change that has been made since then. The police contract now is in effect through the end of 2020. The fire bargaining group, Local 385, has a contract through the end of 2018, so we wouldn't be able to...we'll obviously be in the negotiating table with the fire union starting in 2018. So that being said, I'll ask Ms. Beckham to talk a little bit about the January 1, 2017, actuarial report. [LR92]

PAT BECKHAM: All right. Thank you, Bernard. And again, just reiterate what's been said. When we first were working with the plan in 2010 again it was projected to run out of money in 20 years. So although everyone may not be thrilled with the funded ratio of 52 percent, (A) it's better than 45 percent and it's...the trajectory is much improved because it's projected to reach 100 percent in actually...I think the most recent projections performed it was projected to be 80 percent funded in 2029. So again, it takes time to heal these plans, a lot of money being contributed but the liabilities are very, very large. So the 2017 valuation, we had a rate of return on market value that was 8.5 percent. Again, with smoothing the return on the actuarial value, which is what really drives the numbers, was closer to 7 (percent). So that actually was a loss for calendar year '16. The normal cost rate, if you look at Exhibit 1 you can see that it's sort of creeping down gently each year and that will continue as more and more active members are covered under the new tier compared to the old tier. The new tier has a lower cost for both police and fire. So again, the contributions coming in are fixed. So if it takes less to pay for the benefits for the active members, there are more contributions to pay off the unfunded. And that's why we get acceleration in the funded ratio: When we go further out, we have more and more payroll in the lower cost tier. The contribution margin is down this year. We were at about .5 percent last year and we're .3 percent this year. And that's largely due to the fact that the unfunded liability is up a little bit and payroll is not up as expected. Remember, we develop these dollar amounts of unfunded liability payment assuming payroll is going to increase. The current assumption right now is 4 percent. Well, the dollar amount of the payment is going up 4 percent. If the payroll doesn't keep pace then the rate ends up higher and that's what we're seeing manifested here. Again, over the last couple of years the percent of the ARC contributed has been near or over 100 percent. Part of that is that we did make a change in the amortization period to reflect the fact that this was a long-term solution. So it wouldn't make sense to use a 15-year amortization when we know it's a 20- to 30-year plan to get us there. So that change was made I think in 2014. I will I guess just defer to the committee if you have specific areas you'd like any of us to visit about. I know you're probably on actuarial overload at this point. (Laughter) [LR92]

BERNARD IN DEN BOSCH: And Mr. Curtiss does have some material about investment allocation. [LR92]

STEVE CURTISS: (Exhibit 2) I'll go ahead and I'll pass these out. They're just the same thing as some of the other ones. [LR92]

BERNARD IN DEN BOSCH: Same type of analysis, different allocation. [LR92]

SENATOR KOLTERMAN: In this particular plan though we're not dealing with a hybrid. We're dealing specifically with a defined benefit plan. [LR92]

BERNARD IN DEN BOSCH: It's a traditional defined benefit plan, correct. [LR92]

SENATOR KOLTERMAN: And so we don't have two different sets of data to compare to and two sets of benefits. [LR92]

PAT BECKHAM: There's multiple tiers. [LR92]

BERNARD IN DEN BOSCH: There's multiple tiers because, for example,... [LR92]

SENATOR KOLTERMAN: I know there's different... [LR92]

BERNARD IN DEN BOSCH: ...the new employees have a less... [LR92]

SENATOR KOLTERMAN: But one is not a cash balance and the other one... [LR92]

BERNARD IN DEN BOSCH: Correct, you're absolutely correct. [LR92]

SENATOR KOLTERMAN: So the money going in is going to be...if I understand it correctly, the money going in won't have as big an impact on increasing the funding because you don't have those that are putting more in to offset the liability. [LR92]

PAT BECKHAM: You know, actually... [LR92]

SENATOR KOLTERMAN: Would that be accurate? [LR92]

PAT BECKHAM: Well, actually, Senator, it's similar in that the cost for new hires is lower. [LR92]

SENATOR KOLTERMAN: Right. [LR92]

PAT BECKHAM: And that's true in the civilian plan as well. [LR92]

SENATOR KOLTERMAN: But it isn't as significant, is it? [LR92]

PAT BECKHAM: It isn't...it's more significant in the police and fire plan actually. [LR92]

SENATOR KOLTERMAN: It is. [LR92]

PAT BECKHAM: Uh-huh. [LR92]

SENATOR KOLTERMAN: Okay. [LR92]

STEVE CURTISS: And the other counterintuitive thing I'd add to that is that we're still hiring and growing our payroll. And in fact I think we just got police up to 865. [LR92]

BERNARD IN DEN BOSCH: And just hired a class of 55 police officers. [LR92]

STEVE CURTISS: And we have a class of firefighters starting in January. So it is counterintuitive that you add more people and it somehow gets better. But in this case it actually works and we are... [LR92]

SENATOR KOLTERMAN: When you have over...you have somewhere between 48-51 percent of payroll going into this plan. That's a significant amount of dollars. Is that sustainable? [LR92]

BERNARD IN DEN BOSCH: Well, I presume. Obviously, that was in the contract that was negotiated within their union, but presumably it's been something that's...they've been able to budget and been able to handle it. I appreciate...I'm sure Mr. Curtiss, as the finance director, would tell you he'd rather not have to pay it. Of course, he'd rather not have to pay any bill like anyone else. (Laughter) I think...and I appreciate. I know there's some concern and discussion about the restaurants' tax and some of the other things. I think some of those changes that have been made have made it so the city could make those changes. I will tell you I don't think the...and the mayor would tell you the same thing I would tell you. She wishes she didn't have to do it but (inaudible) problem (inaudible) huge problem and this is a solution that will hopefully...and again, same problem we had the last time. It's going to take a while. We're seeing some positive steps but it's going to take a while to make sure that it bears fruit. So I really don't know that I answered. I tried to answer your question. Hopefully I did. [LR92]

SENATOR KOLTERMAN: Well, obviously, we're not going to solve the problem today. We're going to get your new study in January for this as well I assume. [LR92]

BERNARD IN DEN BOSCH: You are. [LR92]

SENATOR KOLTERMAN: And I would hope that we could maybe see some experience studies projections because I would think you would want that because this...I got news for you. This is your problem, not the state's. We don't have any money on the state's level, so. [LR92]

BERNARD IN DEN BOSCH: I will tell you that me personally I like...I won't have...I like having a projection modeling (inaudible) because I think this is three years later. It gives you an opportunity to see if in fact things that you're hoping to see as far as improvements or things are on the path that they're supposed to go. So I think ultimately that's the direction we will go. It's just no one is committed to that at this point. [LR92]

SENATOR KOLTERMAN: All right. Any questions? Senator Groene. [LR92]

SENATOR GROENE: This 41 percent...thank you, Chairman. This 41 percent that's paid, that's the local, that's the agreement with the present administration of the city. So if another politician comes along and makes promises like a couple prior to the present mayor, this could all change and you...because you're not bound to do anything to fully fund this. There's no statute that says you have to ARC to maintain a public union retirement plan at 60 percent or no less than 70 percent funded. [LR92]

BERNARD IN DEN BOSCH: You're absolutely right. The only thing is because of collective bargaining, the city nor the union can unilaterally change what they contribute to the plan. So absent an agreement between the city and the union, the amount that's being contributed... [LR92]

SENATOR GROENE: There's no date on this specific... [LR92]

BERNARD IN DEN BOSCH: Because it stays in effect until there's (inaudible) agreement negotiated between the parties. [LR92]

SENATOR GROENE: It isn't a three-year agreement or a five-year agreement union agreement? [LR92]

BERNARD IN DEN BOSCH: No. No. The only thing that's the three years, I talked about the .75 percent increase for police contributions, that was limited specifically in the collective bargaining agreement to the 2018-2020 period. That was just a little thing that we did recently. But the rest of them would have to be negotiated. [LR92]

SENATOR GROENE: Another question: They're at 41 percent now. If for some reason this body tried to pass or somebody said the new hires are going to be a cash balance, all right, like you did in the public...the other employees, in that one when you went to cash balance your contributions jumped. And you're at 41 percent. If they went to a like system as the Omaha civil employees are, would it cause a huge jump in the employer contribution for a few years? [LR92]

BERNARD IN DEN BOSCH: I don't know that we can tell you one way or the other. I doubt it would because what it really comes down to... [LR92]

SENATOR GROENE: Well, it did in the civil one. [LR92]

BERNARD IN DEN BOSCH: Well, you can come down to two different solutions. With the police and fire, the solution was we're going to try to reduce the benefits for active and for new people. The city is going to put more in. That was the solution. The solution for civilians was reduce the benefits but was also go to a cash balance plan. The city put in more contributions in both cases but they're different solutions. I don't think now that you get to this point because of where we are with the ARC and the contribution. I don't know that you can assume that just because we go to a cash balance plan the city is going to have to put in more. I'd submit to you that we'd probably would end up putting in similar or a little bit less. But I don't know that Ms. Beckham has ever looked at that and that makes it a little bit difficult to tell you (inaudible). [LR92]

SENATOR GROENE: Too many different variables to compare the two. [LR92]

BERNARD IN DEN BOSCH: Yeah. [LR92]

PAT BECKHAM: It would totally depend on the design of the cash balance plan that would drive the cost. But I would just point out to you that the normal cost rate right now for the police and fire plan is about 22 percent of pay. And the members...this is a blended rate, both police and fire. But the members are putting in just a little over 16 percent. So the employer costs for the ongoing actives is about 6 percent of pay. It's...might be hard to...for a public safety plan, might be hard to find a plan design that's cheaper than that. [LR92]

BERNARD IN DEN BOSCH: And basically that means the remaining 26 percent is going to pay the... [LR92]

PAT BECKHAM: Exactly. [LR92]

BERNARD IN DEN BOSCH: ...any unfunded, which is a testament to how bad of shape we're in. [LR92]

SENATOR GROENE: It's the way the city is making their ARC. Instead of a lump sum, they're doing it this way. [LR92]

PAT BECKHAM: Over time. [LR92]

SENATOR GROENE: Yeah. [LR92]

PAT BECKHAM: Uh-huh. [LR92]

SENATOR KOLTERMAN: Pat, did you...before you were talking, you were talking about the police and fire plan compared to the cost of new hires in the civilian plan. Will you talk a little bit about the difference there again, would you? [LR92]

PAT BECKHAM: Actually I was talking about the cost of the police and fire plan for active members. [LR92]

SENATOR KOLTERMAN: Okay. [LR92]

PAT BECKHAM: Which was 22 percent of pay. [LR92]

SENATOR KOLTERMAN: Right. [LR92]

PAT BECKHAM: And just a reminder, these folks aren't covered by Social Security. [LR92]

SENATOR KOLTERMAN: Right. [LR92]

PAT BECKHAM: So the members are contributing about 16 percent of pay for the benefit. So the city pays the difference, 6 percent. And then as Bernard pointed out, the other 27, whatever, 28 percent is all going to pay the unfunded liability. [LR92]

SENATOR KOLTERMAN: Okay. [LR92]

PAT BECKHAM: And that's why over time this thing heals, because eventually...and again, the costs, we're going to see the normal cost continue to come down a little bit as more and more go in the new tier. And so that normal cost is going to go down. The member contributions will actually, in 2018 the police union members are putting in another .75 (percent), right? [LR92]

BERNARD IN DEN BOSCH: Yep. [LR92]

PAT BECKHAM: So we'll see that go up a little bit. [LR92]

SENATOR KOLTERMAN: It'll heal if the projections are met. [LR92]

PAT BECKHAM: Right. Yeah, that's the big "if" always. [LR92]

SENATOR KOLTERMAN: I mean there's a lot of "ifs" involved with that. [LR92]

PAT BECKHAM: Right. And the challenge for plans that have a low-funded ratio is there's a lot of risk or exposure for a long time before you get to a higher funded ratio. And that's always a concern with plans that are funded in the 50-60 percent range, which is why we made a recommendation that we do a projection study and do some further analysis on the risk side. [LR92]

SENATOR KOLTERMAN: All right. Any additional questions? Okay, thank you very much. [LR92]

BERNARD IN DEN BOSCH: Thank you, Senators. [LR92]

STEVE CURTISS: Thanks. [LR92]

SENATOR KOLTERMAN: I think we're going to take a five-minute, seven-minute break. We're going to start at 3:30 and we'll come back with Omaha Public Schools at about 3:30 to 3:35. [LR92]

BREAK

SENATOR KOLTERMAN: Call this meeting back to order. This hearing will now come back to order, please. We're going to start. Again, there's going to be a couple senators coming in. At this time we're going to hear from Omaha Public Schools. Lou Ann Goding will make the presentation. Welcome. [LR92]

LOU ANN GODING: Thank you. [LR92]

SENATOR KOLTERMAN: And then we're going to make one slight adjustment to the agenda. We're going to ask that Omaha Public Power District goes next, so everybody else will move down one. So, Lou Ann, go ahead. The floor is yours. [LR92]

LOU ANN GODING: All right. Good afternoon. My name is Lou Ann Goding and I'm a member of the Omaha Public Schools Board of Education. I want to start my testimony off today by saying that the Omaha Public Schools understands that OSERS is underfunded. Since 1909, OPS has maintained a retirement system for its teachers and, over time, combined retirement plans for other employee groups into OSERS. Prior to 2007, OSERS was historically funded at a higher level than the state plans. Unfortunately in 2007-2008, OSERS's unfunded liability began to increase, primarily as a result of two different factors: first, the significant worldwide economic decline; and second, a series of poor investment decisions by OSERS and the then OPS Board. The new OPS Board has taken action to try to correct these problems. I say new OPS Board because since 2013 with the passage of LB125, the OPS Board has experienced 100 percent turnover. The new OPS Board quickly recognized that the OSERS trustees of the OPS Board were not equipped to make the types of complex investment decisions necessary to guide OSERS going forward. My colleagues and I began working with you to further align the OSERS plan with the state plan. More importantly, OPS sought to move all investment authority from the OSERS trustees and the OPS Board to the state. These changes, which came about as the result of the passage of LB447 in 2016, will have a significant long-term positive effect on the unfunded liability of OSERS. In fact, management fees have already decreased dramatically and the investment returns have increased under the guidance of the State Investment Officer. Unfortunately, these changes, while a step in the right direction, have not been enough. The unfunded liability was dramatically affected by changes to the actuarial assumptions made late last year, which resulted in an immediate increase in the unfunded liability of OSERS of $137.7 million. Taken together all these factors have resulted in a current funding level of 65.25 percent for OSERS as of January 1, 2017. And that's an actuarial valuation. This leads us to, how do we fix the problem? To further the discussion in the Legislature about how OPS should move forward to address OSERS's unfunded liability, just last spring, as you all likely remember, I was here testifying on LB548 which was a bill introduced by Senator Lindstrom. Unlike any other school district in Nebraska, OPS makes actuarially required contributions, or ARC, to OSERS as recommended by the actuary and the OSERS trustees. From 2013 to 2016, OPS contributed $11.4 million over the statutory mandated 101 percent employer contribution. Moreover, in September of this year OPS made an ARC payment of $12,750,000. Next year's ARC is projected to be $15.9 million, rising to $24.2 million in five years. We remain committed to making ARC payments. We want to be very clear that as the ARC continues to rise significantly over time, which they are projected to do, these payments will significantly affect students, classrooms, and teachers. We have made significant budget decisions to pay the ARC in the past and we will continue to make those difficult decisions as the ARC increases every year. OPS is in the education business. We do not believe that we should be in the retirement business. We are currently exploring options to find a more stable solution that will meet the need of fully funding the unfunded liability while providing the least amount of negative impact to the 52,000 students OPS serves. To that end, for the past year our board and administration have been working with Senator Lindstrom and Senator Kolterman to find a solution to this issue. OSERS is the Omaha Public School Board's top priority in the next legislative session. We are committed to paying the unfunded liability and hope this committee will continue to work with us as we move toward a long-term solution. I would be happy to answer any questions that you might have for me. [LR92]

SENATOR KOLTERMAN: Senator Stinner. [LR92]

SENATOR STINNER: One of discussions that we had in kind of an informal meeting was not just to focus totally on what this pension liability was about but let's take a look at what is OPS's financial position in light of the $400 million bond issue that you have. And I actually got this out of a prospectus for it and it goes...and so when you add up the $500 million that we have in obligations, both refunded bonds, qualified school construction bonds, general obligations, I'll add the $400 million that you're requesting, throw in $700 million of pension liabilities, our total liabilities for OPS is $1.6 billion. Now an interesting last line is the state funding for K-12 education is expected to continue to be a topic before the Nebraska Legislature in January 2018. Laws impacting the state and formula will impact future funding for the district. You're highly dependent upon the state to continue to fund under a current formula, right? [LR92]

LOU ANN GODING: Under the TEEOSA formula. [LR92]

SENATOR STINNER: Yes. [LR92]

LOU ANN GODING: Yes. [LR92]

SENATOR STINNER: And how much of your total funding is made up by TEEOSA? [LR92]

LOU ANN GODING: I think it's 56 percent. [LR92]

SENATOR STINNER: I think that's right. [LR92]

LOU ANN GODING: Fifty-six percent. [LR92]

SENATOR STINNER: Yeah. And so we did change the Learning Community the last time. [LR92]

LOU ANN GODING: Correct. [LR92]

SENATOR STINNER: I think we threw a little bit of temporary money at it. You know the discussion and Senator Groene is here from the Education Committee. [LR92]

LOU ANN GODING: Right. [LR92]

SENATOR STINNER: We're headed down the road with a lot of debt packed on to OPS. And I just want to ask you what your thoughts are. This is pretty sobering when you start to look at it. [LR92]

LOU ANN GODING: Right. Right. So we're doing several things. Number one, we will be starting, and will announce it on Monday and our board meeting, we'll be starting a committee of community members and staff members which will start in January. It will be a long-term visionary committee of cutting, cost cutting. And so individuals from the community and our staff and some of our board members will sit on that committee and we will start working in January for significant cuts because we know we need to cut for sure $15.9 million. The other thing that we're doing is we are in the process right now of negotiating to hire our own actuary who would report directly to and work directly with our chief financial officer so that we can start to run scenarios and try to find...gather the data so that we make data-driven decisions as we go through the process of budget cuts with the hope of reducing future unfunded liabilities in the way that we make decisions through whether it be operations, negotiations. Eighty-five percent of our budget is people and so we've got some really tough decisions to make. We recognize that. And we want to make sure that the decisions we make are data driven and that we're thoughtful in the approach that we take. So that's one of the things we're doing, along with, I would say, in budget committee, in legislative committee and anytime that we're discussing negotiations, our board is fully informed and we're making really tough decisions. We'll continue to make those. You'll see those on our agenda as we move forward to try to control costs. [LR92]

SENATOR STINNER: I looked at your two proposals. And of course I'm not blaming you for anything. I mean you're trying to fix it and I get it and I appreciate your efforts. But both proposals really don't get in front of the unfunded liability in either scenario. Is that... [LR92]

LOU ANN GODING: So we recognize that the unfunded liability has been growing and we need to...we recognize as a board that part of our responsibility is to figure out how to bring that down and how to work with our current budget in controlling costs. So there's only...I mean we can only do...we can only really write checks and manage our process. The investments, which we are so grateful, so grateful to the Legislature for moving that Nebraska Investment Council, we've seen better returns this year than we've seen in quite a while. We've seen lower fees that we're paying to fund manager. So we're very, very thankful for that. We don't really control the investments. The benefits are part of state statute, so we don't really control benefits. And the administrative portion of the system is managed by OSERS. And so our main job is to control the costs and to figure out how we can work to bring down that unfunded liability. [LR92]

SENATOR KOLTERMAN: Additional questions? If not, I just have a couple. First of all, I would like to compliment you and the board and your lobby for visiting with us on a repeated basis... [LR92]

LOU ANN GODING: Thank you. [LR92]

SENATOR KOLTERMAN: ...and working to try and improve this. As you said earlier, you inherited this problem. And I do have a couple of questions though that pertain to steps that the board...I just am curious if they've looked at things like, you know, Millard had an override and I think Westside had an override, levy override. Has that been talked about at all to cover some of these costs? [LR92]

LOU ANN GODING: So we haven't talked about a levy override. We're currently having discussions about construction bonding for $399 million that could potentially be on the ballot in May and that's a priority for us to take care of our buildings. The levy overrides that they had were for operations and not for funding a pension system that was underfunded because we're really the only ones that have that situation. So the board of education has been working through the process of whether it be negotiations, our budget, any items that come before us really trying to determine whether it's a necessity or whether it's just something fun to have. And we're cutting everything that we possibly can. [LR92]

SENATOR KOLTERMAN: And so the other question, you alluded to the fact that you're committed to the ARCs. [LR92]

LOU ANN GODING: Correct. [LR92]

SENATOR KOLTERMAN: So that, and based on what we've seen, projections, we're looking at anywhere from $16 million next year to $24 million through 2022. [LR92]

LOU ANN GODING: Correct. [LR92]

SENATOR KOLTERMAN: That's in addition to. [LR92]

LOU ANN GODING: Correct. And so that's why we're putting this committee together of the public and staff, so that they're fully aware of why we have to make the decisions we do and why the cuts will be happening that will be happening. Prior to that we were trying to manage things.

I mean we cut nearly $7 million in busing this current year that we're in. So we're now moving that to the public so they're very aware of the situation that we're in and helping us to decide what pain to go through because everybody is going to have to be on board with the pain. [LR92]

SENATOR KOLTERMAN: Okay. Senator Groene. [LR92]

SENATOR GROENE: Thank you. So when you're sitting in union negotiations on pay, is this part of it? If you take 2.25 percent instead of 2.50 percent, we will guarantee this much goes for an ARC, because it's for them. Is that part of your...I mean just common sense but I'm not in that... [LR92]

LOU ANN GODING: Right. So in Omaha Public Schools we don't actually sit as board members in the negotiation process. We have a chief negotiator that does that. But in all of our discussions everywhere where there's an opportunity to save, whether it's through reduced...not giving as much of a raise or any other item, those are...I think right now we know our focus is all on the ARC. You're correct that in the process... [LR92]

SENATOR GROENE: For their best interest, the union... [LR92]

LOU ANN GODING: It's in everybody's best interest. [LR92]

SENATOR GROENE: ...that's their retirement. [LR92]

LOU ANN GODING: That's right. That's right. [LR92]

SENATOR GROENE: So I would assume it's in your negotiations and your pay. [LR92]

LOU ANN GODING: It's part of our overall conversation with staff that we have a problem because we have an unfunded liability that's been...that has continued to grow and we need to make the payments to cover it for their best interest. It's the prudent thing to do. [LR92]

SENATOR KOLTERMAN: Any additional questions? Thank you. [LR92]

LOU ANN GODING: Thank you very much. [LR92]

SENATOR KOLTERMAN: Thank you for coming. OPPD. [LR92]

JAVIER FERNANDEZ: Well, good afternoon, Senator Kolterman and members of the committee. My name is Javier Fernandez. I'm the chief financial officer for the Omaha Public Power District and I am here to answer any questions, discussing topics that you would like me to discuss related to the letter and report that we filed on October 13, 2017, related to our requirements of the defined benefit plan. [LR92]

SENATOR KOLTERMAN: Do we have any questions? I've got a couple. I've got to find my notes. I guess I don't. No questions. Thank you. [LR92]

JAVIER FERNANDEZ: You're welcome. [LR92]

SENATOR KOLTERMAN: Thank you for the report. Douglas County. [LR92]

JOSEPH LORENZ: Good afternoon, Senators. My name is Joe Lorenz and I'm the Douglas County finance director. And what I thought I'd do with this afternoon with you is just run through the three-page pension plan reporting form that's in your notebooks and just hit a couple of the highlights and go through it and show what sort of progress we're making at Douglas County on our defined benefit plan. So if you look at the first page, the table, the first point that I think is important, as you can see from the year 2013 to the year 2017, we've increased our funding level 6.6 points. And actually since we bottomed out at 57.8 percent in 2010, we're up by actually 9.5 points in funding. So I think the actions that the pension committee of Douglas County and the county board have taken are showing a result in that we are trending the right way. A couple other points just to show you--our assumed rate of return is 7.5 percent and it's been consistent at 7.5 percent for quite a considerable amount of time. It hasn't changed at all in the past few years. Our plan is 50 percent funded by the county and 50 percent funded by the employees, and both sides contribute a 8.5 percent of payroll for a total of 17 percent. And if you look at the at the ARC you can see how that's been trending, and then compared to the actual dollars contributed it looks like this 17 percent total payroll contribution is getting us better than we have to do on the ARC. And for the year 2017 when we first did this week the actuarial projection was about $21 million. Now that we are just finishing up the payments here for the rest of the year it's going to be a little over $22 million compared to the ARC of $21.5 (million). So this will be the fourth year in a row that we fund it in excess of the ARC payment which is contributing to lowering...or increasing our funding status, excuse me. So those were the highlights on the table. Next I think I'll switch to page 2 and kindly bring you through a little narrative of the plan, unless you have any questions. [LR92]

SENATOR BOLZ: I'm sorry, I'm just not following you. I follow your numbers, that you're saying that you're going to get more than expected. Why does it say 97.7 percent of your...? [LR92]

JOSEPH LORENZ: Because that's the $21 million which...because that was the expected number when the actuaries did the study. [LR92]

SENATOR BOLZ: Expected versus actual. [LR92]

JOSEPH LORENZ: But the actual, now that we're in mid-December, is going to be a little over $22 million, so that's why it will be over 100. [LR92]

SENATOR BOLZ: I see. Okay. Thank you. [LR92]

JOSEPH LORENZ: Okay? Great. So let me take you through the summary of the plan. Our actuary is the SilverStone Group and we have them do an annual analysis. And as of January 1, 2017, the plan was 67.2 percent funded, had net assets of $287.5 million, and an unfunded actuarial liability of $140.3 million. The plan has about 3,600 participants. As I said before, both the county and the employees pay 8.5 percent, normal cost of about $13.5 million, and the actual...the ARC of $21.5 million. Last year the funded ratio decreased from 67.3 percent to 67.2 percent and that was due to some changes in assumptions that I'll go through in more detail but they're similar to what we talked about or you heard from other plans earlier in changing a more conservative mortality table and also changing the amortization period. So they're kind of technical things that are more conservative. But in trying to keep the plan with up-to-date assumptions we did make those changes last year. But I think the key point is to understand why the plan is only 67.2 percent funded you have to look at some of the history from the plan starting in 1996 when it was 97.8 percent funded. That year for the sheriff and law enforcement and the following year 1997 for all other plan participants the following changes were made to the Douglas County defined benefit plan. It went to an unreduced benefit of rule of 75 and the benefit formula increased from 1.5 percent of pay for a year to 2 percent. Also during that time period the plan was still giving out COLAs. A 3 percent COLA was given in 1998, a 4 percent COLA in 2000, and a 3 percent COLA in 2002. Then given the issues with the stock market, these changes to the plan and the COLAs, the plan by 2004 had fallen to a funding ratio of 64.8 percent so that you can see in a matter of eight years the funding went down over 30 percent. So obviously, I wasn't there at the time, but bells and whistles went off. The poor stock market performance also added to the poor performance. And as I said, the plan bottomed out at 57.8 percent funded in the year 2010. I came on board as county finance director in February 2011. And one of the mandates that I was given is to really look at this plan and turn around this trend in what's going on. And I think I've given you all this analogy before. When you have a severely underfunded defined benefit plan, a mature plan, turning it around is similar to turning around an aircraft carrier. It takes time and effort. And that's kind of what we've been doing. So what we did do right away in 2011 is made some significant changes that for all new employees we eliminated the rule of 75, we changed the benefit formula back down from 2 percent to 1.5 percent of pay per of year of service. And we reduced the maximum retirement income from 60 percent of a participant's final average to 45 percent. So, you know, those were the changes we put in six years ago now and you're kind of seeing the numbers turn around, but it's still going to take a significant amount of time for this pension plan to get up over 80 and eventually up into the mid-90s where we all want it to be. But with these plans in place for the new employees, if you look at the actuarial assumptions and what's going on, that is on the path we really believe we're headed. And we really feel good about that we were able to do this while still retaining a defined benefit plan and not having to do anything near as radical as the city had to do on their civilian plan when they went to the cash balance part, because for any participant it's much better to have a defined balance plan than a cash balance plan. And we think that by making these changes we increased the sustainability of our plan to gain financial health and still leave our employees with a solid defined benefit plan. So like I said, the other thing we've done we haven't given a COLA increase since the year 2002. The funding ratio has increased by 9.4 percentage points from its low point. And if you go to the next page you'll see that these changes and this projection that SilverStone takes out has significantly increased the forecast so the plan would be...achieve acceptable funding levels in the future, as you can see in that table, where it goes from 67.2 percent and hitting...it takes a long time, as I said, by 2032, 81.5 percent. But actually I think is a conservative table. In a year like this where with two weeks to go we're going to have a double-digit return on our pension plan, when you do that and you have a 7.5 (percent) return that's projected, when you get a 12-13 percent return, that's going to increase this funding percentage by years. It's going to...so a year like this really helps and so when you see this table next year it will look even better, which is a positive. So in the last two years we've tweaked the plan a little bit. We've...in 2015 we moved the long-term disability program from the pension plan where it sat there since the plan was organized in 1964 and we made that a separate employee benefit that's fully insured and outside the plan. And we also changed the interest rate ceiling on member contributions that if they leave before the plan is fully vested that the money they earn on it we changed that from 5 percent to the ten-year Treasury rate in effect at November 1 of every year. So those two changes in 2015 decreased the liability by $3.6 million and increased the funding level by 0.6 percent. This past year in 2017 we had a couple other changes again, kind of tweaking mostly to the assumptions. The actuarial valuation was changed. We changed the mortality table to talk about the mortality issues that you've heard from the other plans, that people are living longer. So we went to the more updated plan which is a negative to the funding level. And then we also changed the amortization period from 30 years to 25 years, again being consistent with more best practices as required by the actuaries. And those were partially offset by the rates of early retirement and termination as fewer people in our plan are taking early retirement than the actuaries had originally projected. So the net impact of this was basically a wash where it was a 0.1 percent decrease in the funding status and a $1.3 million percent (sic) increase to the actuarially required contribution. Where, you know, we have 16 collective bargaining units within the county but the commissioners are all committed that we're not going to do anything, institute any program that would have a negative impact on our pension funding. So none of that's contemplated. And with that, that's basically our update and I'd be glad to answer any questions you might have about our plan. [LR92]

SENATOR KOLTERMAN: Any questions from the committee? Thank you. [LR92]

JOSEPH LORENZ: Okay, thank you. [LR92]

SENATOR KOLTERMAN: Okay, Eastern Nebraska Health Agency. Ms. Nolte. [LR92]

RENEE NOLTE: Good afternoon. My name is Renee Nolte. I'm with the SilverStone Group. I am the actuary for the Eastern Nebraska Human Services Agency and the retirement plan and representing them today. We only do a valuation every other year. This is an off year, so much of the material you received this year is the same as last year. I updated what I could on your eight-question form report. The rate of return as of 12-31-2016 was 6.8 percent which is close to our assumed 7 percent. They're also paying 9 percent. The employer contribution rate is 9 percent for 2017. That's 50 basis points higher than 2016. And they are awaiting union contract signature to increase for 2018 to 9.5 percent. So it's in the budget. It's been approved by the governing board, just need the union's signature. Additionally, the contributions for 2016 were higher than we were projecting last year at this time. So they ended up being almost 107 percent of the ARC. So they're whittling away at that unfunded amount. So I think all those indicate they're going in the right direction. Do you have any questions? [LR92]

SENATOR KOLTERMAN: Senator Groene. [LR92]

SENATOR GROENE: Thank you, Chairman. Maybe I didn't look far enough back, but what's the total value of your retirement? How many...? [LR92]

RENEE NOLTE: The assets... [LR92]

SENATOR GROENE: Your assets, there you go. [LR92]

RENEE NOLTE: ...are, as of the last valuation... [LR92]

SENATOR GROENE: I just wanted to see what size of retirement... [LR92]

RENEE NOLTE: Right. [LR92]

SENATOR GROENE: ...in relationship to what your ARC is. [LR92]

RENEE NOLTE: Plan assets are $33.5 million. [LR92]

SENATOR GROENE: And you're making an ARC of two-point-some million. [LR92]

RENEE NOLTE: Right. Two-point-six is the ARC, two-point-seven. [LR92]

SENATOR GROENE: Six, seven percent of the value. [LR92]

RENEE NOLTE: Eleven-point-five-five percent of pay in total. They've kept the employees' contribution is 2.75 percent. They wanted to keep that steady and increase only the employer portion each year. [LR92]

SENATOR GROENE: Where does your budget money come from? Is that funded from...? [LR92]

RENEE NOLTE: As the actuary, I'm not sure. [LR92]

SENATOR GROENE: The money that runs the organization that you represent, he's from Nebraska. [LR92]

RENEE NOLTE: Tax. [LR92]

SENATOR GROENE: I mean is that a tax funded from the state or...? [LR92]

RENEE NOLTE: I am not privy to that. I just calculate the ARC. [LR92]

SENATOR GROENE: Do you know? [LR92]

SENATOR KOLTERMAN: I can't answer. Senator Bolz. [LR92]

SENATOR BOLZ: I know that ENCOR has a number of human services program. For example, one is ENCOR is partnered with the developmental disabilities service providers in eastern Nebraska which is mostly state funded. So at least some of the revenue sources are from state and federal dollars. [LR92]

RENEE NOLTE: There's Region VI Behavioral Health, Alpha School, and the Office on Aging make up ENHSA. [LR92]

SENATOR KOLTERMAN: As you look at your returns, I notice the last couple of years, 2016, 2017, your returns weren't all that...they didn't meet even the assumed rate. Actually since 2015 you haven't hit the assumed rate. Do you sense that...do you know why that is and do you see a change or will you upgrade your assumptions based on the fact? Do you do the smoothing like everybody else? [LR92]

RENEE NOLTE: We don't...they don't smooth the assets. It's just based on market value. [LR92]

SENATOR KOLTERMAN: Okay. [LR92]

RENEE NOLTE: They are one-third in fixed, two-thirds in equity roughly. So they rarely see negative returns. But for 2015 it was 0.2 percent, so pretty low. [LR92]

SENATOR KOLTERMAN: Okay. [LR92]

RENEE NOLTE: We do an experience study every four years. I've scheduled for that in 2020. And a forecast, I'm going to encourage a forecast study next year because the last forecast showed that 9.5 percent to remain level and that it could continue to improve on the unfunded liability. So we want to make sure that that holds true. [LR92]

SENATOR KOLTERMAN: So have you talked about increasing that funding at all? [LR92]

RENEE NOLTE: As a percent? [LR92]

SENATOR KOLTERMAN: Just as a percentage. [LR92]

RENEE NOLTE: Right, they have been increasing 50 basis points for quite a few years now, the contribution rate on the employer side. [LR92]

SENATOR KOLTERMAN: On the employer side, okay. [LR92]

RENEE NOLTE: And they will increase it again for 2018. But the last forecast study that we did showed that 9.5 percent to remain level in 2019 and beyond but it's still... [LR92]

SENATOR KOLTERMAN: So you're going to do...you're going to put...you're going to increase another 50 basis points again? [LR92]

RENEE NOLTE: If necessary,... [LR92]

SENATOR KOLTERMAN: Okay. [LR92]

RENEE NOLTE: ...based on hopefully a new forecast study. [LR92]

SENATOR KOLTERMAN: Senator Lindstrom. [LR92]

SENATOR LINDSTROM: Thank you, Chairman. I didn't see anywhere as far as the underlying investments. Who manages those assets? [LR92]

RENEE NOLTE: The fixed account is with United of Omaha. And the other two-thirds, the equity is with Stichler Investments and American Funds. [LR92]

SENATOR LINDSTROM: Okay. Is there an entity board who's making those investment decisions? [LR92]

RENEE NOLTE: They have a pension board. [LR92]

SENATOR LINDSTROM: A pension board, okay. And is that made up...how many folks are involved with that? [LR92]

RENEE NOLTE: Oh, typically six of them. [LR92]

SENATOR LINDSTROM: Okay. They meet on an annual basis, quarterly basis, semi-annual? [LR92]

RENEE NOLTE: At least twice a year. [LR92]

SENATOR LINDSTROM: Okay. Okay. Thank you. [LR92]

RENEE NOLTE: Yeah. [LR92]

SENATOR KOLTERMAN: Any additional questions? All right. Thank you. [LR92]

RENEE NOLTE: Thank you. [LR92]

SENATOR KOLTERMAN: Metro Area hourly employees, last but certainly not least. [LR92]

CURT SIMON: So you want me to be brief, is that the...? Well, good afternoon. I'm Curt Simon. I'm the executive director at Metro Transit in Omaha. This is Gregg Rueschoff. He's our actuary for the plan with Milliman. I just want to speak to the report that we sent in. I want to point out one mistake that's in that report of our plan. As of the last actuarial, which was 1/1/17, is funded at 71 percent. That's on an anticipated return of 6.755 percent on our return assumptions. Some of the things that we did recently to address some of the shortfall was we had a rather lengthy labor contract negotiation that consummated in August of this year. As a result of that, the employer increased its contribution by 1 percent retroactive to July 1 of 2016 which went directly into the plan. And the employees then increased their contribution to the plan by another 1 percent. So the actual contribution to the plan now, as of 1/1/17 retroactively, is going to be 14.5 percent, 7.5 percent from the employer and 7 percent from the employee. We also made some changes to the benefit formula going forward. In section number four of the report we eliminated an early retirement benefit that was there for 30 and out. We also stairstepped the benefit going forward for persons hired after July 1. The error that appears in the report is on item...it's in the chart itself in item 1-F with the ARC calculations. That should show for '17 in 1-F 14.34 and it will be 14.5 at the end of '17 with those additional contributions. I'd answer any questions. [LR92]

SENATOR KOLTERMAN: You've been fairly aggressive in moving your assumed rate down to, you know, like 2016 you moved it to...I mean that played into not...have you done anything with the mortality tables? [LR92]

CURT SIMON: We looked at the mortality tables. I think somebody spoke to that earlier about some of the discrepancies that pertains to public plans. So we have not adopted that most recent mortality table. We're still using the 2000 mortality table. As that gets better refined we'll look at adopting that in the future. [LR92]

SENATOR KOLTERMAN: Okay. [LR92]

CURT SIMON: But we like to keep it real. [LR92]

SENATOR KOLTERMAN: All right. Any questions? Senator Bolz. [LR92]

SENATOR BOLZ: I'm just curious. I'm still learning. Your assumed rate of return you have at 6.75 (percent) and almost everybody else who's testified has been higher than that. What's different about your plan? [LR92]

CURT SIMON: We want to be realistic with our employees' benefits when they retire. [LR92]

SENATOR BOLZ: Uh-huh. [LR92]

CURT SIMON: I would...if I was at 8 percent I wouldn't be sitting in front of this committee right now. [LR92]

SENATOR BOLZ: (Laugh) So is it based on experience or you just have a different analysis, a different makeup of your investments? [LR92]

CURT SIMON: Well, it seems clear from our experience obviously and probably from the others that have testified before us that nobody is getting much better than that. [LR92]

SENATOR BOLZ: Okay. Okay. Thank you. [LR92]

SENATOR KOLTERMAN: Any other questions? [LR92]

CURT SIMON: Could you ask Gregg a question? I made him sit here all day. (Laughter) [LR92]

SENATOR KOLTERMAN: Well, you're paying him. (Laughter) [LR92]

CURT SIMON: Thank you. [LR92]

SENATOR KOLOWSKI: Thank you. [LR92]

SENATOR KOLTERMAN: Wow. That concludes our hearing for the day, I believe. Thank you, everybody, for coming. [LR92]