

**Nebraska Retirement Systems Committee January 29, 2019**

**KOLTERMAN:** Welcome to the Retirement System Committee hearing. My name is Mark Kolterman, I am from Seward and represent the 24th Legislative District. I serve as chair of this committee. The committee will take up bills in the order posted. Our hearing today is your public part of the legislative process. This is your opportunity to express your position on the proposed legislation before us today. Committee members will come and go during the hearing. Since we meet over the lunch hour, senators may have other commitments or meetings. It's not, that's not an indication we're not interested in your bills, but here in committee just part of the process. To better facilitate today's proceedings, I ask that you abide by the following procedures. The information is posted on the chart to your left. Please silence or turn off your cell phones, move to the front row when you're ready to testify. The order of testimony will be the introducer, the proponents, the opponents, neutral, and then closing. Testifiers, sign in, please hand your blue sheet in to the committee clerk when you come up to testify. Spell your name for the record before you testify. Be concise. We'd like to limit your conversation as shortly as possible, but we know sometimes these bills get long-winded. If you're not, if you're not, if you will not be testifying at the microphone but want to

go on record as having a position on a bill, there are white sheets at the entrance where you can leave your name and other pertinent information. These sign-in sheets will become exhibits in the permanent record at the end of today's hearing. Written materials will be distributed to committee members as exhibits only while testimony is being offered. Hand them to the page for distribute, distribution or to the committee clerk and staff when you come up to testify. And we need eight copies if possible. If you have written testimony and you don't have eight copies, ask the page and they will get copies for you. To my immediate left is committee counsel, Kate Allen; and to my left, at the end of the table, is committee clerk, Katie Quintero. The committee members with us today will introduce themselves beginning at my far right.

**BOLZ:** Senator Kate Bolz, District 29.

**KOLOWSKI:** Senator Rick Kolowski, District 31 in southwest Omaha.

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

**GROENE:** Mike Groene, District 42, North Platte and Lincoln County.

**KOLTERMAN:** Thank you. Senator Stinner gave me an indication that he might be late. Our page today is Sam, he's majoring in global

studies at Nebraska Wesleyan University. We'll take up the bills in the following order. LB32 will be the first bill, then we're going to go to Allen Simpson and Gail Werner-Robertson. Gail Werner-Robertson will be calling in for her confirmation hearing. And with that, I'd like to start the process. Since I'll be introducing the first bill, Senator Lindstrom will take over.

**LINDSTROM:** We'll now open the hearing on LB32. Senator Kolterman, whenever you are ready.

**KOLTERMAN:** Thank you, Senator Lindstrom Good afternoon. My name is Mark Kolterman, M-a-r-k K-o-l-t-e-r-m-a-n, I represent the Legislative District 24 and I'm here today to introduce LB32 at the request of the Nebraska Investment Council. As part of the council's ongoing review of investments, the council staff has reviewed the current defined contribution deferred compensation plan investment options. As part of its review, council staff has directed best practices in planned construction with the council's investment consultant Aon. As a result, the Nebraska Investment Council is recommending making the following changes to the investment options. Replace the age-based pre-mixed balance and investor select option with target date funds; remove the money market investment option; and remove the S&P

index fund. Investment options will continue to include an investor select account invested under the direction of SIO with an asset allocation and investment strategy substantially similar to the investment allocations made by the SIO for the defined benefit plans. A stable return account that provides capital preservation and consistent steady returns, an equity account, a fixed-income account, and a fixed-income instruments. Investment options are listed in the County and State Employees Retirement Act for defined contribution members. However, these same investment options are used for members with the deferred comp accounts and for the state patrol officers who have entered DROP. The changes in timing of the changes were worked out with, in consultation with NPERS who administers these plans and who contracts with the plan record keeper, Ameritas. Effective date is January 1, 2021, in order to give NPERS sufficient time to educate members who designate their own investments, and for Ameritas to make the appropriate programming changes. A representative from the Investment Council will follow my testimony. I'd be glad to answer any questions. Just as a side note, the last time the investment options were updated was in 2006. There's approximately 3,400 active state and county defined contribution plans and approximately 2,000 inactive

state and county defined contribution plans. With that, I would try to answer any questions you might have.

**LINDSTROM:** Thank you, Senator Kolterman. Any questions from the committee? Seeing none, thank you. I'm sorry, Senator Bolz.

**BOLZ:** Senator Kolterman, I think others on the committee might have a deeper knowledge base here but in, from a hundred thousand-foot view, can you kind of describe the main reasons why we're making these changes? Is it because the other options are outdated? Is it more consistency? Can you, can you just help me understand your--

**KOLTERMAN:** Sure.

**BOLZ:** --purpose?

**KOLTERMAN:** That's a, that's a good question, and a very fair question. The planned changes have been in statute, and in order to make a change you have to change statute. When I was in private practice and I was selling these types of plans, we'd meet with our plan holders on a regular basis, usually two, three times a year. Especially as volatile as the markets have been. And the markets are constantly upgrading and changing the way they deliver. And so in this case we have some outdated funds that have not been able to be updated, again, since quite

a while ago. And so the Investment Council came to us and said, would you be open to allowing us to make these changes? And would you help us with that? And we agreed that we would. So really, this is just kind of keeping in line with what goes on the private sector and, yet, the due diligence is still going to fall on the Nebraska Investment Council, and this will give them more flexibility.

**BOLZ:** In other words, part of your purpose is to make the statute be descriptive rather than prescriptive?

**KOLTERMAN:** Correct.

**BOLZ:** OK, thank you.

**KOLTERMAN:** Thank you. Good question.

**LINDSTROM:** Senator Kolterman, I'll ask you a question in a manner that might answer a little bit of, I think you mentioned and in the defined contribution element a target fund was going to be a replacement or added to the lineup?

**KOLTERMAN:** Correct.

**LINDSTROM:** And in target funds, typically, well, not typically, they are set for the date in which the person might retire. And so oftentimes when you have people that don't often pay

attention to their investments or their retirement accounts, maybe once every two years if they're not, they don't have an adviser, typically it will get a little skewed based on market volatility and what could happen year over year. The target fund, and this is my question, the target funds allow, would allow the individual to not get in trouble. So if they kind of set it and forget it, that, that investment becomes more conservative the closer they get to retirement. Would that be a fair statement?

**KOLTERMAN:** That's a, that's a very good assessment. The other side of that is when you deal with target funds or age-based type of funds, typically there's a glide pattern that allows you to, you don't just automatically when you get to a certain age drop off. It gradually takes you to a more conservative nature. Because once you get, the farther out you get, the more conservative they need to be. This allows for that and it, it allows-- you don't have the years you have, you're not contributing any longer. You don't have the years to make up any market fluctuations, so this allows for that as well.

**LINDSTROM:** And the conservative element would be more fixed income.

**KOLTERMAN:** Yes.

**LINDSTROM:** Less stocks equities.

**KOLTERMAN:** Yes.

**LINDSTROM:** OK. Thank you, Senator Kolterman. Any other questions? Seeing none, thank you. First proponent.

**MICHAEL WALDEN-NEWMAN:** Mr. Chairman, committee members, I'm Michael Walden-Newman with the Nebraska Investment Council. I'm the State Investment Officer. Thanks very much for hearing our testimony today on this bill. As you know, I came four years ago now, I'm in the beginning of my fifth year here. And what we've done, as you know through our annual reports, is we have marched through the portfolios entrusted to the Nebraska Investment Council asset class by asset class to update the investment lineups. And asking not, how are they and where can we tweak around the edges? But if we were building these portfolios today, regardless of how they had been built in the past, what would we do? And it wasn't long after I was here that I was visiting with staff, and I'd like to introduce JoLynn Winkler, who has been here before. She's a senior portfolio manager at the Investment Council. Not only is she whip smart, but she's been there 20 years. And so she knows the history, the recent history of the council and, and the evolution of the portfolios. And we talked several years ago, in 2015-16, about the defined



contribution plan which, as you know, is now closed but still has thousands of ongoing participants who chose not to migrate to the state and county cash balance plan. So their, their future is invested in this portfolio. But I found, among juggling priorities, that this one was going to have to be put off a bit because it's the only statute that lays out a list of the investment options. So for, in digging and your counsel, Kate Allen, knows the history of this. This particular program had a statutory list put in place by the Legislature. All of the rest of the portfolios, and I mentioned this in the handout, that the Wesleyan-- good for you for going there-- that the page sent, sent around, that this was the only place where there's a statute. The other portfolios, the defined benefit plans, the cash balance plans, that port, those portfolio lineups are determined by the Investment Council under our legal obligation as fiduciaries for the plan. And I'm a fiduciary as well for the plans. And also the mandate that I highlight in my handout, that we're to manage the portfolios and our care with an eye toward minimizing large losses, to diversify those portfolios with an eye toward minimizing large losses. But here we are with the list. And so for us to be able to make changes on the underlying portfolios of these plans, we need to address some of the outdated citations in the statute itself. So that's why we're

here today, is to be able to implement what we've learned in the last several years from experts we've brought in to our offices who implement DC plans. And to bring into those plans today's best thinking, as if we were constructing them today. So if you see on the handout that I brought around, you can see side by side the current list in statute. And in the bill those lines are on pages 3 and 4 and pages 7 and 8 of the actual bill itself. But you can see how the current lineup is in statute and what we intend to do. And then in answer to questions asked before of Senator Kolterman, the reasons in plain English of why we're making the, recommending making the changes we are. Please keep in mind that these are high-level changes, changes to high-level categories. The underlying investments themselves still remain the purview of the Investment Council. And we do approve the underlying investments currently and always have. It's just that we're obligated to provide these broad categories under statute, and that's what we're here to, to tidy up and update to current best practice thinking. We have talked to the constituent groups: the counties, the state associations, so that they're aware. There will be some education, and I've already had calls from state employees wondering what's, just what this is all about. And I said we're gonna have a handout and we'll have it available to folks, and also to do education

for anyone who is, who wants to know what this bill is and especially what it's not.

**LINDSTROM:** Very good, thank you. Any questions?

**MICHAEL WALDEN-NEWMAN:** Happy to answer any questions.

**LINDSTROM:** Senator Groene.

**GROENE:** This bill is more for the participants than for us. So now they can easily understand what their options are.

**MICHAEL WALDEN-NEWMAN:** That's exactly--

**GROENE:** Make sure that you're following. I mean, everybody who has a 401K has options to select from, and then you're just defining it here for them, the retired employee. Right?

**MICHAEL WALDEN-NEWMAN:** That's correct, Senator.

**GROENE:** More clear for them--

**MICHAEL WALDEN-NEWMAN:** Right.

**GROENE:** --than for me.

**MICHAEL WALDEN-NEWMAN:** That's, that's right. And I believe there's some legislative history as to why there was in this particular case a list put in to assure that there would be. My

understanding is it was to assure back in the day, when there was no cash balance plan, that there was adequate diversification of the investment options in the then sole defined contribution plan available to state employees and county employees.

**GROENE:** But unlike most mutual funds, which a private employer signs up with, you're picking individual investments entities?

**MICHAEL WALDEN-NEWMAN:** Senator, that's correct. Absolutely.

**LINDSTROM:** I'm sorry to everyone, so basically what you're doing is maybe going a little broader with anticipating, say inequities for example, you could have two options in your selection. That one might be a passive index, one might be an active manager there in which you're paying a little bit more for the active management. But the individual themselves has the option to pick, correct?

**MICHAEL WALDEN-NEWMAN:** Senator, it's as, it's as much to remove the specificity of requiring the S&P Index Fund as anything. And so we could have a broader stock fund as an option, as we put together the list of options for folks. And also to add target, the lifecycle funds is what I like to use as a broad term, to be able to add lifecycle funds to the option, as the chairman

described, so that we can have what is really more often than not recommended today. That you concentrate on the dates you're going to want the money and have a lifecycle fund that can get you there.

**LINDSTROM:** And do you typically try to strive to have those two options, the active and passive, is that something that you seek out? Or is it, is that not necessarily one of the things that comes into mind when selecting the different investment options?

**MICHAEL WALDEN-NEWMAN:** Right. Currently, senator, that's a good question. Currently, there's a mix of active and passive options because there are participants who like to build their own portfolios. And we also-- and while I don't want to promise, because we haven't built the underlying investment portfolio yet, you can tell from the way we're restructuring the options, it's not going to vary that much from what's available now. It's going to update those options to fit what's currently offered in the marketplace that we can't provide now. But and it could be then a mix of active and passive for those who want to construct their own portfolio. There also is currently, and, and we made the decision to keep, the option that a participant can invest in a portfolio that mirrors, to the extent we can make it mirror, the defined benefit and cash balance portfolio.

**LINDSTROM:** I see.

**MICHAEL WALDEN-NEWMAN:** For their legacy defined contribution and or the deferred comp, if they're participating in that program.

**LINDSTROM:** Very good. Any final questions from the committee? Seeing none, thank you very much.

**MICHAEL WALDEN-NEWMAN:** Thanks very much for the time. Sure appreciate your support on this. It's great.

**LINDSTROM:** Next proponent.

**RANDY GERKE:** Good afternoon, Senator Kolterman and Vice Chairman Lindstrom and the rest of the Retirement Systems Committee. I have a written testimony there that, there isn't anything on there that hasn't already been said. So I'm gonna go off script just a bit. We are proponents of this bill, the PERB as well as NPERS. We appreciate the due diligence that Michael Walden-Newman and JoLynn and the Investment Council have gone through to investigate these options. I just wanted to maybe mention a part of this that hasn't been mentioned quite yet. Our part will be the education of our members, and we will be providing videos for them, as well as written communication to the members. And then also we do seminars to the members, and we will be working with Michael Walden-Newman and, and staff to get all the

information into their hands that they will need when, if this were to move forward. With that, I just want to thank Michael Walden-Newman, as well as JoLynn and Kate Allen and Warren Hill for all the work they've done on this. And I'd be happy to answer any questions.

**LINDSTROM:** Thank you. Any questions from the committee? Seeing none.

**RANDY GERKE:** Thank you.

**LINDSTROM:** I'm sorry.

**KOLOWSKI:** Want to identify himself, his name.

**RANDY GERKE:** Oh, I'm sorry. Randy Gerke, R-a-n-d-y G-e-r-k-e, and I'm also the director of NPERS. I'm sorry. See, that's why I have to read.

**LINDSTROM:** No, Thank you. Good catch, Senator Kolowski. Thank you.

**RANDY GERKE:** Thank you.

**LINDSTROM:** Thanks. Next proponent.

**BETH BAZYN FERRELL:** Good afternoon, Vice Chairman Lindstrom, members of the committee. For the record my name, is Beth, B-e-

t-h, Bazyn, B-a-z-y-n, Ferrell, F-e-r-r-e-l-l. I'm with the Nebraska Association of County Officials and I'm appearing in support of LB32. We'd like to thank Mr. Walden-Newman for his work and the committee for their work on putting this bill together. It's always good practice to reevaluate options and we, we think this bill is a step in that direction. So I would be happy to answer questions.

**LINDSTROM:** Thank you. Any questions from the committee? Seeing none, thank you. Next proponent? Seeing none, we'll now move to opponents. Seeing none, any neutral testifiers? I do have a letter from John Antonich with, he is the executive director of NAPE and AFSCME Local 61. And with that, Senator Kolterman, if you would like to close.

**KOLTERMAN:** Thank you very much. If you have any questions I'd be glad to try and answer those. I think more than anything I want to, I want to stress the value that we have in the spirit of cooperation that really exists right now between the Nebraska Investment Council. It's obvious that JoLynn and Michael do a good job, Randy Gerke and Warren do an excellent job. More importantly, they're willing to work in tandem to get these things done, whether it's education, whether it's investments, whether it's making changes to the bills that need to be made.



We've had an excellent spirit of cooperation, I think that needs to be noted. With that, I would encourage you to support moving this bill to General File. Thank you.

**LINDSTROM:** Thank you, Senator Kolterman. Any final questions? Seeing none, thank you. And that will end the hearing on LB32.

**KOLTERMAN:** I think in the end the essence of time of the hearing today, Gail Werner-Robertson will be calling in at 12:30 I think. Mr. Simpson, if you'd like to come forward, we can, we can take your testimony. Mr. Simpson will, was appointed to serve on the PERB board and would open the hearing at this time. Mr. Simpson, why don't you give us a little bit of background about yourself and why you have an interest in serving the Public Employees Retirement Board?

**ALLEN SIMPSON:** Yes, Senators. I'm, it's a privilege to be here today.

**KOLTERMAN:** Could you could spell your name?

**ALLEN SIMPSON:** It's Allen, A-l-l-e-n, last name Simpson, S-i-m-p-s-o-n. I think I'm here today because I spent 31 years in the military, and during that time I managed federal tax dollars, anywhere from \$50 to \$100 million every year. And the thing I like to say is that I made sure that we did things correctly and

did things the right way, and that we will used tax dollars to, in the most efficient and legal way that we could. I retired on January of 2017 and then was actually ran for Lancaster County Treasurer. And it was a great experience, never thought I would be a politician. But my whole life has been spent around money and dealing with money, and I was honored to be even recommended for this. And I think it's a great honor just because a retirement fund to me is something special that we need to ensure that the citizens of Nebraska that they have, they-- that money is there when they retire. So with that, sir, I think that's why I'm here today.

**KOLTERMAN:** OK. I would open up to any questions that any of you might have. You should have his background information. Your, your position will be as a private sector appointee?

**ALLEN SIMPSON:** Right. I'm an at-large member.

**KOLTERMAN:** At-large, correct. Any questions? Seeing none, thank you very much for being here. We will be in touch with you.

**ALLEN SIMPSON:** All right. Thank you, sir.

**KOLTERMAN:** Well, we have about five minutes. Gail should be calling in. And we have the able-bodied Chuck here to help us with that.

[BREAK]

**KOLTERMAN:** Hello.

**GAIL WERNER-ROBERTSON:** Hello? Gail Werner-Robertson.

**KOLTERMAN:** Hey, Gail. This is Senator Kolterman. Thank you for calling in.

**GAIL WERNER-ROBERTSON:** Well, thank you for allowing me to do this by phone. I appreciate it.

**KOLTERMAN:** We appreciate you being willing to serve again. Your appointment will be for another five-year term on the Nebraska Investment Council. It's my understanding you've chaired that for several years. Could you give the committee here a little background about what you've done and why you're willing to serve another five years?

**GAIL WERNER-ROBERTSON:** Sure, sure. I had to go back and pull my original certificate I went on originally in 2004. And I think I became chair somewhere around 2006, maybe, 2006, 2007. And we've just seen great growth in the assets since then. The reason I really enjoy being on the council: A, quality of people that we're getting advice from, the presentations from the money managers, our consultants, and these people are all top-notch. I

really just love the challenge of being able to talk to them and hear their strategy, what they're thinking about the world of investments. It's like living in that world every day. It's just, it's really nice for me to get to see that. And then secondly, I really love representing both the taxpayers of Nebraska, as well as all the retirees who we are watching over their money. And so I get a lot of satisfaction out of, out of that as well. I'm hoping we do a good job so we don't cost the taxpayers extra money and ensure that the pensioners will keep getting their retirement funds.

**KOLTERMAN:** OK, thank you. Just for the record. So, you know, all of the members of the committee here are here. Senator Groene, Senator Lindstrom, myself, John--

**GROENE:** Senator Stinner.

**KOLTERMAN:** Senator Stinner, Senator Kolowski, and Senator Bolz. Also represented here today that are in the room are members of NPERS, as well as Michael Walden-Newman. Just, just a general question, are you having a lot of problems with Michael Walden-Newman?

**GAIL WERNER-ROBERTSON:** You know what, when I was contemplating doing this next five years, I went to Michael and I said I'm

only going to do it if you're staying for five years. So I think we both have great admiration for each other and we enjoy working together. He's been a great find for NIC.

**KOLTERMAN:** Well, you have a great team and we enjoy working with you. Does the committee have any questions? Senator Bolz.

**BOLZ:** Just, just, A, thank you for your service. B, thank you for negotiating that deal with Michael.

**GAIL WERNER-ROBERTSON:** Yeah, he's great.

**KOLTERMAN:** Any other questions? This would be a reappointment, so with that, Gail, we appreciate you calling in. Keep warm up there in Omaha.

**GAIL WERNER-ROBERTSON:** Absolutely. Well, I appreciate all that you are doing. I know you give so much of your time at very low pay, and we really appreciate it as a taxpayers and residents of Nebraska. So thank you all.

**KOLTERMAN:** All right, thank you very much.

**GAIL WERNER-ROBERTSON:** All right, take care.

**KOLTERMAN:** With, with that, that would conclude the hearing and the confirmations. Could we take 10 minutes? Is everybody OK with that?