

**KOLTERMAN [00:00:01]** Welcome to the Nebraska Retirement System Committee hearing. My name is Mark Kolterman. I'm from Seward and represent 24th Legislative District. I serve as Chair of this committee. The committee will take up the two-- two reports. Committee will-- we probably won't come and go. Senator Groene will not be here so everybody that's here will-- is here. Please silence or turn off your cell phones. Move into the front rows. And there's no proponents or opponents that I'm aware of--

**MICHAEL WALDEN-NEWMAN [00:00:33]** All right.

**KOLTERMAN [00:00:33]** --so please start with your report, spell your name and--

**STINNER [00:00:38]** I'm John Stinner and I'm District 48.

**KOLTERMAN [00:00:39]** And I'm going to have-- I'm going to start over here to my right and have-- have our committee introduce themselves.

**BOLZ [00:00:46]** Senator Kate Bolz, District 29.

**KOLOWSKI [00:00:48]** Rick Kolowski, District 31.

**STINNER [00:00:49]** John Stinner, District 48.

**LINDSTROM [00:00:52]** Brett Lindstrom, District 18.

**KOLTERMAN [00:00:53]** And we have Kate Allen, who is-- who is our legal counsel, and Katie Quintero is our committee clerk. So with that, we're going to hear the report today from the Nebraska Investment Council, then we're going to go to Nebraska Public Employees Retirement System report. These are requirements that we have to facilitate, so thank you for coming today.

**MICHAEL WALDEN-NEWMAN [00:01:13]** You bet. Mr. Chairman, members of the committee, thanks for-- for having us today. I'm Michael Walden-Newman; that's M-i-c-h-a-e-l, last name W-a-l-d-e-n, hyphen, N-e-w-m-a-n. I'm the State Investment Officer with the Nebraska Investment Council. And as you said, Mr. Chairman, Statue 72-1243 asks that we come before you each year for a couple of reasons: (1) to report efficiently on performance of the portfolios under our charge; and (2) to give you a recap of activities and plans for the-- the Investment Council for the prior year and-- and year going forward. So I provided to the committee two documents, and I thought I'd go through-- let's tackle this one first. I know it's-- this is going to be ten-- ten minutes.

**KOLTERMAN [00:02:11]** Fine. Take the time you need.

**MICHAEL WALDEN-NEWMAN [00:02:13]** Well, in that case, I actually bought-- brought the true performance report.

**KOLTERMAN [00:02:19]** Let's just go with the first one. [LAUGHTER]

**MICHAEL WALDEN-NEWMAN [00:02:20]** OK. It's 250 pages, I know how to go pretty fast if you like. All right. So if we could go through our first, the annual report, and you just turn to page 1 and-- and 2, you see the council's staff. To remind the committee, we do have a statutory board of five members appointed by the Governor and three ex officio members by statute: the director of the state pension systems, the director of the Omaha school retirement system, and the State Treasurer. And we have a staff of nine, as I explained to the Appropriations Committee a week and a half ago. We're down from a staff of ten. We laid off a position, gave up a position that technology frankly had made redundant, and happy to report that employee found a new job in state government with a 10 percent raise. Those are tough conversations but-- but a happy ending. To speak a little bit about performance, the numbers are in the-- in this annual report. The year was at least positive through September and all of us know what happened, particularly in December of last year. I took a peek at markets today, yesterday close, and we're about back. It's probably still net a little bit under, but it's been a much better quarter. I reassure myself in times like that with-- I brought a-- a picture that I print out whenever I'm feeling nervous that this happens to go back to 1950, and there's other things in this room that go back that far. And you see the-- this happens to be the stock market. And so even though we are down relatively, things are going along and we do keep the long-term horizon in-- in front of us. On page 3, if you'd turn, the top of page 3 simply enumerates the portfolios under the Investment Council. And the reason I wanted to bring that up today is to remind the committee of the complexity of the Nebraska investment Council's portfolio compared to my peers. When you talk to an investment officer around the country, for the most part, a couple of things. One, that investment officer for the most part works for the director of the pension system; and second, that investment officer may have one, may have two plans. And in the case of Nebraska, you've consolidated all of the state's investments under a separate state agency which is-- increases the complexity, but as we said with taking over the Omaha assets, it adds a bit to it in complexity. But the portfolio itself was already complex, so it was relatively easy for us, because of that, to take on an additional sleeve, if you will, in the management of the assets. As far as activities, you've heard before, because we've kept you posted throughout the year, we finished up prior to 2018 a review of the entire equity portfolio. We, during '18, completed a review of all of the investment policies for the various portfolios of the Nebraska Investment Council, and they had not been reviewed holistically like that. And so we did the same with that, the same approach as we did with the portfolio investments themselves, as looked at those policies to see that they were truly up to date and reflected where we wanted policies to be in today versus how they might have evolved over time. So I'm-- I'm proud of that. As far as coming up, we're now

turning our sights to the fixed income side of the portfolio, now that the equities are where we like them to be, and we'll be working on that over this next-- next year, at least. We take our time, as you know, on the front end of these projects so that when we do, in fact, make the decision on the final structure, and particularly-- which is the most important, and then manager's selection to implement that structure, the front-end work pays off in-- I think in-- taking your time there pays off in better decision making on the-- on the front end. And-- and if-- if you look at page 5, I do have in the front of this annual report as part of our recap of activities a breakout right there in the middle of the Omaha portfolio. But let's talk a little bit more about Omaha when we talk about performance. All right. So this is-- it's in a couple of places. I wanted it here in the annual report, the progress we've made, and then I've got a graphic in the performance report that we can then drill on down a little bit more. Now why don't we just-- the rest of this you've seen before. It's a recap of the-- of the various portfolios. I've anticipated a couple of questions. I know you'll-- you'll ask questions when I-- when I finish up. But Senator Stinner's question, because I-- I've been here before, and the internal portfolio that we manage for the state, which is the state's checkbook, that \$3.5 billion, we have about 250-- the portfolio, just to remind you, is 85 percent bonds, 15 percent cash. And the liquidity overall for that portfolio for the bonds, the liquidity is about-- the duration, rather, is about three, three-and-a-half years' duration, so a comfortable spot shorter for us. There are 250 bonds in that 85 percent across 100 names, so 100 different corporate bond names, type, and then-- but 250 total bonds in that portfolio. I thought you'd-- I-- I knew that was coming, Senator, so I wanted to be ready for you. Let's turn to the performance, this document.

STINNER [00:09:05] I've got some questions.

MICHAEL WALDEN-NEWMAN [00:09:05] On page--

KOLTERMAN [00:09:09] Yes.

MICHAEL WALDEN-NEWMAN [00:09:10] Do you want to do some questions? We sure can here or once we get it all done.

STINNER [00:09:13] I-- I-- I just need to be reminded. On page 2, the university funds of \$331 million was taken out, apparently taken out of your charge. Now the university does the investing on that. What-- what was that? Tell me--

MICHAEL WALDEN-NEWMAN [00:09:31] Yeah. Mr. Chairman, Senator--

STINNER [00:09:32] --refresh me.

MICHAEL WALDEN-NEWMAN [00:09:33] Yeah, thanks, and-- and with President Bounds leaving, let me just say what I told him, and that was how gracious he was personally

through that process. We had a portfolio of assets that we were a little confused as to whether they were state assets under the investment authority of the Nebraska Investment Council or private assets under the authority of the university. And the law was passed last year by you all-- thanks-- to clear that up and make it very clear that the Nebraska-- they were not public tax revenues, they were not public funds, that those were funds truly to be administered by the Board of Regents and the-- the Foundation of the University of Nebraska. And the regents were helpful that way, but particularly President Bounds was-- was helpful. It was very smooth, it was not contentious, and they were supportive of the legislation to get that cleaned up. So they appear in this because the transition occurred in July of 2018.

STINNER [00:10:44] OK.

MICHAEL WALDEN-NEWMAN [00:10:46] And this report covers the calendar year of-- of-- of 2018, rather than a split fiscal year.

KOLTERMAN [00:10:51] But they're no longer with us.

MICHAEL WALDEN-NEWMAN [00:10:53] They are-- they were at the University Foundation, being managed there. We had the-- over-- we had the say, if you will, on the assets inside the portfolio. Now it's totally under the direction of the University Foundation, those funds. It's a good question.

KOLTERMAN [00:11:11] That answer your question?

STINNER [00:11:11] Yes, it does. Thank you.

KOLTERMAN [00:11:13] All right. Thank you.

MICHAEL WALDEN-NEWMAN [00:11:14] Um-hum.

KOLTERMAN [00:11:15] Go ahead.

MICHAEL WALDEN-NEWMAN [00:11:16] For performance, I just wanted to go for a couple of pages. On page 2 of the-- the performance report, you see the performance for all of the portfolios, the pension, the retirement plans, the endowments, and the-- the internally managed checkbook. And as I said earlier, when we see March numbers, they'll be more like we like, on the positive side. But December was rough. We were about three-and-a-half up in the pensions at the end of September and, you know, market, it was-- it was an 8-plus loss, a downturn, if you will, by the end of the year. So that's what brought us to the-- the-- the negative 4 for performance. How that rolls into-- and Randy-- this is more Randy's purview, how that rolls into the smoothing with the plans, and we'll see. But I think those in the cash balance benefit plan were probably very happy to know

that they'll be receiving a 5 percent return, regardless, and benefited from a dividend last summer in a market that didn't end so well. As a participant in that plan, I'm happy, I'll tell you. Page 3, page 3 highlights the two-- two of the pension plans, the DB plan for schools, judges, and Highway Patrol, and the cash balance for state and county employees. And the numbers in parentheses are what I want to highlight. Those are the percent rankings of how we compare against our peers, and peers meaning plans that have a billion or more in assets. And so the longer term, 3-, 5-, 10-year, not only have we beat the performance benchmarks for the-- for those periods, for the most part, but also the relative ranking is-- is very good for the plans. Then if you turn to page 4, this is where we can talk a little bit about Omaha. I was asked a bit at the Appropriations Committee. What this graphic shows you is how the Omaha school employees' pension assets portfolio transition from the time their last possession of the assets on 12/31 of 2016, December, and we took over, you'll remember, January 1 of 2017. And we had adopted in November of 2016-- as part of the transition plan that was a part of the legislation that authorized this transition, we adopted a long-term asset allocation for those plans that will-- for those dollars that will mirror the asset allocation of the plan for the rest of the teachers of the state. And we're going to move systematically toward that allocation. When we took over the plan in January, the first council meeting in February of 2017, we fired two-thirds of the money because we could, it was liquid; a third of it, a little more, was in the hands of managers who had long-term contracts with Omaha that we're not able to break. And so those are going to take some time to roll off of Omaha's books. I think within the next five years most of those will be gone, but there will be some that will take-- they may take ten years unless-- unless we take action towards the end of those investments to sell them in the secondary market, which is not really being discussed.

**KOLTERMAN [00:15:14]** Senator Stinner.

**STINNER [00:15:14]** Now how are you valuing and how do you value those types of assets?

**MICHAEL WALDEN-NEWMAN [00:15:20]** Um-hum, yeah, Mr. Chairman, Senator, that's a good question. Stocks and bonds trade every day. You can look in the paper and see what they-- what they're worth--

**STINNER [00:15:29]** Right.

**MICHAEL WALDEN-NEWMAN [00:15:29]** --and you can buy them and sell them. The liquid assets, those you enter into a contract and you have that contract for 10, 12-- I round up to 15-- years you're locked into that investment. And you won't really know how much money you made until the last day of that contract, that 15 years when all of the money comes back. So how do you value it in the meantime? The-- all of those investments have an outside audit once a year. They run on a calendar year from January through

December, and they have an audit by an independent accounting firm, and those audits are usually done by May, June. It can be longer. So what-- how we value is we take that audited value, and that is a value at December 31, and we adjust that audited value by cash flows in and out throughout the year. So the quarterly valuation is just the amount invested or the-- the movement of the cash, either to us or from us to them. And then we true that up once a year based on their audited report, audited value.

**STINNER [00:16:46]** Usually that doesn't-- that doesn't have the volatility of a stock market or a bond market. Is that true?

**MICHAEL WALDEN-NEWMAN [00:16:51]** That's true. And to put a finer point on that, that is why the Omaha plan performed better than the state plan this year, because they have more in those alternative investments that, in fact, protected them against the downturn in the stock market by a few basis points. Now I think that's going to change in another quarter, but, you know, you take it, so that-- that-- that puts something concrete to your point.

**STINNER [00:17:22]** But the key-- the key-- the key is it's a long-term contract that you really won't know what the actual value is until-- until that time, until they sell those assets.

**MICHAEL WALDEN-NEWMAN [00:17:36]** Mr. Chairman, Senator, that's exactly how I put it. The managers and some folks will tell you different, that it does matter along the way, and it does because it rolls into our overall performance which then rolls into the valuations of the plans and-- and all of that. But in plain, simple English, Senator, you and I are exactly-- we're-- we're singing from the same hymnal. That's exactly how I put it. You can say that it's going to do this and all the promises in the world at the time you engage can be made, but you won't know until the end. In fact, we've begun, since I've come to the council, to track what that promised return was so that, even if I'm not here for all of them, we're going to have a record of what was promised 10 and 12, maybe 15 years prior, to be able to to keep it real.

**KOLTERMAN [00:18:27]** Thank you. Senator Bolz, did you have a question? OK. Senator Lindstrom.

**LINDSTROM [00:18:32]** I just have a quick question.

**MICHAEL WALDEN-NEWMAN [00:18:32]** Yes.

**LINDSTROM [00:18:33]** Thank you, Chairman. With those illiquid assets, and you said the valuations are calculated every year, how many-- what percent of those are paying either dividends or have a yield to them over the course of time? And are-- is that calculator, is that reinvested over that valuation?

**MICHAEL WALDEN-NEWMAN [00:18:47]** Yes, it's reinvested for a part of the investment, but they don't use a total return. It's an internal rate of return, so it's actually a little bit different--

**LINDSTROM [00:18:55]** OK.

**MICHAEL WALDEN-NEWMAN [00:18:56]** --animal completely. But we do carry them and we do track them and they're rolled together in our performance and aggregated under the line-item private equity or private real estate.

**LINDSTROM [00:19:06]** OK. Thank you.

**MICHAEL WALDEN-NEWMAN [00:19:07]** Yeah.

**KOLTERMAN [00:19:08]** Thank you.

**MICHAEL WALDEN-NEWMAN [00:19:08]** And then again, just on the chart, we're making progress and-- and it's been with a lot of collaboration. It's been a little rough on Omaha, I'll be perfectly honest, on their accountants, because they've gone from being the sole account for a bank to part of a much larger family and a much larger bank and it's delayed a bit their-- their financial reporting, but they've been terrific about it. And the last thing I wanted to-- to just turn to, if you would, is-- and this is now way over ten minutes and I apologize-- is page 6. And I love this and put it in reports because it just reminds people why we have to diversify, because if any of us knew which one of these-- I know the print is tiny, but if any of us knew which one of these asset-- what is it in quilt, a block? --which one of these quilt blocks was going to be on top, we might all have houses, an extra house someplace else with sand in front. The interesting thing, I will tell you, is that-- and someone put it to me this way-- that this past year was the first time in maybe 40 years where both stocks and bonds ended the year negative or close to it. That's a sobering thought. That shows what can happen with volatility. The promises are for pretty flat going into the next year, but I'd just remind you, our-- our long-term projection hasn't changed. We still think about 6.5 percent return for the-- the plans over the next ten and-- and longer time periods.

**KOLTERMAN [00:20:49]** OK. Any questions?

**MICHAEL WALDEN-NEWMAN [00:20:49]** The last thing I wanted to say is thank you very much for LB32, which is to change the lineup in the defined contribution and deferred compensation plans. We're--

**KOLTERMAN [00:21:03]** Did that pass?

**MICHAEL WALDEN-NEWMAN [00:21:04]** The Governor signed it. I got a copy from Kate. I asked for it. [LAUGHTER]

**KOLTERMAN [00:21:10]** I don't keep track of that stuff.

**MICHAEL WALDEN-NEWMAN [00:21:11]** We're going to have at our retreat a preview of the lineup for those investments and the changes and have it in front of Randy and his team by September, December at the very latest, so they'll have a full year to do the-- the transition for the plans. And I'm excited that in the lineup will be not just a lifecycle fund that ends at retirement but a lifecycle alternative that will be able to take people into their postretirement years, from retirement to death, quite frankly. Those are now developed and there's no reason why those can't be part of a plan as people-- we try to meet the goal of-- of retirement adequacy, adequacy of income throughout the lifecycle, not just the accumulation of wealth but the management then of that wealth on out. So I'm very excited about that.

**KOLTERMAN [00:22:01]** Thank you, Michael.

**MICHAEL WALDEN-NEWMAN [00:22:01]** Thank you.

**KOLTERMAN [00:22:02]** Oh, we have one more question here.

**MICHAEL WALDEN-NEWMAN [00:22:04]** Yes.

**KOLTERMAN [00:22:04]** I'm sorry.

**KOLOWSKI [00:22:05]** I'm sorry. I just wanted to ask if we're invited to the steak fry at the retreat. Is that part of it?

**MICHAEL WALDEN-NEWMAN [00:22:12]** That's-- I don't know who is hosting this. Oh, across the way?

**KOLOWSKI [00:22:14]** Whatever.

**MICHAEL WALDEN-NEWMAN [00:22:16]** Yeah, there's a different kind of a fry going on just as you make the turn to the-- I'll leave that, because it's a public meeting, but just as you make the turn to Quarry Oaks. [LAUGHTER]

**KOLOWSKI [00:22:28]** Thanks.

**KOLTERMAN [00:22:28]** Thank you.

**MICHAEL WALDEN-NEWMAN [00:22:28]** Thank you, Mr. Chairman.



**KOLTERMAN [00:22:28]** So are-- is there anybody that wants to talk in opposition to the report or anybody here for neutral position to report? Hearing none of that, I'll close that hearing. Next one is the annual report from Nebraska Public Employees Retirement System for 2019. Welcome, Randy.

**RANDY GERKE [00:22:53]** Thank you. Good afternoon, Senator Kolterman and members of the legislative committee. My name is Randy Gerke. I am-- that's spelled R-a-n-d-y G-e-r-k-e, and I'm the director of the Nebraska Public Employees Retirement System. I have provided an annual report. If anybody does-- didn't bring theirs, I do have a few extras. The format is much the same as it has been in-- in past years. We decided to leave it that way because there's a lot of information on here that you or your staff may reference, and we felt it maybe was easier to find it on the same page from year to year. I do have some things that I'd like to go through and just point out to you in this annual report. I won't read it all, but the first-- the first thing that I'd like to just mention is inside the front cover are pictures of the PERB. And I don't bring that to your attention because of the pictures of the PERB. I bring that to your attention because of the vacancies there. I know that you are about to wind down your-- your hearing processes and-- but hopefully we'll still have some confirmation hearings yet in this session. We do have two that are-- that are vacant and then we have one that's up for either reappointment or replacement. And that would be the the-- the chair or the-- well, she is the chair, but the teacher's position as well. So just keep that on your radar that that's still hopefully coming this year. You know, it's-- with with missing two, you know, we have to worry a little bit about quorum, so hopefully that's still coming. The next page is a letter that I've written to Senator Kolterman and-- and you as the members of the legislative Retirement Committee. I'd just point out there that our membership has grown to 134,000 members, \$15.3 billion dollars in assets. In the last year, we paid out over \$865 million in benefits to our members that have retired or refunded, so, you know, I think that's significant. The next few pages, we have our vision, our mission, our staffing. I would mention to you that we have 52 full-time employees at NPERS, as well as three programmers and an IT manager that are actually OCIO members. The first thing that I really-- that I want to go to that I would-- and point out to you are some of the accomplishments in 2018 team. I've mentioned our-- our staffs on-- on assets and membership. But also, as Michael said, we paid a dividend this last year to the state and county members because of performance in that plan, thank you to the NIC. And it totaled \$101 million, a little more than \$101 million, to those plan members that was paid to them to increase their-- their accounts, so-- and that is something that takes us some time to do, and I think we did it in record time with the help of Ameritas this year. We-- it goes on to mention how many statistic-- some of the statistics that we have, and I won't-- I won't reread does. We did-- we've upgraded all of our computers to Windows 10 this year. That was quite an undertaking. We've-- our-- our recordkeeper and our staff have gotten all the beneficiaries on the state and county statements, and that's been very well received. We've had them on the DB plan statements. Those we put out ourselves; however, we've had to work with Ameritas

to get those on the state and county and that's worked out very well and very well received. We have-- I-- we've put out an RFP for actuarial services this-- this year. I'm happy to say that that process is winding down and Cavanaugh Macdonald will continue as our actuary for the next three years, at least, and we are very happy about that. I think they-- they're very easy to work with and very easy to understand. For those of us that aren't actuaries, they make things very, very good. We are going to a-- we put in some automated time entry and performance evaluations this year. We-- in the past, everything was done by paper, and so that was a big change for our agency and our staff. Also, Orron has been very busy with the rules and reg process. We are now on a process-- a schedule where we go through rules and regs and our policies every three years, and that-- there had been years where quite a bit of time in the-- in our past history where those things didn't get looked at on a timely basis, and so we are busy doing that. On the following pages are things that I would like to get done this year, and the first three items are things that will probably never go off this list. And the first one is just to increase our members' experience to-- to enhance it and to make it easier for them and easier to understand. So-- so that's number one on my list. Also, we need to cross-train our staff-- staff and-- and get our procedures standardized. Those are things that are lacking just a bit, but we are working on them and I think that will probably be an ongoing thing. Also, the thing that probably keeps me up at night is cybersecurity. We have a lot of member data and, you know, I worry about it. It's happening all around us that there are breaches. We've been lucky so far and-- and we're trying to stay on top of all that. So those three things will never probably go off of this list. We are-- in the coming year, we'll be starting an IRS compliance audit. That's-- needs to be done every ten years and 2020 is the year that it needs to be done; however, it will be quite a little process, and so we're going to start that this year. We're going to be implementing a new phone and voice system, as well, every agency within the state; however, we've got a call center, so it's going to take a little bit more work, and hopefully that is a smooth transition with the OCIO help. We are still always working on trying to reduce printing. We've implemented a project called-- that we're calling print-to-mailroom where when things need to go to members and get-- need to get mailed, it's-- we're printing in a centralized place and those things are going out from a centralized place. That seems to be working out real well. It's quite a change, actually, for our agency where each desk always got their mail and-- and got it ready to go and walked it back to the mailroom, and so we're thinking this is going to be some cost savings as well. We're always looking for cost savings; we really are. I'd also like to mention that we're trying to enhance, as-- as I said, our member experiences; however, one of the reason-- or one of the ways that we want to do that is with on-line re-- on-line forms, on-line submissions of things. We're a state agency; we've got lots of forms and-- but a lot of it needs to be hand-delivered, hand-filled-out, but we're working on that. However, that ties back into the cybersecurity where some of that paperwork that-- that happens now, if it's-- if it's hard-copy paper type of stuff, it's-- it's not as easy to breach it where if it's electronic, so we're-- we're really looking-- looking at this and trying to do it correctly, and our IT staff are all over this, just to let you know. I would-- we're going to continue with a comprehensive standardized training program for our--

our employees right now. That is definitely lacking and I've directed our staff to start working on that, and it has begun. And then I'd like to do a strategic planning meeting with our NPERS management. That has not been done for a really long time. And so those are things that are coming down the tubes in this last-- in this next year. The next few pages are our legislation and the "history of" that has been enacted. Then we-- we go on to the funded status of the plans, and on page 11, first of all, I'd like to say thank you to this committee, as well as the Appropriations Committee and the whole legislative body and the Governor, the NIC and-- and the PERB. It helps to-- everybody is working together and these plans are very well funded. The judges are, and I need my glasses for this, 96.1, school is 88.8, and State Patrol is 87. Those are all up from the year before, and so I think everybody can-- can take a piece of that thank-you by-- because we've all worked together. Excuse me. We go on to talk about our-- our budget and-- well, the assets, actually, are on page 14. The breakdown by plan, our plan membership, is on page 15. Our budget is actually on page 16 and some historical budget numbers, as well as what our operating expenses actually were. As you know, we allocate things by plan, our expenses by plan, and it has the breakdown of how the-- those expenses are allocated there on page 16. Seventeen and 18 talk about our education services. We have a department in our agency that actually goes out and educates members. They are-- they are out there right now. They're actually very involved in putting this annual report together. I'd thank John Winkelman for his help and-- and his staff on that. They also do our newsletters, we do handbooks, we do videos, and they keep up our agency Web site, which has a ton of members-- or a ton of information on it, so I would just point that out. Additional services, I do want to just mention that. That is comparable to last year; however, some of the areas were not quite as good. The-- the-- the benefits that we got out the door after 90 days was up just slightly. Actually, though, the ones that we got out within the time period of 31 to 60 days is up. We got 6 more percent out. You know, it just is kind of the luck of the draw on the-- the complication of those retirements and if the schools get their information in, it takes-- you know, we have to have all the contributions in and-- and-- and that kind of thing. And so I don't think that's anything to worry about, but that is something that we're always going to be working on and trying to improve that. Next year, I also want to include some statistics on how many deaths we process, how many qualified domestic relations orders that we process, and benefit estimates. Those take up a lot of time and we do a lot of those, and so I think it might be interesting for-- for folks to know. We go on and talk about internal control and those kind of things. Then I'd like to just move over to the appendix, and Appendix A has our time-weighted rates of return. Those actually come from NIC, and so we thank them for that. The credit-- cash-balance crediting rate history is there, as well as the dividends back to 2008 that we have given-- given to our cash balance members. On-- on Appendix C-- I'd like to point this out just to the committee-- this is the benefits that we paid in the month of December only. This is one month only. And I'd just like to-- I kind of went through and picked out the-- the counties. The first part is-- is by county within the state of Nebraska. And Douglas County, in the-- in December, nearly \$15 million that we paid to benefit-- or in benefits to our-- our members; Lancaster County, \$10.8 million; Lincoln County, \$1.1

million; Scotts Bluff County, \$1.5 million went back to the members in-- that reside in those counties; and then Seward, \$635,000. And I'm not sure, Senator, why that one is lower than everybody else. I don't know if they leave or what-- what happens.

**KOLTERMAN [00:37:20] Snow.**

**RANDY GERKE [00:37:21] But-- but I would-- I would also point out, though, that that's nearly \$60 million in one month. It does include the Omaha schools; we get those statistics from them and included in this, but it's to show what the public pension plans, the-- do for the economy. The second part of Appendix B shows what goes out to the other states, and then it lists Nebraska as well. And I think the important piece to note there is that 88.58 percent actually stay within the state of Nebraska. So I think that that's valuable information for you all to know. The rest of it just talks a little bit about the plan and gives our board policies and that kind of thing. Those are in there every year. With that, I would probably close and answer any questions that you might have.**

**KOLTERMAN [00:38:23] Any questions? Senator Stinner.**

**STINNER [00:38:27] I do have to ask this question and it's-- it kind of relates to your ten-year review of IRS compliance audit. I would presume, on-- on an ongoing basis, that you have somebody on your staff or hired outside that keeps you com--keeps all of our plans compliant.**

**RANDY GERKE [00:38:44] Well, we try to. Orron is "Mr. IRS." He knows-- he knows his way around the IRS. This will be-- the compliance audit, though, is an outside-- outside eyes that look at us and-- and will look at our plans and come in and they'll ask us questions. They ask staff. They ask managers. They may-- I don't know if they get involved with you or not, but then they'll look at statutes. It's a fairly lengthy study. But on a day-to-day basis, that would be Orron.**

**STINNER [00:39:18] And you feel pretty comfortable telling the committee that we're predominantly in compliance with all the IRS regs?**

**RANDY GERKE [00:39:26] I-- I would say that we probably are. I-- I hate to put that on record. There always will be findings. I know that-- that-- or things that we should change. There were last year or last time that this was done. But I don't think they were huge. They weren't to the severity that the plans were in jeopardy.**

**STINNER [00:39:51] OK. Thank you.**

**KOLTERMAN [00:39:55] Other questions? We've already started talking about some of the things with compliance audit, and I know you've identified some-- some areas that need to be looked at, and I appreciate that. I would also like to just say, on behalf of**

**myself and my committee, thanks for your hard work and your willingness to work with us, as well as the Nebraska Investment Council. I think we have a great working relationship all around and--**

**RANDY GERKE [00:40:24] I do too, Senator. Thank you.**

**KOLTERMAN [00:40:24] --appreciate the opportunity to--**

**RANDY GERKE [00:40:27] Thank you.**

**KOLTERMAN [00:40:27] --to hear your report today. With that, any other questions? If not, this hearing is-- well, is there anybody that wants to speak in opposition to the report? How about neutral? We are adjourned.**