KOLTERMAN: Can you-- can you move-- move that at all?

KATIE QUINTERO: Patrick.

KOLTERMAN: Anyway, I'd like to welcome to the Retirement Committee hearing. My name is Senator Mark Kolterman. I'm from Seward and represent the 24th Legislative District. And I serve as Chair of this committee. I'm going to have my committee introduce themselves.

LINDSTROM: Brett Lindstrom, District 18, northwest Omaha.

KOLTERMAN: And the rest of the committee, I think Stinner is going to call in, and the rest of the committee will not be here today. We've planned this quite a while ago. We thought we were going to have a bigger turnout, but things have changed. In the meantime, we have Senator Clements is with us from Legislative District 2 as a guest today. By the way, he is an actuary. So we're going to let him see what we do here. We're going to take up-- I think we posted how we're going to call people up to testify, and we're going to start with--

KATE ALLEN: Start with Pat.

KOLTERMAN: Pardon me? Yeah, Pat's going to do the state-- Pat Beckham from Cavanaugh Macdonald will do the state's intro first, and then we're going to move into the individual plans. We're going to take up that in that order. Housekeeping, please shut off your cell phones. If you are going to testify and you know you're going to be next, please just move up to the front of the room. Sign in. We need a blue sheet for those of you that do plan to talk, and you need to hand it to my committee clerk, Katie Quintero. My legal counsel is Kate Allen. Spell your name before you start to talk because we have to record it, and speak right into the microphone so everybody can hear you. If you have written materials you want distributed, we need at least five copies today. But we'd like to pass them out to the rest of the committee. We don't have any pages today. It's kind of informal. So we're going to do LR66. That's the interim study to examine the Public Employees Retirement System, which is administered by the Public Employees Retirement Board. So with that, I would ask Pat to move forward and give us your presentation. It's my understanding that Senator Kolowski-- oh, he's here. I didn't know you walked in.

KOLOWSKI: Stealth. It's called stealth.

KOLTERMAN: I thought you weren't going to be here today. Thanks for coming.

KOLOWSKI: Well, I'm here. I'm here.

KOLTERMAN: Good. So we gained one. So with that,--

CLEMENTS: Good afternoon.

KOLTERMAN: --Pat, would you start with your presentation?

PATRICE BECKHAM: I would be pleased. Patrice Beckham, P-a-t-r-i-c-e B-e-c-k-h-a-m with Cavanaugh Macdonald, the retained actuary for the retirement system. It is my pleasure to be with you this afternoon and present the results of the July 1, 2019, actuarial valuation for Judges, Patrol, and School Retirement System. I believe you all have in front of you a presentation like this. And we will summarize pages and pages of actuarial information and hopefully hit the high points. As always, welcome any questions as we go through the material; be happy to stop, and-- and respond to any inquiries at your request. I know you are going to hear a lot of actuarial information this afternoon. I think that's really cool. I hope you guys do too. But just maybe a little foundational education here. So remember, a pension plan, a retirement system is a very, very long-term obligation. And we're funding it, putting money away when people are working. You see lots of assumptions. They're kind of a glide path, but those assumptions don't always work out, particularly from year to year. So an actuarial valuation is a chance to measure kind of where we're at on the funding path and make adjustments in contributions to make sure that the benefits are ultimately funded. Essentially it's a budgeting tool. We're starting with information that we know. We have a lot of information about the members, who they are, their salaries are, how many years of service they have, whether they're male or female. All that information is used to project and estimate future benefit payments, and then discount those to the valuation date. That creates the liabilities for each system. And then there are assets held in trust at this point. And it's the difference between those two that we are trying to come up with a financing plan. And that financing plan for these three systems is actually in state statute, how that difference in unfunded liability is to be paid for in addition to the ongoing cost. Excuse me. So one of the key pieces of information that comes out of the valuation is the funded ratio, which is actuarial assets divided by actuarial liabilities. The actuarial liability is kind of theoretically or ideally where the assets would be, given the funding policy or funding plan. But we also calculate the actuarial contribution rate, again, based on guidance that's in statute. And that actuarial contribution rate is then compared generally to the fixed employee and employer contribution rates to determine if there's an additional state contribution due, in this case for fiscal year 2020. We're going to look at a couple of slides today that-- that talk or address actuarial risk. I mentioned, we use actuarial assumptions to estimate those future benefit payments and to estimate the future returns on investments. To the extent actual experience is different than assumed, that creates uncertainty or risk. And so it's important that we, you know, try to communicate that, especially to the state, so that there's an understanding that as the investment return varies, so will the contribution, what the magnitude of that move might be. Valuation also lets us look back over the last 12 months and compare actual experience to the assumption or the assumed experience and measure that and see how far off we were or how close we were and always looking to see if there are any trends, anything coming. We use a projection model, and you have some graphs from that. Those are very helpful to look at kind of future trends. So on page 3-- so you're trying to fund a very long-term obligation and you have extreme volatility in the market value of assets from day to day. So measuring the asset value on a single day in the calendar year may not be the most appropriate or reflect the real value of the trust fund. So most public retirement systems use an asset valuation method to kind of smooth out the highs and lows and returns. And the-- this improves plans-- use the most common method used which is to smooth the difference between the dollar amount of actual return and the expected return evenly over five years. So it's just a tool in the actuarial toolbox to kind of smooth out the highs and lows. At this point in time for the July 1, '19, valuation, at the bottom of that page, you will see that we had actuarial losses in 2019 and 2016. So you can have an actuarial loss if the return was less than assumed, which is 7.5. It doesn't mean a negative return. It just means you missed that benchmark of 7.5. We had gains for fiscal year '17 and '18. And at this point, the very bottom line there, that says millions, is how much of each of those is unrecognized at July 1, 2019. If you sum those all up, there is $156 million, this is the school system, of unrecognized gain at this point that will simply flow through over the next four years and also be impacted whatever-- by whatever the actual returns are. Page 4 I think is just a good visual for why we use smoothing. The blue line is the return on market value, and you can see how jagged that is up and down. The red lines are the return on actuarial value. It certainly doesn't exactly follow the black line, which is the assumed, but it's a lot closer, creates less volatility in the contributions. Again, this is a very long-term obligation, and we're trying to kind of smooth out that contribution pattern. On page 5, kind of very high-level comments on the-- the valuation, the 2019 valuation. We didn't have any changes to assumptions or methods or plan provisions. I might note, this is the first valuation with school members in Tier 4. That-- that was a group that was hired on or after July 1 of '18. A very small number, obviously, at this point. But really, the '19 valuation is overall good news. I was joking earlier that it's not very exciting. And after 30 years of doing this, I've gotten to where not exciting is good news for me. We did have a return on market value of assets, 6.7. We missed the 7.5 bogey there a little bit. But again, on smooth the value was about 6.8. It's kind of unusual for those two to be that close, but it does happen. Again, the 6.8 is less than the actuarial assumption, so you'll hear discussions there was an actuarial loss on assets because we weren't quite to the 7.5 benchmark. And then we had, kind of offsetting the actuarial loss on assets, we had actuarial gains on liabilities. So for liabilities, gains mean the liabilities were lower. Salaries were lower than expected, and the cost-of-living adjustment granted in 2019 was lower than the assumption. So overall funded ratios held steady or improved just a little bit. And again, I think really it's-- it's good news. If you would turn to page 7, we'll look at the results for Judges first, a lot of information on this page. The first row, unfunded actuarial accrued liability, again, this is simply comparing the actuarial or smooth value of assets to where it theoretically should be if all the assumptions had always been met. So it was $7.6 million last year, down to $3.8, pretty good drop. A lot of that is due to the liability gain. They had a gain from fewer retirements than expected as well as salary gains and the COLA gain. So really dropped it; moved the funded ratio from 96 percent in the '18 valuation to 98 percent. So getting really close to 100, pretty exciting. On the contribution side, you can see if the unfunded liabilities down, the actuarial contribution rate is going to follow. And then you can see the statutory member rates going up a little bit. The new tier actually has a higher contribution than the older tier. So we're going to see that kind of tick up a little bit each year. So the kind of nonmember actuarial contribution rate this year is 17.57 percent, so down about 1.5 percent from the '18 valuation. That's good news. If we take that times a projected pay for active members, the total nonmember contribution is about $4.3 million. Our best guess at court fees for the current year, which-- I say guess because, as we've talked in the past, it's very difficult to estimate court fees. And so we take the actual court fees for the prior fiscal year and that's our best estimate for the current fiscal year. So it was just under four. That leaves an additional state required contribution of $349,000. So it's down from $443,000 in the prior year. Questions on that page? So that's what we would say the valuation results, that that's a point-in-time measurement on July 1, '19. It doesn't give us a lot of insight into the future and what the dynamics-- funding dynamics might be in subsequent years. So that's what the next few slides address. It's really kind of, what does the future look like? And these slides assume that all the actuarial assumptions are met every single year, nice and pretty. And we, you know, with a joke-- that's the only thing I can tell you is, that won't happen, not even for five years, not every single year. But it's important because it does give us a trend line. If the assumptions are met, you know, what does the additional state contribution amount look like? And we know that if returns are lower, that will force that higher; returns are higher, it'll force it lower. But least that we've got kind of a benchmark or a glidepath to look at. So you can see that over this period, the additional state contribution is expected to increase to about $602,000 in 2024. Remember that we're holding these court fees level, but the contributions are developed and intended to increase with payroll. So we've talked before that we kind of have this disconnect between how we're developing the funding costs and the revenue sources-- a major revenue source coming from court fees that's level or even perhaps declining. First you passed legislation that increased those court fees, and the $4.1 million was sort of-- once those were fully phased in, and now there's-- sure, it's down a little bit. So we'll have to kind of keep an eye on what that does over the next few years. But that's kind of what's driving that additional state piece up. That growth in payroll is not being covered by an increase in court fees. On page 9, this is the-- the same issue, and the little text box is basically addressing that increasing pattern of state contributions, which is the red bars in this from this slide. And again, I highly doubt that court fees will be exactly the same amount for every year for the next 30 years. But if they were, you can see the growing piece that's on the state simply because the payroll growth has to be picked up. The green bars are the member contributions, and those obviously increase as payroll increases. But that's what is driving the red bar getting ever bigger in this picture. Page 10, this is looking at the projected funded ratio again, assuming all assumptions are met. The little squiggly at first, we're recognizing deferred investment experience, and then it-- it trends to 100 percent about 2028 and pretty much stay there. And if all your actuarial assumptions are met, that's what should happen. So page 11, perhaps a little more interesting, and I know I've shared this little equation with you all before, but-- but basically contributions and investment income have to pay for benefits. It's the simplest funding equation there is. And so if you don't earn it on the investment side, you'll have to pay for it in terms of higher contributions. And vise versa, if you make more on the investment side, contributions will go down, particularly for the Judges plan when that additional state piece has to absorb all the-- all that difference in actual versus expected return. So this little chart shows you the impact if there's just one year with a different investment return. So fiscal year 2020 is either 7.5 which is the assumed return or 15--

KOLTERMAN: Excuse me, Pat. John Stinner, are you there?

STINNER: Yes, I am, Mark. Sorry, I was up in the hills of Ogallala.

KOLTERMAN: That's all right. We always knew you came from the hills. [LAUGHTER] We'll-- Welcome, and we have Senator Kolowski, Senator Clements is joining us as a guest, and Senator Lindstrom. So I invite you to just listen. Pat Beckham is making the presentation right now based on the Judges Retirement System. We're just about concluded with that.

PATRICE BECKHAM: All right. So on page 11, again, kind of looking at the sensitivity analysis, just 1 year of a return other than 7.5. Again, the gray bars are we meet the assumption, and you can see that kind of nice and pretty growth but modest growth. The red, if we were to hit 15 percent for fiscal year 2020 and then 7.5 every year thereafter, see that there wouldn't be any additional state contribution beginning in fiscal year 2021 and later. The flip side of that is, of course, a 0 percent return in fiscal year 2020 or the blue bars. And again, you can see how that one year difference in return kind of manifests itself. Now remember, when we have that difference in return, it's not fully recognized for five years because of smoothing. So it's going to be 2025 before it all sort of works through the-- the math of smoothing. But it-- you know, it just shows that-- how important that return is and really how leveraged this particular contribution is because it's-- it's whatever is left over falls to the state, good or bad. Any questions on Judges or we will move to Patrol?

KOLTERMAN: I just-- I just have one question/comment, so to speak. You know, two years ago, we took a hard look at whether we should shift from funding using court fees to just having the state pay it. And we elected not to. So obviously, if-- if court fees continue to decline, which we've seen in recent years, the state will just be on the hook for more obligation because either way, we're the employer and we're making the contribution.

PATRICE BECKHAM: Right.

KOLTERMAN: Is that a fair statement?

PATRICE BECKHAM: I think that's absolutely accurate. Yeah.

KOLTERMAN: OK. I don't know where that will go, but--

PATRICE BECKHAM: Yeah. And I think all we want to be sure is there's an understanding that it can fluctuate fairly dramatically, depending on investment return. I think you all know that.

KOLTERMAN: And obviously we're-- we're in very good shape with that plan.

PATRICE BECKHAM: Yeah. Yep, 98 percent funded.

KOLTERMAN: Ninety-eight percent.

PATRICE BECKHAM: I would be happy to deliver reports all day long; 98 percent funded.

CLEMENTS: May I ask a question?

KOLTERMAN: Absolutely.

CLEMENTS: Thank you. Thank you. I just wondered how the 7.5 percent figure is determined to be used.

PATRICE BECKHAM: That's a good question. And, you know, certainly that is probably the single most important assumption we use in our work. We do an in-depth experience study every four years. We'll be scheduled to do that again next year, yeah, next year after the cash balance plans-- valuations are done. And part of that experience study reviews all the assumptions, including the investment return assumption. And we look at-- gather input from the investment advisor to the Nebraska Investment Council. We look at the Horizon Actuarial survey that has the capital market assumptions for about 32 different investment consultants, both-- that particular survey is very helpful. It has both kind of a short-term outlook and a longer-term outlook. When we started, I mentioned that, you know, this is a very long-term obligation. The benefit payment projections for current members go out 80-plus years. And if you look at it as sort of an ongoing entity, essentially they go on forever. So the time perspective for these plans is-- is very much longer than it is for an individual person or even for corporate pension plans because those really can end at any point in time. So there is a little bit of a marriage between lower expected returns in the short term and generally higher expected returns in the long term and how to kind of blend that or balance that out. And we use some of the modeling here to kind of see, with considering the net cash flows, you know, generally the benefit payments are greater than the contributions coming in, kind of what that impact is of having a lower return in the short term compared to the long term. But it's-- it's--

CLEMENTS: So does that-- does the 7.5 or the rate set only change every four years?

KOLTERMAN: I-- yeah-- we-- we take a look at that based on the recommendations. And actually four year-- three years ago, we moved it from 8 percent to 7.5 percent. And I think that the committee-- that's the committee's obligation. And we've looked at taking it lower, but we elected not to at that time. And you'll see as you as you watch and listen to some of these reports, I think we've got some as low as 6.25?

KATE ALLEN: Six point seven five.

KOLTERMAN: Six point seven five, but historically, we have not-- we're seeing them move down. But they moved from 8 to 7.5 last time. And that will be up to this-- this committee.

CLEMENTS: Thank you.

PATRICE BECKHAM: And I might just mention that the single most important factor to that assumption is the asset allocation. And so, you know, you-- you will hear from many different plans today. They won't all have the same asset allocation. And they also won't have the same underlying inflation assumption, which from actuarial standard of practice, it's very important that the same inflation assumption be used for salary projections and investment return and cost-of-living adjustments. That general range is anywhere from about 2.25 to 2.75. We're at 2.75 right now on these plans. And again, all of those assumptions get reviewed every four years. That's in-- actually in statute, that requirement for all plans in Nebraska. Thank you for your question.

KOLTERMAN: All right, let's move on.

STINNER: Hey, Mark.

KOLTERMAN: Yes, John.

STINNER: This is John. Hey, one of the things I would add to the discussion is let's not get carried away with short-term market returns right now simply because interest rates have been forced down. Long-term scenario would mean that the rates would have to normalize and have an impact on return. So but I-- I just wanted to caution the people that are looking at some of the numbers that long term, it's going to be very difficult to realize 7.5 to-- 6.5 or 7.5 percent returns as rates start to increase and normalize. So that's all I wanted to add. The other thing, Mark, I think on the Supreme Court, you were suggesting, too, that the fees be put into the General Fund account, and then obviously paid pens-- the pension would be paid out of there-- that as well. So that's my understanding of what-- what we were trying to get accomplished back a few years back.

KOLTERMAN: Yeah, we did-- we did talk about that several years ago, and we didn't move forward with it simply because there was considerable opposition to it. And we're on the hook no matter what. So thank you, Sen-- thank you, Senator Stinner. All right. Let's move on to the State Patrol.

PATRICE BECKHAM: All right. Sounds good. Page 13, again, the unfunded actuarial accrued liability for State Patrol went up just a little bit, $360,000, were at about-- maintained an 87 percent funded ratio. I might just mention, all these plans are very well funded in comparison to kind of your peer group, other statewide systems. I did a quick check of the National Association of State Retirement Administrators Public Fund Survey, about 125 of the largest systems in

America. That funded ratio-- surveys, so it's got a lag, but the funded ratio for fiscal year '17 was about 72 percent. So all three of these plans are, you know, far above the median. The middle section of the table on page 13, again, looking at the actuarial contribution, moved a little bit, 14 basis points, which is actually, I would say as an actuary, very stable. Again, the members contribution rate is creeping up a little bit because of the new tier. The employer follows the member contributions, that you can see, those both went up a little bit. So sort of the nonstatutory contribution rate is-- is up eight basis points. Payroll is up, so the total required contribution is $4.9 million compared to $4.8 last year. The additional state piece is about $4.1 million compared to $4 million last year, so again, pretty-- pretty stable. That's good news. That was a snapshot. Again, looking at the five-year projection on page 14, using the model, the red bars are the additional state contribution. Again, it's holding pretty steady right around $4 million, up maybe to $4.2. The employer contribution moves up from $4.9 million to about $5.7. Again, we've got dollars of payroll increasing, and we've got that new tier that has a little bit higher employer contribution that's pushing that up just a little bit each year. But over five years, you kind of start to notice it. Next page, page 15, longer-term view, 30-year projection, again, assuming all assumptions are met. And what this graph says to me is we-- we should expect that it will take an additional contribution by the state for at least the next 20 years to move this plan to being fully funded. Once we get to that point, you know, the additional is not needed. But where we're at now, even though 87 percent funded, it's a good funded ratio, still is going to take more than the fixed contribution rates that are in statute. And page 16, again, the funded ratio, kind of how we move forward, and with actuarial funding, if the assumptions are met and you put in the actuarial contribution, it should move you to 100 percent funded. And that does happen. Right around 2037, 2038, the system reaches 100 percent funding. And then you might say, well, why does the line keep going up? Remember, for Judges it was nice and pretty and stayed right at 100. That's because the statutory contribution rates are more than the ongoing cost of the plan once you're fully funded, so it keeps nudging that funded ratio up. I feel fairly confident, in the next 20 years something will change. and we'll be looking at a different picture more than likely. Get a little bit of a stress test on that additional state contribution, a similar scenario to what we looked at with Judges where, you know, for fiscal year 2020, the range is either 7.5 or 15 or 0, just to look at what the range could be. And then remember again, it takes five years to sort of recognize all that. So the red, you get a-- we get a 15 percent return in fiscal year 2020. It's the red bars. It's going to force down the contributions. Again, it's got a target for when it's going to get to full funding. So if you're ahead, then we take-- take your foot off the accelerator and put less money in. If you're behind, press down the accelerator, put more money in to get there at the same-- basically the same time. It's just a good illustration and, you know, reminder how important investment return is and how it changes that additional state piece every year. All right? School, page 19, again, the School had a liability gain from salary experience and cost of living adjustment that was lower than assumed. Decreased the unfunded liability from $1.46 million to $1.3. Might sound like a big number, but total liability is more like $13, $14 billion, big numbers. The funded ratio nudged up to 90 percent. That's good news. The actuarial contribution rate is down, and the unfunded liability is down. We get a little bit of a breather on the contribution side. The statutory member employer and state contribution together were 21.66 percent of payroll. So the statutory contributions coming in are more than the actuarial rate. We're calling that-- or we have always called that a contribution margin. It was 2.93 last year. It's up to 3.24 this year. And what that means is that if all the assumptions are met, we'll get to full funding sooner, which I think is good news because we're using 30-year amortization. That's kind of long. The other part is that, that margin is there to help absorb adverse experience without creating an additional contribution by the state. So that's, again, good news. If you-- if you took that contribution margin times that projected pay for the current fiscal year, it's about $68 million. And just to put that in perspective, because these numbers are so large, that would help us cover missing the rate of return by .5 percent. So if we earn seven on actuarial value, this shortfall would offset that. So it might look like it isn't needed, but when we see the volatility in returns and the-- you know, the-- the impact that has on funding, it's a very important way to ensure that there's no minimal-- minimal or no state contributions going forward. Page 20, again, kind of busy, a lot of information on this table. The first line is the service annuity for Omaha members that gets funded through the State Retirement System. And then when people retire, that money is transferred to the Omaha School Employees Retirement System to kind of pay out the benefits. It's kind of a small amount. And then the second line is the 2 percent of payroll that the state contributes to the OSERS retirement system. And then the third line is of course the 2 percent of pay for state contributions to the School Retirement System, the State School Retirement System. So for 2019, best estimate, about $50.3 million; by the time we get to 2024, just because payrolls increasing, about $56.3 million. The really good news is the bottom row. It shows, again, if-- if assumptions are met, we would not expect there to be an additional state contribution in this five-year window. Page 21, it's the 30-year projection. And again, we have a margin. If all assumptions are met, there wouldn't be any additional state contribution needed. And we would reach full funding sooner than scheduled, which you'll see on the next slide, slide 22. The system reaches a funded ratio of 100 percent in 2028. Again, you see that line keep going up, and that's because that 21.66 percent more than covers the cost of ongoing benefits once you do not have an unfunded liability. Lots of things are going to happen between now and then. But it's-- it's really encouraging to see a projected ratio of 100 percent within ten years. I think that's really great news. Page 23, again, a little bit trying to just address risk and reinforce the importance of investment return. And we talked earlier a little bit about the difference in expected return, short term versus long term. This is just a little mini stress test that says, well, what if the return in the next ten years is 6.5 percent instead of 7.5? And that's about-- when we-- when we listen to investment consultants and look at different capital market assumptions, there tends to be about a 1 percent difference in return in the short-term perspective versus long-term. So the green line is that particular scenario, that the earnings on the fund are 6.5. Now the underlying valuation assumption remains 7.5. But you can see that instead of the line decreasing, the blue line is the actuarial contribution rate, if 7.5 is earned-- if we don't earn 7.5, we've got actuarial losses, all right, year after year after year after year. And that's the green line. But the really good news is that over this 15-year period, the green line doesn't exceed the red line, which is that statutory contribution rate. So I think that should make us all feel better. But I always have to be honest. That 6.5 every-- pretty every single year, how that unfolds, it could be 6.5 when the-- we get to the end of that period. But if it's very erratic or we have low return first, it could look uglier than this. And then page 24, this is a stress-- kind of a stress test on that contribution margin and to me, just speaks to why that margin is so important and how it kind of stabilizes the funding on this plan. So this says, given the margin we have and kind of where our funded ratio is, you know, how far off the 7.5 benchmark could the return be without creating an additional state contribution down the road, not immediately, but down the road? So for fiscal year 2020, we could absorb a return of -3.5 percent and then 7.5 every year thereafter. But the-- but the next 30 years, we wouldn't expect an additional state contribution. We could withstand 3.5 percent each year for the next three years without triggering an additional state contribution, again, 5 percent each year for the next five years, or similar to the graft you just saw, 6.25 for the next ten years. That margin really provides a lot of stability for funding. And if you-- if you really want to fund on a-- a level, fixed, contribution rate, that's sort of the secret to doing it. So with that, Mr. Chairman, that concludes my formal remarks. I'd be happy to answer any other questions you might have.

KOLTERMAN: OK. Thank-- thank you, Pat. Any questions? Comments? Seeing none, I just have a couple of things I'd like to say. When you-- when you look at where we're at as a state in relationship to the plans that we provide to our employees, I would say that we're in pretty good shape. And I would like to personally thank the Nebraska Investment Council, Michael Walden-Newman and your team, as well as Randy Gerke, Orron Hill and your team at the PERB, Public Employees Retirement Board because they all come to us when they have concerns or challenges, and we have an open dialogue. And I'd like to thank everybody for their efforts. It's nice to get a report where everything's moving up. So I appreciate that. Having said that, are there any other questions? Senator Clements.

CLEMENTS: Regarding the state contribution of $43 million versus additional required contributions, that's a little unclear. But I guess for the next 30 years-- I'm looking at page 19. So we're thinking $42 or $43 million a year would be over the 30 years?

PATRICE BECKHAM: No. The $43 million is the 2 percent of pay that the state contributes to the School Retirement System, which would increase with payroll.

CLEMENTS: OK.

PATRICE BECKHAM: Over time, we would expect payroll to increase maybe 3, 3.5 percent.

KOLTERMAN: And that's-- historically that's been negotiated. It was-- it was at 1 percent at one point in time, started out at 1 percent--

KATE ALLEN: It started at .7.

KOLTERMAN: -- or .7 going back to-- was that in the '90s? And then it's gradually moved up. But it's all in statute. It's-- and-- and that's-- that's accounted for separately.

CLEMENTS: OK. Um-hum.

KOLTERMAN: We also do the 2 percent for Omaha Public Schools, which you see in the report.

CLEMENTS: All right. That explains the difference between those two.

KOLTERMAN: Yeah.

CLEMENTS: Thank you.

PATRICE BECKHAM: You're welcome.

KOLTERMAN: Having-- seeing no other questions, Pat, thank you.

PATRICE BECKHAM: You're welcome.

KOLTERMAN: I assume you're going to stick around for the rest of the afternoon.

PATRICE BECKHAM: Absolutely. Yeah. Thank you, Senator.

KOLTERMAN: Thank you very much. So with that, LR66 will be closed, and we're going to move into LR65. Before we get started on LR65, I want to read a little bit of background of why we do what we do here so everybody has an understanding. In 2014, LB759 was enacted to re-- to require reporting by political subdivisions with defined benefit plans in order to provide oversight to these entities by the Nebraska Public Employees Retirement Committee. The bill was codified as-- as statute 13-2402, and it requires any governing entity that offers a defined benefit plan which was open to new employees on January of 2004 to file a report with the Nebraska Retirement System Committee if the most recent actuarial valuation report indicates that the contribution-- the contributions do not equal the actuarial requirement for funding or two, the funded ratio of the plan is less than 80 percent. The report must include a minimum-- at minimum, an analysis of the future benefit changes, contribution changes, or other proposed corrective action to improve the plan's funding conditions. So that's why we're here today. These-- these reports are required by

October 15 of each year. We've accumulated all of the reports; you'll be hearing from the people today. And the order in which we will take these is we're going to start out with Metro Transit Hourly. Then we're going to move to OPPD, OPS presenting the OSERS plan, the Omaha civilian plan, Omaha Police and Fire, Douglas County's plan, and then East Nebraska-- Eastern Nebraska Human Services Agency. That's the order that we'll follow. I don't think we published that, but we're going to start in that order. So at this time, I would ask that Metro Transit Hourly please come forward and make their presentation.

CURT SIMON: Good afternoon, my name is Curt Simon, C-u-r-t S-i-m-o-n. I'm the executive director at Metro Transit here to report on our actuarial study, which was completed January 1 of this year. The report was provided prior to Kate as well as the actuarial study. I'll be working off the report itself if you have this report there. I'll be working off of this and referring to this. The funding status dropped rather dramatically in this last year, primarily as a result of the poor fourth-quarter earnings that many pension plans and many of us individually succumbed to. The assumed rate of return on this particular plan is 6.75 percent and has been such since 2016 when we took it downward from 7. And there was a point in time when it was a 7.5 prior to that. The contribution rate is split between the employee and the employer. The plan represents about 200 active members and about 426 liability members that are on the plan. We are currently in labor contract negotiations, and it looks very favorable that we'll be increasing the contribution rate by at least .5 percent going forward into 2020, effective January 1 of 2020. Other than that, there have been not very-- been very many changes to the plan since the last time I was in front of this committee. The only changes that we made was one-- one was due to the fact that this is a very mature plan. For example, the average participant in this plan is 53.9 years of age. We did change some asset allocation to try and reduce some of the volatility to the plan by moving some-- some assets out of equities and into the fixed account in order to reduce some of that-- that volatility. The contribution rates, as I mentioned before, as you will see, they've increased over time. They've increased 2 percent back in 2018, and they'll keep going up from there. I don't have any pages out of my actuarial report to refer to for you, just a couple other things of note. A few years ago, and this is reflected on the second page, we changed the method of which we invested to go to the index funds, and rather dramatically decreased the amount of expenses that we pay. For example, it dropped from 71 basis points to about 9. And it's-- it's--

has seemed to be working very well. We did that in conference with a pension. Our pension analyst that took us through that, it's their job, but again, I don't know, you probably should know Mr. Maginn, who was very helpful in helping us shape those investments in those index funds.

KOLTERMAN: So are there any questions? I have-- I just have a couple questions.

CURT SIMON: Sure.

KOLTERMAN: In the past, you've increased your actuarial required contribution. Since 2014, you moved from 84 percent paying to-- up to 102 last year. What do you anticipate that to be this year?

CURT SIMON: I don't really know what it's going to be this year. It'll probably be around the same ratio as it was last-- last year.

KOLTERMAN: So your-- your-- your intent is to make the ARC payment--

CURT SIMON: Yes.

KOLTERMAN: -- as you have the last couple years?

CURT SIMON: That's correct.

KOLTERMAN: And then you've gone from 77 percent funded to 67 percent funded. How do you plan to turn that around?

CURT SIMON: Well, as of September of this year, it already gained back 12 percent of the loss that it had. This is a calendar year. So this is out-- at the end of 2018, for example, as opposed to the middle of July. It would look more favorably if it was a fiscal plan that ended June 30. But as of September report, September 30 report, it had already gained back 12-- 12 percent, so.

KOLTERMAN: OK.

CURT SIMON: Hopefully we don't have a fourth quarter like we had last year.

KOLTERMAN: We don't have much time left.

CURT SIMON: We don't.

KOLTERMAN: Any-- any questions? Senator Stinner, do you have any questions?

STINNER: I do not. I had to think which phone I could use. I do not have any question.

KOLTERMAN: Thank you. All right. Hearing none, appreciate it.

CURT SIMON: Thank you.

KOLTERMAN: Now we'll move to OPPD, Omaha Public Power District.

LUIS JAVIER FERNANDEZ: Good afternoon, Senators. My name is Luis Javier Fernandez, L-u-i-s J-a-v-i-e-r F-e-r-n-a-n-d-e-z, and I'm the chief financial officer with the Omaha Public Power District. I'm here to present the status of the pension plan for OPPD as of 2019. Our funded ratio, which is probably the one-- one number that we'll focus on, it went down from 70 percent to 67.8 percent. And the reason for that is one-- well, actually there's two reasons for that. One is the one that the previous speaker talked about, was the 2018 returns on the market, the-- that catastrophic fourth quarter of 2018. But probably the biggest reason for this is one that-- it's bittersweet where our employees and our retirees are living longer. And we had a-- the actuary recommended an update on the mortality table to better reflect really what our true liabilities are. So bad news for the plan because obviously dropping brings the funding down lower. But it's all good news because we're all really reflective of the expected longevity of our retirees and our active employees. So those two factors are really what brought the funding down. Very proud to report that we have made 100 percent of the required contribution every single year and we plan to do so again. Our required contribution increased by $5.6 million this year. And we have already made budget adjustments to make that additional contribution in 2019, and have included the additional contributions in 2020 to again continue to fund 100 percent of the required contribution. In 2017 we negotiated with our unions an-- an agreement where our employee contributions are increasing from 6 percent all the way to 9 percent by 2022. We're-- we're in a-- in a ramp-up phase. Right now we're at 7.2 percent in 2019. That's going to go up to 7.8 percent in 2020, 8.3 percent in 2021, all the way to 9 percent in 2022. So our own employees are-- the employees are contributing more to the plan. And we are also, at the same time, increasing our required contribution. So all-- again, in-- in-- in-- in an-- in an effort to continue to fund our 100 percent of the required contribution. We have-- as of January 1, we have 40-- 4,476 participants. About 2,200 of them are retirees and beneficiaries. About 500 of them are-- are separate and invested. And we have about 1,800 active employees in the plant. That's-- everything else is part of the-- part of the report. I would be happy to answer any questions you may have.

KOLTERMAN: Are there any questions? Senator Stinner, any questions?

STINNER: I'm still working, Mark, and I do not have questions.

KOLTERMAN: Thank you. I would like to compliment you on the fact that you have been proactive. We get your reports and you are paying ahead and you're increasing your contributions, making an effort. But the fact remains you're still going in the wrong direction.

LUIS JAVIER FERNANDEZ: That's right.

KOLTERMAN: And so we'd like to encourage you to continue to try and figure out how you can turn that around. Obviously, you're still away from 80 percent. So we'd like to see that change, but--

LUIS JAVIER FERNANDEZ: We'll continue to do our best. The-- one-- one-- one other thing that I failed to report, and I mentioned this last year. As you all may or may not know, we have a large nuclear decommissioning project going on. We took-- our board decided to decommission our focus on nuclear station by 2016. We established a decommissioning and benefits reserve account at OPPD, and we started funding that two years ago where we're setting aside money whenever we have a relatively positive financial year. We have been setting aside monies to-- that can only be used to either boost funding for our decommissioning project or benefits. We-- we-- we are making a lot of really good progress on the decommissioning of-- of-- of the nuclear station. Really, it's going really well, on budget, on schedule. As work continues progressing on the decommissioning, the risk of funding on decommissioning projects will go down. And then our board may have an opportunity then to use the additional-- currently we have about $77 million sitting in that account. That could be used then to give a boost to the pension fund, hopefully bringing us closer, if not above the 80 percent here in the next few years.

KOLTERMAN: Thank you. That's-- that's important for us to know because, as-- as maybe you do or don't know, several years ago Lincoln-- the city of Lincoln was in that same position. And I believe they dumped $42 million into their plan, and they're-- they're above the 80 percent mark now.

LUIS JAVIER FERNANDEZ: Right.

KOLTERMAN: So I appreciate knowing that. Thank you very much.

LUIS JAVIER FERNANDEZ: Well, a healthy competition with-- with LES, we'll-- we'll get there.

KOLTERMAN: Yeah. All right. Any other questions? Thank you very much.

LUIS JAVIER FERNANDEZ: Thank you.

KOLTERMAN: Next, we have Dr. Logan from OPS. Welcome.

CHERYL LOGAN: Thank you. Hi, Senator Kolterman. Senator Kolterman and members of the Retirement Committee, my name is Cheryl Logan, C-h-e-r-y-l L-o-g-a-n, superintendent of Omaha Public Schools. We are-- we continue to be a growing district. We now serve over 54,000 students. In my 18 months as superintendent, I have had the opportunity to work with almost all of you as we continue to do all we can to solidify the Omaha School Employees Retirement System. I want to thank each of you for your support of OSERS. OSERS continues to be a top priority for me and for the Board of Education. As I shared with you a year ago, we have invited OSERS stakeholders to participate in the Better Together coalition. Our coalition includes representatives from the Omaha School Employees Retirement System, OSERS, Omaha Education Association, Nebraska State Education Association, Service Employees International Union, retirees, and the Omaha School Administrators Association. We meet regularly with the help of an outside facilitator, Ms. Linda Richards, to consider options which we hope will strengthen OS-- OSERS. Senator Kolterman has been a guest at our meetings. I'd like to thank him for his continued support and participation in the discussions of the coalition. And we are also thankful that we've been able to utilize-- utilize the services of the system's actuaries to assess the options available to us. I believe it worth noting that as a group, we have coalesced around the shared values of transparency, sacrifice, equity, and integrity. We are committed to sustainability with a focus on providing security for current and our retirees. To those ends, we are hopeful that we'll be able to put forward a number of options for your consideration in the very near future. On my arrival at OPS, one of my first tasks was to deep dive into the district's financial. As a result of that analysis, I challenged our leadership team to evaluate every dollar we spend at OPS to make sure it is necessary to spend it. I am very proud of the progress we are making in that regard, and I understand this will be an ongoing process. We take seriously our responsibility to be good fiscal stewards of the taxpayer dollar. Sound financial management and fiscal prudence will be essential to our ability to manage both our responsibility to educate 54,000 students and our duty to OSERS. Through our discussions in the Better Together coalition, OPS and the OSERS trustees have agreed to move forward with changes to the amortization schedule. The table will change from a 27-year closed amortization to a 30-year layered table. This change will now align our amortization schedule with the state plans. This fiscal year, OPS paid our additional actuarial required contribution on a timely basis, as is our obligation as a district. OPS and the Board of Education made difficult cuts to the budget to accommodate the growing ARC. The change in the amortization table had the positive effect of lowering the projected ARC payment for this year. Although the ARC was lowered from $23-- $21.3 million to $18.2 million, the district chose to pay the higher amount of $21.2 million rather than the adjusted amount. While the ARC payments have significant impacts on our budget, we understand that it is our duty to pay them. We will continue to work with our stakeholders as the process continues. Thank you for the opportunity to speak with you today. I have a few more data points. The OSERS plan was funded 62.88 percent on January 1 of 2019, a decrease of 1.01 percent from 63.89 funded figure for January 1 of 2018. The number of members in the OSERS plan was 13,788 on January 1, 200-- 2019. That's about 75 more folks than there were in the previous year. The OSERS for actuarial purposes assumes a rate of return of 7.5 percent. The actual rate of return for the valuation January 1, 2019 was 2.9 percent and 4.2 percent for the valuation January 1. The Nebraska Investment Council's capital market assumption for rate of return over the next ten years is 6.2 percent and for 30 years is 6.7 percent. Be happy to take questions.

KOLTERMAN: Thank you, Dr. Logan. Questions? So I just have a couple of questions.

CHERYL LOGAN: Sure.

KOLTERMAN: First of all, thank you for coming. We have worked closely with you.

CHERYL LOGAN: Um-hum.

KOLTERMAN: We dialogue. The report wouldn't think that we're making any progress, but I think we are making progress.

CHERYL LOGAN: Yeah.

KOLTERMAN: So the Better Together coalition, are you coming in with any recommendations or where are you at with your recommendations on how you're going to try and turn it around?

CHERYL LOGAN: We met-- we met yesterday, and we will be meeting again on December 2. And after that meeting, we'll be sending you a recommendation for your consideration.

KOLTERMAN: OK.

CHERYL LOGAN: Yeah.

KOLTERMAN: Thank you.

CHERYL LOGAN: We were-- we were almost ready yesterday. We had one more thing we wanted to look at before we send it to you, probably the evening of December 2.

KOLTERMAN: And you are working with the actuary?

CHERYL LOGAN: Yes, absolutely. [INAUDIBLE]

KOLTERMAN: And one final question, do you-- do you have any-- can you give me any update on-- on where we are on our study from last year that we requested? Is OSERS working with NPERS to--

CHERYL LOGAN: Yes.

KOLTERMAN: --where-- is that study at?

CHERYL LOGAN: Yeah. The study continues to move forward. Ms. Cecelia Carter, who is the executive director for OSERS is here today, works with our staff to gain the information that's needed in a timely manner to get to NPERS so that we can conclude the study. But it's still ongoing.

KOLTERMAN: And I believe it's our intent to have that study ready by June of next--

CHERYL LOGAN: That is correct.

KOLTERMAN: --2020, is that it?

CHERYL LOGAN: Yes, sir. That's correct.

KOLTERMAN: OK. Thank you. Any-- any additional questions? All right.

CHERYL LOGAN: OK. Thank you.

KOLTERMAN: Thank you, Dr. Logan, appreciate you coming.

CHERYL LOGAN: No problem. Thank you.

KOLTERMAN: Omaha-Papillion plan.

BERNARD IN DEN BOSCH: Just pull up a chair.

KOLTERMAN: Yeah, pull that around there.

PATRICE BECKHAM: Person with all the paper. So Patrice Beckham, P-a-t-r-i-c-e B-e-c-k-h-a-m with Cavanaugh Macdonald, a retained actuary for the retirement system.

BERNARD IN DEN BOSCH: Bernard in den Bosch, first name B-e-r-n-a-r-d, last name three words, first word i-n, second word d-e-n , third word B-o-s-c-h, deputy city attorney, and attorney for both pension systems.

PATRICE BECKHAM: So what--

KOLTERMAN: Go ahead.

BERNARD IN DEN BOSCH: Thank you.

PATRICE BECKHAM: What we intended, Chairman Kolterman, was to kind of walk through the presentation that you have in front of you. It's a lot of moving parts and some things that are different for the city of Omaha plan. So it's a little easier to put together a presentation then to walk you through the valuation report. So I will kick that off, and Bernard has promised to answer all the hard questions. So we'll move forward. So page 2, just a little bit about the Omaha

Employees Retirement System and, again, some of the unique features. So the the city ordinance requires substantially equal commitments for pension costs, so kind of a 50-50 general split. And I know at times, over the years, I've heard conversations, and people say, well, why doesn't the city just fund it? Well, by ordinance, the city can't just put money in because it's supposed to be substantially equal. So the members either have to contribute or the benefits have to be cut. So there's that-- always that kind of framework that we have to work within. The second part is, it's somewhat unique, is that the benefit provisions and the contribution rates are set in the-- in the labor contracts. So when we walk through the issue, we'll see-- and again, I think this is a little bit-- certainly different than the State Retirement System with some-- probably different than a lot of systems where the-- the actuarial rate is contributed each year even if it requires an additional contribution by the employer. Here the rates are set. And so you'll hear us talk about a contribution shortfall which means that the amounts that are scheduled to be contributed in the bargaining agreements are less than what the actuarial rate is in the 2019 valuation. We've had years where it's been more than the actuarial rate. And that's sort of the nature of the beast, the way when you're funding with kind of that fixed contribution rate. The employees-- the-- the civilian employees are covered by Social Security. I think it's worth noting that their contribution to this plan is 10.075 percent of pay, which is quite a bit higher. Again, if you go to that NASRA Public Fund survey, you know, the median most common employee contribution is about 6 percent. So this is considerably higher, and if you add Social Security to that, you know, it's over 16 percent of pay for a retirement benefit. On page 3--

KOLTERMAN: Before--

PATRICE BECKHAM: Yep.

KOLTERMAN: --before you go there-- could somebody grab the door for me, please? Before you go there, Ms. Beckham, the city ordinance requires 50-50. Is that part of the charter that you--

BERNARD IN DEN BOSCH: Yes.

KOLTERMAN: --is that the charter that we keep hearing about, doesn't allow the city to make more contributions?

BERNARD IN DEN BOSCH: Both the charter and the city code, which was obviously ordinances to adopt the charter, both contemplate-- have the same language about being substantially equal contributions by the city and the employees.

KOLTERMAN: Can that be changed?

BERNARD IN DEN BOSCH: It can be. The charter could be changed by a vote of the people. So it was adopted in 1956. There have been a series of amendments on different matters over the years. There's a requirement to have a charter convention at least every ten years. The last charter convention was in 2013. But you can have them more frequently. That's absolutely-- that is something that can occur during a [INAUDIBLE].

KOLTERMAN: OK.

BERNARD IN DEN BOSCH: And the charter would have to recommend it. Then it goes to the council for-- see-- either recommendation one way or the other, and then obviously would go to a vote of the people.

KOLTERMAN: I'll delay the rest of my questions about that till later on. I just wanted to make sure we're talking about the charter versus an ordinance. I think they're one and the same, is what I hear you saying.

BERNARD IN DEN BOSCH: Yeah. They both have it, but the charter is the one that's more difficult to change because that requires--

KOLTERMAN: Vote of the people.

BERNARD IN DEN BOSCH: --a vote of the people whereas the ordinance is the city council could do anytime they wanted it.

KOLTERMAN: OK. Thank you.

PATRICE BECKHAM: All right. So page 3, there have certainly been a number of factors that have led to the current-- current funded status. I just want to hit on a couple more significant. Certainly the impact of the financial crisis, the Great Recession in 2008 had a significant impact on the funding of this system. At that point in time, expected return was 8 percent. Actual return was more like -26 percent. Projections at that point were that the funds would be-- the fund would be deleted in 20 years, which in an actuarial perspective is short term. So there were a lot of discussions. The city and the unions really pulled together to address the long-term funding of the system. There were changes made. Basically, the city increased contributions and the members decreased benefits. We talked about the contribution was already over 10 percent of pay, so it's difficult for the members to-- to contribute more. So there were benefit decreases, including for current members. As you see, some of those there are basically pushing retirement age out. They would have to retire later. They actually took a pretty good haircut on the benefit formula for years of service going forward. It had been 2.25 percent. That dropped to 1.9 percent. Lengthening the amount, the years of salary that are figured in and the calculation, the state has made some of those changes in final average salary. It had been a one-year average, and it moved to five. All those things essentially lower the benefits side of that equation. Remember earlier I said, it's contributions plus investment income have to pay benefits. So the-- the city upped the C part of that equation, and the employees lowered the B part of that to try to bring it back into balance. Perhaps one of the more significant changes was the implementation of a cash balance plan for employees that were hired on or after March 1 of 2015. State is well aware of-- of the benefits of cash balance plans. This worked well for the state of Nebraska and for the county retirement system. This one shares that preretirement risk very directly with employees, where they get kind of a minimal amount of a guaranteed interest credit and then a variable credit that depends on actual performance. So again, kind of keeping the benefit side of that equation reacting to what's happening on the investment side. The other significant change, first reflected in the 2018 valuation, is a change in the investment return assumption. That had been 8 percent, was lowered to 7.5 percent. Inflation assumption is also lowered, touched the other economic assumptions like the general wage increase. They also strengthened their mortality assumption. I think one of your previous speakers alluded to the good news/bad news. So it's good news for the members that they're living longer, but when you're a pension system, you pay in benefits as long as people are alive. That means your liabilities become higher when you recognize that. So we moved, at that time, to the most current table, strengthened mortality. The net impact of that was an increase in the unfunded liability of $27 million. Of course, a decrease in the funded ratio, your liabilities go up. The assets didn't change. And I think this is insightful to the impact that, that had on the system. It actually moved the actuarial contribution rate 3.85 percent of pay. It was a pretty-- pretty big hit at one time because of the change in the investment return and the mortality assumption. On page 5, for the 2019 valuation-- again, this is a calendar-year plan. So the same pain that everybody else felt at the end of 2018, this plan did as well. Return on the market value was not quite -1 percent for calendar year '18. That gets smoothed. So that entire impact is not reflected in the January 1, 2019, valuation. But it certainly had a negative impact. And you'll see kind of a summary on page 6, kind of looking back at the last three valuations. So for the '19 valuation, on the far, left-hand column of numbers, the actuarial liability went up. That's fairly typical in an ongoing open plan. The assets did not. So it's a bad combination. It means the unfunded actuarial liability increased, in this case, $9 million. Funded ratio held relatively steady, 52 percent compared to 53 on a smoothed value basis. But the reality is, if we look at market value and what happened at the end of 2018, the funded ratio on market value dropped from 54 in the prior valuation to 49 in this valuation. You can see the scheduled contributions. Again, the employee contribution rate is 10.075 percent. The city is contributing 18.775, so together almost 29 percent of pay is going into the plan. The actuarial contribution rate, which is based on the-- the board's funding policy, would-- would require a contribution of 31.662 percent. So we have again a shortfall of about 2.8 percent of payroll, which doesn't mean the plan will never be fully funded. But it's not going to make it on the amortization schedule that-- that the board had set. You'll notice back in the '17 valuation, there was actually a contribution margin of 1.11 percent. And then when the assumptions were changed in the '18 valuation, you could see that-- that impact was dramatic and flipped it from a margin to a shortfall. That's a little bit on the funding history. Page 7, again, we mentioned the cash balance plan for members hired after March 1, 2015, where in the '19 valuation reflected, you know, 34 percent of the active members are actually in the cash balance plan, which is pretty quick over a relatively short time period. That has kind of two positives. One is the cost of that plan is a little bit lower than the-- than the legacy plan, but more importantly, again, that risk-sharing feature, that if returns don't pan out as expected, the benefits will actually be lower and kind of help balance that funding equation. Page 8, Actuarial Liabilities by Membership Group, so the dark blue portion of the pie chart here is retirees and beneficiaries. And the red slice of pie is disabled members. Those are people that are receiving benefits right now. And it's-- you know, it's close to 75 percent of the pie. Again, it's a very mature plan. There-- there isn't a lot of active-member liability. So when you consider trying to improve the funding, 75 percent of it doesn't change. They're already receiving benefits. It gets very difficult to really move the dial on a funded ratio by-- by reducing benefits. And that's really one of the challenges, I think for this plan, is it's-- it's kind of at a place where a lot of changes have been made. And we're really kind of waiting for that to play out over time, and it just-- just takes a long time to improve the funded status. And then we got the wild ride on the investment return that's not helping. Page 9 is just looking at the change in unfunded liabilities. Just a couple things to highlight. Again, in the column where the heading is 2017, which is how the unfunded changed from July 1-- or July 1-- January 1, '17, to January 1, '18, you can see that $27 million due to the assumption change. That's been the big change over this three-year period. Again, this year we had an investment experience, was the actuarial loss of $4 million on top of a liability loss of $3 million. It's nicer when we have liability gains to offset the-- the investment loss, but it didn't happen this year. So again, we're at $233 million for the unfunded liability. Page 10, looking back, a funded history of this system, you can see the impact that the-- you know, the 2008 return had. As that kind of worked its way through smoothing, it drew-- drew the funded ratio down. And then, again, when we changed assumptions in the '18 valuation, it pushed the funded ratio down. We're kind of at a point now where the contribution-- so remember, this is like most of the systems. The-- the unfunded liability is financed with increasing dollars of payment. They're level as a percent of payroll, but we expect payroll to grow over time. So when you have a long period of time, that means you're not putting as much money in now. And it's going to in-- increase every year. But what's going in now isn't covering the interest on the unfunded liability. That's why we're kind of in a holding pattern until the cost of the ongoing benefits goes down and gives us a bigger piece of the contribution to pay off the unfunded liability and the payroll growth, which gives us even more dollars. Eventually we're throwing a lot of dollars at it, but right now we're kind of treading water. Page 11, the change in the actuarial contribution rate, again just looking at what drove that change. In the '18 valuation, we were just over 31 percent, in the '19 valuation, 31.66 percent. And you can see, you know, the investment experience and the demographic experience increase that rate about .7 percent. We had a little bit of gain. Again, the change in the normal cost rates, the new tier coming in at a lower cost, it's very gradual. Over time it's more material, but from year to year, it's not very exciting. And then again, you can see the employee and the city contribution rates, and that difference is what creates that contribution shortfall. So again, the amortization policy the board is using, that drives that actuarial contribution, basically says we want to be fully funded in 24 years. This report says, based on January 1, 2019, you won't make it in 24 years. Whether you make it eventually or not, we can't tell without doing a projection model. We don't do those every year for these plans, usually every couple of years. And based on conversation with the board last week, I think there's an interest in doing that in connection with the 2020 valuation so we would have a projection to share with you next year.

KOLTERMAN: Question? Yes, Senator Clements.

CLEMENTS: Thank you. On the employee and city contribution rate, I thought it was a 50-50 split. And these are not the same numbers. How-- why is the difference?

BERNARD IN DEN BOSCH: I was going to almost interrupt before and-- and explain. So it was a rough-- when you go back to 2015, they were roughly the same. One was at 10; one was at 11. But what happened when the-- during the pension and the efforts to try to reform the pension system, the city put in more money. So as a result, the city's pension contribution went up. The employees gave up benefits. So the amount of the benefits that were actual-- that were given up were actually determined by-- by Cavanaugh Macdonald. And so the city put in an additional 7 percent, and the employees gave up 7 percent in benefits. And that's-- the that's-- that's the-- at least the explanation of how they were-- both parties contributed-- attempted to contribute to the solution.

CLEMENTS: All right. So it wasn't-- the pension cost is not just determined in dollars, but in benefit dollars also.

PATRICE BECKHAM: Right. Right. That was actually a great question. But as Bernard said, it's because, at that point, the employee contribution rate in 2015 was already very high. And so, you know, again, that funding equation, C plus I equal B, you don't want to change the C side of it. You change the B side of the equation.

CLEMENTS: Um-hum.

PATRICE BECKHAM: And so those changes that were made that impacted current members lowered the liabilities immediately and lowered the ongoing costs of the plan. And it was that savings that we-- we quantified and sort of converted into a percent of payroll to get to that substantially equal for the city and employees.

CLEMENTS: Will that change year to year or is it agreed upon?

KOLTERMAN: That's in-- that's in your negotiated agreement.

BERNARD IN DEN BOSCH: It has to be negotiated, and so at least as of now, most of the civilian groups have a contract through the end of 2020. I think there's one through the end of 2021. There are some clauses in those contracts that allow us to request to go back to the table. And you know because-- quite frankly, until the assumption changes were made last year, you were starting to see-- I was-- there were positives as a result of the budget changes. And I think everybody was kind of optimistic. The assumption changes obviously had a negative effect. And then obviously with the negative return that occurred in 2018, that has exacerbated the negatives. So I think this actual report, which was made public last Friday, was presented to the pension board and became public last Friday, has already stirred some concern that it-- that the changes that were in effect a couple of years ago, that we may need to do something more. And that's-- you know, that's just the beginning of the process. It's not a fast-moving process, and it is something that we would have to-- that would have to be negotiated with the [INAUDIBLE] civilian unions.

KOLTERMAN: But-- but you are equaling-- in other words, you're monetizing the benefits so it still maintains that 1-to-1 ratio, is that correct?

BERNARD IN DEN BOSCH: Yeah.

KOLTERMAN: OK. You want to finish your report?

PATRICE BECKHAM: Absolutely.

KOLTERMAN: Before you go there, let me ask you a question. On page 6 of the report that you sent out to us, you talked about the actual report that recommended performing that projection that you just talked about, Pat. Bernard, does the city of Omaha plan to request that analysis? Are you going to move forward with that or are you just going to say, well, we know it's not good? We'll just leave it the way it is.

BERNARD IN DEN BOSCH: I think the discussions that Pat had last week, which included the projection model and also included that, so I would anticipate that both those things will occur in-- next year as part of the work that she does, so. I think she-- Pat did have some conversations with the folks in the finance department and I think it seemed like everybody was on board to go in that direction.

KOLTERMAN: Yeah. If you-- if you don't know what your problem is, you can't deal with the problem. I appreciate-- I appreciate the recommendation, and I hope you'll accept that recommendation.

BERNARD IN DEN BOSCH: Yes. I think that's the intention.

PATRICE BECKHAM: OK. So we'll wrap this up rather quickly. Slide twelve, just to kind of put things in perspective. We've had a couple of years of the contribution shortfall. What we want to avoid is what happened in the first part of this period where we had significant shortfalls for a sustained period of time. Again, the projections will be helpful to indicate what the trend lines are. There are a lot of moving parts, and when you have new tiers in particular, fixed contribution rates, a lot of that dynamic can't be anticipated with just a snapshot valuation report. So just to wrap up on Slide 13, again, you know, 2018 was a difficult year on the investment return side. We talked earlier, you know, what happens on the investment return is the single most important in driving kind of the funded status and the contribution. Again, the important part of this is the contributions don't automatically react to what actual experience is versus expected. And that's the challenge with-- with funding, with fixed contribution rates. And then I spoke earlier that the fact we're a little bit in this holding pattern. When we did the projections last year in the '18 valuation,--

BERNARD IN DEN BOSCH: Um-hum.

PATRICE BECKHAM: --that trend is for the funded ratio to actually remain relatively low, I mean to improve, but still be like below 70 percent for almost 20 years. And it's just a process of waiting for the unfunded actuarial liability payment, the dollars of that to get big enough to really start drawing down and paying off the unfunded liability. So it's a-- it's a long term proposition.

BERNARD IN DEN BOSCH: [INAUDIBLE] 2048 at that point in time, but obviously that can change year to year.

PATRICE BECKHAM: Right. Yeah. And does change year to year.

BERNARD IN DEN BOSCH: And does change.

KOLTERMAN: Any questions? I just have a couple of questions. The information that we received showed that you had an experience report that ended December 31 of 2015, but it wasn't submitted until February of 2018. Why-- why is there a multiyear delay in the submittal of that report? That's the first question. And then when is the next experience study scheduled?

PATRICE BECKHAM: Right. So it's through December 31, 2015, which means we have to finish the 1/1/16 valuation to have that end point for data, which didn't happen until late into '16. And then it just takes some time to actually do all the work, schedule meetings. We meet with the actuarial committee. Sometimes they ask for additional analysis. We do that. Then it goes back ultimately to the board, and that process just takes a lot of time. But there is over a six-month delay just to have the data to start the work. So it might have been a little extra delay last time. There were some pretty substantial changes that I think needed to be discussed and, this isn't an official word but, noodled on, as far as I'm concerned, for the board and the actuarial committee to really kind of wrestle with it and decide what they thought was the right thing to do.

KOLTERMAN: OK. And then when's your next experience study scheduled?

PATRICE BECKHAM: Once we do the 1/1/2020 valuation, every four years, so it would be the four-year period ending December 31, '19, which is coming up. So we-- just kind of normal and this is not unusual. But typically we-- we get the data for the-- like the January 2020 valuation, we would normally get that data end of April, middle of May. And so by the time we do our work, it's almost the end of summer. So you-- you know, you've lost eight or nine months before we even have all the data we need to do the analysis.

KOLTERMAN: OK.

PATRICE BECKHAM: It sort of just takes time.

KOLTERMAN: My next-- I have one more question for Mr. in den Bosch. This is the fifth time I've sat in on these hearings, and I look back at 2014. In 2014 you were funded at 53.7 percent. And you've continued to put millions of dollars into this plan. And today you're-- you're still only funded at 51.8 percent. And I look at your retirees and your beneficiaries on this graph, and I see that a high percentage, 74 percent, are getting paid. I know your charter doesn't allow the city to put any more money in there without increasing the contributions, the employees. I guess my question to the city of Omaha is, when is enough enough? I mean if I was an employee of the city of Omaha and I was collecting benefits, I'd be scared to death you're going to go under with this plan.

BERNARD IN DEN BOSCH: Well, I think if you go back to 2014, that's exactly what the actual projections contemplated, even though we were 53 percent funded, there wasn't anticipated to be funds for 20 years. That's not the case today, even though we're only 51.8 percent funded. And of course, that-- part of that is math that only people who are actuaries understand because obviously there-- I can only-- I think short term, much shorter term than they do. And-- and-- and we have to-- and you're abso-- you're absolutely right. There's nothing about-- it-- there is a certain element that's scary. We can't-- I can't change that. On the other hand, I guess we rely on the professional advice and guidance we-- we have, that at least when we made the revisions in 20-- that went into effect on March 1 of 2015, we had a plan in place, assuming that everything worked, that would have-- that will resolve the problem. Now, I appreciate the-- the-- changing the assumption had a 3.8 percent effect. So absent the change of assumption, our number might be 56, 57 percent. I don't know that, that would be anything to call-- to call home about anyway. I appreciate-- appreciate that.

KOLTERMAN: Well, when you--

BERNARD IN DEN BOSCH: There's no question that-- that there's-- there's that concern. It has to continue to be a concern.

KOLTERMAN: So-- so let me ask you this about your charter because I think that's kind of key to this whole situation. In 2014 your-- your percent of ARC that you paid was 70-- 72 percent-- 71.82 percent. Then it went to 84.5. Is that because you can't put any more in unless-- you can't make your ARC contributions unless the employees put more money in as well?

BERNARD IN DEN BOSCH: That's-- that's the concept of it being substantially correct [INAUDIBLE].

KOLTERMAN: And then-- and then we-- then for a couple of years, right after 2014-15, you made 100 percent.

BERNARD IN DEN BOSCH: Um-hum.

KOLTERMAN: But then now it's at 91 percent last year. And-- and this year, we don't know where it's going to be yet because it's-- it's still pending.

BERNARD IN DEN BOSCH: Correct.

KOLTERMAN: If you don't change, my question, does the city-- do the people in the city of Omaha, the taxpayers understand the challenges that exist today with your pension plan to the degree that we see it here at the Legislature? I know that's speculation on your part, but I got to--

BERNARD IN DEN BOSCH: Sure.

KOLTERMAN: --I got to have somebody tell me that you've got this figured out.

BERNARD IN DEN BOSCH: I don't know that-- I don't know that the citizens-- the citizens understand. I mean, I think it's-- at least short term, for the purposes of any change, the people who have to understand are the people who are the mayor of the city council, finance director, the people-- the people in the unions who are part of the discussions.

KOLTERMAN: Well, but my point-- my point is, you understand it. I know you understand it because you've been here for the last four years, and it hasn't changed.

BERNARD IN DEN BOSCH: I-- I--

KOLTERMAN: But if you want to change-- but nobody seems to want to look at the charter provisions and make a change so that the city can put more in and take care of the retirees. That's a concern of mine because those people are expecting-- they're not only expect, they deserve to get paid for what they were promised. And at-- and at this rate, I don't see how this thing is sustainable. I mean we had one already here today that's at 63 percent, and we're giving them the dickens. We're at 51 percent here. I mean-- and I'm not trying to be a bad guy about this.

BERNARD IN DEN BOSCH: You're not.

KOLTERMAN: But the reality is, somebody's got to take a look at this in a hard way and say, we're going to turn this around because the next thing that will happen, your bond-- I mean your bond ratios-- your bonds have already dropped as a result of this, I believe, or they haven't improved. I just hope and pray that you can turn this around. I don't know what else to tell you.

BERNARD IN DEN BOSCH: No. I sure-- I'm going to say-- I mean I appreciate if you look just at the percentage of ratio, the feeling is nothing has changed. I guess from the perspective of somebody who's probably too involved in it, there have been changes that have made-- they're-- they're not quick-acting changes. We-- we knew they wouldn't be. But I mean I see the numbers that we got this last Friday. Obviously, I have to be concerned because the hope is that things are going to get better. But when you have a negative year, it exacerbates the stuff that's already there. But I appreciate your point, though. The longer term point is when we talk-- when you look at the charter and you're looking at making potential changes, I-- I-- the suggestion obviously is-- is one that, that would be something that's looked in-- people that the-- the political folks within the city have to evaluate whether the potential need for an infusion of cash because that's the only way you can-- you can make a dramatic change.

KOLTERMAN: When-- and obviously, it's not fair to ask employees to continue to increase their contribution. They're already at high-- higher than normal rate for most employees. That's just observation.

BERNARD IN DEN BOSCH: That's right.

KOLTERMAN: Any other questions?

KOLOWSKI: Just to join in with that same comment, we seem to have sat here seven, eight years now, and hearing the same kind of discussion taking place. And I wonder if all the players are at the table. Are all the people that are being impacted by what's taking place having a voice on what's going on? Omaha, again, we have discussions with our out-of-state folks with this. But Omaha is backfilling so many places in that had expanded, and they've taken in new-- new subdivisions. But there's-- there are so many changes taking place. And I think there is tremendous potential to-- to do things the correct way. And I-- it's disappointing to see the-- the Omaha track record just be spinning its wheels, as it seems to be, to me, as I sit here listen-- listening to this. And I don't know why it's not being addressed. Are all the players at the table?

BERNARD IN DEN BOSCH: The-- the-- the-- because of the process involving substantial legal contributions, that means the unions and the city have to be at the table. They're obviously on the table.

KOLOWSKI: Um-hum.

BERNARD IN DEN BOSCH: The employees are represented by unions. And I appreciate the numbers, and I know that the-- the percentages are the same. I guess-- and I don't know what the expectation was when the substantial changes were negotiated four or five years ago. And maybe the expectations here were that we were going to see a dramatic turnaround and see it. The expectations from, I think, the administration and the city employee union perspective was the-- the picture that was drawn-- drawn for us by Cavanaugh Macdonald was no different than what was here. We're not going to get to 70 percent for another 20 to 25-- 25 years. They knew that when they made those changes. What they-- but what they also were told, and again this is all going to be based on making sure we receive return rate of-- our assumed rate of return, is that if we make the rate of return and we meet the assumptions as opposed to being in a position six years ago where there wasn't going to be money in 20 years and ie. we're going to be 0 percent funded, in 20 years we'd be getting close to 70 percent funded. But it was at the very tail end, the last four or five or six years. And if you look at the projects-- all the projection modeling that we've given, won't have one this year, but we've given, I think, two or three years in the past, all the projection modeling shows that it goes from 70 to 100 percent very quickly once we get to that point in time that the people who are in the cash balance plan get to the point where they're retiring. And that's more than 20 years down the road. And that was-- it doesn't look good, and I understand that. And I-- and I-- all I can say is, the hole was deep. And in order to get out of the hole, we had to come up with some pretty extensive changes. We relied on the professional expertise. And I say we, I mean I think the city administration as well as the union. The meetings during negotiations weren't city meeting with Cavanaugh Macdonald and the union not being part of it. No. The union was meeting with with Pat and Cavanaugh Macdonald, as was the city, sometimes together, sometimes separately. The information that everybody had was exactly the same. And the-- the dire circumstance was exactly the same. And the plan was put in place. And honestly, and I know it's tough because we all want to see a dramatic increase, there was no expectation that we were going to go from 48, 50, 49, 50, 51 percent to 60 percent in 2 or 3 years. The expectation is, we were going to stay pretty level for six, seven, eight, nine, ten years, and then it would slightly creep up. But we wouldn't get to 70 percent, which, obviously, I-- I'd much rather be-- I'd much rather be at 80 percent and not have to come here every year. Much rather be at 70 percent because that's far better than where we are. But there's a solution that was put in place and it was based on professional advice that we received. We moved forward with the solution. The hope is it still works. Obviously, we can't sit by and ignore the fact that it might not be-- that it might not work. We still have to do it, and we still have to rely on it. But I guess I-- to the extent that there's a feeling of hopelessness that's coming out, I think that's also not particularly fair because I think the process that was put in place, quite frankly, is-- is pretty similar to what we're seeing. It would have been nice to have a 10 percent return last year. That would have helped a little bit. It certainly helped some. And hopefully the return this year, we don't have a fourth-quarter collapse because the anticipated return this year, I think, is-- is-- is pretty decent.

KOLTERMAN: Well, we're not going to solve--

BERNARD IN DEN BOSCH: So anyway, I apologize for--

KOLTERMAN: --we're not going to solve the problem,--

BERNARD IN DEN BOSCH: No.

KOLTERMAN: -- but the reality is you've got a problem you've got to deal with.

BERNARD IN DEN BOSCH: We do.

KOLOWSKI: But I think questioning the charter question, everything that makes this up needs to be on the table.

BERNARD IN DEN BOSCH: Absolutely. Absolutely.

KOLOWSKI: And I just have a feeling that that's not being done.

KOLTERMAN: Senator Clements.

CLEMENTS: I just wanted to--

STINNER: Senator Kolterman.

KOLTERMAN: Just a minute, Senator Stinner.

STINNER: Senator Kolterman, could I speak?

CLEMENTS: Go ahead.

KOLTERMAN: Go ahead.

STINNER: Oh, OK. First of all, you know, I'm surprised this hasn't played out in the bond rating yet. But is there-- since it's restricted to the amount that you pay employees, isn't there something to be said that you could true this up a little bit by one-time bonus, two-time-- you know, maybe a couple-year bonus that is contributed to that and matched by the city. That might be something that you would have to negotiate, I would presume, with the unions. But that short-term bonus situation might be appropriate here to rectify what appears to be something that's going the wrong way.

KOLTERMAN: Thank you, John.

STINNER: Just an observation.

KOLTERMAN: Yeah. Senator Clements, you have a question?

CLEMENTS: I was just curious on the number of active employees and the total number of members in the plan.

PATRICE BECKHAM: The total number of active members at January 1, 2019, was 1,201, number of retirees is 1,391, 96 disabled members, 96 are the inactive, vested members due-- due a benefit in the future. Is that what you were looking for, Senator?

CLEMENTS: Then why-- where's the 75-25 split?

PATRICE BECKHAM: That's liability. That's the liability for those members.

CLEMENTS: OK.

BERNARD IN DEN BOSCH: And part of the reason the liability is down compared to what it was is we're 34 percent on the cash balance when that-- that's showed in that particular chart.

KOLTERMAN: So one-- one final question. Then we need to move on to your next proposal. Seven-- 7.5 percent, is it assume we're 8?

BERNARD IN DEN BOSCH: Correct.

KOLTERMAN: Do you-- I know if we lower that, it creates more costs. They-- do you have-- I mean, obviously, that request sheet came earlier, that's-- that's high in an assumed rate, but it hasn't been historically. Do you see any changes in that coming in the next year or two or?

BERNARD IN DEN BOSCH: I'll-- I'll speak for the board even though it's probably not-- I probably shouldn't. But I don't anticipate it. I mean honestly, that's one of the ironies here. If we would've kept it at an 8 percent return and as opposed to 7.5 percent, I probably wouldn't have been criticize-- I probably wouldn't have had to deal with those tougher questions from you because the percentages would have looked better. But the reality was that, based on the analysis that-- that Cavanaugh Macdonald did and looking at-- at-- at what was the best assumed rate of return, the recommendation that they made was 7.5 percent. The board went along with it because they thought that was fair based on systems of this size. And I know the-- I know if I were here with the investment people, they would point out that the-- over the last 30 years, the system has averaged over 9-- over 9 percent per year. And even over shorter periods, it's that. And I appreciate that the investment environment is certainly-- is more likely different today than what it was which is why you're seeing systems remove their-- lower their assumed rate of return. And this system has as well. Obviously, with the next experience study that we would receive from Cavanaugh Macdonald, which we-- we talked a little bit about the timing, if there were additional recommendations at that point, we would-- would have to look at them. And I assume that will be in part based on the other analysis that-- that she will be doing as far as the- the risk in the fund allocation that they have.

KOLTERMAN: All right. Thank you very much. Any-- any further questions?

PATRICE BECKHAM: Senator Kolterman, might I just add one thing to that on investment return?

KOLTERMAN: Yes.

PATRICE BECKHAM: Just looking back at the experience study, you know, we rely on the investment professionals because we're actuaries, not investment people. But the-- the board's investment consultant is DeMarche. Their ten-year expected return was about 6.8 percent, but their long-term, 30-year expected return is 8.4. So the 7.5--

KOLTERMAN: So moving it half-- to 7.5 is not out of line.

PATRICE BECKHAM: --reflects a blend of those two.

KOLTERMAN: Yeah.

PATRICE BECKHAM: Just that--

KOLTERMAN: Appreciate that. All right. With that, we're going to close that hearing, and we're going to move into the Omaha Police and Fire pension plan.

PATRICE BECKHAM: We have a presentation coming your way very similar to the one you just saw, and we will try to move through it a little faster.

KOLTERMAN: Take your time.

PATRICE BECKHAM: I know the afternoon is slipping away. And you'll see some similarities in themes, I'm sure. So just on-- on page 2 of the presentation, again, a little bit of background. So the city charter requires that 50-50 split here as well. Similar to the employees retirement system, the benefit provisions, contribution rates are negotiated, and they're in the labor contracts. So again, they're essentially fixed contribution rates until new rates are negotiated. So there's no immediate reaction to experience that's better or worse than anticipated by the assumptions. This plan covers Police and Fire members. It's actually four different bargaining units. My understanding is that there is no current agreement for fire and fire management, is that right, Bernard?

BERNARD IN DEN BOSCH: Yes. This is our first reading today, so yes.

PATRICE BECKHAM: OK, so but for police and the police management, they actually have a bargaining agreement that expires at the end of 2020. Just an important note to remember, pretty common with public safety, they are not covered by Social Security. The contribution rates for police members in 2019, 16.10 percent, for fire, 17.15 percent. So pretty significant contributions on the member side. Slide 3, 2008, the actual return was a -28 percent. Again, projections at that point in time-- Cavanaugh Macdonald was not the retained actuary at that point in time, but I've seen the projections when I was actually working for the firm that was the retained actuary at that time. Same story, it was projected to run out of money in 20 years. That's part of the dilemma, I think Bernard explained that well, is when the line is going down steeply, even to stabilize it takes a lot. And I know it's not-- doesn't make any of us feel great, but it's way better than a line that crashes in 20 years. Same thing, police made changes in 2010. Fire, again, because of the contract delay was in 2013. Impacted benefits for current members, which is really unusual just looking around the country. It's very common to change benefits for new hires, not so common to change them for current members. But there's a lot of activity in that period. You might have remembered some little bit about the Bates Commission and were lots of different interested parties on that commission. And some of that work led to the agreements and discussions with the union for changes. Again, you know, typical, you make people wait longer for their benefits. You kind of lower the rate at which they're earning those benefits. They move to this career average over time, which-- you know, there was this problem with the hours bank. And people could cash their bank account right before they retired, and it spiked their pension. And that got-- that got fixed. And there were increases in contribution for the members. And of course, the city's 50 percent can only come from contributions. But same thing will be evident here. When you look at the contribution rates, they won't look substantially equal because the benefit reductions were taken into account as far as a value and equated to a percent of payroll. Same story that was for the civilians' plan. On slide 4, again, the 2018 valuation reflected changes as a result of the last experience study. There is a different asset allocation for this plan, and they moved from 8 to 7.75, which was similar. Again, their short-term outlook was lower. Their long-term outlook was pretty high. If I remember right, it was right around 8.8 percent. So the 7.75 is sort of reflecting we expect lower returns for the next ten years. But then, you know, eventually things kind of go back to somewhat of a-- of a standard norm. You can see the impact of that. There was a $41 million increase in the unfunded liability, about a 1.6 percent decrease in funded ratio, and an increase in the actuarial contribution rate of 3.76. So you know, these changes in actuarial assumptions kind of rock the boat, you know. So back in 2013 for this plan, 2015 for the civilians' plan, you have this long-term plan, assuming this set of assumptions and then 3, 4, 5 years out, you basically change the-- the bench-- benchmark for the ruler. And so, you know, that's going to change the whole projection of when it gets to fully funded. Slide 6, same story as you saw in the civilians' plan. The return here was actually almost a -3 percent for calendar year '18. Again, that's going to flow through the smoothing process, but not have a positive impact. It's going to have a negative impact on the funding. Slide 6, you can see that the unfunded actuarial liability was $649 million in the 2018 valuation. Twenty-nineteen, it had increased to $669 million. Funded ratio held steady at 52 on a market value basis. Obviously, with what happened with that return, the funded ratio was-- was down from 53 percent in '18 to 49 percent in the '19 valuation. You can see pretty clearly from 2017 to 2018, the actuarial contribution rate increased significantly. That's that change in assumptions that played out there. It held fairly steady in 2019. It's up a little bit because the unfunded liability is up. The contribution shortfall is 2.19 percent, up from 1.91. Again, you know, given the experience and the change in the assumptions, it's not particularly unexpected that there would be a contribution shortfall. Page 7, a little bit of a look here at the-- at the active membership by tier. So remember, the police made changes first in 2010 and then fire in 2013. So 37 percent of the current active police members are in Tier 2. About 17 percent of the fire members are in their Tier 2. Why is that important, and why do we care? Well, remember, we have fixed contribution rates that lower-- tier 2 is a lower cost. So as that forces the ongoing costs down, we have more contributions to pay off the unfunded liability. Over a 20-, 25-year period, that will be significant. From year to year in the short term, it's not so much. But we like to see that, you know, almost 30 percent of the total membership is in the lower-cost tier. Well, that will continue to increase over time, and then have a positive impact on the funding. Slide 8, the pie chart you saw in the other presentation that looks different in this presentation, we have between-- the dark blue again are retirees and beneficiaries, the disabled members are kind of the Texas orange color there, and then the green is the people that are in DROP. And if we look at that, that's about 65 percent of the total actuarial liability is sort of already has the benefit amount set. Also means it doesn't-- there's not a lot of variables there. You know the benefits you're paying people. It's just really how long you're going to pay them. So it's proof-- that part's pretty predictable. The active-member actuarial liability is affected by a lot of things like when people retire, whether they terminate, what salary increases are. And so the red piece of that pie chart is for fire and the blue for police. And again, that-- the-- the assets, actuarial, smoothed value of assets, $737 million. So the unfunded liability is $669. So this plan is not quite as mature, as heavy in the kind of in-pay liability as the civilians' plan. Slide 9, again, the change in unfunded liability really from 1/1/16 to 1/1/19. So we were at $603 million in the 2016 valuation. In the 2019 valuation, $669 million. Big part of that is the $41 million from the assumption change in the 2018 valuation. And then you can see, the investment experience this year was $14 million. And that-- that ebbs and flows depending on what's happened. You can see, last year there was actually a gain on the actu-- on the investment experience. Page 10, funded ratio, again, the-- the-- the decline. Stock market crash in 2008 was difficult for this plan, for all plans, pushed the funded ratio down. I know we're, you know, not super happy with-- with funded ratios at 52 percent, but it beats the heck out of 44 percent. And we-- we should remember that because of the size of these liabilities, while it doesn't seem like a big deal to move 8 percent funded ratio, it really is. But it just takes so long. Extra contributions going in, it takes a long period of time for those to go in and accumulate with earnings to make a difference. And then again, for the new tier, it just takes-- you know, we have to wait for people to leave the current tier structure, and then they're replaced with a lower-cost benefit structure. Over time those two together have a big impact. But Bernard pointed out-- I was looking at the projections while he was talking. He was spot on. It just holds very, very steady for a long time. And then, boy, it just-- it's kind of like a fire that just gets hotter and hotter. And towards the end, you move from 80 percent funded to 100 percent funded in like five years. It's-- it's super crazy, the way the-- the math on that works. But we're in the period where it's not very much fun, where it's-- it's fairly steady. And of course, when we have it-- investment returns that are not as expected, that has a negative impact. Actuarial contribution rate on slide 11, prior valuation, we were at 53.2 essentially, and in the '19 valuation, we were at 53.45. Again, that's based on a plan that would get you to 100 percent funded in 25 years. You know, the million-dollar question is, given the current contributions, when would the plan be projected to be fully funded? We don't have that information based on the '19 valuation, but we should for the 2020 valuation. And you can see, there was over 51 percent of payroll going into this plan, and it's-- it's a lot. It's a lot. But the interest on that unfunded liability is a pretty big number as well. So right now, we have the contribution shortfall. That changes every year when we do the valuation because the investment return will influence it and so will all the other experience, whether people retire on time, what salary increases are granted. Again, slide 12, the difficult time for this plan was the early part of this period when there were significant differences between the actuarial contribution rate and the actual money going in. Those contributions have increased, and the cost of the benefits have come down. We have a shortfall this year, and we had one last year. That's what we want to keep an eye on. That's where the modeling is-- is particularly helpful, and that's why there was a recommendation that the board consider that. So slide 13, really same story, you know, we've got this sort of hold it steady on the funded ratio while we tread water until, you know, we get closer to shore. And then all of a sudden we-- we-- we make it, and we get to full funding. And it's-- it's kind of an odd dynamic, but it's really because so much of the contributions to pay off the unfunded liability are coming in the later years in terms of dollars, really just by design, because payroll grows and the amount that we have available out of the contributions to-- to put towards that unfunded liability grow. So it's-- it's super backend loaded. Any questions we can answer for the committee?

KOLTERMAN: I have-- go ahead. Senator Clements is ready with a question.

CLEMENTS: I'm just curious about the number of participants in this plan. Thinking of number 8, I was surprised the dark blue wasn't bigger. Are they retiring younger than the city employees and be claiming benefits longer?

PATRICE BECKHAM: Well, sort of yes and no. The city of Omaha employees actually has-- for long service people, they can retire-- could, it's all changed too, but under rule of 80. So if your age plus service was eighty points, you could retire. So theoretically, you could retire at 50 or 55 if you were-- if you started in service with the city. Police and Fire, they had retirement as early as 45 at one point, at least for police--

BERNARD IN DEN BOSCH: with 25 years of service.

PATRICE BECKHAM: --with 25 years of service. I'm not sure that too many people actually had 25 years of service at 45. But one important difference, which is another great question that you're asking, is that the civilian group has seen a decrease in the active membership and the Police and Fire plan has not. It's-- it's been stable or even growing a little bit. So when the, you know, the number of actives was going down, the liability is down and the payroll is down. So that's quite a maturing. That plan is-- is really a risk that needs to be discussed. And we've talked about that with the board, and we'll continue to raise those issues as part of the new kind of Actuarial Standard of Practice No. 51. It talks about funding risk.

CLEMENTS: Did you have the number of participants?

PATRICE BECKHAM: I certainly do, sir. All right. Total actives for Police and Fire, 1,454. There are 69 members in DROP. You never really know where the-- where to put them. They're contributing members, but their benefits have already been--

CLEMENTS: That's OK. Yeah.

PATRICE BECKHAM: And one-- let's see.

BERNARD IN DEN BOSCH: The total is 1,523.

PATRICE BECKHAM: Oh, yeah, yeah, yeah, yeah. Yeah. Total actively contributing 1,523, number of retirees and beneficiaries 1,291, disabled members 224, 8 inactive. That's-- don't worry about that.

CLEMENTS: And I like Senator Stinner's comment about paying a short-term bonus to the plan and matching it-- to the people which would go to the plan and matching it by the city. Is that something that you might bring up?

BERNARD IN DEN BOSCH: I wrote down-- and I was going to pledge at the end to discuss with Senator Kolterman discuss which was the charter amendment, but I also wrote down that particular note. That will be one of the things that I will share with the-- the-- the mayor and the city council when I return. I have a cell. I was going to pledge at the end, based on our conversations, Senator Kolterman, that I would share the concerns of the committee, and I will share that particular suggestion as well. I wrote a little note down so that I would do it.

CLEMENTS: All right. But the funding level being similar here, it looks like some extra measures need to be done.

KOLTERMAN: Any-- any additional questions? I just have one question, Bernard, on page 3 of this report, we-- we talk about changes Police and Fire made in 2010 and 2013. And they actually negotiated their benefits down--

BERNARD IN DEN BOSCH: Correct.

KOLTERMAN: --to the equivalent of pay, really. My question is, there is a line in there, retiree spouse death benefit was decreased to 50 percent of the member's.

BERNARD IN DEN BOSCH: Yes.

KOLTERMAN: They don't get a choice in that? They don't-- when they-- when they retire, you just tell them what they're going to get. Is that how this plan is set up?

BERNARD IN DEN BOSCH: The-- the pension is set up so that when-- when-- when a person dies, their widow would be entitled to a certain percentage of their-- of their pension. And that's negotiated, again, between the parties.

KOLTERMAN: So that's just a flat-- that's it. What they get there is the spouse gets 50 percent. You can't negotiate to 100 percent when you set up your final benefits?

BERNARD IN DEN BOSCH: Yep. That's something that's negotiated between the union and the city as to what percentage their spouse would receive.

KOLTERMAN: Do you know, did you offer anything back into that like life insurance options as an employee?

BERNARD IN DEN BOSCH: I wasn't-- I wasn't part of the negotiations. I don't believe that was the case. Certainly, if the unions wanted to discuss that, we would. We-- we have-- we do have life insurance that we-- a certain amount of life insurance that we provide our employees as a matter of course.

KOLTERMAN: OK.

BERNARD IN DEN BOSCH: We also allow for employees to secure from our vendor voluntary life, additional amounts of life insurance if they want. We also offer some other disability and other particular policies through the city--

KOLTERMAN: Sure.

BERNARD IN DEN BOSCH: --that an employee could choose to enroll in, but they'd have to pay a premium for those.

KOLTERMAN: And the only reason I ask that is, you could start taking benefits, tomorrow, if you die, your spouse all of a sudden gets only half of what you've been promised? That's a-- that seems like a huge-- that's a-- that's a big benefit.

BERNARD IN DEN BOSCH: Now-- it is, and then appreciate the fact that, that's not necess-- if-- if a public safety-- member of public safety personnel would happen to die during the course and scope of their duty, there are other protections. This is purely based on somebody who retires at the end of a career. Just-- just in case, I don't want anybody to misunderstand, we do have some other--

KOLTERMAN: No. I-- I know there's some other options, but--

BERNARD IN DEN BOSCH: Well, we have some other benefits, too. For example, you get a full-year salary as a benefit to the spouse, and there's some other things like that but--

KOLTERMAN: OK. I just-- to me-- I took a look at that. When I retired a couple of years ago, I had five or six options I could choose from.

BERNARD IN DEN BOSCH: Sure.

KOLTERMAN: And I-- and each one of them cost me more or less. I got [INAUDIBLE].

BERNARD IN DEN BOSCH: Yeah. Well, the cash balance plan that we now have for civilians does-- similarly has a menu of things we can choose.

KOLTERMAN: Sure.

BERNARD IN DEN BOSCH: But our traditional defined benefit plan, everybody seems-- everyone gets the same thing.

KOLTERMAN: Is-- is-- is that primarily because these are all negotiated benefits?

BERNARD IN DEN BOSCH: Correct.

KOLTERMAN: OK. Thank you. Any other questions?

BERNARD IN DEN BOSCH: Thank you.

KOLTERMAN: I didn't mean to be so hard on you.

BERNARD IN DEN BOSCH: You're-- that's fine.

KOLTERMAN: But the reality is we've got to get this fixed.

BERNARD IN DEN BOSCH: No. You were nice to me last year, so about every two years, I can expect it. [LAUGHTER]

KOLTERMAN: I know-- I know I was pretty hard on you the year before. I think I introduced a bill to take you to a cash balance plan.

BERNARD IN DEN BOSCH: Thank you for your time. I'll make those-- I will pass along your concerns.

KOLTERMAN: Yeah. Thank you. Thank you, Pat. Are you done now too?

PATRICE BECKHAM: I think I am.

KOLTERMAN: All right. See you next year.

BERNARD IN DEN BOSCH: I make sure I have her here to protect me.

KOLTERMAN: OK, now we're going to move to Douglas County. I have two left. Welcome. Haven't seen you, sir, in a year.

JOE LORENZ: Yeah. It's been a year. Hopefully this will go quickly. I'm Joe Lorenz. I'm the Douglas County finance director, and I'd like to give you a quick update on what's going on with our defined benefit pension plan. And if you look at your material, I'll start out first kind of going through the table on the 2-- 2019 results. Our funding bases at January 1, 2019, was 65.6 percent, which was a 2.4 percent drop from 2018. And that was all due to investment risk and what happened in the fourth quarter. I had-- I had our actuary, SilverStone, run what the funding would have been at March 31, in the first quarter when the market came back, and it was at 67.8 percent. So it almost recaptured it all in the first quarter. And then through the first nine months of the year, our plan is up 13 percent. So other things being equal, the funding status should go up. So even though it was a-- went down last year and just about everybody's plan here went down, I think it was really fully driven by investment and what happened in the fourth quarter. Second, you look at our assumed rate of return, we've been consistent at 7.5 percent, which we think is reasonable given that over the last ten years, our average rate of return on this plan has been 8.25 percent. As-- and our plan, we've been in the top quartile of publicly held plans in terms of investment performance. So for us, we feel that the 7.5 percent is appropriate. Actuarial return, the blending was 4.1 percent helped us, whereas the market return was down 2.8 percent for the reasons we just discussed. Another thing I would like to mention is that within our plan, we have-- how we do the allocation is our plan has 57 percent equity, 35 percent fixed income, and 8 percent real estate. We don't invest in any alternative investments or any private equity, and we don't chase yield. So I think we have a-- given the nature of-- it's a pension plan. We keep a pretty conservative portfolio. The member and employer contribution rates are 8.5 percent. Normal cost is about 11 percent. If you look at our ARC this year, it's $24.8 million. If you look at our history, we've always contributed slightly more than the ARC. And this-- and every year it happens where our expected is behind the actuarial. But by the time we have the actual dollars contributed-- we make our last contribution in December. I'm-- I was just looking at it this morning. I think we'll be at or slightly above the ARC contribution again. So we'll-- we have been meeting our ARC contributions. Next, I want to go to page 3 and bring you quickly through what's going on with the plan. You know, our actuarial valuation was performed by SilverStone.

The caller has left the conference.

KOLTERMAN: See you, John. Keep going.

JOE LORENZ: The report showed, you know, I said we were 65.6 percent funded. We had a actuarial asset basis of $320 million and a unfunded actuarial accrual liability of $168 million. The plan has 3,765 participants, of which 58 percent are active. So it's a mature plan, but we still have much-- we have more active than nonactive, which is a good thing for the plan. And our equal member and employer contribution rate of 8.5 percent of pay and I think for the county's plan, that's by statute that the county can contribute no more than 50 percent of the planned contributions. I feel like I said, I think that's by statute. We talked about the funded ratio. And like I said, based on, you know, the first nine months of this year, we're looking at a pretty strong performance. And a little bit about why we're at 65 and a -- yeah, 65.6 percent funded, why that really happened is what happened 22 years ago. In 1997 they made changes to the benefit-- to the pension plan where they went to unreduced benefit upon a rule of 75. The benefit formula increased from 1.5 percent of pay per year to 2 percent per pay. And they were giving COLAs every other year. So that happened in 1997 when the plan was 97.8 percent funded. By 2004, after they implemented this, the funding ratio had fallen to 64.8 percent. In retrospect, not a very good decision for the pension plan. Well, it was done. So and also during-- so the county started to realize it. And so they increased the contribution of pay. It went from 5.5 percent for each, the county and the employees, to 8.5 percent by 2008. And then you throw in the Great Recession, and the funding bottomed out at 57.8 percent in the year 2010. So that's kind of when we realized that we had some issues. And it was eight years ago that we went and made the hard choices and changes. And this kind of really shows that in a mature DB plan, it takes a long time to fix things once they've gone bad. So we made these changes eight years ago. For-- and because of statute, we can't change it for current employees. You only can change it for new employees. So for all new employees, starting January 1, 2012, there was no rule of 75, the benefits formula was reduced from 2.5-- 2 percent of pay to 1.5 percent, and the maximum retirement income was reduced from 60 percent of our participants final average to 45 percent. We also haven't given a COLA. So those were the changes we made eight years ago. And since we made those changes, we kind of have been trending upward. It's slow, but sure. But those are what we did to change the direction of our plan. And that's really what I believe has to be done if you want to change a traject-- trajectory of a plan. You can't count just on investment returns to bail you out. That-- you know, you have to go back and see what the drivers are. The other thing is that sheriff deputies have a slightly different plan provisions which provide for increased benefits with ret-- early retirement. And this year we had negotiations with the jail guards, and they wanted the same provision as the sheriff deputies. So within the contract negotiations, again, we worked with SilverStone and said what we'd have to do if we want to move these fellows over into this other plan to make sure that it doesn't impact to the funding of the plan. And so SilverStone did the actuarial work and said they have to increase their contribution 2 percent to 10.5 percent. And so the union agreed to do that. So they-- they're going to fund the whole thing. And by increasing that contribution by 2 percent like that, it will be neutral to the funding of the plan. So like I said, so if you look at the projections now, we're trending up, whereas we think by-- you know, like I say, these DB plans take a long time to fix. But the projection is, within 20 years, we should be at over 87 percent funding. And so like we're on this gradual path. And so in the past few years, we haven't done much. In 2015 we pulled the long term disability part out of the pension plan, made it a separate, fully insured plan which helped the pension plan. We changed the interest crediting rate to a-- to a market rate. In 2017 we made some actuarial valuation updates to the mortality table that hurt. The other thing that we did that was final-- fairly conservative is, we changed our amortization period. We went from 30 years down to 25 years, which kind of is a more conservative thing to do. But that's what we did. And that had a-- had a small impact. In terms of labor, I think last year I talked to you that we were in potential negotiations with the jail guards, and they wanted a DROP program. I think the commissioners agreed with me that when our plan is, you know, 70 percent funded, we can't be putting in DROP programs. And so we stood firm on that, and they dropped or eliminated that. And that was never put into their contract and seems to be an issue that we moved on before. And the last point I'd like to make is in terms of risk to our plan and our funding. Besides investment, risk is always there. We've been talking a little bit about mortality tables today. And I was talking with our actuary. We're going to do new-- a new experience study is that-- mortality tables are interesting in that when you update them, they kind of take the mortality table assumptions and they take them out forever into the future, which means that if people have gradually been living longer, they're going to assume that those people are going to keep on living longer. And the average rate is going to continue to creep up. So what that does is, it really has the impact of like you couldn't be funding your plan on a basis that, you know, on average, people are going to live to be age 80. And then you put the new mortality table in, and all of a sudden, the plan-- the assumption is people are going to live to be 82. So you have two years in additional life that you've never funded. So it's a little bit like what I call moving the goalposts on you. But it-- it-- that's something you have to deal with. And it's been a topic today that everyone's been talking a little bit about, what-- the impact of the mortality table. And that does hurt your funding ratio. But I really don't have an answer on how you can-- can adapt to that because you never know until you see the mortality table and what the actual experience is. And with that, I'd take any questions.

KOLTERMAN: Any questions? Thank you.

JOE LORENZ: OK. Thank you. See you next year.

KOLTERMAN: Yeah, unless you have a miraculous turn again. All right. So now we have Eastern Nebraska Human Services Agency. Welcome, Glen.

GLEN GAHAN: Thank you. Good afternoon, senators.

KOLTERMAN: Could you spell your name and state your name.

GLEN GAHAN: Yeah. Glen Gahan, G-l-e-n G-a-h-a-n, I'm with-- I'm an actuary with SilverStone Group here today to represent Eastern Nebraska Health Services Agency. This plan has a formal actuary-- actuarial evaluation completed every other year. So the most recent completed report is January 1, 2018. We've updated a couple data points for 2019 on the form that the state had asked us to complete. And so we don't have an update of the funded status, which was 74 percent in 2018, which had increased from 71 percent in 2016. That's based on an assumed rate of return of 7 percent. The actual rate of return for the 2018 calendar year was a -2.4 percent. It was 11.7 percent the year prior to that. This plan has fixed rate contributions. The active members contribute 2.75 percent of pay, and that has been constant for many years. The employer is currently contributing 9.5 percent of pay, and that has increased .5 percent per year since 2010 when it was at 5.5 percent. So it's increased 72 percent since 2010, the employer provided contribution. The plan has 668 active members, 251 retirees, and 76 vested terminated participants with the deferred benefit, for a total of 995 participants. Beginning of 2018, the accrued liability was at $55 million. The market value plan assets is $41 million. So there's a shortfall of $14 million and the-- yeah, 74 percent funded ratio. Because it's a flat contribution rate primarily, they don't have a smoothed or actuarial value of assets. We value the mark-to-market asset value on a year-to-year basis. The normal cost is about 7.4 percent of pay, and the combined member and employer contribution is 12.25 percent. The ARC was 12.19 percent. So the actual contributions to the plan have exceeded the ARC for at least the last five years that we looked back on. The circumstances that led to the under-- underfunded, kind of similar to stories you've heard, but a lot of it was the financial crisis in 2008 and 2009. The main reaction was to increase employer contributions. There have been some updated assumptions along the way. In 2018 we changed the mortality table to a much more current table with projected improvement. We've done some projections of funded status, again, based in the work done in 2018. At that point, there was a 24-year period in which the plan was projected to reach 100 percent in the year 2042. And after eight years, it-- I'm sorry, it was after-- after six years, it was projected to get to 80 percent. The plan amortizes the unfunded accrued liability on a 25-year, fixed, level dollar, closed layer basis. So with that, if assumptions are met, after 25 years, the-- the-- that amortization piece anyway would be fully funded. There's no current negotiations with unions to increase benefits. The most recent experience study was performed July of 2016. Since then, there was a increase to the salary scale and an update to the mortality table, the asset mix of the 50 percent equity allocation and again, a 7 percent assumed investment return. That goes through my prepared remarks, and I'd ask if there are any questions to respond to.

KOLTERMAN: Are there any questions? I-- I-- I have just a couple questions, Glen.

GLEN GAHAN: Yeah.

KOLTERMAN: So you've been making your ARC payments. Actually you've been at 7 or 8 percent above your ARC payments in the last--

GLEN GAHAN: Yes.

KOLTERMAN: --well actually since 2014. Do you project that you'll make your-- 100 percent of your ARC payment this coming year?

GLEN GAHAN: Well, yeah-- Yes, based on the most recent valuation. The ARC-- the 2.20-- the 12.25 percent exceeded the ARC payments, which was 12.19. You know, we had the asset loss in 2018, expected asset gains in 2019. So going forward, it's-- there's not a lot of margin there. So it's-- it's going to be-- it certainly could be close. There could be years where the ARC payment is not fully-- fully made, you know, depending on other experience of the plan.

KOLTERMAN: And then the employer contribution is 9.5 percent, but the member contribution is only 2.75 percent.

GLEN GAHAN: Yeah.

KOLTERMAN: Why-- why is there such a huge discrepancy?

GLEN GAHAN: Yeah.

KOLTERMAN: Can that be-- could that be negotiated so the employee could put more in?

GLEN GAHAN: It could be.

KOLTERMAN: Don't-- are you all labor driven?

GLEN GAHAN: Yeah. There-- there-- it's-- it's heavily--

KOLTERMAN: Unionized?

GLEN GAHAN: --heavily union driven, so it's negotiated rates. And kind of interestingly, even with this relatively modest employee contributions, the plan has a ten-year graded vesting schedule. So up to five years, they're not vested, and their employer-provided benefit grades in over the next five years. It has a history of a pretty high return of employee contributions when they do term-- terminate employment. That's one of the reason why the--

KOLTERMAN: So you're using fortune-- forfeitures to pay for those contributions?

GLEN GAHAN: Yeah, that-- that's true. Even with just the 2.75 percent employee contribution rate, many of the participants sitting at seven-- six or seven years of service that are partially vested in their total benefit, they tend to take out their employee contributions rather than a deferred monthly benefit. So those-- you're right, those forfeitures go to fund the unfunded liabilities.

KOLTERMAN: OK. Any other questions? Thank you.

GLEN GAHAN: All right. Thank you, sir.

KOLTERMAN: See you next year. Maybe-- maybe you won't be. You're getting close. It's not long before Christmas.

GLEN GAHAN: Yeah, we-- that would be nice.

KOLTERMAN: Can't you find a pot of gold by the weekend?

GLEN GAHAN: That would be great.

KOLTERMAN: Seeing no other questions and no other testifiers, I think I'm going to close this hearing down. I appreciate everybody coming today. Thank you very much. We are dismissed.