*Indicates written testimony submitted prior to the public hearing per our COVID-19 response protocol

**KOLTERMAN:** Welcome to the Retirement System Committee hearing. My name is Senator Mark Kolterman. I'm from Seward and represent the 24th Legislative District. I serve as Chair of the committee. For the Safety of our committee members, staff, pages, and the public, we ask those attending our hearings to abide by the following. Due to social distancing requirements, seating in the hearing room is limited. We ask that you only enter the hearing room when it's necessary for you to attend the bill hearing in progress. The bills will be taken up in the order posted outside the hearing room. Today, we only have one bill, so. The committee will pause between the bills. We request that everyone utilize the identified entrance and exit doors to the hearing room. We request that you wear a face mask covering while in the hearing room. Testifiers may remove their face covering during testimony to assist committee members and Transcribers in clearly hearing and understanding the testimony. Pages will sanitize the front table and chair between testifiers. Public hearings for which attendance reaches seating capacity or near capacity, the entrance door will be monitored by the Sergeant of Arms, who will allow people to enter the hearing room based on seat availability. Persons waiting to enter a hearing room are asked to observe social distancing to better facilitate today's proceeding. I ask that you abide by the following procedures. Please silence your cell phones or turn them off. Move to the front row when you're ready to testify. The order of testimony will be introducer, proponents, opponents, neutral, and then we'll have the closing. Testifiers need to sign [RECORDER MALFUNCTION] five minutes. If you'll not be testifying at the microphone but want to go on record as having a position on a bill being heard today, there are white sheets at the entrance where you may leave your name and other pertinent information. These sign-in sheets will become exhibits in the permanent record at the end of the day's hearings. We ask that you please limit or eliminate handouts. Written-- written materials may be distributed to committee members as exhibits only while testimony is being offered. Hand them to the page for distribution to the committee and the staff when you come up to testify. We're going to need eight copies if you're bringing copies. If you have a written testimony but do not have eight copies, please raise your hand now and we can make arrangements to get those for you. To my immediate left is my committee counsel, Kate Allen. To my right at the end of the table is committee clerk, Katie Quintero. The committee members with us today will introduce themselves.

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**SLAMA:** Julie Slama, District 1.

**McDONNELL:** Mike McDonnell, LD5, south Omaha.

**CLEMENTS:** Rob Clements, District 2: Cass County and parts of Sarpy and Otoe County.

**KOLTERMAN:** Our pages are Jenna and Erin. So with that, we'll open the hearing on LB586.

**CLEMENTS:** [RECORDER MALFUNCTION] the annual pension reporting requirements for metropolitan and primary class cities, police and firefighters defined benefit retirement plans. The bill requires that the new reporting begin with the year 2021, with the report due December 31, 2021, and annually thereafter. The reporting in LB586 seeks to improve the information for oversight by the Retirement Systems Committee and the Legislature to better understand the projected funding status of these plans and to evaluate potential future risks. Overall, Nebraska pension plans are fiscally sound in comparison to other states. But one area that has caught my attention since coming to the Legislature is the funding level of the Omaha and Lincoln police and firefighter pensions. These plans have historically had funding issues which continue to be a concern. As a banker for over 40 years, I know the importance of having accurate information to properly assess the fiscal position of an organization. When the Platte Institute showed me a proposed bill to improve the retirement plan information reported to this committee, I decided to introduce this bill. My intention is not to create a burden that increases reporting costs with little benefit, but to identify ways to improve our analysis of these pension plans with more rigorous stress testing and risk assessment. This will give a more accurate picture of the fiscal position of each plan and their potential future risks. Both Omaha and Lincoln have taken some good steps to address the weaknesses in their plans, but I believe more can be done to improve the strength of these plans. I've handed out a one-pager that describes 11 reporting requirements in LB586. These would complement the current actuarial reports. I've also handed out a line-by-line analysis of the bill prepared by the Reason Foundation. In addition, the Platte Institute recently distributed the Reason Foundation report, "Analysis of Omaha and Lincoln's Growing Challenge in Pension Funding," in which they discuss and examine these plans in greater detail. To refer to the one-pager that I had, I'm not going to read detail about it, but it has items like justifying the investment return assumptions. The second one is using the 25th and 75th percentile possible 20-year investment returns; and then the funded ratio of each of the next 30 years based on current assumption how the funded ratio would progress using investment returns two and four percentage points lower and how things would-- outcomes would change using those policies. And then a stress test, if there is a one-year investment lost of 20 percent and then 20 years of returns 2 percent below, then using another one would be a discount rate of 2 percent and 4 percent above and below the assumed long-term rate of return. And so those are some of the items I think we'll have more detail from the other presenters, but just wanted to give you a real brief outline of what's in there. In addition, Sarah Curry with the Platte Institute has worked with the Reason Foundation to develop these reporting tools within LB586. Mrs. Curry will be testifying after me. Mr. Steven Gassenberger with the Reason Foundation will be testifying in the neutral position to help explain and offer analysis of the rationale for this pension risk reporting, his experience nationally, and the benefits these types of reporting tools can provide. I'll gladly work with the committee and other stakeholders to try to address any concerns they may have with the bill. Thank you for your consideration of LB586, and I will try to answer any questions you may have.

**KOLTERMAN:** Thank you, Senator Clements. Are there any questions? All right. You're going to be here to close?

**CLEMENTS:** Yes.

**KOLTERMAN:** Seeing none, we'll move to the first proponent. Welcome, Mrs. Curry.

**SARAH CURRY:** Good afternoon, thank you for having me. My name is Sarah Curry, S-a-r-a-h C-u-r-r-y, and I'm the policy director with the Platte Institute. In 1983, the Nebraska Legislature mandated that all municipalities, with the exception of Omaha and Lincoln, move future employees out of defined benefit pension systems. Thankfully, because of that legislation, most municipal pension systems in Nebraska are in good standing. This is not the case in Omaha and Lincoln, and we now see the effects of those exclusions. Since 2000, Omaha's two public pension plans and Lincoln's public safety plan have seen their unfunded liabilities grow. And now these three plans have total debts approaching one billion dollars. Omaha made changes to benefits in

2010 and 2013. In 2015, Omaha Civilian Plan established a cash balance plan for all new members. And in 2018, the city increased contributions from both employees and employers for their public safety plan. Despite these changes, both Omaha plans combined have nearly $900 million in unfunded liabilities, with funding ratios around 50 percent. However, it should be noted that Omaha's civilian plan can be changed in the future contractually. It's not in statute. Lincoln also has taken steps to address their growing pension problem. In 2017, the city passed an ordinance requiring the budget to pay the full actuarial determined cost. In 2019, the plan slightly decreased its investment return assumption. But despite these changes, Lincoln's plan has reported a 78 percent funded ratio in 2019. It's clear more needs to be done to keep future pension liabilities from growing, which is why LB586 is such a valuable contribution to the pension discussion in Nebraska. Every year, actuaries evaluate and issue a report for each of the Omaha and Lincoln plans. However, these reports are not considered stress tests. LB586 will create a new annual report on these municipal plans that will evaluate how they would respond to a variety of potential scenarios allowing this committee, along with leaders in Omaha and Lincoln, to gauge the effects of hypothetical adverse market conditions on these retirement systems. Essentially, this new report would provide a risk assessment. The idea of stress testing is not new. In the aftermath of the 2008 financial crisis, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which required large financial institutions to conduct stress tests. This idea has been passed down to state government, and over the last 10 years we have seen state-level mandates to stress test public pensions catching popularity across the country. Starting in 2010 with California, 16 states have enacted stress testing requirements of their public retirement systems. Arkansas, Colorado, Connecticut, Hawaii, Indiana, Maryland, Minnesota, Montana, New Jersey, North Carolina, Pennsylvania, Vermont, Virginia, and Washington are all states currently doing stress testing of their pension plans. We would like to add Nebraska to this list. Multiple industry, legislative and policy groups have also supported the idea of stress testing public pension plans. In 2018, the American Actuaries Actuarial Standards Board adopted a new actuarial standard which expands the risk assessment responsibilities of pension actuaries. Other supporters of public pension stress tests are the National Association of State Legislatures, or NCSL, Pew Charitable Trusts, the National Association of State Retirement Administrators, and Governing Magazine. Even Harvard's Kennedy School of Business and Government concluded through empirical analysis that stress testing is not just an academic exercise, and they recommend that it be a standard reporting practice for all public sector retirement systems. And I've included the citation for that working paper from Harvard at the bottom of my testimony. To protect taxpayers, employees and retirees, we ask this committee to advance LB586 to General File. With modern technology, stress testing is easy, cost effective, and well worth the effort given the information it equips policymakers. Thank you and I'm happy to take any questions.

**KOLTERMAN:** Any questions? If not, I have one question. The stress test language that we've got in LB586,--

**SARAH CURRY:** Yes, sir.

**KOLTERMAN:** --is that-- is that similar to what they've asked for in these other 16 states that have enacted--

**SARAH CURRY:** Yes.

**KOLTERMAN:** --legislation?

**SARAH CURRY:** Yes, sir. Actually, the Reason Foundation sent me the exact statutory language that the state of North Carolina used. And I went through and changed it because they have a state pension problem and ours are municipal or local pension problem. So the language was changed to address those changes. But other than that, LB586 is, I mean, I'm not going to say identical, but-- but very, very close to that. So yes.

**KOLTERMAN:** Very similar.

**SARAH CURRY:** Yes.

**KOLTERMAN:** OK. Any other questions? All right, thank you for your testimony.

**SARAH CURRY:** Thank you.

**KOLTERMAN:** Anybody else in the supportive mode? OK, then we will move to opposition. How many-- how many testifiers do we have in opposition? Three.

_______________: Four.

**KOLTERMAN:** Thank you. OK, thank you. Welcome, Bernard.

**BERNARD in den BOSCH:** Welcome. Good afternoon. My name is Bernard in den Bosch, first name spelled B-e-r-n-a-r-d, last name, three words, first word, lowercase i-n, second word, lowercase d as in David-e-n, and third word, capital B as in boy-o-s-c-a-- o-s-c-h. I am testifying on behalf of the city of Omaha. I'm employed by the city of Omaha as a deputy city attorney. And one of my assignments in that regard is to represent both pension systems. As this this committee knows, as you've seen me here a few times over the years, unfortunately, the city of Omaha has two retirement systems by one known as the city of Omaha Police and Fire Retirement System, which is for sworn police and fire personnel; and a second known as the City of Omaha Employee Retirement System, which is for all full-time civilian employees. Both those systems are funded through contributions, negotiated through collective bargaining between the parties. Each system is run by a board of trustees that operates independently of the city of Omaha. The city does provide administrative support and is responsible for the administrative fees for the two systems, which is in part primarily the basis for why I'm here. The city does appear in opposition to this bill, in part due to the cost, what I'll describe as maybe an odd focus of it and perhaps some question that I will raise about the motivation behind it. As you know, I have made regular appearances before this commiss-- this committee. Nebraska Revised Statute Section 13-2402(4)(a) requires that any pension system that is not making contributions, meeting the actuarial required contribution or is less than 80 percent funded prepare a report and report-- appear before this committee each year and explain a variety of things that are laid out in the statute, including some explanation of why the pension system, where it is, what-- what has been done to improve it. And that, I would articulate, is intended to be a statute that is intended to be somewhat of a stress test. Bring you-- bring us here before you in order to talk about it. That statute also requires that an experience study be performed every four years. Those experience studies have been performed by both the systems for city of Omaha pension plans. And quite frankly, as this committee has heard, the city has in fact made changes to actuarial assumptions, including the annual expected return, assumed rate of return based on those experience studies that were prepared by the system's actuary. And as this committee also knows, the system's actuary is the same actuary who does the work for the state systems. Nebraska statute 14-567 which is the statute that this bill amends, does establish reporting requirements for cities of the metropolitan class. And it requires that each year a report be filed by the city of Omaha for each of its systems. That statute does not-- it doesn't matter whether the system is fully funded or not and requests very specific information and requires a submission of the actuarial report, which is a report that's done each year and the city's actuary, the pension systems actuaries do meet the requirements as laid out by the previous testifier. Starting in 2019, 14-567 required that each system file a report with the State Auditor and this committee, which included certain information about the plan, the annual actuarial analysis, and-- and that prepared by an independent actuary. This amendment appears to add some additional reporting requirements. Interestingly, it only applies to the police and fire defined benefit plan. As I've indicated, the city has a civilian defined benefit plan. Yes, it adopted a cash balance element for new employees, but that still remains a defined benefit plan. And the reporting requirement here is not to the public safety auditor and the committee. It changes. The reporting requirement here is to the Governor and to-- to this committee, Our-- our primary concern is we believe this bill is going to require the expenditure of significant additional funds, which will have to be incurred and don't-- and there isn't any real return on that investment. As I indicated, we do an experience study each year, every four years. The requirements in this particular bill, if you read them and you compare them to what an experience study, they're consistent with, what an experience study would require; and I would submit that an effectively an experience study would need to be done each year under this particular bill. Currently the cost, we just received a new bid on that for 2021. Our cost for an experience study is $25,000 for each of the two systems. Also requires a protection-- projection analysis, which we do currently do a projection of assets, liabilities, funded ratio each year. This requires a more extended and extensive projection analysis, but even the one we do each year has a cost of $4,000 to $6,000 per year. And then there's an investment return analysis which will require additional reporting not only from the actuary, but potentially from the fund's money manager or money managers. The other thing that the bill does is it requires an analysis of two specific negative scenarios and only those two specific negative scenarios. And those were described earlier so I won't require them. And then it does require some additional things.

And I'll acknowledge some of those things we already do: the normal cost ratio, the amortization period. That's part of the information that we have provided this committee historically. It is-- I-- you heard from me over the years. Obviously, the city has made substantial efforts to try to resolve issues with this pension system. Is it a slow process? Absolutely. It's one that at times this committee has held me to task. At times it's been more gentle. But as the previous testifier indicated, there were changes made to the police and fire system, in 2010 for police officers; 2012 for firefighters; and to the civilian system in 2015. When those particular changes were made, which included an increase in contributions by the city and employees and a reduction in benefits, it was anticipated that it was a 30- to 35-year solution. And as we sit here now, roughly 8 to 10 years after that particular-- the solutions have been put in place. And as I indicated to you two months ago when I was here, the police and fire system was funded on January 1 of 2009 at 38.6 percent funded. As of the beginning of 2020, it was 54.3 percent funded. Nothing to brag about being 54.3 percent funded. But I think what the-- the reason I bring that up is even with the change of assumptions that happened in the most recent, as a result of the most experience study, we're seeing the pension system funding increase exactly as was projected back in 2010 when the actuary provided us information. So the changes that were made to the assumption returns were made at the request of the actuary. Quite frankly, our money, the city's money manager didn't feel that they were needed, but we wanted to do that. So just to sum up opposition to the bill, it's expensive. We think it's going to cost at minimum $30,000 per year, especially those years where we don't do an experience study, which is obviously three of every four. There are in our minds some hints or some questions about maybe underlying motivation. This report is required irrespective of the funding ratio. This was not an amended-- amendment to that portion of the statutes that deals with, hey, you have to make a report if you're not fully funded. No, this is something that applies every year, regardless of the funding ratio. It applies only to the police and fire system. And I appreciate 10 years ago that was a very politically sensitive topic, certainly in Omaha. And even-- even down here in Lincoln, it was a politically sensitive topic, but it only applies to that system. I'll submit and you know from my previous appearances, the civilian system is not any better and maybe in a worse position as we sit here because there hasn't been as many years for the solution to take place. The other thing that I guess questions some of the motivation is it requires an analysis not of every situation, but chooses two very specific, very negative scenarios, which would now have to be reported to you and presumably would then be used to make reports to the public and potentially could be used or misused to try to maybe get some of the political fervor that existed 10, 15 years ago. And I think the last thing I want to note is the change in who we're reporting to seems slightly peculiar. In historically, 14-567, is required we report to the public Auditor, as well as the Retirement Committee, give an opportunity for the public auditor to review the documents, the actual report. And though we don't have any problem sharing the-- the information that we have with the Governor, the fact that that reporting requirement is no longer to the-- to the Auditor, but is now to the Governor and this committee, at least raises some question as to the true purpose behind what we're-- what these changes are done. So we would testify in opposition and ask that the bill move no further. And I'd be happy to answer any questions.

**KOLTERMAN:** Thank you, Mr. in den Bosch. Any questions? I have a couple of questions.

**BERNARD in den BOSCH:** Always.

**KOLTERMAN:** Thank you.

**BERNARD in den BOSCH:** Yep.

**KOLTERMAN:** Just for the record, you were here on November 6, is that correct--

**BERNARD in den BOSCH:** Yes, sir.

**KOLTERMAN:** --for our annual reporting?

**BERNARD in den BOSCH:** Yes, sir.

**KOLTERMAN:** And at that point in time and over the last four or five years, we've talked significantly about the attempt to try and make changes to the plan. Even though we might get this additional information, would you be able to contribute any more than you're currently contributing to this plan based on your current situation?

**BERNARD in den BOSCH:** So the-- as we've talked about before, we have two things that potentially limit or provide a basis for-- for doing contributions. One, the home rule charter does indicate that the contributions by the city and the employee should be roughly equivalent. And then secondly, and probably the real answer to the question before you is both systems are funded by contributions from employees and cities. The amount of contributions is subject to collective bargaining between the parties. So the mere fact, much like, you know, I know there are some systems where if the ARC isn't met, some of the state systems if the ARC isn't met, the ARC is automatically funded to get fully funded. There isn't any mechanism to do that because obviously contributions are set through collective bargaining. So can-- can contributions increase? Yes. I mean, and can benefits change? Yes, but it is through collective bargaining. And as I've described in more detail than you probably wanted, that's kind of what occurred--

**KOLTERMAN:** But it would--

**BERNARD in den BOSCH:** --10 years ago.

**KOLTERMAN:** Correct me if I'm wrong, but it would take a change in your charter if you-- if you wanted to put any additional monies into the plan.

**BERNARD in den BOSCH:** If it was going to be unilateral, yes.

**KOLTERMAN:** OK, thank you.

**BERNARD in den BOSCH:** Thank you.

**KOLTERMAN:** Seeing no further questions, any-- thank you, Mr. in den Bosch.

**BERNARD in den BOSCH:** Thank you.

**KOLTERMAN:** Next opponent. Welcome.

**GARY BRUNS:** Welcome. Thank you. Good afternoon, Chairman Kolterman and members of the Retirement Committee. My name is Gary Bruns, G-a-r-y, last name B-r-u-n-s. I'm here on behalf of the Nebraska Professional Firefighters Association, which represents 1,400 paid firefighters, EMTs, paramedics across the state of Nebraska, including the cities of Omaha and Lincoln. I've been a firefighter for the city of Lincoln, Nebraska, for 18 years. And before that, with the U.S. Army Reserves, a tour in Operation Enduring Freedom, Operation Iraqi Freedom. Thank you for the opportunity to appear before you today and speak in opposition of LB586. LB586 proposes to add an additional layer of reporting specifically aimed at two police and fire defined benefit pensions in which two thirds of our membership participate. As many of you know under Statute 13-2402, political subdivisions that offer defined benefit retirement plan are required to file this report with the committee if either the following conditions exist: when the contributions don't-- do not equal the actual requirement for funding or the funding ratio is less than 80 percent. So considering the requirement to present recommendations for the circumstance-- for the circumstances and timing of any future benefit changes, contribution changes or any combination of the actions ultimately to improve the condition of the plans, the question begs what is the intent of this additional reporting and what problem does it intend to solve? During these unprecedented times, we believe that adding new costs and additional oversight will be counterproductive to the processes currently in place. The city only conformed [SIC] a pension review committee in the winter of 2015, which spent approximately five months dissecting the police and fire pension currently in place. The committee authored a final report May of 2016. When the committee formed, there was a reported underfunded liability of $103 million, and the pension was approximately 64 percent funded. The committee looked at a number of ways in which to solve the underfunding problem and even looked at the idea of closing Lincoln's current pension plan to new hires and placing them in a new plan. The committee quickly realized that this would be substantially more expensive to the city, with the additional $78 million being needed. The report continues on to say that the defined benefit plans are more efficient and cost less than other plans that provided the same benefit. It was the unanimous decision of this committee that Lincoln should retain the defined benefit pension going forward. The committee researched other defined benefit systems in the Midwest and learned that most of them had a higher payout of benefits than Lincoln's 64 percent and a majority of them had some type of cost of living adjustment, COLA, attached to their benefit. The police and fire pension does not have a true COLA, but what is described as a 13 check. The 13 check is paid once a year and is meant to boost the pension benefit to make up for cost of inflation. The 13 check was separate from the pension fund and was established to work towards providing some type of COLA in the future. The committee also learned that the 13 check fund shared investment returns with the pension fund, which kept the pension fund from earning its full investment return. One of the committee's recommendations was that the city merge the 13 check fund with the pension fund. That change was in fact made by the city council, which increased the funding percentage from 64 percent to 80, which is about where we stand today. The change also allowed the pension fund to realize all the investment returns as opposed to sharing them with the 13 check fund. The committee also learned that in 2014 actuarial assumptions had been changed to the estimated rate of return, and it was lowered-- lowered three-quarters of a point, which added $23 million of the unfunded liability. During the committee hearings, additional information came to light that the city made less than the recommended contributions in 19 of the last 26 years. And during 11 of those 19 years, the pension was 100 percent funded or more. Members of the police and fire unions continue to fund their contribution during that time. In May 2017, the Lincoln City Council passed an ordinance that modified the plan's funding policy with the intention of strengthening the plan's long-term funding. It provides for the amortization of the unfunded actuary accrued liability or UAAL. The policy further provides that the actuarially determined employer contribution rate shall be greater of the employer normal cost or the sum of the employer normal cost and the UAAL contribution rate. The goal of these plan changes are to accumulate sufficient assets over time to fully finance the future benefits payable to members. Currently, Lincoln's police and fire pension are expected to be fully funded by 2044. As taxpayers, plan participants, we encourage good governance of our retirement plans and we want them to be fully funded. We have a vested interest that our retirement plans are effective tools to provide a dignified retirement for Nebraska's public safety service. We respectfully ask that you IPP LB586. Thank you for your time and I'll answer any questions that you may have.

**KOLTERMAN:** Any questions? Seeing none, thank you.

**GARY BRUNS:** Thank you.

**KOLTERMAN:** Additional opposition.

**MARK DESLER:** Good afternoon, Senators. My name is Mark Desler, M-a-r-k D-e-s-l-e-r. I'm an Omaha police officer, a member of the Omaha Police Officers Association, and an elected trustee of the Omaha Police and Fire Pension Board System. I am here to testify against LB586. As a citizen of the state, I'm not speaking for the police department, the union or the board, but as a private person. After-- after reviewing this bill, I believe that LB586 would basically be an unfunded mandate against the city of Omaha. It's going to force the city to pay hundreds of thousands of dollars over time to produce information that it's not really needed right now and in my opinion, would be useless. We already do yearly actuarial studies and the city already pays the administrative costs for those studies. The additional information to stress test the system. I don't think is necessary-- is a necessary component. I know the city of Omaha, through our actuarial studies, we do some stress testing, not to the extremes of the 20 percent and then the-- and then the poor returns of-- poor returns over-- over a period of time. Of course, that's going to make the system look bad. Any-- any-- any major downturn in revenue is going to do that. It doesn't matter if it's a retirement system or your personal 401k or anything else. So the-- the-- the reason to stress test the system is-- is is beyond me. I don't understand. In the city of Omaha, pension reform has been done and-- and continues to be done in an effort to solidify the system. And it is working. There's been testimony previously between 2010 and 2020 in that time period of the increase of the funding that we've had, the actuarial funding that we've had with the city through changes that have been through collective bargaining and through pension-- pension reform. Large ships turn slowly. It takes time to-- to-- to fix these things. And we've noticed that there was a problem and-- and things have been done to address that problem. The 2018 study showed with an 8 percent annual return or with-- with an assumed rate of 8 percent showed 80 percent funding this system by 2039 and full funding by 2046. At the advice of our-- of our actuary, we reduced our assumed rate of return to a 7.75 last year in 2019. And the 2020 study, or the one one twenty snapshot showed that we'd have 80 percent funding by 2042 and 100 percent funding by 2049 with a reduced assumed rate. Given the fund's asset allocation, our long-time money manager predicts an 8.6 return, 8.6 percent return, which is well above the 7.75. The pension fund is perpetual fund, so the long-term expected return is the most relevant, not-- not assumptions of huge losses, followed by years of moderate losses, which is what the stress test is-- is attempting to show. These, again, these types of losses make any investment portfolio, no matter what type, look terrible. And in my opinion, LB586 is going to attempt to do to our system is to make it look bad in an effort to get more change and more legislation. To fund the average return over the last 30--over the last 30 years has been well over the 7.75 assumed rate of return. Other items in the bill that the bill is attempting to mandate, like our contributions and the city contributions is a subject of bargaining and should not be set by ordinance or any legislative bill, in my opinion. In conclusion, the bill is not necessary. It asks the city to report on assumptions that are useless and have no basis. The bill would cause the city to pay large sums of money for-- for information that I don't-- I don't think would be useful to us as far as a board or-- or any other body to determine how we make investment decisions or-- or how we make decisions on-- on pension benefits. And I just think the bill would make the system look more vulnerable at a time in history that is-- that's not necessary. That's all I have if anyone has any questions.

**KOLTERMAN:** Thank you for your testimony. Any questions?

**MARK DESLER:** Thank you.

**KOLTERMAN:** Seeing none, any more in opposition? One more. Welcome.

**GUY PINKMAN:** Thank you, Senators. My name is Guy Pinkman, G-u-y P-i-n-k-m-a-n. I am a trustee of Lincoln Police and Fire Pension System. I am also a two-time presidential appointee to the PBGC, which is the Pension Benefit Guaranty Corporation of America. I sit on the advisory board that advises the Secretary of Treasury, Secretary of Commerce, and Secretary of Labor on policy, as well as investment policy, which takes care of over 30 million people in pensions in the United States and has about $140 billion in investments that we take care of. I'm not here speaking for them. I'm speaking as a trustee for Lincoln Police and Fire. The reason why I'm here is in opposition of this bill because I find it redundant to what we're already doing. I find it costly in any money that comes out of my pension or the city can take money out of the pockets of the people that I represent. That bothers me. As a trustee, when I signed a Fiduciary Responsibility Act showing that I was responsible for $286 million of other people's money, that got my attention. And I'm sure that you, being the senators, are in charge of an incredible budget as well and you take that very seriously. I take it seriously for more reasons than just that. Several years ago, four years ago now, a firefighter that I worked with passed away of firefighter-related cancer. And I was his only family. He's on the wall in Colorado Springs. I gave his money away because he had no family. But I know from doing that what important it is or how important it is for us to take care of the money that is there. Not because you tell me to because you can't legislate integrity, but because of what we do for each other. So for me to be funded, fully funded is incredibly important to me because I'm physically [SIC] responsible for the people that are coming after me, just like you are. So this bill, though, is taking money away from the city, possibly out of my-- my budget as well. And it's, we had our actuary come back, our first year of providing this study will be over $30,000 and then $30,000, between $25,000 and $30,000 every year after that, which is "unmanned" or is, you know, an unfunded mandate. So I have an issue with that. Any money that comes out, I look at every service fee that comes through for my plan, every single service fee. So this one just adds on to that. And that-- and then when I look at why someone said something about DC plans. If you really want to get into DC plans versus DB plans, they are apples and oranges. And if you go over the studies that just came out actually on how much money is unfunded in DC plans, the problem is, is these kids nowadays and I have so many coming on the fire department that don't have the money to put away. They don't. We force them into having a pension. They wouldn't have one otherwise. They can't afford one. So their average right now, I think last year, their average in the DC plans around the country are $18,000. That's horrible. That's never going to make it. They're not going to make it. OK? We, on the other hand, forced them into doing something for their own benefit. But we also take very pride in the fact that we are managing that for them. I want to be able to sit in front of you and say what you have, what we give you every year is something that is incredibly valuable to you. Somebody said something about stress tests. I submit to you we've had the two largest stress tests in the history of the world in the last 12 years. What other stress tests do you need? What black swan do we not know about that's going to come about? You want to know if I'm negative two or negative four? Well, what about 2009 when we're up? Even last year when we're up after being down 27 percent. Now we're up. My last year's totals, 12.4 year to date. That's not too bad. My actuarial assumptions went down. We took those down so that we were trying to be more physically [SIC] responsible. Did it add to it? Yes, it did. Why do we have a city mandate for a-- or a city code saying how they'll fund it? It was already previously said because there was no consistency in any funding in the city of Lincoln by the city of Lincoln. They had no idea how they wanted to fund our plan. Now we have a consistent model. I submit to you that we are on a glide path, city of Lincoln, city of Omaha. They're two different trajectories. One's a little higher, one's a little bit lower, but we're all coming in at the same time. And hopefully, God willing, good management, consistent funding, good investment returns; but we can't always assume that. 2008 tells us that. Last year tells us that as well. But if all you're going to do is look at negatives and you're going to put that out to everybody, whereas everybody already-- already looks at a DB plan thinking that that's a benefit we don't deserve, that's hard to get past. So what are we really doing here? You-- if we're under 80 percent, I'm in front of you giving you all my information. You can ask me any questions, Senator, when I bring that to you. And I'm going to have to produce an answer. Now, this could be misused or misunderstood, and I do not believe it's a necessary thing when we already have statutes in place that give you most of that information. With that, I am in opposition of this bill and I will-- I will take any questions you have.

**KOLTERMAN:** Thank you very much. Any questions? I would just like to-- how long have you been on the pension board?

**GUY PINKMAN:** I've been on the pension board for 13 years. Here in Lincoln, I am on the fire department for the last 30.

**KOLTERMAN:** OK. I would just like to say that in the last few years, you know, you were-- you were stress tested on your own--

**GUY PINKMAN:** Yes.

**KOLTERMAN:** --and you brought it up by giving up your 13th paycheck.

**GUY PINKMAN:** We did.

**KOLTERMAN:** Took it over 80 percent because of markets and because you took a-- an assumed rate down. You fell shortly under that this year, but I'm assuming we're coming back. So I'd like to compliment you. That-- you were here on November 6, but you probably won't be here next year.

**GUY PINKMAN:** Well, I would be more than happy to come in and explain if we don't have to have an unfunded mandates.

**KOLTERMAN:** Sure. Thank you.

*Indicates written testimony submitted prior to the public hearing per our COVID-19 response protocol

**GUY PINKMAN:** Honestly. Thank you.

**KOLTERMAN:** Any-- any additional oppositions? Seeing none, we'll go to neutral. Welcome.

**STEVEN GASSENBERGER:** Thank you. Chairman Kolterman, members, my name is Steven Gassenberger, spelled S-t-e-v-e-n G-a-s-s-e-n-b-e-r-g-e-r. I serve as a policy analyst with the Pension Integrity Project at Reason Foundation. We are a national 501(c)(3) libertarian leaning think tank that offers pro bono technical assistance and policy research to public employees, public officials, and other stakeholders to help design and implement policy solutions aimed at improving public pension plan resiliency, promoting retirement security for public employees, and lowering long-term financial risks to taxpayers. LB586 does not impact the benefit design, funding policy assumptions, or amortization policy and methods of any pension systems. Rather, LB586 would leverage private sector financial stress testing methods to help policymakers, retirees, and stakeholders understand the fiscal risk and long-term sustainability of retirement plans serving municipal workers. The Pension Integrity Project has for years suggested public pension systems use stress testing to assess their ability to maintain plan solvency through normal market fluctuations and unforeseen black swan events. Understanding of plans stress points provides an opportunity for managers to implement preventive measures that either limit the impact of the discovered risk or avoid the situation entirely. Traditionally, reports provide-- provided to public pension plan boards and stakeholders give long-range forecast, assuming a year-to-year outcome that exactly matches their assumed long-term investment returns. But as the last two decades would attest, expecting inherently volatile market returns to match assumptions each and every year fails to paint an accurate portrayal of the relationship between the natural volatility of global investment markets and public pension funding. Instead of showing those, only those scenarios, system managers assume, stress testing explores a range of realistic scenarios to more comprehensively demonstrate what could happen over the next few decades. This allows policymakers to not only see where the system's financial health is today or where it's expected to be in 30 years, but how the system will be impacted in times of unforeseen economic and social volatility. With actuarial standards of practice and national governmental accounting standards improving pension risk reporting, policymakers in several states have supplemented pension system risk reporting with additional stress tests. North Carolina, Virginia, Washington State, Hawaii, and several other states have recently adopted similar pension stress testing measures requiring routine risk assessments that hopefully over time will prompt much more active discussion related to pension risk management in those states. Risk assessment methods adopted by Colorado's Public Employees Retirement Association, PERA, identified funding weaknesses and helped mobilize a robust group of stakeholders dedicated to long-term solvency and resiliency of the state's public pension defined benefit plan following the stress testing round that they did. This mobilization ultimately resulted in comprehensive, bipartisan and lasting reforms in 2018. Like these other states, routinely stress testing public pension systems would unlock the ability to apply uniform metrics to what is currently a real but largely unmeasured challenge for Nebraska's public pension systems. As written, the measure would allow policymakers to rely on transparent accounting to spotlight the challenges and risks facing each pension system, ultimately empowering stakeholders in their effort to ensure long-term resiliency and sustainability of these important retirement systems. With that, thank you for the time.

**KOLTERMAN:** Thank you. Any questions? Senator Stinner.

**STINNER:** Yeah. I just have a question. These other states that are listed, 16 states, do the states pick up the extra cost associated with these studies?

**STEVEN GASSENBERGER:** It varies. It varies. It's a political decision. It varies from state to state.

**STINNER:** OK.

**KOLTERMAN:** Any other question? I have some questions, but any other questions? Ian [SIC], thanks for being here, but I have some questions about the rationale behind the bill, I guess. My first question would be, do you feel we don't understand the challenges we face here in the Legislature in Nebraska?

**STEVEN GASSENBERGER:** Absolutely not.

**KOLTERMAN:** I sense that.

**STEVEN GASSENBERGER:** Absolutely.

**KOLTERMAN:** That's the tone of what I heard you say. Why-- what do you think? If we add this cost to these plans, what will we do with the information once we receive it?

**STEVEN GASSENBERGER:** You would gain an insight into the resiliency of the plans as they are designed today. What we have currently in the reporting is kind of a retroactive look at the experience, what's know as the experience study. It looks at how the assumptions have accurately turned out over a certain amount of time, and then that allows the board and stakeholders to adjust their policies accordingly. Stress testing adds to that conversation and asks the question, what if. What if they did-- what if we knew that experience was going to happen, you know, 10 years into the future? Could we do something today to not have to accumulate unfunded liabilities to get to the point where the experience study tells us we need to do something? So it's a preventive action, really.

**KOLTERMAN:** OK, and then as we-- as we heard from the testimony from our first presenter and then-- and now you, we see that there's what, 16 states from the Platte Institute roughly. How many municipalities are you doing this in, are you requesting this for?

**STEVEN GASSENBERGER:** We are not making this request. We were invited here to testify, to talk about--

**KOLTERMAN:** OK. Do you know how many municipalities the Riser [SIC] Foundation has looked at in relationship to states versus municipalities?

**STEVEN GASSENBERGER:** I don't know. I don't know.

**KOLTERMAN:** OK. Do you-- do you believe that defined contribution plans are sufficient today in relationship to what we're doing here?

**STEVEN GASSENBERGER:** That's a tough question. Defined contribution plans are an idea that can be designed in a myriad of ways. Most of the defined contribution plans that we see-- let me put it this way. The-- the-- the industry standard is that you save somewhere between 15 and 20 percent of your income to sustain your, you know, quality of life into retirement. If a defined contribution plan meets that threshold, I would say that's a-- that's a pretty good defined contribution plan. And you would have to go from one defined contribution plan to the other to make that determination. And they do vary widely.

**KOLTERMAN:** And my-- thank you. Then my last question would be you talk about transparency and by adding all of this additional reporting, we're going to gain transparency. Are you suggesting that we don't have transparency now?

**STEVEN GASSENBERGER:** No. But more is always better. You know, more information to make educated decisions to-- to determine your risk profile is always an added benefit to, you know, making a-- an educated, you know, assumption of the future. And that's-- that's really what's driving these-- these large defined benefit plans is they're-- they're relying on the assumptions being made, they're voted. It depends on, you know, what the-- what the design of the-- what the governance is from one plan to the other. But some are voted by the board. These assumptions are voted by the board using experience study information from their consultants or whoever they, you know, gives them their information and they're able to make that determination. This would help them add to that.

**KOLTERMAN:** In the other 16 states that you've done this, where these changes have been made, do you know--

**STEVEN GASSENBERGER:** We were not, excuse me, we were not involved in all 16 states so.

**KOLTERMAN:** Have you been involved in any of those states?

**STEVEN GASSENBERGER:** We were involved in Colorado, Colorado PERA.

**KOLTERMAN:** So, OK. In Colorado, do they have the same type of reporting that we require on an annual basis where the plan is less than-- less than 80 percent funded in defined benefit, have to make an annual report to their legislature so they know exactly where they stand?

**STEVEN GASSENBERGER:** All-- all defined benefit plans have to submit their CAFRs each year. So, I mean, that's a universal aspect of pension reporting. Yeah, I would-- they're all-- that's a universal standard. And there's also the ASOP 51 reporting that has been rolled out over the last couple of years. That's getting better. I mentioned that in my testimony. But again, you know, you can-- you have the power to ask what if in this-- in these stress testing scenarios. And if you believe that we have a another, you know, a 2000 dotcom type bubble in front of us, regardless of whether or not the plans return, there are some-- the assumed rate of return in the next 30 years. You can ask the question, what if they have another, you know, 2000, 2000 and force, you know, sequence of returns?

**KOLTERMAN:** Yeah. So you are familiar with the ASOP 51.

**STEVEN GASSENBERGER:** Yes, sir.

**KOLTERMAN:** OK. Finally, do you feel something like this should be done on an annual basis? I mean, that's if you talk-- if you had an additional $30,000 of expenses annually, that's $30,000 that maybe doesn't get put in the plans.

**STEVEN GASSENBERGER:** Um-hum.

**KOLTERMAN:** It comes right out of the plans actually.

**STEVEN GASSENBERGER:** My baseline is more information the better. The more information you get, the better. If you do it every, say, four years, that means maybe twice in a decade you would ask-- be able to ask that question. If you have it every year, you'll be able to see the sequence. You'll be able to identify the trends early on and take evasive action before it actually becomes a problem. If you don't see it over eight years, you can accumulate a significant amount of unfunded liability in that term.

**KOLTERMAN:** OK. Thank you. Additional questions? Senator Stinner.

**STINNER:** You know, we talk about stress testing and I actually ran a bank through the Dodd-Frank period, did the stress testing and what it was all about, it was scenario testing, obviously. And we just went through a period with the pandemic. The big banks obviously had to go through the scenario tests and the regulators actually shut off dividends, shut off or had the ability to shut off dividends. They did not. They capped the dividends. But they said, OK, you need to build capital so you're not allowed to repurchase your stock. That's really what stress testing is about, is, OK, we've had these events or going through these events, and here's how you have to adjust to it accordingly. I guess I'm having a hard time with the pen-- taking that scenario to a pension that says and especially when-- when Omaha says that our charter says we can only contribute up to 50 percent of what they participate is what I heard today. I may be wrong and I can be corrected on that. But if-- I get stress testing, I get the information that's provided by stress testing, but what's the reaction to it--

**STEVEN GASSENBERGER:** Uh-huh.

**STINNER:** --and how capable are we to react to it is something that I'm struggling with, as opposed to having a black swan event and then taking a look at what is the aftermath and what we have to do subsequent to that.

**STEVEN GASSENBERGER:** Mr. Chairman--

**STINNER:** And so I'm trying to figure out what the-- how this-- how this works.

**STEVEN GASSENBERGER:** Mr. Chair, Senator, so a great example would be the Colorado PERA, which is why I cited how they have kind of folded in their stress testing scenarios in their wider governance of their-- of their largest public pension system, a state pension system. We're talking about a state scale here. They-- they all agreed on which scenarios to run. They all agreed on what-- all the-- you know, all the stakeholders defined where the problem would begin to be an issue and then when it was kind of a crisis scenario. And then they-- after all those definitions were hammered out and codified, they would produce a what they call, I think they call a signal light scale. So green, yellow, red. And each year the actuary of the PERA system would publish and put the system as part of their CAFR, would put the system in either green, yellow, or red. So that way stakeholders can kind of get a glimpse of the resiliency of their system. Is their plan, is the funding policy, the amortization policy, you know, the risk sharing, any aspect, you know, of your defined benefit plan, is it set up in a way that would address these what if scenarios? And is there anything that needs to be adjusted? So by producing that signal light report based on stress testing scenarios, the stakeholders came together and were all agreed on this was a problem because they all previously agreed that the stress testing scenarios, if they were to produce a certain outcome, would be dangerous if, you know, if landed in a certain range, whether it be funding ratio, unfunded liabilities, or the need to increase contributions based on experience. So with that information, the stakeholders came together and was able to agree on what to, you know, what to go, what to [INAUDIBLE], you know, going forward, which was what ultimately culminated in 2018.

**KOLTERMAN:** Were you finished, Senator Stinner?

**STINNER:** Yes.

**KOLTERMAN:** Let me-- let me dovetail off what you just explained then. So are you suggesting that, well, you're using, if I-- if I heard you correctly, you're using based on the infor-- additional information you get, you put together hypothetical situations, red, yellow, green. And from those decisions, you adjust the plans accordingly. Is that correct?

**STEVEN GASSENBERGER:** So that's not my suggestion. I was just offering that as an example of what stakeholders did in Colorado. That's what--

**KOLTERMAN:** But-- OK, so then in Colorado, since that's one you're most familiar with, what did they do once they had that hypothetical situation [INAUDIBLE]

**STEVEN GASSENBERGER:** They adjusted contributions.

**KOLTERMAN:** What about bene-- did they-- are-- are you suggesting we cut benefits as well?

**STEVEN GASSENBERGER:** Absolutely not. So you were unable to cut benefits for-- so I mean, I'm not here to advocate for a defined contribution plan or defined benefit plan. I mean, the-- the pension benefits that are currently accruing for-- for active members and are owed to retirees, those are legally protected. There's a long case study on that issue. And I mean, you can't do anything, you know.

**KOLTERMAN:** We know that.

**STEVEN GASSENBERGER:** Yeah. So I mean and rightfully so. I mean, if not legally, morally speaking, it's a promise made, promises kept. That's where-- and as you know, small l libertarian, you know, if-- if the government makes a promise to an individual, I'm going to be the first one to stand there on the individual side, you know, advocating the government should pay them. And that's essentially why we have taken such a position here in the pension-- in the pension conversation. I would not sit here and suggest that I know, you know, the prescription of Nebraska's, you know, pension challenges or anything like that. What I'm saying is pension stress testing and knowing the questions-- knowing the answers to the question, what if, and then using, you know, previous experience, using what forecasters are saying or whatever, you know, is on a policymaker's mind to decide, you know, what to give the actuary to stress test and then coming with that information to the table and say, hey, listen, we might have highlighted a potential vulnerability in our system. Do we want to address it now? No. Fine. Let's move forward. Or is it enough of a vulnerability to have both members and policymakers at the table to have a conversation?

**KOLTERMAN:** OK. Seeing no more questions, thank you for your testimony.

**STEVEN GASSENBERGER:** Thank you so much.

**KOLTERMAN:** Thanks for coming.

**STEVEN GASSENBERGER:** Appreciate the opportunity.

**KOLTERMAN:** Senator Clements, would you like to close? While Senator Clements is coming up, we do have a letter of support from Doug Kagan, Nebraska's Taxpayers for Freedom. And we have one letter of opposition from the city of Lincoln, Paul Lutomski and Douglas McDaniel. I believe it's pronounced correctly. Senator, it's yours to close.

**CLEMENTS:** OK. Thank you, Mr. Chairman. Well, some of the opposition items I think could be resolved. This is a model bill, and I'd be glad to adapt it to Nebraska's situation such as the report is required regardless of the funding ratio. I'd be willing to set a ratio trigger rather than having all of them be required. Then it was mentioned there's no report to the public Auditor. You know, we could certainly add as to who should be given the report. I think that's just an oversight due to the model language. And pointing out that this is only written for the police and fire systems, there is no political agenda on my part. I wasn't involved in-- haven't been involved in what's going on politically with those people. I think that this stress testing and reporting would be good for any plan. I think it was just probably more visible in those two plans. That is why they were specified in this bill. But it definitely doesn't have to be just police and fire. It could be any plan would be beneficial. In regarding having an annual report, I agree that maybe an annual report every year may not be necessary. It could be less frequent. I'd-- I'd be open to adjusting that as well. And that's all I had. Thank you.

**KOLTERMAN:** Thank you, Senator Clements. Any questions? Appreciate you bringing the bill. Thank you.

**CLEMENTS:** Thank you.

**KOLTERMAN:** With that, this hearing is over with. Thank you.