**KOLTERMAN:** [RECORDER MALFUNCTION] Committee hearing, the final hearing for the year, one of the final hearings. We have three today. My name is Senator Mark Kolterman. I'm from Seward, represent District 24 and I serve as Chair of the committee. The committee will take up-- we will have three hearings today. And the first one is going to be about the-- all the Nebraska Public Employees Retirement System actuarial valuation results. And that will be done first. And then the second one will be from the Auditor of the Public Accounts for the Omaha Public Schools. And then the third one will be the unfunded. That will be after lunch. To better facilitate today's proceedings, I'd ask you to abide by the following procedures. Please silence or turn off your cell phones. We only have a couple of testifiers, so I assume that they will start out with Pat and then we'll go to Randy. And then we need you to sign in, fill out the blue sheet and give it to Katie. If-- you need to spell your name. And then we want you to speak into that microphone as well as possible so that the people that are copying this can get good, accurate information. If you have information you want to share, we need eight copies, although there aren't eight people here today. Senator Lindstrom will be calling in. He has already called in. Senator Stinner is on the road so he won't be calling in. And I'm not sure where-- if Senator Slama will be joining us. To me-- to my immediate left is, is my legal counsel-- committee legal counsel, Kate Allen. To the right at the end of the table is Katie Quintero, our committee clerk. At this time, I would like to ask Senator Lindstrom to indicate if he's here or not.

**LINDSTROM:** Yep, Senator Brett Lindstrom is here representing District 18, northwest Omaha.

**KOLTERMAN:** Thank you, Senator Lindstrom. And to my right.

**CLEMENTS:** Senator Rob Clements from Elmwood. I represent Cass County and parts of Lancaster, District 2.

**McDONNELL:** Mike McDonnell, LD 5, south Omaha.

**KOLTERMAN:** All right, with that we'll start right into the committee or the reports. Pat, if you want to come forward. We will not be using the lights today.

**PATRICE BECKHAM:** That's probably a good thing.

**KOLTERMAN:** I don't want to get it over that quick.

**PATRICE BECKHAM:** I will understand if you change your mind. Patrice Beckham, P-a-t-r-i-c-e B-e-c-k-h-a-m. I'm with Cavanaugh Macdonald Consulting out of Bellevue, Nebraska. We are the retained actuary for the retirement system and have worked with the system since about 2013. So I have presented before this committee before. So, first of all, good morning and thank you for your time. You probably will remember that NPERS, Nebraska Public Employees Retirement System, is responsible for the administration of five retirement plans. Two of those are cash balance plans for state and county members. Those are January 1 valuations. The school, Patrol and judges are July 1 valuations. And those are the valuations that I'd like to share the results with you today. So you do have the presentation and we'll use that to walk through our discussion topics today. So on slide 2, just a reminder, this is a very, very long-term obligation. The benefit payments that will be made to current members span 80, 90 years. And when we think about an open and ongoing plan, it's sort of a perpetual obligation. So we have to be cognizant of that and the challenge that we're trying to fund it as people are working and trying to accumulate enough money while they're working that we have enough when them terminate or retire to pay their benefit, then that's, that's sort of the goal of actuarial funding. So the valuation measures liabilities, which are those future benefit payments. We put a value on those and we compare that value to the assets that are already in the trust. And the difference between those two numbers is what we have to develop a funding plan for to bring in contributions in the future. That is called the actuarial contribution rate. And the specifics of that funding policy are actually in statute. So the Legislature has set those requirements. This valuation, July 1, 2022, is for the plan year ending June 30, 2023, and if there are any additional state contributions, those are generally made July 1 of 2023, so the first day of the following fiscal year. We use many, many assumptions in our work because the benefits are contingent on people's careers, how long they work when they retire, how long they live. And we don't know the answers to those questions for each individual person. So we use assumptions. You might remember that we do sort of a very comprehensive, deep dive into those assumptions every four years, again, as required in statute, to make sure that those continue to be our best estimates looking forward for what expectations are. And typically there, there is some adjustment to the set of assumptions. It's just the way, the way it works. But, you know, we tend, we tend to review them and kind of move towards the observed experience of its demographic. Economic assumptions are a little more interesting to develop, and those are heavily influenced by kind of the, the economic

outlook of the investment consultants. So in the valuation, we do measure what actually happened in the last 12 months, the last fiscal year, and compare it to what the assumptions anticipated and quantify it. That gives us some idea of where the variations are and if we see recurring losses or gains from a particular source, it's a bit of a heads-up that next time we do the experience study, probably going to make a change in that assumption. The actuarial profession has really begun to focus on the risks of funding these plans to try to ensure that all stakeholders are aware of the funding risk related to this. And so we use the valuation as an opportunity to discuss that with the board, with legislative bodies, with the executive branch, just to make sure everybody understands. And because we're using all these assumptions, there's no guarantee that they're going to play out exactly as we're assuming and what impact the variances of actual experience have on the contributions for the plan. And then last and certainly not least, kind of lay these results, historical results side by side to see if there are any trends. We use a model to kind of project forward to see if there's anything we should be making you aware of to get ahead of because the sooner you make changes in-- for pension funding, usually the less dramatic they have to be. So slide 3, now this is just a little graphic about the valuation, and I'm not going to spend a lot of time on it, but I like it just because it kind of lays out the process. So the first and most important is the census data that we get from NPERS that tells us who's entitled to a benefit in the future. And a lot of work actually goes into refining that data and we get a lot of help from the agency and we appreciate that. Then the amount of the benefits are determined by benefit provisions, the assumptions that I just mentioned, and then the funding method. And that is again in statute. We use the entry age normal funding method which spreads the cost of benefits from the time somebody becomes a member until the time they leave or are, are expected to leave. And then we get asset information obviously from the NIC and then we have kind of the actuarial black box that does all the billions of calculations and spits out the answers. And the, the bottom line there is, is the key information we get. We get information on the plan's financial position, which is essentially a funded ratio. And we'll talk about that in a little more detail, an unfunded actuarial accrued liability. And then again, the actuarial contribution rate. For our plans in Nebraska, we have a little bit of a difference. We calculate an actuarial contribution rate, but then we have some statutory fixed contribution rates or other sources of funding, and that determines if there's any additional funding by the state. So we'll get into those specifics. This is a very high level how it works for every retirement

system. Slide 4, very, very basic funding equation. Contributions plus investment income have to pay for benefits and administrative expenses. I always tell my clients the E part is so small we could almost leave it off. It doesn't-- it's not a driver. Everybody could work for free and it's not going to move the needle on the contributions. The benefits are the driver. So there's two sources to pay benefits, contributions and investment income. If we get less in investment income, then contributions go up. If we have more money coming in in investment incomes then the cost goes down. It's-- that relationship is pretty straightforward. In the short term, the contributions may be dependent on the actuarial assumptions that we're using, other actuarial methods we're using. But in the long run, the true costs are the benefits you pay out of the trust. OK? And, and the actuaries don't control that. That's driven by what happens with the membership and the benefit structure that's in statute. So slide 5, a couple of definitions before we kind of jump into numbers. Probably one of the hardest concepts to sort of wrap your head around is the actuarial accrued liability. And remember I said we're funding the benefits from the time a member, an employee comes into the system until we expect them to leave. And so every year that a person is in the system, money should go in to fund their ultimate benefit. So at any point in time, if somebody has been working for 20 years, we know theoretically how much money should have been funded for that person. And we can do that calculation for every single person that is covered by the system. And that's the actuarial accrued liability. It's sort of the funding target. In a perfect world if all of our assumptions had always been met and we never changed the benefit structure, that's how much money would be there. And then we compare that to the actuarial value of assets, which is a smooth value. Again, that methodology is set in statute and we'll talk about that in a minute. But the difference between those two is the unfunded actuarial accrued liability, which we also say UAAL, and it's just kind of the system's shortfall. We have to fund that in advance-- in addition to funding for people who are actively working. And then the funded ratio is just actuarial assets divided by actuarial liabilities. And that's a metric that gets a lot of press for public plans in general. And then the actuarial contribution rate, again, we have a contribution for everybody who's actively working this year. That's called normal cost. That's just how much should go in this year to, to fund the benefit that they're ultimately going to receive. And then we have that payment on the unfunded actuarial accrued liability. How that payment is calculated, again it's in statute. Generally, those pieces of the UAAL are funded over 25 years. And when it-- so when I say that if we

have [INAUDIBLE] liability, if we're paying it off for over 25 years, we don't really expect to be 100 percent funded until that's paid off in 25 years. Slide 6, again, just a reminder, this, this tool in the actuarial toolbox that we use, it's called an asset valuation method, is to smooth out some of the volatility in market value returns. So you can see the market returns are in blue, very volatile. You know, you can look at 2009 was a minus 19, followed by over 13 and 23. Last year was 30, this year it's minus 8. It's crazy. With a long-term obligation where you're trying to make decisions, budgeting decisions. That kind of volatility would be, you know, very detrimental. So we use a smoothing method to just average out the highs and lows over a five-year period. And it works really well. And you can see the red line is definitely smoother than the blue line and it, it accomplishes what we're trying to accomplish. So slide 7, and let's look at how the smoothing method-- kind of where we're at at July 1, 2022. The, the specific method that is in statute smooths the difference between the actual dollar amount of return on market value and the expected return. OK? So our expected return for last year was 7.3. So any difference there is, is calculated and then recognized equally over five years, or 20 percent each year. We do have a net deferred loss of $579 million, which is probably not a surprise, with a minus 8 percent return. That will flow through smoothing over the next four years. It will not flow through 579 divided by 4 because we have each separate bucket on its own schedule and that's what you see in the little graphic below. So the experience for 2022, we still have $1.9 billion to recognize. 2021 again, that was our 30 percent return year. We've recognized two years on that. We still have $1.6 billion. So if you kind of work through the math next year, it's about an $87 million loss that flows through. But the big question is what will fiscal year '23 return be? I don't have the answer for that. So let's look at slide 8. Again, what, what impacted the 2022 results? You might remember that we performed an experience study back in 2020. And the board-- we, we recommended lowering the assumed rate of return from 7.5 to 7 and had some discussion with the board and developed a plan to implement that by phasing it in over four years so that by the time the next experience comes around, we will be at 7. What you see on this slide is a schedule for how we are implementing that. So you can see the 2021 valuation investment return right in the middle of that table was 7.3, with price inflation of 2.65. And if you look across the top row, you'll see inflation is going down from 2.65 to 2.35. And that's really what's driving the change in all the other economic assumptions, general wage inflation, payroll growth and the COLA, is the, the cost of living, the price inflation assumption changing. So

for this valuation, we're at 7.2. We've lowered the discount rate ten basis points, and we will continue to lower at ten basis points in the next two valuations so we're ultimately at 7 percent in the July 1, 2024, valuation. When you lower the assumed rate of return, it increases liabilities and costs absent something-- some offset of favorable experience there. So we know we're kind of heading over the next couple of years where we've got some headwinds on funding, OK, that our liabilities are going up, our costs are going up unless we get, you know, some favorable experience that flows through to offset that. Slide 9, a couple other things worth mentioning in the 2022 valuation. In the 2021 Legislative Session, LB17 was passed, and I know this committee is very familiar with that. We had an increase in court fees that were kind of phased in over five years. So we, we had part of that reflected in FY '22. We expect those again to increase over the next four years. And then for the first time we have a payroll-related state contribution for judges that is for the current year, July 1, 2022 through June 30, 2023, but it won't be paid until July 1 of 2023. That is initially set at 5 percent, and then it can be adjusted depending on the funded status of the plan. And the, the actuary will make a recommendation as to what we think that rate should be. That will go to the PERB and they will hopefully accept that recommendation. And I think that ultimately comes back to this committee for a decision. So this is the first year we've had that. It's kind of exciting. That was a-- to me a major change in funding policy that is very positive for the judges' retirement system. And then last but not least, every year we know that the assumptions and what we think will happen using the assumptions will not match actual experience. It will be some kind of variance. And there usually is, sometimes it's larger than others. Again, for fiscal year '22, we had a return on market value of a minus 8.3. So the actuarial value is now greater than market value. That's what's driving that $579 million deferred loss we talked about earlier. Again, we had a plus 30 last year. This is a year where smoothing looks like a fabulous tool because we actually had a return on the smooth value of assets of 7.8, which is higher than our assumed, assumed rate of 7.3. So it spun off an actuarial gain in a year where we have a minus 8 percent return on market value. OK? But as I said, those-- all that experience will flow through over the next four years along with, with the actual experience from, from going forward for fiscal year '23. Across all three plans, it, it tends to vary whether there are salary gains, retirement gains or losses. But this year for the, the COLAs for the older tiers that have a maximum of 2.5 percent, we did have a liability loss because with the high inflation, they got the full--

the highest 2.5 percent COLA and our assumption was 2.15. So higher benefits than expected translates to actuarial losses, higher liabilities than what we expected to happen. But overall, the funded ratios for all three plans improved. As you will see, they're very, very well funded. So let's go to next couple of pages, page 10, a lot of numbers on this page, I won't go over everyone. I'll spare you that. Again, this is the unfunded actuarial accrued liability. So how far off of, of ideally being where we, we need to be for funding are we? So let's look at judges first. The very first row is where we were in last year's valuation. So for judges, you'll see that that number is in parentheses, $1.53 million. The parentheses means that actually the assets were larger than the liabilities. OK? So that's a good thing. So that was 1.53. Patrol was about $51.4 million unfunded liability and the school was about 370. Obviously, the school is the biggest group, so those numbers are always going to be larger. If you look at the bottom row, which is the results of this 2022 valuation, you'll see that the judges, it's almost $3 million surplus. So the surplus went up. Again, that's favorable. For Patrol, their unfunded liability actually went up about $1.5 million and school went down about $133 million. The school, the one there that's really worth noting is the row that says actual contributions versus ARC, and ARC is actuarial-required contribution. So for the schools right now, for the last few years, the statutory contributions exceed the actuarial rate. So it means more money is coming in than the 25-year payment plan. So it's like any other debt. When you bring more money in, you pay it off more quickly. And that improvement for fiscal year '22 was a $139 million decrease in the unfunded liability. The investment experience, you can look across that row and all those numbers are negative. Again, we had an actuarial gain. It was better than we thought. That lowers our unfunded liability and you can look across--

**CLEMENTS:** [INAUDIBLE]

**KOLTERMAN:** Go ahead, quick.

**CLEMENTS:** Thank you, Ms. Beckham. On the investment experience, is that applying your 7.8 percent rate of return rather than the 7.4? Is, is that right?

**PATRICE BECKHAM:** It's, it's the, the 7.8 percent return on actuarial value versus the 7.3 that was expected for fiscal year '22.

**CLEMENTS:** All right.

**PATRICE BECKHAM:** Yeah.

**CLEMENTS:** Then that's part of what's creating that gain.

**PATRICE BECKHAM:** Exactly. Exactly.

**CLEMENTS:** Thank you.

**PATRICE BECKHAM:** Um-hum. And then on the line that says assumption changes, you'll see those are all positive numbers. We talked about that earlier. When you lower the assumed rate of return, it increases liabilities. So those are probably the key, key numbers there. Slide 11, again, it's the same information presented in a different way. It's just actuarial assets divided by actuarial accrued liabilities. Again, if you would look at the first row, that's the July 1, 2021, valuation results. Again, the judges just slightly over 100 percent funded, which is almost magical. State Patrol at 90.5 and schools at 97.41. And I should mention, these are all on smooth value of assets. OK? If we looked at market value, it would look different. This is all smooth, last year and this year. Then if we look at the bottom row again, we can see judges. The funded ratio ratio is now up a little bit to 101.32. Patrol is up a little bit, 90.67, and schools is up to 98.42. Again, if you, if you look under schools, third, third row in that table, you'll see again, we looked-- we saw this with the unfunded liability. Here you see it in the funded ratio that the additional money above and beyond the actuarial rate that came in increased the funded ratio 0.8 percent, which is not inconsequential. When we talk about funded ratios moving 1 or 2 percent with the liabilities the size they are, it's significant. And again, you can see the impact on the investment experience, that increased funded ratios, assumption changes decreased it. We had kind of a variance in, in liability experience between the three systems. That's not unusual. It's what happens with salary and retirement termination, is very-- varies definitely between Patrol, judges and schools. So they're very well funded. I made this comment yesterday. I'll make it again today. As a Nebraskan and a taxpayer, I'm very proud of the retirement systems and the hard work that's gone into getting these funded ratios at 90 and above. And as a person that has worked in this industry for 40 years, I appreciate what it takes to make that happen. I know it's not easy. I know hard decisions were made along the way, and I'm very proud that we've also lowered the assumed rate of return, used to be at 8 percent. So we have very strong funded ratios and a more conservative outlook for the future and I think that should be recognized. Slide 12, we looked at unfunded liability funded ratio.

This is the actuarial contribution rate. Again, if we look at-- we'll start with judges. So in the '21 valuation, the actuarial rate was 24.21. This valuation we're at 23.84, which should kind of make sense. If our funded status is better then our contribution should come down. Again, we had some liability experience here where we had gains in the liability experience row, investment experience. They're all going to go down because again, we had 7.8 versus 7.3 return. The assumption line, those are all going to go up. Kind of due to the, the demographics and the benefit structure for Patrol, changes in assumptions have a bigger impact on their contribution rate than, than the other systems. And that's why you see over a 1 percent change for Patrol on the assumption change. And that will continue to hold true as we work through the next two steps in our phase in. The other thing worth noting for Patrol is that line that says actual versus expected payroll. So when we're developing costs they are as-- developed as intended to be a level percent of covered payroll and we expect covered payroll to increase over time. It just does with, you know, wage inflation. And underneath that assumption is sort of an implicit assumption that the number of people that are active will remain steady. But we had a decrease in the-- almost a 4 percent decrease in the number of active Patrol members. And that might have just been on the measurement date, July 1. I don't-- you know, we could look at it today and it might be different, but on that day the number of people covered was down. So payroll did not increase as we thought it would. OK? Because we thought it was going to go up plus 3. When you lose 4 percent of your active population, it doesn't go up. That forces that rate. Your, your unfunded liability payment is going to be what it is. And then we divide it by payroll to get a rate. If the payroll is smaller, the rate is higher. And that's what that 22 basis points is under, under Patrol. So we're at 23.84 for judges, 44.64 for Patrol and 15.37 for schools. Questions on that? OK. We're going to look a little more at each system and some projection results and hopefully that will be helpful. So I'm on slide 14. Again, this is comparing the '22 results to the '21 results. And the first row is the unfunded actuarial accrued liability. Again, for judges, assets are larger than liabilities and they were last year. That difference is even greater this year and we see the funded ratio follows. We were at 100.7 last year, we're at 101.3. Now I mentioned that's on actuarial value. So just for a bit of a reality check on market value, last year we were at 113.6. This year we're at 97.4. So that, that really tells you the story on the investment side for FY '22. Again, we're smoothing for a, for a reason, but it's good to just keep that in mind. The actuarial contribution rate, we already looked at that number for this year,

23.84. The members are contributing to this plan and the weighted contribution for members is 8.75 percent of pay. So that means other-- from other sources, we need just over 15 percent of pay. If we take that times our expected pay for the current plan year, we-- our sort of nonmember contribution is $3.9 million. The court fees are expected to be about 3.8. Those are always a little-- this isn't a technical term, but squishy. They're hard to anticipate. They're hard to project in no matter how-- what, what, what we try to do to refine that, it doesn't work. After ten years, I can tell you that. We also have the 5 percent payroll-related contribution this year, and so there is no additional required contribution from the state for the judicial retirement system. If you look at slide 15, this is a kind of a short-term projection. It does reflect the step down in the investment return assumption over the next two valuations. And it does reflect the deferred investment losses flowing through because we, we know both of those exist as of July 1, 2022. What we don't know is what's going to happen with all the investment return, actual investment return and other demographic experience. The demographic assumptions, that variance doesn't tend to be very significant, investment return unfortunately is. So we are assuming in this projection that all actuarial assumptions are met and that we are making those changes in the underlying assumptions. So the good news is you can see the top row there, additional state contributions. There are none. And you can see the, the payroll-related contributions, you know, kind of goes up from '22 to '23 because it stays at, at 5 percent. And then it kind of drops down as the system gets better funded. That drops to about 4 percent of pay, then the dollars go down. Court fees. Again, we're expecting those to increase. We're, you know, for, for this year, we're expecting $3.865 million, thinking it might go to, you know, close to 4.3, 4.4 in, in 2025. But we really don't-- we'll have to see how that works out. They're going up. That's the good news.

**KOLTERMAN:** So I, I have a question on this graph.

**PATRICE BECKHAM:** Yeah.

**KOLTERMAN:** If you look at from '22 to-- or '23 to '24, it looks like the, the payroll, the state payroll contributions go down over $200,000 and then-- but then it increases again in 2025.

**PATRICE BECKHAM:** Right.

**KOLTERMAN:** Is, is that, is that due to the court fees that we raised?

**PATRICE BECKHAM:** No, that's a good question. This is the payroll-related contribution. And remember, if the system is over 100 percent funded for two consecutive years, the 5 percent maximum can be lowered.

**KOLTERMAN:** OK.

**PATRICE BECKHAM:** And that-- there is a bit of professional judgment involved by the actuary in that. So the first two, we're keeping a 5 percent contribution from the state, but then in 2024, it goes down to 4. And that's why the dollar is dropping. Even though covered payroll is going up, the rate, we're saying we don't really need 5 percent, we're going to lower that to 4. And then the same thing is happening in 2026 when it goes down. Well, I take that back. It's going up a little bit. I think, I think it stays at 4 in the short, short run. That one's kind of hard to model since it involved actuarial judgment. But the--

**KATE ALLEN:** [INAUDIBLE]

**KOLTERMAN:** Pardon me?

**KATE ALLEN:** [INAUDIBLE]. Do you mind if I ask a question?

**KOLTERMAN:** No, go ahead. Kate has a question.

**KATE ALLEN:** So I-- so the-- in 2024, you're assuming that the state percentage will go down to 4 percent.

**PATRICE BECKHAM:** Correct.

**KATE ALLEN:** Based on what-- everything else that you're saying.

**PATRICE BECKHAM:** Right.

**KATE ALLEN:** But that still would have to happen legislatively. But you're building that assumption into this projection.

**PATRICE BECKHAM:** Right.

**KATE ALLEN:** OK.

**PATRICE BECKHAM:** Trying to be as realistic, you know, as we can given what we know now.

**KATE ALLEN:** OK.

**PATRICE BECKHAM:** Right.

**KATE ALLEN:** Thanks.

**PATRICE BECKHAM:** Yes, good question. Thank you.

**KOLTERMAN:** Any additional questions? OK. Thank you.

**PATRICE BECKHAM:** Sure. Slide 16, so kind of a longer term view, kind of looking out 15 years, same thing. The court fees here are, are in the dark blue and we are looking now at funding that as a percent of payroll. Because again, that's how we're developing our, our costs. And you can see that, you know, once we get to 2025 and the court fees, the increases in court fees are fully recognized, then as a percent of payroll, court fees go down over time. And, you know, this has been happening. It's not-- that's not a revelation. So we expect that to happen. The green is the, the member contribution. So again, members are contributing for their benefit. That's increasing as more people are in the newer tier, which has a higher member contribution. And then the, the red bars, again, those are the state payroll-related contribution. And again, we've built in some assumptions as to what we think our recommendations might be and assumed that everyone would think that was a good idea and it would happen. So they do drop. We talked about it dropping in 2024 to 4 percent. We get to 2031, it drops to 3 percent. The idea being the better funded you are and the-- like, once you have a little nest egg to absorb, you know, a minus 8 percent or whatever comes our way, then we can take our foot off the gas pedal. We don't need to put as much money in. That make sense? All right. So 17, it's, it's really great to look at the projections and assume that all assumptions are met, but we know that that is probably not going to happen. And so this is, again, a little bit of risk analysis on slide 17 that says, well, what happens if? So what-- we've already looked, the current assumptions being met are the green, the green bars. That's what we just went over. Now we're looking at dollars, not rates of pay, dollars. So the question is, let's look at if we have a really favorable thing happen or an unfavorable thing happen. And typically, actuaries will do this kind of sensitivity analysis. So, so if our underlying assumption is about 7 and we'll say, well, what if we get 14, what if we get zero? This-- it's just a demonstrated range. There's-- don't read anything into those two numbers. But you can see if we got a 14 percent return for FY '23, then the state contributions would come down pretty quickly and, you know, almost be eliminated. Because if we get that kind of return, get a lot of the value that we, we lost with the minus 8 back, we're

already about 100 percent funded. So we have that all kind of working in our favor. But on the other hand, if we got a zero percent return-- and, and these-- zero and 14 is just one year to just FY '23. And then after that, we go back to all assumptions being met. But if, if we have another sort of ugly year with a zero percent return, you can see the red bars go up and at the tail end in 2029 through 2031, we actually do have an additional contribution above and beyond the 5 percent payroll-related contribution for the state. So it's, it's just good to be aware that, you know, one, I mean, one year can be pretty powerful if you don't-- if it's, it's a low year and you don't get that bounce back or some strong comeback in the market, it all plays out over time. Again, it's smoothing. It takes five years for all the ugly to kind of work through here, but it could force an additional contribution. Hopefully, you know, with what we've seen in the past is when we typically had those kind of returns, we, we usually have some kind of a bounce back in the market, but it certainly isn't guaranteed. So this is just, again, to help everyone understand that relationship between investment, actual investment returns and contributions.

**KOLTERMAN:** So, Pat--

**PATRICE BECKHAM:** There are only, only two sources to pay benefits.

**KOLTERMAN:** Yeah, so Pat, it's, it's a good opportunity for me to ask this question then. If you go back to page 6, which shows our historical asset returns and this is-- this really points out the difference between smoothing and using actual returns, I believe, what you're talking about right now. Because if you go back to page 6, you see that we dropped off 20 percent in 2009. Our actual losses, investment losses were minus 20. But look what happened the next year, it went up about 25-- or actually, over the next two years, it went up about 25 percent. Is that what you're talking about here? I mean, because-- but you're really talking about the red line, the smoothing part of it.

**PATRICE BECKHAM:** Yes, we're using the smooth, but we're allowing the experience to flow through--

**KOLTERMAN:** Right.

**PATRICE BECKHAM:** --without modeling the bounce back, like the bounce back that you see in 2010 and 2011. In this projection, all those numbers would be the assumed rate of return.

**KOLTERMAN:** Historically, there's usually been a pretty good bounce back.

**PATRICE BECKHAM:** There has been.

**KOLTERMAN:** But I mean, we don't-- we-- it's too early to tell. I mean, obviously, we're in a down cycle right now, so we don't know what next year will bring, but hopefully it will bounce back like it has in the past, like it even did in 2020 to 2021. And is that, is that a fair statement? History, history shows that that's why we use the smoothing really isn't it?

**PATRICE BECKHAM:** That, that's why we use smoothing. We hope, we hope that happens. It gives-- if it doesn't happen this year then maybe next year. I mean, it kind of gives us time. But, you know, that's why if you look at this, we're looking at, you know, what happens with a 14 percent return. So there's sort of a bounce-back scenario.

**KOLTERMAN:** And, and I know this doesn't pertain to what you're talking about, but the reality-- this information is more for the committee, but the reality was, as an example, the Omaha Public School system, they made a bunch of investment changes in 2009 and didn't get that bounce back. We stayed the course and took advantage of the bounce back. That's why it's good to have long-term investment portfolios. Is that accurate?

**PATRICE BECKHAM:** Well, I'm not an investment expert, so I'm not going to comment on that. But I would say that, you know, most institutional investors have an asset allocation and they stick with it over the long run for a reason.

**KOLTERMAN:** Correct.

**PATRICE BECKHAM:** And it has played out well for public retirement systems.

**KOLTERMAN:** And we've got a good investment council that's worked with us for years.

**PATRICE BECKHAM:** Yes. Yes.

**KOLTERMAN:** All right. Thank you.

**PATRICE BECKHAM:** You're welcome. All right. So slide 18, this is looking at projected funded ratio under the same scenarios. So the

green line is all assumptions are met, which is, you know, about 7 percent each year in the future. And you can see, you know, the, the judges' system remains right around 100. And then it kind of drops down in 2026. That's the last year of recognizing the minus eight. In prior years, we're still recognizing part of the plus 30 from 2021, which they kind of net out, but that last year is why it dips. But then you'll see it comes back to 100, in fact a little bit over 100. If we have another year significantly lower than our assumption, that's the red line, a zero percent in 2023. Obviously, as that works through smoothing, it's going to lower the funded ratio. It's still above 90 and then eventually it starts growing its way back to 100 percent. Again, when we have an unfunded liability, the payment schedule is over 25 years. So we don't have any reason to think we should be 100 percent funded in 15 years. But if we extended this graph, that red line would come back to 100 percent. And obviously if we get the 14 percent return, we end up over 100 percent funded and that will kind of stabilize over time. So the system is very well funded, but it's-- the ironic part of being well funded is kind of the more money you have, the more investment risk you have because you have-- you lose more dollars, right? If you're zero percent funded, you don't care what the investment risk is because you don't have any money. If you're 50 percent funded, you only have assets that are equal to 50 percent of your liability. But if you're a 100 percent or think 120 percent, it has-- the dollars are bigger and that has a bigger impact on your contributions.

**CLEMENTS:** Question.

**KOLTERMAN:** Go ahead, Senator Clements.

**CLEMENTS:** I'm not sure I understand how we can increase the funding percentage with a zero percent rate of return. Are contributions having to increase then?

**PATRICE BECKHAM:** Yes. Yes.

**CLEMENTS:** Is that the--

**PATRICE BECKHAM:** Remember-- if you look on slide 17 at the red bars, so there, there is additional money coming in to make up that shortfall over time. Right?

**CLEMENTS:** And it's only the state portion.

**PATRICE BECKHAM:** Yes.

**CLEMENTS:** The employees are fixed at a percentage of payroll.

**PATRICE BECKHAM:** Exactly.

**CLEMENTS:** So the payroll will-- it will be a little bit increased just from percent of payroll.

**PATRICE BECKHAM:** Yeah, we have member contributions, we have court fees. We have the payroll-related contribution not to exceed 5 percent. And at the tail of-- on slide 17, at the tail, you'll see we actually need more than the 5 percent.

**CLEMENTS:** Yeah.

**PATRICE BECKHAM:** So, yes, to the extent that we miss on, on an assumption, it results in higher contributions generally over a 25-year period to bring it-- bring in the money to offset that impact.

**CLEMENTS:** And the employee contribution percentage is statutory.

**PATRICE BECKHAM:** It is statutory. It's different for the two tiers. So tier two is higher, has a higher member contribution, I believe it's 10 percent, than the, than the tier one. And those changed-- for judges, it was July 1, 2015, that it changed. The, the new tier is those hired on or after July 1 of '15.

**CLEMENTS:** All right. Thank you.

**PATRICE BECKHAM:** So that will, that will trend up over time. They're basically paying a little bit more as a, as a percent of the value of their benefit.

**KOLTERMAN:** That's just some-- go ahead.

**McDONNELL:** And that was that 10 percent tier two.

**PATRICE BECKHAM:** Yes.

**McDONNELL:** OK. Thank you.

**KOLTERMAN:** But--

**KATE ALLEN:** That's right.

**KOLTERMAN:** --that's part of the proactive approach we've taken over the last six or seven years to change some of the tiers to offset some of the liabilities. Is that, is-- is that not correct?

**PATRICE BECKHAM:** Yes, that, that's correct. Right. That's part of that-- remember, C plus cycle B--

**KOLTERMAN:** Right.

**PATRICE BECKHAM:** --lowering the B side of the equation over time as part of addressing and limiting how high C has to go.

**KOLTERMAN:** One of the rationales that we've used, Senator Clements, is the reality that you can't take benefits away or increase costs for a plan participant. So what we've done is new hires go into a different tier.

**CLEMENTS:** OK.

**KOLTERMAN:** I, I think you'll see that when we get to the teachers. I think they have three tiers, maybe four tiers.

**PATRICE BECKHAM:** They have four.

**KOLTERMAN:** They have four tiers.

**CLEMENTS:** What's the tier one judge rate?

**PATRICE BECKHAM:** It's a little more complicated.

**CLEMENTS:** Oh, it's not just a flat number.

**KOLTERMAN:** No, OK.

**CLEMENTS:** It's a lower percentage, though.

**PATRICE BECKHAM:** It's generally 9 percent up to 20 years and then 5 and-- look back and see.

**CLEMENTS:** That's fine.

**PATRICE BECKHAM:** That-- it depends.

**KATE ALLEN:** Unless they had a-- selected a joint survivor.

**PATRICE BECKHAM:** Joint survivor.

**KOLTERMAN:** Yeah, some of that, some of that depends on--

**KATE ALLEN:** It's a blended rate.

**PATRICE BECKHAM:** Yeah.

**KOLTERMAN:** In that particular tier, we have things like the DROP program which we've eliminated.

**KATE ALLEN:** In the State Patrol.

**KOLTERMAN:** Yeah, and that's coming in the State Patrol. But those are the types of things you have to look at. So it's-- their work is pretty integral.

**CLEMENTS:** It does at least show that this red line with zero percent return, that the 5 percent contribution amount is, is really going to keep it stable.

**KOLTERMAN:** Correct.

**CLEMENTS:** It's not likely to be needing to increase 5 percent, it's likely to be reducing.

**PATRICE BECKHAM:** Yeah, I think-- I mean the 5 percent payroll-related contribution, (a) it's helpful because we've been fighting this that the, the court fees are a big part of the financing, but they're not related or correlated to payroll. And so we're developing costs as a percent of payroll and funding a big part of it with a variable number that is not necessarily expected to increase. So the 5 percent contribution link set to payroll. And then yeah, that gives us kind of a, a reliable source coming in to somewhat offset the unknown of the court fees and the declining court fees as a percent of payroll. And-- but I guess my point on that, when we look at the red bars on 17 is that doesn't guarantee they'll never be an additional state contribution. Hopefully, it's unlikely and if it happens, far enough out. But yeah, it's just again, these are rather arbitrary numbers that we pick for sensitivity analysis more to illustrate the point, again that point, that there could still be an additional state contribution. A lot could happen in six years, so.

**KOLTERMAN:** Before we move on to the State Patrol, Senator Lindstrom, do you have any questions about what we've covered thus far?

**LINDSTROM:** No questions on that.

**KOLTERMAN:** Any, any other questions from up here? OK, let's move into the State Patrol then.

**PATRICE BECKHAM:** All right, very good. So slide 20, State Patrol, looking at the key valuation results. Again, we saw these numbers. The unfunded actuarial accrued liability, it increased a little bit. We went from $51.4 million to 52.9. Funded ratio held pretty steady. Again, if you look at market value, last year, 102 percent funded; this year, 87 percent funded. So we did, we did take a pretty good hit on market value. If we look at the actuarial contribution rate, 44.64. Again, there's a blended rate here because we have different tiers, but the members are contributing 16.23 percent of pay. The state as the employer matches that. That still leaves an additional contribution of 12.18 percent of payroll. We take that times the expected pay for the current plan year and the additional state contribution is $4.1 million. The regular payroll-related contribution is 5.3. So the total status is 9.4. But the additional one is usually what we kind of focus on was 3.75 last year, and it's 4.1 this year. So again, slide 21 is your short-term projections and you will see for Patrol, we expect there to be an additional state contribution going forward for quite a few years. OK? Again, that's payroll related and we've got deferred losses flowing through and we're moving from 7.2 to 7 percent in the next two years. So it, it does go up, you know, the first two years, 4.7, 5.3. Then it kind of comes down and then it goes back up. That's all this asset stuff flowing through. But then you see the regular kind of payroll-related state contribution and then the total state contribution. And again, these are, you know, projecting, assuming assumptions are met mostly to give an idea of what's the general trend here? What should we expect to happen with smoothing in particular? Longer term is slide 22. The blue bars are employer payroll related. The green bars are member contributions. And those two bars are the same, OK, because whatever the members are putting in, the employer is putting in payroll by payroll. And then based on the valuation, an additional contribution goes in. That's the red bars. So again, we do expect there to be an additional state contribution certainly for 15 years. And so for planning purposes, I think that's important to recognize that, you know, even though they're 90 percent funded, we do need additional funding to move them towards full funding. And then there-- sensitivity analysis on Patrol is on slide 23. Again, the same current projections that we just looked at are the green bars, a zero percent return are the red bars, which are going to force contributions to be higher. Once again, if we don't earn it on the investment side, contributions go up to make up

for that 14 percent if we have a bounce back. Then additional-- this is additional state-- the payroll related still come in, the additional state goes down. And I think when you kind of get used to looking at these, they all are going to look similar. And then the funded ratio is on slide 24. Again, the green line is the current assumptions. And to my point earlier, with sort of our 25-year financing plan, we don't expect the system to be 100 percent funded in 15 years, even if all assumptions are met. And that's what that green line kind of shows. But the trend on all three of those lines is up, right, the slope is up on those lines. That means funding is improving. And if we extended it, eventually they, they all get to 100 percent, which is the important part. And that's how it works with actuarial funding. If you put the money in and the assumptions are met, you should get to 100 percent. And obviously, if we had zero and no, no bounce back after that, the funding actually would drop. By the time all that was recognized in 2026, we'd be below 85 percent funded. I don't think if I told you when I was telling you how great Nebraska is, the median funded ratio in the, the Public Fund Survey that the National Association of State Retirement Administrators publishes, about 120-plus large retirement systems, 78 percent. So when I say it's really good, it's like a lot better. Because 5, a 5 percent difference in funded ratio is pretty big. Ten is really big. So to be in some cases, 20 percent higher funded ratio is pretty phenomenal. So we have a lot to really be, you know, really be proud of here in Nebraska. All right. Any other questions on Patrol before we move on to schools?

**McDONNELL:** Can--

**KOLTERMAN:** Go ahead, Senator McDonnell.

**McDONNELL:** Can you please send those to us, the other states and who's-- the comparability you were just mentioning?

**PATRICE BECKHAM:** I can send you the public--

**KATE ALLEN:** Is that in NASRA?

**PATRICE BECKHAM:** Yeah, if you go to nasra.org and Public Fund Survey.

**KOLTERMAN:** We'll get that for you.

**McDONNELL:** All right. Thank you.

**PATRICE BECKHAM:** And it has-- and it's a survey, so it has a lot of other really good information on it as well.

**KOLTERMAN:** When we get the comparisons also from NCSL and, and also CSG, I believe, don't we?

**KATE ALLEN:** Pew sometimes.

**KOLTERMAN:** Or Pew.

**KATE ALLEN:** Yeah.

**KOLTERMAN:** Yeah. Go ahead, Senator Clements.

**CLEMENTS:** I have a question. You're talking about reaching 100 percent in 25 years. Do plans ever just drop in extra money to say, hey, we'd, we'd rather do it quicker than that and is there a mechanism for doing that?

**PATRICE BECKHAM:** That's a great question and a timely question because we're actually seeing quite a bit of activity on that front right now, because a lot of states, you know, have-- I don't want to say extra money, but the treasuries look pretty good. They have additional funds. And if you think about the debt, you know, you're carrying debt here at 7 percent plus if you have extra money to contribute. So, yes, we have seen systems put in a lump sum contribution to a plan. Kansas has done it. Missouri has done it. Those are two of my clients that I know have done it, where the intent is to strengthen the funded status of the plan and reduce future contributions. It's pay me now or pay me later. But if you pay me now, you don't have to pay interest on it. So there-- yeah, you can-- I don't know in Nebraska. I assume that's the-- that's an appropriation or a decision-- I don't, I don't-- showing my civics was a long, long time ago. And I'm not sure exactly how it happens, but it happens in other states so I'm sure could happen in Nebraska if there was a, a desire to make additional contributions to strengthen funding. OK, I'm looking. I assume that could be done. Yeah, it's just whether that's how you want to spend, spend the money. But it is done, particularly if, if you got systems that are-- have a lower funded ratio because those debt payments are pretty-- a pretty big part of the total contribution.

**KOLTERMAN:** And we're going to, we're going to see that in the next-- when we start talking about the schools, because we have been putting extra money into the school plan for quite a few years. That's the $50 million approximately that goes in there that has helped strengthen

that. But could you talk a little bit about generational contributions as it pertains to this?

**PATRICE BECKHAM:** Well-- yeah. So the, the idea, of course, is to fund the benefits over people's working careers. But to the extent that the actual experience doesn't play out and match the assumptions, then it results in these unfunded liabilities. And if-- the other part of that is if contributions are not made as scheduled and you get further behind and further behind, then the debt payments grow and grow. And that's why some systems have unfunded liability payments that are as large or larger than the normal cost of the plan, the ongoing cost of the plan. So the-- I mean, the idea behind in my mind, behind intergenerational equity is sort of that every generation is paying for the services that are-- that they're receiving. So, you know, as a taxpayer, I'm, I'm receiving services from public servants. You know, teachers, Patrol. And so I'm paying the, the cost of that benefit. So ideally, you know, you'd always just have the normal cost of pay, and that's a perfect alignment. And, and the-- and nothing would ever change. The assumptions would never change. The benefits structures would never change. But that's not reality. And, you know, we went through a period with the Great Recession, we've gone through-- most plans have moved from 8 to 7 percent on the assumed rate of return, and that has a huge impact. So absent somebody being willing to just, you know, dump in a bunch of money to offset that cost, some of that intergenerational equity goes out the door a bit because you've got to pay for your debt. So the other theory is that every generation sort of pays some piece of UAALs over time. It's just part of the ongoing nature of the plan. But you try to not have it be a big part of the overall contribution. That's my take on it. Everybody has their own.

**KOLTERMAN:** So, so, Pat, when you, when you talk about, and Senator Clements brought up an interesting question, can you put more money and you said that you've seen it done in Kansas, and I think you said Missouri. It's my understanding, and you cannot, you cannot-- ARPA funds were not eligible for this putting into pension plans, is my understanding. On the other hand, if we're, if we're taking care of costs elsewhere, it would be easy to manipulate that in the budgets because we're offsetting some of those costs. Is, is that how they're doing it? Because there's not a lot of extra money laying around unless people are not willing to cut taxes.

**PATRICE BECKHAM:** And I'm happy to say I have no idea how it's being done.

**KOLTERMAN:** OK. So you don't--

**PATRICE BECKHAM:** I just know it was done.

**KOLTERMAN:** It's not coming out of-- it's just general funds that they're dumping in?

**PATRICE BECKHAM:** I really-- I don't know, Senator.

**KOLTERMAN:** OK.

**PATRICE BECKHAM:** I, I can put you in touch with people that do know, but I don't know.

**KOLTERMAN:** Well, fortunately, we probably don't have to do that right now.

**PATRICE BECKHAM:** Yeah, you and your funds are pretty well funded, you know.

**KOLTERMAN:** Yeah, Senator Clements--

**PATRICE BECKHAM:** I mean, Patrol is not bad.

**KOLTERMAN:** --you have a question?

**CLEMENTS:** Yeah, thank you, Mr. Chairman. As, as we're talking about the intergenerational, an example of a poor example would be the federal Social Security system, right?

**PATRICE BECKHAM:** Um-hum.

**CLEMENTS:** Because I'm drawing out benefits, but there isn't really money there. But they're projected to be running out of money, so somebody's gonna have to pay in more if I live too long.

**PATRICE BECKHAM:** Right. Social Security is more of a pay as you go, and it's social insurance. It was never intended to be like private retirement, but it, it is a pay as you go. So, yeah, it's-- we're, we're relying-- to, to draw our, our Social Security, you know, our children and grandchildren have to work to pay for us, so to speak. And that's the difference, that's pay as you go. These are advance funded. You know, some say pre-funded, but put the money away, build the trust fund. And the interest on the trust fund generally pays 65 to 70 percent of every dollar of benefit. So it's like a great, a great return for the state. And then most of this money stays in

Nebraska. Those people, you know, retire here. You live here, you tend to retire here. But yeah, it's very, very different from Social Security. That's a great point.

**CLEMENTS:** Thank you.

**KOLTERMAN:** So, Senator Lindstrom, or committee, any more questions about the Patrol plan?

**LINDSTROM:** No questions.

**KOLTERMAN:** All right, we'll move into the school retirement system plan then.

**PATRICE BECKHAM:** All right. Slide 26 looks very similar to the others. Again, we had a decrease in the unfunded actuarial liability of $133 million, resulting increase in the funded ratio. So on a, on a smooth value, we're 98 percent funded, but on a market value, we're more like 94 percent funded. If we go through the calculations, the actuarial contribution rate is 15.37. If we add up the member, employer and state contribution rates, that's 21.66. So there is 6.29 percent of payroll that will come in during this plan year in excess of the actuarial rate, that will again tend to improve the, the funding of the system and move it more rapidly to full funding. The state contribution of 2 percent is about $46 million. I would just point out a, a few things because I know as this gets closer to 100 percent funded, people, people pay a little bit more attention. One of the things you should look at in the Public Fund Survey is the average contribution rate for members of systems that are covered by Social Security. It is far less than 9.78 percent. And I know this was necessary, again, to strengthen the funding of the plan. But you've got four tiers, you know, and, and they're all paying the same. The value of the benefit is not the same. And when you think about a teacher or, you know, a para or someone, they're paying 9.78 plus, you know, 6.2. It's pretty close to 16 percent of pay for retirement alone. It's kind of a lot. So hopefully if the plan gets to a place where it's well funded, at least that might be considered for the member perspective. It's one of the highest that I'm aware of that the Public Fund Survey will, will show you kind of the average employee rate and employer as well, both social-- with and without Social Security. Slide 27, lots of numbers on this one. Some that are-- pertain to Omaha because again, the state makes the 2 percent of pay contribution to Omaha-- the Omaha School Employees Retirement System, as well as the state retirement system. So that's the, the green. It's

very hard to see in the graph, but in the table below, you can see for this year it's $7.9 million. The Omaha Service Annuity, that's, you know, no longer available to new hires, but there is a group of people who are entitled to a, a small benefit, I think of $35 times years of service when they retire. And that's being funded now because those people are still actively working. And then the employer contributions, these are the school districts that are then they-- employees contribute 9.78 and they contribute 101 percent of the employee rate. And then you'll notice the additional state contribution. Then there, there is none through this projection period and there has not been any additional state for the number of years. If you look at slide 28, the longer term, again, members are contributing employers. Those are-- bars are the same size because those are the payroll-related, employer is a little bit higher. And then the 2 percent from the state is there. But there is no additional state contribution. By, by having that-- setting contribution rates that have been higher than the actuarial rate, it really has moved the system closer to full funding over the last ten-plus years. So really did well. Slide 29 is a little bit of the risk analysis for the school system. And we always, you know, we talk and talk about investment risk being the biggest risks that we have to, to try to manage. And this kind of proves it. On the right-hand column, this is the, the minimum return to avoid an additional state contribution at any point in the future. Because these all have to kind of work through the smoothing. So last year, you know, we were feeling pretty good because we could absorb a minus 19 percent for one year. We could absorb a zero percent return for five years. OK, well that, that felt pretty good. This year, just one year later, but with, you know, the minus 8.3 percent return, we can still absorb a minus 5.75 or, or better for one year. But now over five years, it needs to at least be 4.25 per year. So it's just a reminder of the power of investment return on these funds. It's just like I said, I've worked with it for 40 years and it's still amazing to me how that one, one year's return can really change the outlook. It's still very, a very good outlook for a number of reasons, but, yeah, last year it felt really good compared to this year. So hopefully we get a bounce back and, you know, at least we can absorb a minus return. I think that's the good news without any, even in the future, having a state contribution.

**KOLTERMAN:** You're talking about an additional state contribution.

**PATRICE BECKHAM:** In addition-- yes, the 2 percent is baked in.

**KOLTERMAN:** The 2 percent is baked in.

**PATRICE BECKHAM:** Yes, sir.

**KOLTERMAN:** So I guess this would be a good place to ask the question. What, what would happen if that 2 percent were eliminated or lowered? I mean, that, that would have a pretty devastating effect on the plan, wouldn't it?

**PATRICE BECKHAM:** Over the long run, it would if we went through a period where--

**KOLTERMAN:** Negative return.

**PATRICE BECKHAM:** --all assumptions aren't met. Yeah. I mean, we can model that. I can't give you an answer off the top of my head. But one of the benefits of the model is we can change those kind of parameters and, and report back with actual data, if that's helpful. But yeah, I mean, a lot of times there aren't a lot of systems that are at or above 100 percent funded. There are a number that are getting closer, and the conversations that we try to have with them is, you know, remember, you have a, a volatility measure on your asset allocation that's about most, most plans, 10 to 12 percent. So that means in any one year, like there's, you know, a 60 percent-plus probability, if 7 is our number that it's, you know, it could be 19, it could be minus 5. And so you should be able to absorb at least one year of, in this case, like a minus 5 percent return without it impacting your, your funded ratio. So in other words, before you sort of take your foot off the gas pedal, it's prudent to build your funded ratio up above 100 percent. Because otherwise if you have that bad year, you're going to-- it's going to trigger a contribution you didn't plan on.

**KOLTERMAN:** But even at that, where we as a body made the decision to lower the assumed rates from 8 down to 7 over a period of time, that, that has a negative effect on the system. But the reality is the 2 percent is also helping offset some of that.

**PATRICE BECKHAM:** Definitely.

**KOLTERMAN:** So it's kind of like pay me now or pay me later. And, and we're doing that for both the Omaha Public School plan, as well as the teacher retirement plan because that was all negotiated back in, what, 2013 with the Legislature.

**PATRICE BECKHAM:** Right. I think before that, there was a contribution--

**KATE ALLEN:** It was at 1 percent.

**PATRICE BECKHAM:** Yeah, it was lower than 2.

**KATE ALLEN:** And before that 0.7.

**PATRICE BECKHAM:** Yeah. And you know, again, in a few years we'll be doing another experience study and whether we stay at 7 or, or that outlook is to, to continue to lower the assumed rate of return, I don't know. But kind of just keep that in the back of your mind. I mean, there's no-- things are not carved in stone with retirement, retirement plans and funding is, is very variable. And somewhere along the line, yeah, there's a tradeoff between making contributions you can't anticipate in budget and playing on versus when bad things happen, you have to, you know, put in additional, additional funding.

**KOLTERMAN:** OK. Thank you. Questions?

**McDONNELL:** When's the next experience study scheduled for?

**PATRICE BECKHAM:** 2024, late, late in the year.

**KOLTERMAN:** Senator Clements.

**CLEMENTS:** Thank you. A question on this, of the, the five years and 4.25 percent, that is saying that for five years we earn 4.25 percent rate of return, and then after that, 7 percent, 7 percent--

**PATRICE BECKHAM:** Yes.

**CLEMENTS:** --in the future. That's what all of-- all other assumptions are met, so we go 4.25 for five years, then back up to 7.

**PATRICE BECKHAM:** Correct.

**CLEMENTS:** And that would still-- we-- that would be what would avoid the additional state contribution.

**PATRICE BECKHAM:** Correct. So something worse than 4.25 compound return over five years would trigger.

**CLEMENTS:** In the first year the negative 5.75 and then back to normal assumption is 7.2, 7.0.

**PATRICE BECKHAM:** Yes, Senator.

**CLEMENTS:** So the future. All right, thank you.

**PATRICE BECKHAM:** And, and again, these, these numbers are contingent that the 2 percent continues.

**KOLTERMAN:** That's what I was going to say.

**PATRICE BECKHAM:** That changes these numbers.

**KOLTERMAN:** That's assuming, that's assuming that the 2 percent is baked in.

**PATRICE BECKHAM:** Correct.

**KOLTERMAN:** That's baked into these assumptions.

**PATRICE BECKHAM:** Yes.

**KOLTERMAN:** OK. Thank you.

**PATRICE BECKHAM:** Um-hum. All right.

**KOLTERMAN:** Any other questions? OK.

**PATRICE BECKHAM:** We're almost done. All right. Slide 30, again, this is just projection of funded ratio. Again, the plan is very close to 100 percent funded. Again, these are simplistic projections that are again, we're assuming all the assumptions are met other than fiscal year '23. So you see funded ratios in certain scenarios kind of take off. The reality is some, some people change out there one way or another. But again, the trend lines are up even with the zero percent return. And that's, that's what we like to see. So that concludes my presentation. Are there any other questions related to the valuations?

**KOLTERMAN:** Senator Lindstrom, do you have any questions?

**LINDSTROM:** No questions.

**KOLTERMAN:** Any other questions from up here?

**PATRICE BECKHAM:** Senator Kolterman, could I have a moment sort of off the record?

**KOLTERMAN:** Sure.

**PATRICE BECKHAM:** Because I think this is maybe the last time I'll get to testify in front of you. So, yeah, as a retained actuary for NPERS, you know, as a, as a resident of Nebraska, I just want to thank you for everything you've done for the, you know, the public retirement systems in this state. And the way you've-- you know, your leadership in this committee has been great. And I, I really appreciate that so I want to say that publicly. And if it's OK, I'd like to thank Kate for all her work. She's been fabulous to work with. And I think a lot of the positive results we're seeing are the result of a lot of hard work. And I, I think you've been a leader in that. So thank you.

**KOLTERMAN:** Thank you. Thank you. It's been a pleasure to work with you as well. Randy, do you have anything you want to say?

**RANDY GERKE:** Good morning, Senator Kolterman, members of the Retirement Committee. My name is Randy Gerke. It's spelled R-a-n-d-y G-e-r-k-e, and I'm the director of the Nebraska Public Employees Retirement Systems. I did not have any prepared comments today. I wanted to echo Pat's last words as well. But you've just heard a very good report, I believe. Something that I think we can all be proud of, but especially the Retirement Committee and the Legislature, as well as the executive branch, the NIC, and our agency, we all have worked together so well lately in the last few years. And I want to thank you and thank Senator Lindstrom and Senator Stinner that are outgoing. I look forward to working with everyone else that's going to remain. I especially want to thank Kate and Katie. I, I don't know what we're going to do without you, but I'm sure we're going to find out. So thank you very much. And that's-- I'd be happy to answer any questions, but.

**KOLTERMAN:** Thank you, Randy.

**RANDY GERKE:** Thank you.

**KOLTERMAN:** Seeing no questions, appreciate you being here today.

**RANDY GERKE:** Thank you.

**KOLTERMAN:** That will conclude our hearing for the day. We're going to take a few, a few minute break and wait till 10:30. So if the testifiers aren't all here yet, gives us a chance to stretch our legs and use the washroom if necessary. So we'll reconvene at 10:30. With that, the hearing is complete. Thank you.

[BREAK]

**KOLTERMAN:** I don't think that the, the audience has changed much since we started this morning, so I'm not going to go through all the rules and regulations. The only thing I would tell you is if you have a cell phone, shut it off. This hearing is a State Auditor presentation of the OSERS audit. I'm going to read a little bit of-- just so you understand what this is all about. This hearing is for the presentation of the OSERS audit, which is conducted by the Auditor of Public Accounts as required under LB147, which passed in 2021. LB147 set out the tasks and responsibilities to begin the transition process of transferring management of OSERS from OPS to the Public Employees Retirement Board effective September 1, 2024. As part of the transition process pursuant to Section 79-987, beginning January 1 of 2022, the Auditor of Public Accounts is required to conduct an annual audit of OSERS and present the audit findings to the Nebraska Retirement Systems Committee. The Auditor of Public Accounts completed its audit June 27 of 2022. We have a, we have a written statement presentation that we've received from Dr. Logan, I think. Are you going to testify?

**CHERYL LOGAN:** No. I'll stand for questions.

**KOLTERMAN:** OK. And then we also have with us Zach Wells and Cindy Janssen from the Auditor's Office, will make their presentation. Do you want to do that together?

**ZACH WELLS:** Yes, if possible.

**KOLTERMAN:** So I'll get a second chair for you. But you're welcome to come forward and start. And for the hearing, I do want-- Senator Lindstrom, are you still with us?

**LINDSTROM:** I am still here.

**KOLTERMAN:** All right. So what you see is what you get with Senator Lindstrom. Appreciate you being here. I think we'll just go-- move right into your presentation.

**ZACH WELLS:** OK. I guess first off, I just want to thank the committee for the opportunity to present the audit report of the Omaha School Employees Retirement System for the period ending December 31, 2021. We'd also like to thank the OSERS team that we worked with for their assistance that they provided during our audit. The first year of an audit always requires additional time for our team to gain an

understanding of the entity's processes and procedures, and the OSERS team was very helpful in aiding and gaining that understanding.

**KOLTERMAN:** Before we go any farther, could you say and spell your names for the record, please?

**ZACH WELLS:** Yes. Zach Wells, Z-a-c-h W-e-l-l-s.

**CINDY JANSSEN:** Cindy Janssen, C-i-n-d-y J-a-n-s-s-e-n.

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

**ZACH WELLS:** I was reported to sign up for the project and I worked with Cindy to develop the audit plan, and then Cindy implemented that plan and managed the day-to-day operations of the audit. Cindy and I have both had many years of experience auditing Nebraska public employees' retirement plans. I'll just touch on a couple of things from the audit report, and then Cindy will go over our recommendations that were included in the management letter. We issued an unmodified opinion, meaning the financial statements were materially correct. The total assets of the retirement of the OSERS plan was $1.7 billion, investments made up about $1.65 billion of those assets. At the end of the year, they had liabilities of $93 million, $81 million was related to investment payable in securities and IP. The difference between the assets and liabilities was $1.6 billion, which was restricted for pension benefits. During the calendar year, OSERS received contributions of $108 million and paid out benefits and refunds of $143 million and had investment income of $249 million. At December 31, OSERS had assets restricted for pension benefits, $1.6 billion, compared to total pension liability of $2.4 billion. And that's an actuarial-determined amount which resulted in a net pension liability of $800 million. With that, that was just kind of some high-level financial information taken from the financial statements. And then footnote 4 also has a lot of-- related to the net pension line. So with that, we'll go into the comments and our recommendations that were included in the management representation letter.

**CINDY JANSSEN:** If you're following along in your audit report, I'm going to go over the management representation letter, which is at the very end of the report, and the page numbering starts over with page number 1. It's immediately after page 34 of the audit report. This is just kind of our standard management letter. The first page identifies what, what findings we consider to be material weaknesses, which are defined as a deficiency or combination of deficiencies in internal

controls, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected in a timely basis. Comment number 1 that I will discuss is considered a material weakness. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider comment number 2 to be a significant deficiency. Comment number 1 is referring to financial statement misstatements. There were a number of inaccurate accrual entries that we have included in a table. Most of these are related to investment entries. There are two issues that we noted. Either OSERS was unaware that certain entries needed to be made related to the activity of the commingled investments. So item numbers 2 and 3 are related to securities lending activity in those funds, and those entries had not been made by OSERS. The other issues are related to the method that OSERS used to allocate the investment activity. As you know, some of the investment funds of OSERS-- of OSERS are commingled with other defined benefit and cash balance plans of the state. And so there has to be a method to allocate those investments to each of the plans. The, the state's custodial bank allocates those based on individual accounts that they hold and so there is an allocation for the various accounts that the custodial bank has. What OSERS did was in general used an average of all of the funds. So that's why there is differences between the more precise allocation method that the custodial bank has come up with versus what OSERS determined in their allocation methods. And then the sixth one is really related to just additional investment manager fees payable at the end of the calendar year that were not recorded by OSERS. The other part of this finding is related to refunds payable and coding of refunds. The first two bullets on the top of page 3 relate to payable amounts that were listed as payable, but that we determined were not actually payable at December 31. And then we also tested four-- ten refund payments and noted that four of them were incorrectly coded in the OSERS accounting system. So original entries had been made and canceled, and when they went and corrected the entry, they included the net amount and not the gross amount of the refunds. Moving into finding number 2, this is a finding related to some issues we had with the calculations for purchases of service credit. So employees are allowed to purchase a service credit under statutes. And one of those methods is the purchase of prior service credit in other school districts. And in this instance, the district is required to match the amount paid by the member. And we noted the district failed to make, make the required matching contributions

since July of 2013. There were 35 purchases of prior service credit in other districts during this time, and the amount of required match owed by the district was approximately $845,000. Another type of purchase service is the repayment of a prior refund. In this case, the amount of the original refund is used. However, in our testing, OSERS failed to maintain documentation of that original refund, so we could not verify the calculation amounts. For the purchase of prior service credit from other districts, OSERS is required to verify that the benefit in the other district was forfeited prior to granting the purchase of service. For one purchase tested, OSERS did not maintain this documentation. We also noted that the member purchased ten years of service and OSERS granted ten years of service, but that amount exceeded the member's district service of six years. So the purchase service should not have exceeded six years. For the purchase of an all-purpose buy in, the cost should be increased-- should be the increased actuarial cost to the plan for that additional service credit. OSERS used a spreadsheet that included hidden actuarial factors for the calculation of this amount. One member tested purchased five years of service for approximately $6,700. However, when we use the spreadsheet provided by the actuary, we calculated the actual amount to be in excess of $26,000. Therefore, the amount paid by the member for five years of service was not correct. Going into finding number 3, these are issues we had related to benefit calculation issues. We have a table that includes eight of the ten members that we tested that had findings. Most of the findings related to the, again, the annuity factor reduction amount that is provided by the actuary. So for both the formula annuity and the service annuity, those option factors were not maintained by OSERS when they received them from the actuary so we didn't have documentation to verify those factors were accurate. We also noted issues in the calculation of some of those benefits. One member tested was due a state service annuity. However, OSERS had deferred the annuity until the member's 60th birthday. We couldn't find a provision in the statute that allowed for that deferral. The member received their first payment in December 2021. According to OSERS, there are over 100 members who have had their state service annuity deferred due to their age. One member's service credit was not adequately supported going back to 1993. There was no provision in the labor contract for that employee to grant any service credit for the amount of days worked for that employee. And we noted that OSERS awarded a half a year of service for the formula annuity and one year of service for the service annuity. The APA's calculation therefore was different. And finally, related to the calculations, we found that OSERS failed to cap two of the service

members' salaries in accordance with statute. Statute requires an 8 percent cap to be applied to the five plan years preceding the members' effective retirement date. For one of the two members, the effective retirement date was 2021, but that member had stopped working in July of 2012. Therefore, there does not appear to be a need for capping of that individual. For the other member, OSERS failed to reduce the last year of earnings to 8 percent. The member's earnings had increased by 8.11 percent, but the salary was not reduced in the calculation. We also noted a lack of documentation related to some of the testing of the benefit payments, including retirement applications not being date stamped. Therefore, we are unable to determine the proper retirement date. We also noted that adequate documentation was not always maintained to ensure the accuracy of both the age of the member and the designated joint annuitant. And finally, we noted that adequate documentation verifying the member's direct deposit information for the bank in which the benefit deposited was not always maintained. Moving into item number 4, we found some issues related to the COLA calculations. First of all, OSERS did not calculate a COLA for members who received-- for the state service annuity portion of the members' benefit. State statute seems to explicitly state that the COLA amounts shall be made for any annuity payments. We also noted issues with the calculation of the medical COLA. State statute grants a medical COLA to retirees who have been paid an annuity for at least ten years. The medical annuity increases each year until the total amount of the supplemental annuity is $250. The OSERS system that performed the COLA calculation was limiting in the amount of the COLA and some members did not obtain the maximum amount of $250. Finally, we noted that there was an incorrect CPI added to the system. OSERS's staff is responsible for updating their accounting system with the Consumer Price Index change each year. The information is used in the annual COLA amounts. For the period September 2014 to July 2015, the base CP amount-- CPI amount entered by OSERS was inaccurate. Therefore, during that period, some employees received incorrect COLA adjustments. Finding number 5 is related to the calculation of the required 2 percent state contribution. The required contribution is supposed to be based on the compensation of all members of the retirement system. However, in OSERS's calculation, they included the amounts that are not considered compensation under the statute. Therefore, we feel that the state contributed approximately $26,000 more than required. The next finding is relating to a few issues related to compensation and service credit testing. We tested 25 member contributions and found that two members had retirement contributions on earnings that were not considered compensation under

statute. For example, earnings included $25 perfect attendance award and uniform allowances, which are not considered compensation under the statutes. Additionally, OSERS failed to include all hours in the service credit calculation for one of 25 members tested. The service credit did not include that member's holiday hours, which were required to be included. Our next two findings are related to information technology issues, and I'm going to send it over to Zach to finish out the presentation.

**ZACH WELLS:** All right. So number 7 is related to PeopleSoft system issues. OSERS uses, or the district utilizes PeopleSoft application for its accounting and payroll functions as well as its pension functions. And during our process, we try to get an understanding of what computer system is used and what controls they have in place to ensure that the information that we're going to gain from that computer system are accurate. So we look at who has access and we identified that access to the pension module pages allow the user to perform all pension functions without a secondary review. While the majority of the factors for the pension calculation were coming from the system itself, there were five users that have the ability to override that information to then calculate the member's benefit. And so there's just a risk there if there's changes made that aren't being reviewed, that some improper change or an accurate change could be made and it wouldn't be identified. We also identified that two district employees have the ability to process a voucher from entry to check issuance without a second individual being involved in the process. Neither of these employees have access to calculate benefit payments. And then also service expenditures were-- are reviewed by the director and the Transition Board of Trustees or the District Board of Education. And I should say that-- go back to that first comment that none of the five users have the ability to create an employee record. So while they can make changes to the benefit calculation, they couldn't create a new member and then issue a benefit to that member. We also identified that history tracking was not enabled to provide an accurate record of changes in several significant areas of the system. The pension module was not made up to maintain an audit history of changes made therein, including over-- overrides of system calculations or changes to tables. The system did not track changes to user access and as a result, it could not be determined when rolls were added and whether rolls were removed in a timely manner. So there we're looking at who has access to do certain functions. And then if they terminate, are they terminated in a timely manner? Is that access removed? And we also identified the system did

not track changes to employee or member address or bank information, which is used to issue a payment. Users of this access were not able to process retirement benefits or process payment vouchers. However, there's always a risk that if you're sending a check, you want to make sure that someone can't change the address where that check is going. Or if they're direct deposited, no one can incorrectly or improperly change the bank account information for where the deposit is going. The last one relates to password settings which-- for Active Directory, which is used to gain access to the PeopleSoft application that we referred to in that prior comment. Here we're just kind of looking at is access set up, is it restrict-- are password settings set up so that it restricts access appropriately and so that no one can gain improper access? And so we look at the National Institute of Standards and Technology as guidance as far as what should some of your password settings be, and we compared that to what was set up from Active Directory password settings. And we identified that the Active Directory settings for password length was set at six characters. Several of the guidelines from NIST recommend eight characters. Active Directory does not compare new passwords against the list of commonly used, expected or compromised passwords, which is also recommended by the guidelines. Stored passwords in the Active Directory are not salted and hashed. This is just like a method of encryption to make it more difficult for someone if they were able to gain the passwords, they'd be encrypted and wouldn't be able to be-- gone backwards and figure out what the password actually was. And then lastly, Active Directory did not have a setting to lock out users after a certain number of invalid attempts. And then NIST recommends at least that be set to 100.

**CINDY JANSSEN:** That's all that we have for our presentation today. If you have any questions, we'd be open to them.

**KOLTERMAN:** Sure, go ahead. Any questions? Senator Clements.

**CLEMENTS:** Yes, thank you. Thank you for your presentation. The first question is, you started off by saying this is an unmodified opinion, but you had seven findings. What's the difference between the findings and unmodified opinion? It seems like it's a kind of a negative opinion.

**ZACH WELLS:** Well, an unmodified opinion would just be mainly on the financials, the state-- the accuracy of the financial statements. So an unmodified opinion would be the financial statements that they presented were accurate. You know, they said they had $1,000,000 or

$100 million in contributions. We performed our detailed testing, we came to the conclusion that, yes, they, in fact, did have $1 million or $100 million in contributions. So that's kind of where, like, a modified opinion would be if we did our testing and we said our contributions we think were only $90 million instead of $100 million. And they said, no, we think it's 100. We would then modify our opinion and say the financial statements are materially correct, except for contributions appear to be overstated by 100 million. So I guess it-- or by 10 million. So I guess the opinion is not always tied directly to, like, the findings. We can still have a lot of findings and still issue an unmodified opinion of that.

**CINDY JANSSEN:** And as it relates to finding number 1, which is really-- which has inaccurate financial information, OSERS made the adjustments that we recommended in, in that table. So they corrected their financial statements once we pointed out the errors. So those adjustments got made to the financial statements.

**CLEMENTS:** All right. Another one on the prior service credits, you said that $845,000 had not been matched as required. Has that contribution been made?

**CINDY JANSSEN:** I would have to defer to Shane or somebody from OPS.

**KOLTERMAN:** We'll, we'll get to that--

**CINDY JANSSEN:** Yes. Yes.

**KOLTERMAN:** --in the next report. But it has been made.

**CLEMENTS:** Oh.

**CINDY JANSSEN:** We wouldn't look into that until our next audit when we follow up on prior findings. So we're just not in a position right now to respond to that.

**CLEMENTS:** OK. Well, the plan was cooperative, willing to make changes that you--

**CINDY JANSSEN:** Absolutely.

**CLEMENTS:** --suggested. Is that right?

**CINDY JANSSEN:** Yes.

**CLEMENTS:** All right, thank you.

**KOLTERMAN:** Any other questions? Senator Lindstrom, do you have any questions?

**LINDSTROM:** No questions.

**KOLTERMAN:** All right, I appreciate it. Thank you.

**CINDY JANSSEN:** Yep.

**KOLTERMAN:** Dr. Logan, we do have a couple of questions for you, if you would. Welcome.

**CHERYL LOGAN:** Thank you.

**KOLTERMAN:** Spell your name and--

**CHERYL LOGAN:** Cheryl Logan, C-h-e-r-y-l, last name Logan. Good morning. L-o-g-a-n.

**KOLTERMAN:** Yeah, thank you for coming today. And we'll get to see you again this afternoon, or somebody from your organization. First of all, I'd like to just comment briefly on, as you just heard from the State Auditor, we had not required this in the past. So this is the first time in a long time that we've had an audit. And the findings, although they seem like they're rather significant, I know you've done a lot of things to make corrections. Would you talk a little bit about the $845,000? And I know you say that in your letter, but you did make that correction and made that payment, is that correct?

**CHERYL LOGAN:** Yes, we did. We did make that payment. And I would say it's a team effort. It's not me. We have, we have a great team who works on all of these issues. I-- my second comment is that considering the fact that we haven't had an audit in, I think 60 years, we felt we did much better than we expected. So although it does seem-- especially when you, when a person reads them, the auditor is reading them, it seems significant. We, we do feel like they're-- we were expecting for some things to show up. And although you don't want to have to make a payment of almost $1 million, we certainly made that payment in a timely manner.

**KOLTERMAN:** And then, and then just a-- another question about the compliance audit that you recently completed, and we have a copy of that. You've already presented that to us. It's my understanding that

you engaged Ice Miller to actually address some of these issues going forward. And how are you dealing with that?

**CHERYL LOGAN:** Yes, we will continue to work with Ice Miller, well the OSERS will continue to work with Ice Miller as we go through this, the complete transition process, as our partner and to help guide our team. We have a very knowledgeable team and we also know that we needed some support in that area, and so we'll be engaging them as we move forward.

**KOLTERMAN:** And then just one final comment, you can correct me if I'm wrong, but it's my understanding that you've had a very good relationship with both the State Auditor as well as with OSERS and NPERS. And you want to comment a little bit about that relationship and how well it's going?

**CHERYL LOGAN:** Well, everything is about relationships, right? And you can't scorch the earth at any moment. Or if you, if you do, it's to your peril. So we have continued to work, and I would say our team has worked-- we have benefited from having Shane Rhian on our team, first as our controller and now as our Chief Financial Officer, because of his work at the State Department and already having those relationships. Also our counsel, Megan Neiles-Brasch, working with your counsel, with Kate Allen and the team, has helped to make sure that when we do run into issues-- and we do run into issues from time to time and have to have, you know, have a conversation about how to move forward. But the relationships are the basis and certainly has been an earnest effort on everybody's part to make sure that we make any corrections prior to the turnover to management to NPERS in September of 2024.

**KOLTERMAN:** So September of 2024 will be the actual transition date?

**CHERYL LOGAN:** Yes, sir.

**KOLTERMAN:** And you feel very comfortable in working forward towards that date?

**CHERYL LOGAN:** Well, I feel-- we feel comfortable. I'm not saying that we don't-- we're comfortable when we delegate, but we don't abdicate. So we are making sure that we check on everything. Our Board of Education is engaged as members of the OSERS, as the trustees now. And then also the team-- as part of the team of trustees, and also with the standing Board of Education committee that regularly reviews the

process and all of the audits that happened, as well as any other issues that may come up.

**KOLTERMAN:** Thank you. Any additional questions? Senator Lindstrom, do you have any questions?

**LINDSTROM:** No questions.

**KOLTERMAN:** All right. Well, I appreciate you being here this morning. I would just comment that in the last, what have you been here, six years now?

**CHERYL LOGAN:** Five.

**KOLTERMAN:** Five years? We've had a very good relationship with the committee and your organization. And we'll hear a little bit more about that this afternoon. But thank you for all your hard work on this and making this--

**CHERYL LOGAN:** Thank you.

**KOLTERMAN:** --happen in the proper way.

**CHERYL LOGAN:** Thank you. We decided-- I decided to save all my kudos for the afternoon. I don't want to give any preview. Thank you very much.

**KOLTERMAN:** Thank you.

**CHERYL LOGAN:** I appreciate it very much.

**KOLTERMAN:** Seeing no other questions, anybody-- is there anybody else that wants to testify? All right, with that, we're going to close the hearing and we will reconvene at 1:00-- 1:30. Thank you.

[BREAK]

**KOLTERMAN:** Well, Senator Lindstrom, we're just getting started.

**LINDSTROM:** OK.

**KOLTERMAN:** Welcome to the Retirement System-- Systems Committee hearing. My name is Mark Kolterman. I'm the senator representing District 24: Seward, York, Polk, and a bit of Butler County, and I serve as Chair of this committee. The committee will take up the hearing this afternoon and it's, it's really to just evaluate the

underfunded political subdivisions, the defined benefit plans. So today I would ask that you please silence your cell phones, if you're going to be speaking, that you move to the front of the room and be ready to go. And then we just have people testifying that have been asked to testify. Bring your blue sheets if you're planning to testify and when you get up here, please spell your name for the record. If you have copies, I'd encourage you to bring copies. We need eight copies, even though there's only three of us here right now. So with that, I'd like to introduce my legal counsel on the left, Kate Allen, and my committee clerk, Senate-- or senator-- [INAUDIBLE]. Katie Quintero is my committee clerk and we have my assistant committee chairman, Brett Lindstrom, has called in. And I believe people will be coming and going. I think Senator Clements said he would be back and that just leaves you. What's your name, sir?

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

**KOLTERMAN:** So we're going to ask that-- I want you to hear this. So the first people that will testify will be OPS and then we're going to move to the Omaha civilian, Omaha Police and Fire, Douglas County, OPPD and Metro Area Transit. I, I-- if you're last, you're not least, but it shouldn't take all that long this afternoon. To open the hearing, though, before Dr. Logan speaks, I'd like to give you a little bit of background as to actually why we're here and why we have this hearing on a, on an annual basis. And I know this is going to sound boring to some of you, but for those listening outside-- and I, and I do think that we have people that listen to this on occasion-- just a little bit of background. In 2013, the Omaha police and fire plan was funded at 45 percent and the city of Omaha civilian plan was funded at 54 percent. The actuary noted in the evaluation reports for each of these plans that the city of Omaha had been paying less than the actuarially required contributions, or the ARCs, for a number of years. And I'm going to give you some quotes from the actuary at that time about the city of Omaha civilian and police and fire evaluation reports. And I quote, the contributions to the city of Omaha employees retirement system have been less than the full actuarial contribution rate for the last ten years. Given the current scheduled contribution rates, the contribution shortfall is expected to increase, the funded status is expected decline, and the system assets are expected to be exhausted in about 20 years, even if all actuarial assumptions are met. That came from the 2013 civilian valuation report. And from the police and fire valuation report, they said if the current scheduled contribution rates and benefit provisions remain unchanged, the plan is projected to run out of money in about 20 years. If the trust fund

runs out of money and it-- and if all promised benefits continue to be paid, the plan would revert to pay-as-you-go system at that time. Since there will be no trust fund assets to supplement the monthly benefits paid to the retired members, contributions would need to be increased equal to the annual benefits paid to the retired members at that time. In 2013, in addition to those two plans, there were six additional other political subdivisions with defined benefit plans funded less than 80 percent. That was the Douglas County Retirement Plan, it was at 61 percent. The Eastern Health Agency for Nebraska was funded at 64 percent. Lincoln Fire and Police were funded-- was funded at 66 percent. Omaha Public Power District was funded at 72 percent. The Metro Area Transit hourly was funded at 73 percent. The Omaha School Employees Retirement, OSERS, was funded at 73 percent. So as a consequence to all of this, in 2014, Senator Heath Mello, with the help of Jeremy Nordquist, both senators from Omaha at the time, introduced LB759, which provided oversight for the Nebraska Retirement Systems Committee of political subdivisions with unfund-- underfunded, defined benefit plans. In Senator Mello's bill introduction, he stated the following: the state does actually have the fiscal oversight responsibility to make sure local entities, if they're not meeting their obligations, to explain why they're not meeting their obligations. And if they need substantial policy changes to be made to meet those obligations, that they should be bringing those proposals forward and/or advocating and working with the Legislature to make sure these plans become solvent, remain solvent in the future. So in 19-- or 2014, LB759 was enacted and codified in Nebraska Revised Statute 13-2402 and it requires any governing body/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 Systems Committee if most recent actuary evaluation reports indicate that the contribution does not equal the actuarial requirement for funding, and that the funded ratio of the plan is less than 80 percent. The report must include at a minimum, analysis of the future benefit changes, contribution changes or other proposed corrective action to improve the plan's funding conditions. So our process, beginning in 2014, has been the following: we sent letters in September to all political subdivisions with defined benefit plans, and we've asked them to confirm their funding status of their plans. If the plan was funded below 80 percent, the political subdivision, subdivision was asked to complete the reporting form created by the-- our committee. The reporting form was created to ensure that the committee received all necessary data in the consistent categories of information reported by each political subdivision. In addition to actuarial data reporting,

information would include: a narrative of the circumstances that led to the underfunding of the plan; a description of corrective actions implemented; to improve the funding status of the plan, including benefit changes, increase contribution rates and/or employee contributions; a description of any changes in the actuarial methods and/or assumptions since the previous actuary valuation report; and a description of recent and ongoing negotiations with bargaining groups that may impact the plan's funding status. Each political subdivision has been instructed to return the completed form, along with its most recent valuation report and experience study, and informed of a public hearing date to present the report to this committee. We held that first hearing for the underfunded plan reports and presentations in 2014 and since that point in time, we've had a hearing every year since. For a, for a number of years, eight political subdivisions were-- had underfunded plans. This year, there, there are six political subdivisions. We've had two plans that have improved above 80 percent and I believe we've worked with them closely over the last six years, and I think it's paid off. Lincoln Fire and Police has improved to over 80 percent and the Eastern Nebraska Health Agency were not required to report this year either because they are over 80 percent. This year, as I indicated, we have six that will still be reporting: Douglas County is at 73.9 percent; Metro Transit hourly is at 71.5 percent; the Omaha civilian employees is at 53.7 percent; Omaha Police and Fire is 57.5 percent; Omaha Public Power District is 75.5 percent; and OSERS is at 63 percent. In conclusion, I'd just like to say that the six that are here have all been willing to at least listen to our concerns. Our goal is not to be the big bully on the block, but our goal is to see that the people that have pensions promised to them get those promises fulfilled. And if we can't get these plans over 80 percent, we have less likelihood that they will be fulfilled long term, which causes us to take a, take a hard look at what, what they're offering. So again, it's not our intent to be the big bully on the block, but it is our intent to work with the six organizations just like we have with the eight. And, and I will tell you that our-- by and large, we've had a tremendous relationship with all people involved. And it's very nice to have you all come and try and improve your plans for the people that are working for you because these are promises that have been made to these people in good faith. And if we can't live up to those promises, we're not acting in the best interest of our constituents and our employees that-- and all-- and most of this money that gets paid into these pension plans comes right back to the people of the state of Nebraska because the amounts of money they get paid out on a, on a monthly basis in this state are

astronomical. And so-- and by and large, most of that money stays right in the state of Nebraska's economy. So with that, that's just a little bit of background. I felt it was important to-- for you to understand why we do what we do here and look forward to hearing from the people today. So with that, I would ask Dr. Cheryl Logan to come forward or a representative from OPS to speak on what they've done this past year. Welcome.

**CHERYL LOGAN:** Good afternoon. Good to see you again. Senator Kolterman, members of the Retirement Systems Committee, my name is Cheryl Logan, C-h-e-r-y-l L-o-g-a-n. I am the superintendent of the Omaha Public Schools. We are a large-- the largest school district in Nebraska, educating more than 52,000 students. I want to share my testimony by thanking the members and staff of this committee. In my time as superintendent, I have had the opportunity to work with all of you as we continue to do everything that we can to solidify the Omaha Schools Employees Retirement System. As you know, this has been a transformational year for OSERS. I want to thank each of you publicly for your support of OSERS and your efforts to ensure the passage of LB147, which will transfer the management of OSERS to the Public Employee Retirement Board. The board of education and I are incredibly grateful for Senator Kolterman's leadership and commitment to getting the pivotal legislation passed. Since the passage of LB147, the board of education has worked closely with the OSERS trustees to effectuate a smooth transition of operating responsibility back to the board of education. The board of education has adopted a new set of operating rules and regulations for OSERS. These rules and regulations largely mirror those of NPERS, which we believe should facilitate transition of management to the PERB in 2024. The compliance audit called for in LB147 is essentially complete and you have-- you will be receiving or have received that report thus far. Following the PERB's review of the compliance audit, we will work with the PERB to determine next steps, including the possible submission of an IRS determination letter. We will also continue to work closely with the PERB as the preparation for the transition of management really starts to ramp up in 2023. I am pleased to report that the district was once again able to budget for and contribute to OSERS an amount in excess of the actuarially required contribution. The district made an ARC payment of $29.5 million in August, which included $7.7 million in excess of what was actuarially required. This is the fourth consecutive year that the board of education has transferred, transferred more funds to the plan than was actuarially required. That said, and to be completely transparent, we anticipate that it will be more difficult for the

district to contribute amounts in excess of what is actuarially required. At this time last year, the plan actuary, Cavanaugh Macdonald, was working to finalize the five-year actuarially-- actuarial experience study. We shared with you then that we anticipated that there would be changes to the current actuarial assumptions. That anticipated change came to fruition and we noted that the assumed rate of return is being gradually reduced from 7.5 percent to 7 percent by 2025. Obviously, the reduction in the actuarial assumption, when coupled by the lower rates of return we are seeing in the current climate, will likely result in a potentially significant increase in the actuarially required contribution. We all understand that each decision the district makes affects every employee in our workforce and every student in our care. Our commitment to sound financial management and fiscal prudence is essential to our ability to manage both our responsibility to educate students and our duties to OSERS. As the transfer of management of OSERS to the PERB continues, we will keep this committee apprised of the transition progress. I would like to take a moment of personal privilege to thank Senator Kolterman for his service. I would also like to acknowledge the work behind the scenes of committee counsel, Kate Allen. We owe you both a debt of gratitude for helping us make the progress we have today. Thank you both and good luck with whatever you have planned next. To the rest of the committee, thank you for the opportunity to speak with you today. I would be happy to answer any questions you might have.

**KOLTERMAN:** Thank you, Dr. Logan. Are there any questions? Senator Lindstrom, do you have any questions?

**LINDSTROM:** No questions.

**KOLTERMAN:** Thank you. Just a general comment and just, just needs to be on the record, you arrived five years ago.

**CHERYL LOGAN:** I did.

**KOLTERMAN:** I think I was one of the early people that met you at a, at a function in Omaha and you told me we needed to get together. And I would tell the people of this state and the people in Omaha that you've lived up to your word every, every inch of the way along since I first met you. We talked about the challenges that face Omaha Public Schools when it comes to their pension plan. And you asked if we could do the investments and we did that. You asked if we could take over the management and we are in the process of doing that. Those

transitions have gone very easy and very well simply because of the leadership that you've shown and the people that you have working for you. I hear nothing but good reviews from NPERS that there's a great working relationship as well as your people. And the reports that we received from both your-- the people that you hired to do this transition, the audit people, it's been nothing but positive. And I really wanted to thank you for making-- since you've arrived, you've made more than you needed to make in contributions for your ARC every year. And that's exactly why this legislation was passed back in 2014, to show improvement. The only concern that I have and you have the same concern is you're only 63 percent funded. But at the same time, that's an obligation that you will continue to have and I know you'll work towards completing that. So with that, I would like to thank you on behalf of our committee and myself. So unless there's any other questions, thank you very much.

**CHERYL LOGAN:** Thank you very much. I appreciate it.

**KOLTERMAN:** Have a good Thanksgiving.

**CHERYL LOGAN:** Happy Thanksgiving.

**KOLTERMAN:** Yeah. OK. Bernard in den Bosch, Omaha civilian plan.

**BERNARD in den BOSCH:** Good afternoon, Senator, Senator Kolterman, Senator McDonnell, Senator Lindstrom--

**KOLTERMAN:** Welcome, Bernard.

**BERNARD in den BOSCH:** --and Ms. Allen. I wish I could say that I-- I think I've been at this particular meeting and every one that you've had. So my name, Bernard in den Bosch. First name is spelled B-e-r-n-a-r-d. Last name is three words. First word is i-n, second word is d-e-n, and third word is B-o-s-c-h, and I am a deputy city attorney with the city of Omaha, who represents both pension systems and works obviously with the administration on issues related to it. We're in year two of having a new system actuary. I actually envisioned having the actuary with us just in the event that you had any actuarial questions, but due to COVID travel restrictions, Milliman's representatives are not able to attend, to attend. I'll do-- I do want to address the experience study. We did have an experience study that was approved in October and that was for a period of 2016 to 2020 and it didn't result in a significant number of assumption changes. Probably the most significant economic change was

a reduction in the cash balance interest crediting rate from 6 to 5.25. The other significant adjustment was the change in the mortality assumption, which had a significant effect, and I'll talk about that momentarily on, on the funded status. This is the second experience study that we've-- and the, the board adopted the experience study and the results of that experience study were actually used in the actuarial report effective January 1, 2022. So the report that I sent you in October did include the new assumptions that were recommended in the experience study. As is the case for this, as was-- as in the last experience study, the effect of the experience study, albeit it necessary obviously to change those assumption, does have an effect on the funded ratio. The most significant was the last experience study recommended a reduction in the rate of return from 8 percent to 7.5 percent. And with those particular changes and-- that obviously had an effect on the long-term expectation or at least the curve to get to being funded at 100 percent. In fact, for example, in looking at the experience study, if one views those assumption changes for 2021, the funded ratio for 2021 would have changed from 53.25 percent to 51.63 percent, so about a percent and a half. We found relative to the experience study before that it was more like a 3 or 4 percent because of the change in the return of, return of investment assumption. Fortunately, in 2021, we had a return of over-- of approximately 18 percent. And obviously sitting here next year, I can only anticipate that it will not be 18 percent, obviously. The net assets of the system on an actuarial basis are $274 million as of January 1, 2022, and the market value was over-- was $304 million, with an actuarial funded ratio of 53.7 percent. Now, the significant thing is there is at least-- I'm sorry, I muted. There is at least some hope in that because the, the investment return and the mar-- and the system fund amount are smoothed over a five-year period, which obviously has a tendency to take away some of the peaks and valleys, and, and will hopefully help in the report that we would anticipate next year. And of course, it's never fun to come to one of these and have the lowest funded percentage of all the systems you look at. That being said, it's that we're roughly the same funded percentage as we were in 2014. I think the story is significantly better than that, particularly when you take into account the assumption changes. And as a result, in 2015, the civilian-- all the civilian bargaining groups implemented changes in benefits. We moved to a cash balance plan for new hires. Current bene-- current employees had a reduction in benefits in the future, retirement ages were raised and the years in order to qualify for a pension were increased. At the time that those changes were made, Cavanaugh Macdonald predict-- projected that we would be fully

funded in 2048. I'm happy to say this year, as we're seven years into that-- those particular changes, the current report is that it will be fully funded in 2040. So there's been an eight-year-- eight years have been taken off that amount. Now obviously, that has some of-- some part to do with good returns in some of the years. But even if you go back and look at our-- at the return, there was a year four years ago where we had a negative return, but because of the smoothing in the system, it ended up being about a 5.8 percent return for the system. So it's certainly not pleasant to be here with the funded ratio. And I know you'll, you'll probably ask me about ARC and we did not make ARC coverage, our numbers. Whereas seven, eight years ago, we were 15 or 20 percent-- 15, 20 points below ARC, we've been in-- anywhere in the, in the neighborhood of either meeting it or one to-- or 2.5 percent short or 2.5 short of, sorry, over the past couple of years. And frankly, again, those are somewhat affected by the changes of assumptions that we have made. So the bad news is the funding percentage. I think the good news is with the economic changes in assumptions, we're in a better place moving forward. Have a changes, assumptions that not only one, but frankly both actuaries that we've eval-- work with our plan are comfortable with. We've withstood some changes to mortality assumptions on two different case, cases. And the biggest thing that's occurred is we-- good or bad, our transition to the cash balance plan was every person hired after March 1, 2015, would be hired in the cash balance plan. As we sit here today, seven and a half years after that, we are at 46.5 percent of our employees are in the cash balance plan, 53.5 percent of our employees are still in the legacy plan. The good news for us is the normal cost of the cash balance plan is quite a bit lower than what it is for the legacy plan. And the result is-- obviously the big, the big difficulty of this particular plan is funding the unfunded actuary contributions. The normal cost for the current employees is, is actually under 10.5-- 10 point-- under 11 percent and it's going down, whereas contributions are in excess of 28 percent or approximately 28 percent when you include the city and the employees' contributions. So as far as where we are with our bargaining groups, all our bargaining groups in the civilian sector have bargaining agreements through 2025. Most recent round of negotiations, the only change was that we did lower the years necessary to vest in the cash balance plan from ten years to five years. We found that the ten-year period made it prohibitive to hire people, particularly people that were in the middle of their careers, in 40s and 50s, found it difficult to come to the city if it was going to have to be ten years of work prior to the time that they would be able to take advantage of the pension system, particularly when the

pension-- the, the employee contribution to the pension system was in excess of 10 percent. That was-- actually, the price of that was actuarially determined and that's obviously made a part of this particular rate and the, and the projections therein. So, as I said, the, the percentage is not where we would like to be. I think the, the work of this committee and frankly, the work that had to be done-- you know, as you read in the-- in your preliminary remarks, this system, absent some change, was going to be out of cash in 20 years, meaning that nobody was going to get assisted-- nobody was going to get funded. That is no longer the case. The funded ratio may appear to be the same, but if, if you look at the projections, that's not, that's not what the case is. We're in a far better place moving forward. And hopefully, notwithstanding what the investment return is for, for 2022, we're in a, in a place where we're going to continue those contributions. The normal cost for the existing pensions is decreasing-- is continuing to increase and hopefully we can get to the, the ARC. I will bring up one thing because I suspect if I don't, Senator Kolterman, you will. When I was before this committee last year, there was some discussion about the charter convention and there was in fact a charter convention that met last summer. You had asked and I did submit to that charter convention a request that they consider changing the language. And I think it's 6.07 of the charter that requires substantially equal contributions by the city and the employees. That was presented to them. I provided them a memo that they received prior to the-- at the start of the charter convention and I did discuss it with them in a meeting and they have-- they met in committees and decided to bring forward what they wanted to bring forward and then the city council brought a subset of those forward for a vote. Unfortunately, the charter convention did not make that recommendation, which I don't know that I can answer for them, so to speak. The reality is, and I don't know if they're unfair, is, you know, significant changes are made. There's-- we're seeing some positive. I know it's, it's very slow. That's very difficult for most-- for people to, to understand, but we are seeing those positive changes. So that is not the only mechanism by which charter changes can be brought. City council can make a-- adopt an ordinance at any point in time to put it on, on a ballot. And, you know, I, I, I certainly can indicate that that's what this committee would like to have done, but obviously, other people can make similar requests. I'm-- I have some ability to make a suggestion. I don't have an ability to make anybody do anything necessarily. So I figured I would address that prospectively because I figured if I didn't, then I probably will still be addressing it. But in any event-- and, and then

I'll say as I, as I conclude my remarks, I do-- and again, I'll say it this time, but I won't-- try not to be duplicative. I thank you, Senator Kolterman. I appreciate-- and, and, and Ms. Allen as well for your time. I know that your time on the committee is, is coming to an end. I appreciate-- as a public servant myself, I appreciate when I see other public servants who care about their job, who work hard and do things in a appropriate and professional manner. Even though I've been in front of this committee on many times in a position where it was not a pleasant place to sit, I've felt I've always been treated appropriately, professionally, and I, and I very much respect that and I appreciate that. And, and I know that when you-- when we have had the tough questions, it's nothing more than your concern for, for what you're seeing for other citizens. So I thank you.

**KOLTERMAN:** Thank you, Bernard. Any-- do you have a question, Senator McDonnell?

**McDONNELL:** Thank you, Bernard, for being here. Thanks for your 23 years of service to the citizens of Omaha.

**BERNARD in den BOSCH:** Twenty-six and half.

**McDONNELL:** Twenty-six and a half, which is--

**BERNARD in den BOSCH:** I'm old.

**McDONNELL:** I've haven't been paying attention, but thank you. You've done a great job for the city of Omaha. Do you think if this committee wanted to have that, that meeting with the Omaha City Council, talk about the charter, talk about-- I know they're in the process right now and just finished the convention-- that that's something that they'd be willing to sit with us as a city council and have that, that discussion going forward?

**BERNARD in den BOSCH:** Yeah, I think so and I think the mayor would as well. The reality is they-- the charter convention made a number of recommendations. They only moved forward a small portion of those so there, there's just as many recommendations that didn't get moved forward. And the expectation is that they're going to bring those forward in the next year or two is my-- is at least what they've relayed to us. So absolutely and I'm happy to help coordinate that, whether it's with-- obviously if it's a full city council, it would have to be a public meeting. We could break it into smaller groups or maybe with the finance group or one, one or more of those groups and

absolutely willing to facilitate that and I have no doubt that they would certainly meet with you.

**McDONNELL:** Thank you.

**KOLTERMAN:** Any other questions? Senator Lindstrom, do you have any questions?

**LINDSTROM:** No questions. Thank you.

**KOLTERMAN:** I appreciate you being here, Bernard. We've had, as you said, a pretty good relationship and we've met privately in the past, along with the mayor. I'd be redundant if I didn't express my concerns. While your funded ratio did increase slightly, be-- you had a good rate of return last year at 12.9 percent. Do you know-- do you have any indication where you're, where you're at right now or approximately how it's trending this year? Because we don't have '22 yet.

**BERNARD in den BOSCH:** We're, we're, we're not-- you know, I think-- what I would say about this particular group is it's a relatively conservative investment strategy. The last I heard was, you know, it was not-- it was at less than 10 percent--

**KOLTERMAN:** Yeah.

**BERNARD in den BOSCH:** --at less than negative 10 percent because I mean, I think there's some concerns that you're going to see some systems that have negative returns that are consistent with what we saw in 2008, you know, close to 20 or 20. But my-- what I'm-- the last I've had any discussion, that was not the case, though I do know that the third quarter in particular was incredibly volatile.

**KOLTERMAN:** Right. Well, the concern that I have-- and I'm just-- I mean, I've always been blatantly honest with you. The percentage of the ARCs that you pay, the actuarially required contributions over the last five years has continually declined. In 2016, you paid 106.81 percent, but then in 2010-- 2017, you paid 91.2 percent of the ARC. In 2018, you paid 86.8 percent and in 2019, you paid 87.4 and last year you paid 88.24 percent of the ARC. We don't have this year's yet. And your unfunded actuarial liability actually decreased slightly from $230 to $229 million. But, but my concern is-- and this is exactly what we saw with the Omaha Public Schools plan, they weren't making their ARC payments. And that, that's what's-- I mean, if you go back to 2014, that's what Cavanaugh Macdonald had indicated, that you, you

were going to run out of money if you didn't make those ARC payments. And that's, that's just the minimum amount that you should be making. The other thing that we've heard for the-- at least since I've chaired this committee the last seven years is that you couldn't put more money in than an equal amount to what the, the employees were putting in because of your charter. And so every year, I think if you look at the record, on the record every year, I've asked you to go back and take a look at the charter or at least have some discussion. When that came up this year, I asked my staff and I talked to my committee. I said, are you hearing anything about the charter? Because I was under the impression the charter was something that could only be addressed every so often. Now I hear that you can do it--

**BERNARD in den BOSCH:** Though historically, the charter--

**KOLTERMAN:** --more often-- you could do it any time you wanted to.

**BERNARD in den BOSCH:** Historically, the council has never done it under the charter conventions, but you can.

**KOLTERMAN:** The reason I have the concerns about this is, number one, the people that are in the pension plan deserve to know that their plan is going to be funded. And to ask the-- I believe right now-- I'm not sure I have that in front of me. I think I do-- your employees are-- what percentage are the employees actually putting in?

**BERNARD in den BOSCH:** About 10, 10.2 percent.

**KOLTERMAN:** Yeah and so if you ask them to put-- and, and you're matching that-- if you--

**BERNARD in den BOSCH:** And we're-- actually, the city puts in about 18 percent.

**KOLTERMAN:** OK, but you-- you're at-- they, they can't put more than 10 percent in. It's rank and file. So if you change the charter, it will give you the opportunity to do so. And now I'm going to go back to what happened in 2010. You passed some sort of an ordinance allowing extra charges on restaurant tax or some sort of a occupation tax. It's my understanding that was designed to be used to help take care of the pension plans that were in dire straits already back in 2010. There's a disconnect here somewhere. I, I don't understand what it's all about. I mean, what are you doing with the excess money that's coming from that, that restaurant tax? Does that go into the general fund?

**BERNARD in den BOSCH:** I think-- the restaurant tax, I think, certainly was in part to pay the difference, the increased contributions for the police and fire pension system was at least the discussion at the time. But it goes into the general fund. There are-- there have been increased contributions for both, but, but there's no question that the restaurant tax revenue has exceeded the amount--

**KOLTERMAN:** So--

**BERNARD in den BOSCH:** --that's being--

**KOLTERMAN:** So if the restaurant tax was put into place to take care of pension problems or at least part of it, where, where do we go-- and you're not willing to look at making a-- the only people who can make additional contributions in here is the city of Omaha. I mean, you're already asking the employees to take a big burden here. So it's almost like everything we've asked over the last seven years has fallen on deaf ears. It doesn't make any sense to me. I think the people in-- the citizens of Omaha need to understand what's going on here. I think it's a blatant disrespect to the employees as well as the citizens of Omaha. And I'm sorry if I'm kind of upset about this, but I like to think that if you listen, work with us, we're willing to work with you. But I don't see any cooperation whatsoever from the city of Omaha. So with that, I don't know what to ask unless you have an answer for that.

**BERNARD in den BOSCH:** I, I don't, I don't-- and all I can say is what I think I've already said. And I, and I appreciate what you're saying. I think there is a concern. The, the ARC, at least in my view, has gone up and down a little bit, but we still haven't met it. There's no question since we made the assumption changes in, in 2018, we have not met the ARC. We actually met the ARC for the couple of years before that. When we changed the rate of return, we have not and I-- that's absolutely true.

**KOLTERMAN:** You know, with Omaha Public Schools, we put in statute that they had to make their ARC payments. I don't know if we have the right to do that to you or not. I think we probably have some sort of ability to help you in that regard, but.

**BERNARD in den BOSCH:** I don't know that.

**KOLTERMAN:** I mean, we can't do it-- I mean, we're here-- you are here today because your plan continues to be underfunded.

**BERNARD in den BOSCH:** We are.

**KOLTERMAN:** And city, city of Lincoln worked with us. They're over 80 percent. Omaha Public Schools, they're-- granted, they're not at 80 percent, but they're going in the right direction. I don't know what more to say--

**BERNARD in den BOSCH:** No.

**KOLTERMAN:** --but you don't have to listen to me much longer because--

**BERNARD in den BOSCH:** No, I-- and I--

**KOLTERMAN:** --this is my last hearing.

**BERNARD in den BOSCH:** And I'm not-- I get it. I understand.

**KOLTERMAN:** All right. Any other questions? All right, you want to talk about the Omaha Police and Fire now?

**BERNARD in den BOSCH:** Do I have to? [LAUGHTER]

**KOLTERMAN:** I won't say any more about that.

**BERNARD in den BOSCH:** Senator Kolterman, Senator McDonnell, Ms.. Allen, and Senator Lindstrom remotely, my name is Bernard in den Bosch, deputy city attorney. My name is spelled-- first name is Bernard, B-e-r-n-a-r-d. Last name is three words. First word is i-n, second word is d-e-n, and cap-- and the third is B-o-s-c-h. I-- obviously again, we're in year two of our-- Milliman is our actuary. Again, I'd have them here to answer questions, but they're unable to travel. You did receive the actuarial report as of January 1, 2022, as well as an experience study for the period of 2016 to 2020. Those-- that experience report was accepted and the changes were made rela-- pursuant to that experience study in the October report, which is with the effective date of January 1, 2022. So the point is that there's no lag between the assumption changes that were made and you actually see them in the report that we provided to you. The return, the return for 2021 for the police and fire system was 22.15 percent and the changes that were recommended by the experience study were actually relatively minimal. The only economic change was there was a decrease in the pay-- anticipated pay increases for firefighters from years 4 through 16 of their career from about 0.75 to a .5. The significant change, much like it was for the civilian system, was the updating of the mortality table and then there's a few other slight modifications.

Much like it was with the civilian system, that-- those changes in assumptions ate up to, to the extent-- probably approximately 3 percent increase in the funded ratio of the system. The funded ratio of the system, notwithstanding those changes, did increase from 55.1 to 57.5, an increase from 44 percent as you indicated during your preliminary remarks. The net assets of the system were actuarially determined to be about $936 million. The real assets of the-- the market value of the system, as of January 1, 2022, was over $1 million. The good thing for that is, at least for purposes of the actuarial report, as we move forward to next year, anticipating that our returns will not be good, those, those-- the rates as well as the market value are smoothed. And because of the good returns for the past couple of years, that will provide some insulation for the losses that we anticipate seeing during calendar year 2023. There is no question that the system did not meet its ARC, but notwithstanding the changes in assumption, the deficit decreased from 2.649 to 1.62 percent. Again, I know we've, we've discussed that in some regards and it has been-- no question, it's been difficult to make the ARC since the assumption changes went into effect in 2017 that decreased the return of investment of the system from 8 percent to 7.75 percent in this particular case. And, and as you've seen in the report, we're now in the tenth year since the significant pension changes were made. The Omaha Police Department police officers, subject to the collective bargaining agreement with the police officers, made changes in October of 2020. Changes were made relative to the fire bargaining group effective in January of 2013, at that point. Currently the projection indicates that the system will be fully funded in 2042. Last-- the last projection that we had was 2046 and quite frankly, at the time that the pension changes were made, it was anticipated it would be fully funded in 2046. So much like many of the other things, they're-- obviously the systems are somewhat similar. They're-- they do have different investment portfolios, different investment policies. There is at least some change here as regard to-- the two significant bargaining groups in this particular plan are the police bargaining group and the fire sworn bargaining group. The police-- the city does have a collective bargaining agreement with the police bargaining group through 2025, but the bargaining agreement with the fire bargaining group ends at the end of 2023. In the event that as we get to next year and we see some increased issues with funding status, we do have the ability to negotiate changes with the fire group. In regards to the pension changes in 2010 to-- and 2013, I'll just talk a little bit about those. Those were significant. Not only did current employees take a reduction in benefits from in-- including increasing

years of service to retire, increasing age of retirement, as well as doing some things to minimize the ability of people working overtime in the last year of their career, despite their pensions through something called the career overtime average-- and then any new hires after that period of time no longer have a pension that's-- it's based on their base salary. The period of time to reach that pension is longer, as is the-- and the maximum you can receive is lower. The contribution, ultimately, that resulted in increases between 13.5 and 14 percent and the contributions the city was making from roughly-- to roughly 33 percent and 34 percent, depending on the system and the actuarial value of the reduction in benefits for the members of the system were, were 14 percent or so. So again, I know--- I kind of-- I know what you're interested in. I know that when it comes to the ARC, that's obviously an area of concern. When it comes to many of the other factors, what we're actually seeing in this pension system is exactly what was projected when the pension reform started occurring in 2010 through 20-- and 2013. That pension reform was a-- based on a citi-- a group of citizens and city officials known as the Bates Commission made a number of recommendations and changes. And notwithstanding the fact that I know there's concern about not meeting the ARC, if you look at the projections that went in place 10, 11 years ago, we are right on the projections to be fully funded. And the problem is, is the biggest liability is the unfunded actuarial liability for those employees who are currently receiving their pensions. And as you indicate, it's difficult to make employees to pay-- ask the employees to-- current employees to pay more because of what the normal cost is for their pension. But again, the difficulty is, is whether we, we love it or not or like it or not, even with the-- some of the changes in the economic assumptions that we've made, we're still-- on the graph, we're, we're exactly where it-- if you talked to Cavanaugh Macdonald 10 years ago, where do you want to be in 10 years? We're exactly where they told us we wanted to be and we should be. And that's maybe little comfort when you're talking about the ARC, but at least when you look at the overall picture, that's, that is the reality. So again, I'm happy to answer any questions and I won't repeat-- I'd even say the kind things that I said about you even after the last time, but I won't repeat them for purposes of, of time.

**KOLTERMAN:** First of all, I hope you don't take it personally--

**BERNARD in den BOSCH:** I do not.

**KOLTERMAN:** --because I'm not--

**BERNARD in den BOSCH:** I do not.

**KOLTERMAN:** --intending to shoot the messenger.

**BERNARD in den BOSCH:** I do not.

**KOLTERMAN:** I just hope that the people in Omaha might hear what we're talking about and give some serious consideration to our concerns. One last thing that I would ask, you guys-- do you, do you borrow any money, the city of Omaha? Do you do any bonding?

**BERNARD in den BOSCH:** The city certainly does bonding.

**KOLTERMAN:** Yeah.

**BERNARD in den BOSCH:** No question.

**KOLTERMAN:** Has, has the bonding agents had any concerns over your problems with your pension?

**BERNARD in den BOSCH:** So we've, we've-- probably 10 years ago, 12 years ago, that-- our bond rating went from AAA to AA-plus, I think it was. There-- I certainly had that-- as I understand it, that's been discussed in the bonding rating meetings that occur each year, but the rating has not been lowered since that initial determination that was made. So I think it's fair to say it's, it's obviously one of the things that's talked about and discussed and, and certainly there are concerns about it. I think, again, notwithstanding some of the discussion of ARC, if, if-- where we are with both systems is exactly where the fix that was put in place said we should be. Now, I appreciate one or two bad years of, of investment returns, you know, obvi-- can obviously have a huge effect. The-- where we-- it took us years to overcome 2008 and, and we hope that-- you hope you don't have that and you hope you've done some things to prevent it. But so yes, do they-- does it come up in concern? It has not resulted in, in any-- anything negative since the initial change was made 10, 12 years ago.

**KOLTERMAN:** But they have, they haven't done anything to increase your bond rating either, have they?

**BERNARD in den BOSCH:** No. Correct, we're at the, we're at the second tier that you can.

**KOLTERMAN:** And, and when-- the lesser your bond rating is, the higher your interest rate is, is that correct?

**BERNARD in den BOSCH:** Correct.

**KOLTERMAN:** So you're paying more because, because of concerns that they have about some aspect of your finances and I, I have to think that this is a major contributor to that.

**BERNARD in den BOSCH:** And I think so far, our interest-- we're still, as I said, the second-highest level bonding rate that, bonding rate that you can have. Our interest rates are still low. But, but there's no question--

**KOLTERMAN:** Yeah.

**BERNARD in den BOSCH:** --20 years ago, we had-- we were even at a higher level than we would have taken it--

**KOLTERMAN:** The other, the other-- the only other thing that I would say is, while you have, you have an assumed rate, you moved from 8 percent down to 7.75 percent. What we're seeing from a national perspective is moving even into the 7, 6.5 percent arena. I know that would make this look even worse.

**BERNARD in den BOSCH:** True.

**KOLTERMAN:** I know you don't want to do that, but that's something that-- the assumed rates, to think that we're going to get 7.75 to 8 percent is somewhat difficult in these times. And I'm not asking you to lower that any more because it would just make it look worse--

**BERNARD in den BOSCH:** Well--

**KOLTERMAN:** --but the reality is that's a concern that I have.

**BERNARD in den BOSCH:** It's certainly a concern. I would say that the city's-- the investment-- the system's investment advisors didn't think the last reduction was necessary. They certainly don't think it needs to be more and probably more importantly, I think with some of the increase in actuarial-- actuaries' responsibilities to look at the risk and volatility in the market, both of the, the-- both system actuaries have looked at that and have indicated that they're comfortable with where we are, but I do appreciate that, that--

**KOLTERMAN:** I'm just--

**BERNARD in den BOSCH:** --that may change--

**KOLTERMAN:** Yeah.

**BERNARD in den BOSCH:** --because things, things have certainly changed in that regard.

**KOLTERMAN:** I'm just telling you what we're seeing on a national--

**BERNARD in den BOSCH:** Sure.

**KOLTERMAN:** --basis from a trend in public retirement plans. And, and I know ours have all gone down to 7.5 or that we're, we're moving towards 7.

**BERNARD in den BOSCH:** And they certainly tell-- I mean, we've had that discussion and there's no question that the police and fire retirement system probably has-- they're more active. They, they get in and out of things more frequently.

**KOLTERMAN:** Right.

**BERNARD in den BOSCH:** There's probably a little more volatility in their returns and I think you see that in the actuarial report that this year indicates that's the case.

**KOLTERMAN:** Bernard, I don't have any other questions. Senator Lindstrom, do you have any questions?

**LINDSTROM:** No questions.

**KOLTERMAN:** All right.

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

**KOLTERMAN:** Good luck. Thank you.

**BERNARD in den BOSCH:** Yep, thank you. I appreciate your concerns and good luck to you in the future, sir. And good luck, Ms. Allen, as well.

**KATE ALLEN:** Thank you.

**KOLTERMAN:** Thank you. OK. Joe Lorenz. Joe. Welcome, Joe. I won't, I won't be as hard on you.

**JOE LORENZ:** Good afternoon. Good to see you. My name is Joe Lorenz, L-o-r-e-n-z, and I am the Douglas County Finance Director. I think

I've been here every year for-- since you've been having this and one thing I want to thank you for is I think every year, I've followed the city of Omaha and it's made my life easier. Sorry, I couldn't resist. [LAUGHTER]

**KOLTERMAN:** You're going in the right direction. Would you spell your name, please?

**JOE LORENZ:** L-o-r-e-n-z. But let me take you-- give you the update on the Douglas County pension-- defined benefit pension plan and take you through some key benchmarks. As of January 1, our funding status was up to 73.9 percent, which over the course of the last year, went up three points, but over the course of the last three years has been up 8.3 points. Our assumed rate of return is 7.5 percent. I know you were just having that discussion. But if you look at our three-year, five-year and ten-year results, we've been able to beat that 7.5 percent over that period. So given that we've been able to do that on a fairly consistent basis, I think we're comfortable at the 7.5. Our-- both on our market return and our actuarial return, we've had double-digit returns over the past three years. So we've-- our member and employer contribution rate has been consistent at 8.5 percent each for a total of 17 percent. Our ARC is running about $26 million a year and we've been able to contribute that at about 100 percent just about every year. This year, the expected amount is a little lower, but I'm confident that the actual amount will be higher. And one of the reasons is that we used some of our ARPA money to pay premium pay to our employees and that's increased their payroll by at least 5 percent, so. Just some other highlights: the accrued liability of the plan as of January 1 was $150.4 million, which was lower by $9.2 million than a year ago. We have a plan with a little over 4,000 participants, but 55 percent of them are active, which is still a healthy ratio for a mature plan. I won't go into a lot of detail about why we're here because we've talked about it in previous years, other than saying that in 1997, they did some enhancements to the plan, which included the Rule of 75, increasing the benefit formula from 1.5 to 2 percent of pay. In 1996, we were 97.8 percent funded. By 2010, we were 57.8 percent funded. We lost 40 points of funding in that time. So in 2011, we made some changes. That was one of the-- the year-- I came on board for the-- with the county 11 years ago. So we got rid of Rule of 75, we lowered the accrual from 2 percent of pay to 1.5 percent of pay and we also changed the maximum retirement income-- all this is for new employees-- from 60 percent of a participant's final average to 45 percent. And the result was since that time, in these past 12 years, our funding level is up 16.1 percentage points. So I

always tell this committee that turning our pension around is like turning around an aircraft carrier. I think we've got it turned around and we're going in the right direction. There's going to be periods we hit choppy water like this year with, with the market results, but I think overall, we have very positive trends. We're very committed to go-- getting above 80 percent. And as an example of that is a little over a year ago, our corrections guards wanted to upgrade their early retirement benefits to be similar to our sheriff's employees. So we told them that could only happen if it didn't have a negative impact on the plan. So we worked with the actuaries and we negotiated an agreement with the union where those employees would contribute an extra 2 percent of their salary to get that early retirement benefit without the county having to match that contribution. Our actuary is Hub/SilverStone and they have estimated now that by 2027, the plan would be 81.8 percent funded. So I think we're really starting to get within pretty close to being able to over-- be over 80 percent. And like I say, not-- depends what the market does, but I'm pretty confident that we'll do that within the next few years and not have to come down here.

**KOLTERMAN:** Well, the good thing is you don't have to put up with me anymore.

**JOE LORENZ:** Yeah, we're going to miss you.

**KOLTERMAN:** You're welcome back next year, huh? No, I-- all kidding aside, you-- as we-- and we keep track of all this, believe me. Since 2018, you've gone from 68 to 74 percent funded. We saw similar results with the city of-- the city of Lincoln. I think you're going in the right direction. That's, that's all we can ask, that you continue to-- yeah, these things-- you're right, these things don't turn around overnight.

**JOE LORENZ:** And, you know, we don't chase yield. We don't really invest in alternative investments. I mean, I was shocked this weekend when I read some articles and they said some pension funds were in cryptos. I mean, to me, that's just mind blowing. But, you know, we would certainly never consider anything like that.

**KOLTERMAN:** You don't have to go very far to find out public pension plans that invested in alternative investments.

**JOE LORENZ:** Yeah, and we don't do that.

**KOLTERMAN:** Right. All right. Well, hey, thank you.

**JOE LORENZ:** OK. Thank you.

**KOLTERMAN:** Senator Lindstrom, did you have any questions? I forgot to ask.

**LINDSTROM:** No questions.

**KOLTERMAN:** Thanks. OK. Next, we have John Thurber and Jeff Bishop for OPPD.

**JOHN THURBER:** Thank you, Senator Kolterman. I'm John Thurber, T-h-u-r-b-e-r, with Omaha Public Power District, the director of our treasury and financial operations area. I'm sorry Mr. Bishop was not able to join us. He's, he's actually out of town today and so he sends his apologies to the committee for not being able to attend. Hopefully I have good news to share on Omaha Public Power District. As you noted earlier, we did increase our funded rate from 72 to 75.5 percent and we did that-- it was kind of remarkable. We did that with also decreasing our discount rate from 7 percent to 6.5. And the district did that-- every five years or so, we go through what we call an asset liability study where we look at our investments and the liabilities. And we have an investment consultant and actuary that kind of looks at what our returns should be with our investment policy in place. And they thought it was prudent to reduce it from 7 to 6.5 percent. We think it's a conservative move and so that was great to do that. The big, the big thing that the district did last year was we contributed an additional $95 million to our pension plan beyond the almost $56 million that, that our ARC payment was in 2021. Of course, the district has always made 100 percent of its ARC payment ever since the pension has been in existence so that additional contribution really did support the increase in the funded ratio. And the district does save funds when, when it has excess earnings in the reserve to help support additional contributions into the retirement plan. And so our intention would be, if financially prudent to do so in the future, to continue to do that. So we're looking forward to joining those two that dropped off of the committee's reporting requirement in the future. And we'll see where, we'll see where this leads, but looking forward to continuing to increase our funding ratio.

**KOLTERMAN:** Appreciate you are moving in the right direction. Thank you.

**JOHN THURBER:** You bet.

**KOLTERMAN:** Thanks for your willingness to come down and testify.

**JOHN THURBER:** You bet.

**KOLTERMAN:** All right. Senator Lindstrom, do you have any questions?

**LINDSTROM:** Good on my end.

**JOHN THURBER:** Thank you, Senator Kolterman. Thank you.

**KOLTERMAN:** OK and finally, not last but not least, Bill Clingman from Metro Area Transit.

**WILLIAM CLINGMAN:** Afternoon.

**KOLTERMAN:** Welcome.

**WILLIAM CLINGMAN:** Thank you. Chairman Kolterman and members of the Retirement Systems Committee, my name is William Clingman or Bill Clingman. That's C-l-i-n-g-m-a-n for the last name and I am the finance director for the Regional Metropolitan Transit Authority of Omaha, or Metro. I also wanted to apologize on behalf of our CEO, Lauren Cencic, as she is unable to make it today. She had a prior commitment so she couldn't make it. Metro is the public transit provider for the Omaha metropolitan area. We provide fixed, paratransit and express services. Metro also provides services to the cities of Council Bluffs, Bellevue, La Vista, Papillion and Ralston by virtue of our agreed-upon service contracts with those municipalities. Thank you for the opportunity to address the committee regarding Metro's hourly employee pension plan and the corrective actions that we have taken to improve the funding status of the plan. I'm happy to report that over the last several years, we have continually and consistently increased both employer and employee contribution rates, lowered our assumed rate of return and improved the overall funding status of the plan. Since 2016, we have increased the employee contribution from 6 percent to 7.75 percent, increased the employer contribution from 6.5 percent to 7.75 percent, as well as changed the normal retirement age from 65 to the age when the employer reaches full retirement for the purposes of receiving Social Security benefits. We eliminated our early retirement option and changed the benefit factor percentage used in the calculation of the monthly benefit for employees hired after January 1, 2018. We are currently in negotiations for a new union agreement to go into effect on January 1,

2023, and we anticipate that employee and employer contribution rates to have a modest increase, with the goal of continuing to improve the overall funding status of the plan. In addition, two one-time lump-sum contributions have been made to the plan in the last five years. The first was for the period of January 1, 2016, and ending in August 31, 2017, in an amount equal to 1 percent of the total wages of active plan participants, making the effective employer contribution rate 7.5 percent from July 1, 2016 to 2019. A second one-time lump-sum contribution was made at the end of 2020 in the amount of $350,000. The amount represents the estimated difference in calculated employer contributions compared to the anticipated contribution attributed to the reduction in working hours due to COVID. This one-time lump-sum contribution increased actual contribution to 11.1 percent of payroll of 2020. Additionally, in our 2021 actuarial valuation report, we had reduced our assumed rate of return from 6.5 percent to 6.25 percent. In 2022, we maintain this rate of 6.25 percent. We will continue to analyze this rate in the coming years to ensure it continues to be an achievable rate. These assumptions were viewed and adopted by Metro's pension committee and board of directors. We have 182 active members in our plan, 200 members in pay status and 56 terminated members as of January 1, 2022. The funding status of the plan is 71.5 percent, which is an improvement over our 2021 funding status of 68.5 percent. So thank you for giving me the opportunity to address the committee and I'd be happy to answer any questions you may have.

**KOLTERMAN:** Senator Lindstrom, do you have any questions?

**LINDSTROM:** No questions.

**KOLTERMAN:** Thank you. You're going in the right direction. Keep doing what you're doing.

**WILLIAM CLINGMAN:** Will do. Thank you.

**KOLTERMAN:** With that, I will close the hearing. Thank you for all attending, all of you that are left.