McDONNELL: My name is Mike McDonnell. I represent Legislative District 5 in Omaha, and I also chair this committee hearing. Hearings, even in interim study hearings, are an important part of the legislative process and provide an important opportunity for legislators to receive input from Nebraskans. If you plan to testify today, you will find pink testifier sheets on the table inside the doors. Fill out a pink testifiers sheet only if you're actually testifying before the committee and please print legibly. Hand the pink testifier sheet to Tim, our committee clerk, as you come forward to testify. There's also a white sheet on the table if you do not wish to testify, but would like to record your presence at this hearing. If you have copies of your testimony, please bring up at least 10 copies and give them to the clerk so that they can be distributed. Since this is an interim hearing, study hearing, we will not be using the proponent, opponent and neutral format. We will just-- we will not-- will also not be using the light system, but would encourage your testimony to be strip, distinct. The purpose of the hearing is to receive an actuarial study on LB196 and provide an opportunity for the committee members to ask questions regarding the study as we decide how to go forward with LB196. One process that remains is that I'd like to remind everyone the use of cell phones and other electronic devices is not allowed during the public hearings, although you may see senators you them-- use them to take notes to stay in contact with staff. I would ask everyone to look at their cell phones and make sure they are on the silent mode. With that, we will introduce the senators, starting with Senator Clements.

CLEMENTS: Rob Clements, District 2.

McDONNELL: And our only senator right now here, besides myself. I'm Mike McDonnell, Legislative District 5. Tim Pendell is our committee clerk. Neal Erickson is our legal counsel. And we will now start with hearing from Director John Murante

JOHN MURANTE: Good afternoon, Chairman McDonnell, members of the committee. My name is John Murante, J-o-h-n M-u-r-a-n-t-e, and I am the director of the Nebraska Public Employees Retirement Systems. As you know, LB196 was introduced last year requiring an actuarial study over the course of the interim. My predecessor, Director Randy Gerke, had selected Cavanagh Macdonald as the actuarial firm to conduct the study on this bill over the course of the interim. Cavanaugh Macdonald has long had a working relationship with NPERS and has conducted numerous actuarial studies over the course of the years. We have a lot

of confidence in them. I have with me a representative of Cavanaugh Macdonald, Brent Banister, to present to you the actuarial reports on behalf of NPERS and submit that to you.

McDONNELL: Thank you. Any questions from the committee? Thank you, John, and welcome.

JOHN MURANTE: Thank you.

McDONNELL: And now we will ask Brent Banister, chief actuary from Cavanaugh Macdonald, to please come up.

BRENT BANISTER: Thank you, Senator. I'm Brent Banister, B-r-e-n-t B-a-n-i-s-t-e-r. I am the chief actuary with Cavanaugh Macdonald. Cavanaugh Macdonald is a actuarial consulting firm that works entirely in the public sector, and I'm the chief actuary there so get to see a lot of pension plans around the country, but glad to be able to work with Nebraska since we're located in Bellevue so. We prepared a study which I believe you have copies of, and I just wanted to highlight a few of the key parts of that study and happy to then answer any questions. This is dealing with, with LB196. Then there was one amendment as well in that. The key things that the combination of legislation did was it changed the contribution rates for, for the members and the State Patrol agency as the employer to 8% for members, 26% for the employer. It provided for a greater cost of living cap that is in place now. Right now it is 1% for recent hires, 2.5% for those who've been around longer. This would increase the cap to 4%, not to exceed inflation and finally would change the survivor benefits for various situations from 75% of what the member was receiving to 100% so the key parts there. In our letter, we, we explain how we go about the process of this. One of the things I would especially note is relative to the inflation assumptions, kind of bottom of our second page, where because inflation really is, is sort of a random variable in a lot of ways. There's a range of outcomes in any given year. We make a single point assumption that represents a long-term average in our best estimate. That estimate is, is 2.5%, which-- or actually less than that. So that means that for the current-- the, the members who have been around for a little bit longer, we're not assuming there would be any change for them. Now in reality, in any given year, if we had a sudden unexpected [INAUDIBLE] at 3.5 or 4 or more, they would indeed get a larger benefit. But on, on average, we're not expecting a change there. So that's kind of a, a simplifying assumption, but something that do just want to note that there is-- there is some potential for variability to change this if inflation moves over time.

On page 4 of our letter, we summarize the financial impact. And the first thing I want to note is because of the timing of this report, this was based on the July 1, 2022, valuation. We are in the process right now of working on July 1, 2023, but have not yet completed it and/or presented it to the NPERS board. And so pretty common in actuarial circles to do this and then project results forward. That's, that's pretty routine. The one thing that we did in our projection, first of all, you'll see on the left column is the-- what we call the baseline, where, where that '22 valuation was projected forward to '23, just assuming everything behaved as expected. We know, however, that there's been a new contract with the, the troopers that has changed the compensation levels coming up. And so because that's going to be reflected in the valuation, we thought it was important to also reflect that in this study. And so that is the second column in that table. And you can see that it does several things. It increases the liability because if individuals are paid more, their benefits will be greater later on. So that results in higher liabilities to the system, future obligations. And so as a result of that, the, the contribution to what's called the regular contribution that the state currently pays essentially matches the member contributions increases. Because if there's more pay and you're paying a certain percentage of that, the total goes up. In addition, there's the additional state contribution piece, which is whatever it takes to kind of reach the full actuarially required contribution rate. And that number increases from an estimate of 4.5 roughly to about $7.2 million. So that second column would be our best guess at this point of what this year's valuation results look like and feel pretty comfortable that it will be a reasonable estimate of what we will see. We then, for, for illustration purposes, did one change at a time to help kind of illustrate what's going on. From the second to third column, you can see the impact if we change the employee and employer contributions. And because the total contribution rate actually goes up a little bit, the, the additional state contribution piece, the next, the bottom row there, actually goes down. The total kind of needed amounts are not really moving much on us there, a little bit because there are some some technical differences, things going on with, with all of that. Don't move a lot, but there is-- there is some movement there with that change as it shifts the cost from the, the members to the employer. The next column reflects what happens if we make these death benefit changes from the 75% to 100% continuation to survivor, again, a cost there. And then finally, the, the impact of making the changes to the COLA shown in the final column. Those numbers, like I say, we believe be pretty reasonable. But still with the '23 valuations, we're

kind of giving preliminary information there. No reason to particularly change our mind on any of those numbers. And I guess just to clarify, these changes are being imp-- or are considered incrementally. So the, the change in the death benefit includes both the change to the contributions and the death benefit change. The far column includes all the changes. So it's kind of incremental step there so that the, the complete bill, if you will, is reflected in that final column. With that, I'm happy to take any questions you may have.

McDONNELL: Questions from committee members? Senator Clements.

CLEMENTS: Thank you for being here. The additional state contribution, is that what we usually call the ARC?

BRENT BANISTER: The additional state contribution is the piece that goes into the appropriations bill each year. The ARC, the actuarially required contribution, is a combination of actually the member contributions, the employer contributions and the additional state. The combined of all three of those is the ARC.

CLEMENTS: So is the ARC going to be an additional expense on top of these numbers?

BRENT BANISTER: No, no. These, these are all part of the ARC. So the actuarially required contribution we have-- we have a total contribution that we need to fund this plan. The members are putting in some, that's not shown on here. The State Patrol as an agency puts in some. That's the what's termed the regular state contribution. And then the additional amount that is requested from-- in the legislative process each year and always put in which, which may be what informally is called the ARC I suspect. The extra piece that, that is needed to fund the plan, that's the-- what's called the additional state contribution.

CLEMENTS: And is that-- I see that number is going from $4.5 million to $10 million. Is that because the unfunded liability has gone from $56 million to $135 million?

BRENT BANISTER: There's 2 factors that increase that. One is, yes, the improved benefits increase the liability. It's got to be paid for somehow. The second part is the members' contributions are dropping from between 16 and 17% to 8%. And so that essentially has to be made up somewhere as well. That's being done by increasing the-- what the

agency puts in, which is in the regular contribution amount. But depends on mismatch flows through.

CLEMENTS: So the regular state contribution, is that number showing the 26%--

BRENT BANISTER: Right. Yes. That is the--

CLEMENTS: --state amount?

BRENT BANISTER: --26% there. That, that's, yeah, that's-- and that's why that number is [INAUDIBLE] the last 3 columns is it's in any case, the employer, the agency is putting in 26%.

CLEMENTS: But you said the employees are going to have some more contributions. It's not showing up here?

BRENT BANISTER: The members will be putting in less actually. This, this shifts it and so we're not reflecting anywhere on here the member contributions directly. It's behind the scenes in terms of what goes into that additional piece. But we don't directly show the member amount on this exhibit.

CLEMENTS: Why don't you show the members' amount?

BRENT BANISTER: Because we were trying to prepare or kind of show what's the state going to be obligated to pay.

CLEMENTS: I see.

BRENT BANISTER: The, the total-- the total contribution rate you can see it's kind of middle of the page there, that that's what this is costing overall and it's what's not employee is then covered by the, the employer in the state.

CLEMENTS: All right. The UAAL rate is the amount to get to 100%.

BRENT BANISTER: Right. Right. That we're not at 100% now but--

CLEMENTS: Under the unfunded portion.

BRENT BANISTER: --to get there over time. Yes.

CLEMENTS: All right, well, I-- I would have thought the employees' dollar amounts would've been significant to see from our point of view.

BRENT BANISTER: [INAUDIBLE] yes. And roughly they cut in half because they go from about 16% of pay, which [INAUDIBLE] ballpark that. I don't have pay sitting there handy. Essentially the-- between the second and third column, the, the increase of roughly $3.2 million is really what the members are not putting in anymore. So there's roughly a $3.2 million shift. The, the members to start with in the first 2 columns are-- member amount would be identical to the regular state contributions because it's dollar for dollar currently. And essentially we're shifting $3.2 million away from the members to the state if we go from column 2 to column 3.

CLEMENTS: I see that the state goes from $6.4 million to 10.3.

BRENT BANISTER: Right.

CLEMENTS: That's not 3.2.

BRENT BANISTER: No, because the total contribution rate is changing. Right now some members do 16--

CLEMENTS: So from 32 to--

BRENT BANISTER: --some do 17.

CLEMENTS: 34 percent.

BRENT BANISTER: [INAUDIBLE] 34, yeah.

CLEMENTS: All right.

BRENT BANISTER: So a little, little change there.

CLEMENTS: [INAUDIBLE] All right. Very good. Do you do valuations for other Nebraska law enforcement agencies like Omaha Public Police Department or Lincoln Police Department or?

BRENT BANISTER: We do the Lincoln Police and fire. I don't work on that personally, but, but as a firm, we do.

CLEMENTS: I just was interested in a comparison of their contribution rates and structures. We don't have that--

BRENT BANISTER: Off the top of my head, I cannot comment on that. Yes.

CLEMENTS: All right. The unfunded liability, over what period of time do you model that you would get to 100%?

BRENT BANISTER: Under state statute, there are-- there's a base created each year for kind of the new unfunded liability piece. The difference is we kind of pay each piece off. Currently, any new piece of unfunded liability is paid off over 25 years. There are a couple of bases prior to that law change that are still over 26 or 27, but the bulk of it in the 27-year base right now happens to be a credit. So 26 years from now it will all be paid off.

CLEMENTS: So this-- the amount of contributions showing here is projected that we'd go to 100% in 26 years.

BRENT BANISTER: Right. These rates of pay would do. Everything is being paid as a level percentage of payroll. So we would expect if all the assumptions play out as expected, right. This would be the rate for the next 20.

CLEMENTS: And then one more on the inflation amount, cost of living. What's the cost of living adjustment in the current plan and how is that changing? I didn't quite follow that.

BRENT BANISTER: OK. So currently the-- there are 2 groups of members. And [INAUDIBLE] my head the date of this-- 2014, '16, somewhere in there. The members prior to that point received actual CPI not to exceed 2.5%.

CLEMENTS: OK.

BRENT BANISTER: And the newer members receive actual CPI not to exceed 1%.

CLEMENTS: OK.

BRENT BANISTER: And under this provision it would be the, the, the not to exceed number would be 4% for, for both groups. Now our, our current assumption is, is 2.35% for inflation. That's as we are operating as the long-term assumed inflation rate. So because of that, the 2.5% cap for the longer service members is still assumed into-- or the reason that the 4 is not assumed to change anything.

CLEMENTS: All right. The newer employees are 1%--

BRENT BANISTER: Right.

CLEMENTS: COLA cap of retirees, I should say, right?

BRENT BANISTER: Yes.

CLEMENTS: And this bill would be 4% for all retirees.

BRENT BANISTER: For all, all groups. Right.

CLEMENTS: How about people who are currently retired, this would affect all those, too?

BRENT BANISTER: Yes. That would [INAUDIBLE]

CLEMENTS: Not just new retirees.

BRENT BANISTER: Right.

CLEMENTS: All right. Thank you. That's all I had.

McDONNELL: Thank you, Senator. Senator, do you have a question?

CONRAD: Yes. Thank you so much, Chair. Thank you so much for being here. And it's good to see so many Nebraskans in the room today. Normally, we're a bit lonely in Retirement, so it's nice to have so many people connected to this issue. And I think-- I think I know the answer to this, but I wanted to throw it out for the record and for you or for other testifiers that might come behind you. The committee was presented an amendment which in essence just changes the operative dates, I think, from the original LB196 as introduced. I'm guessing because the committee didn't take action on it last year and so then this would set us up for success in 2024. But is, is it-- is it a legal requirement or is it just to address fiscal note or just technical kind of drafting issues with the bill that it would-- that a change like this in the benefit would be prospective only?

BRENT BANISTER: There's, there's no particular reason.

CONRAD: Sure, from like a policy--

BRENT BANISTER: I mean, I'm not an attorney--

CONRAD: Yeah, right.

BRENT BANISTER: --so I can't say about the legal end of it. But, but things could be made retroactive. Typically, things are done prospectively from a, just an administrative--

CONRAD: Right.

BRENT BANISTER: --simplicity. I mean, especially if you say, well, let's go back and retroactively change member and employer contributions. That's, that's a complicated thing to do administratively. And so, for instance, that one would probably not be. I guess if you wanted, you know, again, you could go back and say, well, if anybody passed away during this interim period, we'll go back and change the survivor benefits in their case, again, administratively challenging but probably not too many people involved.

CONRAD: OK.

BRENT BANISTER: And you could go back and adjust the COLA. That would be, again, administratively a little complex, but not, not probably not too bad.

CONRAD: OK. Thank you so much. Thank you.

McDONNELL: Any other questions? Yes, Senator.

HARDIN: A million feet up looking down, Nebraska-- and I often say this-- I'd rather be us than them, whoever them is. And so I'm not speaking just to the troopers in this case. I'm just saying overall, we sit in a pretty good place compared to the rest of the country in terms of how we fund retirement. Would you agree?

BRENT BANISTER: Yes [INAUDIBLE]

HARDIN: I'll put it another way. Our unfunded liability on the 30-year look ahead with GASB looks much better than 43 other states.

BRENT BANISTER: Yeah. Yes, we are in a good position. The-- and part of the reason is, is not because just what you're funding now, but because how you have funded in the past.

HARDIN: Right.

BRENT BANISTER: And other states are beginning to do what you're doing, but it will take a while to catch up. So, yes, we are-- we are generally-- from that perspective, these funds look very good compared to most states.

HARDIN: Compared to most states. A reflection. I think the word magnitude was used in this document in terms of describing it, which is probably an apt term. And so my question is, given that

million-foot view looking down, does this entire package reflect that conservative approach moving forward? Or is this-- would you call this a turning point in Nebraska? Would we find ourselves in the red instead of in the black with unfundeds moving forward? And would we look back 27 years from now and say, whoops, in 2024 we changed things?

BRENT BANISTER: From an actuarial perspective, I'm not trying to dodge the answer here, but, but the point of a retirement system is to provide benefits.

HARDIN: Right.

BRENT BANISTER: OK. And you have choices of do you want to provide more benefits or less benefits and obviously more benefits costs more, less benefits cost less. There's no such thing as a free lunch, so to speak. And so provisions like this, because they provide more benefits, inherently cost more, because coupled with that is a funding mechanism that will pay for those over time. It doesn't fundamentally change your long term. 27 years from now, either way, you-- you'll be sitting in the position, all assumptions playing out, which they won't, but you'll be sitting at 100% funded either way. Now you will-- had to put more money in and you will need to continue to put more money in, but you will get more benefits for that.

HARDIN: Right.

BRENT BANISTER: And so that's a policy choice. It's not really actuarial.

HARDIN: The numbers are, what the numbers are.

BRENT BANISTER: Right.

HARDIN: And that's, I guess, my concern. There's nobody sitting here that says, you know what? Our, our cops here in the state don't deserve this more. We were-- we deeply appreciate them. We really do. My concern is that we make promises that, in fact, we can't keep down the road because the worst-case scenario is not that we don't make a big enough promise now. The worst-case scenario is when someone is out of their runway on their career, they can no longer go back to work and then they start to get squeezed with the reality of the state couldn't keep up. And the problem is that those workers, those troopers are looking at pay stub by pay stub, and that amount that they're contributing disappears every single time like clockwork. And

what none of us can control is, for example, the 9.89% for that type of thing looking forward because that's the market and it sort of does what it wants to do. And so my concern is getting to that place where 43 states have taken themselves through defined benefit programs and they've ended up in a place where they didn't want to have to say to their police, fire, judiciary, teachers, general workers, sorry, but we're now going to start squeezing your benefits. And I'm sorry that you're 76 years old, but I'm sorry. That's just the way it goes. To me, that's the unacceptable tragedy. And we, we head that off at the pass now. So that's my concern is this is a pretty big ask.

BRENT BANISTER: The-- again, you know, obviously this is inherently a policy [INAUDIBLE] issue.

HARDIN: A million feet down, you don't control what you don't control.

BRENT BANISTER: Right. Right. The thing that, you know, it's also true that obviously the, the more benefits you provide, the more risk there is from a market--

HARDIN: Right.

BRENT BANISTER: --variation. If you-- if you provide almost no benefits, not much can happen to you. If you provide a lot of benefits, more can happen. How this fits in, you know [INAUDIBLE] I have to always remind myself, I'm looking at this plan and this is part of a much bigger component of state government. I don't know what the whole state government budget looks like or how this compares, you know. So, so again, there's a perspective there that, I mean, I just really can't comment about is this risky? Yes, there is-- there is inherently more risk with more benefits. That doesn't mean that it's bad. It means it has to be managed. And, and so that's the key thing is to be aware of there is additional risk. It needs to be managed. And because it's more benefits, it will cost more. But, but it may be, you know, again, from a policy perspective, that's, that's, that's your position to determine is this a good policy.

HARDIN: We're about $24 million down right now on OPEB, is that right?

BRENT BANISTER: I am not familiar with OPEB.

CONRAD: Omaha teachers--

HARDIN: No, other post-employment benefits, healthcare.

BRENT BANISTER: I'm not. I do not know where--

HARDIN: OK. I think that is the number.

BRENT BANISTER: [INAUDIBLE] yeah.

HARDIN: So I'm just saying that's not-- that's not real big in the grand scheme of things, but it's a problem if the OPEB continues to grow. And that's obviously where we want to protect our officers. I also get the dynamic and the challenge, I think what are we now, 455 troopers down? Big picture, obviously nobody wants to go to work for something where the retirement, frankly, isn't going to be there at all. I mean, if you're a 35-year-old and you're looking at a system like, oh, I don't know, Colorado to name names, and you're going, my Lord, am I going to have a retirement by the time I get there? Thank the Lord we're not in that place yet, but we want to make it attractional. We want to be, I think, the best place to work. And so certainly this is attractional. I just want to make sure that what happens on the other side is real and not an empty promise.

BRENT BANISTER: Sure. Like I say, this certainly reduces your funded status to implement something because you're sort of playing catch up inherently and that's-- but you have a strategy. And there are-- would be options if you say we really think, for instance, we think it's important to provide these benefits, but we don't want to take 25 years to pay it off. There would be ways to potentially accelerate payment, obviously cost more money sooner. Again, there's no such thing as a free lunch, But, but that would be, for instance, a possible way to reduce risk is to accelerate some of the funding [INAUDIBLE] get if that fits with the overall state policy concerns.

HARDIN: Appreciate you being here.

McDONNELL: Yes.

CONRAD: Thank you so much, Chair. And I think your point is still well taken in response to my friend, Senator Hardin's question. And I, I think that he gives voice appropriately to wanting to be good stewards of the taxpayer dollars and do the right thing on behalf of the brave men and women that serve our state as well and balancing all of those, those different policy considerations. But, you know, when I was reviewing the fiscal note on LB196 prior to the hearing today, just to kind of refresh my recollection from last year, if you dig through it, it's a very clear explanation and a very modest state investment when

you think about it in comparison. Do-- we have 2 members of Appropriations here and we're all responsible for the budget, what, over $12 billion in annual spending, I think our, our overall budget is. Of course, the General Fund impact is much less than that, but for all funds source. So when you look at I think this fiscal note had maybe less than $3 million on it from all different fund sources. And you kind of think about it in comparison to those big numbers, which are hard to wrap our heads around from a kitchen table perspective, it's, it's a very small fraction. And I think perhaps that was the point that, that you were maybe trying to make or inject into the record in terms of how to balance those policy considerations and thinking through kind of the context for those from a fiscal perspective.

BRENT BANISTER: Right. Right. Yeah. The thing I want to, again, point out is benefits cost money. And, you know, there's no way to, to get something that's valuable for free, just doesn't happen. And so it really is a question of, you know, yes, this will cost $3.5 million, give or take and grow at 3% a year kind of thing over time, but becomes levels percent of payroll. And so, yeah, it's definitely a question then that's really for you is, is this a path that we would want to make? Do we find the value of those benefits to be worth this? And I can't-- I can't give you that answer. I can only tell you what it's going to cost.

CONRAD: Yes. No, I, I appreciate that and teeing it up from a policy choice perspective. And, and I think it's, it's definitely an important consideration for all policymakers to think through. You know, we just recently improved some very significant items in our most recent biennial budget, including very, very significant tax relief for the most wealthy and the biggest corporations in the state with a much, much bigger price tag than this. And I just-- I didn't want that to go unnoticed for the record. Thank you.

McDONNELL: Any-- Senator Vargas.

VARGAS: Thank you again for being here. One of the things that stuck out to me, looking at the Tier 1, Tier 2 COLA provisions and the statement here that however, actual inflation will vary from year to year depending on economic conditions and monetary policy. So this approach likely will still underestimate some levels of cost for LB196. Can you just expand on that a little bit?

BRENT BANISTER: That's a very good question. The-- for many of the last number of years, we probably wouldn't have even thought about this almost because we've had a period of time very different from when I was just, you know, teenager and college age and all that when inflation was high. We, we have gotten used to a very stable, relatively stable period of inflation. And we have experienced in the last couple of years for any number of reasons, some of which are probably very unlikely to repeat, and some of them, you know, who knows, some high inflation. And so we're just aware that while we have this long-term assumption and feel uncomfortable with that as a long-term assumption, that there could be periods of time, you know, as we've just experienced recently, where there are some higher periods of inflation and that will cost more with this bill in place. That while we think that the, the ongoing assumption is a reasonable estimate, in a year in which it's higher will be a cost that will hit the system and not, I mean, will be recovered with time and higher contributions.

VARGAS: And I appreciate getting that on the record. And the reason why I ask is even though the percentage is increasing in the provisions for cost of living, it's still, you know, that's going to mean a greater cost to the state. However, in terms of the actual rate of inflation, we will still be lagging behind inflation, even if it's at 4%, which again, we're trying to make sure that individuals that are under these plans, we're trying to keep up and reduce the impact of inflation for individuals and for families. Right? So I just wanted to make sure that was clear because it is sort of similar to what's-- I want to make sure we're fiscally responsible. I think it is fiscally responsible that we were looking at the cost of living adjustments and it's still not meeting what we're normally seeing sort of this new day and age of what inflation looks like. I hope inflation doesn't continue at this pace. However, as we've seen, and even our appropriations and revenue cycles are very cyclical, it's not-- it's not the same. So the cycle can be that this is the new normal of inflation. It really, truly could be, which means it's probably even more important that we go down this route of providing a better adjustment and state contribution. So I just appreciate it. I wanted you to, to be able to expand on that a little bit. Appreciate the report.

BRENT BANISTER: If I could predict inflation, I'd probably be a bond trader instead. Yeah, but no, again, we, we, we just want to be clear is, is we're assuming what we think is a reasonable long-term assumption that has, has held up for a long period of time. But, but

inflation is somewhat different from some of the other assumptions we have in that there are forces that can move that, and they're not always clear in advance.

VARGAS: Thank you.

McDONNELL: Any other questions? You started off in mentioning the valuations 2022 versus 2023, you're working on that, going to give that to the PERB board at the end of the month.

BRENT BANISTER: Yes.

McDONNELL: Can you-- should we be-- is there going to be any drastic changes, do you think? And if you can't answer that right now, I understand but.

BRENT BANISTER: I'm not particularly concerned about any dramatic changes--

McDONNELL: OK.

BRENT BANISTER: --based on what we've seen to this point.

McDONNELL: As we go through this and talk, let's say the COLA, let's say we're looking at 4%. We want to have a discussion about 2%. Is it OK for us, just rough math, to say the value of that is x, the value of that is a dollar at 4%. So therefore we're going to cut it in half at 2-- and I'm not-- I don't want anybody in this room to think that we've had this discussion as a committee. We haven't. But just as we start that discussion Exec Session, what-- is that fair to, to say we could look at it that way?

BRENT BANISTER: With, with the COLA, that's, that's probably not a good way to look at it. The, the-- there's 2 factors involved. One is again, while that 4% cap is in there, recall that as we point out, we're, we're valuing that it will be inflation, which our assumption for long-term inflation is lower. So if you were to drop it from 4 to 3.5, we would have produced the same numbers, for instance. It, it does-- it should cost a little bit less. But it's, it's, it's not to where we can without going to a lot of complications really measure that difference. So I would-- I would say I would not try to do that with inflation. If you want to deal with the death benefit and say, OK, instead of 75 or 187.5, yeah, that's probably halfway between that, that'd be a good ballpark number. But, but the COLA in particular, that would not be a-- it's not linear.

McDONNELL: Exhibit B, we drop from 90 to 80%. How worried, should we? And then going back to Senator Hardin's question, looking at us from 10,000 feet.

BRENT BANISTER: So, so there's a couple of factors going in with that drop, you know. One is more benefits. The second is there are some deferred investment losses flowing through. So, so that's part of what is going on as well. There would, you know, if you look at, for instance, the, the no change provisions, it drops from 90 down to 84. So, so some of the drop is going to occur just because of what has, has already occurred. That's, that's a combination of different investment losses and the pay increases with the new contract. So I guess I point that out to say that there's fluctuation that can occur. And in fact, what would be viewed as a fairly normal market value variation of returns that we-- while we're assuming kind of long term around 7%, there's a standard deviation on that of probably about 11 or 12%. We can go plus or minus 11 or 12%, which if we weren't doing asset smoothing, would mean your funded ratio would change by about 10% a year just due to a very reasonable, not even a moderate view, slightly unreasonable variation. So I don't know that we get too worried about that. And yet it is something to, to not ignore that there is a, a decline. And the lower your funded ratio is if we have a prolonged market downturn, it does make it harder to recover. We have a strong market for 2 or 3 years, we need to be remembering it. And I don't know which one we're going to have.

McDONNELL: Thank you. Any other questions? Thank you for being here.

BRENT BANISTER: Thank you.

McDONNELL: Can I ask how many people plan on testifying? All right. Thank you. Please come forward.

LUCAS BOLTON: Good afternoon, Chairman McDonnell and the members of the Retirement Committee. My name is Lucas Bolton, L-u-c-a-s B-o-l-t-o-n. I'm the appointed legislative representative of the State Troopers Association Nebraska, and I'm here today to testify in support of LB196. I'm currently employed as a criminal investigator for the Nebraska State Patrol and have been employed with the agency for over 7 years. In my time with the agency, I have held several roles. I've been a [INAUDIBLE] officer for many consecutive recruit academy camps which [INAUDIBLE] officers, their role is to teach, prepare and socialize new recruits as they become troopers throughout the academy process. I performed that role up until I became a

polygraph examiner, at which time I began conducting the preemployment polygraphs that the recruit candidates would undergo before receiving a final offer employment from the agency. While performing these roles, I have gained a unique perspective on both the quantity and quality of candidates we see coming through our onboarding process. These positions have provided me with a plethora of opportunities to have conversations with people about why they want to join the State Patrol. Through these conversations, I've also learned that many of the qualified candidates applying are-- many of the other qualified candidates are also applying with other agencies while they're going through our hiring process, meaning we are competing with these other agencies for the most qualified candidates. LB196 brings forth 3 important changes which will aid the Patrol with recruitment, retention and ensure the continued quality of law enforcement in the state of Nebraska. First, and the change that I will speak most in-depth on, is the reduction in the contribution that each trooper makes to the State Patrol Retirement Fund. I believe that this change will have a profound impact on the future recruitment of state troopers, but also equally important, the retention of our current sworn officers. The Patrol has an authorized force of 482 sworn officers and the agency is currently sitting with more than 60 vacancies. Over the last several years, the number of vacancies has been steadily growing. One of the issues in attracting potential new recruits was competition. Governor Pillen has shown his support for the Patrol by helping to make the Nebraska State Patrol compensated-- compensation more competitive with other in-state agencies. While the compensation is now more competitive, one thing that is not is the contribution rates the troopers make into the State Patrol Retirement Fund. Currently, each trooper contributes either 16 or 17% of their monthly compensation into the retirement fund. The Lincoln Police Department's officers contribute 8% for this divine-- for their defined benefit pension plan. The Omaha Police Department officers contribute 16.1 for their pension. However, they also receive full post healthcare-- post-employment healthcare. OPD's plan is described as 8% for the pension and 8% for the post-employment healthcare. The State Patrol does not receive post-employment healthcare, despite contributing as much or more than OPD. Taking this into account when comparing the State Patrol with OPD and LPD's retirement contributions, the Patrol contributes twice as much for a similar retirement benefit. I believe the Retirement Board has previously been provided a chart of the contribution rates of other state law enforcement agencies used by comparison with the Commission on Industrial Relations. In that data, you can see the Nebraska State

Patrol is the highest contributor when it comes to retirement rates, with the average amongst the comparable agencies is 7%. LB196 would reduce the contribution for each officer of the Nebraska State Patrol to the State Patrol Retirement Fund to 8%. If passed, this would immediately make the Patrol comparable to other in-state agencies and in line with the average of the comparable state agencies. This would aid in recruitment as the Patrol would be able to offer a more competitive compensation package and increase the take-home pay of new troopers. In addition to the benefits of recruitment, the reduced contribution would also significantly benefit retention. A common concern I've heard from my colleagues is the current contribution rates of 16 and 17%. I remember back when I was a new troop, I, you know, I bought a new house, I had a used vehicle and at that time I could still barely break even with the take-home pay that I got. I had a constant worry that it was one catastrophic event, like severe car problems or the HVAC going out, away from being in a serious financial hole. Over the years, I found out this was a common feeling among my colleagues. I have consistently heard from some of my fellow state troopers contemplating leaving the State Patrol and joining a different agency, not because the overall, overall pay was drastically better, but because the retirement contribution rates were significantly lower and they would be able to take home more pay-- more of the pay that they earned to support their families. One way the troopers offset this financial need is by working off-duty jobs. Many troopers work their regular shifts and then pick up extra hours working off duty to ensure financial security. This takes them away from their families, the families that they're working so hard to support. The job of being a trooper is incredibly stressful. I'm not asking you to be sympathetic to the stress that comes with this line of work. Every current Nebraska state trooper knew they were signing up for that when they took the job. What I am asking is for you to help alleviate some of the financial stresses that currently come as a side effect of work in this job. Looking across the board at both brand new troopers and 20-plus year vets, the proposed reduction in retirement contributions to 8% will allow troopers to take home around an extra $500 or more of their earnings. That monthly increase would have significant impact on both providing financial security and relieving financial stress. This will aid in retaining our current sworn staff and stop the loss of experienced officers that the state has already placed a considerable investment of time and resources in recruiting and training. The second change that LB196 proposes is changing the benefit received by the surviving spouses of the officers of the Nebraska State Patrol from 75% to 100% of the amount of that

officer's retirement annuity. I know being a Nebraska state trooper can be a very hectic lifestyle from working nights and weekends to getting randomly called out for service at the most random and inopportune times. During a trooper's career, their spouse is truly an integral part for them to be successful and perform their duties. Many times a spouse has to operate alone in managing the household and fulfilling the parental duties while we are out providing a service to the public. Without this sacrifice and commitment from the spouses, I believe it would be almost impossible for a trooper to have any kind of normal family life. I truly believe that most of the time the spouses work just as hard to be able to make that trooper successful in fulfilling his duties to the state. It would bring me great relief to know that after my death my wife would be just as taken care of and not face any additional, additional financial stress on top of the loss of me. Changing the benefit from 75% to 100% for the surviving spouses would be a great benefit for every trooper. The third and last change proposed in LB196 amending the benefit paid to the retired annuity shall be increased annually by either the percentage change in the Consumer Price Index or 4%, whichever is lesser. This is a per-- this has been particularly notable the last 3 years when the CPI has been unusually high. The current statute simply does not account for rapidly increasing inflation over multiple years and has left the State Patrol's retirement benefits solely behind the level of inflation. By making this small amendment to the COLA to the 4%, it will combat the ever increasing cost of living and ensure that troopers maintain financial security throughout their retirement. All 3 of the changes proposed in LB196 will have a significant impact in combating the current issues of recruitment and retention faced by the Nebraska State Patrol. I want to thank Senator Eliot Bostar for recognizing these issues and proposing such impactful legislation to directly address them. This legislation will help to maintain the law enforcement manpower provided by the Nebraska State Patrol, ensuring a safe and secure Nebraska. Thank you for your time and consideration. I'd be happy to answer any questions you might have.

McDONNELL: Any questions from the committee? Thank you for being here. Welcome. You're familiar with this place.

SCOTT BLACK: Good afternoon, Chairman McDonnell, pardon me, and members of the Retirement Committee. My name is Scott Black, that's S-c-o-t-t B-l-a-c-k. I'm the retiree representative of the State Troopers Association here to testify in support of LB196. I retired in 2012 after 25 years of service with the Nebraska State Patrol. I'd like to thank Senator Bostar for the time and effort in bringing this

legislation to this committee. This is very positive legislation for our state, Nebraska State Patrol, and members of the State Troopers Association of Nebraska. If passed, this legislation will serve as an incentive for recruitment of candidates, assist in retaining current officers of the State Patrol, and improving the ability for retired officers to provide for their own loved ones' welfare. The first portion of this bill deals with lowering the retirement contribution percentage rate for current officers and the troopers who are younger and starting new families. Reducing the employees' retirement contribution rate would allow more money to be used in managing expenses incurred in critical times. This career is difficult enough without struggling to make ends meet. When my children were young, times were tough financially and we qualified for assistance with school meals programs. Times changed, things improved, and we weathered the storm, but not without substantial adversity along the way. The change in retirement contribution will ease the burden. Retirement is one of the things on the rate-- on the radar for the new officers, too, but it's likely not the priority. Their focus is taking on a new career, providing for them and their families now, advancement opportunities, and working for an organization that cares for them and offers benefits down the road. Having contributed as much as 19% of my salary towards retirement and raising 4 children, I can truly relate to the need for having immediate funds available during those years. Secondly is the proposal for raising the survival spouse, excuse me, the surviving spouse benefit percentage from 75% to 100%. This one is personal for me as recent-- as recent as last week. I have lost 4 of my Patrol brothers and have witnessed both the emotional and financial impact it has made to spouses and families. In 2011, 12 years ago, the Troopers Association and I, along with the courageous assistance of 2 surviving spouses, one of which you'll hear from today, brought legislation before the Retirement Committee, chaired by Senator Nordquist, to address the retention of surviving spouse benefits. The antiquated state statute dealing with retirement benefits indicated that if a surviving spouse remarried, the spousal benefits earned by the officer would cease completely. Apparently, when the law was written, the perception was that the surviving spouse would remarry and be taken care of by someone else. During that hearing, Jason Hayes, legal counsel for the Public Employees Retirement System, testified there were 57 surviving spouses, but all had never remarried. He suggested the fear of losing spousal benefits may have been a major contributing factor to their decisions not to remarry. Thankfully, that law was changed. The issue for us now is the continued penalization of surviving spouses by providing a reduced

percentage of this benefit. The legislation will correct this injustice for the future. Currently, our retirement is inconsistent with the judges and teachers whose dependents receive 100% of their spousal benefits. Why aren't troopers' spouses treated the same? This is an injustice. If you are not aware, state troopers do not pay into the Social Security system. So unless an officer has satisfied the quarters necessary from previous employment, they will not receive any benefits from that program. Our surviving spouses should not feel obligated to remarry out of financial well-being concerns. Our spouses are unique and the rock of our families. Most of our spouses do not-- most other spouses do not endure the stressors ours are subjected to daily once their officer puts on the uniform and reports for duty, a duty that is unpredictable, dangerous and under constant scrutiny, never knowing if they'll be coming home, the fear created by the late night phone call or the constant concern of what will happen to the family if the worst-case scenario occurs. Our spouses are left to deal with the real-life issues in our absence. The same is true when we die. We want to be there to spend time with them and care for them, but it's not possible. The Nebraska State Patrol motto is "To serve and protect," and that applies to our families too. We ask a great deal of our spouses every day. Sorry.

McDONNELL: We got plenty of time.

SCOTT BLACK: Thank you. We ask a great deal of our spouses every day, and they deserve all the benefits due them. It's their money too, and they have definitely earned every cent. The final section of the bill makes a minor change to the COLA for retired officers, which provides for the benefit paid to be increased by the greater of (A) the percentage change in the Consumer Price Index or (B) 1%. Previously, the benefit was determined by the lesser amount. The COLA has been a positive adjustment to the retirement benefit and this change will hopefully continue to enhance the process for-- progress of trying to keep pace with the ever rising cost of living. Thank you for your time and I'll be happy to answer any questions you have. And again, my--

McDONNELL: Any questions from the committee? Yes, Senator Clements.

CLEMENTS: Thank you, Mr. Chairman. Thank you, Officer Black. I am not aware of-- what is the retirement age for State Patrol? Is there a specific set retirement age?

SCOTT BLACK: I've been retired for 12 years, so I'm going to go with what I knew back then. If you reached age 50 and had 25 years of

service, you could retire. The mandatory age was age 60 regardless of how many years.

CLEMENTS: OK, 50 is possible, but 60 is mandatory.

SCOTT BLACK: Correct.

CLEMENTS: Thank you.

SCOTT BLACK: At that time.

CLEMENTS: All right.

SCOTT BLACK: Yep. I may be corrected by somebody else, but.

CLEMENTS: That's all I have. Thank you.

McDONNELL: Further questions? Yes.

CONRAD: I don't really have a question. I just wanted to thank you for your testimony and for your service to our state and for giving voice to the challenges that our brave men and women on the front lines and their families really struggle with--

SCOTT BLACK: Yeah.

CONRAD: --in order to perform their commitment to public safety and to public service. And I think it takes a great deal of courage to lay that out in a public forum. And I'm glad that we've made strides in terms of compensation over the years. But I think it's, it's very, very sad. And a statement on our state's misplaced priorities if we're asking people to put themselves in harm way-- harm's way on behalf of the public good, but not live with dignity, and that includes basic compensation and benefits for, for their hard work. So I just really wanted to thank you for your testimony and passion and expertise.

SCOTT BLACK: I'm sure we all appreciate that. Thank you.

McDONNELL: Other questions from the committee? Good seeing you.

SCOTT BLACK: Thank you.

McDONNELL: Thank you for being here. And thank you for your service.

SCOTT BLACK: You're welcome.

McDONNELL: Next testifier. Welcome.

DENISE WAGNER: Welcome. Thanks. Good afternoon, Chairman McDonnell and members of the Retirement Committee. I'm here in support of LB196.

McDONNELL: Your name, please.

DENISE WAGNER: Oh, I have to give you that. Sorry. My name is Denise Wagner, D-e-n-i-s-e W-a-g-n-e-r. I have firsthand experience of what it means to need the entire serving-- surviving spouse benefit. My husband, Mark Wagner, was killed in the line of duty on March 4, 1999. When my husband was killed, one of my first phone calls of business I received was from the state saying you will be losing your health insurance so you will need to COBRA on to Mark's policy at a substantial increase if you want to continue your coverage. And by the way, you'll have a decrease in your monthly income by 25%. As a new widow, this causes panic as I have 3 teenage daughters to support and raise. In addition to changing the monthly expenses to pay now with 25% less income, raising the surviving spouse benefit from 75% to 100% would have helped take pressure off me at an unthinkable time as I was already dealing with the grief journey and all the life changing events that were taking place. Don't get me wrong, I was very thankful for surviving spouse's benefit. But I did wonder why it was only 75% and not 100% to honor the one who gave it all. In today's world, the surviving spouse benefit being raised to 100% should help with the recruitment for the Nebraska State Patrol by alleviating the fear of whether or not the family will be cared for as a result of a tragic event. Everyone in law enforcement needs their family to be taken care of to the fullest. But in our time of grief, losing 25% of a monthly income is not a benefit nor does it feel like we're being cared for. It felt more like being punished for something that wasn't our fault, let alone having to navigate all this without Mark. I also believe changing the wording from lesser to greater regarding the COLA for retirement benefits should contribute to helping ease the burden of coping with the rising costs encountered in the future. Although not a substantial amount of increase, it will still help to keep pace and is appreciated. Thank you and I'll be happy to answer any questions.

McDONNELL: Any questions from the committee? Yes, Senator Clements.

CLEMENTS: Thank you. Thank you, Ms. Wagner. I'm really sorry for your loss.

DENISE WAGNER: Thank you

CLEMENTS: Thank you for your service. You said you had a 25% pay decrease. Does that mean that his retirement pay was equal to the same amount as his in-service pay was before that, it was not a decrease? If he had retired, he gets-- would got the same pay?

DENISE WAGNER: He would have got 100%. Yes.

CLEMENTS: 100% of the prior year wages.

DENISE WAGNER: So the spouse gets 25-- you, you only get 75% of whatever his pay was at that time--

CLEMENTS: All right.

DENISE WAGNER: --instead of 100%. Instead of getting his normal paycheck, you would get 75%.

CLEMENTS: All right. Thank you.

DENISE WAGNER: OK. Thank you

McDONNELL: Any other questions? Thank you for your family's sacrifice and thanks for being here.

DENISE WAGNER: Thank you. I appreciate it. Thank you.

McDONNELL: Next testifier. No one else wants to testify? Thank you all for being here. We appreciate it. That concludes our hearing.