[LR182]

SENATOR SYNOWIECKI: Good morning, everyone. Now that Senator Karpisek is here we can get started. The important member of the committee is here, so. I'm John Synowiecki. I'm the Chairman of the Retirement Committee. I want to welcome you this morning. We will have a couple others coming in as the hearing progresses. Hopefully, there is a...from what I understand, another hearing this morning, and Senator White and...who else? Senator Louden and Senator White are in other hearings. They may be joining us a little bit later. To my right is Jeremy Nordquist; he is the legal counsel for the committee. To my left is Laurie Vollertsen; she is the committee clerk. And again, Senator Karpisek, thank you for joining us this morning. We have one item on our agenda and that is a legislative resolution introduced by Senator Kruse, and we will have Senator Kruse open on that interim study resolution, and then we'll entertain testimony. Won't have proponent or opponent testimony--just generally take testimony on the initiative that has been introduced by Senator Kruse. So with that, Lowen, are you ready? [LR182]

SENATOR KRUSE: I am indeed. Thank you, Senator, and greetings to all. I want to begin by...and I'm sorry the others aren't here to hear my appreciation...to express my appreciation for the Retirement Committee and the work you do. It is not fun (laugh). We wrestle with these issues from time to time, and I really appreciate what you're doing and the request for a hearing on this is not in any way a criticism of what has been done. Rather, it's because I'm getting really old. I'm a geezer. I've seen these plans come and go. I have seen the experience and felt the experience personally of these plans, and frankly, it's the last chance for me to ask questions. After next May, somebody is going to say, if I raise a question, who are you and where do you come from? So I have heard disturbing actions during my time down here. As a member of the Appropriations Committee, we have faced deficit funding that has had a huge impact on the state--just huge. I don't think persons can understand that unless they're on the committee. But in '02, we were told that our income was going down because the stock market was going down, the state income was going down. And the first thing we were handed with that was a higher bill for the pension funds, because the stock market was going down. So out of the smaller funds we were supposed to come up with more funds, and we had decisions at that time that really hurt the state. We picked up a million dollars by spending three to five millions dollars a few years out. Right now our state budget is being impacted by those decisions, and it's just a huge impact. It's not just the dollars that we put into that; it's the stuff that we cut out, that we postponed, and so on. I'm also bothered by comments, especially from colleagues on the floor, that indicate that they don't really understand the issues that you are bringing to the floor and that we should be facing together, and reports from public, e-mails and so on. So it just seems to me a good neutral way of going at this is to have a little time out, have time for discussion, for everybody to present their cause without prejudice, and again, acknowledging that you've been working on these, and you've had your own frustration. My credentials for being here are basically from 25 years ago when I was on a board that had to decide what to do with my own pension fund. The employer could not sustain the pension. There was just no way that that could be done, and what were we going to do? We were on our defined benefit program, and everybody was in it in good faith, but it wasn't an inadequate program, and it wasn't going to be supported. So we changed to a defined contribution, and my pension tripled. In fact, if that...we hadn't taken that action, I wouldn't be sitting here. I wouldn't be in the Legislature. The only way that I could come to the Legislature was because I had a chance to do volunteer time, which I consider what the Legislature is. I'd come out about even financially from my experience here. But without that switch I would be out working, trying to supplement the pension that I had, in my case, from the church, which pastors have done for most of the last century. But I'm glad to have been rescued from that pattern. So I cheer your study and I urge boldness and continuing review. Now my complaints--I'll try to be pretty direct about them and others will, I'm sure, be speaking to these. My major complaint is because of defined benefit, because our plan, which we thoroughly reviewed and had all kinds of consultants on it, but our defined benefit was what was hurting us. In defined benefit, you can't pay as you go. You expect to pay as you go, but then you get surprise bills that come along, as I've already described, in terms of the deficits that we experienced then, and we're still experiencing deficits. Every year, rather than doing the things we need to be doing in the state, we've got deficits. It all comes from defined benefit. The feeling that you have in Appropriations is that there you're in a place where you have a little bit of control on the spending, but here the state has no control on defined benefit. It's just not the way to run a good ship, and as I've already indicated, legislators...other legislators do not, and I frankly believe, cannot understand the complexities of what you face. A good example of it is when there were large reserves at the end of the nineties, they said, well, let's add to the benefits (laugh). Well, under our defined benefit plan, you don't do that. You just don't do that. But they did, because they didn't understand that several million dollars or $100 million was not a lot of money when you had that kind of an obligation sitting out there. And so that's, of course, where we have had to pay down. Now I do not resist in any way the pensions for our public employees, the various categories that we have of them. I urge better pensions as part of the pay package. None of them are overpaid, so a good pension is appropriate. But we should be deciding that as we go along, and a defined contribution plan, you can make those decisions and do what you want to do in a good way. Now whenever we talk about this, whenever you talk about it--we don't really talk about it on the floor--whenever you talk about it--and I hear all the rumblings up and down the halls about parallel systems. Well, parallel systems is used as a boogie word, but of course you're going to have a parallel system if you change over from one. When I get my pension statement each year, it's says pre-1982 pension is this, post-1982 pension is that. And if I were having to live on the pre-1982 pension, it would be pretty bad. I like the parallel system. It's...you know, what we're talking about is--I don't...please don't complicate me with the facts, you know. Just let's keep going the way we are. It's going to take parallel systems in order to make something correct, if in our judgment it needs to be corrected. Now looking at some of the various plans a little bit and expressing my questions about them, I am not an expert. I learned far more about pensions and actuarial things than I wanted to know in this whole process. But that doesn't make me an expert, so my comments are just that--they are comments.

The state employees have defined contribution with, to my mind, two questionable features. One is the switch to a cash balance hybrid--a very intriguing name which has never been explained to us--but to switch to that and lose the chance of risk. And I know the argument for it is, well, let's put a floor in here; let's put a guarantee in it. Well, when you put a guarantee in it, you put a cap on it, and so you know, my pension fund, after we got to this, produced 15 percent a year for 15 years. But if you cap the cash...this cash program at...cap it a 5 percent, you are denying some of the employees that kind of an opportunity. Yes, it has risks and all of that kind of thing, but there's always within any of these plans--and certainly within the plan I'm in--there is the base thing of the employer that I can't mess with. I'm messing only with what I contribute myself, and there's a floor on it, and there's all kinds of protections. In some ways it's not a risky thing. The other...so I object to the...this kind of a hybrid with a cap on it. It doesn't have to have a cap, as I would see it, but you know, that's where I'm not an expert. And then the other one is the cash-out feature. You know, you can leave employ of the state and then cash in the thing. Well, hello! Back to the "geezerdom." Nobody in their twenties is going to think too long about that option. It's a slam dunk. You take the cash and run because you're never going to be 65. You're never going to need that. It's just down the road. It is our job in public policy, and especially within the Legislature, to provide that there be pensions, and cash out--the cash-out program--simply says, we're cancelling pensions programs for some of our staff, expecting them to know better. Well, they aren't going to know better, and so that has the problem within it, in terms of state employees. Teachers' program, as I see it, is finely tuned and managed very carefully and produces more than any other defined benefit plan I have ever seen, and I've looked at a lot of it. So I commend them for that. But I still would say that when you put in a guarantee like that, you're putting a cap and you're denying some of those teachers, especially the younger ones, the chance to benefit by a better program. You can't have it both ways, and when you put out some guarantees, you are taking away the chance of doing better. The Patrol--State Patrol--has a different system, of course, because they have to provide for Social Security, which troopers don't have. So they have a huge amount. You know, we're talking about 28 percent of salary, total investment here. That's a big chunk. Again, defined benefit is the mode of operation there, in order to provide some certain guarantees. I remember the arguments well when we went into this. You know, I have a relative within it and have other person. You know, we talked about that a lot. It was to improve recruitment, and we were trying at that time to recruit in the North Omaha community. We were trying to recruit diversity, and so a way to do this is to reduce the retirement age and give, you know, a clear message. Well, we don't have that recruitment problem. Times have changed. That is not the question before us. We have far more applicants than we can appropriately use. I have talked to several retired troopers--not too many--but I've talked to several retired troopers. Every one of them says that the early retirement age is a mistake--the 55. What the early retirement age on any these does is reduce the retirement--no other way to get around it. If you're going to give them an earlier age, then there's going to be less in there. Now I know what we were trying to do when we set up the 55 and that was to give them a chance for a double pension. They could get out into the job market and earn Social Security, take ten years to do that and they could have that done by 65. Well, times have changed on that, too. You don't have to have that done before 70 now, and to earn a quarter thing, you don't have to be a full-time employee, you know. So that that could be moved back, to my mind, to 60 and would actually benefit everybody. I recognize that now the individual trooper can defer that, but who is going to do that? You know, very seldom will somebody take it on. Again, we are the parent in the block; we're the ones looking at it. We're the ones with the perspective that should be able to do it. So those are my points. Again, to review them especially for Senator Heidemann who is...I was promoting our angst in Appropriations when we get these deficit appropriations, and in the '02-'03, it was huge--huge. We hurt the state by the cuts that we had to make, all because of defined benefits that could not be predicted, or somebody had increased the benefits. And then the concern that we...I guess I appreciate that it's hard to go with parallel systems because we have to interpret to such a broad public. But that's where I urge boldness, that when we see a need to make a shift we go with the parallel system, because I think we can help them and us. In summary, I strongly affirm that we need strong pensions. Because I have a strong pension, I can do the volunteer work of being in the Legislature. Because teachers have strong pensions, they can retire. I could retire--they can retire. And retired people are the source of a lot of volunteer work. It is really important that we have these retired volunteers out there doing a lot of the work that we care about in the rest of the Legislature. With that, I thank you, Mr. Chairman. [LR182]

SENATOR SYNOWIECKI: Thanks, Lowen. [LR182]

SENATOR KRUSE: Oh, I do have some sheets which my staff has put together which summarizes the various plans, and I...if you could be a page, Chris, (laughter) just pass those out. [LR182]

SENATOR SYNOWIECKI: We're short staffed today. [LR182]

SENATOR KRUSE: (Exhibit 1) Yeah, yeah. No, he can do it. It's several pages, and you can go ahead with your business as he passes those out. I don't think there's any news in that, but that's so that you know what are the facts that he has drawn together for me, so that you know the basis on which I'm talking. [LR182]

SENATOR SYNOWIECKI: Thanks, Lowen. I want to mention Senator Lavon Heidemann, the Chairman of the Appropriations Committee, has joined us. Welcome, Lavon. Lowen, you kind of touched...I've always been told on these defined benefit programs that...you mentioned a parallel system. I don't exactly understand what you're saying there. But from what I understand, is the current employees, that we can't go in and do anything to those retirement contracts--current employees. Is that your understanding? [LR182]

SENATOR KRUSE: That is correct. That's where we were in 1982 with (inaudible) pensions and things. And as I say, to this date my pension statement says pre-1982, post-1982. You cannot mess with contracts and agreements, and it's deferred salary.

It's done; it's over with. So if you make a change to defined contribution for somebody, it will be years before we really ...we've got to keep up the defined benefit. [LR182]

SENATOR SYNOWIECKI: Okay. Any other questions? Thanks, Lowen. [LR182]

SENATOR KRUSE: Okay. [LR182]

SENATOR SYNOWIECKI: As I mentioned earlier, it's not an proponent/opponent type of hearing this morning. We'll now entertain testifiers relative to the interim study. [LR182]

JOE SCHAEFER: (Exhibits 2 and 3) I have a couple of handouts, too, here. [LR182]

SENATOR SYNOWIECKI: Okay. [LR182]

JOE SCHAEFER: Thank you, Jeremy. And then this one a little bit later. Good morning, Senator Synowiecki, members of the committee. Thank you for the opportunity to be here and present a little bit of information about our retirement systems. My name is Joe Schaefer, S-c-h-a-e-f-e-r. I'm legal counsel for the Public Employees Retirement Board, and before that I was legal counsel for this committee. So seeing those of you that are familiar, it's good to see you again. I've prepared a little handout here for you that summaries some of the features of defined benefit plans and defined contribution plans, and I'll go through those in the categories that I've listed on the second page there, and we'll discuss a couple of the features. And then at the end we'll talk about how one type of plan stacks up against the other type of plan. Those categories are economic efficiency, risk, portability, disability and death benefits, and economic effects. On page 3 I've given you a little equation. I'm not much of a math person, but this is an equation that's particularly helpful when you think about pensions and benefits. Basically, the amount of contributions--this can be employee and employer contributions plus the investment income, is going to equal the amount of money that's available for benefits, and the expenses that are involved in operating the system. So contributions plus income equals benefits plus expenses. If a professional investment operation is in place, we would normally expect that the returns would be greater than if we have 100,000 or 50,000 individual members using their expertise to invest their own money. Granted there are probably a few of the people, a few members, that might do very well, but there are a lot of people who would not. We have a huge advantage in this state by having the expertise that's brought by the Nebraska Investment Council in being extremely knowledgeable and very successful investing pension benefits, or pension contributions. So professional investment normally will be expected to yield superior returns. That means that on the income side there's more. The pooled asset is also more efficient. We have the efficiency-of-scale argument, that 100 people doing something for themselves is less efficient than one person doing it for all hundred. Again, that is something that contributes to a lower expense. The pooled asset has an advantage because if you're one person, you have a certain risk tolerance. But that risk tolerance is going to change. We normally expect that early in your career, you have a lot of risk tolerance, and as you get closer to retirement, that's going to decrease. You do not want to be, you know, entirely invested in extremely risky equities two years before you plan to retire. If the market turns around, and we see a lot of volatility today, you can end up working a few more years that you weren't planning on. By having a pooled asset, you have different people at different stages in their career, and because only a few of them are going to retire in any given year, you can accept more risk. In the investment world, risk correlates with return. If an investment is more risky, there has to be more return or people won't take it. So by having the pooled asset, we would expect that income will increase. Again, if income goes up or if expenses go down, the benefits can increase, or the other possibility is your contributions could go down. So the professional management and the pooled investment is an advantage for the defined benefit plan. As to risk, volatility is something I mentioned a minute ago. There are...if you have a pooled asset, the risk is spread over all the people, and there are ways that you can minimize that volatility, such as diversification, amortization of gains and losses, and smoothing. Now you can do all of those things in a defined benefit plan, but the only one you can do as a member of a defined contribution plan would be diversification. Longevity risk--you know, we all...one of the things that as we get closer to retirement age is, what if I have enough money that would support me for what I assume I'm going to live in years, and then I live longer than that? How do I prepare for that? Well, the pooled asset, again, allows longevity to be spread among members, because half the people are going to live longer than actuarial tables say, half of them are going to live less. It's going to even out. Each member, then, does not have to account for the possibility of outliving their retirement benefit. This is a risk that is pretty much unmanageable by a DC plan member. At retirement you could purchase an annuity, and from that point on, that's really the only way you can handle longevity risk. Under funding is something that's been talked about. In a defined benefit plan, that does fall on the plan sponsor and on the member in defined contribution. But the question is, who can better address that risk? The actuarial expertise that is brought in a defined benefit plan and the fact that costs can be spread over a long time, benefits can be funded in advance, provides an advantage to the defined benefit plan. I agree that the temptation to spend in good times has to be managed, has to be recognized, and has to be dealt with. Portability: Quite frankly, a defined contribution plan favors portability, especially a younger, more mobile member. The first dollar that you put in in a defined contribution plan is the most important. That's why we counsel people to start when they're young, when they're not even thinking about maybe needing a pension some day, because the power of compounding means that the actual benefit that you'll get in a DC plan is front-loaded more than in a defined benefit plan. A DB plan favors a long-term employee. Mobility is harder to address, and there are a couple of ways that it can, though--by purchase of service, reciprocity of service, and transfer of service. This is the kind of plan that tends to favor a career employee. In this case, portability favors the defined contribution plan. Disability and death benefits: In a defined contribution plan you do not share that risk. There is no provision. If you are halfway to earning enough money to manage your retirement and you are disabled or you die and your beneficiaries are left there, they get what you got and no more. It may not be enough. The pooled asset, by comparison in the defined benefit plan, allows for actuarial analysis and spreading that disability and death risk among all the members. Now this is an especially important benefit when you think of our public safety officers that risk their health and their lives, and I think it's important to them that there be something that would protect them in the event of injury or death. Clearly, in disability and death benefits, the advantage lies with defined benefit plans. Economic effects: In September of this year we generated a report that quantifies the amount of money that is put in the Nebraska economy and actually in the national economy, by the five plans that are administered by the Public Employees Retirement Board. I think you've got a little small spreadsheet that I put together, and I've broken this down a couple different ways. It's by plan, and you will see that in September of this year the school plan alone put $19,830,841--that's gross dollars, not net--into the Nebraska economy--almost $22 million into the nation. The judges' number is listed; the Patrol number is listed. The total for defined benefit plans that went into the Nebraska economy; in other words, these were paid to people that live in Nebraska, have a Nebraska tax address, is over $21 million--in one month. If you look at the state and the county, you see a much lower figure. Now part of this is because there are a lot of school members...the defined benefit plans pay annuities as opposed to some people who might cash out and take a lump-sum distribution. But of all the money that's put into the economy every month, 89.74 percent of it stays here in Nebraska. I put a note in there that Iowa is next with 1.35 percent of it, and as you'd expect, Arizona, Colorado, surrounding states like South Dakota, Missouri, are the ones that make up the next very small percentage. Now my math is not so good, but somebody told me that if you annualized that, that's over $250 million. That's a lot of money in this state. It's also important to remember that that money, somewhere around three-quarters of that, was not contributions by employees, employers, or the state. Three-quarters of that was investment earnings; that's because the money was put in ahead of time, it was invested, a very good custodian of those investments, and that's where the money came from. Advantage: defined benefit. I've provided just a little recap, and one last thought here. This was from Tennessee Williams' Cat on a Hot Tin Roof. Maggie said, "You can be young without money, but you can't be old without it." We all know that when we get closer to old age, two things are almost paralyzing fears sometimes. One is ill health; one is being poor. Those two things go together. [LR182]

SENATOR SYNOWIECKI: Thanks, Joe. Any questions? Senator Heidemann? Thank you. It's quite helpful information. Additional testifiers? Phyllis. [LR182]

PHYLLIS CHAMBERS: Good morning, Senator Synowiecki, members of the committee. [LR182]

SENATOR SYNOWIECKI: Good morning. [LR182]

PHYLLIS CHAMBERS: Good morning, Senator Synowiecki, members of the committee. My name is Phyllis Chambers, C-h-a-m-b-e-r-s, and I'm the director of the Nebraska Public Employees Retirement Systems. I would like to present some facts about the retirement system, to assist you in your discussion of defined benefit and defined contribution plans. As you know, NPERS manages...administers five employee groups. We have three defined benefit plans, which are the school, judges, and State Patrol. The school plan was created in 1945, followed by the judges...the Patrol in 1947, and the judges' plan in 1957. So the judges' plan is actually 50 years old this year. We have two defined contribution plans. Those are the state and county. Those were created in 1964 and 1965 respectively. As of January 2003, the cash balance plan was added to the state and county plan. The cash balance has been referred to as a hybrid plan, but generally it's classified as a defined benefit plan. And finally, we have a deferred compensation plan that was created in 1976 for the state and county employees, and that is a voluntary plan. Our largest and oldest plan, which is the schools' plan, is a defined benefit. It has over 67,000 members and assets of $6 billion. The judges' plan, which is much smaller, has 326 members and approximately $104 million in assets. And the Patrol plan has approximately 822 members and $241 million in assets. You can be confident that these defined benefit plans are well-funded, and I know you hear the news that...and you read about plans that are underfunded. But in general, those plans...many of the public employee pension plans have improved recently in recent years, with the investment earnings. And we are awaiting our actuary figures for this year. They should be ready for the next hearing, which will be on the 20th. But using last year's figures, our plan for the judges' plan was 99 percent funded, the school plan was 87.2 percent funded, and the Patrol plan was 94.4 percent funded, and those are excellent figures. The latest report of the Government Accountability Office to Congress on November 1 stated that of the nation's 126 largest public pension plans, most are well-funded and on track to meet the future pension obligations. Those that have underfunding problems are primarily because of healthcare benefits that were incorporated into their retirement plans, and I think fortunately we do not provide healthcare with our retirement plans, so that has kept our funding at a higher status. The two defined contribution plans that we have and the two cash balance plans for the state and county include 18,000 members in the state plan and assets of about $1.1 billion, and the county plan has approximately 8,200 members, with assets of $308 million. Of those state members, 55 percent are in the defined contribution, and about 45 percent are in the cash balance. With the county it's reversed. There are approximately 45 percent are in the defined contribution and 55 percent are in the cash balance. Now those numbers will change after the first of the year. The employees are currently in the process of electing to change from defined contribution to cash balance as a result of the legislation that you passed last session, LB328. So to date we have about 400 state and county employees who have signed up to transfer, and we expect quite a few more by the middle of December. And then those transfers will be made on January 2, and we'll be keeping you apprised as to how many actually do switch over. For many of the employees, they see the cash balance as a more stable, less risky plan than the defined contribution, and the cash balance also has a higher interest rate for the annuity payout than the defined contribution plan. And that, again, is largely due to what Joe was talking about in the pooled assets. They're able to get a higher rate. Of the major advantages of the defined benefit plan, one is the guaranteed lifetime income for retirees, and according to the Bureau of Labor Statistics, 90 percent of state and local governments around the country participate in defined benefit plans as their primary form of benefit, retirement benefit. And this translates into financial stability for not only the employees, the retirees, but the state and local governments, because 90 percent of that money stays usually within the home state of the employee, and the money is spent locally. And our figures, our Nebraska figures, correlate with those national figures. A second advantage of defined benefit plans is the ability to attract and retain employees, and having a defined benefit plan is a very competitive advantage when we're hiring and retaining quality professionals for Nebraska. The defined benefit plans are preferred by the majority of employees in public pension plans. In those states that they give them an option to participate in defined contribution or defined benefit, if you look at Ohio, only 5 percent of their employees chose a defined contribution plan. In Florida and South Carolina, only 17 percent chose a defined contribution over a defined benefit. And in Montana, only 3 percent chose a defined contribution plan. I believe that you can be confident in the oversight of the Nebraska plans. I compliment you on your involvement with our plans and your understanding of them. The Investment Council has done an exceptional job of investing the funds and providing us the investment earnings that we need to keep our funds and provide us with excellent pension obligation. The PERB is very seriously committed, the Public Employment Retirement Board. They do a great job in their fiduciary role as overseeing the management of the Nebraska plans. And from an administrative standpoint, I would just like to caution you that any changes that you make could be very expensive and complicated to do so. And also those changes, while you might think they would save the state money, might actually end up not benefiting you as much as you think they would. And a few states have actually ended up in court over some of the changes they've made to their pension plans. So anyway, I thank you for your time, and I'd be happy to answer any questions that you have. [LR182]

SENATOR SYNOWIECKI: Thanks, Phyllis. I see no questions from the committee. Thanks for your testimony. [LR182]

PHYLLIS CHAMBERS: Okay. All right. [LR182]

SENATOR SYNOWIECKI: Additional testifiers? Hi, Herb. Good morning. [LR182]

HERB SCHIMEK: (Exhibit 4) Good morning. Mr. Chairman, Mr. Research Analyst, and Senator Heidemann, and Laurie, my name is Herb Schimek, S-c-h-i-m-e-k. I represent the Nebraska State Education Association. The teachers' retirement plan is probably the largest...and I'm...it's not really just the teachers--it's the school employees' retirement plan. We represent all the teachers and school employees outside of the OPS district. Now our system was set up in 1946. It was a lousy plan when it first started. I've been lobbying on this plan since 1974, and so I've been around with a lot of these changes. When I first started I used to get calls from retired teachers who had been teaching 40 years. They were crying, and I was crying by the time they got done crying. It was a pitiful, pitiful plan. And so in small increments we improved the plan over the years, to a pretty good solid plan that we have today. Now if you look at this chart that I gave you, you'll notice that there were a number of years the state did not put in money into the school employees' plan. Now that had a lot to do with a very good stock market. The reason that they had to put in money in 2004 and 2005 were basically two reason: One, we have a five-year smoothing process, and you'll notice that the stock market, up above, went down in 2001 dramatically and in 2002, and started up in 2003. In fact the market was in a up position when it ended up that we had to put money into the employees'...into the school system plan. You'll notice, though, that in 2006 the state did not have to put additional money into the plan. But you'll look back from '85 to '95, the state was constantly putting money into the plan at that time. So if they had not taken a holiday from '96 to 2003, I think basically there would not have had to have been much of an increase. Now that's the way defined benefit plans work, and we have a very good solid plan. It's well administered, and my members are here to say that we wish to have it continued, without any doubt. If you have any specific questions, I'll be glad to answer them. [LR182]

SENATOR HEIDEMANN: What's your opinion of the well-being of the plan right now, then? [LR182]

HERB SCHIMEK: I think it's in good shape, very good shape. We had that downturn because of the market. The money was put in. The members increased their amount that they put in--so did the school boards, and we have weathered that. Now we're back into a good solid position again. And I think basically we'll be in good shape. The new actuarial report will be out the 20th of this month, and I think it will probably be a pretty good glad tidings. [LR182]

SENATOR SYNOWIECKI: Herb, the...if I remember right, I think in particular when you look at your chart that you provided and the additional state monies that were contributed to the funds, in large part, if I'm recalling correctly, that 2005 number was significantly mitigated because the teachers stepped up to the plate,... [LR182]

HERB SCHIMEK: Correct, and the school boards, both. [LR182]

SENATOR SYNOWIECKI: ...contributed more. And the school boards. [LR182]

HERB SCHIMEK: I want to give them credit because they came to play right along with us, and stepped in to get that money. You'll also...a fallacy that is out there, that a lot of that cost in 2004, 2005 was because of increase in benefits, previous years. And that's really not it. It was simply the market, was the generation of that. Most of those benefits were all paid for. [LR182]

SENATOR SYNOWIECKI: And is it true, too, Herb, that essentially the state is out of the loop, you might argue, through the school funding formula. We're not, but that these plans are really between the teachers and the school boards as far as the contributing members. [LR182]

HERB SCHIMEK: Correct. [LR182]

SENATOR SYNOWIECKI: And the only time state direct appropriations comes in to play is when there needs to be a rescue. [LR182]

HERB SCHIMEK: Correct, correct. [LR182]

SENATOR SYNOWIECKI: Okay. [LR182]

HERB SCHIMEK: Our members are putting in around 15 percent for a plan that basically, I think, costs about 13. And so they're really putting in an additional 2 percent on both sides--4 percent in there to make it a much more solvent plan. [LR182]

SENATOR SYNOWIECKI: Okay, thank you. Any other questions? Lavon? [LR182]

SENATOR HEIDEMANN: So in your opinion, the actions taken in 1999 in LB674 and the actions taken in 2001 in LB711 had nothing to do with the problems that we encountered in 2004 and 2005? [LR182]

HERB SCHIMEK: That's my opinion. [LR182]

SENATOR HEIDEMANN: Okay. I just...you're definitely right there. That's not what you hear from a lot of people, though. [LR182]

HERB SCHIMEK: Right. [LR182]

SENATOR HEIDEMANN: Okay. [LR182]

HERB SCHIMEK: One thing I've learned over the years with retirement, there's no end of rumors and reasons why certain things happen, and usually they're always wrong. [LR182]

SENATOR HEIDEMANN: But without the actions taken in 1999 and 2001, don't you believe that it would have been less severe contribution on the state? [LR182]

HERB SCHIMEK: It probably would have been less severe, but in a miniscule sense. It really was when you have a $4 billion or $5 billion investment in the market, and there's a great 30 percent decrease, that's what it was. That's where the bulk of that money came from. It wasn't that they added a benefit here or they added a benefit back here. [LR182]

SENATOR SYNOWIECKI: Thanks. Thanks for your testimony. Additional testifiers? Can I get an indication of how many more people are testifying? I see one other. Thank you. [LR182]

KORBY GILBERTSON: (Exhibit 5) Good morning, Chairman Synowiecki, members of the committee. For the record, my name is Korby Gilbertson, K-o-r-b-y G-i-l-b-e-r-t-s-o-n, appearing today as a registered lobbyist on behalf of the State Troopers Association of Nebraska. First of all, I want to thank the committee for our continued good working relationship we've had since I've been working on these issues for, it's been 15 years now. I've been following them for longer. And I think over that time the state troopers have shown that they've always been willing to step up to the plate, make additional contributions to make sure that their plan is stable and have done a very good job of resisting the temptation to spend in good times. When we look at issues of adding in benefits just because times are good the last year or two, when you look at the changes the state troopers' plan has gone in, it took us almost ten years to implement the COLA that the state troopers' plan, the Patrol plan has right now. Furthermore, last year in LB324 we implemented a DROP program, which actually will bring in money to the state, and as well provide an additional benefit to the Patrol members who decide to take advantage of that new system. So I think that shows that we have done a very good job of being very careful in any changes we make to the plan or have asked the Legislature to make in the plan. The troopers' association has continuously funded actuarial studies, used the state actuary, funded those studies themselves to make sure that any changes they have asked for are sound decisions to make. I want to go back to a few things that were mentioned earlier and overall to discuss the purpose of a retirement plan. It's not to create sophisticated investors or to make participants wealthy. It is to promote financial security in retirement. And I will be the first to admit--I'm not a very good investor, and that's why I don't invest my own money, and I would be willing to bet that most state employees and state troopers aren't very good investors of their own money, either. And I think Mr. Schaefer did a good job pointing out the benefits of having a pooled resource rather than individual accounts that can be a lot more risky and be hurt more by the volatile stock market. There are a number of white papers that were prepared by the National Association of State Retirement Administrators that deal with many of the issues that Senator Kruse discussed, and I think that the biggest difference between the studies that they have done and comments that Senator Kruse made earlier is that he's very lucky to have such a good defined contribution plan, that historically and statistically defined benefit plans do much better and actually cost much less to administer. Defined benefit assets have a longer time horizon because they are focused on more career oriented plans, which enables them to withstand market volatility better than individual accounts. Defined contribution investors have a shorter investment horizon, which sometimes can require them to hold a more conservative portfolio and then leading to lower returns in the end for them. The National Association of State Retirement Administrators had...one of their main statements was that they believe that a defined benefit plan should constitute an employee's basic retirement benefit and that it should be supplemented a voluntary defined contribution plan, which provides the best type of guaranteed pension benefit, as well as allowing the employee to make additional contributions if they would like. And that is specifically what the State Patrol's plan has done by instituting the DROP program last year, which allows plan members to take the DROP for the last five years, if they choose to do so. One other thing I wanted to point out: I think that Senator Kruse had said that it was 55 for a mandatory retirement, and he thought it should be moved to 60. It is 60--25 and 50 is the earliest for early retirement, but mandatory retirement age is 60 in Nebraska. One last thing I wanted to talk about is just the administrative costs if you have a parallel plan. In the study done by NASRA, the association of state retirement administrators, they looked at defined contribution plans and defined benefit plans and found that defined contribution plans can cost as much as 2 percent of assets. When they looked at defined benefit plans, the cost of running them was about .25 percent. So if you look at that over time and compound it out...they did one example. If you have an employee that begins working at age 25 and leaves at age 35, so they were only there 10 years, when a retirement balance of $50,000, and they get an 8.5 percent return overall, if they are in a defined contribution plan, they would...which would be about 7 percent, versus being in a defined benefit plan, which would be 8 percent, the difference would be about 25 percent less by the time they reached age 65. So there's a very drastic difference in the amount that retirees could receive if you change those plans, as well as looking at the big difference in the administrative costs to do those plans. And I'd be happy to give you copies of these studies if you'd be interested, and I'll leave you with one sheet that you don't have to hand out now--you can do later. And I'd be happy to answer any questions. [LR182]

SENATOR SYNOWIECKI: I think the committee would like to have copies, so. [LR182]

KORBY GILBERTSON: Okay, I'll get that. And do you want me...I have it...I can e-mail it to you. I have it. [LR182]

SENATOR SYNOWIECKI: Okay, any questions for Korby? Thanks for your testimony. Additional testifiers? [LR182]

MIKE NOLAN: Senator Synowiecki, Senator Heidemann, members, staff, and Senator Karpisek, I hadn't been prepared to testify today, but there were a couple of references, a couple of things that I heard in the testimony that...my name is Michael Nolan, and my last name is spelled N-o-l-a-n. I'm the city administrator of Norfolk. I guess the question that I would like to ask you, Senator, are we going to have some discussion at some subsequent date just on the issue of first-class city police and fire pensions that are related to...okay. We're not going to do that today? [LR182]

SENATOR SYNOWIECKI: We will have an interim study dedicated solely to the bill that was passed last year. [LR182]

MIKE NOLAN: Okay. I appreciate that. The reason that I would like to do that is because I do want...we're all good friends here, and I respect Korby immensely, as well as the others who testified. But I probably wouldn't agree with some of their conclusions on the various philosophical differences between defined benefit and defined contribution. I went through a period of time in the early 1980s that was pretty horrific, of dealing with that issue when we were trying to sort through what the implications of unfunded fire pension liabilities and police pension liabilities were. And as far as I know, as a consequence of what the Legislature did then, all of the pension plans that were affecting police and fire are now funded across the state. But it was a substantial unfunded liability that many cities weren't even aware that they had when we were under the old defined benefit model. Now I don't have a lot of information to talk with you about today, but I do want to come back and go through the whole history of that with you, as well as our own actuarial analysis of some of the things that have been proposed under the legislative resolution. And the premise I'd like to proceed from when we have the opportunity to do...to have that subsequent conversation is that we ought to make this thing as absolutely workable and financial sound, and actuarially sound as it can be. The issue from Norfolk's standpoint--only speaking for us--is not to try to deprive any of our employees of a good retirement benefit. I will make on that occasion, I think, a fairly compelling case how that can be done under a defined contribution concept, just as effectively as it can under a defined benefit concept, without any of the ambiguity actuarially about whether or not that plan is going to be funded. So I just wanted to say that today, because I didn't want you to leave this committee hearing thinking that there was nobody that had a different viewpoint on the merits of those two plans. So you're going to hear a lot of information on the merits of the defined contribution plan at the subsequent hearing. Thank you. [LR182]

SENATOR SYNOWIECKI: Thank you, Mr. Nolan. That hearing is...the date has not been set yet, but we're in the process of setting that date and we're looking at about mid-December. [LR182]

MIKE NOLAN: Okay, great. Thank you very much. [LR182]

SENATOR SYNOWIECKI: Okay. Any questions of Mr. Nolan? Thanks for your testimony. I think we have one more. Please come forward. [LR182]

JESSICA SCHNELL: Good morning. I'm Jessica Schnell, it's S-c-h-n-e-l-l, and I am an investigator with the headquarters drug unit of the Nebraska State Patrol, and I'm representing the State Troopers Association today, as the treasurer and legislative liaison. So I really just wanted to come forward and say, retirement is an issue in recruiting and retention, and I can say that because as a young person, we don't think a lot about retirement. And years ago when I got my first job that offered retirement, I didn't really want to think about it. And so I chose the least amount of money that I could put into it. And then when I came into the Patrol, like wow! That's a huge contribution. I even called and said, do I really have to put this much in? I am so thankful now that I did, and I really appreciate all the work that has gone into it. And I have gotten involved in that, and gotten involved with the DROP program, and in order to understand the DROP program, I had to learn about retirement. And so the thing about the association is, we always go out and we try to find factual information, and did some studies and paid for those studies before we came to the Legislature to ask for your assistance and your understanding so that we can continue and recruit, as well as retain, because a lot of young people are thinking big. You know, I'm going to get on the State Patrol and then I'm going to go federal, and I'm going to do all these great thing. I grew up in a farm town, and I love Nebraska and you know, I want to stay here. And I think as people start getting older, they start realizing how great Nebraska is, and I think that our retirement plan is a great tool to retain quality officers. And so I just wanted to say thanks for all the work and you know, that I can also go and start talking to some of these younger members that are joining the Patrol, you know, or have concerns about joining the Patrol, and tell them how great it is and why it's going to be useful for them down the road, because it's not something they're really wanting to think about. They know they should, but very, very thankful later on. Thank you for your time this morning. [LR182]

SENATOR SYNOWIECKI: Well, thank you, Jessica. Any questions? I might...State Troopers Association does a very good job. I mean, not only in the engagement of the Legislature and the legislative process, but also in the community I'm very well aware of some of the good causes they're involved with. I just want to compliment your organization. [LR182]

JESSICA SCHNELL: Thank you. [LR182]

SENATOR SYNOWIECKI: Thank you. Any additional testimony for any other testifiers? If not, that will conclude the hearing for the legislative resolution, LR182. Thank you for the testimony, and thank you for your attendance. [LR182]