

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

[LR310 LR311]

The Committee on Nebraska Retirement Systems met at 1:00 p.m. on Monday, November 17, 2008, in Room 2102 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LR310 and LR311. Senators present: John Synowiecki, Chairperson; Tom White, Vice Chairperson; Philip Erdman; Lavon Heidemann and Russ Karpisek. Senators absent: LeRoy Loudon. [LR310]

SENATOR SYNOWIECKI: Good afternoon, everyone. We'd like to welcome you to the Nebraska Retirement Systems Committee. It's our interim study day today. We have two interim study resolutions to take up, LR310 and LR311. And let me first introduce those folks that are here. To my far right, Senator Tom White, who serves as Vice Chair of the committee; to my immediate right is Jeremy Nordquist, who is the research analyst for the committee; Laurie Vollertsen is to my immediate left, she is the committee clerk; Senator Phil Erdman from Bayard and Senator Lavon Heidemann from Elk Creek. Welcome, everyone, and we'll start, we'll get right into it with Senator Karpisek, who is also, by the way, a member of the committee. Sorry about that, Russ. [LR310]

SENATOR KARPISEK: Thank you. That's all right, Chairman. [LR310]

SENATOR SYNOWIECKI: And Senator Karpisek is here to introduce LR310. Welcome, thank you. [LR310]

SENATOR KARPISEK: (Exhibit 1) Thank you, Chairman Synowiecki, and members of the Retirement Committee. My name is Russ Karpisek, R-u-s-s K-a-r-p-i-s-e-k, and I represent the 32nd Legislative District. LR310 has been brought forward to examine the mandatory retirement age and the lack of purchase of service provisions in the Nebraska State Patrol Retirement System. This issue has been brought to me by Wayne Trantham, who is a current Nebraska State Trooper, and is here today to testify.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

Trooper Trantham's issue is that he will be forced to retire at age 60 and will not reach 25 years of service to collect full retirement benefits. The age of 60 was set in the 1940's and I feel that it needs to be addressed. Another issue that I feel needs to be addressed is that there is no option for purchase of service. Nebraska allows teachers to buy years of service, plus the teachers have no mandatory age for retirement. The memorandum, which I passed out, was prepared by policy research and it shows the retirement situations for State Patrol officers in seven nearby states. As you can see, Colorado, Kansas, South Dakota, and Wyoming have no mandatory retirement age. In Iowa the employee has to retire before their 66th birthday. Minnesota and Missouri have mandatory retirement age of 60, but have some by-out provisions as all the others do also, except for Iowa, which did have a limited-time window a few years ago to do any buyout to make it so they could get full retirement. This scenario happened to one trooper last year, earlier this year, and will affect four others between 2009 and 2019. There are also eight officers that transferred over from carrier enforcement who will hit 60 before they get 25 years of service but they will benefit from both systems, both the State Employees Retirement System, and the State Trooper's Retirement System. There are also five that did not transition at that time when the carrier group was taken into State Patrol System. They had the option of not going into the State Patrol System. These five did not transfer over and by doing so, they do not have to retire at age 60. Although this is not a big number affected, it will make a huge difference in the income after retirement of these people. I also feel that we are excluding many city and county officers who may want to consider moving over to be a trooper. The way it stands right now, anyone over 35 years old would not be able to start with the Patrol and retire with full benefits. I feel that's pretty young. I think that we may get some good county deputies now that may want to transfer over into the State Patrol, but why would they do that now if they can't get their full benefits. That is mainly all of my presentation. If you have any questions, I'd be glad to try to answer them for you. [LR310]

SENATOR SYNOWIECKI: Thanks, Senator. Any questions from the committee?

Senator White. [LR310]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

SENATOR WHITE: Senator Karpisek, from your perspective would it be better to remove the mandatory retirement age or to provide a buyout? [LR310]

SENATOR KARPISEK: I think that, as you know, we have to do a study to do either one. And I would like to have a study done to see how it would affect the system. Some people are fine healthwise to go more than 60. And, of course, we know that, especially if they have a desk job or...I'm sure the intention of the bill was not to have older people out chasing bad guys and I don't know that we have many older troopers in that situation. So I'd be glad to have both and I know that increasing the age could really affect our retirement system if we have a number of people going until they'd be...whatever age, 65. So I think for right now, I'd like to look at both ways. I think at least a buyout for these few people, even if we would do a one-time as we have done before on other retirement issues, at least to get them so they can have full benefits. Again, it's not a huge amount of people but it will affect them, especially when they've been with the Patrol a long time. [LR310]

SENATOR WHITE: Thank you. [LR310]

SENATOR KARPISEK: Thank you. [LR310]

SENATOR SYNOWIECKI: Senator, the prerequisite for the committee to do anything or for the Legislature to do anything, as you indicated, was an actuarial study. Has there been any steps been taken in that direction? [LR310]

SENATOR KARPISEK: There has not. I had a bill in last year to do so but we did not get...it didn't hit the floor. So Trooper Trantham, I am sure, will talk more about his situation but I would like to get on to it as fast as I can for his situation. I don't know, I guess, I'd need to sit down with the Chair to discuss the time line on that, but I will reintroduce that bill again. [LR310]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

SENATOR SYNOWIECKI: It's kind of funny, it's kind of flipped around. We've heard a lot from law enforcement officers from across the state wanting to define benefit plan and wanting the mandatory retirement age imbedded within that, and this is kind of a different take on. [LR310]

SENATOR KARPISEK: It is, and I think just like with the teachers or these other states, even if we would provide a buyout plan for them, so they could get to that age. I think that it's a good idea that the teachers have that. If one was to become grievously ill, you could maybe buy yourself out and have some quality time at the end of your life to not have to keep working to try to have retirement benefits, the full benefit for your family. [LR310]

SENATOR SYNOWIECKI: Any additional questions? I see none. Thank you, Senator. Appreciate it. [LR310]

SENATOR KARPISEK: Thank you, Chairman. [LR310]

SENATOR SYNOWIECKI: Any testifiers for LR310? Please step forward. Good afternoon. [LR310]

WAYNE TRANTHAM: (Exhibit 2) Hello senators, my name is Wayne Trantham, and I'd like to read a prepared statement. I do have some copies if you want to follow along, is that okay or...? [LR310]

SENATOR SYNOWIECKI: Sure. [LR310]

WAYNE TRANTHAM: And I have a list of some names of some officers that I've contacted that said they would definitely benefit, just...if that's okay? [LR310]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

SENATOR SYNOWIECKI: Go ahead, proceed. I'm sorry, go ahead. [LR310]

WAYNE TRANTHAM: Okay, I'm sorry, I'm sorry. Well, thank you, senators for allowing me to come and testify concerning LR310, which deals with mandatory retirement age and lack of purchase of service in the Nebraska State Patrol Retirement System. As I said before, my name is Wayne Trantham, it's W-a-y-n-e T-r-a-n-t-h-a-m, currently employed as a state trooper, living in Beatrice, and assigned to Headquarters Troop Division out of Lincoln. For the past 11 years I have been a certified Drug Abuse Resistance Education instructor. This keeps me very busy teaching each year in at least 11 counties in southeast Nebraska, involving 15 to 17 schools, over 400 school classroom hours, and nearly 500 5th and 6th grade students. Next September, September 10, 2009, I will be forced to retire by simply reaching the age of 60, specified age according to Nebraska State Patrol Retirement System statute 81-2025. I just want to continue teaching our youth how to make healthy and wise decisions while avoiding and resisting drugs and violence. I feel this antiquated law should not specifically call for a mandatory age if the trooper can perform his or her assigned duties. I am in good health, I love my job, and I have good job performance evaluations. The Patrol can save money by retaining those officers who have proven experience and job performance. It is very expensive to train, provide for meals, lodging, pay wages for the troopers during the 24-week basic training regimen. It then takes several months more before a recruit actually is assigned to solo duty and then yet more time is necessary to get off probation status. With fewer qualified applicants applying in recent years, it makes sense in allowing capable officers to remain on the job longer. The current mandatory age law was written back in the 1940's when longevity and health concerns often were real issues for those nearing this age, but today it is a much different picture. Several years ago, the Patrol lifted a maximum hiring age restriction, and they began hiring those in the mid-thirties and older. They attracted good quality people by doing this. Various law enforcement agencies across the country have been increasing their mandatory age laws or eliminating them, thus reflecting a healthier aging society, and possible anticipation of inevitable federal age discrimination law updates. Troopers who

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

are hired are placed in the NSP Retirement System after the age of 35 will never reach the maximum benefit level of 25 years of creditable service as long as the age 60 law exists, even though they quite likely could still perform their assigned duties, if allowed to serve longer. I know of several officers who fall into this category. By using the data basis of employees date of births and date of enrolling in the NSP Retirement System, one could determine just how many would greatly benefit by the Legislature taking action to correct this problem. I will just have 23 years of credit when I will be forced out. A few years ago those individuals working for the Department of Roads as carrier enforcement officers were switched over to the State Patrol as mandated by the Legislature. Some of those officers chose not to enroll in the our retirement system. They kept their existing plans for retirement. But by doing so, they are not required to retire at the age of 60. They actually do not have any set age whereby they must retire. The other group of officers who enrolled in the Patrol Retirement System, they must retire at age 60. This really troubles me that while most of us must retire at 60, other officers can go on working well past this age. I'm asking that your committee look into this and the other issues I earlier mentioned. Please consider lifting the age of 60 requirement. In the last few years several officers have had to retire with reduced benefits simply because of the magic age of 60. They mentioned to me, even personally, trying to fight the law, but they left quietly. If no repeal or correction is made in this law by this coming September 10, then I too personally will receive no benefit, or possible benefits, in other words, if you increase that. My only hope is that now your committee and the whole Legislature can act quickly, have a provision that will help me, that will be officially, maybe, in place to help me. But I am not here for just myself. I'm here for the other people, the men and women who serve our state, that they face the same fate that I'm going to face. So if I can answer any questions, I'd be happy to... [LR310]

SENATOR SYNOWIECKI: Thank you, Mr. Trantham. Any questions from the committee? Senator Karpisek. [LR310]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

SENATOR KARPISEK: Thank you, Senator Synowiecki. Wayne, thank you. I'll...I mean, you've said it in here but I'll ask the same question Senator White asked. You would rather that we increase our age rather than have a buyout provision. [LR310]

WAYNE TRANTHAM: Definitely. I feel that I have ministry with the State Patrol. That may sound corny to you. I've had a background in ministry, actual, you know, with church work, and things. I really feel like this is my calling and I'm not looking for a buyout. I'm looking to serve the state. And I've worked quite a few years now and I feel like I still have the desire, I feel like I have the ambition, and the expertise in my job, and I feel like I've got my health. So I would love to continue on. [LR310]

SENATOR KARPISEK: If we would increase it, would you think we should put a higher limit on it or just take the limit out or...? [LR310]

WAYNE TRANTHAM: Well, that's up to, I think, the committee to study, but... [LR310]

SENATOR KARPISEK: But if so, maybe like 63 or 65 or...? [LR310]

WAYNE TRANTHAM: That would be great. And I'm not against having an annual physical or something either. I'm not against that. [LR310]

SENATOR KARPISEK: Do you know if these other troopers that you put in their names, I mean, are most of them in more, I don't want to say managerial, but...? [LR310]

WAYNE TRANTHAM: Well, we have...it varies. Some of those are carrier enforcement officers that you mentioned that won't reach...some of these carrier enforcement officers when they transferred over they may have had like 10 or 15 years on already and they would have liked to, maybe...I don't want to complicate the issue, but some of them would have liked to somehow made a buyout of their retirement system where they could gain a few more years with the actual Patrol. Does that make sense? [LR310]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

SENATOR KARPISEK: And then switch it over to the State Patrol System. [LR310]

WAYNE TRANTHAM: Switch it over. But there's several that were hired after 35 in that list. [LR310]

SENATOR KARPISEK: Okay. Thank you, Wayne. Thank you, Senator Synowiecki. [LR310]

SENATOR SYNOWIECKI: And those that were hired after 35, they stayed on their old...on the carrier enforcement retirement? [LR310]

WAYNE TRANTHAM: The ones I'm talking about, there's several that are, just became regular road troopers... [LR310]

SENATOR SYNOWIECKI: Um-hum. [LR310]

WAYNE TRANTHAM: ...after they became 35. [LR310]

SENATOR SYNOWIECKI: Oh, okay. [LR310]

WAYNE TRANTHAM: And there's some of the younger carrier enforcement officers when they were hired back in Department of Roads, they may have had like 15 or 20 years on. Now they switch over, now they're only going to have like 10 years with Patrol...your retirement systems. In other words, they will be...some of them will be far short, a lot of them are going to be like three to five years short. Some of us will be two years short. [LR310]

SENATOR SYNOWIECKI: Okay. Senator Erdman. [LR310]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

SENATOR ERDMAN: Wayne, thanks for testifying. Your last, if I followed your last paragraph correctly... [LR310]

WAYNE TRANTHAM: Yes. [LR310]

SENATOR ERDMAN: ...you first talk about when officers retired at the mandatory age, they had reduced benefits. And then you went further down to say that you will not have any benefits. Is it, would... [LR310]

WAYNE TRANTHAM: No, I'm sorry, did I say that? [LR310]

SENATOR ERDMAN: It says, if...go ahead. [LR310]

WAYNE TRANTHAM: I'm sorry, that's not true. I will have 23 years. [LR310]

SENATOR ERDMAN: Right, and so you... [LR310]

WAYNE TRANTHAM: I mean I would not have the... [LR310]

SENATOR ERDMAN: There's a penalty, you won't receive the full retirement but you will receive a retirement benefit. [LR310]

WAYNE TRANTHAM: Right. Yes, I will. I'll get 69 percent instead of 75. [LR310]

SENATOR ERDMAN: Okay. Right. Okay, I just wanted to make sure, because... [LR310]

WAYNE TRANTHAM: Yeah, I didn't...I'm sorry, I see where that is kind of vague there now. [LR310]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

SENATOR ERDMAN: Okay. [LR310]

SENATOR KARPISEK: If I may, I think he said, if it doesn't happen before September 10th he will not receive any of the additional benefits. [LR310]

WAYNE TRANTHAM: That's right, yeah. [LR310]

SENATOR ERDMAN: Right, and I was just reading what this said so that I was clear what you said versus what was written. Okay, thank you, sir. [LR310]

WAYNE TRANTHAM: Thanks, senators, I appreciate the... [LR310]

SENATOR SYNOWIECKI: Thank you for the clarification. Any additional questions? Okay, thank you. Appreciate your testimony. Thank you for your service. [LR310]

WAYNE TRANTHAM: Thank you. [LR310]

SENATOR SYNOWIECKI: Any additional testifiers on LR310? If so, please step forward. Mr. Schaefer. [LR310]

JOE SCHAEFER: Good afternoon, Chairman Synowiecki, members of the committee, my name is Joe Schaefer, J-o-e S-c-h-a-e-f-e-r. I'm here today representing the Public Employees Retirement Board. Earlier this morning they met and they've asked me to come over here and make just a couple of comments on this, at this hearing. Regarding purchase of service, they don't express an opinion as to mandatory retirement dates. Purchase of service, as we know from the school system, is one of the two most complex and difficult areas that we administer, that we put in place. So we want you to know that there would be a significant cost in establishing that. I can't tell you what the dollars would be of that but we have a fairly complex technology system, and we have an overburden benefit section of people, and so that's something that I wanted to call

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

your attention to. And just as a sideline, I would note that the one difference in comparing State Patrol retirement benefits and, for example, state system or county system benefits, State Patrol is Social Security system exempt. And to compare a benefit in that system means that there is no Social Security benefit there, whereas, if you had worked in another system, you would have both benefit of that retirement and Social Security. So we're not exactly talking apples to apples. So with that, I think I've covered what the board has asked me to say. [LR310]

SENATOR SYNOWIECKI: Thank you. Any questions from the committee? Senator Karpisek. [LR310]

SENATOR KARPISEK: Thank you, Senator Snynowiecki. Although it's not apples to apples, I can't see that it would be that much different to put a buyout in place when we already have that for the teachers. [LR310]

JOE SCHAEFER: You mean the cost to our system to develop it? [LR310]

SENATOR KARPISEK: Right. [LR310]

JOE SCHAEFER: Well, I'm sorry, but I cannot give you a number for that, but I expect it's likely in the six figures. [LR310]

SENATOR KARPISEK: Okay. (Laughter) [LR310]

JOE SCHAEFER: We've been working on changing our technology to an updated system. And we've worked many, many hours on purchase of service for the school system and I think some of the CCRs we've looked at exceed, for a system that's already in place, exceed \$100,000. So it is not a simple thing to do. [LR310]

SENATOR SYNOWIECKI: Senator Erdman. [LR310]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

SENATOR ERDMAN: Joe, in these cases, obviously these individuals, so as in Wayne, they have a benefit that's provided through the plan that is administered by NPERS and you've got the PERB. How many cases are we talking about historically? Is there data that shows that the officers that have retired that haven't met the mandatory age, is that data you can share with the committee as part of the study? [LR310]

JOE SCHAEFER: We may be able to develop that information. There would be many reasons why somebody could retire with less than 25 years. Twenty-five years is the maximum. We have quite a few people that work more than 25 years, but the maximum benefit in the State Patrol plan is 75 percent. That's a 3 percent factor times 25 years. That was part of the reason why your DROP plan was adopted a couple of years ago but just started this past year was to provide more benefit for the troopers who were retiring at age 60, but wanted to continue working and build up a separate account, if you will, with their benefit during the five years they participated in the DROP plan. So I don't know how many people retire less than 25 years, but it's, you know, it's still a good benefit. If you worked 20 years and you retire with 60 percent of your final average compensation, that's certainly nothing to sneeze at. I think a lot of people who are in the state system, for example, or in the county system, would very gladly trade for that. I think that's why the law enforcement officers who have come in and asked for a benefit, a defined benefit plan, would very gladly trade for that. [LR310]

SENATOR SYNOWIECKI: Any additional questions from the committee? Thank you, Mr. Schaefer. [LR310]

JOE SCHAEFER: Thank you. [LR310]

SENATOR SYNOWIECKI: Any additional testifiers for LR310? Seeing none, Senator Karpisek, do you want to close on the interim study, or...? [LR310]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

SENATOR KARPISEK: I'll waive. [LR310]

SENATOR SNYOWIECKI: You're going to waive closing, okay. [LR310]

SENATOR KARPISEK: Thank you. [LR310]

SENATOR SNOWIECKI: Thank you. That brings us now to LR311. The committee's research analyst will open for LR311. [LR311]

JEREMY NORDQUIST: Good afternoon, my name is Jeremy Nordquist, and I'm the research analyst for the Retirement Committee. Today, I'm here to open on committee interim study resolution LR311. The purpose of LR311 is to examine the public employees retirement systems administered by the Public Employees Retirement Board, including the State Employees Retirement System, the County Employees Retirement System, the School Employees' Retirement System, the Nebraska State Patrol Retirement System, and the judges retirement system. This hearing may also examine the Omaha School Employees Retirement System administered under the Class V School Employees Retirement Act. The primary purpose for this hearing is to enable the Retirement System Committee to review the funding needs for the five public employees retirement systems administered by PERB prior to the beginning of the 2009 legislative session. Dave Slishinsky of Buck Consultants is here to present the 2008 actuarial reports to the committee. [LR311]

SENATOR SNOWIECKI: Thank you. Thank you for your opening. Dave. Phyllis, are you going to provide any comment to...? [LR311]

PHYLLIS: I wasn't planning to. [LR311]

SENATOR SNOWIECKI: Okay, that's fine. Thank you. [LR311]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

DAVE SLISHINSKY: (Exhibit 3) Thank you, Mr. Chairman, members of the committee, you should all have a handout that looks like this. It contains the results of the 2008 actuarial studies for the five defined benefit retirement systems of the state. If you just turn to page 2, I just want to go through this briefly. Page 2 shows the changes since last year. There was an experience analysis done in 2007 which changed the assumptions, the demographic assumptions and the investment return assumption for the cash balance plans. There was also some changes, minor changes in the benefits for the judges plans. There was a subsidized early retirement benefit of 3 percent per year reduction from age 65 down to 62 that was added. The deferred retirement option plan was added to the State Patrol System and is being considered in this year's actuarial valuation. That particular program is effective September 1 of this year. And the school system, there was a change in the service annuity that affected the Omaha service annuity benefit. In addition, we made some changes because of the DROP program and the subsidized early retirement benefit under the judges and patrols plan. We adjusted our retirement assumptions. And finally, the PERB had an actuarial audit done, another firm looking at our results, and we made some minor modifications as a result of that audit. Turn to page 3, page 3 is a history of investment returns. It shows that the assumption that we're using for the assets of the plan is an 8 percent return assumption. The red line shows the rates of return actually experienced from 2000 to 2008, some years being better than the assumption, some years being less than the assumption. And then a rate of return on the actuarial value of assets, we use a slightly different method whereby we smooth returns over a five year period so it takes out the peaks and valleys that you find in the market value returns from year to year. Turning to page 4 is a graph showing the growth in the assets and the impact that smoothing has on the value of the assets. The red line indicates the market value and the growth and market value from 1996 to 2008, and the blue line shows the growth in the actuarial value of assets. You notice that the blue line is smoother than the red line and it helps to take out those peaks and valleys and provide a smoother allocation of assets for purposes of determining actuarial contribution rates and the funded status of the plans. Turn to page 5, page 5 shows from 1996 the amount of deferred asset gains and

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

losses. Red bars that are positive show years that there are gains that are being deferred. Bars that are negative show losses that are being deferred. The last couple of years, in 2007 and last year, there were significant gains that were being deferred that were not recognized in the actuarial value, but the investment losses for the year through June 30, 2008, basically wiped out those gains. And now we've got some losses that we're smoothing. Turn to page 7, I'll go through the results of the five different systems. I'll start with the school system and show you exactly what we do when we smooth the assets. Turning to page 7, I'll begin by looking at the column that says June 30, 2008. We're also showing last year's results for comparison. As of July 1, 2007, the actuarial value was \$6,396,000,000. We add to that contributions that are made during the year of \$229 million, subtract out benefit payments and refunds of contributions that are made of \$273 million, and we had an expected return on market value based upon a 8 percent investment return assumption, and that's \$561 million. So we roll that forward to get an actuarial value of \$6,913,000,000. The smoothing of the prior gains that exceeded the most recent year's losses, was \$20 million resulting in an actuarial value of \$6,933,000,000. Future amounts for smoothing our losses of \$355 million and then that reconciles to the market value of assets of \$6,578,000,000. That represents 95 percent of the actuarial value. The returns for the year, on a market value basis, there was an investment loss of 5.8 percent but a gain on the actuarial value of 9.1 percent. Turning to page 8, I'll just go through the actuarial results we're showing. This years results, 2008, with comparison to 2007. In an actuarial valuation, what we do is we collect all the information on every member that is participating in the system. We project out their expected future benefit payments and we discount those future benefit payments to the valuation date. So as of July 1, 2008, the value of those projected future benefits on the school system was \$9,011,000,000. The future cost of accruing benefits after the valuation date is known as the normal cost. By subtracting out that value of \$1,356,000,000 we arrive at the accrued liability based upon benefits that are accrued as of the valuation date of \$7,655,000,000. When we subtract out the value of the assets held on the valuation date, we arrive at an unfunded actuarial accrued liability of \$722 million. That's a funded ratio of 91 percent. We determine the actuarial

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

contribution rate as the sum of the normal cost which represents the cost of the accruing benefits for active members during the year, with an amortization payment of any unfunded liabilities. The normal cost amount for the year is \$164 million. The amortization over 30 years of \$722 million unfunded liability, is \$63 million. So the sum of that becomes the annual contribution amount of \$227 million or 15.46 percent of pay. When we compare that to the actual contributions going in, the statutory rate of pay contributions that are being made by the school districts and the members of \$225 million and a state appropriation of \$6 million for a total of \$231 million, those statutory contributions and appropriations are sufficient to cover the actuarial requirement for the year. So there's no additional state required contribution to fund the school system this year. We also do a separate calculation for the Omaha Service Annuity Contribution and that's a little bit less than \$800,000 per year. On the State Patrol Retirement System, go through the same process, we're using the same methodology by projecting all of the benefits. The amount this year of all the projected benefits is roughly \$357 million. We subtract out the cost of the future accruing benefits of about \$65 million and arrive at an accrued liability amount of \$292 million. Subtracting out the value of the assets of \$273 million, we arrive at an unfunded of \$18.6 million and the funded ratio, which is the value of the assets divided by the accrued liability, is 94 percent. In calculating the contribution, take the normal cost, the cost of the accruing benefits for the year of \$7.1 million, adding an amortization of the unfunded of \$1.6 million to arrive at a contribution amount of \$8.7 million or roughly 34 percent of pay. The actual contribution coming in on a rate of pay basis, statutory contribution rates, expected a \$7.2 million with \$300,000 in appropriations for \$7.5 million. So there's an additional contribution of \$1.2 million, which is the excess of the actual rate above the expected contribution. Turning to page 10 on the judges system, going through the same kind of analysis, the present value projected benefits is about \$140 million, with a future accrual of benefits of \$26 million so the accrued liability is \$114 million. The actuarial value of assets is almost \$120 million so there's a reserve in the judges system whereby the assets exceed the accrued liability. That reserve amount is \$5.7 million. The funded ratio is above 100 percent because the assets exceed the accrued liability. That

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

percentage is 105 percent. The actuarial contribution for the year, again, is the normal cost amount which is about \$3.8 million. We also amortize that reserve which reduces the normal cost. That amortization is about \$500,000 so it results in an actuarial contribution of about \$3.3 million. The actual contributions expected to be made are member contributions of about \$1.1 million, court fees of about \$3.3 million, and a \$72,000 appropriation for a total of close to \$4.5 million. So because those expected contributions exceeds the actuarial contribution, there's no additional contributions for the year. Turning to page 11, we also do an actuarial evaluation on the state and county cash balance funds. We do those at the beginning of the year so these results were prepared earlier this year on the state and county plans. The same methodology is used so you'll see the same kinds of numbers on the state side. There's about \$900 million in projected benefits under the state plan with about \$313 million expected to be future accruals. So by taking that difference, we arrive at the accrued liability of about \$587 million and subtract out the value of the assets, which is about \$607 million, to arrive at a reserve of almost \$20 million. And that funded ratio with the assets exceeding the liability is 103 percent. In calculating the actuarial contribution for the year, we determine the normal cost, the cost of the accruing benefits for the year, which is about \$40 million. We subtract out the amortization of that reserve, which is \$1.7 million to arrive at an actuarial contribution of \$38.1 million or 9.92 percent of pay. The actual contributions for the year on a statutory basis for employees is 4.8 percent and for the state is 7.49 percent for a total of 12.29 percent. And since that contribution rate is greater than the actuarial requirement, there's no additional contributions to be made for the year. On the county's side, the value of the benefits was \$293 million with a future accrual of benefits of \$141 million, so the accrued amount as of the valuation date is about \$152 million. Actuarial value of assets exceeded that, was close to \$164 million, so there was a reserve of \$12.2 million on the county plan. The funded ratio, the assets divided by that accrued liability, is 108 percent. And calculating the actuarial contribution, we determined the normal cost at \$13.4 million. We amortized that reserve. That amortization payment is \$1.1 million so that reduces the normal cost amount to \$12.3 million or 8.74 percent of pay. The members of the county system are contributing

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

4.5 percent of pay, and participating counties are contributing 150 percent of that or 6.75 percent of pay, for a total contribution of 11.25 percent of pay. So since that contribution exceeds the actuarial requirement, there's no additional contributions for the year. Now during 2008, there was a dividends that were approved by the PERB for the state and the county. Page 12 shows these same results after the dividends were approved. They did increase the actuarial requirement but that actuarial requirement is below the 90 percent threshold under statutes, and also results in no additional state contributions. So in conclusion, turning to page 14, a few things we can say about the assets. The market value loss was about 6 percent for the year and we are assuming an 8 percent return so that's a difference of 14 percent which has created a significant loss in these plans. Now that loss amount is smooth. It's recognized over a five year period. So 20 percent of that is recognized this year. The remaining 80 percent will be recognized at 20 percent amounts over the next four years. The recognition of prior gains resulted in a gain on the actuarial value of assets. The return was about 9 percent or 1 percent greater than assumed. So the actuarial value is about 105 percent of market. It's now greater than market, whereas last year it was less than market. Page 15, just a little bit about the funded ratios. We saw a small increase in the school and county cash balance funded ratios, a small decrease in the State Patrol and judges plans and the state cash balance plan remained about the same. But there has been a significant market weakness. Most pension funds have continued to experience negative rates of return in the third quarter. The extent to which these returns are negative between now and June 30th, the markets are going to have to rebound in order to make sure that there are no additional state contribution required next year. [LR311]

SENATOR SYNOWIECKI: Thank you. Thanks, Dave. Senator. [LR311]

SENATOR HEIDEMANN: Looking at the State Patrol Retirement System and all the others, the State Patrol Retirement System is going to need an additional required contribution. Why is that for the State Patrol and not for the others? [LR311]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

DAVE SLISHINSKY: Well, the State Patrol System has been the system where the contributions have been increased to meet the cost of the accruing benefit but there's an unfunded liability requiring an additional payment. So it's the system that has required an increased amount of contribution in order to cover the unfunded liability. [LR311]

SENATOR HEIDEMANN: Does the DROP plan that we brought in a couple of years ago, does that have anything to do with this? [LR311]

DAVE SLISHINSKY: Well, when we take the DROP into consideration, what we're doing is we're assuming that everybody who is eligible for it will take it. When they take the DROP they immediately commence payment into a separate account, and they take it earlier but they get no cost of living adjustments on that benefit while it's being made to their account. The fact that it doesn't have a cost of living adjustment counteracts the fact that it's starting earlier. So the total value is neutral with regards to it's cost. But what happens is, is once they DROP, and we're assuming that everybody who is eligible for it will DROP, then there's no contribution on their payroll because there's no state contribution and they don't contribute on that as well. There is a reduction in the statutory contribution because 15 percent of pay contribution is going in now on a lesser pay amount, but there's an increase for the additional contribution because there's a reduction in the statutory rate. The statutory amount with the rate being 15 percent. [LR311]

SENATOR HEIDEMANN: You talked about an unfunded liability, what is...help me out here, what is that unfunded liability? [LR311]

DAVE SLISHINSKY: It's the difference between the total value of the benefits that are accrued as of the valuation date and the amount of assets available. [LR311]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

SENATOR HEIDEMANN: Okay. Thank you. [LR311]

SENATOR SYNOWIECKI: Senator White. [LR311]

SENATOR WHITE: A couple of things. On the DROP plan, if you assume everybody's going to participate, what they had been doing, I think, was just retiring. Because they would get no additional benefit even if they continue to work. So many of them had just been leaving. So actuarially what you're losing is their contributions, but they're also making, pulling out payments at the same time. So DROP really doesn't affect this, does it? [LR311]

DAVE SLISHINSKY: Well, I mean, what we've done to recognize the DROP is we've changed our assumption to assume that everybody will take DROP or retire once they become DROP eligible. We had not been doing that before the DROP. We had a set of assumptions that reflected actual experience. There was early retirement but not everybody retired when first eligible. I'd say, it took something like three years before a lot of the officers who were eligible to retire actually did retire. [LR311]

SENATOR WHITE: One of my understandings that the reason that the judges pensions are traditionally overfunded is they tend not to retire. They have no mandatory retirement so they intend to work quite late into their lives. Would increasing the mandatory, or getting rid of the mandatory retirement rate for the State Patrol, tend to have...if it has that effect as well, intend to help this plan actuarially? [LR311]

DAVE SLISHINSKY: The, first of all, I think the impact of increasing the rates is probably going to be minor but it would act to reduce the value of the benefits. [LR311]

SENATOR WHITE: The longer they work, the less they have time to collect. [LR311]

DAVE SLISHINSKY: Exactly, because, number one, what you're doing is you're

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Nebraska Retirement Systems Committee
November 17, 2008

deferring the commencement of the benefit payment, and then when you do commence it, you're paying it over a shorter life expectancy. [LR311]

SENATOR WHITE: So if we wanted to help State Patrol actuarially, one of the things we might be able to do is get rid of or at least increase the mandatory retirement age. [LR311]

DAVE SLISHINSKY: That would reduce the projected benefits to the extent anybody works beyond age 60. [LR311]

SENATOR WHITE: Thank you. [LR311]

SENATOR SYNOWIECKI: Thanks again. [LR311]

DAVE SLISHINSKY: Okay. [LR311]

SENATOR SYNOWIECKI: Any other questions? Seeing none, thank you. Any additional testimony on LR311? Seeing no additional testimony, that will conclude the hearing on LR311 and will conclude the committee's work for today. Thank you. [LR311]