BALLARD: Good afternoon and welcome to the Nebraska Retirement Systems Committee. My name is Beau Ballard, I represent the 21st Legislative District in northwest Lincoln, northern Lancaster County. I serve as chair as this-- of this committee. I will start off with having the committee members and committee staff do self-introductions, starting on my far left with Senator Juarez

JUAREZ: Good afternoon. I am from south Omaha District 5

TREVOR FITZGEALD: Trevor Fitzgerald, Committee Legal Counsel.

HARDIN: Senator Brian Hardin, District 48, the real west in Banner, Kimball, Scotts Bluff Counties.

BALLARD: OK. And also assisting the committee is our committee clerk Connie Thomas and our committee pages Alberto and Ayden both studying at University of Nebraska-Lincoln

JUAREZ: I have a question. Did I say I was from south Omaha or South High?

BALLARD: South Omaha. I heard South Omaha. You could be-- it's been a long week. It's only Thursday. This afternoon we will be receiving two reports from the Nebraska Public Employees Retirement System, or NPERS. The first presentation of the NPERS Experience Study will be from the actuaries and the second will be the NPERS Annual Report. On the table you will find green testifier sheets. If you're planning to testify, please fill out one of those and bring it up to Connie when you come up. Please note that today's hearing will be invited testimonies only. Everyone, including senators, please remember to turn off or silence your cell phones and we'll begin our tes-- we'll begin our hearing with the presentation of the NPERS Experience Study. And we welcome up Pat Beckham.

PAT BECKHAM: Well, good afternoon.

BALLARD: Good afternoon.

PAT BECKHAM: Pleasure to be with you. I have Brett Banister with me today. We both work on the NPERS plan, and there's a lot of material to cover, so we're gonna break it up, so we can hopefully keep you awake. I think you might have just had lunch, so. I've heard it was a long day.

BALLARD: Yes. Perfect. And if you wouldn't mind if you could both spell your name for the record just before you speak. But I appreciate it.

BRENT BANNISTER: I'm Brent Banister, B-a-n-i-s-t-e-r

PAT BECKHAM: Pat Beckham, P-a-t B-e-c-k-h-a-m, and we're with Cavanaugh Macdonald, a retained actuaries for the retirement system.

BALLARD: Wonderful. Thank you so much.

BRENT BANNISTER: All right, we will jump in. Along the way, if you have questions, please don't hesitate to let us know and we'll try to fill in details. There's a lot of stuff that, at least to us, is very interesting, but we recognize not everybody thinks like an actuary, so we, we want to try to help make sure we can explain it in a way that resonates with you. So, in the presentation, we'll just kind of jump in there and maybe follow along. On page 2, just talk about what an experience study is. And essentially, the big picture idea is, we've used a lot of assumptions in our annual valuation trying to project what's going to happen in the future, a lot of unknowns. And so actuaries kind of build mathematical models to what will happen. And underlying all of those are a number of assumptions. And it's so-- every few years we come through, review those assumptions, and determine what-- what's the-- what do we need to change in terms of how we're, we're looking at what's coming ahead. We make recommendations. We don't select these assumptions, we make recommendations. The PERB, as, as fiduciaries, adopts the assumptions, typically based on our recommendations, but it is their responsibility to select those assumptions. Assumptions do not affect what a plan costs. They may affect what the contributions are in a given year, but ultimately the plan costs what the benefits are. The legislation out there provides that when somebody retires they get a certain amount per month for their lifetime. That's what drives the cost. What we help do is figure out how to pre-fund for that, and so our assumptions affect the timing of the contributions, but again do not ultimately affect the cost, that's totally based on what the plan provides As we do this, kind of our broad philosophy is, don't overreact. Just because something was high or low this last few years, let's not assume that's the way everything is going to always be in the future. Try to-- let's move part way. If we see trends, let's anticipate them. And let's try to keep things, to the extent we can, simple. We can build very complex models. If we don't gain anything with that, that doesn't seem to us to make sense. So try to keep a model as simple as we can. So slide 3, then, the... The key thing we do here is we go

through it to what, what did we think was going to happen, what actually did happen, we compare those. We did what actually happened towhat was expected.

BALLARD: Oh, real quick, we just had a note that note-- can you turn the microphone over to you a little bit? Maybe just the-- yeah, there you go.

BRENT BANNISTER: OK. So--

BALLARD: So, yes.

BRENT BANNISTER: OK, sorry about that.

BALLARD: No, no, you're OK. Thank you.

BRENT BANNISTER: So, so we take the what actually happened divided by what we expected to happen, and get a ratio. And so you'll-- you may see references to this actual to expected or A/E ratio. We, we can times thing actual to expected and start simplifying. Typically, what's happened in the past is helpful, especially for things like mortality and retirement, things that are what, you know, kind of people behavior, so to speak. It, it's less useful like for things like investment return, things that are perhaps driven by the economy and so forth. So that influences how much we rely on what's happened. It's a science and an art. You know, there'll be lots of calculations, but some of it is just professional judgment. Pat and I have been doing this a while, and we've learned that we're always wrong. We just try to be less wrong than we were last time, and, and that's really the, the goal is to, to, to learn from what we've done and, and try to refine our estimates in the future. One other thing that just, you know, as a-- to be aware here is over these last four years sits smack dab with all the COVID experience. And, and things during that time period were different from normal. And we're not convinced that, that what happened during that time period is indicative of what will happen in the future so we're trying to be cautious about how we reflect that, so that's just kind of an awareness of that was a big issue here recently. So page four, the, the assumptions that we look at, there are two broad categories. There are the economic assumptions, and if you kind of look at the list there of those, those all sound like money kinds of things. The assumptions for those come from, from the board, from us, from other advisors. Everybody's, you know, kind of bringing in their perspective on, on these. Then there's the demographic assumptions, which is much more the, the traditional actuarial kind of driven aspect of this. Just how many people were

there? How many retired, died, quit, whatever it is, and you know, and what are those rates? So much, much more of that kind of numbers-based thing. And so those are the demographic assumptions. So we'll, we'll talk about both groups here. We'll start with the economic assumptions on, on page 5. One of the key parts as we build economic assumptions is all the assumptions need to be consistent with each other. And one of the ways we help accomplish this is we, we use what's called the building block approach. We start with some of the-- inflation is kind of a piece of almost every economic assumption. And so we'll develop the econo-- the inflation assumption, and that kind of sets the, the base, if you will, for all the other assumptions. The picture there shows that there's what we call productivity assumption. We need that for a couple different economic assumptions. So again, we need that to be consistent. between all the places where it shows up. We can't pick one that's high on one side and low on another or whatever, we have to, we have to be consistent. So we'll, we'll start with inflation on page 6. There, there are a lot of different measures or estimates of future inflation that we look at. And probably because of a fairly small scale here, actually, from 1.8 to 2.5. You can see that there's a pretty wide range of expectations. Our current assumption is 2.35%. We believe that is still a reasonable assumption, and it's not clear that if we were to change necessarily how that should change anyway. And so our proposal is to leave inflation at 2.35%, being fully aware, we've had a couple years recently that were much higher. But based on all the indicators that we can see out there, the expectation from, from various, just kind of across the board, is that inflation will drop back to something more like what it has been over the past 20 years. So that's inflation. Page 7. The investment return is really the, the big assumption in terms of the impact amongst all the assumptions we have. It is based on inflation and then what we call the real rate of return, what, what do various investment categories earn above inflation. The key things we look at here are what are the capital market assumptions? What, what do people think are going to be earned on stocks, bonds, all the various categories there. We look at, at the-- The Nebraska Investment Council has Aon as their consultant who is most intimately familiar with the investments of, of the system. And so we looked at what they say, we looked at kind of a survey of, of investment professionals in general that we'll refer to as the Horizon Survey. One key thing to keep in mind is we look at investment returns over a very long period of time. The typical investment consultant is trying to think about what's going to be earned over the next 5 , 10, maybe 15 years so that they can allocate assets in a way that will help bring about the best return. We're looking at 30, 40, 50 years out. And so inherently we have a different

consideration than the investment professionals do, and yet we are relying on their data. So we, we have to factor in the, the, the time frame. We can't just say, well here's their number, use it, don't think. We have to, to give some thought to how does this fit in. As we mentioned on slide 8, the, the way we look at this is we want to estimate what is the current asset allocation of the portfolio expected to return. We're not putting a target out there and telling the NIC, go try to earn this. Instead we're saying, tell us how you're going to invest the money and now we'll estimate what we think that can earn over the long term. Now, there's always a challenge because of, you know, typically the investment people for lots of retirement systems say well if the actuary thinks that this is what we got or we've got to make sure we earn that amount. And, and that's, that's not how we look at it but it, it often gets perceived that way. So just trying to make that distinction is we're trying to figure out what their investment strategy should earn over the long term. And, and, you know, not surprisingly, that's what drives investment returns, your asset allocation. How you invest your money determines what you're going to earn. Slide 9 is also something that I want to help illustrate a point here. The-- there is a certain amount of variability assumed in investment returns. The, the investment consultants tell us not only what's the expected return, they give us a standard deviation. How much, you know, variation is there under some statistical distributions? If we look at just what we think a 30-year average return will be, so if, if-- assuming for the moment that Aon has exactly figured out the investment return for their portfolio, and the only variable is just the fact that there is variation in the statistical distribution, over the next 30 years, basically we've got a 25 percent chance of being above 8.5%, a 25% chance of being below 5.5%, and a 50% chance of being between 5.5 and 8.5. That's with a true, call it 7% return, being exactly right and staying right the whole time, just the statistical variation of returns. And so the point being, we do a lot of work here to try to figure out what this number ought to be, but there is a lot of variation just inherent in financial markets. That means even if we're exactly right, which is unknowable, but even if we are, there's a chance we could be off by 1.5% either direction 25% of the time over 30 years, a 30-year compound return, not one year over a 30 year period. So this is what presents a challenge for us as actuaries is that awareness of, yes, we're trying to get this number right, but even being right, just due to the randomness of, of the real world we could be somewhat off and that will make a difference. And so that's why of course we do evaluation every year and adjust is, is to keep things on track. Slide 10, the-- again, kind of mentioned, you know,

we're looking ahead. Aon, you know, right now is looking at 6.9% for the next 10, 7% for next 30. But by contrast, the last time we did this, they expected 5.7 and 6.3. So their long-term assumptions have changed dramatically in the last four years. In all fairness, the way they set their long-term assumptions is largely dependent upon current interest rate structures. And interest rates have moved a lot in the last few years, and so their assumptions have changed. And if interest rates move again in the next four years, their assumptions will move again. If interest rates don't move, their assumptions will stay the same, largely. So, so that is one of the challenges we also face is these capital market assumptions, which we're trying to look at for 30 to 50 years, they're moving each year. But, but at this point, what, what Aon thinks, what the kind of a broad survey of general consultants think are lined up with that just a little shy of a 7% return. The, the picture on slide 11, I think, kind of reflects the observation here. Aon's, assumptions are shown in orange. And you can see they generally were coming down or flat, bounced back up, but maybe starting back down. Whereas the actuarial assumptions, some of this predates us working with NPERS, have, have been more stable because that's just the nature of we, we only really give this serious look every four years, and we just try to be a little more methodical and, and cautious. And, and we're also going to round to the nearest quarter percent or something typically as opposed to the, the approach of, you know, Aon dumps the numbers in, whatever comes out to two decimal places is, is what their rate is. We're, we're a little more sticky in our movements but you can see there's been generally a trend downward over the past 10-15 years. Slide 12 kind of shows this in another way. This is what's going on with other retirement systems around the country. In 2001, the most common assumption and in kind of the middle of all of that the median was 8%. That was, that was the norm in 2001, 8% return. Just you can count on that. Over time for the last, you know, 25 years, that has now shifted to where the return is, is 7% and more people are under 7 than are over 7. 7 is still, you know, if you throw 7 in it, it's, it's still kind of the more common number. But, but that has been-- that-- there's been a shift downward in, in the long-term assumed rate. Part of that is inflation has generally-- the expected inflation has lowered over that period of time and so that has driven down the expected returns. There's also been just a general lower expectation of what various asset allocations can return. Now, the, the other part with this is this is across the board with no matter how a retirement system invests their funds. As page 13 shows, in general, NPERS is slightly more conservative in terms of how their funds are invested relative to many other systems. NPERS has about 30% of the assets in fixed income

bonds, essentially, versus about 21% elsewhere. Bonds, you know, are not going to earn as much as equities. Now, you may look and say, well equities are a little bit higher, but the big difference is that alternatives category. which can mean all kinds of different things. It's, it's a very broad category. And it, it includes some private equity, private credit, various other investments, which can be perceived either as risky or as defeasing risk by, by trying to have something that's likely to go up when everything else goes down or go down when everything goes up and sort of, you know, reduce the volatility. There's, there's some strategies there that other funds use. And so the bottom line is the NPERS portfolio should not probably be expected to be quite as, as high a return as maybe everybody else just because of the way the NIC has determined, you know, that they believe a prudent way to invest the funds is a little more cautious than, than what some other places use. And again, that's not to say a bad thing, it's, it's, it's a-- they're trying to reflect what do, you know, what do the Nebraska taxpayers want done in terms of responsibly investing the funds and they, they have concluded a slightly more conservative approach is perhaps a wise choice. So page 14 kind of summarizes all this investment return stuff with an inflation of 2.35%. The real return has been 4.65. We kind of think 4.4% is maybe a little more appropriate given the portfolio return. Our suggestion was let's move it down to 6.75%. The PERB decided to do that, phasing it in over four years. Again just from a impact on budget and things, they, they thought that by moving there gradually it would have less impact, which it will, and it still gets to where we think a reasonable long-term assumption is. So that was their what they adopted in their recent meeting. There's some additional economic assumptions on page 15. We talk about the, the cash balancing interest crediting rate. The, the state and county plans have a, a rate that is credited to on the member account balances. It's based on federal midterm rate with a margin not below 5%. And so looking at it kind of what has been going on with rates, we believe that the, the current assumed rate of 6% is still a good long-term assumption for that. So recommend retaining that. The, the next category of assumptions given the economic assumption are the wage inflation assumptions. Kind of a couple parts here. One, salaries and wages of people in general increase with both price inflation and with what we term productivity or sometimes we use the word wage inflation. Just-- as various tools enter the workforce, you know, more computer power, more, you know, technical assistance, people can generally get more done in an hour than they used to, and so there's sort of a productivity component. And even if you say, well, hold on, you know, some of our jobs don't lend themselves to being more productive, yet the, the-- if nothing

else, the wages have to go along with that so that people are earning comparable to what, you know, their, their neighbors are earning in, in various jobs as well. So, it it's kind of an average across all of industry, not just across certain jobs. We look at things like, you know, the national, you know, historical data coming from the Social Security Administration. One of the things that we're kind of aware of is state and local government have historically had a little bit more of their compensation delivered as, as fringe benefits rather than direct wages. and so total compensation costs may grow more similar to the private sector, but wages might not grow quite as fast, because the, the form of the compensation is delivered a little differently. We are, though, beginning to see a little bit of a shift there, we think, and so we're anticipating maybe a little more kind of coming proportionally as wages versus benefits. So the-- 7-- page 17, kind of, you can see the. the picture here of how price inflation and wage inflation track over time. These are, are smoothed 30-year averages. And they tend to track together. Again, as, as inflation is lower, wages go up less, it's, it's kind of a natural thing. The difference between those two lines remains somewhat constant. It moves around a little bit. But that's sort of what we're trying to estimate with this assumption is how far apart are the solid green line and the dotted blue line. So page 18, if we look acro-- sort of across the board, increases are by each group. You can see it, it varies, you know, with what the state, school, county have seen for increases. Patrol and judges is a little harder to dea-- there's just not as much data there. So we kind of aren't dealing with that as much. We do anticipate that in the near term, there's likely to be a little bit more pressure on wages, a little bit of catch up from the recent inflation, tight labor market is another factor. And so the bottom line is we, we believe that there will be probably, you know, our best estimate is about one-tenth of a percent more pressure on wages coming up than what our prior assumptions have been. So that's our recommendation to raise that, and you cansee that on page 19, kind of the bottom line is to go from a general wage inflation of 2.85% to 2.95%. And now we, we do have to amortize the unfunded liability as a percentage of payroll. We, we think the total payroll will still go up to 2.85 percent. Just a little bit of conservatism and caution there just so we don't end up getting ourselves into trouble. The numbers aren't going to change all that much whichever way we use that, actually it's fairly close. The next part, then, of, of the wages on page 20 are the individual salary increases. Because we look at each person, each member of these plans, we're able to, to not only talk about what do wages do in general, but what do wages do for individuals. Typically, people who are younger and newer in their

careers receive larger increases than those people who've been around a while. That's just been pretty typical across all kinds of jobs and it makes sense. Your, your rate of learning how to do better at your job occurs most when you're brand new and learning all about it. The time you've been doing it 30, 40 years, what you learn in the next year is proportionally not that much more than what you knew coming into that year. You just, you become a very seasoned professional, and so the increases tend to be much lower. So we looked across all of these. Now, there were some handful of years for each of these groups that we had to kind of say, nah, this year let's not look at that because of, of some large increases. Page 21, sort of then the summary. Kind of bottom line, we expected over time that the typical school employee would have a 5, just over 5% increases, more like 4.5, so that the school's increases were not as much as expected. Patrol was quite a bit more. Well, as you know, there was a large increase there, so no, no surprise. Judges, just a hair above what was expected. State and County a little bit above what was expected. Again, this was a period with some high inflation, also perhaps some adjustments in-- with just the COVID and the whole, what it did to workforce makeup and things. So again, we're trying not to overreact to all of that, but just say what, what can we reflect here. So. Page 22 shows, for instance, the, the adjustments for State Patrol that we're looking at. The, the current red line there is the current assumption, it's, it's a service-based assumption, so that we expect new employees to be getting about an 8% increase. By the time somebody's been there 25 years, it's down to a little over 4% then kind of tails off. The green line that's above this is what we've proposed, slightly more pay, really from years three on. That seems to be appropriate. And we have sort of, not in the presentation here today but in the report, similar results for all of the systems as we look at the assumptions. Page 23, administrative expenses, this is, is largely not a big deal but nonetheless we need an assumption for setting contribution rates. What do we need to cover the, the expenses that NPERS has. And then these are not-- you know, Investment expenses are handled by the NIC. It's kind of part of their Investment return. These are the, the operations of the system and, and you can see they're fairly low. We are suggesting a slight adjustment upward for the-- some smaller plans. This is a fairly new assumption, so we're still kind of in the early stages of getting good assumptions set there. So with that, page 24 summarizes all of the, the recommended economic assumptions. And-- we're going to pause-- but with the changes, yeah, the, the, yeah, the, the bold numbers are, are ones where there are changes there. So many of them stayed the same, but, but the investment return and the general wage inflation as well as a

few of the administrative expense numbers did change. So, with that we're going to switch and Pat's going to talk about demographics.

PAT BECKHAM: All right. Thanks Brent. Any questions on economic assumptions before we jump into demographic? You guys are awful quiet.

BALLARD: Are, are there any, are there-- just for record, are there any questions?

HARDIN: Sure.

BALLARD: All right, Senator Hardin.

HARDIN: Can we say that COVID is over?

BRENT BANNISTER: I mean, there, there are still COVID cases out there. The, the impact on, on mortality from kind of some of the stuff, I'm on some national committees that are kind of look at some of these things. We're not really seeing any impact like we did three, four years ago. I'm not gonna say nobody's gonna get sick of COVID, but, but the-- whatever kind of mortality rates from that have seemed to settle in. There are some behavioral changes that have not probably gone back to the way they used to be. For instance, a lot of people are now working remotely and from their home. That was a change that, that was facilitated, or a lot of things happened with COVID kind of encouraged that. That does not seem to reverse. In some places it has, but, but-- so, so there are some things that, that are not strictly a-- related to the viral thing, but, but our behavior and cultural changes that occurred with that that have not yet unwound and may or may not.

HARDIN: Are we seeing anything that looks more like the rhythms of 2016 through 2019, starting again now, financially? Has the country kind of taken a breath and said, OK, that's done?

BRENT BANNISTER: The, the markets are always moving.

HARDIN: Sure.

BRENT BANNISTER: So so I, I, I think that, that in terms of the, the impact that it's having-- Again there, there may be some things that have changed societally that have not undone.

HARDIN: So you're saying there, there's a new normal, get used to it.

BRENT BANNISTER: Maybe. Maybe. Because there may, there may still be some unwinding. I mean, I know many employers, for instance, have more recently started to say, hey, we want people to come back into the office. Other employers are saying, you know what? We got rid of office space, so we're going to do without it. Government's got its own dynamic, too. So, so there are some things, for instance, you know, Pat will get to in a minute, there are changes relative to some termination patterns in, in schools that may be new. There, there may be higher turnover. Whether that will revert back over time, we don't know yet.

HARDIN: I see. May I?

BALLARD: Yes, please.

HARDIN: Did AI play a role in these financial machinations leading up to this? I'm really interested in what your perspectives are in the next few years. And will that-- what role will AI play in this document when we see it again in four years? I'm asking you to get out your crystal ball, and I'm asking you to give us all nightmares.

BRENT BANNISTER: Yeah. The-- because of, of the way the assumptions have moved here, I don't know that, that-- how much it has played yet into, sort of what some of these market assumptions are about the future.

HARDIN: That part makes me feel good. Keep going.

BRENT BANNISTER: OK. What will happen four years from now? I don't know. I mean, Pat and I have been doing this long enough, we were talking about it on the way. We're, we're still trying to help, you know, all our employees get regular intelligence, let alone artificial. So, so the-- just how it plays out, hard to say. Lots of people have all kinds of ideas. It's easy to speculate. We, we try to be very careful and let's let's wait and see what the data is before we try to-- You know, if, if, if it comes along and changes things dramatically, then yes, we will have to adjust and, you know, and, and change assumptions and so forth. But right now, we're not building in that, you know, all all of a sudden people are going to work five years longer, or work five years less, or anything like-- we're, we're not assuming any of that.

HARDIN: In, in particular, what made me think of it was page 13.

BRENT BANNISTER: Mm-hmm.

HARDIN: Because that, that's a-- that's a very different model than the one side's different than the other side--

BRENT BANNISTER: Yes.

HARDIN: --as Sesame Street.

BRENT BANNISTER: Right.

HARDIN: And so particularly as you pointed out, those alternatives, that's a, that's a big difference. 25.8% being done in alternatives on the right side of the page and NPERS is at 5% of that particular-- And I'm not saying that in any way I think it's wrong. I just. I find it fascinating.

BRENT BANNISTER: It's, it, it, it-- Part of that is different parts of the country, there's just different perspectives. The Midwest has a different outlook, perhaps, than, than other parts of the country. And so that, undoubtedly, is, is one of the factors. There's just a way-- We're Nebraskans, too, you know, we, we, we think about things a certain way that may be just a little more cautious. So that's, I think, probably the NIC is, is reflective of that.

HARDIN: Last thing I was just going to ask about. What are your thoughts on unfunded liabilities? Are we, are we funded enough? I know we've been making some decisions here, having to do with certain bills and so on and so forth. Are we funded enough given that conservative approach that we do take? And I'm not criticizing it in any way. I'm just asking the question. Are we, are we careful enough, with our unfundeds looking ahead at GASB and what all of that means for us in the next 30 years and some of the uncertainties going on with tariffs and other sorts of things. Just wondering how do we-- how should we be playing this with unfunded liabilities?

BRENT BANNISTER: So the, the nature of unfunded liabilities is things don't play out like, you know-- again, as I'm sure we're going to be wrong about some of our assumptions and so we will be wrong. Hopefully we're, if anything, we're wrong the other way and things are better than expected, in which case some of those unfunded liabilities go away, but--

HARDIN: Nice when that happens.

BRENT BANNISTER: --50-- Yeah. The, the, the state has adopted a strategy of funding the liabilities over a 25-year period, so that even if everything we predict happened to the-- you know, exactly, it

would still take 25 years to get those unfunded liabilities paid off. That is your intent, is to take 25 years to pay them off. Now, most of the funds are pretty well funded. And in fact, you know, if we pick the right states to look at, which is not hard to do, we look really good. Yes. So from that standpoint, you know, we, we don't lay awake at night saying, I wonder what's going to happen if particularly. I mean, if our-- if, if the Nebraska funds get into trouble, there's a lot of other states that are going to be hurting worse.

HARDIN: They watch us.

BRENT BANNISTER: Yeah. So I think that, you know, in general, these funds are well-- pretty well funded. But just be aware that because of the, kind of the funding structure, there is an intent not to really push these to being funded ahead of schedule. They are designed to be funded over 25 years.

PAT BECKHAM: If I could just add one thing. The other thing when we talk about unfunded liability is what's really important is can you afford to pay it off with future contributions, which when we do the projections for Nebraska, at least, you know, if our assumptions are met or reasonably met, it, it looks pretty good. And you've got, you know, really four of your five systems that are either 100% funded, a little bit over, a little bit under. As Brent said, if we look around the country, the, the median funded ratio's 77%. So you're not just better, like a lot better. So a lot of things have gone right, you know, the investments and NIC's done a great job on investments, the state has contributed, made changes when it needed to be. We've actually lowered the assumed rate of return, which means we're, we're sitting in a more comfortable spot than if we were at 8% where we were back in 2013. Those are all positives. And yet you still have a very strong funded ratio and relatively small unfunded liability. So yeah, I mean, this state has held up when other people look around and say these plans can't work. They can, but you have to fund them. Sort of sounds overly simplistic, but no retirement plan works if you don't put money in.

HARDIN: Thank you.

PAT BECKHAM: Anything else?

BALLARD: Additional questions?

JUAREZ: I have some please.

BALLARD: Senator Juarez.

JUAREZ: So I guess based on your comment about other states may be worse with unfunded liabilities. You made that comment just now, right? OK. I would be curious if, you know, with these graphs here of the public plan survey, if there was any correlation with states who really have a lot more unfunded liabilities and what their investment option was like. Like, are those states the ones who have the 25.8 in alternatives? Any correlation with that?

BRENT BANNISTER: Yeah, there, there, there's really not the, the-- probably the, the strongest correlation has to do with do states put in their contributions in full. That, that is probably the-- is, is how well-- you know, do they put the money in.

HARDIN: Very few do.

BRENT BANNISTER: And, and whereas--

PAT BECKHAM: Explain what you mean when you put the money in the actuarial--

BRENT BANNISTER: Yes, OK, but the, the actuarial rate when, when, you know, we determine you know what does it take to fund the plan over some period of time and the, the Nebraska systems have that money go in. Some states do not. Or, or they, they Intentionally do not intend to get there for a very long time. But in terms of this asset allocation, I, I work with some systems who have very exotic asset allocations, in some cases with lower assumed returns than Nebraska, and they've got way more in alternatives and they assume they're gonna get 6.25 for instance, that they, they purposely reduce their volatility so that good years, bad years, they stay much more level. Other systems are a little more aggressive, shooting for bigger returns, some of which are very well funded, some which aren't, so there's really no correlation.

JUAREZ: But-- OK, so my next question is, and I know it's, it's too recent, but how do you think that the impact of this tariffs will have on our economy? I mean, do you sort of understand or agree with President Trump's philosophy on how he thinks the tariffs are gonna help our country?

BRENT BANNISTER: At, at this point, I have no sense of what will happen. And it's not, it's not really actuarial. What we're trying to make sure of is, you know, as, as results come in, we can help adjust--

JUAREZ: But it, but it would have an impact on productivity, wouldn't it? I mean, if there are-- if we have people who lose their jobs, productivity is going to be going down, right?

BRENT BANNISTER: Depending on, on what plays out over time, and time is probably a key thing here is, you know we-- at this point we've got about 24 hours of kind of reaction time. A year or two from now we'll have a better sense of what's going to happen and what we need to adjust, if anything. And, and I think until then it'll be pretty premature to, to try to draw any conclusions. It's, again, not our area of expertise. We're trying to make sure that we anticipate what, what we're going to need for funds, and at this point, yeah, we're not ready to make any conclusions one way or the other.

JUAREZ: OK

PAT BECKHAM: Good question.

BRENT BANNISTER: Yeah.

PAT BECKHAM: But we don't have a good answer.

BRENT BANNISTER: Yeah. Yeah, yeah, we don't know.

BALLARD: Additional questions? I have two, I believe. Ke-- The peer group comparisons, can you help me understand? You mentioned it a little bit. Just, NIC has a more conservative approach than, than peers across the country. Is that, is that just what it comes down to, why the delta and the assumed greater returns between the average of 7 and the 6.75?

BRENT BANNISTER: That, that would largely be it is yes, it's just that the asset allocation the NIC has argues for a little lower return.

BALLARD: OK

PAT BECKHAM: There, there are a couple other underlying-- I mean, the inflation assumptions may vary a little bit, and the risk tolerance of the board or the group making that decision varies. There's really a reasonable range. Like we can't say, you know, 6.85 is not reasonable, but 6.75 is. So there's kind of a range and a board that makes the decision in Nebraska, it's not the retirement board, it's really the, the NIC, but other locations the retirement system board actually makes, you know, that decision and so that can vary too. But the big driver, I think Brent said it when he was doing his presentation, the main driver of, of the expected return is asset allocation. And there

is a difference, and again it's not right or wrong, good or bad it's just different for a reason. They have their, you know, their investment policy and decisions that have been made. It's actually worked out pretty darn well.

BALLARD: I, I agree, I agree. I'm just curious. And that's 6.75, would that put us-- I mean that definitely puts us in the bottom half just by median 7.

PAT BECKHAM: Right.

BALLARD: So is that lower end of bottom half, middle bottom, upper half, just from a peer group? I know that's tough to--

BRENT BANNISTER: It, it, it's still in the upper part of the-- I mean, there are-- there's a portion who are below 6.5 out there. So there, you know, there, there's still plenty of people, or, or-- 6-- 6.75 is, is a fairly, I think it's not an uncommon number either. So it, it's not like somebody's going to look at 6.75 and say, whoa, where did you come up with that?

PAT BECKHAM: Yeah, you're not an outlier.

BRENT BANNISTER: You're, you're very much in the mainstream, just slightly more conservative, but, but not out of line.

BALLARD: OK. And then when dealing-- when working with the NIC, so, what, what measures, what targets do you look at to try to find that 6.75 number, from their investment strategy, looking at their asset allocations, probably the primary.

BRENT BANNISTER: Right.

BALLARD: Is that the primary? I'm just trying to wrap--

BRENT BANNISTER: Yes, yes, it is, yes.

BALLARD: --my head around it.

BRENT BANNISTER: Right. Again, they-- you know, Aon who, who does-- who works with them, has their assumptions for, you know, what will U.S. equities large cap earn, U. S. equities small cap, you know--

BALLARD: Yeah.

BRENT BANNISTER: --you know, all that they have, you know, 15, 20 different categories of returns and correlations and all those kinds

of things. They feed that through their modeling to say, here's what we think we-- this portfolio will return. And, and we essentially are doing the same kind of thing, using some different assumptions and coming up with essentially the same answer.

BALLARD: OK.

PAT BECKHAM: And that's one data point.

BRENT BANNISTER: And that's one data point.

BALLARD: That's one-- yeah, OK.

BRENT BANNISTER: Yes.

BALLARD: There are multiple data points that you-- that your, your, your analysis would include. OK.

PAT BECKHAM: Yeah, and I think part of it right now is that we're not totally convinced that interest rates will stay where they currently are. And so if those come down, it does hit the, the NIC portfolio pretty hard since 30% of it's in fixed income. And that's the big difference, if you remember, we said, you know, the last experience study we were at 6.3, and now it's at 6.9/7. That's mainly due to the higher interest rates on bonds. So again, if somebody would guarantee that they were never going to go down, we might have a little bit different perspective. But again, I think we did-- may not have mentioned it, but our, our hope is that this is sort of our final step. Like it's been a long journey trying to come down from 8. And we're hoping kind of this last step, and we don't have to keep chasing--

BALLARD: Mm-hmm.

PAT BECKHAM: --you know, the, the expected return, that we're at a place where we can stay-- it's going to bounce around up and down. As Brent said every year they have new capital market assumptions. But we, we feel like 6.75 Is a pretty comfortable place. We hope, again, we think we can stay there and that provides a lot more stability on funded status and, and contributions.

BALLARD: OK. And then I have one, one more question, more, I guess a little more macro, and I'm not trying to make this committee do more work, but is four years enough time to do this? I think the review's four years, correct, for this study--

PAT BECKHAM: Yes.

BALLARD: --the look back. Is that, is that long enough, short enough? Is that kind of?

BRENT BANNISTER: That's a pretty typical time period.

BALLARD: OK.

PAT BECKHAM: Some are as short as three, some are as long as five, but none are longer than five.

BALLARD: Longer than five, so four years to do that is kind of a-- OK.

BRENT BANNISTER: It's pretty common.

PAT BECKHAM: It's kindoif the sweet spot, and as you'll see, we kind of saw, I think, on the salary, but we do look back to what the findings were, the actual experience was in the prior study. So in-- we're essentially kind of aggregating the two four-year periods for kind of eight years of data to look at.

BALLARD: OK. All right.

PAT BECKHAM: So it's a good question.

BALLARD: Yes, Senator Hardin.

HARDIN: We're well into the boomers. Just a few years of the Boomer's left. We have a lot of people retiring in the next, an inordinate number of people retiring in Nebraska in the next few years. I am the bottom of the Boomers.

BRENT BANNISTER: Yeah, I'm, I'm, I'm in, yeah I'm in that group. You know, it, it's, it's going to vary a little bit by system versus, you know, the Boomers in the State Patrol are pretty much all retired at this point.

HARDIN: OK.

BRENT BANNISTER: Yeah, because--

HARDIN: They have to.

BRENT BANNISTER: They, they, they have to, yeah. Very few of them could, could still be doing their job under a reasonable expectation. We factor that in, in terms of we look at each person and say, we know

the typical 55-year-old has this chance of retiring, 56-year-old, and so forth. So, so we don't really care what generation they're in, or, you know, since we're looking at each person and their probability of retiring, that's sort of baked into our expectations of the future. So the fact that there's-- the Baby Boomers are there, it's just inherent in our analysis. We don't have to, to really think about them any differently. And in fact, we don't assume that, you know, people who were born in 1965 are going to be any different than those born in 1964. There are fewer of those people, but we think they'll do the same thing.

PAT BECKHAM: I think that's key. If there are more people, there's probabilities applied, so if there's more people, we expect more retirements. And it's all built into the calculations and the model that we've talked about. Good question.

BALLARD: OK. Senator Juarez.

JUAREZ: OK, on that same topic though, like when we look at the group as far as school goes, I see that you show an expected increase on what, page 21 as far the salary increases go. And the one thing as far as retirement, I'll say is, you know, if we have changes in Nebraska about how our schools go in the future, you know, a lot more teachers may decide to retire if they could versus what changes might be happening in our state down the road. Wouldn't you say that that's possible, depending on what happens with the future of our public schools in this state?

BRENT BANNISTER: Certainly, if things change, and that's why I think-- Pat will talk about more about this coming up here, she goes into--

JUAREZ: OK.

BRENT BANNISTER: --those parts, but that's one of the things that, periodically there are changes, and we'll be watching, trying to anticipate and adjust, but especially if, if those are changes that are because of new policies that aren't even in place yet, we, we can't reasonably anticipate, you know. What will, what will education look like in 15 years? We'll know more in 14 years. I mean, we'll do some anticipating then. But for right now, we have to, to, to kind of look at what's been happening, what the trends are, and kind of what's going on.

JUAREZ: But when you look at all of these, these groups, though, of any group that has the potential to change the most, to me it is the

schools because of, you know, how we might be structured in the state in the future. I mean, if we go to public school-- public dollars going more for private schools and they're not being the need for as many public school teachers. or, you know, charter schools knocking on our door. I mean, lots of things in, in any of these areas, it's, it's going to be at the schools the most that potentially will change a lot. I mean to me, that's my opinion.

PAT BECKHAM: We just don't, we don't anticipate what we don' know or have any factual evidence because we're already going to be wrong, but we could be really wrong. So we have to have some data or information to help us drive that assumption. And it, you know, it's a conversation. At this point, it's very hard to know what will happen and when it will happen. So yeah, we can't-- that's why we do an experience study every four years. We're always keeping track of what's going on, what the conversation is, what's happening. If we start seeing movement, then we'll start talking about whether we need to make an adjustment to the assumption. Does that make sense?

JUAREZ: OK. Thank you.

BALLARD: Thank you, Senator Juarez. All right?

PAT BECKHAM: OK.

BALLARD: Then we'll move on.

PAT BECKHAM: All right. So yeah, slide 25, we're going to talk about demographic actuarial assumptions of what happens to, to people, to the members. And you'll remember that the, the main focus of an actuarial evaluation is to project the future benefit payments and then put a value on those. And to project future benefit payments, we have to have some idea of what's going to happen to members, because the benefit they'll receive if they terminate or become disabled is different than it will be if they stay and retire. So we have all these different demographic assumptions to help us model what might happen in the future, the probability that it will happen, and if it happens what benefit would be paid. So page 26, again just a reminder what we're doing is comparing what actually happened to individual members with what was expected to happen based on the actuarial assumptions. So, we are getting very granular with the data and tracking individuals from one year to the next year, every two years. We talk a lot about credibility when we're looking at, at the data because it takes a fair amount of data to have reliable results to, to base your assumptions on. And credibility just means how much weight

are we going to assign to this, this information. So, more data means if the length of the study period is longer. it will tend to have more credibility, the size of the group. The school group has more credibility than the judges. The judges is a very small group so when you're, you know, taking numbers and dividing it by, by a different number, a small number will fluctuate quite a bit. If we've had unusual events during the study period that affects credibility. Brent mentioned the COVID is-- you know, happened in this study period. So we definitely take that into account. When we went through the Great Recession in 2008-2009, we had some weird stuff going on there, too, that we discounted and we just, you know, we're not going to base a long-term assumption on what happened in a very unusual four-year period. Again, our key evaluation tool is called the A/E Ratio, and if we, if we slip and say decrement, that just means a change in status, termination, retirement, a member changed status. So page 27, a very simple example to help you hopefully understand this A/E ratio, because that is-- we use it all the time on the demographic side. Basically, we look at the number of members that change status, again, retirement, termination, whatever it is. Then we calculate the number expected to change, and we look at the membership, it's called exposure, how many could have retired, terminated, how many were that age or had that number of years of service. We calculate the total group times the probability to get the number of expected members. And then we just divide those two. And that is the A/E ratio. So the very simple example on the bottom of that slide, there's 100 people eligible to retire at age 62. Our assumption is 10% of people age 62 will in fact retire. Our actual retirements were 15. The expected number is the 100 who could retire times to 10 percent we're assuming will retire or 10 people. So 15 divided by 10 is 150. And that tells us that assumption didn't do a great job of anticipating that behavior. So slide 28, the overall A/E ratio is important, it does not tell the whole story. Because as you can see from this graph, there's far more actual deaths above the red line on the left-hand side, and far less under. And every number is not created equal. So if somebody age 55 dies, it's very different than somebody age 80 dies, the impact on the plan. So for this little thing, if your head's in the oven and your feet are in the ice water, on average, you're OK, but it's not a good fit. So we go with that. Slide 29. Just the general cost impact for each change. Mortality, if people live longer, which means the probability of death is lower, it's going to increase costs and liabilities as you're paying benefits as long as people are alive. If people retire later, that generally will lower costs again. They're going to get a benefit for a shorter period of time, and we have a longer period of time to fund it. Lump sum elections. If there are

more people that elect to take their money out, cash balance plan, that usually decreases liabilities and costs. If peop-- more people terminate, that can increase liabilities. And disability, usually if there are more disabilities because you're paying benefits immediately there's a increase there. So that's just to help you understand when we go through each of these what the impact is. On slide 30, again, we didn't go crazy on the demographic assumptions because of the whole COVID during the study period, but we did look back to see where there were similar patterns in the prior study and the current study, and we did make a few what we would call minor changes, fine tuning. The most important demographic assumption from a cost perspective is mortality. And that actually did a pretty decent job of anticipating mortality, given, you know, COVID was going on for part of that period. So we are not recommending a change to mortality. On retirement, some minor changes. We'll look at school, judges, state and county. Again, nothing dramatic there. On the annuity election rates, so cash balance members, when they retire, they can take their money as a lump sum, as an annuity, or a combination. and right now that assumption is 50% will elect an annuity and 50% of the account balances go out in a lump sum. We're recommending that the counties stay the same but the state move to 55 and we'll look at the data on that and why we recommended that change. We had some very minor changes for school females and county on termination of employment. And then, no change in disability. We had some minor assumptions, probability of marriage, age, spousal difference, things like that. No recommendations there. So we'll look at a couple of graphs, and we'll go through these pretty quick, because again, they're very small adjustments, nothing that's monumental here. But on slide 31, this is the school retirement with un-reduced benefits. And again, there's a few small changes. Probably the big one is age 56. Again, both of those bars were higher than the red line. So the light blue bars are actual rate for the current study period. The purple bars are the actual prior study rate. And then the red line is the current assumption, and the green line is the proposed, so kind of a lot going on there. But you can see, you know, there were-- was a change, more dramatic, at 56, and then again at 66 and 67. By the time you get out in the 70s, there's not a lot of people left. It doesn't really have a big cost impact. And you can see the current-- the A/E ratio on the current assumption was 111%, and on the proposed assumption, 105. That's very much our let's move in the direction and then let's reevaluate in the next experience study so we don't overreact. Page 32 is the retirement assumption for judges. and this is a little more dramatic. Again this is the normal or un-reduced retirement which starts at age 65. You can see we lowered the rate at 65 again, both the current and the prior period that rate was much

below 20% but then we increased it at age 66 and then smoothed down a little bit of the rest of the experience. We also have a very small early retirement assumption for judges. There very aren't many judges retire early. We are recommending lowering that basically from about 1.5 to 1. So it's kind of a bit of a nothing burger, but we wanted full disclosure here. Page 33, this is state retirement. Again, small adjustments. You can see largely age 65 and 66, 67, again that pattern was consistent between the two periods. We basically moved from 106% on the current assumption to 104. That tells you that's not a dramatic change. And then on page 34, county retirement, similar with 112% on the current assumption, and we moved part of the way so we're at 106. and most of that change kind of in the ages 60, 61. Page 35 is the annuity election percentage that I mentioned earlier, and in that box in the middle, you can see the actual experience. We did it on both account weighted basis and account balance weighted basis. Obviously, from a liability standpoint, we're more interested in how much of the account balance gets annuitized or paid as a lump sum, not just how many people go. So you can see for county it was 49%, our assumption is 50. That's pretty close, we've talked about that. For the state, it was 62%, more at 50. So again, we're recommending we move to 55. We're not going to overreact and jump to 60, but we're going to kind of move in that direction, reevaluate the next time, have this methodical review of these assumptions every four years. On page 36, this is the--

HARDIN: Can I ask you a question about that?

PAT BECKHAM: Absolutely.

HARDIN: How about folks who do take the cash balance, take the money and run. Any idea what they're doing with their money?

PAT BECKHAM: I don't think we can answer that, but Tyler might be able to. Any idea? You're saying how many roll it over versus take it and spend it or buy an annuity or [INAUDIBLE]--

HARDIN: Buy a new car--

PAT BECKHAM: Yeah. RV?

HARDIN: --planning a-- Playing the lottery, I'm just curious what, what, what they're doing with their money.

PAT BECKHAM: I don't, I don't know that we--

HARDIN: Just wondering.

BRENT BANNISTER: We, we don't we just know they're gone.

HARDIN: It's, it's just gone.

PAT BECKHAM: They took the money--

BRENT BANNISTER: That's all we can tell.

HARDIN: You can tell the prurient interests here, we all want to know what they're doing with their money, so. I'm just, just curious.

PAT BECKHAM: It's a valid question, but yeah.

HARDIN: All right. Thank you.

PAT BECKHAM: Yeah. You're welcome. So yeah, page 36 is termination of employment for female school members. Again, very small adjustments. A/E ratio moves from 89 to 94. Most of the termination with, with any employee group at school in particular is in about the first seven years. So we tweaked that just a little bit. And then the county cash balance, termination of employment assumption. Again, looking at that, we increased the rates kind of in the early stages, about the first five years, and then again in years, what is it? Maybe 9 through 13 or so, just to get a little bit better fit, we were at 116% A/E ratio on the current assumption, and now we're at 108. So again, very much, let's move in the direction. So, if there aren't any questions on that, it brings us to numbers, which is everybody's favorite. What is the cost impact of the recommended assumptions? On page 38, we have the school plan. This is obviously the, the largest plan. And we tried to put key information on here without bombarding you with too many numbers. But what you see, the first column of numbers that says 7/1/2024 valuation baseline. Those are the numbers that actually were in the 2024 valuation that was published last fall. Then the next column over is if we take the current set of assumptions but we use 6.95, the first step of the phase-in, we're still on the '24 valuation board, just using a new set of assumptions, so same data. That shows you what the impact is. That's sort of a foreshadowing of what we would expect the impact to be when we actually do the 2025 valuation. And then the far right-hand column that says assumption change is 6.75 is just to give you an idea of the ultimate impact. Right? We're not going to 6.75 immediately, we're stepping into it over four years, but this gives you an idea of kind of the ultimate cost impact. OK? So for schools, again, be cautious, because unfunded actuarial accrued liability is the difference between two really big numbers, like over $16 billion. So it might look like it moved, you know, from $15

million to $221 million, and you're like yikes but remember that's $16.6 billion dollars of liability so it really is a relatively small percentage. Funded ratio with the 6.95 moves from 99.9 to 98.7, ultimately down around 96. Again a lot's going to happen in the next four years. We've got deferred investment experience that will flow through and we will have new investment experience as well as demographic experience that will flow through and impact those future years. The actuarial rate in the '24 valuation was 15.05%, the actuarial rate. The statutory rate right now is 21.66%. That gave us a contribution margin, more money coming in than the actuarial rate of 6.61. With the 6.95, that goes down 1% to 5.61, And if we went all the way to 6.75, that would go down to 3.91. OK? And those are, you know, measured from the baseline. The next page is Patrol. And again, when you lower the investment return assumption, you typically increase liabilities and costs. There's only two sources of revenue to pay benefits. It's either investment income or contributions. And if you say you're going to earn less, then that essentially means more contributions have to come in to pay for the, the same benefits. So again, the unfunded liability is current-- currently was $99.3 million, it goes up to about $107 million under 6.95, to $124 million under 6.75. Funded ratio, you can see, is moving 85, 84, 82. Patrol does have an additional state required contribution, the members contribute, the state contri-- matches, and then there's an additional state contribution. It was $6.8 million in the 2024 valuation. With the first step of the phase-in, it moves about $1.5 million to $8.3 million. You know, if we went all the way to 6.75, we'd be looking at just over $10 million. But again, we're just taking that first step. We're just trying to make sure of full disclosure that you have all the information you might be interested in. Page 40 is the judges. This plan is very well funded, 102% funded. Right now, with the assumption changed to 6.95, it's still just under 102% funded. No additional state contribution needed. It's a little weird when you look at that, because the assumption change, the rate goes down. But that change in the retirement assumption was a positive. And so the, the normal cost actually went down, the unfunded liabilities, you know, surplus moved the opposite direction, but the net impact was still a decrease. And then the ultimate there, you know, we'd be about 25.4% on the contribution rate and right at 100% funded. State and county, these plans are very resilient, always very well-funded. You can see again the impact here. When we start changing the investment return assumption, it does change the unfunded liability. The negative means there's more assets than liabilities, and as the liabilities go up, that surplus goes down. Far right-hand column on page 41, if we did move all the way to 6.75, there would be a small unfunded

liability for the state plan. Funded ratio would be 99.1%. The actuarial rate you can see in the middle of that table. And then, again, there's a statutory contribution for both the state and the county. And you can see the contribution margin in the '24 valuation was 1.66. That obviously will go down as we phase into the lower investment return assumption. So first step's about just under three basis points. And then slide 42 is the county. Lots of numbers, but when you got five plans, it kind of takes a while. So again, this plan's also very well funded, 102% funded. It still stays at 101% funded with the, the 6.95. Would go to just under 100% funded if we went all the way to 6.75. You can see the total actuarial rate. We expect it to go up about .17% with the first step of the phase-in, and then that means obviously if, if the actuarial rate goes up and the statutory rate doesn't change, then the margin will go down by the same amount. But it, it does have an impact, but like I said, they're well-funded and they really stay well-funded. So we'll just wrap up. Again, the, the major change was the investment return assumption. We gave that a lot of thought and really think it is the right thing to do at the right time and hopefully that pays off down the road and somebody 20 years from now can thank all of us for making that decision. I probably won't be here. But anyway I think the important thing is that, you know, the plans are well funded, we've talked about that. Nebraska's done the right thing in the past. I feel like we're doing the right thing again. And to Brent's point, if there is an unfunded liability, there is a mechanism in place to, to fund it up. It may take, you know, 20, 25 years if all assumptions are met, but they won't be met. So we're, we're constantly in this state of flux, but there is a methodology in place to get us there, and a number of these plans have been putting in more than the actuarial rate, which is why, part of the reason that we're so well-funded. So I'm happy to answer any other questions you may have.

BALLARD: Are there any questions? Senator Juarez?

JUAREZ: So I just have a quick one, please. On page 39, could you explain to me again why on the Patrol that their funded ratio is less in comparison to the other groups that we reviewed?

PAT BECKHAM: Yeah, each, each plan has its own history as far as, you know, the benefit enhancements, the demographic experience, salary increases and the funding. So county, state, school, and judges have generally contributed more than the actuarial rate.

JUAREZ: OK.

PAT BECKHAM: Patrol has not because they had the employee rate matching employer and then the employer makes the rest of the actuarial rate. But there are no additional contributions that go in for Patrol. So I think that's a big part of it. And again, each one sort of had, they have the same asset experience, but they don't have the same liability experience over time.

JUAREZ: OK.

PAT BECKHAM: And they also benefit, I think we had a recent benefit enhancement for Patrol a year or two ago didn't we?

BRENT BANNISTER: Yeah. And they're also-- the State Patrol, because they had a recent fairly substantial salary increase, that's suddenly raised what we expect to pay out in the future. We'll get more contributions, but they haven't come in yet, and so that also contributed to this.

JUAREZ: OK. Thank you.

BALLARD: Senator Hardin.

HARDIN: Thanks for what you do. And how you do it. I constant-- constantly am amazed that Nebraska ranks as well as it does when it comes to public pensions, how you, how you manage them and so on and so forth and I'd like to continually bang the drum that we're a non-energy state. Usually when you look at those lists of who really does well, they have natural resources that we don't have. And so South Dakota is usually in that club with us and begrudgingly Iowa joined us there recently. But thank you for your leadership

PAT BECKHAM: You're welcome. Thank you. Appreciate it.

BALLARD: Additional questions? Seeing none, I, I too would like to thank you for your willingness to be here and your willingness to answer all the questions we have. But I really appreciate it and we'll be talking again soon.

PAT BECKHAM: Right. We appreciate it.

BALLARD: Thank you so much.

JUAREZ: I didn't know what an experience study was, so now, now I do.

PAT BECKHAM: There you go.

BALLARD: All right. That will close our hearing on the, on the experience study, and we will switch over to the NPERS annual report. Welcome up, Tyler.

TYLER CUMMINGS: Good afternoon, Chairman Ballard and members of the committee. My name is Tyler Cummings, that's spelled T-y-l-e-r C-u-m-m-i-n-g-s, and I am the interim director for the Nebraska Public Employees Retirement Systems. I am here today to present our annual report to this committee. We are required by statute to present an annual report each year to this committee by April 10th. And we are happy about what we accomplished in 2024. and I will get into this reports here very shortly. Before I do, I just want to give a brief overview of our agency, and some of this you already just learned from the actuaries, but we administer seven different retirement plans. These plans cover public employees across the state of Nebraska. We also-- these are various types of plans as well. So it's not just school, judges, State Patrol, but within these plans, you have defined benefit, cash balance, defined contribution, deferred compensation, and a deferred retirement option plan that we administer. We have just around 60 full-time employees, so we stay rather busy trying to administer all the various plans that we, that we administer. So I will now get into the reports. First, I want to thank all the staff that put this information together. Also want to give a special shout out to the graphic artist who-- Jared who created the cover that you see here. I think it's a great graphic of the Capitol. The first page I want to highlight is page 1, it's this infographic here. And we serve over 175,000 plan members. One in eleven Nebraskans are a member of our plans. The Nebraska Investment Council invests the $23 billion for those retirement plans. 88% of those retirement benefit distributions go to Nebraska residents. The average pension payment that we pay out to our retirees is around $2,300 per month, and we distributed over $1.3 billion in retirement distributions in 2024. At the bottom of that infographic, the plan membership is broken down. So you can see that the school plan is our largest plan followed by the state and then the county and the OSERS plan are our next largest and then judges and Patrol are our smallest plans. I will now direct you to page 5. This lists our accomplishments. I won't go over all of them, but I do want to highlight just a few. We answered over 45,000 phone calls in 2024 and helped over 2,000 walk-ins that came into our office. We implemented multifactor authentication for our member and employer portals. Most importantly, we took over administration of the Omaha School Employees Retirement plan on September 1st. This was a multiyear project beginning in 2021 with the passage of LB147. And we're now basically in the final stages of that project, just

implementing some functionality, and then soon that will be wrapped up. Also we processed about almost 2,000 new retirements for all the other plans other than OSERS. We conducted 55 retirement plan employer audits. And then on page 6 we, we conducted a number of educational seminars as well across the state of Nebraska and then incorporated OSERS into our educational program. And then I will go to page 11, page 11 and 12. This page just highlights the funded status of each plan as the actuaries just stated. All of our plans are in good shape. I would just note that the OSERS plan is the only plan that's below 80%, it's actually just slightly below 60%. Then next on page 14 and 15. On page 14, it just highlights the plan assets per each plan. So that's some good information for you. And then on page 15, that top table, details are membership status by each individual plan, but also by the status of the member. And I just want to highlight what those statuses are. So an active member is someone who is actively contributing to the retirement plan. An inactive member is someone who is no longer employed, no longer contributing, but still has money in their retirement account and has not taken a distribution. And then that retired column are the members who are receiving a monthly benefit payment from us. All right, and then, wrap it up here soon, as you flip through these pages, we have a number of graphics and statistics about all the work that we do. This is for Education Services Department, our Member Services Departments, our Data Services Department and our Internal Audit Team as well. So there's some-- a lot of great information in here that you can look through. But I do want to get to page 29. I find this to be some valuable information, especially for you all, because you can look at the districts that you represent or the counties and see the impact that we have on some of your constituents. So if you look at Adams County there on page 29, you're looking at the benefit payments that were paid out in the month of December of 2024. And then it's broken down by each plan. So that first number of $1.4 million for Adams County are the amounts of benefit payments that we made for the school, Patrol, and judges members living in that county. Then on the very far right side where it says statewide totals is the amount of benefit payments we made in that month for all members in our plans that live in that county. So you can look through, see which county you represent and see the impact that our retirement, retirement plans have on our members and your constituents. At the bottom of page 31, you can see there's two different numbers. The first number is $10 million. That's the amount that we paid out to Nebraska residents that are in the OSERS plan. Then there's $71 million paid to Nebraska residents in all the other plans that we administer. So a total of around $81 million paid per month from our retirement plans to

Nebraska residents. And then on page 33. This is just a total for all plan members, and we break it down by the individual state that they, that they might live in. And we have obviously plan members that live across the United States. Eighty-eight percent of those live in Nebraska. And we pay out a total of $92 million per month in annuity payments to our plan members. And then just the last few pages. I won't really go over these, but it provides a plan summary for each of these plans and the legislation that has been passed since 2016. And then beyond that, we have our board policies in there as well. That concludes my remarks, and I would answer any questions you might have.

BALLARD: Thank you, Mr. Cummings. Are there any questions? Senator Hardin?

HARDIN: We have a handful of people who live in some exotic places, and that's fascinating. Beyond that, what are your thoughts on the future with OSERS and how does that look in terms of that funding moving forward?

TYLER CUMMINGS: That's a really good question. So the funding comes from the Omaha Public School District. They have been making their ARC payments, but they've also been contributing more than their ARC payments. So typically that's around $30 million to $40 million per year in additional contributions that they are putting in. This would be probably a better question for the actuaries. So I wish you could put them on the spot. But I would say it's going to take time.

HARDIN: They're chuckling behind you.

TYLER CUMMINGS: Yeah, they're probably happy that I'm answering this one. It's gonna take time. It's going to be, you know, a 30 to 40 year horizon before it's probably to a level where we are seeing them compared to our other plans in the 80s or 90% of their funded status. But it's gonna to take a long time to get there in my opinion.

HARDIN: Sounds like a harbinger of defined benefit plans.

TYLER CUMMINGS: Well, when you make unfortunate investment decisions, that is the consequence.

HARDIN: Thanks for being here.

TYLER CUMMINGS: You're welcome.

BALLARD: Thank you, Senator Hardin. Senator Juarez.

JUAREZ: OK, so my question's on the same topic also. So without being real-- I wasn't even familiar with what happened with Omaha's plan, except obviously the headlines that made it in the newspaper, right? That's all that I know. So for the Omaha plan, since it has such a long ways to try to get better funding, are we making the same investment options for their plan? Are we trying to get-- have a little bit more risk to try to get it in better shape quicker? Not that that's necessarily what would happen, but you understand what I'm saying?

TYLER CUMMINGS: I do believe so, Senator. So that's really a question for the Nebraska Investment Council. What I do know is that they are trying to get rid of the more poor-performing investments and align them with their allocations that they have for the other defined benefit plans. So hopefully over time, their strategy will help improve the returns on the OSERS plan. But my guess is the investment officer would know a lot more about that than I would, that over time, that's the strategies to align them with the other defined benefit plans to ensure, you know, strong returns in the future.

JUAREZ: OK. I'll remember to ask the right person next time. Thank you.

BALLARD: Thank you Senator Juarez. Additional questions? Seeing none.

TYLER CUMMINGS: Thank you.

BALLARD: All right, thanks so much for your time. And that will close our hearing on the NPERS annual report and our hearings for the day. Thank you all.