

TRANSCRIPT PREPARED BY THE CLERK OF THE LEGISLATURE
Transcriber's Office

COMMITTEE ON NEBRASKA RETIREMENT SYSTEMS
March 22, 2006
Annual Reports

The Committee on Nebraska Retirement Systems met at 12:15 p.m. on Wednesday, March 22, 2006, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing regarding annual reports. Senators present: Elaine Stuhr, Chairperson; John Synowiecki, Vice Chairperson; Philip Erdman; Don Pederson; and Marian Price. Senators absent: Patrick Bourne.

SENATOR STUHR: Okay, I believe we're going to go ahead and get started this afternoon. This will open the Retirement Systems Committee hearing to hear the annual reports from the Investment Council and from NPERS. And I will introduce the committee members that are here. And to my far right is Mr. Donn Jones, who serves as the committee actuary. Senator Price from Lincoln. Senator Erdman has not arrived yet. Hopefully he will be here shortly. Our legal counsel, Jason Hayes. And to my left, Senator Don Pederson from North Platte. And the committee clerk, Kathy Baugh. And also serving today as our page will be Jake Wawrzynkiewicz from Papillion, Nebraska. And so we thank him for helping here. We will open with Carol Kontor giving us the report on the Nebraska Investment Council, so, welcome.

CAROL KONTOR: (Exhibit 1) Thank you, Senator Stuhr and members of the Retirement Committee. My name is Carol Kontor, C-a-r-o-l K-o-n-t-o-r. And on behalf of the Nebraska Investment Council, I am pleased to report our 2005 annual report. It's the same format as it's been in the last couple of years. And so if you would turn to page 5...oh, and also, please interrupt me at any time you have any questions or comments. Page 5 shows the Investment Council. It's the same picture as last year. There are a couple of changes. Gail Werner-Robertson is now chairwoman of the council and Ken Green, he has moved out of the state, is no longer on the council. But while we will miss him, we have an excellent replacement, John Maginn, who you all confirmed in January of 2006. We are very fortunate to have the talented people that we do have that are willing to serve on the council on behalf of the state. If you would turn to page 7, just to kind of summarize some of the things here in the report. The 2005 was a challenging year. We had some major events, record high oil prices, we had devastating hurricanes. These certainly had impacts on the

Transcript Prepared by the Clerk of the Legislature
Transcriber's Office

Committee on Nebraska Retirement Systems
March 22, 2006
Page 2

financial markets. The S&P 500 was up 4.9 percent in 2005 after two years of double-digit returns. The international stocks did a little better than the U.S. market. The develop markets were up 13.5 percent. The emerging markets had the strongest returns at 34 percent for the year. The Fed was continuing tightening during the year on the fed funds rate. We ended the year at 4.25 percent on the fed funds rate. It seems a while ago that we had that 1 percent fed funds rate and it may be a long time before we see that again. The bond index, the Lehman Bond Index returned 2.4 percent for 2005. Some of the highlights regarding the council. During 2005, the assets for which we are responsible exceeded \$11 billion and the investment returns on those assets to the plans was \$663 million for the year. Some of the, we made some changes during the year. I'd like to go through those and briefly why we made them. One of the things that the council did was allocate 5 percent of the defined benefit portfolios and the cash balance benefit to private equities. And we hired two private fund of funds managers: Abbott Capital and Pathway Capital. We hired fund of funds managers because this is our first foray into this asset class. By having a fund of funds managers, we're diversifying our risk rather than being predominantly in one segment of the market. The rationale for investing in private equity is that the expected rate of return over, say, a 10-15 year period is 10.1 percent compared to the expected rate of return we have on U.S. equities, public equities, of 7.7 percent. And this is an expected rate of return, it's an average annualized number, certainly it's not going to be a straight line. So we do expect to have higher return from this allocation than if we had kept it in the public markets. There are negatives. The asset class is a liquid asset class. You commit the amount of money for a certain amount of time. And sometimes it takes a while before we'll start to see that improved rate of return compared to the public markets. Private equities can have what they call a J-curve effect. But the liabilities are long term and we believe our investment strategy needs to be long term and that over a long-term period, this will improve the rate of return. We also allocated 5 percent to global equities. We took 2.5 percent from domestic equities, 2.5 percent from international and allocated to two global managers, MFS and Acadian. The rationale there is, with the broader mandates for them, we would expect a higher rate of return from them as well. For example, if

Transcript Prepared by the Clerk of the Legislature
Transcriber's Office

Committee on Nebraska Retirement Systems
March 22, 2006
Page 3

the manager likes the auto sector, they don't have to be in Ford or GM or BMW or Toyota, whatever. This way they can cross borders and go with those stocks that they think have the greatest upside potential. We changed our real estate strategy from a higher allocation in public real estate to private real estate. And we got into the queue for two private real estate managers: Prudential and UBS. Again the thinking is, we do have a higher expected rate of return, the negative is illiquidity. But we're staying with, we want to have a long-term strategy to match the long-term viabilities. And finally, another major thing that we did was we reallocated in the fixed income portfolio. We had had four active bond managers. There was too much duplication with an increase in cost. So we allocated one-third of the fixed income to index funds. It's difficult for managers to beat the index and certainly, index investments are less expensive. We kept our two best performing managers and then we've also allocated a 5 percent of the fixed income to a high-yield manager. Those are some of the changes that we made in the defined benefit plans. And so we would expect to see the impact of those changes over the next few years. For 2005, the defined benefit plans returned 7 percent which added \$401 million to the defined benefit plans. Since 1983, which is the start of the current measurement period, the defined benefit assets have returned 10.4 percent, which is a nice return relative to the actuarial rate of return as well as an absolute return. As always, I concluded my letter here with my same comments. We take our responsibilities very seriously. We are committed to serving the owners of the assets by fulfilling our duties with integrity, prudence, and hard work. On page 9, and this in the executive summary, you'll see there an overall summary of the assets for which we are responsible. There are, we break them into these eight categories and then they have subsections within them and then further down. But this is the way, in terms of the investment strategy, we allocate them. Sixty-four percent of the assets, that's the...defined benefit plans represent 51 percent of the assets for which we're responsible. The state and county and deferred comp, another 12.4. So about two-thirds of the assets are retirement assets, one-third is not. If you look on page 10, and this is a transaction summary for the year. In, beginning in 2005, we had, in total, \$10,755,000,000 of assets under our responsibility. External contributions,

Transcript Prepared by the Clerk of the Legislature
Transcriber's Office

Committee on Nebraska Retirement Systems
March 22, 2006
Page 4

that would be external contributions less disbursements less expenses, there's \$357 million. Investment results added \$663 million to the portfolios. And we ended the year at \$11,774,000,000. You can see the breakdown in there. Interestingly, this is a ten-year look from 1996 to 2005. Over that period, the investment returns have...the growth has gone from the \$3.7 billion, that was the beginning year 1996, to our ending 2005. Of that change, \$5.1 billion has come from investment results over that ten-year period. So if there any...Senator Pederson.

SENATOR D. PEDERSON: Carol, when you do your investments like your various funds that you get involved in, who is it that sees that there's not a duplication or a buildup in certain areas? You know, some funds tend to treat certain particular asset holdings in one way or another. And do you do that or do you have a manager that does that or what do you do?

CAROL KONTOR: You mean, like, in terms of, say, the duplication?

SENATOR D. PEDERSON: Yeah, I'm talking like pharmaceuticals or...

CAROL KONTOR: Sure.

SENATOR D. PEDERSON: ...of that nature.

CAROL KONTOR: Yes, we review that. The data is provided by our investment consultant, Ennis Knupp. And then they give us, you know, in terms of the allocation to different sectors, we have that in terms of how much is in industrials, pharmaceuticals, technologies. We also get charts that show how much is growth in value, small, medium, large caps. So the data provider is Ennis Knupp. They get the data from State Street. They put it in that...they analyze it for us and then we make decisions then from that.

SENATOR D. PEDERSON: Okay.

SENATOR STUHR: And I do want to say, Senator Erdman has now joined us and also Senator Synowiecki has joined us. Carol, going back to page 8 when you were talking about the defined benefit plan and the return of 7 percent. Is that somewhat

Transcript Prepared by the Clerk of the Legislature
Transcriber's Office

Committee on Nebraska Retirement Systems
March 22, 2006
Page 5

troublesome since we're looking at an 8 percent target?

CAROL KONTOR: The 7 percent is for the calendar year 2005.

SENATOR STUHR: Yes.

CAROL KONTOR: And the defined benefits are fiscal year. So we need to gain, we definitely want to gain another 1-2 percent, at a minimum, for the rest of this year, for the January to June 30. Because as of June 30 of '05, which would be the last returns, I think it was

9.6 percent. So yes, for over the fiscal year, we want to have that number over 8 percent.

SENATOR STUHR: Yes.

CAROL KONTOR: And so the markets were not so good in the fourth quarter. They've been good in the first quarter of '06. So hopefully that will continue and we will beat that 8 percent by June 30.

SENATOR STUHR: Okay, thank you for that explanation. Are there any other questions the committee might have?

CAROL KONTOR: Okay, then over on, the book is the same as before. Then there's a tab for each of the different major sections that we invest. If you would go to, say, page 12, 11 starts the defined benefits, the school, State Patrol, and judges. Page 12 is the transaction summary. You'll see there, of the \$6 billion in the defined benefit plans, \$5.7 billion is in the school. The top of page 13, right side, shows our asset allocation in these plans as of 12-31 of '05, and then the performance summary there. So we equalled the benchmark for the one year and three years was 13.8 percent and so on. Of course, we care about every year but we're also always wanting to look at the long-term rates of return and that was the 10.4 for the last 23 years. To look at how did we arrive at those numbers, page 14 shows are equities underperformed the Wilshire 5000 a bit by 40 basis points. And I know I spoke of it last year, Alliance Capital has been a drag on our equity performance. We reduced them \$300 million and, more significantly, because we wouldn't have kept them for the other \$300 million, we changed them to a blend strategy rather than a pure growth.

Transcript Prepared by the Clerk of the Legislature
Transcriber's Office

Committee on Nebraska Retirement Systems
March 22, 2006
Page 6

And they have done very well since we made that change for the second half of '05. So they are in growth and value, rebalancing among those two sectors. Ariel hurt us this year and then you can just see there. The pages 14 and 15 show the returns by the composite of the asset class and then pages 16, 17, and 18 show by manager. If there are no questions on that, and of course, the difficulty, as I was saying to Jason, it's always hard to know exactly how much detail to go into. So I'll keep going and then we can always come back if you want to do, you know, if you want to discuss any more of it. Page 21 then is the rates of return for the state and county plans. We have the defined contribution plans and then the cash balance. And you can see there the pie charts, about two-thirds is still in the defined contribution, one-third is now in the cash balance. In the state deferred compensation plan, we still have that wasting Hartford Trust which represents a little over a third now of the newer options is growing. One of the good changes in 2005 was the institution of the investor select fund. And that was in the defined contribution and deferred comp plans. It opened September of '05. You all passed that legislation for the opening of that fund. That fund is to invest as substantially as the defined benefit plans as possible. As I say, it just opened in September of '05. At the end of December, it had \$916,000 in it. Yesterday, it had \$2.2 million. So it's growing quite significantly for a new plan. There's a lot of interest in that fund. Then pages 24 and 25 show the... 24 shows the premixes, which is the dominant investment selections of the defined contribution participants, 25 and 26 show what the individual funds have done. It was a question last year what would the average defined contribution and deferred comp participant have earned. Doing a weighted average, now this would not reflect any one particular participant. But if we do a weighted average by assets invested and rates of return, the weighted average rate of return was 5.02 percent. So a positive number, not the 8 percent we hoped for in terms of the adequate retiring. In that one, we have no benchmark for that because, in the defined contribution and deferred comp, participants select the funds in which they invest. So they decide the asset allocation and investment funds. Page 27 is the cash balance benefit. The top there shows the asset allocation. The bottom half, the rate of return on the cash balance benefit was 6.7 percent for the year. While the interest

Transcript Prepared by the Clerk of the Legislature
Transcriber's Office

Committee on Nebraska Retirement Systems
March 22, 2006
Page 7

crediting rate was 5.4 which, as you know, is the federal midterm rate plus 150 basis points. The PERB did grant a dividend in 2005 of 2.8 percent because of the excess return in the portfolio relative to the crediting rate. And since inception, the portfolio has earned 12.4 percent. Then I might just take...the other major portfolio that we invest in terms of size is the operating investment pool, not a retirement plan but just a little over \$2 billion. If you look on page 36, you see the, it was \$2,059,000,000 at the end of '05. This has a totally different investment allocation and strategy because of the different objectives. The objectives for this money is income and preservation of capital. So it is totally in fixed income investments. And on page 37 there, you can see the rate of return. I might then just, if we can discuss any part of it that you want to. The other sections are other portfolios. I would ask you to turn to then page 89. We have the information on the portfolios and we have our policies. Hopefully, you got the updated policies I sent, I think last month, to keep you apprised of the policies. Page 88 shows the staff. There are six and a half of us. Ray Friesen, our internal audit, is a half-time person. So you'll see there our staff. We've had no change in the staff for the last couple of years. Ennis Knupp is our investment consultant. Custodians, State Street Bank & Trust is our primary custodian. Page 91 shows expenses and the 2005 expenses represented, you'll see there, the far-right column, they were 13 basis points on the assets. The assets increased by \$1.2 billion during the year and expenses decreased by \$340,000 during the year. We look for expenses to go down again in '06. We had had two index providers, SSGA, State Street Global Advisors, and Barclays. We asked them to sharpen their pencils and one of them would get the entire business and they did that. And we have elected then to go with BGI for all of our index management and we'll be saving several hundred thousand dollars a year in fees on that. So we look for that to continue to go down. On that, you'll see the internal costs that the, was the first number in the second column of numbers. That's, the \$752,000, that's the salaries and benefits for our staff. The operating expenses, that includes things like Bloomberg, BondEdge, those are some of the investment tools we need, rent, et cetera. The lion share of this money is for sure the fees of the investment managers, \$11.87 million, and then other services, the custodian and our consultant. So with

Transcript Prepared by the Clerk of the Legislature
Transcriber's Office

Committee on Nebraska Retirement Systems
March 22, 2006
Page 8

that, then, I would be happy to take any questions, expand any detail, cover something...I skipped a lot of it. I know, you know, there's a lot of information here.

SENATOR STUHR: Carol, I just wanted to commend you on the report. I know that it is, it takes a lot of work. But I think the color, the graphs are all very helpful in looking at the results.

CAROL KONTOR: Thank you.

SENATOR STUHR: So I think that certainly since you have become the executive director, it has had a brighter outlook. So I appreciate that.

CAROL KONTOR: Thank you.

SENATOR STUHR: Are there any other comments from the committee? It'll probably just take us a while to look and digest.

CAROL KONTOR: Yes, I understand. And I understand how much information you all have to digest in total.

SENATOR D. PEDERSON: And we're grateful you skipped over a lot of it. (Laughter) Could we have an opportunity to read it?

CAROL KONTOR: Yes, yes, and I appreciate how much data you all have to absorb and deal with. So I think as I said, again last year, please, any questions, anything you'd like to discuss, don't hesitate to call me. I want to be a resource to you all. I appreciate how much you have to digest.

SENATOR STUHR: And I also want to thank you because I believe this will probably be the last time that you will appear before us.

CAROL KONTOR: I think it will be.

SENATOR STUHR: So I wanted to thank you for your service and I know I speak for the entire committee.

CAROL KONTOR: Thank you.

Transcript Prepared by the Clerk of the Legislature
Transcriber's Office

Committee on Nebraska Retirement Systems
March 22, 2006
Page 9

SENATOR STUHR: It's been a pleasure working with you and...

CAROL KONTOR: I've enjoyed it very much.

SENATOR STUHR: Thank you.

CAROL KONTOR: And I will miss it.

SENATOR D. PEDERSON: We wish you the best.

CAROL KONTOR: Thank you.

SENATOR STUHR: Thank you. All right, Anna, I believe we are ready for the report from the Nebraska Public Employees Retirement System. Welcome.

ANNA SULLIVAN: (Exhibits 2 and 3) Thank you, Senator Stuhr, members of the Retirement Committee. Again, it's a pleasure to be here in front of the committee to give you an annual report. You should have a copy in front of you. What I will try to do, as did Carol, is to point out some highlights but certainly answer questions that you might have as you take a look. I've given you statistics on activities as much as anything and the work that we do on a daily basis to serve our plan members. I wanted to point out in the first page, we did have also turnover, as you probably know, in our board structure with two new members, Judge Glenn Camerer, if you recall, is now an active judge on our board since January. He has replaced retired Chief Justice William Hastings whose term expired the end of December. And then Richard Wassinger, if you recall, he's the Cass County Treasurer. And so we are pleased to have two new members. And you can see, you know, quite a large board right now. It seems it's grown over the years. It used to be about five members. But we do have a teacher representative, that's Dale Kahla from York, two public members, that's Charles Peters and Roger Rea, and then Denis Blank is our state employee rep, Mark Shepard is a school administrator from Fremont, and Glenn Elwell is from the State Patrol. And so we've got a good representation of plan members. The State Patrol rep is a new addition to the board and so just in the last couple of years. And of course, we're also pleased to have Carol as an ex officio member on the board as well. Just to take you just to some

Transcript Prepared by the Clerk of the Legislature
Transcriber's Office

Committee on Nebraska Retirement Systems
March 22, 2006
Page 10

of the statistics, I guess what I'd like to start with is you'll see some of the similar pages that we've had over the years; our mission statement, our agency goals. I wouldn't want to minimize those. We take our pulse, if I will, every year to take a look at the things that, our obligations, our fiduciary duties, and our primary focus is our plan member. Where Carol's objectives are investing the assets, she has very little contact with plan members, if any at all, and a very small staff. Our goals are to serve our plan members. And you'll see the outline of the agency on page 5 just to give you an idea of the various departments that we have. Besides two folks that work with me, our legal counsel and our internal auditor, in the administrative area, and then we consult, we have an outside actuary. But we, you know, you can see the divisions that we have that are responsible for various aspects of our administration. And member services, you can see services, the educational services, members, those are the folks that do our seminars and there's pages that address all of the educational seminars we conduct. Our member services handle all the phone calls that come into the office. Data services handle all of the mail and all of the management of the paper that comes in. You'll see some of the numbers, the stats of amount of paper that passes through our office. Benefit processing, I think that's pretty self-explanatory. Those folks that pay up...make sure that retirees are paid on a timely basis. Pages 6 and 7 are a summary of our accomplishments for 2005. We felt like we had, you know, number one, you know, we had, again, legislation implementation. LB 503 and LB 216, LB 216 was kind of a surprise to us. It was a bill passed by the Revenue Committee that dealt with state income tax withholding that impacted us because of the withholding that we have to withhold from our retiree benefits every month. And so we spent, there was some programming that we needed to do to implement that change in our information system for both LBs. Also, we spent quite a bit of time on compensation. I know, Senator Stuhr, you have a bill introduced addressing the compensation. We have a staff, our data purification area works just with making sure to assist those folks who process benefits, that compensation questions are resolved before a member retires. We've worked very hard to address audit issues. I know that you see copies of our audit reports. We're very much aware of questions. The big issue that seems to be, that has come up year after year is the issue of the employers and the

Transcript Prepared by the Clerk of the Legislature
Transcriber's Office

Committee on Nebraska Retirement Systems
March 22, 2006
Page 11

accuracy of the data that we receive from our employers, both all the school districts, which are close to 500, and then 91 out of the 93 counties. And that issue has been an ongoing matter for a number of years because we have to answer when a school district or a county makes a mistake, it shows up in our audit. And so we are now, with our internal auditor, she and an assistant are starting to test the payroll of all of those entities to ensure the accuracy of the data that we receive. Our educational services area, I'm very proud of the work that our folks do. We do comprehensive employer training as well as employee training. One popular feature that we've added is what we call, number 5 there on page 6, is Retirement 101. We're going around just kind of upon request to state agencies and counties, you know, will you come over for an hour and tell us, you know, give us the basics on retirement. And we really, we'll look at some of the stats a little bit later, I'll point to those pages. But those have been a real hit because it doesn't take a lot of time during a person's day and the agencies and the counties have been very supportive of our Retirement 101 program. We try, also, our agency web site, we want to keep that current for plan members. Again, our focus is our plan members. I know you all don't have the privilege of being a part of the retirement systems but information is so critical to our participants. And we feel that's a strong emphasis in our area. It was hard for me to identify, when I looked at all of the items, which would you rank number one, you know? The same thing with, if you'll turn with me to our goals, our action plan, on pages 8 and 9 for 2006. You know, how do you prioritize these, because they're all important. And you know, we continue to work with service to our plan members and to try to facilitate communication and make sure there aren't misunderstandings. And I feel like number 2 on page 8, also, our work with you, with policy makers, with other governmental offices, making sure that our relationships are positive, that if there is a breakdown in communication and, you know, we've had breakdowns in communication this past year. And I have to take responsibility. If there's something that I might have said or done that could have caused confusion or a misunderstanding, I see that as very critical that we understand one another. And we implement, you know, your goals as the policy makers. Our goals this year, you see there, ongoing PIONEER priorities, implementation of the legislative provisions. We understand that LB 1019 was

Transcript Prepared by the Clerk of the Legislature
Transcriber's Office

Committee on Nebraska Retirement Systems
March 22, 2006
Page 12

signed by the Governor. And so we'll have that particular legislative bill and hopefully LB 366 to be implementing. And our goal of improving our financial audits, we'll continue with our education, we have rules and regs we need to update. And I do want to point out, on page 9, number 9 there, we have major pension legislation in Congress right now. There is a bill that passed the House and the Senate that's now in conference that would have impact on us right here. And it's our job to make sure we are aware of the impact of those federal legislation. And we've been working with our national association to keep track of what's happening on a federal level. And then just to keep track, I don't know, this list that I started on pages 10 and 11. It's unbelievable the amount of legislation that we've addressed over the past ten years. This would give you a summary of legislation that, those are changes to our pension plans. It's not like they say static. I think you all know that. Page 12 gives you a summary of the assets. And I would point out here, Carol has done a very nice job of giving you information. What I have done here on page 12 is give you the market value of the assets for 2005 through June 30 for our school, judges, and State Patrol plans. So that ties back to my actuarial reports which you all would have a copy of. And then what you see for the state and county in deferred comp is through December 31. And so that information is slightly different than the number that you'll see in Carol's book. Market returns, I've mentioned that briefly, but again, emphasizing the June 30, '05. We're on a fiscal year for our defined benefit plans and we had a good number last year. We're optimistic this year. I think it's helpful in my role, too, to serve as an ex officio member on the Investment Council to keep track of and monitor what is happening. And I hate to see Carol go, but she and I have worked well together over the years to communicate the two boards having to work together and make sure they understand the other and what goes on. But one of the things I want to point out on pages 13 and 14 is, under the judges' plan you'll see, second paragraph, the judges' plan is 96 percent funded. And that means that for every person, even the person who's just been sworn in as a judge, 96 cents out of a dollar, and you can ask your actuary what that means, but that means that we could pay 96 cents for every dollar. And that is outstanding when you look at the fact that we had a couple of really tough years in 2001 and 2002. And the school plan is 85.6 percent funded there if

Transcript Prepared by the Clerk of the Legislature
Transcriber's Office

Committee on Nebraska Retirement Systems
March 22, 2006
Page 13

you look at that on the bottom of page 13. And State Patrol plan is 93 percent funded. The difference between that and 100 percent is the unfunded liability that we're making an amortization payment toward. I feel that we have, our defined benefit plans are in strong financial condition and I'm pleased with that. Then you'll see on page 15 some statistics on the number of retirements we process, our membership. A lot of activity, page 16 tells you the amount of phone calls, visitors, mail coming in, going out. You can see that we're a very busy office. There are 48 of us now and still there are many times that we're struggling to keep our head above water, especially during retirement season, because of the busyness that, you know, everyone coming and wanting information at the same time. I did give you also page 17, a summary of our operating budget for the past several years. And I want to point out to you that \$2.6 million of that '05-06 budget is the master lease program, payment for our PIONEER system. We finance that, which is described at the bottom of page 17 and the financing of that over time. We had an investment analysis done by the previous investment officer whether to spend cash for that information system or to borrow at a low interest rate. And it was financially more practical and beneficial to the plan to borrow at a low interest rate and keep the And so that was a decision that was made back starting in 2000. Now I would like to stop here and I would like to give you some information that, this is really kind of pertinent information, at least it seems like today. And Kathy, if I could ask you to...oh, excuse me, got a page. I apologize, didn't mean to do that. This is a chart that's presented by the National Association of State Retirement Administrators. And it gives you some very interesting financial information on public pension plans. This is around the United States, and I think Carol alluded to some of this about the impact of the investment earnings and she and her team realized in their efforts investing the pension assets. But you can see on the right-hand pie chart, that the bulk of public pension benefit funding is coming from investment earnings. Now this is a national number of 63 percent of the investments, of the income comes from investment earnings. But when I applied, I took the school plan assets as up June 30 of '05 and actually 71 percent of, in the school plan, 71 percent of the income comes from investment return and 14 percent comes from the employees and the state and the school district contribute 16 percent.

Transcript Prepared by the Clerk of the Legislature
Transcriber's Office

Committee on Nebraska Retirement Systems
March 22, 2006
Page 14

If you see those on the pie chart on the right-hand side. Just to give you an idea of where the source of the money comes from in paying benefits. And I also have something else that I think is, I don't have a handout for you, but we pay out, I think you'll find this interesting. I had one of my tech people pull some statistics for me. We pay out about \$18.3 million per month in benefits, \$18.3 million per month. Now that was the number for February and that's an average number. It increases sometimes during the summer because we start, we have more retirees in the summer and so those initial payments sometimes would be a little larger. It has been growing over the years. On an after-tax basis, it's \$16.4 million. Now how much of that stays in Nebraska? \$14.9 million of that stays in Nebraska and \$1.5 million goes outside of Nebraska of the, I have the after-tax amount, after the withholding of the 16.4, that amount, 14.9 stays in Nebraska and 1.5 goes outside of Nebraska. That's the kind of contribution that these pension beneficiaries are making to the economy in Nebraska. And I think that's very significant. It's also, it was a pleasure for me to see that so many of the dollars, our retirees are still here. We did sort it by county. If you have an interest, I can tell you how much goes into each county in Nebraska. The largest, of course, is Lancaster County...well, Douglas County because of its population, Douglas and Lancaster County. So at this point, I would, the only thing I'd point out to you is that I've included, if you go back to page 26, Appendix A, this technology system update was what I provided to the Appropriations Committee and to you, to the Retirement Committee, back in December. So this is a repeat but I wanted to put it in. It was a major part of our work during 2005. A lot of detail on our IT system. We've had questions, as you probably know, we have folks in our office completing a performance audit, asking questions about our PIONEER system, you know, looking at just what we're spending on our system. The system went live in January of 2004. It's been two full years and it's been very successful. I spoke to the individual who, the consultant that we hired back in 1999 to help us start the process of putting together our information system. And he reported to me that the vendor that we're using right now has put in nine systems like ours in states around the country, and Indiana and Rhode island and Oregon and Nevada and Michigan and New Mexico and Ohio and Milwaukee, Wisconsin, and Mississippi where the systems have been implemented, either

Transcript Prepared by the Clerk of the Legislature
Transcriber's Office

Committee on Nebraska Retirement Systems
March 22, 2006
Page 15

before or after ours in the past several years. They've all been successes and some of the other contractors who bid on our project have failed. And so I feel very good about the success of our PIONEER system. We did give a demo in May, and unfortunately only Senator Stuhr was able to attend. I would invite each of you, if you are interested in coming, to see our information system. We'd love to have you. If you have any questions though, I'm going to stop at this point and try to answer any questions that you might have.

SENATOR STUHR: Are there questions for Anna? Senator Synowiecki.

SENATOR SYNOWIECKI: On the expense side of things, do we have any analysis of how the state of Nebraska rates for state-administered plans?

ANNA SULLIVAN: Compared to other states?

SENATOR SYNOWIECKI: Yes.

ANNA SULLIVAN: I don't have. If you look at the chart here, let's see, does it say...this fact sheet that I passed out. Our expenses run about 10 basis points.

SENATOR SYNOWIECKI: Um-hum.

ANNA SULLIVAN: Carol had mentioned her expenses were averaging about 13 basis points. So the investment expenses, you know, especially with those managers, those are expensive. I can't tell you that, Senator Synowiecki, but I could certainly try to find out on a national basis how we do.

SENATOR SYNOWIECKI: I think that would be a worthwhile analysis.

ANNA SULLIVAN: Good.

SENATOR STUHR: Are there other questions? I know that there were some questions, Anna, about the PIONEER system, particularly trying to retain a manager. If you might just address that because it is a very difficult situation.

ANNA SULLIVAN: We, yes, we had, when we first started our

Transcript Prepared by the Clerk of the Legislature
Transcriber's Office

Committee on Nebraska Retirement Systems
March 22, 2006
Page 16

system project, we hired a technology manager on site, someone to oversee the vendor, someone to also oversee a small staff that we have. And we have had difficulty retaining a person. What we found, at least with the last two managers, they were very committed individuals. They quit, you know, it was difficult for them to quit but they both came to me and they said, Anna, we have had offers, job offers, making more, we can't afford to not take those job offers. And one of them was almost 50 percent increase in pay compared to what I was paying. And so after his departure in August of '05, my accountant happens to have his master's in computer science. And Randy and I sat down and talked about it and he was willing to serve as the manager over the IT area during the interim. And right now, because we have, the one issue that we have to address here, just in the coming months, that is the fact that we'll need to migrate to a different programming language since the notification by Sun Microsystems, they are going to discontinue the support for the Forte programming language. There's some information in the report under Appendix A on some details there. We decided then not to hire, to replace the IT manager because we had some transition, we are in transition here with the change in programming language that we'll be addressing. But also we had been approved by our budget to hire a programmer. Well, we didn't want to hire the programmer until we had the programming language question resolved, whether we would be migrating to a new programming language. And so right now, those two positions have not been filled nor do I anticipate filling them until the analysis that's being done by our State IMS Division. We signed an agreement with Brenda Decker and with Steve Schafer to come in and do an analysis and also help us write an RFP, a request for proposal, to have this migration work done. And they've begun that, actually. So we're just kind of taking kind of a timeout. And once this analysis is done, we'll have a little better idea of what our action plan will be. And we'll then have to address the situation of a permanent IT manager. Randy has been very good at stepping in. In fact, he has done an excellent job. I couldn't have asked for a better individual to oversee the area. But he, you know, he's being spread kind of thin. He has to oversee the accounting department as well. But I hope, that was a long answer, but I feel like that the plan we have in place right now is a good one. We're being cautious. We're bringing in experts from state government

Transcript Prepared by the Clerk of the Legislature
Transcriber's Office

Committee on Nebraska Retirement Systems
March 22, 2006
Page 17

to assist us. And we'll keep you posted. And I indicated that to Senator Pederson in my report to you in December. Senator Synowiecki, you also being on the Appropriations Committee, and Senator Price. But then I had a follow-up letter to you in January. And as soon as we have this analysis from Brenda's team, we'll be making that available. And you're welcome to come over, I'll give you a tour.

SENATOR STUHR: It was interesting, I noticed on page 16, the incoming phone calls have actually decreased in the last couple of years. But it was probably the web site and things help.

ANNA SULLIVAN: It really, we have a fellow that just loves the business of putting things out on the web. I mean, if I have something like, you know, the annual report or whatever it is, he gets it out there. He just does a nice job for me. It's pretty, if you haven't had a chance to look at it, it's, if you look at the very first page, our web site is listed. And I'd encourage you to go look because we really do try to push a lot of information out there. And it has helped.

SENATOR STUHR: Yes.

ANNA SULLIVAN: There's a lot of things that people can do then. They can go in and check their accounts on-line. You know, that's what PIONEER has given us. Plan members can go look at their accounts. The state and county employees have had that through our record keeper. But now, with PIONEER, our school, judges, and patrol members have web access.

SENATOR STUHR: Okay, again, lots of information to digest and thank you. I think the report will be very helpful to committee members. Are there other questions?

ANNA SULLIVAN: Some more information that you would like to see going forward, I realize, unfortunately, some of you will not be here next here. But feedback is helpful to me of what kinds of information do you think would help this report, things that you think would help future senators and the Retirement Committee. I'd love to have that.

SENATOR STUHR: All right, well, thank you.

Transcript Prepared by the Clerk of the Legislature
Transcriber's Office

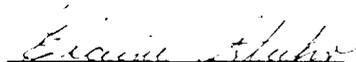
Committee on Nebraska Retirement Systems
March 22, 2006
Page 18

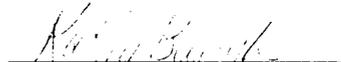
ANNA SULLIVAN: Thank you.

SENATOR STUHR: We've enjoyed working with you and thank you for your hard work.

ANNA SULLIVAN: Thank you, Senator Stuhr.

SENATOR STUHR: All right, I believe that will conclude the hearing for today. Thank you. Thank you, committee members.


Chairperson


Committee Clerk