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Nebraska Retirement Systems Committee  
February 23, 2017

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[LB548]

The Committee on Nebraska Retirement Systems met at 12:00 p.m. on Thursday, February 23, 2017, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB548. Senators present: Mark Kolterman, Chairperson; Brett Lindstrom, Vice Chairperson; Kate Bolz; Mike Groene; Rick Kolowski; and John Stinner. Senators absent: None.

SENATOR KOLTERMAN: Good afternoon and welcome to the Nebraska Retirement Systems Committee hearing. My name is Senator Mark Kolterman. I'm from Seward and represent District 24: Seward, York, and Polk Counties. Committee members are to my right at the present time.

SENATOR BOLZ: Senator Kate Bolz, District 29, south-central Lincoln.

SENATOR KOLOWSKI: Rick Kolowski, District 31 in southwest Omaha.

SENATOR STINNER: John Stinner, District 48, Scotts Bluff County.

SENATOR KOLTERMAN: And straight ahead.

SENATOR LINDSTROM: Senator Brett Lindstrom, District 18, northwest Omaha.

SENATOR KOLTERMAN: My legal counsel is Kate Allen and my committee clerk is Katie Quintero and we have Bobby with us again today as our page. We're here today for the hearing on LB548. Some of the senators will be coming and going. They have some other hearings or Executive Sessions this afternoon, but we will have a quorum. We already do. We're going to take up LB548, the only legislation today. I would ask that if you have a cell phone that you silence it. If you want to testify, come to the front of the room. We're going to have proponents, opponents, and neutral testimony. You need to fill in the blue sign-in sheet. And then when you come up, please state and spell your name before you testify. If you have a handout, please submit at least eight copies. And if you choose not to testify but give us written testimony, we will accept that as well and just give it to my committee clerk over here. With that, I'd like to find out approximately how many are here in support of the bill. And how many in opposition? Do you all plan to testify in opposition? How many plan to testify? All right. Thank you very much. Any neutral? All right. We should be able to get through this in an hour then. With that, Senator Lindstrom, please open on LB548.

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SENATOR LINDSTROM: Good afternoon, Chairman Kolterman and members of the Nebraska Retirement Systems Committee. I am Brett Lindstrom, B-r-e-t-t L-i-n-d-s-t-r-o-m, representing District 18 in northwest Omaha. I introduce LB548 as a conversation starter to bring all the interested parties together to begin discussing how to fix the problems with OSERS. I do not plan to push this bill this year. Rather, I hope it provides a platform for the parties to determine how to fix the issues with OSERS, primarily the unfunded liability. You'll hear testimony today that provides more details on the issues with OSERS, including their unfunded liability. I want to address that issue directly. When Senator Nordquist brought LB447 to the floor, I stood up and opposed the bill because we would have required the state to take on the liability. Let me be clear. I oppose the state taking on or funding the OSERS unfunded liability. However, that bill is what started my interest in this issue. I began discussions with OPS and proceeded to have conversations with representatives of the OSERS board and the teachers union as well as members of the Omaha business community. Today's bill is truly a mechanism to start discussions. It is my hope that those testifying today will focus more on conceptually...more conceptually about the pros and cons of merging the systems rather than getting bogged down into the details of the bill. I appreciate your time today and pledge to continue working with all of the parties to determine the proper next steps. With that, I will be happy to take any questions you may have. [LB548]

SENATOR KOLTERMAN: Thank you, Senator Lindstrom. Any questions for Senator Lindstrom? Okay. We're going to move on then to...seeing none, we'll move on to proponents. Proponents, please take a seat. I believe you're the only one. (Laughter) Welcome. [LB548]

LOU ANN GODING: (Exhibit 1) Welcome. Good afternoon, Chairman Kolterman and members of the Retirement Committee. My name is Lou Ann Goding, L-o-u A-n-n G-o-d-i-n-g. I'm appearing today on behalf of the Omaha Public Schools Board in support of LB548. We want to thank Senator Lindstrom for working with us on this issue. Since 1909, OPS has maintained a retirement system for its teachers and over time combined retirement plans for other employee groups into OSERS. Currently, employees contribute 9.78 percent of compensation and the school district contributes the greater of 101 percent of the contributions by the employees or (2) such amount as necessary to maintain the solvency of the system as determined annually by the board upon recommendation of the actuary and the trustees. The state contributes annually an amount equal to 2 percent of the members' compensation. Based on current market values, the OSERS plan is 63.68 percent funded and has an unfunded liability of \$680 million. OPS is required to make additional retirement contributions to OSERS as recommended by the actuary and the OSERS board of trustees. In addition to the employer retirement contribution that all school districts must make, OPS is required to make additional retirement contributions. Based on actuarial reports, since 2003 OPS has contributed an additional \$29 million to OSERS. If market conditions remain the same, OPS will be required to make additional...annual additional retirement contributions beginning in 2018 through 2042 to maintain the solvency of the system.

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Your handouts include the actuary's report for the full ARC contributions based on 8 percent return on investments. The Omaha School Employees Retirement Office has a 2016-17 budget of approximately \$1.5 million for operations, which is a 15 percent increase over the previous year. Budgeted expenditures include salary and benefits for four staff members; audit fees; legal service fees; actuarial services; contracted services; liability insurance; dues and attendance for workshops, conferences, and meetings. In addition to current monthly retirement contributions by OPS and its employees, OSERS draws \$4 million each month from its earnings to cover benefit payments to retirees. Poor investment returns coupled with the demographics of the retiree and our current employee base make this unsustainable. OSERS has no taxpayer oversight and their work is a duplication of administrative services already provided by the state. Across the nation, only eight school districts maintain their own retirement plan independent from their state teacher retirement system. No other district in the state of Nebraska has to make additional retirement contributions. Maintaining a separate retirement system is a huge burden to the taxpayers of Omaha and to the operations of OPS. As the additional retirement contributions increase, programs and services offered by the district will have to be eliminated or severely reduced. The key purpose of a public school district is to offer educational programs and services to the students who reside in the district. A public school should not be in the business of maintaining and administering a retirement plan. This bill allows OPS and the state to find the actual number of the unfunded liability and then allows OPS to analyze how to fund that dollar amount and how to plan for the future. Thank you. [LB548]

SENATOR KOLTERMAN: Thank you, Ms. Goding. Questions? I've got a few if I'll start out I guess. [LB548]

LOU ANN GODING: Okay. [LB548]

SENATOR KOLTERMAN: A couple of things. We talked this summer. [LB548]

LOU ANN GODING: Yes. [LB548]

SENATOR KOLTERMAN: And I think I was pretty straightforward about the fact that I didn't think the state should take on any of the liabilities for the Omaha Public Schools and so I wasn't...I'm supportive of the concept of moving them together, but only after the funding had been arranged. So I guess my question is why begin the consolidation process when we're still \$680 million--that would be my first--in debt or underfunded? And then my other question is, as this bill is written, it puts all the onus on the state of Nebraska to pick up the cost of research, actuarial analysis, start-up costs, staffing, IT changes. If it's going to benefit OPS, why isn't OPS willing to take on those costs? [LB548]

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LOU ANN GODING: So let's see, the first question relates to... [LB548]

SENATOR KOLTERMAN: Why now? [LB548]

LOU ANN GODING: Why now? So the why now would be there are differences between the actuarial assumptions of both the state plan and the OPS plan. In order for us to figure out what the true unfunded liability is based on what the state has as their actuarial assumptions and what we also have as ours, we need to come together and have an understanding of what those two plans have that are similar and what their differences are and make sure that we can bring those into alignment and harmonize those so that we have an understanding of where that unfunded liability is as well as thinking about the retirement age and a number of different issues that may be different. We have the same actuary so this allows us to take that time to figure out what those differences are. So that would be one of the things that I think is really important. We'll never know until we harmonize the two as far as the actuarial component and what the unfunded liability looks like. We also know that the investment portion moved to the state of Nebraska on January 1. And as of yesterday and today, the majority of the fund managers that OPS had have been let go and new managers and the state's investment philosophy will be implemented. So we're hoping for better returns as we move forward and this will also allow us that time to have an understanding of what that looks like and those fees. Then your second question was... [LB548]

SENATOR KOLTERMAN: Dealt with the cost. As I read through the bill and break it out, it looks like you're putting most of the cost of this consolidation research on the part of the state to pick up all that. And if we're going to do you the favor, why shouldn't you be paying those costs? [LB548]

LOU ANN GODING: So I understand that. The rest of the state has that benefit of not having their own system. They were already a part of the state and so the state's covering a lot of those costs. And so I appreciate that and certainly something to look at as we move forward. [LB548]

SENATOR KOLTERMAN: Okay. Other questions? Senator Bolz. [LB548]

SENATOR BOLZ: According to the briefing I've gotten on this bill, under LB548 the entire 9.78 employer contribution and the annual additional contributions as determined are allowed to exceed the budget lid of the OPS school district. No other district in the state is granted this authority. Can you help me understand that recommendation in this bill a little bit more and why we should consider that unique option for OPS? [LB548]

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LOU ANN GODING: To allow us to exceed? One of the things that happens is most of the money we receive through General Fund dollars we expect to go toward educating children and being able to provide that educational opportunity for children. That's what's happening in every other district in the state. However, in OPS if you look at the last handout in the one that I gave to you, you can see that the significant additional contribution numbers become completely unsustainable for OPS to be able to provide without significant cuts to our services that we would provide to students. So we've built that in there. [LB548]

SENATOR BOLZ: Okay. Thank you. [LB548]

SENATOR KOLTERMAN: Senator Stinner. [LB548]

SENATOR STINNER: Just for clarification purposes, the OSERS board, how many times do they meet and what's on the agenda? [LB548]

LOU ANN GODING: So up until June of last year, starting on July 1 the OPS Board of Education was also a part of the OSERS board; but the change that happened in last year's legislation removed the board of education. So the current board members meet I believe still monthly. They make decisions or they vote on the retirements that are to be accepted. They have no longer any investment responsibility. They're also working currently on figuring out how to do their elections so that they can each be elected to their position. So that's their responsibility. The payment of all retirement benefits is managed through the OPS comp and benefits office. So they're not actually making the payments themselves. They're just approving the payments that need to be made. The actual payments are made through OPS. [LB548]

SENATOR STINNER: Okay. So they don't provide investment advice. They look at...do they look at actuarial... [LB548]

LOU ANN GODING: So they meet with the actuary and they're actually the ones that approve the actuary. [LB548]

SENATOR STINNER: When was the last time an actuary looked at the plan? [LB548]

LOU ANN GODING: So the actuary looks at it every year and has just recently given a report on the plan that ended in '16. [LB548]

SENATOR STINNER: And you're contending that based on the past that all payments were made by OPS, all payments were made by the state, all payments were made by the individuals

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based on what the actuary was telling them. And the \$600 million basically is just bad investment performance. Is that what I heard you say or? [LB548]

LOU ANN GODING: That's correct. [LB548]

SENATOR STINNER: That's correct. Wow. Do you have a plan to get to 80, 90 percent or? [LB548]

LOU ANN GODING: So the plan hopefully is sitting in the Nebraska Investment Officer's...his goal, right, for all of us is to get that plan, the funded percentage up. So the investments moved on January 1. We believe that by allowing those investments to be with the state we'll see reduced cost in management fees and we hopefully will see better returns. The state has had better returns than OSERS has had for the last few years so. [LB548]

SENATOR STINNER: How many people are in the plan? [LB548]

LOU ANN GODING: So I believe there's about 12,000. [LB548]

SENATOR STINNER: So would we need to have an office up in Omaha to accommodate that? [LB548]

LOU ANN GODING: That would certainly be great if there could be one. There's a lot of employees in the metro area who are part of the state plan and those, of course, who are part of the OSERS plan as well. [LB548]

SENATOR STINNER: Okay. Thank you. [LB548]

SENATOR KOLTERMAN: Additional questions? If not, I have a few more. [LB548]

LOU ANN GODING: Oh, okay. [LB548]

SENATOR KOLTERMAN: Investment returns, as we've looked at these plans, because I've been on this committee now for three sessions, when we started looking at the investments two years ago, there was a fairly close correlation between what the state was producing as well as OSERS. There wasn't a huge disparity there. Most of that came in recent years from 2008 to the present. [LB548]

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LOU ANN GODING: Correct. [LB548]

SENATOR KOLTERMAN: And there was some different investments that were made. Talk a little bit about the process that was handled between the school board and OSERS as to how those investments were being managed or did that all fall on the OSERS board? But I think you had to accept that, didn't you? [LB548]

LOU ANN GODING: Correct. So the process was that individual fund managers would come before the OSERS board and make presentations. And then the OSERS board would either accept or reject those. Once they accepted the investment fund manager as one that we would want to have in the portfolio, that moved on to the OPS Board of Education onto the board's agenda as well. There was one investment during that time period that the OPS board did not accept the recommendation from OSERS and we sent that back to the OSERS board. But many of the investment decisions have been made in '08 as far as the allocation of the investments. Those were made in '08 and many of the investments were...some of them were a little bit longer term and many of them had been around for a while. So we weren't making a significant amount of changes in the three years that I was on the OSERS board. [LB548]

SENATOR KOLTERMAN: And how many people sit on the Omaha OSERS board from the actual school board? [LB548]

LOU ANN GODING: None now. [LB548]

SENATOR KOLTERMAN: Zero. [LB548]

LOU ANN GODING: Zero. [LB548]

SENATOR KOLTERMAN: So there is a disconnect between the OSERS board and the school board. [LB548]

LOU ANN GODING: That's correct. We still are required to approve the expenditures that they make based on the top sheet on your handout that I gave to you. However, we have no authority over the actual budget that they approve. [LB548]

SENATOR KOLTERMAN: And you did approve their 2017 budget. And it looks to me like they've got an increase budget cost, pretty significant really. What accounts for that if we're taking on...we've already taken on a lot of the work investing by the state of Nebraska so those costs should have been stable or gone down. That's just the perspective that I have. [LB548]

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LOU ANN GODING: Right. So the OPS board never actually gets to approve the OSERS board budget because this is no longer under our purview. We're not responsible for them anymore so that's the OSERS board that approves the budget that they have. The OPS board is required to approve the expenditures once they're made, but there's a bit of a disconnect since we're not actually (inaudible). There's no public hearing on the budget or anything like that. [LB548]

SENATOR KOLTERMAN: So there's a huge disconnect I'm sensing between OSERS and the school board. Is that an accurate statement? [LB548]

LOU ANN GODING: I think that's accurate. [LB548]

SENATOR KOLTERMAN: The other thing, again, I only have a three-year history to go from. But as we looked at this and we did the investment switch a year ago and we moved it into the state of Nebraska's investment committee, there was some serious concerns that the ARCs had not been made over the years, which is actually the responsibility of the school board. I guess I'm sitting here looking at all these numbers and all these liabilities that you have sitting out there. I'm not surprised you're here asking, but I am a little bit concerned why the state should take this over when at the end of the day the bottom line really goes to the school board of Omaha Public Schools. Is that not a correct statement? [LB548]

LOU ANN GODING: So the liability certainly rests with the Omaha taxpayer and we recognize that. And when you look at the second sheet that I've given to you, the ARC actually was paid every year that it was required to be. I believe there was maybe...in 2013 there may have been an ARC that never got to the school board. We never were...it never showed up on our agenda. But other than that, the board of education paid each time that they were required to pay in. And we understand that that was a challenge. I would say that the change in funding have really happened more in the last few years. The comparability between the state and OSERS was pretty comparable and especially in '08 I think OSERS was in a better place than OPS. There was a change in the way the investments were managed starting in '07-08 and that made a bit of a difference where we're at. The OPS taxpayer certainly has a responsibility for this. And what we're looking to figure out is how to fund that as even Senator Bolz brought up. And what we need to know is what is that number and what does that look like and what is the plan going to be for us? And it will allow the Omaha Public Schools Board of Education to figure that out. [LB548]

SENATOR KOLTERMAN: And I appreciate that. But the biggest, again, the biggest concern that I have is we're sitting here with a \$900 million shortfall in our own budget and our plans are not funded at 100 percent yet either. [LB548]

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LOU ANN GODING: Right. [LB548]

SENATOR KOLTERMAN: For us to take this on at this time would dilute the teachers that have been in the plan. It would hurt their plans. And because...so in essence, you're asking us to help you get out of a hole that you've dug yourself and over the years you've had richer benefits. You've had, you know, and those benefits attract people away from our public schools that are in the rest of the state. And now all of a sudden we're here to bail you out. I understand the need, but I don't see us doing that at this time, but that's just my perspective. I guess I'd just like to hear from...I don't have any other questions. I'm just rambling a little bit. [LB548]

LOU ANN GODING: Right. We're really not looking for a bailout. We're looking for a plan to help harmonize the two systems so that the Omaha taxpayer has a clear understanding of what our responsibility is and what we need to fund the plan so that eventually the two can be merged together into a compatible system. [LB548]

SENATOR KOLTERMAN: And I completely understand that. Here's the bottom line to me. You know that you have a \$680 million shortfall right now. That's not going to go away. And so I think you've got a pretty good starting point already. The rest of it is going to be up, above, and beyond that \$680 million. So I think you've got enough numbers to figure out how you're going to pay it back. It's just a matter of you need to come in with a plan. That's my perspective. And then I think we'd be more agreeable to talking about it. But other than that, I don't have any other questions. So thank you. [LB548]

LOU ANN GODING: Thank you very much. [LB548]

SENATOR KOLTERMAN: Anybody else in support of the bill? How about opposition? [LB548]

JOHN JENSEN: Senator Kolterman, members of the committee, I am John Jensen, J-o-h-n J-e-n-s-e-n. I live in northwest Omaha. I'm here to testify against LB548. I'm a retired physics teacher. I taught for 36 years in the Omaha Public Schools. I served as a trustee for OSERS for 24 of those years. And during my tenure as a trustee, I saw many, many changes that occurred with the laws pertaining to OSERS. Each of those laws that were passed during my years as a trustee we worked in a collaborative fashion with everyone. Members of the plan, whether they're OEA or service employees, members of the school board. At that time, three members of the school board sat on the OSERS board and we worked in, as I said, in a collaborative fashion. We worked with the actuary and consultants, the consultants that we were already paying for certain investments that we made. And in some cases, we even had an outside consultant to help us. But the whole thing was we did it all together and we never came down with a bill unless we

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were all together with it. And you know, that worked well since 1909, as someone in Washington says, like a well-oiled machine. Today, it doesn't work that way. None of that has occurred. I only found out about this bill by talking to one other individual who happened to see it, but it was done behind closed doors basically and all of a sudden it's here before us. So all the collaboration that we have worked so hard to build was gone with this. Keep in mind that when we came down here to talk to the Retirement Committee we did not make those decisions very lightly because we had really researched exactly what the consequences were. We tried to anticipate every unintended consequence. And as the prior testifier said, it's been in the last few years that the downturn in 2008-09 really hurt. But, you know, we were there before in the early 1990s. And by the year 2000, we had over 10, closer to 15 percent above 100 percent; and that was done through investment return. Now the one thing I cannot understand is why we would want a bill where it either forces the state to pay that unfunded liability or the Omaha School Board to pay the unfunded liability when it's a 30-year debt. It's like a mortgage. Why can't we let this see if investment return will pay part of it? If investment return pays part of that unfunded liability, then it's not up to the state to pay that, it's not up to the school board to pay that. That would be the way that I would like to see us do it because it's worked before several times. And I do believe that past history in investments do reoccur. So for LB548, none of this has been researched, no studies have been done. We don't know what the unintended consequences are. And it seems like this was just written on a whim without really understanding what the consequences were. So I'm asking you not only to not advance LB548, but I ask you to indefinitely postpone it. And if you would...I'd be happy to answer any questions you have that I might be able to answer. [LB548]

SENATOR KOLTERMAN: Thank you, Mr. Jensen. I appreciate your testimony. And we had an opportunity this summer to visit a little bit. [LB548]

JOHN JENSEN: Yes, sir. [LB548]

SENATOR KOLTERMAN: I appreciate that as well. Any questions? [LB548]

SENATOR STINNER: I do. [LB548]

SENATOR KOLTERMAN: Senator Stinner. [LB548]

SENATOR STINNER: Thank you for coming. [LB548]

JOHN JENSEN: Yes. [LB548]

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SENATOR STINNER: The last time that you were on the OSERS board... [LB548]

JOHN JENSEN: 2003, I retired that year. [LB548]

SENATOR STINNER: How much unfunded liability was there at that time? [LB548]

JOHN JENSEN: A little bit because we had just gone past 9/11 and that caused a temporary recession. And we were on our way to recovering from that like in 2007, early 2008 we were just coming out of that through investment return. And then the mortgage crisis and the big recession happened. And now what we're doing is digging out of that, again, through two methods. One is the additional contributions made by employees and the school district and, secondly, by investment returns. Granted that this prior year was not a good year for investments for anyone. But, you know, you have to even it out over long term. And over the long term, OSERS has always met the 8 percent, in fact, above the 8 percent. By long term, I mean like over 20, 30 years, which is exactly the time that the unfunded liability has to be paid off. [LB548]

SENATOR STINNER: Thank you. You're aware that most of the investment returns, the good investment returns were a couple of years ago coming out of the 2008, 2009, 2010. And if we're still way behind, the idea that it's going to be caught up just by investment returns is fairly remote. [LB548]

JOHN JENSEN: Well, all I can do is go by past history. [LB548]

SENATOR STINNER: Yes. [LB548]

JOHN JENSEN: And I just introduced myself to him and I have great faith in him. But, you know, the markets change but, you know, you hear doom and gloom from some; you hear optimism from others. And I think overall if you look at a rolling 20-year average, rolling 30-year average, even a 10-year average, we're right at the 8 percent or above. And I cannot help but believe that that will continue because I believe in the United States. [LB548]

SENATOR KOLTERMAN: Thank you. Any other questions? Appreciate you coming. [LB548]

JOHN JENSEN: Thank you. [LB548]

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SENATOR KOLTERMAN: I neglected to tell you that we're using the lights so that gives you three minutes to say your spiel and then we'll ask questions. And we do that just for the sake of time so. Next opponent. Welcome. [LB548]

BRIDGET DONOVAN: Thank you. Senator Kolterman and members of the committee, I am Bridget Donovan, B-r-i-d-g-e-t D-o-n-o-v-a-n. I live in Omaha and I am president of the Omaha Education Association. I'm here today to testify against LB548, which would merge the governance of the Omaha School Employees Retirement System, OSERS, with that of the state retirement system. Last year the OEA supported providing an independent governing body for OSERS. We supported LB447 which removed the OPS school board members from the OSERS board. That was a good decision. OPS is currently dealing with many complex issues and school board members are rightly focused on those issues, leaving retirement matters to the OSERS board of directors. LB447 did two major things. It created an independent board of trustees to govern the retirement system and move the investment authority to the State Investment Council. We supported the former but did not like losing the investment authority. The investment consultants for OSERS knew the purpose of the OSERS trust fund and invested in a manner that in the long term would be most likely to produce investment returns that were intended to pay for the promised benefits. I hope that this investment approach will continue with the Investment Council in charge of the investments. In any event, the manner of who invests the money is now settled and OSERS is focused entirely on plan administration. Our members trust OSERS to administer the plan in an efficient manner and in a way that ensures that plan members have an understanding of their retirement benefits so that they can make the best informed decisions about their own retirement. OSERS is very important to our members. It provides the kind of retirement security that our members want and need. In fact, our members have contributed to the retirement plan above what is required by law. In 2012, our health insurance provided a premium holiday because insurance premiums were exceeding the claims that were being paid. Health insurance premiums are part of our total compensation package for our members and our collective bargaining agreement stipulates that the health insurance premiums are paid in lieu of salary. Rather than take the premium money provided by the premium holiday as an additional salary, our members agreed to put that money into the retirement plan to help fund our future retirement benefits. More than \$4.3 million was put into the retirement plan as a result of that agreement. Our focus is to maintain and strengthen OSERS, not destroy it. Our members value our retirement system. We want the retirement system to be responsive to our needs and believe that LB548 would not be in our members' best interests. I know that Senator Lindstrom has indicated that he will not ask to have the bill advanced, and I would ask that the committee go one step further. I ask the committee indefinitely postpone LB548 so that all of us can focus on doing the best job educating the students of OPS without the distraction that LB548 presents. Thank you. [LB548]

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SENATOR KOLTERMAN: Thank you, Ms. Donovan. Questions? Thank you for reminding us about the holiday that you had on the premiums, and I was very much aware of that last year. [LB548]

BRIDGET DONOVAN: Yes. [LB548]

SENATOR KOLTERMAN: And it was a wonderful gesture on the part of the OES (sic). [LB548]

BRIDGET DONOVAN: OEA. [LB548]

SENATOR KOLTERMAN: OEA. [LB548]

BRIDGET DONOVAN: Yes, yes. [LB548]

SENATOR KOLTERMAN: Thank you. [LB548]

BRIDGET DONOVAN: Thank you. [LB548]

SENATOR KOLTERMAN: Next opponent. Good afternoon. [LB548]

SUZANNE ANDERSON: Good afternoon, Senator Kolterman and members of the committee. My name is Suzanne Anderson, S-u-z-a-n-n-e A-n-d-e-r-s-o-n. I live in north Omaha. I represent the classified employees for the Omaha Public Schools as president of Local 226 of the Service Employees International Union. I'm here today to testify against LB548. There is a right way and a wrong way to do almost everything. In the past, changes in the Omaha public...in the Omaha Schools Employees Retirement System, OSERS, have been made only after doing some research and talking with the members of the groups before those changes were represented to the Legislature. LB548 did not follow that pattern. We learned about LB548 after it had been introduced and were not consulted or asked how we felt about the proposed changes. LB548 completely dismantles OSERS and does not create any body that will be presented to the needs of the...to our members to replace it. Last year we supported passage of LB447 which created an independent OSERS board of trustees. OSERS is in the process of developing a method of electing new member trustees right now as provided by LB447. The first trustee election will be held later this spring. LB548 will destroy OSERS before the first election even takes place. When there are issues that need to be resolved between two or more parties, the best way to resolve the issues is to talk about them. Nothing can be solved to the satisfaction of all parties without first understanding the nature and scope of the perceived problem, gathering some

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background material, and talking with the interested parties about possible solution. That was not done with LB548. We have been told that LB548 was intended to start a discussion about some funding issues, but LB548 does nothing to address the funding issues. In fact, any funding issues can be addressed now. LB548 is not needed to begin that discussion. The way that this matter has been handled reminds me of a married couple needing to talk. One person decides the best way to start is to file for divorce. The file goes in, the other partner doesn't know. The second one finds out in the newspaper. When the person comes to the grounds of divorce, the first person says, oh, I just wanted to start a discussion. You may not be aware of this, but you have not put the newspaper in the recycling bin for the past two weeks. Now I ask, you're filing for divorce the proper way to start a discussion about who is responsible for recycling. OSERS is very important to our members, and we have put our money where our mouth is. Again, in 2012 we also put in our holiday premium pay money, \$4.3 million. And what we have in OSERS we do not want to dismantle. Many bills are introduced with the intent to do one thing but the result is something entirely different from what was intended. That is the case of LB548. I encourage you not to advance LB548. In fact, I ask you indefinitely postpone LB548. Thank you. [LB548]

SENATOR KOLTERMAN: Thank you. Questions? Thank you very much. [LB548]

SUZANNE ANDERSON: You're welcome. [LB548]

SENATOR KOLTERMAN: How many more opponents? Three more. All right, thank you. Welcome. [LB548]

WALTA SUE DODD: Good afternoon, Senator Kolterman and members of the committee. My name is Walta Sue Dodd, W-a-l-t-a S-u-e D-o-d-d. I live in south Omaha and I am an OPS retired educator and a member of the Class V school employees retirement system, OSERS. I also represent the Omaha Education Association's Retired as their vice president. Since 1909, the Omaha School District Class V has maintained a retirement system for its teachers. Over time, the other employees like secretaries, custodians, maintenance workers, and cafeteria workers who work for OPS was added to the retirement system. And in 1951, all of the various employee groups were consolidated into one new system called the Omaha School Employees Retirement System. The retirement system has been amended several times since 1951 to provide the level of benefits and are currently part of the state law. In 2016, the Nebraska Legislature revised a law that governs OSERS to the members who can control the benefit administration for their retirement system without requiring approval for the OPS board of education. A second significant change that was made would involve transferring OSERS' trustee trust fund to the Nebraska Investment Council. The 2016 change that granted OSERS independent governance was a change that all employee groups and all retirement groups favored. LB548 would combine the actual benefit administration of OSERS with that of NPERS, a change that our organization

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does not support. We have not even had the chance to have our first trustee election, something that the changes adopted in 2016 provided for. In fact, the law stipulates that the election of members of trustees is to be done in stages with one new trustee elected every year until the transition is completed in 2020. If LB548 were adopted, OSERS will cease to exist and the members will lose their voice in the retirement system that they have had since 1909. That was not the intent of the legislation that was passed in 2016. We do not support the combining of the two systems. The ideas proposed in LB548 hasn't been studied at all. The long-term implications have not been considered and there is no support from the member groups for the changes that are being proposed. We ask that you indefinitely postpone LB548. [LB548]

SENATOR KOLTERMAN: Thank you very much, Ms. Dodd. [LB548]

WALTA SUE DODD: You're welcome. [LB548]

SENATOR KOLTERMAN: Any questions? Appreciate you coming down today. [LB548]

WALTA SUE DODD: You're welcome. [LB548]

SENATOR KOLTERMAN: Welcome, Mr. Hayes. [LB548]

JASON HAYES: (Exhibit 2) Hello. Chairman Kolterman and members of the Retirement Committee, my name is Jason Hayes, J-a-s-o-n H-a-y-e-s, and I represent the Nebraska State Education Association. The association opposes LB548. Even though the provisions in the bill would not take effect until 2020, passing a consolidation bill at this time is still very premature. It would be prudent for both plans to be close to a 100 percent funded ratio for such merger to occur. Right now, the NPERS statewide plan is in a much better position being at a 90 percent funded ratio status, but this number will decrease somewhat next year given the plan assumption changes that will go into effect this summer. If both plans are ever consolidated, then accommodations should be made, as Senator Stinner mentioned earlier, to handle preretirement meetings to be held in Omaha, for both current NPERS and OSERS members. Approximately 25 percent of plan members reside in the Omaha area, and for those currently in the NPERS plan, they have to travel to Lincoln to set up in-person meetings with NPERS staff to make retirement decisions. It would be helpful that if there is a merger, then these Omaha area plan members would be able to have these meetings in Omaha, rather than travel to Lincoln. Now also several changes have occurred in both plans since 2013, and some of the testifiers mentioned those, and so that after the passage of time these changes will improve each plan's financial position. Last year in LB447, we had OSERS' investments transferred to the Nebraska Investment Council and a benefit cut in the OSERS plan for new members hired on or after July 1, 2016. Back in 2013 under LB553, contribution increase sunsets were eliminated and new tiers with reduced benefits

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were created in both plans to help improve the financial outlook of each. These new Tier 2 members in the NPERS plan now represent about 22.3 percent of all active members. So about one-fifth of plan members have a reduced benefit, and this number will increase over time until all plan members are in the reduced benefit Tier 2 plan. So the changes that were made over the past few years are still taking time to take shape. And at least in the NPERS plan, this has made a dramatic turnaround in the funded ratio status of the plan. And as time progresses, the OSERS plan should see similar improvements. We ask the committee to proceed slowly in implementing any kind of a merger at this time. And I thank you for your time and consideration. [LB548]

SENATOR KOLTERMAN: Thank you, Mr. Hayes. Questions? I have a couple. [LB548]

JASON HAYES: Okay. [LB548]

SENATOR KOLTERMAN: Jason, out of the NSEA, what percentage of the members are from OPS of your total membership? [LB548]

JASON HAYES: I just off the top of my head I'm going to say about 20 percent. [LB548]

SENATOR KOLTERMAN: Twenty percent. [LB548]

JASON HAYES: But I don't have the exact number on that. [LB548]

SENATOR KOLTERMAN: That's all right. [LB548]

JASON HAYES: But it's a sizable number of members. [LB548]

SENATOR KOLTERMAN: And what you're saying in essence is a couple of years ago when the negotiations went on with the state prior to my being here the state agreed to continue to put 2 percent into the plans for both OES (sic) or Omaha Education Association... [LB548]

JASON HAYES: Um-hum. [LB548]

SENATOR KOLTERMAN: ...as well as the NSEA. [LB548]

JASON HAYES: Yeah. That was part of the agreement between the committee and the groups at that time to support LB553. The state's contribution increased from 1 percent to 2 percent. I will mention that there also were state funds that were decreasing about that time for the purchasing

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power stabilization fund. So the additional 1 percent was a little bit more than those funds that were decreasing. But that was part of the reason why we were experiencing the actuarial required contribution. [LB548]

SENATOR KOLTERMAN: Having served on...as legal counsel of this committee and then also NPERS, do you think in your opinion that those changes have made a significant impact on what's going on right now with NSEA's plan or the state teacher retirement plan? [LB548]

JASON HAYES: Oh, definitely. And if you look at the report that was handed out last November after the actuarial report and you look at just that historical change, you'll see that after 2013 that's when the funded ratio did an about-face and started heading upwards. And, you know, aside from the fact that some of the assumption changes are going to change this summer, you know, there's every indication that there's going to be a substantial surplus in the plan after 2040--2040 is the year when the NPERS plan becomes 100 percent funded. [LB548]

SENATOR KOLTERMAN: Okay. Thank you very much. [LB548]

JASON HAYES: Thank you. [LB548]

SENATOR KOLTERMAN: Okay, next opponent. Welcome, Mrs. Chambers. [LB548]

PHYLLIS CHAMBERS: Hello. You got a brighter light, this is great. I can see. [LB548]

SENATOR KOLTERMAN: I don't know what that's all about. [LB548]

PHYLLIS CHAMBERS: (Exhibit 3) I did request that from Chuck so thank you, Chuck. Good afternoon, Chairman Kolterman and Retirement Committee members. My name is Phyllis Chambers, P-h-y-l-l-i-s C-h-a-m-b-e-r-s, and I am the director of the Nebraska Public Employees Retirement Systems. I am here to testify on behalf of the PERB in opposition to LB548. The Nebraska School Employees Retirement Systems, which I'll call the NPERS School Plan, is one of five of our retirement plans in NPERS system. The School Plan was established in 1945 as a defined benefit plan for all eligible employees in 165 Nebraska public school districts, ESUs, state correctional schools, and some employees of the Nebraska Department of Education. And I think as you know, the Omaha Public Schools OSERS plan, also known as the Class V School District, is also a defined benefit plan and provides retirement for eligible employees in the one school district in Omaha, which is the oldest school district dating back to 1909. Consolidating all of the public schools in Nebraska into one retirement systems at NPERS seems like a good idea on the surface. The major hurdle with doing this would be the enormous cost to the state of

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Nebraska. As of July 1, 2016, NPERS' School Plan had 80,714 members with assets of \$13.1 billion, unfunded liabilities of \$1.16 billion, and an actuarial funded ratio of 89.6 percent. In contrast, OSERS has 12,728 members, assets of \$1.3 billion, unfunded liabilities of \$486 million, and I was using the actuarial unfunded liability that was on September 1, 2015, actuarial report and funded ratio of 73 percent, so those numbers are dated. I used those off of the Web site. The 2016 actuarial valuation is not yet available. Merging two of the defined benefit plans with different funded ratios creates serious challenges for both the plans. The PERB has major concerns over how a merger with OSERS would affect the funded status of the NPERS School Plan. And the PERB owes a fiduciary duty to the members of the retirement plan it administers. As fiduciaries of the NPERS School Plan, the PERB has numerous concerns about how LB548 is drafted. And so some of our concerns are that there is a significant question regarding the consolidation of the NPERS School Plan and OSERS and how it would affect NPERS's School Plan funded status. An extensive actuarial study is necessary to determine the unfunded liabilities and the impact of the provisions of the bill. We estimate that the cost of the study is approximately \$55,000 and that was on our fiscal note. The cost should not be paid by NPERS trust funds. Our members should not be required to pay for this. The two plans--and it's important to note that when you're trying to determine the actuarial value of these plans--that the two plans have different benefits, they have different fiscal years, they have different investment return assumptions. NPERS just lowered their assumption to 7.5; OSERS is at 8 percent right now. We have different mortality assumptions. And so it makes the comparison between the two plans very difficult and another reason for the study. Secondly, adding a new plan with unique contribution and benefits structures will involve extensive IT costs and programming changes to NPERS's computer system. It is our understanding OSERS uses an IT system that is not readily compatible with our Java-based system. We are concerned that trying to convert the OSERS data into this usable format would require extensive work and cost. Neither NPERS nor the OCIO have the resources to do this programming. Hewlett-Packard did our original programming of our system. And we got an estimate, a rough estimate from them that the cost would be about \$2 million to \$3 million. It would take approximately 12,780 to up to 18,000 hours of programming to convert the system over into our system. And also it would have a different benefit structure so it would be like having a new plan put...inserted into our system. [LB548]

SENATOR KOLTERMAN: Phyllis, I know... [LB548]

PHYLLIS CHAMBERS: Yeah, and my red light is on so. [LB548]

SENATOR KOLTERMAN: Yeah. [LB548]

PHYLLIS CHAMBERS: So you have a copy of my testimony. [LB548]

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SENATOR KOLTERMAN: Here's what I'd...we have your testimony. [LB548]

PHYLLIS CHAMBERS: Um-hum. [LB548]

SENATOR KOLTERMAN: We understand your concerns. Are there any questions? Go ahead, Senator Bolz. [LB548]

SENATOR BOLZ: I appreciate that there are folks with different points of view on this bill, folks in the room in opposition. I'm curious. You referenced the expense of the actuarial study and that it would be extensive. What would be the benefit, if any, of doing such a study? What would we get out of doing that at this stage in the game? [LB548]

PHYLLIS CHAMBERS: Well, it would give you a point to start with. And then depending on if you decided you wanted to pursue this and determining what future date you might want to do it, you would still have to redo the study as you got closer to it because we're doing actuarial evaluations every year. So there are just a lot of preliminary things you would have to do before you would ever get to this stage. And I think that's what the testifiers ahead of me have alluded to, that nobody's really had a chance to look over this and talk about it. And I think Senator Lindstrom also said that in his opening remarks. You know, he's opening the conversation to it. There would be a lot of work that would have to be done to actually...if you even wanted to move in that direction. [LB548]

SENATOR BOLZ: And then my other question is you reference the question of if OPS fails to make the payments what would happen? Are you aware of any precedent? Is there any previous circumstance that we can learn from about how we would be able to make sure that OPS was held accountable? [LB548]

PHYLLIS CHAMBERS: I do not. [LB548]

SENATOR BOLZ: Okay. [LB548]

PHYLLIS CHAMBERS: I really don't. [LB548]

SENATOR BOLZ: Okay. [LB548]

PHYLLIS CHAMBERS: So...and that is a very big concern that we would have is actually if all of the liabilities and all of the assets, everything was transferred over to OSERS, then everything

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becomes our responsibility, the state's responsibility. And what would be the guarantee that it would be paid going forward? So having the plan fully funded prior to merging the plan would be a benefit to everyone I think. But it would also, as they said, too, maybe it's premature. We have time to see how our benefit changes are going to be, how the investments...Michael has a ten-year plan for the investments. At the Investment Council, we've been working on that with Cecelia Carter and all the people involved in the investments. She's new on the Investment Council. So there's a lot of, you know...these plans are long term and our actuary evaluations are long term. And so all of the changes that could take place would need to be well thought out and would take a lot of time. [LB548]

SENATOR BOLZ: Thank you. [LB548]

SENATOR KOLTERMAN: Thank you, Senator Bolz. Thank you, Ms. Chambers. Any more in opposition? Okay, we're going to move into neutral testimony. We're going to need to wrap it up in the next ten minutes because there's another hearing in this room. And I apologize for shortness, but that's the way this committee has to operate. Welcome. [LB548]

CECELIA CARTER: (Exhibits 4, 5) Yes. Good afternoon, Senator Kolterman and members of the Retirement Committee. For the record, I am Cecelia M. Carter, that is C-e-c-e-l-i-a M. Carter, C-a-r-t-e-r, and I am the executive director of the Omaha School Employees' Retirement System, commonly referred to as OSERS. At this time, OSERS has a neutral position regarding LB548. As you've already heard, OSERS was established in 1909. However, it is important to note it is the second oldest, continuously operating retirement system for school employees in the country. Nebraska law vests the general administration of OSERS in its board of trustees, who serve as fiduciaries for OSERS members. The board of trustees has a high level of trust and respect among the members of the system. Members of the board of trustees have taken the time and responsibility to learn and understand the intricacies of public pension administration. In 2016, with the passage of LB447, the Nebraska Legislature strengthened and reinforced OSERS' autonomy. First, LB447 reinforced that all OSERS assets are held in trust for the purpose of providing retirement benefits for all full-time employees of the Omaha Public School District. Second, beginning January 1, 2017, LB447 transferred all investment decisions relating to OSERS' portfolio of assets to the Nebraska Investment Council and the State Investment Officer. However, LB447 left all of the administration of Omaha Public School Employees Retirement System Plan with OSERS and its board of trustees. And third, LB447 removed all Omaha Public School Board elected members from the OSERS Board of Trustees, further reinforcing OSERS' autonomy. The materials OSERS has submitted to you today detail OSERS' trustees' concerns regarding LB548 and, in particular, the lack of any study on the requisite, feasibility, and requirements necessary for a consolidation of OSERS with the Nebraska (School) Employees Retirement System. An in-depth study is necessary to determine whether the administration of the retirement benefits for OSERS' membership by the Nebraska Public Employees Retirement

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System is warranted. The OSERS trustees believe the following issues, at a minimum, need to be addressed through a joint in-depth solvency or consolidation study between OSERS, NSERS, NPERS, and the Omaha Public School District prior to enactment of any legislative consolidation of OSERS into NSERS: Financial Impact and Actuarial Analysis--Included should be details that define the financial requirements for consolidating OSERS into NSERS in a manner that assures both funds' assets are protected and that the merging funds are, and will remain, fully funded. A Comparison of Benefits and Contributions--OSERS and NSERS have similar but not identical benefit structures, and discrepancies in benefit structures must be addressed without any changes to the respective benefits of the current members. Consolidation Options--Should it be a full consolidation? Should it be a segregated account approach? Or should there be full option in which the funds remain separate and apart from NSERS? So Implementation Plans/Time frames--OSERS believes that if it is necessary that it is in the best interest of the members of both plans to consolidate the two plans, OSERS will need to work jointly with NPERS to develop an implementation plan to achieve full consolidation over an agreed time period. The implementation plan should describe the administrative and financial reporting/accounting tasks and duties that need to be accomplished including the transfer of membership data/records, continuity of monthly benefit payments, staff training, staff transition, member (benefit payments), communication and outreach, along with any payroll changing reporting. Necessary management and administrative changes including protection of merging fund employees who are treated in a manner comparable to their current employment. Education and communication plans to inform the executive branch, legislative branch, and all system stakeholders and other financial requirements. OSERS has already scheduled an experience study to occur in 2017 which will immediately be followed by the actuarial valuation as of January 1, 2017. I believe it's appropriate for NSERS to conduct a similar study with a January 1, 2017, valuation date--using its newly passed assumptions so OSERS and NSERS are in sync regarding any and all decisions concerning its consolidation plan. With that, OSERS is submitting for placement in the record of the hearing a copy of my testimony together with the attached exhibit setting out in more detail OSERS' concerns regarding LB548. And with that, sir, I thank you. [LB548]

SENATOR KOLTERMAN: Thank you, Cecelia. Questions? If not, I have just a couple of questions. Do you know what your investment return was for 2016? [LB548]

CECELIA CARTER: No. I do not have the final number yet. [LB548]

SENATOR KOLTERMAN: Okay. And then when will the 2016 valuation report be available? [LB548]

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CECELIA CARTER: We're looking at somewhere in the May/June the latest time frame, but we're shooting for May. [LB548]

SENATOR KOLTERMAN: Okay. And then we've heard some testimony that the OSERS costs have increased significantly. Can you address that? Because in LB447, and I know we required OSERS to pay for many costs that OPS had previously paid, but just kind of touch on that... [LB548]

CECELIA CARTER: Sure. [LB548]

SENATOR KOLTERMAN: ...because it is a separate entity now. [LB548]

CECELIA CARTER: Great, great question. As you are aware and maybe some of the new senators aren't, I began my career here in March of 2016. Budget was due shortly thereafter, but I did know that we were going to need to address some staffing issues. So some of that increase is an additional staff person. And for sake of being a public hearing, we'll just leave it at I needed to address some staffing and look to bring on a new person. We also have expenses that we didn't have previously because, as you said, they were picked up by OPS: legal costs, representation here in Lincoln, things of that nature. However, we're also...we will be cutting costs because now the need for an investment consultant transfers to the Nebraska Investment Council. So for our next budget cycle, those costs will come off. [LB548]

SENATOR KOLTERMAN: Okay. [LB548]

CECELIA CARTER: Custodial costs, you know, just between those two line items alone it's roughly a half a million dollars that we will no longer need to budget into our budget but will share the cost through the Nebraska Investment Council. So it was me coming in, what I have now, and then what will be next year. [LB548]

SENATOR KOLTERMAN: So you see that working? [LB548]

CECELIA CARTER: Yes, I do. [LB548]

SENATOR KOLTERMAN: All right. And I know you came in March. You're almost as new... [LB548]

CECELIA CARTER: March 14. [LB548]

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SENATOR KOLTERMAN: ...as some of us. Anyway, any other questions? Thank you for your testimony, Cecelia. [LB548]

CECELIA CARTER: Thank you. [LB548]

SENATOR KOLTERMAN: Anybody else in a neutral position? Senator Lindstrom, you're welcome to close. [LB548]

SENATOR LINDSTROM: Thank you, Chairman. I'll make this brief because I know we have the other hearings... [LB548]

SENATOR KOLTERMAN: Take your time. We can shut the lights off now, Katie. [LB548]

SENATOR LINDSTROM: (Inaudible). I appreciate it. And I appreciate the testimony today, in particular, Ms. Carter's testimony. I think that was really what the intent of the legislation is, is to figure out some of the statements that were made, in particular with Ms. Chambers: What does it look like with the different benefits, the fiscal years, different investment assumptions, all those things come into play as to whether or not we could or should merge the plans. And I have all the faith in the world that Michael and his team will be able to right the ship and move on. I hope the numbers get better. The one issue that will come into play, unless Michael just timed this perfectly and we get a huge downturn in the market in the next week or so and he can buy at the low, the plans themselves will always be separate because I'm assuming Michael will pair the investments similarly to the different plans so it's always going to lag behind the state plan. But I do have faith that he will do that. You know, this bill, of course, I want to just reiterate that the state--and I do not wish for the state to take on any unfunded liability now or in the future. If this were ever to move forward, the OSERS plan itself, an unfunded liability, would most likely have to be above the state's unfunded liability plan for the state to accept it. All right. So I just want to make that clear again. Again, I know it was stated may be irresponsible to bring this bill, I would say that it would be irresponsible not to bring the bill on behalf of the taxpayers, just to start a dialogue. This is an issue that most likely will be going on for years, probably years after we're around; but this is just to start the discussion and maybe the foundation. I wish the best on the plan, I really do. But I think it would be irresponsible if we did not have the discussion. And like I said before, LB548 is my preference; and I'm asking the committee to not move forward in any way, shape, or form. We can discuss whether or not an IPP motion is a prudent course of action, but I just would ask that the committee would hold this bill for this year for next year. Most of the people say it's not ready for prime time. So with that, I'll end my statements and be happy to answer any final questions. But I do appreciate everyone coming today to testify. [LB548]

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SENATOR KOLTERMAN: I'd just like to make a couple of comments as a result of the hearing today. First of all, Senator Lindstrom, thank you for prefacing your remarks today. And you and I have had some very candid conversations as well as have the representatives of OPS. I understand the need, the long-term need. Just so everybody is aware, my legal counsel and I have looked at mergers of this nature; and there has been some precedence. And it's taken up to ten years once they've started the process. So you're absolutely correct--it's not something that's going to happen overnight. But we are...we take it seriously. We are looking at some of those issues. So thank you. Letters of support--we have support from David Brown, Omaha Chamber of Commerce, a letter (Exhibit 6); opposition--Matt Miltenberger on behalf of Governor Ricketts (Exhibit 7); Alan Bolas, Ronald Gasper, Samuel Schramm from the OPS maintenance division (Exhibit 10); Nancy Johnson, Omaha Area Retired School Employees Association (Exhibit 8); Cheryl Richardson, President OEA-Retired (Exhibit 9); and then there's 13 letters from members of the Local 226 Service Employees International Union: Avalee Edwards, Beverly Cruse, Katherine Wilson, Joyce Willis, Michael Wyskowski, Kim Schledewitz, Stuart Hart, Elizabeth Comer-Howard, George Reed, Gary Flores, Willie Turner, Victoria Corbin, and Cheryl Cole (Exhibits 11-23). I believe that's all the testimony and the letters that we've had written. So again, I appreciate everybody's willingness to work with us on the time. I think we're going to get out of here so the next hearing can take place. Thank you very much. [LB548]