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Nebraska Retirement Systems Committee
March 31, 2017

[CONFIRMATION NIC REPORT NPERS REPORT]

The Committee on Nebraska Retirement Systems met at 8:00 a.m. on Friday, March 31, 2017, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on a gubernatorial appointment, the Nebraska Investment Council annual report, and the Nebraska Public Employees Retirement Systems annual report. Senators present: Mark Kolterman, Chairperson; Brett Lindstrom, Vice Chairperson; Kate Bolz; Mike Groene; Rick Kolowski; and John Stinner. Senators absent: None.

SENATOR KOLTERMAN: For the sake of time, I think we're going to get started. Welcome to the Nebraska Retirement Systems Committee hearing. My name is Senator Mark Kolterman. I'm from Seward and represent District 24. My committee members are to my left...

SENATOR LINDSTROM: Brett Lindstrom, District 18.

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

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

SENATOR KOLTERMAN: And we might be joined by Senator Kate Bolz from Lincoln and Senator Mike Groene from North Platte. Our legal counsel is Kate Allen. Our committee clerk is Katie Quintero over here. And then Elsa is our page. We're here today for a hearing on Richard DeFusco's confirmation, reconfirmation, and the NIC annual report, and the NPERS annual report. We'll take up the bills in that order. Our hearing today is your public part of the legislative process. This is your opportunity to express your positions on the proposed legislation or the reports that we're going to hear today. We might have some committee members coming yet, but we do have a quorum. I'd ask you to silence your cell phones. Those wanting to testify should come to the front of the room, be ready to testify, and complete the blue sign-in sheet so it's ready to hand to the clerk before you testify. State your name and spell your name before you testify. And with that, I think we're ready to go. So, Richard, welcome. Welcome back, huh?
[CONFIRMATION]

RICHARD DeFUSCO: (Exhibit 1) Thank you, Senator Kolterman and the rest of the committee. Shall I spell my name for you? [CONFIRMATION]

KATIE QUINTERO: I have it. [CONFIRMATION]

RICHARD DeFUSCO: You have that. [CONFIRMATION]

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SENATOR KOLTERMAN: All right. [CONFIRMATION]

RICHARD DeFUSCO: Thank you very much. Well, my name is Richard DeFusco. I'm a professor of finance and chairman of the Department of Finance at the University of Nebraska. I've been on the faculty at Nebraska for 32 years and Nebraska is now home. It's the one place where I've lived the longest now, which is...I was born and raised in Providence, Rhode Island, so that I still call myself a Rhode Islander at times, much to my wife's chagrin, who's from Seward, Nebraska. So she says you're a Nebraskan, not a Rhode Islander. So it's a pleasure to be here this morning. I've been on the Nebraska Investment Council now for 13 years. It's been a real pleasure to serve with such a fine group of people, both on the agency staff and with NPERS, and it's really been a pleasure because of the way that this plan has been constructed, the way that the money has been managed. It's really just a joy to be part of that. And so I don't know if you have questions for me this morning, but I'd be happy to answer those for you. [CONFIRMATION]

SENATOR KOLTERMAN: I'd just like to thank you for your service and appreciate your willingness to serve again. You've got a wonderful resume. Are there any questions for Mr. DeFusco? Well, thank you again for serving. We look forward to reappointing you... [CONFIRMATION]

RICHARD DeFUSCO: Thank you very much. [CONFIRMATION]

SENATOR KOLTERMAN: ...and, as you said, we do have a wonderful Nebraska Investment Council as well as PERB Board. And so they work hand in hand. I had the opportunity to attend the seminar last summer and saw exactly how they work together. So thank you. [CONFIRMATION]

RICHARD DeFUSCO: Okay. You're very welcome. Thank you for your time this morning. [CONFIRMATION]

SENATOR KOLTERMAN: Yeah. So hearing no questions, we'll close that hearing. Okay. Now we'll move into the hearing for the Nebraska Investment Council. Welcome, Michael. [CONFIRMATION]

MICHAEL WALDEN-NEWMAN: (Exhibits 2, 3 and 4) Mr. Chairman, committee members, good morning. I'm Michael Walden-Newman, M-i-c-h-a-e-l, last name is W-a-l-d-e-n-hyphen-N-e-w-m-a-n. I'm the State Investment Officer with the Nebraska Investment Council. I'm here this morning to present our statutorily required annual report. I've been out of town all week and,

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uncharacteristically, I actually made a few notes for this morning's presentation. You know I usually don't write anything down but I did this morning. The first thing is I haven't seen our new report for this year, the bound copy. I understand you all have. How's it...let me see one. Can I look at it? I haven't seen it. You all...oh, it's nice. Great. Okay. Well, that's terrific. What I wanted you to know is that we're going to change our annual report starting this year. In the past, you've seen, and I brought last year's, the 125-page report. This year we've prepared an executive summary and I gave you all, ahead of the printing, hard copies that we printed out in the office and we're calling it an executive summary. It's at the front of the bound copy you've received this year. But going forward, in future years we're not going to print the 125-page version. We'll have it. We'll put it on the Web site. But as far as actually printing, we're going to call this, which is this year the executive summary, we're going to call this the annual report. And we'll present that to you to meet the statutory requirement. But as important really is to have this less than 30-page recap of the investment program available to the public, in hard copy for those of us on the council to take around when we do talk to folks outside of the agency and even outside of state government. And this is the report I intend to go through this morning with you to cover the highlights of the council this past year. I do want to thank all of you on the committee for your support. I've talked to most of you during the interim since last year's presentation. Some of you were able to come to our summer event. It was great to have some time with you informally outside of these formal committee hearings. And I'm happy, and all of us are, to answer any questions that you all might have during the year. The report has, at the very opening of page 2, our staff. We're lucky to have a stable staff. I'm the newer person on the staff. Others have been there more than 15 years. Three of them, as I call the younger staff, these are...they're not young but they're younger than I am, have been on this team for five years. And you see the board and the staff on page 2 and photos on the following pages. On page 6...and before I leave I wanted to also acknowledge Director Cecelia Carter who, with the OSERS transition, now appears on page 2 as a member of the board. That was effective in January but, you know, we put her there because she's been involved throughout 2016 in the transition. On page 6 of the executive summary you see the myriad of investments and programs covered by the Investment Council. It's \$23 (billion), now \$24 billion across 32 investment programs. We have almost 60 investment firms that we work with and over 150 investments themselves. It's a complicated program that we treat in a straightforward manner. There are a lot of moving parts but we know where...not only how they're moving but where they're going. On page 7, we cover the initiatives for this past year. Good morning, Senator. How are you? There are two major initiatives this past year to cover. You've heard about them but just to recap for today's purposes. You'll recall when I was up in front of you for my confirmation hearing a couple of years ago I explained how I manage portfolios using this blank-sheet, holistic review process, tackling an asset class by asset class year by year, and intended to move through the portfolio that way to really have a look from top down and bottom up, have a look at the portfolio and see what changes we could make to improve it and certainly to make sure that we had a portfolio based on today's best ideas, not best ideas from ten years ago that have simply been tweaked. And we got busy and started that

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process. And we completed last year, in 2016, a review of our global equity portfolio. It was about \$2 billion. And we brought in over 20 separate investment firms, not our consultant but investment firms who run money, and asked them, if you were us, what would you do with global equity? A) Would you have it? If you did, how much would you have? And how would you have it in terms of style? Would you be active, passive, etcetera? And through that process, which is the essence of the blank-sheet review, we get great ideas from great managers who actually run money. And that takes...it took us six months to get through that process and it was only then, at the end of the process, that we bundled up six, seven of the best of those ideas and a diverse representation of those ideas and sent them to our paid consultant, Aon Hewitt, who is based in Chicago. And you know they were chomping at the bit and felt a little left out and their feelings were a little bit hurt that we didn't involve them from the beginning, but the point is for us to get fresh ideas from outside, from folks who are really going to run money, and also to keep ourselves in charge of the process and the money and get the staff more integrated into the early decision making. And it was very successful. After that six months we had a conversation or two with Aon about these best ideas and together then with the consultant finalized the structure for the global equity portfolio and presented managers to the Investment Council who, as you know, does the hiring and firing of managers. That wound up in May of 2016 with some tweaks, not a lot. And then we started last year and are continuing into this year the same process with the rest of the equity portfolio. That's another \$6 billion. And so together, at the...by this summer we'll probably finalize and take to the council some proposed managers and a new structure for that portfolio. But in this way, we are engaged. We've taken responsibility and full charge of the management of the portfolio, not letting the consultant lead the way but treating them and not only our current managers but the potential universe of managers that we could engage down the road in the process of portfolio design. So that's very exciting. I think it's really the only way to manage a portfolio. I don't know why everyone else isn't doing it but very few people are. But it's great. Secondly, and something you all know well, is the transition of the Public Employees Retirement System assets in Omaha to the Investment Council. And we worked together on the legislation for a couple of years. Last year, by July 1, Director Carter and I signed an agreement as to the transition plan that the statute required and we put that plan into action. And over the six months between July and January of 2017, the transition date, we worked together and had the portfolio...our two portfolios ready to merge and it really was as low drama as it could have been. I prefer that kind of management where you just...it's very methodical and deliberate. We then, once the assets were transferred from their custody and literally the custodial bank to our custodial bank, in January we then...and had been talking to the managers. We then, with the council approval, began to put into place the asset allocation that the Nebraska Investment Council had approved for the Omaha assets in November of 2016. So we had a long-term plan in place in November so that once we had legal authority to move, after January we were able to. You'll remember all of us were nervous that perhaps the Omaha portfolio had illiquid assets--morning, Senator, how are you--had illiquid assets that would prevent us moving it to the Nebraska Investment Council allocation for the rest of the teachers of

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the state. But we found out that actually about two-thirds of the portfolio was liquid and so we were able to and have now recently, just in the last few weeks, completed the transition of those assets from Omaha managers to our managers. So we're very pleased with that. And the rest of the assets will roll off over time as they mature. These are assets in alternatives. So I'm really happy to report that, again, it was a very deliberate, sort of complicated but we kept it simple. That's the skill, right, is to...it's not difficult to take something simple and make it complicated. Everyone knows how that works and we all know people who are very good at that. I just don't happen to like that very much and I think the real skill is to take something complicated and make it simple or keep simple things simple. And that's what we were able to do, so we're happy with that. We've done some other things in-house but in terms of initiatives. But in terms of performance, let's move to page 11. The performance for the portfolio, in general, was up this past year over the prior year. The Cash Balance Fund, the Cash Balance Benefit Fund, which has a fiscal year that coincides with the calendar year, ended the year at 8.5 percent, which is a good return in and of itself and is over the benchmark. So we're happy with that. The DB plan, which, as you know, has a set...a different fiscal year. It runs from July through June. It was...it's performance was over 5 percent for the six months ending in December. And these returns, we're happy to report, rank in the top quartile of returns for plans, a peer group of plans which are public plans over \$1 billion. So the performance was good, not just in an absolute basis but on a relative basis as well. The various endowments that...if you want to then skip...let's skip quite a few pages. Go to page 21. The endowments, while not as large a part of the portfolio, are critical to the recipients of the income from those endowments and the beneficiaries for which those endowments were set up. The endowments have also done very well and beat their benchmark for the performance year. The last thing I thought I would touch on is on page 25. You know, the best way to make money is...well, first, rule number one, of course, is don't lose the money, and we keep that at the forefront, but also is to get the management as cheap as you can get it. The Investment Council has, prior to my arrival, been a long-term investor in passive exposures, paying for active management only where it felt it was worth paying. And in doing that, of course, you save the money on the front end in investment management fees. And what you have here on pages 25 and 26 at the very end of this, what will now become our annual report to you, you see the actual dollars that were paid to all of the managers across the entire portfolio and you arrive at including our expenses, you arrive at a 26 basis point. To put it in perspective in terms of pension plans, the pension plans for the Investment Council, the DB plan, for example, we run that on about 32 basis points, and an average for similar plans are north of 45, on the way to 50 basis points. And we get that from some arm wrestling on fees. We did that, for example, when we did the global equity review and came down to manager selection and contract discussions with managers. We saved over \$1 million off their best offers and that's real money. You know, \$1 million, that certainly covers our agency expenses for several years, so we made...we...a lot of our expenses. And the, as I say, the DB plan was...is passively managed, which really helps in that. And as we go forward in our annual review, annual reviews of asset classes, we're going to look hard at seeing if we should bump that passive management up a bit. In the past, active

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management was justified by the fact that these managers have some sort of inside information, could help you achieve higher returns. The fact is with globalization and technology improvements, even international markets are becoming as transparent as U.S. markets are. So we're looking hard at maybe upping that passive exposure. Mr. Chairman and committee members, you know I love this and could talk all day about it, but let's do that over at my place sometime. I bring a sack lunch every day and I eat it by myself and so I'm looking for company. The last thing I wanted to do is let you know that with Senator Bolz's request that we have a look at the fossil fuel exposure with the portfolio, I've had good discussions with her staff. I don't know where that...the bill is but I told you here that I'd have a look regardless of what's happening, and we've already begun that process. And I've been working with staff at the senator's office and we should have that out to you all. I said we should have it wrapped up here this summer. I set a deadline of the end of August, randomly, but I think we'll have it done before then. [NIC REPORT]

SENATOR KOLTERMAN: All right. [NIC REPORT]

MICHAEL WALDEN-NEWMAN: Happy to answer any questions. [NIC REPORT]

SENATOR KOLTERMAN: Well, first of all, Michael, I'd like to thank you for your report. It's a great report. Most importantly, though, I'd like to acknowledge that Cecelia Carter is here with us today. She runs the OSERS program. And there were some concerns as we entered into that situation and between the two of you we've had an excellent transition. So thank you very much, both of you. With that, I would ask the committee if you have any questions. [NIC REPORT]

SENATOR LINDSTROM: I have just... [NIC REPORT]

SENATOR KOLTERMAN: Go ahead. [NIC REPORT]

SENATOR LINDSTROM: ...just more of a comment. So thank you for being here. [NIC REPORT]

MICHAEL WALDEN-NEWMAN: Sure. [NIC REPORT]

SENATOR LINDSTROM: I just want to commend you on keeping the cost low. For a few new committee members, some of the passive management costs that you talked about with the ETFs can be anywhere from 5 basis points to 15. If you start doing some of the alternatives, hedge funded funds, you start getting closer to 2 percent. So keeping at 26 basis points is cheap, so I appreciate you looking at that, thank you, and to the council. [NIC REPORT]

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MICHAEL WALDEN-NEWMAN: Thanks. Thanks. [NIC REPORT]

SENATOR KOLTERMAN: Senator Groene. [NIC REPORT]

SENATOR GROENE: Well, Senator Stinner was before me. [NIC REPORT]

SENATOR KOLTERMAN: I'm sorry. [NIC REPORT]

SENATOR STINNER: That's fine. [NIC REPORT]

SENATOR GROENE: No, go ahead. [NIC REPORT]

SENATOR STINNER: I'm interested in your blended benchmarks and how you select the right benchmarks for the right funds and how you would change that asset class from time to time. Would you also change the benchmarks? And who sets them and are you getting it from? [NIC REPORT]

MICHAEL WALDEN-NEWMAN: Uh-huh. Right. Mr. Chairman, Senator, that's a good question and that's critical. You know, most of the returns come, as you all know, close to 90 percent they say of return comes from the asset allocation itself, but...and then getting managers to execute that. The mechanics of policy setting are this, that the staff, we run the money day to day. The Investment Council, the seven-member Investment Council, again which are five...eight-member council are five appointed members, three ex officio members of the council, the council sets the policy and inside of the investment policy are the benchmarks for the various managers. And so as we go through this blank-sheet review process, that's part and parcel of the process. One initiative that I've undertaken since becoming investment officer is an examination of all of the myriad of policies that were set by my predecessor CIOs and councils to see if they're still relevant. And, frankly, there are so many, to see if we can merge some of those policies. One of the goals is to have a stand-alone policy for each of the investment programs. Right now that's not necessarily the case where a person can pick up a policy and see the entire policy, for example, for the DB plan with all the traditional assets as well as private equity, real estate and others. So that's when that's discussed. [NIC REPORT]

SENATOR STINNER: And would you change the benchmark as far as percentage of like total stock market index, those types of things, in accordance with... [NIC REPORT]

MICHAEL WALDEN-NEWMAN: Uh-huh. Right. [NIC REPORT]

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SENATOR STINNER: ...with your investment strategy? [NIC REPORT]

MICHAEL WALDEN-NEWMAN: Mr. Chairman, Senator, that's correct. Usually benchmarks are set up to where the benchmark reflects the most passive way you could get the exposure to the allocation, and then the portfolio is measured against that passive exposure. So as the weights of the allocation would change for, for example, one of the pension or retirement plans, then we would change the weightings of the benchmarks and/or the benchmark itself. For example, a concrete example is when you're investing in international stocks, if you want to have emerging markets, which are less-developed countries, as part of the opportunity set for the investment, then you would change the benchmark against which you measure your portfolio so that you have an index that, in fact, includes emerging markets. And we've done that. [NIC REPORT]

SENATOR STINNER: I do have just one more question. I notice private equity has become part of your strategy, along with real estate. [NIC REPORT]

MICHAEL WALDEN-NEWMAN: Uh-huh. [NIC REPORT]

SENATOR STINNER: When I looked at your listing of private equity, usually you get into private equity over a longer period of time so that your review of the private equity on a performance basis, the ability from a liquidity standpoint to move things around. Tell me what you're thinking in terms of private equity, the total commitment to it, the disclosures that you get the information, and how you're evaluating it. [NIC REPORT]

MICHAEL WALDEN-NEWMAN: Yeah. Mr. Chairman, Senator, that's a great question. Just to put some numbers on the table in front of you, and I know you know this, but currently the private equity exposure in the portfolio for the pensions are 5 percent. The real estate allocation in the portfolios are 7.5 percent. They're actually not that large on a relative basis compared to peers. As pensions chase that assumed rate, they're looking for investments that will bring them a higher return. The Investment Council approaches it a little bit differently, and we've talked about this before with you all, and that is that risk is our starting point in developing a portfolio. So we look first at the risk and the risk tolerance that we have for the investment program, again mindful of a couple of things. First, the rule you don't want to lose the money but also the state law that says that we're to invest these portfolios in a way the statute, you all have made it clear, that we're to invest these portfolios, yes, for the beneficiaries but also in a way that avoids large losses. And that's written down for us, for you and for Nebraskans, and that determines a lot of the way we run the money compared to our peers. Now these...you know, these private folks, it's just a wrestling match. Private equity costs a lot and it's based on promises of returns that, as you know, you got a stock portfolio, you can change that every day if you want and you know what the cost is. You know how much it's going to cost you when you buy it. You know how much it's

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worth when you hold it. Private equity, you're entering into a relationship with an investment firm that will last 10, usually 12 years. A contract is a ten-year contract with two one-year extensions. You promise them \$50 million, which is a Michael Walden-Newman thing. When I got there, the commitment amounts were much lower and I said we're going to have larger commitments and run a higher conviction portfolio, which I was used to doing in my former life in Wyoming. So our pacing is \$50 million per investment in private equity. So someone will ask us to commit to them \$50 million on a contract that is ten years with two one-year extensions, and they'll say that we're going to invest that, which is called the commitment period, the investment period, over three years or four years. And then at the end of that then, for the most part, those investments then will run and they can run past the 12 years. You could have a last investment that will be 15 years after you first started before it rolls off your books. So it's...it is an invest...an asset class that takes a lot of work on the front end. You have got to do your work on the front end because once you pull the trigger and you make the investment, you are locked into that through the life of the investment. So you're betting on the come and you want to hope that it's going to play out the way you all first thought. The program itself with the council is 10, 13, maybe, years old, so we're actually now beginning to see some of the investments start to mature and roll off. But you're right, it just costs a lot. And you know the other thing is that the people in those make a lot and that, you know, it's...I don't mind making money if people are making money, but they just...they do make a lot of money, don't they, and they charge a lot and we...but we buy it. We're in there. They're not forcing us to do it. But what we need to do is make sure we're doing...hiring the best of them because if you don't it's definitely not worth it. [NIC REPORT]

SENATOR KOLTERMAN: Thank you. Senator Groene. [NIC REPORT]

SENATOR GROENE: He's answered it. [NIC REPORT]

MICHAEL WALDEN-NEWMAN: Yeah. What we hope is that those...the reason we do it is we think that these private equity managers...our numbers and what we're basing it on, is the assumption that these private equity managers are going to pay us 300 basis points more than the public markets over time. It's a little tough when markets have done what they've done here lately, right, the U.S. stock market, but that's still the conviction, that over the long run it's going to be worth it. [NIC REPORT]

SENATOR KOLTERMAN: Seeing no other questions, Michael, one last thing. [NIC REPORT]

MICHAEL WALDEN-NEWMAN: Yeah. [NIC REPORT]

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SENATOR KOLTERMAN: You were appointed here, what, four of us were here when he was first appointed. [NIC REPORT]

MICHAEL WALDEN-NEWMAN: Yeah. [NIC REPORT]

SENATOR KOLTERMAN: You told us what you were going to do and you've stayed with what you told us you were going to do. Thank you for that. [NIC REPORT]

MICHAEL WALDEN-NEWMAN: Appreciate you saying that. [NIC REPORT]

SENATOR KOLTERMAN: With that, I'll close the hearing. [NIC REPORT]

MICHAEL WALDEN-NEWMAN: Thank you. Thank you all. [NIC REPORT]

SENATOR KOLTERMAN: For the record, let it be known that Senator Groene and Senator Bolz are both here, so we have a full committee. Now we will move into the last part of the committee hearing, the NPERS annual report. Mrs. Chambers, welcome. [NPERS REPORT]

PHYLLIS CHAMBERS: Thank you. [NPERS REPORT]

SENATOR KOLTERMAN: For those of you that don't know it on the committee, Phyllis Chambers has announced that she's going to retire at the end of August. We might have one more hearing but if we don't, thank you for your service. [NPERS REPORT]

PHYLLIS CHAMBERS: Well, thank you. [NPERS REPORT]

SENATOR KOLTERMAN: So you're welcome to start. [NPERS REPORT]

PHYLLIS CHAMBERS: (Exhibit 5) Well, good morning to the committee, Chairman Kolterman, Retirement Systems Committee members. My name, for the record, is Phyllis Chambers, P-h-y-l-l-i-s C-h-a-m-b-e-r-s, and I'm the director of the Nebraska Public Employees Retirement Systems. It's a pleasure to be here this morning to present NPERS 2017 annual report, and I hope you all have a copy of it. It looks like this. NPERS is proud of our accomplishments which would not be possible without our 55 talented, dedicated employees at NPERS. I've invited our management staff to come to the hearing today. The managers and their staffs are committed to our mission, which is in our report, and deserve much of the credit for our success. The managers are listed on page 3 of the report and I would like to take time to

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introduce each of those managers. With us today is Randy Gerke, our deputy director and is director of finance and accounting. And some of you would have met Randy in some of the legislative hearings in the past. Also, Orron Hill, our legal counsel, you all know Orron from coming to the legislative hearings and also working with your committee. We have Teresa Zulauf. She is our internal auditor. She handles internal operations and our employer audits with the schools and the counties. Patty Pierson is our retirement plans manager. She handles the largest division at NPERS with our retirement specialists who work in the call center and the benefits department. We have Dennis Cooper. He is our director...manager of data services, handling the mail room, data verifications, and records management. And we have John Winkelman. John is our education services manager. He handles all of our seminars across the state, communications and publications. We have our newest member of the team, Vicki Huber. She's our personnel officer and previously was our board secretary. And finally Jack Hardy, he's our IT manager extraordinaire. We contract with him through the OCIO. It's a great partnership. We have two other employees that we contract with that are programmers from the OCIO. And our other four IT staff members are our own staff of NPERS. And I thank them all for coming today. I told Senator Kolterman, I asked them if they would like to come, and they all said, yes. They don't get the opportunity to get out of the office much so they wanted to come. [NPERS REPORT]

SENATOR KOLTERMAN: Welcome. Thank you for coming. [NPERS REPORT]

PHYLLIS CHAMBERS: So if you'll turn in your report to page 4 and 5, you will see our list of accomplishments for 2016 and I would just like to highlight some of those. The total number of NPERS member accounts grew again this year to a record 127,980 accounts with assets of over \$13.1 billion. We paid out a record \$728 million in benefits this past year: \$587 million of that went in the form of monthly benefits to our Defined Benefit and Cash Balance members, and \$141 million went to our members in forms of refunds, rollovers, required minimum distributions, and systematic withdrawals. I'd like to mention that 89 percent of the money that we send out monthly to our retirees in the form of benefits goes to retirees residing in the state of Nebraska. And there is a breakout in the appendix of the report that shows the counties and how much is going to individual counties. But these benefit payments add to our state's economy and the local community. NPERS processed over 1,800 retirements this past year and over 6,800 refunds in the past year. Our call center answered over 40,600 phone calls and met with over 2,600 members in office visits across the street where we reside. We focused on several main projects this year and I'd just like to highlight those. After eight years, the data services department completed the beneficiary project and we went back in all our old beneficiary forms to update them. We contacted over 37,000 school plan members and updated all of their old beneficiary forms and that took six years. And they did that in the afternoons, after they had done all their other work, and then in the last two years we've been working on the state, county plans with processing over 18,000 beneficiary forms. Data services also completed a two and a half

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year project on merging duplicate accounts, verifying names, addresses, and Social Security numbers. We are involved in our Legacy media scanning project. We started that almost two years ago. We've completed the school plan ledgers scanning, which is phase one. We're currently in phase two with the microfilm scanning, and about 59 percent done with that. And now we are starting on the microfiche scanning project. We will...and we're doing all of this though the Secretary of State's Office. And they've purchased equipment now to do the microfiche, so we're just getting started on that. We do hope that the Appropriations Committee will carry over the funding for this project so that we continue it into the next biennium and get this completed. We do not have these records backed up on microfilm and microfiche, so it's important that we do get those backed up and in our system. As you know, the actuaries completed the 2016 experience study and recommended new assumptions. The PERB approved those assumptions effective July 1 of this year for the Defined Benefit plans, and January 1 of 2018 for the Cash Balance plans in the state and county. These new assumptions will change the mortality method and lower the investment return assumptions to 7.5 percent for all of the plans. The Retirement Committee has introduced LB219 with the amendment, AM497, and we hope that that moves forward. It will allow us to change the statutes and let NPERS implement the new mortality assumptions and actuarial equivalent factors needed for these new assumptions. There were no cash balance dividends for the state and county plans in 2016, but there was a small cost-of-living COLA adjustment of .64 percent for the school, judges, and Patrol. Our education services department traveled the state, presented 59 different seminars to different groups, member groups, employer groups, and special groups. And our IT department completed the changes of the tier one or tier two benefits for the judges plan and the State Patrol plan. They also completed several upgrades to our system for the database and the infrastructure, and they are doing a terrific job of keeping our IT system safe and secure. I'm pleased to report that all of the retirement plans are in sound financial shape. We...our funding levels for this year improved to 98 percent for the judges, 89 percent for schools, 88 percent for the Patrol, 102 percent for both the county Cash Balance and the state Cash Balance. We're doing all of this work for you that's highlighted in this report with an operating budget of .04 percent. Four basis points is what we operate with for the agency. And compared to our average of our peer groups, we are in the very low end of providing these services. The annual report covers many other different services. This is the 11th time and final time I'll be presenting the annual report to the Retirement Systems Committee. As Senator Kolterman said, I will be retiring the end of August. It's been my privilege to serve as NPERS director for the past decade. I've seen many important changes over that time and many improvements have taken place, and no doubt there will be more in the future. I would like to take the time to personally thank the Retirement Committee; Senator Kolterman, for his Chairmanship and leadership; and legal counsel, Kate Allen, for your dedication and commitment to the retirement systems, to PERB, and to the members that we serve. It has been a true pleasure to work with all of you. So I would be happy to answer any questions. [NPERS REPORT]

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SENATOR KOLTERMAN: Thank you very much, Director Chambers. Yes, Senator Groene.
[NPERS REPORT]

SENATOR GROENE: What do we got to get to keep you to stay for a couple years? (Laughter)
Get us through the Trump administration? [NPERS REPORT]

PHYLLIS CHAMBERS: You want me to stay? I don't know. You know, I've been here a long
time. I've been working since I was 16 so I've been working 50 years now, so I just, you know, it
seems like it's a good time for me to retire and relax a little bit. [NPERS REPORT]

SENATOR KOLTERMAN: Enjoy the grandkids, huh? [NPERS REPORT]

PHYLLIS CHAMBERS: Sleep in a little bit. Yes. [NPERS REPORT]

SENATOR GROENE: Well, I've always appreciated your demeanor, even though you took on
some abuse there for a while about some things that happened in the past, but you handled it
well. So thank you. [NPERS REPORT]

PHYLLIS CHAMBERS: Thank you, Senator. [NPERS REPORT]

SENATOR KOLTERMAN: Yeah. [NPERS REPORT]

SENATOR KOLOWSKI: Thank you, Mr. Chairman. Phyllis, thank you for your work, your
dedication, and your professionalism over all the years. I've been here for five years as you
presented, and it's really been a pleasure to see the gains we've made and the positive attitude
you bring to everything. So thank you very much. [NPERS REPORT]

PHYLLIS CHAMBERS: Thank you, Senator. I've enjoyed working with you. [NPERS
REPORT]

SENATOR KOLTERMAN: Any other questions? Senator Bolz. [NPERS REPORT]

SENATOR BOLZ: Well, I'll add my voice. I'm just getting to know you but I've been so
impressed with all of the work that you and your organization have done. So best of luck to you.
But I also wanted to say how impressed I am with your customer service statistics, and
sometimes those folks doing that work are the unsung heroes of programs like this. So if you
would communicate that back to your staff for us, I'd appreciate it. [NPERS REPORT]

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PHYLLIS CHAMBERS: I certainly will. I'm sure our managers will do the same. So thank you.
[NPERS REPORT]

SENATOR KOLTERMAN: You. [NPERS REPORT]

SENATOR LINDSTROM: Thank you, Chair. I just have to add thank you for all your work.
[NPERS REPORT]

SENATOR KOLTERMAN: In closing, I'd like to say thank you. I've only been Chair for two years now but we've had a great working relationship with Orron and yourself and hopefully that will continue. I enjoyed this past summer coming to your retreat and we look forward to what time we have left together and hopefully we can get some legislation through the Legislature this session yet. [NPERS REPORT]

PHYLLIS CHAMBERS: I certainly hope so. That would be great. I know that there's so many things before the Legislature, but I do hope that they'll have time to deal with the retirement issues. And I want to thank all of you, too, for your service for the state of Nebraska, what you do for us, the Investment Council, and our endowments and protecting our assets for the state. So you have a big responsibility and, again, it's a pleasure. So thank you. [NPERS REPORT]

SENATOR KOLTERMAN: Thank you. So that concludes the hearing for this morning. Do we have time to Exec? [NPERS REPORT]

SENATOR GROENE: I just want to know where the retirement party is. (Laughter) [NPERS REPORT]

PHYLLIS CHAMBERS: I don't think they've decided yet. [NPERS REPORT]

SENATOR GROENE: Oh. All right. [NPERS REPORT]

SENATOR KOLTERMAN: All right. Thank you very much and thank you everybody for coming this morning. The hearings are concluded. [NPERS REPORT]