

Nebraska Retirement Systems Committee March 23, 2018

KOLTERMAN: [00:00:00] Welcome, everyone. My name is Mark Kolterman. Welcome to the Retirement Committee annual report meeting. If you have cell phones on, please shut them off. The three of you know what to do to testify. We're going to start with the Investment Council, but first I want introduce my committee that are here: Brett Lindstrom the Vice Chair, we have Kate Allen, legal counsel, Katie Quintero is our clerk, Simone from South Dakota is our page, and I'm Mark Kolterman from Seward. With that, Michael, would you say your name and spell it for the record and let's get started.

MICHAEL WALDEN-NEWMAN: [00:00:47] Morning, Mr. Chairman and-- and committee. My name is Michael Walden-Newman, that's M-i-c-h-a-e-l, last name W-a-l-d-e-n-N-e-w-m-a-n. I'm the state investment officer with the Nebraska Investment Council. And I'm pleased to be here this morning to present our annual report. Mr. Chairman, I actually have brought three documents. And I thought I would speak-- spend my time giving you an investment performance report rather than going through the annual report page by page. You'll recall last year-- morning, Senator--

STINNER: [00:01:28] Hi, I'm sorry I'm late.

KOLTERMAN: [00:01:28] You're all right.

MICHAEL WALDEN-NEWMAN: [00:01:28] We just started.

STINNER: [00:01:28] You guys started on time--

MICHAEL WALDEN-NEWMAN: [00:01:28] That's OK.

STINNER: [00:01:28] -- I wasn't counting on that.

MICHAEL WALDEN-NEWMAN: [00:01:37] I was- I was just saying, Senator, that there's three documents that I-- I brought over day before yesterday. I'm going to speak to the performance report, I thought, rather than the other two. But I wanted to point out the, the annual report. You'll recall last year, we said that we were going to provide a shorter, condensed annual report that gets you the information you need and meets the statutory requirements. The reason for that is, is that with our new Web site-- we're actually posting more on the Web site than has been in the past, including detailed performance reports. The performance report, we get three versions from our consultant, one of them is over 200 pages. That's the version we're going to put on the Web site. In constructing the Web site the idea was for increased transparency. And we have reduced to practically zero the number of FOIA requests we get, which, as you know triggers a state statute for a response, et cetera. We-- now the answer is it's on the web, it's on the web, it's on the web. And that's worked really well. So detailed performance that used to be manager by manager in this report we've taken out and it's a nice overview of the plans themselves. And I've been in front of you often enough the last year, you know what we've been up to at the Investment Council and think things are going well. The second thing-- the second report is-- or document, rather, is one of three what I call overview of strategies. We put this together when I came to Nebraska and what it is is an explanation to answer the question from someone, well, what exactly are you invested in and why are you invested and who's in-- who's running the money with your outside managers? And so it is exactly that; it's an overview of all the strategies, all the asset classes-- in this case this document is for the retirement plans. It lists by asset class the structure of the portfolio and the managers we've

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hired to implement that structure. There's one for the retirement plans, this one, there's one for the endowments, and there's one, a third one, for the defined contribution and deferred compensation plans, which, as you know, are commingled for investment purposes. We'll get these filed with the Legislative Clerk as required. But I also thought it'd-- it'd be nice this year to spend the time giving you a quick performance report. I haven't done that before and I thought it'd be nice to have that in front of you and on the record. It's easier to do, of course, when the numbers are good. And as I always-- I used to tell our kids when they cared what dad said, you know, you've got to be careful taking credit for something that you may not be willing to take blame for when it goes the other way. So-- so we'll just-- the markets have been good to us, let's say that. On page 1 of this document is-- and this is these are pages gleaned from, as I said, what can be over 200 pages of detail. For the first time, the Investment Council's assets have exceeded \$27 billion. It's a hefty responsibility and one that I hope you all know we-- we take very seriously. Here's an outline of-- morning, Senator-- there's a list of the assets under management. On the next page is performance. And for the plan-- the state and county plan that operates on, as you know, on a calendar year. The performance for the year was 16.6 percent, which is a very rich performance. As you know, the defined benefit plan-- which is listed here first-- actually operates on a state fiscal year, so July through-- through June. So I thought you'd be interested in knowing that the performance for the defined benefit plan for the first six months of that plan is 7.9, which is still a nice return for the plans. OSERS, you can see, lags a bit. And we've told you before that the Omaha plan is-- is going to lag the rest of the retirement plans because of the structure of their portfolio. But still, they've enjoyed a nice return this past year as well. And we calculate their return even though their fiscal year is September through August 31 year, to coincide with the school district in Omaha. The legislation passed last year has us calculate their performance on a calendar year, the same as the cash balance plan.

KOLTERMAN: [00:06:44] So, Michael, as you think about that--

MICHAEL WALDEN-NEWMAN: [00:06:47] Um-hum.

KOLTERMAN: [00:06:47] -- 13.5 percent, that's tremendous considering--

MICHAEL WALDEN-NEWMAN: [00:06:51] Um-hum.

KOLTERMAN: [00:06:51] What percentage of that is still tied into the-- that-- that investment portfolio--

MICHAEL WALDEN-NEWMAN: [00:06:57] The legacy portfolio?

KOLTERMAN: [00:06:58] Yeah.

MICHAEL WALDEN-NEWMAN: [00:06:58] Yeah, Mr. Chairman, that's a good question and I actually brought a slide, so you anticipated the question. But the answer now-- and there's a visual in here-- is, just to refresh your all's memory, when we took over the portfolio in January of 2017, we had put in place a long-term asset allocation the prior November. So when-- so that when we got the assets we could immediately move toward that allocation. And it's the same target allocation as the rest of the teachers-- since we're talking school employees-- it's the same long-term allocation for the rest of the school employees of Nebraska. Our first council meeting was in February of 2017. And at that meeting we fired two-thirds of the Omaha portfolio because that was the amount

that was liquid that we could get rid of. It included stocks, some bonds, and hedge funds. And we-- so a third of it was wrapped up into illiquid investments that are still in the-- in the portfolio. So those will take some time. You'll see in the slide coming up that it's about within the next five years most of that will be gone. But we're going to have to just ride those out. We've met with those managers--

KOLTERMAN: [00:08:17] So that was my next [INAUDIBLE]--

MICHAEL WALDEN-NEWMAN: [00:08:18] Yeah.

KOLTERMAN: [00:08:18] And I know it's in the report--

MICHAEL WALDEN-NEWMAN: [00:08:19] Um-hum.

KOLTERMAN: [00:08:19] -- but just so for the record--

MICHAEL WALDEN-NEWMAN: [00:08:20] Yes.

KOLTERMAN: [00:08:21] You were looking at about five more years?

MICHAEL WALDEN-NEWMAN: [00:08:24] It'll be five years for most of it to be gone, and some others will be-- well in ten years you'll still have--

KOLTERMAN: [00:08:31] Because--

MICHAEL WALDEN-NEWMAN: [00:08:31] I hope that someone, if it's not me, someone will be here to tell you that it's all-- it's all mirrors.

KOLTERMAN: [00:08:36] The reason I'm asking is we're-- we're-- we're taking a hard look at that plan.

MICHAEL WALDEN-NEWMAN: [00:08:41] Uh-huh.

KOLTERMAN: [00:08:41] It could impact the long-term performance, but-- at least in the near future.

MICHAEL WALDEN-NEWMAN: [00:08:48] That's correct. When we talk about the long-term performance for the-- our portfolio being 6.6 for the-- for the DB plans, we internally say, and I'd say here, that that Omaha portfolio is going to lag that--

KOLTERMAN: [00:09:06] OK.

MICHAEL WALDEN-NEWMAN: [00:09:07] -- for the-- for the next ten years.

KOLTERMAN: [00:09:09] OK.

MICHAEL WALDEN-NEWMAN: [00:09:09] But not by a lot, but it won't-- it won't match that.

KOLTERMAN: [00:09:12] Right. OK, thank you.

MICHAEL WALDEN-NEWMAN: [00:09:15] Uh-huh.

KOLTERMAN: [00:09:15] Continue on, if you will.

MICHAEL WALDEN-NEWMAN: [00:09:15] Yeah, you bet. The rest of the performance, or for the-- for the other endowments in the-- in the portfolio. The-- over the long-- that's the short term, but over the long term you can see the performances is been very good. And you-- the-- the-- the note the bottom shows that we've exceeded the benchmarks for the portfolio over the three- and five-, ten-year periods. The next page is about asset allocation and rebalancing. It's the-- it's-- that has the four quadrants. It-- it shows the policy that we set, that long-term asset allocation that I just talked about. And what you want us to do as asset managers is you want us to hug that policy target. And I-- in my prior life and here I am a stickler about that. You know, we put a lot of work into deciding what the risk tolerance is and the return expectation is based on a policy allocation. And if we allow the markets to take us outside of that policy for any length of extended period of time then we're off our expectation, primarily for risk. And while it feels good to ride that market up, we want to be careful that we're hugging that policy so we don't have a big disappointment on the way down.

KOLTERMAN: [00:10:42] Go ahead, Senator.

STINNER: [00:10:43] I'm curious about the fixed income part--

MICHAEL WALDEN-NEWMAN: [00:10:46] Um-hum.

STINNER: [00:10:46] -- in terms of length of maturities in fixed-- in the fixed asset category and the type-- are you into treasuries, are you into agencies, are you into--

MICHAEL WALDEN-NEWMAN: [00:10:58] Right. Mr. Chairman, Senator, that's a good question. So the portfolio is 70/30 stocks and bonds, and in the-- our equity and fixed income. And in the equity is included the real estate and private equity part, which are 5 percent for-- for private equity and 7.5 percent for real estate and the rest in regular stocks.

KOLTERMAN: [00:11:21] So you keep that in-- that-- that's part of your equity portfolio?

MICHAEL WALDEN-NEWMAN: [00:11:25] Correct.

KOLTERMAN: [00:11:26] Even though it's-- typically doesn't perform quite as high as--

MICHAEL WALDEN-NEWMAN: [00:11:31] Um-hum.

KOLTERMAN: [00:11:32] OK.

MICHAEL WALDEN-NEWMAN: [00:11:32] That's right. The expectation for private equity is it would perform higher but with higher risk. And that the real estate perform-- portfolio would perform about the same as the equity with a little lower risk, depending on the times.

KOLTERMAN: [00:11:48] Yeah.

MICHAEL WALDEN-NEWMAN: [00:11:48] But we have about 30 percent then in fixed income. And to answer your question, Senator, it's in a broad basket of fixed income security. So there are corporate bonds, there are high yield bonds, junk bonds-- let's call it plain English-- high yield bonds that pay a higher coupon. We have bank loans in the portfolio. Those high yield and bank loans were put in the portfolio in anticipation of rising rates because those are adjustable rate bonds so that they'll rise up as finally rates are beginning to rise up. They were put in years ago because most of us thought these rate increases we're seeing were going to happen three years ago, four or five. But they're happening now, as you know. What's in-- and maybe what you're remembering is what's in treasuries and agencies and money markets, is the internally managed now \$3.5 billion operating investment pool that's the state agency money and the rainy day fund. So that's invested in-house, and that's solely in cash and extended-- extended cash.

STINNER: [00:13:03] I'm also interested in the maturity of the length of bonds that you have there, reflecting upon the fact that we will be in a higher-interest rate environment which will have a direct effect on returns, so.

MICHAEL WALDEN-NEWMAN: [00:13:14] That's right. And the internal portfolio has a very short duration of a-- a-- it's probably a couple-- maybe a couple years, 2.5 years. The other portfolio is longer than that, but still not--

STINNER: [00:13:26] Real estate is mostly into REITs real estate investment--

MICHAEL WALDEN-NEWMAN: [00:13:29] Correct, private REITs in core. And then we have some individual fund investments. We don't buy buildings. So we're in funds with other investors that buy and manage all kinds of property, and including managers that are into the management of properties. Correct.

KOLTERMAN: [00:13:52] That answer your questions, Senator?

STINNER: [00:13:54] Yes.

KOLTERMAN: [00:13:55] Senator Bolz, did you have a question? You just-- OK.

MICHAEL WALDEN-NEWMAN: [00:13:57] So back to these policies, here they are. And you can see that for the end of December that we really are right around those policy benchmarks, right where we want to be. We've started a new policy, since I've been here, of rebalancing where you don't want to rebalance all the time, meaning every month-- we watch it every day. But at least no more often than once a quarter we would-- we would rebalance. The first rebalance I asked for, caught, it was several hundred million dollars because it had not been-- the portfolio had not been rebalanced for some time. There's different management styles, mine is to hug that policy benchmark. The next page, which is this-- this chart here, shows our relative ranking which-- you sort of care about where you are compared to other people. I mean, the-- just to feel some satisfaction that you're performing well against your peers. And you can see here, really again the numbers are very good. For the one year, these are plans over a billion dollars. There's anywhere from 90 to 100 of them, depending on the time period. And here, these are percent rankings of where we rank. So for the one-year period it's in the 25 percent, so the top quartile. But these numbers, the three, five, and ten years, we're at the top 3 percent-- top 10 percent in-- in performance. So that's very satisfying. Then, Senator-- Mr. Chairman, the next slide is the OSERS

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profile so you can tell where we are in that. We have a long-term plan you can see. And as I said, we're about-- we're two-thirds of the way there. And we're watching those managers. We've had most of them into the office, so we've-- we've met them all and-- and know who they are and what they're-- what they're up to when-- so we're keeping that up--

KOLTERMAN: [00:16:05] So as I was looking at that report, Michael--

MICHAEL WALDEN-NEWMAN: [00:16:10] Um-hum.

KOLTERMAN: [00:16:10] -- 13.5 percent of that's true-- that's terrific considering you kind of have your hands tied going in.

MICHAEL WALDEN-NEWMAN: [00:16:15] Um-hum.

KOLTERMAN: [00:16:16] But the other thing that Kate and I were talking about is, if you look at the long-term investment of that portfolio versus ours, they're pretty-- they're pretty much mirror each over ten years.

MICHAEL WALDEN-NEWMAN: [00:16:31] Um-hum.

KOLTERMAN: [00:16:31] So the problems that have existed have really come about in the last ten years--

MICHAEL WALDEN-NEWMAN: [00:16:38] Um-hum.

MICHAEL WALDEN-NEWMAN: [00:16:38] Is that a fair statement?

MICHAEL WALDEN-NEWMAN: [00:16:39] Yeah, I-- I made an appearance in front of the Omaha School Board-- we mutually thought that would be a good idea-- last December. It had been a year since we've taken over the assets. And even though the school board isn't directly involved anymore in the investment program, I said what if I come over and they put a face with the name and-- and talk about the portfolio. And I said it'll take ten minutes. And it ended up it was 45 minutes. And I found out that they actually tape them. So I'm on-- you know there's a movie of me there watching a portfolio. And it was a great conversation with the school board. It was December 18, if you want to dial it up. And one of the quest-- one of the things we talked about was market volatility and how you react when-- when things are choppy. And they acknowledge that one of the things the Omaha school plan did was it sold at the bottom of the market and got out of the U.S. stock market. And-- and in doing that, they (a) locked in some losses, but then (b), as importantly, really didn't participate in the market surge that we've had in the country. And that-- that hurt them in performance. They have a lot of alternatives in the portfolio and trying to, in their estimation, best meet their [INAUDIBLE] percent assumed rate.

KOLTERMAN: [00:18:09] Yeah, and I--- and I know they're working hard--

MICHAEL WALDEN-NEWMAN: [00:18:12] Uh-huh.

KOLTERMAN: [00:18:13] -- and you guys have done a good job of--

MICHAEL WALDEN-NEWMAN: [00:18:15] Yeah.

KOLTERMAN: [00:18:15] --managing it for them.

MICHAEL WALDEN-NEWMAN: [00:18:16] Yeah, they're benefiting from some U.S. stock exposure you see this year.

LINDSTROM: [00:18:19] Well, I just noticed, and to your credit, Michael, just looking at, on this chart, where the plan 12/31 of '16, you can see where it's very reactionary throughout '08-09, where you have about 60-some percent in noncorrelated assets with hedge fund, real estate--

MICHAEL WALDEN-NEWMAN: [00:18:35] Um-hum.

LINDSTROM: [00:18:36] -- real assets, private equity-- equity and that was due to the downturn, and just to your point. So I appreciate the approach of the disciplined allocation of percent that you take and your-- the council takes because I think you're on the right track, and just the difference between where they were prior to January, 2017, to where they are now. But it's evident of why we're in this situation-- or they were in this situation.

MICHAEL WALDEN-NEWMAN: [00:19:04] Yeah.

LINDSTROM: [00:19:04] So I just-- that chart speaks volumes.

MICHAEL WALDEN-NEWMAN: [00:19:07] Yeah.

LINDSTROM: [00:19:07] So I appreciate what you're doing.

MICHAEL WALDEN-NEWMAN: [00:19:08] Yeah, I appreciate your comments. Yeah, so things are on track with-- with Omaha. And the-- more important-- as important as the relationship is great. Our relationship with the trustees is terrific and, as I say, with the board themselves, because, of course, you know they're-- they're-- they're still very interested in the portfolio. The last page, to-- to Senator Lindstrom's point, is also the benefit Omaha has enjoyed with fees. Our fees-- here they are for the defined benefit and cash balance plan. The-- the fees run around about 34 basis points. A plan our size, a normal plan, runs 45-- it can be 45 basis points and north. We have a lot of passive investments where we are buying indexes rather than active managers. Part of the redesign that you read in the annual report was to move not just the U.S. portfolio, but the non-U.S. portfolio that's just strictly not U.S. stocks into index funds. And those are very low cost. And all of our active managers and the fees you pay to those active managers are in the global equity portfolio. So those are four managers that can move around the world and are nimble that way, U.S., non-U.S. There's a U.S. bias in the portfolio overall that the council likes and has benefited the plan. But we do have a healthy-- relative to our peers, a healthy allocation to global managers. The Omaha portfolio, their-- their portfolio costs a lot to run compared to ours. When we inherited it, it was about 66 basis points, so about double. So one of the savings they've enjoyed is dropping down the investment manager cost as they've moved into these index funds. And so the last time I looked, their fees were from 60, the high 60s, to the high 50s. And we haven't quite finished the calculation of their fees for this 12-month period, but they'll be lower. And it all-- all matters. If-- if you can save 45 basis points on a fee going in, that helps on the return. Mr. Chairman, that's-- that's all I brought. You know, I know you'll read the [INAUDIBLE]--

KOLTERMAN: [00:21:28] We've got a lot of information, but we've got some other things, so--

MICHAEL WALDEN-NEWMAN: [00:21:30] You bet.

KOLTERMAN: [00:21:30] Questions?

LINDSTROM: [00:21:33] Fantastic job.

KOLTERMAN: [00:21:35] Any questions over here? Michael, I'd just like to thank you. I know that you met yesterday--

MICHAEL WALDEN-NEWMAN: [00:21:40] Yeah.

KOLTERMAN: [00:21:41] Give our regards to your team--

MICHAEL WALDEN-NEWMAN: [00:21:42] Sure.

KOLTERMAN: [00:21:43] -- your counsel. Great report, appreciate all you do.

MICHAEL WALDEN-NEWMAN: [00:21:49] Thanks, very much. Our retreat's going to be the 18th of July at Quarry Oaks, and you'll hear from us. And one of the things we know we're going to talk about is the allocation for the endowments.

KOLTERMAN: [00:22:00] Is that a Thursday?

MICHAEL WALDEN-NEWMAN: [00:22:00] [INAUDIBLE] are the biggest-- it's July 18, and yeah, that's a Thursday, the 18th, I think. You know, the retirement plans are the big chunk, but boy, those endowments, they're important to everybody that benefits from the income of that endowment. We run them 50/50 stocks and bonds, some-- some are 75/25. We're going to take a good look at that. It's part of my-- the blank sheet review process, and dust that off and see if maybe there's some adjustments there. And then the last thing is we'll be visiting more with you, we have with this Chairman and Ms. Allen about the defined contribution and deferred compensation planned allocation. There's a statutory laundry list of required investments in the legacy defined contribution plan that I'd like to have a look at and have a conversation with you all about and NPERS. It hasn't been looked at holistically for-- it's been 15 year-- more than. And-- and we're going to take a good look at that, get it updated.

KOLTERMAN: [00:23:06] One other thing I might suggest--

MICHAEL WALDEN-NEWMAN: [00:23:08] Uh-huh.

KOLTERMAN: [00:23:10] -- I know you're going more and more to the-- to the Internet or to electronic.

MICHAEL WALDEN-NEWMAN: [00:23:16] Uh-huh.

KOLTERMAN: [00:23:16] If you want to-- if you want put it on-- if you want to put these reports on your-- and send us links so we can refer to laptops next year, that'd be fine with me.

MICHAEL WALDEN-NEWMAN: [00:23:25] OK, to go-- to go paperless on the reports? Yeah.

KOLTERMAN: [00:23:29] Yeah.

MICHAEL WALDEN-NEWMAN: [00:23:29] Okay, that'd be terrific. I'll take that back--

KOLTERMAN: [00:23:30] And someone wants to print them off-- I mean, we could have a copy here, but at least we'd always have access to that information at our finger--

MICHAEL WALDEN-NEWMAN: [00:23:36] Appreciate that.

KOLTERMAN: [00:23:38] -- tips.

MICHAEL WALDEN-NEWMAN: [00:23:38] We brought it up yesterday with the council and they said, ask your committee, tomorrow, what they want--

KOLTERMAN: [00:23:42] Yeah.

MICHAEL WALDEN-NEWMAN: [00:23:42] -- what they want, we want, so.

KOLTERMAN: [00:23:43] We're getting more and more on-- I mean, any bill that we want to look at is on the Internet--

MICHAEL WALDEN-NEWMAN: [00:23:47] Yeah.

KOLTERMAN: [00:23:47] -- or on the-- on the Web page, so.

MICHAEL WALDEN-NEWMAN: [00:23:49] Yeah. Thanks, very much. That's terrific.

KOLTERMAN: [00:23:51] Thank you.

MICHAEL WALDEN-NEWMAN: [00:23:51] I appreciate that. Thanks for your support, everybody. I mean it. It-- it means a lot.

KOLTERMAN: [00:23:56] OK, thank you. Now, Mr. Gerke and Mr. Hill, are you both talking, or just one?

RANDY GERKE: [00:24:05] I'm going to do it.

KOLTERMAN: [00:24:05] I'd like to welcome you, for those of you that are not aware of it-- Randy, is this your first report to us?

RANDY GERKE: [00:24:12] This is my first report.

KOLTERMAN: [00:24:14] And we also have with us today Orron Hill, who's now legal counsel and deputy director. Is that correct?

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RANDY GERKE: [00:24:22] That's correct.

KOLTERMAN: [00:24:24] Well we welcome, both of you.

RANDY GERKE: [00:24:25] Right, we've been working on the succession plan a bit. And Orron's going to be the deputy. First let me introduce myself. My name is Randy Gerke, it's spelled R-a-n-d-y G-e-r-k-e and I'm the director of the Nebraska Public Employees Retirement System. And since we're introducing folks, I was a bit surprised, but our controller and our benefits manager are also here; Teresa Zulauf and Patty Pierson. I think they're here for moral support for me, so I welcome them. Hopefully everybody has the annual report in front of you. And I know you're pressed for some time, but there's a few things that I'd like to just point out, if I may. There's a lot of information in here and I'm not going to read everything to you, at all, but there's a few pages that I want to just-- just point out just a bit. And if you have any questions, please let me know, or if you think of something after this then get a hold of us and we'll certainly try to find out the answers. I did want to just point out to cover, our information officer puts this together. And that's the Dismal River in Nebraska, in Tom's county, I think, they just did-- I thought it was very appropriate for this report and just very attractive. On the-- inside the front cover is all of our-- our board members. And I would just mention that Elaine Stuhr, former Senator Stuhr, was a member-- a public member and her tenure was over January 1, and so she has not been replaced. So we are short one board member right now. The-- at times it makes quorum a bit of a challenge, so hopefully we'll get that resolved soon. The report is much the same format as it has been in the past, since I was new and then there's other new folks that have been working on this. We decided to keep it just the same format, but we might change things up a little bit. There's-- next year there's-- there's a lot to say about keeping it the same format; if you're looking up something it's probably on the same page as it was last year. And so we'd welcome any kind of input that you might want to give us on that. The first thing that I want to show-- point out, there's-- if you want to go to page 4, is our accomplishments this year. And I just want to-- just want to mention that this year, right now we are at \$14.7 billion in assets. That's up from \$13.1 billion last year. So we-- we have grown there. We have also grown in membership from 127,000 to 130,000, so we are on the rise there. The-- our-- our-- the investment performance last year was reported at 8.5, and of course, as you heard from Michael, it's 13.7 for their defined benefit this year. So that was good news. Also, item number three lists the how much money we distribute, and we were upwards of \$785 million in investments-- in benefits that were distributed last year. That's up from \$728 million. So that's on the rise as well. I wanted to mention number six because we're always very proud of this, we have-- we've had good audits this year. For anybody that might remember, that hasn't always been the case in the past. That used to be kind of a painful time for us, and so we feel very good about that. We work hard to try to be doing things the right way. The experience study that was performed by Cavanaugh MacDonald this year, that's item number eight, was-- it was actually-- it was not performed this year. But the numbers are now being used in the valuation. And so the-- the funded status of the plans, which we'll get to in just a minute, is actually down just a bit from last year even though the investment return was up. However, it's because of the experience study numbers and the mortality tables and we're using a different rate of return to figure those valuations. And so, it's all still good news. However they are just down a little bit and that would be the reason why. The last thing that I wanted to mention on-- on the accomplishments was the dividend that was awarded in this last year to the state and county plans and that was about \$37 million to our members because of the experience that the cash balance plans had. Well, what they had experienced. The next thing that I kind of wanted to briefly mention

was page 6, our action plan. I want to-- these are things that I want to work on this next year. Last year the action plan was largely completed, but this year-- customer service is very important to me and I think that is something that we are working on now. We're working on it with our staff members and-- and educating them, trying to. We also are using a-- what-- what we're calling a one and done policy in the call center, where people don't have to-- we're trying to anticipate what more questions they might have so they get one call in and they get all their answers. And so hopefully that helps with the-- with the customer service as well. Orron has been very instrumental in this, as well. But he's going through rules and regulations and the policies. We're standardizing our processes. One thing that we've had-- we may have four people that are doing the same thing in the agency, however they're not doing the same thing, not quite the same way. And so we're trying to standardize everything and get it down on-- on-- well, electronically, but let's say on paper and-- just so everybody has is on the same page and it has the same roadmap on how to accomplish things there. And that's well underway already. We are working with-- we're going to a centralized printing type of thing to save money for our budget. Right now all of our members-- all of our staff have a printer on every desk, and I think that there's ways to save money by centralizing the printing. It's one of the things-- you're also probably very aware of the state fusion project. It's very important to me that our agency is involved in that because the last thing I want to do is have the benefits out a day late when they kick over and make this right-- get this going. And so we've got folks that are attending all these fusion meetings and we're very involved in that and want to keep it that way. We're also going to electronic time entry for our staff as well as performance evaluations. And we're going into the smart goal thing that the state is now using. Everything has been done by paper up until now and so we're going electronically on that. Another thing that is very important to us is the cyber security of our member data and we are very active in that. We've done a risk assessment in the last few months and we are busy looking into those areas where they think they need-- might need attention. And so our I.T. manager is very on top of that and-- and that is something that we are working on this year as well. Other things that we-- we just are going to be having to do another RFP for the actuarial services that our agency does. It's kind of-- you know, it's very-- it's a very important process. And so it's going to be some time-- time consuming. Anyway, those are the things that we're-- some of the things that we're going to be working on this year. And that could all change in the-- this afternoon. But those are some of the things. So I wanted to-- you know, all our legislation history is all there. You can read that, and actually you probably all know it. Page 10-- or I'm sorry page 11 has the funded statuses of the plans, and what-- what they were last year, and what they are this year. And you'll see that they are down just a bit for the defined benefit plans. It also lists the ARCs that were needed this-- this year. So-- so-- so that's on those pages. The-- I wanted to mention page 14 and 15 as well, that-- that gives the breakdown of the plans for assets as well as membership, and then their active and inactive and-- and those that are retired. So you might find that interesting. I also wanted to mention page 16, which is the budget. That lists our current budget right now, our operating and Program 042, which-- which is our board. And the one thing that I think I wanted to mention here is that we-- our operating expenses are four basis points of our assets. And so I think that our members get a pretty good deal. I think we are pretty low on fees that are-- well they would be like fees, that we charge. The-- page 17 just has our outreach program. We have an education area that goes out to our members and they have seminars and that sort of thing. And it lists the different seminars, how many go, that sort of thing. The next thing that I wanted to mention was our service delivery. I was afraid that I was going to have to give you some bad news for this. And I actually-- it's very comparable to last year. What this is, is for our new retirees and we're-- our-- the goal is to get those retire-- the benefits out the door within 90 days. And actually, we're right where we were last year. Last year we used quite a bit of overtime and this year we have been trying to hold that back because of concerns that we may have had with our PSL this year. And so the overtime was not given out like it had been in the past. And we still met our service delivery

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results. And so I'd like to thank the benefits folks; they-- they-- they really stepped up and they got things out the door in very good timing. So the last thing that I-- that I was going to just mention it, and that's in appendix B, which starts-- well, yeah-- I wanted to actually mention appendix B. What appendix B does is it lists the-- this is a one month snapshot and what the benefits are that go out to each county and then the number of members, also, that would get a check. And I-- I wanted to point out that-- also at the back of appendix B it lists, first it's by county and then it's by state. And 88 percent of our benefits stay within the con-- the economy of the state of Nebraska. Think that's something that, you know, be aware of. Also, you know, of course Lancaster County and Douglas County and Sarpy County, to some extent, do get the bulk of the benefits, I mean, by sheer nature of the size of those counties. However, you know, I guess I wanted to point out, Senator Groene is not here, but-- but Lincoln County gets a million dollars a month, Scotts Bluff County for Senator Stewart-- Stinner gets almost a million and a half, so-- and that's every month. And so, you know--

STINNER: [00:38:34] Send a little extra, we need it.

RANDY GERKE: [00:38:38] But, you know, I think that's important. Seward County, I was a little bit surprised, is only about a half a million. And I thought by the sheer nature of the, you know, where they are compared to--

KOLTERMAN: [00:38:49] A lot of them move to Lincoln.

RANDY GERKE: [00:38:52] They must move away, I don't know. But yeah, I-- I would guess that they'd move out to Seward County for--

KOLTERMAN: [00:38:59] But if you-- if you read that report that was in the paper that the Chamber put out today, Seward was one of the 18 counties that are growing.

RANDY GERKE: [00:39:07] Ah, great.

KOLTERMAN: [00:39:09] Just though I'd throw that in.

BOLZ: [00:39:10] Randy, I have to excuse myself but I think I said this last year, just want to thank your staff for all their hard work.

RANDY GERKE: [00:39:16] Yeah.

BOLZ: [00:39:16] I've had-- I've had some bad customer service lately, and that makes me appreciate what you guys do all the more. I think only good things about what you do and in the volume that you process.

RANDY GERKE: [00:39:27] Thank you, thank you. That's all I had. I would mention, since Michael did, that's our retreat is actually July 16, at the Lied Lodge in Nebraska City and you'll be getting an invitation. But please-- please come or send a staff member if you can. So with that, I'd answer any questions that you might have.

KOLTERMAN: [00:39:49] Any-- any questions? I'd like to make a couple comments. Number one, thank you for all the work you've been doing. Most importantly, I really appreciate the

relationship we've had with both the PERB board and you and your team. We've worked very closely, and this goes the same for Michael Walden-Newman over here. We've got a bill, LB1005, 1-0-0-5. It's advancing; it's primarily because of what you guys brought to us. It's all there. Tough bill, but we're going to advance it because people understand how important it is to keep these plans safe. And just want you know how much I appreciate the opportunity to work with you as closely as we do. Then the last thing, I just have a question. We're working very closely with the Omaha Public Schools and OSERS, and I don't know if you're ready to put this on the record, but would you have a problem managing that plan if we got-- brought it to you in the future?

RANDY GERKE: [00:40:59] I-- I-- no. I guess, you know, we're here to help you. And we'd-- we'd be happy to take that on if that's what you choose. I think that, you know, we want to do some planning and we want the time that we need to get that going. And I-- and I-- and I don't really know for-- I'm not ready to put that on public record how much time that would be. However, you know, we would certainly--

KOLTERMAN: [00:41:28] You're open to it?

RANDY GERKE: [00:41:30] We are open to it--

KOLTERMAN: [00:41:30] OK.

RANDY GERKE: [00:41:30] -- yes.

KOLTERMAN: [00:41:32] And that's all I wanted to-- I just want people to know we have talked about that.

RANDY GERKE: [00:41:38] Yeah, and you know--

KOLTERMAN: [00:41:39] And it's not something that's going to happen overnight.

RANDY GERKE: [00:41:40] Thank you, you've been very great to work with, too; you and your staff, all of you. So we appreciate that too, and I vow that we'll keep that up.

KOLTERMAN: [00:41:52] Yeah. With that, any other questions? Thank you, very much.

RANDY GERKE: [00:41:56] Thank you.

KOLTERMAN: [00:41:56] All of you. We are adjourned.