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LEGISLATURE OF NEBRASKA

ONE HUNDRED SEVENTH LEGISLATURE

FIRST SESSION

LEGISLATIVE BILL 586

Introduced by Clements, 2.

Read first time January 19, 2021

Committee: Nebraska Retirement Systems

A BILL FOR AN ACT relating to city pensions; to amend sections 14-567 and 15-1017, Revised Statutes Cumulative Supplement, 2020; to require a report to the Legislature and the Governor relating to certain city police and firefighter defined benefit retirement plans as prescribed; and to repeal the original sections.

Be it enacted by the people of the State of Nebraska, Section 1. Section 14-567, Revised Statutes Cumulative Supplement, 2020, is amended to read:

14-567 (1) Beginning December 31, 1998, through December 31, 2017, the pension board of a city of the metropolitan class shall file with the Public Employees Retirement Board an annual report on each retirement plan established by such city pursuant to section 401(a) of the Internal Revenue Code and shall submit copies of such report to the Auditor of Public Accounts. The Auditor of Public Accounts may prepare a review of such report pursuant to section 84-304.02 but is not required to do so. The annual report shall be in a form prescribed by the Public Employees Retirement Board and shall contain the following information for each such retirement plan:

(a) The number of persons participating in the retirement plan;

(b) The contribution rates of participants in the plan;

(c) Plan assets and liabilities;

(d) The names and positions of persons administering the plan;

(e) The names and positions of persons investing plan assets;

(f) The form and nature of investments;

(g) For each defined contribution plan, a full description of investment policies and options available to plan participants; and

(h) For each defined benefit plan, the levels of benefits of participants in the plan, the number of members who are eligible for a benefit, and the total present value of such members' benefits, as well as the funding sources which will pay for such benefits.

If a plan contains no current active participants, the pension board may file in place of such report a statement with the Public Employees Retirement Board indicating the number of retirees still drawing benefits, and the sources and amount of funding for such benefits.

(2) Through December 31, 2017, if such retirement plan is a defined benefit plan which was open to new members on January 1, 2004, in addition to the reports required by section 13-2402, the pension board of

a city of the metropolitan class shall cause to be prepared an annual report and shall file the same with the Public Employees Retirement Board and the Nebraska Retirement Systems Committee of the Legislature and submit to the Auditor of Public Accounts a copy of such report. The Auditor of Public Accounts may prepare a review of such report pursuant to section 84-304.02 but is not required to do so. If the pension board does not submit a copy of the report to the Auditor of Public Accounts within six months after the end of the plan year, the Auditor of Public Accounts may audit, or cause to be audited, the city. All costs of the audit shall be paid by the city. The report shall consist of a full actuarial analysis of each such retirement plan established by the city. The analysis shall be prepared by an independent private organization or public entity employing actuaries who are members in good standing of the American Academy of Actuaries, and which organization or entity has demonstrated expertise to perform this type of analysis and is unrelated to any organization offering investment advice or which provides investment management services to the retirement plan. The report to the Nebraska Retirement Systems Committee shall be submitted electronically.

(3)(a) Beginning December 31, 2018, and each December 31 thereafter, for a defined benefit plan the pension board or its designee shall prepare and electronically file an annual report with the Auditor of Public Accounts and the Nebraska Retirement Systems Committee of the Legislature. If such retirement plan is a defined benefit plan which was open to new members on January 1, 2004, the report shall be in addition to the reports required by section 13-2402. The report shall be on a form prescribed by the Auditor of Public Accounts and shall include, but not be limited to, the following information:

(i) The levels of benefits of participants in the plan, the number of members who are eligible for a benefit, the total present value of such members' benefits, and the funding sources which will pay for such benefits; and

(ii) A copy of a full actuarial analysis of each such defined benefit plan. The analysis shall be prepared by an independent private organization or public entity employing actuaries who are members in good standing of the American Academy of Actuaries, and which organization or entity has demonstrated expertise to perform this type of analysis and is unrelated to any organization which offers investment advice or provides investment management services to the retirement plan.

(b) The Auditor of Public Accounts may prepare a review of such report pursuant to section 84-304.02 but is not required to do so. If the pension board does not submit a copy of the report to the Auditor of Public Accounts within six months after the end of the plan year, the Auditor of Public Accounts may audit, or cause to be audited, the pension board. All costs of the audit shall be paid by the pension board.

<u>(4) No later than December 31, 2021, and by December 31 each year thereafter, the pension board of a city of the metropolitan class shall provide the Nebraska Retirement Systems Committee of the Legislature and the Governor a report that includes all the following, as such items apply to any city police or firefighter defined benefit retirement plan:</u>

<u>(a) A description of, and the process used to determine, the investment return assumption utilized by the plan administrator when determining employer and employee contribution rates;</u>

<u>(b) An estimate of the range of likely assets, total liabilities, unfunded liabilities, and employer contributions over twenty years based on an analysis that simulates the volatility of annual investment returns above and below the expected rate, applying methodology determined by the actuary, but including at a minimum both the twenty-fifth and seventy-fifth percentiles of the distribution of likely investment returns;</u>

<u>(c) Projections of assets, liabilities, pension debt, service costs, employee contributions, employer contributions, net amortization, benefit payments, payroll, and funded ratio for the retirement system for each of the next thirty years based upon current actuarial assumptions, including</u>

the assumed rate of return;

(d) Projections of assets, liabilities, pension debt, service costs, employee contributions, employer contributions, net amortization, benefit payments, payroll, and funded ratio for the retirement system assuming that investment returns are two and four percentage points lower than the assumed rate of return and that the city makes employer contributions meeting all of the following:

(i) The contributions are based upon current funding policy for the retirement system;

(ii) The contributions are held constant at the levels calculated for subdivision (4)(c) of this section; and

(iii) The contributions never exceed fifteen percent of projected total revenue available for appropriation by the city;

(e) Estimates for assets, liabilities, pension debt, service costs, employee contributions, employer contributions, net amortization, benefit payments, payroll, and funded ratio for the retirement system, if there is a one-year loss on planned investments of twenty percent followed by a twenty-year period of investment returns two percentage points below plan assumptions, with the following assumptions regarding contributions:

(i) The contributions are based upon current funding policy for the retirement system;

(ii) The contributions are held constant at the levels calculated for subdivision (4)(c) of this section; and

(iii) The contributions never exceed fifteen percent of projected total revenue available for appropriation by the city;

(f) The estimated actuarially accrued liability, the total plan normal cost for all benefit tiers if multiple tiers exist, and the employer normal cost for all benefit tiers if multiple tiers exist, calculated using all the following:

(i) A discount rate equal to the assumed rate of return. If the discount rate used by the retirement system is different from the

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investment return assumption, then the report shall provide a calculation of actuarially accrued liability based upon a discount rate that is two percent and four percent above and below the long-term rate of return used by the plan administrator; and

(ii) The ten-year average of the yield of thirty-year treasury notes;

(g) A description of the amortization period for any unfunded liabilities utilized by the plan administrator when determining the contribution rates;

(h) A calculation of the contribution rates based on an amortization period equal to the estimated average remaining service periods of employees covered by the contributions;

(i) A description of the interest assumption rate utilized by the plan administrator for reporting liabilities and the process used to determine that assumption;

(j) The market value of the assets controlled by the plan administrator and an explanation of how the actuarial value assigned to those assets differs from the market value of those assets; and

(k) Any additional information deemed useful by the committee to evaluate current or prospective funding or contribution policies.

Sec. 2. Section 15-1017, Revised Statutes Cumulative Supplement, 2020, is amended to read:

15-1017 (1) A city of the primary class which has a city pension and retirement plan or fund, or a city fire and police pension plan or fund, or both, may provide by ordinance as authorized by its home rule charter, and not prohibited by the Constitution of Nebraska, for the investment of any plan or fund, and such city may provide that (a) the city shall place in trust any part of such plan or fund, (b) the city shall place in trust any part of any such plan or fund with a corporate trustee in Nebraska, or (c) the city shall purchase any part of any such plan from a life insurance company licensed to do business in the State of Nebraska. The powers conferred by this section shall be independent of and in addition and supplemental to any other provisions of the laws of the State of Nebraska with reference to the matters covered hereby, and this section shall be considered as a complete and independent act and not as amendatory of or limited by any other provision of the laws of the State of Nebraska.

(2)(a) Beginning December 31, 2018, and each December 31 thereafter, for a defined benefit plan, the city clerk of a city of the primary class or his or her designee shall prepare and electronically file an annual report with the Auditor of Public Accounts and the Nebraska Retirement Systems Committee of the Legislature. If such retirement plan is a defined benefit plan which was open to new members on January 1, 2004, the report shall be in addition to the reports required by section 13-2402. The report shall be on a form prescribed by the Auditor of Public Accounts and shall include, but not be limited to, the following information:

(i) The levels of benefits of participants in the plan, the number of members who are eligible for a benefit, the total present value of such members' benefits, and the funding sources which will pay for such benefits; and

(ii) A copy of a full actuarial analysis of each such defined benefit plan. The analysis shall be prepared by an independent private organization or public entity employing actuaries who are members in good standing of the American Academy of Actuaries, and which organization or entity has demonstrated expertise to perform this type of analysis and is unrelated to any organization which offers investment advice or provides investment management services to the retirement plan.

(b) The Auditor of Public Accounts may prepare a review of such report pursuant to section 84-304.02 but is not required to do so. If the city council does not submit a copy of the report to the Auditor of Public Accounts within six months after the end of the plan year, the

Auditor of Public Accounts may audit, or cause to be audited, the city. All costs of the audit shall be paid by the city.

(3) No later than December 31, 2021, and by December 31 each year thereafter, the city clerk of a city of the primary class or such city clerk's designee shall provide the Nebraska Retirement Systems Committee of the Legislature and the Governor a report that includes all the following, as such items apply to any city police or firefighter defined benefit retirement plan:

(a) A description of, and the process used to determine, the investment return assumption utilized by the plan administrator when determining employer and employee contribution rates;

(b) An estimate of the range of likely assets, total liabilities, unfunded liabilities, and employer contributions over twenty years based on an analysis that simulates the volatility of annual investment returns above and below the expected rate, applying methodology determined by the actuary, but including at a minimum both the twenty-fifth and seventy-fifth percentiles of the distribution of likely investment returns;

(c) Projections of assets, liabilities, pension debt, service costs, employee contributions, employer contributions, net amortization, benefit payments, payroll, and funded ratio for the retirement system for each of the next thirty years based upon current actuarial assumptions, including the assumed rate of return;

(d) Projections of assets, liabilities, pension debt, service costs, employee contributions, employer contributions, net amortization, benefit payments, payroll, and funded ratio for the retirement system assuming that investment returns are two and four percentage points lower than the assumed rate of return and that the city makes employer contributions meeting all of the following:

(i) The contributions are based upon current funding policy for the retirement system;

(ii) The contributions are held constant at the levels calculated for subdivision (3)(c) of this section; and

(iii) The contributions never exceed fifteen percent of projected total revenue available for appropriation by the city;

(e) Estimates for assets, liabilities, pension debt, service costs, employee contributions, employer contributions, net amortization, benefit payments, payroll, and funded ratio for the retirement system, if there is a one-year loss on planned investments of twenty percent followed by a twenty-year period of investment returns two percentage points below plan assumptions, with the following assumptions regarding contributions:

(i) The contributions are based upon current funding policy for the retirement system;

(ii) The contributions are held constant at the levels calculated for subdivision (3)(c) of this section; and

(iii) The contributions never exceed fifteen percent of projected total revenue available for appropriation by the city;

(f) The estimated actuarially accrued liability, the total plan normal cost for all benefit tiers if multiple tiers exist, and the employer normal cost for all benefit tiers if multiple tiers exist, calculated using all the following:

(i) A discount rate equal to the assumed rate of return. If the discount rate used by the retirement system is different from the investment return assumption, then the report shall provide a calculation of actuarially accrued liability based upon a discount rate that is two percent and four percent above and below the long-term rate of return used by the plan administrator; and

(ii) The ten-year average of the yield of thirty-year treasury notes;

(g) A description of the amortization period for any unfunded liabilities utilized by the plan administrator when determining the contribution rates;

(h) A calculation of the contribution rates based on an amortization

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period equal to the estimated average remaining service periods of employees covered by the contributions;

(i) A description of the interest assumption rate utilized by the plan administrator for reporting liabilities and the process used to determine that assumption;

(j) The market value of the assets controlled by the plan administrator and an explanation of how the actuarial value assigned to those assets differs from the market value of those assets; and

(k) Any additional information deemed useful by the committee to evaluate current or prospective funding or contribution policies.

Sec. 3. Original sections 14-567 and 15-1017, Revised Statutes Cumulative Supplement, 2020, are repealed.