KOLTERMAN: Think it's 1:30. Senator Lindstrom, it's 1:30, we're going to get this started. We're under a strict timeline here today so we're going to get started. I appreciate everybody being here. Welcome to the Retirement Committee annual hearing. My name is Senator Mark Kolterman. I'm from Seward, represent District 24, and I serve as Chair of this committee. We ask that you abide by the following recommendations. If you, if you prefer to wear a face covering, do so. You can remove it when you're sitting up here. Please silence your cell phones. If you will be testifying, move to the front of the room as, as you're getting close. Thought I had a list-- yeah. The order that we'll go in today will be OPS will be first up, Lincoln Police and Fire, Douglas County, Eastern Nebraska Health Agency, Metro Area Transit, OPPD, Omaha Civilian, and Omaha Police and Fire. Sorry, Bernard, but we've got you last. Please-- this is invited testimony only, so there won't be any proponents, opponents, or neutral. Testifiers, please bring your blue sign-in sheet and give it to the committee clerk as you approach. Spell your name for the record. Be concise. We will ask questions and then if you have handouts, make sure that you have copies for all of us. I would like to introduce my committee starting at my far left over here.

SLAMA: Oh, hi. Julie Slama, District 1: Otoe, Nemaha, Johnson, Pawnee, and Richardson Counties in southeast Nebraska.

LINDSTROM: Brett Lindstrom, District 18.

KATE ALLEN: Kate Allen, committee legal counsel.

McDONNELL: Mike McDonnell, LD5, south Omaha.

CLEMENTS: Rob Clements, District 2, Cass and part of Lancaster.

KOLTERMAN: And we have Katie Quintero, our committee clerk. We have no pages today?

KATIE QUINTERO: Apparently, not.

KOLTERMAN: So that's all right. With that, I think we're going to move right into the OPS will be testifying for OSERS. Dr. Logan. Before you start, Dr. Logan, I will make the announcement that Metro Area will move up to number three right after Lincoln Police and Fire. Welcome.

CHERYL LOGAN: Thank you for having me this, this afternoon. Good evening--good afternoon, Senator Kolterman, members of the Retirement

Systems Committee. My name is Cheryl Logan, C-h-e-r-y-l Logan. I am the superintendent of Omaha Public Schools. We are a growing district that educates approximately 53,000 students. I want to start my testimony by thanking the members and staff of this committee. In my time as superintendent, I have had the opportunity, the opportunity to work with all of you as we continue to do everything that we can to solidify the Omaha School Employees' Retirement System. As you know, this has been a transformational year for OSERS. I want to thank each of you publicly for your support of OSERS and your efforts to ensure the passage of LB147, which will transfer the management of OSERS to the Public Employee Retirement Board. The Board of Education and I are incredibly grateful for Senator Kolterman's leadership and commitment for getting the pivotal legislation passed. Since the passage of LB147, the Board of Education has worked closely with the OSERS trustees to effectuate a smooth transition of operating responsibility back to the Board of Education. The Board of Education has adopted a new set of operating rules and regulations for OSERS. These rules and regulations largely mirror those of NPERS, which we believe should facilitate transition of management to the PERB in 2024. The compliance audit called for in LB147 is essentially complete, and you will be receiving a copy of that report in the coming days. Following the PERB's review of the compliance audit, we will work with the PERB to determine next steps, including the possible submission of an IRS determination letter. We will continue to work closely with the PERB as the preparation for the transition of management really starts to ramp up in 2022. I am pleased to report that the district once again was able to budget for and contribute to OSERS an amount in excess of the actuarially required contribution. The district made an ARC payment of $24.1 million in August, which included $1.9 million in excess of what was actually required-- actuarially required. This is the third consecutive year that the Board of Education has transferred more funds to the plan than was actuarially required. That said, and to be completely transparent, we anticipate it will become more difficult for the district to contribute amounts in excess of what is actuarially required. The plan actuary, Cavanaugh Macdonald, is currently working to finalize the five-year actuarial experience study, which may result in possible changes to the current actuarial assumptions. Moreover, as you can see from the report, the district submitted for today's hearing, OSERS has experienced a lower actual rate of return on investments than the assumed rate of 7.5 percent. Any change in the actuarial assumption, when coupled by the lower rates of return, will likely result in a potentially significant increase in the actuarially required contribution. The district is reviewing the draft report and will carefully consider the actuary's final recommendations. We all understand that each decision the district makes affects every employee in our workforce and every student in our care. Our commitment to sound financial management and fiscal prudence is essential to our ability to manage both our, our responsibility to educate students and our duty to OSERS. As the transfer of management of OSERS to the PERB continues, we will keep Senator Kolterman and this committee apprised of the transition of progress. Thank you for the opportunity to speak with you today. I would be happy to answer any questions you might have.

KOLTERMAN: OK, any questions? I would, I would just like to say thank you as well, because you've worked with us very closely. And during the transition as we move forward, I know you've got some tough decisions to make and we know that if you lower the expected rate of return, it'll just increase your ARCs and your contribution amounts. But over the last three years, as you indicated, you have made significant strides. And in fact, you know, when you, when you start looking at the last three years, you paid 107 seven percent more, 108 percent and 109 percent the last three years above the ARC. That's, that's impressive. And it's a-- it just shows that your commitment to getting the job done is there. And I'd like to thank you for that and, and encourage you to continue to work with Randy Gerke and his team and the PERB board. And so thank you.

CHERYL LOGAN: Thank you, Senator. I appreciate it very much. The only way out is through.

KOLTERMAN: Exactly.

CHERYL LOGAN: OK. Thank you.

KOLTERMAN: Thank you.

CHERYL LOGAN: Appreciate it.

KOLTERMAN: OK, our next testifier will be Lincoln Police and Fire.

PAUL LUTOMSKI: Paul Lutomski. It's L-u-t-o-m-s-k-i.

KOLTERMAN: I'll get you another chair.

PATRICE BECKHAM: [INAUDIBLE]. Sorry.

KOLTERMAN: I'll get that. Welcome, Paul and Pat.

PAUL LUTOMSKI: OK. Paul Lutomski, L-u-t-o-m-s-k-i. City of Lincoln Police and Fire Pension, and I'm happy to be here with Pat Beckham, our actuary from Cavanaugh Macdonald. Pat's going to present the report, and if there's any questions that I need to answer, I will be happy to try to do.

PATRICE BECKHAM: Paul will answer all the hard questions. Patrice Beckham, P-a-t-r-i-c-e, Beckham, B-e-c-k-h-a-m, with Cavanaugh Macdonald, the actuary for Lincoln Police and Fire Pension Fund. So good afternoon. It is a pleasure to be back with you again this year, although we would be happy if we were 80 percent funded and we weren't here also. It's good to see you. Just going to spend a few minutes, very, very high level. You have all of our reporting information. If you have questions on that, I'd be happy to talk to those at the, at the end of my comments. Just a reminder, the valuation date for this plan is August 31. OK. So the most recent report is August 31 of 2020. We're working on the 2021 report. Will not be completed until December. The 2020 valuation reflects the funded ratio of 78 percent and that held constant from the 2019 valuation. The most recent experience study was performed in 2019. Several changes to assumptions were adopted at that point in time that included updating the mortality table to the Pub-2010 mortality table and adopting a step down in the investment return assumption from 7.5 percent to 7.25 percent over five years. The 2020 valuation use and investment return assumption of 7.4 percent, which will change to 7.35 in the 2021 valuation. As that-- this assumption is decreased, as you know, it increases the actuarial accrued liability and lowers the funded ratio. That's creating some headwind and making progress to move to 80 percent. But with returns for fiscal year '21, we get a little bit of a boost there. We'll see where, where the numbers end up. One of the most important factors in the health of any retirement system is regular contributions equal to or greater than the full actuarial determined amount. The Lincoln city ordinance was changed in 2017 to provide that the unfunded actuarial accrued liability would be paid off over a closed 28-year period that began in 2016. It also requires the city to make a full actuarial required contribution each year. If you look at Exhibit A that was submitted with our information, the city has actually contributed somewhat more than the actuarial contribution and for the last five years. So continuing to follow the, the funding policy will move the plan towards full funding if all assumptions are met. A projection model was prepared in conjunction with the 2020 valuation. It indicates that the plan is expected to reach full funding in 2043, again, if, if the assumptions are met.

It's a very high-level look. You have all the detail. Be happy to answer any specific questions you might have.

KOLTERMAN: Thank you. Are there any questions? I, I would like compliment you as well. I know several years ago you made some very tough decisions. You dumped a lot of money into this plan and you are working in the right direction to get it taken care of. I have no concerns about you getting to where you need to be. So thank you again for your efforts and appreciate it.

PAUL LUTOMSKI: Thank you. Thank you, Pat.

PATRICE BECKHAM: Yeah.

KOLTERMAN: OK, thank you.

PATRICE BECKHAM: Thank you.

KOLTERMAN: We'll now move to the Metro Area Transit hourly. Lauren, welcome. Thank you, Pat.

LAUREN CENCIC: Good afternoon, Senator Kolterman, committee members. My name is Lauren Cencic, L-a-u-r-e-n C-e-n-c-i-c. And I'm the CEO for the Transit Authority of the City of Omaha, doing business as Metro or Metro Area Transit for our pension plan. Metro is the public transit provider for the Omaha metropolitan area, providing fixed, paratransit, and express services. We also provide service to the cities of Council Bluffs, Bellevue, La Vista, Papillion, and Ralston by virtue of agreed upon service contracts. I want to start by thanking you for the opportunity to address the committee today regarding our hourly employee pension plan and also talk about the corrective actions that we have taken to improve the funding status of the plan. I am happy to report that we have continually and consistently increased both, both employer and employee contribution rates, reduced our assumed rate of return, and improved our overall funding status of the plan. Going back a little bit since 2016, we have increased the employee contribution from 6 percent to 7.5, and the employer contribution from 6.5 to 7.75 percent, as well as changing the normal retirement age from 65 to the age when the employee reaches full retirement for the purposes of Social Security. We've eliminated an early retirement option and also changed the benefit factor for those hired after January 2018. In addition, during the last five years, we've made two lump sum contributions. The first was in 2016 in an amount equal to 1 percent of the total wages of the plan participants. And a second one-time contribution was made last year in the amount of $350,000. This $350,000 amount represented the estimated difference in the calculated employer contribution compared to the anticipated contribution that we were expecting. And that difference was really due to a reduction in overall work hours due to COVID. So we made up the difference and made sure that, that Metro still completed our full anticipated amount for last year. Last year, our lump sum contribution actually brought our overall contribution to 11.1 percent of our payroll for last year. Additionally, in our 2021 actuarial valuation report, we have yet again reduced our assumed rate of return from 6.5 to 6.25. These assumptions were reviewed and adopted both by our pension committee and our board of directors. We have 191 active members in our plan, 194 members in pay status, and 48 terminated members as of January 1 of this year. Our overall funding status of the plan is 68.5 percent, which is an improvement from our 2020 funding status of 66.7 percent. Even though we lowered the assumed rate of return during that period. If we had not lowered the assumed rate of return, our funding status this year would have been 70.2 percent. However, we feel that adopting this more conservative rate of return is both prudent and realistic. Thank you again for the opportunity to address the committee. I'd be happy to answer any questions you have.

KOLTERMAN: Thank you for your presentation. Any questions? Seeing none, appreciate it.

LAUREN CENCIC: Thank you.

KOLTERMAN: Next, we have Douglas County. Welcome back, Joseph.

JOE LORENZ: Good afternoon, committee members, I'm Joe Lorenz, L-o-r-e-n-z. I am the Douglas County finance director. So I'd like to just take you through the highlights of our performance for the year ending December 31, 2020. The plan funding status increased 4.1 points to 70.9 percent. The plan carries an assumed rate of return of 7.5 percent. And on all metrics one, three, five and ten years, the plan has exceeded that 7.5 percent return. So I'm very comfortable with keeping that as our assumed rate of return. Investment results over the past couple of years have been very strong and it's continuing this year as through the first ten months of the year, we have a return of over 10 percent on the plan. Our normal cost is about 11 percent a year. Our ARC this year is going to be $26 million. And I think the interesting thing that occurred with our ARC this year is that it actually went down. It went from 26.4 to 26, which is, you know, the first time I've seen it go down and really, I think, indicates the plan is gaining, you know, health. And, and, and I'm very comfortable that by the time the year ends in December, we will make that-- we will at least make, if not exceed, that contribution of $26 million of the ARC payment. Some other highlights as we go through the plans, actuarial accrued liability of $159.2 million was $14.4 million lower than a year ago. The plan has about 4,000 participants, about 55 percent of which are active, which means that, you know, a healthy plan from that point of view. We've talked about the history of the plan, and I think the only point I really want to make about that is that it's really going on ten years now since the Douglas County Commissioners on the Pension Committee made the changes of reducing so that we eliminated the rule of 75, the benefit formula was reduced from 2 percent of pay-- per pay year-- for your of service to 1.5 of pay per year of service, and the maximum retirement income was reduced from 60 percent of a participant's final average to 45 percent. So that was ten years ago, and now we're seeing the results. But you know, I make this point a lot is that, you know, a mature pension plan like ours, it takes a long time for the results to show up. And so ours are finally showing up. As the plan is funding ratio is now up 13.1 percentage points since, since its low point in 2010. So the results are, are, are showing up. And at this rate based on the actuarial projections performed by SilverStone HUB by within five years in 2026, we should be about 80 percent funded, which means I won't have to come here to see you all, which is always a nice experience. But it's-- that, that really is our goal that within those five years we have this plan 80 percent funded. In terms of changes to the plan, we didn't do much this past year, except for one thing, the corrections guards at the Douglas County Jail were extended the same plan benefit provisions as the sheriff deputies. And but in negotiating with them, they agreed to increase their contribution rate by an additional 2 percent of pay, of which they're paying that whole 2 percent. Because we had worked with our actuaries to determine what would it take to make a change like this that would have no impact on the plan's funding status. So they kicked in an extra 2 percent. They get it, but the plan funding status was not impacted. And those are kind of my highlights, and I'd be glad to take any questions from you.

KOLTERMAN: Are there any questions? Go ahead, Senator Clements.

CLEMENTS: Thank you, Mr. Chairman. Thank you, Mr. Lorenz. I want to thank you for telling me that the one, three, five, and ten year actual history is 7.5 percent or more. I would like to hear that from each plan as to how their actual is compared historically to their assumed rates, real important to me.

JOE LORENZ: Sure.

CLEMENTS: I'm wondering sometimes if people of plans are telling or looking at how much they can afford to pay, and then they set the assumed rate to equal that, which is the opposite of what we should do. A question I had is, you said ten years ago you changed the retirement benefits. Was that for existing employees or just for new employees?

JOE LORENZ: For new employees. But it's, it's interesting in those ten years now, based on the latest records of total active employees, more than 50 percent now are qualifying under the new rules. So-- but yeah, under pension law and things like that, when you change it, you can-- it only can apply to new employees.

CLEMENTS: And you said you had 4,000 people in the plan. Is that retirees and active employees?

JOE LORENZ: Yeah, so that-- and of that 4,000, 55 percent are active.

CLEMENTS: OK. All right. Thank you.

KOLTERMAN: Any additional questions? I just have one.

JOE LORENZ: Sure.

KOLTERMAN: According to the information we've received, the last couple of years you haven't paid 100 percent of your ARC.

JOE LORENZ: One year. I mean, if you look at the expected, last year was the first year that it didn't because, you know, this year is an expected number. But as I said, especially since it's, you know, the ARC actually went down, I'm comfortable we're going to do it this year. So last year was the only year. If you go to the bottom line, the previous four years were over 100 percent, and I think this year will be over 100 percent.

KOLTERMAN: OK, thank you. Any additional questions? By the way, about half of us will be gone in five years.

JOE LORENZ: Yeah, me too. [LAUGHTER]

KOLTERMAN: So you won't have to put up with us anymore. Some of us. OK, Eastern Nebraska Health Agency.

JOE LORENZ: Thank you.

KOLTERMAN: Mr. Gahan.

GLEN GAHAN: It's pleased to be here, Senator Kolterman and rest of the Retirement Committee. My name is Glen Gahan, G-l-e-n G-a-h-a-n. I'm the actuary for the Eastern Nebraska Health Services Agency Pension Plan. I'm employed with SilverStone Group, a HUB International Company. I'm going to-- I don't have any additional handouts. I believe you have the complete information provided with the information request from the committee, as well as the actuarial reports and experience analysis. Some of the highlights that I'd just like to, to mention. First, the actuarial assumptions and methods used by this plan that we've been assuming a 7 percent investment return I think from the inception of the plan. And I did a quick look at the last six years, it was just based on information provided in the form, and the average return had been about 6.7 percent. Just taking a simple average of the annual returns. The most recent two years for the year ending 2020 and 2019 was a 9.9 percent return and a 14 percent return. I don't have a year-to-date return for 2021. I would imagine that it would be at least in line with the actuarial assumption, hopefully it'd be better than that given the, the markets that we've been observing. As far as the history of the contributions that ENHSA has been making to the plan, they've been increasing those historically a half a percent per year from the year 2010 through 2018 where it got to 9.5 percent and then it stayed at 9.5 percent for 2019, 2020. Pleased to report that as of November of this year, that was increased to 10 percent from the employer and employee contributions were increased from 2.75 percent to 3 percent. And I believe that's the first employee contribution increase for, for quite some time. And when we took those into account in the forecast, we, we, we do our actuarial work every other year. So 2020 was the most recent year we did that work, but we did anticipate this increase and we forecasted the plan would get from its current 73 percent funded in 2020 to 100 percent funded in the year 2047 to 80 percent funded in the year 2030. Given the gains in, in 2020 and hopefully 2021, we think that, you know, if we updated the forecast today that would-- we'd see some improvement there as well. Other assumptions and methods used in the most recent evaluation, we updated the mortality table to the Pub-2010 with mortality improvement scale. The ARC has been determined based on a amortization of a level of dollar amount, which is somewhat conservative perhaps at least compared to as a percent of pay and a 25-year layered amortization method as well. So you would think that the, the assumptions are, are reasonable and we would not consider them as being aggressive looking at those. And historically, the contribution actually made to the plan has slightly exceeded the calculated ARC. So, you know, we, we feel that the plan is, is in a, in a sound position or at least getting better funded. You know, we obviously wish it was more funded than it is today, but the trajectory looks positive. So those kind of are my prepared remarks and I'd be pleased to address any questions the committee might have.

KOLTERMAN: Any questions? Senator Clements.

CLEMENTS: Thank you. Thank you, sir. You mentioned a 100 percent estimated by 2047 using a, a closed amortization formula.

GLEN GAHAN: Yes. Yes, it is, it is a closed amortization, a 25-year closed. Yes.

CLEMENTS: Twenty-five year. OK. And the where you're talking about the 6.7 percent average rate, are you still comfortable with the 7 percent assumption? You don't plan to change it?

GLEN GAHAN: Yeah, we're, we're comfortable with it at this point, but it's something that gets monitored and analyzed, you know, annually.

CLEMENTS: Thank you.

KOLTERMAN: Any additional questions? I just have one question.

GLEN GAHAN: Yes.

KOLTERMAN: How many people are in the plan?

GLEN GAHAN: There's a total of about a thousand participants. And I think it's upwards of between 650-ish actives.

KOLTERMAN: Active--

GLEN GAHAN: Active, yeah.

KOLTERMAN: --650 out of-- because the plan's relatively new yet, really. I mean,--

GLEN GAHAN: Yeah, it's, it's not--

KOLTERMAN: --1974.

GLEN GAHAN: --not overly mature yet.

KOLTERMAN: OK, thank you. Any additional questions?

CLEMENTS: '74 is new. News to me.

KOLTERMAN: I think it is and I'm older than you are Clements. All right. Hey, thank you.

GLEN GAHAN: Thank you.

KOLTERMAN: Not much, but I am. OK, next will be OPPD. Welcome, John.

JOHN THURBER: Hello, I'm John Thurber, the interim CFO of Omaha Public Power District, that's T-h-u-r-b-e-r. We submitted information, and I'm just going to highlight a few areas of interest since our submittal or in our submittal. The funded ratio for our pension plan increased from 68.9 percent to 72 percent in 2021. We continue with a 7 percent discount rate and to answer Senator Clements' questions, we've exceeded 7 percent for the last five, seven, ten. And since inception would be '79. In fact, since 1979, our plan has been averaging 8.9 percent annual returns. Our employee contributions went up from 7.7 to 8.3 percent of salary in 2021, and they will end up with 9 percent as a percent of salary in 2022. That was part of an earlier union negotiation with our employees. Our funded ARC was, or is in 2021, $56.5 million. As we've continued to do, we fund all of our ARC payments all the way through since the plan has been in existence. So we've always fully funded our ARC payments. A couple of items of note we do, or we are in the process of an asset liability study right now where we're looking at the 7 percent discount rate. Even though we have exceeded it, there is a possibility that we might reduce that rate in the future. We do have a reserve account of $115 million that can be used for only two purposes, either improving our funded status of our pension plan or to meet our decommissioning liability for Fort Calhoun Station. And we are looking at potentially making a substantial reduction from that reserve this year to help improve the funded status of our pension plan, and it would certainly help offset any impacts if we do decide to reduce the discount rate. So with that, that's all the remarks that I have, if anyone has any questions.

KOLTERMAN: Are there any questions from the committee? Thank you.

JOHN THURBER: Thank you.

KOLTERMAN: Appreciate you being here.

JOHN THURBER: You bet.

KOLTERMAN: OK, now we move to Omaha civilian plan. Bernard in den Bosch. Bernard, we're going to get you out of here quicker than you expected even though you're last. Right?

BERNARD in den BOSCH: Exactly. Usually you have another bill before us before we get to talk, so we get to listen to some other things.

McDONNELL: Save the best for last, Bernard.

BERNARD in den BOSCH: Or, or, or worse depending on your perspective, so. Members of the committee, Senator Kolterman, my name is Bernard in den Bosch, spelled-- first name Bernard, B-e-r-n-a-r-d, last name in den Bosch, three words, first word is lowercase i-n, second word is lowercase d as in David -e-n, and third word is capital B as in boy -o-s-c-h. And I am deputy city attorney and I represent both the City of Omaha Employees Retirement System, which is the pension plan for civilian employees of the city of Omaha, as well as the city of Omaha Police and Fire Retirement System. So we're a little bit behind where we normally are as you noticed from the submittals. If you read the submittals, you'll notice it was last year's submittals. The city did-- the city and the pension systems did put out a request for proposals for new-- for actuarial services. We went through that process and a new system actuary was selected. Milliman is now the system actuary. They are not permitted to travel. Apparently, that's a corporate policy. Our chief actuary is in Connecticut. I did ask if there was a possibility of, of, of her participating remotely, but that, that was not an option that was available. Unfortunately, there is also with having a new actuary, it's taken her some time to build the model. We've had a few discussions. The report-- I'm happy to say the reports are final now, but they haven't gone to the pension boards yet for approval. And as until that occurs that we're able to release them, I would accept-- expect that on November 17 and 18, which are the days and this month of the pension systems that they would be approved and then I'd obviously be able to-- I'll provide them to Senator Kolterman and to, to Miss Allen. And then also I will update the table that was attached to the report and provide that as well so that you have that. Again, because of the delay, most of the information in the, in the study in the report is similar to what it was last year. The city is also in the process of doing an experienced study this year. We anticipate we'll have that experience study done and January is the latest estimate and that will be for a period of time. And then obviously there'll be potential adjustments made or recommendations made as to changes in assumptions. The most recent experience study in 2018 did result in some change of assumptions, which I've laid out in, in obviously the reports that I filed, but the change of assumptions including that in the, the rate of return. I also don't have the benefit of Miss Beckham, who usually sits on my left or my right when at the table. Quite frankly, it's a, a big loss and, and I, I, I wish I could say that she was with, with, with me. And because the report isn't there, I don't, I don't have this year's report. I'm still happy to talk about the things that are there, but I do want to touch on a few of the things in the report. Obviously, the Civilian System, which is before us, it funded at of very pedestrian 52.4 percent in, in 2020. We know that that's going to increase in 2021. We did have a good rate of return and the actuarial analysis from 2020 indicated the system would be fully funded in 2048. And I'll talk about why that's, that's the case in, in a moment. The rate of return for 2020 was 9.74 percent. The rate of return, I did check with our money managers, the rate of return after three quarters in 2021 for the Police and for the Civilian System is 9.5 percent. So obviously we'll hope that we'll have additional returns and that number will be in excess of 10. We have exceeded 8 percent in both the, the 10- and 30-year investment returns, though our assumption is 7.5 percent for the Civilian System, which is a little higher than some of the other folks. But it was moved from 8 to 7.5 percent as a result of the 2018 experience study and based on the recommendation of the actuary at that time. So there is no question that this pension system still has a long way to go. There is no question that we are in a far better place than we were five years ago, when we-- or in March of 2015, when we instituted a, a substantial round of pension reform. And I'll talk about that in a second. But as of the time that we entered into those revisions with the various bargaining groups that are part of the Civilian System, there was a cash flow problem in that the Civilian System was going to run out of cash and not be able to pay people in a relatively short period of time. That has changed as a result of the change. And one of the things that we did is we, we made changes for both those employees who are new employees by having a cash balance plan for new employees. And we also made changes, not for past benefits for existing employees, but for future benefits for existing employees. And so when it comes to the cash balance plan, it's, it's, it's quite amazing at the turnover that we've had. I think last year we reported that as of 2020, January 1 of 2020, 38 percent of our workforce was in the cash balance plan, meaning they'd been hired since March of 2015. As we sit here today, as of January 1 of 2021, it's over 43 percent of our civilian workforce has been hired since March of, of 2020. As far as the changes for existing employees, obviously there were increases in contributions. The city of Omaha employees contribute 10.08 percent of their income to the pension plan, and the city contributes about 18 percent to the pension plan. The difference-- and, and the city increased its contributions roughly 7 percent, and employees contributed to those changes by a reduction in benefits. Existing employees, the retirement age was raised. We-- used to be by the rule of 80, now it's the rule of 85. Used to be 60 was the age you could retire, now it's 65. We've done some salary smoothing, it used to be your highest 26 pay periods in your last 5 years. It's now the average of your three-- of three years in your last five years. So there were a number of benefits. And then also the rate accrual per year went for 2.25 percent per year of service for those in, in employment prior to March of 2015 to 1.9 percent for every year thereafter. So there were a number of changes that were made. And I appreciate you look at our funded percentage and obviously we still have a long way to go. But, but I'll say-- reiterate what I said last year, and that is we put a plan in place in 2015 and that plan appears to be working. The projections still indicate that we're going to be fully funded in 2048. And frankly, my sneak preview of the projections that we saw in the current report may indicate that that might be-- it might actually be moved up a year or two. I know the next question you're going to ask me is about ARC. We-- the city-- this system has not met its ARC since in the last couple of years since we changed the assumptions prior to the time that that was done. And, and I know Miss Beckham has explained it in the past, and I will make a statement and then please appreciate that I'm a lawyer and not, and not an actuary. But, but some of the, the normal costs for the employees that are for the benefits for the active employees is frankly less than 10 percent. Most of our ARC is for the-- for basically for the-- to pay off those that are already retired. We obviously would like to come closer to meeting ARC. We'll see what occurs. I think we're going to be a little bit better as, as I anticipate next year's report. The difficulty that we have in, in doing it is we have a charter provision that does require that, that we roughly equal contributions. And I know you'll say, well, there was a disparity in your contributions and what you told me a couple of minutes ago. What occurred in 2015 was at that point they were roughly equal contributions, but the city put in more money and the employees put in a reduction in benefits for current as well as future employees. So I, I, I pass that information along. Obviously, I'm happy to answer any questions as best I can. I will also offer that once we get the new reports and I'm able to mail them to you, I know there isn't going to be a committee meeting, but if, if any senator would like to have a discussion with either me or with the actuary, be happy to arrange that one on one or in a small group, whatever is most convenient for you, for any of you. I, I-- and if you want to wait till the experience study is in so you have the whole, the whole package, we're perfectly willing to do that at any point in time. I, I, I wish I, wish I had those documents to give you so we could be talking about them today. So with that, I'm happy to answer any questions.

KOLTERMAN: Are there any questions? Senator Clements.

CLEMENTS: Thank you, Mr. Chairman. Thank you, Mr. in den Bosch. The-- you did mention changing contribution amounts and other plans have talked about changing the percentage of employees, employers contribution. When I see the 52 percent, it looks to me like an adjustment in contribution percentages needed, are you, are you able to negotiate that and work on those changes?

BERNARD in den BOSCH: So we obviously can't do it unilaterally because with the exception of a very small portion of our employees, everybody is represented by a bargaining group. The, the, the practical answer is this, and that is we made these changes in 20-- that went into effect in March of 2015, and we're, we're five years from-- this is year six of those and we're seeing some positive stuff. But obviously, as you look back, you know, and, and, and, and, and the question may be what's a reasonable period of time to look to see whether those changes are, are having a positive effect? I think with those changes being in 2015 and with healthcare kind of being the focus in the most recent contract negotiations, it is going to have to be revisited as to whether those contributions are sufficient. We already-- it-- not something that was addressed in this round of negotiations, and I'll be frank, we have an unemployment rate that's incredibly low. We have to compete, our wages are based on comparable cities, and we have to compete in the hiring arena. And when you're already having your employees paying, paying 10.08 percent of their income into this pension system, and then, of course, everybody pays into Social Security, it's difficult to compete in the market because people take home 10 percent less. Now I appreciate they have the benefit of a cash balance plan at some point in the future, but, but a lot of our employees, particularly the blue-collar employees, are really focused on I need to have enough money to be able to live. And so tried to go to the unions and say, look, we, we haven't given, maybe we haven't-- I'm not sure there's enough time for these changes to be in effect, but we really need to get that funding percentage up quickly. The response, particularly now with unemployment where it is, is that's a really hard sell to get the unions to consider it. That's not to say that won't change in a couple of years. I think once the, the changes have been in effect for ten years and you see where you are, it's easier to go back to the unions and say, now it's time we need to, we need to bump this up and address it. I'm trying to give you a practical answer, because that's, that's really the, the discussion that's occurring.

CLEMENTS: Well, getting the ARC up to 100 percent, you talk about being fully funded in 2048, is that assuming 100 percent ARC payments?

BERNARD in den BOSCH: No, that's assuming with the current, with the current system. And part of the reason we're under the ARC is because of the amortization schedule. And again, this is I'm, I'm dangerous because I'm starting to talk about things that actuaries understand and I don't. But as I understand it, that's the amortization of the unfunded actuarial liability. But the discussion that we've had with Miss Beckham in the past is, is that you don't have to, you don't have to meet your ARC in order to do it. But obviously it would be better and you would get there faster if you did. But a lot of it is because we have-- so, so much of our liability, so much of the money that's put in is not for the active employees, it's for the, the legacy people. And that's, that's a big part of the problem that we have because like I said, the normal rate's under 10 percent. Well, we're putting in 28 percent, 29 percent when, when everything-- and obviously a huge chunk of that is going for the sins of the past. And obviously we have to address the sins of the past.

CLEMENTS: Yeah, I can see where a, a new employee with a cash balance plan would resist paying in for retirees that they're not benefiting from. Yes.

BERNARD in den BOSCH: Yeah, there's--

CLEMENTS: Thank you.

BERNARD in den BOSCH: Yeah.

KOLTERMAN: Any additional questions? I'll have some, but I'll wait till we get both of them done.

BERNARD in den BOSCH: Oh, OK.

KOLTERMAN: So Bernard, why don't we just move right into--

BERNARD in den BOSCH: Sure.

KOLTERMAN: --Omaha Police and Fire. You don't have to reintroduce yourself. We know who you are, and let's just go from there.

BERNARD in den BOSCH: Appreciate it. Thank you. And I'll try not to reiterate and, obviously, the Police and Fire plan is going through the same issues with changing actuaries. We don't have the report yet. We do anticipate having that in the next couple of weeks. We're also going through an experience study with our Police and Fire Retirement System, and, and we'll obviously see what those particular things are. There's obviously different assumptions in the Police and Fire System, as, as with people on this committee know, because unfortunately seen me too many years in a row, the expected rate of return for our system is 7.75 percent. That's the assumption. I do know from having some discussions with the actuary-- our, our new actuary, that's obviously one of the things that they're going to be evaluating. I will tell you that our investment manager, DeMarche, which is out of, out of Kansas City, felt comfortable with 8 percent and, and, and pushed back at the reduction in 2018, but there was a reduction in that particular assumption. And I'll say-- make the same comment that I made previously, and that is if you look at our 30- year average or our 10-year average we're in excess of, of eight and, eight and a half to eight and three quarters percent. The rate of return for 2020 for the Police and Fire System was 9.27 percent. And through the first three quarters of 2021, we were at 9.6 percent, slightly higher than what it is for the Civilian System. Obviously, the Police and Fire System is still-- is funded at 54.3 percent, which is nothing to, to brag about. The numbers are a little lower because of some of the changes in assumptions that we made a few years back. I'll, I'll only note and reiterate what I said last year and what I've-- in 2008, it was funded at 38.6 percent. So again, even worse, even worse and we anticipate the funding ratio based on the preliminary information will increase in 2021, and the projection is still to be fully funded in, in 2046. I do want to talk a little bit about the history of the changes that were made to try to address the, the pension system. In 2008, the Bates commission was formed. The Bates commission was formed by then

Mayor Mike Fahey to look at the pension system and it committed-- it consisted of many, many people from the private sector and then also representatives of the bargaining groups and, and, and the city. And the reason the bargaining groups needed to be part of that process is they needed to understand how bad a place the pension system was in, in, in order to be able to, to sell it to their members. In the negotiations that happened in that became in-- went into effect in October of 2010 for Police bargaining and then December of 2012 for Fire retirees, there were a number of changes that were made to both contributions, as, as well as benefits for existing and for new hires. The first thing as far as contributions, the city contribution kicked from about 20 percent to 33 or-- to 33 or 34 percent, depending on the, the system and the employees contribution was about 17 percent. Their contribution to the increase was through reduction in benefits, which, which was actuarially similar to what was done with the, the system. So there was obviously a dramatic increase in contributions. We did for new hires included-- did some things, removed overtime from the equation. It lowered the top benefit, lowered the tiers, raised the minimum retirement age, increased the years to get to the top. It went from 75 percent being the highest to 65. It went from 25 years to 30 years and raised the ages that people could retire. We also created tiers for existing employees, and, and the tiers were for those employees that were within, depending on the system, either five or ten years before retirement, they would see some of the changes, some of the smoothing, and some of the reduction in the overtime implications to their pension. But for employees that were not within five to ten years of retirement, their retirement ages would raise and the years to get to the top benefit would increase and some of those other things. We also-- one of the favorite words I see in the media is smoothing that means two different things depending on who you're talking about. But one of the things that we used to see in the Police and Fire System as people could spike their pension because they would work a lot of overtime in the last year of their employment, which would ultimately increase their, their pension. What occurred there is we went with something called a career overtime average, which meant that you looked at somebody's overtime over their career and they made pension contributions based on that overtime. But if I worked 30, 30, 30 and then 150 hours my last year, my pension was going to be based on an average of 30, 30, 30 and 150 over the course of my career, as opposed to what existed before was this 150 so that your pension was not in any way related necessarily to what you had traditionally been earning over the course of your income. And then the other thing we did as far as smoothing, it used to be your highest 26 pay periods in your last 5 years. It went to a highest average 78 pay periods or 3 years, which has an effect-- affects most people the time period for which they were eligible for a pension. So a lot of those things have occurred, and, and we're ten years into that particular solution. And I appreciate you still look at the funded ratio and there are still concerns. But as far as the, the, the feedback that we get from not only the city and the systems actuary but other actuaries used by the union is that, that we're on the path to where we're getting. The problem is we have a lot of legacy people who are already retired, and that's kind of a similar thing to what we've already talked about. The new hires are a lot sounder for as far as pension, and we have some of the same issue, I think, that Senator Clements was recognizing is that new hires to some extent might be concerned that they might be subsidizing some of the old and to, to some extent, that's-- every employee has to contribute to the unfunded liability. And the reality is that that's, that's what occurs. And so you have to balance those things. So those are some of the changes that we made. They've had a positive effect in that we're slowly and steadily moving up. The projections are still there. I mean, there's obviously risk, you know, if you have another 2008 or two or three bad investment years in a row, it'll be a lot more. This seat will be even more uncomfortable to sit in than it already is. And that's just the reality of it. Fortunately, you know, we've had decent returns and fortunately things have been moving as projected, and, and we hope that continues. So anyway, that-- that's, you know, I don't want to get-- the report is one you've already seen so I hate to spend a lot of time on it, but I'm happy to answer any, any questions about the Police and Fire Retirement System if you'd like.

KOLTERMAN: Any questions? I, I just have a, a couple of observations,--

BERNARD in den BOSCH: Sure.

KOLTERMAN: --or I guess the first one would be a question. Have you given any more thought to, you know, you talk about how new employees are helping pay for the liabilities of the past. Has any more thought being given to looking at your charter with the idea that it would allow the city to make additional contributions on behalf of the pension years?

BERNARD in den BOSCH: A fortuitous question, because the, the-- our charter requires us to have a charter convention every ten years. They're actually, at this point, there's-- the mayor is intending, I think, on calling for a charter sometime in the next six months. So we will have a charter convention. I will, I will make sure that that gets included in the discussion items. Appreciate that the, the charter committee ultimately votes things out of the committee. They go to the council. The council has to vote by ordinance to put them on for a ballot. And ultimately our charter only gets changed by, by a vote of the people. But I will, I will make sure that that at least gets put on the discussion.

KOLTERMAN: Well, I-- my, my concern is I would hope that the people of Omaha are aware of the fact that you're asking new employees to accept the blunt of the past [INAUDIBLE].

BERNARD in den BOSCH: Yeah, and I don't, yeah, and I don't know that I would say, I mean, there was obviously a lot of discussion about pensions and what was going on in the pension systems 12, 13 years ago, up through maybe 10 years ago or 8 years ago. There hasn't really been much public discussion, as you know. I mean, you, you-- you're more attuned to that than, frankly, I am. But you know, I do think there, there is a realization amongst some people within the city now that maybe didn't occur in the last couple, couple years ago because of some of the difficulty we have in retaining and, and hiring and retaining employees that maybe one of the impediments is the relatively large contribution that you have to make. And in, in many ways, that makes-- though your top-- your wage may be competitive, your take-home wage may not be.

KOLTERMAN: Right.

BERNARD in den BOSCH: And I, I know that there's been-- there's more realization of that because I used to be kind of the sole person that would make that comment. And I-- and in the last couple years because of, I mean, we're having a, a, a really difficult time hiring people to drive, to drive snowplows and those things. And some of that is, is, you know, it's a product of an unemployment rate that's incredibly low. There's plenty of other jobs, but it's also a product of, you know, my take-home pay is substantially below what I think it should be. And I don't have that issue if I go work for some of my competition.

KOLTERMAN: Right. The other, the other question, and this is just a question, I don't know if you have an-- you probably can't answer it, but I'm going to ask it anyway.

BERNARD in den BOSCH: I'll try.

KOLTERMAN: When you get, you know, the city goes out and gets classified, they get bond-- your bond ratings-- does, does a pension plan and, and the fact that your pension plans only funded at 52 percent, does that affect your bond ratings, are you concerned about that at all?

BERNARD in den BOSCH: It certain--

KOLTERMAN: It's a huge liability that's hanging out there.

BERNARD in den BOSCH: It certainly affects the bond rating. I mean, we went from being the very top. But the reality is we're still, I think, at the, the third tier down, which is still really, really high. And I know, Senator Lindstrom, you understand that area more than I do. But yeah, it has affected our bond rating and that the rating agencies have, you know, we're not AAA, but we're still double A-plus and we'll still have a fairly high rating because of the management of some of the other bonding things. But there is no question that every time a rating agency looks at us, the pension system and the funded, you know, the fact that the pension systems are funded at 54 percent or whatever it is, it is problematic. There, there is no question that, that it does have, have an effect. Probably, you know, to be honest and I don't know-- I know that over the last ten years, with interest rates being relatively low and, and you could still borrow money at a very low rate, it probably hasn't had as big an impact as it might if we would get into a time where inflation was a little bit higher and you start to see interest rates go up and then maybe your, your rating will have more of an impact. I mean, at this point, the city is still able to get historically very competitive rates on all its, on all its bonds. But again, I think that's, again, way out of my-- even worse than me being an actuary trying to be a finance guy, but, but I mean, we've had historically low inflation rates--

KOLTERMAN: I understand. I, I just--

BERNARD in den BOSCH: --for a long, long time.

KOLTERMAN: --you know, I just look at it and know that you guys have to do some bonding and it--

BERNARD in den BOSCH: We do. We do.

KOLTERMAN: --would make a difference.

BERNARD in den BOSCH: And I think--

KOLTERMAN: Especially, you know, I-- you're right, interest rates are low right now.

BERNARD in den BOSCH: --we've been fortunate because of the investment of interest rates. Yeah.

KOLTERMAN: But if inflation continues to decline and--

BERNARD in den BOSCH: They're going to go up.

KOLTERMAN: --interest rates go up, that-- it makes that spread even worse, so.

BERNARD in den BOSCH: It does.

KOLTERMAN: I just was curious.

BERNARD in den BOSCH: No, I-- and I'm, and I'm happy--

KOLTERMAN: I appreciate it.

BERNARD in den BOSCH: --to speculate.

KOLTERMAN: Any, any additional questions?

BERNARD in den BOSCH: I will get those additional things to you.

KOLTERMAN: I'd appreciate that.

BERNARD in den BOSCH: And, again, please, if anybody wants to have a discussion, don't hesitate.

KOLTERMAN: Well, we'll get those out to the committee once we get them.

BERNARD in den BOSCH: I'll get them into Kate as soon as--

KOLTERMAN: We get the, we get the information out, so.

BERNARD in den BOSCH: I appreciate your time. Thank you.

KOLTERMAN: With that, appreciate it. I don't think we have anybody else. Do we have a-- I guess we don't need to adjourn. We're adjourned.

BERNARD in den BOSCH: Thank you.