

Transcript Prepared by Clerk of the Legislature Transcribers Office
Nebraska Retirement Systems Committee March 26, 2024

McDONNELL: Good afternoon and welcome to the Nebraska Retirement Systems Committee. My name is Mike McDonnell, I represent Legislative District 5, Omaha, and also Chair of this committee. Today we're here for a special type of hearing to see the annual report for the Nebraska Public Employees Retirement System and the Nebraska Investment Council. The presentation of these reports are required by statute. Due to the limited nature of this hearing, I won't be going through the typical hearing opening. We're going to hear from invited testimony only. For those invited testifiers, we ask you to begin your testimony by giving your first and last name, spell them for the record. For the copies of your report, we can give them to the page for distribution to the committee members. As a matter of committee policy, I'd like to remind everyone to the use of cell phones and other electronic devices is not allowed during public hearing. I would ask everyone to look at their cell phones and make sure they are on silent mode. Anybody here? Assisting the committee today, we got-- I just want to thank Tim and, and Neal and, and Julie. They've done a great job this year, and I always appreciate all the, the work they do. They do 99% of the work, and I take 100% of the credit. So Bill also in the back from Fiscal, thank you for, for being here. I'd also like to thank Director Murante and Investment Officer Hung and their staff for providing these reports. Statute provides a deadline for these reports by April 10, which will be Day 58 of this legislative session. This is a bit late in the, in the legislative calendar to conduct a hearing. Your efforts to provide your reports earlier than the statutory deadline are truly appreciated, not only by me, but also by the rest of the committee members. With that introduction, let's start with NPERS first. Director John Murante, please come up.

JOHN MURANTE: Thank you very much. Thank you, Mr. Chairman, member of the committee. My name is John Murante, J-o-h-n M-u-r-a-n-t-e, and I am the director of the Nebraska Public Employees Retirement System here to present our annual report which earlier this month was adopted by the PERB board unanimously, and here to report. What I'll do is maybe just go over a few high-level statistics that we have over the course of the last year, starting on page-- it's really the cover sheet. NPERS now serves over 155,000 plan members across the state of Nebraska. That's up from about 150,000 last year. Of course, those numbers do not yet reflect any OSERS plan members. They-- this-- it will be reflected next year after NPERS takes over management of the OSERS system on September 1 of this year. We distributed over \$1.2 billion to the people of Nebraska, with an average monthly benefit of just over \$2,200. And as you can see by that page, it's a major economic driver of the state of Nebraska. Of course, one of the things

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we always look at are the funded status of our plans. Over the course of the last year, our-- Nebraska's retirement plan have continued their proud legacy in this state of being well-funded, well-managed, and well-administered. The return on-- the investment returns for the plan, you can see it going back a number of years is on page 12. And we'd like to thank also our State Investment Officer and the, the staff of the Nebraska Investment Council for being great partners in the relationship. And I, and I should have-- let me interject by stating what I should have said at the very beginning was I want to thank all the staff of the Nebraska Public Employees Retirement System. This, this was a lot of work, and, and there's a lot of details in here. And, and they did a great job putting together our statutorily required report for you. So our plans, like I said, remain very well-funded. And the only challenge that we can see going forward, our state plans we're comfortable with, when we take over OSERS, those have the funding challenges that we've all discussed for quite a few years. Retirement funding goes into our appropriation, but is not part of our administrative budget. The, the 2% was 66-- a little over \$66 million this year, and that's on page 15. On page 16 and 17, what you see are the market values of all of the different plans and how they have performed over the course of the last few years. As I said before, as you can see by the, the plan assets and our plan membership summary, it's a healthy plan that's, that's growing due to the skillful investments of our Nebraska Investment Council. Over the course of the last year, NPERS processed a little under 2,000 retirements and a little over 6,000 in what we call refunds. Our operational budget is-- it's a little under \$8.9 million at this point. That is up from 2023. The increase is largely due to the cost of the conversion of OSERS into NPERS, with the biggest vendor there being Linea to transfer the, the technology.

CLEMENTS: Mr. Chairman?

McDONNELL: Yes. Senator Clements.

CLEMENTS: Thank you. I have a question on page 16, School Employees Retirement Plan asset. Is OPS, OSERS, in that number or not?

JOHN MURANTE: No.

CLEMENTS: Are we not investing their dollars?

JOHN MURANTE: We are not investing their dollars. I suspect they will be in the report of the Nebraska Investment Council, but we don't-- although we work with them literally virtually every day, we don't

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consider them as part of our funding assets under management or anything like that.

CLEMENTS: They-- will they later on be added in in--

JOHN MURANTE: Yes.

CLEMENTS: --September?

JOHN MURANTE: Yeah, there will be a different line item next year when we come in and have our annual report--

CLEMENTS: Thank you.

JOHN MURANTE: --next year. And as I mentioned before, both our plan assets, by virtue of taking over both our plan assets and the number of plan members that we currently sponsor, it will go up dramatically, it's about 15,000 for OPS. So under the next page, page 18, this is our operating budget. It's a lean budget. Going back quite a, a number of years, my predecessor, you all knew Randy Gerke, I think did a great job at administering NPERS, and it's a talented professional staff who take their responsibility to our plan members very seriously. The last thing, this is from the customer service point of view that I would point to you, and, and submit to you is on page 23. This kind of gets into all of the, the communications that we have with the plan members across the state of Nebraska. That's a lot of, that's a lot of phone calls. That's 47,000 phone calls over the course of a year from a very small staff, relatively speaking, to answer all of those. Our office visits, as you can see-- now our office is across the street, so we do a little bit of an analysis of who comes in, what-- which plan are they in, where do they live, and things like that, as you might imagine. Our office is a little disproportionate in state government employees coming in rather than the schools and it's disproportionate to, to Lincoln rather than the rest of the state just by virtue of proximity. So that's a lot of service that's provided to our, our plan members. And I think our folks there do a great job trying to get the retirees the money that they have earned as quickly and as expeditiously as possible. So with that, that's a little high-level overview of what we've done at NPERS over the course of the last year, and I'd be happy to-- I'm happy to submit this to you for your approval, but also happy to answer any questions you may have.

McDONNELL: Can I please have everyone introduce themselves for the record starting with Senator Vargas?

VARGAS: Oh, yes. Tony Vargas, District 7.

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Nebraska Retirement Systems Committee March 26, 2024

CLEMENTS: Rob Clements, District 2.

HARDIN: Brian Hardin, District 48.

McDONNELL: Thank you. Any questions from the committee? Thanks, John.

JOHN MURANTE: Thank you very much.

CLEMENTS: Yeah, I did.

McDONNELL: You have one question? Go ahead, Senator Clements.

CLEMENTS: Regarding the, the transition in September, how are we on the timeline of the transition project?

JOHN MURANTE: We are very confident that the, the, the, that the transfer will happen on September 1, probably earlier, and we'll make it as smooth as possible. I will report to the Retirement Committee what we reported in the Appropriations Committee, that a challenge that was faced was when the employees of OSERS knew that OSERS would not exist anymore, several of the longest lasting subject-matter experts there left. And from our point of view, it was, it was difficult. Everyone who is there, we worked together and are great-- they're great partners, they're doing the best that they can. But it has been a challenge with the folks who walked out the door, understandably under the circumstances.

CLEMENTS: Thank you.

McDONNELL: Any other questions? Thank you for being here, great work.

JOHN MURANTE: Thank you.

McDONNELL: Investment Officer Hung.

ELLEN HUNG: Good afternoon, Mr. Chair and committee members. I'm Ellen Hung, E-l-l-e-n H-u-n-g. I'm pleased to present the 2023 annual report for the Nebraska Investment Council. I'm just going to go over a few highlights. As you can see on page 2, our Council consists of five appointed members, with the newest member being Tom Henning. There are also three ex officio members. Our staff stays fairly small with a total of nine people. We do have a vacancy for an internal auditor that we're trying to fill at this point. Our closing balance across 33 investment programs as of December 31, 2023 is \$40.8 billion. That is an increase from \$36 billion at the end of 2022. The pie chart on page 4 shows assets under management by programs. As you can see, the

defined benefit plans represent 41% of the \$41 billion. Page 5 lists, lists out some of the accomplishments for 2023. And just to point out a few highlights, we completed a passive equity manager search, resulting in a fee savings of 0.35 basis points, which is about \$100,000 per year. We conducted a review of custodial banks and the Council approved the hire of Northern Trust. Staff has been working hard to make sure everything is ready for the transition, which will happen on Monday. So I thank staff for doing that, that's a very big effort to switch banks. We hired Glass Lewis to vote proxies for our separately managed accounts based on an approved proxy voting guidelines. Page 7 and 8 includes information on our defined benefit plans, which total \$16.7 billion. As you can see on page 8, the defined benefit plans outperformed the benchmark in the 3, 5, and 10-year periods. The return for the one year is 14.6%. It is slightly benchmarked-- it's slightly behind the benchmark, but it's due to timing differences. The Omaha Retirement System is listed on page 9. It had a return of 13.3%. We're still working through some of OSERS' holdings, which we inherited from them in 2017, and that explains the lower return when you compare them to the other defined benefit plans. The other state and county retirement plans that are not defined benefit are shown on pages 10 to 13. As a reminder, the state cash balance plan has an asset allocation that matches the defined benefit plan. The asset allocation for the defined contribution, deferred comp, and State Patrol drop plans are determined by the individual participants, so the returns are different based on what they choose. Information for the operating investment pool starts on page 14. We have a short-term liquidity portfolio and an intermediate government portfolio. The asset allocation and investment guidelines for both are determined by the Council and the assets are invested internally by staff. The OIP performance has been in line with the benchmark over the long term. We have-- we also have several endowments that are shown on pages 17 through 20. Pages 23 and 24 shows the Nebraska education savings plans. The Nebraska Enable Savings Plan is on page 25. And those are all the plans that we have. The last two pages of the report lists out the items of interest since inception of the NIC. And we have several projects planned for 2024 which are not included in the report, but I just want to give a few highlights. As part of our custodial plan and conversion, we are also changing our securities lending agent. Instead of using the new custodial bank, we are using a third-party agent, Mitsubishi, and the use of a third-party agent results in better indemnification on losses and a higher revenue split. We estimate that moving from State Street Bank, our current custodial bank, to Mitsubishi, would generate an extra value revenue of \$6 million per year. Our annual, our annual education retreat is

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Nebraska Retirement Systems Committee March 26, 2024

scheduled for July 11, so we're currently lining up topics and speakers and more information will be forthcoming, and you're all invited to participate. And just some of the topics that we're looking at, of course, an investment retreat is-- has to start with a macroeconomic overview, especially given that-- all that's happening around the world and the U.S. presidential election later this year. So we're going to be focusing on interest rates, we'll be focusing on eq-- the equity market, especially as it's increased so much. Growth, growth stocks have performed really well, so we're going to take a look at that. And, of course, we'll be focusing on staff development and retention and tools that we can use to increase productivity. And that is my report.

McDONNELL: Thank you. Vice Chair Ibach, do you want to introduce yourself for the record?

IBACH: Thank you very much. Teresa Ibach, District 44.

McDONNELL: Senator Clements.

CLEMENTS: Thank you, Mr. Chairman. Thank you, Ms. Hung. Would you turn to page 4, please? In the assets under management, I see dropped quite a bit in 2022. Are you aware of why that happened?

ELLEN HUNG: So the markets in 2022 was pretty negative. So given that we try to match our investments according to market, we did have a negative year, or not negative, but it was fairly lower.

CLEMENTS: Does that reflect the market value of the assets? Is that--

ELLEN HUNG: Yes.

CLEMENTS: OK. The market values dropped.

ELLEN HUNG: Yes.

CLEMENTS: But then they have recovered.

ELLEN HUNG: So we have recovered a, a lot of it. But, yes, 2022 was a really hard year for everybody.

CLEMENTS: And are those assets inclusive of the Omaha Public School funds?

ELLEN HUNG: Yes. Yes, sir. It's shown in as-- they have about 3.8% of the \$41 billion in the chart up-- in the pie chart.

CLEMENTS: Oh.

ELLEN HUNG: And they are listed in the, the red.

CLEMENTS: Yes. Very good. Thank you.

McDONNELL: Any other questions? Any questions? Thank you for being here. Great work. We want to-- in my opening, I thanked all of you for the reports being in early. I do appreciate that, the committee appreciates it. I know it was, it was a lot of work, but it helped us, again, get this hearing done before, before Day 60. So we appreciate it. Thank you for being here. That concludes the hearing.