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Nebraska Retirement Systems Committee March 9, 2026
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BALLARD: --Systems Committee. My name is Senator Beau Ballard, and represent the 21st District in northwest Lincoln, northern Lancaster County. And I serve as chair of this committee. We'll start off by having committee members and committee staff introduce themselves starting my far left with Senator Juarez.

JUAREZ: Hi. Welcome, everyone. Senator Juarez, District 5, Omaha.

SORRENTINO: Tony Sorrentino, Legislative District 39.

TREVOR FITZGERALD: I'm Trevor Fitzgerald, committee legal counsel.

CLEMENTS: Rob Clements, District 2: Cass County and eastern Lancaster.

BALLARD: Also assisting our committee is committee clerk Connie Thomas, and committee page Lexi, from Pender, who is a, is a senior at UNL majoring in agriculture and communications. This afternoon we'll be hearing one gubernatorial appointment and an experience study. We will be taking them in the order listed outside. On the table near the entrance, you'll find green testifier sheets. If you're planning to testify today, please fill out one and hand it to the page when you come up. This will help us keep an accurate record of the hearing. Please note that if you wish to have your position listed on the committee statement for a particular bill, you must testify in that position during the bill's hearing. If you do not wish to testify, but would like to record your position on the bill, please fill out, please fill out a yellow sheet near the entrance. Also, I would like to note the Legislature's policy that all letters for the record must be received via an online comment portal by the committee by 8:00 a.m. the day of the hearing. Any handouts submitted by testifiers will also be included as part of the record as exhibits. We ask that if you do not have-- if you do have any handouts, that you please bring 12 copies and hand them to the page. If you need additional copies, the page can help you make more. Testimony for each bill will begin with the introducer's opening statement. After the opening statement, we'll hear from supporters of the bill, then those in opposition, followed by those speaking in a neutral capacity. The introducer of the bill will be given an opportunity to make closing statements, if they wish to do so. We ask that you begin your testimony by giving your first and last name and also spell it for the record. Because this committee meets over the noon hour, members have other, other floor debate to

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get to by 1:30. We'll be using the three-minute light system today. When you begin your testimony, the light will turn green. The yellow light will mark your one minute warning. And when the red light comes on, we'll ask you to wrap up your final thoughts. I would remind everyone, including senators, please turn off your cell phones or put them on vibrate. We'll begin today's hearing with the appointment on Judge Wheelock. Good afternoon.

HORACIO WHEELLOCK: Good afternoon, everybody. My name is Horacio Wheelock, spelled H-o-r-a-c-i-o W-h-e-e-l-o-c-k. I'm humbled and honored to be in front of you here today. So thank you for your time. I'm seeking to be formally appointed to the Nebraska Employee, Employee Retirement Board. By way of background, I was born in Managua, Nicaragua. I immigrated to the United States August 14th of 1980. I became a legal permanent resident in the fifth grade and a U.S. Citizen as a junior in high school. I attended-- I grew up in Miami, Florida. Well, actually I grew in Texas and Florida. I graduated from Christopher Columbus High School, which has been in the news because of the quarterback for the University of Indiana went there, and so did the University of Miami football coaches, a lot of them, and several players. I attended Spring Hill College, where I graduated with a finance and economics degree, and stuck around for an MBA. I attended Creighton Law School, graduated in '02. I was a prosecutor in Dade County, Miami, Florida for about a year. Then I moved back to Omaha where my wife started her medical residency. I was a public defender for about a year and a half, and private practice for well over a decade. And then I've been a judge for over a decade as well. So that is my brief background. I've studied the core responsibilities of this position and understand the great importance, the disposition that it has. So with that, I welcome any questions you may have.

BALLARD: Thanks, Judge Wheelock. Are there any questions?

JUAREZ: Judge, are you still working as a judge?

HORACIO WHEELLOCK: I am, yes. Douglas, Douglas County District Court.

JUAREZ: OK, so hopefully there won't be any problem for you to fulfill your duties. I would think that would keep you pretty busy.

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HORACIO WHEELLOCK: I take my job very seriously. In fact, I don't even consider it a job. I consider it to be a vocation. I would probably do it for free. But yes, I can tell you that I've met with Tyler Cummings, and I have blocked off my schedule, I believe it's the third Monday of every month. And I can make every meeting starting in April.

JUAREZ: Well, thank you for being willing to serve.

HORACIO WHEELLOCK: Thank you.

BALLARD: Thank you, Senator Juarez. Additional questions? Seeing none, thank you for being here today.

HORACIO WHEELLOCK: Thank you so much. Appreciate your time.

BALLARD: All right, anyone in support of this confirm-- of this appointment? Anyone in opposition? Anyone in the neutral capacity? Seeing none, we had no online comments and no ADA testimony. Next, we will have our presentation of the OSERS experience study, and we'll invite up our actuaries. Good afternoon.

PATRICE BECKHAM: Good afternoon. My name is Patrice Beckham, P-a-t-r-i-c-e B-e-c-k-h-a-m. I live at 13601 South 18th Street in Bellevue, Nebraska. And yeah, here on behalf of Cavanaugh Macdonald, a retained actuary for the Nebraska Public Employees Retirement System. And I'll let my colleague introduce himself.

AARON CHOCHON: My name is Aaron Chochon, A-a-r-o-n C-h-o-c-h-o-n. I live at 1010 Mohawk Street, Syracuse, Nebraska, 68446.

PATRICE BECKHAM: All right, it is our pleasure to be with you today to share with you the highlights of the experience study for the Omaha School Employees Retirement System. You might remember about a year ago, we were here presenting the results of the Nebraska Public Employees' Retirement Systems experience study, and there's a lot of information in those reports. And we've tried to kind of boil it down and streamline it for you to cover the highlights. Certainly if you have questions as we go through the material, please feel free to stop us and ask those as we go along. And hopefully everybody has a copy of this, right? OK, perfect. So on slide 2, just to give you a little bit of background, because you don't hear this every, every year, a retirement system, a defined benefit plan, is a very, very long-term obligation. The benefit payments extend out, you know, over 80 years.

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So we need to kind of keep that perspective lens on when we're setting assumptions or talking about funding. It's a very long-term obligation. We don't know the exact amount or timing or duration of those future benefit payments that create the liabilities for the system. And that's where the actuarial assumptions come into the process. We have to make assumptions to come up with what we think will happen in the future and bridge that with what know now, which includes, you know, the membership and the assets. We're trying to allocate costs over periods of time, essentially years of service that employees are working. So we, we don't really want to be overly conservative or overly aggressive, because it'll all come out in the wash. I mean, these are just assumptions. Reality and actual experience will drive the cost. So we generally are shooting for kind of middle of the road on the assumptions. We might, in certain situations, want a bit of a margin for adverse deviation in the future. You'll hear us talk about that with a couple of assumptions. But for the most part, again, we're, we're trying to kind of hit that middle of road where we're not overly conservative or aggressive. The true cost of the system is going to be the ben-- benefit payments that come out of the trust, OK? Again, these are just assumptions. The valuation reports that we bring to you every year capture everything that happened in, in the past year, the actual experience, and then sort of recalibrates the path to full funding based on where we are. So that difference between actual and expected experience is corrected every single year. It's a self-correcting process. And then last but not least, these actuarial assumptions are long-term estimates, challenged by we're measuring them short-term. We're measuring over four years when we're really trying to develop an assumption that hopefully will be reasonable over a longer period like 20 or 30 years. So on slide 3, the purpose of the experience study is really for us to take the time to look back and evaluate whether these assumptions are still our best estimate of future experience or not. And if not, how should we change those assumptions? We also look at the actuarial methods that are used to develop the contribution rates. That's called the funding policy for the plan. By statute, the experience study has to be performed every four years. So for OSERS, these new assumptions will be used in the January 1, 2026 valuation. Our role as the actuary for the system is to make recommendations on the assumptions and the methods. The board really has-- the PERB has the hard job of being the fiduciaries. And so ultimately, it's their responsibility for the selection of the actuarial assumptions. And, you know, they certainly

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can adopt all of our recommendations, some of them or none of them. And they have a very important job. And again, our philosophy we're trying to help you understand as we kind of move through this process and discuss it, is that we don't want to overreact. Again, it's a very long-term obligation. We're trying set assumptions over the long term. We're measuring over the short term. So we don't want to overreact. Because if we make a lot of changes, that bounces the contributions around, and that's generally not very favorable. So we tend to look at the actual experience, and first and foremost decide if it has credibility, you know, how credible is it. And you'll hear us say that a lot this time because the study period included kind of the part of COVID and post-COVID, which was, was not a typical study period. If we, we assign credibility to the experience, we generally will just move partway, again, so that we're not overreacting. If we moved all the way, and then the next experience study, it went in the opposite direction, we have to move back. So we would be hopping around, and we don't want to do that. We also want to anticipate trends that we believe will, will occur over the longer term. A really great example of that is like improvements in mortality. If we believe that's going to happen, it's best to sort of bake it into the numbers now, anticipate it happening. Again, there'll be corrections as we go through time. But if people live longer than what our assumptions are anticipating, it's going to end up costing more in the long run, and it, it will increase contribution rates down the road. So we're trying to incorporate that in our numbers. And then whenever possible, of course, trying to simplify. We probably could, could spend a lot of time making things really complicated. But if it doesn't have a material impact on the, on the results, it doesn't make sense to do that. So that's kind of the, the backdrop to why we, we make certain decisions as we go through this. On slide 4, bottom line really is we're comparing what actually happened during the study period with what was anticipated based on the actuarial assumptions. And that's for every assumption that we use in the valuation process. The key measurement tool, particularly for demographic assumptions, things that happen to people, retirement, termination, things like that, is called the AE ratio, actual to expected. And Aaron will talk a little bit more about that later on, but that's an important piece of information that we used in evaluating the current assumption. Past experience is, is-- provides strong guidance for certain assumptions, and not so great reliance on others. Perfect example, mortality. Does not tend to change rapidly. It's kind of a slow-moving trend. So

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what's happened in the past can be very insightful for, you know, what future expectations are. But if we look at investment return, you know, the past is not a great indicator of the future, as we all know. Anybody who invests has heard that statement multiple times. And in our actuarial process of evaluating it, we really have both some science and art involved. The objective or more scientific part of this process is kind of gathering all the data and crunching all the numbers, how many people retired and how many people terminated, how-- how many people died. You should be able to give that to, you know, ten different actuaries and they should come up with pretty much the same answer. The difficult part is really, you know, the subjective part, is taking that information, reviewing it, assigning credibility, interpreting it and deciding whether there should be changes made or not. And that again is very subjective. And with 10 different actuaries, you might get 10 different answers. Fortunately you only have two here today and they agree. Again, the, the COVID pandemic did have an impact in the study period, and you'll, you'll see that pretty obviously in certain assumptions that we, we look at. And we obviously take that into account because we don't think hopefully that we would have a pandemic every four or eight years on a regular basis. So in slide 5, before we talk about actuarial assumptions, just to touch on the actuarial methods, again, these are kind of technical methods that are used to help develop the contribution rate of the funding policy for, for the plan. These are in statute for the Nebraska Public Employees Retirement Systems. They are not in statute for OSERS, Omaha School Employees' Retirement System. So the, the PERB has the authority and the responsibility to set these. And so they, you know, we presented this information and they did make one change, as you can see, in the second row on the asset evaluation method. You might remember from when we do the valuation that we talk about we don't use pure market value in our calculations because that volatility would create extreme volatility on the contribution side of the house. So we use an asset-smoothing method, asset valuation method to kind of average out the ups and downs in investment returns over time. The method that OSERS was using was kind of a weighted average, 75% of the expected value. Which is looking at last year's value and sort of rolling it forward to the current year if all assumptions were met, and plus 25% of the actual market value. That is different than what the other Nebraska plans use. The Nebraska plans used what's called a closed five-year smoothing, where we just recognized the difference in the dollar amount of investment return between what actually happened

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and what the assumption anticipated. And then we'd parse it out over five years and recognize it equally over each of those years. They're both acceptable methods. They both comply with actuarial standards of practice. I don't want to put words in the PERB's mouth, but I think it just made sense to kind of align those. All the other methods are the same between the two, and so the-- we were fine with that. We didn't have a recommendation per se. We said either one was acceptable. And so the board chose to, to move to the closed five-year smoothing for Omaha schools, as well as the Nebraska School Retirement System. So really, those are all kind of synced up, so to speak, between the state school system and OSERS. So they're now the same.

SORRENTINO: Could I, could I just interrupt for a moment?

PATRICE BECKHAM: Yeah, sure.

SORRENTINO: In this change of plans, will you eventually say, you know, going from the 75% expected value to closed five-year, the effect on that will have, as far as it's catching up and the, if you will, the funding of the plan, whether it is or isn't a material change over the years?

PATRICE BECKHAM: We'll, we'll-- yeah, we'll look at the net impact of all the changes at the end of the presentation. And then we can circle back if you want to dive into the smoothing method in particular. Once you change it, we won't, we won't calculate it the other way again.

SORRENTINO: Only if it's material would I want to go back.

PATRICE BECKHAM: And it ended up being fairly material because of the return. The return for calendar year 2025 was about 17, am I right, Aaron?

AARON CHOCHON: 15.6.

PATRICE BECKHAM: 15, that's why he's here. Keep me honest. 15.6. It was good.

SORRENTINO: OK, thank you.

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PATRICE BECKHAM: And so it does make a little bit more difference this year. But we looked at it sort of over longer periods retrospectively. And again, it's, it's just a timing issue.

SORRENTINO: OK.

PATRICE BECKHAM: I mean the returns are what they are, and they'll be recognized. It's just how they get recognized. And I think-- Aaron remind me, on the smoothing method, this change lowered costs for the '26 valuation, correct? Do you remember?

AARON CHOCHON: Moving to the closed five-year smoothing method, actually increased costs. It lowered the, the asset value, and so increased costs in the 2026 valuation, so.

PATRICE BECKHAM: OK, good. Yeah, thanks.

SORRENTINO: Thank you.

PATRICE BECKHAM: Yeah. There were a lot of moving parts this year. OK, so we covered methods. The next slide on 6, we've got-- we want to talk about actuarial assumptions. We've got two types of assumptions: economic assumptions and demographic assumptions. And those are pretty much what they sound like. The economic assumptions are those that are impacted by the general economy. And demographic are really what happens to the people, the members in the system and what their behavior is. And we'll go through, you know, each of those. I don't want to spend a lot of time on that. I want to mention, though, that price inflation is a really important assumption for the economic assumptions, because it's a building block for almost all of the other economic assumptions. So it, it's important. The board and, and other advisors, in particular, you know, the Nebraska Investment Council and their investment consultant, have a lot of input on the economic assumptions for obvious reasons. They really are the experts. We crunch the numbers and look at the distribution and outcomes, but they are developing a lot of the technical aspects, the capital market assumptions. On the demographic side, the actuary tends to carry a lot more weight there. We always joke, nobody wants to argue with actuaries about mortality, so they kind of go along with us on most of those. But the board obviously has the ultimate say in, in what assumptions are adopted. So in slide 7, I mentioned earlier, I think, we use what's called a building block method, and this is in our

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actuarial standards of practice. And again, the, the first building block is inflation, price inflation, and that has to be consistent regardless of which assumption we're looking at. So there's no cherry picking, like it'd be nice to have a high inflation for investment return and low for, for salary scale. That does not, does not work. And you can kind of see visually that's what this is saying. The investment return is composed of price inflation and a real rate of return. We moved to individual salary increases. Again, we have a component of price inflation and productivity that we call the general wage increase, and then we have the merit scale on top of that that's more how individual members' salaries will change over time. But that inflation is a critical component, and that's what we're going to talk about that first on the next slide, on 8. We're focused on forward-looking estimates of inflation. Looking back-- we do look back at long periods of inflation, but we're more interested in what kind of the experts think looking forward. And so we look at a number of different measures of price inflation, you can see in the little graphic there. So a lot of information there. The three I would say are probably most important to us would be the, the Aon 30-year estimate of 2.3 inflation. Again, Aon is the Nebraska Investment Council's investment consultant. So they carry a lot of weight because they know kind of the Nebraska portfolio and, and their assumptions are being used to develop asset allocation. So we assign a lot credibility to them, but not 100%, so we like to know what other people think. So we look at something called the Horizon Survey, it's done annually, usually published in August each year, looks at about 40 other investment consultants and what their capital market assumptions look like. And you can see they use a 20-year outlook for their long-term, and it's about 2.4%. And then the other one that we like to look at because it's very long-term and it's certainly in line with what, you know, public retirement system's funding outlook is, and that's the Social Security projections. And they have a low, a medium, and a, and a high-cost alternative. Their best estimate, which is the intermediate, is 2.4. Our current assumption is 2.35, and that's certainly consistent with the outlook that you see here, the various considerations. So we're recommending no change to price inflation, that we stay at 2.35. And that is what we did for the Nebraska retirement systems last year as well. Slide 9. The OSERS plan has cost of living adjustments. They are somewhat different-- at least the old tier is different than the Nebraska School Retirement System, but the COLA does vary with higher date before and after July 1, 2013.

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Prior to July 1, '13, the COLA is 1.5%. And after July 1, 2013, it's 1%. But you'll notice, not to exceed actual inflation. Now, with inflation at 2.35, it's probably not gonna-- not expected to exceed for 1.5 to exceed inflation. So there's no change to the inflation assumption, and we're recommending no change to the COLA assumption, which means we would assume a 1.5 COLA for members hired prior to July 1, 2013 and 1% for members hired after 2013. That one's kind of, kind of easy one. Slide 10, we want to talk about the investment return assumption. And this, this is a big one, perhaps the most important assumption that we, we use in the valuation. So, again, going back to the building block approach, it's composed of price inflation and a real rate of return. Some of those too is the nominal rate. So our nominal rate right now is 7%, and it's composed of 2.35 inflation and 4.65 real rate of return. And the real rate of return is heavily impacted by the asset allocation of the portfolio. And generally, portfolios that take on more risk are expected to have a higher return and they also get more volatility that goes along with that. Prior to fall of last year, the OSERS and the Nebraska schools plan had the same asset allocation. But that changed in the fall last year. Aon did an asset liability study working with the Nebraska Investment Council, and there was a change for Nebraska schools to kind of back off some of the return seeking assets. And so they moved to a little bit less risky portfolio, 70% return seeking versus 80%. That's pretty typical once you get to full funding, you take a little better risk off the table, table and kind of move in that direction. So in the past, the OSERS's investment return assumption, and Nebraska, was pretty close. Obviously, they're off-cycle a little bit with their experience studies but, but pretty much they were the same. But now we have two different asset allocations, so it kind of makes sense that the OSERS's expected return is a little higher than the Nebraska expected return. And again, small changes in this assumption can have a big impact on the valuation. So this is certainly one assumption that we spent a lot of time, you know, evaluating and looking at different considerations. Page 11 does look at historical investment returns. We do this with almost everything. It's just part of the experience study process. But obviously, you know, past performance is not a good indicator of future experience. So we, we discount this pretty heavily, but sometimes it is kind of interesting just to look at the chart and, and see how rarely the actual return is close to the expected return of the assumption. It's, it's kind of a wild ride. You can see the 20-year return was about 6.6. The five-year return, 7.2.

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Perhaps worth noting that the Nebraska Investment Council assumed responsibility for investing OSERS assets in 2017, so relatively short-- shorter term. But again, we don't give a lot of weight to, to that experience. Another consideration we look at, again with limited sort of credibility, is if we look the industry as a whole, kind of what's happening there, and are we kind of mainstream, big picture mainstream, with what's happening there. So what you see on slide 12 is a, a graphic from the National Association of State Retirement Administrators. Again, they do a public fund survey that they publish a couple times a year. This is from November of 2025, which is most recent. Includes about 130-plus public plans, a lot of large statewide systems like, like Nebraska. And it's kind of busy, but I would just point out a couple of things. If you go to the far left column, the dark blue bar is 8, 8%. So that's how all the systems that we're using an 8% investment return assumption. You might go to very bottom of that and you'll notice there might have been a couple that were using 7% back then, since 2001, and there were a number of them that were above 8.5%. You can skip all the columns in between there and go to the far right-hand column, and you'll see now 8% isn't even on the, on the graphic. Nobody's using that. So, and a very few are using 7.5. So we've seen a major reduction in the investment return assumption over the last 20-plus years. And you can see at the bottom there's a number of systems that are using a return lower than 6.5%. So there's definitely been a dramatic change there. Nebraska and Omaha schools have seen similar changes. If you go back to, to 2017, Omaha schools was using an 8% assumed rate of return, and again, it's moved down in multiple steps over time. But we've gone from 8 to 7, which is a 1% change that has a huge impact on the liabilities and costs. And that is, you know, the, the Nebraska systems have essentially moved from 8% down to eventually to 6, 7, 5, based on their last experience study. So slide 13, if we look at using Aon's capital market assumptions and kind of modeling the distribution of returns using their longer-term assumptions, the 30-year assumptions, you can see in the chart in the top left there that the median return is 7.11%. And the median is a 50th percentile. So half of the results fall above that and half below that. If we go to the 25th percentile, 75% of the result are above that, and 25% below that. So it's, it's important when we talk about investment return to realize that there, there are these sort of probabilities associated with these returns, which means-- and, and the capital market assumptions change at least every year. So it's, it's not a, we just absolutely go to one number in this chart. But

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the, the median tends to be where our focus is, unless there's really unusual things going on in the marketplace. Now, Aon's inflation assumption, you might remember, is 2.30%, and the OSER's assumption is 2.35. So if we use the 2.35 inflation, that moves the nominal expected return up to 7.16%, which means there's just slightly more than a 50% chance of exceeding 7% and not be materially more. But we're certainly in the ballpark. And then when we look, if we kind of carve inflation out, Aon's real return forecast is 4.81. Again, that Horizon Survey that had 40-plus investment consultants included was at 4.82%. And our current assumption for the real return is 4.65%. So we're pretty much in the ballpark with that. And if you look at the next slide, you'll see that, you know, based on that information, we're recommending that the 7% be retained.

SORRENTINO: May I ask if you could remind me what the current assumption is on the NPERS plan? Is it 7 also?

PATRICE BECKHAM: NPERS is moving to 6.75 in over the next four years. So it's a step down.

SORRENTINO: OK.

PATRICE BECKHAM: And that's largely driven by the fact that the school, the judges, state and county plans are all 100% funded or, or more. So some risk was taken off the table because they're well-funded. And so again, the asset allocation is different and the expected return is different.

SORRENTINO: Thank you.

BALLARD: And how much would that be? I-- this may be a question for the [INAUDIBLE]. How much of that would be attributed to, we'll call them, legacy assets or assets that were before the, the transition, the risky-- the riskiness? Does that have anything to do with the return?

PATRICE BECKHAM: Well, again, these are forward-looking, so this is based on the current asset allocation looking forward. So this is all the--

BALLARD: OK.

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PATRICE BECKHAM: --Nebraska Investment Council's work along with Aon in their last asset liability study, which I think was last fall.

BALLARD: Because I would assume those are-- those allocations are hard to unwind, that they-- it's real estate--

PATRICE BECKHAM: Oh, I-- the legacy-- I, and I'm not an investment expert and I not speaking for the Investment Council, but I do believe there are still some legacy assets that are unwinding, so to speak.

BALLARD: That's taken into account.

PATRICE BECKHAM: Have some private equity, yeah.

BALLARD: OK, thank you.

PATRICE BECKHAM: But when we look forward, we expect those to kind of--

BALLARD: You're expecting those to be unwound--

PATRICE BECKHAM: Yes.

BALLARD: In the five-- OK.

PATRICE BECKHAM: I was looking for the right word to say. Thank you.

BALLARD: OK. Thank you.

PATRICE BECKHAM: All right, slide 15. The administrative expenses, you know, are really what it takes to operate the system are also paid out of the trust fund. So we have to have an assumption to, to fund an account for that. We currently use an assumption of 0.24% of covered payroll. And in that table, you can kind of see for the four years in the study period what the administrative expenses and the payroll was, and then the far right-hand column shows what the administrative expenses as a percent of pay-- payroll were for each of the years. And we were pretty close except for 2024. It was definitely an outlier. But there was a lot of administrative work transitioning the administration of OSERS to NPERS that is likely accounts for a big, big part of that 0.62% in 2024. Again, we're not, not assigning much credibility to that because that was not a typical year, and the other three are definitely in line with the current assumption. So our recommendation is to make no change to that particular assumption.

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Slide 16, again, another important economic assumption is a general wage inflation assumption. And the easiest way to think about this is perhaps to think about kind of across-the-board salary increases. They tend to be higher than just price inflation. It tends to be some productivity there. The current assumption is 2.85, which is inflation at 2.35 and 0.5% productivity. We look at a couple different sources of data to evaluate this. It's again a more broad, you know, national economic metric. So we can look at the national average wage index that the Social Security Administration gathers. That's informative but not particularly helpful because that covers everybody that's covered by Social Security. So a broader population than what we're looking at here. We also look at some information from the Bureau of Labor and Statistics on state and local government versus kind of corporate America salary increases. And we've seen this for a number of years that the components of total compensation are different between corporate America and government, governmental entities, there being more cost in the benefit side, total compensation, salary, and benefits. So the, the benefits part has gone up more for governmental employees, which means the actual salary increases have been lower. And then we, we also like to look at the actual salary increases for long-service employees. Cause typically if someone's been working for 25 or 30 years, generally all they're getting is the across-the-board increase rate. That wasn't particularly helpful this time because of the COVID, and you'll, you'll see when you see the numbers. You'll-- yeah, you'll understand. Slide 17, we're looking at the dash line is, is 30-year smoothing on wage inflation. So every data point on that graph is, is a 30-year number, not a single year. And then the green line is price inflation. And I think the point there is just that, over long periods of time, wage inflation is higher than price inflation. And that's really how our standard of living improves. We do expect there to continue to be some pressure on wages. The labor market's been fairly tight, especially for teachers. And we're still not sure, I think at this point, what's shaken out from, from COVID, particularly with the schools and teachers. I think that's still in a bit of flux. So we think it makes sense to strengthen this assumption and, but again, not to get crazy and overdo it or overreact. So we're just recommending a modest increase to the general wage inflation assumption from 0.5% to 0.6%, anticipating very slightly higher salaries every year in the future as we go forward. And that is the

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same assumption change that we recommended for the Nebraska systems and the board adopted last year.

SORRENTINO: May I ask one more question?

PATRICE BECKHAM: Sure.

SORRENTINO: The blue dot-- dashed line, each one of those dashes is that year's 30 years smoothing? It's not that one particular year?

PATRICE BECKHAM: Exactly.

SORRENTINO: OK, thank you.

PATRICE BECKHAM: Yep, it's capturing what happened over the last 30 years, an effect-- effective compound number. The other assumption that we need to cover is the covered payroll growth assumption, which is kind of an, an unusual one. It doesn't impact the funded status or the unfunded actuarial accrued liability. But because our payments are coming in as a percent of payroll, we're paying off our unfunded liability with dollars that are increasing over time because we expect payroll to increase. And so we, we need to have an assumption to model what those payments on the unfunded actuarially accrued liability will look like over the next 25 years to get the payment schedule. And we are recommending that that remain at 2.85%. Again, that is the same recommendation we made to NPERS last year and the board adopted. So these are both consistent with the Nebraska schools plan. On slide 18, we kind of take the general wage inflation assumption and then we build on top of that by adding what we call the merit scale. And that most commonly varies with service. And if you've ever looked at a teacher pay schedule, you'll, you'll know that years of service kind of goes down the, the horizontal axis and then the additional education goes across horizontally, and that's how they kind of move through the salary scale, scale. That's what the merit is trying to capture, is as people can continue to work and get experience, their salary goes up. If they get additional hours of education, their salary goes up. And that what we're modeling with the merit scale. Yeah, the, the pandemic, we had, you know, a year or two of pretty high inflation, the tight labor market. That is definitely putting pressure on wages. We've seen this in all the systems that we work with. It's, it's not unique to Nebraska. So when we look at that again, we don't think this is a typical four-year period and we're not

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gonna overreact and, you know, move the salary, the merit scale way up because of what we're observing. We tend to be skeptical by nature. And so if you look on page 19, I think it'll be apparent why we scratched our heads for a little bit, but it didn't take very long to decide that this, this was a very, a very unusual time period. And it was probably best to wait until things kind of calmed down and we see what happens in the next experience study in four years. I mean, you can look at the certificated-- so we have-- actually have different assumptions for the two groups, which is unique to, to Omaha schools. If it's one employer, we know who the certificated-- the teachers, administrators are versus classified, you know, paras, custodians, those folks. But you can see like in 2022, the actual increase was just a little bit below 12%. And the assumption was 4.76. And even over the entire four-year period, the actual increase for certificated members was 8.63 versus 4.73. These are not typical, but remember there was a lot of government money that was given to schools during COVID, and they had a few years after COVID, and there were a lot additional stipends and things granted to, to get teachers to stay. And similar, you know, when you look at the classified group, you know, those are even higher.

SORRENTINO: Could I ask one more question?

PATRICE BECKHAM: Sure.

SORRENTINO: I'm looking at the classified side. In '21 through '24, it was 14, 18, 12, 5. I mean, if you quick adding, adding those up, it's like 50%. So when we add 50% to the salary of a long-term defined benefit plan, oh my gosh.

PATRICE BECKHAM: Right, which we're not doing.

SORRENTINO: OK.

PATRICE BECKHAM: That's the good news. But to your point, which is also really important, when we have these years where we expected an increase of 4.12% and we had 18.5 instead, we have what we call an actuarial loss. Because the salaries are bigger, the projected benefits are bigger.

SORRENTINO: Right.

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PATRICE BECKHAM: Right, and so that does create an actuary loss that we have to fund. An increase in the unfunded liability that gets funded over 25 years. So it does have an impact, but the good news is we, we don't look at this and say, oh, we have to triple our, our salary increase assumption. That is not what we, in our professional judgment, think will happen in the future. We think this is a very unusual period with a lot of pressures on schools and school employees, whether they were certificated or classified. It's a tight labor market. When you want to hire people, if you can't hire them, you're going to have-- you have to raise salaries. I mean, that's--

SORRENTINO: At what point-- this is a four-year look. At what point do you start to worry about that, ten years?

PATRICE BECKHAM: Well, that's, you know, it's not a bright-line test. There's a lot of professional judgment and just kind of, kind of gut. What we think will happen, because if you look back to the prior experience study, the actual increases were lower than what the assumption was. So what we think we'll happen is that this will moderate and kind of shake out, certainly over the next eight years, four years. You know, I'm pretty close to the, one of the school boards and, and I know there's still challenges, you know, filling teaching positions and para positions and things like that. But it's, it's changed-- it certainly has changed just in the last couple of years, I think, where we're seeing more moderate increases. And I know when we did the experience study, we did look at the current contract that the Omaha Education Association had with the school district, and they were certainly more increases that were more in line with the current assumptions. So we would hope when we do the experience study four years from now that we start to see, you know, in the actual increases that are in-- at least in the ballpark of the 4.7% and the 4.16. And then we go out another four years, assuming inflation doesn't get crazy on us, which might be, might be right or wrong. But for the merit scale, I think it's gonna moderate back to, to more typical long-term historical increases. And I just don't think this is sustainable, you know, from a taxpayer standpoint, I'll just be blunt. I mean, we both live in Nebraska, we pay taxes, so.

SORRENTINO: We'll see.

PATRICE BECKHAM: Yeah, I mean, yeah, I, I've heard an awful lot about that. And I know, I know the Legislature and the Governor we're well

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aware of that, the pressure on that. So it's difficult. But we don't think it's prudent to make a significant change at this point. Again, we made that little tweak to the general wage increase at 10 basis points. But this kind of data, you just kind of have to kind of throw it out. It's kind of like, you know, when we did experience studies during the height of COVID. And if we had a lot of deaths, we didn't say, oh, well, that, you know, this is how we want to model the next 30 to 50 years because we had a pandemic. So we had a lot of factors here that were atypical. So, we don't, we don't want to make a change in an important assumption and then we raise costs way up, and then the next time we do an experience study, we have to pair it back. You just, you know, we'll monitor it. And if we, if we think it's going to be a long-term change, next time, we might move a little bit of the way, and then we'll wait and see the next experience study. And the beauty of these systems is they're, they're, like I said, from the beginning, they're long-term obligations. And we're funding over the long-term, so we have time, right? There's, there's not an urgency, like if you don't do it now, you're going to be in big trouble. In the continuum of the plan, four years is a very short period of time. So that's, that's the advantage that we kind of have for funding these plans.

AARON CHOCHON: One other thing that might be worth pointing out is this goes-- kind of goes to the nature of the OSERS retirement system, is that the certificated and classified membership is about 50-50 on account basis. But when you look at the liability share, classified really makes up for about 25% of liability. So the liability is really with the certificated group in this plan.

PATRICE BECKHAM: So what happens to their experience has a bigger impact on the valuation results. The next slide, 20, is just a summary of everything we've talked about. And in the interest of time, I'm not going to spend a lot of time on that. You obviously can see the only change is really the general wage inflation. And that was, again, a very modest change, just trying to anticipate the higher labor market. So with that, I am going to let Aaron take over.

AARON CHOCHON: OK, thank you very much. So I'll be going over the demographic actuarial assumptions. As Pat mentioned earlier, these are really all the assumptions that are not related to economic conditions, and these are more focused on events that affect members on an individual level. And they include such things as turnover,

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retirement, and ultimately mortality. Kind of trying to capture how long members will work, when they will retire, and then for how long will they be receiving benefits once they've retired. On the next slide, slide 22, we go into how we measure demographic experience for the purposes of experience studies. And as Pat mentioned earlier, what we really do broad, broad scale is we compare what actually happened to members with what was expected to happen in accordance with our actuarial assumptions over the study period, which for this experience study was calendar years 2021 through 2024. And Pat also touched on one of the key-- one of the, one of the key ideas underlying an experience study, and that's credibility. And really, that's an exercise. It's a statistical exercise in how much credibility or weight can you apply to the current experience. And there's a few things outlined below that affect the credibility of, of the experience, and that's the length of the study period. The longer it is, the more data you have, the more credibility you can apply to that experience. Another is unusual events during the study period, as Pat touched on multiple times. You know, COVID was a significant factor in what happened during this period. And so because of that, you know, unusual events that we don't expect to happen regularly in the future decreases the credibility of the data. And then finally, the size of the group, and that really ties into that first bullet where if you have more, a larger group, you have a more data points, you have higher credibility. And a key tool for measuring the accuracy of the actuarial assumptions as we go through this exercise is actual decrements over expected decrements, or what we call the AE ratio. And the decrement is a change in a member's status during the study period. So if you have an active member who terminates or retires, becomes disabled, if you have a retiree or a beneficiary that passes away, those are decrements. On slide 23, we're going a bit deeper in the concept of an AE ratio. Generally, the closer the AE ratio is to 100%, the more accurate our assumption is. However, even if the overall AE ratio is close to 100%, that doesn't necessarily mean that we have a good assumption. We also look at fit and whether or not our assumption fits the pattern of experience. The graph below illustrates this point, where we have an assumption, illustrated by the red line, that results in 100% funded-- or 100% AE ratio. However, you can see from the blue columns that it does not fit the pattern of experience. And so in that instance we would recommend a change to improve the fit. On the next slide, slide 24, now we're diving into the actual decrement assumptions with mortality. The mortality is a critical

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assumption from cost perspective, because again, once a member retires, it's important that we try to model how many retirement benefit payments are they going to receive before they ultimately pass away and, and the payments cease. Obviously, if people live longer, they receive more benefits, it increases the cost of the plan. Because as Pat mentioned earlier, the true cost of the plan is the benefit payments that are paid out to the members. When setting a mortality assumption, we first look at standard mortality tables. These tables are published regularly by the Society of Actuaries. They are the result of very large, very technical mortality studies. OK? There is a very, very large amount of data required to derive a credible mortality assumption. From these standard mortality tables, we can then measure them against the plan's experience and determine if some adjustment may be appropriate or necessary to better fit the actual experience from the plan. Some of these adjustments include a setbacks or set-forwards and, and whether we looked at individuals who earned more or less than sort of the median, median amounts. Those are a bit more technical. We probably don't need to get into too much detail on those today. But many, many factors affect an individual's mortality, including geography, marital status, sex, education, and income or wealth, you know, sort of the socioeconomic factors that people are typically familiar with. And these are also taken into consideration when setting the mortality assumption. On slide 25, we discuss the current mortality assumption in the analysis. So due to the relatively small size of OSERS-- again, it takes a very, very large amount of data to come up with a credible mortality table-- and the COVID pandemic, we aggregated four years of data from the prior study with the current study so that we get a total of eight years of experience. Again, trying to extend that study period to aggregate more data and improve the credibility. Our current assumption uses what's called the Pub-2010 general members media mortality tables as published by the Society of Actuaries. Now what's special about the Pub-2010 mortality tables, and you're probably already familiar with this from your work with the Nebraska Statewide System, is that these were the very first mortality tables to be published based solely on mortality experience from public sector plans. And they were published, I believe, in 2019 for the first time with the intent of being reviewed and updated approximately every five years. Well, the first review was finalized in May of 2025. And actually, I'm sorry, I am getting a little bit ahead of myself here.

PATRICE BECKHAM: It's so exciting.

AARON CHOCHON: I have to talk about mortality. The other aspect of the mortality assumption is, as Pat mentioned earlier, modeling future changes or improvements to mortality, to mortality rates. In general, we do anticipate that future generations will live slightly longer than current generations. And based on our, our current mortality assumption, we see the table at the bottom there with the AE ratios for both the four-year study, from 2021 to 2024, and the eight-year study period, from 2017 to 2024, and we see over the four-year study period during COVID, we saw more deaths than we anticipated. AE ratio of 113% for males and 108% for females. If we look at the, the broader study period of eight years, the male AE ratio comes down to 100% and the female AE ratio come down to 102%. So very close to 100%. So essentially what that means is that the first four years of that eight-year period we had fewer deaths than we expected, and in the second half, we had more deaths than we'd expected. And the end result was an AE ratio close to a 100%. On slide 26, we get into our recommended mortality assumption. As I mentioned earlier, the SOA is going-- is-- intends to review and update the Pub mortality tables approximately every five years. And in May of 2025, they issued their first update, which was the Pub-2016 mortality tables. Due to the limited data credibility, due to the size of the plan and as well as the impact of the COVID pandemic, our preference is to use the latest version of the Pub [INAUDIBLE] mortality tables. And it's important to note that the Pub-2016 mortality rates are not significantly different from the Pub-2010 mortality rates. And using this updated assumption, the male AE ratio over the eight-year period does increase from a 100% to 107%, and the female AE ratio does increase from 102 to 106%. While this looks like, sort of like a worse assumption because the a ratio got further away from a 100%, we're comfortable with this. Because again, we're looking at the period that was studied, the impact of COVID mortality, and basically saying we assume that there will be fewer deaths than there were in the study period going forward. And then finally, for the non-retiree mortality, you know, we have active, disabled, beneficiaries, when the SOA produces these tables, they produce them in a-- as a family of tables. So for Pub-20-- for Pub-2016, you have a retiree table, an active table, benefic-- so we're proposing to use the same family, family of tables for all the other membership groups as well. On slide 27, now we get into the retirement assumptions. And OSERS is a little bit different from the

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statewide system because we do break down retirement and termination assumptions for certificated and classified membership groups. We have the data to do that for OSERS, and so we do take advantage of that because they do have different behavioral patterns. And what the retirement assumption captures is it anticipates retirement directly from active status. So we're not talking about members who worked long enough to become vested, terminated, and then subsequently retired. We're talking about the members who worked until retirement, until retirement eligibility. And these rates vary by membership group. Again, we have certificated and classified members. Also by benefit tier. OSERS has four benefit tiers as outlined in the table on slide 27. And then finally we also have separate assumptions for early reduced retirement. For the first year of eligibility for unreduced retirement we call this the select retirement assumption. And then, finally, we have a separate retirement assumption for members who are beyond their first year of eligibility for unreduced. This is called the ultimate retirement assumption. We focus primarily on benefit tier one because they make up the bulk of the retirement experience for the plan, and for tier-- benefit tiers two through four, those assumptions are developed based on professional judgment because we don't have sufficient data for credible assumptions on their re-- retirement experience. And again, it's kind of a common theme with the assumptions overall, and particularly demographic assumptions, is that we're only recommending modest changes. Because again, COVID experience really impacted the credibility of the study period. On slide 28, we show a couple of charts illustrating the early retirement assumption and the select retirement assumption for certificated members. And so on the charts below, and we'll just walk through kind of the construction of these charts really quick, the blue columns represent the actual experience for the current study period, so 2021 through 2024. The purple columns show the actual experience for the prior study period, so that's 2017 through 2021. And then the red line shows the current assumption, and then the green line show-- illustrates the proposed changes. And we like to look at both the current study period and the prior study period because, again, it's a way to aggregate data and, and, and discern trends versus one-time blips in experience. And so, overall, for the early retirement, we had a good-- we had a solid AE ratio of 101%. But we can see from the columns that there was room for improvement for fit, and so we did recommend modest changes, as illustrated by the green line, to improve the fit of-- improve the fit of the assumption to actual experience.

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And for the first, first eligible retirement or select retirement assumption, we see some major discrepancies between the current and prior experience. If you look at the blue columns and the purple columns at several ages, it's a very, very different experience. And so while we tried to improve the AE ratio slightly, and as-- it was very slightly moving from 83 to 84%, we really tried to focus on the ages where experience was more consistent between the prior experience in the, in the prior study and the current study. And on slide 29, we look at those same assumptions, but for the classified groups. So again, for early retirement assumption, we had a, a pretty solid AE ratio of 106%. And so again, we recommended only small changes and focused on improving fit. And this-- and that's the same case for the first eligible or the select retirement assumption. Again, just focusing on improving fit and not applying too much credibility to the current study period. And the, the proposed changes for the first eligible retirement did improve the AE ratio from 54 to 61%. On slide 30, we look at the ultimate retirement assumption, which is again for people who are beyond their first year of eligibility for unreduced benefits. And for both the certificated and the classified groups, we had a relatively strong AE ratio, especially when you consider the impact of COVID, and the fit looked appropriate. And the prior and current actual experience was relatively consistent, and so we recommended no changes for these assumptions. Next, we'll take a look at the termination assumption, and we'll start with certificate males and females. Very similar to the salary experience, the AE ratio was significantly greater than 100% each year of the study, and I suspect it's for very similar reasons, underlying reasons. And to-- and so to help try to improve the credibility of the termination experience, we did exclude calendar years 2022 and 2023 because those were-- the termination experience for those two years were especially-- I don't want to say egregious-- but abnormal. Unusual, yes. And so again, we recommended just minor changes, trying to adjust the rates to better fit experience. And it did improve the AE ratio, decreasing from 129% to 118%. So we did inch closer to 100% AE ratio for this assumption, but not granting too much bil-- too much credibility to current experience. For the classified group on slide 32, it's very, very similar story, where again, we excluded calendar years 2022 and 2023, and then added on experience from-- experience for years 2017 and 2021. And you have very modest changes for the male group, unclassified termination, the AE ratio improved from 119 to 115%. And for females, it improved from 125 to 117%, so moving approximately a

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third or a fourth of the way to 100% AE ratios. On slide 33, now we're trying-- starting to get into some of the more miscellaneous assumptions. The first one is kind of what, what percentage of members who work until they're vested and then terminate. So, so these members have the option to either elect a refund of their contributions or wait until retirement eligibility and then begin benefit payments. What percentage of those members will actually take their refund versus elect to wait for their deferred benefit. Our current assumption is that it's broken down by certificated members and classified members. It's also broken down further by service amount. Those who have more service are assumed to wait for their deferred benefit, which makes sense. You know, they've been working longer, they've accrued a larger benefit. We would expect those members to wait for retirement eligibility to start receiving those benefits at a higher click, the members who have accrued a smaller benefit with less service. In the end, our current assumptions did model actual behavior for the study period pretty closely, and so we are not recommending any-- or we did not recommend any assump-- changes to this assumption. On slide 34, we touched briefly on all the other miscellaneous assumptions that are utilized in our work for OSERS. Some of the ones to highlight are, you know, we recommend retaining the no-disability assumption. We currently assume zero disabilities for OSERS. And there was only one disability during the four-year study period, and so we, we retained the-- that assumption. We also recommended no change to marital assumption, to pop-up benefit load or, or the 5% load for inactive vested liabilities. The enacted-- the 5% load for inactive vested liabilities, that's linked to the fact that for some members who terminate vested, they may-- their accumulated contribution balance may be worth more than their deferred benefit. And so that at some point later on after termination they may later decide to receive a refund of those contributions, and so there is a, a small load on inactive vested liabilities to account for that. And finally, we also recommended no change to the definition of actual equivalence. Similar to the statewide system, newer benefit tiers for OSERS do rely on a definition, an adopted definition of actuarial equivalence for things like optional forms of payment. And because we did not recommend an assumption change to the investment return assumption, we recommended no change to actuarial equivalents either. On slide 35, we have a summary of our recommended demographic assumption changes. For mortality, again, recommended moving from Pub-2010 mortality tables to Pub-2016. The mortality improvement scale does use the same

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improvement scale as NPERS, and we recommended no change to that for NPERS and we recommend no change for that for OSERS as well. And then retirement, again, for early and select retirement rates, we've recommended just minor adjustments. And that's the same case for termination rates as well. And finally, on slide 36, we have-- we illustrate the cost impact of all the changes that we've discussed here today, the demographic assumption changes that were just mentioned, as well as the general wage base increase, and the move to, to five-year asset smoothing. And so the net result of all those-- oh, and one last thing to note on this is that these cost-- the cost impact is based on estimated 1/1/2026 valuation results. And that's largely due to adopting the new asset smoothing method because we, we now have a good idea of what the return for 2025 will be, that 15.6% return. Obviously we wanted to incorporate that into our analysis on the asset smoothing method and capture that impact as well on this slide. But when it's all said and done, after all the changes, it's, it accounted for a very, very small net impact on the system's unfunded liability, increasing by \$12 million, and the funded ratio decreased by less than a percent. The two largest changes, or the most significant changes, were the mortality change, the update to 2016, Pub-2016 that decreased liabilities, and then the smoothing method, moving to that closed five-year smoothing method that decreased the valuation assets, which then increases the unfunded liability. And that's largely-- and that's due to the favorable investment experience in recent years. OK? So we've had favorable investment experience, so investment returns above assumption. The five-year asset smoothing method defers, or doesn't recognize yet, more of that favorable experience than the prior method. But what that does is that also provides a buffer for any unfavorable investment experience that may occur in the near future.

PATRICE BECKHAM: This might answer Senator Sorrentino's question [INAUDIBLE] right? He had a question earlier specifically about the smoothing method. Didn't want to steal your thunder.

AARON CHOCHON: No, you're OK.

PATRICE BECKHAM: So Senator Sorrentino, you'd asked earlier about the change in the smoothing method, specifically what impact it had on the, the valuation results. So the actuarial value of assets is \$32 million lower, as Aaron said. We're deferring more of that great return from 2025. So that decreased the funded ratio by 1.1%,

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increased unfunded liability \$32 million, and it moved the contribution rate by 0.41%, which flows through to the dis-- additional district contribution, increased it by \$2 million. I would say, I mean, at least from the actuarial perspective, still relatively modest impact. Hope that's helpful.

SORRENTINO: Thank you.

AARON CHOCHON: Yeah, maybe one last thing to notice in our discussions about the two-asset smoothing methods. We did mention that both of them represent an unbiased asset smoothing method, so neither one of them favor how they treat gains or losses. And so as far as the long-term funding implications of using either method, we expect that to be minimal.

PATRICE BECKHAM: Happy to answer any other questions you may have.

BALLARD: Thank you, Pat and Aaron. Are there any final questions?
Senator Juarez.

JUAREZ: I'm sorry, but I want to get some clarification on page 33 here. I'm trying to understand this chart. So let's take, for example, the certificated 15 years or more of service. So are you saying that 175 people stayed with their deferred benefit and 206 took out their funds? I don't understand what you're trying to show here.

AARON CHOCHON: Sure. So yeah, you're correct that 175 elected to receive their deferred benefit out of a total of 206 terminations. And so you take that 175 divided by that 206 and you get your 85%. So 85% of these members elected to received their deferred benefit.

PATRICE BECKHAM: Because only the terminated people have that choice, right? If you terminate, you can either take your money out and forfeit the benefit, monthly benefit, in the future. Or you leave your money in, and you will receive your benefit when you're eligible.

JUAREZ: OK.

AARON CHOCHON: Yeah, so maybe another way to put this is that during the four-year period, there were 206 certificated terminations where they had 15 or more years of service. Of those 206, 175 did not take a refund of their contributions.

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JUAREZ: OK. I understand now. Thank you.

BALLARD: Thank you, Senator Juarez. Any final questions? Seeing none, thank you guys for being here and all your work on this. I appreciate it.

PATRICE BECKHAM: Thank you. Good to see you.

BALLARD: All right, that will end our hearings on the experience study and our hearing for the day.