

Agenda Item 1: J. Elliott stated this meeting will follow the Nebraska Open Meetings Act and a copy of the Act is located on the table by the door.

Agenda Items 2 and 3 – Meeting Called to Order: J. Elliott called the July 17, 2017, Board Meeting to order at 8:49 a.m. Present at roll call: E. Stuhr, J. Elliott, D. Leonard, K. Ackerman, J. Derr, P. Lancaster, J. Schulz, and M. Walden-Newman. Absent: D. Blank,

Agenda Item 4 – Chairperson’s Comments and Introductions: J. Elliott welcomed the attendees. She recognized Senator M. Kolterman, Legislative Retirement Committee Chairperson, Senator R. Kolowski, Retirement Committee member, K. Allen, Retirement Committee Legal Counsel, K. Tenopir, Legislative Council Program Analyst, and J. Hayes, with the Nebraska State Education Association who were in attendance. She thanked NPERS staff for putting together the meeting at the Lied Lodge.

Agenda Item 5 – Approval of Minutes: E. Stuhr moved for approval of the minutes of the June 19, 2017, Board Meeting. J. Schulz seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, P. Lancaster, D. Leonard, J. Schulz, and E. Stuhr. Against: None. Motion carried.

Agenda Item 6 – Approval of Budget Status Report and June 2017 Retirement Report: K. Ackerman moved to approve the Budget Status Report and June 2017 Retirement Report. P. Lancaster seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, P. Lancaster, D. Leonard, J. Schulz, and E. Stuhr. Against: None. Motion carried.

Agenda Item 7– Financial Update: R. Gerke, Deputy Director, provided the financial update.

R. Gerke reported that NPERS is busy transitioning from the end of the 2016-2017 fiscal year to the new fiscal year. The budget status report at today’s meeting is the last one for fiscal year ending 2016-2017. NPERS is under budget for 2016-2017. Discussion proceeded regarding encumbered funds, general funds, and excess fund carry-over in regard to NPERS’ budgets. R. Gerke updated the status of State and County audits for calendar year 2016. He stated GASB 68 reports for School and County are concluding. The engagement letter for the School, Judges, and Patrol begins in September. NPERS is working on financial statements and accruals for the 2016-2017 fiscal year. The new budget status numbers are in and the Board will see that budget at the PERB August meeting.

R. Gerke reported the new 2017 COLA for DB plan members has been determined as 1.5%, which is up from last year’s COLA of .64%, and 2015 which had no COLA adjustment. This is the first year the School’s 2nd tier will be in effect. The interest rate for DB members will be 1.24% annually, up from last year’s rate of .45%. This year’s DB interest rate is the highest since 2008.

Agenda Item 8 – Public Comments or Correspondence from Citizens: Senator M. Kolterman thanked the PERB for allowing P. Chambers and O. Hill to work so closely with him and K. Allen in educating Legislative members, particularly regarding LB 415. J. Elliott acknowledged the excellence of the staff, PERB, and Legislative Committee in the effective use of communication and thanked the Senator for his comments.

Agenda Item 9 – Retirement Research & Pensionomics: P. Chambers introduced Diane Oakley, Executive Director of the National Institute on Retirement Security (NIRS), in Washington, DC, and provided a brief background of D. Oakley's career and her current work at NIRS leading the organization's strategic planning, research, and education services.

D. Oakley presented a history of NIRS as a non-profit, founded initially to develop research on retirement security. NIRS informs the public and policy makers, by issuing research reports and fact sheets, hosting conferences and webinars, and providing testimony for legislative bodies.

She stated key findings from NIRS research showing Americans believe they are facing a retirement crisis, pensions are seen as a route to financial security, leaders do not understand Americans want help, and Americans support public pensions and see them as a helpful tool to recruit and retain employees. Americans say the cost of long term care and low wages are also a concern. Workers indicate the necessity to work as long as possible and spend less in retirement. Only 37% of Americans say they could save 5% or more for retirement. Americans want leaders in Washington to help and to make retirement a higher priority.

D. Oakley reported on the NIRS study, "Still a Better Bang for the Buck". The study showed DB plans save more money compared to DC plans for reasons including: pooled longevity risks, optimally balanced investment portfolios, and higher investment returns due to professional asset management and lower fees.

D. Oakley stated that for every dollar paid out in pension benefits to retirees with DB plans, \$2.21 is put back into the economy. In 2014, Nebraska retirees supported 7,500 jobs, \$1 billion in economic output, and \$218 million in federal, state, and local tax revenues. Pensions are valuable sources of retirement security. Pensions help attract and retain workers, especially in the public sector, increase productivity, and are especially valuable for women.

The Board took a break at 10:17 a.m. and reconvened at 10:39 a.m.

Agenda Item 10 – Current Market Conditions, Forward Looking Forecasts, and Portfolio Implementation: Michael Walden-Newman, State Investment Officer for the Nebraska Investment Council introduced Max Kotary, AON Hewitt consultant.

M. Kotary gave an overview of the current market environment, how a portfolio is built, and Aon Hewitt's manager selection process.

He reported that U.S. stocks have done very well for the past 7-8 years, and foreign markets, which have faced various challenges, were still up over the last five years. He stated emerging markets are doing exceptionally well, with negative returns reflected primarily in the non-U.S. stock and bond markets. He commented that returns, over most of the asset classes, during the last 5 years, have been strong.

M. Kotary discussed Aon Hewitt's management research teams, manager evaluations, and manager rating criteria and rankings. A manager's operational due diligence is a top concern. Aon Hewitt focused the evaluative process utilizing a model that includes business, staff, investment process, risk, performance, terms and conditions, and operations. This model

complements the existing manager research process, and is transparent, with all components of the process accessible to all managers.

M. Walden-Newman requested M. Kotary address volatility and why it matters. M. Kotary stated a need for balance between returns, the amount of risk one is willing to bear, and maximizing long-term factors for investments.

The Board took a break for lunch at 11:54 a.m. and reconvened at 1:04 p.m.

Agenda Item 11 – Actuarial Factors & Board Funding Policy: J. Elliott introduced Pat Beckham, Principal and Consulting Actuary with Cavanaugh Macdonald Consulting, LLC and Brent Banister, Chief Pension Actuary for Cavanaugh Macdonald Consulting, LLC.

B. Banister presented actuarial factors pertaining to both traditional DB plans for School, Patrol, and Judges and the CB plan for the State and County plans. Actuarial factors impact all monthly benefit amounts. The formula for the DB plans defines the amount of the basic monthly lifetime benefit that is payable under the “normal form” and actuarial factors convert the basic benefit to other forms of benefits such as the Joint and Survivor benefit. The CB plan members can elect to receive a lump sum or monthly benefit. If the monthly benefit is elected, the member’s account balance is converted to a monthly benefit using actuarial factors. Discussion commenced clarifying that a five-year guarantee is a death benefit that is paid out over five years and provides the basis, or formula, for the other benefit calculations. Examples of benefit conversions for School and State plans were provided.

B. Banister stated actuarial factors are based on two assumptions: the interest rate and mortality rate. Different assumptions will result in different actuarial factors, producing different benefit amounts. Historically, the actuarial basis for factors has been in statute. The report considered the impact of LB415. Two tiers of actuarial factors are present: those for current members and those for all new hires, which can be changed in the future. B. Banister suggested future Board considerations may include evaluating automatic changes to factors after each experience study, whether the interest rate should automatically be tied to the valuation investment return assumption, and mortality assumption table changes in regard to generational and gender factors.

P. Beckham and B. Banister reported the next steps by Cavanaugh Macdonald will include continued study of the issues presented and specific recommendations for each plan to the Board. Discussion at future meetings was suggested. The interest rate for current CB members needs to be set before December 31, 2018. P. Beckham stated she would provide supplemental information and additional recommendations for the PERB meeting in August.

P. Beckham reviewed the Draft Funding Policy (DFP) for the PERB. She stated the DFP is a working document and will undergo a continued process of review. Further discussion was suggested by P. Beckham, in regard to preserving the defined benefit plan structure wording and including the structure in the policy. Review of the DFP was referred to the Regulation and Policy Committee whose members are: J. Derr, Chairperson, E. Stuhr, and J. Schulz.

The Board took a break at 2:19 p.m. and reconvened at 2:27 p.m.

Move to Excuse Board Member: J. Derr moved to excuse D. Blank. D. Leonard seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, P. Lancaster, D. Leonard, J. Schulz, and E. Stuhr. Against: None. Motion carried.

Agenda Item 12 – Board Fiduciary Responsibility & Fraud Policy: P. Chambers and O. Hill presented on Board Fiduciary Responsibility and Fraud Policy.

P. Chambers explained why the PERB's fiduciary duty is important. Fiduciary responsibility is an often misunderstood concept. Fiduciary responsibilities are among the highest standards under the law and a breach of this duty can lead to serious consequences. Fiduciary duty begins on day one. Trust law principles have guided fiduciary conduct for centuries. The Employee Retirement Income Security Act (ERISA) codified pension-related trust law in 1974 for private sector plans. State public retirement systems are not federally regulated by, but are influenced by ERISA. The PERB was established in 1971. P. Chambers commented on who is a fiduciary for the Board and what activities designate fiduciary status.

O. Hill commented the recent National Association of Public Pension Attorneys (NAPPA) conference held three sessions regarding fiduciary standards. Fiduciary requirements fall under duties to loyalty, prudence, and applicable law and governing instruments. He stated that ERISA is not binding to governmental agencies, but it may be considered as an example of best practices. The PERB must have an understanding of applicable laws and when those laws must be followed. O. Hill stated the Attorney General recently wrote a memo discussing fiduciary requirements. O. Hill stressed documentation and process as imperative to fiduciary responsibility. He gave examples of activities that give rise to fiduciary status and what would not. He stressed Board fiduciary education and training as a continuing duty and responsibility.

P. Chambers presented the topic of fraud and brought forward a Draft Fraud Policy for the Board's consideration. She discussed the benefits of fraud policy, including: acting as a deterrent, encouraging due diligence, aiding in early detection, and protecting the Board and Members. O. Hill laid out what a fraud policy should contain. Provisions within fraud policies depend on who is setting the policy and if there are laws that may impact policy. A general fraud policy should lay out key points and expectations and delegates responsibility to the agency to develop internal policy or procedure. He stated that there are existing anti-fraud provisions already in place for PERB administered plans.

O. Hill suggested a separate Fraud Policy for the PERB and the agency. The Board discussed the importance of developing a fraud policy. The time frame for reporting fraud was discussed, as well as the chain for reporting fraud. P. Lancaster acknowledged the pertinence of the presentation to the PERB. The Regulation and Policy Committee was encouraged to review the draft policy presented and to make recommendations to the PERB.

Agenda Item 13 – Executive Session: At 3:25 p.m., J. Derr moved the Board exit Regular Session and convene in Executive Session for the purpose of discussing: Case Review No. D-17-5; Protection of Needless Injury to the Reputation of an Individual, Case Review No. D-17-6; Protection of Needless Injury to the Reputation of an Individual, Case Review No. D-17-7; Protection of Needless Injury to the Reputation of an Individual, Case Review No. D-17-8; Protection of Needless Injury to the Reputation of an Individual, Personnel Matters; the Director's Evaluation and Salary; Protection of Public Interest, Protection of Needless Injury to the

Reputation of an Individual, Director Search; Protection of Public Interest, Protection of Needless Injury to the Reputation of an Individual and other legal matters. D. Leonard seconded the motion. J. Elliott repeated the motion for the record. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, P. Lancaster, D. Leonard, J. Schulz, and E. Stuhr. Against: None. Motion carried.

At 4:25 p.m., J. Derr moved the Board exit Executive Session and reconvene in Regular Session. D. Leonard seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, P. Lancaster, D. Leonard, J. Schulz, and E. Stuhr. Against: None. Motion carried.

Agenda Item 14 – Board Action on Executive Session Topics: J. Derr moved for approval of Case Review Nos. D-17-5, D-17-6, D-17-7, and D-17-8. D. Leonard seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, P. Lancaster, D. Leonard, J. Schulz, and E. Stuhr. Against: None. Motion carried.

D. Leonard commended Director P. Chambers for her work for the Board and the agency over the last year. Due to the short time period until the Director's retirement, a salary increase was not approved.

Agenda Item 15 – Recap of Day's Topics and Retreat Evaluation: J. Elliott commended the high quality of the meeting and the presentations. P. Chambers distributed a retreat evaluation for board members to complete. She thanked M. Nuss for her assistance in planning the retreat. She thanked O. Hill for his presentation and D. Gress for his assistance with technical preparations for the meeting.

Agenda Item 16 – Board Committees and Travel Requests: J. Elliott stated that the Personnel Committee is moving forward on the Director's search. The committee will be meeting by conference call.

The Regulations and Policy Committee will meet to work on items from today's meeting.

P. Lancaster announced she would not be at the meeting held on August 14, 2017.

Agenda Item 17 – Future Meetings/Agendas: The next meeting will be held on Monday, August 14, 2017, in the 1526 Building, at 1526 "K" Street, Lincoln, Nebraska.

Adjournment: D. Leonard moved that the meeting adjourn. E. Stuhr seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, P. Lancaster, D. Leonard, J. Schulz, and E. Stuhr. Against: None. Motion carried.

The meeting adjourned at 4:38 p.m.

Phyllis G. Chambers



Director