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PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

AUGUST 20, 2018

9:30 A.M.

A regular meeting of the Public Employees Retirement Board convened at 9:34 a.m., Monday, August 20, 2018, in the 1526 Building, 4th Floor, Conference Room 4D, 1526 "K" Street, Lincoln, Nebraska.

The Board members were notified of this meeting by the Agenda posted on the PERB SharePoint website on Friday, August 10, 2018. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, August 13, 2018. J. Elliott chaired the meeting and M. Nuss recorded the minutes.

MEMBERS PRESENT:

JANIS ELLIOTT, CHAIR
DENNIS LEONARD, VICE-CHAIR
KELLI ACKERMAN
JUDGE J. DERR
PAM LANCASTER
JIM SCHULZ
MICHAEL WALDEN-NEWMAN, EX-OFFICIO

MEMBERS ABSENT:

DENIS BLANK
ELAINE STUHR

NONMEMBERS PRESENT:

RANDY GERKE

Director

ORRON HILL

Legal Counsel/ Deputy Director

TERESA ZULAUF

Controller

JACK HARDY

Information Technology Manager

DIANE HOLTORF

Internal Auditor

PATTY PIERSON

Retirement Plan Manager

MELISSA NUSS

Retirement Plan Manager

ALLEN SIMPSON

Appointed Member: pending confirmation

DEAN GRESS

Senior IT Applications Developer

JOLYN WINKLER

Nebraska Investment Council

JOHNETTA LANG

Data Services Specialist

NEIL SULLIVAN

State Budget Office

KATE ALLEN

Legislative Retirement Committee Legal Counsel

NANCY REIMER

Ameritas

DAVID FOWLER
MassMutual
NEIL BATEMAN
Retired Educator

ZACH WELLS
Auditor of Public Accounts

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 August 20, 2018, Board Meeting to order at 9:34 a.m. Present at roll call: J. Elliott, D. Leonard, K. Ackerman, J. Derr, P. Lancaster, J. Schulz, and M. Walden-Newman. Absent: D. Blank and E. Stuhr. J. Elliott announced that Allen Simpson was appointed to serve as a Public Member of the PERB by the Governor, pending confirmation by the Legislature. In the interim, she stated A. Simpson will be attending PERB meetings for educational purposes until such confirmation takes place.

Agenda Item 4 – Approval of Minutes: J. Schulz moved for approval of the minutes of the July 16, 2018, Board Meeting. K. Ackerman seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, P. Lancaster, D. Leonard, and J. Schulz. Against: None. Motion carried.

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

Agenda Item 5 – Approval of Budget Status Report & July 2018 Retirement Report:

J. Schulz moved to approve the Budget Status Report and the July 2018 Retirement Report. J. Derr seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, P. Lancaster, D. Leonard, and J. Schulz. Against: None. Motion carried.

Agenda Item 6 – Public Comments or Correspondence from Citizens: There were no public comments or correspondence from citizens with business not scheduled on the agenda.

Agenda Item 7 – State, County, and DCP Audit Report: Zach Wells was present, representing the State Auditor's Office. He thanked the staff for their assistance.

Z. Wells reported finishing the State and County audit for the period of January 1, 2017, through December 31, 2017. He stated NPERS received an unmodified opinion, and there were no recommendations listed in the report, issued on August 15, 2018. He noted there were not many changes from the past, however, there were new actuarial assumptions.

Z. Wells reported finishing the Deferred Compensation Plan (DCP) audit report for the period of January 1, 2017, through December 31, 2017. He stated NPERS received an unmodified

opinion, and reviewed the comments and recommendations listed in the report, issued on August 15, 2018. Comments pertained to: Review of MassMutual, MassMutual Required Minimum Distribution, Unallocated Account Procedures, and Annuity Contract Compliance. The report includes NPERS' responses to the comments.

J. Elliott stated she is confident R. Gerke will lead the NPERS team through implementation of solutions to the comments. P. Pierson, T. Zulauf, and R. Gerke will meet with D. Fowler to discuss audit comments regarding MassMutual DCP. R. Gerke stated NPERS is pursuing meetings with the Department of Administrative Services (DAS) to resolve audit findings.

D. Leonard moved to approve the State, County, and DCP Audit Reports. P. Lancaster seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, P. Lancaster, D. Leonard, and J. Schulz. Against: None. Motion carried.

Agenda Item 8 – MassMutual 2017 DCP Annual Report: D. Fowler from MassMutual provided a brief presentation of the 2017 Annual DCP Report. Total participants in the plan number 533, down from 584 in 2016. D. Fowler noted two funds not meeting peer benchmarks, and stated MassMutual's Chief Investment Advisor will be contacting NPERS representatives regarding under-performing funds.

He commented MassMutual is committed to cyber-security issues and reviewed several security measures in place. D. Fowler stated members have PIN numbers and utilize key questions for verification.

D. Fowler reported quarterly statements from MassMutual are provided to participants.

R. Gerke stated he was looking forward to working with D. Fowler and MassMutual to address the audit comments.

J. Schulz moved to approve the MassMutual 2017 DCP Annual Report. K. Ackerman seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, P. Lancaster, D. Leonard, and J. Schulz. Against: None. Motion carried.

Agenda Item 9 – Biennial Budget Process: T. Zulauf reviewed the 2019-2021 Biennial Budget Request. She noted R. Gerke removed redundant information and streamlined the narrative. She summarized the budget worksheet, and reviewed each section of the budget, including the agency narrative, agency requests, funds analysis reports, agency modifications narratives, and program narrative reports. She examined each "issue" being requested to cover projected increases in expenses. She reported on significant issue number two, which is not included on the budget worksheet, but is stated in the narrative, which concerns the Request for Proposals (RFP) for actuarial services.

K. Ackerman, member of the PERB Budget and Personnel Review Committee, stated the staff did a commendable job putting the biennial budget together.

J. Elliott commented the Director's evaluation and the Director's salary will be discussed during Executive session.

R. Gerke stated the budget request is due September 15, 2018.

K. Ackerman moved to approve the 2019-2021 Biennial Budget Request. J. Schulz seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, P. Lancaster, D. Leonard, and J. Schulz. Against: None. Motion carried.

Agenda Item 10 – Legal/Legislative Update: O. Hill reported the IRS has recently published issue snapshots, which review trends and include tips to IRS examiners. The snapshots specifically note tax qualified pension plans and address new or newer IRS provisions. Ongoing reviews of these updated requirements assist in compliance with the Internal Revenue Code (IRC).

O. Hill stated he would conduct education for the PERB over the next few months, regarding five of the most pertinent snapshots released by the IRS which address:

- How to change interest crediting rates in Cash Balance plans,
- IRC 457(b): eligible deferred compensation plan and written plan requirements,
- Improper forfeiture by defined benefit plans,
- Partial termination of a plan, and
- Definitely determinable benefits

O. Hill reported that a School Plan legislation working group will meet on August 21, 2018, including attendance by representatives from: the National Council of School Administrators; Nebraska State Educators Association; Nebraska Association of School Boards, attorneys, Senator Kolterman, Chair of the Legislative Retirement Committee, and K. Allen, Legal Counsel for the Legislative Retirement Committee.

O. Hill stated the Regulation and Policy Review Committee will report during Agenda Item 12: Board Committee Reports.

O. Hill provided information regarding an individual convicted of stealing approximately \$40,000 from a deceased retiree's NPERS account. The individual was sentenced to prison and was required to pay restitution. The ruling was appealed. The Appellate Court upheld the conviction and prison sentence, while the issue of restitution will return to the trial court for re-consideration. O. Hill recommended delaying a request for write-off until the restitution matter is resolved.

P. Lancaster moved to approve the Legal/Legislative Update. D. Leonard seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, P. Lancaster, D. Leonard, and J. Schulz. Against: None. Motion carried.

Agenda Item 11 – Director's Report: R. Gerke welcomed new gubernatorial appointee A. Simpson and stated they met for an introductory and informational meeting.

R. Gerke stated that meetings with Ameritas and internal auditors regarding audit findings have already been held to resolve audit points. He looks forward to meeting with D. Fowler,

regarding MassMutual DCP concerns. He stated he will continue to resolve audit matters with DAS.

R. Gerke reported that over \$100 million in dividends were paid out to members on July 20, 2018. Dividends for members who received refunds before that date were put into non-interest bearing accounts and divided into three categories. Due to the Benefits department's timely processing, no fees were assessed to the under \$500 group before distribution.

He thanked Ameritas and Nancy Reimer for their work in paying out dividends a month ahead of schedule. He thanked NPERS staff, including Melissa Mendoza, Heather Critchfield-Smith, and Patty Pierson for their work in the dividend payout process.

He commented that John Winkelman and Education Services have completed the School Employer workshops, and J. Winkelman has completed a new video featuring footage from the workshops. J. Winkelman will be starting State and County seminars at the end of August. R. Gerke reported there is a job opening for a Training Specialist in Education Services.

R. Gerke stated that a packet of information, including non-contribution forms, was received from Saunders Medical Center (SMC) on August 20, 2018. A spreadsheet of members affected will need to be provided by SMC.

He gave an update on NPERS succession planning. Death processes is now experiencing a "desk switch", which provides back-up to two processes. Human Resources payroll is being backed-up and processes solidified. A need to identify and train a back-up for Education Services was also noted.

R. Gerke mentioned Ameritas has worked to add beneficiaries to State and County member statements by the end of the year.

R. Gerke commended the employees of the Call Center, who experienced exceptionally high call rates, along with regular office visits, and walk-ins August 13-17, 2018. He mentioned various factors effecting the high call rates, including member questions regarding dividend distribution, annual School statements, beneficiary information included on statements, and Required Minimum Distribution processes.

He reported the Lean Six Sigma program offered by the Governor will be completed by himself and J. Winkelman as participants.

He stated there would be an upcoming meeting in August between himself, Senator Kolterman, K. Allen, and M. Walden-Newman in regard to proposed investment legislation.

R. Gerke is registered to attend a National Council on Teacher Retirement (NCTR) webinar regarding discount rate education. R. Gerke will forward the links to the webinars for PERB members. E. Elliott commended R. Gerke on the additional educational initiatives he has encouraged under his directorship.

R. Gerke requested permission from the PERB to attend the NCTR Annual Conference in Washington, DC, from October 6-9, 2018. He requested a travel expense up to \$4500. As necessary, O. Hill stated the PERB has the authority to override travel restrictions.

P. Lancaster moved to approve a travel request up to \$4500 for R. Gerke to attend the NCTR Annual conference in Washington, D.C., from October 6-9, 2018. D. Leonard seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, J. Elliott, P. Lancaster, D. Leonard, and J. Schulz. Against: None. Motion carried.

P. Lancaster moved to approve the Director's Report. K. Ackerman seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, P. Lancaster, D. Leonard, and J. Schulz. Against: None. Motion carried.

Agenda Item 12 – Board Committee Reports: J. Elliott commended the Education Committee for the Retreat preparations and the education provided.

J. Derr stated the Regulation and Policy Committee met via teleconference on August 8, 2018, to update compliance items and necessarily shorten policies per state statutes.

O. Hill reported that fiduciary duty has been involved in recent case law and reviewed recent court findings regarding education and fiduciary care. Courts found in favor of Boards who followed adequate policies in place and met the standards therein. O. Hill noted the pertinence of Frank Daley's attendance at the PERB's retreat to evaluate PERB policies and provide education for the PERB.

O. Hill reviewed policy revisions and edits to Board Policies 2, 5, 7, 9, and 10.

P. Lancaster requested the PERB consider the mentorship requirement within the PERB policy. Discussion followed. D. Leonard asked how the policy will be monitored for compliance, as well as, the disability policy must have people understand there is a difference between an exam and a certification. P. Lancaster noted the cohesiveness of the PERB is a great strength and a policy requirement should not harm the ease with which the PERB communicates with one another. J. Elliott stated, before June of 2019, an actual plan and benchmarks will need to be added formally regarding mentorship. K. Ackerman stated committee mentoring is impactful for the diversity of individuals involved. J. Schulz stated there is an ease with which the PERB discusses matters, and there is an opportunity to explore mentorship with A. Simpson as a new PERB member. J. Elliott stated, as Chairperson, she would appoint a mentor for new members.

J. Derr moved to approve the revisions to Board Policy 2, 5, 7, 9, and 10. J. Schulz seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, P. Lancaster, D. Leonard, and J. Schulz. Against: None. Motion carried.

Agenda Item 13 – Board Education/Travel Requests: J. Elliott requested travel, with up to \$4500 in expense, to the NCTR National Conference in Washington, D.C. from October 6-10, 2018, with the final night of stay to the 10th paid for by NCTR, for her duties pertaining to her position on the NCTR Executive Board.

D. Leonard moved to approve a travel request up to \$4500 for J. Elliott to attend the NCTR National conference in Washington, D.C. from October 6-10, 2018. P. Lancaster seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, P. Lancaster, D. Leonard, and J. Schulz. Abstain: J. Elliott. Against: None. Motion carried.

Agenda Item 14 – Future Meetings/Agendas: The next PERB meeting is Monday, September 17, 2018.

Agenda Items 14 and 14 – Executive Session: At 11:05 a.m., D. Leonard moved the Board exit Regular Session and convene in Executive Session for the purpose of discussing applications of plan members and legal matters: Case Review No. D-18-4; Prevention of Needless Injury to the Reputation of an Individual, Case Review No. D-18-5; Prevention of Needless Injury to the Reputation of an Individual, Case Review No. D-18-6; Prevention of Needless Injury to the Reputation of an Individual, Case Review No. D-18-7; Prevention of Needless Injury to the Reputation of an Individual, Personnel Matters; Protection of Public Interest, Prevention of Needless Injury to the Reputation of an Individual, and Update on Pending Legal Matters; Protection of Public Interest. J. Derr seconded the motion. J. Elliott repeated the motion for the record. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, D. Leonard, P. Lancaster, and J. Schulz. Against: None. Motion carried.

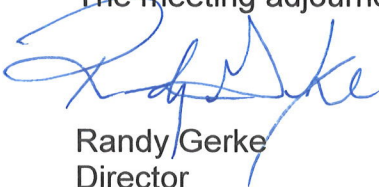
At 1:06 p.m., D. Leonard moved the Board exit Executive Session and reconvene in Regular Session. P. Lancaster seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, D. Leonard, P. Lancaster, and J. Schulz. Against: None. Motion carried.

D. Leonard made a single motion for approval of Case Reviews No. D-18-4, D-18-5, D-18-6, and D-18-7. P. Lancaster seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, D. Leonard, P. Lancaster, and J. Schulz. Against: None. Motion carried.

D. Leonard moved for approval of a 3% increase in the Director's salary, effective January 1, 2019. J. Derr seconded the motion. J. Elliott commented the compensation is well-earned, and the PERB is very pleased with the Director's work over the last year. D. Leonard stated the additional amount above 1.5% is merit-based upon the work R. Gerke has accomplished in his role as Director. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, D. Leonard, P. Lancaster, and J. Schulz. Against: None. Motion carried.

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

The meeting adjourned at 1:10 p.m.



Randy Gerke
Director