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**PUBLIC EMPLOYEES RETIREMENT BOARD
REGULAR MEETING AND EDUCATION CONFERENCE**

July 16, 2018

8:30 A.M.

The Annual Board Meeting and Retreat of the Public Employees Retirement Board convened at 8:31 a.m., Monday, July 16, 2018, in the in the 1526 Building, 4th Floor, Conference Room 4D, 1526 "K" Street, Lincoln, Nebraska.

The Board members were notified of this meeting by Agenda posted on the PERB SharePoint website on Friday, July 6, 2018. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, July 9, 2018. J. Elliott chaired the meeting and M. Nuss recorded the minutes.

MEMBERS PRESENT:

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

MEMBERS ABSENT:

PAM LANCASTER
ELAINE STUHR

NONMEMBERS PRESENT:

RANDY GERKE
Director
ORRON HILL
Legal Counsel/Deputy Director
DIANE HOLTORF
Internal Auditor
JOHN WINKELMAN
Public Information Officer III
PATTY PIERSON
Retirement Plan Manager
JACK HARDY
IT Manager
DEAN GRESS
IT Senior Application Developer
MELISSA NUSS
Retirement Plan Manager

JOHNETTA LANG
Staff Assistant II
KATHY TENOPIR
Legislative Fiscal Office
PATRICE BECKHAM
Cavanaugh Macdonald Consulting
BRENT BANISTER
Cavanaugh Macdonald Consulting
FRANK DALEY
NE Accountability & Disclosure Commission
CECELIA CARTER
Omaha School Employees Retirement System
KATE ALLEN
Retirement Committee Legal Counsel
NANCY REIMER
Ameritas

JASON HAYES
Nebraska State Education Association
NEIL SULLIVAN
State Budget Office

ERIC ASBOE
Nebraska Supreme Court

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 16, 2018, Board Meeting to order at 8:31 a.m. Present at roll call: D. Blank, J. Elliott, D. Leonard, K. Ackerman, J. Derr, J. Schulz, and M. Walden-Newman. Absent: P. Lancaster and E. Stuhr.

Agenda Item 4 – Chairperson’s Comments and Introductions: J. Elliott welcomed those in attendance. She recognized F. Daley, Executive Director of the Nebraska Accountability and Disclosure Commission, K. Allen, Legal Counsel for the Legislative Retirement Committee, K. Tenopir, Program Analyst for the Legislative Fiscal Office, C. Carter, Executive Director of the Omaha School Employees Retirement System, and N. Sullivan, Budget Analyst of the State Budget Office. She thanked NPERS staff for their efforts in preparing for the meeting and retreat.

Agenda Item 5 – Approval of Minutes: D. Leonard moved for approval of the minutes of the June 18, 2018, Board Meeting. J. Schulz seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, J. Elliott, D. Leonard, and J. Schulz. Against: None. Abstain: D. Blank. Motion carried.

Agenda Item 6 – Approval of Budget Status Report and June 2018 Retirement Report: J. Schulz moved to approve the Budget Status Report and June 2018 Retirement Report. D. Blank seconded the motion.

J. Schulz observed the Budget Status Report included the entire fiscal year, and asked R. Gerke to speak to any comments he may have regarding the past year’s budget. R. Gerke stated the report reflects an unspent surplus. He commented that the agency strongly focuses on its budgetary constraints and responsibilities. J. Elliott asked for any further questions or comments, and noted T. Zulauf will be working with the PERB’s Budget and Personnel Committee regarding the 2019-2020 Biennial budget. There were no further comments.

Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, J. Elliott, D. Leonard, and J. Schulz. Against: None. Motion carried.

Agenda Item 7 – Public Comments or Correspondence from Citizens: There were no public comments or correspondence from citizens with business not scheduled on the agenda.

Agenda Item 8 – Conflicts of Interest Laws Applying to Executive Branch Officials: J. Elliott introduced Frank Daley, Executive Director of the Nebraska Accountability and Disclosure Commission (the Commission). She provided a brief background of F. Daley, stating from 1987 to 1999 he served as the Commission’s General Counsel. Prior to his service with the Commission, F. Daley engaged in the private practice of law in Hebron, Nebraska and served as

a staff attorney for the Legal Aid Society of Omaha. He has served on many councils nationally and internationally, and he is the past president of the Lincoln Bar Association.

F. Daley thanked J. Elliott and greeted the PERB. He commented that PERB members make decisions concerning large amounts of money and benefits, which creates the potential for individuals who may not like the Board's decisions. PERB members may face additional scrutiny from outside entities regarding their decisions and the motivations behind them, which may lead those entities to attempt to exploit any ethical vulnerabilities of the PERB. He suggested his presentation has much to do with self-defense, as it is beneficial for the PERB to understand the ethical provisions which apply to them as members of the PERB.

F. Daley stated the first contact many PERB members may have with the Commission is the disclosure of Statement of Financial Interests. It is a snapshot of one's financial interest. Accuracy is vital when filling the statements, as the public and media scrutinize these statements.

F. Daley then discussed conflicts of interest as one of the biggest concerns facing a governing board. He defined "immediate family member" and stated the definition is very narrow, meaning a child residing in an individual's household, a spouse of an individual, or an individual claimed by that individual or that individual's spouse as a dependent for federal income tax purposes. He also defined the term "business" as being very broad, and noted the definition does not distinguish between for-profit and non-profit entities.

J. Schulz questioned as to whether business associations/relationships prior to the date of service for the PERB are considered, or only those occurring after appointment. F. Daley confirmed that associations/relationships after the time of appointment are considered, not those prior to it.

F. Daley stated if an individual is unsure whether a conflict of interest has arisen, the individual must compose a written statement indicating how the individual, or the immediate family member, is affected. He mentioned the Commission has a form available for this purpose on their website that is easily accessible. Once the statement is received, the Commission will consider the situation, make a decision regarding the matter, and will notify the individual as to whether they should abstain from a vote, or not. There will be a public record of this letter.

F. Daley discussed being a good board member, or what he refers to as "Boardmanship". He stated that preparing for meetings, respecting the process, and attendance, is an important part of showing good boardmanship. Absent or ill-informed members may cause difficulties regarding information dissemination.

During his preparation of the presentation today, F. Daley reviewed the PERB's statutes, and commented on their high level of clarity. F. Daley noted the policies are very solid. He commended the PERB for having a clear and well thought-out set of statutes and policies, where many boards, or like entities, do not.

He spoke of the importance of recognizing the chain of command. The spokesperson should speak for the PERB. A PERB member may speak for themselves, but should be mindful that official statements should come from the designated spokesperson.

He notified the PERB of several issues concerning state employees: that no one shall offer or give anything of value which may affect or influence an official action of a PERB member; no bribes, no quid pro quos, and nothing of value should be accepted.

F. Daley reviewed prohibited use of public offices for personal financial gain. He stated this tracks the currently existing board policy. No shake downs or insider trading. There shall be no provisions of gifts of travel, but those applications may not apply to the PERB for the most part.

He stated the PERB should be aware of any policy or guidelines prohibiting gifts specific to the PERB, and commented that the definition of gifts may not always be entirely clear in State government. Lobbyists and the principals of lobbyists are aware that gifts may not exceed \$50 in a calendar month, and are well aware of the statutory exceptions. In day-to-day business, individuals may not be aware of who a lobbyist or principal may be. A good resource concerning lobbyists is the Clerk of the Legislature website. Individuals may also consult the Commission for more information. He mentioned that food and drink for immediate consumption does not need to be a concern. Occasional transportation would not be prohibited. He mentioned lobbyists can be very creative. He commented that, in defining the Executive branch, the Executive Director and all agency staff fall under this designation. He cautioned gifts do not necessarily have to be involved with something directly affecting the PERB. Businesses outside the PERB or State government are subject to the \$50 limit.

J. Elliott suggested PERB members with questions regarding conflict of interest should utilize O. Hill for assistance or clarification.

J. Elliott reminded the PERB their tablets are government property, and government property may not be utilized for any private email, website, or general email. J. Derr asked if personal emails sent via PERB tablets would be considered public information. F. Daley stated it is a matter that is currently under consideration and, ultimately, a matter for the Attorney General's Office, but he commented that case law appears to indicate official business conducted through private email may be accessible to the public. F. Daley suggested there may be governmental individuals who establish completely separate emails to deal with privacy concerns.

F. Daley briefly reviewed nepotism laws and provided an example of this situation.

F. Daley commented the vast majority of individuals in State government want to do the right thing, if they know what it is.

F. Daley thanked the PERB for their work.

J. Schulz thanked F. Daley and his staff for their assistance. He inquired as to whether F. Daley foresees any emerging issues on the horizon regarding the work of the Commission affecting boards such as the PERB. F. Daley suggested keeping track of legislation in regard to what public officials and employees can and cannot do. He mentioned there has been movement toward adopting Federal Hatch Act guidelines, its applications, and enhanced restrictions.

The Board took a break at 9:20 a.m. and reconvened at 9:39 a.m.

Agenda Item 12 was addressed out of order.

Agenda Item 12 – Board Policy Review: O. Hill reported Board Policy 10 has a provision regarding reviewing policies at PERB annual retreats. Together with the Regulation and Policy Review Committee, O. Hill has developed a plan for strategic policy review once every 3 years, to remain current and reliable. These revisions also support a directive from the Governor's office asking boards to minimize, as much as possible, the amount of regulatory requirements included in policies. He stated a reference to a statute would be preferable to actually restating statute within a policy.

O. Hill reported the revisions would be presented for the PERB for discussion, the Committee could provide additional review, and the PERB could approve revisions during subsequent PERB meetings. J. Elliott suggested hotlinks be contained within the policies for expediency and ease of use.

O. Hill reviewed Policy 2, the Board Code of Conduct.

- Renumbering will accommodate revisions.
- Paragraph 5: has been streamlined to remove statute statement.
- Paragraph 4: the PERB policy regarding employment with the Retirement System within 90 calendar days was discussed. Further discussion as to the necessity of the policy may be conducted.
- Paragraph 5: March 1st deadline in filing Financial Disclosure Statements has been updated.
- Paragraph 5: will remove mention of the County election commission.
- Paragraph 8: it was discussed as to the repercussions of the language "The Board **will not** advocate for benefit improvements...", versus the language which states the Board may comment and provide guidance on any proposed changes to the Retirement Systems it administers. It was acknowledged that supporting the education of entities is understood to be different from advocating for improvements. Technically, the policy does not state the Board may advocate **against** benefit improvements.

D. Leonard suggested the Board should add a review date to policies even if revisions have not been made, so it is clear the Board has reviewed the policy.

The PERB took up Agenda Item 9, and will return to Board Policy Review under Agenda Item 12 after lunch.

Agenda Item 9 – New and Proposed Actuarial Standards: 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.

P. Beckham stated they would review and discuss new actuarial standards. She commented the actuarial profession is self-policing, and actuaries are aware of their duty and obligation to the public. She reported the Actuarial Standards Board (ASB) create actuarial standards of practice (ASOPs) which apply to all actuarial disciplines, such as: life, health, casualty, and pensions. Credentialed actuaries are required to follow ASOPs, even if there is not agreement regarding the requirement.

J. Elliott stated there may be an over-correction initiated from the private sector, which is now affecting the public sector and asked for opinion of the actuaries. B. Bannister stated considerations for, and performance of, the public sector and the private sector pensions are different. P. Beckham pointed out that media coverage of pension plans tend to focus on under-funded plans, but neglect to highlight the large number of plans which are well-funded.

P. Beckham confirmed that if the Board chooses to make a comment regarding ASOP changes, both NPERS and the PERB may make a comment. Cavanaugh Macdonald has suggested to its clients they submit comments to the ASB regarding the updates. There is often a first exposure draft where the ASB requests comments, but there is not usually a second request for comments.

P. Beckham reported on the exposure draft of ASOPs 4, 27, and 35, and noted that ASOP 4 is the biggest concern as it requires disclosure of "investment risk defeasement cost". The liabilities are calculated using the risk free rate of return so liabilities are significantly higher than funding results. This is a difficulty because it is likely to be misunderstood, and can create an unreasonable set of assumptions. Another major change impacts the amortization of the unfunded actuarial liability (UAL). Restrictions apply if "selected by the actuary". Open periods with negative amortization are not allowed.

J. Schulz asked for clarification as to whether the ASB is being lobbied by outside forces.

P. Beckham stated the Board has internal advocates for both sides of these updates.

P. Beckham reiterated there may be media and public perception issues affecting the actuarial profession.

P. Beckham addressed defeasement liability saying that defeasement refers to eliminating investment risk. She stated possible "risk free" rates of return may feature 30-year Treasury bond rates and annuity rates in the market place. Challenges with this concept are: benefit payments extending 80+ years while the longest Treasury bond is only 30 years, the annuity market cannot support the purchase of most blocks of retiree liabilities, the value of this measurement being questionable, and communication challenges which will need to be addressed for the public and voting entities.

P. Beckham stated the cost impact will be significant, it is unclear how to value benefits that are contingent on future events like actual investment return, and defeasement liability based on accrued benefits only. She reported the valuation liability shows sharp differences from the defeasement liability, such as the funded ratio. The ratio of the valuation liability's funded ratio is 86.7% versus the defeasement liability of 57.2%, producing a difference of 29.5% in funded appearance.

P. Beckham stated the proposed target release date by the ASB for these standards is by end of year 2018.

P. Beckham stated changes to ASOPs 27 and 35 include permitting use of phasing in changes to assumptions and requiring a reasonable assumption for each year during the phase-in. This is an important change because many systems are lowering the investment return assumption systematically over a period of years.

P. Beckham stated the newly adopted ASOP 51 references Assessment and Disclosure of Risk. It applies to funding valuations (not GASB), projections, and pricing of proposed plan changes. The actuary is to identify risks which may affect a plan's future financial condition, while understanding the risks are unique to each plan. She stated risk examples in ASOP 51, that are relevant for most public plans, are: investment risk, longevity risk, covered payroll risk, and contribution rate risk.

She stated ASOP 51 does not necessarily have to be a quantitative assessment, it can be qualitative. As plans mature, risk changes, and the disclosure of risk includes plan maturity measurements. ASOP suggestions for this includes ratios of: market values of assets to payroll, net cash flow to market value of assets, benefit payments to contributions, retired liability to total liability, and actives to retirees.

P. Beckham commented that ASOP 51 also addresses maturity measures that vary depending on plan design, demographics, and maturity of the system. The historical asset volatility ratio can look dramatically different depending on these measures. A higher ratio simply means there is higher volatility in the contribution rate. P. Beckham stated different plans have very different risk profiles.

B. Bannister presented suggestions made by ASOP 51. One suggestion is a stress test, which is an analysis or simulation designed to determine the ability of a financial institution to manage an economic crisis or certain stressors. The purpose is to identify the stressors to the system and optimize policies and procedures in order to improve sustainability and educate stakeholders of potential risks.

He spoke to the usefulness of models. "Accuracy" is not the goal of modeling. Models are a useful tool for analyzing the system's objectives and strategies as well as effective as a decision-making tool. He commented on the limitations of models, stating they are simplifications of how experience will unfold in the real world, but that actual experience is different and more complex.

B. Bannister presented a sensitivity analysis including investment return sensitivity. Stochastic analysis is modeling using the most sophisticated analysis available. He presented simulations of sample scenarios of asset growth. He explained the modeling process including output from stochastic modeling.

P. Beckham reported on a qualitative risk evaluation scorecard an actuary may use for qualitative risk evaluation.

P. Beckham stated takeaways are that there will likely be an increased focus on the risks associated with pension funding, especially for public plans. All systems face substantial downside risk, so the focus needs to be in decision-making and constructive observation, not outcomes. For any system, a scenario can be created that makes the system look unsustainable. Benefit structures that have some allowance for contingencies will appear more sustainable in risk analysis.

J. Elliott asked if the Board wanted to make comment on ASOP 4. B. Bannister stated Cavanaugh Macdonald will be submitting a comment regarding ASOP 4, and he believes the National Association of State Retirement Administrators (NASRA) and the National Council of

Teacher Retirement (NCTR) will be making a joint comment, in addition to comments from other concerned entities.

J. Schulz asked how the workload of the actuaries would be effected pertaining to the ASOP changes. P. Beckham stated, if the PERB adopted the measures, the additional requirements would be eased in to usage. She anticipates systems will adopt a stochastic analysis.

The PERB requested R. Gerke draft a comment letter to ASB regarding ASOP changes.

J. Schulz moved R. Gerke draft a commentary letter to ASB regarding ASOP changes to be received by ASB before the commentary deadline. D. Leonard seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, J. Elliott, D. Leonard, and J. Schulz. Against: None. Motion carried.

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

Agenda Item 13 – Executive Session: At 11:52 p.m., D. Blank moved the Board exit Regular Session and convene in Executive Session for the purpose of discussing applications of Plan Members, Personnel Matters, and Legal Matters: Case Review No. D-18-3; 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, Update of Pending Legal Matters; Protection of Public Interest. J. Schulz seconded the motion. J. Elliott repeated the motion for the record. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, J. Elliott, D. Leonard, and J. Schulz. Against: None. Motion carried.

At 2:04 p.m., D. Blank moved the Board exit Executive Session and reconvene in Regular Session. J. Schulz seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, J. Elliott, D. Leonard, and J. Schulz. Against: None. Motion carried

Agenda Item 14 – Board Action on Executive Session Topics: D. Blank moved to deny approval of Case Review No. D-18-3. D. Leonard seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, J. Elliott, D. Leonard, and J. Schulz. Against: None. Motion carried.

The Board Resumed Agenda Item 12 – Board Policy Review: O. Hill continued the policy review. The Policy 9 discussion clarified parameters regarding per diem for PERB committee meetings, and the per diem amount currently in statute. Some PERB members have not requested per diem for committee meetings via phone. It was decided members would request per diem for committee meetings conducted via phone.

Policy 10 is to be re-named Development and Continuity. It was suggested language and guidelines from other agency's policies should be reviewed. O. Hill will remove the final sentence of Policy 10.1.

During policy discussion, M. Walden-Newman suggested holding retreats on consecutive days between the PERB and the Nebraska Investment Council (NIC). This could entail over-lapping content for the PERB and NIC

O. Hill reviewed revisions to Policy 5: Reviewing Disability Retirements. Unnecessary language was removed. PERB discussed additional edits to the text.

O. Hill reviewed Policy 7: the Conference Attendance and Expense Reimbursement. Language which may give the appearance of endorsement to certain organizations was removed, and other language was streamlined for readability.

O. Hill will provide a re-draft to the Policy Review Committee for review, and revisions will then be presented to the PERB for a vote at subsequent meetings.

O. Hill stated the next review would feature Policies 1, 3, 4, 6, 11, and 13.

K. Ackerman left the meeting at 3:00 p.m.

Agenda Item 13 – Director’s Report: R. Gerke reported the State and County dividend is projected to be paid in July. The daily treasury yield curve was released, which is used to determine interest for the Defined Benefit Plan, is 2.34%. The previous year’s rate was only 1.24%. On July 12, 2018, the consumer price index (CPI) was released, which determines COLAs for retirees. It is 3.09%, meaning all individuals who elected an annuity with a COLA will be capped. The COLAs will amount to a total of \$1,369,000 per month in additional benefits going out to School, Judges, Patrol, State, and County Plans.

R. Gerke announced the State, County, and DCP audits will be ending this week. R. Gerke believes there may be some DCP points reported. During the last DCP audit in 2015 there were 5 report points, and those points usually stem from MassMutual DCP. A representative from MassMutual will be presenting the MassMutual DCP report to the PERB at the August meeting. R. Gerke stated he and M. Walden-Newman will be meeting with David Fowler regarding MassMutual in August.

R. Gerke and T. Zulauf are preparing the Biennial Budget Request. The Budget Committee will be provided with materials to examine, before presentation to the PERB for approval. He stated the FuzioN project will require additional funds which will be reflected in the budget. A placeholder request for the funding of the plans will be required, but those numbers will not be available until November of 2018.

R. Gerke and T. Zulauf, along with Dennis Cooper and Johnetta Lang are preparing the actuarial service request for proposal (RFP). An Evaluation Committee will be created to review the proposal that will include at least one member of the PERB. It will then be submitted to Department of Administrative Services Materiel.

R. Gerke reported employer reporting workshops are being conducted. In connection with the Outreach conducted by the PERB and Captain Mike Jahnke’s PERB presentation, J. Winkelman will be conducting a September 25, 2018, Retirement 101 seminar with the State Patrol.

R. Gerke stated Charles Waity is programming NPRIS to work with Chrome, and he thanked C. Waity for his work.

The NIC retreat is Thursday, July 19, 2018, at Quarry Oaks in Ashland, NE beginning at 8:30 a.m.

R. Gerke reported Saunders County Medical Center has not submitted non-cons or additional correspondence.

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

Agenda Item 14 – Recap of Day's Topics and Retreat Evaluation: J. Elliott commended the high quality of the meeting and the presentations. J. Elliott requested PERB members complete the retreat evaluation. R. Gerke thanked M. Nuss for her assistance in planning the retreat. He thanked O. Hill for his presentation and C. Waity for his assistance with technical preparations for the meeting.

Agenda Item 15 – Board Committees and Travel Requests: The PERB Legislative Committee met on Sunday, July 15, 2018, and discussed future legislative matters.

J. Schulz reported the PERB Budget and Personnel Committee met to consider components of the biennial budget proposal.

There were no travel requests.

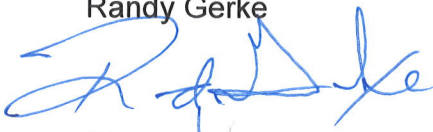
Agenda Item 16 – Future Meetings/Agendas: The next meeting will be held on Monday, August 20, 2018, in the 1526 Building, at 1526 "K" Street, Lincoln, Nebraska.

Agenda Item 17 – NPERS Disaster Recovery Site Visitation: Due to time constraints, the visit to the Disaster Recovery Site was conducted via a presentation conducted by C. Waity. He described the facilities functions, including mailroom, technology, and accounting. C. Waity stated that IT has begun taking business teams quarterly to the site to perform exercises.

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

The meeting adjourned at 3:30 p.m.

Randy Gerke



Director