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PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

May 21, 2018

9:30 A.M.

A regular meeting of the Public Employees Retirement Board convened at 9:34 a.m., Monday, May 21, 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, May 11, 2018. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, May 14, 2018. J. Elliott chaired the meeting and M. Nuss recorded the minutes.

MEMBERS PRESENT:

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

MEMBERS ABSENT:

ELAINE STUHR

NONMEMBERS PRESENT:

RANDY GERKE
Director
ORRON HILL
Legal Counsel/ Deputy Director
JOHN WINKELMAN
Education Services Manager
JACK HARDY
Information Technology Manager
DIANE HOLTORF
Internal Auditor
PATTY PIERSON
Retirement Plan Supervisor
MELISSA NUSS
Call Center Manager/Administrative Assistant
DENNIS ROHREN
Accountant III

MITCH SNYDER
Retirement Specialist
DEAN GRESS
Senior IT Applications Developer
PAT BECKHAM
Cavanaugh Macdonald Consultants
BRENT BANISTER
Cavanaugh Macdonald Consultants
KATE ALLEN
Retirement Committee Legal Counsel
NANCY REIMER
Ameritas
RANDY PETERS
Plan Participant
DALE SHALLENBERGER
Plan Participant

MITCHELL CLARK
Representative of Senator Stinner
ZACH WELLS
Auditor of Public Accounts Office
KATHY TENOPIR
Legislative Fiscal Office

JASON HAYES
Nebraska State Education Association
NEIL BATEMAN
Plan Participant

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 May 21, 2018, Board Meeting to order at 9:34 a.m. Present at roll call: D. Blank, J. Elliott, D. Leonard, K. Ackerman, J. Derr, P. Lancaster, J. Schulz, and M. Walden-Newman. Absent: E. Stuhr.

Agenda Item 4 – Approval of Minutes: P. Lancaster moved for approval of the minutes of the April 16, 2018, Board Meeting. D. Blank seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, P. Lancaster, D. Leonard, and J. Schulz, with J. Elliott voting to approve form, not substance. Against: None. Motion carried.

Agenda Item 5 – Approval of Budget Status Report & April 2018 Retirement Report: K. Ackerman moved to approve the Budget Status Report and the April 2018 Retirement Report. P. Lancaster 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.

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 – Nebraska State Patrol Outreach: J. Elliott welcomed Captain Mike Jahnke, the State Patrol Legislative Liaison, as part of the PERB's member group outreach.

Captain Jahnke introduced himself, stating he joined the Patrol in 1994, and has served for 24 years. He spoke of the natural tendency of new recruits not focus on retirement details provided to them, as they begin their careers. He remarked trooper education regarding the retirement plan is not widespread, and misinformation regarding this vital information can be an issue for the trooper community. Captain Jahnke serves as the Professional Standards Captain, serves as the Patrol Legislative Liaison, and is responsible and oversees the Divisions of Internal Affairs, Legal, Policy Research, Accreditation, and Records Management. He stated the education of troopers on the retirement plan is a challenge. He understands troopers need to pay their fair share to support the plan. Troopers experience an under-education in regards to the functions of the PERB, including their fiduciary responsibilities to all of the retirement plans and those plans' solvency.

Captain Jahnke remarked that Patrol believes retirement seminars are beneficial and have garnered positive feedback regarding Trooper education of the retirement plan and the Deferred Retirement Option Plan (DROP). The Captain stated, Patrol has worked very hard to manage Comp time and Holiday Comp time and balances. He commented direct and transparent talks regarding these issues between State Patrol representatives, including Colonel Rice and Captain Jahnke, and Senator Kolterman, Senator Davis, and O. Hill were appreciated and resulted in Patrol engagement and improvements, including enhanced time balance management and monitoring. Captain Jahnke stated administrators currently face a shortage of man-power and the challenge, it presents regarding over-time. He stated staffing and minimum staffing is a challenge as there are approximately 40 vacancies. Over-time occurs and operating with a deficit of man-power exacerbates the problem. The Captain stated there is now an openness regarding the balances of the troopers.

Captain Jahnke encourages troopers to be involved with and educate themselves on their retirement plan. He stated that the plan is well-funded due to the PERB's work, and the decisions they have made to protect and support the plan.

D. Leonard stated NPERS provides many informational opportunities to Troopers, and suggested additional in-service retirement education from NPERS educational services. He also suggested having a commander's in-service education, as influence from those individuals would be far-reaching. Captain Jahnke remarked the academy has enhanced educational efforts focused on millennials, including education regarding financial planning, which may influence in-service financial education. The Captain commented that he would pursue D. Leonard's suggestion regarding a commander's in-service in regard to retirement education.

P. Lancaster stated she appreciated the comments made by Captain Jahnke are relevant to other plan administrator educational concerns. She requested the Captain elaborate on the issue of lower trooper numbers. The Captain addressed the shortage, stating the issue is nuanced, and includes considerations of budgets, number of camps, vacancies due to retirement numbers, the quality and number of candidates available, competition for quality candidates, and the lack individuals electing to have a career in law enforcement.

J. Elliott stated the PERB appreciates Captain Jahnke's work with NPERS staff and the dedication he has shown in providing knowledge, guidance, and education of the retirement plan to his agency and the Troopers. She spoke to the importance of continuing an open relationship with the State Patrol. J. Schulz stated he recognized the efforts of the State Patrol to enhance financial education, and suggested a total compensation approach to entice people to join the force.

J. Elliott thanked Captain Jahnke for attending the PERB meeting and commended R. Gerke on the efforts he has made to encourage member groups to take part in the PERB outreach initiative.

Agenda Item 7 – State and County Actuarial Valuations and ERBF Reports: B. Banister provided a brief history of the Equal Retirement Benefit Funds (ERBF).

He stated an actuarial evaluation is meant to educate. It is a snapshot picture of the particular system as of a single date. He stated there are new assumptions due to the 2016 Experience Study which have now been implemented.

Assumption changes affecting all systems were the inflation assumption lowered from 3.25% to 2.75%, and the investment return assumption lowered from 7.75% to 7.50%. Assumption changes affecting the Cash Balance Benefit Funds were the individual salary increase assumption decreased by 0.50%, the payroll growth assumption lowered from 4.00% to 3.50%, the cash balance interest credit rate lowered from 6.75% to 6.25%, and mortality tables were updated to better reflect observed experience. B. Bannister stated asset value does not change with the assumption changes.

B. Banister reviewed the valuations of the State and County ERBF as of January 1, 2018. The State Plan participation is declining, and has lowered from 893 in January, 1, 2017, to 745 as of January 2, 2018. The County Plan participants lowered from 213 in January 1, 2017, to 199 in January 1, 2018. He noted the current assumption is that 25% of members' account balances will annuitize.

P. Beckham explained the Cash Balance (CB) benefit plan is a hybrid plan with characteristics of a defined benefit and defined contribution plan. It is a defined benefit plan, because of the guaranteed interest rate credit. She noted each member has an individual CB account, where each account is credited with contributions from the member and the employer match. She stated accounts are credited with guaranteed interest rates, and dividends which may be granted by the PERB, when certain criteria are met, and that members may elect at termination or retirement lump sum distribution, annuity payments, or a combination of both.

P. Beckham remarked account balances are not necessarily equal to assets held. Plan cost is determined actuarially, however, actual contributions are set as a fixed rate in statute. The actuarial liabilities are not equated to the account balances. If an additional contribution were due, the State assumes the risk of paying additional contributions.

She reviewed the State and County actuarial valuations as of January 1, 2018. The report included membership statistics, system assets, funded ratios, the history of contribution rates, interest credits and dividends, and investment returns for the State and County plans from 2003 through 2018.

She reported the number of State retirees increased 12.3% last year, and the number of active members lowered by 2.9%. The net assets, as of December 31, 2017, had a market value of \$1,635.87 (\$ in millions) versus the actuarial value of \$1565.49. The estimated rate of return for market value assets is 16.8%, while the actuarial rate of return is 9.6%.

P. Beckham noted the funded ratios flow into the dividend recommendations. As of January 1, 2018, the State and County funded ratios calculated on a **funding basis** are 104.2% for State and 107.4% for County. The funded ratios calculated on a **current value basis** are 110.1% for State and 110.4% for County.

She commented on the historically funded ratio, and that the funded ratio has been well-served by the creators and that NPERS should be commended in plan management, noting the Cash Balance Plans receive recognition nationwide.

P. Beckham explained the criteria required for paying a dividend. The statutory requirement states that improvements cannot result in an actuarial contribution rate which exceeds 90% of the statutory contribution rate. This protects plan funding during economic downturns. The Board policy requires the funded ratio on both the funded and current value basis to be at 100% after a dividend is granted.

She reviewed the history of State and County dividends awarded and the differences in the State and County dividends.

In conclusion, B. Banister stated both plans have a positive funding outlook. The funded ratio exceeds 100%. The actual contribution rate exceeds the required actuarial contribution rate. Dividends may be granted by the Board for both the State and County Plans this year. The maximum dividend, without majority PERB vote, would be 3.00% for both State and County. The maximum actuarially recommended dividend **available** for State is 5.46%, and for County it is 8.42%.

B. Banister reported on five-year projections of expected State and County funding results with projected contributions. Funding is expected to increase. The active member count in the Cash Balance plans is expected to grow in future years. Future dividends will be heavily dependent on future investment experience.

P. Beckham stated they do not have concerns regarding changes to applicable PERB policies. However, she suggested a review of the parameters would be beneficial in the near future.

Copies of the valuation reports are available from the Retirement Office or on NPERS' website.

D. Leonard moved to approve the State and County Actuarial Valuations and ERBF Reports. P. Lancaster 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.

The board took a break at 10:58 a.m. and reconvened at 11:13 a.m.

Agenda Item 9 – Cash Balance Dividend: J. Elliott stated the actuaries reported a dividend could be awarded up to 5.46% for the State plan and up to 8.42% for the County plan.

J. Elliott reviewed the requirements to award a dividend for both the State and County Plans. She stated the PERB has met both statutory and Board requirements. R. Gerke stated, in past years, the PERB has voted to grant dividends the month following the actuarial presentation and recommendations. The presentation and recommendations occurred a month later this year, during this current meeting, and timely distribution from Ameritas may not occur if action for a dividend is not held at this meeting. Prior to this meeting, R. Gerke

and O. Hill conferred with K. Allen, Legal Counsel for the Legislative Retirement Committee, and staff in the Policy and Research Office, and there was no indication a vote could not be held during the same month in which the valuation reports and recommendations are presented.

D. Leonard moved that the PERB approve a dividend of 5.46% to State CB plan members and a dividend of 8.42% to County CB plan members, who had a qualifying account balance as of December 31, 2017. The dividend shall be payable as soon as administratively possible. P. Lancaster 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.

The PERB discussed notification of members via newsletters, NPERS' website, Ameritas, and suggested representatives of the plans may also disseminate information. The Call Center may be scripted to provide information to members calling for an update.

Excuse Board Members: D. Leonard moved to excuse E. Stuhr. P. Lancaster 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.

Agenda Item 10 – Information System Update: J. Hardy reported on changes resulting from LB 415, the new actuarial assumptions, and the additional tiers added. The passage of LB 415 and recent changes to actuarial assumptions require a number of NPRIS system changes. NPRIS has experienced eight tier changes since 2013, which keep the Information Technology (IT) department very active. Programming for the current LB 415 project is in progress.

J. Hardy stated there is a statewide project in progress to upgrade OnBase from Version 16 to Version 17. OnBase is the Enterprise Content Management (ECM) software, which NPERS uses to store and view member and employer documents. NPERS completed the upgrade of the ECM software components on Monday, May 14, 2018.

J. Hardy commented NPERS has been working with the Office of the Chief Information Officer (OCIO) and Databank, ECM software vendor, to implement an improved image viewer in NPRIS. There will be an image viewing solution based on the OnBase tool "Doc Pop". Databank is currently working on the integration component allowing NPRIS to communicate with OnBase. The estimated completion date for Databank's part of the project is May 31, 2018, after which NPERS will complete the development and conduct testing of the solution. The goal for completing the project is June 30, 2018.

Following a State-wide agency directive from the Treasurer's Office to reduce paper warrants, NPERS IT has been working to reduce paper warrants by eliminating pre-notes and implementing Automatic Clearing House (ACH) as the standard payment method for annuity payments, including first payments sent to members. This project should be going completely into production by the end of June 2018. J. Hardy stated this will eliminate an estimated 3,000 to 4,000 paper warrants per year. J. Elliott responded the ease this provides

for members is beneficial. R. Gerke thanked NPERS staff, including J. Hardy and IT, P. Pierson and Benefits, and T. Zulauf and Accounting for the expediency of this project's completion. J. Hardy stated ACH processes regarding individuals who were grandfathered in using paper warrants are being reviewed.

J. Hardy stated that production investigation requests (PIRs) are provided for the PERB in his written report.

K. Ackerman moved to approve the Information Systems Report. P. Lancaster 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.

Agenda Item 11 – Legal/Legislative Update: O. Hill stated he and R. Gerke will be completing the Annual Rule and Regulation report, which is due July 1, 2018.

He stated he is conducting Policy and Regulation reviews and drafts of revisions are currently being examined by NPERS staff.

D. Blank moved to approve the Legal/Legislative Update. 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.

Agenda Item 9 – Director's Report: R. Gerke reported he is promoting agency communication regarding the PERB's monthly meetings, by including sub-area representatives of the agency to attend, and the PERB would be seeing many new faces from the agency. He introduced Dennis Rohren as an attendee of the Accounting Department. R. Gerke stated this is an agency-wide initiative to provide more information and improved communication of Board information. He cited the ongoing practice of the Nebraska Investment Council employees to attend Board meetings.

R. Gerke stated Ameritas statements are sometimes indicating members are vested when they are not. The Ameritas system does not count contributions when reflecting vesting credit. NPERS considers this vital information a high priority, and is working with Ameritas to find solutions for providing fully accurate vesting credit information on Ameritas statements.

R. Gerke provided an update on a report to the PERB in April, regarding an online DCP enrollment process currently offered by Ameritas. He stated that further investigation is being conducted, and NPERS management was introduced to an online DCP enrollment process by N. Reimer. The next step is to introduce NPERS' DCP specialists to the system. Information pertaining to technological requirements has been given to State fusion project representatives for inclusion in function development regarding online DCP enrollment, and the NPERS is moving ahead on exploring implementation of the process.

He stated J. Hardy, and the IT Department, is providing agency education and familiarity with disaster recovery procedures and site.

R. Gerke reported customer-friendly improvements have been made to member Cost of Living Adjustment (COLA) letters, and thanked J. Winkelman for his efforts on those improvements. He stated J. Winkelman and his staff have completed publication of the Annual Investment Report. R. Gerke commented that in an effort to reduce costs and improve distribution, access to the report is being encouraged through digital means via NPERS website, instead of hard copy report distribution.

R. Gerke is working with NPERS managers regarding strategic planning for the agency and thanked managers for their efforts.

R. Gerke commented the open Accountant I position was filled internally by Caleb Taylor which will open C. Taylor's position.

R. Gerke stated he attended a National Council on Teacher Retirement (NCTR) webinar presented on Investment Risk Defeasement Measurement. A new actuarial standard being implemented will transition from the standard actuarial practice of using the discount rate, to utilizing the treasury rate, which is a lower rate. This means the unfunded liability will appear to be higher. This is concerning to the Defined Benefit (DB) plans, and R. Gerke has invited P. Beckham to the annual PERB retreat to explain this actuarial change. It is a part of the solvency consideration. There are actuarial individuals who have fought against this change. J. Elliott stated and R. Gerke confirmed NPERS can educate people regarding this change and the optics it may provide.

R. Gerke and O. Hill have conducted several outreach efforts, including R. Gerke's meeting with Scott Holecheck and N. Reimer of Ameritas, regarding online DCP enrollments and accounts with small balances

R. Gerke and O. Hill met with Mike Dulaney, Director of the Nebraska Council of School Administrators, and Sarah Waldman, Executive Director of the Teammates mentoring program, regarding the Teammate program and how participation and involvement may effect contributions in the retirement plan. While Teammates is largely voluntary, plan members can be employed by Teammates and schools, and compensation and plan contributions are a complicated issue. NPERS wants to support the Teammates program, while following the rule of law concerning contributions and looks forward to further discussions.

Upcoming outreach meetings will occur with Senator Kolterman and K. Allen. R. Gerke and O. Hill will visit the Lied Lodge to speak with Nebraska Association of School Personnel Administrators (NASPA) representatives, a personnel and human resources school group. There are similar County associations, and J. Winkelman attends the County Clerks meetings to provide information. R. Gerke and O. Hill will meet with Lynn Melson, Assistant Attorney General, of the Nebraska Attorney General's Office.

R. Gerke stated he contacted the Governor's office, and there has been no movement in regard to the open position on the PERB.

D. Blank thanked R. Gerke for the efforts regarding strategic planning. He stated there were brief mid-term reports in the past which would be beneficial to the PERB. R. Gerke stated he would provide a report, and asked O. Hill to clarify Open Meetings rules. O. Hill stated the PERB would need to be very careful to not engage in dialogue surrounding a mid-term report to not violate Open Meetings laws, and replies to this update should not encourage a dialogue.

J. Schulz moved to approve the Director's Report. K. Ackerman 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.

Agenda Item 10 – Board Committee Reports: P. Lancaster, the Chair of the Education Committee, stated she met with R. Gerke to discuss the PERB annual retreat. The education Committee is comprised of P. Lancaster, as Chair, J. Derr, and M. Walden-Newman. The committee is considering budgetary constraints and employee time, and recommends holding this year's annual retreat in Lincoln. She commented possible retreat topics may include disaster recovery, a fiduciary duty discussion by a representative from the Nebraska Accountability and Disclosure Commission, and a presentation of the PERB self-assessment could be presented during Executive session. J. Elliott commented that NPERS employees and plan membership, who attend PERB meetings, are not best served by moving locations.

Agenda Item 11 – Board Education/Travel Requests: There were no requests.

Agenda Item 12 – Future Meetings/Agendas: The next PERB meeting is Monday, June 18, 2018.

Agenda Items 13 and 14 – Executive Session: At 12:01 p.m., D. Blank 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 D-18-1; Personnel Matters; Protection of Public Interest; Prevention of Needless Injury to the Reputation of an Individual, and Update on Pending Litigation; Protection of Public Interest. D. Leonard seconded the motion. J. Elliott repeated the motion for the record. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, J. Elliott, P. Lancaster, D. Leonard, and J. Schulz. Against: None. Motion carried.

At 1:13 p.m., J. Derr moved that the Board exit Executive Session and reconvene in Regular Session. P. Lancaster 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.

D. Leonard moved for approval of Case Review No. D-18-1. D. Blank 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.

Adjournment: D. Leonard moved the meeting adjourn. J. Schulz 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.

The meeting adjourned at 1:15 p.m.

A handwritten signature in blue ink, appearing to read "Randy Gerke". The signature is stylized with a large initial "R" and a long horizontal stroke.

Randy Gerke
Director