

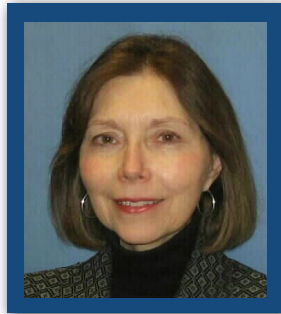
RETIREMENT NEWS

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS SJP • SEPTEMBER 2017

Phyllis Chambers' Retirement

At their monthly meeting on December 18, 2006, the Public Employees Retirement Board (PERB) announced Phyllis Chambers had been selected as the new Director at NPERS. Now, after ten plus years of dedicated service, Phyllis has decided to retire effective September 1, 2017.

Phyllis' hard work and leadership has greatly benefited our agency and plan members, and there have been many accomplishments under her direction. When asked if there were any specific ones she would like noted, her first comment was "Yes, but the achievements over the last decade would not have been possible without the commitment of the PERB and the dedication of our incredible staff at NPERS."



Some of the highlights during her tenure include:

- On January 1, 2007, membership in all plans totaled 104,599 with assets of over \$9.2 billion. On June 30, 2017, membership had grown to 128,958 with assets of \$14.5 billion.
- During the ten-year period from 2007 to 2017:
 - **Over \$5.4 billion dollars in benefits were paid out to plan members.**
 - **22,955 retirements were processed.**
 - **50,648 refunds were issued.**
 - **NPERS Call Center answered 378,335 calls and conducted 21,720 office visits.**
 - **NPERS Data Services processed 391,098 pieces of incoming mail, 2,656,979 pieces of outgoing mail, and scanned 3,253,158 documents.**
 - **Multiple statutory changes to plan provisions were successfully implemented and communicated to plan members and employers.**

- **NPERS staff, working in conjunction with the Auditor of Public Accounts, successfully resolved and reduced the amount of audit points to zero.**
- **Internal audit procedures were improved for School and County employers.**
- **19,739 members attended 471 retirement seminars conducted across the state.**
- **Member handbooks were updated and revised on a regular basis.**
- **NPERS Rules and Regulations were revised and updated on a regular basis.**
- **Procedures for handling deceased member accounts and beneficiary payments were improved.**
- **NPERS website evolved to provide greater transparency and accessibility as more member services, information, reports and publications were made available online.**
- In 2007 and 2012, a second and third opportunity for State and County Defined Contribution members to convert to Cash Balance was implemented.
- In 2008, the State Patrol Deferred Retirement Option Plan (DROP) was implemented per state statute.
- In 2009, with the assistance of the Office of the Chief Information Officer, NPERS successfully completed the Information Technology conversion to the new Nebraska Public Retirement Information System (NPRIS). This data management and processing software added enhanced features and security.
- In 2010, working in conjunction with the plan actuary and Nebraska Retirement Systems Legislative Committee, software was created to study the long-term funding of the defined benefit plans.
- Experience studies were conducted by plan actuaries in 2011 and 2016. Data from these

IN THIS ISSUE...

Phyllis Chambers' Retirement 1
 LB 415 Changes.....2
 Reemployment/Termination.....4
 PERB News.....4
 Rainy Day Fund.....5
 DCP Fees6



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2017

LEGISLATION

During the 2017 legislative session, one bill impacting the School, Judges, and Patrol retirement plans was passed and signed into law. This bill, LB 415, contained provisions amended from several other bills. The descriptions below only highlight the provisions impacting the benefits of the School, Judges, and Patrol plans and is not intended to be a comprehensive description of the full content of the bill. A link to the Nebraska Legislature is available on the Legislation page of our website for individuals who wish to review the full provisions of LB 415.

LB 415 Makes Multiple Changes!

Provisions Impacting School, Judges, & Patrol Plans

Annuity Rates & Mortality Tables

Currently, monthly retirement benefits are calculated using the 1994 Group Annuity Mortality Table and an 8% interest (annuity) rate. LB 415 allows the use of updated mortality factors and allows the PERB to adjust the interest rate. These provisions will not apply to current members, but will impact all members hired on or after July 1, 2017; or members rehired on or after July 1, 2017, who have taken a retirement benefit or refund of their account.

Changes to mortality assumptions and interest rates shall be recommended by the plan actuary and approved by the PERB after completion of an actuarial experience study, a benefit adequacy study, or a plan valuation. Retirement benefits will be calculated using the mortality table, interest rate, and other actuarial factors in effect when the member begins receiving benefits (Effective Date of Retirement).

Military Service

Members who are reemployed after qualified military service will be granted vesting and benefit credit for the period of military service. The employer shall be responsible for funding military service benefits including both the member and employer contributions, and any additional actuarial costs to fund the plan.

These changes to military service credit provisions only apply to military service that falls within the definition of uniformed service per the Uniformed Services and Reemployment Rights Act of 1994 (USERRA). The bill allows the Public Employees Retirement Board (PERB) to adopt and promulgate rules and regulations to carry out these provisions including, but not limited to, notification of military service, acceptable methods of payment, determining the compensation upon which the contributions must be made, and the documentation required to substantiate that the individual was reemployed pursuant to USERRA.

Date of Hire

For retirement plan purposes, the bill defines hire date or date of hire as “the

first day of compensated service subject to retirement contributions.”

Provisions Impacting Judges & Patrol Plans

LB415 increased the filing time for retirement applications from 90 to 120 days prior to the effective date of retirement.

Provisions Impacting School Plan Only

Rule of 85

LB 415 increases the minimum age to qualify for the “Rule of 85” for members hired on or after July 1, 2018. Under the new language, a member must be at least 60 years old and have a minimum of 25 years of service to qualify for unreduced benefits under the Rule of 85. This provision would also apply to members who have taken a refund or retirement benefit and subsequently return to plan participation (reemployed) on or after July 1, 2018. A reemployed member who has taken a refund may return to their prior Rule of 85 status if they repay the refund in full per plan provisions.

Service Credit

The bill provides additional definitions of service credit in the School Plan for employees hired on or after July 1, 2018. Used sick and vacation leave must be leave accrued by the member in order to be counted as service credit. "Sick Leave Bank" or donated leave used by a member would not be eligible for service credit. Jury duty is added to the definition of service credit when the member was paid full compensation by the employer for their period of jury duty. Finally, the bill limits service credit to only those items found in the statutory definitions.

Early Retirement Inducements

Clarifies early retirement inducements (incentives) are not counted as compensation for all plan members and further defines these payments. Employers and terminating members must provide

written notification to NPERS indicating whether or not the member accepted and received an early retirement inducement. (See related article in this newsletter.)

Disability

LB 415 defines disability as "*an inability to engage in any substantially gainful activity by reason of any medically determinable physical or mental impairment which was initially diagnosed or became disabling while the member was an active participant in the plan and which can be expected to result in death or be of a long-continued and indefinite duration.*"

The bill also changes the application time frame for disability retirements. Previously, work related disability applications could be made within five years of termination, and non-work related applications within one year. Under the

new provisions of LB 415, all disability applications must be made within one year of termination of employment.

Purchases of Service

The provision allowing employers to pay for purchases of service under the 12-month preretirement option has been removed. Under the new language, these purchases must be paid for by the employee.

Verification of Termination

Employers must provide written notification to NPERS of all terminations. This notification shall include whether or not the member accepted and received a retirement incentive and written certification from both the member and employer that, prior to the member's termination, there was no prearranged written or verbal agreement to return to work in any capacity.

helped determine the actuarial assumptions to be used in plan valuations and funding.

- In 2012, compliance audits for all five retirement plans were conducted by Groom Law Group and The Segal Group. Statutory changes to the plans were coordinated with the Legislature to ensure compliance with Internal Revenue Code requirements.

- Favorable determination letters were obtained from the Internal Revenue Service for the School, Judges, State Patrol, State, and County retirement plans.

- Changes to the School, Judges, and Patrol plans were made by the Legislature to help ensure plan sustainability. Tier 2 benefits were added to the School plan in 2013, to the Judges plan in 2015, and to the State Patrol plan in 2016.

- Successful implementation of the Tier 2 benefits required NPERS staff to update processing software, rework publications and seminar content, educate reporting agents, and update our internal benefit processing procedures.

- In 2013, working in coordination with the Department of Administrative Services,

NPERS office was relocated to 1526 K Street. Backup servers were relocated to an alternative site for purposes of disaster recovery.

- A CEM Benchmarking study in 2013 compared NPERS services with other public retirement systems in a similar peer group and found administrative costs at NPERS averaged \$68 per active annuitant, which was \$53 below the peer average of \$121 per annuitant.

- A multi-year "data purification" project was carried out to confirm member data. This project has simplified benefits processing and will increase our capabilities to implement future processing enhancements.

- In 2015, a six-year beneficiary project was completed during which 46,262 beneficiary records were updated and entered into our NPRIS data system.

- The "Legacy Media Scanning Project" was initiated in 2015. This project consists of scanning member and employer records from ledgers, microfilm, and microfiche into our system. When completed, over 5 million pages of content will have been prepped, scanned, indexed,

and audited for quality control.

- NPERS was one of the state retirement systems awarded the Public Pension Standards Award for Funding and Administration in 2012, 2013, 2014, 2015, and 2016 by the Public Pension Coordinating Council.

Despite experiencing two recessions during this decade, NPERS plans remain well funded. As of the most recent actuarial valuations, plan funding is at 90% for the School plan, 89% for the State Patrol plan, 98% for the Judges plan, 105% for the County Cash Balance plan, and 105% for the State Cash Balance plan.

When asked about her plans during retirement, Phyllis commented during her first year she is simply looking forward to enjoying life and spending more free time with her family and friends. After that, time will tell.

Retirement will surely offer many new opportunities. Phyllis, those of us who have worked alongside you these past years sincerely hope retirement brings you the same success and happiness you experienced here at NPERS. Best wishes to you in all your future endeavors!

New School Plan Reemployment/Termination Requirements

One of the main duties at NPERS is to ensure the plans we administer are in compliance with the Federal tax code. Failure to comply can result in fines and penalties assessed to the plan, employers, and plan members. Even worse, non-compliance could jeopardize the plan's tax-qualified status.

An ongoing compliance issue is *reemployment after retirement*. Reemployment after retirement is defined as providing service for any employer participating in the plan, after taking a refund or retirement benefit. This would include a return to any school, ESU, or state agency participating in the school retirement plan.

The Federal tax code and State statutes require participants in the School plan (and the Judges & Patrol plans) to terminate employment prior to taking a refund or retirement benefit. State statute stipulates School plan members must incur a "bona fide separation from service" and establishes a 180-day break in service requirement. A member shall not be deemed to have terminated employment if they subsequently provide service (paid or voluntary) for any employer participating in the retirement system within 180 calendar days after ceasing employment, unless such service is minimal substitute or voluntary service provided on an intermittent basis.

In addition, Federal law prohibits a "retiring" employee from pre-arranging a return to employment (or service) with any employer participating in the plan. This is considered a "sham termination" and the IRS has communicated its intent to increase enforcement and prosecution of these arrangements.

If at any time it is determined the member did not

experience a bona fide separation from service, or a sham termination has occurred, benefits will be suspended. All benefits previously issued must be repaid – including interest. Failure to repay can result in garnishment of wages, checking and savings accounts, and other retirement assets.

In order to help protect the plan and plan members, this year the legislature passed LB 415 which added new verification of termination



requirements for School plan members and employers. Employers and terminating members must provide written notification to NPERS certifying there was no prearranged written or verbal agreement to return to work, and indicate whether or not the member accepted and received an early retirement inducement. (Please refer to the companion article for additional LB 415 provisions.)

LB415 broadly defines early retirement inducements (incentives) to include, but not limited to:

- A benefit, bonus, or payment to a member in exchange for an agreement by the member to

terminate from employment.

- A benefit, bonus, or payment paid to a member in addition to the member's retirement benefit.

- Lump sum or installment cash payments, except payments for accrued unused leave converted to cash payments.

- An additional salary or wage component of any kind that is being paid as an incentive to leave employment and not for personal services performed for which creditable service is granted.

- Partial or full employer payment of a member's health, dental, life, or long-term disability insurance benefits or cash in lieu of such insurance benefits that extend beyond the member's termination of employment and contract of employment dates.

- Any other form of separation payments made by an employer to a member at termination, including, but not limited to, purchasing retirement annuity contracts for the member or depositing money for the member in a 403(b) retirement account.

NPERS is currently in the process of creating the necessary forms and procedures to implement these new statutory provisions. Once this process is complete, we will provide further guidance to plan members and employers.

Reemployment after retirement is a complex topic and one that can lead to unwelcome consequences for non-compliance. Members are encouraged to adhere to the separation of service requirements and contact our office if they have questions or concerns.

New and Retiring Retirement Board Members

Ron Ecklund has announced his resignation after completing a 5-year term on the Nebraska Public Employees Retirement Board (PERB). Mr. Ecklund was appointed to the Board as a Public Member in 2012. During his tenure, he was active on the PERB Audit Committee and was elected Chairman of the Board for 2016. We would like to thank Mr. Ecklund for his service and contributions to the PERB, and wish him the best in his future endeavors.



Ron Ecklund

Governor Ricketts has appointed and the Legislature has approved Jim Schulz to replace Ron Ecklund as a Public Member representative of the PERB. Mr. Schulz is a retired insurance and financial services executive who resides in Lincoln. He was the Senior Vice President of Retirement Plans for Ameritas from 2010 to 2013 and President of Midlands Financial Benefits from 1979 to 2010. Mr. Schulz is a University of Nebraska



Jim Schulz

Lincoln graduate with a Bachelor's Degree in Business Administration/Actuarial Science.

Mr. Schulz currently serves on the Boards of Madonna Rehabilitation Hospital (past Chair) and First State Bank Nebraska. He is a member of the National Association of Insurance and Financial Advisors (NAIFA), served on the NAIFA Nebraska Board and was President of the local (Lincoln) NAIFA Association. He previously served as Board Member and Chair of Madonna Rehabilitation Hospital Foundation and Continuum EAP.

NPERS would like to welcome Mr. Schulz to the PERB.

RAINY DAY FUND



There are three financial goals everyone should strive to achieve. Save for retirement, pay off debt, and create an emergency or “rainy day” fund. Saving for retirement and paying off debt are generally at the top of the agenda, but creating an emergency fund is also an important component of a solid financial plan.

The game of life will, on occasion, have detours. Sudden and unexpected events such as the loss of a job, essential repairs to a home or car, or costly medical expenses, can create a severe financial hardship. Individuals who are not financially prepared for these situations run the risk of running up credit card debt, and/or raiding their savings. Both of those are bad choices. Two better options for these situations are carrying adequate insurance coverage (home, auto, health) and building an emergency fund.

Once you have decided to create an emergency fund, your first question will be “how much?” The amount you should stash away will vary depending on monthly expenses. Most financial planners recommend an emergency fund that can cover these expenses for three to six months. Sit down and review your spending habits/bank statements to calculate what you spend each month on essential expenses such as:

- Mortgage or Rent
- Food
- Health Care/Insurance
- Utilities (cable is not an essential utility...)
- Transportation
- Debt payments

This should represent the minimum amount you need to make ends meet each month. Now multiply by three, and you have your starting goal.

Keep in mind the three to six-month rule of thumb may not apply to everyone. You may want to save more if:

- You anticipate difficulty in finding employment if you get laid off.
- You anticipate the possibility of large expenses in the future. Common examples would be recurring

health issues, an aging automobile, or a home with a 20-year-old furnace, etc.

A smaller emergency fund may be acceptable if:

- You have substantial dollars left after paying your monthly bills.
- You have excellent insurance coverage.
- You have no or very low debt.
- The equity in your home would allow you to apply for a low interest home equity loan or line of credit.

Now you need to decide where to maintain the fund. It may be tempting to use your current checking or savings account, but most individuals will have better luck creating a separate account. A separate account makes it easier to track the balance and harder to access those funds “on a whim.” In addition, your emergency fund should be maintained in an account that is “liquid” and safe from market fluctuations. Traditionally the simplest approach is to use a basic savings account. You won’t get much in the way of return, but ease of access and stability are your goals for this fund.

There are several options available when searching for a savings account. Be sure to review the interest rates offered. When selecting an account, search for one that is FDIC insured, has low (or no) minimum balance requirements, and no account maintenance fees. Be aware some accounts may offer an introductory interest rate that will be reduced after a set period of time.

Here is the hard part. Getting funds into your account. A sizeable portion of the dollars left after paying essential expenses should go into your emergency fund. Start small if necessary. Small infusions into the account are better than nothing at all. It may help if you can view the emergency fund as a bill you need to pay each month. Consider setting up an automatic deposit into the fund from your paycheck or checking/saving account.

Finally, you should ONLY tap into the fund for appropriate expenses! Resist the urge to spend those dollars for items or situations that are not actual emergencies, and be sure to replenish the fund after you take a withdrawal.

Modification to DCP & DROP

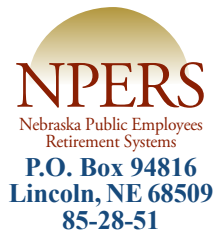
Final Distribution Fees

In the March newsletter, we announced the new fees that went into effect on October 1, 2016 for record keeping services. These fees are assessed by Ameritas, the plan record keeper, and apply to Judge and Patrol plan members participating in Deferred Compensation Plan, or Patrol members with DROP accounts.

Effective June 1, 2017, the fees assessed on final distributions have been updated:

- No fee for a final distribution of less than \$100.
- A \$35 fee for final distributions of \$100 up to \$250.
- A \$75 fee for final distributions over \$250.

The other record keeping fees outlined in the March newsletter are unchanged.

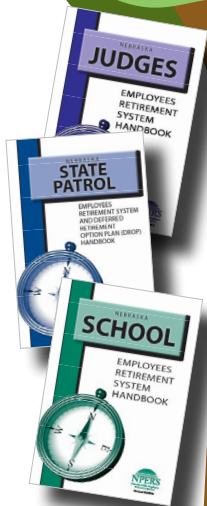


NPERS handbooks offer a wealth of information for plan members, including information on the following topics:

- Member Benefits
- Beneficiary Designations/ Death Benefits
- Reemployment
- Payment Options
- Taxation of Benefits
- Fees
- Vesting

All handbooks are available in PDF format on the Publications/Videos page on the NPERS website.

npers.ne.gov



Visit the NPERS website to download your Plan Handbook, print off necessary forms, estimate your benefit, and more!

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