RETIREMENT NEWS

FOR NEBRASKA STATE AND COUNTY EMPLOYEES | *JULY 2019* | NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS

IN THIS ISSUE

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RETIREMENT BOARD NEWS


Denis Blank

With deepest appreciation and regard, we would like to announce, after 18 years of dedicated service; Denis Blank has resigned from the PERB. As an employee of the Nebraska Department of Agriculture, he was originally nominated to the Board in 2001 as the State plan representative. In 2006, Denis was elected Vice-Chair of the PERB and was subsequently elected to serve as Chair from 2007 to 2016. Denis' experience and knowledge will be missed, and we would like to thank him for his many years of service. We wish him a long and happy retirement!

Governor Ricketts has appointed, and the Legislature has approved, two new members to the PERB. Allen Simpson will serve as the new State plan representative, and Major Mike Jahnke will serve as the new State Patrol plan representative.


Allen Simpson

Mr. Simpson previously served in the Missouri and Nebraska Air National Guard. He enlisted in the Missouri Air National Guard in February 1986, before joining the Nebraska Air National Guard and earning his commission in the summer of 1992. He served as the 155th Air Refueling Wing Budget Officer from 1992 through 1996, when he was selected as the unit's Comptroller. In 2006, he was selected as the first Commander of the 155th Comptroller Flight where he was responsible for formulating, developing and executing financial budgets for more than 976 Guard members in the Air Refueling Wing.

During his service tenure, Mr. Simpson earned the highest financial certification from the Department of Defense when he received the Certified Defense Financial Manager Level III Certification. His expertise in managing federal tax dollars was instrumental in his selection to the National Guard Bureau Financial Stewardship team, formed to ensure the entire National Guard expanded its judicious financial stewardship of federal tax money throughout all of its units in the United States. Finally, under his leadership in 1996, 2000, 2001, and 2008, the Nebraska finance office was recognized by the National Guard Bureau as the best finance office for the Air National Guard. He retired after a 30-year military career on January 3, 2017.

Mr. Simpson was selected in March of 2019 to serve as the State Risk Manager. As the Risk Manager, he has oversight of the Risk Management Program for the State of Nebraska which includes negotiating and contracting for the state's insurance and risk management services, and the responsibility for the statewide safety program.

Mr. Simpson also serves as the head girls' basketball coach at Lincoln Lutheran High School. His passion for basketball was an instrumental reason he started the Nebraska Lasers, a non-profit organization to serve both youth and high school girls basketball players in the state of Nebraska.

He received a Bachelor degree in Office Administration/Secondary Education from Northwest Missouri State University, Maryville, Missouri in December 1987.

Mr. Simpson is married to Tonya and has two daughters Ashley and Erin and one son, Jameson who attends Lincoln Lutheran Middle School.

We will feature biographical information for Major Mike Jahnke in the next State and County newsletter.

NO CASH BALANCE DIVIDEND 2019

Each year the plan actuary performs a valuation of the State and County Cash Balance plans. These studies are conducted to assess the funded status of the two plans. If the plans have sufficient funding, the Public Employees Retirement Board (PERB) has the authority to issue a dividend to plan participants. If the plan fails to meet the funding policy, then statute directs an additional contribution be made by the State to satisfy funding requirements.

At the May 20th board meeting, the 2019 annual actuarial reports for the State and County Cash Balance trust funds were presented to the PERB. The good news is both plans are still financially sound. The study reported the rate of return on assets was 5.9% for the State plan

"NO CASH BALANCE DIVIDEND 2019" CONTINUED ON PAGE 4

2019 LEGISLATION

During this session of the 106th legislature, the following bills impacting the State and County retirement plans were passed. The descriptions in this newsletter only cover provisions affecting the State and County plans. Please refer to NPERS website for a full description of the 2019 retirement legislation.

LB 32 – STATE/COUNTY DEFINED CONTRIBUTION & DCP

LB 32 allows the Nebraska Investment Council (NIC) to modify the 13 investment options currently provided to participants in the State and County Defined Contribution plan and the voluntary State Deferred Compensation Plan (DCP).

On or after January 1, 2021, investment options shall include, but not be limited to:

- An investor select account which shall be invested under the direction of the state investment officer with an asset allocation and investment strategy substantially similar to the investment allocations made by the state investment officer for the defined benefit plans. These investments shall most likely include domestic and international equities, fixed income investments, and real estate, as well as potentially additional asset classes.
- A stable return account which shall be invested by or under the direction of the state investment officer in a stable value strategy that provides capital preservation and consistent, steady returns.
- An equities account which shall be invested by or under the direction of the state investment officer in equities.
- A fixed income account which shall be invested by or under the direction of the state investment officer in fixed income instrument.
- A life-cycle fund which shall be invested under the direction of the state investment officer with an asset allocation and investment strategy that adjusts from a position of higher risk to one of lower risk as the member ages.

Under the provisions of the bill, the life-cycle fund will become the default option for members who do not make an investment election.

For more information, please refer to the Nebraska Investment Council article in the April newsletter. Additional articles on the new investment options will appear in future newsletters.

LB 33 – RETIREMENT BOARD

LB 33 increased the PERB per diem from $50 to $75. In addition, the bill changes the actuary contract limits to allow for two 3-year options, and removes the requirement for a competitive, formal, sealed bidding process for the legal compliance audit. Finally, the bill changes the due date of the Annual Legislative Report from March 31 to April 10, effective 2020.

LB 34 – STATE & COUNTY

Provisions of LB 35, LB 36, and LB 565 were amended into this bill.

Under prior law, State and County members who filed a grievance regarding a dismissal of employment could withdraw up to $25,000 from their account pending the outcome of the grievance. This provision was not in compliance with the requirement of a bona fide termination of employment prior to account distribution. To maintain plan compliance, LB 34 eliminated this grievance distribution provision.

LB 34 made changes to the eligibility and reemployment provisions of the County and State plans.

It requires permanent full-time State and County employees be at least 18 years old to participate in the plan, consistent with the requirement for part-time employees.

The bill made multiple changes to reemployment provisions. Unchanged from current statute, a State or County member who is reemployed *in any capacity with less than a 120-day break in service* shall not be deemed to have terminated employment. In this instance, the member must:

- Return to plan participation. A member previously participating in Defined Contribution resumes participation in Defined Contribution. A member participating in Cash Balance resumes participation in the Cash Balance Tier they were previously participating.
- Repay all distributions, including annuity payments. No further distributions may be taken.
- If applicable, make up any missed contributions.

Effective January 1, 2020 per the new provisions, a State or County member who is reemployed *on a permanent full or permanent part-time basis on or after a 120-day break in service*:

- A member previously participating in Defined Contribution resumes participation in Defined Contribution. A member participating in Cash Balance resumes participation in the Cash Balance Tier in which they were previously participating.
- If the member purchased an annuity, these payments will continue.
- No further distributions may be taken until the member again terminates employment at all employers/entities participating in the plan.
- If the member was previously vested, they remain vested.
- If the member was not vested at the time of termination, prior

vesting credit shall be restored if they did not take a distribution.

- If the member was not vested at the time of termination and took a distribution, vesting credit for the prior service is forfeited. During the first three years after reemployment, the member may make a one-time election to repay lump sum and/or rollover distributions. If repayment is elected, vesting credit and forfeited employer matching contributions shall be restored in proportion to the percentage of repayment against the total value of all distributions. Repayment must be completed within five years of reemployment or prior to termination, whichever is earlier.

Lastly, the bill designates the spouse of a married plan member as the default primary beneficiary for the State, County, School, and DCP plans. When a married plan member dies with no beneficiary designation on file, the surviving spouse who was married to the member on the member's date of death shall be considered the primary beneficiary of the retirement account.

REQUIRED MINIMUM DISTRIBUTIONS

Each year, *terminated* plan members who are age 70½ and older are required by federal law to take a *taxable* Required Minimum Distribution (RMD) amount from their mandatory State or County, and voluntary Deferred Compensation Plan (DCP) accounts.

Failure to take RMDs can result in serious tax penalties assessed to the member and the eventual transfer of retirement assets to unclaimed property!

This article will examine how RMD amounts are determined, when distributions should be taken, and provide guidance on how plan members can comply with these regulations.

NOTE: these regulations do NOT apply to members who are still actively working and participating in the plan (State/County) at a participating employer.

RMD DEADLINES

Distributions can be broken down into two separate deadlines – the *initial* RMD and *subsequent* RMDs.The initial RMD amount is due the calendar year the terminated member turns age 70½. If the member terminates at a later age, the initial RMD amount is due the calendar year of termination. The federal tax code allows individuals to delay taking their initial RMD amount until April 1 of the following year. If the member delays taking the amount of the initial RMD to the following year, the first subsequent RMD amount must be taken by December 31 of that same year. All future subsequent RMDs must be taken each year by December 31.

This means the April 1 "delayed" deadline is for the *initial RMD amount only.* For example, if a terminated member turns 70½ during 2020, the initial RMD amount must be taken by April 1, 2021. If the member delays taking the initial RMD until 2021, the first subsequent RMD for 2021 must be taken by December 31, 2021.

RMD AMOUNTS

The RMD amount is determined using the balance of each separate NPERS account as of December 31 of the preceding year using a formula based on life expectancy tables published by the IRS. For example, to calculate a 2019 RMD you would use the account balance as of December 31, 2018. To assist, the IRS provides worksheets on their website. Once the amount has been determined, the member must withdraw at least this much money from their account, prior to the end of the year, in the form of a *taxable* distribution. Be aware a rollover to another "pre-tax" account is not a taxable distribution and will not satisfy the RMD.

YOUR RESPONSIBILITIES

NPERS will make every effort to provide RMD notifications to plan participants, **but it is the member who is ultimately responsible for taking distributions each year to satisfy the**

RMD requirements. We strongly recommend these steps:

1. Keep your address up to date with NPERS. Failure to maintain an updated address may result in missed RMD distributions and eventually, account transfer to unclaimed property.
2. File a timely request for taxable distribution when you receive an RMD notification from our office.
3. Begin taking timely taxable distributions from your NPERS accounts if you terminate employment on or after age 70½.

HOW WE HELP

Clearly this can be a complicated process, but NPERS does provide assistance.

NPERS mails annual RMD advisory notifications to both active and terminated plan members when they reach age 65. This notice is designed to inform members of the potential for a future RMD at age 70½.

Once a terminated member reaches the year they will turn 70½, or if we receive notification of termination for a member who is 70½ or older, NPERS will mail correspondence advising of the initial RMD due date and distribution options. If applicable, we will continue to provide notification each year for subsequent RMDs.

If we are unable to contact the member or if they fail to take a distribution by the due date, then the member account will be transferred to unclaimed property.

CASH BALANCE DISTRIBUTION

The Cash Balance plan allows *only one* distribution after termination. When the member elects to take a distribution, they can pick from multiple options but *they must take distribution of all the funds in the account at that time.*

Due to this one-time distribution requirement, a terminated **Cash Balance** member who has reached age 70 ½ must choose from the following distribution options:

- Use funds from the Cash Balance account to purchase an annuity. If the full account balance is used to purchase the annuity, the monthly annuity payments will fulfill current and future RMD requirements for this account.
- Elect to be paid the RMD in a lump sum and rollover the remaining balance of the Cash Balance account to another

qualified retirement plan (IRA, etc.). The member is responsible for taking all future RMD's from the rollover account.

- Elect to be paid the Cash Balance account in one lump sum.

The Cash Balance member may also select from a combination of the above options as long as they incorporate the *entire account at the same time*. For example, they may use part of the account to purchase an annuity and roll the remainder to another qualified retirement plan (IRA, etc.). They must however ensure that the taxable portion of the distribution (monthly annuity payments or partial lump sum) will satisfy the RMD amount for that year.

DEFINED CONTRIBUTION & DEFERRED COMPENSATION DISTRIBUTIONS

The mandatory Defined Contribution (DC) and the voluntary Deferred Compensation Plan (DCP) do not have the one-time distribution limits that apply to Cash Balance. Terminated members participating in those plans should consider setting up systematic withdrawal distributions to satisfy RMD requirements. If they are participating in multiple plans, a separate RMD must be taken for each account.

ROLLOVERS?

In all instances, if an RMD is due, the member cannot rollover the entire account. Funds rolled into another qualified retirement account are not a taxable distribution and will not count toward satisfying the RMD amount. A separate lump sum distribution large enough to satisfy the RMD must be taken in addition to the rollover.

RMD NOTICE

NPERS will send notification if our records indicate the RMD has not been satisfied but it is the member's responsibility to fulfill this requirement. Failure to take the RMD can result in tax penalties and eventual transfer of assets to unclaimed property.

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"NO CASH BALANCE DIVIDEND 2019" CONTINUED

and 5.8% for the County, which are lower than the actuarial assumed rate of 7.5%. While these returns fell below the desired rate, the report advised member and employer contributions are currently sufficient to meet funding requirements. No additional contributions are needed from the State of Nebraska during the coming fiscal year.

The PERB also uses the report to determine if a dividend can be issued for Cash Balance members, and the dividend rate. By law, dividends may be issued only if the dividend would not increase the actuarial contribution rate above 90% of the actual rate. In addition, PERB policy requires the plan be at least 100% funded on both a "Funded Basis" and a "Current Value Basis" after the dividend is granted. Unfortunately, for the current plan year, these criteria have not been met and a dividend may not be granted.

The full actuarial valuation reports may be viewed on the Publications page on the NPERS' website.

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QUARTERLY CASH BALANCE RATE

For the quarter beginning July 1st, 2019, the rate of return for Cash Balance participants is 5%.

The current and historical Cash Balance rates of return are available via the "Cash Balance Rates of Return & Dividends" link on our website.