

## PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

December 20, 2010

10:00 A.M.

A regular meeting of the Public Employees Retirement Board convened at 10:00 a.m., Monday, December 20, 2010, in the Great Western Bank Conference Center, 1221 "N" Street, Lincoln, Nebraska.

The Board members were notified of this meeting by Agenda mailed December 13, 2010. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, December 13, 2010. D. Blank chaired the meeting and V. Huber recorded the minutes.

MEMBERS PRESENT:

DENIS BLANK, CHAIR  
SGT. GLENN ELWELL, VICE-CHAIR  
MARK SHEPARD  
JUDGE RANDALL REHMEIER  
RICHARD WASSINGER  
DON PEDERSON  
ELAINE STUHR  
JANIS ELLIOTT  
JEFF STATES, EX-OFFICIO

### NONMEMBERS PRESENT:

PHYLLIS CHAMBERS Director	KRISTA DAVIS State Auditor's Office
RANDY GERKE Deputy Director	NEIL BATEMAN Retired Teachers
JASON HAYES Legal Counsel	NANCY REIMER Ameritas
FRED TURNER IT Manager	JERRY HOFFMAN Nebraska State Education Association
TERESA ZULAUF Internal Auditor	VICKI HUBER Administrative Secretary

**Agenda Item 1:** D. Blank stated this meeting will follow the Nebraska Open Meetings Act and a copy of the Act is located on the table by the doors.

**Agenda Items 2 and 3 – Meeting Called to Order:** D. Blank called the December 20, 2010, Board Meeting to order at 10:00 a.m. Present at roll call: D. Blank, G. Elwell, R. Rehmeier, R. Wassinger, E. Stuhr, J. Elliott, and J. States. Absent: M. Shepard and D. Pederson.

**Agenda Item 4 – Approval of Minutes:** E. Stuhr moved for approval of the minutes of the November 15, 2010, Board Meeting. G. Elwell seconded the motion. Members voted as follows: For: G. Elwell, R. Rehmeier, R. Wassinger, E. Stuhr, J. Elliott, and D. Blank. Against: None. Motion carried.

**Agenda Item 5 – Approval of Budget Status Report & November 2010 Retirement Report:** R. Wassinger moved to approve the budget status report and the November 2010 Retirement Report. J. Elliott seconded the motion. Members voted as follows: For: R. Rehmeier, R. Wassinger, E. Stuhr, J. Elliott, D. Blank, and G. Elwell. Against: None. Motion carried.

D. Pederson joined the meeting at 10:04 a.m.

**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 – Global Equity Fund:** P. Chambers opened discussion regarding the recommendation made by Hewitt Ennis Knupp at the November 15, 2010, Joint PERB and NIC meeting, to add global equity fund and treasury inflation-protected securities (TIPS) fund options to the State and County Employee's Defined Contribution (DC) Plans and Deferred Compensation Plan (DCP). She expressed support for adding the global equity fund option.

M. Shepard joined the meeting at 10:10 a.m.

J. Hayes stated that after reviewing the statutes, legislative revisions would not be required in order to add fund options to the plans.

R. Rehmeier provided insight on statutes that regulate the NIC and the PERB and compared their duties, in regards to the administration and fund management of the retirement plans. Members discussed the PERB's fiduciary responsibility to plan participants, their relationship with the NIC, and their legal obligation, if any, as it relates to the selection of fund options.

J. States mentioned that it is customary for the NIC to actively involve NPERS, when contemplating changes in fund options for the plans administered by the Board. The NIC considers the impact any change would have on the cost of education and the administration of the plans. He reported the NIC agrees with the recommendation by Hewitt Ennis Knupp to add the global fund, and is in the process of looking at new global fund managers.

G. Elwell commented that it is the PERB's fiduciary responsibility to voice an opinion, if they have reservations on pending changes to the investment options.

R. Rehmeier moved for the NIC to take into consideration the reports and recommendations made by Hewitt Ennis Knupp at the November 15, 2010, Joint PERB and NIC meeting. M. Shepard seconded the motion. Discussion: Members of the Board and legal counsel discussed the interpretation of the language included in the pending motion.

R. Rehmeier moved to table the current pending motion. J. Elliott seconded the motion. Members voted as follows: For: R. Rehmeier, R. Wassinger, D. Pederson, E. Stuhr, J. Elliott, and D. Blank. Against: G. Elwell and M. Shepard. Motion carried.

D. Blank requested J. Hayes, R. Rehmeier, and P. Chambers meet to discuss the matter further and the Board will reconsider it at a future meeting.

**Agenda Item 8 – Information System Update:** F. Turner reported 13 new problem incident reports (PIRs) came in during November, 13 PIRs were resolved, leaving a total of 36 PIRs open on November 30, 2010.

He stated the Saber Service Level Agreement contract between Hewitt-Packard State and Local Enterprise Services, Inc. (HPSL) and NPERS will end December 31, 2010; therefore, the remaining onsite HPSL resource will be reassigned and will no longer be with us after that date. HPSL's legal staff is still reviewing the proposed contract for future support.

F. Turner reported a portion of the Disaster Recovery Manual is targeted to be approved in January 2011. He also has been working with the Office of the Chief Information Officer (OCIO), reviewing phone system options to be used during a possible disaster.

He reported meeting with the OCIO regarding SharePoint, a tool to replace NPERS' intranet, which will assist in using information resources internally.

J. Elliott moved to approve the Information System report submitted by F. Turner. E. Stuhr seconded the motion. Members voted as follows: For: R. Wassinger, D. Pederson, E. Stuhr, J. Elliott, D. Blank, G. Elwell, M. Shepard, and R. Rehmeier. Against: None. Motion carried.

**Agenda Item 9 – Internal Auditor Report and Three-Year Audit Plan:** T. Zulauf reported her department has completed 39 School audits and 17 audits are in process. Findings continue to include incorrect or incomplete demographic information; lack of sufficient documentation to support hours worked; and failing to enroll School employees in the plan who should be participating.

In regards to County employer audits, she reported 18 audits are complete and 11 are in process. Five counties and two public health district audits will be started in January 2011. She stated County audit findings also include incorrect or incomplete demographic information and delays in enrollment for part-time employees working enough hours to be enrolled in the plan. Her staff is working on implementing a procedure to review audits in a timelier manner, before the State Auditor's office begins its audit.

T. Zulauf reported the Internal Auditor staff has worked to resolve 36 of the School, Judges, and Patrol and 43 of the State and County prior audit points.

She stated her staff is working on improving and implementing review procedures for the Hartford Defined Compensation program. She will be reviewing disbursements from the Hartford program monthly.

Other accomplishments she reported included: provided updates for the new State and County Employer Manual; provided historical information to the Director on additional state funds requested for Program 515; and assisted the Educational Services department on the contents of the internal auditor newsletter, the School Employer Manual, and the School retirement plan member handbooks.

T. Zulauf provided the Board copies of the Three-Year Internal Audit Plan for the period of January 2011 through December 2013. The Three-Year Audit Plan addresses the audit priorities of NPERS and serves as the work plan for the Internal Auditor. T. Zulauf explained the audit plan, which includes internal audits and reviews and an audit tracking system. The plan also includes four appendixes which include a detailed table of projected internal audits, County and School employer audits, and a quarterly "look ahead" calendar which outlines the schedule of the internal audit plan.

She stated her staff will begin to perform more internal audits in January 2011.

G. Elwell requested T. Zulauf provide the Board with more updates in the area of risk management. He suggested she work with P. Chambers on a daily basis, the PERB Audit Committee as needed, and report to the Board on a quarterly basis.

R. Wassinger reported receiving forms from T. Zulauf to assist in reporting part-time employee's hours and determining their eligibility for participation in retirement. He stated the forms should reduce employer reporting errors.

J. Elliott requested T. Zulauf provide the Board a hard copy of the statistical information provided in her Internal Auditor reports. G. Elwell thanked T. Zulauf for an excellent report and requested a quarterly comparison chart be provided to allow the Board to observe the progression of quarterly audit findings.

D. Blank inquired as to whether T. Zulauf had anything that needed to be reported to the PERB in addition to her report. She responded "no."

G. Elwell moved to approve both the Internal Auditor report and the Three-Year Audit Plan report submitted by T. Zulauf. E. Stuhr seconded the motion. Members voted as follows: For: D. Pederson, E. Stuhr, J. Elliott, D. Blank, G. Elwell, M. Shepard, R. Rehmeier, and R. Wassinger. Against: None. Motion carried.

**Agenda Item 10 – Legal/Legislative Update:** J. Hayes provided a list of possible retirement changes being considered by senators and the Legislative Retirement Committee for the 2011 Legislature Session beginning on January 5<sup>th</sup>. The list included: eliminate a state contribution to Omaha School Employees Retirement System (OSERS), change State and County plan years to a fiscal year, possible increase in contribution rates for School employees and employers, elimination of exemptions for the 7% School compensation cap, include a global equity fund to the DC plans and DCP, and change a state grievance process for repaying retirement distributions.

The Board discussed implications of the loss of exemptions to the 7% School compensation cap.

D. Pederson moved to approve the Legal and Legislative report submitted by J. Hayes. M. Shepard seconded the motion. Members voted as follows: For: E. Stuhr, J. Elliott, D. Blank, G. Elwell, M. Shepard, R. Rehmeier, R. Wassinger, and D. Pederson. Against: None. Motion carried.

The Board took a break at 11:33 a.m. and reconvened at 11:43 a.m.

**Agenda Item 11 – Investment Officer’s Update:** J. States reported the November market finished almost flat or slightly down.

He reported the fiscal year-to-date through November was up at 11.8%, and on a calendar-year basis the actuarial report will benefit from a fairly solid 2010 performance for State and County plans.

J. States announced, as of Friday, December 17, 2010, First National Bank of Omaha is administering the College Savings Plan.

J. States reported receiving notification that Governor Heineman has recommended John Maginn be reappointed as a member of the NIC.

E. Stuhr moved to approve the Investment Officer’s report submitted by J. States. G. Elwell seconded the motion. Members voted as follows: For: J. Elliott, D. Blank, G. Elwell, M. Shepard, R. Rehmeier, R. Wassinger, D. Pederson, and E. Stuhr. Against: None. Motion carried.

**Agenda Item 12 – Director’s Report:** P. Chambers reported Doug Fiddler and Tammy Ringel, from Buck Consultants, presented the actuarial report to Governor Heinemann and the Legislative Retirement Committee on November 16, 2010. She stated the Governor raised concerns about the state contributions needed for the defined benefit plans and he questioned if the plans should be changed to a defined contribution plan. It was explained that the funding liability would remain, no matter what type of plan is administered.

Final copies of the State, Judges, and Patrol actuary reports were provided to the Board.

P. Chambers stated Senator Heideman inquired about a cost study to determine what the 30-year projection would be if the defined benefit plans were changed to a defined contribution or cash balance plan. She spoke with Dave Slushinsky, and reported Buck Consultants would be willing to prepare a 30-year projection model, which would take approximately six weeks. Senator Heideman wants to leave the decision of doing a long-range projection up to the new retirement committee chair.

P. Chambers announced she will be providing data on the 7% School compensation cap to Senator Loudon on Wednesday, December 22, 2010. NPERS’ IT department assisted in the research. She met with J. Hayes, NSEA lobbyists, J. Hoffman, school board members, and

school administrators on the matter. Communication will continue throughout the upcoming legislative session.

Based on the actuarial projections, P. Chambers and R. Gerke sent a revised budget deficit request for \$48.8 million for FY 2011-2012 and an estimated \$79.7 million needed for FY 2012-2013.

P. Chambers distributed a handout provided by Senator Pankonin and Kate Allen, of the Addendum to Legislative Resolution 542 Interim Study Report for LR 542, regarding public pension obligations.

P. Chambers reported NPERS has been working with Ameritas on assigning the Stuhr Museum and county health districts their own plan numbers. This project affects 18 employers and 546 members and will improve employer reporting. Employers will be able to submit data and contributions via the Ameritas website.

P. Chambers announced she received certificates of reappointment from the Governor, for R. Wassinger and R. Rehmeier to continue to serve on the PERB until 2016.

D. Pederson reported speaking with Karen Kilgarin, with the NSEA, who will contact P. Chambers to help with the issue regarding moving to the Assurity building. P. Chambers has also been working with the State Building Division to address the lack of adequate useable space assigned to NPERS.

P. Chambers reported providing an administrative retreat for NPERS' managers at Cornhusker Industries on December 1, 2010. Topics were extended to a second day and included discussions on goals, strategies, and challenges facing NPERS.

M. Shepard moved to approve the Director's report submitted by P. Chambers. R. Rehmeier seconded the motion. Members voted as follows: For: D. Blank, G. Elwell, M. Shepard, R. Rehmeier, R. Wassinger, D. Pederson, E. Stuhr, and J. Elliott. Against: None. Motion carried.

**Agenda Item 13 – Board Committee Reports:** There were no reports.

**Agenda Item 14 – Board Education/Travel Requests:** There were no requests.

**Agenda Item 15 – Future Meetings/Agendas:** The next meeting will be held on Monday, January 24, 2011, in the in the Great Western Bank Conference Center, 1221 "N" Street, Lincoln, Nebraska.

**Agenda Items 16 and 17 – Executive Session:** At 12:18 p.m., R. Wassinger moved that the Board exit Regular Session and convene in Executive Session for the purpose of discussing Disability Applications for Retirement Nos. 133725 and 412188, personnel matters, and other legal matters. J. Elliott seconded the motion. D. Blank repeated the motion for the record. Members voted as follows: For: G. Elwell, M. Shepard, R. Rehmeier,

R. Wassinger, D. Pederson, E. Stuhr, J. Elliott, and D. Blank. Against: None. Motion carried.

G. Elwell and J. States left the meeting during Executive Session.

At 1:02 p.m., R. Wassinger moved the Board exit Executive Session and reconvene in Regular Session. R. Rehmeier seconded the motion. Members voted as follows: For: M. Shepard, R. Rehmeier, R. Wassinger, D. Pederson, E. Stuhr, J. Elliott, and D. Blank. Against: None. Motion carried.

R. Wassinger moved to approve the School Plan Disability Application of Retirement No. 133725 and the State Plan Disability Application of Retirement No. 412188. J. Elliott seconded the motion. Members voted as follows: For: R. Rehmeier, R. Wassinger, D. Pederson, E. Stuhr, J. Elliott, D. Blank, and M. Shepard. Against: None. Motion carried.

**Adjournment:** E. Stuhr moved that the meeting adjourn. D. Pederson seconded the motion. Members voted as follows: For: R. Wassinger, D. Pederson, E. Stuhr, J. Elliott, D. Blank, M. Shepard, and R. Rehmeier. Against: None. Motion carried.

The meeting adjourned at 1:06 p.m.

Phyllis G. Chambers  
Director