

PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

November 15, 2010

8:30 A.M.

A joint meeting of the Public Employees Retirement Board and the Nebraska Investment Council convened at 8:30 a.m., Monday, November 15, 2010, at the Embassy Suites, Regents E Conference Room, 1040 "P" Street, Lincoln, Nebraska.

The Board members were notified of this meeting by Agenda mailed November 5, 2010. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, November 8, 2010. D. Blank chaired the meeting and V. Huber recorded the minutes.

MEMBERS PRESENT: DENIS BLANK, CHAIR
MARK SHEPARD
JUDGE RANDALL REHMEIER
RICHARD WASSINGER
DON PEDERSON
ELAINE STUHR
JANIS ELLIOTT
JEFF STATES, EX-OFFICIO

MEMBERS ABSENT: SGT. GLENN ELWELL, VICE-CHAIR

NONMEMBERS PRESENT:

PHYLLIS CHAMBERS Director	JOLYNN WINKLER Nebraska Investment Council
GAIL WERNER-ROBERTSON Nebraska Investment Council	GAYLE WRASSE Nebraska Investment Council
DR. RICHARD DeFUSCO Nebraska Investment Council	CHRIS SANDERS Nebraska Investment Council
JOHN MAGINN Nebraska Investment Council	RANDY GERKE Deputy Director
JOHN DINKEL Nebraska Investment Council	JASON HAYES Legal Counsel
NORMAN RIFFEL Nebraska Investment Council	JOHN WINKELMAN Training Supervisor
KATHY DAWES Nebraska Investment Council	MIDEN EBERT Retirement Plan Supervisor
JOE JURICH Nebraska Investment Council	FRED TURNER IT Manager

TERESA ZULAUF

Internal Auditor

GARY BUSH

AS - State Budget Administrator's Office

DOUG FIDDLER

Buck Consultants

TAMMY RINGEL

Buck Consultants

KATHY TENOPIR

Legislative Fiscal Office

STEVE CUMMINGS

Hewitt EnnisKnupp

KEVIN VANDOLDER

Hewitt EnnisKnupp

CHRIS RILEY

Hewitt EnnisKnupp

CHRIS HEINRICH

Harding & Shultz

SHANE OSBORN

State Treasurer

KATE ALLEN

Legislative Retirement Committee

DON WESLEY

O'Hara Lindsay Government Relations

KRIS KUCERA

State Auditor's Office

TIM CHANNER

State Auditor's Office

NEIL BATEMAN

Retired Teachers

MICHAEL SMITH

Omaha School Employees Retirement System

BILL MUELLER

Nebraska District Court Judges Association

KORBY GILBERTSON

State Troopers Association of Nebraska

ERIC ASBOE

Nebraska Supreme Court

KAREN KILGARIN

Nebraska State Education Association

JERRY HOFFMAN

Nebraska State Education Association

AL KOONTZ

Nebraska State Education Association

PAUL HAMMEL

Omaha World Herald

MATT SCHAEFER

Mueller Robak LLC

VICKI HUBER

Administrative Secretary

Joint Meeting with the Nebraska Investment Council:

Agenda Items 1, 2, and 3: At 8:30 a.m., Nebraska Investment Council (NIC) Chairperson, G. Werner-Robertson, called the NIC Meeting to order. D. Blank called the Public Employees Retirement Board (PERB) Meeting to order. G. Werner-Robertson stated the meeting will follow the Nebraska Open Meetings Act and a copy of the Act is located on the table by the door.

Present at roll call: D. Blank, M. Shepard, R. Rehmeier, R. Wassinger, D. Pederson, E. Stuhr, J. Elliott, and J. States. Absent: G. Elwell.

Agenda Item 4 – Introductions and Comments by Chairpersons: G. Werner-Robertson recognized the NIC staff for their tremendous job in a challenging market environment. On behalf of the State of Nebraska, she thanked Treasurer S. Osborne who will be leaving the Council at the end of his term.

J. States recognized G. Wrasse who is retiring after working for the NIC for over 42 years and commented that her knowledge, experience, and dedication will be irreplaceable.

G. Werner expressed her appreciation to G. Wrasse and thanked the members of the NIC for their commitment to the Council and the State of Nebraska.

D. Blank introduced new Board member, R. Rehmeier, who was appointed to replace Judge Glenn Camerer in February. He reported Judge Camerer is recovering well.

He introduced J. Hayes, new Legal Counsel for NPERS and the PERB, and briefly reviewed his credentials.

D. Blank reported R. Wassinger and R. Rehmeier have been nominated by Governor Heineman to continue to serve on the PERB and thanked them for their service.

D. Blank distributed a summary of NPERS Year-To-Date Accomplishments as of October 30, 2010. He highlighted the fact NPERS reduced its operating budget by 2.5% last fiscal year and 5% for this fiscal year, while continuing to fulfill the mission of service excellence to approximately 110,000 participants in five different retirement plans. The handout included benefits processing and call center statistics, contract renewals, the lowering of administrative fees, and the introduction of the electronic delivery of newsletters and publications.

He introduced D. Fiddler and T. Ringel from Buck Consultants.

Agenda Item 5 – Actuarial Reports and Additional Contribution Projections for School, Judges, and State Patrol Plans: D. Fiddler presented the Actuarial Review for 2010 provided by Buck Consultants. His report included legislative changes since last year, history of investment return, and the 2010 actuarial valuation results as of June 30, 2010. A copy of the presentation is available from the Retirement Systems' office.

He will present the report to Governor Heineman and the Legislative Retirement Committee on November 16, 2010.

D. Fiddler stated other retirement systems are taking a variety of approaches to their funding shortages. He reported states are scaling back benefits for retired members, tiering benefits, automatically adjusting contribution rates to meet requirements, or taking a long term view and raising contributions gradually.

Agenda Item 6 – Quarterly Performance Report for Retirement Plans: K. Vandolder introduced S. Cummings, CEO for Hewitt EnnisKnupp.

K. Vandolder and C. Riley, from Hewitt EnnisKnupp, presented the Performance Report for the third quarter of 2010. A copy of the report is available from the NIC office. Topics of the review include: market update, performance review, fund monitoring, operating investment pool analysis, risk profiles, and fees.

Agenda Item 7 – Capital Market Assumptions Discussion: C. Riley and K. Vandolder reviewed market assumptions for stocks, bonds, private real estate, and private equity funds.

D. Fiddler explained how actuarial assumptions are made over a long term and inflation is built into salary assumption. Historically inflation has been 3.6% over the last few years and over the long term of 50 years it is 3.5 %.

C. Riley and D. Fiddler commented on how non-state plans are moving away from the defined benefit type of plans and moving investment decisions to the individual rather than the corporation. Corporate plans can be terminated which is different than the public plans and companies are looking at their current funding liabilities rather than potential investment results.

S. Cummings gave a brief summary of the acquisition of EnnisKnupp by Hewitt Associates, and the merger with AON Corporation. He described the organizational make up of the new entity. He explained the company works with investors of all types and remains committed to independence in regards to managers.

He gave an update on K. Vandolder's responsibilities and the management structure.

The Board took a break at 10:09 a.m. and reconvened at 10:30 a.m.

Agenda Item 8 – Defined Contribution/Deferred Compensation Plan Review:

K. Vandolder presented the Defined Contribution Plan Review and shared thoughts of customizing target date funds. The report stated the investment fund options of the Plan are well-structured and span the range from conservative to aggressive. He suggested the addition of a global equity fund and treasury inflation-protected securities (TIPS) fund and provided information on defined contribution plan structure and practices. A copy of the report is available from the NIC office.

The PERB and NIC discussed the proposal of adding global equity and TIPS funds. Comments were made regarding required legislation and the possible costs of administration and education.

G. Werner-Robertson thanked K. Dawes and V. Huber for making the arrangements for the meeting.

Recess: The joint meeting adjourned at 11:15 a.m. J. States left the meeting to attend the NIC meeting at this time. The regular PERB meeting reconvened at 11:32 a.m.

Agenda Item 9 – Approval of Minutes: D. Pederson moved for approval of the minutes of the October 19, 2010, Board Meeting. E. Stuhr 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.

Agenda Item 10 – Approval of Budget Status Report & October 2010 Retirement

Report: R. Wassinger moved to approve the budget status report and the October 2010 Retirement Report. J. Elliott seconded the motion. Members voted as follows: M. Shepard,

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

Agenda Item 11 – Public Comments or Correspondence from Citizens: There were no public comments or correspondence from citizens with business not scheduled on the agenda.

Non-agenda Item: D. Blank led a discussion concerning the PERB's involvement in the selection of investment fund options. P. Chambers stated one of the Board's fiduciary responsibilities is to provide a Defined Contribution (DC) plan with a variety of quality investment options and work with the NIC to select the options. J. Hayes will prepare draft legislation for the Board to review at the December meeting.

Agenda Item 12 – Actuarial Valuation Results – School, Judges, and State Patrol:

D. Riddler provided a presentation of the actuarial valuations as of July 1, 2010, which included reviewing member data, system assets, plan experience, need for additional contributions, and benefits accrual cost.

D. Riddler pointed out the Omaha Service Annuity Contribution is not factored into the state additional funding figure reported in the results.

He reported the funded ratio of the School plan is approximately 82%, the Judges plan is 100% funded, and the funded ratio of the State Patrol plan is approximately 85%. Significant net losses of \$1.1 billion are to be recognized over the next four years. Decremental gains are out-weighed by the asset losses and additional state contributions will be needed in the future.

Agenda Item 13 – Information System Update: F. Turner reported a total of 36 problem incident reports (PIRs) at the end of October.

He reported Hewlett-Packard State and Local Enterprise Services, Inc. (HPSL) completed teleconference training on Robohelp in October.

F. Turner reported meeting with staff from the Office of the Chief Information Officer (OCIO) regarding the proposed Microsoft state email system. This system should provide added features and functionality. He stated he was invited to attend the OCIO's state government council meetings and plans to attend monthly.

In regard to the Disaster Recovery Plan, F. Turner reported a portion of the plan is ready to be approved. He reported visiting two potential off-site locations with P. Chambers.

E. Stuhr moved to approve the Information System Update. D. Pederson 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.

Agenda Item 14 – Legislative/Legal Update: J. Hayes stated he will prepare proposals for TIPS and lifecycle funds to be included in future legislation. He reported on his first two weeks of work in the office and his upcoming legal schedule.

J. Elliott moved to approve the Legislative/Legal Update. R. Rehmeier 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.

Agenda Item 15 – Director’s Report: P. Chambers thanked V. Huber and K. Dawes for their work on the preparations for this meeting.

She reported participating in a conference call with J. States and K. Vandolder to discuss possible changes to the Defined Contribution investment options.

P. Chambers welcomed J. Hayes and reported his work with J. Winkelman on a new contract with Southeast Community College. J. Hayes also worked on the agreement with HPSL for contractual service.

She announced Melissa Mendosa was promoted to the Retirement Specialist II position and the agency will be advertising her former position in the near future.

P. Chambers reported speaking with J. Hoffman, with NSEA, concerning a request for data on the amount of School benefits being paid according to job classifications. She explained NPERS does not use classification to calculate benefits and how difficult it would be to keep that information.

P. Chambers distributed two ten-year summaries of Program 515, documenting the history of additional contributions needed from 1990 through 2000, and 2001 through 2010. She will share this information with Governor Heineman and the Legislative Retirement Committee.

She reported making a presentation to the Department of Banking. She stated many of their employees had attended the retirement seminars provided by NPERS.

P. Chambers reported attending the Independent Agency meeting where the topic was layoffs.

P. Chambers stated she met with R. Gerke, F. Turner, Sanjay Gupte and Sriram Ramanujam, from HPSL, for their last quarterly meeting. NPERS’ contract with HPSL will end December 31, 2010.

P. Chambers pointed out the Committee List provided in the Board packets. She suggested Board members think about whether they want to change committees or serve as an officer. Election of officers is held in January.

She reported sending the PERB’s letter to Governor Heineman expressing the Board’s concerns on moving NPERS to the Assurity Building. She has not received a response to date.

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

Excuse Board Members: R. Wassinger moved to excuse G. Elwell. E. Stuhr seconded the motion. Members voted as follows: For: E. Stuhr, J. Elliott, D. Blank, M. Shepard, R. Rehmeier, R. Wassinger, and D. Pederson. Against: None. Motion carried.

Agenda items 16 and 17 were addressed out of agenda order below.

Agenda Item 18 – Board Committee Reports: There were no reports.

Agenda Item 19 – Board Education/Travel Requests: There were no requests.

Agenda Item 20 – Future Meetings/Agendas: The next meeting will be held on Monday, December 20, 2010, in the in the Great Western Bank Conference Center, 1221 N Street, Lincoln, Nebraska.

A draft of proposed PERB 2011 meeting dates was included in the Board packets.

M. Shepard moved to accept the proposed 2011 meeting dates as listed with the addition that there will be PERB meetings scheduled for Monday, January 24, 2011, and Monday, February 28, 2011. R. Rehmeier seconded the motion. Members voted as follows: For: J. Elliott, D. Blank, M. Shepard, R. Rehmeier, R. Wassinger, D. Pederson, and E. Stuhr. Against: None. Motion carried.

Agenda Items 16 and 17 – Executive Session: At 1:16 p.m., R. Wassinger moved that the Board exit Regular Session and convene in Executive Session for the purpose of discussing Disability Application for Retirement No. 078840, personnel matters, and other legal matters. J. Elliott seconded the motion. D. Blank repeated the motion for the record. Members voted as follows: For: D. Blank, M. Shepard, R. Rehmeier, R. Wassinger, D. Pederson, E. Stuhr, and J. Elliott. Against: None. Motion carried.

At 1:35 p.m., R. Wassinger moved that the Board exit Executive Session and reconvene in Regular Session. J. Elliott 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 for approval of the Disability Application of Retirement No. 078840. D. Pederson 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.

E. Stuhr moved to approve the actuary report. J. Elliott 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.

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

The meeting adjourned at 1:36 p.m.

Phyllis G. Chambers
Director