

PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

November 21, 2011

8:30 A.M.

A joint meeting of the Public Employees Retirement Board and the Nebraska Investment Council convened at 8:33 a.m., Monday, November 21, 2011, at the Cornhusker Marriott Hotel, Arbor Room, 333 South 13th Street, Lincoln, Nebraska.

The Board members were notified of this meeting by Agenda mailed November 10, 2011. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, November 14, 2011. 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
 DON PEDERSON
 ELAINE STUHR
 JANIS ELLIOTT
 JEFF STATES, EX-OFFICIO

MEMBERS ABSENT: RICHARD WASSINGER

NONMEMBERS PRESENT:

PHYLLIS CHAMBERS Director	RANDY GERKE Deputy Director
GAIL WERNER-ROBERTSON Nebraska Investment Council	JASON HAYES Legal Counsel
DR. RICHARD DEFUSCO Nebraska Investment Council	JOHN WINKELMAN Training Supervisor
JOHN MAGINN Nebraska Investment Council	MIDEN EBERT Retirement Plan Supervisor
JOHN DINKEL Nebraska Investment Council	FRED TURNER IT Manager
NORMAN RIFFEL Nebraska Investment Council	TERESA ZULAUF Internal Auditor
KATHY DAWES Nebraska Investment Council	GARY BUSH AS - State Budget Administrator's Office
JOE JURICH Nebraska Investment Council	GERRY OLIGMUELLER AS - State Budget Administrator
JOLYNN WINKLER Nebraska Investment Council	DOUG FIDDLER Buck Consultants

DAVE SLISHINSKY

Buck Consultants

KATHY TENOPIR

Legislative Fiscal Office

KEVIN VANDOLDER

Hewitt EnnisKnupp

SCOTT McLERRAN

Hewitt EnnisKnupp

NANCY WILLIAMS

Hewitt EnnisKnupp

CHRIS HEINRICH

Harding & Shultz

DON STENBERG

State Treasurer

KATE ALLEN

Legislative Retirement Committee

KATHY TENOPIR

Legislative Fiscal Office

NANCY REIMER

Ameritas

DON WESLEY

O'Hara Lindsay Government Relations

MATT SCHAEFER

Mueller Robak LLC

LARRY SCHERER

Nebraska State Education Association

JOLYNN WINKLER

Nebraska Investment Council

KIRSTEN STEIERT

The Hartford

DAVE BUDKA

The Hartford

NEIL BATEMAN

Retired Teachers

VICKI HUBER

Administrative Secretary

Joint Meeting with the Nebraska Investment Council:

Agenda Items 1, 2 and 3: At 8:33 a.m., Nebraska Investment Council (NIC) Chairperson, G. Werner-Robertson, called the NIC Meeting to order. D. Blank stated the meeting will follow the Nebraska Open Meetings Act and a copy of the Act is located on the table. D. Blank called the Public Employees Retirement Board (PERB) Meeting to order.

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

Agenda Item 4 – Introductions and Comments by Chairpersons: G. Werner-Robertson commented on the work the NIC staff does trying to maximize returns without taking on too much risk in an unpredictable market.

D. Blank thanked the PERB members, P. Chambers, and NPERS' staff. He announced D. Pederson will not be seeking reappointment to the PERB in January and thanked him for his service. D. Blank distributed a summary of NPERS Year-To-Date Accomplishments as of October 31, 2011. NPERS administers approximately 115,144 member accounts with assets of \$8.6 billion. The handout included statistics regarding benefits processing; NPERS average monthly retirement benefits, compared to national averages; and personal contact provided to plan members.

He commended the employee groups for supporting an increase in contributions to help maintain funding of the plans.

D. Blank introduced D. Slishinsky and D. Fiddler from Buck Consultants.

Agenda Item 5 – Actuarial Reports and Projections for School, Judges, and State

Patrol Plans: D. Slisinsky presented the Actuarial Review for 2011 provided by Buck Consultants. His report included legislative changes since last year, history of investment returns, the 2011 actuarial valuation results as of June 30, 2011, and projections for additional state contributions through 2016. A copy of the presentation is available from the Retirement Systems' office.

He planned to present the report to Governor Heineman later that day and to the Legislative Retirement Committee on November 22, 2011.

D. Slisinsky pointed out that it is normal for a mature retirement plan to have benefits paid out exceeding the contributions currently being paid in. He reported the rate of return on market value of assets was approximately 23%, or 15% more than the 8% assumed, creating a gain to be smoothed over five years. The actuarial value rate of return is still 4% less than the 8% assumed because we are still absorbing prior losses from 2008 and 2009. For the School, State Patrol, and Judges' Systems, the actuarial value is about 100% of market value compared to 84% last year. He predicted prior losses to be recognized in the next two years, reducing unfunded liabilities.

He commented that Nebraska's results are better than the average across the country. He reported most states are 65% to 75% funded as of July 1, 2011. The most common rate of assumption is still 8%. Some states have reduced their rate a small amount, resulting in an average assumption rate of approximately 7.75%. Nebraska's rate has been 8% for some time.

D. Slisinsky stated an experience analysis is scheduled for early 2012 to review the economic and demographic assumptions for Nebraska.

Agenda Item 6 – Quarterly Performance Report for Retirement Plans: K. Vandolder and S. McLerran, from Hewitt EnnisKnupp, presented the Performance Report for the third quarter of 2011. A copy of the report is available from the NIC office. Topics of the report include: performance review, fund monitoring, risk profiles, and fees.

K. Vandolder reviewed recent foreign and national events that have made the market volatile.

S. McLerran stated we are not in a recession, but not in a growth market either.

Agenda Item 7 – Capital Market Assumptions Discussion: K. Vandolder and S. McLerran reviewed 2011 third quarter capital market assumptions. Topics of the discussion included: current expected return and risk assumptions; along with the methodology of equities, bonds, alternative asset classes, and volatility and correlation.

To reach assumptions, they continue to urge NIC to move toward equity markets rather than fixed income. Hewitt EnnisKnupp, presented asset allocation and expected returns for 10 year and 30 year periods.

Agenda Item 8 – Hartford Deferred Compensation Program Review: J. States commented that the Hartford DCP program is unique because it has been closed to new participants since the State moved to a different plan.

K. Siefert provided an administrative update as of September 30, 2011. She reported 869 members are participants in the Hartford DCP and plan assets total over \$33 million.

D. Budka presented a summary of Hartford's plan investment review as of September 30, 2011. Topics of the report included: quarterly market indicators, investment summary, Morningstar category analysis, investment performance, enhanced analytics, and investment alternatives.

Copies of the Hartford presentations are available from the NIC's office.

J. States asked the representatives from Hewitt EnnisKnupp to provide comments related to the Hartford funds. On behalf of Hewitt EnnisKnupp, S. McLerran made a few suggestions to streamline the plan. Formal suggestions, to be implemented in the future, will be made at the February NIC meeting.

Recess: The joint meeting adjourned at 10:40 a.m. J. States left the meeting to attend the NIC meeting at this time. The regular PERB meeting reconvened at 10:57 a.m.

Agenda Item 9 – Approval of Minutes: E. Stuhr moved for approval of the minutes of the October 17, 2011, Board Meeting. J. Elliott seconded the motion. Members voted as follows: For: D. Blank, J. Elliott, G. Elwell, D. Pederson, R. Rehmeier, M. Shepard, and E. Stuhr. Against: None. Motion carried.

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

Report: G. Elwell moved to approve the budget status report and the October 2011 Retirement Report. D. Pederson seconded the motion. Members voted as follows: For: D. Blank, J. Elliott, G. Elwell, D. Pederson, R. Rehmeier, M. Shepard, and E. Stuhr. Against: None. Motion carried.

Excuse Board Members: G. Elwell moved to excuse R. Wassinger. D. Pederson seconded the motion. Members voted as follows: For: D. Blank, J. Elliott, G. Elwell, D. Pederson, R. Rehmeier, M. Shepard, and E. Stuhr. 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.

Agenda Item 12 – Actuarial Reports and Projections – School, Judges, and State Patrol Plans; Projections – State and County Plans: D. Slisinsky provided a presentation of the actuarial valuations as of July 1, 2011; which included reviewing member data, system assets, plan experience, need for additional contributions, and benefits accrual cost.

He pointed out there is a trend of entering the plan at a higher age and the number of participants in the Judges and State Patrol plans has decreased from 2010. R. Rehmeier and G. Elwell made the comment that the reduction in active members is most likely due to the fact that position openings are not being filled right away.

D. Slishinsky reported the funded ratios of the defined benefit plans as follows: School - approximately 80%, Judges - approximately 98%, and the State Patrol plan - approximately 82%. All ratios decreased since last year.

He stated the Judges unfunded liability may increase when the court fees are scheduled to return to \$5. Court fees are currently set at \$6, in statute.

D. Slishinsky pointed out the expected additional state contribution needed for the School plan was projected last year to be \$48 million and the actual is now \$23 million. He explained how additional state contributions paid are used in calculations and projections, using the 30-Year projection model.

Agenda Item 13 – Finance and Accounting Manager Report: R. Gerke reported on his responsibilities as the Deputy Director and the Manager of Finance and Accounting for NPERS. He supervises five staff members. As he described the duties of each staff member, he explained the division of responsibility of the accounting and financial reporting for the agency and the five different retirement plans. Members of his staff also provide back-up to payroll processing, expense reimbursements, IRS report filing, expense reimbursements, support and training to employer contacts, and back-up to his duties as the Deputy Director.

R. Gerke stated his other duties include: prepare biennium and deficit budget requests, monitor cash flow, approvals and posting of Enterprise One items and payroll, quarterly cost allocations, review financial statements and actuary reports, and compile information for NPERS' Annual Report.

R. Rehmeier moved to approve the Finance and Accounting Manager Report. G. Elwell seconded the motion. Members voted as follows: For: D. Blank, J. Elliott, G. Elwell, D. Pederson, R. Rehmeier, M. Shepard, and E. Stuhr. Against: None. Motion carried.

Agenda Item 14 – Legislative/Legal Update: J. Hayes stated the Legislature will be holding the hearing on LR 210 on Tuesday, November 22, 2011, at 10 a.m. D. Slishinsky will present the actuarial report at this time.

He reported the Legislative Retirement Committee held a hearing concerning LR 10 on November 9, 2011. This legislative resolution was introduced this month, during special session. He explained LR 10 is non-binding and opposes the congressional super committee's efforts to reduce the federal deficit by cutting social security benefits or recommending changes that could reduce the standard of living for retired seniors. At the time of the PERB meeting, the resolution was still in committee and probably will not advance before the Legislature adjourns.

J. Hayes reported NPERS has submitted all requested documents to Groom Law Group and the Segal Company for the Legal Compliance Audit. There will be an on-site visit December 13-15, 2011. He anticipates a final report will be presented to the Board in late spring of 2012.

He reported working with K. Allen to draft legislation for the 2012 legislative session.

J. Hayes reported speaking with the office of the Attorney General, in regards to the Rules and Regulations submitted for approval in September. Their review is almost complete and J. Hayes anticipates the regulations will be forwarded to the Governor's office after Thanksgiving, with final approval occurring by the end of the year.

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

Agenda Item 15 – Director's Report: P. Chambers stated the actuarial presentation will be available on the NPERS website. She thanked D. Slushinsky and D. Fiddler for presenting and R. Gerke for reviewing the accuracy of the report.

She thanked V. Huber for her work organizing the joint meeting.

P. Chamber announced NPERS has earned a certificate of standards from the Public Pension Coordinating Council (PPCC). The PPCC is a coalition of the three largest associations that represent public employees in the U.S., the National Association of State Retirement Administrators (NASRA), the National Council of Teacher Retirement (NCTR), and the National Conference on Public Employee Retirement Systems (NCPERS). She explained the criteria for certification in their Standards Program. The certificate will be displayed in NPERS' lobby.

She reported receiving a number of calls from the media recently. She stated most of the calls have been about Nebraska's cash balance plan. She commented that Nebraska is recognized nationally as having a quality retirement system.

P. Chambers distributed an article on state hybrid retirement plans published by NASRA and an article concerning the advanced notices of proposed IRS rulemaking, relating to the definition of the term "governmental plan" under section 414(d) of the Internal Revenue Code.

She reported NPERS has been working on making corrections to retirement contributions for employees of the Department of Corrections. The adjustments are the result of an issue involving the payment of overtime wages. Corrections are being made to retirement contributions of one facility and she expects members of eight more facilities to be effected. She pointed out how much work is involved in these situations, considering most corrections are very small amounts of money and are for members who are no longer active. It has been suggested that legislation be introduced to exempt retirement contributions from back pay, settlements, especially if the member account is closed.

P. Chambers reported on proposed changes within the Kansas and California retirement systems.

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

Agenda Items 16 and 17 – Executive Session: At 12:29 p.m., E. Stuhr moved that the Board exit Regular Session and convene in Executive Session for the purpose of discussing Disability Applications for Retirement Nos. 122746 and 604074. R. Rehmeier seconded the motion. D. Blank repeated the motion for the record. Members voted as follows: For: D. Blank, J. Elliott, G. Elwell, D. Pederson, R. Rehmeier, M. Shepard, and E. Stuhr. Against: None. Motion carried.

M. Shepard left the meeting during Executive Session.

At 1:29 p.m., E. Stuhr moved that the Board exit Executive Session and reconvene in Regular Session. G. Elwell seconded the motion. Members voted as follows: For: D. Blank, J. Elliott, G. Elwell, D. Pederson, R. Rehmeier, and E. Stuhr. Against: None. Motion carried.

E. Stuhr moved for approval of the Disability Applications of Retirement Nos. 122746 and 604074. R. Rehmeier seconded the motion. Members voted as follows: For: D. Blank, J. Elliott, G. Elwell, D. Pederson, R. Rehmeier, and E. Stuhr. Against: None. Motion carried.

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 19, 2011, in the in the Great Western Bank Conference Center, 1221 "N" Street, Lincoln, Nebraska. D. Blank referred the board members to a draft of proposed meeting dates for 2012, which was included in their packets and stated the calendar would be voted on at the December meeting.

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

The meeting adjourned at 1:30 p.m.

Phyllis G. Chambers
Director