



1526 K Street, Suite 400
P.O. Box 94816
Lincoln, NE 68509-4816
Phone 402-471-2053
Toll Free 800-245-5712
Fax 402-471-9493
npers.ne.gov

PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

November 18, 2013

8:30 A.M.

A joint meeting of the Public Employees Retirement Board and the Nebraska Investment Council convened at 8:32 a.m., Monday, November 18, 2013, at the Cornhusker Hotel, Arbor Room, 333 South 13th Street, Lincoln, Nebraska.

The Board members were notified of this meeting by the Agenda posted on the PERB SharePoint site. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, November 11, 2013. D. Blank chaired the meeting and V. Huber recorded the minutes.

MEMBERS PRESENT: DENIS BLANK, CHAIR
RICHARD WASSINGER
JANIS ELLIOTT
JUDGE RANDALL REHMEIER
STUART SIMPSON
RON ECKLUND
JEFF STATES, EX-OFFICIO

MEMBERS ABSENT: ELAINE STUHR

NONMEMBERS PRESENT:

PHYLLIS CHAMBERS Director	MATT EFFKEN Legal Counsel
GAIL WERNER-ROBERTSON Nebraska Investment Council	FRED TURNER IT Manager
DR. RICHARD DEFUSCO Nebraska Investment Council	TERESA ZULAUF Internal Auditor
JOHN MAGINN Nebraska Investment Council	NANCY REIMER Ameritas
JOHN DINKEL Nebraska Investment Council	KATHY DAWES Nebraska Investment Council
JOHN CONLEY Nebraska Investment Council	JOE JURICH Nebraska Investment Council
DON STENBERG State Treasurer	JOLYNN WINKLER Nebraska Investment Council
CHRIS HEINRICH NIC Legal Counsel	GERRY OLIGMUELLER AS-State Budget Administrator
RANDY GERKE Deputy Director	GARY BUSH AS - State Budget Administrator's Office

CHERYL WOLFF
Governor's Policy Research Office
PAT BECKHAM
Cavanaugh Macdonald Consultants
BRENT BANISTER
Cavanaugh Macdonald Consultants
KATHY TENOPIR
Legislative Fiscal Office
HERB SCHIMEK
Public
MAX KOTARY
Hewitt EnnisKnupp & Associates
NANCY WILLIAMS
Hewitt EnnisKnupp & Associates
KATE ALLEN
Legislative Retirement Committee

JASON HAYES
Nebraska State Education Association
PHILIP OLSEN
Auditor of Public Accounts
ERIC ASBOE
Nebraska Supreme Court
MATT SCHAEFER
Mueller Robak LLC
MARTHA STODDARD
Omaha World Herald
BOB WICKERSHAM
Retiree
DEAN GRESS
IT Senior Application Developer
VICKI HUBER
Administrative Secretary

Joint Meeting with the Nebraska Investment Council:

Agenda Items 1, 2 and 3: At 8:32 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, R. Wassinger, J. Elliott, R. Rehmeier, S. Simpson, R. Ecklund, and J. States. Absent: D. Fisher and E. Stuhr.

Agenda Item 4 – Introductions and Comments by Chairpersons: G. Werner-Robertson reviewed the accomplishments of the Nebraska Investment Council (NIC). She summarized the addition of new funds and commitments. She credited J. States and his staff for their work with the AS Budget office, State Personnel, and the Legislative Retirement Committee to enhance the NIC staff. She commented that their future challenge will be managing the fact returns will not be as strong as they have been.

D. Blank distributed a summary of 2013 NPERS Member Services and Accomplishments as of October 31, 2013. NPERS administers approximately 118,050 member accounts with assets of \$11.3 billion. The handout included statistics regarding benefits processing; NPERS average monthly retirement benefits, retirement seminars, and personal contact provided to plan members. He pointed out 89% of NPERS retirees remain in Nebraska and spend their pension dollars in their local communities. He reported NPERS has contracted with a new actuarial firm and introduced Pat Beckham and Brent Banister, from Cananaugh Macdonald Consultants.

D. Fisher joined the meeting at 8:36 a.m.

Agenda Item 5 – Quarterly Performance Report for Retirement Plans: M. Kotary provided the Third Quarter 2013 Retirement Plan Performance Review for all plans. A copy of the report is available from the NIC office. The report includes performance for all markets and benchmark descriptions.

Agenda Item 6 – Actuarial Reports and Projections for School, Judges, and State Patrol Plans: P. Beckham explained the purpose of an actuarial valuation and reported on the changes since the last valuation. Those changes included provisions in LB 553, in which the amortization of the unfunded actuarial accrued liability (UAAL) was changed from level dollar payments to level percent of payroll. At this time the market value is greater than actuarial value. The funded ratio has remained fairly steady.

P. Beckham provided actuarial valuation results for the three traditional defined benefit plans, based on the current set of assumptions including the 8% investment return assumption. She also shared projections of contribution rates over the next five years and projections contributions rates and funded ratios for the next 30 years. P. Beckham explained that both sets of projections assume that all assumptions are met in the future.

For each of the defined benefits plans, the report included: a comparison of system assets in market values and actuarial values, funded status, historical funded ratios, required contributions, projection of additional contribution and appropriations, and the projected funded ratio.

In the Judges plan, P. Beckham commented that the decreasing trend with the amount of court fees is a concern. She stated, even if court fees hold constant, the additional State contribution is expected to increase over time and perhaps the funding mechanism should be reevaluated.

In the Patrol plan, additional State contributions are projected to be required for most of the next 30 years. P. Beckham also noted that without the additional State contributions, the plan will not reach the funding goal of being 100% funded in 30 years.

In the School plan, P. Beckham stated the legislative changes and favorable experience resulted in no current additional State contributions needed for 2014. The projections indicate that no additional contributions should be needed in future years if all actuarial assumptions are met. She also explained that the impact of Tier Two will unfold over time as more members and payroll reside in Tier Two.

She provided general information about investment return assumption from an actuary's perspective. She stated if the Board wishes to review the investment return assumption, Cavanaugh Macdonald will provide analysis and make recommendations for all of the economic assumptions, which include price inflation, general wage growth, and the investment return assumption.

An electronic copy of the actuary's presentation is available from the Retirement Office.

Agenda Item 7 – Capital Market Assumptions Discussion: M. Kotary began the discussion with a presentation on current expected investment returns and risks assumptions for periods of 10 and 30 years. He also explained the methodology used by Hewitt EnnisKnupp.

P. Beckham gave examples of ways other retirement systems have been working with recent funding issues. She made reference to the National Association of State Retirement Administrator's website (nasra.org), where a survey is available showing the investment return assumption being used by other retirement systems. She stated 8% is the most common assumption rate; but, it is no longer the median. She explained factors are not always the same, so one should be careful when comparing the investment return assumption of systems. She commented that the investment return assumption is heavily driven by capital market assumptions. She stated the investment return assumption of clients of Cavanaugh Macdonald are between 7% and 8%.

B. Banister added, when you compare systems you need to look at the blend of the real return and the inflation assumption.

Recess: The joint meeting recessed at 10:23 a.m., to permit the PERB and the NIC to reconvene their meetings separately. J. States left the meeting to attend the NIC meeting at this time. The regular PERB meeting reconvened at 10:38 a.m.

Agenda Item 8 – Approval of Minutes: S. Simpson moved to approve the minutes of the October 21, 2013, Board meeting. D. Fisher seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, D. Fisher, R. Rehmeier, S. Simpson, and R. Wassinger. Against: None. Motion carried.

Agenda Item 9 – Approval of Budget Status Report & October 2013 Retirement Report: J. Elliott moved to approve the Budget Status Report and the October 2013 Retirement Report. R. Wassinger seconded the motion. Members voted as follows: For: D. Blank, J. Elliott, D. Fisher, R. Rehmeier, S. Simpson, and R. Wassinger. Abstain: R. Ecklund. Against: None. Motion carried.

Excuse Board Members: S. Simpson moved to excuse E. Stuhr. R. Rehmeier seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, D. Fisher, R. Rehmeier, S. Simpson, and R. Wassinger. Against: None. Motion carried.

Agenda Item 10 – Public Comments or Correspondence from Citizens: There were no public comments or correspondence from citizens with business not scheduled on the agenda.

Agenda Item 11 – Actuarial Reports and Projections – School, Judges, and State Patrol Plans: B. Banister presented the Actuarial Valuation Results for the School, Judges and Patrol plans, as of July 1, 2013.

He reviewed general findings of the defined benefit plans. A return of 12.7% on market value lessened the impact of the previously unrecognized investment losses. This is the last year of smoothing the losses in the 2009 fiscal year. There is now a deferred gain (market value

is greater than the actuarial value). The change to amortizing the unfunded actuarial accrued liability had the general impact of reducing the actuarial contribution rate. Funded Ratios decreased slightly or stayed the same. In summary; based on 2013 valuation results, if assumptions are met and full actuarial contributions are made, the School, Judges, and Patrol plans are expected to reach full funding.

B. Banister explained how they use recent new NPERS member demographic profiles to develop their projections.

D. Fisher moved to accept the Actuary Report. S. Simpson seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, D. Fisher, R. Rehmeier, S. Simpson, and R. Wassinger. Against: None. Motion carried.

Agenda Item 12 – Filing Applications for IRS Plan Determination Letters: P. Chambers reported that every 5 years NPERS files applications for IRS determination letters. The deadline for public plan applications is January 31, 2014. She explained the importance of the letters. Should NPERS be audited, we would not have to go back prior to the date of the determination letters. It also provides assurance that plans are qualified, which is part of the Board's fiduciary duties. She reported the cost of the applications is \$2500 per plan for the IRS filing fee plus David Powell fees, which is \$5000 per plan. There may be additional fees if we need to respond to IRS requests for additional plan information. She stated the cost is approximately the same as last year and additional fees are not expected at this time. She recommended NPERS proceed to file the applications for all plans.

P. Chambers discussed the Patrol application, which is still pending. She mentioned that other plans, which include a Deferred Retirement Option Plan (DROP), have similarly not been approved.

R. Wassinger moved that NPERS proceed to file applications for the IRS determination letters for all plans. R. Ecklund seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, D. Fisher, R. Rehmeier, S. Simpson, and R. Wassinger. Against: None. Motion carried.

Agenda Item 13 – Legislative/Legal Update: M. Effken updated the board on the progress of the revisions to Rules and Regulations approved by the Board at the September PERB meeting. He reported all five were approved by the Attorney General's office and were submitted to the Governor's office on November 8, 2013.

M. Effken announced hearings on Legislative Resolutions LR 198 and LR 191. Both provide for an interim study to review all retirement plans administered by the PERB. The hearings are scheduled for Monday, December 2, 2013, at 1:30 p.m. The hearings are open to public comment.

He mentioned a hearing relating to LR 334, which was introduced by the Legislative Retirement Committee. He stated it may not directly relate to NPERS; but may be of interest, as it relates to retirement savings of Nebraska private sector workers. This hearing is scheduled for Tuesday, December 10, 2013, at 10:00 a.m.

D. Fisher moved to approve the Legislative/Legal Update. S. Simpson seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, D. Fisher, R. Rehmeier, S. Simpson, and R. Wassinger. Against: None. Motion carried.

Agenda Item 14 – Director’s Report: P. Chambers acknowledged V. Huber for her work on planning the joint meeting and R. Gerke for the extra time spent reviewing drafts of the actuary reports.

P. Chambers reported there is now furniture in the conference rooms on fourth floor of the 1526 Building. The PERB should be able to hold its December meeting at the new location.

She stated John Winkelman will provide a report on NPERS’ Education Services at the December PERB meeting.

P. Chambers announced the State Auditors will be on site, Tuesday, November 19th to begin the School, Judges, and Patrol audit. The audit entrance conference was held last week.

P. Chambers reported meeting with Tom Armstrong, Regional Facility Manger of state buildings, to discuss maintenance policies, and procedures in the 1526 Building.

P. Chambers reported NPERS has ordered \$5000 in sound panels to help with privacy issues in the visitor offices. Currently the panels are being tested in the office. Insulation may also be needed in the ceilings to help with the issue; therefore, there could be additional costs.

She reported the GASB meeting held on October 22, 2013, went well. Approximately 20 people attended. She thanked the actuaries for their participation in the meeting.

P. Chambers reported NPERS applied for and received the Public Pension Standards Award for Funding and Administration. The award is given by the Public Pension Coordinating Council. The certification assures our members NPERS meets high standards of practice for public retirement systems.

P. Chambers and M. Effken planned to meet with representatives from the National Council of School Administrators (NCSA) on November 19th, to discuss school issues that relate to retirement.

P. Chambers is studying different types of purchase of service and will provide the information to the actuaries to consider in their evaluation of costs.

R. Rehmeier moved to approve the Director’s Report. J. Elliott seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, D. Fisher, R. Rehmeier, S. Simpson, and R. Wassinger. Against: None. Motion carried.

R. Rehmeier left the meeting at 11:30 a.m.

Agenda Items 15 and 16 were addressed out of order below.

Agenda Item 17 – Board Committee Reports: There were no reports.

Agenda Item 18 – Board Education/Travel Requests: There were no requests.

Agenda Item 19 – Future Meetings/Agendas: P. Chambers referred the Board to a draft of proposed PERB meeting dates for 2014, which was included in their meeting materials.

R. Ecklund moved to approve the 2014 calendar as drafted, with the January and February meetings to be held on the third Tuesday of the month. S. Simpson seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, D. Fisher, S. Simpson, and R. Wassinger. Against: None. Motion carried.

The next meeting will be held on Monday, December 16, 2013, in the 1526 Building, 1526 "K" Street, Conference Room 4-D, Lincoln, Nebraska.

Agenda Items 15 and 16– Executive Session: At 11:35 a.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. 082144, Emergency Deferred Compensation Application for Retirement No. 702133, 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, R. Ecklund, J. Elliott, D. Fisher, S. Simpson, and R. Wassinger. Against: None. Motion carried.

R. Rehmeier returned to the meeting during Executive Session.

S. Simpson left the meeting during Executive Session.

At 12:50 p.m., R. Ecklund moved that the Board exit Executive Session and reconvene in Regular Session. D. Fisher seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, D. Fisher, R. Rehmeier, and R. Wassinger. Against: None. Motion carried.

R. Wassinger moved for approval of the Disability Application of Retirement No. 082144 and approval of the Emergency Deferred Compensation Application for Retirement No. 702133 in the amount of \$9,890. D. Fisher seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, D. Fisher, R. Rehmeier, and R. Wassinger. Against: None. Motion carried.

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

The meeting adjourned at 12:51 p.m.



Phyllis G. Chambers
Director