

Retirement Roundup

"Providing Information to State & County Employees"

Nebraska Public Employees Retirement Systems

Vol. 17, No. 5, Summer 2002

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Governor Signs LB 687

Change Will Affect State and County Employees

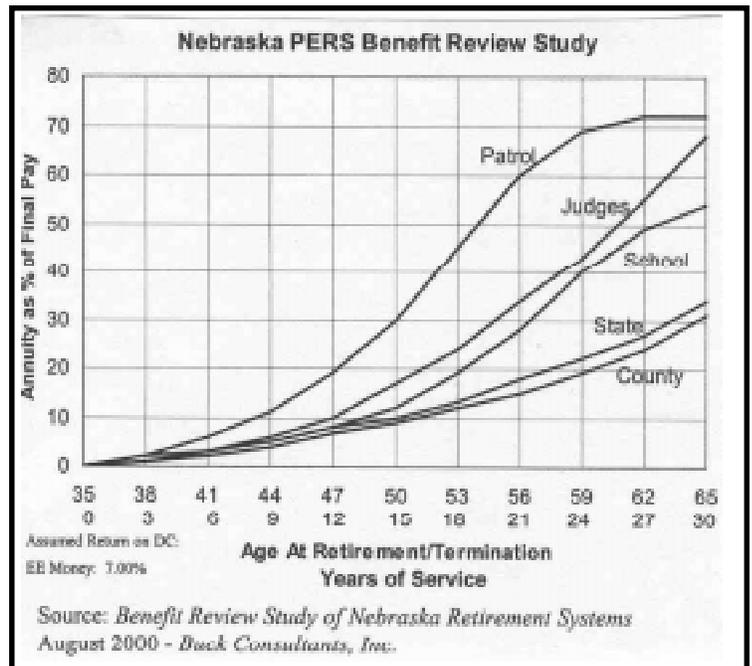
The Nebraska Legislature took a dramatic step this spring by advancing a law to redesign the State and County Employees Retirement Plans. The Governor supported the move and signed LB 687 into law with the major portion of the legislation making changes effective on January 1, 2003.

So why LB 687? And, what does the change mean to state and county employees? The defined contribution plans state and county employees have now had for over 30 years have provided retirement benefits for many employees. However, in a recent study when compared to benefits received by members in our three defined benefit plans (School Employees, State Judges and State Patrol officers), the retirement benefits for state and county plan members are less than adequate.

Retirement benefits received in a defined contribution plan are determined primarily by the investment decisions made by its plan members. And, the average member, the study showed, tends to invest more conservatively than a professional investor. The result has been lower investment returns and smaller retirement benefits.

When compared to the investment results of the professionals managing the assets of the State's three "defined benefit" plans, the numbers are staggering. On average the investment returns in the School Employees, State Judges and State Patrol defined benefit plans were 11% for the past 20 years while state and county employees returned between 6% and 7% on average.

It is important to note that the retirement benefits received by members of the three "defined benefit" plans are NOT based on a member's account balance but on a member's total service years and average salary at retirement. However, the contrast in investment return is important when comparing the results between an employee (with little or no investment training) and the results of professional investors.



Continued on page 5

Behind the Scenes

Member Services

Your link to Nebraska Retirement Systems

If you pay a visit to our office, you will be greeted by our receptionist, Margaret, who is one of the representatives that make up the Member Services Department for the Nebraska Public Employees Retirement Systems (NPERS). If you visit our office or call to discuss your retirement account, chances are, you will speak to one of the helpful representatives in our Call Center, which is also part of Member Services.



Member Services Representatives (from left to right): Margaret, Lori, Manager Jane, Teresa and Peggy, (not pictured) Brenda

Call Center Representatives rely on their knowledge of a wide range of topics to assist you. They are trained to help you with the following:

- Pension estimates
 - Retirements
 - Refunds
 - Purchase of Service
 - Account Statements
- as well as many other various tasks.

Member Services Representatives can access information in our computer and imaging systems to look up a wide range of details related to your account. Be aware that for your protection, our representatives cannot share detailed account information with you by telephone.

Representatives are trained in all six plans our office oversees, as well as multiple tasks and procedures for each plan. They are always prepared to take your calls, trouble-shoot problems, an-

swer questions, and research your situation. If they don't have an answer, they will go to the NPERS expert who does!

Since not all situations may be solved with a phone call, you may also schedule an appointment to speak face-to-face with a Member Services Representative. In-office appointments allow for a visual explanation and for you to bring your spouse, financial advisor, or other guest with you.

Our Call Center is in operation Monday through Friday, 8:00 a.m. to 5:00 p.m. at **800-245-5712** or **402-471-2053**.

Although the Member Services Department has only been in operation for two years, the representatives have a combined total of 42 years of experience in different areas of the Retirement Office. They are truly dedicated to serving our members. □

Decision Making 101

To Cash Balance or Not?

Decisions. We make them everyday. Small decisions needing only a thought or two. Burger King or McDonalds? Gas the car now or later? Bagel with light cream cheese or a sugared Bismarck with custard filling? Dodgers or Mets? Some decisions we make without any thought. Go to work? Brush your teeth? Buckle up? (of course!)

Some decisions while small at the time can have a cumulative effect, maybe on your waistline (see Bismarck's above), your finances, career, health or marriage. Other decisions are weighty from the get go. Should I marry her/him? Should we have another child? Is this the right job? Move to a warmer climate? Experimental drug treatment? "Can my mother come to live with us?"

All important decisions you make will be made with incomplete or inadequate

information. Will I like the custard filling? Will I meet someone later that is more "right" for me? Will our children be healthy? A warmer climate but can I put up with the bugs? How long will your Mother stay? And so on. We have some facts. But never all the facts. What will the future hold? What have I forgotten to think about? What is best for me? Will it still be best for me in five years?

Current state and county employees will be asked to make an important decision about their retirement plan later this year. You'll make a one-time decision to keep your current defined contribution benefit or convert to the new cash balance benefit.

- First, don't panic. You'll be given plenty of time to make your choice. You'll also be provided with a lot of information about the pros and cons

of each benefit. You'll also hear the opinions of a lot of people. Co-workers, fishing buddies, distant cousins and even local and national news articles will all have an opinion. Do your homework. Ask questions.

- Second, understand that there is no "one size fits all" decision. Different choices will be made for a variety of reasons. Some may make an identical decision but for entirely different reasons. So, listen to what others have to say, but your decision needs to be for your own reasons.
- Third, at different points in the future your choice may look like it was a wise decision, other times not so. However, do remember, you are not choosing between good and evil,

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Optimism Keeps Heart Healthy



A sunny outlook not only helps you live longer, it also protects you against heart disease. Recent research from Johns Hopkins Medical Institutions has found that optimistic people are much less likely to develop chest pain from heart disease or even to have a heart attack.

Researchers followed 600 healthy people with a family history of heart disease and discovered that those with a positive outlook were only half as likely to develop heart disease compared to those who were more pessimistic.

Researchers also found that even if you already have heart disease, optimism can prevent you from further ravages from the disease. Another Hopkins study showed that people who became depressed after suffering a heart attack were less likely to stick to a health lifestyle, a key component to recovering from an attack.

Source: *Pelizza's Positive Principles*
Adapted from the WebMD Web Site

Insurance Questions?

Ask your *Personnel Contact* when you have questions about your insurance coverage.



Retirement Questions?

Ask the *Retirement Office* when you have questions about your retirement account.

LEGAL CORNER

by NPERS Legal Counsel,
Shawn Nowlan

2002 Plan Changes Summarized (LB 407 and LB 687)

Membership

Eligibility standards were revised to make the standard the same in the State and County Plans:

- Participation *becomes mandatory* for “*all permanent full-time employees*” (no matter their age) when they have “*twelve continuous months of service;*” and
- Participation is *voluntary* for “*all permanent full-time or permanent part-time employees*” when they have “*twelve months of service within a five-year period*” and “*have attained the age of twenty.*”

Vesting

Vesting for both State and County Plans now occurs after three years of participation in the system (including any eligibility and vesting credit a member has been granted at the time of enrollment).

Changes to Rollover Provisions

The State and County Plans accept rollovers or other transfers of money into the plans in order to:

- (a) repay a prior termination benefit a member has previously received and wishes to repay, or
- (b) make contributions for a period of military service.

The range of tax-deferred accounts from which a member may make payment now includes all of the following:

- An IRC § 401(a) *qualified retirement plan* which is exempt from tax under IRC § 501(a);
- An IRC § 403(a) *annuity plan*;
- An IRC § 403(b) *annuity contract*;
- An IRC § 408(a) *individual retirement account (IRA)* containing only monies from another qualified retirement plan; and
- An IRC § 408(b) *individual retirement annuity (IRA), other than an endowment contract.*

A member can also (without terminating employment) use monies from a § 403(b) or a § 457(b) account via a “trustee-to-trustee” transfer directly from the other plan to the State and County Plans to make qualified payments.

Addition of the Cash Balance Benefit

LB 687 added a “cash balance benefit” to the State and County Plans. A separate article on page 4, as well as other articles in this newsletter, describe the new benefit, explain why the benefit was created and announce the schedule of statewide educational meetings and election deadline.

If you have questions regarding the information contained in this Legal Corner, call our office at **800-245-5712** or **402-471-2053**.

What is a Cash Balance Benefit?

By Shawn Nowlan, NPERS Legal Counsel

In pension plans there are normally two types of benefits:

In a traditional *defined benefit (DB) plan*, the member receives a “formula benefit,” based on years of service, a multiplier and the member’s salary. The contribution rate is not directly tied to the benefit the member receives; instead, the contributions provide money to pay for the legally promised benefit. The risk of market losses and the benefits of market gains flow to the plan as a whole, rather than to individual members.

In a traditional *defined contribution (DC) plan*, the members are promised that a percentage of their paycheck will be placed in the Retirement Account, and are provided investment options. The member then selects his or her investments and awaits the end of their career. The risk of market losses and the benefits of market gains fall on the individual. When they terminate or retire and take their money, the member’s benefit consists of the total sum of money in his or her account.

A *cash balance plan*, on the other hand, has the look of a defined contribution plan but is technically a defined benefit plan, but **not** as the traditional is described above. In the cash balance plan (as with a DC plan) the contribution rate matters in determining the final benefit. However, the benefit (like in a DB plan) constitutes legal promises made by the state that can not be taken away. *That promise is the balance in*

the members’ cash balance accounts and an *annuity* based on that account balance which is funded and guaranteed by the plan at retirement.

The new cash balance benefit created by LB 687 does not change the flow of member and state monies into the retirement plan. The plan members continue to contribute at the current rates. In the State Plan this means 4.33% of compensation until contributions reach \$864.00 and 4.8% on contributions made on compensation after that point; the state’s matching contribution remains at 156% of the member contributions. In the County Plan, the January 2003 contribution rate will be 4.5% of pay; the county’s matching contribution rate stays at 150% of the member contribution. (The new law did **not** change the contribution rates.)

Daily, the accounts are also accruing a statutorily-set rate of return (called the interest credit rate). The new law sets that rate as the “applicable federal mid-term rate” published by the IRS plus an additional 1.5%. It also includes a floor rate of 5%, below which the rate may not fall. This means the interest credit rate can rise with the mid-term rate, but will never fall below 5%. (Since 1985, NPERS estimates the federal mid-term rate plus 1.5% would have fluctuated between approximately 5.4% and 12.8% - with an average of approximately 8.4% - during that time, the rate never fell below the 5% floor rate.) Both the member and state contributions and the interest credit rate consti-

tute legal promises to pay money to the member when the member ceases employment or retires.

At retirement or termination, the cash balance benefit will allow the member to:

- (1) use the money to purchase an annuity from the plan that is funded and guaranteed by the plan,
- (2) leave the money with NPERS,
- (3) roll the money over into another tax-deferred account, or
- (4) “cash in” the entire amount of his or her account (although, if not vested, they may only take the employee cash balance account).

While the accounts are accruing the interest credit rate, the Investment Council will be investing the plan’s assets, including all new contributions flowing into the plan, so the plan will have sufficient assets to pay the account balances to plan members, and the annuities at retirement.

The risk of bad investment returns falls on the plan as a whole (as with a DB plan). On the other hand, any excess returns will also flow into the plan as a whole. By federal law, however, any excess returns must be used for the exclusive benefit of the members. The Board decides whether to use any excess to pay a little extra into the members’ accounts (above the interest credit rate) or – alternatively – the excess could be used to make benefit improvements to the plan (with the Legislature deciding what benefit enhancements may be made). □

NPERS Actions Regarding the Cash Balance Benefit

By **December 1, 2002**, all state and county employees will be required to make a decision regarding the cash balance benefit. Every employee must choose to either:

- **convert** to the new cash balance benefit, **OR**
- **keep** the current defined contribution benefit.

The Retirement Office will provide the information you need to make this important decision.

- In July or August we will mail an **information packet and election form** to all employees.
- We will hold **educational meetings** statewide from mid-August through October. (Schedule is on page 5.)

- NPERS will be available upon request for special meetings at state agencies and counties.
- NPERS is available by telephone or personal visits by appointment to explain the new benefit and answer questions.

Call NPERS at **800-245-5712** or **402-471-2053**, or visit our web site at www.nol.org/home/pers. □ □

Another telling piece of evidence considered by the Legislature when making this change for state and county employees was the fact that even with the tools available to them (11 investment funds offered and retirement planning seminars available to all) 90% of the member contributions have been directed to *only 3* of the investment funds. In fact, nearly 50% of the employee contributions are invested in one of the most conservative funds, the Stable Value Fund. The Stable Value Fund is one of the 11 funds offered to state and county employees but it is also the fund where member contributions are invested when a member fails to make an investment election at the time of his or her enrollment in the State or County Retirement Plan.

The fact that state and county employees have not fully utilized the investment options available to them may be the result of planning on the part of these employees OR it could, in fact, be that employees do not plan or they do not have the time or expertise to manage their retirement accounts. A typical state or county employee, by job description or training, is not an investment professional.

The fact that employees may not be the best investment managers is not unique to Nebraska or to state or county employees. National studies have shown that self-directed employee investment accounts or private-sector 401(k) retirement accounts are generally not on par with accounts managed by investment professionals.

Today, each state and county employee has a once in a lifetime opportunity to reconsider the type of retirement benefit best suited for him or her. The new cash balance benefit (described on page 4 of this issue) offers a defined benefit component to the State and County Employees Retirement Plans for the very first time. The new cash balance benefit will provide *security* to those who are risk averse. It will

Cash Balance Educational Meeting Schedule

Aug. 14	Omaha - NSOB, Room 218	9:00, 10:30 a.m., 1:00, 2:30 p.m.
Aug. 15	Lincoln - Public Service Commission	9:00, 10:30 a.m., 1:00, 2:30 p.m.
Aug. 20	Lincoln - Dept. of Roads, Auditorium	9:00, 10:30 a.m., 1:00, 2:30 p.m.
Aug. 21	Omaha - Sarpy Co. Courthouse	9:00, 10:30 a.m.
Aug. 21	Omaha - Douglas/Sarpy Co. Extension Bldg.	1:00, 2:30 p.m.
Aug. 22	Beatrice - BSDC, Chapel	9:00, 10:30 a.m.
Aug. 22	Beatrice - Gage Co. Courthouse	1:00, 2:30 p.m.
Aug. 27	Chadron - City Hall	8:30, 10:00 a.m.
Aug. 27	Alliance - Box Butte Co. Courthouse	1:30, 3:00 p.m.
Aug. 28	Scottsbluff - Panhandle Learning Center	8:30, 10:00 a.m.
Aug. 28	Gering - Scotts Bluff Co. Courthouse	12:00 p.m.
Aug. 28	Kimball - Kimball Co. Courthouse	3:00 p.m.
Aug. 29	Sidney - Cheyenne Co. Courthouse	8:30, 10:00 a.m.
Aug. 29	Ogallala - Keith Co. Courthouse	1:30, 3:00 p.m.
Sept. 4	Lincoln - NSOB, LLA	9:00, 10:30 a.m., 1:00, 2:30 p.m.
Sept. 5	Omaha - NSOB, Room 218	9:00, 10:30 a.m., 1:00, 2:30 p.m.
Sept. 10	Imperial - Senior Comm. Center	8:30, 10:00 a.m.
Sept. 10	McCook - McCook Comm. Coll., Mini Theatre	2:00, 3:30 p.m.
Sept. 11	North Platte - Mid-Plains Comm. Coll., Theatre	8:30, 10:00 a.m.
Sept. 11	Theadford - Thomas Co. Courthouse	1:30, 3:00 p.m.
Sept. 12	Valentine - Cherry Co. Courthouse	10:30 a.m., 1:00 p.m.
Sept. 13	O'Neill - Holt Co. Courthouse	9:00, 10:30 a.m., 12:00 p.m.
Sept. 18	Norfolk - Norfolk Veterans' Home	8:30, 10:00 a.m.
Sept. 18	Columbus - Platte Co. Courthouse	1:00, 2:30 p.m.
Sept. 23	Burwell - Garfield Co. Courthouse	1:00 p.m.
Sept. 24	Broken Bow - Municipal Bldg., Auditorium	8:30, 10:00 a.m.
Sept. 24	Kearney - Law Enforcement Center, 2nd Floor	1:30, 3:00 p.m.
Sept. 25	Holdrege - Phelps Co. Courthouse	8:30, 10:00 a.m.
Sept. 25	Hastings - Hastings Regional Center	1:30, 3:00 p.m.
Sept. 26	Grand Island - G.I. Veterans' Home, Auditorium	8:30, 10:00 a.m.
Sept. 26	York - York Co. Courthouse	1:00, 2:30 p.m.
Oct. 2	Grand Island - G.I. Veterans' Home, Auditorium	8:30, 10:00 a.m.
Oct. 2	Seward - Cattle National Bank	1:00, 2:30 p.m.
Oct. 7	Wayne - Wayne Co. Courthouse	1:00, 2:30 p.m.
Oct. 8	Norfolk - Norfolk Veterans' Home	8:30, 10:00 a.m.
Oct. 8	Albion - Boone Co. Courthouse	1:30, 3:00 p.m.
Oct. 9	Columbus - Platte Co. Courthouse	8:30, 10:00 a.m.
Oct. 9	Fremont - Dodge Co. Courthouse, Room 301	1:00, 2:30 p.m.
Oct. 10	Beatrice - BSDC, Chapel	8:30, 10:00 a.m.
Oct. 10	Nebraska City - Otoe Co. Courthouse	1:30, 3:00 p.m.
Oct. 16	Kearney - Buffalo Co. Courthouse	8:30, 10:00 a.m.
Oct. 16	Hastings - Hastings Regional Center	1:30, 3:00 p.m.

provide a *regular rate of return* on a member's retirement account rather than a fluctuating return. And, most importantly, the new cash balance benefit allows the Retirement Office to self-fund monthly annuities (rather than contract with outside companies), which will result in better annuity rates when the lump sum cash balance account is converted to monthly benefit payments at retirement.

This issue of the "Retirement Roundup" covers different aspects of this new cash balance benefit for members. Please read the material carefully and plan to attend one of the special educational meetings to be held throughout the state this summer and fall. A special "election" and information packet will be mailed to all State and County Plan members prior to the meetings. □

Preretirement Seminars Postponed

No Preretirement (over age 50) or Personal Planning (under age 50) seminars will be offered this fall for state and county employees. This change in schedule is due to NPERS' redirection of staff time and resources toward implementation of the new cash balance benefit. Look for Preretirement and Personal Planning seminars to be offered again Fall 2003. Meanwhile, call **Sterling Financial** at **402-970-9300** or **877-970-9300** with investment questions, or the **Retirement Office** at **800-245-5712** or **471-2053** with any other questions about your membership or retirement account.

Employer Education and Reporting

The "Employer Education and Reporting" section is intended for **County Clerks** and **State Agency Personnel**.

Vesting - Vesting for members of the State and County Plans is now **three years** of participation (including any eligibility and vesting credit granted at enrollment).

Membership - Participation in the State and County Plans is now **mandatory** for all permanent full-time employees, no matter their age, when they have 12 months of continuous service. It is **voluntary** for all permanent full-time or permanent part-time employees when they have 12 months of service within a 5 year period and are age 20.

Budget Cuts - For agencies downsizing due to budget cuts, contact **Jan Fox** at **402-471-9505** for a packet of materials to provide affected employees, or to arrange a meeting at your work site.

Enrollments and Change Forms - With the new requirement of mandatory participation in the State Employees Retirement Plan after 12 months of service, the Retirement Office is processing large volumes of paperwork for new enrollees. Personnel contacts are reminded to use the **State/County Enrollment Form – NPERS1030** (Rev. 8/01) for this process, rather than the **Investment Change Form – NPERS2500** (Rev.3/01). Investment Change Forms should be used to transfer funds, change future contribution allocations, or select a new PIN. Personnel contacts should also remind their employees to send all **Investment Change Forms** to NPERS for completion, rather than to Ameritas. Forms sent to Ameritas by mistake will cause delays to our members' requests. Please provide the *current* form to your employees by checking the revision date on the lower left corner of the form. Contact our office for a copy of the current form or download it from our web site.

County Employer Reporting - County Clerks currently reporting through MIPS/County Solutions are required to mail or e-mail only the total page of the report to NPERS. The detail of the report and copies of checks are not required. The total page may be e-mailed to **Clint Holmes** at **cholmes@ret.state.ne.us**. County Clerks reporting directly to Ameritas must send both the total page and the detail of the report to NPERS. NPERS does not require copies of checks. Original checks and full documentation must be forwarded to Ameritas.

Questions? Contact these staff members when you have specific questions on employer reporting:

County reporting questions	– Clint	402-471-9725
State, County and DCP questions	– Kim	402-471-9483
Toll free	–	800-245-5712

Decision

(Cont. from pg. 2)

life and death, or heaven and hell. (Sorry, no black and white choices or it would be easy.) Both the current and the new benefit have redeeming qualities, good points and bad.

For some people, more security, less decision-making and less volatility will make the new cash balance benefit more attractive. Others, who are comfortable with investment decisions and market volatility, will feel that greater personal control and the potential upside makes staying with the current benefit the better choice for them.

For now keep an open mind, gather information, and attend the educational meetings! We at Sterling Financial Advisors will continue to be available to help as you make this important decision about your retirement plan. You are on your own when it comes to Bismarck rolls or your mother-in-law! ☐

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Have a Great Summer!



RETIREMENT ROUNDUP

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