Retirement Roundup

"Providing Information to State & County Employees"

Nebraska Public Employees Retirement Systems

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Choices Available for Defined Contribution Members

by Jane Hansen, Member Services Manager

With the passage of LB 1097 this spring, members of the State and County **Defined Contribution Benefit** have gained additional choices for the investment of their *employer funds*. This change **does not** affect members enrolled in the Cash Balance Benefit. Important information for members of the Defined Contribution Benefit follows:

As of **July 16, 2004**, the 11 investment options available for *employee* funds will also become available for the investment of *employer* funds. The current employer funds (Employer Moderate, Conservative, and Aggressive) will be closed and replaced with 11 employer accounts which mirror the 11 funds currently available for employee investments.

On the third-quarter statements, members with funds invested in the Employer Moderate Fund will notice that their balances for that fund will appear under the new name of the "Employer Moderate Pre-mix" Fund; funds invested in the Employer Conservative Fund will be known as the "Employer Conservative Pre-mix" Fund; and funds in the Employer Aggressive account will be known as the "Employer Aggressive Pre-mix" Fund. It is important to note that these three employer pre-mixes were selected to receive the funds in the employer accounts because they are virtually identical in composition to the former Employer Moderate, Conservative, and Aggressive Funds.

Effective July 16, 2004, Defined Contribution Benefit members have more choices for their Employer Funds

Previous Choices
Employer Conservative Fund
Employer Moderate Fund
Employer Aggressive Fund

Choices as of 7/16/04
Employer Conservative Pre-mix Fund
Employer Moderate Pre-mix Fund
Employer Aggressive Pre-mix Fund
Money Market Fund
Stable Value Fund
Bond Market Index Fund
S & P 500 Stock Index Fund
Large Company Growth Stock Index Fund
Large Company Value Stock Index Fund
Small Company Stock Fund
International Stock Fund

Members may choose to leave their funds as initially placed, or they may select different options from the funds now available. On July 16, 2004, members will have the ability to move the funds in their employer account between the 11 new employer funds, subject to the transfer restrictions currently in effect (i.e. direct moves between the Stable Fund and the competing funds of Money Market, Bond Market Index, and Conservative Pre-mix Funds are not allowed.) Members will also be able to select between all 11 investment choices for the allocation of *future* contributions.

These investment changes brought about by the passage of LB 1097 have been eagerly anticipated by many Defined Contribution Benefit members who have long desired a wider variety of investment choices for their employer funds. NPERS encourages anyone with questions about this change to contact us at 402-471-2053 or 800-245-5712 or call Sterling Financial Advisors at 877-970-9300. ❑

Cash Balance Report Released

See page 3 for details

Behind the Scenes

The last area to be featured in our "Behind the Scenes" segment is our Administrative Team.

Our Director, Anna Sullivan has been with NPERS since 1976, when she started working with the Judges and State Patrol plan members. She then took over, what is now known as Education Services, and was the person responsible for beginning our Preretirement seminar program. Anna accepted the position of Deputy Director in 1994 and became the agency Director in 1998. It is her great leadership ability and experience that makes NPERS a success.

NPERS' Legal Counsel, Joe Schaefer joined us in August of last year. In addition to writing articles for the "Legal Corner" segment of the Retirement Roundup, Joe is responsible for keeping our office up to date on all legislative matters. He also assists our

Administrative Team

L to R; Joe, Anna,Teresa and Sheila

Director and staff in legal matters that may arise, such as Qualified Domestic Relations Orders (QDRO's). Whether it's concerning a member, a form, or a personnel issue, Joe is always willing to counsel the NPERS staff.

Teresa Zulauf has been a state employee for over 9 years. She was our agency's Internal Auditor for approximately 18 months beginning in 1999 and just recently returned to fill the position again. Teresa's role as Internal Auditor is to assure that laws, regulations, policies and procedures are being followed by the agency. Her guidance is appreciated by other staff members. She is always willing to help with the day-to-day questions that may arise.

The Administrative Assistant for the agency is Sheila Linder. Sheila has been with NPERS for over four years. Her title does not even begin to describe her duties for our agency. Sheila assists our Director and Board Members during our monthly Board meetings, she assists with all Qualified Domestic Relations Orders that come through the office, she is our personnel clerk and she is the "complaint department" for the agency environmental issues. Sheila is a priceless commodity to the agency as well as a kind and generous person.

Our Administrative Team is made up of four highly capable individuals who are each a valuable asset to the agency. ❑

Cash Balance Credit Rate Improves

The new crediting rate will be 5.61% annualized for the coming quarter. The Federal Mid-term Rate for July 2004 has changed to an annual rate of 4.11%. This new rate will increase the rate credited to Cash Balance member's accounts for the period July through September 2004. The law states that the rate credited to member accounts will be the Federal Mid-term rate plus 1.5% per annum.

At the end of each quarter the Retirement Office updates the interest credit paid to Cash Balance member accounts based on any changes to the Federal Mid-term rate. If this rate is less than 3.5% per annum, the credit rate to member accounts will be no less than 5% per annum. During the calendar year 2003 the interest credit rate averaged 5.1% for the year.

Where Would Your Money Go?

When was the last time you updated your beneficiary designation with NPERS? Have any of the following happened since you joined the State or County Retirement Plan:

- Have you gotten married or divorced?
- Have you had a child?
- Has a family member died?
- Has a named beneficiary changed address?

If you answered yes to any of the questions, you should complete a new Beneficiary Designation Form right away and mail to NPERS. Any new Beneficiary Designation Form received will automatically replace what we have on record for you.

Give yourself peace of mind knowing that if you were to die unexpectedly before having a chance to retire, your retirement account would be distributed according to your wishes.

Ask your personnel contact for a new form, print it from our web site at **www.npers.ne.gov,** or call us at **800-245-5712** or **402-471-2053**.

What Are You Missing?

If you borrowed this newsletter from a coworker or picked it up at work because you didn't get it at home, it's probably because we don't have your current address. Each time we send out a mailing there are always a batch of envelopes that are returned due to incorrect addresses.

If you or someone you know are not getting our mailings at home, please check with your employer to make sure they have your current address.

If we don't have your address, you'll never know what you're missing!

Annual Cash Balance Report Released

The State and County Cash Balance actuarial reports for the year-ending December 31, 2003, were presented to the Retirement Board at its regular April 2004 meeting by the consulting Actuary to the Board. The Actuary reported a very positive first year for the new Cash Balance benefit now available to all new State and County plan members (anyone who enrolls after January 1, 2003) and State and County employees who were members prior to January 1, 2003, who elected to transfer to the Cash Balance benefit by December 31, 2002.

The actuarial results showed that the Cash Balance benefit of both the State and County plans is well funded primarily due to the excellent investment returns for the plan year and the lower than expected interest credit rate. The **market** return on the Cash Balance assets was 20.2% for the year-ending December 31, 2003. This actual market return exceeded the ***expected*** **market** return of 7.6%, providing an excess for the year.

The excess return creates a surplus within the Cash Balance benefit that will help offset future market declines and will give the Retirement Board the option to grant a one-time dividend to all Cash Balance member accounts and yet maintain the required cushion of 10% of the assets. The retirement laws governing the State and County Retirement Plans gives the Retirement Board the authority to grant a dividend if sufficient assets are available to do so. However, the Board is in the process of developing a policy on this matter and will exercise caution before granting a dividend.

It is important to remember that a Cash Balance benefit is "like" a **defined contribution** benefit, which State and County members have had for many years, but it is actually a **defined benefit** plan, which provides a guaranteed interest rate on all member and employer contributions. In our Cash Balance the guaranteed rate is no less than 5% per year. State law requires the rate be based on the Federal mid-term interest rate, plus 1.5%. During 2003 this averaged 5.1% for the calendar year.

The actual Cash Balance assets, which include member and employer contributions, are invested in a diversified portfolio made up of 55% equities (stocks) and 45% fixed income (bonds). On average, under this asset allocation we would expect the assets to earn 7.6% per year over the long-term, which is slightly higher than the expected average annual interest rate credited to the accounts of 7%. (Average Federal mid-term rate, plus 1.5% over the long-term.) By design the difference in the two expected rates will provide protection to benefits in a *down market* and can allow for benefit improvements which must be initiated through the State Legislature, or through the Board for a one-time dividend to member accounts in an *up market.*

In addition, the Cash Balance benefit is designed to pay members a lifetime monthly retirement benefit, guaranteed by the plan itself. This feature has tremendous promise for those State and County plan members who prefer a monthly retirement check versus a lump sum of their account at retirement. However, members still have the option of taking a lump sum.

(Continued on page 4)

Below are key plan statitics and data for the 2003 plan year. ***All assets are reported in millions.***

	State	County
Members	**5,255**	**2,569**
Retirees (new since January '03)	**46**	**35**
Assets - Actuarial Value:		
Beginning Balance	$ 216.7	$57.4
Annual Contributions	18.8	6.8
Transfers in	3.4	.2
Benefit/Refund Payments	- 4.7	- 2.0
Actuarial rate of return	23.4	6.4
Total	**$ 257.6***	**$ 68.8 ***
Liabilities - Actuarial Accrued:		
Present Value of Future Benefits	$391.4	$117.0
Value Annual Normal Contributions	- 150.2	- 53.7
Total	**$241.2 ****	**$ 63.3 ****
Assets – Market Value:	**$280.4 *****	**$ 74.8 *****

***Actuarial value of assets is calculated using the beginning of the year value plus contributions and transfers in minus disbursements, plus actuarial return of 10.1%.**

****Actuarial accrued liabilities are calculated by first determining the present value of future benefits (projected salary, contribution credits and interest credits to expected retirement date) minus the present value of future normal cost (annual normal contributions).**

*****The difference in the Market Value and Actuarial Value of the Assets is "smoothed" or recognized over 5 years to minimize the volatility in the assets from year to year and to reduce the chance of additional contributions being required in a year when markets are in decline.**

Legal Corner

by NPERS Legal Counsel,
Joe Schaefer

Ninety-Eighth Legislature Second Session Summary

The sixty-day session of the Legislature adjourned on April 15. Many contentious issues consumed the Legislature's time, and only late in the session did many bills advance to Final Reading, among them significant retirement legislation.

LB 960: Changed the makeup of the **Public Employees Retirement Board** (the board which oversees NPERS). The bill was advanced to General File with a committee amendment which increased the number of members to eight (2 school, 1 judge, 1 patrol, 1 county, 1 state, 2 public). LB 960 was a speaker priority bill. Another bill dealing with the board makeup, LB 1115, was indefinitely postponed by the Retirement Committee. The provisions of the committee amendment to LB 960 were amended into LB 1097. The board will become an eight member board on January 1, 2005.

LB 1030: Expanded the **investment options** for *employer* contributions of State and County Defined Contribution members to the same options currently available for the *employee* contributions. The bill was advanced to General File March 4 and was amended into LB 1097 (which passed April 15, 2004). The investment options change is operative July 16, 2004.

LB 1097: Cleaned up various provisions of retirement statutes (**NPERS' technical bill**). LB 1097 was advanced to General File on March 4, 2004, with a committee amendment containing a couple of additional technical changes, as well as incorporating the provisions of several other bills, including LB 679, LB 960, LB 961, LB 1013, LB 1030, LB 1098, and LB 1132. LB 1097 was a committee priority bill. It was adopted by the Legislature on the last day of the session, April 15, and was signed into law by Governor Johanns the same day. Various provisions become (became) operative April 16, July 1, or July 16, 2004.

All other legislation has been indefinitely postponed.

2004 State & County Seminar Calendar

Preretirement Age 50 and over

Scottsbluff	-	August 18
Lincoln	-	August 25
Lincoln	-	August 26
Lincoln	-	September 1
Lincoln	-	September 2
Valentine	-	September 8
Sidney	-	September 28
G. Island	-	October 6
Kearney	-	October 14
Lincoln	-	October 27
N. Platte	-	November 3
Norfolk	-	November 9
Omaha	-	November 16
Fremont	-	December 1
Lincoln	-	December 16

Personal Planning Under age 50

Scottsbluff	-	August 19
Valentine	-	September 9
Sidney	-	September 29
G. Island	-	October 7
Lincoln	-	October 28
N. Platte	-	November 4
Norfolk	-	November 10
Omaha	-	November 18
Fremont	-	December 2
Lincoln	-	December 15

Seminar registration information will be mailed to all eligible members in July. **We cannot accept registrations by phone.** If you need a registration form, please contact NPERS or print from our web site at **www.npers.ne.gov.**

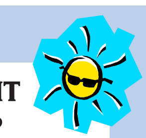
Cash Balance

Cont from pg. 3.

In conclusion: The actuary report summarized that the funding of the Cash Balance benefits improved during 2003 primarily because a) investment returns were greater than expected and b) Cash Balance credit was lower than expected. There is funding available for an additional dividend or benefit improvement. After allowing for the required 10% cushion an amount of approximately **$1.4 million** is available for the State Cash Balance benefit and **$600 thousand** for the County Cash Balance benefit.

A long-term strategy is being developed by the Retirement Board for the Cash Balance benefit taking into consideration: ***a) benefit adequacy b) maintaining the funding cushion c) fairness to cash balance members d) consistency from year-to-year and e) administrative practicality.***

If you wish more details you may contact the Retirement Office for a copy of the **Cash Balance Benefit Fund Actuarial Valuation Results as of January 1, 2004**. Please specify whether you are a County or a State employee.



RETIREMENT ROUNDUP

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