

## **PUBLIC EMPLOYEES RETIREMENT BOARD MEETING**

September 15, 2008

9:00 A.M.

A regular meeting of the Public Employees Retirement Board convened at 9:00 a.m., Monday, September 15, 2008, in the Atrium Conference Room, 1200 "N" Street, Suite 206, Lincoln, Nebraska.

The Board members were notified of this meeting by Agenda mailed September 8, 2008. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, September 8, 2008. D. Blank chaired the meeting and V. Huber recorded the minutes.

MEMBERS PRESENT:

DENIS BLANK, CHAIR  
SGT. GLENN ELWELL, VICE-CHAIR  
DALE KAHLA  
MARK SHEPARD  
JUDGE GLENN CAMERER  
RICHARD WASSINGER  
DON PEDERSON  
ELAINE STUHR  
DAVE BOMBERGER, EX-OFFICIO

### NONMEMBERS PRESENT:

PHYLLIS CHAMBERS Director	PAT BECKHAM Milliman, Inc.
RANDY GERKE Deputy Director	MARY JOCHIM Sterling Financial Advisors
JOE SCHAEFER Legal Counsel	DAVE SLISHINSKY Buck Consultants
JAN FOX Training Supervisor	BEN MATTERN Ameritas
MIDEN EBERT Retirement Plan Supervisor	BETH FERRELL Nebraska Association of County Officials
JERRY BROWN IT Manager	LIZ LEBER State Auditor's Office
TERESA ZULAUF Internal Auditor	KRISTA DAVIS State Auditor's Office
DEAN GRESS IT Infrastructure Support Analyst	SHEILA LINDER Administrative Assistant
BRENT BANISTER Milliman, Inc.	VICKI HUBER Staff Assistant

**Agenda Item 1:** D. Blank stated this meeting will follow the Nebraska Open Meetings Act and a copy of the Act is located on the front table.

**Agenda Items 2 and 3 – Meeting Called to Order:** D. Blank called the September 15, 2008, Board Meeting to order at 9:00 a.m. Present at roll call: D. Blank, G. Elwell, D. Kahla, M. Shepard, G. Camerer, R. Wassinger, D. Pederson, and E. Stuhr. Absent: None.

**Agenda Item 4 – Approval of Minutes:** R. Wassinger moved for approval of the minutes of the August 24-25, 2008, Board Meeting and Retreat. Motion was seconded by E. Stuhr. Members voted as follows: For: G. Elwell, D. Kahla, M. Shepard, G. Camerer, R. Wassinger, D. Pederson, E. Stuhr, and D. Blank. Against: None. Motion carried.

**Agenda Item 5 – Approval of Budget Status Report & August Retirement Report:** E. Stuhr moved to approve the budget status report and the August 2008 Retirement Report. Motion was seconded by D. Kahla. Members voted as follows: For: D. Kahla, M. Shepard, G. Camerer, R. Wassinger, D. Pederson, E. Stuhr, D. Blank, and G. Elwell. Against: None. Motion carried.

**Agenda Item 6 – Public Comments or Correspondence from Citizens:** There were no public comments or correspondence from citizens with business not scheduled on the agenda.

**Agenda Item 7 – Election of Officers for 2009:** D. Blank called for nominations for the position of Chair of the Board for next year. G. Camerer nominated D. Blank. D. Blank confirmed the officer term is from September to September and not the calendar year. R. Wassinger seconded motion. M. Shepard moved that nominations cease and the Board cast a unanimous ballot for D. Blank. Members voted as follows: For: M. Shepard, G. Camerer, R. Wassinger, D. Pederson, E. Stuhr, G. Elwell and D. Kahla. Abstain: D. Blank. Against: None. Motion carried.

D. Blank called for nominations for the position of Vice Chair. D. Kahla nominated G. Elwell. E. Stuhr seconded the motion. G. Camerer moved that nominations cease and the Board cast a unanimous ballot for G. Elwell for Vice Chair. D. Kahla seconded the motion. Members voted as follows: For: D. Pederson, E. Stuhr, D. Blank, D. Kahla, M. Shepard, G. Camerer and R. Wassinger. Abstain: G. Elwell. Against: None.

E. Stuhr nominated P. Chambers for the office of Secretary. G. Elwell seconded the motion. G. Camerer moved that nominations cease and the Board cast a unanimous ballot for P. Chambers. D. Kahla seconded the motion. Members voted as follows: For: R. Wassinger, D. Pederson, E. Stuhr, D. Blank, G. Elwell, D. Kahla, M. Shepard, and G. Camerer. Against: None. Motion carried.

**Agenda Item 13 – Investment Officer's Update:** D. Bomberger reported on the retirement account portfolio exposure level to Fannie Mae and Freddie Mac as of September 11, 2008. Total exposure was \$737,108,157.41. A 99.97 percent (\$736,905,650.91) was in fixed income investments. As of last week, these investments are now being backed by a more explicit implied guarantee of the federal government. There was \$120,138.50 exposure to

preferred stock of these entities and \$82,368.00 of common stock, .03% was in securities that will have little, if any, value. This exposure represents 8.7% of total retirement assets.

He reported the markets are dealing with the bankruptcy of Lehman Brothers, the acquisition by Bank of America of Merrill Lynch and the turmoil of American International Group (AIG), a major insurance firm. The Dow Jones was down approximately 3% as of this morning.

D. Bomberger added the total exposure to Lehman Brothers is just under \$8.2 million. Common Stock exposure is approximately \$80,000 and \$16,000 of preferred stock. The fixed income exposure is just under \$8.1 million. The total Lehman Brothers exposure of \$8,159,727 represents less than one tenth of one percent of the total retirement assets.

G. Elwell moved to approve the Investment Officer's Report. D. Kahla seconded the motion. Members voted as follows: For: E. Stuhr, D. Blank, G. Elwell, D. Kahla, M. Shepard, G. Camerer, R. Wassinger, and D. Pederson. Against: None. Motion carried.

**Agenda Item 11 – Approve Incumbency Certificate:** D. Bomberger explained the Investment Council is in the process of opening custody accounts in other countries. State Street requires documentation from the Investment Council and the PERB confirming that D. Bomberger is authorized to sign on behalf of the Investment Council and that P. Chambers and R. Gerke are authorized to sign on behalf of the PERB. The Investment Council currently has an incumbency certificate and the PERB does not. NPERS now has its own tax identification number. This document will allow State Street to register retirement accounts under NPERS instead of the State of Nebraska.

R. Wassinger moved to approve the Incumbency Certificate and approve the authorization of P. Chambers and R. Gerke to sign on behalf of the PERB. D. Pederson seconded the motion. Members voted as follows: For: D. Blank, G. Elwell, D. Kahla, M. Shepard, G. Camerer, R. Wassinger, D. Pederson, and E. Stuhr. Against: None. Motion carried.

**Agenda Item 8 – State and County Audit:** K. Davis reported finishing the State and County Retirement Plans audit for the period of January 1, 2007, through December 31, 2007, in July of 2008. She reviewed the comments and recommendations of the State Auditor's Office listed in the report. She added there were no problems when she reviewed some of the recent State and County reconciliation account calculations.

D. Blank stated the Board intends to establish procedures to insure the reconciliation of all audits and requested the auditors keep communications open with the PERB and NPERS staff.

D. Bomberger left the meeting at 9:30 a.m.

**Agenda Item 9 – Actuary Audit:** Pat Beckham and Brent Banister, of Milliman, Inc. presented the Actuary Audit Report on Buck Consultants. Ms. Beckham stated Milliman, Inc. concluded that Buck Consultants provided a fair and reasonable assessment of the plans. Recommendations were provided to the PERB.

D. Blank recommended the Board accept the report as presented and have additional discussions on the matter at a future meeting.

G. Camerer moved to accept the Actuary Audit Report as presented. G. Elwell seconded the motion. Members voted as follows: For: G. Elwell, D. Kahla, M. Shepard, G. Camerer, R. Wassinger, D. Pederson, E. Stuhr and D. Blank. Against: None. Motion carried.

The Board took a break at 10:29 a.m. and reconvened at 10:44 a.m.

**Agenda Item 10 – Member Interest Posting:** P. Chambers explained that in December 2003, the PERB approved a method to post interest to member accounts at the end of the month based on the first of the month balance using the interest rate in effect at the time of the interest posting. In 2003, the Board discussed and considered using the average daily balance (ADB) method of posting interest, but postponed the decision pending the implementation of PIONEER. Recently, NPERS has considered utilizing the ADB method in the new NPRIS conversion. An audit point from the School, Judges and State Patrol audit for fiscal year ending June 30, 2005, recommended the PERB revisit the interest posting method and make a decision. NPERS staff researched the issue and recommended the Board disapprove the ADB method and formally adopt the current method of posting interest. P. Chambers provided the Board with a list of disadvantages identified if NPERS adopted the ADB method.

D. Pederson moved to accept the interest posting method recommended by NPERS to post interest to member accounts at the end of the month based on the first of the month's balance using the interest rate in effect at the time of the interest posting. This method would continue in the NPRIS system. G. Camerer seconded the motion. Members voted as follows: For: D. Kahla, M. Shepard, G. Camerer, R. Wassinger, D. Pederson, E. Stuhr, D. Blank, and G. Elwell. Against: None. Motion carried.

**Agenda Item 12 – Information System Update:** J. Brown reported there will no longer be any Problem Investigation Requests (PIRs) for PIONEER. Some of the PIRs were moved to the NPRIS system.

The DROP option was implemented into production August 29, 2008. There have been no major issues in production. He stated he will not continue to report on DROP.

Phase II requirements are complete. Phase III development is complete except for the Optional Service Credit. Phase III batch requirements are complete. August 27<sup>th</sup> testing began with IT staff. Phase II and Phase III testing was combined. Testing is three to four weeks ahead of schedule. User testing is scheduled to start next week. Production hardware is in place at NPERS. The Quality Assurance (QA) team has completed Phase III activity. Risks with project management and requirements traceability matrix update and updating of project plan were identified. These risks are being rectified. The Office of the CIO Security Team completed a security validation on the system August 8. Ten high and nine medium issues were found within the application. Saber is working on resolving these issues. The project is on schedule and within budget. The project end date remains early February 2009.

J. Brown reported the project team attended the September 9<sup>th</sup> Tech Panel meeting.

J. Brown stated the ongoing support of the NPRIS system is being reviewed and a proposal has been prepared. He stated he will review the proposal at the October PERB meeting.

D. Kahla moved to accept the IT report. E. Stuhr seconded the motion. Members voted as follows: For: M. Shepard, G. Camerer, R. Wassinger, D. Pederson, E. Stuhr, D. Blank, G. Elwell, and D. Kahla. Against: None. Motion carried.

**Agenda Item 14 – Director’s Report:** P. Chambers reported all but three teacher retirements with a June effective date are complete. Nineteen July retirements remain to be processed and 72 August retirements are yet to be completed. All June, July and August school retirements should be completed by October. Special weekly runs are being performed to keep up with the busy school retirement season.

The agency has received nine DROP applications to date.

The Berwyn Group completes a death audit at a cost of \$1,200 every year. The company cross references members with an account balance with the Social Security Administration. There are approximately 50 accounts where NPERS cannot locate the beneficiaries. The NPERS staff tries to contact the heirs annually and after five years these accounts are escheated to the State Treasurer’s office.

P. Chambers reported a correction that occurred to the budget worksheet. She stated there is a 10% increase in health insurance in both years which was not included in the original draft. The cost for budget year 2010-2011 is \$68,436. She commented that R. Gerke has been putting in extra hours and had done a tremendous job on the budget.

The State and County newsletter was sent to the printer. It features two articles about the Cash Balance revision voted on at the Retreat. The benefits department is preparing follow-up letters for members that are affected by the revision. The staff will be working with Ameritas on distributing the Cash Balance residual accounts.

P. Chambers reported she attended two Investment Council meetings this past month. The State Investment Officers meeting included discussion on the salaries of Investment Council staff. The College Saving Plan was the subject of the other meeting, which will be reported on at a later date.

The account reconciliation is progressing.

She requested the Board Retreat evaluations be returned to her.

P. Chambers mentioned two newspaper articles included in the packet regarding M. Shepard and the West Virginia Teachers retirement plan.

D. Blank entered into the record a letter from Executive Director, Mike Marvin, of the Nebraska Association of Public Employees (NAPE) establishing their intention to seek legislation to increase the employee’s contribution from the current 4.8% to a minimum of 5%

and the employer's match of 156% to remain the same. They are trying to get the total contribution rate up to 13 or 14%, compared to the current 12.2% rate.

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

**Agenda Item 15 – Board Committee Reports:** D. Blank thanked the Board Retreat Committee for their work on a successful retreat.

**Agenda Item 16 – Board Education/Travel Requests:** There were no requests.

**Agenda Item 17 – Future Meetings/Agendas:** The next meeting will be held on Monday, October 20, 2008, in the Atrium Conference Center, 1200 "N" Street, Suite 206, Lincoln, Nebraska.

**Agenda Items 18 – Executive Session:** At 11:23 a.m., G. Camerer moved that the Board exit Regular Session and convene in Executive Session for the purpose of discussing Disability Applications for Retirement Nos. 068236 and 076301, other legal matters and personnel matters. Motion was seconded by R. Wassinger. D. Blank repeated the motion for the record. Members voted as follows: For: R. Wassinger, D. Pederson, E. Stuhr, D. Blank, G. Elwell, D. Kahla, M. Shepard, and G. Camerer. Against: None. Motion carried.

**Agenda Item 19 – Board Action on Executive Session Topics:** At 12:15 p.m., R. Wassinger moved that the Board exit Executive Session and reconvene in Regular Session. Motion was seconded by D. Pederson. Members voted as follows: For: D. Pederson, E. Stuhr, D. Blank, G. Elwell, D. Kahla, G. Camerer, and R. Wassinger. Against: None. Motion carried.

M. Shepard left the meeting during Executive Session.

D. Kahla moved for approval of the disability application of Retirement No. 068236. G. Elwell seconded the motion. Members voted as follows: For: E. Stuhr, D. Blank, G. Elwell, D. Kahla, G. Camerer, R. Wassinger, and D. Pederson. Against: None. Motion carried.

D. Kahla moved for denial of the disability application of Retirement No. 076301. D. Pederson seconded the motion. Members voted as follows: For: D. Blank, G. Elwell, D. Kahla, G. Camerer, R. Wassinger, D. Pederson, and E. Stuhr. Against: None. Motion carried.

**Adjournment:** E. Stuhr moved that the meeting adjourn. Motion was seconded by R. Wassinger. Members voted as follows: For: G. Elwell, D. Kahla, G. Camerer, R. Wassinger, D. Pederson, E. Stuhr, D. Blank, Against: None. Motion carried.

The meeting adjourned at 12:17 p.m.