

PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

AUGUST 23, 2010

9:30 A.M.

A regular meeting of the Public Employees Retirement Board convened at 9:30 a.m., Monday, August 23, 2010, in the Great Western Bank Conference Center, 1221 "N" Street, Lincoln, Nebraska.

The Board members were notified of this meeting by Agenda mailed August 17, 2010. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, August 16, 2010. D. Blank chaired the meeting and V. Huber recorded the minutes.

MEMBERS PRESENT: DENIS BLANK, CHAIR
SGT. GLENN ELWELL, VICE-CHAIR
JUDGE RANDALL REHMEIER
RICHARD WASSINGER
DON PEDERSON
ELAINE STUHR
JANIS ELLIOTT
JEFF STATES, EX-OFFICIO

MEMBERS ABSENT: MARK SHEPARD

NONMEMBERS PRESENT:

PHYLLIS CHAMBERS Director	GARY BUSH AS - State Budget Administrator's Office
RANDY GERKE Deputy Director	NANCY REIMER Ameritas
JOE SCHAEFER Legal Counsel	KATHY TENOPIR Legislative Fiscal Office
MIDEN EBERT Retirement Plan Supervisor	KRIS KUCERA State Auditor's Office
FRED TURNER IT Manager	KATE ALLEN Legislative Retirement Committee
TERESA ZULAUF Internal Auditor	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 table by the door.

Agenda Items 2 and 3 – Meeting Called to Order: D. Blank called the August 23, 2010, Board Meeting to order at 9:30 a.m. Present at roll call: D. Blank, G. Elwell, R. Rehmeier, R. Wassinger, E. Stuhr, J. Elliott, and J. States. Absent: M. Shepard and D. Pederson.

Agenda Item 4 – Approval of Minutes: R. Wassinger moved for approval of the minutes of the July 15, 2010, Board Meeting and Education Retreat. J. Elliott seconded the motion. Members voted as follows: For: G. Elwell, R. Rehmeier, R. Wassinger, E. Stuhr, J. Elliott, and D. Blank. Against: None. Motion carried.

D. Pederson joined the meeting at 9:33 a.m.

Agenda Item 5 – Approval of Budget Status Report & July 2010 Retirement Report: E. Stuhr moved to approve the budget status report and the July 2010 Retirement Report. G. Elwell seconded the motion. Discussion: In response to a question by R. Rehmeier, R. Gerke explained the structure of the budget status report provided in the Board packets. Members voted as follows: For: R. Rehmeier, R. Wassinger, D. Pederson, E. Stuhr, J. Elliott, D. Blank, and G. Elwell. Against: None. Motion carried.

Excuse Board Members: G. Elwell moved to excuse M. Shepard. D. Pederson seconded the motion. Members voted as follows: For: R. Wassinger, D. Pederson, E. Stuhr, J. Elliott, D. Blank, G. Elwell, and R. Rehmeier. Against: None. Motion carried.

Agenda Item 6 – Public Comments or Correspondence from Citizens: At this time, J. Schaefer read a letter informing the Board of his retirement from State employment and the position of legal counsel to the PERB, effective as of the close of business September 7, 2010. He thanked the Board for their past support and exited the meeting.

Agenda Item 7 – Biennium Budget and 515 Program: R. Gerke presented a budget worksheet for the biennium budget for Programs 041, 042 and 515. He explained each request for additions to the base budget for Program 041. He reported there will be no changes requested for Program 042 and reviewed proposed revisions to the Program 515 budget.

D. Pederson expressed concern with the additional funds requested for a back-up web team developer in Program 041. He stated the additional cost is not consistent with the original agreement made with the Office of the Chief Information Officer (OCIO).

D. Pederson suggested the PERB submit a written resolution to the Building Division and the Governor expressing concerns and problems in connection with NPERS being moved to the Assurity Building in 2012. He suggested the resolution include a list of pros and cons in order to explain how the move would disrupt the service provided to NPERS' members.

The Board members agreed to prepare a resolution and D. Blank requested the director draft a resolution as suggested which will be included as an agenda item at the September 2010 PERB meeting. He asked D. Pederson to assist the director with the draft.

R. Gerke presented estimates to be requested for the final biennium budget of Program 515, which funds the retirement plans.

R. Gerke asked the Board to approve the draft biennium budget, realizing the dollar amounts may be modified.

D. Pederson moved to approve the draft biennium budget. R. Wassinger seconded the motion. Members voted as follows: For: D. Pederson, E. Stuhr, J. Elliott, D. Blank, G. Elwell, R. Rehmeier, and R. Wassinger. Against: None. Motion carried.

R. Gerke provided a handout regarding the Fund 515 biennium budget, listing 7 items affected by the proposed modifications (see Report 200 attached). The Governor and Budget Office are requiring all agencies who receive general fund appropriations to reduce the base budget by 10%. He requested recommendations from the Board in the prioritization of the budget modifications.

There was discussion by the Board, K. Allen, and K. Tenopir regarding the PERB's fiduciary responsibilities and statutory requirements.

K. Allen explained the State of Nebraska does not have the same contractual obligation to the Omaha School Employees Retirement System (OSERS) as they do to the NPERS plans.

K. Tenopir stated the process is to identify the items and site the statute that requires you to provide the benefit. It would be up to the Legislature to decide whether a statute would be changed. She stated that Omaha has its own Board and they have the fiduciary responsibility for the Omaha program.

J. States commented that since NPERS acts as a pass-through for the Omaha plan, the PERB's fiduciary responsibility is with NPERS' plans and not with the OSERS.

Members of the Board discussed the budget modifications. The PERB did not want to recommend any of the items for reduction. The Board believes the PERB has a fiduciary duty to all the plans it administers. The PERB also believes that it should not prioritize the Plans or line items for which they are fiduciarily responsible. The Board also did not want to offend OSERS by recommending their statutory funding be placed on the modification list.

Based on the PERB's understanding that it must recommend the 10% modifications and based on the PERB's understanding of their fiduciary responsibility to the plans, G. Elwell, moved to recommend eliminating lines 5, 6, 7, (Omaha COLA, Omaha 1% of Salary, and Omaha Service Annuity) from the General Fund Base Appropriation and spread the rest of the reductions proportionately across the NPERS plans, lines 1-4 (State Schools, Patrol and Judges COLA; LB137 Patrol; State Schools 1% of Salary; State School Additional Contributions and Patrol Additional Contributions). E. Stuhr seconded the motion. Discussion: G. Bush clarified the total amount of the budget modification reduction. Members voted as follows: For: E. Stuhr, J. Elliott, D. Blank, G. Elwell, R. Rehmeier, R. Wassinger, and D. Pederson. Against: None. Motion carried.

P. Chambers stated she would contact OSERS as soon as possible to explain the budget modifications.

The Board took a break at 10:41 a.m. and reconvened at 10:57 a.m.

Agenda Item 8 – Information System Update: F. Turner reported the problem incident report (PIR) count is 19, which remains constant.

He reported group transfers of knowledge have taken place. He stated the OCIO has two developers identified as back-up and one has completed a PIR. F. Turner reported being told the OCIO will not charge NPERS for the PIR change made by the back-up developer. He stated he was under the understanding there will be no charge unless it becomes an ongoing issue and he does not anticipate needing the extra expense.

He reported Saber has delivered the NPRIS environment life cycle plan and he is reviewing the plan, along with OCIO staff.

In regard to the Disaster Recovery Plan, F. Turner reported the user acceptance testing (UAT) servers are located at the OCIO and can be connected remotely with minimum effort. He stated the Disaster Recovery Plan is 65% complete.

F. Turner stated one Saber employee remains on site until the end of December 2010 and reports to him. He stated this staff member is assigned fatal PIRs that need to be resolved right away.

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

Agenda Item 9 – GASB Draft Letter: P. Chambers presented a draft letter prepared by Dave Slishinsky for the PERB to respond to GASB's invitation for written comments on possible revision to Statement 25 and 27 as outlined in the Preliminary Views.

She reported the draft letter was also provided to the Department of Administrative Services for their reference. P. Chambers reviewed the content of the letter.

J. States commented on how the proposed revision, in certain circumstances, eliminates the benefits of the ability to spread out losses and will accelerate funding.

E. Stuhr moved approval for D. Blank to sign the GASB letter on behalf of the PERB. R. Wassinger seconded the motion. Members voted as follows: For: D. Blank, G. Elwell, R. Rehmeier, R. Wassinger, D. Pederson, E. Stuhr, and J. Elliott. Against: None. Motion carried.

Agenda Item 10 – Internal Auditor Quarterly Report: T. Zuluaf reported she has been reviewing County and School employer audits.

She reported traveling to Kearney, Nebraska, on August 20, 2010, where she made a presentation to members of the Nebraska Society of CPAs, who were taking a class on auditing Nebraska school districts.

T. Zuluaf stated NPERS recently provided School employers a flow chart to assist them in determining employee eligibility in the retirement plan.

She stated responses to the recent State, County, and DCP exit conference comments are due this week and staff is already working on the audit findings.

T. Zuluaf reported her department has completed 31 School audits and 17 are in process. She stated the findings include incorrect or incomplete demographic information; delays in getting enrolled in the plan; lack of sufficient documentation to support hours worked; and employees are noted to have worked enough hours to be enrolled in the plan, but have not been enrolled.

In regard to County employer audits, she reported her staff is experiencing difficulty in getting information back from employers. She stated her staff is working on ways to improve employer compliance. She reported 23 County audits are complete, six audits are in process, and three more will be started by the end of the month. She reported audit findings similar to the School audits, with the addition of issues with vesting credit applications.

T. Zuluaf stated she continues to work on updating the Three-year Internal Audit Plan and asked when the Board would like her to provide an annual report of the plan. D. Blank requested it be added to the agenda of the December 2010 meeting.

T. Zuluaf offered to send copies of the flow chart that was sent to School employers regarding plan participation eligibility. J. Elliott requested a copy.

D. Blank asked T. Zulauf if there were any other issues she needed to report to the Board. She replied no.

G. Elwell moved to approve the Internal Auditor Quarterly Report. R. Rehmeier seconded the motion. Members voted as follows: For: G. Elwell, R. Rehmeier, R. Wassinger, D. Pederson, E. Stuhr, J. Elliott, and D. Blank. Against: None. Motion carried.

Agenda Item 11 – Investment Officer’s Update: J. States reported the June investment performance was 14.2 %, and added the market seems to be flat at this time.

He reported the Nebraska Investment Council (NIC) has hired an additional portfolio manager, along with an investment analyst. He stated the operational changes are intended to improve administrative supervision of all contract relationships and reduce the use of outside consultants.

J. States reported the NIC’s annual audit begins August 24, 2010.

He reported Ennis Knupp announced being acquired by Hewitt Associates, Inc., which has merged with Aon Corporation. The transformation is expected to be completed in November or December 2010. J. States stated this acquisition raises some concerns for the NIC and will receive a lot of attention from the Council over the next few months.

J. States reported the NIC is also preparing their biennium budget and has been notified they will move their office to the Assurity building.

R. Rehmeier moved to accept the Investment Officer's Update. J. Elliott seconded the motion. Members voted as follows: For: R. Rehmeier, R. Wassinger, D. Pederson, E. Stuhr, J. Elliott, D. Blank, and G. Elwell. Against: None. Motion carried.

Agenda Item 12 – Director's Report: P. Chambers reported that two days furlough has been mandated for contract employees by the Governor to be taken by December 31, 2010. This will affect 42 NPERS employees.

She reported 239 School retirements were processed in the month of July and stated there are 283 retirements with a July 1 effective date to process; 78 for August 1; and 48 pending for September 1.

P. Chambers reported participating in a conference call with J. States and Kevin Vandolder, from Ennis Knupp, regarding the possible addition of a global fund for the DC and DCP plans. She pointed out the addition would require legislation. P. Chambers stated Kevin suggested a target base fund and a treasury protection investment (TPI) fund. She mentioned the need to keep in mind the costs involved with any changes in the funds. Kevin plans to discuss his proposal at the Board's joint meeting with the NIC in November.

P. Chambers reported NPERS IT staff and Ameritas staff met with Multi-County Information and Programming Services (MIPS) staff regarding the employer reporting services they provide to the Nebraska Association of County Officials (NACO). The group obtained a better understanding of the MIPS software and made a few suggestions for improvement.

She reported meeting with Senator Pankonin, and K. Allen on August 28th, where she shared her retreat presentation, "Public Pensions Challenges" and what other states are doing to deal with funding issues. The Retirement Committee is concerned with the budget and the long term funding of our plans.

P. Chambers stated a legislative hearing, LR 542, is scheduled for Friday, September 24, 2010. It is not open to the public, but the press is invited. K. Allen stated the Board was invited to join P. Chambers at the hearing.

P. Chambers reported the State, County, and DCP audit exit conference was held on August 16, 2010. She reported receiving nine audit points for the State and County and five audit points for the DCP. Krista Davis plans to provide the State Auditor's Report at the September PERB meeting. P. Chambers reported the School, Judges, and Patrol entrance conference was held at the same time, and the auditors will begin the SJP Audit at NPERS next week.

She thanked the Board for allowing her to attend the National Association of State Retirement Administrators (NASRA) conference in Seattle, Washington. She highlighted the topics presented at the conference and shared some marketing ideas retirement systems have produced. The agenda included a director's roundtable workshop, a regional meeting of state directors, and sessions on the economic outlook, funding and sustainability, Federal legislation and trends, GASB changes, hedge funds, avoiding "short-termism", and managing risk. During the annual "Roll Call of the States", each director was given three minutes to speak on important issues affecting their retirement systems. NASRA also publishes the annual "Roll Call of the States" containing information on each state retirement system.

J. Elliott asked P. Chambers to send Board members a link to the video she mentioned the New York State Teachers' Retirement System is using on their website.

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

Agenda Item 13 – Board Committee Reports: There were no reports.

Agenda Item 14 – Board Education/Travel Requests: There were no requests.

Agenda Item 15 – Future Meetings/Agendas: The next meeting will be held on Monday, September 20, 2010, in the in the Great Western Bank Conference Center, 1221 "N" Street, Lincoln, Nebraska. The meeting was tentatively scheduled to begin at 9:30 a.m.

E. Stuhr requested the Board meeting scheduled for Monday, October 18, 2010, be changed to Tuesday, October 19th. D. Blank asked the Board members to check their calendars and stated the Board would revisit the request at the September Board meeting.

Agenda Items 16 and 17 – Executive Session: At 11:57 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. 901092, Case No. CI09-1395, personnel matters, and other legal matters. R. Rehmeier seconded the motion. D. Blank repeated the motion for the record. Members voted as follows: For: D. Pederson, E. Stuhr, J. Elliott, D. Blank, G. Elwell, R. Rehmeier, and R. Wassinger. Against: None. Motion carried.

G. Elwell left the meeting during Executive Session.

At 1:06 p.m., R. Wassinger moved that the Board exit Executive Session and reconvene in Regular Session. E. Stuhr seconded the motion. Members voted as follows: For: E. Stuhr, J. Elliott, D. Blank, R. Rehmeier, R. Wassinger, and D. Pederson. Against: None. Motion carried.

R. Wassinger moved for approval of the Disability Application of Retirement No. 901092. R. Rehmeier seconded the motion. Members voted as follows: For: J. Elliott, D. Blank, R. Rehmeier, R. Wassinger, D. Pederson, and E. Stuhr. Against: None. Motion carried.

R. Wassinger moved to ratify the settlement agreement on Case No. CI09-1395 signed on July 22, 2010. J. Elliott seconded the motion. Members voted as follows: For: D. Blank, R. Rehmeier, R. Wassinger, D. Pederson, E. Stuhr, and J. Elliott. Against: None. Motion carried.

J. Elliott moved to accept the resignation of J. Schaefer, effective September 7, 2010, and recommend the director begin a search for a replacement. D. Pederson seconded the motion. Members voted as follows: For: R. Rehmeier, R. Wassinger, D. Pederson, E. Stuhr, J. Elliott, and D. Blank. Against: None. Motion carried.

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

The meeting adjourned at 1:09 p.m.

Phyllis G. Chambers
Director