

PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

February 28, 2011

10:00 A.M.

A regular meeting of the Public Employees Retirement Board convened at 10:00 a.m., Monday, February 28, 2011, in the Great Western Bank Conference Center, 1221 "N" Street, Lincoln, Nebraska.

The Board members were notified of this meeting by Agenda mailed February 28, 2011. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, February 21, 2011. G. Elwell chaired the meeting and V. Huber recorded the minutes.

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

MEMBERS ABSENT: DENIS BLANK, CHAIR

NONMEMBERS PRESENT:

PHYLLIS CHAMBERS Director	NANCY REIMER Ameritas
RANDY GERKE Deputy Director	KRISTA DAVIS State Auditor's Office
JASON HAYES Legal Counsel	NEIL BATEMAN Retired Teachers
JOHN WINKELMAN Training Supervisor	MARY JOCHIM Sterling Financial Advisors
MIDEN EBERT Retirement Plan Supervisor	VICKI HUBER Administrative Secretary
TERESA ZULAUF Internal Auditor	

Agenda Item 1: G. Elwell stated this meeting will follow the Nebraska Open Meetings Act and a copy of the Act is located on the table by the doors.

Agenda Items 2 and 3 – Meeting Called to Order: G. Elwell called the February 28, 2011, Board Meeting to order at 10:00 a.m. Present at roll call: G. Elwell, M. Shepard, R. Rehmeier, R. Wassinger, D. Pederson, E. Stuhr, J. Elliott, and J. States. Absent: D. Blank.

Agenda Item 4 – Approval of Minutes: D. Pederson moved for approval of the minutes of the January 24, 2011, Board Meeting. M. Shepard seconded the motion. Members voted as follows: For: G. Elwell, M. Shepard, R. Rehmeier, R. Wassinger, D. Pederson, E. Stuhr, and J. Elliott. Against: None. Motion carried.

Agenda Item 5 – Approval of Budget Status Report & January 2011 Retirement Report: E. Stuhr moved to approve the budget status report and the January 2011 Retirement Report. J. Elliott seconded the motion. Members voted as follows: For: M. Shepard, R. Rehmeier, R. Wassinger, D. Pederson, E. Stuhr, J. Elliott, 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.

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

Agenda Item 7 – 2011-2013 Biennium Budget Recommendations: The Board received copies of NPERS biennium budget worksheets and recommendations from the Legislative Fiscal Office for Programs 041, 042, and 515 in their Board packets.

R. Gerke reported the Legislative Fiscal Office did not recommend funding the move to the Assurity Building in FY 2012-2013, OCIO Hosting NPERS UAT Servers, and OCIO Additional Programming Support in FY 2011-2012 and FY 2012-2013.

R. Gerke pointed out that recommendations made by the Legislative Fiscal Office for Program 041, included additions of a 2% salary increase for staff in FY 2012-2013 and effective FY 2011-2012, a 1.5% equity salary adjustment for staff that did not receive a salary increase in FY 2010-2011.

The budget hearing was held February 25, 2011.

G. Elwell thanked R. Gerke and P. Chambers for their work on the budget.

Agenda Item 8 – Approve Annual Report to the Legislature Draft: P. Chambers stated the content of NPERS' Annual Report to the Legislature follows statutory requirements. She reported this year's annual report is similar to previous reports; however, it includes the delivery service report which was omitted last year. She pointed out the last payment on the Master Lease was made in January 2011 and will not be included next year.

She commented that NPERS is now administering a record number of 112,000 member accounts and paid \$474 million in benefits in 2010, which is also a record.

The report will be presented to the Legislative Retirement Committee on March 15, 2011.

R. Wassinger moved to approve the draft of the Annual Report to the Legislature. J. Elliott seconded the motion. Members voted as follows: For: R. Wassinger, D. Pederson, E. Stuhr, J. Elliott, G. Elwell, M. Shepard, and R. Rehmeier. Against: None. Motion carried.

Agenda Item 9 – Deferred Compensation Plan (DCP) – Revise Rollover Terminology:

J. Hayes reported a discrepancy in the wording of the DCP plan document pertaining to transfers from the Cash Balance plan into the DCP plan. Attorney, Gary Clatterbuck has advised NPERS that the transfer should be called a “rollover” per IRS rules.

J. Hayes explained the proposed change to section 16 of the DCP plan document and stated additional language will be added to LB 509, section 84-1313.02 to accomplish the change in terminology.

M. Shepard moved to make changes to Section 16 of the Deferred Compensation Plan Document clarifying that there is not permitted a transfer into the Deferred Compensation Plan from another eligible governmental plan in accordance with Treasury Regulation 1.457-10(b)(1) and that such a distribution may instead occur under the rollover provision also found in Section 16, according to the Legal Opinion provided by the Baird Holm Law Firm. E. Stuhr seconded the motion. Members voted as follows: For: D. Pederson, E. Stuhr, J. Elliott, G. Elwell, M. Shepard, R. Rehmeier, and R. Wassinger. Against: None. Motion carried.

Agenda Item 10 – Revise Board Policy #3 – Director’s Duties & Limitations of

Authority: J. Hayes explained the proposed revision of Board Policy #3, that Board Policy #15 (adopted at the January 2011 PERB meeting) be eliminated and its provisions be included in Policy #3 instead.

J. Elliott moved to make changes to Board Policy #3 pertaining to the Director’s Duties and Limitations of Authority with regard to the minimum amount for obtaining signature approval from the PERB Chair. R. Rehmeier seconded the motion and made a friendly amendment to include the elimination of Board Policy #15. J. Elliot accepted the amendment. Members voted as follows: For: E. Stuhr, J. Elliott, G. Elwell, M. Shepard, R. Rehmeier, R. Wassinger, and D. Pederson. Against: None. Motion carried.

Agenda Item 11– Revise Board Policy #9 – Materiality: T. Zulauf explained the proposed additional wording to cover *Ineligible Contributions*. The revision will eliminate the need to make a refund if the combined total calculation of ineligible contributions for an employee and employer are under \$50 for the time period. She gave the example of having to refund minimal retirement contributions made for items such as uniforms.

E. Stuhr moved to make changes to Board Policy #9, concerning materiality procedures. R. Wassinger seconded the motion. Members voted as follows: For: J. Elliott, G. Elwell,

M. Shepard, R. Rehmeier, R. Wassinger, D. Pederson, and E. Stuhr. Against: None. Motion carried.

Agenda Item 12 – Legal/Legislative Update: J. Hayes provided an update on recent activity regarding legislation related to retirement. His report included the following current discussions by the Legislative Retirement Committee:

- LB 382 may be changed whereby school employee contributions would be increased. The rates have not yet been determined;
- LBs 532, 246, 474, and 486 are planned to be amended into LB 509 which is the clarification bill;
- LB 486 eliminates the exemptions for the school compensation cap. The final contribution cap, of either 8% or 9%, has not yet been determined;
- LB 509 will also include the rollover language change made to the DCP plan document;
- LB 509 has been amended to allow a distribution of no greater than \$25,000 from the member's employee account until the final resolution of a grievance and language is to be added to make it clear that the employee must pay back the amount withdrawn if their employment is reinstated after the grievance is settled;
- LB 337 has been amended with AM 275, which removed provisions of the bill that impacted NPERs; and
- LB 679 and LB 680 will need actuarial studies prior to advancing out of committee and the terms of the studies have not yet been determined.

R. Rehmeier moved to accept the Legal and Legislative report submitted by J. Hayes. D. Pederson seconded the motion. Members voted as follows: For: G. Elwell, M. Shepard, R. Rehmeier, R. Wassinger, D. Pederson, E. Stuhr, and J. Elliott. Against: None. Motion carried.

Agenda Item 13 – Investment Officer's Update: J. States thanked J. Hayes for providing the handout regarding legislative retirement bills. He reported that LB 303 and 374 pertain to funding services provided to the Nebraska Investment Council (NIC) and provided an update of recent hearings he attended regarding those bills.

He reported performance for the defined benefit plans finished with 13.4% return as of December 31, 2010. For the six month period ending December 31st, there was a return of 16.8%; showing continued growth in the recovery, but slightly less than typical.

J. States commented that the purchasing of big ticket items is picking up, but the housing market has not yet recovered.

He reported that Hewitt Ennis Knupp has revised their projections to include a 50% probability of achieving the 8% assumed rate. He stated over the next three to five years Nebraska will continue to see recovery and support of the funds and even though returns are not coming from income revenue for the state; investment is good.

He reported the NIC is in the process of hiring a new portfolio manager.

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

The Board took a break at 11:03 a.m. and reconvened at 11:18 a.m.

Agenda Item 14 – Director's Report: P. Chambers reported NPERS has been working with Ameritas to implement the Excessive Trading Policy (Board Policy #13) and as of May 1, 2011, the policy will be in effect. She stated members will be notified with a separate insert to be included in the April account statements and J. Winkleman is working on an article to be included in the newsletter.

She reported receiving a letter from Dimension Fund Advisor (DFA) requesting to restrict trading for ten NPERS members. After participating in a conference call with the company, DFA agreed to delay restricting those members, until they have been notified in advance of the policy in place. She reported being notified by Ameritas that a number of the before mentioned members had already done a round trip trade last week.

P. Chambers reported the School, Judges, and Patrol audit is almost complete.

P. Chambers stated Government Accounting Standards Board (GASB) Rule 53, effective June 30, 2010, now requires reporting synthetic investments, which will need to be included in the State and County financial statements.

J. Hayes and P. Chambers met with G. Clatterbuck, of Baird Holm Law Firm, to discuss legal consulting services. She stated NPERS will seek his services as needed to provide legal advice on IRS rules, beneficiaries, and other legal matters. She stated the firm will not be used for court representation, as the Attorney General is required to handle court cases.

P. Chambers reported participating in a conference call with directors of Region 3 of the National Association of State Retirement Administrators (NASRA), regarding recent legal and legislative retirement issues. They discussed public plan issues currently in the news and proposed changes in different states. She commented that some states are lowering their assumption rates.

P. Chambers reminded the Board members that Accountability and Disclosure Statements are due April 1st.

She reported meeting with the AS-Building Division who is working on plans for the Assurity Building space.

P. Chambers stated School retirement seminars start March 1st. The State and County seminars are held in the fall and employer workshops are scheduled during the summer. J. Elliott asked if NPERS would consider offering School seminars in the winter months to

help members plan for retirement in the spring. P. Chambers explained that due to Nebraska's unpredictable weather conditions, many seminars end up being cancelled and it is nearly impossible to reschedule to meet everyone's needs.

P. Chambers requested permission to attend the Annual System Directors' Meeting of the National Council on Teacher Retirement (NCTR) scheduled to be held June 12-14, 2011, in Sacramento, California, with up to \$3000 in travel expenses.

P. Chambers distributed a handout providing time-weighted rates of return for December 31, 2010, for the DC and DCP plans.

She reported the agency has received a large number of calls regarding the recent federal change in the withholding tax. Retirees have received a net reduction in their benefit as a result of the elimination of a federal tax credit in January 2011.

A suggestion was received through the State of Nebraska Employee Suggestion system to add a deferred retirement option plan (DROP) for State employees. After discussions with the actuary, P. Chambers sent a response explaining there would be no advantage to adding a DROP to the DC or Cash Balance plans.

P. Chambers reported the actuarial study for projection modeling is on hold for now. She stated Senator Heideman wishes to wait until the state budget has been approved and appropriations are included in the budget to pay for the study, before moving forward. The model would include adding another tier to the existing School and State Patrol defined benefit plans or changing to a cash balance plan. The Judges plan is not being included in the study for now. She stated it is possible the study may be completed in time for presentation at the PERB's Annual Retreat this summer.

R. Rehmeier requested the Director seek written approval from the Attorney General's office for NPERS to hire an outside legal firm to provide additional legal consultation.

R. Wassinger moved to approve the Director's Report and travel request with expenses in the amount of \$3000. E. Stuhr seconded the motion. Members voted as follows: For: R. Rehmeier, R. Wassinger, D. Pederson, E. Stuhr, J. Elliott, G. Elwell, and M. Shepard. Against: None. Motion carried.

Agenda Item 15 – Board Committee Reports: There were no reports.

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

Agenda Item 17 – Future Meetings/Agendas: The next meeting will be held on Monday, March 21, 2011, at Ameritas Life Insurance Corp., 5900 "O" Street, Lincoln, in the New Third Conference Room. The meeting will begin at 9:30 a.m.

P. Chambers requested the Board members think about whether they would prefer the annual retreat be held in July or August this year.

Agenda Items 18 and 19 – Executive Session: At 12:06 p.m., R. Wassinger moved that the Board exit Regular Session and convene in Executive Session for the purpose of discussing Disability Applications for Retirement Nos. 401902 and 130361, personnel matters, and other legal matters. R. Rehmeier seconded the motion. G. Elwell repeated the motion for the record. Members voted as follows: For: R. Wassinger, D. Pederson, E. Stuhr, J. Elliott, G. Elwell, M. Shepard, and R. Rehmeier. Against: None. Motion carried.

M. Shepard left the meeting during the Executive Session.

At 12:44 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: D. Pederson, E. Stuhr, J. Elliott, G. Elwell, R. Rehmeier, and R. Wassinger. Against: None. Motion carried.

E. Stuhr moved for approval of the Disability Applications of Retirement Nos. 401920 and 130361. D. Pederson seconded the motion. Members voted as follows: For: E. Stuhr, J. Elliott, G. Elwell, R. Rehmeier, R. Wassinger, and D. Pederson. Against: None. Motion carried.

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

The meeting adjourned at 12:48 p.m.

Phyllis G. Chambers
Director