

## **PUBLIC EMPLOYEES RETIREMENT BOARD MEETING**

AUGUST 20, 2012

9:00 A.M.

A regular meeting of the Public Employees Retirement Board convened at 9:02 a.m., Monday, August 20, 2012, in the Great Western Bank Conference Center, 1221 "N" Street, Lincoln, Nebraska.

The Board members were notified of this meeting by Agenda mailed August 13, 2012. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, August 13, 2012. G. Elwell and D. Blank chaired the meeting and V. Huber recorded the minutes.

### **MEMBERS PRESENT:**

DENIS BLANK, CHAIR  
SGT. GLENN ELWELL, VICE-CHAIR  
RICHARD WASSINGER  
ELAINE STUHR  
JANIS ELLIOTT  
JUDGE RANDALL REHMEIER  
STUART SIMPSON  
RON ECKLUND  
JEFF STATES, EX-OFFICIO

### **NONMEMBERS PRESENT:**

#### **PHYLLIS CHAMBERS**

Director

#### **RANDY GERKE**

Deputy Director

#### **JASON HAYES**

Legal Counsel

#### **MIDEN EBERT**

Retirement Plan Supervisor

#### **FRED TURNER**

IT Manager

#### **TERESA ZULAUF**

Internal Auditor

#### **GARY BUSH**

AS - State Budget Administrator's Office

#### **DAVE SLISHINSKY**

Buck Consultants

#### **DOUG FIDDLER**

Buck Consultants

#### **NANCY REIMER**

Ameritas

#### **KATE ALLEN**

Legislative Retirement Committee

#### **KATHY TENOPIR**

Legislative Fiscal Office

#### **HERB SCHIMEK**

Nebraska State Education Association

#### **JERRY HOFFMAN**

Nebraska State Education Association

#### **KAREN KILGARIN**

Nebraska State Education Association

#### **VICKI HUBER**

Administrative Secretary

**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 August 20, 2012, Board Meeting to order at 9:02 a.m. Present at roll call: G. Elwell, R. Wassinger, E. Stuhr, J. Elliott, R. Rehmeier, R. Ecklund, and J. States. Absent: D. Blank and S. Simpson.

**Agenda Item 4 – Public Hearings and Board Action on Rules and Regulations Nos. 2, 3, 4, 5, 10, 15, 16, 20, and 24:** Public notice of the rule making hearing was published in the Lincoln Journal Star and Omaha World Herald on Friday, July 20, 2012. Draft copies of the Rules and Regulations listed were available on the conference room table by the doors. Pursuant to NEB. REV. STAT. § 84-907, the Board took testimony and evidence on modification of the Nebraska Administrative Code Title 303, concerning the chapters listed. J. Hayes reviewed each chapter being adopted or revised.

There was no public testimony or other submissions on the adoption or modifications of Nos. 2, 3, 4, 5, 10, 15, 16, 20, and 24.

E. Stuhr moved to approve revisions to Chapter 2, Rule and Regulations for Remittances. R. Rehmeier seconded the motion. Members voted as follows: For: R. Ecklund, J. Elliott, G. Elwell, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

R. Wassinger moved to approve Chapter 3, Rule and Regulations for Materiality Amounts for Transactions. E. Stuhr seconded the motion. Members voted as follows: For: R. Ecklund, J. Elliott, G. Elwell, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

E. Stuhr moved to approve revisions to Chapter 4, Rule and Regulations for Refund and Termination Benefit Procedures. J. Elliott seconded the motion. Members voted as follows: For: R. Ecklund, J. Elliott, G. Elwell, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

J. Elliott moved to approve revisions to Chapter 5, Rule and Regulations for Evidence to Determine Age and Status. R. Rehmeier seconded the motion. Members voted as follows: For: R. Ecklund, J. Elliott, G. Elwell, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

R. Wassinger moved to approve Chapter 10, Rule and Regulations for Modification of School Creditable Service. J. Elliott seconded the motion. Members voted as follows: For: R. Ecklund, J. Elliott, G. Elwell, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

E. Stuhr moved to approve revisions to Chapter 15, Rule and Regulations for Purchase of Service Credit. J. Elliott seconded the motion. Members voted as follows: For: R. Ecklund, J. Elliott, G. Elwell, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

R. Rehmeier moved to approve Chapter 16, Rule and Regulations for Military Service Credit and Reemployment. E. Stuhr seconded the motion. Members voted as follows: For: R. Ecklund, J. Elliott, G. Elwell, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

R. Wassinger moved to approve revisions to Chapter 20, Rule and Regulations for Investment and Allocations and Transfers. E. Stuhr seconded the motion. Members voted as follows: For: R. Ecklund, J. Elliott, G. Elwell, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

J. Elliott moved to approve revisions to Chapter 24, Rule and Regulations for Retirement Benefit Options and Distribution Rules. E. Stuhr seconded the motion. Members voted as follows: For: R. Ecklund, J. Elliott, G. Elwell, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

**Agenda Item 6 – Approval of Minutes:** R. Wassinger moved for approval of the minutes of the July 23, 2012, Board Meeting and Education Conference. R. Ecklund seconded the motion. Members voted as follows: For: R. Ecklund, J. Elliott, G. Elwell, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

**Agenda Item 7 – Approval of Budget Status Report & 2012 July Retirement Report:** J. Elliott moved to approve the budget status report and the July 2012 Retirement Report. R. Rehmeier seconded the motion. Members voted as follows: For: R. Ecklund, J. Elliott, G. Elwell, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

**Agenda Item 8 – Public Comments or Correspondence from Citizens:** There were no public comments or correspondence from citizens with business not scheduled on the agenda.

S. Simpson joined the meeting at 9:32 a.m.

**Agenda Item 9 – Approve Draft Biennium Budget and 515 Program:** R. Gerke reported meeting with the Board Budget Committee by conference call last week. Budget worksheets for the biennium budget for Programs 041, 042, and 515 were provided to the Board prior to the meeting, in their packets. He explained each request for additions to the base budget for Program 041, reported there will be no changes requested for Program 042, and reviewed proposed revisions to the Program 515 budget.

R. Wassinger moved to approve the draft Biennium Budget for 2013-14 and 2014-15 as proposed on the budget worksheet. J. Elliott seconded the motion. Members voted as follows: For: J. Elliott, G. Elwell, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Abstained: R. Ecklund and S. Simpson. Motion carried.

S. Simpson suggested the PERB Budget Committee meet quarterly.

The Governor and Budget Office are requiring all agencies who receive general fund appropriations to reduce the base budget by 5% for the budget cycle 2013-2015.

P. Chambers stated that prior to 2010, modifications were not requested. R. Gerke presented estimates to be requested for the final biennium budget of Program 515, which funds the retirement plans.

At the request of the Board, J. Hayes reviewed NEB. REV. STAT. § 84-1503.02 and § 79-916, which state NPERS does not have fiduciary responsibility to the Omaha School Employees Retirement System (OSERS).

D. Blank joined the meeting at 9:54 a.m. and chaired the remainder of the meeting.

R. Wassinger moved to submit the 5% budget modifications for the budget cycle 2013-2015 as directed by the budget office. The proposed modifications as listed are estimated at \$33,374,821. The PERB is complying with the budget request, but does not recommend a reduction in State funding for any of the retirement plans it administers. The PERB has fiduciary duty to the plans and members to maintain a strong funded status per statute. The PERB has an equal fiduciary responsibility to all plans and cannot prioritize one plan over another. The PERB does not have fiduciary duty for the OSERS. E. Stuhr seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, G. Elwell, R. Rehmeier, S. Simpson, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

J. Elliott commented on the difficulty of the modification exercise and congratulated the committee members on their efforts.

The Board took a break at 9:56 a.m. and reconvened at 10:08 a.m.

**Agenda Item 10 – Actuarial Experience Study:** D. Slishinsky explained an experience study compares actual plan experience with actuarial assumptions used in the valuation. He noted the last study was completed in 2007. He stated this analysis covers 2007 through 2012. A copy of the presentation is available from NPERS.

D. Slishinsky and D. Fiddler reviewed results of the study for the School, State Patrol, Judges, and Cash Balance plans and provided their assumption recommendations.

D. Slishinsky stated Buck includes the following recommendations: a reduction in the consumer price inflation assumption from 3.5% to 3.25 %, to reflect impact of low near-term inflation; a reduction to the economic productivity assumption from 1.0% to 0.75%, which is reflected in salary increases; a reduction in the wage inflation assumption from 4.5% to 4.0%; and a reduction in the investment return assumption/discount rate from 8.0% to 7.75%.

Using results as of July 1, 2011, he reviewed the impact of the proposed and alternative assumptions would have on the projected funding of the plans (excluding OSERS).

D. Slishinsky stated the actuary report in November will include the 1% rate of return and any gains or losses with the new valuations and assumptions. The 515 budget estimates, approved earlier in the meeting, will have to be recalculated and will increase based on the new assumptions.

G. Elwell moved to accept Buck's assumption recommendations from the 2012 Actuarial Experience Study, including the recommendation to reduce the investment return assumption rate from 8.0% to 7.75%, effective July 1, 2012. R. Ecklund seconded the motion. Members voted as follows: D. Blank, R. Ecklund, J. Elliott, G. Elwell, R. Rehmeier, S. Simpson, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

**Agenda Item 11 – Legal/Legislative Update:** J. Hayes distributed a 2012 Regulation Report, including prior, current, and pending activity on Title 303, Nebraska Administrative Code for 2011 and 2012. He stated the Board Policy Committee will be meeting at the conclusion of this meeting to review Rules and Regulations Nos. 9, 14, and 18. He anticipates a public hearing and Board approval on these three chapters at the September PERB meeting.

J. Hayes provided an updated NPERS Legal Compliance Audit Action Plan, which outlines action planned arising from the legal compliance audit.

He reported two compliance issues have been resolved. In regards to the issue with participation of certain clerks in the State plan, J. Hayes reported that on August 1, 2012, the Supreme Court implemented a change where newly hired law clerks will be included in the State retirement plan.

J. Hayes reported having several meetings with the Legislative Retirement Committee's legal counsel to discuss legislative changes needed.

He stated he anticipates Rules and Regulations Nos. 9, 14, and 18 to be finalized by the Governor by December 1, 2012.

He explained the last group of compliance audit revisions needed to the Deferred Compensation Plan (DCP). He estimated amendments to the DCP will be ready for Board approval by September 24, 2012.

J. Elliott moved to approve the Legal/Legislative Update. E. Stuhr seconded the motion. Members voted as follows: Members voted as follows: D. Blank, R. Ecklund, J. Elliott, G. Elwell, R. Rehmeier, S. Simpson, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

**Agenda Item 12 – Investment Officer's Update:** J. States reported the 2012 fiscal year performance for the defined benefit plans is 1%, which is below the actuarial assumed rate. The calendar year-to-date return, as of June 30<sup>th</sup>, is closer to the assumed rate for the cash balance plans, but with the stock market movement being driven by daily news and the uncertain outcome of the upcoming presidential election, he does not expect a change by the end of the year.

The NIC is also submitting changes in their budget. They will possibly be adding another accountant in their office.

He stated the NIC will provide input regarding the upcoming conversion of Defined Contribution accounts to the Cash Balance.

J. States reported continuing communication with NPERS concerning the management of daily trading activity. He reported that State Street has expressed concerns with their liability as the custodian during the trading process. The Council is working with NPERS, State Street, and Ameritas and may need to reassign custodian duties. He assumes there would be a cost involved.

J. States reported participating in discussions regarding the sale of Hartford accounts and hopes to be moving the assets in house.

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

**Agenda Item 13 – Director's Report:** P. Chambers thanked D. Slushinsky and D. Fiddler for the Experience Study and thanked J. Hayes for his work on the rules and regulations and compliance audit.

To date, P. Chambers reported 608 School retirement applications have been processed with a June 1 effective date, 59 need to be calculated and audited, and 25 are in process. She stated runs are being done weekly, instead of monthly. In order to process application by the 90-day policy, staff in the Benefits Department is working overtime.

She reported approximately 58,000 School, Judges, and Patrol statements were mailed last week. A technical problem was discovered with connectivity and errors occurred on approximately 5,400 of the School statements. Revised statements will be sent in approximately 2-3 weeks.

P. Chambers stated the Cash Balance Election packets went to the printer last week. They are scheduled to be mailed on August 31, 2012. John Winkelman and Cheryl Mueller, from NPERS Education Services Department, will be making presentations at the Capitol and State Office Building. There are plans to record one of the sessions to be put on the NPERS website. Funding was not appropriated for costs incurred with the election period.

P. Chambers and J. States participated in a conference call with State Street and Ameritas last week, regarding custodian and trading activity services. Ameritas is looking at options and will meet with NPERS on September 5<sup>th</sup>.

P. Chambers reported receiving a call from Kirsten Steiert, regarding Hartford's sale of their retirement plans. K. Steiert stated negotiations with a buyer are in the works and that an announcement is expected after Labor Day.

P. Chambers thanked the Board for permission to attend the National Association of State Retirement (NASRA) Annual Conference. She gave a brief report on the topics of sessions she attended; which included funding, hedge funds, merging market, and federal legislation.

She reported being asked to serve on the board nominating committee for the National Council on Teacher Retirement (NCTR) at the October Annual Conference.

J. States and P. Chambers mentioned they were contacted by the state of Louisiana, who recently went to a cash balance plan and will be handling their investments internally.

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

**Agenda Item 14 – Board Committee Reports:** On behalf of the Budget Committee, S. Simpson reported having discussions regarding the possibility of increasing information security and efficiency with the use of electronic files and devices for PERB materials, rather than paper copies.

The Board asked the NPERS IT Department to research the possibilities, including technical support, and report back at the September meeting.

**Agenda Item 15 – Board Education/Travel Requests:** J. Elliott reported attending the NCTR Annual Trustee Workshop and provided a summary of the workshops she attended. She reported being asked to consider serving on NCTR's Education Committee. Prior to her accepting the position, she requested the PERB discuss the commitment involved. D. Blank asked J. Elliott to prepare a proposal for the PERB, outlining the board's commitment if she serves on this committee.

J. Elliott commented on the fact that Colorado recently added a requirement that board members participate in continuing education. She will obtain sample language for the Education Committee to consider for the PERB.

**Agenda Item 16 – Future Meetings/Agendas:** The next PERB meeting is scheduled to be held on Monday, September 17, 2012. G. Elwell moved to change the September 17, 2012, PERB meeting to Monday, September 24, 2012, and the October meeting from Monday, October 15, 2012, to Monday, October 22, 2012. S. Simpson seconded the motion. Members voted as follows: D. Blank, R. Ecklund, J. Elliott, G. Elwell, S. Simpson, E. Stuhr, and R. Wassinger. Against: R. Rehmeier. Motion carried.

Both meetings will be located in the Great Western Bank, Second Floor Conference Center, 1221 "N" Street, Lincoln, Nebraska.

**Agenda Items 17 and 18 – Executive Session:** At 12:32 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 No. 120489, Emergency Deferred Compensation Application for Retirement No. 700436, personnel matters, and other legal matters. E. Stuhr seconded the motion. D. Blank repeated the motion for the record. Members voted as follows: Members voted as follows: D. Blank, R. Ecklund, J. Elliott,

G. Elwell, R. Rehmeier, S. Simpson, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

J. States, R. Ecklund, and R. Rehmeier left the meeting during Executive Session.

At 1:40 p.m., S. Simpson moved that the Board exit Executive Session and reconvene in Regular Session. G. Elwell seconded the motion. Members voted as follows: Members voted as follows: D. Blank, J. Elliott, G. Elwell, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

G. Elwell moved for approval of the Disability Application of Retirement No. 120489 and partial withdrawal for Emergency Deferred Compensation Application of Retirement No. 700436. J. Elliott seconded the motion. Members voted as follows: D. Blank, J. Elliott, G. Elwell, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

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

The meeting adjourned at 1:42 p.m.

Phyllis G. Chambers  
Director