

PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

JUNE 18, 2012

9:00 A.M.

A regular meeting of the Public Employees Retirement Board convened at 9:02 a.m., Monday, June 18, 2012, in the Great Western Bank Conference Center, 1221 "N" Street, Lincoln, Nebraska.

The Board members were notified of this meeting by Agenda mailed June 8, 2012. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, June 11, 2012. 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
MELISSA KOLM
IT Application Developer
IRYNA VERCELLINO
IT Business Systems Analyst
VIJI PUSHKARAN
IT Application Developer

DEAN GRESS
IT Infrastructure Support Analyst
CHAD SCHLOTFELD
IT Infrastructure Support Analyst
JAYME SKOV
IT Business System Analyst
NANCY REIMER
Ameritas
KIRSTEN STEIERT
The Hartford
KATHY TENOPIR
Legislative Fiscal Office
KRISTA DAVIS
State Auditor's Office
VICKI HUBER
Administrative Secretary

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 doors.

Agenda Items 2 and 3 – Meeting Called to Order: D. Blank called the June 18, 2012, Board Meeting to order at 9:02 a.m. Present at roll call: D. Blank, G. Elwell, R. Wassinger, E. Stuhr, J. Elliott, R. Rehmeier, S. Simpson, R. Ecklund, and J. States.

Agenda Item 4 – Approval of Minutes: E. Stuhr moved for approval of the minutes of the May 21, 2012, Board Meeting. G. Elwell 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.

Agenda Item 5 – Approval of Budget Status Report & May 2012 Retirement Report: S. Simpson moved to approve the budget status report and the May 2012 Retirement Report. R. Ecklund 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.

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 – Information System Update: F. Turner supervises six staff members, including two who are contracted through the Office of the Chief Information Officer (OCIO). He introduced each staff member and provided a description of their duties.

F. Turner reported 46 open problem incident reports (PIRs) as of May 31, 2012. He stated his staff has been focusing on the WebSphere migration, which may have contributed to the higher PIR count. The conversion of physical servers to virtual servers has begun with the WebSphere migration. To date, 14 virtual servers have been transferred to the OCIO and there are eight to be created. He explained that this means NPERS will be able to relocate the infrastructure when we move to the Assurity Building.

In regards to the Disaster Recovery off-site location, F. Turner reported on the progress supplying the location with equipment and sharing communication lines with the Department of Corrections.

J. Elliott moved to approve the Information System Update. R. Wassinger 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.

Agenda Item 8 – Approve OCIO Service Agreement and Management Charter: P. Chambers reported NPERS' annual contract with OCIO for the Service Agreement and IT Management Charter ends June 30, 2012. She stated there were no changes in the Service Agreement and it has continued to work well. She explained NPERS will continue to pay 90% of the salary and benefits for the manager. She recommended the Board renew the Service Agreement and Management Charter for July 1, 2012, through June 30, 2013.

R. Ecklund moved to approve the OCIO Service Agreement and Management Charter for July 1, 2012, through June 30, 2013. G. Elwell 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.

Agenda Item 9 – School, Judges, and Patrol Audit Report: K. Davis reported finishing the School, Judges, and Patrol Audit for the period of July 1, 2010, through June 30, 2011. She reviewed the comments and recommendations of the State Auditor's office listed in the report issued on May 1, 2012.

J. Elliott moved to accept the School, Judges, and Patrol Audit Report. 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.

Agenda Item 10 – Hartford Annual Report: K. Steiert updated the Board regarding the announcement of the sale of the Hartford's retirement plans group. She stated NPERS has an open end contract and the administrative agreement with NPERS cannot be reassigned. She explained that participants who are receiving an annuity will continue with Hartford.

She stated Hartford had not sent any information regarding the sale to NPERS members, to date.

P. Chambers gave the history of the state's voluntary deferred compensation plan (DCP) and NPERS' relationship with Hartford, which began in the 1975. In 1997 Nebraska established their own DCP.

J. States commented that the Nebraska Investment Council (NIC) will review investment choices.

K. Steiert presented the Retirement Plan Review for January 1, 2011, to December 31, 2011. She reported assets over \$34 million as of December 31, 2011, with 857 participants. The review includes asset allocations by investment option and age segment, net cash flow; along with a retiree update, which reports 240 retirees are receiving an annuity and 78 are taking systematic withdrawals.

K. Steiert continued her presentation with a summary of the plan's Investment Performance Review as of December 31, 2011. She suggested that it may be prudent to consider replacing two funds, Davis New York Venture and AllianceBernstein International Value, which are underperforming compared to their peers.

She pointed out the Enhanced Analytics section of the report is as of March 31, 2012.

Copies of the reports are available from the Retirement Office.

E. Stuhr moved to accept the Hartford Annual Report. R. Wassinger 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.

The Board took a break at 10:15 a.m. and reconvened at 10:27 a.m.

Agenda Item 11 – Change to Deferred Compensation Plan Document: J. Hayes provided a handout outlining the proposed change to the DCP plan document. He explained the change is proposed based upon the recent adoption by the Legislature of LB 916 with regard to civil award attachment upon retirement funds, as provided in Neb. Rev. Stat. § 84-1505.

J. Elliott moved to approve the language change to the Deferred Compensation Plan Document as proposed. S. Simpson 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.

Agenda Item 12 – Internal Auditor Report: T. Zulauf provided handouts compiling results from School and County employer audits, to date. The handout also included a summary of progress on prior findings reported by the Auditor of Public Accounts.

She reported her department has completed 17 School audits and 8 are ready for her review.

She stated issues found are consistent and explained how NPERS provides training to School employers through employer seminars, manuals, and newsletters.

The Board discussed how schools follow-up on audits, possible measures to prevent errors, and increasing communication to include the independent auditors of the schools, school boards, and administrators.

J. Hayes stated according to the Nebraska Administrative Code Title 303, Rules and Regulations adopted in April 2012, employers are now required by law to have their public auditors review information specifically related to retirements. He mentioned how the IRS looks at contributions and employers are lawfully responsible to comply.

T. Zulauf reported her department has completed 18 State and County audits and 6 in progress; 4 audits had no issues. She explained how the county reporting differs from the state reporting and Health Districts are included in the 91 county audits.

She reported 97% of prior audit points from 2010 have been resolved.

R. Rehmeier asked if the prior audit point involving Supreme Court clerks is resolved. J. Hayes stated NPERS has received documentation from the Court Administrator's Office that indicates the procedure regarding contributions is in the process of being changed.

G. Elwell moved to approve the Internal Auditor Report. R. Rehmeier 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.

Agenda Item 13 – Legal/Legislative Update: J. Hayes distributed a list of the activity regarding NPERS Rules and Regulations. The report included prior, current, and pending

activity for 2011 and 2012. He reported meeting with the Board's Policy and Regulation Review Committee, advising them the proposed revisions will be sent to them for review in the next two weeks. He provided a estimated timeline for the revisions, with a public hearing to be scheduled in August 2012.

J. Hayes provided a Legal Compliance Audit Action Plan, which outlines action planned arising from the legal compliance audit. Since, some of the requested changes require legislative revisions; he has been working with the Legislative Committee's legal counsel to formulate proposed legislation. He provided the Board with a list of proposed legislation for the 2013 legislative session. He reviewed both lists.

J. Elliott complimented J. Hayes on the professional and timely way he is handling updates to the rules and regulations.

E. Stuhr moved to approve the Legal/Legislative Update. J. Elliott 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.

Agenda Item 14 – Investment Officer's Update: J. States reported on fiscal and year to date performance.

He reported the Council Retreat, scheduled for July 17th, will cover an evaluation of current investments and their performance, in order to refine the asset allocation and consider alternatives that would enhance performance.

J. States announced the resignation of Council member, Norm Riffel His term was to end in December 2012. To date, Governor Heineman has not appointed a replacement.

R. Wassinger moved to approve the Investment Officer's Update. S. Simpson 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.

Agenda Item 15 – Director's Report: P. Chambers reported NPERS has been busy with approximately 714 school retirement applications received with a June 1 effective date and 124 received with a July 1 effective date. She reported an increasing number of State and County participants are selecting annuity options.

She reported the Education Services department has finished revisions to the Judges Member Handbook and it is available on the NPERS website.

Staff has also been working on the informational packet to send to members regarding the cash balance election, while Ameritas is working on their procedures. A draft of the packet contents was provided to the Board. Education Services plans to provide a seminar to State Capitol employees and another seminar at the State Office Building. She stated the information should not be new to members, since the election opportunity has been offered two other times. She stated appropriations were not granted to cover the cost NPERS will incur administering the election process.

P. Chambers reported John Winkelman presented to county clerks last week.

She reported that Sheila Linder, the agency's human resources person, has been busy with open enrollment, which was delayed by the Blue Cross/Blue Shield law suit and new software being implemented by State Personnel.

P. Chambers reported on July 1, 2012, a 2% salary increase will go into effect for union employees and managers will receive a 3% raise.

The hearing for the Legal Compliance Audit Report is scheduled for Tuesday, November 20, 2012, which is the same day the actuary is scheduled to provide his report to the Legislature.

P. Chambers stated she has requested more space in the Assurity Building. To date, she has not received a response. She stated the Building Division has allocated public meeting space.

P. Chambers reported attending the National Council on Teacher Retirement's (NCTR) Annual System Director's Meeting June 10-12, 2012. She announced Meredith Williams was selected NCTR executive director. Mr. Williams was Executive Director of the Colorado Public Employees Retirement Association (PERA). Greg Smith was appointed s PERA's Interim Executive Director. Topics of the meeting's sessions included the IRS definition of a governmental plan and its rules concerning returning to work, actuarial planning for defined benefit plans, and ways states are reacting to funding levels. She reported 43 states have made changes in their retirement plans in the past three years.

P. Chambers requested permission to attend the Annual NCTR Convention October 7-10, 2012, in Tucson, Arizona, with expenses up to \$3500.

S. Simpson moved to approve the Director's Report and request for travel to the NCTR Convention, with expenses not to exceed \$3500. 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.

Agenda Item 16 – Board Committee Reports: On behalf of the Education Committee, R. Rehmeier provided an update on the proposed agenda for next month's PERB Meeting and Educational Retreat. Speakers will include Keith Brainard, from NASRA (National Association of State Retirement Administrators), Max Kotary, from Hewitt EnnisKunpp, and J. Hayes. Board members were invited to join the guest speakers for dinner on Sunday evening.

Agenda Item 17 – Board Education/Travel Requests: There were no additional requests.

Agenda Item 18 – Future Meetings/Agendas: The next meeting will be the Regular Meeting and Annual Retreat, on Monday, July 23, 2012, at the Lied Lodge and Conference Center in Nebraska City, Nebraska. The meeting will begin at 8:45 a.m.

S. Simpson left the meeting at 11:48 a.m.

Agenda Items 19 and 20 – Executive Session: At 11:50 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. 126628, Emergency Deferred Compensation Application for Retirement No. 704448, personnel matters, Director's salary and benefits, and other legal matters. E. Stuhr seconded the motion. D. Blank repeated the motion for the record. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, G. Elwell, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

S. Simpson returned to the meeting during Executive Session.

E. Stuhr and R. Rehmeier left the meeting during Executive Session.

At 12:51 p.m., R. Ecklund moved that the Board exit Executive Session and reconvene in Regular Session. J. Elliott seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, G. Elwell, S. Simpson, and R. Wassinger. Against: None. Motion carried.

R. Wassinger moved for approval of the Disability Application of Retirement No. 126628 and the disapproval of Emergency Deferred Compensation Application for Retirement No. 704448. J. Elliott seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, G. Elwell, S. Simpson, and R. Wassinger. Against: None. Motion carried.

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

The meeting adjourned at 12:53 p.m.

Phyllis G. Chambers
Director