

PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

November 19, 2012

8:30 A.M.

A joint meeting of the Public Employees Retirement Board and the Nebraska Investment Council convened at 8:30 a.m., Monday, November 19, 2012, at the Cornhusker Hotel, Arbor Room, 333 South 13th Street, Lincoln, Nebraska.

The Board members were notified of this meeting by Agenda mailed November 9, 2012. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, November 12, 2012. D. Blank chaired the meeting and V. Huber recorded the minutes.

MEMBERS PRESENT: DENIS BLANK, CHAIR
 RICHARD WASSINGER
 ELAINE STUHR
 JANIS ELLIOTT
 JUDGE RANDALL REHMEIER
 RON ECKLUND
 JEFF STATES, EX-OFFICIO
 RHONDA LAHM, NON-VOTING

MEMBERS ABSENT: STUART SIMPSON

NONMEMBERS PRESENT:

PHYLLIS CHAMBERS Director	JASON HAYES Legal Counsel
GAIL WERNER-ROBERTSON Nebraska Investment Council	MIDEN EBERT Retirement Plan Supervisor
DR. RICHARD DEFUSCO Nebraska Investment Council	FRED TURNER IT Manager
JOHN MAGINN Nebraska Investment Council	TERESA ZULAUF Internal Auditor
JOHN DINKEL Nebraska Investment Council	NANCY REIMER Ameritas
DON STENBERG State Treasurer	KATHY DAWES Nebraska Investment Council
CHRIS HEINRICH NIC Legal Counsel	JOE JURICH Nebraska Investment Council
RANDY GERKE Deputy Director	JOLYNN WINKLER Nebraska Investment Council

GARY BUSH
AS - State Budget Administrator's Office
RANDY HALPER
Buck Consultants
DAVE SLISHINSKY
Buck Consultants
KATHY TENOPIR
Legislative Fiscal Office
HERB SCHIMEK
NSEA - Retired
MAX KOTARY
Hewitt EnnisKnupp & Associates
NANCY WILLIAMS
Hewitt EnnisKnupp & Associates
JOHN JENSEN
NSEA – Retired
KATE ALLEN
Legislative Retirement Committee

DON WESLEY
O'Hara Lindsay Government Relations
ROGER REA
NSEA – Retired
NANCY FULTON
NSEA
AL KOONTZ
NSEA
ERIC ASBOE
Nebraska Supreme Court
MATT SCHAEFER
Mueller Robak LLC
MARTHA STODDARD
Omaha World Herald
VICKI HUBER
Administrative Secretary

Joint Meeting with the Nebraska Investment Council:

Agenda Items 1, 2 and 3: At 8:34 a.m., Nebraska Investment Council (NIC) Chairperson, G. Werner-Robertson, called the NIC Meeting to order. D. Blank called the Public Employees Retirement Board (PERB) Meeting to order. G. Werner-Robertson stated the meeting will follow the Nebraska Open Meetings Act and a copy of the Act is located on the table by the door.

Present at roll call: D. Blank, R. Wassinger, E. Stuhr, J. Elliott, R. Rehmeier, R. Ecklund, and J. States

Agenda Item 4 – Introductions and Comments by Chairpersons: G. Werner-Robertson summarized the NIC's accomplishments for the year.

G. Werner-Robertson stated an asset liability study will be done in 2013.

D. Blank announced Glenn Elwell's resignation and introduced the new PERB members appointed since the last joint meeting; Ecklund, S. Simpson, and R. Lahm. He gave a brief background on each new board member. R. Lahm was appointed by the Governor to represent the State Patrol members; effective November 5, 2012. She will be a non-voting member until confirmed by the Legislature.

He provided a handout containing NPERS Member Services Statistics as of October 31, 2012. NPERS administers approximately 115,000 member accounts with assets of \$10 billion. The handout included statistics regarding the recent Cash Balance Election Period,

benefits processing, NPERS average monthly retirement benefits, retirement seminars, and personal contact provided to plan members.

D. Blank announced J. Hayes has resigned from his position as attorney for NPERS and the PERB. His last day will be November 30, 2012.

Agenda Item 5 – Actuarial Reports and Projections for School, Judges, and State Patrol Plans: D. Slishinsky explained the purpose of an Experience Analysis, actuarial assumptions and economic assumptions.

He stated the economy is currently in a low inflationary environment, but is expected to revert to more normal levels long-term inflation. Buck recommends 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; and reducing the wage inflation assumption from 4.5% to 4.0%.

D. Slishinsky gave examples of various changes in assumption rates being made by other states recently.

His presentation provided a summary of economic and demographic assumption recommendations for the School, Judges, and Patrol plans.

D. Slishinsky provided actuarial valuation results for all plans, based on the current 8% assumption rate. Since last year, the member contribution rate for School participants increased from 8.88% to 9.78% from September 1, 2012. The member contribution rate drops back to 7.28% after August 2017. The results included changes in assumption rates made by the PERB in August 2012. Additional required contributions by the state were reviewed and included alternate results if the Legislature would change to level percent of pay amortization.

Charts included in the report include the history of investment return, asset smoothing, and deferred asset gains/losses.

D. Slishinsky projected additional contributions and appropriations expected to be required for the School, Judges, and Patrol plans. He forecasted no additional contribution needed for the State and County plans for five years.

According to National Association of State Retirement Administrators (NASRA) survey results, Nebraska is better funded than most states.

D. Slishinsky summarized amendments recently made by the Government Accounting Standards Board (GASB), regarding financial reporting of public pensions.

An electronic copy of the actuary's presentation is available from the Retirement office.

Agenda Item 6 was addressed out of order below.

Agenda Item 7 – Capital Market Assumptions Discussion: M. Kotary provided projected investment returns for periods of 10 and 30 years.

He noted a typographical error on page 16 of his presentation. Under the standard deviation for (30-year forecast) for global equity, the amount should be 19.5% rather than 29.5%.

He compared actuarial projections with the consultant projections.

M. Kotary stated assumptions have lowered just slightly since last year.

Agenda Item 6 – Quarterly Performance Report for Retirement Plans: M. Kotary provided the Third Quarter 2012 Retirement Plan Performance Review for all plans. The report includes performance for all markets and benchmark descriptions.

The Quarterly Performance Report is available from the NIC office.

J. States noted both the actuary and investment consultants show long term outlooks are better than the actual return for the fiscal year and for the short term. He stated 92% of returns come from the asset allocation side. The Council will be conducting an asset/liability study in early 2013 and consider modifying the allocations. He expects action on the results of their review to occur at the Council's 2013 Retreat.

M. Kotary commented that the study will likely not result in significant change, because it would involve taking out more risk. Nebraska is more conservative.

Recess: The joint meeting adjourned at 10:15 a.m. J. States left the meeting to attend the NIC meeting at this time. The regular PERB meeting reconvened at 10:40 a.m.

Agenda Item 8 – Approval of Minutes: J. Elliott moved for approval of the minutes of the October 22, 2012, Board Meeting and a correction to the minutes of the September 24, 2012, Board Meeting. The correction was made under Agenda Item 10; changing Chapter 16 to 18. E. Stuhr seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, E. Stuhr, and R. Wassinger. Abstain: R. Rehmeier. Against: None. Motion carried.

Agenda Item 9 – Approval of Budget Status Report & October 2012 Retirement Report: E. Stuhr moved to approve the budget status report and the October 2012 Retirement Report. R. Rehmeier seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

Agenda Item 10 – Election of Vice Chairperson: D. Blank opened nominations for the position of Vice Chairperson; replacing G. Elwell, who resigned at the October PERB meeting. J. Elliot nominated R. Wassinger. E. Stuhr seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, R. Rehmeier, and E. Stuhr. Abstain: R. Wassinger. Against: None. Motion carried.

D. Blank stated formal elections will be held at the January meeting.

Excuse Board Members: J. Elliott moved to excuse S. Simpson. R. Wassinger seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

Agenda Item 11 – Public Comments or Correspondence from Citizens: R. Rea was present representing retired members of the Nebraska State Education Association (NSEA). He cautioned the board to make assumptions on the long-term results rather than the short-term and not to change the assumption rate of returns. He suggested it would be more favorable to change the asset allocation. He encouraged the Board to maintain the rate at 8% for assumptions and to pressure the NIC to change investment allocations.

D. Blank suggested Mr. Rea present his concerns to the NIC, since the NIC has the authority over the asset allocation.

Agenda Item 12 – Actuarial Reports and Projections – School, Judges, and State Patrol Plans; Projections – State and County Plans: D. Slishinsky presented a summary of the 2012 Experience Analysis results, which were presented at the September PERB meeting, and the Actuarial Valuation Results as of July 1, 2012.

The Actuarial Valuation Results report included changes since last year, member data, system assets, plan experience on accrued liability and actuarial contribution under entry age method, and benefit accrual cost for the School, Judges, and Patrol plans.

He reported the rate of return on market value of assets was about 1%, or 7% less than the 8% assumed, creating a loss to be smoothed over five years. Recognition of losses from 2008, 2009, and 2012 result in 2% return based on an actuarial value, or 6% less than the 8% assumed. For the School, State Patrol, and Judges' systems, the actuarial value is about 102% of market value, up from about 100% last year. There are now net losses of \$113 million yet to be recognized over the next four years. He noted that next year will be the last year of recognizing the remaining asset losses of 2009.

D. Slishinsky stated more than 50% of states use level percent of pay amortization in their plans at this time. It is a less-conservative approach.

He stated mortality improvement is increasing unfunded liability and actuarial contribution rates. His report projected additional state contributions required for the plans as follows: Judges - \$79,000; Patrol - \$4.6 million, and School - \$48 million. No additional state funding is needed for the State and County Cash Balance fund.

D. Slishinsky planned to present the report to the Legislative Retirement Committee and the Governor on November 20, 2012.

R. Ecklund left the meeting at 11:25 a.m.

E. Stuhr moved to accept the actuary report. R. Wassinger seconded the motion. Members voted as follows: For: D. Blank, J. Elliott, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

Agenda Item 13 – Legislative/Legal Update: J. Hayes distributed an update on the 2012 Regulation Report, including current and pending activity on Title 303, Nebraska Administrative Code for 2012. He anticipates all updated rules and regulations will be at the Secretary of States' office by January 1, 2013.

He provided a handout updating the NPERS Legal Compliance Audit Action Plan and reported a substantial amount of the recommended changes have been made. The remaining changes will be handled by the Legislature or Groom Law Group.

He stated it has been a pleasure working with the PERB.

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

Agenda Item 14 – Director's Report: P. Chambers made reference to the public comments and explained when public comments are taken at NIC meetings. She informed members of the audience that public comments were scheduled for 2:15 p.m., on the NIC Agenda that day. P. chambers also stated the asset allocation for the Defined Benefit and Cash Balance plans is 70% equities and 30% fixed income.

P. Chambers welcomed new board member, R. Lahm.

P. Chambers announced Groom Law Group will present the Legal Compliance Audit to the Legislative Retirement Committee at 9:00 a.m., on Tuesday, November 20th. The Actuary will follow with a presentation of the Actuary Report. D. Blank, P. Chambers, J. Elliott, and the actuaries are scheduled to meet with the Governor at 1:00 p.m.

P. Chambers reported releasing the request for proposal (RFP) for actuarial services on November 6, 2012. It is located on the State Purchasing website.

P. Chambers complimented J. Hayes on the amount he has accomplished in his two years with NPERS and the PERB. The rules and regulations will be up to date. He has always made himself available to staff and willing to assist them in daily issues as they arise.

She reviewed handouts on fiscal cliff information. She received the materials during an Independent Agency meeting, where Gerry Oligmueller, State Budget Administrator, made a presentation.

P. Chambers reported working with R. Gerke and Kathy Tenopir on budget questions.

She stated NPERS staff has been responding to questions from CEM Benchmarking Inc., with whom NPERS contracted to conduct a formal evaluation of the Agency's current administrative processes. Responses are due by November 30, 2012.

She submitted an application and received certification from the Public Pension Coordinating Council (PPCC) for the second year. She reviewed the criteria for certification in their Standards Program. The certificate is displayed in NPERS' lobby.

She reported 1,635 Defined Contribution participants have submitted applications to move to Cash Balance. This number is more than the number who made the election in 2007. Of those making the transfer; 1,272 were State and 363 were County employees. Members were submitting up to the last day. Several came in postmarked October 31st. One was postmarked November 1st, and was not accepted. She complimented Ameritas and the NPERS' IT staff on their work keeping a daily record of submissions. Staff will have two months to verify the submissions and prepare for the transfer.

R. Ecklund returned to the meeting at 11:37 a.m.

P. Chambers reported Ameritas has revised their State and County quarterly account statements to include fees. A disclaimer concerning the verification of vesting will also be included on the statements.

She reported meeting with F. Turner, Chad Schlotfield, and Dean Gress concerning the possibility of acquiring tablets or laptops for board use. They discussed using SharePoint as a tool for sharing information and will continue to research types of equipment that would best meet the needs of the board.

P. Chambers referred to the Tentative 2013 Legislative Calendar, which was provided in the Board packets. The 2013, 90-day session begins January 9, 2013, and ends June 5, 2013.

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

Agenda Items 15 and 16 – Executive Session: At 11:49 a.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. 122746 and 604074; and Emergency Deferred Compensation Application of Retirement No. 701943. R. Ecklund seconded the motion. D. Blank repeated the motion for the record. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

R. Ecklund left the meeting during Executive Session.

At 1:10 p.m., R. Rehmeier moved that the Board exit Executive Session and reconvene in Regular Session. E. Stuhr seconded the motion. Members voted as follows: For: D. Blank, J. Elliott, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

R. Wassinger moved for approval of the Disability Application of Retirement Nos. 122746 and 604074; and Emergency Deferred Compensation Application of Retirement No. 701943 in the amount of \$14,232. R. Rehmeier seconded the motion. Members voted as follows: For: D. Blank, J. Elliott, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

Agenda Item 17 – Board Committee Reports: There were no reports.

Agenda Item 18 – Board Education/Travel Requests: There were no requests.

Agenda Item 19 – Future Meetings/Agendas: The next meeting will be held on Monday, December 17, 2012, in the in the Great Western Bank Conference Center, 1221 N Street, Lincoln, Nebraska.

D. Blank referred the board members to a draft of proposed PERB meeting dates for 2013, which was included in their packets.

E. Stuhr moved to approve the 2013 calendar as drafted. J. Elliott seconded the motion. Members voted as follows: For: D. Blank, J. Elliott, R. Rehmeier, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

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

The meeting adjourned at 1:22 p.m.

Phyllis G. Chambers
Director