

## **PUBLIC EMPLOYEES RETIREMENT BOARD MEETING**

September 24, 2012

9:30 A.M.

A regular meeting of the Public Employees Retirement Board convened at 9:30 a.m., Monday, September 24, 2012, in the Great Western Bank Conference Center, 1221 "N" Street, Lincoln, Nebraska.

The Board members were notified of this meeting by Agenda mailed Monday, September 17, 2012. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, September 17, 2012. D. Blank chaired the meeting and V. Huber recorded the minutes.

MEMBERS PRESENT: DENIS BLANK, CHAIR  
SGT. GLENN ELWELL, VICE-CHAIR  
ELAINE STUHR  
JANIS ELLIOTT  
STUART SIMPSON  
RON ECKLUND  
JEFF STATES, EX-OFFICIO

MEMBERS ABSENT: RICHARD WASSINGER  
JUDGE RANDALL REHMEIER

### NONMEMBERS PRESENT:

PHYLLIS CHAMBERS Director	NANCY REIMER Ameritas
RANDY GERKE Deputy Director	KATHY TENOPIR Legislative Fiscal Office
JASON HAYES Legal Counsel	JERRY HOFFMAN Nebraska State Education Association
MIDEN EBERT Retirement Plan Supervisor	MIKE DULANEY NE Council of School Administrators
FRED TURNER IT Manager	KATE ALLEN Legislative Retirement Committee
TERESA ZULAUF Internal Auditor	NEIL BATEMAN Retired Teachers
GARY BUSH AS - State Budget Administrator's Office	KAREN KILGARIN Nebraska State Education Association
DAVE SLISHINSKY Buck Consultants	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 September 24, 2012, Board Meeting to order at 9:30 a.m. Present at roll call: D. Blank, G. Elwell, E. Stuhr, J. Elliott, S. Simpson, R. Ecklund, and J. States. Absent: R. Wassinger and R. Rehmeier.

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

**Agenda Item 4 – Approval of Minutes:** E. Stuhr moved for approval of the minutes of the August 20, 2012, Board Meeting. R. Ecklund seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, G. Elwell, S. Simpson, and E. Stuhr. Against: None. Motion carried.

**Agenda Item 5 – Approval of Budget Status Report & August 2012 Retirement Report:** R. Ecklund moved to approve the budget status report and the August 2012 Retirement Report. G. Elwell seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, G. Elwell, S. Simpson, and E. Stuhr. Against: None. Motion carried.

**Agenda Item 6 – Change Deferred Compensation Plan Asset Fees:** R. Gerke stated a change in asset fees is needed for the Deferred Compensation Plan (DCP). The fees are currently set at zero basis points. He requested the Board approve raising the fees from zero to 6.5 basis points, effective October 25, 2012. He explained fees are based on assets and membership.

G. Elwell moved to increase the annual administrative charge for the DCP and set the annual charge at 6.5 basis points, effective October 25, 2012. J. Elliott seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, G. Elwell, S. Simpson, and E. Stuhr. Against: None. Motion carried.

**Agenda Item 7 – Internal Auditor Report:** T. Zulauf provided handouts compiling results from School and County internal employer audits, to date. She reported her department has completed 19 County internal employer audits, 9 are in progress, and 1 is ready for her review. Eleven internal audits had no issues.

She reported counties with audit findings are notified and asked to correct the findings. NPERS audit staff does make sure the findings are corrected. Findings might include uniform reimbursement included in gross wages for retirement purposes. She noted the percent of employees found not contributing to the plan, when it was mandatory, is 5% which is down from 10%.

T. Zulauf reported her department has completed 25 School employer audits as of July 31, 2012. She stated issues found in School audits are consistent with prior findings and are not necessarily found in each audit.

She reported her department has completed 9 School internal audits for this fiscal year, with a goal of 40 audits to be completed by June 30, 2013.

She reported all state appellate court law clerks have now entered the plan.

Her department continues to work on resolving past audit points.

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

**Agenda Item 8 – Revise Deferred Compensation Plan Document:** J. Hayes reviewed proposed revisions to the Deferred Compensation Plan (DCP) document. He explained the changes include recommendations from the 2012 Compliance Audit Report and a provision to handle Hartford DCP transfers.

E. Stuhr moved to revise the Deferred Compensation Plan document as presented. R. Ecklund seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, G. Elwell, S. Simpson, and E. Stuhr. Against: None. Motion carried.

Public notice stated the Rule Making Hearing would be held at 10:00 a.m.; therefore, Agenda Item 9 was conducted out of agenda order below.

**Agenda Item 10 – Public Hearings and Board Action on Rules and Regulations Chapter Nos. 4, 9, 14, and 18:** Public notice of the rule making hearing was published in the Lincoln Journal Star and Omaha World Herald on Friday, August 24, 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 Chapter Nos. 4, 9, 14, and 18.

D. Blank moved to approve revisions to Chapter 4, Rule and Regulations for Refund and Termination Benefit Procedures, including the following amendments: Modify Chapter 4, 003.04, 004.04, and 005.03. Eliminate references to timing of distributions applying to termination benefits because timing limitations are only intended to apply to refund distributions. Add 004.04(c) indicate that the deferred retirement option plan (DROP) provided in Neb. Rev. State § 81-2041 does not apply to refund distribution timing limitations. G. Elwell seconded the motion. Members voted as follows: Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, G. Elwell, S. Simpson, and E. Stuhr. Against: None. Motion carried.

D. Blank moved to approve Chapter 9, Rule and Regulations for Missing or Unresponsive Participants and Beneficiaries. G. Elwell seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, G. Elwell, S. Simpson, and E. Stuhr. Against: None. Motion carried.

D. Blank moved to approve Chapter 14, Rule and Regulations for Limitation for School Retirement Compensation. G. Elwell seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, G. Elwell, S. Simpson, and E. Stuhr. Against: None. Motion carried.

D. Blank moved to approve revisions to Chapter 18, Rule and Regulations for Benefit and Contribution Adjustments, including the following amendments: Change the timing deadlines found in Chapter 18, 003.01 and 003.02 for returning excess contributions to one year for both employee and employer excess contributions. G. Elwell seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, G. Elwell, S. Simpson, and E. Stuhr. Against: None. Motion carried.

**Agenda Item 9 – Legal/Legislative Update:** J. Hayes distributed a 2012 Regulation Report, including current and pending activity on Title 303, Nebraska Administrative Code for 2012.

He reported the Rules and Regulations approved at the August meeting have been submitted to the Attorney General's office for approval. They will then be submitted to the Governor's Policy Research Office for approval and finally to the Secretary of State's office; where they are filed to the register and go into effect. He stated the chapters approved at this meeting will be submitted to the Attorney General's office for approval on September 27, 2012. He anticipates the approval process to be completed by the end of the year.

D. Blank thanked J. Hayes for his work keeping the Rules and Regulations updated.

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

The Board took a break at 10:15 a.m. and reconvened at 10:28 a.m.

**Agenda Item 11 – Defined Benefit Plans – Actuarial Assumptions and Accounting**

**Methods:** D. Slishinsky provided a presentation explaining how funding is projected in defined benefit plans. He stated the actuary does not determine the cost of a pension system. Cost over time is determined by benefits defined by State Statutes, actual demographic experience of plan members, and investment experience. The actuary uses reasonable actuarial assumptions and funding methodology that allocates cost over future time periods. Funding methodology is set by State Statute and the PERB.

At the August 20, 2012, PERB meeting the Board approved the actuary's recommendations presented in the 2012 Actuarial Experience Analysis Results. D. Slishinsky explained recent changes in funded status and the econometric model analysis of expected investment

returns, which led to the actuary's recommendation to reduce the actuarial discount rate from 8.0% to 7.75%.

D. Slushinsky commented that reducing the actuarial discount or assumption rate is common among retirement systems at this time. He stated the new actuarial assumptions adopted by the PERB are a more realistic measure of plan liabilities and cost of future benefits. The pattern of payments of the cost can be changed by amending State Statutes.

His presentation included illustrations of 30-year projections of additional state contributions needed under various alternative funding methods and statutory contribution levels.

G. Elwell moved that the PERB (1) affirm the demographic and economic assumptions proposed by Buck Consultants in its report dated August 20, 2012, and (2) leave the current assumption rate of eight percent (8%) for investment returns in place, pending additional analysis of the overall impact associated with such an adjustment. J. Elliott seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, G. Elwell, S. Simpson, and E. Stuhr. Against: None. Motion carried.

**Agenda Item 12 – Public Comments or Correspondence from Citizens:** J. Hoffman was present, representing members of the Nebraska State Education Association (NSEA). He thanked the Board for their action regarding the assumption rate. The NSEA will work together with NPERS, the Legislative Retirement Committee, and the Board on legislative initiatives for 2013.

**Agenda Item 13 – Investment Officer's Update:** As of August 31, 2012, J. States reported calendar year to date performance for the defined benefits plans up approximately 9.27%. September has been volatile and holding. He stated the cash balance plan is on track to achieve 7.75%.

He stated the Nebraska Investment Council's (NIC) consultant, Hewitt EnnisKnupp, does not disagree with Buck's assumption recommendations.

J. States reported working with NPERS and Ameritas on the Cash Balance election.

He stated discussions continue with the NIC, NPERS, State Street, and Ameritas concerning modification of the daily trading process for the DC and DCP investments.

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

**Agenda Item 14 – Consulting Contract – CEM Benchmarking:** P. Chambers stated the Compliance Audit Report recommended a formal evaluation of NPERS operations. She reported researching other state retirement systems for recommendations on companies that provide this service. CEM Benchmarking Inc. was highly recommended.

P. Chambers proposed NPERS hire CEM Benchmarking Inc. for this evaluation. An overview of the company was provided to the Board in their meeting packets. She reviewed the services they would provide for a cost of \$35,000. CEM's program is a complete comprehensive administrative survey, NPERS would submit November 30, 2012. CEM would present the results of their analysis to the PERB in the spring of 2013. P. Chambers stated many retirement systems do annual evaluations and the survey would assist NPERS in identifying areas for improvement.

J. States commented that CEM has a national reputation for providing quality services.

R. Ecklund moved to have the Director and Legal Counsel begin negotiations and enter into a contract between NPERS and CEM Benchmarking Inc. to conduct a formal evaluation of the Agency's current administrative processes, services and cost analysis. The amount of the contract with CEM Benchmarking Inc. shall not exceed \$35,000. S. Simpson seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, G. Elwell, S. Simpson, and E. Stuhr. Against: None. Motion carried.

**Agenda Item 15 – Director's Report:** P. Chambers reported as of September 21, 2012, 456 Defined Contribution plan members have elected to transfer into the Cash Balance plan. Approximately 28% are making their election online through the Ameritas website and 72% are submitting their forms through the U.S. mail, interoffice mail, or dropping them off at the Retirement office. Fifty-two were actually brought in personally. Confirmation postcards are mailed to the members. Those completing the election online, also receive a confirmation during the online process.

She reported all but 10 out of 720 School retirement applications with a June 1 effective date, were processed within the 90-day policy. Those ten have various problems with their application. The Benefits staff continues to work overtime, in order to finish applications with a July 1 effective date by the end of September; 140 of these applications have been processed.

P. Chambers reported receiving notice that negotiations are in process, regarding the sale of Hartford's retirement accounts to MassMutual. The purchase should be completed by the end of the year. The Board's Hartford DCP Committee will meet prior to October's regular meeting.

P. Chambers reported the biennium budget was submitted and Program 515 will be updated in November, after receiving the actuary report.

She and J. Hayes have been working on a request for proposal (RFP) for actuarial services.

P. Chambers reported the State and County audit is completed and the report is available on the Auditor of Public Accounts' website. Krista Davis is scheduled to present the audit report at the October PERB meeting.

P. Chambers reported the NPERS IT Department is working on several projects and F. Turner will provide a report at the October PERB meeting.

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

**Agenda Item 16 – Board Committee Reports:** There were no reports.

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

**Agenda Item 18 – Future Meetings/Agendas:** The next regular PERB meeting will be held on Monday, October 22, 2012, in the Great Western Bank Conference Center, 1221 "N" Street, Lincoln, Nebraska.

**Agenda Items 19 and 20 – Executive Session:** At 12:04 p.m., E. Stuhr moved that the Board exit Regular Session and convene in Executive Session for the purpose of discussing Disability Applications for Retirement Nos. 135034 and 071866, personnel matters, and other legal matters. G. Elwell seconded the motion. D. Blank repeated the motion for the record. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, G. Elwell, S. Simpson, and E. Stuhr. Against: None. Motion carried.

S. Simpson left the meeting during Executive Session.

At 1:10 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, and E. Stuhr. Against: None. Motion carried.

E. Stuhr moved for approval of the Disability Applications of Retirement Nos. 135034 and 071866. G. Elwell seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, G. Elwell, and E. Stuhr. Against: None. Motion carried.

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

The meeting adjourned at 1:11 p.m.

Phyllis G. Chambers  
Director