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PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

November 17, 2014

8:30 A.M.

A joint meeting of the Public Employees Retirement Board and the Nebraska Investment Council convened at 8:40 a.m., Monday, November 17, 2014, at the Cornhusker-Marriott Hotel, Arbor Room, 333 South 13th Street, Lincoln, Nebraska.

The Board members were notified of this meeting by Agenda posted on the PERB SharePoint website on Friday, November 7, 2014. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, November 10, 2014. 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
STUART SIMPSON
RON ECKLUND
DENNIS LEONARD
JOE JURICH, EX-OFFICIO

NONMEMBERS PRESENT:

PHYLLIS CHAMBERS
Director
GAIL WERNER-ROBERTSON
Nebraska Investment Council
DR. RICHARD DEFUSCO
Nebraska Investment Council
JOHN MAGINN
Nebraska Investment Council
JOHN DINKEL
Nebraska Investment Council
JOHN CONLEY
Nebraska Investment Council
DON STENBERG
State Treasurer
CHRIS HEINRICH
NIC Legal Counsel
RANDY GERKE
Deputy Director

MATT EFFKEN
Legal Counsel
JACK HARDY
IT Manager
TERESA ZULAUF
Internal Auditor
MIDEN EBERT
Retirement Plan Supervisor
NANCY REIMER
Ameritas
KATHY DAWES
Nebraska Investment Council
JOLYNN WINKLER
Nebraska Investment Council
CHERYL WOLFF
Governor's Policy Research Office
PAT BECKHAM
Cavanaugh Macdonald Consultants

BRENT BANISTER
Cavanaugh Macdonald Consultants
MAX KOTARY
Hewitt EnnisKnupp & Associates
KATE ALLEN
Legislative Retirement Committee
JASON HAYES
Nebraska State Education Association
ERIC ASBOE
Nebraska Supreme Court
WILLIAM J. MUELLER
Mueller Robak LLC

MATT SCHAEFER
Mueller Robak LLC
BOB WICKERSHAM
Retiree
NEIL BATEMAN
Retiree
DEAN GRESS
IT Senior Application Developer
VICKI HUBER
Administrative Assistant

Joint Meeting with the Nebraska Investment Council:

Agenda Items 1, 2 and 3: At 8:40 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, S. Simpson, R. Ecklund, D. Leonard, and J. Jurich. Absent: None. **Agenda Item 4 – Introductions and Comments by Chairpersons:** G. Werner-Robertson stated performance over the last year has been very good. However, the Council is concerned with reaching the 8% assumed rate of return. She reported Jeff States retired and the Co

uncil has hired Michael Walden-Newman as the new State Investment Officer (SIO). Mr. Walden-Newman is from Wyoming, where he was SIO. G. Werner-Robertson thanked J. Jurich for keeping everything running smoothly as the acting SIO.

D. Blank recognized the Investment Council and Retirement Board and thanked them for their efforts. He thanked Jeff States, stating he was a great PERB member. D. Blank reported on January 1, 2015, S. Simpson, D. Leonard, and his terms expire. They will continue to serve until new members have been appointed and confirmed. He stated the Board is proud of NPERS' most recent public audits; pointing out the last State and County audit contained only one audit point. He stated NPERS, the PERB, and the State Auditors have developed a great working relationship. The PERB's goal was to resolve past audit issues and it has been successful in doing so. D. Blank announced M. Effken has accepted a position in private practice in Omaha. D. Blank thanked M. Effken for an outstanding job.

D. Blank referred to a summary of 2014 NPERS Member Services and accomplishments as of October 31, 2014. NPERS administers approximately 119,420 member accounts with assets of \$12 billion. The handout included statistics regarding benefits processing, NPERS average monthly retirement benefits, retirement seminars, and personal contact provided to plan

members. He pointed out 90% of NPERS retirees remain in Nebraska and spend their pension dollars in their local communities.

Agenda Item 5 – Quarterly Performance Report for Retirement Plans: M. Kotary provided the Third Quarter 2014 Retirement Plan Performance Review for all plans. A copy of the report is available from the NIC office. The report included performance for all markets and benchmark descriptions.

Agenda Item 6 – Actuarial Reports and Projections for School, Judges, and State Patrol Plans: P. Beckham explained the purpose of an actuarial valuation and reported on the changes since the last valuation.

P. Beckham and B. Banister provided actuarial valuation results for the School, Judges, and Patrol defined benefit plans, as of July 1, 2014. Results are based on the current set of assumptions including the 8% investment return assumption. The presentation shared projections of contribution rates over the next five years and projections of contribution rates and funded ratios for the next 30 years.

General findings of the report were (1) The return of 18% on market value increased the magnitude of the unrecognized investment gains. Deferred gains more than doubled. (2) Funded ratios improved approximated 5% over the previous year for each plan. As of 6-30-14, the School plan funded ratio was 83%, the Judges plan funded ratio was 93%, and the Patrol plan funded ratio was 81%. (3) Based on 2014 valuation results, if assumptions are met and full actuarial contributions are made, all three systems are expected to reach full funding, consistent with the funding methodology in place.

For each of the defined benefits plans, the report included: a comparison of system assets in market values and actuarial values, funded status, historical funded ratios, required contributions, projection of additional contribution and appropriations, and the projected funded ratio.

P. Beckham commented on the Judges plan. She stated the short-term impact of deferred investment gains will hold down State contributions and improve funded status. Costs are developed as a level percentage of payroll, so the dollar amount will increase. The decreasing trend in the amount of court fees is a concern. Even if court fees hold constant, the additional State contribution is expected to increase over time.

B. Banister presented the Patrol plan. The report states a significant contribution shortfall exists. Additional State contributions are necessary if funding goals are to be met. If additional State contributions are not made, the funded ratio will decline. Deferred asset gains will reduce the additional State contributions in the short term.

In the School plan, B. Banister stated favorable experience resulted in no additional State contribution for year-end 2015. The actuaries predict the impact of Tier Two will unfold over time as more members and payroll reside in Tier Two and funding should continue to improve.

P. Beckham commented that other state systems who are struggling with funding at this time are systems that have not historically contributed at the actuarial rate. Nebraska's School system has made changes to protect long term funding.

A copy of the actuary's presentation is available from the Retirement Office.

Agenda Item 7 – Capital Market Assumptions Discussion: M. Kotary began the discussion by explaining what capital market assumptions are. He presented current expected investment returns and risk assumptions for periods of 10 and 30 years, along with alternative asset allocation policy scenarios. He stated investment consultants view assumptions as a range.

G. Werner-Robertson commented that the Council's conservatism has paid off. Nebraska is better off than some states.

D. Blank asked what the future holds in the long term. P. Beckham commented from the actuarial point of view. She stated the focus is out 30 years or more. Payments to retirees are made into their 80's and beyond. The actuaries must look at inflation and salary increases across the board.

M. Kotary commented that inflation depends on how you look at it; past years or in the future. Investment consultants look at economic indicators and federal policy objectives. He is expecting inflation to be lower than historical numbers.

B. Banister commented inflation is hard to predict and can be affected by external factors such as legislation. Looking at short term may make you pessimistic about the long term. Contributing more now hopes to take care of future costs.

The NIC and the PERB discussed assumed rates used over the years for public and corporate plans, which have different rules. Both the PERB and the NIC wish to be prudent and use an accurate rate to forecast returns. D. Blank reported the PERB has formed a committee which is taking all data into consideration regarding the assumed rate. R. Rehmeier introduced the PERB's Assumed Rate Committee, E. Stuhr, J. Elliott, and D. Leonard. R. Rehmeier explained what the Committee has been studying. He referred to the NASRA Issue Brief on Public Pension Plan Investment Return Assumption, which was included in the meeting materials. He commented on how it explains the rate of return over the long period of time in which defined benefit plans operate. He stated the Committee is considering having an experience study done in 2016 and having a benefit adequacy study done in 2015. He emphasized the PERB's goal is to get the assumed rate as close as possible, while taking into consideration the concerns of the NIC.

Recess: The joint meeting adjourned at 10:28 a.m. J. Jurich left the meeting to attend the NIC meeting at this time. The regular PERB meeting reconvened at 10:47 a.m.

D. Blank stated Agenda Items 15 and 16 would be moved to the end of the meeting.

Agenda Item 8 – Approval of Minutes: E. Stuhr moved to approve the minutes of the October 20, 2014, Board meeting. J. Elliott seconded the motion. Members voted as follows: For:

D. Blank, J. Elliott, D. Leonard, R. Rehmeier, E. Stuhr, and R. Wassinger. Abstain: S. Simpson and R. Ecklund. Against: None. Motion carried.

Agenda Item 9 – Approval of Budget Status Report & October 2014 Retirement Report:

R. Ecklund moved to approve the Budget Status Report and the October 2014 Retirement Report. D. Leonard seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, D. Leonard, R. Rehmeier, S. Simpson, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

Agenda Item 10 – Public Comments or Correspondence from Citizens: Bob Wickersham expressed his opinion on the assumed rate discussion which took place during the Joint Meeting. He stated he was in agreement with the NIC Chair; commenting that if the State does not pay now it will pay later. He hopes the PERB will lower the assumed rate to 7.75%.

Agenda Item 11 – Actuarial Reports and Projections – School, Judges, and State Patrol Plans: B. Banister presented the Actuarial Valuation Results as of July 1, 2014. He explained the only difference in this presentation, compared to the one provided in the Joint Meeting, is it includes member data and the change in UAAL for each plan. He reviewed the additional information.

P. Beckham mentioned a lot of boards are developing funding policies. She explained the policies lay out choices for the board in particular scenarios. For example the policy would address the funded ratio and outline when the board would support adjusting rates or when the board would be proactive in finding solutions when funding is low. She offered to provide the PERB with sample policies of other systems similar to Nebraska's. The Board agreed to review sample policies. J. Elliott pointed out setting a funding policy for the defined benefit plans would be similar to the PERB's dividend policy for the State and County plans. R. Rehmeier mentioned the PERB has a policy in effect on the assumed rate.

D. Blank thanked the actuaries for their report.

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

Agenda Item 12 – Rules and Regulations – Revise Chapter 18 - Benefit and Contribution

Adjustments: M. Effken explained the proposed revision to Chapter 18 was requested by the IRS. The IRS code dictates when a system is able to refund contributions to an employer. The proposed revision reflects the IRS rule stating NPERS can refund contributions to an employer when the excess contributions were made. A public rule making hearing has been scheduled for the December PERB meeting.

Agenda Item 13 – Legislative/Legal Update: M. Effken reported the regulatory change for Chapter 15 is in the process of being reviewed by the Attorney General's office.

He reported on possible legislation giving the PERB the power to subpoena. He explained this power would be useful when NPERS investigates issues of overpayment of funds. Specifically,

when NPERS is not notified of a death and benefit payments continue to be made. Banks typically cannot provide information about their accounts without a subpoena.

M. Effken thanked the Board for the opportunity to serve. He stated he has enjoyed the experience and has learned a lot.

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

Agenda Item 14 – Director’s Report: P. Chambers thanked V. Huber and D. Gress for their assistance with the logistics of the meeting. She thanked R. Gerke for his help reviewing the actuary reports. She thanked M. Effken for his service to the PERB and NPERS.

P. Chambers reported Ameritas will be converting to the SunGuard platform Friday, November 21st through Monday, November 24th. Nancy Reimer and Mary Klug, from Ameritas, have been at NPERS training staff on the new system.

P. Chambers reported Ameritas is ready to begin prorating nightly trade to State Street per the contract amendment. However, State Street will not be ready by the December 1st date as scheduled. Ameritas will proceed when State Street is ready with their technology changes.

She stated on Wednesday, November 19, 2014, the actuaries will present the valuation results to the Legislative Retirement Committee. The Retirement Committee will also be hearing reports from public pension plans in Nebraska whose funding status is under 80%.

P. Chambers reported there are 28 Patrol members requesting service credit for past military service. NPERS has sent letters to the members requesting copies of their DD214's for documentation of service. By statute, this information is needed for granting service credit.

The transition to the new Governor and administration is in process. P. Chambers mentioned an article in the Journal Star about the Governor-elect being briefed by the Budget Office on the retirement systems. The new Governor and elected state officials will begin their terms on January 8, 2015.

Three of the current PERB members' terms expire January 1, 2015. P. Chambers has talked to Kate Allen about making a change to the rotation schedule of PERB members, so there are only one or two board member positions terminating in any given year.

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

Agenda Item 17 – Board Committee Reports: R. Rehmeier reported the Assumed Rate Committee met since the October meeting and he asked the Committee to meet again following this meeting.

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

Agenda Item 19 – Future Meetings/Agendas: P. Chambers referred the board members to a draft of proposed PERB meeting dates for 2015, which was included in their meeting materials. The Board discussed the dates.

J. Elliott moved to approve the 2015 calendar as follows: the board will meet on the third Monday of every month; except for January and February, when they will meet on the third Tuesday, due to the holidays. E. Stuhr seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, D. Leonard, R. Rehmeier, S. Simpson, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

The next meeting will be held on Monday, December 15, 2014, in the 1526 Building, 1526 "K" Street, Conference Room 4-D, Lincoln, Nebraska.

Agenda Items 15 and 16– Executive Session: At 11:47 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. 440120 and 177481, personnel matters, 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, D. Leonard, R. Rehmeier, S. Simpson, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

At 12:59 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, R. Ecklund, J. Elliott, D. Leonard, R. Rehmeier, S. Simpson, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

R. Wassinger moved for approval of the Disability Applications of Retirement Nos. 440120 and 177481. D. Leonard seconded the motion. Members voted as follows: For: D. Blank, R. Ecklund, J. Elliott, D. Leonard, R. Rehmeier, S. Simpson, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

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

The meeting adjourned at 1:01 p.m.



Phyllis G. Chambers
Director