



1526 K Street, Suite 400
P.O. Box 94816
Lincoln, NE 68509-4816
Phone 402-471-2053
Toll Free 800-245-5712
Fax 402-471-9493
npers.ne.gov

PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

DECEMBER 21, 2015

10:00 A.M.

A regular meeting of the Public Employees Retirement Board convened at 10:14 a.m., Monday, December 21, 2015, in the 1526 Building, 4th Floor, Conference Room 4D, 1526 "K" Street, Lincoln, Nebraska.

The Board members were notified of this meeting by Agenda posted on the PERB SharePoint website on Tuesday, December 15, 2015. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, December 14, 2015. D. Blank chaired the meeting and V. Huber recorded the minutes.

MEMBERS PRESENT:

DENIS BLANK, CHAIR
RICHARD WASSINGER, VICE-CHAIR
ELAINE STUHR
JANIS ELLIOTT
RON ECKLUND
DENNIS LEONARD
KELLI ACKERMAN
JUDGE J. DERR
MICHAEL WALDEN-NEWMAN, EX-OFFICIO

NONMEMBERS PRESENT:

PHYLLIS CHAMBERS Director	NANCY REIMER Ameritas
RANDY GERKE Deputy Director	PAT BECKHAM Cavanaugh Macdonald Consultants
ORRON HILL Legal Counsel	BRENT BANISTER Cavanaugh Macdonald Consultants
JOHN WINKELMAN Training Supervisor	MIKE DULANEY NE Council of School Administrators
MIDEN EBERT Retirement Plan Supervisor	DAN ERNST NE Council of School Administrators
JACK HARDY IT Manager	ERIC ASBOE Nebraska Supreme Court
TERESA ZULAUF Internal Auditor	PAUL NACARIO ICMA-RC
GARY BUSH AS - State Budget Administrator's Office	VICKI HUBER Administrative Assistant

Agenda Item 1: D. Blank apologized for the late start of the meeting. He explained some of the Board members were attending a Legislative Retirement Committee hearing prior to the PERB meeting and it was still in progress. He stated this meeting will follow the Nebraska Open Meetings Act and a copy of the Act is located on the table by the door.

Agenda Items 2 and 3 – Meeting Called to Order: D. Blank called the December 21, 2015, Board Meeting to order at 10:14 a.m. Present at roll call: D. Blank, R. Wassinger, E. Stuhr, J. Elliott, R. Ecklund, D. Leonard, and K. Ackerman, J. Derr. Absent: M. Walden-Newman.

Agenda Item 4– Approval of Minutes: J. Elliott moved for approval of the minutes of the November 16, 2015, Board Meeting. E. Stuhr seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, R. Ecklund, J. Elliott, E. Stuhr, and R. Wassinger. Abstain: D. Blank and D. Leonard. Against: None. Motion carried.

Agenda Item 5– Approval of Budget Status Report & November 2015 Retirement Report: R. Wassinger moved to approve the Budget Status Report and the November 2015 Retirement Report. K. Ackerman seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, R. Ecklund, J. Elliott, D. Leonard, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

Agenda Items 6, 9, and 10 were addressed out of order below, to accommodate the fact M. Walden-Newman and O. Hill were testifying at the Retirement Committee hearing.

Agenda Item 7 – Education Services Report: J. Winkelman provided handouts summarizing the accomplishments of the Education Services department in 2015. Twenty-seven School Retirement Planning seminars were held across the state, with a total of 1,315 attendees. Fifteen State and County Retirement Planning seminars were held with a record high of 808 attendees. This included two additional State and County seminars added to the Lincoln schedule when all the seminars had reached capacity. Five Financial Management seminars were held across the state, with a total of 123 attendees. Eight “special request” presentations were held, with an estimated total of 415 attendees. Six School Employer workshops were held with approximately 249 in attendance. A School Employer Reporting webinar was held on December 15th, with 125 signed up on line to participate. This webinar is available on the NPERS website.

J. Winkelman stated updates were made to the School, State, and Judges Handbooks and the to the School Employer manual.

He reported a new School Retirement 101 video was produced and added to the website.

P. Chambers reported O. Hill and J. Winkelman held the December 15th webinar in partnership with the Nebraska Council of School Administrators (NCSA). Mike Dulaney, Executive Director of NCSA, was in attendance at the PERB meeting and stated members, including bookkeepers, listened in on the webinar. He commented that he thought the webinar was well received and they will probably do it again. K. Ackerman complimented the idea of a webinar and thanked J. Winkelman, O. Hill, M. Dulaney, and their staff for their work on a valuable presentation.

D. Blank complimented J. Winkelman and his staff for the excellent remarks he continues to receive about NPERS' seminars.

E. Stuhr moved to approve the Education Services report. D. Leonard seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, R. Ecklund, J. Elliott, D. Leonard, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

Agenda Item 8 –Cavanaugh Macdonald Consulting Contract Renewal: NPERS' contract with Cavanaugh Macdonald Consulting expires June 30, 2016. P. Chambers explained the contract is for three years with a three year extension. P. Chambers completed a performance report of the actuary and provided it to the Board prior to the meeting. She reviewed results of the evaluation and reported all expectations were met.

Members of the Board expressed their appreciation to P. Beckham and B. Banister for their expertise and ability to explain actuarial concepts and results in an understandable way.

R. Ecklund moved to renew the Cavanaugh Macdonald Consulting contract for three years; expiring June 30, 2019. D. Leonard seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, R. Ecklund, J. Elliott, D. Leonard, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

Agenda Item 11– Director's Report: P. Chambers reported the Benefits department has been busy paying out required minimum distributions (RMDs) by December 31, 2015.

R. Ecklund asked if NPERS plans will be affected by the proposed federal legislation that would allow RMDs to be paid directly to a charity. NPERS staff will look into possible effects of this legislation.

P. Chambers reported the Legislative Retirement Committee requested a briefing on Military Service Credit. On December 7, 2015, she and O. Hill provided this briefing to the Committee. They anticipate legislation may be proposed on this matter.

On December 9, 2015, P. Chambers and O. Hill attended the NCSA Legislative Conference, in Lincoln. Retirement was discussed by many of the speakers. P. Chambers and O. Hill provided a presentation and answered questions about the accuracy of employer reporting; extended contract workers, returning to work, substitutes, temporary, and part time employees. P. Chambers referred to a State General Fund Budget and Revenues handout that was distributed at this conference. She pointed out comparisons between FY 2015-16 and FY 1995-96 and the allocation of general funds.

P. Chambers and J. Hardy met with Secretary of State, John Gale and two of his staff to discuss the scanning of NPERS' microfiche and Schoolledger books. She stated Secretary of State's office does not have equipment to complete the task at this time. They would possibly lease equipment or have to prepare a request for proposals (RFP) to purchase or lease equipment. J. Hardy researched vendors and costs and NPERS is considering a possible RFP for the scanning project.

In regards to the record keeping RFP, P. Chambers reported December 29th was scheduled for the opening of bids. NPERS will know how many proposals were submitted. Purchasing will review the proposals and then send copies to NPERS. NPERS will have the month of January to evaluate the proposals. In February, NPERS may conduct oral interviews of vendors, if needed. She anticipates having a recommendation for the Board at the February meeting.

Staff will continue to work on possible legislation as the session begins.

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

Agenda Item 12– Board Committee Reports: E. Stuhr reported the PERB Assumed Rate Committee (AR Committee) met at NPERS on December 8, 2015, and via conference call on December 17, 2015.

Agenda Item 13 – Board Education/Travel Requests: There were no requests.

Agenda Item 14 – Future Meetings/Agendas: The next PERB meeting is scheduled for Monday, January 25, 2016. The Board voted on the 2016 Calendar of meeting dates after Agenda Item 17.

M. Walden-Newman joined the meeting at 10:50 a.m.

The Board took a break at 10:50 a.m. and reconvened at 11:05 a.m.

Agenda Item 6 – Nebraska Retirement Systems Committee Letter dated November 30, 2015: D. Blank reported on recent events involving the PERB and the Legislative Retirement Committee (Retirement Committee). He reported receiving a letter from the Retirement Committee dated November 30, 2015, regarding the investment return assumption. The letter (in summary) stated that “the Committee finds that the rate should be reduced to 7.75% now instead of postponing any action until the results of the 2016 Experience Study are released in August 2016.” The Retirement Committee also requested that the 2015 ARCs be recalculated for the defined benefit plans based on the 7.75% investment return assumption/discount rate and be reported to the Retirement Committee prior to the 2016 legislative session. D. Blank then called a meeting of the PERB’s Assumed Rate Committee, which met on December 8, 2015. After that meeting the PERB invited the Retirement Committee to attend the December PERB meeting to discuss the letter. D. Blank then received an invitation to meet privately with Senator Al Davis. D. Blank met with Senator Davis on Friday, December 11, 2015. Senator Davis told D. Blank that members of the Retirement Committee would not be attending the PERB meeting. The Retirement Committee then decided to hold an interim study hearing on Monday, December 21, 2015; prior to this scheduled PERB meeting. Those testifying at the hearing were: P. Chambers, P. Beckham, B. Banister, M. Walden-Newman, and O. Hill.

On behalf of the PERB’s AR Committee, E. Stuhr reviewed the PERB’s activity concerning the assumed rate since the August 2012 PERB meeting. In 2014, D. Blank appointed the AR

Committee; consisting of Judge Rehmeier as Chairman, J. Elliott, D. Leonard, and E. Stuhr. Judge Rehmeier has since left the Board and E. Stuhr is now interim Chair of the AR Committee. E. Stuhr stated the AR Committee reviewed a number of reports and relevant documents during 2014 and on December 15, 2014, the AR Committee recommended the Board not change the assumed rate and to move the Experience Study up a year and have it prepared in 2016, instead of 2017, as planned. On February, 26, 2015, the report was updated. The AR Committee and the PERB continued to monitor the situation. She added that there was no communication from the Retirement Committee, regarding the assumed rate since 2012. There were no questions from the Retirement Committee, regarding the assumed rate, when the actuarial evaluations were presented to them at the legislative hearing on November 18, 2015. Therefore; E. Stuhr stated the PERB was surprised, by the letter received on November 30, 2015, and the fact that they were directed to change the assumed rate in three weeks. After receiving this letter, the Assumed Rate Committee held meetings on December 8, and December 17, 2015.

E. Stuhr pointed out that on Friday, December 18th, the PERB received two pages of questions from the Retirement Committee and were asked to address those questions at the hearing scheduled for the following Monday, December 21st. She complimented P. Chambers and the actuaries on their ability to address those questions very well on such short notice.

E. Stuhr stated she thought perhaps the Board did make a hasty decision lowering the assumed rate in August of 2012, which is one reason the Board is being very cautious now. The Board is looking at it long term while others may look at it in the short term of 10 years. The Board feels that it is an extremely long term matter. She stated it is important to remember, benefits are paid over 30 to 50 years.

D. Leonard emphasized that the Board didn't choose to "do nothing;" they thought the rate was appropriate at the time. Taking the Nebraska Investment Council's (NIC's) concerns into consideration, the Board moved the Experience Study up a year. He believes the Board has been proactive in its actions.

J. Elliott expressed, as a fiduciary, she feels confident the 8% is within reasonable guidelines and after the Board has the results of the Experience Study it will reevaluate the rate.

D. Blank asked the actuaries to clarify what would happen if the actuary recommended the Board lower the assumed rate and the Board did not follow the actuary's recommendations. P. Beckham stated they are not required to publicly state the Board did not follow their recommendations. The decision would be recorded in their report. She reviewed the actuarial standard of practice No. 27, which requires actuaries to provide the best estimate. She stated, if a board should make a decision far from the actuaries' recommendation and the actuaries felt the assumption did not meet actuarial standards of practice, they would probably qualify this in their certification letter that goes in front of their valuations report. She emphasized that "there is not a single right answer" and she hopes the Retirement Committee understood that after their testimony that morning. She stated, "most of the time Boards go with the recommendations of the actuaries; but, there are times when they don't

and that is appropriate, because you are the fiduciaries. You ultimately need to make that decision and we are providing advice.”

J. Elliott asked the actuaries to address the concern with the generational differences caused by the setting the assumed rate. P. Beckham explained that an actuarial valuation is allocating the cost of the benefits to time periods. So, actuaries don't want to be overly aggressive and place the burden onto the next generation or too conservative and put the financial load on current employees. When actuaries study assumptions, they try to shoot for the middle, around the 50th percentile return. If the asset allocation becomes more conservative, then the actuaries have to take that into account. B. Banister added that you want to pick a rate that you have a 50/50 chance of making, not a rate that you are pretty sure you can attain. The times you are under the assumed rate will offset the times you are over the assumed rate.

D. Leonard stressed the Board needs to shoot for the middle ground; to be “on” most of the time.

D. Blank asked the actuaries to comment on what the effect would have been if the Board would have left the assumed rate at 7.75% in 2012, and what is the effect of waiting. P. Beckham replied that it would have made no impact on the School plan funding either way. She stated the impact on waiting would be that there would be a higher actuarial required contribution (ARC) for the Judges and Patrol plans for FY17. B. Banister stated it is hard to know what the effect would have been if the Board had left it at 7.75%; because, it is not known if the State would have made the additional required contribution.

In regards to comparing Nebraska's rate to its surrounding states, P. Beckham explained, since 2001, there has been a decrease in investment return and underlying inflation assumption. In 2001, most of the states were at or above 8% in their assumption rates. Now, most are between 7% and 8%. However, states do not all have the same asset allocations or the same mortality. J. Elliott commented that states don't just set their rates based on what other states are doing.

M. Walden-Newman summarized his testimony at the hearing and provided a copy of his committee handout. He emphasized the NIC wanted to make sure the Retirement Committee was aware that the Council does not anticipate performance will meet the 8% assumed rate.

E. Stuhr stated the recent actions of the Retirement Committee are very unusual. In her 12 years' experience in the legislature and on the Retirement Committee, she never experienced the calling of an interim hearing in such a short time and for the correspondence to be of such a demanding/threatening nature. She thinks it is very unusual and may be politically motivated.

P. Beckham asked M. Walden-Newman to discuss how strongly he feels about Aon Hewitt's 30-year assumptions. M. Walden-Newman stated the NIC does not think the 30-year

investment prediction is incorrect; but, monitoring the performance/returns is not as important as monitoring the risk and volatility of the portfolio.

R. Wassinger commented that he felt the Retirement Committee's letter was very disturbing and unexpected. He stated that if the problem is communication, it should be discussed and then move on. He stated members of the PERB take their fiduciary responsibilities very seriously. He believes the Board acted correctly in 2012 and when the matter comes up again the Board will vote according to the data presented and move on.

R. Ecklund commented on remarks from the Retirement Committee regarding the possibility of the PERB being influenced by its stakeholders and political pressure. He believes the Board needs to listen to its stakeholders. He stated if the Board took action based on what the Legislative Retirement Committee told them to do, the Board would be stepping away from their fiduciary responsibility. The Board needs to listen to our advisors.

E. Stuhr and D. Leonard, members of the Assumed Rate Committee, recommended the PERB follow their original course of action and reevaluate the assumed rate after the Experience Study is completed in 2016.

Copies of the Retirement Committee hearing handouts from Cavanaugh Macdonald and M. Walden-Newman are available from the Retirement Office.

Agenda Item 9 – Legal/Legislative Update: O. Hill discussed a Supreme Court opinion on a case regarding a cash balance retirement plan account. The Court held that an increase in the value of the premarital portion of member's account was not the result of efforts or contributions of either spouse and therefore was not earned during the marriage. Also, it was not a co-mingling of marital assets so long as they can trace what was in the account at the time of the marriage. The Supreme Court's decision is consistent with NPERS' procedures.

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

Agenda Item 10 – Investment Officer's Update: M. Walden-Newman reported the calendar performance for the Cash Balance (CB) plans was 2.55% as of October 31, 2015. The fiscal year defined benefit (DB) plans performance was -.16%.

He reported they are on schedule with their review of the portfolio.

He stated the NIC is planning a two-day retreat for Monday and Tuesday, July 19 and 20, 2016. It will be held at the Lied Lodge, in Nebraska City.

J. Elliott moved to approve the Investment Officer's Update. R. Wassinger seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, R. Ecklund, J. Elliott, D. Leonard, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

Agenda Items 15 and 16– Executive Session: At 12:17 p.m., R. Wassinger moved that the Board exit Regular Session and convene in Executive Session for the purpose of discussing personnel matters and other legal matters. K. Ackerman seconded the motion. D. Blank repeated the motion for the record. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, R. Ecklund, J. Elliott, D. Leonard, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

At 1:15 p.m., K. Ackerman moved that the Board exit Executive Session and reconvene in Regular Session. J. Elliott seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, R. Ecklund, J. Elliott, D. Leonard, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

There was no board action on Executive Session topics.

Agenda Item 17 – Public Comments or Correspondence from Citizens: There were no public comments or correspondence from citizens with business not scheduled on the agenda.

Agenda Item 15 – Future Meetings/Agendas continued: J. Elliott moved to approve the proposed calendar of 2016 PERB meeting dates as presented. E. Stuhr seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, R. Ecklund, J. Elliott, D. Leonard, E. Stuhr, and R. Wassinger. Against: None. Motion carried.

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

The meeting adjourned at 1:17 p.m.



Phyllis G. Chambers
Director