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PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

November 16, 2015

8:30 A.M.

A joint meeting of the Public Employees Retirement Board and the Nebraska Investment Council convened at 8:35 a.m., Monday, November 16, 2015, 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 6, 2015. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, November 9, 2015. R. Wassinger chaired the meeting and V. Huber recorded the minutes.

MEMBERS PRESENT:

RICHARD WASSINGER
JANIS ELLIOTT
RON ECKLUND
KELLI ACKERMAN
JUDGE J. DERR
MICHAEL WALDEN-NEWMAN, EX-OFFICIO

MEMBERS ABSENT:

DENIS BLANK, CHAIR
DENNIS LEONARD
ELAINE STUHR

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
DON STENBERG
State Treasurer
JOHN CONLEY
Nebraska Investment Council
JOE JURICH
Deputy State Investment Officer

CHRIS HEINRICH
NIC Legal Counsel
JOLYNN WINKLER
Nebraska Investment Council
JOYCE SCHLAUTMAN
Nebraska Investment Council
CHRIS SANDERS
Nebraska Investment Council
JEREMIAH GARBER
Nebraska Investment Council
JOSEPH SPITZNAGEL
Nebraska Investment Council
RANDY GERKE
Deputy Director
ORRON HILL
Legal Counsel

TERESA ZULAUF
Internal Auditor
MIDEN EBERT
Retirement Plan Supervisor
NANCY REIMER
Ameritas
KATHY DAWES
Nebraska Investment Council
PAT BECKHAM
Cavanaugh Macdonald Consultants
BRENT BANISTER
Cavanaugh Macdonald Consultants
MAX KOTARY
Aon Hewitt
MIKE COMSTOCK
Aon Hewitt
DAVID ROSE
Aon Hewitt
KATE ALLEN
Legislative Retirement Committee
KATHY TENOPIR
Legislative Fiscal Office
JASON HAYES
Nebraska State Education Association
AL KOONTZ
Nebraska State Education Association

GERRY OLIGMUELLER
State Budget Administrator
GARY BUSH
AS- Budget Office
SENATOR AL DAVIS
Legislative Retirement Committee
KENNY ZOELLER
For Senator Mark Kolterman
ERIC ASBOE
Nebraska Supreme Court
MATT SCHAEFER
Mueller Robak LLC
BOB WICKERSHAM
Public
NEIL BATEMAN
Retired Teachers
MARTHA STODDARD
Omaha World Herald
DEAN GRESS
IT Senior Application Developer
PAUL NACARIO
ICMA-RC
VICKI HUBER
Administrative Assistant

Joint Meeting with the Nebraska Investment Council:

Agenda Items 1, 2 and 3: At 8:35 a.m., Nebraska Investment Council (NIC) Chairperson, G. Werner-Robertson, called the NIC Meeting to order. R. Wassinger 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: R. Wassinger, J. Elliott, R. Ecklund, K. Ackerman, J. Derr, and M. Walden-Newman.

Agenda Item 4– Introductions and Comments by Chairpersons: G. Werner-Robertson provided an update on the NIC's 2015 activity. She reported, as of June 30, 2015, the NIC manages \$33.3 billion in assets. She reported defined benefit (DB) performance for FY15 was 3.9%; above the 3.4% policy benchmark. She stated the market values were down as of September 30, 2015; with the DB return at -4.8%; with the benchmark at -5.4%. The NIC has restructured fixed income portfolios and added new commitments for the DB and Cash Balance Plans. The Stable Value Option in the Defined Contribution Plan was moved from a separate account structure to a commingled product, which offers greater efficiency and

lower cost to participants. The NIC is performing an in-depth review of the investment portfolio. Staff has met with all of the portfolio's 60 investment managers.

G. Werner-Robertson announced the retirement of J. Maginn. On behalf of the NIC, she presented him with an Admiralship in the Nebraska Navy and a proclamation from Governor Ricketts. She thanked J. Maginn for his contributions to the NIC and gave a brief history of his ten years on the Council and in the financial world.

R. Wassinger introduced PERB members, Kelli Ackerman and Judge J. Derr, new in 2015. He introduced Orron Hill, legal counsel for the PERB and NPERS.

R. Wassinger referred to a summary of NPERS 2015 statistics. NPERS administers approximately 121,920 member accounts with assets of \$12.7 billion. One in sixteen Nebraskans is a member of NPERS. NPERS distributed \$654 million to retirees with an average monthly benefit of \$1756. He pointed out 90% of retirement benefit distributions stay in Nebraska; adding \$16 million in state tax revenue, resulting in an estimated economic impact of \$1.5 billion.

R. Wassinger stated the agency continues to see high volumes of retirement activity, whether it is the Call Center, office visits, calculating retirement, issuing refunds and rollovers, or paying monthly benefits. Each of NPERS' 56 employees has an important job that contributes to the excellent services they provide to our members.

He complemented NPERS' staff, pointing out the last State and County audit report had no audits points and the School, Judges, and Patrol audit report had only one audit point.

Agenda Item 5 – Actuarial Reports and Projections for School, Judges, and State

Patrol Plans: P. Beckham explained actuarial valuations and their purpose. The report included a historical review of asset returns and values compared to market values from 1998 through 2015.

P. Beckham and B. Banister provided actuarial valuation results for the School, Judges, and Patrol defined benefit plans, as of July 1, 2015. 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) Due to the asset smoothing method, the return on the actuarial value of assets was 11.5%, which created an actuarial gain. (2) There was an actuarial gain on liabilities due to no COLA being granted this year. (3) Funded ratios improved for each plan. As of 6-30-15, the School plan funded ratio was 88%, the Judges plan funded ratio was 97%, and the Patrol plan funded ratio was 87%. (4) Based on 2015 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 benefit plans, the report included: funded status, historical funded ratio, actuarial required contributions, projection of additional contributions and appropriations, and the projected funded ratio.

P. Beckham commented on the Judges plan. She stated the decreasing trend in court fees was addressed by the passage of LB 468. It should ultimately provide an additional \$1.3 million in funding by FY 2018. The new benefit tier will lower the ongoing employer cost in the future; however, it will take many years to unfold. Costs are developed as a level percentage of payroll, so the dollar amount of contributions will increase in future years. The court fees will assumedly remain the same. No additional State contribution is required at this time. Additional State contributions may be needed at some point in the future, depending on how actual experience unfolds.

B. Banister presented the Patrol plan valuations. He stated a significant contribution shortfall continues to exist – 9.59% of pay in the 2015 valuation. Additional State contributions will be necessary if funding goals are to be met in the future. If additional State contributions are not made, the funded ratio will decline. An additional State contribution of \$2.7 million is required.

In the School plan valuations, B. Banister reported favorable experience on both assets and liabilities. There was an increase in the funded ratio and the contribution margin. No additional State contribution is needed for FY 2016. The impact of Tier 2 will be realized over time as more members and payroll reside in Tier 2. At this time, 15% of active members are covered by Tier 2. Tier 2 members account for 9% of the total active payroll. It will take some time before the effects of Tier 2 will be substantially noticed. The funding outlook is positive. No additional State contribution is required.

When asked about the assumed rate of return of other state retirement systems, P. Beckham stated, based on NASRA reports, the majority of systems have rates between 7% and 8%. She commented that the inflation assumption may be causing assumed rates to be reduced. She stated the results of the experience study, scheduled to be done in 2016, will assist the PERB in determining if changes should be made in Nebraska's assumed rate.

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

Agenda Item 6 – Third Quarter 2015 Performance Report for Retirement Plans and Capital Market Assumptions: M. Comstock provided the Third Quarter 2015 Performance Review for all plans, as of September 30, 2015. The report included asset allocation and performance, actual versus policy allocation, plan sponsor peer group analysis, total fund attribution, a watch list, and a list of benefit fees.

He commented on the drop in performance in the last quarter, stating concerns about China's slowing growth weighed heavily on markets. China devalued their currency, which affected the equity market significantly in August. The market has shown improvement in the beginning of the 4th quarter.

M. Kotary discussed Aon Hewitt's capital market assumptions. He presented current expected investment returns and risk assumptions for periods of 10 and 30 years, along with alternative asset allocation policy scenarios. Based on a recent Horizon Actuarial survey of capital market assumptions from 29 independent investment advisors, AON Hewitt projections appear to be slightly conservative compared to those of other consultants. He commented that the biggest difference between the forward looking return projections of an actuarial consultant and an investment consultant tends to be the assumed rate of inflation.

Copies of the reports are available from the NIC office.

Recess: The joint meeting adjourned at 10:28 a.m. M. Walden-Newman left the meeting to attend the NIC meeting at this time. The regular PERB meeting reconvened at 10:49 a.m.

Agenda Item 7 – Approval of Minutes: J. Elliott moved to approve the minutes of the October 19, 2015, Board meeting. K. Ackerman seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, R. Ecklund, J. Elliott, and R. Wassinger. Against: None. Motion carried.

Agenda Item 8– Approval of Budget Status Report & October 2015 Retirement Report: R. Ecklund moved to approve the Budget Status Report and the October 2015 Retirement Report. J. Elliott seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, R. Ecklund, J. Elliott, and R. Wassinger. Against: None. Motion carried.

Agenda Item 9– Public Comments or Correspondence from Citizens: Bob Wickersham was present and expressed his concern that the assumed rate of 8% is too high. He believes the assumed rate should be lowered.

Agenda Item 10 – Actuarial Reports and Projections – School, Judges, and State Patrol Plans: P. Beckham presented Actuarial Valuation Results as of July 1, 2015. Compared to the previous report during the Joint Meeting, this report includes member data and the change in the unfunded actuarial accrued liability (UAAL) for each plan. P. Beckham and B. Banister reviewed the additional information.

P. Beckham pointed out there are no new Judges in the new tier, which started July 1, 2015. Without the passage of LB 468, an additional State contribution of around \$480,000 would have been required. No additional state contribution is required for the Judges plan in the short term.

B. Banister pointed out active membership in the Patrol plan is up with the two new classes. Last year there were no new classes.

B. Banister reported a substantial reduction in the unfunded liability for the School plan. Short term projections indicate no additional State contributions will be required.

P. Beckham suggested the PERB begin discussions about developing a policy regarding a contingency or rate stabilization reserve.

R. Ecklund moved to approve the Actuary Reports and Projections. J. Elliott seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, R. Ecklund, J. Elliott, and R. Wassinger. Against: None. Motion carried.

Agenda Item 11– Legislative/Legal Update: O. Hill reported that he and P. Chambers met with member groups from the School and Patrol plans and meetings with the legal counsel of the Legislative Retirement Committee. The three pieces of proposed legislation discussed at the last PERB meeting have been reviewed by the Office of Revisor of Statutes. Some revisions were suggested for the proposed legislation dealing with the PERB rotation schedule. He plans to have another PERB Legislative Committee meeting prior to the December PERB meeting.

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

Agenda Item 12 – Director’s Report: P. Chambers thanked P. Beckham, B. Banister, and R. Gerke for their extra work on the valuation reports. She thanked V. Huber for her assistance preparing for the Joint Meeting.

P. Chambers stated she and the actuaries were scheduled to meet with Governor Ricketts that afternoon and the actuaries will present their report to the Legislative Retirement Committee on Wednesday, November 18, 2015.

P. Chambers reported NPERS’ Education Services department has completed the State and County seminars. Due to the increased demand for retirement seminars, two seminars were added in Lincoln this fall.

She reported the record keeper request for proposals (RFP) was released on October 5, 2015. Approximately 115 questions were submitted and have been answered. The answers are ready to send to purchasing. Vendor proposals are due on December 30, 2015.

P. Chambers presented information on Nebraska’s Cash Balance plan at the Conference of Consulting Actuaries Annual Meeting in October.

K. Ackerman moved to approve the Director’s Report. J. Derr seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, R. Ecklund, J. Elliott, and R. Wassinger. Against: None. Motion carried.

Agenda Item 13 – Board Committee Reports: There were no reports.

Agenda Item 14 – Board Education/Travel Requests: There were no requests.

Agenda Item 15 – Future Meetings/Agendas: R. Wassinger referred the board members to a draft of proposed PERB meeting dates for 2016, which was included in their meeting materials. The Board will vote on the 2016 calendar at the next meeting.

The next meeting will be held on Monday, December 21, 2015, in the 1526 Building, 1526 "K" Street, Conference Room 4-D, Lincoln, Nebraska.

Agenda Items 16 and 17 – Executive Session: At 11:48 a.m., R. Ecklund moved that the Board exit Regular Session and convene in Executive Session for the purpose of discussing Disability Applications for Retirement Nos. 155456, 148343, 176532, and 131022; personnel matters, and other legal matters. K. Ackerman seconded the motion. R. Wassinger repeated the motion for the record. Members voted as follows: For: K. Ackerman, J. Derr, R. Ecklund, J. Elliott, and R. Wassinger. Against: None. Motion carried.

At 1:14 p.m., J. Elliott moved that the Board exit Executive Session and reconvene in Regular Session. J. Derr seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, R. Ecklund, J. Elliott, and R. Wassinger. Against: None. Motion carried.

J. Derr moved that the Board approve the Disability Applications of Retirement Nos. 155456 and 148343; approve the Disability Application of Retirement No. 131022, to be reexamined in 1 year; and to deny the Disability Application of Retirement No. 176532. R. Ecklund seconded the motion. Members voted as follows: For: K. Ackerman, J. Derr, R. Ecklund, J. Elliott, and R. Wassinger. Against: None. Motion carried.

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

The meeting adjourned at 1:16 p.m.



Phyllis G. Chambers
Director