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PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

November 21, 2016

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 21, 2016, 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 Tuesday, November 15, 2016. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, November 14, 2016. R. Ecklund chaired the meeting and V. Huber recorded the minutes.

MEMBERS PRESENT:

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

NONMEMBERS PRESENT:

PHYLLIS CHAMBERS Director	RANDY GERKE Deputy Director
GAIL WERNER-ROBERTSON Nebraska Investment Council	ORRON HILL Legal Counsel
DR. RICHARD DEFUSCO Nebraska Investment Council	JACK HARDY IT Manager
KEITH OLSON Nebraska Investment Council	PATTY PIERSON Retirement Plan Supervisor
JOHN DINKEL Nebraska Investment Council	NANCY REIMER Ameritas
JOHN CONLEY Nebraska Investment Council	CECELIA CARTER Omaha School Employees Retirement System
DON STENBERG State Treasurer	JOE JURICH Nebraska Investment Council
CHRIS HEINRICH NIC Legal Counsel	KATHY DAWES Nebraska Investment Council

JOLYNN WINKLER
Nebraska Investment Council
JEREMIAH GARBER
Nebraska Investment Council
JOE SPITZNOGEL
Nebraska Investment Council
CHRIS SANDERS
Nebraska Investment Council
JOYCE SCHLAUTMAN
Nebraska Investment Council
JENNIFER HATFIELD
Nebraska Investment Council
RACHEL BIAR
State Treasurer's Office
JOHN SCHEMBARI
Kutak Rock
CHERYL WOLFF
Governor's Policy Research Office
PAT BECKHAM
Cavanaugh Macdonald Consultants
BRENT BANISTER
Cavanaugh Macdonald Consultants
MAX KOTARY
Aon Hewitt
JOHN SULLIVAN
Aon Hewitt
DAVID ROSE
Aon Hewitt
KATE ALLEN
Legislative Retirement Committee

SENATOR MARK KOLTERMAN
Legislative Retirement Committee
GARY BUSH
AS- Budget Office
ZACH WELLS
State Auditor's Office
JASON HAYES
Nebraska State Education Association
AL KOONTZ
Nebraska State Education Association
DON WESLEY
County Judges
ERIC ASBOE
Nebraska Supreme Court
MATT SCHAEFER
Mueller Robak LLC
DEAN GRESS
IT Senior Application Developer
VICKI HUBER
Administrative Assistant
STEVE MILES
Retirement Specialist
JACK PEETZ
Peetz and Company
MARTIN COSTELLO
State Patrol Retiree
MARTHA STODDARD
Omaha World Herald

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. Ecklund 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, E. Stuhr, J. Elliott, R. Ecklund, D. Leonard, K. Ackerman, J. Derr, P. Lancaster, and M. Walden-Newman. Absent: None.

Agenda Item 4 – Introductions and Comments by Chairpersons: G. Werner-Robertson provided an update on the NIC's 2016 activity. She reported, as of June 30, 2016, the NIC manages \$38.1 billion in assets. She reported defined benefit performance for FY 16 was 1.6%. Investment returns met or beat their benchmark in all periods; ranking high with its peers.

She welcomed new Council member, Keith Olson, who joined the Council in January; replacing John Maginn.

G. Werner-Robertson reported staff completed a review of the Global Equity portfolio and is currently reviewing the US & International Equity and DC plans. Two new managers were hired and two were dismissed.

She reported the Treasurer launched EnABLE; a tax-deferred savings account program for individuals with disabilities.

The transition is in process to transfer the \$1.2 billion assets of the Omaha School Employees Retirement plan to the Council, effective January 1, 2017.

R. Ecklund introduced new PERB member, Pamela Lancaster, who joined the PERB in April 2016. She replaced Richard Wassinger; representing the County plan.

He reported NPERS and the PERB had an outstanding year. Public audits reported only one audit point for the State and County plans and no audit points for the School, Judges and Patrol plans. The agency continues to see high volumes of retirement activity. Year-to-date, as of October 2016, NPERS processed 1,600 annuity retirements; 5,673 refunds, rollovers, and RMDs; held 2,240 office visits; and answered 35,180 phone calls. NPERS paid out an average of \$42.5 million per month in benefits to 22,062 members.

NPERS issued an RFP for the State, County, DCP, and DROP record keeper and consulting services and selected Ameritas. The 5-year contract became effective October 1, 2016.

The actuaries completed the 2016 Experience Study and the PERB adopted their recommendations; including lowering the investment return assumptions to 7.5% for the defined benefit (DB) and cash balance (CB) plans. The changes in assumption rates will be effective July 1, 2017, for the DB plans and January 1, 2018, for the CB plans.

NPERS is working on a project to convert all of its historical records into digital format. Records formerly in books/ledgers, microfilm, and microfiche are being converted to digital format for the agency's information system.

R. Ecklund reported that NPERS has worked with the Legislative Retirement Committee, drafting legislation, testifying at hearings, and implementing new legislation. A second tier of benefits was added for new hires in the Patrol plan, which was effective July 1, 2016.

NPERS staff completed a Beneficiary project; entering beneficiary data into the information system. Now all beneficiary information is in electronic format for all of the plans.

R. Ecklund announced he would be retiring from the PERB at the end of the year. He thanked the following people for contributing to the success of NPERS and the PERB: P. Beckham and B. Banister, the State Auditors, Ameritas, the Retirement Committee, Senator Kolterman, Kate Allen, the Appropriations Committee, Kathy Tenopir, the Governor, Gary Bush, Cheryl Wolff, the NIC, AON Hewitt, Mike Dulaney, Jason Hayes, and Director P. Chambers.

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

Patrol Plans: P. Beckham and B. Banister provided actuarial valuation results for the School, Judges, and Patrol defined benefit plans, as of July 1, 2016. Results are based on the current set of assumptions including the 8% investment return assumption. The recommended assumptions from the 2016 Experience Study are effective with the 2017 valuation, so were not reflected in the current valuation results. However, the new assumption rate of 7.5% is reflected in the projections presented. The presentation included 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 7.4%, which created an actuarial loss. (2) There was an actuarial gain on liabilities due to a lower COLA of 0.64%, actually granted, rather than the expected 2.5%. (3) Funded ratios improved slightly, on an actuarial value of assets basis. As of June 30, 2016, the School plan funded ratio was 90%, the Judges plan funded ratio was 98%, and the Patrol plan funded ratio was 89%.

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.

B. Banister commented on the Judges plan. He stated the asset return of 1.6% on market value eliminated the deferred asset gain and the plan now has a deferred loss. Costs are developed as a level percentage of payroll, so the dollar amount of contributions will increase in future years. The court fees typically are assumed to remain the same. An additional State contribution of \$118,714 is required at this time.

P. Beckham presented the Patrol plan valuations. She stated a significant contribution shortfall continues to exist – 9.14% of pay in the 2016 valuation; down from 9.59% last year. An additional State contribution of \$2.5 million is required, payable July 1, 2017.

In the School plan valuations, P. Beckham reported favorable experience on liabilities and contributions above the actuarial rate. There was an increase in the funded ratio and the contribution margin. The impact of Tier 2 will be realized over time as more members and payroll reside in Tier 2. At this time, 22% of active members are covered by Tier 2. Tier 2

members account for 15% of the total active payroll. The funding outlook is positive. No additional State contributions are expected for the next few years.

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

G. Werner-Robertson thanked the PERB for their work on the rate of return assumption.

Agenda Item 6 – Capital Market Assumptions: M. Kotary reported on Aon Hewitt's capital market assumptions. He presented current expected investment returns and volatility as of June 30, 2016, for periods of 10 and 30 years. His report states that lowering the actuarial assumed rates for the DB and CB plans increases the probability that rates will be achieved; however, given the existing market conditions, meeting or exceeding 7.5% is still likely to prove challenging. Base on their capital market assumptions and the DB plans' asset allocation targets, the DB plans have about a 1 in 3 chance of meeting or exceeding the assumed rate of return of 7.5% over the next 10-to-30 years.

He commented that the NIC has always been conscientious that managers' fees are kept low. Comparatively, the NIC fees are about 20 basis points lower than its peers.

G. Werner-Robertson commented that Nebraska's plans are better funded than many others.

Copies of the report are available from the NIC office.

Recess: The joint meeting adjourned at 9:55 a.m. M. Walden-Newman left the meeting to attend the NIC meeting at this time. The regular PERB meeting reconvened at 10:14 a.m.

Agenda Item 7 – Approval of Minutes: D. Leonard moved to approve the minutes of the October 17, 2016, Board meeting. E. Stuhr seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, R. Ecklund, J. Elliott, P. Lancaster, D. Leonard, and E. Stuhr. Against: None. Motion carried.

Agenda Item 8 – Approval of Budget Status Report & October 2016 Retirement Report: D. Blank moved to approve the Budget Status Report and the October 2016 Retirement Report. K. Ackerman seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, R. Ecklund, J. Elliott, P. Lancaster, D. Leonard, and E. Stuhr. Against: None. Motion carried.

Agenda Item 9 – Public Comments or Correspondence from Citizens: Martin Costello was present. He stated he is currently the retired representative to the executive board of the State Troopers Association of Nebraska. He explained he was present to follow-up on his request at the October meeting, for NPERS to consider offering a pre-tax deduction of health insurance premiums from monthly retirement benefits paid to State Patrol retirees. He mentioned 18 states offer the pre-tax deduction. He offered to answer any questions from the Board. R. Ecklund stated the committee assigned to his request is scheduled to report on their findings during Agenda Item 13.

Agenda Item 10 – State and County Audit Report: Z. Wells was present, representing the State Auditor's Office. He reported finishing the State and County audit for the period of January 1, 2015, through December 31, 2015. He reported NPERS received an unmodified opinion; with one comment/recommendation listed in the report, which was issued on November 2, 2016. He stated the comment was a unique circumstance and has been corrected. No member accounts were affected.

D. Leonard moved to approve the State and County Audit Report. P. Lancaster seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, R. Ecklund, J. Elliott, P. Lancaster, D. Leonard, and E. Stuhr. Against: None. Motion carried.

Agenda Item 11 – Actuarial Reports and Projections – School, Judges, and State Patrol Plans: P. Beckham and B. Banister presented Actuarial Valuation Results as of July 1, 2016. Compared to the previous report from 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.

It was noted that no additional State contribution is predicted for the School plan until 2020.

P. Chambers commented that the Legislature has been very active in making changes to the defined benefit plans; adding a second tier for the School, Judges and Patrol plans. The actuaries will do an experience study every 4 years and assumptions will be adjusted as needed. She stated it has been a group effort and thanked the Legislature for moving forward to make the retirement plans sustainable.

P. Beckham pointed out that AON Hewitt is using a lot lower inflation rate than the actuaries.

D. Blank commented that a benefit adequacy study by the actuaries will assist in making sure the members receive the benefits they expect from the plan.

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

Agenda Item 12 – Change in Asset Charges – State Defined Contribution Plan, County Defined Contribution Plan, and Deferred Compensation Plan: R. Gerke explained asset charges (fees) are based on assets and are used to pay operating expenses allocated for the respective plans. The fees have not been adjusted since January 2015. He requested the Board approve changing plan asset fees as follows: increase the State Deferred Compensation Plan (DCP) asset charges from 5.5 to 6 basis points; increase the State Defined Contribution (DC) Plan asset charges from 1.5 to 4 basis points; and decrease the County DC Plan asset charges from 5.5 to 4.5 basis points. Changes would be effective December 25, 2016. All the proposed changes are based on projections for the upcoming year.

R. Ecklund pointed out that retail investment manager fees are 75 to 100 basis points.

D. Blank moved that effective December 25, 2016, the asset charges for the DCP be increased from 5.5 basis points to 6 basis points; the asset charges for the State DC plan be increased from 1.5 basis points to 4 basis points; and the asset charges for the County DC plan be decreased from 5.5 basis points to 4.5 basis points. E. Stuhr seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, R. Ecklund, J. Elliott, P. Lancaster, D. Leonard, and E. Stuhr. Against: None. Motion carried.

Agenda Item 13 – Board Committee Reports:

Regulation and Policy Review Committee: J. Elliott reported meeting via conference call on November 9, 2016, to discuss proposed revisions to Rules and Regulations, Chapter 14, Capping of Retirement Compensation and the DCP document. J. Elliott, E. Stuhr, J. Derr, O. Hill, and P. Chambers participated in the call. O Hill noted the revisions proposed for Chapter 14 are being made to comply with LB 466, passed in April 2016, which provides for capping retirement compensation in the State Patrol plan, mirroring what is already being done in the School plan. He requested the Board review the revisions provided in the meeting materials prior to the December PERB meeting, when a public hearing will be held and Board action taken after the public hearing.

P. Chambers stated legal notice has been posted in the newspapers that a rule making hearing on Chapter 14 will be held at 9:30 a.m., on December 19, 2016. The hearing will be held during the PERB meeting.

Discussions regarding proposed revisions to the DCP document were held under Agenda Item 14.

Special Committee: At the October 17, 2016, M. Costello requested NPERS to consider offering a pre-tax deduction of health insurance premiums from monthly retirement benefits paid to State Patrol retirees. A special committee (Committee) was appointed to review his request. D. Leonard and J. Derr were appointed to the Committee and O. Hill was directed to assist the Committee. On behalf of the Committee, D. Leonard reported meeting on November 7, 2016, to discuss M. Costello's request. The Committee determined that M. Costello's request would require statutory change. He pointed out that Nebraska law prohibits the PERB from requesting benefit enhancements. Therefore, the PERB cannot request this change in the plan benefit. O. Hill thanked M. Costello for the information he provided to the PERB, as it assisted the Committee in researching the matter. O. Hill compared a similar benefit for Missouri law enforcement retirees, explained the IRS code requirements, and Nebraska laws that govern the PERB and NPERS' plans. O. Hill stated, going forward, member groups would need to approach the legislature with their request. If legislation was proposed regarding this matter, NPERS and the PERB would then analyze the administrative impact it would have on the plan.

R. Ecklund thanked the committees for their reports.

Agenda Item 14 - Revise Deferred Compensation Plan Document: O. Hill reviewed the proposed revisions to the DCP plan document, included in the meeting materials.

P. Chambers explained counties cannot enter the State's DCP unless they do not have their own deferred compensation plan. Currently, there only a six counties participating in NPERS' DCP.

The PERB will vote on the proposed revisions at the December meeting.

J. Elliott asked board members to submit questions on Chapter 14 or the DCP document to O. Hill or any of the Regulation and Policy Review Committee members.

It was noted that a 3-year catch-up provision is not a plan requirement by the IRS.

Agenda Item 15– Legislative/Legal Update: O. Hill thanked P. Chambers for her assistance in legislation discussions.

He reported meeting with Rex Schultze to discuss retirement eligibility of single-season coaches.

He and P. Chambers continue to work with Senator Kolterman, Kate Allen, Jason Hayes, and Mike Dulaney on retirement issues dealing with the School plan.

D. Blank left the meeting at 12:02 p.m.

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

D. Blank returned to the meeting at 12:05 p.m.

Agenda Item 16 – 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 efforts in the planning of the joint meeting.

P. Chambers stated the actuary reports were sent to the Governor and the Retirement Committee prior to the meeting, as required by law. She and the actuaries were scheduled to meet with Governor Ricketts that afternoon, and the actuaries will present the valuations to Retirement Committee the next day.

She reported NPERS finalized the agreement with the Secretary of State office to perform the scanning of NPERS' microfiche records. We are now in Phase 2 of the project and expect to be in Phase 3 next year.

P. Chambers reported NPERS' Education Services department has completed the State and County seminars. With many people on a waiting list to attend the Retirement Planning seminars, an extra seminar was added in Lincoln. Four Financial Management seminars were held this year, with 122 in attendance. Three of Financial Management seminars were cancelled for lack of the minimum number of registrations. With the decreasing registrations and rising costs of conducting the Financial Management seminars, P. Chambers and John

Winkelman met to discuss whether or not to continue offering them. She explained the Financial Management seminars were created with the intent to provide financial education for State and County members managing their investments in the DC plan. Currently, 85% of the State and County members are in the CB plan. The cost for conducting these seminars is four times the cost of NPERS' other seminars. Participants now have a greater number of resources for investment education than were available when the seminars were first created. She reported sending a letter to Senator Kolterman expressing NPERS' concern with the cost effectiveness of continuing to offer Financial Management seminars. The Financial Management seminars were authorized by State Law in 1991; therefore, a change would have to be made by the Legislature.

She reported the NIC has been reviewing the investment options offered to DC, DCP, and DROP participants. She will be meeting with M. Walden-Newman and Jolynn Winkler to discuss any possible changes.

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

Agenda Item 17 – Employee Recognition: The State of Nebraska annually honors employees for their exceptional service with the Employee of the Year award. P. Chambers stated NPERS staff selected two Employees of the Year. She announced Vicki Huber and Steve Miles as this year's honorees.

P. Chambers gave a brief background of each recipient's outstanding work within the agency. R. Ecklund presented both honorees with a framed certificate.

The Board took a break from 12:22 p.m. to 12:40 p.m.

Agenda items 18 and 19 were addressed out of order following Executive Session.

Agenda Items 20 – Executive Session: At 12:40 p.m., D. Blank moved that the Board exit Regular Session and convene in Executive Session for the purpose of discussing Disability Applications for Retirement Nos. 441106, 137362, 603880, and 109333; Case Review Nos. A-16-1, A-16-2, and A-16-3; personnel matters; and other legal matters. D. Leonard seconded the motion. R. Ecklund repeated the motion for the record. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, R. Ecklund, J. Elliott, P. Lancaster, D. Leonard, and E. Stuhr. Against: None. Motion carried.

At 2:37 p.m., P. Lancaster moved that the Board exit Executive Session and reconvene in Regular Session. E. Stuhr seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, R. Ecklund, J. Elliott, P. Lancaster, D. Leonard, and E. Stuhr. Against: None. Motion carried.

Agenda Item 18 – Board Education/Travel Requests: J. Elliott was elected to a three-year term on the Executive Committee for the National Council on Teacher Retirement (NCTR), in

October 2016. She requested permission to attend the NCTR Executive Committee meeting on December 9, 2016, in Tucson, Arizona. She did not request expenses for her travel.

E. Stuhr moved to approve J. Elliott's request for travel to the NCTR Executive Committee Meeting on December 9, 2016, with no expense to the Board. D. Blank seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, R. Ecklund, P. Lancaster, D. Leonard, and E. Stuhr. Abstain: J. Elliott. Against: None. Motion carried.

Agenda Item 19 – Future Meetings/Agendas: P. Chambers referred the board members to a draft of proposed PERB meeting dates for 2017, which was included in their meeting materials.

J. Elliott moved to approve the proposed 2017 calendar. E. Stuhr seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, R. Ecklund, J. Elliott, P. Lancaster, D. Leonard, and E. Stuhr. Against: None. Motion carried.

The next meeting will be held on Monday, December 19, 2016, in the 1526 Building, 1526 "K" Street, Conference Room 4-D, Lincoln, Nebraska.

Agenda Item 21 – Board Action on Executive Session Topics: D. Blank moved for approval of the Disability Applications of Retirement Nos. 441106, 603880, and 109333. D. Leonard seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, R. Ecklund, J. Elliott, P. Lancaster, D. Leonard, and E. Stuhr. Against: None. Motion carried.

D. Blank moved to deny the Disability Application of Retirement No. 137362. D. Leonard seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, R. Ecklund, J. Elliott, P. Lancaster, D. Leonard, and E. Stuhr. Against: None. Motion carried.

D. Leonard moved to suspend the member's monthly retirement benefit in Case No. A-16-3; pending the member's response and justification. J. Elliott seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, R. Ecklund, J. Elliott, P. Lancaster, D. Leonard, and E. Stuhr. Against: None. Motion carried.

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

The meeting adjourned at 2:45 p.m.



Phyllis G. Chambers
Director