



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](http://npers.ne.gov)

## **PUBLIC EMPLOYEES RETIREMENT BOARD MEETING**

November 20, 2017

8:30 A.M.

A joint meeting of the Public Employees Retirement Board and the Nebraska Investment Council convened at 8:32 a.m., Monday, November 20, 2017, at the Cornhusker-Marriott Hotel, Arbor Room, 333 South 13th Street, Lincoln, Nebraska.

The Board members were notified of this meeting by the Agenda posted on the PERB SharePoint website on Thursday, November 9, 2017. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, November 13, 2017. J. Elliott chaired the meeting and M. Nuss recorded the minutes.

### **MEMBERS PRESENT:**

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

### **NONMEMBERS PRESENT:**

RANDY GERKE Director	JACK HARDY IT Manager
GAIL WERNER-ROBERTSON Nebraska Investment Council	TERESA ZULAUF Controller
DR. RICHARD DEFUSCO Nebraska Investment Council	JOHN WINKELMAN Public Information Officer
KEITH OLSON Nebraska Investment Council	NANCY REIMER Ameritas
JOHN DINKEL Nebraska Investment Council	CECELIA CARTER Omaha School Employees Retirement System
JOHN CONLEY Nebraska Investment Council	JOE JURICH Nebraska Investment Council
DON STENBERG State Treasurer	KATHY DAWES Nebraska Investment Council
CHRIS HEINRICH NIC Legal Counsel	JOLYNN WINKLER Nebraska Investment Council

JEREMIAH GARBER  
Nebraska Investment Council  
JOE SPITZNAGEL  
Nebraska Investment Council  
CHRIS SANDERS  
Nebraska Investment Council  
JOYCE SCHLAUTMAN  
Nebraska Investment Council  
JENNIFER HATFIELD  
Nebraska Investment Council  
PAT BECKHAM  
Cavanaugh Macdonald Consultants  
BRENT BANISTER  
Cavanaugh Macdonald Consultants  
MAX KOTARY  
Aon Hewitt  
MIKE COMSTOCK  
Aon Hewitt  
KATE ALLEN  
Legislative Retirement Committee  
NEIL SULLIVAN  
AS- Budget Office  
GARY BUSH  
AS- Budget Office  
JOHN ROBINSON III  
Kiewit  
DON ERICKSON  
Omaha School Employees Retirement System

KATHY TENOPIR  
Legislative Fiscal 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  
MELISSA NUSS  
Administrative Assistant  
MARIA DAVIS  
Retirement Specialist  
MITCH SNYDER  
Retirement Specialist  
MARTHA STODDARD  
Omaha World Herald  
SCOTT GOLDBERG  
Pacific A.M.  
BOB WICKERSHAM  
Member of Public

**Joint Meeting with the Nebraska Investment Council:**

**Agenda Items 1, 2 and 3:** At 8:32 a.m., Nebraska Investment Council (NIC) Chairperson, G. Werner-Robertson, called the NIC Meeting to order. J. Elliott 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, J. Schulz, 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 2017 activity. She reported, as of June 30, 2017, the NIC manages \$25.4 billion in assets. She reported defined benefit performance for FY 17 was

13.7%. Investment returns met or beat their benchmark in all periods; ranking high with its peers.

She welcomed Cecelia Carter from Omaha School Employees Retirement Systems (OSERS) and Randy Gerke as new Council members. She welcomed reappointed Council member Richard DeFusco.

G. Werner-Robertson reported staff were near review completion of the US, International, and Global Equity portfolios, are launching a review of the DC plan investment lineup, and have begun opportunistic credit possibilities. One Global Equity manager was replaced. There were four new managers hired to Private Equity, and two additional Real Estate managers were hired.

Aon Hewitt was retained as a consultant after a request for proposal (RFP) and national search.

The NIC assumed the OSERS portfolio on January 1, 2017. In February of 2017, the Council approved the long-term transition plan of assets, with over 2/3 of the assets transitioned in 2017. Cooperative efforts between OSERS and the Council during transition, and OSERS staff and trustees since the transition, was commended.

NIC staff received an international design award for NIC website redesign.

Michael Walden-Newman was congratulated for being named as one of the top Chief Investment Officer's in the nation, and there was acknowledgment of the contribution of everyone involved in making the NIC successful.

J. Elliott provided an update on NPERS and the PERB. She acknowledged Phyllis Chamber's retirement and the national search for a new NPERS Director, with Randy Gerke being named as the new Director.

The PERB had another outstanding year, with dividends awarded to State and County Cash Balance members totaling over \$37 million. Over the past year, benefits activity included: 1,825 new retiree benefits, 5,224 refund disbursements, 2,273 office visits and walk-ins, and 44,699 phone calls answered. Data services activity included: 350,416 records scanned, nearly 200,000 pieces of mail handled, 6,098 files purified, and approximately 36,000 workflow processes performed.

Implementation of LB 415, which included changes to all plans, has begun. Changes due to LB 415 include: changes in mortality tables, changes for military service provisions, clarification of disability and breaks in service definitions, and a change in the Rule of 85 for the School plan.

The scanning project is nearly complete and is well under budget.

Audits of the plans for the past year have been without comments.

J. Elliott extended thanks to the following people for contributing to the success of NPERS and the PERB: Pat Beckham and Brent Banister of Cavanaugh Macdonald; Charlie Jansen and Zach Wells, State Auditors; Nancy Reimers, Mary Klug, and Ben Mattern, of Ameritas; the Governor's staff: including Gerry Oligmueller, Budget Director, Gary Bush and Neil Sullivan, Budget Analysts, and Cheryl Wolf from the Policy Research Office. J. Elliott thanked the Legislative Retirement Committee and the work done with NPERS to draft and implement new legislation. She acknowledged Kate Allen, the Retirement Committee's Legal Counsel, and Kathy Tenopir, at the Legislative Fiscal Office. She concluded her opening remarks by thanking the NPERS staff for their hard work over the last year.

**Agenda Item 5 – 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, 2017, for periods of 10 and 30 years. His report states that lowering the actuarial assumed rates for the defined benefit (DB) and cash balance (CB) plans from 8% to 7.5% increases the probability that rates of return will be achieved; however, given the existing market conditions, meeting or exceeding 7.5% is still likely to prove challenging.

Base on Aon Hewitt's 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. The rate-of-return expectations could increase if improvement is seen in GDP growth, dividend yields, and real bond yields.

Copies of the report are available from the NIC office.

**Agenda Item 6 – 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 DB plans, as of July 1, 2017. 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.

There were no changes to actuarial methods. Plan provisions did experience changes due to LB 415. All systems now grant the PERB the authority to set actuarial assumptions for optional forms of payments for members hired after July 1, 2017. This does not impact valuation results. The School plan has a new tier, effective July 1, 2018, with a modified Rule of 85 which states a minimum retirement age of 60. The Judges plan increased court fees, effective July 1, 2017, from \$4 to \$6.

Assumption changes from the 2016 Experience Study are first reflected in the 2017 valuations. Further assumption changes affecting all three plans include:

- Inflation lowered from 3.25% to 2.75,
- Investment return lowered from 8.00% to 7.50%,
- Cost of living adjustment decreased from 2.50% to 2.25% for Tier 1,
- Interest on member contributions decreased from 4.25% to 3.00%,
- Individual salary increase assumption decreased by 0.50%,

- Payroll growth assumption was lowered from 4.00% to 3.50%, and
- Mortality was updated and moved to a generational approach to anticipate future improvements.

General findings of the report were: (1) The actual FY 2017 return of 13.8% on the market value of assets produced an actuarial gain on assets, (2) There was an actuarial gain on liabilities due to a lower COLA of 1.5%, actually granted, rather than the expected 2.5%, and (3) Reflecting the new set of actuarial assumptions, funded ratios depressed slightly, on an actuarial value of assets basis. As of July 1, 2017, the School plan funded ratio was 87%, the Judges plan funded ratio was 94%, and the Patrol plan funded ratio was 85%.

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 reported on the Judges plan. She stated the most significant impact on the valuation was the change in assumptions. The unfunded actuarial accrued liability is now \$12 million. 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, but there was an increase effective July 1, 2017, estimated to be \$4.1 million in FY 2018. There are no future scheduled increases. An additional State contribution of \$667,613 is required for the Judges plan.

B. Banister presented the Patrol plan valuations. He stated the most significant impact on the valuation was the change in assumptions. A contribution shortfall exists at 15.15% of pay in the 2017 valuation; up from 9.14% in 2016. An additional State contribution of \$4.3 million is required for the Patrol plan.

In the School plan valuations, B. Banister reported assumptions changes had significant impact, despite favorable experience and contributions above the actuarial rate. There was a decrease in the funded ratio and the contribution margin. The impact of new benefit tiers will unfold over time as more members and payroll reside in those lower cost tiers. The funding outlook is positive, even with the impact of the new set of assumptions. There are no additional State contributions required for the School plan.

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

**Recess:** The joint meeting adjourned at 9:49 a.m. M. Walden-Newman left the meeting to attend the NIC meeting at this time. The regular PERB meeting reconvened at 10:07 a.m.

**Agenda Item 7 – Approval of Minutes:** D. Blank moved to approve the minutes of the October 16, 2017, Board meeting. E. Stuhr seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, J. Elliott, P. Lancaster, D. Leonard, J. Schulz, and E. Stuhr. Against: None. Motion carried.

**Agenda Item 8 – Approval of Budget Status Report & October 2017 Retirement Report:**

E. Stuhr moved to approve the Budget Status Report and the October 2017 Retirement Report. J. Schulz seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, J. Elliott, P. Lancaster, D. Leonard, J. Schulz, and E. Stuhr. Against: None. Motion carried.

**Agenda Item 9 – Public Comments or Correspondence from Citizens:** There were no public comments or correspondence from citizens with business not scheduled on the agenda.

**Agenda Item 10 – Actuarial Reports and Projections – School, Judges, and State Patrol**

**Plans:** P. Beckham and B. Banister presented actuarial valuation results as of July 1, 2017. 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.

P. Beckham reported on the new Actuarial Standard of Practice (ASOP 51) on assessment and disclosure of risk. ASOP 51 applies to funding valuations and pricing of proposed plan changes, and could result in the potential of actual future measurements deviating from expected results due to actual experience differing from the actuarial assumptions. The effective date for School, Patrol, and Judges is July 1, 2019. P. Beckham presented an example of how ASOP 51 might impact the plans.

P. Beckham and B. Banister commented on current public plan issues. The Society of Actuaries is developing mortality tables based on public plan data. There is a continued shift toward lower investment return assumptions. The Actuarial Standards Board is considering requiring the disclosure of “solvency value” in valuation reports.

The vote to approve the actuarial reports was taken out of order after Agenda Item 16.

**Agenda Item 11 – Director’s Report:** R. Gerke stated that Vicki Huber, NPERS Personnel Officer, and Hallie Yousif, Department of Administrative Services Human Resources Analyst, interviewed candidates for the NPERS Controller position. R. Gerke announced Teresa Zulauf as the new Controller and thanked her for the assistance she has provided in the role. He announced that the Internal Auditor position will now need to be filled. The Internal Auditor is hired by the PERB, and R. Gerke requested a meeting with the PERB Budget and Personnel Committee to discuss that planning. The Budget and Personnel Committee members are: Denis Blank, Chair; Kelli Ackerman; and Jim Schulz. R. Gerke announced a staff opening in the mailroom for which NPERS is currently receiving applications.

R. Gerke updated the PERB on the Budget Deficit Request, which was submitted October 23, 2017, for a Benefit Adequacy Study and an employee retirement payout. He stated that the Benefit Adequacy Study is an informational tool to support plan members’ knowledge and planning for retirement. He stated a decision would most likely come after the turn of the year.

R. Gerke reported, in Orron Hill's absence, that the Agency Rule and Regulations Review Reports were submitted to the Governor's office ahead of the November 15, 2017, deadline.

R. Gerke reported that he and Dennis Rohren completed a detailed review of the actuarial reports. He thanked P. Beckham for the work Cavanaugh Macdonald has done.

MassMutual notified NPERS one of the funds currently available to members of the Defined Contribution plan would be discontinued. This fund affected five plan members. MassMutual sent letters to members informing them of the fund discontinuation.

R. Gerke reported on over payments of benefits after a lack of notification to NPERS of member's deaths. After procedural steps were followed to reclaim those funds, uncollectable amounts were presented to the State Claims Board for consideration.

R. Gerke updated the PERB on several agency projects, including the creation of cost saving communal printing areas. He reported on the progress of the state FuzioN project, and commented on the State Auditor's concern regarding electronic time entry implementation for the project. V. Huber, Dennis Cooper, and D. Rohren are attending validation meetings concerning the FuzioN project. R. Gerke commented on a project concerning both low balance accounts and undeliverable low balance accounts, and the process to locate members and clean up the files. V. Huber and O. Hill are working on NPERS policy updates.

R. Gerke met with Cecelia Carter regarding transfers and reporting issues for OSERS.

He met with Nancy Reimers, of Ameritas, regarding the addition of beneficiary information on member statements, dividend reporting, and Ameritas' two-step authentication process enacted for security measures.

R. Gerke commented that NPERS will continue cost control measures to support the October 27, 2017, Governor's memo regarding spending restraint.

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

**Agenda Item 12 – Board Education/Travel Requests:** There were no requests. J. Elliott notified the PERB she would be attending an executive meeting of the National Council on Teacher Retirement (NCTR) in Denver, on December 7, 2017, at no expense to the PERB.

**Agenda Item 13 – Future Meetings/Agendas:** J. Elliott referred the board members to a draft of proposed PERB meeting dates for 2018, which was included in the meeting materials. She requested the PERB return to this agenda item after Executive Session.

The next meeting will be held on Monday, December 18, 2017, in the 1526 Building, 1526 "K" Street, Conference Room 4-D, Lincoln, Nebraska.

**Agenda Item 14 – Board Committee Reports:** D. Blank, Chair of the Budget and Personnel Committee, reported that the committee is working with R. Gerke regarding the Internal Auditor position.

The Government Employer Review Committee, an ad hoc committee which has not met, was re-appointed by J. Elliott to include the following members: J. Schulz, J. Derr, and D. Leonard. She appointed J. Schulz as the Chair.

**Agenda Items 15 – Executive Session:** At 11:41 p.m., D. Blank moved that the Board exit Regular Session and convene in Executive Session for the purpose of discussing applications of Plan Members and Legal Matters: Case No. D-17-12; Prevention of Needless Injury to the Reputation of an Individual, Personnel Matters; Protection of Public Interest, Prevention of Needless Injury to the Reputation of an Individual, and Update on Pending Legal Matters; Protection of Public Interest. D. Leonard seconded the motion. J. Elliott repeated the motion for the record. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, J. Elliott, P. Lancaster, D. Leonard, J. Schulz, and E. Stuhr. Against: None. Motion carried.

At 12:57 p.m., E. Stuhr moved that the Board exit Executive Session and reconvene in Regular Session. D. Leonard seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, J. Elliott, P. Lancaster, D. Leonard, J. Schulz, and E. Stuhr. Against: None. Motion carried.

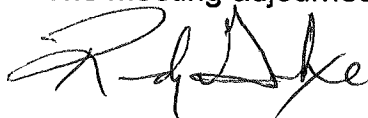
**Agenda Item 16 – Board Action on Executive Session Topics:** D. Blank moved for approval of Case Review No. D-17-12. K. Ackerman seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, J. Elliott, P. Lancaster, D. Leonard, J. Schulz, and E. Stuhr. Against: None. Motion carried.

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

D. Leonard moved to approve the proposed 2018 meeting calendar. J. Schulz seconded the motion. Members voted as follows: For: K. Ackerman, D. Blank, J. Derr, J. Schulz, J. Elliott, P. Lancaster, D. Leonard, and E. Stuhr. Against: None. Motion carried.

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

The meeting adjourned at 1:01 p.m.



Randy Gerke  
Director