Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

GASB STATEMENT NO. 68 REPORT

FOR THE

NEBRASKA PUBLIC EMPLOYEES

RETIREMENT SYSTEM

JUDGES RETIREMENT SYSTEM

MEASUREMENT DATE: JUNE 30, 2015

FOR STATE FISCAL YEAR ENDING: JUNE 30, 2016

www.CavMacConsulting.com

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

July 14, 2016

Public Employees Retirement Board
Nebraska Public Employees Retirement Systems
Post Office Box 94816
Lincoln, NE 68509

Dear Members of the Board:

Presented in this report is information to assist the Nebraska Public Employees Retirement System in providing information required under the Governmental Accounting Standards Board (GASB) Statement No. 68 to the State of Nebraska for the Judges Retirement System. GASB Statement No. 68 establishes accounting and financial reporting requirements for governmental employers who provide pension benefits to their employees through a trust. This report, which has been prepared as of June 30, 2015, is intended for use in the State's financial reporting for fiscal year 2016. The calculations in this report have been made on a basis that is consistent with our understanding of this accounting standard (GASB 68).

The annual actuarial valuation used as the basis for much of the information presented in this report was performed as of July 1, 2015. The valuation was based upon data, furnished by the Nebraska Public Employees Retirement System staff, concerning active, inactive and retired members along with pertinent financial information. This information was reviewed for completeness and internal consistency, but was not audited by us. The valuation results depend on the integrity of the data. If any of the information is inaccurate or incomplete, our results may be different and our calculations may need to be revised. Please see the actuarial valuation report for additional details on the funding requirements for the System including actuarial assumptions and methods and the Plan's funding policy.

To the best of our knowledge, the information contained in this report is complete and accurate. Certain information about the Plan and where additional information can be found was provided by the Nebraska Public Employees Retirement System and used in this report. The calculations were performed by qualified actuaries according to generally accepted actuarial principles and practices, as well as in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board. The calculations are based on the current provisions of the System, and on actuarial assumptions that are internally consistent and individually reasonable based on the actual experience of the System. In addition, the calculations were completed in compliance with applicable law and, in our opinion, meet the requirements of GASB 68.

3906 Raynor Pkwy, Suite 106, Bellevue, NE 68123
Phone (402) 905-4461 • Fax (402) 905-4464
www.CavMacConsulting.com
Offices in Englewood, CO • Kennesaw, GA • Bellevue, NE

These results are only for financial reporting and may not be appropriate for funding purposes or other types of analysis. Calculations for purposes other than satisfying the requirements of GASB 68 may produce significantly different results. Future actuarial results may differ significantly from the current results presented in this report due to such factors as changes in plan experience or changes in economic or demographic assumptions.

We, Patrice A. Beckham, FSA and Brent A. Banister, FSA, are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein. We are available to answer any questions on the material contained in this report or to provide explanations or further details as may be appropriate.

Respectfully submitted,

Patrice Beckham

Brent A. Banister

Patrice Beckham, FSA, EA, FCA, MAAA	Brent A. Banister, PhD, FSA, EA, FCA, MAAA
Principal and Consulting Actuary	Chief Pension Actuary

TABLE OF CONTENTS

GASB STATEMENT NO. 68
NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEM

JUDGES RETIREMENT SYSTEM

SECTION I - SUMMARY OF PRINCIPAL RESULTS

Valuation Date (VD):	July 1, 2015
Prior Measurement Date:	June 30, 2014
Measurement Date (MD):	June 30, 2015
Membership Data:	
Retirees and Beneficiaries	179
Inactive Vested Members	6
Inactive Nonvested Members	0
Active Employees	147
Total	332
Single Equivalent Interest Rate (SEIR):	
Long-Term Expected Rate of Return	8.00%
Municipal Bond Index Rate at Prior Measurement Date	4.35%
Municipal Bond Index Rate at Measurement Date	3.82%
Year in which Fiduciary Net Position is Projected to be Depleted	N/A
Single Equivalent Interest Rate at Prior Measurement Date	8.00%
Single Equivalent Interest Rate at Measurement Date	8.00%
Net Pension Liability/(Asset):	
Total Pension Liability (TPL)	$162,095,235
Fiduciary Net Position (FNP)	160,800,009
Net Pension Liability/(Asset) (NPL = TPL – FNP)	$1,295,226
FNP as a percentage of TPL	99.20%
Pension Expense:	$850,978
Deferred Outflows of Resources:	$5,293,972
Deferred Inflows of Resources:	$10,235,355

SECTION II – INTRODUCTION

The Governmental Accounting Standards Board issued Statement No. 68 (GASB 68), *"Accounting and Financial Reporting for Pensions"* in June 2012. GASB 68's effective date for employers was the first fiscal year beginning after June 15, 2014 (fiscal year ending June 30, 2015 for the State of Nebraska). The Judges Retirement System (Plan) is a single employer defined benefit pension plan.

Paragraph 20 of GASB Statement 68 permits the measurement date of the Net Pension Liability reported by a single employer to be "as of" a date no earlier than the end of its prior fiscal year provided that the actuarial valuation used to determine the Net Pension Liability meets the timing requirements of paragraph 22 of GASB 68. This option is available to the State of Nebraska (employer) which has a fiscal year end of June 30. Since June 30 is also the fiscal year end of the Judges Retirement System, a Measurement Date of June 30, 2015 was used to determine the Net Pension Liability and Pension Expense for the employer's fiscal year ending June 30, 2016.

This report, prepared as of June 30, 2015 (the Measurement Date), presents information to assist the Judges Retirement System of the Nebraska Public Employees Retirement System in providing the required information under GASB 68 to the State of Nebraska. Much of the material provided in this report, including the Net Pension Liability/(Asset), is based on the results of the GASB 67 report for the Judges Retirement System of the Nebraska Public Employees Retirement System, which was issued January 6, 2016. See that report for more information on the member data, actuarial assumptions and methods used in developing the GASB 67 results.

GASB 68 replaces GASB 27, and represents a significant departure from the requirements of the prior statement. GASB 27 required employers providing benefits through pension plans to report items consistent with the results of the plan's actuarial valuations for funding, as long as those valuations met certain parameters. GASB 68 creates disclosure and reporting requirements that may or may not be consistent with the basis used for funding the Plan. In fact, GASB 68 paragraph 159 states:

> "The Board concluded that it is not within the scope of its activities to set standards that establish a specific method of financing pensions (that being a policy decision for government officials or other responsible authorities to make) or to regulate a government's compliance with the financing policy or method it adopts. Accordingly, the Board established standards in this Statement within the context of accounting and financial reporting, not within the context of the funding of pensions."

Two major changes in GASB 68 are the requirements to include a Net Pension Liability/(Asset) (NPL) on the employer's Statement of Net Position and to determine a Pension Expense (PE) in the Notes to the Financial Statements, that may bear little relationship to the employer's funding requirements. In fact, it is possible for the PE to be a negative expense item in some years. The NPL is set equal to the Total Pension Liability (TPL) minus the Fiduciary Net Position (FNP). The benefit provisions recognized in the calculation of the TPL are summarized in Appendix B.

PE includes amounts for Service Cost (the Normal Cost under Entry Age Normal (EAN) for the year), interest on the TPL, employee contributions, administrative expenses, other cash flows during the year, recognition of increases/decreases in the TPL due to changes in the benefit structure, actual versus expected experience, actuarial assumption changes, and recognition of investment gains/losses. The actual experience and assumption change impacts are recognized over the average expected remaining service life of the Plan membership as of the beginning of the measurement period, while investment gains/losses are recognized equally over five years. The development of the PE is shown in Section III. The unrecognized portions of each year's experience, assumption changes and investment gains/losses are used to develop Deferred Inflows and Outflows of Resources, which also must be included on the employer's Statement of Net Position.

Among the items needed for the TPL calculation is a discount rate, as defined by GASB, or a Single Equivalent Interest Rate (SEIR). To determine the SEIR, the FNP must be projected into the future for as long as there are anticipated benefits payable under the plan's provision applicable to the membership and beneficiaries of the Plan on the Measurement Date. Future contributions were projected to be made at the current levels set in statute. If the FNP is not projected to be depleted at any point in the future, the long-term expected rate of return on plan investments expected to be used to finance the benefit payments may be used as the SEIR.

If, however, the FNP is projected to be depleted at a future measurement date, the SEIR is determined as the single rate that will generate a present value of benefit payments equal to the sum of the present value determined by discounting all projected benefit payments through the date of depletion by the long-term expected rate of return, and the present value determined by discounting those benefits after the depletion date by a 20-year tax-exempt municipal bond (rating AA/Aa or higher) rate (Municipal Bond Index Rate). The rate used, if necessary, for this purpose is the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System.

Our calculations indicated that the FNP is not projected to be depleted, so the Municipal Bond Index Rate is not used in the determination of the SEIR. A SEIR of 8.00% for both the Measurement Date and Prior Measurement Date meets the requirements of GASB 67 and 68.

The FNP projections are based upon the Plan's financial status on the Measurement Date, the indicated set of methods and assumptions, and the requirements of GASB 67 and 68. As such, the FNP projections are not reflective of the cash flows and asset accumulations that would occur on an ongoing plan basis, reflecting the impact of future members. Therefore, the results of this test do not necessarily indicate whether or not the fund will actually run out of money, the financial condition of the Plan, or the Plan's ability to make benefit payments in future years.

The sections that follow provide the results of all the required calculations, presented in the order laid out in GASB 68 for note disclosure and Required Supplementary Information (RSI). Some of this information was provided by the Nebraska Public Employees Retirement System for use in this report. These sections, not prepared by Cavanaugh Macdonald LLC, are: Paragraphs 37, 38, 40(a)-(b), 40(d)-(e), 43 and 45(e)-(f).

SECTION III – PENSION EXPENSE

As noted earlier, the Pension Expense (PE) consists of a number of different items. GASB 68 refers to the first item as Service Cost, which is the Normal Cost using the Entry Age Normal (EAN) actuarial funding method. The second item is interest on the TPL at 8.00%, the SEIR in effect as of the Prior Measurement Date.

The next three items refer to any changes that occurred in the TPL due to:

- benefit changes,
- actual versus expected experience, or
- changes in actuarial assumptions or other inputs.

Benefit changes, which are reflected immediately, will increase PE if there is a benefit improvement for existing Plan members, or decrease PE if there is a benefit reduction. For the year ended June 30, 2015 there were no benefit changes to be recognized.

The next item to be recognized is the portion of current year changes in TPL due to actual versus expected experience for the year. The portion to recognize in the current year is determined by spreading the total change over the average expected remaining service life of the entire Plan membership at the beginning of the measurement period. The average expected remaining service life of active members is the average number of years the active members are expected to remain in covered employment. At the beginning of the measurement period, this number is 9.57 years. The average expected remaining service life of the inactive members is zero. Therefore, the recognition period is the weighted average of these two amounts, or 4.41 years.

The last item under changes in TPL is changes in actuarial assumptions or other inputs. There were no changes in the actuarial assumptions or other inputs since the Prior Measurement Date. If there was such a change, the change would be recognized over the average expected remaining service life of the entire Plan membership, using the same approach applied to experience gains and losses as described in the prior paragraph.

Employee contributions for the year and projected earnings on the FNP at the long-term expected rate of return are subtracted from the amount determined thus far. One-fifth of current-period differences between projected and actual earnings on the FNP is recognized in the PE.

The current year portions of previously determined experience, assumption changes and earnings amounts, recognized as Deferred Outflows of Resources and Deferred Inflows of Resources are included next. Deferred Outflows of Resources are added to the PE while Deferred Inflows of Resources are subtracted from the PE. Finally, administrative expenses and other miscellaneous items are included.

The calculation of the PE for the year ended June 30, 2015 is shown in the following table.

Pension Expense
For the Year Ended

June 30, 2015	
Service Cost at end of year	$4,759,455
Interest on the Total Pension Liability	12,170,797
Benefit term changes	0
Expensed portion of current-period difference between expected and actual experience in the Total Pension Liability	(592,700)
Expensed portion of current-period assumption changes	0
Employee contributions	(1,610,529)
Projected earnings on plan investments	(12,548,292)
Expensed portion of current-period differences between projected and actual earnings on plan investments	1,317,899
Administrative expenses	82,746
Other changes	(3)
Recognition of beginning Deferred Outflows of Resources	9,687
Recognition of beginning Deferred Inflows of Resources	(2,738,082)
Total Pension Expense	**$850,978**

Note: Average expected remaining service life for all members is 4.41 years.

SECTION IV – NOTES TO FINANCIAL STATEMENTS

The material presented herein will follow the order presented in GASB 68. Paragraph numbers are provided for ease of reference.

Paragraph 37: This information is available in the State CAFR online at:
das.nebraska.gov/accounting/cafr/cafrcon.htm

Paragraph 38: The State of Nebraska is the plan sponsor for the Judges' Retirement System, the State Patrol Retirement System, and the State Employees' Retirement System Cash Balance Benefit Fund. All are single-employer defined benefit pension plans. Information for paragraphs 39 to 45 for the Judges Retirement System can be found on the following pages. Similar information for the State Patrol Retirement System and the State Employees' Cash Balance Benefit Fund can be found in the GASB 68 report for those systems.

Paragraph 40(a): The name of the pension plan is the Judges' Retirement System and it is administered by the Nebraska Public Employees Retirement Board which was created in 1971 to administer all of the Nebraska retirement plans. The Judges' Retirement System is a single-employer defined benefit pension plan.

The Judges plan has been created in accordance with Internal Revenue Code Sections 401(a) and 414(h), and 414(k). Please refer to Neb. Rev. Stat. §§ 24-701 through 24-714 (Reissue 2008, Cum. Supp. 2014, Supp. 2015) for the Judges Retirement Act. Benefit and contribution provisions are established by State law and may be amended only by the Nebraska Legislature.

Paragraph 40(b):

(1) Classes of employees covered: The membership includes judges and associate judges employed by the State for the Supreme Court, Court of Appeals, District Courts, Workers' Compensation Court, County Courts, and Juvenile Courts.

(2) Types of benefits: The main benefits provided are retirement benefits. However, the system also provides ancillary benefits in the event of pre-retirement death, disability, or termination of employment prior to meeting the eligibility requirements to retire.

(3) Key elements of the pension formulas: Retirement is at age 65 with benefits calculated using the compensation for the three 12-month periods of service as a judge in which compensation was the greatest, or the average monthly compensation, multiplied by the total years of service and the formula factor of 3.5 percent, subject to a maximum of 70 percent of the final average salary. The calculation varies with early retirement. Benefits vest when the judge takes office.

(4) Terms with respect to automatic postemployment benefit changes, including automatic COLAs and ad hoc COLAs: The benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment which is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or two and one-half percent. The current benefit paid to a retired member or beneficiary shall be adjusted so that the purchasing power of the benefit being paid is not less than 75% of the purchasing power of the initial benefit.

(5) Authority under which benefit terms are established or may be amended: Benefit and contribution provisions are established by State law (Neb. Rev. Stat. §§ 24-701 through 24-714 (Reissue 2008, Cum. Supp. 2014, Supp. 2015)) and may be amended only by the Nebraska Legislature.

Paragraph 40(c): The data required regarding the membership of the Plan were furnished by the Nebraska Public Employees Retirement System. The following table summarizes the membership of the Plan as of July 1, 2015 (the Valuation Date). The July 1, 2015 valuation was used to determine the June 30, 2015 TPL.

Membership

Number as of July 1, 2015	
Inactive Members Or Their Beneficiaries Currently Receiving Benefits	179
Inactive Members Entitled To But Not Yet Receiving Benefits	6
Inactive Non-vested Members Entitled to a Refund of Member Contributions	0
Active Members	147
Total	332

Paragraph 40(d):

(1) **Basis for determining the employer's contributions to the plan:** Pursuant to state statute, an actuarial valuation is performed each year to determine the actuarial required contribution. To the extent member contributions and court fees are insufficient to meet the full actuarial required contribution, the remainder is paid by the State.

(2) **Identification of the authority under which contribution requirements of the employer and employees are established or may be amended:** contribution provisions are established by State law (Neb. Rev. Stat. §§ 24-701 through 24-714 (Reissue 2008, Cum. Supp. 2014, Supp. 2015)) and may be amended only by the Nebraska Legislature.

(3) The contribution rates (in dollars or as a percentage of covered payroll) of those entities for the reporting period:

Members: Members hired after July 1, 2004, and those active members who elected within 90 days of July 1, 2004, contributes nine percent of their monthly salary until the maximum benefit has been earned. After earning the maximum benefit, members contribute five percent of their monthly salary for the remainder of their active service. All other members contribute seven percent of their monthly salary until the maximum benefit has been earned. After earning the maximum benefit, those members contribute one percent of their monthly salary for the remainder of their active service.

Court fees: A six-dollar fee for each case is collected from District and County courts, Juvenile courts, the Workers' Compensation Court, the Supreme Court, and the Court of Appeals, plus a 10 percent charge on certain fees collected in the County courts.

State contributions: An actuarial valuation is performed each year to determine the actuarial required contribution. To the extent member contributions and court fees are insufficient to meet the full actuarial required contribution, the remainder is paid by the State.

Amount of contributions recognized by the pension plan from the employer during the reporting period (only the total amounts recognized as additions to the plan's fiduciary net position are reflected here): For the fiscal year ending June 30, 2015 the plan received $2,977,205 in court fees and an additional state appropriation of $94,000.

Paragraph 40(e): Whether the pension plan issues a stand-alone financial report (or the pension plan is included in the report of a public employee retirement system or another government) that is available to the public and, if so, how to obtain the report: Annually, the Nebraska Public Employees Retirement System prepares stand-alone financial statements for the Judges Retirement System. The audited financial statement reports can be found at:

http://www.nebraska.gov/auditor/FileSearch/entityresults.cgi?id=Retirement%20Systems%2C%20Public%20Employees

Paragraph 41: This paragraph requires information to be disclosed regarding the significant actuarial assumptions and other inputs used to measure the TPL. The complete set of actuarial assumptions utilized in developing the TPL are outlined in Appendix C. The TPL was determined by an actuarial valuation performed as of July 1, 2015, using the following key actuarial assumptions:

Price Inflation	3.25 percent
Wage Inflation	4.00 percent
Salary increases, including wage inflation	4.00 percent
Long-term Rate of Return, net of investment expense, including price inflation	8.00 percent
Municipal Bond Index Rate	3.82 percent
Year FNP is projected to be depleted	N/A

Single Equivalent Interest Rate, net of investment expense, including price inflation	8.00 percent
Mortality	Pre-retirement mortality rates were based on the 1994 Group Annuity Mortality Table, projected to 2015 using Scale AA, set-back 1 year (sex distinct with 55% of male rates for males and 40% of female rates for females). Post-retirement mortality rates were based on the 1994 Group Annuity Mortality Table, projected to 2015 using Scale AA, set-back 1 year (sex distinct).

The actuarial assumptions used in the valuation are based on the results of the most recent actuarial experience study, which covered the five-year period ending June 30, 2011. The experience study report is dated August 20, 2012.

Paragraph 42:

(a): Discount rate (SEIR). The discount rate used to measure the TPL at June 30, 2015 was 8.00 percent. There was no change in the SEIR since the Prior Measurement Date.

(b): Projected cash flows. The projection of cash flows used to determine the discount rate assumed that plan contributions from members will be made at the current contribution rates as set out in state statute, revenue from court fees are expected to increase due to LB 468 and will be phased in over two years, and the State of Nebraska will make any additional contribution needed to fund the full actuarial contribution as an additional state appropriation:

a. Employee contribution rate: Between 1.00% and 9.00% based on hire date and years of service. See Appendix B for more detail.
b. Court Fees: A fee of six dollars is taxed for each cause of action in district and county courts and a fee of 10% of court costs in county courts is contributed.
   Beginning July 1, 2015, $2 each from civil, criminal, traffic and probate case docket fees will be re-directed from the General Fund to the Judges Retirement Fund.
   Beginning July 1, 2017, $4 each from civil, criminal, traffic and probate case docket fees will be re-directed from the General Fund to the Judges Retirement Fund.
   Court fees for FY 2015 were $2,977,205, but are expected to increase to $3,577,205 for FY 2016 and $4,297,205 in FY 2018.
c. State contribution rate: The State makes an additional contribution if the actuarial contribution exceeds the expected member contributions and court fees. No additional contributions were expected in the projected cash flows.
d. Administrative expenses in the prior year were projected forward with price inflation as an estimate for administrative expenses in the current and future years. The portion of expenses in future years allocated to the current members was based on the proportionate

share of covered payroll in each year for the remainder of the existing members to the total covered payroll for all members.

Based on those assumptions, the Plan's FNP was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments of 8.00% was applied to all periods of projected benefit payments to determine the TPL.

The FNP projections are based upon the Plan's financial status on the Measurement Date, the indicated set of methods and assumptions, and the requirements of GASB 68. As such, the FNP projections are not reflective of the cash flows and asset accumulations that would occur on an ongoing plan basis, reflecting the impact of future members. Therefore, the results of this test do not necessarily indicate whether or not the fund will actually run out of money, the financial condition of the Plan, or the Plan's ability to make benefit payments in future years.

(c): Long-term rate of return. The long-term expected rate of return on plan assets is reviewed as part of regular experience studies prepared periodically. The most recent analysis was performed and results were provided on August 20, 2012 by the prior actuary, Buck Consultants. Generally, several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class, were developed by the Plan's investment consultant. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant may cover a shorter investment horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the long-term inflation assumption, or a fundamental change in the market that alters expected returns in future years.

(d): Municipal bond rate. A municipal bond rate was not used in determining the discount rate. If it were required, the rate would be 3.82% on the Measurement Date.

(e): Periods of projected benefit payments. Projected future benefit payments for all current plan members were projected through 2114.

(f): Assumed asset allocation. The target asset allocation and best estimates of geometric real rates of return for each major asset class as of the first quarter of 2015, as provided by the Plan's investment consultant, Aon Hewitt Investment Consulting, Inc., are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
U.S. Stocks	29.0%	4.4%
Non-U.S. Stocks	13.5%	5.2%
Global Stocks	15.0%	4.8%
Fixed Income	30.0%	2.1%
Real Estate	7.5%	4.4%
Private Equity	5.0%	6.7%
Total	100.0%	

*Geometric mean, net of investment expenses

(g): Sensitivity analysis. This paragraph requires disclosure of the sensitivity of the NPL to changes in the discount rate. The following presents the NPL of the Plan, calculated using the discount rate of 8.00 percent, as well as the Plan's NPL calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net Pension Liability/(Asset)	$17,695,316	$1,295,226	($12,848,252)

Paragraph 43: The Plan's financial statements were prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred. Employee and employer contributions are recognized in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of each Plan.

Investments as reported in the financial statements include long-term investments. Law or legal instruments may restrict these investments. All investments are stated at fair value based on quoted market prices. For investments where no readily ascertainable fair value exists, management has received an estimate of fair value from the investment fund manager based, in part, on real estate appraisals. The State Treasurer is the custodian of all funds; however, investment of funds is under the responsibility of the Nebraska Investment Council.

There have been no changes since the measurement date that would materially alter the pension plans' financial report.

This information can be found on page 13 of the published financials online at:

http://npers.ne.gov/SelfService/. Go to 'Related Links' and click on 'Retirement Plan Audits'.

Paragraph 44 (a) – (c): This paragraph requires a schedule of changes in NPL. The necessary information is provided in the table below for fiscal year ended June 30:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) – (b)
Balances at June 30, 2014	$156,326,683	$158,790,111	($2,463,428)
Changes for the year:			
Service Cost at end of year	4,759,455		4,759,455
Interest on TPL	12,170,797		12,170,797
Benefit term changes	0		0
Differences between expected and actual experience	(2,613,808)		(2,613,808)
Assumption changes	0		0
Court fees		2,977,205	(2,977,205)
State Appropriations		94,000	(94,000)
Employee contributions		1,610,529	(1,610,529)
Net investment income		5,958,799	(5,958,799)
Benefit payments, including member refunds	(8,547,892)	(8,547,892)	0
Administrative expenses		(82,746)	82,746
Other changes		3	(3)
Net changes	5,768,552	2,009,898	3,758,654
Balances at June 30, 2015	$162,095,235	$160,800,009	$1,295,226

Paragraph 44(d): There is no special funding situation.

Paragraph 45:

(a): The Measurement Date of the NPL is June 30, 2015. The TPL as of June 30, 2015 was determined based upon an actuarial valuation performed as of the Valuation Date, July 1, 2015.

(b): There is no special funding situation.

(c): There were no changes in the actuarial assumptions since the Prior Measurement Date.

(d): There were no changes in the benefit terms since the Prior Measurement Date.

(e): There were no benefit payments in the measurement period attributable to the purchase of allocated insurance contracts.

(f): LB 468 made changes to the benefit structure and contribution rate for judges who become members on or after July 1, 2015 and increased the court fees directed to fund the Plan. Based on the available information, the Nebraska Public Employees Retirement System does not believe that these changes between the Measurement Date of the NPL (June 30, 2015) and the employer's reporting date (June 30, 2016) have a significant effect on the NPL.

(g): Please see Section III of this report for the development of the PE.

(h): Since certain expense items are recognized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce PE they are labeled Deferred Inflows of Resources. If they will increase PE they are labeled Deferred Outflows of Resources. The recognition of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are recognized over the average expected remaining service life of the active and inactive Plan members at the beginning of the measurement period. Investment gains and losses are recognized equally over a five-year period.

The following tables provide a summary of the amounts of the Deferred Outflows of Resources and Inflows of Resources as of the Measurement Date (June 30, 2015).

Deferred Outflows of Resources								
	June 30, 2014		Additions		Recognition		June 30, 2015	
Differences between expected and actual experience								
FY 2014 Base	$	32,065	$	0	$	9,687	$	22,378
FY 2015 Base		0		0		0		0
Total	$	32,065	$	0	$	9,687	$	22,378
Changes of assumptions								
FY 2014 Base	$	0	$	0	$	0	$	0
FY 2015 Base		0		0		0		0
Total	$	0	$	0	$	0	$	0
Differences between projected and actual earnings								
FY 2014 Base	$	0	$	0	$	0	$	0
FY 2015 Base		0		6,589,493		1,317,899		5,271,594
Total	$	0	$	6,589,493	$	1,317,899	$	5,271,594
Total	$	32,065	$	6,589,493	$	1,327,586	$	5,293,972

Deferred Inflows of Resources				
	June 30, 2014	Additions	Recognition	June 30, 2015
Differences between expected and actual experience				
FY 2014 Base	$ 0	$ 0	$ 0	$ 0
FY 2015 Base	0	2,613,808	592,700	2,021,108
Total	$ 0	$ 2,613,808	$ 592,700	$ 2,021,108
Changes of assumptions				
FY 2014 Base	$ 0	$ 0	$ 0	$ 0
FY 2015 Base	0	0	0	0
Total	$ 0	$ 0	$ 0	$ 0
Differences between projected and actual earnings				
FY 2014 Base	$ 10,952,329	$ 0	$ 2,738,082	$ 8,214,247
FY 2015 Base	0	0	0	0
Total	$ 10,952,329	$ 0	$ 2,738,082	$ 8,214,247
Total	$ 10,952,329	$ 2,613,808	$ 3,330,782	$ 10,235,355

(i): Amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions will be recognized in PE in future fiscal years as follows:

Fiscal Year Ending June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows/(Inflows) of Resources
2017	$1,327,586	$3,330,782	($2,003,196)
2018	1,327,586	3,330,782	(2,003,196)
2019	1,320,903	3,330,783	(2,009,880)
2020	1,317,897	243,008	1,074,889
2021	0	0	0
Thereafter	0	0	0

(j): Based on information supplied by NPERS, the Judges Retirement System receives no revenue from non-employer contributing entities.

SECTION V – REQUIRED SUPPLEMENTARY INFORMATION

There are several tables of Required Supplementary Information (RSI) that need to be included in the Plan's financial statements:

Paragraphs 46(a) - (c): The required tables of schedules are provided in Appendix A.

Paragraph 47: Significant methods and assumptions used in calculating the Actuarially Determined Contributions, if any, should be presented as notes to the schedule required by paragraph 46(c). In addition, for each of the schedules required by paragraph 46, information should be presented about factors that significantly affect trends in the amounts reported.

Changes of benefit and funding terms: The following changes were made by the Nebraska Legislature and reflected in the valuation performed as of July 1 listed below:

2015: LB 468, which was passed by the 2015 Nebraska Legislature, made changes to the benefit structure for judges who become members on or after July 1, 2015 including the calculation of final average salary based on the highest 5 years rather than the highest 3 years of salary and a cost-of-living-adjustment (COLA) of 1% rather than 2.5%. The bill also provided for a supplemental COLA, to be granted at the Board's discretion, up to an additional 1.5% if the System is more than 100% funded. In addition, the member contribution rate for those hired on or after July 1, 2015 was increased to 10% of pay. LB 468 also increased the amount of court fees directed to fund the Judges Retirement System with the increases phased-in over two years. Ultimately, in fiscal year 2018 the additional funding is estimated to be $1.3 million. Due to the valuation date of July 1, 2015, the change to the benefit structure had no impact on the valuation results.

2013: Legislative Bill 553 (LB 553) changed the amortization of the unfunded actuarial accrued liability from a level dollar payment to a level percent of payroll payment. The court fee designated for the Judges Retirement System was scheduled to decrease from $6 to $5 dollars on July 1, 2014. Legislative Bill 306 (LB 306) removed the language to decrease the court fees so the court fee in future years remains at six dollars. The passage of Legislative Bill 414 (LB 414) in 2009 increased the member contribution rate by 1 percent, but this increase was scheduled to be removed July 1, 2014. Legislative Bill 306 (LB 306) removed the sunset provision on the increase in the member contribution rate, thereby retaining the higher contribution rates.

2009: LB 414 passed during the 2009 Legislative session amended the plan provisions to increase all member contribution rates by 1% and increase the court fees from $5 to $6 per case.

2008: LB 1147 amended the plan provisions to provide a subsidized early retirement benefit. The monthly benefit is reduced by 3% for retirement at age 64, by 6% at age 63, and by 9% at age 62. The monthly benefit is further reduced on an actuarially equivalent basis for retirement before age 62 to as early as age 55.

2006: Per LB 1019, Nebraska Revised Statutes Section 24-703(9) was amended such that the unfunded actuarial accrued liability is reinitialized as of July 1, 2006 and amortized over a 30-year period.

Changes in actuarial assumptions:

7/1/2012 valuation:

- The interest rate on employee contributions was lowered to 4.25% from 5.50%.
- Salary increase were lowered to 4.00% from 4.50%.
- Retirement rates were decreased for ages under 65 and age 66.
- Pre- and post-retirement healthy mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table projected to 2010 (for pre-retirement males rates were 65% of rates and female rates were 50% of rates) to the 1994 GAM table, with a 1 year setback, projected to 2015.
- Deferred vested members were changed to assume they elected the greater of the present value of an annuity at age 63 or a refund of contributions.
- Consumer price inflation was lowered to 3.25% from 3.50%.
- Economic productivity was lowered to 0.75% from 1.00%.

7/1/2008 valuation:

- Retirement rates were increased at ages 62 through 64 to account for the possible increase in retirements due to the subsidized early retirement factors.

7/1/2007 valuation:

- Salary increases were lowered from an assumed 5.00% annual increase to a 4.50% annual increase at each age.
- Retirement rates were decreased at ages 55 through 61, increased at ages 62 through 64, and decreased at ages 65 through 71.
- Pre- and post-retirement mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table with a 2-year setback to the 1994 GAM table, projected to 2010.

Method and assumptions used in calculations of Actuarially Determined Contributions.

The Plan is funded with contribution rates that vary by date of hire and service for members, variable court fees, as well as contributions from the State of Nebraska that cover the remaining required amounts, if necessary. The Actuarially Determined Contributions in the *Schedule of Employer Contributions* are calculated as of the beginning of the fiscal year in which contributions are reported.

The following actuarial methods and assumptions were used to determine the Actuarially Determined Contribution reported for the most recent fiscal year, June 30, 2016 (based on the July 1, 2015 actuarial valuation).

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	Range from 26 to 30 years (Single Equivalent Amortization Period is 23 years)
Asset valuation method	5-year smoothed market
Price Inflation	3.25 percent
Wage Inflation	4.00 percent
Salary increases, including wage inflation	4.00 percent
Long-term Rate of Return, net of investment expense, including price inflation	8.00 percent
Cost-of-living adjustment	2.50% with a floor benefit equal to 75% purchasing power of original benefit

Please see the information presented earlier in regard to Paragraph 47 for detailed information on the benefit changes and assumption changes that may have impacted the Actuarially Determined Contributions shown in the *Schedule of Employer Contributions.*

APPENDIX A

Exhibit A

GASB 68 Paragraphs 46(a) – (b)
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY/(ASSET)

Fiscal Year Ended June 30

	2015	2014
Total Pension Liability		
Service Cost	$4,759,455	$4,257,200
Interest	12,170,797	11,567,915
Benefit term changes	0	0
Differences between expected and actual experience	(2,613,808)	41,752
Assumption changes	0	0
Benefit payments, including member refunds	(8,547,892)	(8,121,996)
Net change in Total Pension Liability	$5,768,552	$7,744,871
Total Pension Liability - beginning	$156,326,683	$148,581,812
Total Pension Liability - ending (a)	$162,095,235	$156,326,683
Plan Fiduciary Net Position		
Court fees	$2,977,205	$3,102,864
State Appropriations	94,000	803,383
Employee contributions	1,610,529	1,518,801
Net investment income	5,958,799	24,543,298
Benefit payments, including member refunds	(8,547,892)	(8,121,996)
Administrative expenses	(82,746)	(78,263)
Other changes	3	45
Net change in Plan Fiduciary Net Position	$2,009,898	$21,768,132
Plan Fiduciary Net Position – beginning	$158,790,111	$137,021,979
Plan Fiduciary Net Position - ending (b)	$160,800,009	$158,790,111
Net Pension Liability - ending (a) - (b)	$1,295,226	($2,463,428)
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	99.20%	101.58%
Covered payroll	$21,586,829	$20,099,647
Employers' Net Pension Liability as a percentage of covered payroll	6.00%	(12.26%)

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Exhibit B

GASB 68 Paragraphs 46(c)
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined employer contribution	TBD	$3,727,054	$3,906,247	$3,180,367	$3,483,614	$3,579,661	$3,615,291	$3,491,335	$3,353,208	$3,207,953
Court Fees	TBD	2,977,205	3,102,864	3,180,367	3,411,370	3,507,417	3,543,047	3,419,091	3,280,964	3,135,709
State Contributions	TBD	94,000	803,383	0	72,244	72,244	72,244	72,244	72,244	72,244
Actual employer contributions	TBD	3,071,205	3,906,247	3,180,367	3,483,614	3,579,661	3,615,291	3,491,335	3,353,208	3,207,953
Annual contribution deficiency (excess)	TBD	$655,849	$0	$0	$0	$0	$0	$0	$0	$0
Covered-employee payroll	TBD	$21,586,829	$20,099,647	$19,005,478	$18,182,238	$18,773,203	$18,373,339	$17,990,072	$17,003,921	$16,422,894
Actual contributions as a percentage of covered-employee payroll	TBD	14.23%	19.43%	16.73%	19.16%	19.07%	19.68%	19.41%	19.72%	19.53%

Note: Actuarially determined employer contributions, actual employer contributions and covered-employee payroll prior to 2013 was produced by the prior actuary.

For years 2014 and prior, covered-employee payroll was estimated based on the valuation.

APPENDIX B

SUMMARY OF PLAN PROVISIONS

Member

Original — A judge who first serves prior to December 25, 1969, and who does not elect to become a Future member on or before November 1, 1981.

Future — A judge who first serves on or after December 25, 1969, or who elects to become a Future member on or before November 1, 1981.

Participation Date — Date of becoming a member.

Definitions

Final average earnings — For Judges who became members prior to July 1, 2015, the average of the highest three 12-month periods of covered pay, ending on the earlier of the participant's termination date or retirement date.

For Judges who became members on or after July 1, 2015, the average of the highest five 12-month periods of covered pay, ending on the earlier of the participant's termination date or retirement date.

Fiscal year — Twelve month period ending June 30.

Member contributions — All members hired after July 1, 2004 but before July 1, 2015, and members that elected an enhanced Joint and Survivor Benefit under LB 1097 contribute 9% of pensionable pay up to 20 years of service, and 5% of pensionable pay thereafter. All other members contribute 7% of pensionable pay during the first twenty years of service, and 1% of pensionable pay thereafter. Such contributions are credited with interest based on the 1-year Treasury yield curve on July 1 of each year, as determined by State Statutes.

Judges who first became members on or after July 1, 2015 will contribute 10% of compensation.

Monthly pension benefit — A monthly benefit equal to one-twelfth of 3.5% of final average salary times total years of service, subject to a maximum of 70% of final average salary. Effective July 1, 2001, an automatic annual cost-of-living adjustment (COLA) equal to the CPI-W index is provided for current and future retirees by LB 711. Also provided is a minimum floor benefit equal to 75% of the purchasing power of the original benefit. The maximum increase for any one year is 2.5% for Judges who became members prior to July 1, 2015, and 1.0% for Judges who became members on or after July 1, 2015.

Normal Retirement Date (NRD)	Attainment of age 65.
Pension service	Length of service includes all service as a Supreme Court, District Court, Worker's compensation Court, separate Juvenile Court, County Court, Municipal Court, or Appeals Court judge in Nebraska, computed to the nearest one-twelfth year and includes declared emergency service in the armed forces.

Eligibility for Benefits

Deferred vested	Termination for reasons other than death, disability, or retirement. No service requirement for vesting.
Disability retirement	Retirement by reason of permanent disability as determined by the Commission of Judicial qualifications.
Early retirement	Retirement before NRD and after attaining age 55.
Normal retirement	Retire on NRD.
Postponed retirement	Retire after NRD.
Pre-retirement spouse benefit	Death prior to retirement.

Monthly Benefits Paid Upon the Following Events

Normal retirement	Monthly pension benefit determined as of NRD.
Early retirement	Monthly pension benefit determined as of early retirement date, reduced by 3% if the member retires at age 64, 6% at age 63, or 9% at age 62, and actuarially reduced for each month that commencement of payment precedes age 62. The actuarial reduction is based on the 1994 Group Annuity Mortality Table, 25% female, 75% male and 8% interest.
Postponed retirement	Monthly pension benefit determined as of actual retirement date.
Termination with deferred vested benefit	Members may elect to receive either (i) a refund of their contributions with regular interest, or (II) a deferred normal retirement benefit payable at age 65 and calculated based upon service and salary at the date of termination.
Disability retirement	Monthly pension benefit determined as of disability retirement date.
Pre-retirement spouse benefits	1) **With 5 or more years of service:** A life annuity is payable to the surviving spouse in the amount which would have been

payable had the member retired on the date of death and elected a joint and 100% survivor annuity.

2) **With less than 5 years of service:** A lump sum equal to the member's contributions plus regular interest.

Forms of payment — All members hired after July 1, 2004, and members who elected increased contributions under LB 1097 are eligible to receive benefits paid in the normal form of an enhanced 50% Joint and Survivor Annuity. All other members receive benefits paid in the normal form of a modified cash refund annuity. Optional forms are: life annuity, life annuity with period certain, contingent annuity and join annuity. Pre-retirement spouse benefits are payable only as described above.

Funding Arrangement

The Nebraska Retirement Fund for Judges is established in the State Treasury. The fund receives member contributions and pays benefits and expenses. Additional funds are received as follows:

Court Fees — Beginning July 1, 2015, $2 each from civil, criminal, traffic and probate case docket fees will be re-directed from the General Fund to the Judges' Retirement Fund.

Beginning July 1, 2017, $4 each from civil, criminal, traffic and probate case docket fees will be re-directed from the General Fund to the Judges' Retirement Fund.

State — The State makes any additional contributions that are necessary each year to pay the excess of the normal cost plus an amortization payment to fund unfunded actuarial accrued liability bases, over member contributions, court fees, and state appropriations.

State Appropriations

LB 700, passed in 1996, provided for annual cost of living increases of 0.3%, beginning in the sixth year after retirement for members ceasing employment on or after April 10, 1996. Funding for these benefits shall be made by the State into the Judges Purchasing Power Stabilization Fund (PPSF). Beginning with the 1996/1997 fiscal years, the funding equal to 1.04778% of $6,895,000, or $72,244, will be made for each year through the 2012/2011 fiscal year. LB 950, passed in 2010, extended this contribution through the 2012/2013 fiscal year. This appropriation is no longer applicable as of the July 1, 2012 valuation.

LB 674, passed in 1999 (effective July 1, 2000), provides for an annual cost-of-living increase equal to the CPI –W index, with a maximum of 2% in any one year, a minimum floor benefit equal to 75% of the purchasing power of the original benefit and the elimination of the Judges Purchasing Power Stabilization Fund. The existing assets in the Judges PPSF were transferred to the Nebraska Judges Retirement Fund. LB 711, passed in 2001, increased the maximum annual cost-of-living increase in any one year from 2% to 2.5%.

Benefits Reflected in Valuation

All benefits were valued, including future cost of living increases granted by statute.

Plan Provision Effective After July 1, 2015

No future changes in plan provisions were recognized in determining the funded status or in determining the State's contribution amount.

Changes since the Prior Valuation

LB 468, passed by the 2015 Nebraska Legislature, modified the benefit provisions for judges who become members on or after July 1, 2015 including changing from a three year to a five year final average salary and reducing the automatic cost of living adjustment from 2.5% to 1% plus a supplemental COLA that is dependent on the System being more than 100% funded. Due to the effective date of the benefit changes, there were no active members in the July 1, 2015 valuation that were covered by these provisions. Therefore, the changes to the benefit provisions did not have an impact on the liabilities in this report. LB 468 also increased the court fees designated to fund the System.

APPENDIX C

STATEMENT OF ACTUARIAL ASSUMPTIONS

ACTUARIAL ASSUMPTIONS

Economic Assumptions

1. Long-term Rate of Return	8.0% per annum, compounded annually, net of all expenses.
2. Inflation	3.25% per annum, compounded annually.
3. Salary Increases	Salaries are assumed to increase 4.0% each year.
4. Payroll Growth	4.0% per year
5. Interest on Employee Contributions	4.25% per annum, compounded annually.
6. Increases in Compensation And Benefit Limits	3.25% per annum on the 401(a)(17) compensation limit and 415 benefit limit

Demographic Assumptions

1. Mortality	The mortality assumption includes an appropriate level of conservatism that reflects expected future mortality improvement.
a. Active Members	1994 Group Annuity Mortality Table, projected to 2015 using scale AA, set-back 1 year (sex distinct with 55% of male rates for males and 40% of female rates for females)
b. Retired Members	1994 Group Annuity Mortality Table, projected to 2015 using scale AA, set-back 1 year (sex distinct)

c. Mortality rates and life expectancies under the mortality tables are shown below at sample ages:

Pre-Retirement Mortality				
	Mortality Rate		Life Expectancy (years)	
Sample Age	Males	Females	Males	Females
20	0.02%	0.01%	68.3	74.7
30	0.04	0.01	58.5	64.8
40	0.05	0.02	48.7	54.9
50	0.09	0.04	39.0	45.0
60	0.28	0.14	29.5	35.3
70	0.87	0.46	20.8	26.1

Post-Retirement Mortality				
	Mortality Rate		Life Expectancy (years)	
Sample Age	Males	Females	Males	Females
50	0.16%	0.09%	33.4	36.4
60	0.51	0.35	24.1	26.9
70	1.62	1.14	16.0	18.4
80	4.43	3.05	9.2	11.0
90	12.55	9.82	4.5	5.4

2. Retirement

Rates vary by age. Rates are as follows:

Rates by Age	
Age	Rate
55-59	1.5%
60-61	3.0
62-64	10.0
65	20.0
66-69	10.0
70-71	15.0
72	100.0

3. Termination

None.

4. Disability

None.

Other Assumptions

1. Form of Payment

Modified Cash Refund Annuity under prior plan benefit provisions. A 50% Joint & Survivor Benefit for members electing this provision under LB 1097, and new members hired after July 1, 2004. Deferred vesteds are assumed to take the greater of the present value of an annuity at age 63 or a refund of contributions.

2. Marital Status

a. Percent married

100% married

b. Spouse's age

Females assumed to be three years younger than males.

3. Administrative Expense

Investment return is assumed to be net of expenses.

4. Cost of Living Adjustment

2.50% per annum, compounded annually, and 3.25% per annum, compounded annually, after reaching 75% purchasing power floor benefit.

5. State Contribution

State contributions for the current plan year are assumed to be contributed in a lump sum on the July 1 following the plan year end. These amounts from the prior plan year are treated as a contribution receivable on the plan's financial statements.