

Retirement Roundup

State & County Employees

Nebraska Retirement Systems

Vol. 14, No. 3, Summer 1999

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New and Improved Investment Options

By Anna J. Sullivan, Director

EMPLOYER INVESTMENT OPTIONS

We are very excited to report the passage of LB687 by the Legislature during its recent session. Now for the first time you will have some, although still limited, direction over the investment of the Employer Fund due to LB687.

The new Employer Fund investments are required by LB687 to be three different mixtures of stocks and fixed income investments. The law requires a fund which is 25% stocks and 75% fixed income, which we have named the "Employer Conservative Fund;" a fund which is 50% stocks and 50% fixed income, we have named the "Employer Moderate Fund"; and a fund which is 75% stocks and 25% fixed income, we have named the "Employer Aggressive Fund."

Important Note: The *employer contributions* are restricted to the above three funds and cannot be invested or transferred into any of the investment funds available for your *member contributions*. The Employer Funds will continue to be maintained separately and cannot be mingled with the member share of your account. ALSO, your *existing* Employer Funds have been automatically defaulted to the "Employer Moderate Fund" as of July 1st. This default was chosen since it is almost identical to the old Employer Fund investment allocation. To change your Employer Fund investment allocation, see instructions on page three, under *Member and Employer Election Forms*.

MEMBER INVESTMENT OPTIONS

Changes to the investment options for member contributions include: **1)** Three new "Premixed"

investment options; **2)** Name changes on several of the existing funds; and **3)** Two new funds to replace the old Quality Growth Fund. The following is a summary of these changes:

1) Three new "premix" funds are now being offered for member contributions, which are almost identical to the new Employer Fund options now being offered. The main difference being the fixed income portion of the Employer Funds will continue to hold a percentage of Guaranteed Insurance Contracts (GICS) until the oldest contract matures in year 2002.

The member premix funds are the "Conservative Premixed Fund," which is a mixture of 25% stocks and 75% fixed income; the "Moderate Premixed Fund," which is a mixture of 50% stocks and 50% fixed income and the "Aggressive Premixed Fund," which is a mixture of 75% stocks and 25% fixed income. (Note: the Moderate Premix Fund replaces the former Conservative Balanced Fund.)

a) Conservative Premixed Fund - Of the three premixed funds, this fund, while maintaining diversification, has the lowest risk of short-term loss and the lowest expected long-term return. It provides high relative safety against principal fluctuations but offers the least protection against inflation. Participants who want to be diversified but prefer to take as little market risk as possible or participants who may be withdrawing their accounts soon, may find the Conservative Premixed Fund very appealing.

b) Moderate Premixed Fund - Because of the increased exposure to the stock market this fund will be more volatile in the short-term but will provide a higher expected rate of return and better protection against inflation. Participants who want to take a

(Cont. on page 2)



New Options (from page 1)

more balanced approach may find the Moderate Premixed a suitable choice.

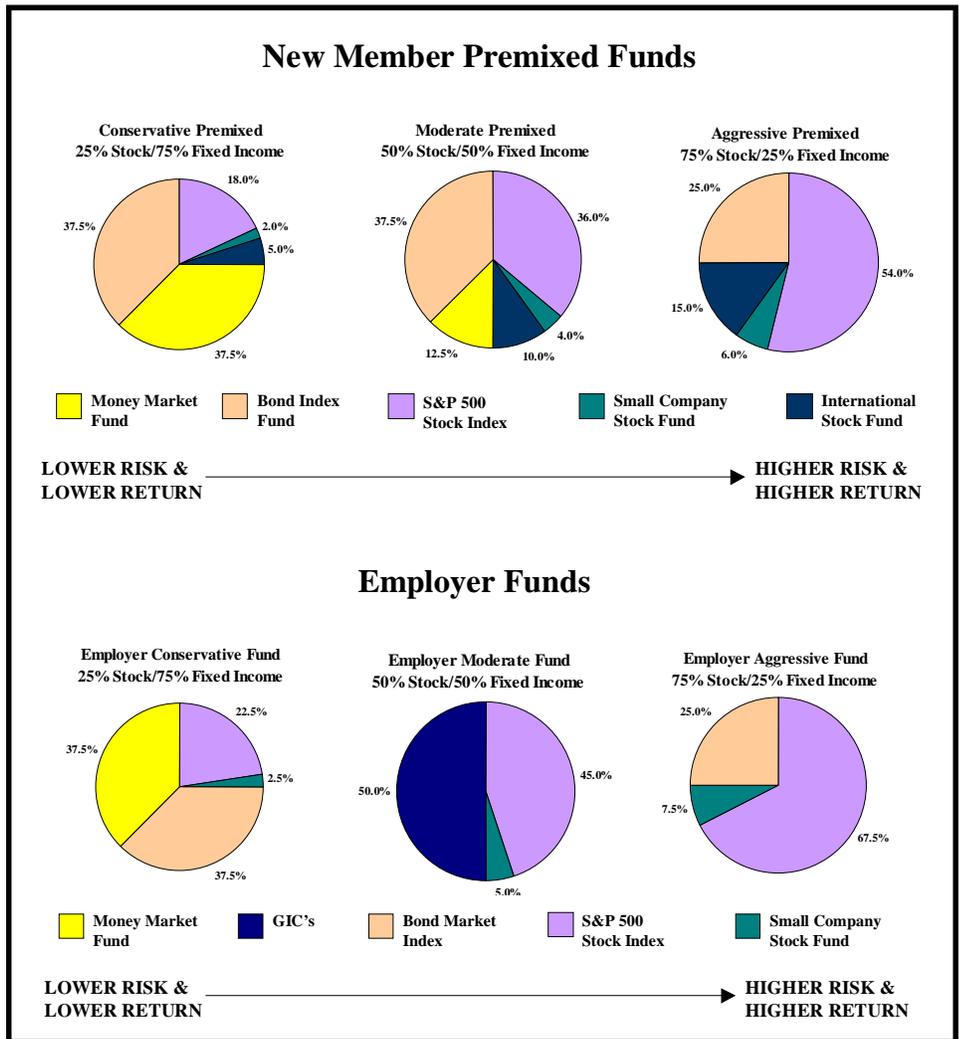
c) Aggressive Premixed Fund - Of the three premixed funds, this fund, while maintaining diversification, has the greatest risk of short-term loss, the highest expected long-term return and best protection against inflation because of its greater emphasis on the stock market. Participants who are comfortable assuming more market risk to enhance expected returns and participants investing for longer term results may find the diversification offered in the Aggressive Premixed Fund very appealing.

These “premixed” funds are for participants who understand the importance of diversification, but would like some assistance in developing a sound diversification strategy. You are free to choose any of the three premixed funds for as little as 5% or up to 100% of your participant account.

The stock portion of the new *Member* premixed funds includes a percentage of the S&P 500 Stock Index (formerly the Domestic Stock Index Fund), the Small Company Stock Fund (formerly the Aggressive Growth Fund) and the International Stock Fund. The stock portion of the *Employer Funds* is limited to U.S. Stocks, i.e. the S&P 500 Index and Small Company Stock Funds.

The fixed income portion of the *Member* premixed funds includes a percentage of the Money Market Fund and the Bond Market Index (formerly the Core Fixed Income Fund). The fixed income portion of the three *Employer Funds* will also consist of a percentage of GIC's.

The pie charts on this page will help you visualize which of the premixed funds might be most appropriate for you. The charts also show the asset allocation of each premixed fund. For investment descriptions and rates of return for the funds utilized in each premixed option, we suggest you refer to the State or County Retirement System Investment



booklet or the Annual Investment Report of February 1999.

2) **New Names** have been assigned to some of our *existing* investment funds to better describe the make-up of those funds. Below is a chart showing the Old Fund Names and the New Fund Names. An updated investment booklet is being published. We anticipate mailing in August 1999.

Old Name	New Name
Stable Value Fund	- Stable Fund
Money Market Fund	- Money Market Fund
Core Fixed Income Fund	- Bond Market Index
Domestic Stock Index	- S&P 500 Stock Index
Aggressive Growth Fund	- Small Co. Stock Fund
International Stock Fund	- International Stock Fund
Quality Growth fund	- Lg. Co. Growth Stock Index
(replaced with 2 funds)	- Lg. Co. Value Stock Index
Balanced Cons. Fund	- Moderate Premixed Fund
(replaced with 3 funds)	- Cons. Premixed Fund
	- Aggressive Premixed Fund
St. or Co. Employer Fund	- Employer Moderate Fund
(3 funds now)	- Employer Cons. Fund
	- Employer Aggressive Fund

(Cont. on page 3)

3) Two New Funds are now available to replace the old Quality Growth Fund. If you still had funds in the old Quality Growth Fund on July 1st, we transferred all Quality Growth Fund balances to the S&P500 Stock Index (formerly the Domestic Stock Index Fund) when we opened the brand new replacement funds. We did not automatically transfer you into one of the new replacement funds because the portfolio characteristics of the new funds differ from the S&P500 Stock Index, which is where the Quality Growth Fund money has actually been invested since November of 1998. (Refer to the "Notice" we mailed to you in November advising you of the termination of KPM Investment, Inc. as manager of the Quality Growth and Balanced Conservative Fund for details.)

The two new funds are the "Large Company Value Stock Index" and the "Large Company Growth Stock Index." State Street Global Advisors of Boston manages both funds. A description of these funds is included in this issue to assist you. These new funds are available immediately for your investment by using the enclosed Election Form or the Pension Access Line via the phone or the Internet.

4) A Member Investment Election Form and An Employer Investment Election Form are enclosed with this newsletter and your quarterly fund statement. These election forms have been designed especially for employees wanting to either change their investment allocation (for future contributions) and/or transfer money from existing funds to new funds. For those who prefer to make transactions electronically you may access our web site at www.nol.org/home/pers to make changes/transfers online, or you may use the Pension Access Line to make changes by phone. (Remember: You cannot invest employer contributions in the funds available for your member contributions.) □

Large Company Growth Stock Index

The Large Company Growth Stock Index (LCGSI) offers participants who are comfortable with the volatility that comes with investing in stocks, the higher rates of return historically earned in the stock market. The Large Company Growth Stock Index is an investment that seeks to mirror the long-term returns and risk characteristics of the Russell 1000 Growth Index. The Russell 1000 Growth Index, constructed by the Frank Russell Company, uses the 1000 largest company stocks in America. From these 1000 stocks, the stocks selected for inclusion in the Russell 1000 Growth Index have higher prices compared to earnings; higher prices compared to book values and higher growth rates. Stocks with these characteristics are commonly referred to as "growth stocks" and the portfolios that own them are said to be using a "growth style" of investing. The top 10 holdings in the index on March 31, 1999 were General Electric, Microsoft, Intel, Merck, Pfizer, Cisco, America Online, Lucent Technologies, Coca-Cola and Procter & Gamble.

The manager of this portfolio, State Street Global Investors, constructs the LCGSI to provide returns closely matching the Russell 1000 Growth Index. The LCGSI is a passively managed investment meaning that changes are made if, and only when, changes are made in the stocks in the Russell 1000 Growth Index. This strategy, besides having low management fees, low turnover and low transaction costs, also eliminates the risk of an investment manager making investments that under perform the index.

The investor in the Large Company Growth Stock Index benefits from consistent exposure to large company growth stocks in the U.S., broad diversification across a variety of U.S. industries, as well as low investment related expenses.

	Performance as of 3/31/99				
	1st Qtr. <u>1999</u>	<u>1 Year*</u>	<u>3Year*</u>	<u>5 Year*</u>	Since <u>Inception*+</u>
Large Co. Growth Stock Index	6.34%	28.40%	31.11%	N/A	28.77%
Russell 1000 Growth Index	6.36%	28.12%	31.03%	N/A	28.83%
*Annualized +Inception date: May 1994					

Performance shown is of an ERISA commingled fund. Historic performance is not necessarily indicative of actual future investment performance, which could differ substantially. All performance figures contained herein are provided on a gross return basis only. All returns are calculated in U.S. dollars. Frank Russell Company is the owner of the trademarks and copyrights relating to the Russell Indexes.
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IMPORTANT NUMBERS

Sterling Financial	877-970-9300 or Omaha 970-9300
Ameritas Pension Access Line	800-449-2696 or Lincoln 467-6925
Nebraska Retirement Systems	800-245-5712 or Lincoln 471-2053
http://www.nol.org/home/pers .	


*"Happiness Makes Up in
Height for What
It Lacks in Length"*

— Robert Frost

Large Company Value Stock Index

The Large Company Value Stock Index (LCVSI) offers participants, who are comfortable with the volatility that comes with investing in stocks, the higher rates of return historically earned in the stock market. The Large Company Value Stock Index (LCVSI) is an investment that seeks to mirror the long-term returns and risk characteristics of the Russell 1000 Value Index. The Russell 1000 Value Index, constructed by the Frank Russell Company, selects the 1000 largest company stocks in America. From these 1000 stocks, the stocks selected for inclusion in the Russell 1000 Value Index have lower prices compared to earnings; lower prices compared to book values and lower forecasted growth rates. Stocks with these characteristics are commonly referred to as "value stocks" and the portfolios that own them are said to be using a "value style" of investing. The top 10 holdings in the index on March 31, 1999 were Exxon, AT&T, IBM, Citigroup, BankAmerica, American International Group, MCI WorldCom, BellSouth, Bell Atlantic and Chase Manhattan.

The manager of this fund, State Street Global Investors, constructs the LCVSI to provide returns closely matching the Russell 1000 Value Index. This is a passively managed investment meaning that changes are made in the investments if, and only when, changes are made in the stocks in the Russell 1000 Value Index. This strategy, besides having low management fees, low turnover, and low transaction costs, also eliminates the risk of an investment manager making investments that under perform the index.

The investor in the Large Company Value Stock Index benefits from consistent exposure to large company value stocks in the U.S., diversification across a broad variety of industries, as well as low investment related expenses. □

Performance as of 3/31/99					
	1st Qtr. 1999	1 Year*	3Year*	5 Year*	Since Inception*+
Large Co. Value Stock Index	1.55%	5.06%	22.14%	N/A	21.92%
Russell 1000 Value Index	1.43%	5.04%	22.21%	N/A	22.01%

*Annualized +Inception date: May 1994

Performance shown is of an ERISA commingled fund. Historic performance is not necessarily indicative of actual future investment performance, which could differ substantially. All performance figures contained herein are provided on a gross return basis only. All returns are calculated in U.S. dollars. Frank Russell Company is the owner of the trademarks and copyrights relating to the Russell Indexes.
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Sept./Oct. 1999 Seminar Calendar State & County Employees

Personal Planning (under age 50)

September 30 - Sidney
October 6 - Kearney
October 19 - Norfolk

Preretirement (age 50 and over)

September 23 - North Platte
September 29 - Scottsbluff
October 7 - Kearney
October 20 - Norfolk

Complete Fall calendar will be published
in this Fall's Retirement Roundup

RETIREMENT ROUNDUP

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1999 Legislation Update

The following is a summary of retirement related legislation passed during the 1999 session affecting our State, County, and Deferred Compensation Plan members.

LB 687 - Provides for limited participant direction over the investment of the employer account in the State and County plans. Employees will be able to direct their employer account contributions into one of three blended investment options; 25% domestic stock/75% domestic fixed income, 50% stock/50% fixed income, or 75% stock/25% fixed income. See detailed explanation of new funds in this newsletter.

Adopts a provision in the State and County plans stating that the board, the state, the state investment officer, the members of the Nebraska Investment Council, or the agency shall not be liable for any investment results resulting from the employee's exercise of control over the assets in the employer account.

LB 703 - Amends the definition of "Termination of Employment" in the County and State plans. If a state or county employee terminates employment and resumes employment with the state or a participating county before incurring a break in service of 120 days, any termination benefit paid must be repaid to the system.

Adopts a provision in the State and County plans stating that the board, the state, the state investment officer, the members of the Nebraska Investment Council, or the agency shall not be liable for any investment results resulting from the employee's exercise of control over the assets in the employee account.

Eliminates the option for independent contractors hired by the state to join the deferred compensation plan. Grandfathers in those independent contractors currently participating in the plan.

Permits county employees whose employing county does not offer a Section 457 Deferred Compensation Plan to participate in the State administered DCP program. □