Retirement Roundup

"Providing Information to Judges, State Patrol and School Employees"

Nebraska Retirement Systems

Vol. 18, No. 2, Winter 2003

In this issue...

Update on Pensions' Funded Status

Each year in the fall NPERS has an actuarial review of the School, Judges' and State Patrol Retirement Plans. This review is a "snap shot" of the funded status of the plans and provides our office and the State Legislature an assurance the plans are in good financial condition.

In the past two years with the overall economy suffering a downturn and the stock market falling from an all-time high in 2000, our pension plans have also suffered losses. The good news is our pension assets have performed better than many other pension funds, but nonetheless two years of negative returns have been incurred.

> ***"All three pension plans are still in strong financial condition."***

Market Returns

For the plan year ending June 30, 2001, the assets for all three plans lost –4.3%. At the end of June 30, 2002, the assets returned –6.08%. This is compared with the S&P 500 index for the same period, which returned a –17.99% for the year and the Wilshire 5000, which lost –16.22%. Since 35% of the pension assets are invested in fixed income securities (the balance is invested in domestic and international stocks), it is important to note the fixed income portion of the funds returned +9.22% compared to the Salomon LPF index that returned 8.78% for the same period. A recent report from Pension & Investments magazine indicates the top 200 funds in the U.S. averaged a –24% loss over the past two years. Compared to those averages, the School, Judges' and State Patrol Plans are in very good shape.

Judges' Plan

This year in the Judges' Plan, additional contributions were requested from the state in the amount of $726,806. This payment is needed to pay the annual "normal" cost to the plan, since the expected 8% return was not achieved on the assets for the last two years. By law, the State of Nebraska is required to make any additional contributions to the Judges' Plan to keep it financially sound. The Legislature is considering changes to the Judges' retirement laws to increase member rates and possibly court fees. (See Legal Corner.)

NPERS' actuary predicted over a year ago that additional contributions would be needed for the Judges' Plan in the near future given the fact that member contributions and court fees aren't enough to pay the cost of the benefits earned during the year. The state uses court fees to provide funds for the Judges' Plan. However, those court fees have not kept pace with the member contributions for several years. So, with a lower than expected return on the assets, a need has emerged for additional funds for the Judges' Plan.

School Plan

The School Plan has an unfunded liability this year of $256 million. This means the actuarial accrued liabilities of $5.05 billion are greater than the actuarial value of the assets of $4.79 billion. The good news is, the annual contributions to the Plan by members, school districts and the state are sufficient to cover

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Behind the Scenes

Accounting

As one of the key areas in record-keeping for the Retirement Office, our Accounting Department has many crucial responsibilities. They work with officials from all six plans our office serves, and with Ameritas in monitoring the state and county plans. They oversee our agency budget, accounting records, pay bills, taxes and payroll for the agency.

The employees that make up our Accounting Department are a skilled, hard-working team. Each individual has his/her own area of expertise.

Liz is the long-term veteran in the area. She has been with the Retirement Office for 18 years and handles the agency "check book." She pays the bills, taxes, and other expenses.

School reporting agents are likely to speak with Cheryl when they call our office. She assists school officials with deduction reports and questions.

The newest member of Accounting, Nicole, also assists with the school reports. She does a great job of making report adjustments and entering remittance information.

Clint works with the state and county plans. He often speaks with state personnel and County Clerks regarding reporting issues. Clint also monitors the Ameritas reports.

Part of Steve's job is to prepare the annual financial statements for School, Judges and State Patrol Plan members. He also works with the State of Nebraska's accounting department.

As manager, Pam oversees the Accounting Department and has a hand in the agency's financial statements, cash flow and budget.

Deserving honorable mention, Hazel is a temporary employee with our agency and has been a great asset to our Accounting Department.

These special people make up our efficient, accurate Accounting Department. They are dedicated to serving our members and we appreciate each of them very much! ❑

Change of Address

Remember to inform **your employer** whenever your address or other personal information changes.

With implementation of PIONEER, *your employer* submits your current personal information to NPERS through what is called "employer reporting." Data is transmitted primarily via the Internet, but disk or paper reports are also accepted. Any changes to a member's demographics recorded by an employer will replace the previously reported information in NPERS' database.

Therefore, all changes must be made *through your employer* to ensure NPERS has correct information to mail your annual Benefit Statement and other important items.

Members not currently working in the school system or who are receiving a benefit should call, write or fax address changes directly to NPERS.

PIONEER Goes "Live"!

Pension **I**nformation **O**f **N**ebraska for **E**fficient **E**ffective **R**etirement

NPERS reached an exciting milestone this year in our quest to design, build, and implement PIONEER, our new state-of-the-art, fully integrated information system capable of supporting NPERS' mission into the 21st century. NPERS' staff, with help from a global technology systems company under contract, have spent countless hours evaluating processes and testing system design features while at the same time maintaining current work loads, processing retirements and responding to members' requests.

The first phase of PIONEER went "live" on January 27. This portion of the system enables NPERS to accept reporting of contributions from employers via the Internet, calculate members' benefits more efficiently and retrieve members' historical information using one integrated system instead of several different systems. The second phase is scheduled to go live in 2004 and will incorporate member benefit payments. Very soon PIONEER will allow plan members to view their own personal account information via the Internet.

As with all new technology systems, a few "bugs" and glitches are being worked out, but NPERS is on target with the phased in project and is excited about the results. NPERS will continue to keep you informed of PIONEER's progress. ❑

"Those who expect to reap the blessings of freedom, must, like men, undergo the fatigues of supporting it."

~Thomas Paine, "The American Crisis"

Spring 2003 Seminar Calendar

Lincoln	-	March 26
Omaha	-	March 27
Omaha	-	April 2
Columbus	-	April 3
Kearney	-	April 9
Kearney	-	April 10
Norfolk	-	April 16
Norfolk	-	April 17
Valentine	-	April 22
O'Neill	-	April 23
Scottsbluff	-	April 30
Scottsbluff	-	May 1
Lincoln	-	May 6
Omaha	-	May 7
Ogallala	-	May 14
McCook	-	May 15

2003 Summer Session

Scottsbluff	-	May 28
North Platte	-	May 29
Grand Island	-	June 4
Kearney	-	June 5
Omaha	-	June 11
Norfolk	-	June 12
Lincoln	-	June 18
Omaha	-	June 19

Preregistration is required. Spring registration brochures were mailed to all eligible members in January. Summer session registrations will be mailed in April.

If you have questions, contact NPERS at **800-245-5712** or **402- 471-2053**. You may download and print a registration form from the web site at **www.nol.org/home/pers.**

LEGAL CORNER

by NPERS Legal Counsel, Shawn Nowlan

New Proposed Legislation for 2003

Even in a year when Nebraska's fiscal cupboard resembles that of "Old Mother Hubbard," there are proposals introduced in the Legislature for benefit enhancements. These bills introduced in 2003 affect the **School**, **Judges'**, and **State Patrol** Plans. *REMEMBER these proposals have been introduced, but have not been enacted by the Legislature. Read your next issue of the "Retirement Roundup" to see which proposals became law this year.*

NPERS' "Clean-up" Bill – **LB 451** focuses on various administrative matters:

- Changes needed with the first phase of the PIONEER integrated computer system;
- Technical amendments resulting from implementation of the new cash balance benefit in the State and County Plans;
- Suggested changes from the federal law "compliance audit" from the Segal Company and Groom Law Group, completed in 2002; and
- Changes suggested by Buck Consultants, the consulting actuary for all NPERS' administered plans.

State Patrol Plan – only one bill affects the Patrol Plan:

- **LB 514** increases the contribution rate for members of the State Patrol Plan from 11% of compensation to 13% of compensation and the matching employer rate to the same.

Judges' Plan – three bills propose changes:

- **LB 320** increases the Judges' contribution rate from 6% of pay to 8% of pay for judges with less than 20 years of service. For judges with 20 or more years of service, a new contribution of 4% of pay is introduced (currently these judges stop contributing after 20 years). The court fee for retirement purposes is increased from the current $1 per case to $2 per case.
- **LB 679** adds a new death benefit, changes the "normal" form of the benefit to a 50% Joint & Survivor Annuity, allows early unreduced retirement for judges who are age 60 with 20 years of service, and allows a modified reduced early retirement for judges who are age 60 with less than 20 years of service.
- **LB 760** (which also covers other judicial matters) increases the court fee from $1 per case to $5 per case. It sets out a slightly different death benefit (based on the 50% Joint & Survivor Annuity), and also creates the early retirement options in the same manner as in LB 679.

School Plan – two bills propose changes in the benefit and contribution rates:

- **LB 442** changes the benefit to surviving spouses of Plan members who have more than 5 but less than 20 years of service regardless of the member's age at the time of death. Spouses may choose either an annuity option or a lump-sum option that includes both the member's accumulated contributions and an additional amount equal to 101% of the account balance.
- **LB 544** increases the member contribution rate, but does not specify the exact amount of the increase (the bill shows it as "XXX" amount).

Other bills of Interest –

- Several bills were introduced that could effect the operations of the Nebraska Investment Council including LBs 117, 149, 175, 248, and 773, and are described in this newsletter.

Concern With Investment Changes Being Proposed

by Anna J. Sullivan, Director

Several bills have been introduced this year to reduce the authority of the Nebraska Investment Council and give the State Treasurer more oversight and control over the Council. The five-member Investment Council oversees the investment of over $6 billion in retirement system assets and other state funds.

The Public Employees Retirement Board (PERB) is very concerned about these proposals and the impact the changes would have on the investment of the pension assets for school, state and county employees, state patrol officers and state judges. The PERB does not oversee the investment of the pension assets, but monitors the work of the Investment Council very closely through its Director who sits on the Council as an ex-officio member.

Here is a brief summary of the legislative bills:

LB117 in its original form would authorize the State Treasurer to use pension assets to develop a central receipting system for State Government. An amendment has been introduced by the Senator sponsoring the bill, which would remove the use of pension assets for this project. If left in its original form, the use of pension funds would be clearly illegal.

LB248 would require that 50% of the assets be invested by the State Treasurer and Investment Council using an online bidding process via the Internet.

LB773 requires the Investment Council to use Nebraska-based companies for at least 1% of the retirement fund assets, if it does not breach the Council's fiduciary duties.

LB's 149 & 175 appear to be "clean-up" in nature and so are NOT a concern of the Retirement Office or the PERB.

The Investment Council (like the PERB) is a board composed of members appointed by the Governor with staggered 5-year terms of office. Each member appointed must be confirmed by the full Legislature. Council members are required to have extensive investment experience to qualify to serve. The Council members (like the PERB) are fiduciaries, which means their sole responsibility is to the members of the pension plans. Council members are guided by a very high standard of care and must make decisions that are in the best interest of the pension plan members.

The PERB believes the current organizational structure works very well. The Council is accountable to the Legislature through annual reporting and to the Governor who appoints them. In this very challenging investment environment the Council's investment portfolios have done well. The funds are well diversified and have returns in excess of the various benchmarks used to measure performance.

All of the public hearings for the above LB's have not been held, as of this date. We will provide you an update on the outcome in our next issue of the "Retirement Roundup." You can also check the Nebraska Unicameral's website at **www.unicam.state.ne.us/index.htm** to monitor the progress of these proposals. ❑

School Death Benefits Explained

"What happens to my retirement if I die?" This question pops up on a regular basis at our School retirement seminars. The answer is, "*it depends…*" Most members understand *it depends* on who they have listed as their beneficiaries, but it also depends on whether they are asking about death *before* or *after* retirement. To further complicate matters, recent changes in state statues have added additional death benefits for some situations. To clarify, let's look at both scenarios.

At retirement you must select a "retirement payment option" when applying for benefits. The option you choose determines whether or not a benefit will be available to your beneficiaries upon your death. There are several options to chose from including one that does not provide a death benefit (this option pays the highest monthly benefit). Other options may limit benefits to a surviving spouse, or allow for multiple beneficiaries. So the death benefit *after retirement* depends on which option you select, and the beneficiaries you list.

If you die *before retirement*, death benefits are determined first by the beneficiary(s) you have listed, then by your age and your total years of service credit.

If you designated your spouse as primary beneficiary, the spouse may choose either a refund or lifetime monthly annuity. The amount of the refund or annuity will depend on your age and years of creditable service. If you have **20 or more** years of creditable service, OR are **age 65 or older** at death, your spouse may choose:

- **Refund Option** – A lump sum payment of your contributions plus accumulated interest, OR
- **Annuity Option** – A lifetime monthly annuity, but an application *must* be submitted to NPERS *within 90 days* of your death.

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Employer Education and Reporting

The "Employer Education and Reporting" section is intended for Employer Contacts.

Employer Contacts - All school Employer Contacts (formerly "Authorized Reporting Agents") are required to complete a new Employer Contact Report Form #**NPERS6300** (Rev 01/03) and send to NPERS. These forms were recently mailed to all employer contacts with instructions.

The following procedure changes are due to implementation of contribution reporting through PIONEER and the Internet.

- **Membership Registration Forms -** These forms are no longer required. However, employers should give all new hires after January 27, 2003, a Beneficiary Designation Form to complete and submit to NPERS.
- **Remittances** – When reporting through the Internet and remitting with a check, it is not necessary to submit a recap or paper copy. However, please clearly indicate with your check your organization number, as assigned by NPERS, and the pay period the payment is covering.
- **Address Changes** – NPERS requests that all schools remind employees to submit address changes and other demographic information to their employers rather than to NPERS. Only Plan members not currently working may contact NPERS directly with changes in address and other personal information.

School Manual for Authorized Reporting Agents - Chapters 1 and 3 of the instruction manual for Employer Contacts were revised in January and mailed to all schools. Included were the following forms. Please discard all old forms.

Form #	**Title**	**Rev. Date**
NPERS6100	Wage & Contribution Recap Report	01/03
NPERS6200	Adjustment Report	01/03
NPERS6300	Employer Contact Report	01/03

For additional copies of new forms or Chapters 1 and 2 of the School Manual, contact NPERS or download from the Employer Reporting section on the web site at **www.nol.org/home/pers**.

Questions? When you have specific questions on employer reporting, contact **Cheryl** at **402-471-9497**, toll free at **800-245-5712**.

Death Benefits

(Cont. from page 4)

If you have **5 or more** but **less than 20** years of service, and are **under age 65** at death, your spouse may choose:

- **Refund Option** – A lump sum payment of both your contributions and an additional amount equal to 101% of your contributions plus accumulated interest.
- **Annuity Option** – A lifetime monthly annuity, but an application *must* be submitted to NPERS *within 90 days* of the your death, and the annuity will be reduced for early retirement.

If you have **less than 5** years of creditable service, and are **under age 65** at death, your spouse may receive a lump-sum refund of your contributions plus accumulated interest.

In all cases, if your named beneficiary is not your spouse, the death benefit is a lump sum refund of your contributions plus accumulated interest.

Contact NPERS if you have questions about death benefits in the School Plan. ❑

Issue With Retiree Increases

by Anna J. Sullivan, Director

NPERS has received word there is a group of retired school employees seeking an increase in their retirement benefits. Although, there has not been a legislative bill introduced this year to raise retiree benefits, there is a resolution introduced to change the State Constitution to allow one-time raises for retired members. If this constitutional amendment is passed, legislation could be introduced to provide a minimum benefit amount to school retirees.

The School Retirement Plan, as well as the Judges' and State Patrol Plans, provides an annual cost-of-living adjustment (COLA) to all retirees. Right now with inflation very low, the COLA increases have been small. There are members who retired many years ago who are receiving smaller benefits than members retiring today. This is primarily due to the lower salaries earned during the retiree's career and the fact that benefit improvements made recently cannot be granted if a member is already retired.

Everyone agrees that retirees need adequate income to pay their expenses, particularly in this climate of escalating medical costs. However, NPERS is concerned the School Retirement Plan cannot afford to increase benefits to retirees beyond the annual COLA increases paid now. Unless the cost of a benefit improvement is borne by the State of Nebraska, any retiree benefit increases would increase the unfunded liabilities and, therefore, increase the contribution rates paid by current members and employers.

The School Plan has an unfunded liability, due to the downturn in the financial markets for the past two years and the benefit improvements granted recently. One of the biggest improvements made was an automatic COLA for all retirees every year. It is important for all school members to know that the School Plan cannot afford another major benefit improvement at this time. ❑

Are You Retiring Effective June 1, 2003 Or Earlier?

Is June 1, 2003, your anticipated retirement date? If so, your retirement benefit does *not* start automatically. You should begin working on the following pre-retirement checklist as soon as possible:

- √ Call NPERS and request a benefit estimate, unless you've already done so. Or, calculate your own with the benefit estimator at **www.nol.org/home/pers**.
- √ Request an Application for Retirement. You may file your application with NPERS at least 30 days but no more than 90 days before your effective date. Your benefits cannot begin without this application.
- √ Complete your tax forms, direct deposit form, and Beneficiary Designation Form (if applicable), and submit to NPERS with your application.
- √ Submit a certified copy of your birth certificate, unless NPERS already has one on file.
- √ If you elect a payment option that names a beneficiary, submit a certified copy of his/her birth certificate.
- √ If you elect the Joint and Survivor Annuity, NPERS will need a certified copy of your marriage license.

Update

(Cont. from page 1)

the annual "normal" cost (cost of the benefits earned during the year) of the Plan as well as an amortization payment toward this unfunded liability. So, this year additional contributions are not needed from the state.

Now, if the financial markets continue to stay down and the expected investment return of 8% is not reached in the next two years, there could be the need to increase contributions to the School Plan to pay the annual normal cost and the amortization payment. By law, the State of Nebraska is required to make any additional contributions needed in the School Plan. A legislative bill has been introduced to raise member and district contribution rates, but is not expected to pass this year. (See Legal Corner.)

State Patrol Plan

The State Patrol Plan has suffered the same asset losses as the School and Judges' Plans but is at risk of needing additional contributions next year if the financial markets do not turn around. Right now the Plan is in solid financial condition, but has depleted its reserves after two down years. The Legislature is considering a bill to raise member contribution rates to 13% of pay and the employer-matching rate to the same. (Patrol members do not participate in Social Security and as a result have greater benefits and higher contributions rates.)

NPERS realizes by outlining these details there is the risk of alarming you, but the goal is to inform you. All three pension plans are still in strong financial condition. Even with the market losses, there are sufficient assets to pay benefits for years to come. This can be demonstrated by comparing the annual distributions to the asset value. The annual distributions from the Plans as a percent of the plan assets on June 30, 2002, were 3.8% for the School Plan, 4.8% for State Patrol, and 5.1% for Judges. But, it should be realized that when plan assets do not perform as expected, the cost of the benefits earned during the year must still be funded to maintain the actuarial balance between assets and liabilities.

Note: Copies of the annual actuarial valuation reports are available from NPERS upon request. ❑

RETIREMENT ROUNDUP

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