Retirement Roundup

"Providing Information to State & County Employees"

Nebraska Public Employees Retirement Systems

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Concern With Proposed Investment Oversight Changes

by Anna J. Sullivan, Director

LB124 was 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 this and other 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.

"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."

Here is a brief summary of other investment related 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

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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 closely with the State of Nebraska's accounting division.

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 who 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 (our new technology project), *your employer* submits your current personal information to NPERS through what is called "employer reporting." Any changes to a member's demographics recorded by an employer will update information in NPERS' database.

Therefore, all changes must be made *through your employer* to ensure NPERS has correct information to mail your quarterly account statement and other important items.

Members not currently working for the state or a Nebraska county should call, write or fax address changes directly to NPERS.

New Publications Coming Soon

Annual Investment Report – The report for members of the State and County Retirement Plans and the state's Deferred Compensation Plan will be mailed to all plan members in April 2003. The report includes investment results, plan statistics and updated "fact sheets" for each investment fund for the plan year ending December 31, 2002. The report also provides a "snapshot" of the Plans' assets leading up to the conversion of many Plan member's accounts to the new cash balance benefit.

Cash Balance Actuarial Report – Members of the State and County Plans who converted their accounts to the cash balance benefit will soon receive a copy of the first Actuarial Report showing the financial and demographic details of the new benefit group.

Deferred Compensation Plan Booklet – The updated DCP booklet reflects major law changes, both state and federal, that occurred last year. The booklet will be mailed soon to DCP plan members. A supply of the booklet will also be provided to employer contacts. ❑

Investment Changes

(Cont. from page 1)

have done well. The funds are well diversified and have returns in excess of the various benchmarks used to measure performance.

LB124 has been killed by the Retirement Committee. Final action for the other LB's has not been taken. 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. ❑

Is Your Beneficiary Designation Up To Date?

With the updated payment options for death benefits (see article on page 4), and with implementation of PIONEER, NPERS' new technology project, now may be a good time to review your own beneficiary listings. (New employees should have completed a Beneficiary Designation Form upon hire.)

Keeping your beneficiary designation at NPERS up to date will ensure benefits are paid promptly and properly. You should review your choice of beneficiaries if:

- you or a beneficiary marries or becomes divorced;
- a beneficiary dies;
- you have a child; or
- there is a change in your employment or some other status that would affect your beneficiaries.

If you need to make a change, you may request a Beneficiary Designation Form from your employer or from NPERS, or you may download a copy from NPERS' web site at **www.nol.org/home/pers**.

Remember, your beneficiary designation on file with NPERS is for naming those to whom you want your *retirement plan* assets to go if you die while you are currently employed. This should not be confused with a beneficiary designation you make for life insurance you carry through your employer. Contact NPERS at **402-471-2053** or **800-245-5712** if you have questions. ❑

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

~Thomas Paine, "The American Crisis"

LEGAL CORNER

by NPERS Legal Counsel,
Shawn Nowlan

Retirement Savings Tax Credit — "Close, but no cigar."

Recently, NPERS received the following question from a number of members: "Can I take the IRS's new 'Retirement Savings Contributions Credit' for my contributions to the retirement plan?" The short answer is "No." This article explains why the credit does not apply to State or County Retirement Plan contributions.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and regulations issued by the IRS during 2002 added a number of new provisions to the tax code. The "Retirement Savings Contributions Credit" has caused confusion because of the limited nature of the credit. At its simplest level, the tax credit is only available for *elective deferrals* (i.e. voluntary contributions) to various types of retirement plans. This means it only applies to contributions you *choose to make.* It does *not* apply to mandatory pre-tax deferrals in a regular 401(a) retirement or pension plan.

Examples of "elective deferrals" include amounts you *choose* to contribute to the following:

- a traditional IRA or a Roth IRA;
- a 401(k) plan (these are funded with *voluntary* contributions);
- a 403(b) annuity plan;
- a governmental 457 (i.e. deferred compensation) plan;
- a SIMPLE IRA plan; or
- a salary reduction SEP.

One example of a "mandatory pre-tax deferral" is the amount you *are required* to contribute to a 401(a) pension plan (e.g. your State or County Retirement Plan).

If you participate in a 457 Deferred Compensation Plan, you may be able to take advantage of the tax credit (if you meet the other IRS qualifications for taking the credit), if *all* of the following apply:

- you were born before January 2, 1985;
- you are not a full-time student;
- no one else claims an exemption for you on their income tax return; and
- your adjusted gross income is not more than:
  –\$50,000 if your filing status is married filing jointly,
  –\$37,500 if your filing status is head of household (with qualifying person), or
  –\$25,000 if your filing status is single, married filing separately, or qualifying widow(er) with dependent child.

However, you *may not* under any circumstances use your normal mandatory retirement plan contributions to apply for this tax credit.

Remember, this article does not cover all contingencies and is for purpose of notification and example only. For further information and full details on the "Retirement Savings Contributions Credit," please consult your own tax professional or access the Internal Revenue Service web site at **www.irs.gov.**

To learn how to reduce your current taxes by voluntarily participating in the State of Nebraska's Deferred Compensation Plan, contact your employer or NPERS. (County employees should contact their employer for information.)

Payment Options for Death Benefits

By Shawn Nowlan

The benefit in the State and County Retirement Plans is based on the member's total vested account balance as of the date that money is distributed to the member. There are various ways a member may access that benefit – through the form of direct payments, systematic withdrawals, rollover distributions, and purchasing annuities. Each of these methods is based on the same basic benefit – the vested balance of a member's account.

Two events in 2002 caused NPERS to take a new look at the manner in which the benefit is distributed to the beneficiaries of members who die before accessing their accounts. First, the implementation of the new cash balance benefit created a need to more carefully define when and how the beneficiaries could access the member's account. Since all annuities will now be paid directly by NPERS, rather than being funneled through a third-party provider, there is a greater need to resolve death benefit calculations quickly. Second, the compliance audit emphasized that the State and County Plans, in order to maintain the special tax status, must comply with the required minimum distribution requirements found in Internal Revenue Code §401(a)(9). One way to assure compliance is to resolve death benefit matters quickly.

Based on these two factors, the Legislature recently modified the death benefit for the State and County Plans, via Legislative Bill 451 (Laws 2003). The death benefit itself doesn't change – it still consists of the total of the employee and employer account. However, the methods by which payment may be made have changed. In the future, these payment options will be available:

- **General Death Benefit Payment Option**: For any beneficiary who is *not* the surviving spouse of a member, the only option is direct payment(s). The account must be distributed in one or more payments, so all monies will be paid out by the fifth anniversary of the member's death. This option also applies to the member's estate, if the member has not named a beneficiary.

- **Surviving Spouses' Death Benefit Payment Options**: For a beneficiary who is the surviving spouse of a member, the surviving spouse must choose, within 120 days of the member's death, between two options for payment .

  Option I – is a direct payment of the same type available to non-spousal beneficiaries, and must be distributed in one or more payments, so all monies will be paid out by the fifth anniversary of the member's death. Under federal tax law, the surviving spouse may roll the money over into another tax-deferred retirement account, but will have to begin taking direct payments when the member would have been 70½ years old.

  Option II – is a joint and survivor annuity option. The spouse may choose payments that will be paid monthly for the rest of his/her life. For more details on how the monthly annuity benefit is calculated for the annuity, contact NPERS. ❑

RETIREMENT ROUNDUP

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Employer Education and Reporting

*The "Employer Education and Reporting" section is intended for **County Clerks** and **State Agency Personnel.***

Enrolling Full-Time or Part-Time Employees -- Enrollment in the State or County Retirement Plan is mandatory after 12 months of continuous employment for an employee who works "one-half or more of the regularly scheduled hours during each pay period." Use the following two-step process when determining which employees to enroll in the Plans.

Each county/agency should determine the number of hours that is considered "full time" for their employees (can range from 32 to 40 hours a week). This should be considered the "regularly-scheduled hours" for that particular employer.

Once the full-time hours are determined, those who work one-half or more of these hours should be considered "full-time" for retirement purposes. As an example – if 40 hours is full time, then those who work 20 hours or more a week are required to be a part of the Plan, but if 32 hours is full time, then those who work 16 hours or more a week are required to be in the Plan. The meaning of "one-half time" is contingent on what each employer considered "full-time."

What if the employee doesn't consistently work one-half or more of the regular scheduled hours each pay period? If the employee averages or works one-half time, they should be put in the Plan.

Questions? Contact these staff members when you have specific questions on employer reporting:

County reporting questions —
Clint 402-471-9725
State, County and DCP questions —
Kim 402-471-9483,
Anne 402-471-7064 or
Toll Free 800-245-5712