Retirement Roundup

"Providing Information to State & County Employees"

Nebraska Public Employees Retirement Systems

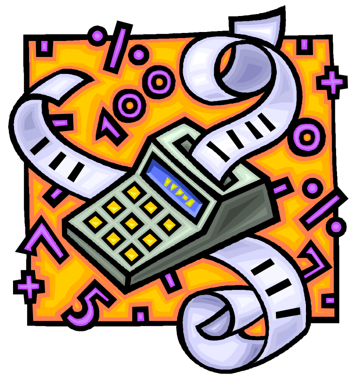
Vol. 18, No. 5, Summer 2003

In this issue...

Information for Members Regarding Plan Expenses

Due to recent events (which we will explain below) it is important that we provide each State and County Plan member an update on how your plan expenses are being paid and some changes that will be forthcoming.

There are several types of expenses that both the State and County Retirement Plans incur, these are: a) NPERS' administrative expenses, such as cost for staffing, publications, office supplies, computer equipment, postage, telephone, etc.; b) Nebraska Investment Council expenses and related investment management expenses; c) recordkeeping expenses, which are the costs of paying Ameritas to maintain member accounts on a daily basis; issue quarterly statements; post contributions, etc. and d) bank custody expenses.



NPERS' Expenses

NPERS' expenses are prorated for each plan we administer so that each plan pays a share of our expenses using a time and usage formula. NPERS' expenses for the State and County Retirement Plans are, by law, to be paid from the "forfeiture" funds first and then if needed from the assets of the plans.

The "forfeiture" funds for both the State and County Plans are made up of employer matching dollars which are forfeited by members who, at the time they quit working for the State or County, are not vested. Traditionally, there has always been enough money in the "forfeiture" account each year to more than cover NPERS' expenses. Also, the law allows us to grant each individual County and the State of Nebraska a "credit" for any excess funds in the forfeiture account at the end of the plan year to use to offset future employer contributions.

For the past 18 months NPERS has not granted a credit to each County employer or to the State for any excess forfeitures, we have retained the money within the forfeiture account for two reasons. First, our office expenses have increased due to our new technology project, PIONEER. Second, we have seen a significant decline in forfeitures due to a shorter vesting schedule changed by the Legislature, effective in April of 2002.

The law passed in 2002 says plan members in both the State and County Plans will "vest" or qualify for the employer matching contributions after two (2) years of plan participation. This change lowered the vesting schedule from five (5) years of participation previously required under the law. So, now when members quit work with either the State or County, fewer of them are forfeiting the employer matching contributions and thus the size of the forfeiture account is shrinking.

It is helpful that the laws governing the State and County give us the authority to pay expenses from the money forfeited by non-vested members but also from "*money from the retirement system assets and income sufficient to pay the pro rata share of administrative*

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Behind the Scenes

Data Services

As the "heart" of the Retirement Office, Data Services sees that all member account information is complete and accurate. Without the accuracy and efficiency of the Data Services team, it would be nearly impossible for other departments to do their jobs.

Dennis Cooper, manager of Data Services, oversees a wide range of activities. Dennis is also the manager reponsible for supplies, equipment and furniture, and coordinating deliveries, security and maintenance issues.

Maria is the lead worker for the team as well as a "veteran" of the Retirement Office with over 22 years of service. Maria, Christi, Leslie and Melissa are in charge of data purification, where they prepare and "clean up" members' files, making sure member information is accurate and complete. They also work with individual schools to verify each member's years of service.

Data Services, left to right: Leslie, Sarah, Jason W., Maria, Brian, Melissa, Norene, Tauna, Jason B., Christi and Dennis

Tauna, also in data purification, maintains the demographics portion of members' files. When address or beneficiary changes and other key information is received, Tauna enters it into the computer system.

Another important part of Data Services is the mail room. Sarah and Jason sort, prepare and distribute incoming mail, which can be hundreds of pieces each day.

Brian scans all correspondence and documents electronically into the image system. Since this technology is fairly new to our office, Brian is also kept busy scanning pre-existing files.

As the information technician, Norene helps with computer related issues. She works on equipment, maintains software and assists staff in a variety of ways.

Data Services is fortunate to have two dedicated temporary employees. Jason helps with the scanning process. Hazel has been helping convert microfilm documents to image documents.

With the implementation of the new PIONEER technology system, Data Services is undergoing many changes in their processes and procedures. But it is certain this high-tech team is up for the challenge and will continue to serve our members with accuracy and efficiency! ❑

Changes Planned for DCP Member Expenses

In a related article in this issue we have outlined NPERS' need to charge the assets of the State and County Plans a small expense charge of 10 basis points (.0010) that began in May of this year to cover our office expenses. This change is also important to each of you who participate in the State's voluntary **Deferred Compensation Plan** (DCP).

The investment funds utilized for the State and County defined contribution participants are the same investment funds used for the DCP program. Therefore, when NPERS assesses a charge of 10 basis points against each of the investment funds for the State and County Plans, the same 10 basis points will be assessed against the DCP portion of those investment funds.

The result of this change will be to discontinue the $20 annual administrative fee charged DCP accounts to pay NPERS' administrative expenses for DCP, beginning July 1, 2003. The total cost of administrating the DCP program has been borne totally by the participants, since there has been no funding by the state to support the program since the mid-80's.

Note: We have not included assets managed separately by Hartford Insurance Company since that account is closed to new members and we perform little or no administrative work on that account.

As a DCP member, here is what you can expect in 2003, direct expenses: NPERS' fee of 10 basis points (.0010); Investment Council's investment related fees of 9 basis points (.0009); and the custodial bank expenses of 5 basis points (.0005). This is a total of 24 basis points for the administration of your plan. In January of 2003, the annual Ameritas fee was reduced from $25.75 to $18 per year, after we renegotiated the Ameritas contract.

If a member has a $10,000 account balance he/she will have an approximate cost of $24 per year for expenses and an $18 cost for the Ameritas recordkeeping fee for a total annual cost of $42. For members who are just enrolling in DCP or who have small account balances, these changes will reduce your overall cost significantly. ❑

Impact of New State Payroll System on Retirement Accounts

The implementation of the State's new payroll and finance system (NIS) has gone as well as could be expected given the huge amount of detail involved with such a system. NPERS has a profound respect for the State Employees who have spent countless hours on the NIS project and remain optimistic that any outstanding issues will be resolved.

However, we have found some errors with the retirement contribution data we are receiving from NIS and the funds being deposited with our record keeper, Ameritas, for State Employees and DCP participants. In some cases contributions have been late and for others not in the correct amounts.

We have received corrected information from the State Accounting staff for over 100 members who had insufficient contributions in March due to the step-up contribution rate of 4.8% not being included in the files sent to Ameritas. In April all of the accounts impacted had the additional contribution posted and a make-up amount for lost earnings was paid in May.

There are still others which remain unresolved who have variances in the contributions for a pay period sent to Ameritas for posting. At last count nearly 400 employees had differences in the amounts reported to Ameritas and the amounts being reported on the NIS system. The differences range from $30 to $300 per person, with most averaging less than $100.

NPERS staff is working closely with Ameritas and the State Accounting and NIS staff to be sure any contributions that may have been missed are made-up as soon as possible. We have also found that some of these mistakes have been made at the agency level and are not necessarily a

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Legal Corner

by NPERS Legal Counsel,
Shawn Nowlan

NPERS' Clean-up Bill

LB 451

NPERS' clean-up bill was passed by the Legislature and signed by the Governor effective April 17, 2003. LB 451 makes several changes, as follows:

Clarification from the Legislature concerning On-Site Audits

The Legislature added a provision to §84 1503(a)(f), indicating NPERS is not responsible for on site audits of school districts and counties who participate in the retirement plans for compliance with membership and contributions rules.

PIONEER-Related Changes

Several administrative changes will help implement NPERS' technology project:

- The two week notification period for employers to report terminations to NPERS is removed. The law simply says reporting must be "timely." The change occurred because notices of termination are to be reported through employers' contribution reports each payroll period to NPERS.
- In the **County Plan**, a new provision makes re-enrollment of a returning member mandatory within 60 days of beginning employment with a participating county. This provision is consistent with the 60 day requirement in the **State Plan**, and is meant to increase efficiency in re-enrolling members.
- If a member dies before taking a retirement benefit, his/her surviving spouse will now have 120 days during which to decide whether to take a monthly annuity benefit or a refund of the member's account balance. Previously, spouses had only 90 days to make a decision. This change is being implemented in the **State**, **County**, Judges' and School **Plans**.
- Death benefit provisions also clarify that a non-spouse beneficiary has up to five years to claim a lump sum payment of the member's account.
- In the Spousal Pension Rights Act, language is added that clarifies that an alternate payee who receives a share of a member's defined contribution account will receive investment authority over his/her share when the QDRO has been approved by NPERS' Director.

Cash Balance Administrative Changes

As NPERS implemented the new cash balance benefits in the **State** and **County Plans**, several changes became necessary:

- Since annuities are no longer provided by an outside contractor, it became necessary to define the date an annuity begins and the date the account is valued when purchasing an annuity. Two new definitions were added to the Plans to clarify both dates: "final account value" indicates that a member's account will be valued "on the date the account is either distributed to the member or used to purchase an annuity from the Plan . . . but no sooner than 45 days after the member's termination," and annuities shall be calculated as of the "annuity start date," which is "the first day of the month following the member's termination or following the date the application is received by the board, whichever is later."

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Plan Expenses

(Cont. from page 1)

expenses incurred....” Based on the events mentioned above, **we now must begin to assess a charge against the actual assets of the plans in order to pay our NPERS' expenses.**

Our combined State and County Plan assets as of the end of December 2002 totaled nearly $880 million. NPERS' annual expenses (Retirement Office only) paid from the “forfeiture” funds for the two plans in calendar year 2002 were $1,092,805. If we had charged this amount against the assets last year it would have equated to .00124 of the assets or 12.4 basis points. For a member with a $10,000 account this would have cost him/her $12.40 if we had actually charged the pension assets for our 2002 expenses. Last year we were able to cover expenses using only the “forfeiture” funds so there was no direct cost to members.

However, as of May 1, 2003, we had to begin to assess a charge of 10 basis points or .0010 against the plan assets. This will generate the extra funds we need this coming year to pay NPERS' expenses that exceed the smaller amount of “forfeitures” we expect to accrue in 2003. We also cannot totally deplete the forfeiture fund since we must keep enough funds to cover any member reinstatements that may occur during the year. **Note**: Members who return to work for the State or County within five (5) years and who repay their withdrawn contributions will have their forfeited employer funds reinstated from the forfeiture funds.

This new charge of 10 basis points will be accrued against the share price of each investment fund. In other words, if the share price for a particular investment fund is $1.00, the share price would be reduced to 99.9 cents once we accrue our expense charge. So, in this example if a member has $10,000 in his/her account a charge of .0010 in expenses would cost him/her approximately $10 per year.

Ameritas Recordkeeping Expenses

As you know, each month an amount is subtracted directly from your account to pay Ameritas for the recordkeeping services they provide to State and County Plan members. In 2002 that fee was $25.75 per member, per year. During the past three years we were able to lower this fee from a high of $29 per year by taking on additional duties within NPERS previously performed by Ameritas.

Under our new contract with Ameritas we were able to negotiate a reduced recordkeeping fee for members this coming year. Beginning on July 1, 2003, the Ameritas fee will be $25 per year for members in the defined contribution portion of the State and County Plans and $24 per year for members who elected to move their funds to the new Cash Balance benefit. (Ameritas estimates slightly more cost associated with handling the individual investment funds, transactions, etc. for the defined contribution members who have investment direction over their funds.)

In the 2002 plan year, the fees assessed against member accounts and paid to Ameritas for both State and County Plan members totaled $589,727. As a percentage of the total assets, this equaled 7 basis points or .0007.

Investment Related Expenses

The fees associated with “investment” expenses have always been charged against the assets. You will note in the recent Annual Investment Report you received from NPERS, at the bottom of the page for each investment fund, we show an “annual investment fee.”

You will note that the S&P 500 Stock Index Fund, for example, had a fee in 2002 of 0.03% or .0003 (3 basis points) charged against the assets in that fund. Other investment funds, that are not index funds, are actively managed and have higher expenses. For example, the Small Company Stock Fund fee is approximately 0.42% or .0042 charged against the assets of that fund. These fees include the Nebraska Investment Council's expenses as well as the investment managers' expenses. The Nebraska Investment Council oversees the hiring of the investment managers, an investment consultant and approves the State Treasurer's contract with the custodial bank where the pension assets actually reside.

In Summary

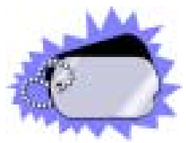
NPERS will continue to manage the State and County Plans at a very reasonable cost. In 2003 here is what you can expect in direct expenses:
NPERS' fee of 10 basis points (.0010); Investment Council's investment related fees of 9 basis points (.0009); and the custodial bank expenses of 5 basis points (.0005). This is a total of 24 basis points for the administration of your plans. If you had a $10,000 account this would be approximately $24 per year. Add to this the annual recordkeeping fee of $25, or $24 for Cash Balance members, and you have a grand total of $49 per year if you have a $10,000 account.

Contrast this annual expense with a typical mutual fund which charges an average of 130 basis points or more ($130 per year on a $10,000 account) and you can see how we have kept our plan expenses reasonable and affordable for you.

NPERS will continue to use the forfeitures that accrue during the year for our expenses, but we estimate forfeitures to be half of what they have been in past years. Nonetheless, forfeitures will continue to be a resource for our expenses and so should help us keep our asset charges to a minimum going forward.

We hope this information will be helpful to you. Our plan is to disclose the average asset charge, in addition to the recordkeeping charges on your next quarterly statement. This will supplement the information provided you in the Annual Investment Report. If you have any questions, do not hesitate to call our office. ❑

USERRA and Military Service Credit in the State and County Retirement Plans



The Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA) was enacted in October 1994 (and significantly updated in 1996 and 1998). As of December 12, 1994, USERA was incorporated into State and County retirement laws.

38 U.S.C. §4318 is the USERRA section that governs pension plans. The provision requires that returning military service members who meet the law's eligibility criteria must be treated as if they had been continuously employed for pension purposes, regardless of the type of pension plan the employer has adopted. *In the State and County Plans, this applies to vesting (determining when the employee qualifies to keep the employer match).* USERRA applies to plans sponsored by more than one employer as well as single employer plans. USERRA also applies to pension plans established by state and local governments. *Absence for military service is not considered a break in employment for pension purposes.* Also, an employee who would have become eligible to participate in a pension plan during that individual's time in the military should be placed in the plan retroactive to the date of initial eligibility.

USERRA also provides that any benefit that is contingent on employee contributions or deferrals will be granted by the employer only if the employee makes the required contributions or deferrals. This means that if a State or County member wishes to receive the employer match for the months he or she was on military service, USERRA and the retirement plans *require that the employee must make his/her employee contributions for the period to be eligible for his/her employer matching funds.*

In order to initiate the process, when you begin military leave, you and your employer should officially notify NPERS of the beginning and expected end of the period of military service. Once you have returned to work and the period of service has been established, you will receive vesting credit for the period of military service reported to NPERS, regardless of whether you make employee contributions. Contact NPERS once you have returned to your regular position for details on verifying your period of military service.

If you wish to receive employer matching dollars, you will need to contact NPERS about making up your employee contributions. Some employers may require you to indicate before your leave that you will be making up your employee contributions. However, if you decide upon returning from leave that you do not wish to pay the money, you will not be required to complete payment. If you wish to make-up contributions, NPERS will need to know what your compensation would have been, if you had not been on military leave. If this can not be determined, NPERS will accept a rate based on an average compensation rate during the 12-month period immediately before your military service. You must complete your payments in a period that is three times your leave for service in the military, but not to exceed five years.

When a member has completed full payment, NPERS will bill your employer for the matching employer contribution amount. If you choose to use installment payments made through payroll deductions, the employer may match your member contribution month by month. There will be no interest or late fees charged to you or the employer for the purchase of military service credit, as required by federal law.

Please contact NPERS if you have further questions. ❑

Are Your Ducks In A Row?

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.

It is also important to keep your beneficiary information up to date. You should review your choice of beneficiaries frequently, but especially if:

- you or a beneficiary marries or divorces
- a beneficiary dies
- a beneficiary changes his/her name or address
- you have a child.

Keeping your beneficiary information current will ensure benefits are paid promptly and properly. You may request a Beneficiary Designation Form from your employer. The form is also available on our web site at **www.nol.org/home/pers**.

If you have questions, call NPERS at **800-245-5712** or **471-2053**. ❑

Legal Corner *(Cont. from page 3)*

- As with the School, Judges and Patrol Plans, language in the **State** and **County Plans** now makes it clear that an application is necessary for benefits to begin, whether in the form of a retirement benefit or a termination benefit – and that the member's funds will be retained by NPERS until a benefit application has been received.

Compliance Audit Changes:

In 2002, NPERS commissioned a study of its administered Plans' compliance with federal tax law. Out of that study, several changes were instituted, which are intended to more closely comply with federal provisions:

- A new section is added to the **State** and **County Plans** that specifically lists the ways in which the Plan may accept monies, thus eliminating the possibility of voluntary contributions (which are prohibited in the defined contribution benefits of these Plans).
- In **all Plans**, language is added that specifically prohibits forfeited member monies from being used to enhance the benefits of the remaining members – another IRS requirement. In addition, if no one is found to claim the money, new language is added directing NPERS to dispose of the money through the Uniform Disposition of Unclaimed Property Act. This means the money is transferred to the unclaimed property fund at the State Treasurer's office.
- In **all plans**, new language is added that explicitly includes language from §401(a)(9) of the Internal Revenue Code, a section that governs required minimum distribution rules. In particular, all minimum distributions must now begin to be distributed by April 1 of the year following the year in which a member turns 70½ (as required by federal law). ❑

Impact of New Payroll System *(Cont. from page 3)*

problem with the new system. In any case, we are working with the parties involved to insure corrections are made.

Our suggestion to you is that you compare the "deposits" reported on this quarterly (April, May, June) statement with the retirement deductions on your pay stubs. Please read your pay stub carefully. It is helpful to know that the ***employer*** matching retirement contribution is on the left-hand side of the pay stub under the "current amount" column and the ***employee*** retirement contribution is on the right-hand side of the pay stub. If you have kept all of your pay stubs for the past three months you should be able to reconcile these amounts with your quarterly retirement statement.

However, if you find any problems or differences between the amounts on your pay stubs and the amounts shown as deposited to your retirement account, please contact the NPERS office, **not** NIS or the State Accounting office. This information will assist us as we work with State Accounting and NIS to be sure all corrections are made. ❑

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Director: Anna J. Sullivan
Editor: Jan E. Fox
Asst. Editor: Pam Williamson

Have a great summer!

Have You Seen These Two?

Nadine "Crazylegs" Ault & John "DeWeezel" Winkelman

John and Nadine are NPERS' Training Specialists. They will travel across the state this fall presenting Preretirement seminars to State and County Plan members age 50 and over, and Personal Planning seminars to those members under age 50. These presentations provide a wealth of facts and information on your retirement plan and are open to all eligible members.

NPERS **strongly** recommends every member attend *at least one* seminar. Each eligible employee is allowed leave with pay to attend up to two seminars, no more than one per fiscal year. The fall seminar calendar will be posted on our web site soon at **www.nol.org/home/pers**. Registration information will be mailed to each eligible member in August. ❑

TOP TEN LIST

Reasons to Attend a Seminar

10. Hey, it's a day off with pay!
9. Nadine's famous catfish 'n prune preserves.
8. Explore the mysterious world of the Benefit Estimator.
7. Guest speakers on Estate Planning and Financial Management.
6. Donuts and lunch and cookies, Oh My!
5. Hear about the joy of vesting!
4. After lunch, Nadine and John reenact the battle of Gettysburg.
3. Discover how you can save additional money with Deferred Compensation.
2. Learn about your disbursement options at retirement.
1. Begin a plan for retirement!