Retirement Roundup

"Providing Information to State & County Employees"

Nebraska Public Employees Retirement Systems

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Nearly One-Third of Members Convert to Cash Balance

Almost one-third of 20,400 active State and County Retirement Plan members converted their accounts to the new cash balance benefit at the end of December 2002. While those Plan members were given a choice, the law mandates **all new Plan participants**, beginning January 2003, will *automatically* be enrolled in cash balance.

NPERS conducted over 140 meetings state wide to explain the difference between the defined contribution benefit (in place since 1964) and the new cash balance benefit. State and County Plan members attended the meetings in droves with over half, or about 10,000, attending a meeting. Videos of the presentation spread the message even farther, although the exact number of viewers cannot be verified.

"Almost one-third of 20,400 active State and County Retirement Plan members converted their accounts to the new cash balance benefit..."

Cash Balance

For a member who converted his/her account to cash balance, your 2002 fourth quarter account statement (enclosed with this newsletter) reflects the final dollar value of your account (your contributions and your employer's match) at the close of business on December 31. Your *total account balance* was transferred to the new cash balance fund on January 1, 2003. This will be the *beginning* balance on your *next* quarterly statement, arriving in April for the quarter ending March 31. The interest credit your account earned for the quarter will be reported on each statement. (See the Legal Corner on page 3 for more information.)

Certain functions for your new account are just as they were with your previous account. The information, such as the administration fees charged to you, is relayed to you on your statement. (See the Ameritas article on page 2.)

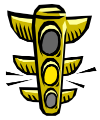
An actuarial report on cash balance will be issued every year. NPERS' plan is to send you a copy of the report when it is available. Market performance information about defined contribution investment funds may be obtained on the website **www.nol.org/home/pers**.

Defined Contribution

If you kept defined contribution, your quarterly account statements will not change. You will receive Historical Returns showing the market performance of the 11 funds for member contributions and the three funds for employer contributions. You will continue to receive the Annual Investment Report each spring.

All members can expect continuity in the administration of your account. You may access your account statements online at Ameritas' web site, which is linked to NPERS' web site. You will need your Social Security number and Personal Identification Number (PIN) to log on.

A PIN Change/Request Form for assigning a new number and instructions on using the Pension Access Line, which is the toll-free voice response system, is on the back of your statement.



Flashing Yellow Light ….
Proceed with Caution ….
Bond Funds

Warning! The following article contains more "numbers" than I normally like to include, and more than you probably like to read. However, the yellow light is flashing for fixed income investors. So, slow down and take a look at the information. It could help prevent a nasty, unintended "accident" in your portfolio.

The volatility and poor returns in the stock market have driven many "I'm a long-term investor" to question, if not their own sanity, their portfolio's concentration in the stock market. Are more bonds and fixed income investments the answer to what ails your portfolio? A quick look at the returns of the major assets classes from 1981 through 2001 does show a 10.7% annualized return for the Lehman Brothers Aggregate Bond Index, which includes intermediate term U.S. Treasuries, corporate bonds and mortgaged-backed bonds. The worst year was a negative 3.0% return. With returns like that, why bother with the stock market? Are bonds the perfect investment for you? Not so fast, OK!

It is good to be a skeptic when it comes to investing. Why were bonds such a successful investment during this 21-year period? Do you honestly believe that interest rates over the next 20 years could fall 12 to 15% more from today's low rates? Then by all means, look at bond funds. Otherwise the math doesn't work. That is, however, what happened in the early 1980's. You could walk into a bank and get a 30-month CD paying 16.5% while today the same term CD will pay you only 1.9%.

In other words, the 10.7% achieved over the last 20 years is not typical. In fact, in the 1960-1979 time period, long-term government bonds had a compound return of 3.5% and, 20 years before that from 1940-1959, the return was 1.6%!

Bonds have enjoyed a long rally over the past several years because the Federal Reserve has kept inflation under control, even when the economy was going gangbusters. Now that the economy is soft, and there's little fear of inflation, bond prices aren't likely to suddenly plunge (sending rates up and bond prices down). But when the economy does pick up, economists expect rates to rise and prices to drop.

Bond prices go down when interest rates go up. This is not a problem for people who buy individual bonds and hold them to maturity. It can be a problem for bond fund investors who have fled the frying pan (the stock market) only to find their perceived safe haven (the bond market) has placed them directly in the fire.

If a perfect investment existed, it would be flooded with trillions of dollars from professional and individual investors, driving its price high enough to make it no longer perfect, but ordinary. In fact, in September investors poured $15.9 billion into bond funds. In August when investors were even more cautious, they added $17.4 billion into bond funds. The large flows into bond funds marks a dramatic shift from the days of the bull market when no one was interested in bond funds. There may be comfort in not being alone as money is thrown at the bond market. However, misery loves company. That's exactly what happened after everyone threw money at the stock market. They found misery.

Even Vanguard Group, the giant mutual fund company, is warning investors about the risks of plowing money into bond funds at a time when interest rates could be

(Continued on page 3)

Ameritas Contract Renewed

The Public Employees Retirement Board (PERB) has renewed the contract for recordkeeping services with Ameritas Life Insurance Corporation. The PERB looked at several factors such as the implementation of cash balance and PIONEER, and felt it critical to ensure the continuity of services by renewing the contract instead of re-bidding.

While Ameritas handles the record keeping, to help control costs NPERS staff input member enrollments, changes and distributions via an online connection to Ameritas' computer system. All live phone calls are handled by NPERS or Sterling Financial Advisors. As a result, Ameritas' annual per member rate has been reduced.

The fees are set by contract, and are stable until the next time the contract is bid. Annual fees for defined contribution members are $25.75, and as of July 1 will be reduced to $25. Fees for cash balance members will be $24 annually. Deferred compensation plan member fees will be reduced from $25.75 to $18 annually. This fee structure will remain through July 2006.

As PIONEER, the NPERS' integrated information system, is further developed internally, electronic member enrollments and expanded use of the Internet for many functions will be implemented. This improved efficiency will allow the PERB to further lower cost to members. ❑

Caution... (Cont. from page 2)

poised to rise after a long period of declining interest rates. Ned Riley, chief investment officer at State Street Global Advisors in Boston, said, "Right now there is a lot of risk in the bond market." He explained, "Many people don't understand the bond market has volatility." Volatility?… That's a nice way of saying you can lose money. In Vanguard's investor survey, they found 70% of the respondents did not understand the risks bond funds pose when interest rates rise and bond prices begin to fall. You can lose money.

Vanguard even used the term "irrational exuberance" in describing how investors seeking a safe haven have plowed money into bond funds. Said Riley, "The bond market has been the primary recipient of the flight from the stock market. Those investors are probably making the same mistake equity investors did three or four years ago."

Fixed income investments, like the Bond Fund and the Money Market Fund, which are offerings in the State and County defined contribution plan, certainly have their place in a diversified portfolio. However, for someone who wishes to avoid any volatility, or potential loss, a serious look should be given to the Stable Fund option. For those fleeing the stock market that think the Bond Fund is the perfect place to hide, while you wait for a better re-entry point into the market, stop and think again. With three negative years behind it, the stock market may have much of the risk rung out of it. The bond market has had it easy the past several years and may easily be the riskier of the two. So, proceed with caution!

If you'd like to visit more about bond funds, your asset allocation, or the new cash balance benefit, please give us a call at Sterling Financial Advisors. We'd love to hear from you!

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Securities Offered Exclusively
Through Raymond James Financial Services, Inc.
Member NASD/SIPC

Legal Corner

by NPERS Legal Counsel,
Shawn Nowlan

Federal Mid-Term Rate Explained

The new cash balance benefit differs from the defined contribution benefit in several ways. One of the most important is how the account grows over time. The annual rate chosen by the Legislature to measure how the cash balance accounts will grow is the federal mid-term rate plus 1.5%.

The federal mid-term rate is determined monthly. Its legal name is the "mid term applicable federal rate." According to tax law (IRC §1274(d)), the mid-term applicable federal rate is based on the average market yield (during any one-month period ending in the calendar month of the determination) on outstanding marketable obligations of the United States with periods to maturity of at least three years but no more than 9 years. Each month, the Internal Revenue Service issues a Revenue Ruling that contains this rate along with several other applicable federal rates. For example, the mid term applicable federal rate for December 2002 is found in Revenue Ruling 2002-81.

The mid-term applicable federal rate has four options for compounding – "annual," "semiannual," "quarterly," and "monthly." According to the laws governing the cash balance benefit in the State Plan and the County Plan, NPERS must use the "annual rate." (Neb. Rev. Stat. §§ 23-2301 and 84-1301). To find the rates online, go to the IRS web site at **www.irs.gov**. Type "applicable federal rate" in the "Search IRS Site" feature and click "go" to initiate a search. Click on "Index of Applicable Federal Rates" and select the most recent "Revenue Ruling" (for example "2002-81").

NPERS will change the rate each quarter. This means NPERS will consult the IRS' revenue ruling with the most recent mid-term applicable federal rate that compounds on an annual basis. This particular rate will be used to set the interest credit rate for the quarter.

The rate declared in December 2002 was 3.31%. When the 1.5% is added, the "interest credit rate" for the period is 4.81%, EXCEPT the rate guaranteed by statute has a minimum, or a floor rate, of 5%. This means if the federal mid-term rate plus 1.50% falls below 5%, the accounts will earn 5%. Therefore, the interest credit rate for cash balance for the first quarter (January-February-March) of 2003 is 5%. The rate declared in mid-March 2003 plus 1.5% will be used for the second quarter (April-May-June) of 2003.

"The first fall of snow is not only an event, it is a magical event. You go to bed in one kind of world and wake up in another quite different, and if this is not enchantment then what is?"

~ J.B. Priestley

Employer Education and Reporting

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

Vesting and Vesting Credit Applications — Vesting for both State and County Plans now occurs after three years, which includes the first 12 months of continuous service plus two years of plan participation. This includes eligibility and vesting credit granted to a member at the time of enrollment.

It is the *responsibility of the employer* to provide a Vesting Credit Application to *all* new employees upon their hire date. The employee is responsible for returning the application to NPERS within 30 days in order to receive credit for participation in another Nebraska governmental plan. There are NO EXCEPTIONS to the 30-day requirement, per law.

Enrollments Forms – The Enrollment Form for both State and County Plans has been revised - **Form #NPERS1030.** Please destroy all copies with (Rev. 8/01) on the bottom left corner and as of January 1, 2003, begin using the new form (Rev. 12/02) recently mailed to you. You may also download the revised form from NPERS' web site. Enrollment forms are not required for mandatory enrollment. Please make sure all members complete a Beneficiary Designation form.

Reminder to County Clerks – Beginning January 1, 2003, the contribution rate for *county employees* increases to 4.5% of salary; employer match remains at 150%. For counties under 85,000 in population, *certified law enforcement officers* have an *additional* supplemental contribution of 1% of pay, matched at 1%. For counties with over 85,000 in population, the additional rates for law enforcement officials remains 2% of pay, matched at 2%.

For questions on employer reporting, contact these staff members:

County-	**Clint**	**402-471-9725**
State & DCP-	**Kim**	**402-471-9483**
Toll Free-		**800-245-5712**

Employee and Manager of the Year

The Nebraska Retirement Systems is proud to name **Cheryl Mueller** as our 2002 Employee of the Year!

In October of 2000, Cheryl joined our accounting department where she works with the school reporting agents. She also helps balance contributions and adjustments to member accounts. Cheryl is always eager to help wherever she is needed.

We would also like to congratulate **Vicki Stoll**, our 2002 Manager of the Year!

Vicki has been with NPERS since July of 1996, when she began working in our accounting department. She then became a retirement specialist, working with State and County members and eventually with the Deferred Compensation Plan. In May of 2000, Vicki accepted the position, that she currently holds, of manager of our benefits department.

We are proud to have two such outstanding people represent our agency. Thank you Cheryl and Vicki, for going above and beyond everyday and being great team players!

Monthly Benefits to be Self-Annuitized

With the implementation of the new cash balance benefit, NPERS now has the authority to self-annuitize monthly benefits. This means an outside provider (typically an insurance company) is no longer needed to pay annuity benefits to retirees. That will result in increased benefits to plan members who choose to take a monthly annuity at retirement.

Self-annuitizing results in improvements for members with the defined contribution and the cash balance benefits. For defined contribution members, the annuity rate offered by NPERS will be higher than that previously offered by an insurance company. For cash balance members, however, the improved annuity is an integral part of the benefit due to the anticipated reserve created by the Nebraska Investment Council's skill and investment strategy. The annuities for cash balance members could be as much as 15% higher than those for defined contribution members.

The annuity options and other choices at retirement are explained in your member handbook, available from your personnel contact, from NPERS or the web site at **www.nol.org/home/pers**. Also on the web site is a benefit estimator that can be used to calculate monthly estimates under all the annuity options.

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