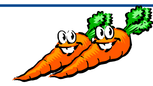
Retirement Roundup

"Providing Information to State & County Employees"

Nebraska Public Employees Retirement Systems — Vol. 19, No. 1, Winter 2004

In this issue...

Eat Your Veggies!



I was forced to eat vegetables as a child. Mother, the cruel master of the kitchen, enforced a "clean your plate" rule before dessert could be negotiated. There were other rules also: no running with scissors, no racing a train, no jumping off cliffs, clean underwear, etc. At the time I was positive I was the obvious victim of child abuse. I am now inclined to believe that *perhaps* Mom had something there, something that at age seven I did not have - wisdom.

Wisdom is tricky stuff. It generally shows up *after* that particular moment when you really needed it. How often have you looked back and thought, "What on earth was I THINKING?" This often partners with, "Well, I won't do *that* again" or "If only I knew then what I know now." I have often wished for a magical machine that could whisk me backwards in time to rectify some of the more painful decisions made by my obviously malfunctioning brain. Unfortunately, there are no time machines. We are stuck with making choices, and living with the results. Sometimes it helps to have a Mom wise enough to make us eat our veggies.

Saving for retirement is basically the financial equivalent of eating your veggies. It may be unpleasant, but I guarantee this will be one of those painful decisions that you won't want to go back in time to alter. Can you imagine any time during retirement thinking, "DANG, I've saved too much!"? If that occurs, I will apologize and offer to relieve you of your burden…

Studies indicate most Americans are not saving enough for retirement. Financial planning experts warn that many individuals will have to retire at a later age, or work part time during retirement. In addition, rising health care costs and an unsure future for Social Security may create additional hardships. To make matters worse, a recent survey conducted by the American Savings Education Council (ASEC) found a whopping 70% of Americans *think* they are saving enough to live comfortably during retirement. So, not only are we avoiding our vegetables, we are telling ourselves not to worry. Where is Mom when we need her?!

> *Saving for retirement is basically the financial equivalent of eating your veggies.*

NPERS encourages State and County employees to research how much they need to save for retirement. The ASEC web site, **www.choosetosave.org**, is a good source for calculators and advice on saving for retirement. Often there is a need to save additional funds *above and beyond* mandatory retirement contributions. To help, NPERS offers the voluntary Deferred Compensation Plan (DCP). DCP allows employees to defer part of their paycheck and invest it in a variety of funds.

You can contribute (defer) as little as $25 a month to DCP, up to a maximum of $12,000 for the year 2003. You can stop, restart, or change contributions at will. Contributions are pre-tax, which can lower taxes at year's end. Plus, a $100 contribution will decrease your paycheck by only $80 or so (depending on your exemptions and tax bracket). Taxes are due when you remove funds from the account. There are no age restrictions or waiting periods. State Plan members control their investments using the same investment funds utilized in the State mandatory Plan's Defined Contribution benefit. County participants choose from the investments offered by their private vendor. If a County does not offer a

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Behind the Scenes

Over the past few years, NPERS has been designing and implementing a new technology plan. The PIONEER project is advancing on schedule, primarily due to the employees that make up our Project Team.

The Project Team was established in 2000 to oversee the process and procedure changes necessary to implement such a detailed project, as well as be a liason between NPERS and Covansys, the company hired to create the system. The Team is made up of a Project Manager and four long-time NPERS employees that were selected for the project by our director.

Pat, the Project Manager, was hired for his expertise in computer technology as well as his experience in project management. After being with our agency just one year, Pat was awarded the 2003 Manager of the Year. His sense of humor and leadership abilities have made him a great asset.

Tammy has been with NPERS since 1986, when she began working with the School Plan. She later became a Refund Specialist and then in 1998 accepted a position working with the Judge, Patrol, State, County and Deferred Compensation Plans. Tammy's primary responsibilities include overseeing refund, employee reporting and benefits procedures. Her knowledge and sense of responsibility make her an indespensable part of the Team.

Project Team

Back Row, L to R; Pat, Dean. Front Row, L to R; Jayme, Tammy and Norene

Dean also began working for NPERS in 1986 as the agency Information Technician. He continues to be the primary "problem solver" when it comes to the computers in the office. Dean is responsible for procedures regarding estimates and purchases of service as well as various technical issues. His computer expertise and willingness to help his co-workers make Dean essential to the Project Team.

Jayme came to NPERS from another state agency in 1987. She began in our Microfilm/Records department where she worked with the design and implementation of new techology projects. She then accepted a position as a School Retirement Specialist. Jayme is currently managing procedures regarding QDRO's and enrollments as well as monitoring the interface between PIONEER and State and County record-keepers. She brings a vast array of knowledge to the Team and is a prime team player.

Norene recently joined the Project Team. She started with NPERS in 1997 in our Accounting department and after completing special IT training in 2000, worked in our Data Services department assisting with computer technology. She continues to use her training to aid the Project Team in implementing the web portion of the project. Norene has been a welcome addition to the Team.

As you can see, the PIONEER project is no small task and would not be possible without these special people. Each member of our Project Team has risen to the occasion and they truly live up to the title of Team!

Check Your Records

In a previous Retirement Roundup, NPERS notified you of retirement contribution reporting problems with data received from NIS, the state's new payroll and finance system, and the funds deposited with Ameritas, our record keeper, for the State Plan and Deferred Compensation Plan (DCP) participants.

By using your last pay stub for 2003, you should be able to double check the amount of retirement contributions that should have been made on your wages and compare your calculations with the deposits reported on your quarterly statements for 2003. Remember, on your pay stub the ***employer*** matching retirement contribution is on the left side under "current amount" and the ***employee*** contribution is on the right side.

To check the following items, perform these steps:

1. **Employee Contributions** = Multiply your gross salary (YTD Amount) of $19,953.81 *or less* by 4.33% AND multiply any amount that is *more than* $19,953.81 by 4.8%, then total the two amounts.

2. **Employer Contributions** = Multiply #1 by 156%.

3. **Total Contributions** That *Should Have Been* Credited To Your Account This Year = Add #1 and #2 together.

4. **Total Contributions** Actually Credited To Your Account This Year = Add the "totals" from the "deposits" columns on all your 2003 statements.

5. **Amount Reported** compared to What Was *Supposed To Be* Reported = Compare #4 to #3.

If you find major differences between the amounts reported on your last pay stub and your retirement statements, call NPERS at **800-245-5712** or **402-471-2053** and we will coordinate corrections with the State Accounting Office. ❑

Fail to Plan or Plan to Spend?

At the end of each month, many Americans ask the following question: Where did my money go? Wasn't I going to save some? One of the best ways to gain control of your money is by developing a written spending plan.

A spending plan can help you to:
- See where your money goes.
- Reduce unnecessary expenses.
- Evaluate needs and wants.
- Locate money in your budget for large expenses, emergencies and long-term goals.

Here's how to begin building your financial framework:
- Discover where your money goes. Hey, how are you going to get somewhere if you don't even know where you are? For one month make notes of all expenditures. Get out last year's checkbook register to determine what you paid for those items that are not predictable on a monthly basis (entertainment, hobbies, travel, etc.)

- Categorize your expenses by areas (i.e. food, clothing, childcare, utilities, and transportation). Write down everything, even the popcorn you had at the movies. You'll be surprised where those hard-earned dollars go.

- Prioritize your financial goals and determine how much you'll need to save each month. Think long-term and short-term goals.

- Bring your goals in line with your income (i.e. new car, less expensive car, wait another year for a car). Putting off a purchase is called "delayed gratification."

- Make the written plan realistic. Over a few months time, you can get your spending on track and make progress toward your specific financial goals. No one else will do it for you.

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Legal Corner

by NPERS Legal Counsel,
Joe Schaefer

Cash Balance Is In the News

Two recent court decisions have placed cash balance retirement plans in the news.

The cases are *Cooper v. The IBM Personal Pension Plan and IBM Corp. (IBM)* and *Berger v. Xerox Corporation Retirement Income Guaranty Plan (Xerox)*. Neither decision directly impacts Nebraska's State and County Plans' cash balance benefits but there is a potential that part of the rulings may affect governmental plans. The two issues for discussion are "whipsaw" and "wear-away."

An issue key to the *Xerox* case has been described as "whipsaw" and applies only to corporate pension plans.

Another issue in those cases relates to age discrimination or "wear-away." In *IBM* the court held that IBM's conversion to a cash balance plan was *per se* age discrimination. It is important to remember that IBM converted to a cash balance plan *from a defined benefit plan* (Nebraska converted from a *defined contribution plan*).

Wear-away relates to the fact that defined benefit plans utilize a certain number of highest pay years (usually 3 or 5) as a measure of the retirement benefit. Typically, the number of years of service multiplied by a factor (percentage) multiplied by the average of the highest salary years determines the benefit. Wear-away occurs when the interest credit rate of the cash balance plan is insufficient to equal the calculation that would come from the defined benefit formula. Usually employees have their highest salary years very late in their careers and cash balance plans use the same interest credit rate regardless of the age of the employee. Thus the cash balance plan account increases at a steady rate over time whereas a defined benefit plan benefit accelerates in the later years. For certain workers converting to a cash balance plan from a defined benefit plan, there may be a period of years when their benefit does not increase. This failure to increase in value is wear-away. Wear-away is not a factor in converting from a defined contribution plan because the defined contribution retirement benefit is based on the actual account balance, not on the hypothetical value of a future benefit.

There are some additional problems with the two court decisions, particularly with the legislative history of the act, and with how the cases can be reconciled with some earlier court decisions. It may take several years for legislation, regulations, and court cases to sort the issue out. In the meantime, it is important to remember that Nebraska's conversion from a defined contribution plan to the cash balance benefit is not affected by either court case.

On the keyboard of life, always keep one finger on the escape key.

Information for Hartford DCP Participants

Recent news stories about questionable investment activities of some investment management companies prompt this information release for *certain* Deferred Compensation Plan (DCP) participants who *still have money in the Hartford account*. It **does not apply** to participants in the new DCP offered since 1997.

Both Putnam and Janus have been mentioned prominently in news articles about questionable investment activities and both offer funds under the Hartford DCP contract. Both are under investigation by state and/or federal authorities. Both address these issues on their websites. Putnam can be viewed at **www.putnam.com** by clicking on "Putnam is Making Changes on Behalf of Investors." Janus can be viewed at **www.janus.com** under the "Press Center" tab.

NPERS has been in touch with the Hartford from the time these troubling reports appeared in the press.

At this time we want to point out that participants have the option to transfer any or all assets out of any particular fund option about which they may have concerns into other options without official action on the part of Hartford or NPERS. This would include all the Putnam and Janus options.

As far as ongoing concern about the questionable investment activities reported, NPERS will continue to follow the investigation into the fund trading practices and may request these funds be closed to anyone wanting to transfer money to them from another existing fund.

Since 1997 no new contributions from DCP members have gone into the Hartford accounts, but there are about 1,450 employees who still have DCP funds with Hartford. Please remember that any DCP member who has an old Hartford account can transfer that account to the new DCP *at any time* without a deferred sales charge to them personally. If you have any questions, contact NPERS at **800-245-5712** or **402-471-2053**.

As a final point, we want to assure you that the two regulatory bodies responsible for Nebraska employees' pension assets, i.e. NPERS and the Nebraska Investment Council, monitor investment activities and performance of ALL investments in all the plans under their jurisdiction including the Hartford's part of the Deferred Compensation Plan.

NPERS and the Nebraska Investment Council are working with and will continue to work with Hartford to address these problems. Possible solutions include identifying alternative funds with similar performance benchmarks.

A Satisfied Customer!

The following letter was received from a State Plan member after attending a Personal Planning Seminar in December.

If you haven't attended a seminar yet, plan on attending next fall. Watch upcoming newsletters for schedules.

To Whom It May Concern,

I attended the Personal Planning Seminar yesterday at the Firefighters Hall. I just wanted to take a moment to say how informative this seminar was. I learned a lot about the financial world, like stocks, our retirement benefits, life insurance, wills, mutual funds, etc. It was presented in a way that anyone on any level could understand. The material was presented very efficiently, and the speakers were excellent. They were very informed about their specific topic they were commenting on. I feel this is such a great assest that the State of Nebraska offers it's employees. I hope more employees take advantage of it.

A satisified state employee.

Are *You* Saving Enough for Your Retirement?

Experts say that most people don't.

Open your Deferred Compensation Plan (DCP) account today! Notify your employer or contact NPERS to enroll.

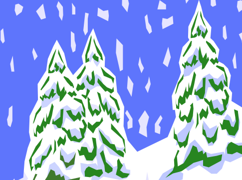
Veggies

(Cont'd. from page 1)

deferred compensation plan, employees are eligible to participate in the State DCP. The only "catch" is you cannot remove funds until you cease employment.

The choice is yours. If you wish to enroll, contact your employer or call NPERS and request an enrollment packet. You can make excuses and hope for that time machine, or have the wisdom to plan and save now. Vegetables anyone?

John Winkelman,
NPERS Training Specialist



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