Retirement Roundup

"Providing Information to State & County Employees"

Nebraska Public Employees Retirement Systems — Vol. 20, No.5, Summer 2005

In this issue...

The Effects of LB 503 and LB 364

On April 27, 2005, LB 503 was signed into law by the Governor and LB 364 was signed into law on May 31, 2005. LB's 503 and 364 will make several changes to the retirement plans administered by NPERS. Changes to the **State** and **County Plans** include the following:

New Investment Options for Defined Contribution Members and Deferred Compensation Plan Members –
Two new investment options will be added.

- **Investor Select Fund** — This fund will be a pre-mix fund invested with an asset allocation and investment strategy substantially similar to the investment allocations made for the Defined Benefit Plans. As of June 30, 2005, the Defined Benefit Plans are invested 47.5% domestic equities, 12.5% international equities, 5.0% global equities, 30.0% fixed income, and 5.0% real estate. This allocation is a combination of actively managed portfolios and passive index funds. This fund will be set up by the Nebraska Investment Council and be available to State, County and DCP members on September 4, 2005.

- **Age-Based Fund** — This fund will set investment styles based on the member's age. Members who are young will be placed in more aggressive investments. As a member ages and gets closer to retirement the investments will become progressively more conservative. This fund will be developed by the Nebraska Investment Council and will be available **July 1, 2006**.

Testing Procedures/New Auditor – Requires NPERS to implement testing procedures for **all Plans** in order to confirm the accuracy of employee information as reported by employers. In compliance with the requirement, a new auditor will be added to the NPERS staff.

Employer Late Fee County – Allows the PERB (Public Employees Retirement Board) to charge counties a late fee in an amount equal to any costs incurred by an employee member within the County Plan because of late submission of contributions.

Public Employees Retirement Board Membership – Provides that the six members of the PERB who are participants in a retirement plan administered the Board may be either an active or a retired participant of their system. ❑

DCP Contract Awarded

With action taken at their May 16, 2005 meeting, the Public Employees Retirement Board (PERB) awarded United of Omaha the contract for providing annuities for the state employees' Deferred Compensation Plan (DCP).

The contract is effective July 1, 2005 for a one year term. Although NPERS is able to self-annuitize for the regular retirement plans, an outside provider is required for DCP.

Cash Balance Report

The State and County Cash Balance actuarial valuation report for the year ending December 31, 2004 has been received from NPERS' consulting Actuary. It was presented to the PERB at its April 2005 meeting.

A summary of the report appears in the Annual Investment Report mailed to you in June. If you would like a copy of the report, please contact NPERS at **800-245-5712** or **402-471-2053**.

Expenses: Who, What, When and Why

In April of 2005 NPERS changed the method of accruing the 10 basis points (BP) operating expense for participants in the **Defined Contribution** Benefit from a charge against the share price of your account to a dollar amount that will be shown in the adjustment column of your quarterly statement.

We have had the custodial bank who maintains the share price of each fund stop charging the fee and have asked our recordkeeper, Ameritas Life Insurance Corporation, to start charging the fee. The fee is still calculated based on an annual 10 BP of your account, but is now reflected in a dollar amount on your statement in the adjustment column. For example, the member with a $10,000 account would pay $10 per year or $2.50 per quarter.

The end result is the same, except that you will now be able to see the charge on your quarterly statement where before the charge was part of the unit or share price of your fund and therefore not well disclosed.

There is one exception, at the present time, there will be **no charge** at all for members of the **State Plan**. The current value of the State Employer Forfeiture Fund is large enough to cover plan expenses at least for the next 18 to 24 months.

The **County Plan** members, however, will continue to have the annual 10 BP charge assessed against their accounts. The County Employer Forfeiture Fund has been depleted, except for a small balance maintained to cover reinstatements for returning members.

State employees who participate in the voluntary **DCP** program will continue to pay an annual 10 BP fee for their pro-rata share of the NPERS' operating expenses. DCP members will also begin to see the fee on their quarterly statements.

NPERS' operating expenses are prorated so each plan we administer pays a share of our office expenses using a time and usage formula. NPERS' expenses for the State and County Plans are, by law, to be paid first from the "forfeiture" funds and then, if needed, from the assets of the plans. Expenses for the Deferred Compensation Plan (DCP) have always been charged against the assets of the plan, there are no forfeited employer contributions/ dollars available to help cover plan expenses.

As you will remember, in May 2003, we had to begin to assess this annual charge of 10 basis points (BP) or .0010 against State and County member accounts within the Defined Contribution portion of the plan This has generated enough funds to pay NPERS' Defined Contribution operating expenses for 2003 and 2004, and at the same time kept us from having to deplete the employer forfeiture account which has been needed to cover any member reinstatements that typically occur during the year. **Note:** Members who return to work for the State or County within five years and who repay their withdrawn contributions will have their forfeited employer funds reinstated from the forfeiture account, per law.

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. The law changed in 2002 allowing plan members to "vest" or qualify for the employer matching contributions after two years (instead of the previous five years), causing the forfeiture account to dwindle. Our office expenses are ongoing and so we have to assess a charge against the actual assets of the plans in order to pay our NPERS' expenses. ❑

Good Timing for State Employees

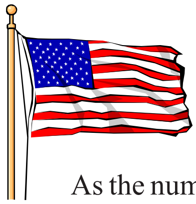
By Pam Williamson, Education Services

Sometimes the future can be scary, like thinking about where you will be financially when you're ready to retire. Do you have friends and family members that have not established savings or investments for retirement and you wonder, "What will they do after they are no longer able to work?" Whether you have one or twenty years before retirement, **now** is the time to think about what *you're* going to do.

The best approach to saving for retirement is to establish a plan to keep income out of your hands and out of your checking account (especially for us shopaholics). Automatic withdrawals from your paycheck into savings accounts and tax-deferred retirement accounts such as the Deferred Compensation Plan (DCP) put a barrier between you and your money and reduce your taxes so you can save more.

As you know, state employees will be receiving a 3% raise beginning in July. This is the perfect time to begin investing in the DCP. You could invest all or part of your pay increase in DCP tax free! You can contribute as little as $25 per month. Because contributions are tax-deferred, your salary would only be reduced by about $20. If you make $2,500 per month, your pay increase will be $75. By contributing $25 to DCP you would still have more than a $50 increase, would not see a reduction in your monthly income and would be doing more to secure your future!

Personally, I have not contributed to DCP before because I kept thinking I couldn't afford to take any more out of my paycheck. But after doing the math, I've talked myself into it. If I get my DCP enrollment form submitted in July, my contributions will begin in August and I can quit worrying about the future and enjoy today!



Military Service Credit

Things you should know. Now, more than ever.

By Jane Hansen, Benefits Manager

As the number of Americans serving in the armed forces increases, it becomes more likely that you, or someone you know, will need to be aware of the steps to take to insure you receive retirement credit upon return from active duty.

First, in order to receive retirement vesting credit in the **State** or **County Plan** for the time you were gone, or to be eligible to make up contributions for the time you served, you must return to work with your employer within 90 days after being released from active duty.

Second, you must submit a copy of your honorable discharge or honorable separation papers (DD214) to NPERS as soon as they are available upon your return to work. This is required prior to starting make-up contributions and is necessary documentation for vesting credit purposes. If you wish to make up the contributions missed during your absence (allowing you to receive your employer's matching contributions), you must apply to NPERS within one year of returning to work. Our office will then work with you and your employer to set up the terms of your repayment. (Note: Your repayment timeline is limited to three times that of your service in the military, not to exceed five years.)

While your employer is required to submit a Non-Contributing Member Form to NPERS explaining your leave, it is a good idea for you to confirm with us that your absence has been properly documented as a military leave. This is *especially important* if you are a member of the Cash Balance benefit. In the event that a dividend has been granted to Cash Balance participants while you are away, correct reporting of your status is necessary to ensure you are properly credited for any dividends due you.

Finally, the Nebraska Retirement Systems, along with the rest of the country, wishes to thank each of our plan members who have and will serve in the nation's armed forces; we sincerely appreciate your personal sacrifice and service to our country. It is our goal to assist you as much as possible in achieving a smooth re-entry into civilian life.❑

New Cash Balance Credit Rate

The new credit rate will be **5.36%** annualized for the coming quarter. The law states that the rate credited to member accounts will be the Federal Mid-term Rate plus 1.5% per annum. Thus the Federal Mid-term Rate for the previous quarter has changed to an annual rate of 3.86%. The new annual rate of **5.36%** will be credited to Cash Balance member's accounts for the period July through September 2005.

At the end of each quarter NPERS updates the interest credit paid to Cash Balance member accounts based on any changes to the Federal Mid-term rate. If this rate is less than 3.5% per annum, the credit rate to member accounts will be no less than 5% per annum.

Good News for Cash Balance Participants!

For the second year in a row, positive investment returns for the plan year have enabled the Public Employees Retirement Board (PERB) to grant an earnings allocation (dividend) to the account of each **Cash Balance** benefit participant who had an account balance on December 31, 2004, and was *actively employed* on **April 18, 2005**.

The PERB, by law, has the option to grant once per year a dividend to active member accounts while maintaining the required cushion of 10% of the assets. The PERB's goal with the Cash Balance benefit is to maintain benefit adequacy, which is defined as an annual 8% return. If the credit rate (set by statute as the federal mid-term rate plus 1.5%) is less than the benefit adequacy guideline of 8%, the difference may be credited to each member account as a dividend if gains allow.

Here is how the dividend has been calculated: A member's 12/31/2004 account balance was multiplied by an earnings factor of **2.8%**. For example, an account balance of $25,000 as of 12/31/04 would result in a one-time dividend of $700.

NPERS must ensure employers have notified us of all terminations that occurred up to April 18 before the dividend is actually issued. Any interest earned between April 18 (the day of the PERB's decision) and the day the dividend is actually issued will be credited to each participant's account. The dividend will be distributed by the end of the second quarter, and will appear under the "Gain/Loss" column on member quarterly account statements mailed in July.❑

International Stock Fund Changes Hands *By Anna J. Sullivan, Director*

Recently, you should have received a letter informing you of a change in management for the International Stock Fund. Effective June 30, 2005, the investment firm managing the International Stock Fund within the State and County Defined Contribution plans and the State's Deferred Compensation Plan was replaced with a new firm. The Nebraska Investment Council voted to remove T. Rowe Price as the manager of the International Stock Fund and replace them with Barclays Global Investors (BGI).

With this change the dollars within the International Stock Fund were moved from the underlying T. Rowe Price Foreign Equity Fund to the Barclays ACWI ex-U.S. Index Fund. This means the investment objective has changed to that of an index fund that is designed to replicate the total return of the Morgan Stanley Capital International (MSCI) All Country World ex-US Index (ACWI).

Our plan fund name has changed to the International Stock *Index* Fund. You will see annual investment management fees reduced from approximately .77% on this fund to approximately .23%. In addition, there will no longer be a redemption fee for transfers into and out of the international fund within 90 days, as we have had with T. Rowe Price.

NOTE: **There is no action required by you.** This is a change in the underlying investment utilized in the International Stock Fund, and not the Fund itself, therefore the transfer will not appear on your quarterly statement if you remain within the Fund. There will be NO redemption fee assessed on your account by T. Rowe Price.

Please direct investment-related questions to **Sterling Financial Advisors** at **877-970-9300** (toll free) or in Omaha at **402-970-9300**. ❑

RETIREMENT ROUNDUP

Published by
Nebraska Retirement Systems
1221 N Street, Suite 325
P.O. Box 94816
Lincoln, NE 68509-4816
402-471-2053 or 800-245-5712
www.npers.ne.gov
Director: Anna J. Sullivan
Editor: Jan E. Fox
Asst. Editor: Pam Williamson

2005 Seminar Schedule State & County Members

Preretirement Age 50 and over

Lincoln	-	Sept. 8
Scottsbluff	-	Sept. 14
Omaha	-	Sept. 20
Valentine	-	Sept. 28
G. Island	-	Oct. 5
Fremont	-	Oct. 18
G. Island	-	Nov. 2
Kearney	-	Nov. 3
Norfolk	-	Nov. 8
N. Platte	-	Nov. 16
Lincoln	-	Nov. 22
Lincoln	-	Nov. 30
Lincoln	-	Dec. 7

Personal Planning Under age 50

Lincoln	-	Sept. 7
Scottsbluff	-	Sept. 15
Omaha	-	Sept. 22
Valentine	-	Sept. 29
G. Island	-	Oct. 6
Fremont	-	Oct. 19
Norfolk	-	Nov. 9
N. Platte	-	Nov. 17
Lincoln	-	Dec. 1

Happy Summer!

Nebraska Public Employees Retirement Systems
P.O. Box 94816
Lincoln, NE 68509-4816
85-28-51