2012 LEGISLATION

New Cash Balance Election Period

The 102nd Legislature, second session, convened on January 4, 2012 for a 60-day session. During the session senators elected members of the body to serve as committee chairpersons. Omaha Senator Jeremy Nordquist was re-elected the chair of the Nebraska Retirement Systems Committee and Senator LeRoy Louden the vice chair. Other committee members include Lavon Heidemann, Russ Karpisek, Heath Mello, and R. Paul Lambert.

During this session, one bill impacting the State, County, and Deferred Compensation retirement plans was passed.

**LB 916**

LB 916 establishes a new period in which members of the State and County Defined Contribution retirement plans may elect to participate in the Cash Balance plan. Defined Contribution members may elect to transfer to the Cash Balance plan during an election period starting September 1, 2012, and ending October 31, 2012. Only members who are actively employed and contributing to the plan at the time of election will be eligible to transfer. The transfer of funds to the Cash Balance plan will occur on 1/2/2013. Individuals who do not file an election form will continue to participate in the Defined Contribution plan. Please refer to the upcoming July newsletter for more information.

The bill allows retirement benefits to be awarded by a court to victims of specific crimes committed by a plan member. Benefits can be awarded when a plan member is convicted of or pleads no contest to a felony defined as assault, sexual assault, kidnapping, child abuse, false imprisonment, or theft by embezzlement and is subsequently found liable for civil damages. Benefits may be awarded following a retirement.

**PERB Holds Elections, Welcomes New Members**

On January 23, the Public Employees Retirement Board (PERB) re-elected Denis Blank to serve as Chair and Glenn Elwell as Vice-Chair for the 2012 calendar year. Denis Blank recently retired from the Nebraska Department of Agriculture and represents State plan members on the PERB. Sgt. Glenn Elwell serves in the State Patrol Investigative Services division and represents Patrol members.

Two new members, Stuart Simpson and Ron Ecklund have been appointed by the Governor and approved by the unicameral to serve on the PERB.

Ron Ecklund has been appointed to fill the vacancy left by Don Pederson. Ecklund is a retired partner at HBE Becker Meyer Love LLP, CPAs in Lincoln, and continues to practice with the firm on a part-time basis. Ecklund has previously served as a Director and Chair of the Lincoln Electric System Administrative Board, the Lincoln Independent Business Association, and the Lincoln Community Foundation Board. He received his MBA and BA from the University of Nebraska.

NPERS welcomes Mr. Simpson and Mr. Ecklund to the PERB and looks forward to working with them.
Cash Balance Rate

The interest credit rate (rate of return) for participants in the Cash Balance plan is defined in statute as the greater of 5%, or the applicable federal mid-term rate plus 1.5%. When the federal mid-term rate falls below 3.5%, participants in Cash Balance are guaranteed to receive a 5% return on their accounts. The interest credit rate is determined each calendar quarter (January, April, July and October) based on the federal mid-term rate published by the Internal Revenue Service as of the first day of that quarter.

For the month of April 2012, the published federal mid-term rate is 1.15%; therefore the rate of return for Cash Balance participants will remain at the guaranteed rate of 5%.

Each quarter NPERS publishes the Cash Balance rates of return on our website. Go to our home page at npers.ne.gov and look for the “NPERS News” section. Click on the link titled “Cash Balance Rates of Return & Dividends.” This page will display the historical returns for Cash Balance since the plan’s inception in 2003, and list any dividends issued in prior years.

Defined Contribution Annuity Rate Change

Effective January 1st, the annuity interest rate for Defined Contribution members has been updated from the 2011 rate of 4.82% to the 2012 rate of 4.49%. Per Nebraska statutes, this rate is determined using the January Pension Benefit Guaranty Corporate rate (which was 3.74%) plus 0.75%. The annuity rate for Cash Balance members remains unchanged at 7.75%.

THANKS TO MARK SHEPARD AND DON PEDERSON

Two valued members of the Public Employees Retirement Board (PERB) have recently resigned. Mark Shepard announced his resignation from the Board earlier this year. Mark was appointed to the PERB in 2005 to serve as a representative of School Retirement Plan. Don Pederson decided to retire from the Board following the completion of his current term. Don has served as a “public” member of the PERB since 2007.

Both Don and Mark have been outstanding assets to the Board. NPERS would like to thank them for their time and dedication to the PERB and wish them the very best in their future endeavors.

Take Aim Today

Hit Your Financial Targets for the Future

Registration forms for the 2012 State and County seminars are now available on the NPERS website. Each fall we offer Financial Management seminars for State and County employees under 50 years of age, and Retirement Planning seminars for members age 50 and over. Plan members who wish to take advantage of early enrollment may do so now by visiting the State and County seminar page on our website. Fill out and print the registration form, then mail to our office with the required payment to reserve your spot in the desired session.

Age 50 or Over?

Retirement Planning Seminars
The NPERS Retirement Planning Seminars for State and County plan members offer complete information on your retirement plan and how to prepare for your retirement.

Plan to attend a Retirement Planning Seminar on one of the following dates:

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Under Age 50?

Financial Management Seminars
The NPERS Financial Management Seminars for State and County plan members offer an in-depth financial management course, plus information on your retirement plan.

Plan to attend a Financial Management Seminar on one of the following dates:

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For more information, contact Nebraska Public Employees Retirement Systems (NPERS) at 402-471-2053 or 1-800-245-5712. Registration forms are currently available on our website: npers.ne.gov.

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Fixed Debt

Fixed debt represents long-term, ongoing payments made to pay off loans (debt) for items such as mortgages, school loans, or car payments. These expenditures generally represent a stable percentage of total monthly expenses. Your remaining income after fixed debt should be enough to cover living expenses with some left over for retirement savings. It is also wise to have cash set aside to pay for any unexpected expenses or financial emergencies.

For most Americans, fixed debt will consume the majority of their lifetime income.

Acceptable levels of fixed debt can be measured by a “Debt to Income” ratio (DTI). This is determined by calculating the percentage of monthly income (take home) spent on fixed debt. Most financial institutions recommend a DTI ratio no higher than 36%. A DTI of 20% or below is considered excellent. A DTI ratio above 36% makes it difficult to set aside funds for retirement and individuals with DTI ratios at 50% or higher run the risk of missing or defaulting on payments, running up credit card debt, and damaging their credit ratings.

For most Americans, there are three items that account for the majority of fixed debt – mortgages, car loans, and school loans. Many individuals mistakenly assume lenders will not approve loans above and beyond what they can afford. This is not the case. Before signing on the dotted line, calculate the monthly payments for all fixed debts to ensure the DTI ratio remains at or under 36%.

How much of your DTI should these three items represent? Percentages vary based on the source of the data, but as a starting baseline…

MORTGAGE

Houses account for the largest percentage of fixed debt but also represent an investment that over the long term will usually grow in value. Plus, you get to live in them. How much house can you afford? Many lenders recommend total monthly housing expenses (mortgage payments and maintenance) account for no more than 28% of income. When reviewing estimates, be sure they represent the total monthly cost and include items such as property taxes, insurance premiums, mortgage insurance, association dues, etc. Spending a bit more – say up to 33% - may not be a bad idea, but only if other areas of fixed debt can be reduced to keep the DTI ratio under 36%.

SCHOOL LOANS

Money spent on higher education is generally a good investment. Earning a degree can enhance career prospects and increase earning potential, but piling on too much student loan debt can do more harm than good. As tuition continues to increase, it’s becoming more expensive to earn a degree. As of 2012, the total estimated annual cost (includes in-state tuition, fees, room and board) to attend the University of Nebraska – Lincoln is $17,230*.

* Source CNN Money

Where Did Your Money Go?

For most individuals, the amount they spend has an inverse effect on the amount they save for retirement. Many spend too much and save too little. In order to free up additional funds and save more, it’s important to understand “where the money goes” and set spending limits. The first step in this process involves creating a monthly budget listing all expenditures.
So how much is too much student loan debt? It’s difficult to calculate a DTI ratio as monthly payments will vary depending on the terms of the loan and there is no way to accurately predict future earnings. A ballpark amount can be calculated assuming payments of 10% of gross income averaged over a ten year time span. In other words, an individual who assumes they will earn a total of $500,000 during the ten years following graduation should limit themselves to $50,000 in total student loans.

Again, it’s difficult to calculate a DTI ratio for the above scenario but chances are good the monthly payments will consume at least 15% or more of take home pay. As wages increase over time this percentage will drop, but other fixed debt should be limited during the initial years following graduation to keep the total DTI ratio under 36%.

**CAR LOANS**

Cars are poor investments. Unlike a properly maintained home, the vast majority of cars will decrease in value over their lifetime. Americans love cars and we often spend more than we should on them. Many auto industry “experts” recommend car payments consume no more than 20% of monthly income. This is too much to allocate on an asset that will depreciate in value. To compound the issue, if mortgage payments are at 28% of income, adding another 20% of debt pushes the DTI ratio to 48% - and that doesn’t include any school loan payments.

To give another perspective, the total purchase price should not exceed one-third of gross annual income. An individual making $30,000 a year (pre-tax) should spend no more than $10,000. Monthly payments vary depending on terms of the loan but generally this will result in a 9% to 11% DTI ratio.

**THE TOTAL DTI RATIO**

Many individuals will carry mortgage, auto and school loan debt at the same time. If they follow the above guidelines of 28% for the house, 15% for school loans, and 10% for car loans – this will put them at a DTI of 53%, well over the 36% limit. Generally the mortgage and auto are the two areas of fixed debt that can be adjusted until the school loan is paid off or the salary increases.

Of these three, the car should be the first target when attempting to reduce the percentage of DTI. Individuals with no mortgage payments or school loans (or other forms of fixed debt) may be tempted to spend more than the amount recommended above but this is not a sound financial decision. Any extra income is much better spent creating a pool of money that can be used for a down payment on a future home purchase, paying for tuition, or saving more for retirement.

### WHERE DID YOUR MONEY GO?

Managing expenditures part one: “Fixed Debt”

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