

# RETIREMENT NEWS

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS STCO • OCTOBER 2012

## Still Time to Choose Cash Balance

*There is still time for active members of the State and County Defined Contribution retirement benefit to elect to transfer to the Cash Balance option. The election period began September 1, 2012, and ends October 31, 2012.*



Only members who are actively employed and contributing to Defined Contribution through October 31<sup>st</sup> are eligible to transfer. Members who elect to convert will begin participation in Cash Balance at the end of the market day, January 2<sup>nd</sup>, 2013. Individuals who do not file an election form will continue to participate in Defined Contribution. This election period does not apply to members already participating in Cash Balance.

A packet containing the Cash Balance Election form was mailed to actively employed Defined Contribution participants on August 31<sup>st</sup>. This packet also contained information on the election period and a comparison of the two options. If you did not receive a packet, please contact NPERS as soon as possible to verify you are eligible to transfer to Cash Balance. The packet, election form, and an informative video are all currently available

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## Electronic Statements Now Available

State, County, and Deferred Compensation Plan participants who have created an Ameritas online account have the option to receive confirmation notices via email whenever they make an investment election or transfer. Ameritas has now added a new feature enabling email notification for quarterly account statements. This is the quickest and most convenient way to get quarterly statements, and it's environmentally friendly.

### HOW IT WORKS

As soon as your new quarterly statement is available, you'll receive an email notifying you that it is ready to be viewed via your Ameritas online account access. Log into your account and click on "E-Documents" from the "Documents" dropdown. From here you can review your current statement.

Statements can be printed, or saved to your computer in the pdf format to help cut down on clutter. In addition, you can also review confirmation statements at the same location. You'll have a lot less paper to keep track of, and electronic statements are available on the Ameritas online access for up to 2 years.

If you haven't already created an Ameritas online account, visit our website at [npers.ne.gov](http://npers.ne.gov) and click on the blue button under "Ameritas Online Access." Then click on the "New users" link for detailed instructions on creating a new account. Once you have created and logged into your account, you can enable electronic statement access by clicking on the "Go Green" link.

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## Cash Balance Rate

For the month of October 2012, the published federal mid-term rate is 0.93%; therefore the rate of return for Cash Balance participants will remain at the guaranteed rate of 5%.

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.

Each quarter NPERS publishes the Cash Balance rates of return on our website. Go to our home page at [npers.ne.gov](http://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.

## State Deferred Compensation Plan Fee

At the September 24<sup>th</sup> meeting, the Public Employees Retirement Board approved an *administrative* fee of 6.5 basis points for the voluntary **State Deferred Compensation Plan (DCP)**. This change will take effect on October 25, 2012. One basis point is equivalent to 0.01% or 0.0001 in decimal form. For a \$10,000 account, 6.5 basis points would result in a \$6.50 annual fee.

This administrative fee is charged to cover NPERS operating expenses for the Deferred Compensation Plan. Plan expenses are evaluated periodically and fees are subject to adjustment as needed.

## Improvements Ahead for Quarterly Statements and Online Access

State and County plans administered by NPERS are subject to three annual fees; a record-keeping fee, an administrative fee, and an investment management fee. In addition, the plan record-keeper will assess a fee when a member takes a final distribution of their account.

Starting in October, additional data regarding plan fees will display on your quarterly account statements. A new section entitled "Fee Detail" will itemize fees assessed for plan administration, record-keeping, and account distribution. This section will not display investment management fees, but those fees are listed in our Annual Investment Report and can also be found on the Ameritas online account access by clicking on the individual fund name and reviewing the "Annual Investment Fee" listed at the bottom of the page.

By law, these fees may only be used to pay for expenses incurred by the plan. NPERS strives to keep these fees reasonable and affordable. Plan expenses are evaluated periodically and fees are subject to adjustment as needed.

Ameritas, our plan record-keeper, is reformatting their website for plan members who utilize the online account access. Changes to the website are cosmetic and members will have the same functionality as in the past. There will be no changes to the address or login process. We anticipate the new formatting to be active in mid to late October.



# Save on that Mortgage!

The April 2012 *Retirement News* contained an article titled, "Where Did Your Money Go?" That article reviewed the three main sources of fixed debt—mortgages, car loans, and school loans—and how to calculate a "debt to income ratio" (DTI). This companion article will examine mortgages and provide tips on how to save during the home-buying process.

## Don't buy more home than you can afford.

How do you know what you can afford? An often quoted rule of thumb is 2½ times your annual salary. This calculation fails to take into consideration your current debt load and could end up creating an excessively high "Debt to Income" ratio (DTI). Review your current debt, and try to estimate future debt. As explained in the previous article, before signing on the dotted line, calculate the monthly payments for all fixed debts and try to keep your DTI ratio at or below 36%.

Remember the monthly mortgage is only one of the expenses associated with owning a home. When will you need a new roof or paint? Will you need assistance with lawn maintenance or snow removal? Are there large trees that will require trimming? You'll need enough money to cover these costs. It may be prudent to mentally add in an additional amount to the monthly mortgage to cover maintenance and "surprises." At all costs, resist the urge to look at houses outside your budget.

## Start saving now for that down payment.

Ideally, you will have saved enough for a 20% down payment. You may be able to obtain a loan with less, but 20% down will get you better rates and avoid the additional cost of mortgage insurance.

Mortgages that are not insured by FHA, VA, the Department of Housing and Urban Development (HUD) or any other government agency are considered "conventional loans." These loans often *require* a down payment of 20%. You may be able to obtain a conventional loan with less than 20% down, but generally these loans have higher interest rates.

There may be options if you cannot afford 20% down. FHA may be able to provide a mortgage with as little as 3.5% down. To qualify you must be a first time homebuyer with an acceptable credit rating. Military personnel may qualify for VA loans. VA loans do not require a down payment, but will add a "funding fee" to the cost of the loan. This fee will vary, but will usually run just over 2% for first time buyers.

Conventional and FHA loans require mortgage insurance for individuals who cannot afford the 20% down payment. This insurance will increase your monthly payments and is not tax deductible. VA loans do not require mortgage insurance.

## Check your credit, compare rates, and get pre-approved.

Before you start searching for a mortgage lender, make sure your credit history has no surprises. You cannot erase prior damage, but you can clean up any errors on your credit report. The October 2010 *Retirement News* has a handy article on how to obtain a credit report and dispute any inaccuracies.

Buyers with good credit will have greater luck securing lower interest rates and obtaining loans with limited downpayment funds. If your credit rating is poor, you may need to put off purchasing a home and focus on rebuilding your credit.

Once you have determined how much you can afford and checked your credit, it's time to select a mortgage lender. There are a multitude of different types of mortgages and lenders. Many buyers simply go with a lender recommended by their real estate agent. This lender may indeed have a competitive rate, but how would you know? Interest rates and closing costs can vary significantly from lender to lender. Taking the time to compare can lead to significant savings. Contact your local banks for rates. Go online and obtain quotes. Don't jump on the first plan offered and walk away from lenders who use "high pressure" tactics.

Now it's time to get your loan pre-approved. Don't confuse this with pre-qualification, which provides no guarantee of actually obtaining a loan. Pre-approval limits your chances of having your loan denied once you have found your dream home.

## Get help.

Once your finances are in order it's time to begin hunting for and purchasing your new home. Many individuals may need assistance with this process and enlist the services of a realtor. You may be tempted to rely on the listing agent, but the listing agent works for the *seller*, not you. You need to enlist the aid of your own "buyer's" agent.

Do your research before selecting an agent. Like any profession, some real estate agents are better than others. Ask family, co-workers, friends, and other associates for recommendations. Sit down and interview at least three agents from different firms before making a decision. Pick an agent you are comfortable with and don't be afraid to replace them if they are not meeting your expectations.

## Don't buy the "wrong" home.

You may be living in this house for many decades. Purchasing a trendy two bedroom condo may be a poor choice if you are planning on starting a family in the near future. It may be tempting to buy a "fixer-upper" but only if you have the time, expertise, and finances to make repairs in a timely manner. That leaking roof or settling foundation may end up devouring more of your life and finances than you imagined.

You may be planning on living in your new home for years to come, but life is often full of unexpected surprises. What if your job requires a transfer to another State? Or worse, what if you fall on difficult financial times? If you have to sell, what about the future resale value? When looking at potential homes, consider the preferences of other typical buyers. A home in a "bad" neighborhood with less than desirable schools may not matter to you—but will have a negative effect on resale values. You don't want to be ensnared with a home that will be difficult to sell.

Before buying, do some research on the neighborhood. Avoid buying in less desirable neighborhoods. Having the finest house in the neighborhood may not be a good thing. How does the crime rate compare to other areas? How well maintained are other properties on the block? Is there a chance your street will get widened and wipe out those trees in the front yard? Scrutinize the houses next door for warning signs of getting saddled with unpleasant neighbors. It might not be a bad idea to knock on a few doors before buying. This will give you a chance to meet some of the neighbors and ask them what they like or dislike about the neighborhood.

## Research and negotiate.

You don't want to pay too much. Before submitting a bid, review the prices recently paid for similar houses in the area. Be careful of letting your emotions get the better of you. No matter how much you may love a house, keep it to yourself and don't let yourself spend more than you can afford.

## Hire an inspector.

The final step in the process is having the home inspected. Your mortgage lender will require a basic inspection, but it's a good idea to pay for a second inspector. A second more thorough inspection can potentially save you thousands of dollars in future repairs. When submitting your bid, make sure your offer states the bid is contingent on the home passing an inspection performed by an inspector of your choosing.

Before selecting an inspector, ask family, co-workers, friends, and other associates for recommendations. Your real estate agent should also be able to provide recommendations. Check each recommendation with the Better Business Bureau for complaints. Ask them to list their prior training and work experience. Preferably, an inspector will have experience as a general contractor or construction engineer. Do they have the required licenses for your area? Ask each candidate for a sample inspection report and compare for thoroughness. Confirm in advance the inspector will check the overall foundation and structural features of the house, plumbing, electrical/wiring, the presence of mold or pest infestations, and the heating and air conditioning systems.

on our website. To access, look for the “New Cash Balance Election Period” link under the “NPERS News” section at [npers.ne.gov](http://npers.ne.gov). Our website also provides a handy benefit estimator for individuals who would like to review and compare sample annuity amounts.

There are two methods to make an election to convert from Defined Contribution to Cash Balance during the September 1 to October 31 election period:

**ELECTION FORM**

Fill out and submit the Retirement Plan Election form. Forms must be

mailed via the US Postal Service, submitted by State of Nebraska inter-office mail, or hand delivered (with picture ID) to our office.

**AMERITAS ONLINE ACCOUNT**

Submit an election via the UNIFI/Ameritas online account access.

These are the *only* methods to make a valid election. NPERS cannot guarantee safe delivery of forms submitted via the USPS or interoffice mail. Confirmation cards will be mailed to the member upon receipt of election forms submitted via the USPS or interoffice mail. Individuals using the

online election process should print or write down their confirmation number for their records. **Faxed forms will not be accepted.**

Please note this is a one-time irrevocable election. Members *cannot cancel or change their election after NPERS has received a completed election form or online election*. They will participate in Cash Balance for the remainder of their state or county employment. No exceptions.

For more information, please refer to the July “Retirement News,” your plan handbook and the Cash Balance Election packet.



# An “Official” NPERS Seminar?

This summer, we have become aware of newspaper advertisements and mail from financial advisors offering retirement planning services/seminars for NPERS retirees. As a potential retiree, members may be targeted by investment advisors offering their services. These ads may be misleading and cause plan members to mistakenly conclude these individuals are affiliated with our agency. These advertised services and seminars are not sanctioned or held in connection with our office. Information provided in these seminars may *or may not be* accurate or up to date with current legislation.

The NPERS Educational Services staff has the greatest level of expertise regarding our plans. We conduct day-long retirement seminars across the state for our plan members, pursuant to Nebraska state law. These seminars are listed in our newsletters and on our website. We also offer a shortened “Retirement 101” seminar which is presented to State agencies, Counties, and Schools by request.

We are currently conducting our 2012 State and County seminar sessions. Members may visit our website, [npers.ne.gov](http://npers.ne.gov), to view our current schedule of these full day sessions. Enrollment/registration forms were previously mailed to plan members and are also available on our website.

**If you have any questions concerning NPERS seminars, please contact our office.**

  
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**RETIREMENT NEWS**  
 FOR NEBRASKA STATE AND COUNTY EMPLOYEES  
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 Under Age 50?      Age 50 or Over?  
**RETIREMENT PLANNING SEMINARS**  
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*Only a few seminars left!*

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■ October 11 <b>NORFOLK</b>	■ November 8 <b>GRAND ISLAND</b>
■ October 24 <b>LINCOLN</b>	■ October 10 <b>NORFOLK</b>
■ November 14 <b>NORTH PLATTE</b>	■ October 17 <b>NORTH PLATTE</b>
■ November 7 <b>GRAND ISLAND</b>	■ November 1 <b>OMAHA</b>

Download a registration form for more information.  
Forms are currently available on our website: [npers.ne.gov](http://npers.ne.gov).