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Nebraska Retirement Systems Committee  
March 31, 2016

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[CONFIRMATION]

The Committee on Nebraska Retirement Systems met at 8:00 a.m. on Thursday, March 31, 2016, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on a gubernatorial appointment and the presentation of annual reports. Senators present: Mark Kolterman, Chairperson; Al Davis, Vice Chairperson; Rick Kolowski; Brett Lindstrom; and Heath Mello. Senators absent: Mike Groene.

SENATOR KOLTERMAN: Good morning.

PAMELA LANCASTER: Good morning.

SENATOR KOLTERMAN: How are you, Pam?

PAMELA LANCASTER: I'm good. Thank you. Thank you so much for allowing me to do this by conference call. This is much more convenient. I hope it's convenient for you all.

SENATOR KOLTERMAN: It is. Would you tell us a little bit about yourself and your idea of serving on the Public Employees Retirement Board?

PAMELA LANCASTER: Sure. My name is Pam Lancaster for those of you who don't know me. I've been a county supervisor, Hall County supervisor for 20 years. Prior to that I served on the Grand Island Public School Board and actually had a professional career before that, so to speak. I was an educator. I taught for ten years. So I'm married to my college sweetheart. We have two married children and six grandchildren, so life is good. In fact, it's great in that respect. I saw a notice...I found out about this position because I saw a notice from NACO that mentioned this position was open and I gave it some thought. But then after talking to a friend, they just reiterated to me the fact that, as we discussed it, that this might be a great place for me to serve. I enjoy serving at the state level. Since the late '90s I've either chaired or been vice chair of the Greater 88 Work Force Development. So I like this level of service to the public and I was able to attend...Phyllis Chambers invited me to last month's meeting of the PERB Board. And so I was able to sit in on one of the meetings. And they're very singly focused, which is very nice for a change. They have one purpose and that's to support people's retirement financially which is a great benefit that the state employees receive. And I found the people to be very...with the same...like-minded minds meeting, feeling this was a great benefit to their colleagues, that this is a great place to serve. They're very knowledgeable. I have a basic understanding of the various programs and the various funds, but I know I have a lot to learn. And I guess I just think it would

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be a great place to...for additional public service at the state level. And...know what else you'd like to know from me, but...

SENATOR KOLTERMAN: And as you know, it's a five-year term.

PAMELA LANCASTER: Yes.

SENATOR KOLTERMAN: And you would be representing the county of...you would be the representative for the counties and you're...

PAMELA LANCASTER: Yes, uh-huh. And I understand also that the county benefit is a 401(k) type benefit versus a defined benefit from like the teachers and the judges and so on. So I understand that there's quite a difference of funds that I would be representing. But that's...counties have always...have never really been able to afford moving to that other level. And I'm perfectly...I mean I'm perfectly well informed about that. For 20 years I've known the benefit was there. To say that I gave it a great deal of thought previously...to be perfectly honest, I didn't really think a lot about...I knew the benefit was there but I didn't really get a lot of thought into who provided the oversight to whose fiduciary responsibility it was. It was just nice to know that it was there. And I think probably most employees across the state feel the same. I don't hear a lot of people talking about their retirement until they come close to that time.

SENATOR KOLTERMAN: Sure. Well, listen, I'd like to thank you for your public service. You have a long history of public service both...especially on the county level and in your local community.

PAMELA LANCASTER: Thank you. I really...I enjoy it. I tend to feel that if...well, not having an agenda of any kind has worked really well for me and I've appreciated the people's support of me all these years. So it's worked well in both respects.

SENATOR KOLTERMAN: Hearing that, do we have any questions from the committee of Ms. Lancaster? Well with that, I guess I'd thank you. I hope you enjoy the rest of your day. I appreciate you calling in and taking the time to do this, this morning.

PAMELA LANCASTER: Well, I thank you very much, again, for allowing this to be done by conference call. As it turned out, my husband and I happened to be out of town for a few days. Before all of this came up I agreed to babysit, which is something I rarely pass up the opportunity to do if we can. So we're baby sitting a one-year-old, a four-, and a seven-year-old. So we're pretty busy.

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SENATOR KOLTERMAN: Good luck with that.

SENATOR KOLOWSKI: Bless you.

PAMELA LANCASTER: I'll return exhausted. It will be a fun one.

SENATOR KOLTERMAN: Yeah.

PAMELA LANCASTER: All right. Thank you very much. Have a great day, Senators.

SENATOR KOLTERMAN: Thank you, Pam. You too. Okay, with that, I will open the hearing. For those...thank you for coming this morning. I'd like to introduce the committee. My name is Mark Kolterman. I'm from Seward. We'll go this way.

SENATOR DAVIS: Al Davis, District 43 which is north-central and western Nebraska.

SENATOR KOLOWSKI: Rick Kolowski, District 31, southwest Omaha.

SENATOR LINDSTROM: Brett Lindstrom, District 18, northwest Omaha.

SENATOR KOLTERMAN: And we have Katie Quintero who's our committee clerk, and Kate Allen who is our committee legal counsel. Then we have Ashlee Fish who is a student from UNL and who's glad the semester is about over, right, Ashlee? (Laughter)

SENATOR DAVIS: Our semester is about over, too. (Laughter)

SENATOR KOLTERMAN: Yeah, ours is about over, too. Is there anybody here that would like to testify in support of the candidate? Welcome. Would you spell your first name and your last name.

BETH BAZYN FERRELL: (Exhibit 1) Sure. My name is Beth, B-e-t-h, Bazyn, B-a-z-y-n, Ferrell, F-e-r-r-e-l-l. I'm with the Nebraska Association of County Officials and I'm appearing in support of Pam Lancaster's appointment to the PERB Board. Pam served as NACO president in 2010. Before that and since then she's been very active at committees and different activities for NACO. She's also been involved with the National Association of Counties. She was very involved in some veterans activities. And we'd just like to strongly support Pam's appointment.

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SENATOR KOLTERMAN: Thank you. Any questions? Appreciate you coming this morning. Thank you very much. And I don't see anybody here to oppose or in a neutral position, I don't believe. All right. With that, we'll close that off and we'll start out. Today we have a short agenda. We're going to have a presentation by the Nebraska Investment Council. Michael, would you please come forward and make your presentation? And welcome. And for the record, let it be known that Heath Mello is now showing up at 8:15. Okay, Michael.

MICHAEL WALDEN-NEWMAN: (Exhibit 2) Mr. Chairman, members of the committee, I'm Michael Walden-Newman, State Investment Officer with the Nebraska Investment Council; that's M-i-c-h-a-e-l W-a-l-d-e-n-N-e-w-m-a-n. Mr. Chairman and committee members, I'm pleased to officially present to you all the 2015 Nebraska Investment Council annual report. You've received hard copies of the report. It will also be posted on our Web site. But what I brought for you today is something, as you know, I like to do and that is a condensed handout of what I would want to see if I were you, quite frankly. It's a quick overview of who we are and what we do and how we've done it this year and what factors have influenced the performance of the major portions of the portfolio. I do want to repeat what I know you already know, but what I've come to appreciate in my now just over a year here, first of all, is just the definition of what Nebraska Investment Council means. I couldn't quite figure...it was...it took a while to wrap my arms around the fact that it really means three different things. It means, first and foremost, the seven-member board. We have five, as you know, appointed in staggered five-year terms, two ex officio members, including the State Treasurer and the director of the Retirement Systems. It also includes though what I call the investment team, the ten of us who are the state agency day-to-day personnel. But most important and I know what you appreciate as well and we want to reinforce to all of the beneficiaries of our investment activities, it's the 17 of us working together for the people of Nebraska. I'd like to take a 30,000-foot view of the money and you'll recall in my confirmation hearing a little over a year ago that I repeated to you what a former Governor of Nebraska told me in my interview, and he said don't you forget that this is all of Nebraska's money paid for by real Nebraskans and I want you to promise me you're going to take good care of it. And I've tried my best in this first year to do exactly that. But this shows at the bottom of the first page exactly what he was referring to and what makes up this \$22 billion of your money. You know that 60 percent of it is for pensions, retirement programs. We handle the endowments for the state and we also manage in-house at great savings to the state, quite frankly, the state's \$4 billion checkbook. If you scan through on the next page, I just highlighted the retirement and pension system portfolio makeups alongside the operating investment pool, which again is the state's funds to show the difference in those two accounts and the asset allocation that meets the objectives of those accounts. Starting with the operating investment pool, that is invested in funds that provide liquidity the state needs to pay its bills. It also has a component that allows for some growth by investing in longer term bonds. But there is no equity in that checkbook for obvious reasons. You want that liquidity and you don't want to wake up some day needing the money and find out that if you need it you've got to sell it at less than what you put in. On the

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other hand, the pension plans that are invested for the long term can have and should have the inflation protection that an equity component brings. And so they are as you see invested in equities and invested not just in U.S. equities but in...we have wedges of the investment pie, if you will, that are bucketed into domestic equity, international equity, and then what we call global equity which is simply a manager we hire to move across the U.S. and foreign markets as they see best. There are also, as you know, alternative and private investments in that, private equity which for...which requires a lockup of funds until the investment proves out after years of a fund's life. In that case we expect to realize a premium for that lockup of funds, an illiquidity premium. Otherwise you'd keep the money in the stock market and be able to trade it day to day. The same goes to an extent for real estate investments, which just to be clear and I know you know this, we're not buying buildings or land. What we're doing is we're investing in funds with other institutional investors who in fact invest across an array of real estate from bare land and with an eye toward development, to straightforward business properties for which we collect rent as a landlord along with the other investors. And those provide not just a yield component from that rent, but the appreciation that comes with the building over time should the investment then sell. The...but it doesn't mean always that this diversification brings you performance that's above what the state's checkbook can get that's invested frankly in cash and shorter term bonds and we all know that from this past year. It wasn't till this past month that the markets really recovered and any of us who have what little savings we can manage to put together over a lifetime have lived through the last year and the way I say it is that this past year, 2015, has told all of us that sometimes it's best to just not have lost the money. Sometimes that's as good as you could do and it's much better, as I say...it reminds all of us it's much better than having lost. And the first investment rule--this is a year that proves it out--the first rule is don't lose the money. Then if you can make some, that's great. But this year the performance on...specifically on the pension plans for the calendar year was essentially flat. The endowments which make up as you know a part of our portfolio, flat. The cash portion, the state's checkbook, just a little better than flat. But it wasn't a terrific year and what I've included clear at the back of this presentation is one of my favorite charts that really lays out...and I think I brought it to you once or at least sent it to Kate and I think she's handed it out. This last page shows you just what happened, what all of us went through. And in the case of the Investment Council and you and the citizens of Nebraska, we went through this together. I have a quick recap of markets. I don't need to go through that. But what I did want to do is repeat some of the initiatives we've taken on at the Investment Council; one is--and we talked about some of these when I had my confirmation hearing--about plans. One of the things we're going to do is what I've done in a prior life and that speaks to how we're going to manage this portfolio and keep it fresh. We've...I told you we were going to move through this portfolio asset class by asset class in a blank-sheet review of each of those classes and deconstruct and reconstruct this portfolio in an incremental, deliberate way. And we've started off with global equity. And last fall--late summer, early fall--we began this blank-sheet review of our global equity portfolio that represents 15 percent of the pensions. And what we did is we asked about 20 different investment firms the very basic question, what would you do if

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you were Nebraska and you had currently \$2 billion in global equity? What would you do to put together a global equity portfolio that would best serve the state over the next five-year period? And the questions I outline in here...and they're very simple. It's, first of all, would you have one? Second, if you did, what would it look like? What would be the mix of the types of investment managers you'd hire--active or passive and style--to put that global equity portfolio together? And the structure, the weighting it should have within the larger pension portfolio, should it stay at the 15 percent or not? And then only after the investment team here in Lincoln has studied that with these best ideas did we box up and send up to our investment consultant whom you all know and many of you have met, a terrific outfit, Aon Hewitt, they happened to be based in Chicago with some overseas offices. But we sent the 6, 8 best ideas of those 20-plus ideas up to them and had them take a look. And together we are just now finalizing what the structure of that global equity portfolio should be and which managers we should hire. And what that does is it seems like big projects and it seems daunting when you hear about it. But my belief is it does what fundamentally all of us should be thinking about and that is, do we have the right portfolio or not, not this is what we have and how are each of the manager's doing and we spend months nibbling around one bad manager. This takes us up and says, look, let's just have a good look at the entire component and see if it still has a place. And we look to then bring to our board who has the authority to, as you know, hire and fire the managers in addition to setting the investment policy and the asset allocation. We intend to take to them this reconstructed global equity portfolio for their approval. And we're already thinking about what next, which asset class is going to be next to look at and we intend to march through this portfolio that way to make sure that it's fresh, that it's filled with the best ideas, and that we don't wake up, like you can if you don't do this, one day to find out that at a minimum you have a portfolio that was a great idea ten years ago and you really haven't taken a good, hard look at it. So that's something that's very exciting we're doing. A little more local, on the side of the state's checkbook, I don't take for granted that people, everyone in the state knows the Nebraska Investment Council or what we do. I don't think people in state government necessarily know what we do and yet we're investing state agency funds in that operating investment pool. So one of the initiatives was to have visits with the state agencies for whom we're investing funds. And we sent out...we set up an education program, sent out invitations to state agencies and we had a couple of these education sessions this past year that were well attended and informative and we got a lot of good feedback by state agencies, from state agencies and we intend to do this once a year so that people in agencies know what we're doing and we invited folks within state government as well and in the investment branch. Mr. Chairman, members of the committee, I'm going to stop there. I just want to say that...repeat what you all know and what I said and that is that we come to work every day intending to do our very best for the state of Nebraska. I wanted to end with a couple of things. One, we are having a retreat that some of you attended last year. They've been one-day affairs in the past. This year we're going to have a two-day affair. It's going to be the 19 and 20 of July starting after lunch on the 19, going through two education sessions. We're going to adjourn. We're going to have an informal visit and then a dinner that evening, no host. Then we're going

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to have session in the morning and then our board will adjourn to do some stuff in executive session. But you're all...you'll get invitations. You've received a save the date and we'll have more to you then. It's going to be down in Nebraska City, so it's way in the corner. Lastly, I know that the Governor has approved the bill that would have us take over management of the assets of the Omaha Public School System. I want to thank you all for the work that you did last year in this to accommodate the requests that we had as the Investment Council to be able to best carry out that mission. I want you to know that I waited. I couldn't wait till yesterday, but I waited till at least it got out of the Legislature to reach out to Omaha, both the school board chair, the chairman of the trustees, and the new director of the pension system there and told them I think it's time I come over for a good visit and talk about the investment transition which you all know we need to have a plan by the 1st of July. We've already thought about it, but we're going to have a good visit with them here in the coming weeks, and boy, by golly, we're going to take as good a care of that money as we have the rest of it. I can assure you that. Thank you very much.

SENATOR KOLTERMAN: Thank you, Michael. Questions? Go ahead, Senator Lindstrom.

SENATOR LINDSTROM: Thank you, Chairman, and thank you for being here. Thank you for all you do. I know it's not an easy task and it's hard to look like the hero all the time, especially in this market, right?

MICHAEL WALDEN-NEWMAN: Right.

SENATOR LINDSTROM: But being flat last year, slightly above is in my opinion a job well done.

MICHAEL WALDEN-NEWMAN: Thank you.

SENATOR LINDSTROM: A couple questions more just on the outlook and looking at maybe the economy moving forward and I guess I have a few questions. First, I noticed that about two-thirds are active management and a third passive management. Is there any push to go more passive or more active looking out, or do you think that that is kind of where you'd like to stay in that two-thirds, one-third?

MICHAEL WALDEN-NEWMAN: Mr. Chairman, Senator, that's a very good question. As I highlight in this brief report and in my comments in the actual annual report itself, what's admirable with this Investment Council, which I was lucky enough to inherit a system that didn't need fixing. Not everyone gets a job like that but it happened to me, had made the decision strategically to pay for what they need to pay for and get the rest...well, try to get all of it as

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cheap as you can, but in the case of investments only pay for active management when you think you're really going to get the benefit. It's hard for active managers to be passive a lot of the time. And so the short answer is I like the mix we have now between active and passive. And I can tell you while the global restructuring is not quite ready for prime time, we're still fine-tuning and haven't had it...we're not even sure exactly when we're going to take it to the council. The mix of active and passive in that case is not going to change which is about 25 percent passive, 75 percent active and that's higher than normal in the global equity space.

SENATOR LINDSTROM: Okay, then just a couple more questions. With the energy sector obviously being off last year and equities and just the sector in general, is there...maybe when you look at active management will there be an emphasis on maybe being heavily weighted or overweighted in that particular sector since last year it was down, kind of looking at buying at the low on this side of things? Is that going to be something that the council looks at going forward?

MICHAEL WALDEN-NEWMAN: Mr. Chairman, Senator, that's another good question and it's a good time to reinforce that the council takes a very long view of the investment horizon and so our eyes are clear out there on the farthest horizon rather than trying to be too opportunistic with the portfolio on the shorter horizon. So in general, we're not and I am not the CIO who is going to be very opportunistic with the portfolio and makes short-term bets. Specific to energy, there are those who think energy is the worst place to be and I'm not just talking about the fossil fuel divestiture issue. I mean that, you know, you...it is a place you can lose money and I know that from my prior life. On the other hand there are those and as you pointed out that actually that is...now is a good time. What we have though are guidelines and managers that we've hired who have their...we've hired them for a reason. The reason is to be long-term investors. And the direct answer to your question is that they would not be taking opportunistic bets in their portfolios and in the alternative space where you could, say, in private equity, make opportunistic plays, again, the lockup of that investment of you've locked that money up when you make a private equity bet, you've bet for 10, 15, as much as 20 years in those investments. So it's very hard. So the answer is we're not the opportunistic player.

SENATOR LINDSTROM: Okay. Thank you.

SENATOR KOLTERMAN: Okay. Senator Kolowski.

SENATOR KOLOWSKI: Thank you. Michael, thank you for your work again and all that you do. The question I have is one of probably a short-term crystal ball kind of...

MICHAEL WALDEN-NEWMAN: Yeah.



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SENATOR KOLOWSKI: ...situation being a national election year as well as the economy that's happening. Any view on that up to the November election then in the typical history of election years, what do you see that you hopefully might come to fruition?

MICHAEL WALDEN-NEWMAN: Mr. Chairman, I'm going to be just as short and honest as I can, Senator, with that. If I had a really terrific crystal ball, just like any of us, we might all be someplace else...

SENATOR KOLOWSKI: (Laugh) Like Vegas, yeah.

MICHAEL WALDEN-NEWMAN: ...than what I consider, right, the Garden of Eden of the world now in Lincoln, Nebraska. That's the nice thing is that when you're in our work, and I consider us being partners in that work, you don't need the crystal ball so much as you need a steadfast conviction that long-term investing and keeping an eye on that farthest horizon is the right thing to do.

SENATOR KOLOWSKI: Thank you.

SENATOR KOLTERMAN: Senator Davis.

SENATOR DAVIS: Just a couple questions. Thank you, Michael, for your good work. It's always a pleasure to have you present before us.

MICHAEL WALDEN-NEWMAN: Thanks very much.

SENATOR DAVIS: The...I guess we'll call it the reviewing of the portfolio, how many...how long will it take to go completely through that?

MICHAEL WALDEN-NEWMAN: Mr. Chairman, Senator, I appreciate your interest in that. This is something that I started in Wyoming and quite frankly isn't done. When I began doing this I called around to other states to try to find out who had done this. I thought surely someone has done it. It just made so much common sense to me and I couldn't find anybody. So it's a little bit of a, you know, a Michael thing quite frankly. But I did it through two cycles in Wyoming. It took five years to cycle through that portfolio given the asset classes we have and it may take...it'll take four or five years we'll do one or...one a year. They can overlap. You know, you don't have to finish a project to start a new one, right? You don't have to...you can be plowing a field while the crop is growing in the other. And so we're going to do that, but it'll take...this will be a four-year, a five-year project. But I think I told you all this, too, when I was in front of my

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board in the interview process, I told them, I said I think maybe some of you are nervous. If you give me this job you're looking at my hair thinking I bet he wasn't born with hair that color. If we give it to him will he stay very long? And I told them it was uncomfortable, I said, but let me bring it up. And so I did and I said, how about if we talk about ten years? And so I've made the commitment to be around to see this project through not just one cycle but two.

SENATOR DAVIS: So you view it as an ongoing procedure...

MICHAEL WALDEN-NEWMAN: Mr. Chairman, Senator, absolutely. This is, I believe, the way to keep that portfolio fresh and make sure you have the best portfolio, as I say, to serve the state and that we keep cycling back through and we'll...in this global equity portfolio, I've told everyone who's come in, we just need it for the five years because we'll come back and visit, whether that means we'll make major changes, and we don't intend to with this. If you have a good portfolio you don't have to, but at least we know that we've had that good, hard look.

SENATOR DAVIS: And the other question I have concerns the OSERS portfolio. And, you know, of course we don't know what's in it. We've heard it's this somewhat illiquid mix. How do you intend to review that and what do you intend to do with that?

MICHAEL WALDEN-NEWMAN: Mr. Chairman, Senator, and what's nice is we've had a year to think about it, right? We've had two bites at that apple to get the bill the right way. And again, I can't thank you enough for putting everything in it that we thought we needed in our tool box to be able to do a good job for everyone. They do have...there I will tell you that the prior director made it very clear to me that they were managing to their 8 percent assumed rate of return. And as you know we start with risk rather than a return target. And so they, and as you've seen from us, what our portfolio would have to look like to achieve an 8 percent return and then only 50 percent of the time, the makeup would be 50-and-higher percent in alternatives, they in fact have a portfolio that does look like that. And so part of the transition to the Investment Council will be that transition over time to a portfolio that looks more like ours. And as I've said before here and in public testimony, the mechanics of it, what we know today, right, is the starting point, the assumption is that we will accept into our house their room and it will be a standalone, separate room within our house until it begins to look like the rest of the teachers' portfolio for the rest of the teachers of the state of Nebraska. And that's going to take some time because there are alternatives in that portfolio that will take some time to roll off and so I see it taking...and I believe I've said this before, it could take six, eight, ten years for that portfolio to transition completely into and merge completely with the portfolio in the defined benefit plan for the rest of Nebraska's teachers. So we're going to take it...nothing needs to be done right away but we're going to take our time and be deliberate make sure we do it correctly.

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SENATOR KOLTERMAN: Michael, with that, I'm going to close the hearing. Thank you for coming. Always good to see you.

MICHAEL WALDEN-NEWMAN: Thanks very much.

SENATOR KOLTERMAN: Great information.

MICHAEL WALDEN-NEWMAN: Great to see you all. Thanks again for the support.

SENATOR KOLTERMAN: We need to be fair to the PERB. They're next. Thank you.

MICHAEL WALDEN-NEWMAN: Thank you so much.

SENATOR KOLTERMAN: Good morning, Phyllis.

PHYLLIS CHAMBERS: Good morning. Well, Chairman Kolterman and members of the Retirement Committee, it's a pleasure to be here this morning. Oh, by the way, my name is Phyllis Chambers. For the record, P-h-y-l-l-i-s C-h-a-m-b-e-r-s, director of the Nebraska Public Employees Retirement Systems. I would like to say this is my tenth year of presenting the annual report to the Retirement Committee. And the PERB and I would like to thank the committee and Kate Allen, your legal counsel, for your commitment to the PERB and to our members and to our agency. I appreciate this opportunity to highlight our achievements for the past year. And so I hope that you do have a copy of our annual report. The report is very similar to past years. It includes our vision statement, our mission statement. It has our agency goals, the statutory requirements for our agency and for the different plans. We have...it also includes our achievements, our action plan and a lot of detailed information about the retirement systems. Our theme this year is about breaking records again. So if you want to turn to page 4 and 5, I'll start with some of our accomplishments. Our...the number of member accounts we have now has grown by 3,000. We're over 125,000 member accounts in the plans. And our assets have also broken a record of \$12.9 billion. We paid out a record \$719 million in benefits this last year and over \$500 million of that went to annuity benefits, monthly benefits, approximately \$42.5 million on a monthly basis to members in Nebraska. We also have \$166 million that went to refunds, rollovers, and systematic withdrawals and required minimum distributions. And as I said, 90 percent of those benefits stay right here supporting Nebraskans. They go to residents of Nebraska. So they're supporting our communities and our state. They're a big economic driver in those communities. Our average retiree is now making approximately \$1,929 a month. NPERS processed over 1,900 annuity retirements this year and we paid out almost 7,000 refunds this year to primarily members in the school and the state plan and county plan. We answered over

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43,000 phone calls and we visited with over 2,700 members who came to our office for office visits and for regular scheduled appointments and also as walk-ins. Some of our main accomplishments are were issuing an RFP for recordkeeping services for the state and county defined contribution, cash balance, and deferred comp plan. That RFP was issued last year and then in January the board decided to award the contract to Ameritas Investment Corp. And we signed a contract with them. It will take effect October 1 of this year. It's a five-year term and it has three five-year renewal clauses in it. NPERS paid a cash balance dividend this past year to state and county members who were eligible in the cash balance plan and we paid over \$67 million out in those dividends to those members. There was a decrease in the CPI-W for this past year. So unfortunately school, judges, and Patrol members did not receive a COLA this year. And that's only about the second time that's ever happened. Generally, there is a COLA but just not this year. For the first time we know of that anybody in our office can remember, the State Auditor conducted our audits of all of our plans and found no audit points in any of the plans for both the state and county, and the school, judges, and Patrol. Needless to say, the board was ecstatic. Our staff was very happy about that and certainly it may never happen again, but we have worked...over the past ten years, we have decreased those audit points as over those years and they have done a great job. We continue to promote our education services. Last year, we had 55 retirement seminars across the state to over 2,500 members. We also had seven employer workshops across the state as well to about 349 employer reporting agents. And then this year we did partner with the Nebraska Council of School Administrators and had our first ever Webinar for our employers that was very, very successful. We had 125 employer reporting agents participate in that Webinar. And I'm sure we'll do more of those. We worked with the actuaries on the annual valuations of all five plans. We updated the 30-year projection models and we provided cost studies and a special report to the Retirement Committee on the assumed rate of return. And a number of other accomplishments that you can...you're welcome to read about. I won't go through all the numbers, but we have all the numbers here for data services and for the state...our internal audit department and so forth. Also, I just forgot to mention we finished the GASB reports for GASB 67 and 68. We've now completed those in full, a full year of those, so now going forward those will be much easier for us to do, be more routine. If you look on page 6 you'll find our action plan for 2016, and the first thing I would point out is number two, because we've already done number one in awarding the contract for the recordkeeping services. But number two is to work with the actuaries to perform the 2016 experience study for all five plans and to take board action on the actuary's recommendations. Another major project that we have this year is converting our member records that are currently on microfilm and ledger books to electronic images. We've been working with the Secretary of State this past year. The Secretary of State is in charge of how we do the records. So they have been determining whether they can provide those services to us and just after the first of this year, Secretary Gale informed us that they will do the book ledgers for us. We've already started on that. We've tested some and now they've already started on those. They just purchased microfilm imaging equipment so they are going to do those for us. We are just starting to test our microfilm and that process with them.

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And if that proves out to be satisfactory, they're going to do our microfilm for us. They do not have microfiche equipment to do that process for us, so they have given us permission to go out for an RFP. So we will work with the State Purchasing Bureau to issue an RFP for the microfiche images. And that's about 6.7 million images on about 168 million microfiche jackets. So that process we may not get started on right away, but we certainly are getting started on the other and we're happy to get that going. We also will be implementing any retirement legislation that's enacted this year. Certainly we'll start on the OSERS payment processing plan and working with the Investment Council, with the State Treasurer, and the OSERS school retirement systems. So we look forward to doing that. It's...then I also wanted to point out to you...let's see, let me back up just a minute. It's important to note that we are operating on five basis points. Our agency expenses run at about five basis points or .05 percent of our assets. And then I would like...maybe if you would turn to page 14 to 15, this is where you can find our plan summary. You can see all of our plan assets, how they've grown over time. You will see that the state DC plan has decreased somewhat. Those...and certainly the number of people in the DC plans have decreased, but the cash balance plans are increasing quite a bit because all the new people are in cash balance. And then if you look over into the membership status you will find that the number of active members, 67,000 active members in all of our plans. They are currently working. And then the inactives are people that have assets with us, they have accounts with us, but they're no longer working. And then we have the retired group and the DROP group. Those are the people that we pay the monthly benefits to. They're receiving annuity benefits. So we have 24,000, over 24,000 that we pay monthly payment benefits to. And then you'll see at the bottom, we enrolled approximately 7,300 new members this year and we paid out about 6,900 in the refunds this year and 1,900 retirements.

SENATOR KOLTERMAN: Well, Phyllis.

PHYLLIS CHAMBERS: Yes.

SENATOR KOLTERMAN: You've got a great report. Thank you for all you've done this year. I appreciate the fact that you've been open to work with, very easy to work with, you and your staff. Kate inquires a lot and we ask some questions. You always get us good, quick responses. We've, in recent weeks, we've worked with you and your actuaries and gotten some things done. I appreciate that. So with that, I think...I'm not trying to cut you short but we've got to go to open session here in a minute.

PHYLLIS CHAMBERS: Okay. Well, certainly.

SENATOR KOLTERMAN: I would ask, are there any questions?

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SENATOR KOLOWSKI: Just a quick one if I could.

SENATOR KOLTERMAN: Senator Kolowski.

SENATOR KOLOWSKI: Thank you, Mr. Chairman. Phyllis, thank you again for your team and the work and the quality of work that gets done. You mentioned the microfiche and all the rest. Are there any other technology needs that you're seeing on the horizon or immediately that you think you need to be asking about or moving toward to make things more proficient and efficient as you go along?

PHYLLIS CHAMBERS: Right now we have been keeping up with all of our upgrades. The system is working well. I have to give a special note to our IT department because they are really on top of it. Probably our biggest concern would be what everybody is concerned with and that's security. So keeping those patches up, keeping the upgrades done, and so forth. But right now I would say we might need a few extra...we might need just some new desktops and some monitors. But we do have a program where we periodically every year replace some of those.

SENATOR KOLOWSKI: Sure.

PHYLLIS CHAMBERS: So we're looking to replace some of those this year. But as far as our software right now, I think we're in good shape. I'm hoping we don't...I'm hoping that...you never know when they're going to say we are no longer going to support this and you're going to have to go to something new. But right now, things are paid for and our system is working very well. So thank you for the question.

SENATOR KOLOWSKI: Thank you.

SENATOR KOLTERMAN: Additional questions? Well, again, thank you.

PHYLLIS CHAMBERS: Okay, and I would just like to say, too, thank you for your commitment to funding the plans. Our plans are well funded. It's very important that we continue to pay actuarially required contributions to keep them maintained on an annual basis.

SENATOR KOLTERMAN: We're with you on that.

PHYLLIS CHAMBERS: But we appreciate everything that the committee has done, too, this year. So thank you for your service.

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SENATOR KOLTERMAN: Thank you.

PHYLLIS CHAMBERS: Okay.

SENATOR KOLTERMAN: With that, we're going to close the hearing. Thank you for coming this morning, everyone.