

Transcript Prepared by Clerk of the Legislature Transcribers Office  
Nebraska Retirement Systems Committee November 21, 2024  
Rough Draft

**McDONNELL:** Retirement Systems Committee. My name is Mike McDonnell. I represent Legislative District 5 in Omaha, and I also chair this, this committee. Committee hearings are an important part of the legislative process and provide an opportunity for legislators to receive input from Nebraskans. Today we are here for L-- LR158, an interim study to monitor underfunded defined benefit plans. We will hear from six political subdivisions covering seven different defined benefit plans that are un-- that are funded below 80%. If you plan to testify today, you will find a pink testifier sheet on the table inside the doors. Fill out the pink testifier sheet only if you are actually testifying before the committee, and please print legibly. Hand the pink testifier sheet to the clerk as you come forward to testify. There's also a white sheet to-- at the table. Please fill out if you wish not to testify but would like to be recorded on your position on a bill. The sheet will be included as a exhibit, the official-- in the official hearing record. The hearing is a, a bit different from other hearings, and accordingly, we won't be using a proponents/opponents format, and we will not be using the light system. We will hear from the representatives of various political subdivisions that are the subject of, of this hearing. If there is someone who wishes to provide additional commentary, we will provide an opportunity for you to testify. As a matter of committee policy, I'd like to remind everyone the use of cell phones and other electronic devices is not allowed during the public hearing, so I would ask everyone to please look at their cell phones and make sure they're in the silent mode. And with that, I will ask the inter-- committee to introduce themselves, starting with Senator Clements.

**CLEMENTS:** Rob Clements, District 2.

**IBACH:** Teresa Ibach, District 8-- or 44, which is 8 counties in southwest Nebraska-- not switch districts.

**CONRAD:** Good morning. Good morning. Danielle Conrad, north Lincoln.

**McDONNELL:** I'm assisting the committee today, to my far right is Tim Pendrell, the committee clerk. To my immediate right is Neal Erickson, the committee legal counsel. I also have two special guests here today, my, my brother-in-law, Bernie Gherki, and my nephew, Sean McKearney. So I'd like to recognize them being here today. Also, Sean is Bernie's grandson. We will now continue, and we will start with-- who's first up?

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**NEAL ERICKSON:** Eastern Nebraska Human Services.

**McDONNELL:** Eastern Nebraska Human Services. Got you thinking. Anyone representing Eastern Nebraska Human Services, please come forward.

**NEAL ERICKSON:** Yeah, Mike Ehmke.

**McDONNELL:** Mike?

**MIKE EHMKE:** Yes.

**McDONNELL:** Welcome.

**MIKE EHMKE:** Hopefully, everyone can hear me OK. My name is Mike Ehmke, last name is spelled E-h-m-k-e. I am an actuary with Hub International Great Plains, or formerly known as SilverStone Group in Omaha, Nebraska. I'm here representing actually the plan's actuary, Glen Gahan. Glen unfortunately is-- had a prior commitment out of the state, so he brought me up to speed with respect to some of the actuarial aspects for the Eastern Nebraska Human Services Agency retirement plan. I believe all the information has been sent to the committee as far as certain documents, certain valuation reports, and if it's acceptable, I'll probably just go through the reporting reform that was sent out. So as far as, I'll call it the ENHSA plan, that's what we call it-- you know, the ENHSA plan currently, we-- it's a plan year of January 1 to 12/31. The funding percentage is at 72% currently. The main reason why the actual funding percentage has decreased since our last valuation-- which those valuations are done every two years, which may be a little different than other systems. But the main reason that that funded percentage decreased was the calendar year 2022 investment return, which was a little-- it was -10.8%. The good news is obviously 2023 was a strong investment year, that it rebounded. Even better year-- even better news is that through September 30, '24, the plan has actually returned-- make sure I get this right-- about 15-16%, which has probably pushed the funded percentage up to 80 or 81%. But as of January 1, '24, the funded percentage was 72%. As far as some important items to note here, as the committee knows, the main driver with respect to how well funded a retirement system is, is the investment returns. With the actual evaluations, we do an assumed investment return of 7%. Just as far as looking back, the actual annualized investment return per year for the past 5 years has been 7.2%. Looking back is really easy. Going forward as far as investments is much more challenging. The current investment allocation is approximately 50% equities, 45% fixed income, and 5%

other things like private equity. So the support with respect to a 7% investment return, you know, is evidenced by the actual investment allocation. Another important part with respect to retirement systems, of course, are contributions that go into the system. So still-- I'm still on question one, with respect to the reporting form. Of course, with every actual valuation there's an annual or I should say [INAUDIBLE] an actuarially determined contribution or an annual required contribution. ENHSA has consistently provided contributions in terms of a-- terms of a fixed percentage of payroll. Employees do pay 3% of their pay. ENHSA has increased their employer contribution rate a few years ago, from 9.5% of covered payroll to 10%, primarily responding to trying to get the funded percentage at a higher level. As far as the, going down in this grid, probably about two thirds, the annual required contributions for 4 out of the last 5 reporting years, the actual contributions have exceeded the actuarially determined contributions. 2024 is not done yet, but that's obviously a step in the right direction. Item 2 on the information sheet here, I had addressed already. The main reason why the funding percentage had declined was the actual investment return during calendar 2022. You know, that produced a significant investment loss, which, you know, currently, if you reflect that return through September 30, the system or the plan has pretty much recovered. Item 3, on the second page of our response, changes in actuarial assumptions. Of course, every valuation, as far as the valuation results, are driven by those actuarial assumptions. Of course, the ultimate cost of a retirement system, the actuary cannot determine. That's based on actual experience, but it's obviously prudent to go ahead and review those actuarial assumptions periodically and make any changes, suggesting those to the plan sponsor. The plan sponsor will make those ultimate decisions. As far as changes in the last valuation report, this was accompanied by an actual experience analysis we had just completed in August of 2024, which is one of the documents submitted to the committee. There were a few changes that were done. The salary increase assumption went from 2.5 to 3%. Certainly with respect to the past year or 2, there was a lot of inflationary pressures that we saw that, you know, caused salaries to increase more than expected. We also had increased turnover, meaning the rate at which active employees would leave the agency, responding to the actual experience of the system. And also, this is an interesting part here. The employees, they actually have a choice when they retire, to either take their employees' contributions out and forfeit any pension benefit, or they actually may keep their employee contributions in and then retain the actual pension benefit. So there's a assumed split of

those particular choices. And we responded to the actual experience by changing that assumption, as well. Now, even though I mentioned there were several changes here as far as magnitude, the change in the actuarial accrued liability was fairly small, only about 0.2%. The main reason there is a little bit over 60 or 61% of the liability is attributed to current retired members in the plan receiving benefits. So all of those assumptions that we made affected active employees. None of them affected the retired members. As far as item 4 here, we've done some projections on behalf of the plan sponsor. Based on the current set of actuarial assumptions, the plan is expected to receive a fully funded or 100% funded ratio by calendar 2049, 25 years out. This does not reflect the actual investment return through the first 9 months of 2024, which was quite favorable. So we would expect that time frame to be a little bit sooner, with respect to that. The method, of course, since the plan is not fully funded, what do you do with the unfunded accrued liability? There's different ways of amortizing it. There's we call them level percentage of pay amortizations, where the actual payment is determined on a percentage of payroll and it stays consistent as far as a percentage of payroll, or there's level dollar amounts. Differences in those methods certainly drive the actuarially determined contribution. Typically, on a more conservative basis, are these level dollar amounts. It's kind of like paying off the mortgage with a level dollar payment. You pay it off earlier rather than if it was a level percentage of payroll, which that payment then would increase over time, so you don't put as much money upfront. The agency does provide for only a 25-year amortization on a fixed dollar amortization payment, and then we amortize each year's valuation changes and experience so we don't have an open, oh, where we're just restarting the clock every 25 years. At 25 years, every valuation, we close those amortization payments. Item 6, actions that have been taken with respect to close that funded percentage. You know, the contribution rate changed a few years ago, from 9.5 to 10% on behalf of the agency. The employee contribution rate also was increased from 2.75% to 3%. The annual required contribution as far as the portion of it attributable, it's called the normal cost, what actually is attributable to what the benefits earned each year by active employees is easily covered by the 13% of cumulative total payroll that the employer and the employee are contributing. The normal cost is only around 7-7.5 percentage of pay. So the remainder of that is basically used to start paying off that unfunded accrued liability. I had mentioned, you know, at the bottom on page 6, you know, there's been a strong investment return thus far through September 30 of '24. You know, we certainly believe that that

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has, you know, closed up the gap. And if you substituted in that investment return and looked at liabilities of sender-- September 30, you'd probably be looking about an 80% funding ratio, currently. Item 7, negotiations with bargaining groups. Only about 20% of the active members are represented by collective bargaining groups. There have not been, you know, any negotiations currently with respect to that group of employees, so they are subject to the same type of benefits available to the other 80% of the active members. I mentioned before, item 8, actuarial experience studies. They're very important. They're very important with respect to assessing how the actuarial assumptions compare to actual experience. We just completed a 4-year experience study in August of 2024, which resulted in some minor changes to those actuarial assumptions I had mentioned earlier, as well. The next study-- they're scheduled for every 4 years-- so we're certainly, you know, going to have that on the calendar, as far as the next study. I had mentioned before, the investment return. It's a very, very-- in fact, it's the most important assumption in the actual valuation. Current assumed return is 7%. It has remained at 7% since, you know, the inception of the plan. It is reviewed each year as part of the actuarial experience. I had mentioned earlier that the actual investment return has been 7.2% for the past 5 years. Looking back is easy. Looking forward is supported, though, by the current allocation basis, which certainly is supportive of a 7% investment return. 7% is a, you know, a fairly common and assumed investment return in public systems. Some are a little higher, some a little lower. Last item, before, I mentioned was the actuarial valuation report is completed January 1, 2024, most recently, was included in the actual documents submitted to the committee. And with that being said, I guess I'll open this up to the committee to see if there are any questions or comments with respect to the documents or what I've shared.

**McDONNELL:** Any questions from committee members? Senator?

**CLEMENTS:** Thank you for being here. Thank you, Mr. Chairman.

**MIKE EHMKE:** Certainly.

**CLEMENTS:** I'm pleased to hear that the investments have been averaging more than the 7% assumptions we have seen in my time here, some 8% that isn't being met. And it really does understate the problems. So I, I think that's a good thing. I wanted to point out on the experience study, the word "agency" is misspelled.

**MIKE EHMKE:** Uh-oh.

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**CLEMENTS:** But I--

**MIKE EHMKE:** My apologies. I'll talk to Glen about that. I should have noticed it also.

**CLEMENTS:** Well, we actuaries deal in numbers not words, so.

**MIKE EHMKE:** English was my weak spot when I was in school.

**CLEMENTS:** Me, too. So--

**MIKE EHMKE:** Thank you, though.

**CLEMENTS:** Pleased to hear that you're looking like you're going to go over 80%, and you do have a, a plan to get to 100%, especially the 25-year fixed amortization. I encourage you to continue to use that method. Thank you.

**MIKE EHMKE:** Thank you.

**McDONNELL:** Any other questions? Yes, Senator.

**CONRAD:** Thank you, Chair. Thank you so much for being here.

**MIKE EHMKE:** Certainly.

**CONRAD:** I was hoping that maybe we could just take a step back and just maybe kind of simplify, se-- or contextualize some of the findings that you presented, which are really helpful. In your assessment, are any of our public employees' current retirement benefits at risk?

**MIKE EHMKE:** With respect to the agency's plan?

**CONRAD:** Yes.

**MIKE EHMKE:** Currently, no. And in fact, you know, I guess, you know, I'm going to-- before I state it incorrect--

**CONRAD:** Just generally speaking. Yeah, yeah.

**MIKE EHMKE:** You know, one way to look at it is, you know, benefits security, obviously, is most important, reflective of the funded ratio. But then also, you know, I call it-- you know, one of the current retirees, I was going to mention \$4.5 million, and that's about right. The current retirees are being paid approximately \$4.5

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million a year in benefits. You know, the current actuarial-- the valuation base, \$52 million with a strong investment return. It's probably more north tier and 50-- I wrote this down-- it was \$59 million as of September 30. So there's different ways of looking at benefits security. If benefits security is, oh, can we pay all the benefits for your current retirees, the \$4.5 million compared to an asset base of \$59 million, there's certainly a lot of room there for a lot of years. But--

**CONRAD:** Right.

**MIKE EHMKE:** --obviously, investment return is the key going forward. And considering the commitment that the agency has, with respect to funding not only the benefits each year, but then also paying off, I always call it paying off the mortgage, paying off the unfunded liability with paying that annual required contribution or actuarially determined contribution has occurred in the past. So I think with those measures in place in the current funded status, the longwinded answer would be yes, I don't think there is any risk currently, with respect to the agency pension plan, to pay those benefits.

**CONRAD:** Great. No, I, I think that's helpful because I think all of the information presented here is important for all of the stakeholders to utilize to plan, to ensure soundness in the present and moving forward, but just want to make sure that the record is clear and the message is clear perhaps to retirees or, or folks that are, are watching this and who are, are having perhaps any questions or concerns about what that means for them at their kitchen table, as they're trying to figure out the household budget. And so I just wanted to, to provide a, a finer point on that, in terms of what the impact is for, for a lot of the beneficiaries here. The other thing that I was going to ask-- and I think that the reports do a nice job detailing kind of the historical arc in regards to some of these issues. But in these plans in particular, we saw, you know, a really robust kind of funding structure in, I think it said the mid-'90s for most of these plans. They were pretty well-funded, and then for a variety of factors in regards to employment and investment and otherwise, we've seen some perhaps diminishment from that fully funded kind of high watermark over, over recent years. Can you maybe provide just some additional contact-- context to the committee about, you know, what-- what's the right timeline that we should really be thinking of when we're, we're kind of looking at this from the big picture. I mean, of course, we don't look at year to year. I mean,

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that, that comes into play. But is it a 5-year? Is it a 10-year? Does it depend?

**MIKE EHMKE:** I'm going to answer that question--

**CONRAD:** Yeah.

**MIKE EHMKE:** --in context from the agency's plan--

**CONRAD:** Great.

**MIKE EHMKE:** --rather than the entire pension systems--

**CONRAD:** Sure.

**MIKE EHMKE:** --of all the states, or the federal government, or private employers with respect to the agency plan. Because of the mixture of the liabilities, where you're talking nearly 60 to 61% of the liability being attributed to retired folks, we call it a mature pension plan.

**CONRAD:** OK.

**MIKE EHMKE:** So beings it's a mature pension plan, that would point towards-- you'd want to focus on a little bit lower in terms of time to look at that. So, you know, the right way as far as looking at that, you know, probably between 5 and 10 years, focusing most on how those investment returns are doing. Because you have a mature pension plan, there's just not enough time to recover as if you had 95% of your participants, active employees, where there would be a much longer time frame, even before they start drawing their pensions, to recover from any investment return. That points towards, you know, you know, you mentioned in the '90s, a lot of plans were a lot better funded. Well, the main-- the 2 main culprits: 1, the 2008-09 recession. The investment return was very challenging to recover from, not only with respect to this system, but you could probably expand that coming out to all systems. And the other item is declining interest rates. Those investment returns got even more pressure when you have exposure to fixed income, where returns and yields have been virtually at historic lows for the past 5-10 years. So you kind of had-- you had a big headwind to catch up, and then another headwind if you want to invest conservatively that you can't get yield.

**CONRAD:** Great. Thank you. I appreciate that. Thank you, Chair.



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**McDONNELL:** Any other questions? Thank you for your work, and thanks for being here.

**MIKE EHMKE:** Thank you. Appreciate the time.

**McDONNELL:** Anyone else that would like to testify? We're going to go ahead and call up the Regional Metro Transit.

**LAUREN CENCIC:** Good morning.

**CONRAD:** Good morning.

**McDONNELL:** Good morning.

**LAUREN CENCIC:** Chairman McDonnell, members of the Retirement Systems Committee, my name is Lauren Cencic. You spell that C-e-n-c-i-c, and I'm the chief executive officer for the Regional Metropolitan Transit Authority of Omaha, doing business as Metro. Metro is the public transit provider for the Omaha metropolitan area, providing fixed, paratransit, and express bus services. We also provide service to the cities of Council Bluffs, Bellevue, La Vista, Papillion, and Ralston by virtue of agreed upon service contracts with those municipalities. I want to thank you for the opportunity to be here today to address the committee regarding our hourly pension-- hour-- hourly employee pension plan, and that the correct-- corrective actions we are working on to improve the funding status of the plan. If you'd indulge me, I'd like to start with a brief overview of the plan. We are also a fairly mature plan. We have 207 active members in the plan and 207 members in pay status, with 58 terminated members and defer-- and deferred beneficiaries as of January 1 of this year. The value of our plan is just over \$30 million and our rate of return for last year was 17.49%. So we're very happy with that. The funding status of our plan is 73.9%. The major updates regarding our corrective actions since our last update to this committee-- oh, sorry-- are the completion of an experience study and the change in contribution rates. This year, we completed a-- an experience study also covering 4 years, from 2017 through 2023, valuations that resulted in numerous updates to our assumptions, including pay increases, turnover, retirement ages, plan expenses, and contributions. As we reported last year in our most recently adopted collective bargaining agreement with the Transport Workers Union Local 223, we increased the contribution percentage for both employees and the employer to 8.25%. That's up from 7.75% previously. Those contribution changes will be-- begin January 1 of this year, and will be reflected in our next actual-- actuarial study

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as of January 1, 2025. So those increases are not reflected in our current funding status of 73.9%. This is an improvement over last year's funding status of 72%. And we're also proud to say that we've been able to report improvements on the funding status to this committee every year since 2020. Of particular note, this continual improvement to our funding status has occurred despite a past reduction in our assumed rate of return, which remains at an extremely conservative 6.25%. You compare 6.25% compared to our returns last year of 17.49%, I think we're in a very good spot. Our recent experience study identified an expected long-term return of 6.72%, but we decided to maintain our more conservative assumption in order to continue to make improvements in the funding status of the plan and be a little extra judicious and conservative. I would like to thank Metro's Transport Workers Union leadership for sharing my passion for ensuring that we proactively address the issues that have led to the previous underfunding of the plan, as evidenced by our most recent collective bargaining agreement, in which increased contributions was a central focus. Our pension plan is governed by a pension committee comprised of Metro leadership, Union leadership, a metro board member, and external advisors. I believe it is this collaborative approach that has allowed us to make significant improvements to our contribution rates and conservative assumptions. Thank you for the opportunity to address the committee. I'd be more than happy to answer any questions you may have.

**McDONNELL:** Thank you. Any questions from the committee? Senator Clements.

**CLEMENTS:** Thank you, Mr. Chairman. Thank you for being here. I'm looking at this chart, where the last 3 years, you have not paid 100% of the ARC contribution. Do you know why that is?

**LAUREN CENCIC:** We have-- the reason we did not reach the, the, the ARC contribution was really based on those contribution rates that were set in our union contract. I am fully confident that moving forward, we will meet that ADC contribution-- ARC and ADC.

**CLEMENTS:** For the, the current year, you think you'll be at 100%?

**LAUREN CENCIC:** I think we'll probably exceed that, yes. So I mean, if you look at really the required dollar amount in 2023 being over \$1 million and with the assumption changes, we're actually looking at that ADC coming down quite substantially while our contributions will be greater than in previous years.

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**CLEMENTS:** All right. Well, I think that's important. And, and you've been exceeding the 6.25% assumed rate of return, also. Right?

**LAUREN CENCIC:** We absolutely have. Obviously, there's some blips. 2023 was a rough year from us-- for us. But it-- we received 20% in 2020, 14 in '21, 12 in '22, -15.76 in '23, and 17.5 this year.

**CLEMENTS:** I see that. All right. Thank you.

**LAUREN CENCIC:** Thank you.

**McDONNELL:** Any other questions? Thank you for your work, and thanks for being here.

**LAUREN CENCIC:** Thank you very much.

**McDONNELL:** Anyone else would like to testify? Anyone else? Douglas County, you're up next.

**LORI PIRSCH:** Good morning.

**McDONNELL:** Good morning.

**LORI PIRSCH:** My name is Lori Pirsch. That's P-i-r-s-c-h. I am the director of finance for Douglas County and the chairperson of the Douglas County Employee Retirement Plan. I am here today to talk to you a little bit about our plan, because we are obviously still underfunded and haven't reached the the 80% mark. So I will walk you through a little bit where we're at, and then will take any questions you may have. So our most recent actuarial evaluation was performed by Hub International-- yet-- as of January 1. The report showed that the plan was 68.2% funded and had net assets on an actuarial basis of \$433.1 million and an unfunded actuarial accrued liability of \$201.9 million. The plan has 4,599 participants and an equal contribution rate from the employer and the employees of 8.5%. The funded ratio has decreased a little bit from prior years, 68.9% down to the 68.2%, as I just mentioned. To understand why we are at 68.2%, it's important to look at some background of the plan. In '96, of course, and, and similar to some other plans, as they, as they've discussed, we were not fully funded, but almost. We were at 98%. They had made some changes back there, introducing the Rule of 75, making the benefit formula a little more-- a little bit better for some of the employees. And then they implemented some COLAs. And then, of course, all of those things, in addition with the Great Recession, ultimately in 2010, they found that the funded ratio had reached a low point of

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57.8% in 2010, and they obviously knew they needed to make some changes. So accordingly, effective for all employees hired after December 31 of 2011, they eliminated Rule of 75 and they put some, some caps. They changed-- the maximum retirement income was reduced from 60% of a participant's final average compensation to 45%. And so hopefully, you know, that-- these measures are, are-- they have been helping us to get back up to, you know, being better-- have a better, better funding ratio. So on that front page, on that chart, our funding status, you can see in 2022, we were actually up to 73.9%, almost 74%. We keep-- we have decided to keep the assumed rate of return at 7.5%. We have been looking at that, as I know a lot of plants have pulled that back just a little bit. In discussion with our investment advisors, they, they think that we are still good with the 7.5%. Our actuarial investment return was 11.6% in 2020, 12.7% in 2021, 12.6% in 2022. And then, of course, like everyone else in 2023, it, you know, took a hit with, with the market there. I believe, though, even those-- ours was only 0.4 of everyone that was testifying here last year. Ours was at least positive, so-- if that's a bright sign. And we are back up to 5.7% this year. If you-- that is the actuarial investment return. If you look at the actual market returns, of course, without the smoothing, that's the next line below, and you can see that it was -11% in '23 and, and 12% in 2024. As I had mentioned earlier, both-- our plan indicates that the county cannot contribute any more than the employee does for the plan document. Right now, that's 8.5-- 8.5% from each party. So looking at the ARC, our actuarial required contribution for 2024 would be \$33 million. As of the time that this analysis was done here, our expected contribution for the year would be \$31 million, which would be only 94% of the ARC. If you look at the history, though, you can see that with the exception of 2020, we are-- we have been at or above the ARC. Our-- usually later in the year, our payrolls tend to come in a little bit higher. So-- and also, I think we have 3 pay periods in November, and then December is usually a little bit high. And Senator Clements in it-- in thinking about your question last year, because you had asked, since our expected contribution was less than 100% and so you had inquired about that. So I talked with-- well, Glen was going to be out, Glen Gahan, from SilverStone, or sorry, Hub. So I asked-- I talked with Brian Kimminau about that in the anticipation of a question regarding that. And he performed a little analysis for me, showing the actual contributions and the expected contributions each year, 2019-2024. So 2019 isn't on this chart, but if it was, you know-- and it shows that the 5-year average, we actually end up at 106.4% of the ARC with the method that we're currently using. So even

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though at the time of this, the projection was 94%, he says it's very likely that we'll meet that \$33 million. So, I was trying to anticipate your questions this year. That one took me by surprise last year. I had to phone a friend and pull Joe Lorenz up on that one. So I don't, I don't think I have anything further, you know, other than to just say that the committee is, you know, very careful to make sure that we are not making any amendments that would do anything that would directionally, you know, change the fund-- that would directionally impact the funding status in a, in a negative manner. I'm very protective of-- you know, obviously, the, the previous-- the older folks have a very good package there, with that Rule of 75 and, you know, some of the, the higher payouts and whatnot. So I-- I'm very protective of making sure that that plan is going to have assets there to pay out to the younger folks as well, and the newer employees. And with that, if you have any questions.

**McDONNELL:** Questions from committee members? Senator Conrad.

**LORI PIRSCH:** Yes.

**CONRAD:** Hi. Good to see you. Thank you so much for being here. One thing that I've been thinking of in preparation for this hearing and then kind of looking ahead to the upcoming session, and if you don't know off the top of your head, we can continue the conversation or we-- I imagine that we will either way. So during the most recently completed special session this summer, the Legislature decided to make a host of changes to various aspects of, of the law, in particular, putting some constraints on local government in regards to the caps that were imposed. Now, there was a broad public safety exemption, so to speak, that helps to mitigate the impacts of some of those issues. But do you see those caps as having any sort of bearing on your ability to ensure soundness in the public employees' retirement plans moving forward?

**LORI PIRSCH:** I don't think so, but it's something that I need to look at a little bit further. I mean, these funds are kept in trust, a little bit separate, obviously--

**CONRAD:** Right. Right.

**LORI PIRSCH:** --from the regular, you know, Douglas County funds. But there are a lot of impacts related to that, you know, that I need to make sure that I've looked at all angles. So.

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**CONRAD:** Yes, yes. Well said. I think that we all need to maybe keep an eye on that for what revenues and resources will be available on the local level to cover obligations like retirement and, and otherwise. So I, I appreciate that and I'll look forward to, to monitoring the-- those provisions together moving forward. Thank you.

**McDONNELL:** Any other questions? Thank you for your work. Thanks for being here.

**LORI PIRSCH:** Thank you.

**McDONNELL:** Anyone else that would like to testify? Anyone else? OPPD, you're up next.

**JEFF BISHOP:** Good morning, Senator McDonnell.

**McDONNELL:** Good morning.

**JEFF BISHOP:** Thank you for having me. My name's Jeff Bishop. I'm the CFO at OPPD. B-i-s-h-o-p. Just a quick background in terms of OPPD. We're serving power in 13 counties in eastern Nebraska, roughly 900,000 customers we serve. In terms of our plan, the asset values \$1.3 billion on an actuarial valuation. We have participants of 4,700. Again, want to thank you for the opportunity to come talk to the Legislature. I do want to call out some of my counterparts, John Thurber, who's not here right now, there we go, John [INAUDIBLE], as well as Seth Voyles. Thank you for attending as well. I do want to talk about kind of the focus-- we are focused on getting our plan fully funded. I want to highlight a couple items before we jump into the details. You'll note that we always make our ARC payments 100%. You'll see that has a very strong history. That's a focus both from the board as well as management, to make sure that we're taking care and ensuring that we have a healthy plan and getting fully funded. We'll also highlight that we have a strong history of providing additional funding. So if you look over the past 3 years, we've added, added another \$145 million above the ARC payments to improve the health of, of the plan itself. We do quarterly reviews with the retirement fund. We have board members on that as well. It's a specific focus of ours, again, to make sure we've got the right eyes. We're putting together the right plan to deliver the outcome that's needed for the utility and our retirees. When we look at our funded ratio, you can see that we've continued to improve over the course of time. Back in 2020, being at 69%, going up to 74.3. We would have been better, up, up for the market return in 2022. You can see that we did

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take a dip in-- as we moved into 2023. Again, all of these are as of our January 1, 2024 actuarial valuation. I do want to take a moment to highlight, well, how did we get here? We'll take you back to page 2, where we talk about primary reasons. Again, lower investment performance from 2000 through 2008. Also, we adjusted an increase in our life expectancy. People are living longer. We want to make sure we're capturing all of those attributes appropriately. And then also a reduction in the plan's projected earnings rate, the discount rate, we'll talk a little bit more about that here in a moment. Again, trying to make sure we have as prudent of, of assumptions as possible so we can put together a good plan to deliver a fully funded plan. As we look at specifically back how we've performed. Discount rate, I'll highlight that, obviously critical in terms of what we expect to return on the plan. Through '21 at 7%, we worked with our financial advisors, actuaries, to assess what was a reasonable discount rate based upon our investment profile, what we're seeing in the market. We adjusted that down to 6.5% through '24. I will highlight as we continue to see improvements in the equity markets, interest rates, if we were to adjust this back up to say, 7%, we would be above the 80% funded ratio. So we will continue to assess that. Again, not doing anything rashly, but want to make sure that we're, we're taking into account future market performance and expectations. You can see how we've performed over the course of time: 13%, 6.4, we had a bad year in 2022, as many did, with the market turndown, and then in '23, 11.4. Year-to-date, we're about 9.5%, so very encouraging. Again, we hope that continues, and ultimately that may adjust what we use for a discount rate as we look forward. Other items to highlight as we go through. We've got our employer contributions, as well as member contributions. I'll highlight 9% is the employee contributions. As you look at a percentage of payroll relative to the employer portion, 27.3% or almost 3 times what the employers pay. And again, that incorporates existing obligations plus the accrued liability. I would highlight as we continue on down, in terms of our ARC payments, we've been making 100% of that. I think that's very important to ensure that we're delivering the outcomes that are needed for a plan going all the way back to 2020. You can see that that's been completed. And then in addition, we've done another \$145 million. I'll highlight the way the utility is structured when we have excess proceeds within the year. Those aren't placed into different reserves. We have this plan called the decommissioning benefit reserves account that the funds are swept into, and then ultimately those are, are able to be applied to the pension. I think we've got a good history applying those funds and making sure that that's a known priority for the utility. And

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ultimately, that's to the benefit of, of our plan participants. We've got additional detail on the back in terms of how we've modified the plan over the course of time, but we'll highlight the act-- the plan, in terms of a fully defined benefit plan, was closed in 2013. And so almost 11 years now, we've had a cash balance plan in place. So we've got some existing participants, existing employees, that continue to participate, participate in the plan, plus retirees. As a percentage, today, 42% of our employees participate in the plan; 58% participate in the cash balance plan. And with that, again, I'd highlight as we look at our 5-year trajectories, we-- as we look at our annual operating plan with the board, with management, it's always to incorporate a full ARC payment that's built in as a planning assumption. So we feel very comfortable that on a go-forward basis, we will continue to meet the funding requirements for the plan. I'd open up for questions.

**McDONNELL:** Any questions from the committee members? Senator Clements.

**CLEMENTS:** Thank you. Thank you for being here. You were just commenting about the cash balance and the defined benefit plan. Are new employees able to pick which one they want to participate in?

**JEFF BISHOP:** As of 2013, January 1 of 2013, everyone is placed in the cash balance plan.

**CLEMENTS:** All right. So it's-- you know, the defined benefit plan is maturing, but you, you still have-- what percentage of active employees are in the defined benefit?

**JEFF BISHOP:** I can get that for you. We've got active employees of just under 1,900, with retired participants being at just under 2,400. So.

**CLEMENTS:** OK.

**JEFF BISHOP:** Probably 65% or-- would be retired, versus active employees.

**CLEMENTS:** Do you-- has someone projected when you're going to make a 100% funding ratio?

**JEFF BISHOP:** Yeah, we-- when we go back [INAUDIBLE] to the third page, where he highlights the unfunded liability, large unfunded liability taken on and amortized over 20 years, starting in 2015. We will have that completed by 2035, so we'll be largely fully funded. As we look



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at our unfunded liability today and then take that out for 20 years for full amortization, that would take us to 2044, but we expect to be in the 90-plus percent range by 2035.

**CLEMENTS:** All right. Thank you.

**McDONNELL:** Senator Conrad.

**CONRAD:** Thank you, Chair. Thank you for being here. I think this information is really helpful. And I was hoping to, again, maybe just take a step back, or maybe you can help us set for the record, or help to, to educate the committee or other ratepayers in the OPPD jurisdiction. But I did see that in the paper recently that OPPD is kind of moving forward with a fairly significant rate increase for most ratepayers kind of across the board, for a variety of different reasons. What impact will that have in terms of resources available to you to help take care of these or, or other obligations?

**JEFF BISHOP:** That's a great question. And I'll, I'll highlight back to my previous comment in the terms of a baseline assumption of our budget is that we're making 100% of the actuarial--

**CONRAD:** OK.

**JEFF BISHOP:** --retired contribution. So as we look at different decisions that are facing the utility, that is never on, on the table in terms of moving away from 100% contribution.

**CONRAD:** Very good.

**JEFF BISHOP:** So we're very, very proud of that. It doesn't come without it-- without challenges. But ultimately, that's, that's a foundation of, of what we plan for.

**CONRAD:** No, that-- that's very helpful. Thank you-- just to kind of understand the correlation or connection between those different factors. I, I think hopefully, most Nebraskans are proud of our public power approach to these critical infrastructure issues and in our state, but I have been watching carefully what's happening in some of our public power entities. While we have incredible reliability and are still more competitive than, of course, many of our, our sister states, we are seeing, you know, continual pressure and, and increases on a lot of those rates, which really can add up, particularly for consumers and businesses alike, of course. But just trying to, to kind of get a bigger picture and understanding what's really driving those,

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those rate increases so that we can, can make sure to, to keep things affordable for everybody.

**JEFF BISHOP:** 100%.

**CONRAD:** Great.

**JEFF BISHOP:** It's top of the mind for us.

**CONRAD:** Thank you. Thanks.

**McDONNELL:** You received a email from, from Neal on the 13th. Are you prepared to answer those questions?

**JEFF BISHOP:** I am.

**McDONNELL:** OK. Let's go-- let's start with those questions. Do you have them in front of you?

**JEFF BISHOP:** I do.

**McDONNELL:** All right. Let's start with the, the first one. Just go down, just go down the list. You can go ahead and read them off.

**JEFF BISHOP:** OK. OPPD, the first question that we received was OPPD is currently at 74% funding to your pension plan. How much will it take to get to 80%? Based upon our current actual valuation, the liability calc as of January 1 to get to 80% would take \$102.2 million of additional contribution. Next, we had employee-- OPPD, OPPD employee contributions have gone up since 2021, while OPPD's contributions have gone down in the same time frame. Why is OPPD not contributing more to the pension plan instead of relying on OPPD employees to make the difference? And would highlight you-- would point us to the information that's contained in here. In '21, our contribution to the-- from an ARC perspective was \$56.5 million. That's growing to \$63.2 million in 2024. We just got our most recent projection for '26: \$78 million. If we compare that to the voluntary contribution from our participants, employees were \$15.7 million in 2021, and \$19.3 million in 2023. I would also highlight the additional \$145 million of additional contributions OPPD has put into the plan that aren't required to be matched, obviously, by our employees. Can you please tell me how many employees are employed and their combined salaries for the exec-- for your executive leadership? We have 11 employees on the executive leadership team with a combined salary of \$4.7 million. Can you please tell me how employees are employed at and their

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combined salaries for Nebraska City station? We have 193 employees from Nebraska City station with a combined salary of \$20,895,000. Can you please tell me how many employees are employed and their combined salaries at your north Omaha station? We have 175 employees at north Omaha with a combined salary of \$20 million-- just over \$20 million. How many retirees does OPPD have as of January 1, 2024? We have 20-- 2-- sorry, 2,385 retirees. Next question was in a recent interview in the American Public Power Association, Javier Fernandez stated he is standing on shoulders of giants. The assumption provided was, I assume he was meaning your retirees. Are you going to have a cost-of-living adjustment for OPPD retirees? We get this question at a reasonable frequency. At this point in time, based upon what we're currently looking at, we're not planning to do a COLA adjustment. Again, what we're trying to focus on is making sure that we get the plan, plan fully, fully funded. That's our primary focus, so that we can make sure we're delivering on those obligations that we do have to our retirees.

**McDONNELL:** So at that point, if the, if the plan was fully funded, would you then look at the, the, the cost-of-living adjustment?

**JEFF BISHOP:** We would consider that, for sure.

**McDONNELL:** And at what point do you think that's-- what, what, what would be your idea of a fair cost-of-living adjustment? Have you had those discussions?

**JEFF BISHOP:** We have not looked at specifically what that percentage would be. We would go and look and see what current CPI would be, what other comparable benchmarks would be, and, and determine it from that point. I would-- I guess what I would highlight is, again, it's important when we think about what that means relative to the financial health of the plan, as well. A 1% COLA, so there's 1%, to the additional-- to the traditional plan participants-- now keep in mind, we've got 58% of our existing employees that wouldn't be subject to this. So we're just talking for our retirees, which would present a little bit of an equity issue, but the ARC payment for that would be \$15 million. That's about-- that's a little over 1% in rates that we, we would increase for our, our current customers. The important piece to highlight there, though, is not just the-- what that means for rates, but ultimately, when we look-- do our actuarial assessment, if it's an ad hoc COLA adjustment, that's assumed to move forward for purposes of our actuarial assessment for every year that there will be a COLA. So ultimately, that 1% works out to \$140 million of additional

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obligation that's assumed, or a 6% reduction in our funded ratio. So it's an important consideration as we look at this. The other piece I think that gets lost from time to time is the retirement plan benefits that we've got for our, for our employees. The retirees have a medical as well as a life insurance benefit. We, we spend \$18 million a year on that for our current retirees. Again, that's above and beyond what's oftentimes offered. And then also, we have a 401(k) and 457 plan, plus a match. So we try to make sure that there's plenty of options available for folks. Go on to say that I've learned that OPPD's budgets for year-- for our yearly 3% merit salary adjusts for all OPPD employees other than the executive leadership team. Your executive leadership team seems to get merit and periodic market salary adjustments. How often do you perform market adjustments and assessments for OPPD's executive leadership team? That was the question that was posed, or it was an observation. Performance assessments, we do those-- there's-- done, done for all exempt employees, including the LT, on an annual basis. So it's part of our performance process. For '24 and '25, the merit salary budget was 3.5% above the 3%, and that was also what was applied to ELT and all exempt employees. From time to time, we do have different market assessments what's come through. There have been a couple that have been put through for the ELT. We've also got those that happen for employees, too, as they change positions or as it's determined that there's a necessity to a-- to do a market assessment based upon parameters of their role. And again, that's done across all and-- all employees from an exempt perspective, relative to our bargaining employees. That's part of the 3-year contract. Again, we look at what their current rate of pay is, plus any market parameters. We go out and we look at publics as well as IOUs to make sure that we're getting an assessment of what the current market is necessitating. Next question was do you include investor-owned utility executive salaries in your executive leadership's team market adjustments and assessments? Yes. So if they are a similar size, revenue, and have a similar job, we will include that. I think it's important to note that we only take into account base salary. So when you look at an investor-owned utilities compensation package, there's a base, plus short-term, long-term, as well as stock op-- stock parameters that are typically included. Typically, those, I would say, are two-thirds of their compensation. Those are not included. We only use their base salary. The question was, do you commensurately do that with your other employees as well? And we do. So we've got folks right across the river, MidAmerican, who's an investor-owned utility. We've got a lot of people down in Kansas City with Evergy. There's a lot of other places that folks can

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go, so we need to make sure that we're staying competitive and that we're taking into account both the public as well as investor-owns, because that's what, what we're at risk of losing our employees to. I think, I think those are the questions. Hopefully, that's helpful.

**McDONNELL:** Any other questions? Any other questions? Thank you for your time, and thanks for being here.

**JEFF BISHOP:** Thank you. Appreciate your time.

**McDONNELL:** Anyone else would like to testify? Anyone else would like to testify? We're going to move on to Omaha Police and Fire.

**CONRAD:** Hello.

**BERNARD in den BOSCH:** Good morning.

**McDONNELL:** Bernard, welcome.

**BERNARD in den BOSCH:** Thank you. Members of the Retirement Committee, Chairman McDonnell, my name is Bernard in den Bosch, deputy city attorney with the city of Omaha. My name is spelled, first name, B-e-r-n-a-r-d. Last name is 3 words. First word is lowercase i-n, second word is lowercase d-e-n, and third word is B-o-s-c-h. And you've ingrained it in me that I need to do that when I'm in one of these chairs. So in any event, best part about getting old is I now get to put glasses on. I'm appearing on behalf of the City of Omaha Police and Fire Retirement System. Our actuary is Milliman and Associates, and they've been our actuary since 2021. It's a plan for the city of Omaha's sworn police and fire personnel. I'm not going to repeat everything that was in the report. Many of you have been here before, and obviously I'm a frequent attendee. In fact, it seems like I'm here every year for some reason. But obviously, the police and fire pension system for the city of Omaha was in very rough shape. I think at its lowest point, it was funded at approx-- at a little bit less than 43%. And that was after the recessions in 2008 and 2009. We are a little bit more than 10 years into pension reform that emanated from a commission that was appointed by then Mayor Mike Fahey, and that pension reform was implemented by police in late 2010, and by fire to go into effect at the beginning of 2013. That-- those particular-- that pension reform resulted in a reduction of benefits for current employees, did preserve some rights for those that were within 5 years of retiring for police and 10-year-- or 10 years for police and 5 years for fire, and it did split our pensioners into

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different tiers in those that were new hires. After that, pension reform went into effect. For example, no longer have pensions based on overtime. It's base salary, increases, you need to have 30 years of service or be age 55 in order to be able to retire. As far of-- obviously, we have a city charter provision that says that our pension system is supposed to be funded by roughly equal contributions, or substantially equal contributions is the term, by both employer and employee. And the con-- the contributions were substantially equal back before pension reform occurred. But when pension reform occurred, the employees made their contribution to the pension reform by reductions in benefits, and the city made their imple-- theirs by increasing contributions, increasing contributions roughly 13%. So as we sit here today, and I'll give you a blended number because we have 4 different bargaining groups that are part of this group and there are some slight nuances, but the contributions for the city is a blended number of 33.776%, and in for employees, it's 16.564%. You obviously-- I provided the actual report for January 1 of 2024. Like most of the people that you've heard from before, the system had a negative return in 2022 and a positive return in 2023, but not at the-- not to meet the assumptions. The rate of return in 2023 was 4.9%. The assumption for this plan is 7.75%. If you look at the compounded rate for the plan from 2019-2023, the 5 years previously, it's at 8.89%. And the actuary does look at the investment portfolio and makes a projection based on that allocation as to what the investment return is, and that was in the analysis-- was in the report. And there, the rate by-- projected by Milliman was 8.5%. Our investment consultant still feels-- actually probably feels comfortable that it should still be 8%, notwithstanding the fact that the assumption was reduced to 7.75% approximately 5 years ago as a result of a recommendation by Cavanaugh MacDonald, who was the actuary of the plan at that point in time. You have an experience study. Obviously, the experience study that was provided was completed in 2022 for the period of 2016-2020. There is a new experience study that is going to commence on January 1. So when I'm back here next year, we'll have a brand new experience study and very possible, some changes in assumptions that were made as a result of that. The active members in the plan is 1,491, retired members is 1,656. So obviously, we're a mature plan. The arbitra-- the actuary did note one issue that needed to be watched, and that was that we currently-- and if you read the news, you're aware of this, we do have-- we've had some difficulty in recruiting and hiring police officers. We have a budget of 906 and we're currently a little bit over 810, so we're a little bit less than 100 short of what we would like to be. The HR department has-- we've

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done all-- in the last 2 years, accelerated recruiting. It used to be you would have open applications every 2 years. Now we're doing it at 6 months, and so we're hopeful that we can make a dent in that. Please appreciate that it, it doesn't-- it takes-- since it takes roughly a half year to train police officers and we-- roughly, for 1 out of every 12 people that applies, is able to meet the standards and ultimately be hired, so it does take, it does take some time to meet those things. The market value of this pension system as of 1/1 of '24 was \$985 million, and the actuarial value is \$1.024 billion. Now, the funded ratio for 2024 is 58.4%. That's an increase from 58% the year before. And I appreciate that is nothing that anybody is going to be jumping up and down about. But as I'm going to talk about in a moment, it's consistent with the plan that was put in place 10 years ago. And that's one of the difficulties when I come here every year. I, I always preach patience and talk about the long-term thing, and I appreciate you're probably tired of hearing that, but I'm going to repeat the same thing again. The normal cost for active employees is 19.604%. And you can see that we contribute roughly 51% based on the numbers that I gave before. So obviously, most of the, the difference is to fund the pension benefits for those that have already retired. And that's-- the reality is that's much like some of the previous discussion that we've had. That is what we're-- the deficit is. We have not met our actuarially determined contribution. And I know Senator Clements, we talk about that each year. It, it's decreased a little bit, not-- certainly not where it was. But I would point out it's roughly 95%, which, there's still a gap in percentages, but percentage-wise, it's, it's, it's improved some. The reality is when we, when we look at the plan, the plan that was implemented as the projection that was included in the report indicated, it's projected that this fund will be fully funded by January 1 of 2053. Last year, I believe the report said 2051. We have, like everybody else, had a good rate of return this year. My anticipation is that number will go down a little bit for next year. But there is no-- there is no question that number is going to-- the fact that that number increased was tied to the rate of return, obviously, in 2023, as well as the, the fact that we're-- we need to increase the number of police officers. As is projected by the actuary, we would be-- we're going to be-- the plan will be 60% funded in 2027, but it's going to take another 14 years to 2041 to get 70% funded, based on the, the, the plan that was in place. And it's, it's, it's a slow and steady long plan, but then it's 80% funded in 2046, 90% funded in 2050. And as I indicated, 100% funded in, in 2023 [SIC]. And those things happen as the Tier 1 and Tier 2 people leave the city system and our-- all our employees become Tier

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3. Right now, about half are-- a little bit more than half our police officers are in the third tier, and a little bit less than half our firefighters are in the third, third tier. That's just a recognition that we've had. In 11 years, we've had about half the fire fight-- a little less than half the firefighters go. And in 13 years, we've had over half the fire-- police officers go. So, I-- and I'll obviously answer questions, but I appreciate we're on a path that the out-- the actuaries outlined in 2009 and 2010. That's when the projections came in a little bit at the beginning, and then it took-- in order for the plan to really go into effect, you had to have both the police and fire become part of it. That happened effective January 1 of 2023. And in the 10 years since that has occurred, you're, you're-- you'll see that the projections are pretty exactly as were projected by the actuary. It's a slow approach. It obviously requires patience by the employees, by the city, and frankly, it requires-- and, and the pan-- and this committee obviously, as well. And it's going to require the, the-- if the unions and the city and the city-elected officials to be-- continue to be committed to following through and making sure that this plan, that these-- the changes that were made remain in effect, that we don't see, you know, any degradation in the amounts that are contributed and/or increases in benefits, absent them being funded. But that's hard to accomplish when you're already talking about pretty significant contributions by both employees and the city. So that's my report, but I'm happy to answer any questions.

**McDONNELL:** Questions from the committee members? Senator Clements.

**CLEMENTS:** Thank you, Mr. Chairman. Thank you for being here. I'm just wondering about when you-- your collective bargaining agreements, are they coming up for review? Do you expect to, to do any negotiations at that time?

**BERNARD in den BOSCH:** So the, the-- we have 4 and-- so there's 4 groups that are affected. Police and fire management are relatively small, so there-- I, I won't really address those. The police contract, which is the largest group that's part of the system, their contract expires at the end of 2025. So we will likely start negotiations next year, for years beyond. And then the fire union, we just entered into a contract with them. And I believe that goes through 2027 or 2028. I, I can't-- I don't recall exactly, but I think it's one of those 2 years.

**CLEMENTS:** And what retirement plan changes, if any, were made at, at that time?



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**BERNARD in den BOSCH:** So the only-- the, the-- in the most recent fire contract, the only change that was made was for Tier 3 fire employees. Those are employees that were hired after January 1 of 2023-- of 2013. Those employees received a-- their widows received a widow's pension of 50%. Tier 1 and Tier 2 employees, which are other employees, their widows received a, a benefit of 90%. There was a feeling that that was ineq-- inequity and, and not necessar-- and granted, the pensions for the Tier 3 people are substantially less-- likely to be substantially less than the Tier 1 and 2 because they don't include-- overtime is not included, nor is there a career overtime average. So that-- the Tier 3 widow's pension was match-- changed to match that. The actuary determined that to be, I think 0.25% of payroll. And both the city and the union split that additional cost and increased contributions as a result. I would expect a similar change for police. Their Tier 3s are at 50%. And most police are-- all, all the Tier 1 and 2 are at 75%. I anticipate that they're going to ask that they, they match the rest. And, and, and to the extent if that occurs, there's obviously cost to it. And, and that cost has to be accounted for before it would be agreeable.

**CLEMENTS:** All right. Just to re-- I think I might have missed, what's the Tier 3 widow's percentage now?

**BERNARD in den BOSCH:** So the Tier 3's widow percentage before the change was at 50% of the-- their retiree's pension. And for Tier 1 and 2, it was 90%. So anybody who would have been-- anybody who was hired prior to January 1 of 2023 that retired, if they were to die and their widow met the rules of being a widow under the pension system, they would get 90%. If you were hired after January 1 of 2013, it was 50%, so that was increased to be consistent within the, within the department.

**CLEMENTS:** So Tier 3 is now 90%?

**BERNARD in den BOSCH:** Correct.

**CLEMENTS:** All right. And you'll-- there's going to be adjustments in funding to in-- increase funding to account for that?

**BERNARD in den BOSCH:** There already has been. The-- when the contract was adopted this spring, both parties started putting in an extra 0.125%, which was half of the total cost of doing that.

**CLEMENTS:** Thank you.

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**McDONNELL:** Senator Conrad.

**BERNARD in den BOSCH:** Yes.

**CONRAD:** Thank you, Chair. Thank you, Bernard. Good to see you. I was hoping just to continue the conversation in regards to how the city's coming in perhaps, well, below the recommended contributions. And I was hoping that maybe you can just provide some more information for the committee about the budgetary and policy considerations that city leadership is balancing or weighing when you have a recommended contribution and you're saying, nah, we're not going to meet that. We're going to spend our, our resources someplace else. What's-- what-- what's the thinking at the city about what's more important than, than meeting the recommended contributions for your employees?

**BERNARD in den BOSCH:** Please appreciate that it's not a matter of not being important or not important. That has nothing to do with the, the discussion.

**CONRAD:** OK.

**BERNARD in den BOSCH:** And, and we have this discussion with our actuary on times, a lot of public pension systems, the contributions are made-- are negotiated through union contracts. And that-- that's what ours is.

**CONRAD:** Right.

**BERNARD in den BOSCH:** We have a charter that says that pay is supposed to be substantially equal. And I-- one of the reasons I explained--

**CONRAD:** Right.

**BERNARD in den BOSCH:** --the difference is because of it. Because of that particular charter provision, it's been the opinion of attorneys, actuaries, others, that we have-- we don't have the ability to unilaterally put in \$2, \$3, \$4 million to make up the difference. Because that's, that's what the difference would be for this system, is, you know, 2 to-- \$2-3 million. So it's not a matter of if there was a will or not. There's a feeling that we have a charter that would prohibit us from doing that because then you'd have a city making a unilateral contribution without the employees contributing. Now, please appreciate the actuarial determined contribution is an important number, but if you don't meet that number, it has-- doesn't mean the system isn't going to be fully funded. And that's-- clearly,

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if you look at the actuarial report, because I've, I've had this discussion with Milliman numerous times.

**CONRAD:** Yeah.

**BERNARD in den BOSCH:** Now, does it-- because there's actually a, a line in one of the tables that says if you made the actuary determined versus not-- and it effectively means that we get fully funded 2, 3, 4 years earlier. So it's not a matter of you're not progressing towards fully funded, but obviously, we would-- it's an important number. We'd like to, to meet it. And, and--

**CONRAD:** Right.

**BERNARD in den BOSCH:** You know, and quite frankly, if they hadn't changed the assumption from 8% to 7.75% 5 years ago, we probably would meet it. That doesn't mean the pension system is in better shape. It just means the, the way the, the way the math, the way the math works and the way the assumptions go. And I, I know one of the-- you know, they're doing an experience study. And if there were a recommendation to reduce the actuarial assum-- assumed rate of return, and I would come back here next year, you're going to see we're going to be funded at a lower ratio if that actual rate of return is lowered. I mean, that's, that's the reality of the math. And that's the same thing that happened. If we were still at an 8% rate of return, we would probably be funded at a slightly higher ratio, because that's ass-- that's, that's assuming that we're going to get those returns prospectively. But we, we made the change based on the actuary's recommendation because that was prudent for the, for the plan. So I, I, I think-- I don't mean to diminish the importance of actuary required contribution because it's an important benchmark, but it is just one benchmark. And as you look at-- that's why we asked the actuary to put that that line in the graph to, to basically show that, that it's-- doesn't change, that it, that it, that it doesn't mean you're not going to reach that fully funded status, but it is certainly not as fast.

**CONRAD:** OK. I, I appreciate that response. I'm not 100% in agreement, but I, I appreciate the response and, and understanding more about some of those considerations from city leadership perspective. Thank you.

**McDONNELL:** Senator Clements.

**CLEMENTS:** Thank you, Mr. Chairman.

**BERNARD in den BOSCH:** Now you're going to make me find it.

**CLEMENTS:** I think you're referring to page 13 on the January 1 valuation. I, I see a graph that looks like if you use the actuarial determined contribution that--

**BERNARD in den BOSCH:** So, so 20-- 2044. You're, you're correct.

**CLEMENTS:** 2044, you'd get--

**BERNARD in den BOSCH:** So 9 years.

**CLEMENTS:** --100%, but using what you've been doing--

**BERNARD in den BOSCH:** It would be 2053.

**CLEMENTS:** 2054.

**BERNARD in den BOSCH:** Yeah.

**CLEMENTS:** So it does make a 10-year difference in the funding.

**BERNARD in den BOSCH:** No, you're, you're correct. I, I mis-- I misspoke.

**CLEMENTS:** Fully funding it, so it's-- we've seen other plans projecting 2044, and 2054 seems like quite a long ways out, but--

**BERNARD in den BOSCH:** It does.

**CLEMENTS:** I, I'd sure rather see it in 2044. But I, I also-- yeah-- no, you've explained the charter restrictions in the past. And it's-- that's a problem in my, my feeling that somebody should try to resolve, really. But thank you for that chart. That's helpful to see.

**CONRAD:** Yes.

**BERNARD in den BOSCH:** And I apologize. Maybe I did misspeak, but--

**CONRAD:** Nope, I got it.

**CLEMENTS:** If you [INAUDIBLE]--

**BERNARD in den BOSCH:** My, my point is well taken, but I, I, I misspoke and [INAUDIBLE] the time period.

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**CLEMENTS:** All right.

**CONRAD:** Completely understand.

**BERNARD in den BOSCH:** And, and frankly, we hope that we do meet the ARC. I mean-- and if we were-- if we're able to increase the number of police officers that we have, that will certainly help us get there. That's one of the, the impediments we have, because obviously, new hires or Tier 3 employees, you've got that normal cost that's relatively low, but you're still getting those contributions at a higher rate, so that helps you get there.

**CLEMENTS:** All right.

**McDONNELL:** Bernard, how many years have you been representing the citizens of Omaha?

**BERNARD in den BOSCH:** I have started with the city in May of 19-- May 23 of 1996.

**McDONNELL:** Well, we, we appreciate all your work. I got a few questions. So you talked about this current hiring class. And right now, I believe they started off at 28, and they're now down to 27. We're approximately 130 police officers short from the [INAUDIBLE].

**BERNARD in den BOSCH:** We're, we're, we're actually-- I appreciate-- I know the union uses the number 130. They don't count the class that's-- that-- that's in there.

**McDONNELL:** Well, that's what I'm trying to get to. So, if we looked at the--

**BERNARD in den BOSCH:** We're, we're at 810 and 906 is our staffing number, so we were 96 down.

**McDONNELL:** So let's, let's take a approach where we look at the current class, starts off at 28. There's 27. Like you said, it takes them approximately 6 months. So we're looking at now, I believe, February, before that class will be able to be on the streets. Approximately.

**BERNARD in den BOSCH:** Correct.

**McDONNELL:** So at this point, how many people will retire before February? Do you have a number on that?

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**BERNARD in den BOSCH:** I don't know. I can certainly find out. Because obviously, as you know, people tend to retire in bunches when they reach their, their year. And I don't know if we have a police class that started between now and, and February. I do know there's a hope to have a lateral class of police officers start before the end of this year, if not early next year, and then have a regular class start in the first couple of months of next year. But, but yeah. I mean, the-- I could certainly find-- I just don't happen to know when the, the class started and then the other variable anymore-- it's really how many people finish their drop. Because we find that 75-80% of police officers enter into the drop, so it's not-- it used to be you could just look 25 years after people started, that's when they would drop off. I would need to look at when the class that started 30 years ago will finish, finish their drop. And then also-- so I mean, I can certainly find out the information, but I-- I've taught my head I don't know how many-- when that class is.

**McDONNELL:** And just to clarify, so approximately 75% are taking advantage of the deferred retirement option plan. Roughly?

**BERNARD in den BOSCH:** That's-- yeah, roughly.

**McDONNELL:** OK.

**BERNARD in den BOSCH:** The number is a little less now than it was a couple of years ago.

**McDONNELL:** So just to make it easy, we'll go ahead and take the class currently, subtract it off the, the 130. So let's just say we're 100 short. So right now, looking back at '23, how many at the end of the, the year, the calendar year '23, how many were we short? Do you know off the--

**BERNARD in den BOSCH:** I, I, I think she-- I think, based on the actuary, we were like 798. So, I mean-- and we had a class this ye-- we had a class earlier this year of, of, of 20-something.

**McDONNELL:** So going back then, year before, do you remember '22, '21, when, when was actually the last time we ended the, the fiscal year at, at our full authorized strength for the Omaha Police Department? Do you--

**BERNARD in den BOSCH:** I--

**McDONNELL:** --remember?

**BERNARD in den BOSCH:** I, I don't remember off the top-- I, I actually have a chart in my office, because I have, I have tracked it, but I don't recall off the top of my head of when it was. I think-- it's been 3 years-ish. You know, and obviously we had some difficulty, because we couldn't have a class for approximately 9-12 months because of COVID. And before that, we were, we were fully staffed. And, and the difficulty, of course, is once you get behind, it's difficult to catch up, for 2 reasons. One, obviously, if, if we have a class of, let's say we have a class of 35 a year that's going to retire, that means to increase your numbers, you need to hire more than that. And we are not getting applicants. I mean, 15 years ago, we would get 1,800-2,000 applicants for a 2-year police list. A couple years ago, we got roughly 170 pe-- we were-- we got 170-200 people. And of course, when you only end up hiring somewhere between 1 out of 10 or 1 out of 12, you know, a class, a list of 180 means that you're hoping to be able to hire 6-- you know, 15 police officers off it. So I know that there has been in the last year, a year and a half, a huge increase in the type and the amount of recruitment that's being done. We're posting for police every 6 months, and there has been a lot of effort to, to try to speed up the process from when you take the test to when the class would start. But obviously, you have to do the testing process. You have to do a background investigation, you've got to do polygraph, you've got to do medical and psychological. All of those things have to occur, and it does take a cou-- several months for those things to occur. But you're, you're absolutely right that it's-- I mean, I mean, it is going to take a, a little bit of time. Because for, you know, if 35 people leave, if you want to increase your numbers by 35, you got to add 70. That's the nature of the beast. And same thing for fire service.

**McDONNELL:** Do you know what's budgeted in the Omaha Police Department for recruitment?

**BERNARD in den BOSCH:** I, I, I really don't know. I mean, I certainly can find out what they have. I know that they do some recruitment. I know the HR department does a lot of recruitment. I mean, I mean, there's-- and I know that the HR department has even done a summary relatively recently of what recruiting things were done for this year. But I'm, I'm, I'm, I'm not aware of it. It's not something that I'm-- I'm aware when they have events sometimes, but not, not necessarily involved in the actual recruiting part.

**McDONNELL:** Well, when you get a chance, can you please send that to us? And also, look back at the last time there were, you know, within

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reason, 95% of their authorized strength at the end of the year, going back to whatever that year might be, '20 or '21. We would appreciate those numbers.

**BERNARD in den BOSCH:** So let's talk about the right strength, and then police recruitment budget.

**McDONNELL:** Any other questions? Any other questions? Again, Bernard, having a chance to, to watch you represent the city of Omaha and having a chance to work with you over the years, you do a, you do a great job and we appreciate you. We appreciate you being here. Thank you.

**BERNARD in den BOSCH:** Thank you. I appreciate it. I know it's-- you're probably all tired of seeing me, but that's--

**McDONNELL:** Never tired of seeing you.

**BERNARD in den BOSCH:** No, I-- maybe tired--

**McDONNELL:** Anybody tired of seeing [INAUDIBLE]?

**CONRAD:** Yeah, right.

**BERNARD in den BOSCH:** Maybe tired of my message.

**CLEMENTS:** I've got another meeting.

**McDONNELL:** OK. All right. Omaha civilian pension plan. Is there anybody else that would like to testify? Bernard, you're back up.

**BERNARD in den BOSCH:** All right. Members of the Retirement Committee, Chairman McDonnell, my name is Bernard in den Bosch, deputy city attorney with the city of Omaha. Last name is spelled-- or first name is Bernard, spelled B-e-r-n-a-r-d, last name in den Bosch, lowercase i-n, lowercase d-e-n, B as in boy-- B-o-- B-o-s-c-h. And I am appearing on behalf of the city of Omaha Employees Retirement System. The actuary is also Milliman and Associates, and it's a plan for the city's civilian employ-- classified civilian employees. This particular plan, much like the police plan that I just spoke about, has had issues going back to the recession in 2008, 2009. The, the plan was funded, I believe, at its lowest point at 38%. There were-- and prior to the time that pension reform was implemented in-- late in 2014, which went into effect on March 1 of 2015, the plan was not going to be able to-- would have been cash negative at some point by



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late-- the late 2020s. There was pension reform done in March of 2021. That reduced benefits for active employees. I described some of the reasons how in the letter that I wrote to you. That also provided a cash balance plan, which is a type of defined benefit plan for all new hires after March 1 of 2020-- of March 1 of 20-- 2015. And obviously, the concept-- part of the concept of the cash balance plan is the return that they get is somewhat tied to the, the rate of return by the pension system. And much like we talked about for fire, the pension reform done in 2015, employees reduced benefits and the city increased contributions. The current contributions, the city contributes 18.775% and employees can contribute 10.13%. As-- the actual report that I provided was effective January 1 of 2024, has a rate of return for 2023 of 5.5%. Obviously, 2022 is negative. The assumption for the system is 7.5%. The compounded rate, our average over 5 years, 2019-2023, was 8.1%. And as I indicated to you, Milliman did look at the asset allocation of this particular plan. And this plan is managed by a different board of trustees, though it has the same investment consultant. They projected the rate of return based on the asset allocation as being 8.2%. That's something that's in the report. There are 1,335 active members and 1,456 employees in retired pay status. 57.5% of those employees, the active employees, are in the cash balance plan, meaning that since March 1 of 2015, 57.5% of our employees that are in the pension system have been hired. A, a high amount of turnover, and I think probably accounts for when I talk later that our projection for being fully funded, it's slightly ahead of what was expected. That's frank-- frankly, in part to the fact that we've had more turnover than was probably expected, a higher percentage of people on the cash balance plan, The market value of the system as of January 1 of 2024 is \$269 million, and the actuarial value, \$282 million. The funded ratio as of January 1 of 2024 is fif-- was 54.0%, an increase from 53-- the 53.4% that it was as of January 1 of 2023. And as I talked about before, the normal cost for active employees is actually 10.088%. So the-- most of that difference that's-- is being used is to fund the benefits of those that have already retired. And the actual determined contribution, contribution was 30.137%. And we did-- we also don't meet that particular projection, though the amount of the deficit is-- has increased-- or decreased, I'm sorry. It was -0.17% in 2023. It's -0.12 percent or 1.--1.17% in 2024. Again, long range projection to be fully funded, this particular fund is fund-- expected to be fully funded Jan-- January 1 of 2046. When the plan was implemented, it was expected it would be fully funded in 2048, so we're a little bit ahead of what was projected. But I would say we're basically just like the other plan,

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where they gave us a-- the map of what was going to occur and we're proceeding along that map as was anticipated. There's going to be slight variances each year based on rate of return and slight changes, but the reality is we're precisely where it was anticipated. It's not anticipated that this plan will be 60% funded based on the projections until 2033. Seems like a long time away, but that's-- it takes a long time to get to 60 and 70% funded. And then, assuming you keep the contributions, it explodes towards the end: 70% funded in 2038, 80% funded in 2041, and 90% funded in 2044. As I indicated, a long road. We're out-- we're following the path that was outlined by Pat Beckham at Cavanaugh MacDonald in 2015. And much like I said before, it's going to require patience by both the city and employees to ensure that we, we stay on the path, continue to make the contributions. And I'll be honest, I, I, I anticipate that once I-- if I ever am allowed to retire-- my wife probably has some say in that-- I will be one of the people who shows up at personnel board and city council meetings if I think things are occurring that are inconsistent with the best interests of either plans. Because quite frankly, though, I appreciate you guys are watchdogs as well, I, I kind of view myself as one also. Not only do I have a vested interest in the civilian plan, but I have a vested interest in part because of meetings that I've here-- meetings that I've had with Senator McDonnell, Senator Kolterman in the past, in the past, of trying to ensure that we get where we need to go. I will find the little chart because I don't remember off the top of my head, but I, I-- I'll anticipate the question from Senator Conrad, about not "meeching"-- meeting the, the ARC. Similarly, they, they did do an analysis if we were to receive-- meet the ARC, and--

**McDONNELL:** What, what page are you on now?

**BERNARD in den BOSCH:** I'm looking at page 13 of the civilian report. And it indicates that we would be fully funded at the end of 20-- looks like at the end of 20-- 2041, so approximately 5 years earlier if we met the ARC, as I, as I said. It's-- we-- it's a goal to meet the ARC. It's just something that-- I think sometimes people believe that if you don't make the ARC, you're never going to get to be fully funding, and I don't think that's, that's accurate. And the actuary has assured me it's not accurate. But again, we, we do have some of those limitations because the same charter provision applies. So that being said, I'm done with my report. I'm happy to answer any questions.

**McDONNELL:** Any questions?

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**CONRAD:** I have one.

**McDONNELL:** Senator Conrad.

**CONRAD:** Thank you. Thank you, Chair. And thank you, Bernard. It's always good to see you, and you're a wealth of, of information. But, you know, in looking at the list of entities that we had providing information to the committee today as per state statute, and trying to think through-- obviously, there's a, there's a lot of different political subdivisions im-- impacted by these issues and a diversity to their funding streams, and employment dynamics, and what have you. But it is striking to me in preparation that, you know, we're looking at all these different plans across the state, and we've got here on, on our agenda today, you know, flagged for monitoring, oversight, and other purposes, 5-10 plans from the Omaha, Douglas County, kind of metro area, where, where we're seeing the biggest red flags here. Do you want to just speak more broadly to why that might be? Is it sheer volume? Is it any instances of poor investment choices or other decision making? I mean, why, why are we seeing these red flags the most in, in our largest, our largest communities?

**BERNARD in den BOSCH:** I think there's probably more separate pension plans in those part because you don't have a single state pension plan--

**CONRAD:** Right.

**BERNARD in den BOSCH:** --that covers it. I don't think there's-- I don't think you can say there's one particular reason. I appreciate there may be concerns about investments by one, one or more of them. I don't think that's ever been-- the investment portfolio has ever been an issue that's been discussed with any-- either of the Omaha plans. I, I do think there was a time when these plans, who we've heard from several people, were fully funded in the late '90s.

**CONRAD:** Yeah.

**BERNARD in den BOSCH:** And by-- after the recession in 2008-2009 that's been talked about, many of the plans were in worse places. There were a number of increases in benefits, particularly with the 2 city plans. I know that those were at the time that they were negotiated or actuarially evaluated. But, but obviously, it's, it's pretty clear that for whatever reason, that, that forecasting didn't seem to coincide with what actually happened. Because even with-- even before

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that recession in 2008-2009, we were seeing a trend towards these plans not being funded at the rate that they were funded before. And, and, and I, I don't, I don't know why that is. I, I-- and I, I hate to say this, I really didn't get super involved in, in this kind of-- in the--

**CONRAD:** Sure.

**BERNARD in den BOSCH:** --pension issue until 2008, 2009, 2010.

**CONRAD:** Sure.

**BERNARD in den BOSCH:** I was aware of it. I, I was-- had some involved in a collective bargaining before that, but I wasn't necessarily involved in the percentages. So I-- we did have-- I mean, I think if you look at 2008, 2009, those, those 2 years are something we've only seen in our national economy 2 or 3 times. And obviously, that, that contributed to it. But I don't, I don't know that there's one overall thing. You know, maybe the actuarial advice that was being received was from similar people. I don't know if that's the case, or assumptions that were being made were similar. But, but I do think part of it is probably there's, there's a higher prevalence in separate pension systems because the bodies are bigger, you know. And, and I think there's-- it's probably a-- it's probably fair to say, you know, could we have had something in place to try to correct these issues in 2008, 2009, 2010 and done it earlier, and we would be further along? You know, in hindsight, certainly--

**CONRAD:** Sure.

**BERNARD in den BOSCH:** --I think that that's a, that's a fair thing to raise. But I, I don't, I don't know that there's one overarching thing that I can point to. And I, I tried to answer your question. Hopefully, I provided some--

**CONRAD:** No, that-- no, it's helpful to just kind of take a step back and think about it from the bigger picture. Because I am just-- I'm wondering kind of about, for lack of a better term, kind of the, the cluster of red flags popping up--

**BERNARD in den BOSCH:** Sure. Sure.

**CONRAD:** --in Omaha and Douglas County area when, you know, other plans, generally speaking, on the state level or in other political subdivisions aren't finding the same types of imbalance or challenges.

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And, you know, ultimately, I-- I'm just trying to get a, a better understanding of, of the why--

**BERNARD in den BOSCH:** Understood.

**CONRAD:** --behind that, that this statute and these hearings help to, to prompt. I appreciate your response. Thanks.

**McDONNELL:** Thank you, Bernard.

**BERNARD in den BOSCH:** All right.

**McDONNELL:** Thanks for being here.

**BERNARD in den BOSCH:** Thank you. I will work-- I'll [INAUDIBLE] with that stuff. Thank you. Appreciate your time. I've wore everybody down.

**CONRAD:** Nah.

**McDONNELL:** We're to the end of the agenda, OSERS. I'm sorry. Is there anybody else that would like to testify? Anybody else like to testify? OSERS.

**BERNARD in den BOSCH:** And you're welcome, because I wore everybody down.

**McDONNELL:** Thank you, Bernard.

**CONRAD:** Well, Senator McDonnell and I are still sitting-- standing.

**SHANE RHIAN:** Good morning, Chairman McDonnell and members of the Retirement Committee.

**McDONNELL:** Good morning.

**SHANE RHIAN:** My name is Shane Rhian, S-h-a-n-e R-h-i-a-n, and I am the chief financial officer for the Omaha Public Schools. I also served as administrator for the Omaha School Employees Retirement System until September 1, 2024, the date its management was transitioned to the Public Employee Retirement Board. Omaha Public Schools is the largest school district in Nebraska, serving over 52,000 students and their families, and is one of the largest employers in the state. I want to start my testimony by thanking the members and, and staff of this committee and the staff of the Public Employee Retirement Board. In my brief time as the administrator of OSERS, I have had the opportunity to work with many of you, as we continue to do everything that we can

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to solidify OSERS. As you know, these past several years have been transformational for OSERS. The transfer of management to the PERB began with the passage of LB31 in 2019, and was successfully completed on September 1, 2024. We remain committed to working with the PERB staff to administer the plan moving forward. Their partnership and expertise have been and will be invaluable. I am here today to speak about the report submitted for this year for the Omaha Public Schools and the Omaha School Employees Retirement System. As we shared with you previously during the same hearing last year, the plan actuary, Cavanaugh MacDonald, made recommendations to change the then current actuarial assumptions. Those recommended changes were adopted by the OSERS trustees and by the Board of Education and include a gradual reduction of the assumed rate of return from 7.5% to 7%, which will be fully implemented by 2025. Obviously, the reduction in the actuarial assumptions being phased in has contributed to the decrease in the funded ratio contained in our report, and will likely result in a potentially significant increase in the actuarially required contribution made annually by OPS. Speaking of the actuarially required contribution, I am pleased to report that in 2024, our district was once again able to budget for and contribute to OSERS an amount in excess of the actuarially required contribution. Our district made an ARC payment of \$45.5 million in August, which included \$11.8 million more than what was actuarially required. This is the sixth consecutive year that the OPS Board of Education has transferred more funds to OSERS than was actuarially required. That said, we anticipate it will become more difficult for the district to contribute amounts in excess of what is actuarially required in the future. We understand that each decision the dis-- district makes affects every employee in our workforce and every student in our care. Our commitment to sound financial management and fiscal prudence is essential to our ability to manage both our responsibility to educate students and our duty to make actuarially required contributions to OSERS. Thank you for the opportunity to speak with you this morning. I would be happy to answer any questions you might have.

**McDONNELL:** Thank you. Any questions? It's just you and I.

**SHANE RHIAN:** The last two standing.

**McDONNELL:** We don't have quantity, we got quality on the committee now.

**CONRAD:** That's right. I don't think I have any right now. I, I know that we've discussed these issues with OSERS frequently at the

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committee level. And it's, it's definitely good to get an update on things, and particularly, the transition components that are moving forward. And I know I've had a chance to talk about these issues with teachers' representatives and briefly with other stakeholders, including at the, the PERB director and, and otherwise. So I think we're making steps forward in terms of ensuring soundness, but indeed, still have a lot of, lot of work to do together.

**SHANE RHIAN:** It is a long road ahead. And as the previous testifier on the city of Omaha, Omaha plan said, it's slow and steady that wins the race. And so we, we didn't get here in a day and we aren't going to fix it in a day. But we are committed to making the ARC payments on an annual basis, understanding the significance of that within our budget and our responsibility to educate students. But we are committed to getting there and being fully funded in 2049, per the most recent actuarial study.

**McDONNELL:** Thank you for being here. Thank you for your work.

**SHANE RHIAN:** Thank you.

**McDONNELL:** Anyone else would like to testify? Anyone else would like to testify? Thank you all for being here. Happy Thanksgiving. Safe travels. God bless. We're done.