McDONNELL: [MALFUNCTION] Committee. My name is Mike McDonnell. I represent Legislative District 5, south Omaha. I also chair the committee and the committee hearings are an important part of the legislative process and provide an opportunity for the legislators to receive input from Nebraskans. Today, we are here for LR408, an interim study for the presentation of annual judges, teachers, troopers, valuations report on their defined benefit plans. In addition, we'll have a, a presentation of the annual OSERS audit by staff from the Auditor's Office. We'll also have a brief update on the, the recently completed OSERS administrative, administrative transfer to NPERS. If you plan to testify today, you will find a pink testifier sheet on the table inside the door. 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 on the table. Please fill out if you wish not to testify, but would like to be recorded on your, your position on a bill sheet. The sheet will be included in as an exhibit in the official hearing record. This hearing is a bit different from other hearings and accordingly we won't be using the proponents/opponents format and will not be using the light system. 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 you, please, to look at your cell phones and make sure they're in the silent mode. With that, we will have the committee introduce, starting with Senator Clements.

CLEMENTS: Rob Clements, District 2, Cass County, eastern Lancaster.

CONRAD: Good morning. Danielle Conrad, north Lincoln.

McDONNELL: Assisting the committee today, to my far right, Tim Pendrell, committee clerk; and to my immediate right is Neal Erickson, the committee's legal counsel. With that, we will get started with the Auditor's Office.

ZACH WELLS: Do you mind if we have another chair over here?

NEAL ERICKSON: Oh, yeah.

CLEMENTS: That's fine.

NEAL ERICKSON: Do you need another one?

ZACH WELLS: I think I'll just take a step back--

NEAL ERICKSON: OK.

ZACH WELLS: --and I will step up if that works. Thank you, though. Good morning and thank you for having us.

McDONNELL: Good morning.

ZACH WELLS: I'm Zach Wells and I was the report signer of the OSERS audit. I am accompanied here with Cassondra Dobbs and Cody Guillot, who have worked on the OSERS audit the last 3 years. They both have helped hold the position of auditor in charge and have a lot of experience auditing both OSERS and the Nebraska Public Employees Retirement System. I will provide an overview of the OSERS report and then they will provide a high-level description of the items that were identified in the management letter. With that, we did issue an unmodified opinion on the financial statements for OSERS, which means that they were materially correct. Some brief highlights for the financial statements that they were assets restricted for pension benefits or available for pension benefits amounted to $1.6 billion at December 31, 2023.

CLEMENTS: Excuse me. Have him spell his name.

ZACH WELLS: OK.

McDONNELL: Oh, I'm sorry. Yes, please spell your name.

ZACH WELLS: Yeah, no problem. Zach, Z-a-c-h, Wells, W-e-l-l-s. Contributions during the year amounted to $130 million, and benefits and refunds paid were $156 million. The actuarial data as of August 31, 2023, which is the plan's fiscal year end, the total pension liability amounted to $2.68 billion. The fiduciary net position or amounts available to pay those liabilities was $1.54 billion, which left a net pension liability of a little over $1 billion. The funding percentage was 58% for the plan. And with that, those were kind of the highlights, I guess, from the financial statements in the footnotes.

And with that, I'll turn it over to Cody and Cassondra to go over the-- our recommendations. Thanks.

McDONNELL: Welcome. Good morning.

CASSONDRA DOBBS: Good morning.

CODY GUILLOT: Good morning. Zach kind of gave an introduction. I'm Cody Guillot, that's C-o-d-y G-u-i-l-l-o-t.

CASSONDRA DOBBS: I'm Cassondra Dobbs, C-a-s-s-o-n-d-r-a D-o-b-b-s.

CODY GUILLOT: Very good. We're going to give a high-level overview of the findings we had in our auditor's report. But before jumping into those findings, I just wanted to make it clear or emphasize that the findings and associated dollar errors that we noted in our report are reliant on the accuracy of the member data that was maintained by OSERS at the time. And as we go through our findings, we'll try to draw attention to how this could impact NPERS administration of the plan going forward. Our first finding was regarding core management oversight. During our audit, we noted concerns with OSERS failing to provide timely responses. We also noted that they hadn't taken appropriate action to resolve some of the prior year findings. And we also noted, noted continued errors in calculating benefits. We noted that many of these issues were due to the departure of key personnel who had managed day-to-day activities as OSERS had to bring on temporary help to kind of operate the plan from day to day. Some of the issues we noted included no action taken to resolve or recoup fund overpayments-- sorry-- refund overpayments noted during the prior year. We also noted instances where there was failure to properly adjust medical COLA benefits for all members, failure to correct some state service, service annuity payments for plan beneficiaries, and also failure to enact, to enact some adequate procedures to ensure that benefits were calculated in accordance with state statute. I won't go into the specific details of all of those findings, but they are in our report. Lastly, lastly, we also noted that management lacked proper oversight to ensure that insurance costs were properly allocated to plan. We had noted these issues were significant deficiencies. And, again, to emphasize as the plan is transferred over to NPERS administration, it will be important for them to be aware and address some of these uncorrected errors that we had noted in the prior year to ensure that benefits are being paid out accurately. That sort of wraps up our first finding and I'll let Cassondra go over our second finding.

CASSONDRA DOBBS: And I'll just kind of go over this at a high level, too, so if there are questions about anything let me know. But we'll mostly focus on things that will be issues for the transition or would affect payments going forward with NPERS-- with the NPERS administration of it. Comment number 2 is about inaccurate benefit calculations. A lot of these are issues that we noted in prior audits that haven't been corrected and continue to be an issue. We tested 15 new retiree benefit calculations and found errors with 10 of them. The errors included the incorrect optional annuity factors in the system. They weren't using the factors developed by the plan's actuary, improper reductions or deferrals of the state service annuity portion of the benefit and incorrect years of service used in benefit calculations. These are things that will affect benefit pay-- monthly benefit payment amount that could continue to be an issue or be an issue with the data that was brought over to NPERS. We know that errors with cost of living adjustments, the COLA was not being applied to the state service annuity portion of the benefit. And some other smaller-like errors with specific benefit payments and transfer payments to all plan payees or beneficiaries. We also know that there was inadequate documentation of paying for retirees ages or the date that their retirement application was received. And I'll let Cody go over number 3.

CODY GUILLOT: Our next finding was regarding refund issues. Similar to some of the issues we noted in our prior year audit, we had noted various refund overpayments, one specifically as large as $53,000. Additionally, during our testing, which will be a bigger issue for NPERS administration, is that we noted that for many cases OSERS had failed to zero out account balances after an individual took a refund payment. That will be pretty significant as the, the data is transferred over to NPERS. They will want to review that to ensure that no duplicate refunds get issued and that members' balances are as up to date as possible. Cassondra can go over the next item.

CASSONDRA DOBBS: And this comment number 4 is PeopleSoft system issues. This one is probably where I'll spend the most time. This is a lot of issues with member data that was transferred over or could be potential issues with the member data that was transferred over. The pension data was kept in a pension module of PeopleSoft, which is the system that OPS uses for their accounting payroll and HR functions too. They had a section of it for pension. With the system, we know that the users with access to that pension module were able to perform all functions without a secondary review and that it lacked history tracking for some significant areas, including changes to direct deposit information and changes to user access. And then we noted several errors and inconsistencies with the member data in the system. There were a group of members whose contributions were not posted to their account for several months. We believe that affected over 500 members and resulted in an understatement of their balances above our $400,000 total. Two members who had accounts for unknown reasons, their accrued interest balance was wiped out. Interest stopped accruing for a few months and then it resumed. But the full accrued interest was not put back into the account. There were 113 members who had unexpected decreases in their account balance, which we know 2 of them are the, the 2 people I just mentioned. We're not sure what the other errors were, but you wouldn't normally expect any decrease in a member's balance. There were 40 members who had an account balance but no accrued service credit because their hours weren't being picked up from the payroll system, 7 members who had an unexpected decrease in service credit, 45 active members with no balance or service credit. These all appeared to be people that had terminated, took a refund and came back, but then their accounts did not properly update when they resumed making contributions. And then 351 members that had a decrease in their vested benefit reported to the plans actuary for the valuation. That vested benefit is the benefit amount they were currently entitled to based on their years of accrued service and their average salary. And the decrease in the vested balance appeared to be that the system was not pulling the right years of salary for that calculation.

McDONNELL: Yes, Senator Conrad.

CONRAD: Thank you, Chair. And sorry, before you get into it, I just wanted to make sure to clarify, are you-- the examples that you just recently provided in helping the committee understand some of the discrepancies or the data issues involved, is that limited to your test pool or was that system wide?

CASSONDRA DOBBS: In-- the 2 members with the interest error, that was from our testing.

CONRAD: OK.

CASSONDRA DOBBS: We noted those. And following up on our prior year finding, same with the contributions that weren't posted. But we-- once we identified the errors, we did a larger review.

CONRAD: OK.

CASSONDRA DOBBS: Looked to try to identify all of them. And then many of these came from-- the plan's actuary reviews the data, and they look for inconsistencies or they ask questions of the plan. And we kind of did a review of their questions and tried to identify what those issues were.

CONRAD: Thank you. Thank you.

McDONNELL: Senator Clements.

CLEMENTS: Thank you, Mr. Chairman. Now the-- you mentioned benefit calculations that were inaccurate, 10 of 15 samples had errors. Were those people being overpaid or underpaid?

CASSONDRA DOBBS: It was a combination. And in the management letter, we have a chart that shows each of the benefit errors that we noted with what the amount of the over or underpayment. Some were underpaid, some are overpaid. People where the state service annuity was deferred or reduced, those are all going to be over-- underpayments. The actuarial option factor issue, I think, all resulted in underpayments and then the improper service credit resulted in overpaying.

CLEMENTS: The-- having no dual control over member changes, is there a, a conversation going on where they're going to implement something or--

CASSONDRA DOBBS: Their data is not in that system any longer now that they've transferred to the NPERS administration. So that might be a concern if there were changes that shouldn't have happened to member data before the transition, but should not be an issue after unless, you know, there's an issue on NPERS side.

CLEMENTS: All right. Now, it has been transferred to NPERS, then. All right. Well, that's-- is NPERS being informed of all these findings?

CASSONDRA DOBBS: We have-- OSERS allowed us to discuss these findings and some more-- in more detail within NPERS prior to the transition so they were made aware of all of these issues.

CLEMENTS: All right. Thank you.

CASSONDRA DOBBS: Yeah. Comment number 5 has to do with service credit-- you know, members benefits based on their years of service and their average salary. So the accumulation of service credit is important for making sure that benefits are correct and the service credit is accumulated through payroll coding. Hours are tagged in the payroll system. And then that's reported to the pension module. And we noted several errors in the accumulation of service credit. These are issues that could affect balances that were transferred in the transition to NPERS, but could also continue to be an issue as OPS is reporting the member data to NPERS with the contributions and wage information. We noted several different kinds of errors. One that hours for part-time employees weren't coded to accumulate service credit even though they were contributing members of the plan. Holiday hours were improperly excluded for some members who should get credit for holiday hours. We noted one employee whose regular hours were overridden when they entered extra duty, which then understated their service hours for the period. We noted several errors with, with extra duty where extra duty performed during the normal workday was given service credit improperly and extra duty work outside of the normal workday was not given credit. And then we also noted that hours worked before an employee became eligible for the plan were accumulated as service credit once the member joined the plan. So hours that were not eligible. I think number 6 is yours.

CODY GUILLOT: Our next finding is regarding death benefit procedures. One of the procedures that OSERS implements in their-- OSERS had implemented in their administration was a death audit-- death audits. These death audits were used to determine if a member's death had gone unreported so they-- therefore they could halt those benefit payments in a timely manner. During our testing, we noted that OSERS did not mean to maintain documentation to support the member data that was submitted to those death audits so we couldn't verify that all member data was being looked through. We performed our own testing using some information that we were able to obtain from the Department of Health and Human Services regarding death records. And we, we identified 3 plan members who had died in 2023 that were still receiving benefits as late as our testing, which was in early 2024. Again, as NPERS starts, you know, taking over the plan administration, it will be important for them to be aware and do their own review to ensure that members who are receiving benefits are still alive. Oh, yeah. The next finding we have is number 7 on the, the report is regarding account-- accounting and disclosure errors. During our testing, we noted a number of incorrect accounting entries. This is something we've noted in some of our prior reports as well. Some of these errors included or affected investment amounts, refunds and benefit payment amounts weren't reported properly and also cash balances were being misstated. During our testing, many of these issues were corrected by, by OSERS. And, again, the plan is now being administrated by, by NPERS so we hope some of those issues get corrected by themselves through NPERS administration. I'll let Cassondra cover the next item.

CASSONDRA DOBBS: And comment number 8 is with purchase of service credit. This is something that would affect a small number of members, so people that have purchased years of service from another school district or have purchased additional service before retiring. But it could be-- have a, a large effect on those people's benefits. And it's something that we've noted errors within every audit since the 2021 audit. We noted that mostly OSERS has failed to follow up on these issues and correct these issues, and these could affect the balances that were transferred to NPERS. We tested one purchase of service in the 2023 audit and noted that the cost was calculated incorrectly, included too much interest so the member overpaid. There was no application on file. OPS did not make the required district matching contribution for the purchase because the OSERS staff at the time wasn't aware that that was a requirement for that purchase and that the member's account was not updated to include the contribution that they made or the years that they purchased. And we noted that OSERS had failed to update member accounts for the purchases that we tested in the prior year as well.

CODY GUILLOT: The last item in our report was regarding issues of qualified domestic relations orders. Upon receipt of a court-certified qualified domestic order, or a, a [INAUDIBLE] as we refer to them, an alternate payee is granted an interest in a plan member's retirement account. And when this happens, a separate account is supposed to be set up under that alternate payee's name, under which that-- the alternate payee can receive a benefit, benefit payment equal to their court ordered share of the, the retirement plan. During our testing, we noted 7 instances where OSERS had not split the member's benefit in accordance with the certified qualifying domestic relations order, resulting in the alternate payees receiving underpayments. Again, this will be important for NPERS to be aware of as they begin administering the plan.

CASSONDRA DOBBS: Any, any additional questions?

McDONNELL: Any more questions from the committee? Senator Clements.

CLEMENTS: Thank you, Mr. Chairman. Is this your last audit of OSERS or will you continue to be auditing them?

CASSONDRA DOBBS: It will be-- it'll continue to be audited every year.

CODY GUILLOT: We'll be auditing-- yeah, NPERS administration of the, the plan.

CLEMENTS: NPERS administration, but--

CASSONDRA DOBBS: But the plan, OSERS plan.

CODY GUILLOT: Yes.

CLEMENTS: Of the OSERS plan. So who you deal with will be a little bit different, but the scope would be the same items that you'll be looking at?

ZACH WELLS: The next, the next year will--

CONRAD: Can you come up just so they can hear.

ZACH WELLS: The next year will include both, like 9 months at OSERS. So in 2024, the transition occurred, I think, August 31, or maybe it was the end of September, but-- so we will be looking at OSERS administration of the plan for the first 9 or 10 months and then NPERS administration of the plan for the last 2 or 3 months.

CLEMENTS: All right. Thank you.

McDONNELL: Yes, Senator Conrad.

CONRAD: Thank you, Chair. Thank you so much for sharing your findings, and maybe some other testifiers may want to weigh in on this as well, but as the transition continues and hopefully is completed soon, is there a need based upon what we know with past audits and existing audit-- there's just a lot of errors and discrepancy in terms of the data. So I'm concerned about when that transfers over, the data may not be accurate or, or helpful. Is-- should the committee or should the plan or other stakeholders consider making some sort of investment for a comprehensive evaluation of where the data is? Because I'm worried it's, you know, kind of-- this is not the right term to use, but the garbage in, garbage out kind of lens when it comes to data quality and integrity. Before we, we move everything over before it's completely settled, do we need to think about a broader corrective action that may be beyond our existing procedures?

ZACH WELLS: I'll try to take that one.

CONRAD: Yeah.

ZACH WELLS: OSERS did allow us-- during the course of our audits, we usually have our-- like all these findings would be communicated--

CONRAD: Right.

ZACH WELLS: --with OSERS, who is the plan manager. And then kind of in a unique circumstance now is all this information is now being transitioned to NPERS.

CONRAD: Yes.

ZACH WELLS: So we did reach out to OSERS and they did allow us to kind of provide a lot more detail to NPERS so then when we say, you know, in an, in an audit report, we're not going to say necessarily here are the 10 numbers that had misstated balances, right, like we're not going to put Zach Wells, he got overpaid $50 a month, right? But so we're able to with OSERS permission provide that information to NPERS so they will see here are the members that are kind of-- that tie to the errors that we included in the report.

CONRAD: OK.

ZACH WELLS: And so I know that also in-- with attendance on the NPERS Board meetings, I'm sure they can speak on this a lot more, like the analysis that they've done is they've worked through the transition process. But what we try to do is provide them, here's all the member information that we identified errors and the types of errors that we found. You know, take a look at this and make sure is this-- are you seeing other instances or what else-- are you seeing this also in the other, other analysis that you're doing?

CONRAD: Right.

ZACH WELLS: So I, so I think NPERS can probably speak more of [INAUDIBLE].

CONRAD: OK.

ZACH WELLS: Then we try to keep them kind of aware of. And I think somewhere they probably read through our prior audits and we presented those to the NPERS Board as well as the other OSERS audits--

CONRAD: OK.

ZACH WELLS: --with some of the errors that we were seeing and concerns that we were having.

CONRAD: Right. And that's helpful because that will-- that, that information data has been identified from your test sets. And then you noted that you expanded from those to identify other potential errors. But I'm wondering then about that next concentric circle beyond that.

CASSONDRA DOBBS: For example, those members, the 351 members whose vested balance changed.

CONRAD: Right.

CASSONDRA DOBBS: We provided NPERS a list of the specific members [INAUDIBLE] change--

CONRAD: Right.

CASSONDRA DOBBS: --in their balance of what we found, so.

CONRAD: OK. But there are perhaps beyond, beyond the test cases and then the broader lens that you've applied, has anybody done a scrub on all of the accounts is what I'm getting at?

ZACH WELLS: I guess-- I think that might be more of an NPERS question probably.

CONRAD: NPERS question. OK. OK.

ZACH WELLS: Because I know that they had to give a detailed process where they were working through the data--

CONRAD: Yes.

ZACH WELLS: --as was transitioned so they could probably speak to you more. I think our role in this or, I guess, are going to be really to just try to point NPERS and say, like, hey, here's the specific problems that we've identified.

CONRAD: Great. OK.

ZACH WELLS: Hopefully, you can look into see if there's other ones that we just didn't see.

CONRAD: OK. Very good. Thank you. Thank you.

McDONNELL: Thank you for being here.

CASSONDRA DOBBS: Thank you.

CODY GUILLOT: Thank you.

McDONNELL: Does anyone else want to testify on OSERS audit? Anyone else wants to testify? We're going to move on--

CONRAD: Oh, here's--

McDONNELL: Oh, Shane. OK. Shane, thank you. Thanks for being here.

SHANE RHIAN: Good morning, Chairman McDonnell and members of the Retirement Committee. 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 of the Omaha School Employees Retirement System until September 1, 2024, the date its management was transitioned to the Public Employee Retirement Board. I would like to start by thanking the Nebraska Auditor of Public Accounts for their work on the calendar year audit of OSERS for 2023. We appreciate their time and effort to aid Omaha Public Schools in maintaining the integrity of information and ensuring the financial well-being of OSERS. Through our cultural-- culture of continuous improvement, we view the audit as an opportunity to learn and grow. As plan participants ourselves, the OSERS administrative team takes great pride and a personal stake in our collective commitment to ensuring the plan is healthy and strong for future generations of participants. We take the auditors' findings and recommendations very seriously and look forward to working with the staff of the Nebraska Public Employees Retirement System to address them moving forward. The transfer of management of OSERS to NPERS was successfully completed on September 1, 2024. We are grateful to the past and present members of the Retirement Committee that assisted in passing legislation to transfer the administration of OSERS to the knowledgeable and professional staff at NPERS. The expertise of the NPERS staff will be invaluable in the future administration of OSERS and in correcting the deficiencies noted by the auditors. It is clear this transfer of administration was a necessary and prudent step to ensure the future financial well-being of OSERS and will allow our district to focus on our primary mission, preparing our students for college, career, and life. In closing, I would like to reiterate that we take the auditors' findings and recommendations very seriously, and as plan participants ourselves take great pride and a personal stake in conscientiously addressing each of them. Thank you for the opportunity to speak with you today. I'd be happy to answer any questions that you might have, including Senator Conrad's previous question.

CONRAD: Thank you.

SHANE RHIAN: NPERS and OPS staff have already worked to outline a process of reviewing each individual retiree over the next several years as they apply for their retirement benefits to review not only the information that was transmitted as part of the data migration but also go back to the source records and PeopleSoft and evaluate the information on a case-by-case basis moving forward. We have approximately 300 to 400 retirees on an annual basis. And so every month, as individuals apply for retirement benefits, NPERS will send OPS staff a list of those employees and will pull hours and wage history for them to be reviewed. Some of the inconsistencies that the auditors noted were known, especially around the extra pay for teachers. It, it, it was a known deficiency. Part of the review process was to focus on any partial years of service for those individuals and evaluate whether or not there was a discrepancy from that function. We hope with some retraining of the time keepers throughout the school district, that that will become less of a problem. But as you can imagine, with over 100 locations and 97 different programs and turnover in that staff, there are errors and inconsistencies that happen when applying those additional hours. And we look forward to reviewing those-- that information on a monthly basis and working with NPERS to address the findings noted. Just really appreciative of the process that we went through over the last 2 years in the transition. NPERS staff supported OSERS tremendously. While there are many things to correct, we are confident that we will continue and have a great relationship with NPERS moving forward. We-- you know, NPERS isn't on its own with OSERS. We are a partnership with them and we'll be working with them on a monthly and yearly basis on resolving issues and helping ensure the proper administration of the plan and all the financial obligations of the district are met to our employees.

CONRAD: Thank, thank you, Shane. I, I appreciate that. And no doubt it's a monumental task for OSERS and for NPERS to transition the administrative function. And I, I think that it's really important to helping to kind of reset and, and move forward together. Can you help me understand just what this means for an everyday average retiree? In OSERS, you got your retired teacher out there. And help me understand it both ways. If they were underpaid, their retirement benefits, how do they go about seeking that correction to make sure that they're receiving what they're entitled to?

SHANE RHIAN: So part of the process should be to when we get the information from the auditors that an error was found and someone was underpaid that a calculation be verified on what the total underpayment amount was and that amount remitted to the retiree and their monthly benefit updated to the correct amount. We have done that on many occasions. Perhaps not all of them, but I would presume that NPERS would have a similar process to make those individuals whole.

CONRAD: So the-- if there is an underpayment, it can be identified through audit or if I'm a retired teacher and I notice that there is a, a problem with my retirement benefits I can initiate an--

SHANE RHIAN: Certainly, we would--

CONRAD: --inquiry into that.

SHANE RHIAN: Um-hum.

CONRAD: OK. And then help me understand and the committee understand how it works the other way. So that was a good explanation for underpayment. But when overpayments are identified and one thing I'm concerned about is, you know, folks are living on a fixed income and they are playing by the rules and think that they did everything right according to their obligations but then, you know, in subsequent time or years, there's some sort of audit that says, wow, you've received an overpayment here. What happens if they don't have the money? Is it a collections issue? Is it a payment plan? Is it a hold harmless? Does it depend?

SHANE RHIAN: So I will address what we did up to September 1. What NPERS will do, I, I would defer to them.

CONRAD: OK.

SHANE RHIAN: So 2 different situations in the instance where an individual separated from OPS and requested a refund of their account, we typically do reach out if there is an overpayment that is determined. We were tardy in reaching out to several members who received an overpayment from early in calendar year 2023 due to a system error. We did rectify that and have reached out to all of those individuals and received repayments from several of them. In the instance of an individual who may have-- may be a retiree receiving monthly benefits and it was determined that their monthly benefit was overpaid, typically what we have done is notified them of the corrected amount that they would, would begin receiving moving forward. And typically, we have not requested an overpayment as it was-- or a repayment of the overpayment from the individual as it was a system error made by OSERS and not their fault.

CONRAD: That's helpful. Thank you very much. Thank you, Chair.

McDONNELL: Senator Clements.

CLEMENTS: Thank you. Thank you, Mr. Rhian. The repeat findings since 2021 are really disturbing and you say you, you take the findings very seriously, but that's like 4 strikes in a row. I'm a small town banker. I get audited yearly. And if I have 2 times that I have not picked something, it's to the woodshed the next time and it doesn't happen. I've just really, really been disappointed, been on this committee several years and it just keeps happening. How is that going to be fixed?

SHANE RHIAN: Thank you, Senator Clements. I appreciate the question and, and the sentiment there. It is not something that I'm proud of that we weren't able to correct all of the errors. Our primary focus the last 2 years has been to continue the day-to-day operations of the office and to work with NPERS on meeting the statutory deadline of the transition of administration over to them. That was an extremely heavy lift going through all of the information from the pension system and assisting them in information on processes and statutory requirements so they could design their system. Due to the separation of the former administrator and the long-time retirement benefits manager, a lot of institutional knowledge walked out, out of the door and we were unable to backfill that as well as we would have liked and had the time available to address all of the issues. It's not an excuse, but it is the truth and it is what happened. I believe this clearly points out the necessity of the legislation that was passed 4 years ago to move the administration of OSERS to the Nebraska Public Employees Retirement System and their staff of knowledgeable pension experts instead of having a small office in a school district administer this plan.

CLEMENTS: All right. Well, we look forward to better results in the future. Thank you.

SHANE RHIAN: As do I. Thank you

McDONNELL: Any other questions? Thank you for being here.

SHANE RHIAN: Thank you very much.

McDONNELL: Any other testifiers or anyone else testifying on the OSERS audit? We're going to move to OSERS transfer. Tyler Cummings.

TYLER CUMMINGS: Good morning.

McDONNELL: Good morning.

CONRAD: Good morning.

McDONNELL: Welcome.

TYLER CUMMINGS: Thank you. Good morning, Chairman McDonnell, members of the committee. My name is Tyler Cummings. That is spelled T-y-l-e-r C-u-m-m-i-n-g-s, and I'm the deputy director of the Nebraska Public Employees Retirement Systems. I'm here today to provide you a summary of the OSERS transfer that occurred on September 1 of this year. Prior to becoming the full-time deputy director of our agency, I served as the OSERS plan manager beginning in June 2022 and was tasked with learning the OSERS plan inside and out. As you may know, the work on this project began many years ago. First, a study was conducted which outlined some of the mechanics that would have to happen for this transfer to occur. Next, LB147 was passed in 2021. Soon thereafter, our agency began working on an RFP in which Linea Solutions was selected as a vendor to help convert OSERS records to use in our internal system. During the past 2 years, our agency has worked extensively with staff from Omaha Public Schools and Linea. Personally, I worked with OSERS staff to learn their processes and how they administered the retirement plan. I also researched statutes relevant to OSERS and helped develop the business rules required to be programmed into our internal system. There were several major components to this project, such as the data migration, the conversion of physical documents to a digital repository, building out our internal processes, and programming our internal record system to fit the rules of the OSERS plan. I'd like to highlight the conversion of the physical documents to our imaging system. We partnered with the Secretary of State's Records Management Division to have them scan and index all of these paper documents. To date, we have provided the Secretary of State's Office with 132 boxes totaling approximately 90,000 individual documents, which equates to over 350,000 pages of documents. We still have a few boxes yet to be scanned and, overall, this part of the project has gone smoothly. We also created a separate OSERS department within our agency, which started with myself taking on the role of the OSERS manager. In addition to myself, we've had 3 new positions to fill, and we did so beginning just over a year prior to the transfer occurring. These additional employees are the ones responsible for the day-to-day administration of the OSERS plan and were integral to the success of the project. As everyone knows, the transfer occurred on September 1 of this year, which happened to be a Sunday with the following day being Labor Day. During that weekend, several employees from Linea and our IT team worked extensively on the migration of data from the OSERS system in 2 hours. The transfer went smoothly and I want to give them much thanks to the-- to those staff members that worked long hours during that holiday weekend. Since September 1, our top priority has been to administer the plan in accordance with statute and to ensure timely and accurate payments to the OSERS members. We've made our first 2 rounds of monthly retirement payments since the transfer without any major issues. I also want to highlight our first OSERS educational retirement seminar that's slated for December 9 at the OPS Administrative Building, in which all 75 seats have been reserved. We plan on having more retirement seminars for OSERS this spring. We have also published an up-to-date OSERS handbook detailing all the aspects members need to know about the benefits of their retirement plan. And we will also be producing newsletters for OSERS members with pertinent information. Finally, though a lot of the faces that were initially a part of this project have changed, I do want to thank everyone involved in this endeavor. This includes staff from NPERS, our board, OPS, Linea, the Secretary of State's Office, this committee, the state auditors, the OCIO's Office, and the actuaries. Even though the transfer of this-- of the administration was assigned to NPERS, it truly took a multiagency partnership for this to happen. First, we want to give a shout out to all the OPS staff that we have worked with over the past few years. They've had to do a lot of heavy lifting on their end to help us through this project. I also want to give a big thanks to all the NPERS staff who put in many hours and lost sleep stressing about making it to the finish line in time. Though the transfer has now been completed, we know we still have a lot of work in front of us. We look forward to serving our new OSERS members and providing them with excellent service as they navigate the retirement process. I would yield to any questions you might have.

McDONNELL: Questions? Yes, Senator Conrad.

CONRAD: Not really a question. I just wanted to just commend you and your team and the other stakeholders for working so hard and caring so deeply to soundly steward this process and, and the work moving forward. And, particularly, wanted to add a note of appreciation for the thoughtfulness in the amount of proactive communications to members through meetings and newsletters and otherwise. I think that will go a long way to helping provide peace of mind and clarity to the program participants, the plan participants, and should provide a warm welcome and introduction to the NPERS team as the transition continues. So thank you.

TYLER CUMMINGS: Thank you.

McDONNELL: Senator Clements.

CLEMENTS: Thank you. Would you comment about the-- question is to going through individual accounts and if you transfer, verifying that people's accounts are being handled correctly?

TYLER CUMMINGS: Yes, Senator. As Mr. Rhian pointed out, any time we process a retirement benefits, we are sending that accounts information that we have to OPS so that they can verify it within their payroll system. That helps us give a peace of mind that we had the same information. So that's one way we are verifying that information. I would also state the employees that are administering this plan, they have detailed knowledge of administering retirements, and so they know how to find discrepancies and when to ask those questions. So I feel confident in their ability to point out any inaccuracy-- inaccuracies that they might be finding.

CLEMENTS: And are you looking at the audit report to try to find corrections to some of those findings?

TYLER CUMMINGS: Most certainly. I would say some of the findings have been addressed simply by programming our system to calculate the benefits properly. So over time, those audit issues will be addressed and have been addressed as of this date. And then there are certain audit issues that will take time to resolve. We'll be having a legal review of those and we have an internal audit team as well that is looking at these audit findings and are asking the same questions that everyone else is asking.

CLEMENTS: OK. Thank you.

TYLER CUMMINGS: Thank you.

McDONNELL: Thank you for your testimony and, and just wanted to, you know, compliment you and, and your team on that. You talked about September 1 and, you know, then Labor Day following and, and the dedication that you showed to getting the, the process and following the, the statute of, of September 1. And we really, we appreciate that as the Retirement Committee.

TYLER CUMMINGS: Thank you, Senator. Thank you.

CONRAD: Thanks.

McDONNELL: Anyone else that would like to testify? Anyone else that would like to testify? We're going to move on to state plans. Brent Banister.

BRENT BANISTER: Thank you, Senator. I believe you have a, a copy of our presentation. It says very clearly on there that Pat Beckham will be presenting this, but she was ill. And so decided to instead of coming in and affecting all of you, I should come. So want to just go through the, the 3 traditional defined benefit plans that the state manages. In addition there, the 2 cash balance plans. They are 6 months out of sync in terms of, of the financial year for them. So we don't normally talk about them at this meeting, but they are out there as well.

CLEMENTS: Did he spell his name?

BRENT BANISTER: Oh, yeah. OK, sorry. Brent Banister, B-r-e-n-t B-a-n-i-s-t-e-r.

McDONNELL: Thank you.

BRENT BANISTER: So on, on page 2 of this, just kind of a reminder of what a-- the whole actuarial valuation process, we're kind of trying to go through and then figure out how do we fund these plans in a systematic way over time. You know, while people are working or accumulating the funds so that by the time somebody retires money is accumulated to pay their, their lifetime benefits. And so we are, are every year determining that amount. We're looking at how the, the statutory funding requirements are lining up with what's needed, looking at, at how actual experience may have matched or not matched what we assume, kind of what we, we call gains or losses that come through, things are, are better or worse than expected. So that's, that's what the actuarial valuation process looks at. The purpose we describe on, on page 3, one, we're, we're trying to get some numbers there to say here's what the liabilities are, here's what the obligations of the system are, what contribution rate helps us fund this systematically, and what portion or what contributions might be needed beyond what are the statutory amounts to these, to these plans? The members have a contribution rate, the employers typically have a contribution rate, and then sometimes the state makes up the difference. So what is that amount if needed? And, and, again, look at what we've seen, what are the patterns, the trends? Kind of a-- an alert to stakeholders if here's where we see things going and things to be aware of. Page 4 sort of puts this in a picture. We bring in the, the, the data, the demographic assumptions, the economic assumptions, using that we determine what do we anticipate will be the payouts to all of the retirement system members over time using actuarial methods, figure out what are the, the costs, the liabilities, kind of the some of the more technical actuarial terms, and then incorporating the fact that if we have an, an asset pool out there to fund these plans, where does that leave us, how we're making progress towards funding, and what are the contributions that are required? So kind of the big picture there. All of this hinges as shown on page 5, a pretty fundamental equation that says the contributions that come into a system plus the, the income there, those will over time equal the benefits and, and the expenses. Expenses can be a fairly minor issue. Basically, you know, the money you need to pay the benefits has to either come from contributions or investment income. There's no other real source of money. So that's what we're involved with and then trying to help make sure everybody sees how this is fitting together. Just a little bit briefly on the assumptions on page 6, we have with this valuation are reflecting the 4th year of a 4-year phase in of, of economic assumptions that were-- the process was started following our last experience study. We're actually working on a, a new experience study now that we'll see if these assumptions need to be revised. But because the assumption changes were fairly significant for the economic assumptions, we phase them in over 4 years. And so the far right column there reflects we now have a 2.35% assumed inflation rate, a 7% investment return rate, and so forth. And so this is where we've been moving toward. We are now here just in time to review it and see if we need any changes. The next page will highlight probably a handful of things that make this year's results perhaps different from what we had in the past. One, we had a good investment return with the return on a market value of assets was about 13.5%. We will talk about this throughout the presentation. We smooth the assets. We don't want to overreact when things go well and say, oh, here's all this money, let's spend it. Nor do we want to panic when returns are low. There's a tendency in financial markets to go up and down. So this smoothing tries to say let's-- when good things happen, let's spread it over 5 years. When bad things happen, let's spread it over 5 years. That return-- the, the smooth return was 8.3%, still above the expected return. So there was favorable experience. That's-- that helps everything look better. Things that kind of worked a little bit against there, the COLAs for the, kind of the older tier of employees, which predominately most the retirees are in that older tier, we assume just over 2%. The COLA was 2.5, kind of the maximum it can be. So it produced a loss, something that wasn't as favorable as expected. And so I'm sure you're aware what is good for the member is bad for the system and vice versa. So this is great for the, the retirees to get that large COLA, but it, it costs the system. So overall, kind of the combined impact between the investment gain and some of the demographic kind of experience losses was still favorable. Two other points worth noting, the judges are in the middle of phasing in some court fee increases, and so that's reflected both in this valuation and it will be reflected one more time next year so we anticipate what will those court fees be? And then the State Patrol had a change in the, the member and employer contributions. It had been that the members put in either 16 or 17% with the, the agency matching those contributions. Now the members all put in 10% and the employer puts in 20-- 24%, number is on top of the page. 24%. So, so overall, there is a slight increase in the regular funding. And so that will result in then the additional state piece dropping. Slide 8 talks about some of the key measures we use. I know 3 of you have sat through many of these reports so I think you're probably familiar with these terms. But, but we have the actuarial accrued liability, that's sort of the target of where we'd like to be. If the actuaries could rule the world and have everything play out exactly as expected, this would be the, this would be the asset pool we should have. The actuarial assets are what we, we do have with, with this smoothing in there. And then there's a difference, what we call the unfunded actuarial accrued liability. It's just-- it's really-- you can think of it as just how far are we off target? And, and as you'll see here, you know, in some cases we're ahead of target. So-- but it's, it's-- unfunded feels like a weird term, sometimes we use the word surplus. But, but that's the idea here. And then to find the ratio, instead of subtracting we, we divide just to get a, a different measure there so then we end up with an actuarial contribution rate which is composed of what we call the normal cost or the ongoing operating cost plan. What are the benefits being earned? There's a, a small expense piece in there, and then there's the-- an amortization payment to fund this unfunded amortization or use the surplus up to acceptance there over 25 years. Page 9, just to, to kind of get a sense of how asset returns have been, the-- there's a blue line that bounces around all over the page that reflects the-- that's the market value of return. And it's, it's quite volatile. You can see the black line is the assumed rate. And one observation might be it almost is never close. And that's just the nature of a diversified portfolio that's, that's invested in a lot of market categories. There's volatility. The orange line there reflects the smoothed number, the smooth return, and you see much more stable, which is the whole point of smoothing that there's variation. But it, it does remain a little more stable and that's why we, we use that method. Page 10 reflects the-- just how the smoothing works again. If we look at the last 4 years, we've had some years that have been better actually in the last 4 years. You can see 3 of those years have been returns above expected, 1 year is return below expected. It was quite a bit below. So it's the biggest kind of deviation, if you will. So we're reflecting all of those gains and losses. The-- kind of the exact math calculation behind that is, is on page 11, which shows how they're-- there are gains and losses flowing through. Again, for somebody who really wants to dig into all the numbers because that's the kind of detail we go through in these calculations. So to talk about now on, on page 12, beginning to look at the, the actual results for the various plans, we'll start with the judges. The top row there says the unfunded actuarial accrued liability and as of July 1, 2024 is a negative $5.2 million, which means we are a little ahead of target. We had what we needed. We have an extra $5 million. As a percentage, that's-- we're 102% of where we want to be. So just, you know, a bit over target. That's, that's an improvement from last year where we were about 1% above target or an extra $2.5 million. The actuarial contribution rate, the, the percentage of payroll that is needed to fund this plan is about 23.5%. The members are contributing just under 9%. So it's about 14.5% to come in from other sources. The, the-- one major source for this are the court fees. And those are variable. They're a challenge for us to predict, to be honest, because it depends on all kinds of things that are outside of any data we have available and, and just different kinds of behavior. But because of the scheduled increase in certain court fees, we've assumed will be 4% more than last year. And we think that's a reasonable estimate. In addition, for the last few years, the, the state has a 5% of pay appropriation that they put into the, the judges' plan. We, we recommend that stay at 5%, particularly for a couple of reasons. One, is we're going to do an assumption review. And when we get done, if assumptions change and you kind of say, oh, we do need more money, we'd hate to have you drop the funds and come back and say, no, changed our mind, put it back. So let's wait a year and just, just be sure that we know where we're going to stand. The other thing is, because of investment volatility, it, it doesn't hurt to be just a little bit cautious before you start, you know, changing things just to be sure. Because the investment return could easily move 6 or 8% up or down in a given year from the, the target value. So kind of big picture there of judges. Page 13, the State Patrol, again, a little different picture here. Here we have a-- an unfunded liability of just under $100 million. It's a significant number. They're at about 85% funded, which compared to all the other Nebraska plans, the state-run plans, feels low. There are many states who would be very happy to be at 85%. So it just kind of depends, you know, if you want to pick the people who look better, you can feel bad. If you want to pick the people who look worse, you can feel good. This is-- it's an adequately funded plan and it is moving the right direction. It's moving there systematically. The, the statutory kind of driver for how plans are funded is to get them funded over 25 years, meaning we really don't expect to be funded for 25 years if everything goes as expected. That's, that's the intended plan as legislative. Now, just kind of a quirky thing, it may bump up and then drop back down, but pretty much it's on track for getting funded on schedule. The cost of this plan is about 50% of pays as the middle shows there. At this point, 10% comes from members, 24% from the, the agency, which leaves about 16% of pay to be additionally appropriated by the state. And so that would be about $6.8 million that would be requested in the next legislative session. That number is lower than last year's number. Partly because the total contribution has gone up because of, of the shift from the employees to the employers, there was a net increase of the amount contributed, but in particular the state through the agency is contributing more. So the total state contribution is higher because they took on essentially some of the member contributions in that process. Page 14, the, the schools, their unfunded liability at this point is $15 million, we can just about around that to zero. Not, not quite, but very close. The, the funded ratio is 99.9%. They're very close to, to target. Got to love it when numbers come in that close.

They'll probably never be that close again, but that's where they are this year. The actuarial contribution rate is, is just over 15% of pay between what the members put in. The members put in 9.78%, the school districts put in 101% of what the members put in, the state puts in an additional 2%. And, and so there's more money coming in than needed to fund over 25 years. OK. And, and that's why, if you look, you can see how the, the unfunded liability went from $224 million last year to $15 million this year because we are funding at a little faster rate than is needed where we can have quicker progress to getting this plan to being fully funded. The, the thing that over the years that has always been a question is, well, does the state have to put in the extra money? And the answer is, is no. The money coming in from the scheduled contributions is sufficient so there won't be any need for an additional appropriation request. Page 15 just kind of helps show a big picture of how we got from, from last year to this year looking at the funded ratio. And so you can see across the top, judges last year was 101% funded, State Patrol was 84, the school was 98.5. A lot of numbers, a couple of key rows to look at the actual contribution versus the actual required contributions, sort of how much money came in versus what we needed. You can see that there is a, a number just under 1% for both judges and schools. Both of those plans had more money come in then was needed on the funding schedule. So that helped improve their funded status, more money improves funding. The State Patrol, because the state-- additional state contribution was exactly what was needed to meet the requirement. It didn't change. I mean, they're, they're on track. No, no, plus or minus with that. The investment experience was favorable for all 3 plans, we've added 1%, give or take, for all plans to their funded ratio because you made extra money. That, that always-- more money helps. Now, the liability experience worked the other way. Again, the extra COLAs, and in some cases, some extra pay raises, things like that were, were draw downs on the system and, and hurt the funded ratio. And likewise that final phase in of the assumption change was a slight reduction in the, the funds [INAUDIBLE]. The other numbers on there, they make it all balanced, but they're largely background noise. Page 16 essentially reflects the same thing, only looking at the contribution rates rather than the, the funded status. Again, you can see, you know, the actual experience or the actual contributions and the investment experience served to lower contribution rates, whereas the, the liability experience and the assumption changes serve to increase. Same picture, it's just kind of looking at a different aspect of how were the contribution rates affected versus the, the funded status? But bottom line is when it all said and done, the total contribution rates required are generally a little lower, but, but not a lot lower. So slightly net favorable experience. Because things are better, we've got to pull our foot off the accelerator a little bit potentially is just kind of the idea there. Slide 17 shows the historical background of the judges. You can see that the, that the funded ratio has-- they've been well funded largely for the past 20 years. Some dips below following, you know, some tough economic times. Even with the change, though, over the last 4 years to reduce the interest rate or even longer than that, a couple different reductions, still hovering at 100%. Very solid. Very good. Kind of boring. We like that. The State Patrol on page-- oh--

CONRAD: Sorry. Could I just ask a quick question?

McDONNELL: Yes, Senator Conrad.

CONRAD: Thank you. Thank you so much. And before you go through here, and maybe it's a statistic that's not readily available, but I was trying to just do a general comparison between the individual employee contributions. And I see you have that well detailed for the State Patrol and the teacher is the amount that a typical employee is paying in. Do you have that statistic available for the judges?

BRENT BANISTER: Yes.

CONRAD: And maybe I just missed it in the slide.

BRENT BANISTER: Well, we may not have put in there in the same way. And there are a couple of different rates that are contributed by groups of judges based on some historical factors that unless--

CONRAD: Are they generally putting in a commensurate rate as the other individual employees, the teachers and the State Patrol?

BRENT BANISTER: They're, they're, they're putting in just, on, on average, just under 9%.

CONRAD: So a little bit less.

BRENT BANISTER: So a little bit less.

CONRAD: OK. Thank you.

BRENT BANISTER: Yes. But, but-- yep, good question. Yes.

CONRAD: I appreciate it. Thanks. Thanks.

BRENT BANISTER: For the State Patrol on, on slide 18, the funded ratio has, has been kind of this hovering of just a little over 80% of the-- you'll notice a drop back here a little bit, some of those-- some of the-- particularly, the, the large pay increase that the, the State Patrol members received. Once again, what's good for the member tends to hit the system a little bit, so that dropped the fund ratio because expected benefits went up. But, but, again, there's a systematic plan to, to get that paid off over the, the 25 years as in statute. Slide 19, the schools have been gradually improving, a little bit flat the last few years as the phase-in in assumption is sort of offsetting the improvement in funding. And they're hovering at about 100%. So, again, kind of the, the pattern there. Now that's sort of the looking back, want to take a, a different direction and kind of look forward. So in terms of projecting what's ahead, slide 21, for the judges, there, there's kind of 2 bars on this graph. The, the dark blue is the court fees. And our assumption is that will be constant once the, the one remaining increase phases in and then that will hold steady. That's our assumption because it's the best we know. I-- it, it won't, but we don't know what it will do. So we, we give it our best assumption. The orange bar is what we anticipate will be this additional state contribution piece. Right now, that is 5%. We anticipate over the next year or two that as things improve, that we will recommend to the, the board that that number that they recommend then on to you that that rate be lowered. This is kind of our best guess of what we might do that there's not a policy in place, that may change upon discussion, you know, experiences that are there. But, but we see sort of a, a reduction of those contributions coming maybe in 4 or 5 years as these things improve. Another way [INAUDIBLE] longer on, on slide 22, those-- now, here it's a percentage of payroll. So when you look at the court fees, the bottom bar, you'll see it declines over time because those amounts come in as dollar amounts. You know, there's a certain number of dollars for this kind of court case or whatever. So when, when fixed dollar amounts come in, but payroll goes up, the fees as a percentage of pay goes down. So there's a gradual decline. The member piece is basically flat across all that and probably a slight increase to 9% for the new judges' rate. And you can see that that additional payroll related piece that the state appropriates, that's 5% of pay now does begin to decline. And, in fact, by the time we get out, oh, maybe 10 years from now might even go away, do not come back in 10 years and say how come it didn't do exactly-- it, it will not do this exactly. But that's, that's our best estimate at this point, just for kind of a general trend. Slide 23, though-- here's why I say this, this is not how it will play out. Three, three different sets of bars here. The bar on the left is everything behaves as expected. And, in particular, investment returns every year hit 7% dead on. We might have a bad year and hit zero missed by 7%. If that happens, the, the orange bar is what's there and you can see contributions do not drop. They actually increase because just 1 bad year requires some additional funding that will continue on. Now, it's just as likely to have a 7% extra return as it is to have a 7% short return. So instead of zero, we might have 14%. It's actually very close to what we had this year at 13.5. And you can see in that case, the, the light blue bar, the, the rightmost bar on that drops even faster. So if we have exceptional returns for a while, things, you know, contributions will drop sooner. If we have poor returns, the contributions will stay up or, or even increase. That's probably obvious. But there's, there's the picture to kind of give you that sense of how that would play out. Slide 24, switch over to the State Patrol. The, the contributions there for the employer piece are basically fairly flat, essentially reflecting payroll growth. It's a, it's a, it's, you know, a fixed percentage of payroll, the only thing that changes is pay goes up. Contributions go up. The additional appropriations, you can see it fluctuates a little bit. There's, there's kind of some actuarial math sitting behind it that makes that happen. But, basically, it's going to-- we would expect it to decline a little bit running from, you know, close to $7 million this year, but then it'll hover maybe $5.5 to $6 million a year typically over the coming years. Longer term, on page 25-- and, again, here the, the-- we have this is in dollars, the employer piece goes up as payroll goes up. The member contributions at the top also are going up. It's hard to sometimes see that because that kind of-- the, the base is moving around. But, but those are really constant. And then the, the total additional state does gradually decline. And that as expected by-- you know, 15 years out that a number will begin to decline pretty substantially. Again, trying to pay this off over 25 years. We're not trying to pay it off all at once. Slide 26, here's what happens again with, with the, the good returns, the bad returns. You can see that the far right bar, we have an, an except-- another exceptional return, that, that additional state piece could drop and actually go away. Just one more good year followed by every other year being dead on would allow that piece to go away in, in 7 or 8 years. Flip slide, 1 bad year, the number goes up and, and quite a bit higher. So, again, it's, it's, it's very much a function of what the markets do and there's a lot of money invested. And, and when it moves, we have to catch up over time. The funded ratio on slide 27, the State Patrol, we kind of see again, we're moving gradually toward that 100% funding, good or bad. If we have a bad year, we still keep moving. We'll get there. If we have a good year, we get there sooner. But, but that's just again the sort of the systematic funding that's designed into this. Page 28, the schools, there's a number of different pieces that the state funds with the school retirement system, there's the-- actually, the state doesn't fund the employer piece that's funded by all the, the school districts. That's the biggest part. The, the dark blue line. There is a-- an additional 2% of pay, kind of the, the next blue line that the state puts in. And then there's 2 really tiny pieces that if you can see your optometrist has done well that are on that graph that are the 2% of pay for the Omaha schools and then the, the state service annuity that is transferred over to, to OSERS when they-- when somebody retires from there. Those pieces are fairly small in the total scope of things. Fairly flat. We would expect everything to just be kind of the current legislative set contribution rates for the next several years. Slide 29, again, sort of the same boring picture. The dollars will go up because, you know, payroll is going up, but that basically the member rate, the employer rate, the additional state 2% piece, those, those all continue on. So that would be the expectation. So slide 30, just to kind of wrap it up here. Generally favorable experience, again, the investment return was, was good. The market value of assets exceeds the actuarial smooth value. So we have some deferred gains that, that we're not recognizing yet that if, if something bad doesn't happen, we'll begin to, to recognize what's now to be kind of a-- an additional push towards being well funded. And so especially school and judges have strong funded ratios. But, but even Patrol, if, you know, if you kind of look at the big picture, not, not so much, you know, don't, don't let the school and judges, you know, just other states is, is very solid, even though it's maybe-- it's not at the level that maybe we've come to get comfortable with, with many of other systems. So contribution rates, the actuarially different contribution rates have all decreased. But because the rates are set statutorily, everything will continue on at those rates. So that's what I prepared. I'd be happy to take any other questions you might have.

McDONNELL: Any questions? Questions? Senator Clements.

CLEMENTS: Thank you, Mr. Chairman. Thank you, Mr. Banister. Looking at slide 28, the state contribution shows $50 million, $51 million. If we're-- aren't we going to hit 100% funding where it wouldn't take that much money to continue from the additional state contribution?

BRENT BANISTER: In terms of how the, how, how the change might be allocated, that, that's a policy decision. You know, I, I can't say, well, is it the state that needs reduced? Is it the employer and employee that need reduced? All 3 of those rates were increased a number of years ago to, to kind of counter an issue. And, and how they're reduced would, would be a policy issue. But we are at the point where the total rate going in is, is exceeding what is needed to, to fund this systematically. One bad year could, could change that. So, so there might be a desire to build in a little buffer, but then, yes, it certainly would be reasonable to begin to consider how might-- what might be the appropriate way to reduce contributions among the 3 contributing groups.

CLEMENTS: You didn't, you didn't do this chart of the varying returns for the schools. And I was really wondering, with these contributions, would the funded ratio be going above 100% or is this calculated to keep it at 100 even?

BRENT BANISTER: No. These rates are, are set in statute. So this-- these rates, we would expect it to go over 100 and continue to grow. We, we fully expect just knowing how people work, it will not grow indefinitely. And our, our graph would show this, this growth. But it's not real because there's-- I've never seen a situation yet where when, when systems get well funded, there isn't a desire to either improve benefits or reduce contributions. And, and appropriately so. And the question from a policy standpoint is do you want to be just at 100% or would you like a little buffer so you can take a bad economic year and still be OK or, you know, what, what level do you want to be at? But I, I think, yes, that, that discussion of do contribution rates need to be reduced amongst the 3 and, and how do you allocate that is certainly a discussion that-- especially we've done the experience study because we put it out there in case something changes and kind of drops this. You know, it may not be right away, but, but, but that's a discussion that, that probably needs to be-- begin to be considered is how do we back off some of the contribution increases to the, the, the member state and districts that were put in several years ago?

CLEMENTS: Would you go back to slide 14? The contribution rate on the state with the schools was $50 million July 1 of 2024. Is that a historical number, that's the amount that actually was contributed or--

BRENT BANISTER: The--

CLEMENTS: --or is this what your--

BRENT BANISTER: No, those are projections. That's 2% of what we think payroll will be for next year. That, that--

CLEMENTS: But it says July 1 of 2024. Is-- just wondering if that was paid or it needs to be paid?

BRENT BANISTER: 2% is paid every year by statute.

CLEMENTS: OK. So that's a historical number. And the previous year was 48.

BRENT BANISTER: Yeah, I'm looking on my-- yeah, I mean, to where we're showing actual numbers, it's, it's historical. And where we're projecting, it's, it's expected pay.

CLEMENTS: And the page 28 items are 2%, they just continue the 2% and--

BRENT BANISTER: Right.

CLEMENTS: --we don't know what funding ratio that would result in.

BRENT BANISTER: Right. Well, yeah.

CLEMENTS: I was hoping to have this graph in this.

BRENT BANISTER: Yes. And like I say, it will continue. I mean we would expect-- because with even with the deferred losses now, the market value bases were just a hair over 100%. We would expect-- you know, if all assumptions are met for that ratio to, to grow gradually. But like I say, we, we, we weren't sure that a projection out 20 years is meaningful because we know that things will not be left untouched for 20 years.

CLEMENTS: Right.

BRENT BANISTER: And that would be a misleading graph.

CLEMENTS: OK. Thank you.

BRENT BANISTER: That there will be changes, we just don't know when.

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

BRENT BANISTER: 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 are done.