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LB 674

provide a good COLA within the defined benefit plans. This is the one that we now propose to you for the school employees plan. Now I would tell you that both the formula adjustment that is proposed in this bill and the COLA are not the final objectives for the plan. The final objectives for the plan are to have a factor of 2 and to have a 3 percent COLA with a 95 percent replacement floor. How are we able to bring this proposal to you? If you have looked at the actuarial study that was also distributed earlier, you see that we have assets in the plan that are sufficient to fund this...these two changes in the school plan. I also should note that you also have in the packet that we distributed before examples of the 75 percent purchasing power benefit under 674. But the point that you may be the most interested in is how is this going to be paid for? Is it going to cause an increase in expenses for the state, because the state makes the contribution to the school employees retirement plan? Is it going to cause an increase for the employees in their contribution rate? Is it going to cause an increase in the contribution rate for the school districts? The answer in all three instances is no. How can you have an enhanced benefit when you do not have enhanced contributions or enhanced costs? The answer you'll find in the actuarial study, and that is that the plan is currently overfunded, that is, its actuarial assets are in excess of its actuarial liabilities. How did we reach such a state? When we passed a bill a couple of years ago, LB 700, we put in place a floor contribution rate for the school employees plan. That floor contribution rate is currently in excess of the amount that is necessary to fund the plan. So that does produce some excess assets. But the real excess assets that are in the plan have been as the result of the stock market. We have an actuarially assumed rate of investment return of 8 percent. The Investment Council has been producing rates of return substantially in excess of 8 percent. And those returns added substantially to the value of the system, something that we couldn't have foreseen a couple of years ago and, in fact, even if we'd have foreseen it, we couldn't have counted on it. I don't know how many of you could have counted on it. Maybe some of you did. Maybe some of you bought into the stock market and are benefitting as is the school employees retirement plan. But we have excess assets in the school employees retirement plan, and even if we adopt LB 674, we will continue to have excess assets in the school