



Ninety-Ninth Legislature - First Session - 2005
Committee Statement
LB 503

Hearing Date: February 3, 2005
Committee On: Nebraska Retirement Systems

Introducer(s): (Nebraska Retirement Systems Committee)
Title: Change provisions relating to the Nebraska Investment Council and the retirement systems

Roll Call Vote – Final Committee Action:

- Advanced to General File
 - X Advanced to General File with Amendments
 - Indefinitely Postponed
-

Vote Results:

6	Yes	Senators Bourne, Erdman, D. Pederson, Price, Stuhr, Synowiecki
0	No	
0	Present, not voting	
0	Absent	

Proponents:
 Jason W. Hayes
 Herb Schimek
 Carol Kontor

Representing:
 Introducer
 Nebraska State Education Association
 Nebraska Investment Council

Opponents:

Representing:

Neutral:
 Anna Sullivan

Representing:
 Nebraska Public Employees Retirement Systems

Summary of purpose and/or changes:

Legislative Bill 503 proposes to make changes to the operation of both the Nebraska Public Employees Retirement Board (‘PERB’) and the Nebraska Investment Council (‘NIC’).

The bill, in part, makes changes to Neb. Rev. Stat. §§ 23-2312, 24-704, 79-906, 81-2021, 84-1305.01, and 84-1512. These changes would require the director of the Nebraska Public Employees Retirement System (‘NPERS’) to carry out random testing procedures in order to verify the accuracy of employee information submitted by employing agencies and political subdivisions included within the retirement systems administered by NPERS.

LB 503 would increase the required financial and investment experience necessary in order for the governor to appoint a member to the NIC. It would also raise per diem amounts paid to members on both PERB and NIC.

In addition, the bill would make changes to the annual reports filed by both PERB and NIC. These changes include the type of information provided in each annual report and the timing as to when each report will be presented to the Nebraska Retirement Systems Committee. This provision would also require additional disclosure of investment, administrative, and recordkeeping fees collected by both PERB and NIC.

LB 503 updates the language describing the process by which the Legislative Council may fund a benefit adequacy study as an expense of the retirement systems.

Finally, the bill would insert language to outline the duties and responsibilities of the internal auditor employed by PERB. Both the internal auditor and the legal counsel employed by PERB would be included under the State Personnel System.

Section by Section Summary of Bill:

- Section 1 Would require NPERS to implement testing procedures in order to verify employee information provided by the employer for the County Employees Retirement System.
- Section 2 Would require NPERS to implement testing procedures in order to verify employee information provided by the employer for the Judges' Retirement System.
- Section 3 Would increase the required financial and investment experience necessary in order for the governor to appoint a member to the NIC.
- Section 4 Would raise from \$20 to \$75 the per diem amounts paid to members on the NIC.
- Section 5 Would make changes to the annual reports filed by the NIC. These changes include the type of information provided in its annual report and the timing as to when its report will be presented to the Nebraska Retirement Systems Committee.
- Section 6 Would require NPERS to implement testing procedures in order to verify employee information provided by the employer for the School Employees Retirement System.
- Section 7 Would require NPERS to implement testing procedures in order to verify employee information provided by the employer for the State Patrol Retirement System.
- Section 8 Would require NPERS to implement testing procedures in order to verify employee information provided by the employer for the State Employees Retirement System.

- Section 9 Would require that benefit liability information be included in the written plan of action provided by PERB.
- Section 10 Would create a \$50 per diem amount paid to members on the PERB.
- Section 11 Inserts language codifying the current practice for PERB hiring an internal auditor. Would update the process by which the Legislative Council may fund a benefit adequacy study. Would require the next compliance audit be completed by December 31, 2006. Would make changes to the annual reports filed by PERB.
- Section 12 Would insert language to outline the duties and responsibilities of the internal auditor employed by PERB.
- Section 13 Would include both the internal auditor and the legal counsel employed by PERB under the State Personnel System.
- Section 14 Would require the director of NPERS to carry out random testing procedures in order to verify the accuracy of employee information submitted by employing agencies and political subdivisions included within the retirement systems administered by NPERS.
- Section 16 Original sections are repealed.
- Section 17 Contains an emergency clause.

Explanation of amendments, if any:

The committee amendment AM 0380 would amend LB 503 by adding language found in the following retirement related bills (with amendment, if any) as each bill was passed out of committee by the Nebraska Retirement Systems Committee:

- **LB 368 (Cmmt)** Change the retirement contribution rate for school employees.
 (As amended by AM 0179).
- **LB 411 (Stuhr)** Change calculations for school employee retirement.
 (As amended by AM 0104).
- **LB 412 (Cmmt)** Change state patrol retirement provisions.
 (As amended by AM 0212).
- **LB 494 (Stuhr)** Provide additional retirement account investment options.
 (As amended by AM 0373).

In addition, the committee amendment AM 0380 would delay the required testing procedures placed upon the director of the Nebraska Public Employees Retirement System in LB 503 as it was introduced, and would require that NPERS implement such testing procedures beginning on January 1, 2006. This amendment would also extend the bill's requirement for a compliance audit, and would change the audit completion date from December 31, 2006, to December 31, 2007.

Section by Section Summary of Committee Amendment, AM 0380:

- Section 1 Creates the options of an investor select fund and an age-based fund for the County Employees Retirement System defined contribution benefit, and would permit members to deposit their employee contributions into each fund. The age-based fund would be the default option for an employee account. **(LB 494)**
- Section 2 Creates the same investor select and age-based options that were listed in section 1 for employer contributions in the County Employees Retirement System. This provision would also make the age-based fund the default option. **(LB 494)**
- Section 3 Would require NPERS to implement testing procedures in order to verify employee information provided by the employer for the County Employees Retirement System. **(LB 503)**
- Section 4 Would require NPERS to implement testing procedures in order to verify employee information provided by the employer for the Judges' Retirement System. **(LB 503)**
- Section 5 Would increase the required financial and investment experience necessary in order for the governor to appoint a member to the Nebraska Investment Council. **(LB 503)**
- Section 6 Would raise from \$20 to \$75 the per diem amounts paid to members on the Nebraska Investment Council. **(LB 503)**
- Section 7 Would make changes to the annual reports filed by the Nebraska Investment Council. These changes include the type of information provided in its annual report and the timing as to when its report will be presented to the Nebraska Retirement Systems Committee. **(LB 503)**
- Section 8 Makes changes to definition of compensation for the purposes of the calculation of retirement benefits for the School Employees Retirement System. Would establish a 7% cap on what would be permitted under the benefit calculation for compensation increases 60 months prior to retirement. **(LB 411)**
- Section 9 Would require NPERS to implement testing procedures in order to verify employee information provided by the employer for the School Employees Retirement System. **(LB 503)** Also, provides for self-reporting on the part of

school boards and districts, where each entity will report to NPERS when a school employee's annual pay exceeds the 7% base described in section 8. **(LB 411)**

- Section 10 For the School Employees Retirement System, beginning on September 1, 2005, the employee contribution rate would increase to 8.03%, and the employer rate would increase to 8.11%. Beginning on September 1, 2006, the employee contribution rate would decrease to 7.88%, and the employer rate would decrease to 7.96%. Then on September 1, 2007, the contribution rates would return to their current level of 7.25% for the employee and 7.32% for the employer. **(LB 368)**
- Section 11 For the State Patrol Retirement System, would temporarily increase both the employer and employee retirement contribution rates for a two-year period, to 13% and 15% respectively. After two years, the rate would be set at 12% for the employee and 13% for the employer. **(LB 412)**
- Section 12 Would require NPERS to implement testing procedures in order to verify employee information provided by the employer for the State Patrol Retirement System. **(LB 503)**
- Section 13 Would require NPERS to implement testing procedures in order to verify employee information provided by the employer for the State Employees Retirement System. **(LB 503)**
- Section 14 Would require that benefit liability information be included in the written plan of action provided by the Public Employees Retirement Board. **(LB 503)**
- Section 15 Creates the options of an investor select fund and an age-based fund for the State Employees Retirement System defined contribution benefit, and would permit members to deposit their employee contributions into each fund. The age-based fund would be the default option for an employee account. **(LB 494)**
- Section 16 Creates the same investor select and age-based options that were listed in section 15 for employer contributions in the State Employees Retirement System. This provision would also make the age-based fund the default option. **(LB 494)**
- Section 17 Would create a \$50 per diem amount paid to members on the Public Employees Retirement Board. **(LB 503)**
- Section 18 Inserts language codifying the current practice for the Public Employees Retirement Board hiring an internal auditor. Would update the process by which the Legislative Council may fund a benefit adequacy study. Would require the next compliance audit be completed by December 31, 2007. Would make changes to the annual reports filed by PERB. **(LB 503)**
- Section 19 Would insert language to outline the duties and responsibilities of the internal auditor employed by the Public Employees Retirement Board. **(LB 503)**

- Section 20 Would include both the internal auditor and the legal counsel employed by the Public Employees Retirement Board under the State Personnel System. **(LB 503)**
- Section 21 Would require the director of Nebraska Public Employees Retirement Systems to carry out random testing procedures in order to verify the accuracy of employee information submitted by employing agencies and political subdivisions included within the retirement systems administered by NPERS. **(LB 503)**
- Section 22 Sections 1, 2, 15, 16, and 24 of this act become operative three calendar months after adjournment. The other sections of the act become operative on July 1, 2006.
- Section 23 Original sections are repealed.
- Section 24 Original sections are repealed.
- Section 25 Contains an emergency clause.

Summary of the Retirement Bills Consolidated within LB 503:

LB 368 (Cmmt) As amended by AM 0179. Would temporarily increase the current employee and employer retirement contribution rates under the School Employees Retirement Act. Beginning September 1, 2005, the employee and employer rate would be 8.03% and 8.11%, respectively. Beginning September 1, 2006, the employee and employer rate would be 7.88% and 7.96%, respectively. Beginning September 1, 2007, the employee and employer rate would return to their current rate level of 7.25% and 7.32%, respectively. The purpose for an increased employee contribution rate is because the State Actuary has indicated that there is a need for an additional contribution requirement of approximately 1.25% of pay, which represents \$15,415,949.

LB 411 (Stuhr) As amended by AM 0104. Would make changes the method of calculating compensation for members of the School Employees Retirement Plan. This measure is intended to address what has commonly been referred to as “salary spiking” by school employees in anticipation of termination of employment for purposes of retirement. Would implement an annual compensation cap of 7% (for purposes of the retirement plan) for each of the last five years (60 months) of employment that precede actual retirement. In addition, if a member receives a compensation increase that exceeds 7%, then the employing school district is required to inform PERB that said member has received an increase exceeding the 7% cap.

LB 412 (Cmmt) As amended by AM 0212. For the State Patrol Retirement System, would increase the retirement contribution rates for an employee from 12% to 13%, and for the employer from 12% to 15%. On July 1, 2007, the retirement contribution rates would decrease for an employee from 13% to 12%, and for the employer from 15% to 13%. The purpose for an increased employee and employer retirement contribution rate is because the State actuary has indicated that there is a need for an additional contribution requirement of approximately 4.19% of pay, which represents \$948,654. It is anticipated that such rate increase will be offset by an increase in an employee's annual salary.

LB 494 (Stuhr) As amended by AM 0373. Would create an additional fund selection category for members participating in both the State Employees Retirement System defined contribution benefit and the County Employees Retirement System defined contribution benefit, and would have an investment strategy substantially similar to the investment allocations made by the state investment officer for the defined benefit plans. This provision would also create an age-based account category containing an asset allocation and investment strategy that changes based upon the age of a plan member.

Senator Elaine Stuhr, Chairperson