

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
March 27, 2007

[]

The Committee on Nebraska Retirement Systems met at 12:15 p.m. Tuesday, March 27, 2007 in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on the Nebraska Investment Council, and the Public Employees Retirement Board. Senators present: John Synowiecki, Chairperson; Tom White, Vice Chairperson; Philip Erdman; Lavon Heidemann; Russ Karpisek; and LeRoy Loudon. Senators absent: None. []

SENATOR SYNOWIECKI: Good afternoon. Welcome to the Nebraska Retirement Systems Committee hearing. Today the committee will receive briefings on annual reports from both the Nebraska Investment Council, and the Public Employees Retirement Board. If anyone wishes to testify relative to these reports, the testimony sheets...do we have the testimony sheets out, Laurie? We don't even have...so if there is anyone that wishes to testify, you'll have to spell your name, first and last name, for the record so that we can capture that information. The committee members will be coming in as the committee progresses. Walking in behind me right now is Senator Tom White from Omaha. []

SENATOR WHITE: Looking for a seat. []

SENATOR SYNOWIECKI: To my immediate right is Jeremy Nordquist. He is the research analyst of the committee. To my left is Senator Russ Karpisek from Wilber, Nebraska. The committee clerk is Laurie Vollertsen. With that, we'll get started and we'll begin the annual reports on the Nebraska Investment Council. Mr. Bomberger. How you doing, Dave? []

DAVID BOMBERGER: (Exhibit 1) Great. Good afternoon, senators. Chairman Synowiecki and members of the Nebraska Retirement Systems Committee, thank you for the opportunity to present Nebraska Investment Council's 2006 annual report, and it's a pleasure to appear before you. My name is David Bomberger, D-a-v-i-d B-o-m-b-e-r-g-e-r, and I'm the Nebraska State Investment Officer. On behalf of the Nebraska Investment Council and the agency staff, I would like to express our appreciation for the committee's continued support for the council and its endeavors. Two thousand six was a year of outstanding returns for the portfolios that we manage, and it was also a year of change for the council with the resignations of Carol Kontor, the previous State Investment Officer, and John Maddux, a council member; the appointment of John Dinkel to the council--Mr. Dinkel is from Norfolk; and my selection as the new State Investment Officer. What hasn't changed is our commitment to managing the council in the best interests of the plan participants and in the best interests of the state of Nebraska. I would like to take this opportunity to express my appreciation to Ms. Kontor, to the council, and to the agency staff for helping to make my transition as smooth as it has been. You have in front of you a copy of the council's

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
March 27, 2007

2006 annual report. I thought I'd spend the next few minutes reviewing some of the highlights from this report, with a focus on the various retirement plans. I welcome your comments, questions and suggestions during my presentation. If I could have you turn to page 5, you'll find a listing of the members of the Nebraska Investment Council, and I've had a chance to meet with the three senators here present today, and I think in each of our meetings I've commented on how fortunate Nebraska is to have such qualified professionals serve on the council. They are very dedicated to acting in the best interests of plan participants and the state of Nebraska, and I'm pleased to mention that Dr. Richard DeFusco, a member of the council, is in the audience and here today, and I'm sure available to answer any additional questions that you might have. And I would have to say that I'm very proud to work with this outstanding group of Nebraskans and to work for this committee. If you next turn to pages 7 and 8, you'll find my annual report, and just a couple of highlights from that annual report, first, the assets that we're responsible for grew by \$2 billion, or 17 percent, to almost \$13.8 billion, and that represents a tripling of the assets that we're responsible for since the end of 1996, so very significant growth, both contributions and investment performance. In my report I note the excellent performance on nearly all of the funds that we manage. I comment on the significant investment earnings that those portfolios produce during the year, almost \$1.5 billion of investment earning during 2006, and over \$6 billion of investment earnings over the past ten years. There were net new contributions to the portfolios that we oversee of nearly \$550 million, and the primary source of those new contributions was the college savings plan and the operating investment pool. If I could have you then turn to page 9 and 10, we provide an executive summary of the various portfolios that the council is responsible for. As I think I've mentioned as we've met over the past few weeks, the council is responsible for 30 different state entities we manage assets for, although nearly two-thirds of those assets are for a variety of retirement plans, including the defined benefit plans, the state and county retirement plans, and the deferred compensation plans. So the plans that this committee has responsibility for certainly are very important and represent a very significant portion of the assets we manage. The combination, we also refer to the new contributions of \$546 million and the nearly \$1.5 billion of investment earnings that combined account for the \$2 billion increase. There's a table on page 10 that presents detailed information on each of the broad categories of funds we're responsible for in both the contributions and investment results. The \$1.5 billion of investment earnings during 2006 was a record for the Nebraska Investment Council, topping the previous high of \$1.4 billion in 2003. In this table on page 10, you can see the progression of asset growth and the progression of investment earnings since 1996. Investment earnings in 2001 and 2002 were negative, the only periods over this time period where results were negative and reflected a very difficult investment environment during that period. The third tab, beginning on page 11, addresses specifically the defined benefit plans: the school plan, the State Patrol plan, and the judges' plan. Assets in these plans total nearly \$7 billion, and investment earnings were nearly \$900 million. There's a table similar to the page we mentioned earlier on page 12. I would note that net contributions to the defined benefit plans were marginally

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
March 27, 2007

positive in aggregate in 2006 as contributions to those plans exceeded distributions to participants. Now I would mention that our cash flow projections for these three plans do estimate that net contributions will turn negative over the next couple of years as distributions to plan participants begin to exceed contributions made to the plans. The pie chart at the bottom of page 12 shows our target asset allocation for the defined benefit plans. You can see 70 percent in equities and 30 percent fixed income, and both the equity and the fixed income portions of those allocations are very well diversified to reduce the adverse impact of the performance of any single issuer. This asset allocation is based on an asset liability study that was completed in 2005 and reflects what we believe to be the optimal combination of stocks and bonds and other asset classes when risk, expected return, and the long-term cash flow characteristics of these liabilities are considered. It's our plan, and we've provided in your budget for fiscal '08-09 resources, to update that cash...that asset liability study to assure that the asset allocation is appropriate. The total return, which is appreciation plus income received for the portfolios supporting the defined benefit plans, was 15.2 percent in 2006, and that exceeds the policy benchmark by 90 basis points, or .9 of 1 percent. Looking at the return on a slightly longer basis, since 1983, when the current performance measurement process was introduced, the portfolios supporting the defined benefit plans have generated an average rate of return of 10.6 percent, which obviously is well in excess of the 8 percent actuarial rate of return assumption. This section provides a lot of additional details and breaks down the portfolios by the performance of each asset class, by each manager, and I want you to all be assured that the performance of each of the portfolios and each of the investment managers is monitored quarterly and presented to the Investment Council, and each of these managers is subject to a very thorough review, at least annually. Page 18, the last page of the section, provides a summary of the funded status of the defined benefit plans as of the end of the current fiscal year, and you can see--I'm sorry, it's not the last page, it's the second to the last page--you can see the funded ratio at the end of 2006 was 88 percent in aggregate for the three plans. The next tab provides a report on the state and county retirement system, and the state deferred compensation plan. Assets in these plans totaled nearly \$1.7 billion, and produced investment earnings of nearly \$200 million. The investments that support the cash balance benefit plans mirror the asset allocation and investments of the defined benefit plans. The total return on these investments supporting the cash balance benefit plan was 15 percent, substantially identical to the return on the defined benefit plans, and this plan has a much shorter life but the return on those assets has averaged 13.1 percent since the end of 2002. In the defined contribution plans and the deferred contribution plan, as you know, the participant selects his or her asset allocation from a menu of investment options. The council's responsibility is to monitor each of those investment choices and make changes to the menu of investment choices as it deems necessary. You'll note, if you'll turn to page 24 and 25, you'll see that participants in those plans have an array of investment choices. They have several individual funds that they may select and construct their own allocation. They also have the option to select one of four premixed funds which we would hope best fits their risk

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
March 27, 2007

tolerance and their investment objectives and their time horizon. The performance of each of these individual funds is also presented in the following detail of this section, and as with the defined benefit plans, each fund and each of the manager's performance is reviewed quarterly, and a detailed, thorough analysis of each of the managers is completed at least annually by the council staff and by its investment consultant, Ennis Knupp. That completes a summary of the retirement plans. The next several sections of this book provide information on other funds that the Investment Council is responsible for, including the operating investment pool, the Nebraska Education Savings Plan, a number of state endowment funds, the Health Care Endowment, several university permanent endowments, and several miscellaneous trusts. I'm happy to discuss each of those funds with you, if you're interested, but in the interest of your time and the primary focus of this committee, I would ask you to turn to the final tab in the book, the supplemental information, and behind this tab you'll find several items that may be of interest to you, and I think provide some comfort to all of you in terms of the governance and the governance-type policies that the council has adopted over time. The first policy that I think is important for you to be aware of can be found on page 71. It's the council's code of ethics. It defines the level of integrity and behavior that we expect. The second article defines conflicts of interest and how we respond to conflicts as they may arise. The third section deals with council procedures and, as you would expect, we do follow all the open meeting requirements and we've defined all that in this document. On page 73 you'll find the council's statement of investment philosophy, and again we believe this is important for the council to adopt this sort of a policy so that we clearly articulate what our philosophy is, and this provides the guiding principles as we go about determining asset allocations, selecting investment managers, and implementing investment strategies. And I'll you read this at your leisure. Page 75 you'll find a summary of the roles and responsibilities of the council, of the State Investment Officer, of the agency staff, and the investment consultant, as I think you all know the council has retained Ennis Knupp to be its investment consultant and Ennis Knupp is very intimately involved in all the investment decisions that we make and the implementation of all of our manager changes and asset allocation, and consideration of new investment ideas. On page 78 is a lengthy statement of investment objectives and policies for alternative investments, such as private equity, private real estate that was adopted late in 2006. I believe that Ms. Kontor reported to you last year that the council had approved allocations to private equity investments and private real estate investments, and as we begin implementation of that council decision, we begin by creating a detailed document that identified our objectives and the policies that we would employ in moving forward with those types of investments. If you turn to page 92, we detail the council's policy on derivative investments. Following that are a number of other policies, risk budgeting. We do annually look at the active risks we're taking in the equity portfolios to determine that we're not taking more risk than we intend to take. Page 95 presents the council's proxy voting policy. We do view proxy votes as a very important asset of the plans and we take that responsibility very seriously. We have delegated the responsibility for voting

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
March 27, 2007

proxies to our investment managers. We do require that they report to us annually on, one, their proxy voting policy and, two, any deviations, any exceptions to their implementation of their proxy voting policies during the course of a year. And we present that report to the council on at least an annual basis. Page 96 and 97 address the commission recapture policy and soft dollar and brokerage practices. The summary there for you is that we expect all of our managers to achieve best execution as they're implementing trades on the council's behalf. If you turn to page 102, there's a listing of our staff, our consultant, and the custodians that hold securities on behalf of the council in the various plans that we're responsible for. Page 103 and 104 provide a detailed listing of the statutory authorities that we operate under. Page 105 is a detailed description of the investment expenses incurred by the council on behalf of the various plans, a total of about \$20 million of investment expenses that are incurred during the course of the year, the majority of which are paid directly to investment managers for implementing the investment mandates that we've selected them for. I think an important measure of the cost-effectiveness of the council is that the total costs of running the portfolios on behalf of the plans and the other entities is those costs are 14 basis points. That's 14 one-hundredths of a percent, a very, very cost-effective implementation of those plans and we're very proud of that because the costs incurred are a reduction of investment return. So it's important to manage expenses as well as seek return. Page 106 provides a summary of our securities lending program and, Senator White, in our conversation last week you asked about securities lending and I hope that this section can address some of the questions that you had there. Securities lending generated about \$1 million of additional investment earnings on our behalf last year. The program is implemented by our custodian bank and we have very detailed agreement with them in terms of implementing that program. Finally, on page 108 is a brief history of the Investment Council. I'm sure you all know, was created by the Legislature in 1967 and amended in '69, and a bit of the history of the state investment officers over the years and some of the changes that have been made. Perhaps the most significant change was made in about 1997. Prior to that all of the investments were managed internally. In 1997 the council made the decision to outsource substantially all of the investment management to professional investment management organizations, with the exception of the operating investment pool which we still manage internally. So that's a quick summary of the report. I'd be... []

SENATOR SYNOWIECKI: Thanks, Dave. I'd like to announce that Senator LeRoy Loudon has joined us, as well as Senator Lavon Heidemann. Welcome. Any questions for Dave? Senator Loudon. []

SENATOR LOUDEN: You mentioned that you have some investments in real estate or something like that. Where are they at, or what kind of investments do you do, or how do you go buy that? []

DAVID BOMBERGER: Senator, we have two categories of real estate investments. A

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
March 27, 2007

total of 5 percent of the defined benefit plan assets are allocated to real estate: 1 percent of the 5 percent are invested in publicly traded real estate investment trust securities; the other...and we're not fully...we're not fully invested in real estate. The majority of the other investments in private real estate, we've made commitments of about \$250 million to two real estate investment funds that are managed. One is managed by Prudential Insurance and one is managed by UBS Securities. Those funds are invested in probably over 100 individual properties located around the country, all United States, to the best of my knowledge, and they're in all the different forms of commercial real estate--office buildings, hotels, industrial buildings, multifamily housing--very well diversified. These are large funds that we have a modest interest in. We don't own any individual properties, so I hope that addresses your... []

SENATOR LOUDEN: Yeah, that's...that's what I was wondering, whether you had...it's, yeah, you belong to a mutual...it's a mutual fund type deal (inaudible). []

DAVID BOMBERGER: Well, it is...it's not technically a mutual fund, but it's a similar investment structure where the investments of a large number of institutional investors are commingled to buy a large number of properties. []

SENATOR LOUDEN: I noticed on page 103 where you, you know, your statutory authorities, and they name different plans and that sort of thing, and I see your endowment funds and your permanent school land fund. What do you have to do with that? []

DAVID BOMBERGER: There's a description of that, Senator, if you'll...and I'm sorry I kind of fast-forwarded through all these, but if you would turn back to the section...the tab is titled "General Endowments." There's a description of each of the endowment funds that we're responsible for. The permanent school fund specifically, this endowment receives the proceeds from the sale of school lands held for public education and other sources of income. So as the board sells those properties and it's determined that they're permanent funds, those assets are transferred to the permanent school fund and invested along with the other endowment funds. []

SENATOR LOUDEN: Okay, then you handle all of the permanent school fund money then? []

DAVID BOMBERGER: We invest all of the monies that have been transferred to the endowment. There are...there's a temporary school fund that is invested in the operating investment pool, which we also are responsible for managing. []

SENATOR LOUDEN: Okay. Thank you. []

SENATOR SYNOWIECKI: Senator White. []

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
March 27, 2007

SENATOR WHITE: Yeah, I had a couple of questions on securities lending. Do we invest at all in hedge funds? []

DAVID BOMBERGER: Senator, we don't invest in hedge funds. It's a...our investment consultant doesn't view hedge funds as an asset class. They view what a lot of people call hedge funds as being an accumulation of a lot of different investment strategies. We may in the future look at investment strategies that might be considered hedge funds, but today we are not invested in any hedge funds. []

SENATOR WHITE: One of the concerns that we spoke about are failure to deliver on securities that are lent. Do you agree that that may be one of the biggest, single, ineffectively regulated threats to the market right now? []

DAVID BOMBERGER: I'm concerned about the lack of the same level regulation of hedge funds that are...that mutual funds, for example, are regulated at. []

SENATOR WHITE: One of the issues that becomes a concern for me with regard to our issue on lending securities for shorting purposes is whether or not, in fact, we are working against the long-term investment of both our own and then also individual state employees' funds. Have we looked at the issue as to whether or not by lending securities we in fact are working cross-purposes? []

DAVID BOMBERGER: We haven't looked at that specifically. We've looked at securities lending as being a very low-risk way of adding to investment return to the long portfolios, but I understand your concern. []

SENATOR WHITE: And it can be, but if we're investing with funds that are then lending the securities to hedge funds that are operating to depress the prices of the stocks we're purchasing, it looks like you're making money on one hand, but you may be losing on the other. And the question is, have we looked at that and started developing an overall strategy? And also, have we taken a position on doing business with institutions that have problems with failure to deliver shares as required by the SEC? []

DAVID BOMBERGER: One, we have not specifically researched the impact that the shorting may have on the long...the value of our long positions, and it's one that I'll take away as a follow-up and I'll report back to you on. []

SENATOR WHITE: I'd be appreciative. One of the concerns I have is that it's one thing to lend shares in a regulated market where the failure to deliver aren't on the level that they are. On the other hand, if we're participating in a system that's literally counterfeiting millions of shares and may be causing serious potential instability, what are we doing as an institution to just look at the issue and then take an overall position?

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
March 27, 2007

I don't know what the right position is, and I'm surely not telling you to stop lending shares. I would just like to have a considered investigation, and then a reasoned explanation of what role we play as a public institution. []

DAVID BOMBERGER: I'd be happy to report back to you on what we find. []

SENATOR WHITE: Thank you for your courtesy. []

SENATOR SYNOWIECKI: Dave, on the cash balance retirement... []

DAVID BOMBERGER: Yes. []

SENATOR SYNOWIECKI: ...program, you had spoke in your report to the committee that the state employees and county employees involved in that had received an enhanced dividend because of the... []

DAVID BOMBERGER: Right. []

SENATOR SYNOWIECKI: ...market returns. Is the council satisfied with the level of cushion for that fund that is now available to the Investment Council? And I'm thinking down the road as we get into markets that are not so favorable, is the council...has the council even had the discussions about whether or not we need to take a look, particularly during these times when we're getting some sufficient returns, about perhaps enhancing or increasing that cushion that's available to the fund? []

DAVID BOMBERGER: Senator, the council has not specifically looked at it, but in my role as a nonvoting member of the PERB board, that issue was discussed in detail by PERB before making that decision, and I believe that all of the members of that board were comfortable that there...we weren't distributing 100 percent of the excess return, that there was...that we did maintain a cushion so that those plans would remain satisfactorily funded. []

SENATOR SYNOWIECKI: And I understand the PERB board and, you know, there's different missions there, and I would like perhaps that the Investment Council perhaps have that discussion. If, as an Investment Council, with your collective expertise, are you sufficiently okay with the cash balance cushion that's available to that fund right now for the longevity of that fund? []

DAVID BOMBERGER: I was satisfied as we did the analysis, Senator. We did not discuss it with the Investment Council and we will do that in the future. []

SENATOR SYNOWIECKI: Okay. Thanks, Dave. Any other questions? Seeing none, thank you. []

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
March 27, 2007

DAVID BOMBERGER: Thank you. []

SENATOR SYNOWIECKI: Is there anyone wishing to testify on the annual report from the Investment Council? Seeing no one, we will now receive, as a committee, the Public Employees Retirement Board annual report. Hi, Phyllis. []

PHYLLIS CHAMBERS: Hello. Would you like me to begin? []

SENATOR SYNOWIECKI: Oh yeah. I'm sorry. Go ahead. []

PHYLLIS CHAMBERS: Okay. All right. I didn't know if you had any other comments. []

SENATOR SYNOWIECKI: I started reading already. I'm ahead of you, so... []

PHYLLIS CHAMBERS: (Exhibit 2) That's okay. All right. Well, I'll just let you read and I'll go home. (Laughter) Okay. Good afternoon, Senator Synowiecki and members of the committee. I'm Phyllis Chambers and I'm the director of the Nebraska Public Employees Retirement Systems and I'd like to point out today that we have one of our board members here. Sergeant Glenn Elwell with the State Patrol is seated in the audience, as well as Dave Bomberger, who is an ex officio of our board. This report says 2007. It's actually for the year 2006 and, as you're aware, I wasn't here at that time, but I'm very pleased to bring this report to you. Last year was a year of change and challenge for us, as well as it was for the Investment Council. And we were the subject of a performance audit last year that I think you were aware of, and the board and the staff have worked very hard to resolve the issues that were raised last year. And so it is my pleasure to bring to you and talk about some of the accomplishments we had last year. Turning to page 13, you'll be able to see in Item 1 that last year our membership increased in our plans to a total of 99,799 members, with total assets of \$7.9 billion. And that is a record for the retirement systems. We processed 1,269 new retirements last year, and those are just the retirements that went into annuities. We had also other retirements as well that were rollovers and lump sums. NPERS also distributed \$317 million in refunds and retirement benefits to its members. So we were very, very busy processing all of the work that we do for the various plans. We also work to implement the Legislature's bills that were passed last year, LB366 and LB1910, and we participated in three interim studies. We also evaluated our IT system last year and hired a new IT manager, Jerry Brown, which some of you have met, and he is here with us today as well. He comes from the Office of the CIO and we're very pleased to have him working with us. He has done a great deal to improve our IT system and is working with us on our RFP that we are doing, currently in the process of selecting a vendor to provide us with an upgrade to our retirement information systems. On page 14, at the top in Item 9, our educational services department participates in a number of retirement seminars and we were featured in public broadcasting program on Frontline, "Can You Afford to Retire." And

Nebraska Retirement Systems Committee
March 27, 2007

that documentary was filmed. It took place here in Lincoln. They filmed one of our retirement seminars, and that can be found on the web site at www.pbs.org as listed in that Item 9. And also last year our director did resign and we hired a new director. We also created a new position as deputy director, and Randy Gerke, who is our deputy director, is here with me as well today. We also...in this report you will see that we have the legislation for the last eight years listed, and I just might comment that every year as we do all of these different legislative changes, that creates a ton of work for the agency, so we're busy processing all of these changes that you do make and hopefully we're doing it right and we're doing what needs to be done. Moving on then, on page 18 is a summary of the retirement plan assets with a breakdown of all of our different plans. The first three listed are the defined benefit plans, and then we have the state and county deferred comp...defined contribution plans, and cash balance plans. And then lastly are the two deferred comp plans. You can see that every year for the last three years the assets have grown. We've had good market returns and good management, thanks to the Investment Council. So again, our total plan assets in 2006 were \$7.98 billion. The largest plan is the school plan with \$5.9 billion, and then the next largest would be the state plan for the state employees. On page 19 we get into market returns and Mr. Bomberger has already talked about that, but it kind of gives you an idea of what our plan assets are allocated, mostly in equities and fixed income. This section also talks about the funding of our plans. The judges' plan is 99 percent funded; the school plan is 87.2 percent funded; and the State Patrol plan is 94.4 percent funded. And this year we did not ask for any appropriations for the school or the judges' plan, but we did ask for \$813,000 for the State Patrol plan. You already asked about the cash balance plan, but this year we did have an investment return of 15.1 percent, and the credited...the dividend that was credited to the employees were 13.5 percent for the state plan and 16.4 percent for the county plan, and those are based on the actuary's determination of what the value should be for those crediting rates. On page 21 it talks about a breakdown of the membership for the plans. That's where we get our 99,797 members in the plans. That includes active, inactive, and retirees. As you can see, the school plan again has the most employees. Almost two-thirds of the plan members are in the school plan. And the annual activity, it breaks down the enrollments, refunds, and the retirements for the various groups as well. Over on page 22 we have member services and our office is very busy with phone calls at our call center. On an annual basis, 40,000 calls last year. We have office visitors all the time. It's very common to see husbands and wives who are retiring come in, make an appointment, come in and speak with one of our counselors about what their retirement options are. And especially during the basketball season when we have state basketball tournaments, people outstate will make appointments and come into our office and that's always a really busy time for us as well. Now as we're going into the spring and summer, when many of the teachers will be retiring, our office will get busy with a number of those appointments being made, and they do call on the phone but they also come into our office as well. Our data purification and document imaging, we have a great deal of documents that come into our office and proof of eligibility, death benefits and so forth,

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
March 27, 2007

so we're constantly putting all...scanning all of those and putting them into our system. On page 23 we have the operating budget. This past year we will have \$6.7 million in operating expenses for the agency, and a projection of \$10.7 million for next year, and that includes the...a portion of the payment for the new IT system, if we...once we get the RFP and the approval is made by the Appropriations Committee. Then there's a breakdown of the allocations of those expenses. As you can see, the school plan does receive the majority of those expenses. That's where most of our work is done. We do a great deal of work on the 7 percent cap. That's created a lot of work for the office as well as all of the...just the sheer numbers of the school employees, we spend a great deal of time on that. The master lease program is mentioned and the interest rates that we have on that master lease program. And on page 24 you have the Program 515 and those are the appropriations from the General Fund. Last year it was \$32 million; this year it will be \$19 million. And the breakdown on that is the COLA, the .7 of 1 percent for salaries, and then the service...the school service annuity program, as well as whatever other appropriations would be needed for the defined benefit plans. I mentioned member education. This last year we had 48 retirement seminars and 15 financial planning seminars. We also are continually upgrading our plan booklets and our newsletters, and sending those out to employees. And we have an employee...we also have our regular web site, www.NPERS.ne.gov, where you can get a ton of information about our plans, and I would encourage you to take a look at it if you haven't ever done that. We also spend a great deal of time with employer education with the counties and the schools. We have to tell them all about how we...how they need to make their contributions, and we're auditing the schools and the counties periodically to make sure that they are...their records are correct about their employees and that they are paying contributions to the plans appropriately. So we talk about internal control and our compliance procedures, and we do...we are audited. Nine months out of the year the state auditors are in our office. We have space for them, allocated just for them, so we are continuously auditing the different plans. Right now we're getting ready to audit the state and county plans. We just finished auditing the school, judges, and State Patrol through the fall and winter. And then if you look at the appendix, in Item A, just for your information, you may have seen this before because one of our board members asked us to put it together, but this gives you an idea for the month of December how much money was paid out in defined benefits to the school, judges, and State Patrol employees, and it's by county. So it shows you the amount of money that contributions are being paid out to those counties, and it gives you an idea of how much money is going back into your communities from your retirement plans and the importance of having a viable retirement plan. It also shows the breakout of the Omaha schools, and then it totals statewide of those plans. So you can see that there was a total of \$16 million for the school, judges, and State Patrol; Omaha schools was \$4.6 million; for a total of \$21.2 million in retirement benefits paid within the state of Nebraska. And then the following spreadsheet that's behind it is a breakdown of where the money goes by state, and if you look at Nebraska, you will see those same numbers I talked about, but then there's also a breakdown of the other states, where money is being sent for

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
March 27, 2007

distributions. And as you can see, the majority of it, or 90 percent, is staying in Nebraska or at least Nebraska banks, Nebraska addresses, so. Finally, Appendix B is a pension plan summary, and Appendix C are our revised board policies for your information. And if you have any questions, I'd be happy to answer them. []

SENATOR SYNOWIECKI: Thank you, Ms. Chambers. Any questions from the committee? Senator White. []

SENATOR WHITE: On page 14 you indicate that during the course of the audit you were found...the agency was found in violation of several internal policies. What were those violations, what has been done towards correcting them, and are you now in compliance? []

PHYLLIS CHAMBERS: Yes, I would say the majority of those have been resolved. One of them is pending, and that is the IT system. We are in the process of getting...doing the RFP and we're going to be upgrading that IT system. []

SENATOR WHITE: So what were the internal policies that you were in violation? []

PHYLLIS CHAMBERS: There were 11. There were 11 findings. Several of those had to do with board oversight and board...just...and they were mostly internal policies of the board and that's one of the reasons the board policies have been revised. One of those had to do with...and some of them had to do with the information technology system. []

SENATOR WHITE: Could you give me later, I don't want to... []

PHYLLIS CHAMBERS: Uh-huh. []

SENATOR WHITE: ...belabor this or make you guess,... []

PHYLLIS CHAMBERS: Okay. []

SENATOR WHITE: ...but can you give us, send at least to me specific...what the specific findings of the violations were and then, in writing, what has been done to address them and whether you have now been in compliance,... []

PHYLLIS CHAMBERS: Yes, I can. []

SENATOR WHITE: ...and if not, when the agency intends to be in compliance? []

PHYLLIS CHAMBERS: Yes, I can. []

SENATOR WHITE: I'd appreciate that. Thank you. []

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
March 27, 2007

PHYLLIS CHAMBERS: And also the committee that we reported to, we have been sending them quarterly reports so that they are aware of it. So we are continuously upgrading those. So we really only have the one left and that is the...once the RFP is done for the information system. []

SENATOR WHITE: And then on page 18 I have one other question. I note that of all of them Hartford lost money. Has that been investigated? It lost money according to your...the Hartford plan lost money from '04 to '05, and then it looks like everybody else was making money. Have you investigated that, or is that being evaluated? I know they made money then in '06, which is nice. []

PHYLLIS CHAMBERS: I don't know the answer to that. Sorry about that. []

SENATOR WHITE: Thank you. Appreciate it. []

DAVID BOMBERGER: Senator, I think that the withdrawals from the Hartford options exceeded (inaudible). []

SENATOR WHITE: So it wasn't an actual loss? []

DAVID BOMBERGER: (Inaudible.) I don't believe there was investment losses. I believe that they declined in value because of withdrawals from the (inaudible). []

SENATOR WHITE: Excellent. Thank you. []

SENATOR SYNOWIECKI: Ms. Chambers, where are we at now on that RFP with the information technology system for the system? []

PHYLLIS CHAMBERS: We are answering questions. We've issued the RFP. We are receiving questions. We've been through the first round of questions from vendors and we've answered those. We're awaiting a second round of questions. We'll be answering those, and then we will be receiving the bids. []

SENATOR SYNOWIECKI: Can you share with the committee, I understand if you can't, the degree of response that was received on the RFP? []

PHYLLIS CHAMBERS: We've received roughly 70 questions so far. Purchasing has not told us how many vendors. []

SENATOR SYNOWIECKI: Okay. []

PHYLLIS CHAMBERS: The way their process works is they just send us the questions.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
March 27, 2007

We don't know who asked the questions. []

SENATOR SYNOWIECKI: Okay. []

PHYLLIS CHAMBERS: So... []

SENATOR SYNOWIECKI: Senator Heidemann. []

SENATOR HEIDEMANN: On page 23 the operating budget, the 10.7, how much is for that included to the IT part of it? Do you know? []

PHYLLIS CHAMBERS: \$3.5 million. []

SENATOR HEIDEMANN: 3.5. []

PHYLLIS CHAMBERS: Uh-huh. []

SENATOR HEIDEMANN: Who's your vendor now? Is it Saber? []

PHYLLIS CHAMBERS: It's Saber, that's correct. []

SENATOR HEIDEMANN: Are they being allowed to partake in the process of bidding?
[]

PHYLLIS CHAMBERS: Yes. []

SENATOR HEIDEMANN: Okay. Thank you. []

PHYLLIS CHAMBERS: Uh-huh. []

SENATOR SYNOWIECKI: Any other questions from the committee? Seeing none, thank you for your presentation. []

PHYLLIS CHAMBERS: Okay. Thank you. []

SENATOR SYNOWIECKI: Is there anyone wishing to provide testimony on the Retirement Systems annual report? Thank you, Phyllis. Seeing none, that will conclude today's public hearing agenda for the Nebraska Retirement Systems. []

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Nebraska Retirement Systems Committee
March 27, 2007

Chairperson

Committee Clerk