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Rough Draft

Nebraska Retirement Systems Committee
September 24, 2010

[LR422]

The Committee on Nebraska Retirement Systems met at 11:00 a.m. on Friday, September 24, 2010, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LR422. Senators present: Dave Pankonin, Chairman; Lavon Heidemann; and Russ Karpisek. Senators absent: Jeremy Nordquist, Vice Chairman; LeRoy Loudon; and Heath Mello. [LR422]

SENATOR PANKONIN: (Recorder malfunction)...which is a review of the General Principles of Sound Retirement Planning and our committee counsel, Kate Allen, will present this this morning and tell us a little more, too, about the history of these General Principles. [LR422]

KATE ALLEN: Good morning, Chairman Pankonin and members of the committee. My name is Kate Allen, and that is K-a-t-e A-l-l-e-n, and I am the committee legal counsel. I'm here today to present an update of the General Principles of Sound Retirement Planning. I will review the background; explain the individual proposed changes, which are primarily housekeeping and technical changes; and then respond to any questions you might have for me. The General Principles were developed in the early 1970s for the Legislative Retirement Committee by Stephen Kellison, a University of Nebraska professor of actuarial science who worked as a consultant to the committee and provided actuarial and policy analysis. The principles have been revised several times through the '70s and '80s. After the completion of a comprehensive retirement study conducted from 1992 to 1994, the committee began a review of the General Principles in '95 and adopted revisions to them in '96. In 2000, the five public retirement system benefits were analyzed and the General Principles were further studied and reviewed. They were again studied and amended in 2006 under LR339. And the principles are to be reviewed and updated approximately every five years. The proposed revisions and the draft you have before you are primarily housekeeping and technical changes that reflect enacted legislation. And I will describe these changes. In the Background

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introductory section, the current LR422 review of the principles has been incorporated into the text. The proposed revision to Section I. C. incorporates 1996 as the year the Legislature adopted Legislative Rule 5, Section 15. And this is the rule stating that any bill that may impact retirement cost must have an actuarial analysis conducted of the proposed changes before the bill can be enacted. In order to update the principles to reflect all the retirement plans currently available to public employees, cash balance plans were incorporated into the following sections: Section II. A., which refers to uniformity and consistency among the various plans; Section IV. C., which refers to vesting; and Sections V. A. and V. D., which refer to COLA benefits. The county and state cash plan and defined contribution plan members are not automatically granted COLAs; members do have the option to purchase an annual COLA when an annuity is selected. Section III. D. revisions are merely grammar changes. The General Principle in Section II. B. states that each employee within retirement system should be treated equitably and without discrimination. And Section II. B. includes the revision to reflect the policy that was adopted in LB403, which was passed by the Legislature back in 2009. As you recall, under LB403 state agencies and political subdivisions are prohibited from providing federal, state, or local public benefits, including retirement benefits, to individuals not lawfully present in the United States. As a result, only authorized employees are allowed to participate in governmental retirement systems. And an authorized employee is a U.S. citizen or qualified alien under the federal Immigration and Nationality Act who's lawfully present in the United States. The revision added to Section II. B. would change the requirement to treat all employees within a retirement system equitably and without discrimination by applying this General Principle only to employees who are authorized to participate in the retirement system. Be glad to respond to any questions you might have. [LR422]

SENATOR PANKONIN: Kate, thank you for your presentation and the work on this. This, then, is not in statute itself. This is something that has just been a basis for governing and just overall direction for our retirement systems, correct? [LR422]

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KATE ALLEN: Correct. [LR422]

SENATOR PANKONIN: Okay. One of the things in III. C.--it says: each retirement system should be funded so that the actuarial present value of assets will be equal to 90 to 110 percent of the Projected Benefit Obligation. In this handy chart you had in the book earlier, that you had prepared as of 2009, the school plan was at 93.4, the judges at 99.7 and the State Patrol at 90.8 percent. For the 2010 break, we do not have those final numbers. [LR422]

KATE ALLEN: We'll get those numbers in November. [LR422]

SENATOR PANKONIN: And right now you don't have a projection on what those might be. [LR422]

KATE ALLEN: I don't. [LR422]

SENATOR PANKONIN: That was my assumption as well. But the 90 is the low point. Looking at the history, we--for example, in the school plan, the large plan, 2005 was at 91.4; 2004, 93.2. So those were similar situations we were in that because of recovery in the markets and maybe some benefit...excuse me, not change in benefits, change contributions in had made a difference then. [LR422]

KATE ALLEN: Um-hum. [LR422]

SENATOR PANKONIN: Okay. Other questions, comments? Seeing none, thank you for your work on this, and we can...if anybody else would like to come forward to comment on General Principles, you're welcome to do so at this time. Seeing that no one is, I guess we'll close this public hearing on the proposed changes to the General Principles. Thank you. [LR422]