BALLARD: Good afternoon, and welcome to the Nebraska Retirement Systems Committee. My name is Senator Beau Ballard. And I represent the 21st District in northwest Lincoln, northern Lancaster County. And I serve as chair of the committee. We'll ha-- we'll start off by having members of the committee introduce themselves, starting on my far left with Senator Juarez.

JUAREZ: Good afternoon, everyone. Welcome. Senator Juarez, from Omaha, District 5.

SORRENTINO: Senator Tony Sorrentino, Legislative District 39: Elkhorn and Waterloo.

TREVOR FITZGERALD: Trevor Fitzgerald, committee legal counsel.

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

BALLARD: Also assisting our committee is committee clerk Connie Thomas and our committee page, Sam Johnson from southern California, studying political science at the University of Nebraska-Lincoln. This afternoon, we'll be hearing one appointment and two reports, and we'll be taking the-- order listed outside the room. On the table near the entrance, you will find green testifier sheets. If you're planning to testify today, please fill out and hand it to the page when you come up. This will help keep, keep an accurate record of the hearing. Please note that if you wish to have your position listed on the committee statement for a particular bill, you must testify in that position during the bill's hearing. If you do not wish to testify but would like a record of a-- of your position on the bill, please fill out and ha-- please fill out the yellow sheet near the entrance. Also, I would note the Legislature's policy that all letters for the record must be received via an online comment portal by the, by the committee by 8 a.m. the day of the hearing. Any handouts submitted by testifiers will also be included as part of the record as exhibits. We ask that if you have any handouts that you please bring 12 copies and give them to the page. If you need additional copies, the page can help you make more. Testimony will begin with the introducer's opening statement. After the statement, we'll hear from supporters of the bill and those in opposition, followed by those speaking in a neutral capacity. We ask that you bring your testimony and give it-- we ask that you bring your testimony by giving us your first and last name, and please spell it for the record. Because this committee meets over the noon hour and we have floor debate beginning at 1 p.m., we will have a three-minute light system. When you begin your testimony, the, the light on the table will turn green. The yellow light will mark your one-minute warning. When the red light comes on, we'll ask you end your final thoughts. We remind everyone, including senators, please turn off or silence your cell phones. We'll begin today's hearing with our appointment of Thomas Dar-jee.

THOMAS DARGY: Dar-gee.

BALLARD: Dar-gee.

THOMAS DARGY: Close enough.

BALLARD: Dar-gee. Perfect. For the Public Employees Retirement Board. Good afternoon.

THOMAS DARGY: Good afternoon, senators.

BALLARD: Whenever you're ready.

THOMAS DARGY: Oh, OK. Sorry.

BALLARD: No, you're OK.

THOMAS DARGY: I appreciate your time allowing me to be here to speak before you. I just want to give you kind of a brief overview of my history. I'm currently a member of the leadership team at Sarpy County. I've been there for approximately three years now. I oversee a few departments, mainly the 911 Center Community Corrections and our veterans service office. I am active in the NPERS retirement plan as well as some of their other Voya plans that they have there at the county. Prior to that, I was with the Bellevue Police Department for 27 years, working my way up through the ranks. I retired as assistant chief. There is-- or, also being the interim chief. Retired under their defined benefit plan, their DROP program that they have there, so I'm familiar with that. And during my time with the police department, as I, as I started, I was a member of the Bellevue Police Officers Association, where I was the vice president for about 12 years. And then once I obtained the rank of lieutenant, I became the president-- vice president for about another 14 years of the Bellevue Police Officers Association command staff. During that entire time, I worked on retirement issues, contract negotiations, et cetera. You know, as-- when I started with the police department, you know, I kind of had a, a 1,000, you know, feet view of everything. And then once I, I rose up through the ranks, you, you know, had to look everything at the 30,000-foot, you know, view of everything. And so, you know, during that time there, I began to appreciate, you know, the things that--

taking care of the membership and really focusing on, you know, the individual. I did some time in the United States Army prior to that, where I really learned the lesson of, take care of your people. And, and during that whole time, I really tried to look at everything from an ethical and moral compass to serve in leadership, all those types of things, and-- which I think will transfer well to this board, as one of the things that we really want to do is-- or, foc-- personal focus for me is that, whenever somebody-- a member of that plan goes to retire and, and, and leave, that they have their, their money, that there was a good fiduciary responsibility by me, and they're able to have that money for when they need it to go into retirement.

BALLARD: OK. Thank you so much. I'll see if there's any questions from the committee. Seeing none. We let you off easy.

THOMAS DARGY: OK.

BALLARD: Thank you so much. I appreciate it

THOMAS DARGY: I appreciate your time, senators. Thank you very much.

BALLARD: Thank you so much. All right. Any supporters of this appointment? Anyone in opposition? Anyone in the neutral capacity? Seeing none. We'd-- had no online testimo-- on-- no online comments or ADA comments for this appointment. That'll end our hearing on the appointment. And we'll begin our presentation of the Nebraska Investment Counc-- Council's annual report. Ellen Hung. Welcome.

ELLEN HUNG: Good afternoon, committee chair and members of the Retirement System Committee. My name is Ellen Hung, spelled E-l-l-e-n H-u-n-g. I am the State Investment Officer. I'm pleased to present the 2025 annual report for the Nebraska Investment Council. I'm just going to go over a few highlights in our report, as I have really good news to tell. As you can see on page 2, our council consists of five appointed members. Nebraska statute requires our appointed council members to have at least 7 years of experience in the field of investment management or analysis or at least 12 years of experience in financial management. Our current appointed members have much more than these minimum qualifications and are all financial experts. We also have two ex officio members: the State Treasurer and the director of NPERS. There are nine members of the investment staff, including myself, and that number has not changed since at least the last ten years. Our closing balance across 32 investment programs as of December 31, 2025 is $45.5 billion. That is an increase from $42.7 billion at the end of 2024. The pie chart on page 6 shows assets under management by our major programs. As you can see, the largest is the defined benefit plans, totaling 45.4% of all the assets. Page 8 lists out some of the accomplishments and changes we made in 2025. Just a few highlights. We completed an asset liability study and adopted new target asset as-- allocations that balance future liabilities and expected growth of assets. As the retirement plans for the schools and judges and cash balance plans are 100% funded, the target allocation to public equities and return-seeking fixed income were reduced. And core, core bonds increased and effectively taken some risk off the table. The target asset allocation to retirement plans for patrol and OSERS stay the same. We also added infrastructure to all the plans as part of the real assets portfolio. We also completed the search for investment consultants. To allow for the selection of best-in-class consultants, the council chose to stay with Aon for general consultant and hire Aksia as the private markets consultant. Page 10 through 13 include information on our defe-- defined benefit plans, which total 26 point-- billion dollars. And on the bottom of page 11, it shows the defined benefit plans for school and judges had a return of 15.6% for 2025, which is slightly below its benchmark, but it's still-- we still perform in the top quartile compared to our peers. With the change in asset allocation, we expect the retirement plans for schools and judges to start being slightly different from the patrol plan. This is seen on top of page 13, with the performance shown as 15.8%. The Omaha retirement system is listed on page 14. It had a return of 15.6% for 2025. The council-- as a reminder, the council inherited the OSERS plan in 2017. And after eight years of changes to the fund, the performance is now more in line with other defined benefit plans for the shorter term. We expect this trend to continue, as we have been able to resolve most of the problem assets that we had inherited. The other state and county retirement plans that are not defined benefit plans are shown on pages 15 through 18. As a reminder, the state caush-- cash balance plan essentially mirrors the defined benefit plan. Onto the operating investment pool, which starts on page 19. There were a lot of outflows in 2025. The OIP went from $9.2 billion at the end of 2024 to $7.9 billion at the end of 2025. This was from outflows and not because we lost any money. The asset allocation and investment guidelines are determined by the council, and the assets are internally managed by the staff. The OIP earned 6.5% in 2025. Information on the general endowment starts on page 22. The largest endowment in the general endowment is the Permanent School Fund at $1.2 billion. Page 24 shows the performance of the general endowment. And for 2025, it had a return of 11.8%. It did underperform its benchmark because general endowment has a value tilt so it can generate more-- current income for the endowments. Since its inception in 1996, the general endowment had a return of 7.1%. I know there continues to be confusion about our return for the Permanent School Fund, so I'm confirming that our total return since inception was 7.1%. This and all our return numbers are calculated by Northern Trust, our custodian. It is also recalculated and confirmed by our general consultant, Aon. So we don't make those numbers up. There are two different parties that re-- calculate our returns. The health care endowment is on page 25, and it's a small endowment that holds tobacco settlement assets. Page 28 and 29 shows the Nebraska Education Savings Plan, with page 30 showing the Nebraska Enable Savings Plan. The last two pages of the report list out items of interest since the inception of the council in 1969. We successfully completed some significant projects in the last couple of years. Going forward, we will be fine-tuning our portfolios to take advantage of areas where we can increase returns on the margin while keeping risk and fees low. I will continue to focus on staff development and retention and tools that we can use to increase productivity. And to end: as in years past, we ha-- we'll be having our annual educational retreat, and it's scheduled for October 15, 2026, and you are all invited to attend. That concludes my remarks.

BALLARD: Thank you, Ms. Hung. Are there any questions? Senator Hardin.

HARDIN: From your perspective, what was really good with this and what was not in terms of the performance-- what happened this year? What was your highs and lows?

ELLEN HUNG: So I always say that we don't take credit when we do well and we don't really take credit when we do bad. We can only give you what the market gives us.

HARDIN: Sure.

ELLEN HUNG: So given what the market gave us last year, we did exceptionally well because we outperform our peers with less risk and less fees. So all our numbers are, are after fees. So that's why we also look really well. So what we did well, we did what we are-- what we say we're gonna do. We kept to our knittings and we took advantage of the market highs and a-- and achieved a 15.8%.

HARDIN: What do you wish would have gone differently?

ELLEN HUNG: I don't know if we would have done anything differently. And as I mentioned towards the end of my remarks, the last two years since I've been here-- I've been here a little over two years now-- we did a lot of revamping, as in bringing in a new consultant. We redid our asset allocation. And at this point, I feel our portfolio is in the best shape it's in, considering our liabilities and what we have to work with. And I think going forward, it will just be looking at just inc-- improving on the margins. So for example, we looked at our fixed income. We have a passive mandate in our fixed income, which at this point doesn't really make sense. So we're looking at presenting to the council an active strategy, which we will be doing in April. So that kind of stuff that we're just kind of fine-tuning, making sure we have the right managers in place and making sure that the mandate still makes, still makes sense for all our different strategies.

HARDIN: Thanks.

BALLARD: Additional questions? I have one. So as you look at the global and domestic, there-- there's some stock market uncertainty in the future. What do you see on the horizon? And then also, will that kind of dovetail-- will that impact your asset allocation? Will you-- foresee any asset allocation shifts?

ELLEN HUNG: No. So we don't look at short-term happenings in the markets to determine what we do. So everything-- our asset allocation is based on long-term views and what we expect the markets to do in the long term. And what's probably keeping me up at night these days are private markets and how private credit is affecting private markets and the markets in general. And we are very lucky we don't have any exposure to private credits. We decided that last year. And our acc-- our exposure to private markets is actually a lot less than most funds. So that's why I say that we do keep our risk to a minimal, and that's why we don't expect as big an impact, as the private markets have not been doing as well in the last couple of years.

BALLARD: Thank you. Senator Clements

CLEMENTS: Thank you, Mr. Chairman. Thank you, Ms. Hung. The OSERS plan investment returns. In the past, you've talked about some of the OSERS investments having to wait until they are able to be invested at a better rate. How is that going?

ELLEN HUNG: So that's why I mentioned that OSERS's return for 2025 came in at 20-- or, 15.6%.

CLEMENTS: What page is that?

ELLEN HUNG: On page 14.

CLEMENTS: 14. Just a minute, please.

ELLEN HUNG: So on page 14, the bottom chart shows the OSERS returns for the one year, three year, five year, and ten year. So as you can see, the one-year return was 15.6%. And the longer term, they're-- they underperformed their benchmark. They came in at 7.7%. But over time, in the last eight years, we've been moving them closer and closer to what our regular portfolios look like. And that's why their 2025 returns are mirroring ours fairly closely now.

CLEMENTS: In your other-- the other defined benefit returns, how did they compare to-- 15.6%?

JUAREZ: 15.8% for--

CLEMENTS: 15.8%?

ELLEN HUNG: --the patrol, and then 15.6%. They're right around the 15.6%, 15.8%.

CLEMENTS: OK. Well, very good. You've very much improved their results. That should help them a lot. Thank you.

BALLARD: Thank you, Senator Clements. Any fi-- Senator Hardin.

HARDIN: With OSERS, where are they in terms of funded? I think this last year they were still at sub-60.

CLEMENTS: That would be in here.

ELLEN HUNG: Their--

HARDIN: Yeah.

ELLEN HUNG: Their funding status will be in the next report given by NPERS.

HARDIN: Can't wait till you talk about that.

ELLEN HUNG: I don't work on that part. I just invest the assets.

HARDIN: Well, I'm not sure I'm going to that party you're having then, so.

CLEMENTS: I do have--

BALLARD: Senator Clements.

CLEMENTS: I have one more comment. This will be in the next report, but I believe it's because of your performance-- and page 10 of the next report shows investment returns for the defined benefit plans. And since 2019, I took $100 and added the investment returns or subtracted one year, and it came out after seven years to $180, which is an 8.82% annual return per year for seven years. So that's looking really good to me. That's on page 10 of the other report. But I thank you for those good results.

BALLARD: Thank you, Senator Clements. Any final-- Senator Conrad.

CONRAD: Thank you, Chair. I just wanted to say thank you for being here, for sharing your time and talents with the Nebraska Retirement Systems and Investment Council. And I know that you and your office have had to wrangle through a lot of distasteful politics in recent years, but you have dealt with those credibly and effectively and continue to outperform what we ask of you and your job description. And so I just wanted to say thank you.

ELLEN HUNG: Thank you.

BALLARD: Thank you, Senator Conrad. Final questions? Seeing none. Thank you, Ellen. I appreciate it.

ELLEN HUNG: Thank you.

BALLARD: Thank you so much. All right. That will-- we had no online comments. That will end our hearing-- or, end our briefing on the Nebraska Investment Council. And we'll start our hearing on the Nebraska Employees Retirement System. And Ty-- Mr. Cummings.

TYLER CUMMINGS: All right. Good afternoon, Chairman Ballard and members of the Nebraska Retirement Systems Committee. My name is Tyler Cummings. That's T-y-l-e-r C-u-m-m-i-n-g-s. And I am the interim director for the Nebraska Public Employees Retirement Systems. I want to thank you for the opportunity to present an overview of NPERS and our 2026 annual report. As you know, NPERS exist to provide retirement security for Nebraska's public employees, and we deliver that mission with integrity, transparency, and strong financial stewardship. We administer seven different retirement plans, which fall under the federal tax code. Over the past year, NPERS has continued to demonstrate strong growth and stability. Total membership across all seven plans reached nearly 181,000 members and retirees. Total assets grew approximately to $25.6 billion. And we distributed over $1.4 billion in benefits to our plan members. Importantly, 88% of those benefit payments remain within Nebraska, contributing to local economies and generating approximately $32 million in state tax revenue. This highlights that NPERS is not just a retirement system. It's also an econi-- economic driver for the state. The financial condition of our plans remains strong overall. As you know, the school employees retirement plan is now 102% funded. The judges plan exceeds 105% funded. And the state and county cash balance plans are also fully funded. I do want to mention on page 11 for the judges and school plan, it should say that these plans have a surplus in actuarial assets compared to liabilities. We will make any necessary corrections in our digital version of the reports. I do want to turn your attention to page 13 of the report. Here you will find General Fund money the state of Nebraska has contributed to the retirement plans over the past several fiscal years. You will find that number has decreased recently. I don't necessarily comment on funding policy for our plans, but I do want to highlight some legislative history. After the Great Recession, the retirement plans saw a decrease in their funded status. Shortly after this downward traject-- trajectory, stakeholders worked together to lower benefits in a measurable way while also increasing contributions. Those measures are now paying off and have allowed these plans-- especially the defined benefit plans-- to achieve a strong financial position today, allowing for recent policy discussions to exist. On page 16, you will find our annual budget. The key piece of information I want to highlight is at the bottom of the page in the footnote. You'll see that, last fiscal year, our expenses were approximately three basis points of plan assets. And this fiscal year, our expenses will be approximately four basis points of plan assets. This demonstrates the low cost we achieve in administering retirement benefits for 180,000-plus members. This past year, NPERS made meaningful progress in operations, service, and governance. Membership increased by over 5,000 accounts. Assets grew by nearly $2 billion. We handled over 53,000 phone calls, 2,400 walk-ins, and 577 scheduled office visits. We processed over 40,000 pieces of incoming mail and scanned nearly 180,000 documents. And our education services team reached more than 2,300 members through seminars and webinars. A major focus continues to be the integration of the Omaha School Employee Re-- Employees Retirement System. Since the 2024 transition, we have implemented full system functionality, processed over 200 retirements last year, and expanded member outreach. Looking ahead, our priorities include expanding risk assessment efforts, enhancing education and outreach, continuing OSERS integration a-- and optimization, improving digital tools and member online access, and maintaining strong fiduciary oversight. In closing, NPERS remains committed to providing quality service to our members, expanding outreach, and ensuring proper fiduciary oversight. Before I conclude, I would like to share a personal note. As you may already be aware, I will be resigning from my position with NPERS effective April 5. I want to say it's been a privilege to serve in this role and to work alongside this committee in support of Nebraska's public employees and retirees. However, I won't be going too far, as I will be working for the Lincoln Police and Fire Pension Plan and will probably be in front of this committee in November. I would also like to extend a sincere thank-you to Senator Clements for his service on this committee. His-- some might say his leadership and contributions to this committee have been un-be-lievable. I know he'll be missed as he rech-- reaches his term limit. Thank you again for your continued support and oversight. And I would be happy to an-- answer any questions you may have.

BALLARD: Thank you, Mr. Cummings. Are there any questions? Senator Conrad.

CONRAD: Thank you, Mr. Cummings, for being here. I was not aware of your planned career transition, but I want to thank you for your service to the state and to the incredible professionalism that you've exhibited in the face of ord-- unwarranted political shenanigans. And I guess-- the good news from my perspective is I think you were treated really unfairly in this process, but the loss for the state of Nebraska will be the gain for the community of Lincoln and our first responders. And I think we'll be really excited to have your professionalism and credibility and expertise leading the way on those issues. So thank you for rising above what you had to deal with.

TYLER CUMMINGS: Thank you.

BALLARD: Thank you, Senator Conrad. Senator Hardin.

HARDIN: Thanks. I often say this-- and it's a compliment to you all with NPERS-- and that is, I would rather be us than them. And when you look, again, at the rest of the country, 8 states are operating in the black; 42 aren't. And the fact is that, of those eight states operating in the black, only two-- ourselves and South Dakota joined that list last year-- don't have natural resources. We don't have coal. We don't have oil. We don't have shale. Frankly, the, the game is easier if you have those things. So that's to say 2 states out of 50 don't have those extra goodies and yet you're still being disciplined and, and overall doing it very well. So appreciate that and-- so thanks so much for your service. I'd rather be us than them, and it's because of how you guys are.

TYLER CUMMINGS: Thank you. As I mentioned, this committee and the entire body have made-- have taken measurable policy stances to ensure the stability of the retirement funding to these plans, and so th-- thank you all for that as well.

BALLARD: Senator Clements.

CLEMENTS: Thank you, Mr. Chairman. Thank you for being here, Tyler. And thank you for your service. On page 11, OSERS plan funding decreased from 59.7 to 50-- 59.79%, 59.69% but with a 15.6% return on their investments. I was surprised to see a, a decrease with the re-- rate of return. Can you explain that?

TYLER CUMMINGS: That's a, that's a great question, Senator Clements. If I'm recalling correctly, it-- I believe they still had the one last step down in their assumed rate of return. I believe it either went from 7.2% to 7.0% or 7.1% to 7%. So that was one of the main drivers for a, a lower funded ratio.

CLEMENTS: Ah. OK. Yeah. That's right, because the actuaries phase that in--

TYLER CUMMINGS: Correct.

CLEMENTS: --gradually. So it's somewhat artificial, but I'm really glad to see that they're phasing that down. I was-- as I mentioned before on the page 10 investment returns, they're pretty volatile, but they're impressive when you see over seven years. It's an 8.82% average rate of return. And I see the OSERS account balance is $1.650 billion. And if they have a-- it's on page 14, on the, the bottom-- yeah-- the bottom on the-- 2025 amount. If they're assuming 7% return and they're really getting 8.8%, that's a 1.8% advantage over the assumption. If you take 1.8% of $1.6 billion, you get $29 million of extra funds because of above-assumption rate of return. And so it looks to me like continuing those returns is going to help them turn around. And then finally, the question is, how are we doing with the OSERS administration and getting benefits and, and all of that operation? Has it finally gotten merged in?

TYLER CUMMINGS: Yes. So everything's been transferred over to us. We've made benefit payments on time every single month. As you know, there have been-- there were several audits completed prior to the transfer. Most of those audits-- findings have either been reconciled or we are still in the process of reconciling those audit findings. But overall, I would say the plan-- at least from a administrative perspective-- is in a much better place than a few years ago. And so we're certainly proud of the work that we've been able to do with OSERS.

CLEMENTS: All right. Thank you. Thank you, Mr. Chairman.

BALLARD: Thank you, Senator Clements. Any additional questions? Seeing none. I too just want to echo the committee statement. We appreciate your seven years of service to this committee and to the state of Nebraska. You will be missed. So I really appreciate it. Thank you, Mr. Cummings.

TYLER CUMMINGS: Thank you very much. Thank you.

BALLARD: That will end our hearing on the Nebraska Public Employee Retirement Systems report and end our hearing for the day. Thank you, committee. I appreciate it.