

# Nebraska Public Employees Retirement Systems

## Defined Contribution and Cash Balance Plans

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# NPERS Overview

- \* NPERS administers six retirement plans with 122,000 members and \$12.7 billion in assets.
- \* School – DB – established 1946
- \* State Patrol – DB – 1947
- \* Judges – DB – 1955
- \* State – DC – 1964 and CB – 2003
- \* County – DC – 1965 and CB – 2003
- \* Deferred Compensation (DCP) – 1976

# NPERS Funded Status

	2013	2014
* Schools	77%	83%
* Patrol	76%	81%
* Judges	88%	93%
* State CB	99%	104%
* County CB	100%	105%
* DC plans	always 100%	

Funded ratio =  $AVA \div AAL$



# 2000 Actuarial Study – Benefit Adequacy School, State and County Plans

- \* Average annual salaries lower for DC plans.
  - \* School - \$40,000, State - \$35,000, County - \$30,000
- \* Employee & Employer contributions were lower.
- \* Investment returns were lower in DC plans.
  - \* Average annual return, 5-year period - 7% for State & County DC plans & 11% School DB plan
  - \* Members invest experience varied in DC plans.
- \* Retirement Income replacement was 5-8 % higher for DC plans to maintain same standard of living.  
78% - Schools, 83% - State, 86% - County.

# Why Cash Balance in 2001-2002?

**Legislative Retirement Committee testimony - LB687 commitment to improve benefit adequacy, fairness and competitiveness for State & County employees.**

- \* Improve State and County DC plan benefits – not trying to reduce benefits for the DB plans.
- \* Eliminate employee risk of poor investment decisions – turn over investing to professionals.
- \* DB plan considered too costly. Decided to establish CB – minimum guarantee 5% annually – provide a safety net
- \* Provide a self-funded annuity – lifetime benefit and COLA.
- \* Increase EE & ER contributions – increase benefit.
- \* NAPE & NACO groups supportive. 1,700 members signed letters.

# Nebraska CB Plan

- \* Mandatory for new hires. DC members “one-time” option to transfer in 2003; also in 2007 and 2013.
- \* NPERS Contribution rates:
  - \* State – 4.8 % EE, 156% ER – 7.48% = 12.28%
  - \* County – 4.5% EE, 150% ER – 6.75% = 11.25%
- \* CB credited rate – Federal mid-term rate+1.5 % with 5% minimum guarantee by the State. Since 2009 it has been 5%. July 2015 MTR was 1.77%.
- \* Credited Rate adjusted quarterly and credited daily. (currently .000235 per day)

# Nebraska CB Plan - Benefit

- \* Annuity Benefit is based on account balance and retirement age. (not a formula benefit)
- \* Annuity rate is 7.75% – determined by Board.
- \* 3-year vesting to receive employer portion.
- \* Distribution options for termination, retirement (age 55) or disability – lump sum, rollover, annuity, or combination.
- \* Death – Beneficiaries receive refund or rollover; spouse may also receive annuity; if receiving a benefit, it is determined by the annuity option.
- \* Optional dividend granted by Board.

# CB Dividends

- Per statute, the Board may grant a dividend if the actuarial contribution rate is at least 90% of the actual contribution rate; County actual rate is 11.25% , State actual is 12.28%
- Board adopted policy – higher threshold - actuarial funded ratio must be 100%.
- No dividend if the crediting rate exceeds the assumed rate of 7.75%.
- The dividend is based on the account value at previous calendar year end.



## Nebraska State Employees Cash Balance Plan

### CASH BALANCE DIVIDENDS, MIDTERM RATES, FUNDING STATUS

Dividend Year*	Dividend Rate Paid	MTR Credited	Total Annual Earnings	Actuarial Funding Status	Market Value Funding	CB Investment Return **
2004	3.088	5.19	8.28	105	110	20.5
2005	2.800	5.45	8.25	109	115	10.8
2006	13.500	6.27	19.77	114	113	6.3
2007	2.730	6.12	8.85	103	104	15.1
2008	5.180	5.02	10.20	103	104	7.8
2009	0.000	5.00	5.00	97	70	-27.4
2010	0.000	5.00	5.00	94	83	21.2
2011	0.000	5.00	5.00	94	90	13
2012	0.000	5.00	5.00	92	86	0
2013	0.000	5.00	5.00	94	94	12.7
2014	0.000	5.00	5.00	99	106	18.1
2015	4.530	5.00	9.53	104	108	6.8

\* Year dividend is paid based on December 31 balance of prior year.

\*\* Return based on December 31 prior year.



# NPERS Defined Contribution Plan

- \* Members assume risk, make investment decisions.
- \* Account value fluctuates with market – Members get upset when market is down. Individual returns vary.
- \* Retirement is based on final account value. Timing of retirement can be an issue when market is down.
- \* Distribution options – lump sum, rollover, systematic withdrawals, annuity or combination.
- \* DC Annuity based on Pension Benefit Guarantee Corporation (PBGC) rate – (2015)  $2.89\% + .75\% = 3.64\%$

# NPERS DC Plan – Investments

- \* Investments managed by Nebraska Investment Council – separate agency - majority are passive funds– investment fees range from .04% to .38%.
- \* 13 fund options – equities, bonds, age-based funds, etc.
- \* Board & NIC are responsible for fund line-up and monitoring fund performance.
- \* Employee Education important – Provide Retirement Seminars – full day with lunch – licensed speakers – careful giving investment advice – Investment profiles, performance.

# NPERS DC Plan – Record Keeping

- \* 3<sup>rd</sup> Party Record keeper processes contributions, transfers, allocations, daily trades and NAV. Provides online trading, quarterly statements, notices and makes distributions – refunds and rollovers.
- \* Members pay record keeper fee – CB is \$18.24/year and DC is \$21.24/year.
- \* DC Members pay 5.5 basis point fee for NPERS expenses – there are no forfeitures.
- \* Difficult to reconcile accounts if there is an error – individual, employer or system – calculate gains, losses, transfers, allocation changes and daily NAV.
- \* Board adopted Excessive Trading policy in 2011.

# NPERS State and County Investment Returns

2005-2014

Year	State DC	State CB*	County DC	County CB*
2014	7.5%	9.5%	7.5%	10.8%
2013	17.3%	5.0%	17.1%	5.3%
2012	10.4%	5.0%	10.5%	5.0%
<b>3-Yr Return</b>	<b>11.7%</b>	<b>6.5%</b>	<b>11.7%</b>	<b>7.0%</b>
2011	1.8%	5.0%	2.0%	5.0%
2010	11.5%	5.0%	11.6%	5.0%
<b>5-Yr Return</b>	<b>9.7%</b>	<b>5.9%</b>	<b>9.7%</b>	<b>6.2%</b>
2009	18.6%	5.0%	18.4%	5.0%
2008	-18.6%	10.2%	-19.6%	10.4%
2007	6.1%	8.9%	6.2%	8.9%
2006	11.8%	19.8%	11.5%	22.7%
2005	5.0%	8.3%	5.0%	8.3%
<b>10-Yr Return</b>	<b>7.1%</b>	<b>8.2%</b>	<b>7.0%</b>	<b>8.6%</b>

CYE - Return estimates based on beginning and ending balances, contributions & distributions.

\* Cash Balance returns include dividends.

# Cash Balance Advantages

- \* Good compromise between DB and DC.
- \* Minimizes state/employer liability.
- \* Assets are pooled & professionally managed.
- \* No investment education or choices.
- \* Less complex to administer & lower cost than DC plans – Average member expense for State DC - \$64/year; State CB - \$49/year
- \* Guaranteed minimum credited rate.
- \* Member account value never goes down.
- \* Optional dividend in good times.

# CB Advantages

- \* Lifetime annuity benefit based on account balance and retirement age
- \* Eliminates service credit and salary spiking issues common in DB plans.
- \* Optional 2.5% COLA – paid by employee.
- \* Portable – lump sum, rollover, annuity or any combination. Benefit choices must be taken all at one time prior to age 70 ½.
- \* Administrative processes similar to DB plan.
  - \* Utilize same technology, recordkeeping.

# Conclusion

- \* CB plan is working as designed. 13 years in Nebraska.
- \* Easy to administer and cost effective.
- \* Funding has not dropped below 92%. Recovered to 100% in 5-6 years.
- \* No actuarial required contributions by State to date.
- \* CB member accounts never go down. Everyone receives the same investment return.
- \* Members received dividends 2004-2008, 2014-2015.
- \* More members are annuitizing.
- \* Members are happy.
- \* Website is [NPERS.ne.gov](http://NPERS.ne.gov).