

#### Nebraska Public Employees Retirement Systems

### Cash Balance Par

Presented to Kansas House of Representatives Retirement Committee

February 17, 2012 By Phyllis Chambers, Executive Director



### NPERS Overview

- NPERS administers six retirement plans with 115,000 members and \$9.6 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



## 20 JPERS Funded Status

- Schools 80%
- Patrol 82%
- Judges 98%
- State CB − 94%
- County CB 93%
- DC plans 100%
- GASB 25 Funded ratio = AVA÷AAL





- Introduced mid-1980's in corporate sector.
- DB Hybrid IRS considers it a DB plan because of the guaranteed credited rate.
- Individual account consists of EE and ER contributions, interest credits & dividends.
- Member account value never goes down.
- Pooled assets managed by professionals.
- Plan requires an annual actuarial valuation
- Annuity is based on account value & member's age, not a formula.



# Nebraska Benefit Adequacy Study

- 2000 actuarial study
- Compared State and County with School DB plan
- S & C average annual salaries lower.
- School \$40,000, State \$35,000, County \$30,000
- Average annual investment return, 5-year period 7% for DC plans & 11% School DB plan
- Retirement Income replacement was 5-8 % higher for DC plans to maintain same standard of living.
- 78% for Schools, 83% for State, 86% for County.







- NPERS Contribution rates:
- State 4.8 % EE, 156% ER 7.48% = 12.28%
- Credited rate based on Federal mid-term rate+1.5 % 2012 MTR was 1.17%. with 5% minimum guarantee by the State. January

County – 4.5% EE, I 50% ER – 6.75% = I I.25%

- Credited Rate adjusted quarterly and credited daily.
- Annuity rate is 7.75% determined by Board.



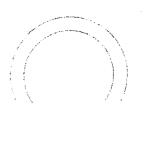
# Nebraska CB Features (cont')

- 3-year vesting for employer portion.
- Distributions options for termination, retirement (age 55) or disability -

Refund, rollover, annuity, or combination.

- Death Beneficiaries receive refund or by the annuity option. if already receiving a benefit, determined rollover; spouse may also receive annuity;
- Optional dividend granted by Board.





## How does NPERS CB work?

- Member has individual account
- Employer submits EE & ER contributions to account every payroll.
- Member account credited daily, monthly, quarterly, annually with credited rate
- Member can view account balance online.
- Member receives quarterly statements.
- Member charged an expense fee and a recordkeeping tee.



- Account accumulates until retirement.
- At retirement, can choose annuity, rollover or refund of account balance.
- Annuity is based on 7.75% factors, age, & account balance. Account is liquidated the plan and continues to be invested. within the trust and transferred to a benefit. Self-annuitize - money stays in subset annuity account that pays the
- Less than 10% CB members annuitize.

#### CB Dividends

- rate is at least 90% of the actual contribution rate Board may grant dividend if actuarial contribution per statute.
- Board added policy funded ratio must be 100%.
- Dividend based on account value at previous calendar year end.
- Problem when employees terminate between posts to a closed account. December 31 and dividend payment if dividend
- contributions. out, no longer receive interest on dividends or late Made Statute & policy change - once account is paid



# NEBRASKA CASH BALANCE DIVIDENDS, MIDTERM RATES, FUNDING STATUS

County	State	County	State	County	State	County	State	Plan									
2011	2011	2010	2010	2009	2009	2008	2008	2007	2007	2006	2006	2005	2005	2004	2004	Year*	Dividend
0.000	0.000	0.000	0.000	0.000	0.000	5.340	5.180	2.730	2.730	16.400	13.500	2.800	2.800	3.088	3.088	Rate Paid	Dividend
5.00	5.00	5.00	5.00	5.00	5.00	5.02	5.02	6.12	6.12	6.27	6.27	5.45	5.45	5.19	5.19	Credited	MTR + 1.5%
5.00	5.00	5.00	5.00	5.00	5.00	10.36	10.20	8.85	<b>8.85</b>	22.67	19.77	8.25	8.25	8.28	8.28	Earnings	Total Annual
93.2	93.6	95.1	93.9	100.3	96.9	108.1	103.4	105.2	103.3	117.3	113.9	113.5	109.3	110.3	105.4		Funding

<sup>\*</sup> Year dividend is paid is based on December 31 balance of the previous year.

<sup>\*\*</sup> GASB 25 funding status based on previous year.

### Cash Balance Advantages

- Good compromise between DB and DC.
- Minimizes state/employer liability.
- Assets are pooled & professionally managed.
- Less complex & lower cost than DC plans.
- No investment education and choices.
- Guaranteed minimum credited rate.
- Optional dividend in good times.





- Excellent lifetime annuity benefit.
- Optional 2.5% COLA paid by employee.
- Portable refund, rollover, annuity or combination. Must be taken at one time.
- Optional transfer to DCP for systematic withdrawals.
- Record keeping and reconciliation are easier than DC





### **CB** Considerations

- Existing or new hires
- Tier or a new plan
- Determine crediting rate from a published index rate. Select frequency.
- Select a minimum credited rate.
- Work with actuary and investment professionals. Set rates that are attainable.
- Determine Dividend policy and structure excess returns to pay off unfunded liability.



## CB Considerations (cont')

- Set Annuity Rate with optional COLA
- Utilize KPERS technology or outsource record keeping.
- Utilize similar procedures for Employer reporting and Member Statements.
- Simplicity Many procedures will be similar to your current DB plan.
- Member Education—packets & seminars

#### Conclusion

- CB plan is working in Nebraska as designed. Nine-year history.
- No actuarial required contributions to date.
- Members received dividends 2004-2008.
- CB member accounts increasing.
- More members are annuitizing.
- Employees are happy. DC members want to know if plan will be opened to transfers again.
- Website is <u>NPERS.ne.gov</u>.

