[LB551 LB655]

The Committee on Nebraska Retirement Systems met at 12:00 p.m. on Tuesday, February 24, 2015, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB655 and LB551. Senators present: Jeremy Nordquist, Chairperson; Al Davis, Vice Chairperson; Rick Kolowski; Mark Kolterman; and Heath Mello. Senators absent: Mike Groene.

SENATOR NORDQUIST: Good afternoon, everyone. Welcome to your Nebraska Retirement Systems Committee. I'm state Senator Jeremy Nordquist from District 7 in downtown and south Omaha, Chair of the Retirement Systems Committee. Today on the agenda we have two bills. First, we're going to hear LB655 with Senator Davis and then I have LB551. We have Senator Rick Kolowski on the committee from Omaha; Vice Chair of the committee, Al Davis, from Hyannis; Senator Mark Kolterman from Seward; I believe here comes Senator Mello from District 5 in Omaha; and I believe Senator Groene had another commitment over the lunch hour so he won't be joining us. To my left is our committee counsel, Kate Allen. To my far right, committee clerk Laurie Vollertsen. Brandon is our page today. He'll help with anything you need passed out or any copies made. We have testifier sheets in the back. Please complete those if you're going to testify and submit it to Laurie when you come up. Please silence your cell phones so we don't disrupt the recording of the hearing. And please state and spell your name for the record. I think that's the main points. We'll go ahead and get started with Senator Davis and LB655.

SENATOR DAVIS: Good afternoon, Senator Nordquist and members of the Retirement Committee. I am Senator Al Davis, D-a-v-i-s, and I represent Legislative District 43. Today I am introducing LB655, a bill to address the very serious situation firefighters in many of our first class cities face as they near retirement. To be clear, LB655 is a placeholder bill. It was important to bring this issue to the committee now so that we can study the situation over the interim and develop a workable plan in the fall. At that point, we can amend the bill to reflect committee discussions and incorporate the changes and solutions gathered during the interim and have the bill ready for adoption in January of 2016. LB655, as drafted, creates a cash balance retirement plan for first class city firefighters hired on and after an unspecified date. Currently, all first class city firefighters hired after 1984 are members of a defined contribution plan administered by each first class city, essentially a 401(k) plan which is administered differently in each community and has performed poorly enough that most firefighters are unable to retire comfortably. Current firefighters would have a onetime option to transfer their assets into the cash balance retirement plan. The plan would be structurally...would be structured similarly to what we have currently for county and state officials in their cash balance plan and employees which guarantees a minimum 5 percent rate of return with possible dividends if the plan is fully funded. Employee and employer contribution rates in the bill as introduced would remain the same as they are for current defined contribution plans. And that is, the employee currently contributes 6.5 percent of compensation and the employer contributes 13 percent. The cash balance plan would be administered by the Public Employees Retirement Board and a representative of first class city firefighters would be added to the membership of the PERB board. This bill would give these firefighters the option to opt into what would be the same type of plan that we have for state and county employees right now, providing some much-needed additional support at the time of their retirement. Senator Nordquist introduced this concept as LB552 in 2013 as a result of a 2012 retirement committee interim study on first class city firefighter pensions. This committee heard testimony at the LR628 interim hearing on the closure of the firefighter defined benefit plan in 1983 and the intended goals at that time for a defined contributions plan that would provide no less benefits than those provided to firefighters in the defined benefit plan which promised a pension benefit of about 50 percent of salary. Testimony at that hearing indicated that firefighters in defined contribution accounts were only providing about 25 percent of their salary at the time of retirement. You generally need 75 to 85 percent of your preretirement income to maintain your lifestyle. This meant, for example, a firefighter retiring at the eligibility age of 55 could be retiring on monthly annuity payments of only $1,344 a month without health insurance. Additionally, firefighters do not participate in social security so that option is not available to them either. The result is that firefighters are continuing to work past retirement age because they simply can't afford to retire. Those that do retire have to because of physical inability to continue the demanding work must either go to other part-time jobs to supplement their pension or end up accessing Medicaid and other state programs when their pension runs out. The fact is, our current system is not saving our firefighters the way it was intended...not serving them as it was intended. And these public servants are retiring on inadequate incomes after careers of hard and dangerous work in the service of their communities. The option of a cash balance retirement plan would allow firefighters to benefit from reduced fees and professional asset management, the lack of which have probably contributed to the lower-than-expected returns from the defined contribution plan. It would provide another option for first class city firefighters that is similar to the cash balance plans that work very well for state and county employees. Testifiers following me will be able to give you more background and perspective on the current situation but I would be happy to take any questions. Thank you very much. [LB655]

SENATOR NORDQUIST: Thank you, Senator Davis. Are there questions from the committee? Seeing none, thank you. [LB655]

SENATOR DAVIS: Thank you. [LB655]

SENATOR NORDQUIST: We'll take proponent testimony first, proponent. Welcome. [LB655]

RON SAATHOFF: Thank you, sir. [LB655]

SENATOR NORDQUIST: Go right ahead, yes. [LB655]

RON SAATHOFF: (Exhibit 1) Okay. Senator Nordquist, thank you for the opportunity to testify before the committee. Members of the committee, legal counsel, I'm Ron Saathoff. I'm the pension resources director for the International Association of Fire Fighters headquartered in Washington, D.C. I want to applaud Senator Davis for the introduction of this bill. [LB655]

SENATOR NORDQUIST: Ron, could I get you to spell your name for the record? [LB655]

RON SAATHOFF: Oh, I'm sorry. [LB655]

SENATOR NORDQUIST: That's all right. Please. [LB655]

RON SAATHOFF: My last name is Saathoff. That is spelled S-a-a-t-h-o-f-f. [LB655]

SENATOR NORDQUIST: Okay. Thank you. [LB655]

RON SAATHOFF: I want to applaud Senator Davis for the introduction of this bill. The cash balance option will solve many of the concerns and problems that we have with the current adequacy of the 1984 act. It does so under many different provisions which I will briefly go through. It's clear after 31 years of history and the testimony that was already given that the situation in 1984 to try and create a benefit that was going to result in a 50 percent...at least a 50 percent continuing benefit for retired members simply has not come to fruition. It hasn't functioned. There are a number of reasons why that's the case. Under a 401(k) plan, as was mentioned, you have...the fee structure is based on individual investment accounts that are managed by each individual city. So you have a third-party administrator, an investment portfolio that's managed by each individual city. There is no collective pooling of both resources and so, therefore, the fees are multiplied many times as a result of having such a fractured and individualized system. Typically, the fees will run anywhere from 150 to 200 basis points which, under a cash balance plan, those fees are going to be lower typically anywhere from 35 to 45 basis points. So you're talking about just the loss in overhead and fee costs at the beginning. You also have a scale issue. You have individuals that are investing or...in a Class I city, that number of employees that's investing in this plan as opposed to under a cash balance plan covering all Class I cities, we have a much larger pool with much more dollars under management. A 401(k) plan also has the opportunity for leakage. You have a number of methodologies whereby 401(k) assets can be accessed by the member under hardship conditions and other conditions depending on the plan design. But that is money that can be removed, is no longer available for retirement as the member moves forward. You also have a timing issue. With a 401(k) plan, you're going to invest your assets, if you're doing it appropriately, based on your age. The younger you are, you're going to be more aggressive. As you get closer to retirement, you're going to be more conservative. That's going to lower your overall return rate on your portfolio over time with a cash balance plan because you're nominalizing a period, a 30-year time horizon. You're always invested at an optimal rate so you get a higher rate of return for the life of the career. And unfortunately, we also have adverse selection. It's been my experience, I've served on a 401(k) board for a number of years and, unfortunately, folks tend to invest exactly the opposite of the way you would hope they would. When times are good and benefits are going up and plan numbers are going up, people tend to buy. They tend to invest their portfolio money in those rising rates. And conversely, when they fall, they tend to sell. They tend to move the money into a cash balance account because they can make individual selections. And unfortunately for most folks, they select adversely in a way that is counter to the market and as a result of that, lose many of the benefits and lower their overall return. Conversely, under the cash balance plan as proposed by Senator Davis, you've got pooled investments. We're going to have far lower rates because of the economy of scale both in investment and administrative costs and I think the state plan right now, the admin fees for the state plan that currently exists for the nonsafety members at a statewide level is 5.5 basis points. Five and a half basis points is literally...on $100, that means the admin fee would be a nickel and a half, 5.5 cents. That is a phenomenally reasonable low rate which is accomplished through the economies of scale, having a pooled investment vehicle that works for everybody. It was mentioned in the report, too, in terms of trying to provide adequacy, this bill in its intent is not to increase costs. You know, there's no additional cost to the Class I cities, to the taxpayer...the same contribution rate that's currently being used. The question is, how do we invest that money and provide returns on that money more efficiently so that we can generate a greater retirement income for our Class I city firefighters at the end of their career. As was mentioned earlier, you know, that city firefighters, Class I city firefighters, do not participate in social security. You know, that is a very significant...a typical three-legged stool for retirement planning is social security, a retirement plan, and individual savings. Well, we're left with two of those three legs and one of those legs is not performing adequately as the 401(k) model. Even...it is true that some members may have social security as a result of outside employment. You know, it's entirely possible and, in fact, likely in many cases. But what is not well known is that social security benefits are offset. It's called...there's a government pension offset and the Windfall Elimination Provision. And those were put into place for those individuals that gain a retirement through a jurisdiction, a government retirement, for an agency that does not participate in social security. As a result of that, their benefits are significantly lowered because of the fact that they participate in an agency that does not have social security payments going. It's not a very well-known fact. But even a, like I say, for those folks that may have social security quarters that would qualify them for benefit, that benefit is going to be reduced substantially over what it would have been, you know, had they not been in a nonsocial security working environment. Now, the bill itself, I've taken a look at it carefully and I would like to make a couple of suggestions that the committee would consider as additions to this. The bill did not have within it the same disability provisions for both line of duty death and for duty disability that there are in current law. And it is important that those would be incorporated. The bill as drafted simply doesn't address it other than an account balance that would be refundable to the individual in the event of that occurrence. And that's simply not going to function adequately for a firefighter. You have to have and it's very necessary to have a provision in the event that someone is catastrophically injured to the point where they can no longer continue their employment and, heaven forbid, but under the extreme circumstance where we had a firefighter killed in the line of duty, providing adequate benefits and security for their family moving forward which is in current law. And there's no...I would suggest there be no attempt to change that, that that simply would be incorporated as a function of this bill using the existing language. There's no reason to change it. It is an adequate provision that exists and, therefore, there would be no cost change. And the other consideration that I list in the document that I handed out here was the possibility of the fee structure, you know, being made and aligned with the current cash balance plan. The way it's written, it leaves the door open for additional fees and services where...which aren't necessary and are adequately addressed in the current cash balance plan as to what those could be and also the interest crediting rate, that you want to have a cost-neutral program. Clearly, there's no intent to provide any negative balance that is going to provide for any additional cost on any...on the taxpayers of Nebraska as part of this. But the crediting rate can be structured in a way to provide a higher return rate than what the 5 percent as currently listed and still provide that adequate. The way it's done in the current system is through dividends, you know? But instead of a dividend, you can do it as an add-on on a per-year basis with the same actuarial outcome, you know, and I would suggest that we take a look at that because, at the end of the day, it's all going to be, how much money is put in versus the interest accumulation that is going to be garnered over that period of time, and then what is that going to purchase? What's that going to purchase at the end of that person's career? Currently, as was mentioned earlier by Senator Davis, the amount of money that our individuals that were hired in '84 have accumulated is inadequate to purchase an annuity that's going to be greater than about 25 percent of their current take-home income. As for...the senator mentioned 75 to 85 percent is considered necessary to maintain your standard of living upon retirement. And in Nebraska, we have a circumstance not just without the social security but we also have the circumstance where the individual is solely responsible for their healthcare. Firefighters can't work to age 65. And when the average firefighter retirement age is at 55 years of age just because of the stress and demands of the job, the physical nature of it, and the disability rates are exponential after you reach age 50. They go up very dramatically from that point in time, the point being here is that, yes, everybody is mandatorily in Medicare after April of 1986, but with an individual retiring at 55, they will not have access to Medicare for ten years. So they are going to have to take from their retirement account that money necessary to be able to fund their medical at least until age 65 when they can then avail themselves of the opportunity to participate in Medicare. So whatever retirement outcome they have at that point in time is going to be offset by those medical expenses which is going to significantly lower, not uncommon for even just a single plan and the most...least expensive plan is going to cost anywhere at least $200, $250 a month at a bare minimum. And that's going to come straight off the top. So what are the outcomes here? The other thing that...in the cash balance plan that the state has run is, they run the...they run an annuity program. A cash balance plan has to have an annuity option as part of the plan. Well, they run the annuities in house. You know, they administer the annuities, they run them in house. What that does is give you a far greater economy of scale. You're not paying commissions. You're not paying overhead. You're not paying expense. And so you're going to get more return in terms of that annuity for the dollar that's invested. You're going to have more dollars at the end of a career with the same input because of the economies of scale, because of the investment portfolio, all of the things that we just discussed. And you're going to be able to buy a product that is going to give you more dollars for your investment than it would under the current system. If somebody leaves with a 401, they take their balance. They can either lump sump it or they can go out and they buy an annuity. But if they buy it, they're going to buy it one off. You know, it's going to be a single annuity based on their individual circumstance and it's going to be costed accordingly which is going to be quite expensive. By pooling that, it's going to reduce that, you know, significantly. So I think that the framework of this bill is extremely workable. It will provide a significant increase, I believe, in benefits, you know, to our retired Class I firefighters over what exists now. There's other ancillary benefits as far as recruitment and retention. I know there is a serious problem in some jurisdictions with people leaving Class I cities to go to Omaha or Lincoln in particular because they do have a defined benefit plan and so they're moving in that direction. [LB655]

SENATOR NORDQUIST: Great. [LB655]

RON SAATHOFF: With that, I think I would just close, I think. I really appreciate, again, Senator Davis' introduction of this bill. I think it's an important piece of legislation that has a tremendous potential to enhance significantly the retirement benefits that a Class I firefighter would earn at no additional cost to the taxpayer. And it is a significant move. I think in your copy you have a couple of suggestions that...for inclusion particularly with disability. And I am ready...or possible to answer any questions if there should be any. And I thank you very much for your attention. [LB655]

SENATOR NORDQUIST: Okay. All right. Thank you, Ron. Thank you. Question I have just...so we maintain contribution rates at 6.5 percent from the employee and 13 percent from the employer, 19.5 percent. Is that sufficient to pay the benefit on the back end if it's managed appropriately, invested appropriately with reasonable fees? [LB655]

RON SAATHOFF: Senator, that's a very good question. And I think it depends on the model. In other words, it's...that's why I was suggesting, on the interest recrediting side, at a 5 percent return, no. To be honest with you, at a 5 percent return, it's going to be better than what we have now. But is it going to take us over 50 percent? You know, it's not likely to. You know, we've modeled this and we've got an inhouse calculator where we've modeled this and candidly, when we do a 401(k) projection, the industry standard for return rates is a 6 percent net of fee return. And that's what we based our model on. That is not adequate to provide, you know, the 50 percent. The difference in a cash balance plan is, again, you...the interest rates can be worked with. The actual cash rate in a state plan does have dividends that are paid onto it. So it...we'd have to calculate what the nominal rate is. But to answer your question directly, yes, I would at least look at and consider, you know, the possibility that more money may need to be put in by the employee, you know, as part of this in order to reach an adequate benefit level. You have to have a target. [LB655]

SENATOR NORDQUIST: Right. [LB655]

RON SAATHOFF: You know, 75 to 85 is ideal. You're not going to reach that, you know, under this plan, but we're going to get a heck of a lot closer than where we are today. [LB655]

SENATOR NORDQUIST: All right. Thank you. Senator Kolterman. [LB655]

RON SAATHOFF: Sir. [LB655]

SENATOR KOLTERMAN: Yeah. Now, you come from the national organization? [LB655]

RON SAATHOFF: Yes, sir. [LB655]

SENATOR KOLTERMAN: So I have some questions for you in regards to...just for comparative purposes. Do the...do other states take the social security out of the mix when it comes to professional firefighters? [LB655]

RON SAATHOFF: It is...I would say nationwide, and I'm not speaking just state plans, but firefighters nationwide, approximately 75 percent of them are in pension plans that do not have social security. It is quite common for public safety workers, particularly firefighters, to not be enrolled in social security. Their pension plan is their sole, you know, pension outcome at the point at the end of their career, that plus their individual personal savings. [LB655]

SENATOR KOLTERMAN: So do you know their...why...what's the relevance behind that? What prompted that to happen in that way over time? [LB655]

RON SAATHOFF: A couple of factors: I believe the age of retirement is a big factor, the fact that we needed to be able to provide a retirement for firefighters where they could retire at 55 years old and not have to work to 65. So the money that would have been contributed to social security was rolled into the defined benefit plan and was made a part of that plan and offset the cost of it so that it could provide a benefit on a more cost-effective basis at an earlier age. [LB655]

SENATOR KOLTERMAN: But that's where...can I... [LB655]

SENATOR NORDQUIST: Yeah, please. [LB655]

SENATOR KOLTERMAN: But that's where you have a defined...you're talking defined benefit plans now. [LB655]

RON SAATHOFF: Well, that is the vast majority, you're right. [LB655]

SENATOR KOLTERMAN: And this is a defined contribution plan. How many of the states... [LB655]

RON SAATHOFF: Have defined? [LB655]

SENATOR KOLTERMAN: ...for firefighters have defined benefit versus...or cash balance versus defined contribution? [LB655]

RON SAATHOFF: There are...the most recent...off the top of my head, I don't...I can't think of more than one that has a cash balance right now--they adopted it last year--which was state of Kentucky. You know, they went to a cash balance plan. They had a very severely underfunded plan statewide. And they felt that they had to make some modifications and their option was to go to a cash balance plan. [LB655]

SENATOR KOLTERMAN: So were they in 401(k) plans as well? [LB655]

RON SAATHOFF: They were not. They were in a defined benefit plan. [LB655]

SENATOR KOLTERMAN: Okay. So they went from defined benefit to cash balance? [LB655]

RON SAATHOFF: That is correct. [LB655]

SENATOR KOLTERMAN: Okay. [LB655]

RON SAATHOFF: That is correct. And as far as a defined contribution or a 401(k) plan, the only state that I'm aware of that has a 401(k) plan for public safety employees is Alaska. In 2006, they put in the entire state work force regardless of status, you know, whether safety or nonsafety. Everybody was in...was placed into a 401(k). And that, by the way, is being revisited. And there's a recent study that was done on that that it actually has wound up costing more, not less, and it's not been effective and they're now looking at reversing. It hasn't happened. I'm not trying to suggest that. But it has... (Inaudible). [LB655]

SENATOR KOLTERMAN: Then the...I have a few questions. Can I just keep going? [LB655]

SENATOR NORDQUIST: Go right ahead. Yeah, keep going. [LB655]

SENATOR KOLTERMAN: Thank you. Do you know...do you have any idea how many dollars exist at the present time in defined contribution plans throughout the state for... [LB655]

RON SAATHOFF: For Class I cities? [LB655]

SENATOR KOLTERMAN: ...like each municipality, each Class I city... (Inaudible). [LB655]

RON SAATHOFF: No, sir, I don't. See, those records are not publicly available, see? We're...you're talking about individual accounts. [LB655]

SENATOR KOLTERMAN: Right. [LB655]

RON SAATHOFF: You know, each person has contributed. Each person has an account balance and receives a statement on it. That's not a matter of public record... [LB655]

SENATOR KOLTERMAN: Okay. [LB655]

RON SAATHOFF: you know, unlike a defined benefit plan or a cash balance plan where you have...you know, you have a published financial report every year that indicates, you know, the status of your plan, funds in, funds out, and earnings and everything else. Here it's just by individual. It's all based on their choice. It's all based on the investment selections they made, whether or not they took any money out. There's any number of factors. But...so the direct answer to your question is, I do not. I do not have any specific knowledge of the amounts. [LB655]

SENATOR KOLTERMAN: So then my question goes to the fact that, if each one of these Class I cities that has paid...because we're just talking about paid professional firefighters... [LB655]

RON SAATHOFF: Yes, sir. [LB655]

SENATOR KOLTERMAN: Each one of these communities that has a plan, they're paying for the cost and fees associated with that plan. And if we were to move them into a cash balance plan, we'd be taking on that liability, as I understand it, to meet the obligations of the annuity at the end. [LB655]

RON SAATHOFF: You're correct. But under the state plan as it exists now, as I pointed out, the admin cost of that is 5.5 basis points. [LB655]

SENATOR KOLTERMAN: I understand that. [LB655]

RON SAATHOFF: You know, and I guarantee you that there's not a jurisdiction out there that isn't running an admin fee that's many times a multiple of that plus investment fees on top of it. [LB655]

SENATOR KOLTERMAN: I understand all that. [LB655]

RON SAATHOFF: You know, so it's tremendously more expensive. As you can imagine, anything that you buy in scale as opposed to buying one off, the costs are going to be different. And literally, every class I city is buying one off. They've each got their own administration. [LB655]

SENATOR KOLTERMAN: And I'm with you on that. My concern is, I wonder how underfunded we are. And if we're going to fund this adequately to bring people up to where they need to be, what kind of an obligation would we be taking on as a state to fulfill that obligation? [LB655]

RON SAATHOFF: Well if...that's a fair question, sir. And the reality of it is, that's why the funds are structured in such a way, as Senator Davis has suggested, that the earnings above a given rate are retained within the plan. Okay? They're not...you know, they simply stay within the plan. They could be a dividend under the current plan, the way that the state runs it. But typically in a cash balance plan, those remain in the plan. And they're used to offset, you know, in the event that you have a market downturn, in the event that...you're guaranteeing an interest rate. If you didn't earn that much that year and you have to credit that rate, well, where is that money going to come from? Well, actuarily it comes from the overages that take place in terms of the earnings above that rate, and the other place it comes from is the forfeitures. You know, this plan and all cash balance plans are designed with a forfeiture. Kentucky's in particular has what they call cliff vesting which means if you have less than seven years in and you leave, you take your contributions. The state's contributions remain with the plan. Now, here it's a different vesting schedule that has been proposed. But the vesting schedule does the same thing. Depending on how many years you have, that portion, some or all of the employer contribution is not refunded to the individual should they terminate and leave service. It remains with the plan. So those forfeitures remain with the plan. And any earnings above the paid rate, depending on what the formula is, remain with the plan. And the third element is, it's not an immediate cost. Because of the cash balance plan, you don't pay off all of your obligations in one year. It is a rolling, ongoing plan. So if you run a little bit short in terms of the investment earnings for that year, you recover, you know, based on the earnings of subsequent years. And it averages out over time. So you don't have an immediate cost. You don't have a, oops, we're under by a couple of percent so we have to now contribute more money to the plan. That's not necessary in the design of a cash balance plan. That is actuarily calculated over a period of time and, like I say, the intent here is clearly that there will be no additional cost, you know, to the taxpayers of Nebraska. The 13 percent is the basis upon which this is designed. [LB655]

SENATOR KOLTERMAN: Thank you. [LB655]

RON SAATHOFF: Yes, sir. [LB655]

SENATOR NORDQUIST: If...Ron, if I'm a, you know, a firefighter who unfortunately hasn't had great investment outcomes and my fund is short and I'm getting to the end of my career, this won't do much for me, right? I mean, this is more long term? I mean, outside of the...maybe the annuity option would be a benefit. [LB655]

RON SAATHOFF: Obviously it's going to vary by individual... [LB655]

SENATOR NORDQUIST: Yeah. [LB655]

RON SAATHOFF: ...and where they are in their current status. [LB655]

SENATOR NORDQUIST: Right. [LB655]

RON SAATHOFF: But if I had five years, ten years, fifteen years to go, it's still a worthwhile transition to make... [LB655]

SENATOR NORDQUIST: Right, right. [LB655]

RON SAATHOFF: ...for a couple of reasons. I'm going to earn more money on my investment, net of fees... [LB655]

SENATOR NORDQUIST: Right. [LB655]

RON SAATHOFF: ...than I would have under my current scenario. [LB655]

SENATOR NORDQUIST: Right. [LB655]

RON SAATHOFF: That's number one. Number two is, I can't take any of the money out which... [LB655]

SENATOR NORDQUIST: Right. [LB655]

RON SAATHOFF: ...it's unfortunate but people, in desperate times, unfortunately raid their retirement account and they can do that on a 401(k). And the critical piece of it is the annuity provision. You know, when you can provide an annuity at a wholesale price rate without commissions and overheads and fees... [LB655]

SENATOR NORDQUIST: Right. [LB655]

RON SAATHOFF: ...I will be able to purchase more. With whatever amount of money it is that I have... [LB655]

SENATOR NORDQUIST: Right. [LB655]

RON SAATHOFF: ...I will be able to purchase significantly more than if I went out on my own and tried to buy an annuity. [LB655]

SENATOR NORDQUIST: Right. [LB655]

RON SAATHOFF: And candidly, just as an aside, of the people we have looked at, as Senator Kolterman said, we don't have aggregate numbers. But we have had individuals bring forth their account balances for us and tell us where they're at and show us. [LB655]

SENATOR NORDQUIST: Yeah. [LB655]

RON SAATHOFF: And in calculating those, that's...the 25 percent number, that's where that comes from, is the money simply isn't there. [LB655]

SENATOR NORDQUIST: Yeah. Right. [LB655]

RON SAATHOFF: So you know what they're doing? They're living off of withdrawals from that account after retirement. They're taking a lump sum or they're taking periodic distributions and they're simply taking out the amount they need to live because the annuity wouldn't provide them sufficient money to live so they simply can't take that option. [LB655]

SENATOR NORDQUIST: Right, right. [LB655]

RON SAATHOFF: So, yes, it is a...even if someone only had a year left, simply the opportunity to be able to purchase an annuity with whatever balance they had is going to give them significantly greater return on their investment. [LB655]

SENATOR NORDQUIST: Okay. And one last thing: I heard one time somebody say, well, they're concerned of the state having this fund with their retirement money in it rather than a private company because the state could go in and take those assets for whatever purpose. Can you dispel that with any... [LB655]

RON SAATHOFF: Under a cash balance plan? [LB655]

SENATOR NORDQUIST: Right. [LB655]

RON SAATHOFF: Absolutely not. The money is in trust. [LB655]

SENATOR NORDQUIST: Right. Okay. Right. Right. Right. [LB655]

RON SAATHOFF: You know, the money is not approachable, reachable, or obtainable by anybody other than the beneficiaries of the trust as outlined in the plan document. That would be a violation of law and it simply is not accessible. [LB655]

SENATOR NORDQUIST: Great. Any other questions from the committee? Seeing none, thank you. [LB655]

RON SAATHOFF: Thank you very much. [LB655]

SENATOR NORDQUIST: Next proponent. [LB655]

SCOTT KUEHL: Thank you, Senators. My name is Scott Kuehl, S-c-o-t-t K-u-e-h-l. I am representing the Local 647, Grand Island Firefighters. I am a past union president for 14 years and I am a current ten-year member of the retirement committee for the city of Grand Island. I was here testifying the last time we did this and I'd kind of like to give you a little bit of an update of where the city of Grand Island is and their personnel, current and some retired employee information. And before I forget, Senator Kolterman, you had a question for Mr. Saathoff. When I get done with my little spiel here, I'd like to maybe give you some additional information about the dollar amounts you were asking for. A quick update on...our first traditional retiree from the city of Grand Island who retired at about the age of 55 had 25 years on the job. He retired with roughly $300,000 in his account. He was able to use the COBRA issue or the option for the city of Grand Island. At that time, they were doing some...well, they were having some budgetary problems. They offered a COBRA that would allow him to pay his employee rate for the 18 months instead of the full rate. So he jumped on that issue. But when he retired, he looked into what it would cost him for a similar plan at that time and it was $500 to $600 a month he would have been having to pay. After the COBRA ran out, based upon his amount that he could draw from his retirement, he did without insurance. The best thing that happened to him was the Affordable Care Act. He was able to get into that last year and he's paying now roughly about $80 a month for the low-level plan. But he was without insurance for a couple years in between there. He retired four years ago. His plan is giving him roughly about $14,000 a year to live on. And you can imagine, if he would have had to pay $500 to $600 a month, he would have either had to increase his withdrawals or live on less. He is...what he had told me, he is full time/part time to cover the rest of expenses to live on. His employer is keeping it under the 30 hour a week mark and part-time wages and zero benefits. He is making do. The economy has been fairly good lately. His account is--another good thing that has happened--is roughly the same as when he retired. So it's not great but he...it's not good either. He wishes he didn't have to work a part-time job to supplement it. He is one that will not qualify for social security. He worked a lot of different jobs but none of them were enough to get him the 40 credit hours. And he doesn't know that the part-time stuff will play into that factor because of substantial earnings clause, you need to have...to get those credits. And just recently, as the city of Grand Island, within the last time I was here, we had one retired firefighter that returned to work with the city of Grand Island within the fire department in the inspector position because he was fearing that his money was going to run out. And he was a pre-'84 person. He got the 50 percent lump sum buyout. And I don't have the exact number what he had, but he had told me the reason he wanted to come back to work was for healthcare reasons. And he was fearing that he was...he looked towards the future and he would be running out of money. And now, I'll give you a little scenario of...we have one person who is left on our department that is a pre-'84 person. He has been on the job for 34 years. He's 55 years old. He could retire at any time. His balance for the first time in his career now equals the approximate value of 50 percent which means at this point the city wouldn't have to kick in any money to get him to the 50 percent annuity. It's the first time in his career that's happened--the first in the last five years when he started paying attention to it. Before that, retirees for the city of Grand Island that were pre-'84 on average had to have a $184,000 kick in to make them to the 54...or 50 percent value. So that's somewhat good. But I will roll that into the most current senior employees that we have that are not the pre-'84s. And those senior employees are anywhere from 27 to 30 years on the job. Their account balances are anywhere from $540,000 to $610,000. I took one of the middle of the road ones there of those five employees, had that person go out and take a look at what their money would buy them today. Doing the math, getting the annuity bid, the amount last time I was here for a firefighter was 25 to 27 percent, somewhere around there. Today--this happens to be a captain--he could retire at 38 percent, 38 to 39 percent. That's what today's value is. And you look back at the pre-'84 one that I told you he's got 34 years on the job and he's just now attaining the 50 percent value. The average starting age of a Grand Island firefighter is 27 years old. So if that 27-year-old has to work 34 years to get to 50 percent, they're 61 to 62 years old. Now, each one of you close your eyes and imagine when you call 911, who do you want showing up? You want 4, 5, 6 60-year-olds showing up or do you want 4 or 5 25, 30, 40...I'll say 48 at least because I'm 48 (laughter) and still employed. But you get what I'm getting at there. Sixty years old being a firefighter is not very...it doesn't happen very often. I've been on the job for 20 years. I think there's one person that made it to 60 years old. And at that point, the body does give out. I mean, let's just call it what it is. So if anything in the past are reflective of what's going to go up in the future, our average firefighter is going to have to work to be 61 to 62 years old to attain a 50 percent value which we know is not even adequate enough. And then when you lump in what you heard everybody else say about the social security, we have no safety net. Ironically, you know, firefighters are the safety net of the community but we have no safety net. The pension, whatever, 401(k), whatever you want to call this plan we have right now, for something that goes away for some catastrophic illness or something financial in your personal life, after you retire, can go away, they have nothing there, absolutely nothing. And one of the things I want to touch on, and I think Senator Nordquist said it, we have a firefighter that has 28 years on the job. He started roughly at the same time as a couple of 28-year firefighters. Through bad investments, bad choices, I don't know what happened--he's rather embarrassed to even admit this--he has got $200,000 less than the person who started the same year and roughly progressed through the system the same way: started out as a firefighter, got promoted to captain roughly the same time. So these are some of the things that are wrong with this, where firefighters can make those mistakes. I know we have obligations that we've got to let them somewhat invest their money conservatively or aggressively, however they want to, but I think this cash balance plan fixes a lot of that...that we won't be able to do that. And finally, I'll end up with...I have a financial advisor that I've been talking to, several of them over the years, trying to figure out ways we can improve it without having to come to the State Capitol to do this. And I continue to get stonewalled. And I ask them, you know, what do you think of our plan, how it sits right now? And everybody says, once I clue them in to what we have, is inadequate is the word that comes up. And they say, you should be at least in social security. They can't believe you're not paying the social security. And I know Ron Saathoff is probably cringing behind me saying that that...but that's how bad it is here. I wish I was in social security. At least I would have a safety net below of what I have right now. But I asked one of the financial advisors if they would come here and testify in support of this. And at first glance, they would say, oh, yeah, we're in support of that, we'll do something. Well, then I'd tell them and give them more information about what we're planning here, they back off of that. And I knew I was going to get one of two answers. I knew it was going to be either a, yes, they're going to come here and do it or, no, they're not going to. One of them, that was an answer I wanted, but the other one was the answer I needed because I knew that at that point they understood that they...maybe they weren't going to have an opportunity to regulate that money, make money off of our money. And they weren't willing to come up here and take money out of their own pocket, is what I get out of it. Now, whether that's true or not, that's my interpretation of what I get out of them. And that's happened several times. I think they're in it to skim off the top, bleed the money out of this 401(k) system, and that's directly affecting our returns over a 25-year...25- to 30-year return rate. So I think that's an improvement. If we go to the state plan, I think that not having firefighters directly involved and making mistakes investment is helping because our plan is inadequate and needs some assistance from you guys to correct it. And I do remember the question you had about how much money is out there in the first class cities. Now, I don't know anybody else's but Grand Island. And Grand Island is the biggest first class city. Our fire department is roughly twice as big as any of the other cities in the state of Nebraska. We have 70 employees, roughly. Our cash balance on hand right now for the firefighters is $14 million. So that gives you some sort of an idea of the trickle-down effect of what other cities may have in their accounts. I would guess ours is probably the highest amount based upon our employee numbers. And one last thing I just remembered: I have been trying to improve this situation by keeping our costs under control. It's taken me five years to get the city to do an RFP to go out and bid our management of our account. I continually get stonewalled by...we've got a new mayor, we've got a new city administrator, we've got...Grand Island has got this shuffle of upper management that I couldn't get anything to get legs to get it through and get budgetary authority from the city counsel. I am happy to say that we finally got it done this year and we are going to be going out for RFPs. But in my research, a lot of the other first class cities' firefighters don't have access to even asking for that. So they have no idea what the costs are. And I'm not sure that the cities in those cities even care what they are. They just don't want to have to deal with it. They want to take the fiduciary responsibility of managing that account. I think they pass it off and it's out of sight, out of mind. And I think that might be something that would be fixed by what we're potentially doing with this today. So with that, I would open up to any questions and I thank you for your time. [LB655]

SENATOR NORDQUIST: Right. Right. Thank you. Any questions from the committee? Questions? Seeing none, thank you. [LB655]

SCOTT KUEHL: All right. Thank you very much. [LB655]

SENATOR NORDQUIST: Next proponent. Welcome. [LB655]

DAVE WORDEKEMPER: Senator Nordquist, members of the Retirement Committee, my name is Dave Wordekemper, D-a-v-e W-o-r-d-e-k-e-m-p-e-r. I'm a member of the Fremont Firefighters, Local 1015. I'll give you a little history. I did a little different spin on this. I've been in the fire service 28 years, as a volunteer on small departments for 8 years, started in Fremont, have 20 years on there, and I didn't get into this job for the benefits, anything. You enjoy helping people. And that's what you love to do. When you start that and that's not your mentality, you find it hard to believe that, after you're in the job, your retirement is a concern. And to me it should not be. Fremont has 21 firefighters, 3 lieutenants, 3 captains, and a fire chief, and a majority of first class cities are set up somewhat the same. And with that, our staffing, our upper management people are doing the same jobs as the firefighters are. They're going into the houses. We don't have the luxury of them sitting outside in, you know, an easier position, running a pump or running the scene. They're actively involved in it. So that makes a difference. Throughout your career, you don't have a...now this is all easier gig, you can relax, or you progressed up, so they're having to do that job their whole career. During my 20 years, Fremont has hired 46 firefighters. Twenty of them have left to go to Omaha or Lincoln for better benefits. We've had one firefighter go to another first class city and one went out of state. Three of them have gone to private sector jobs and one passed away from prostate cancer after three years on the job. Of those 20 firefighters that went to Omaha or Lincoln, 11 of them were paramedics. The cost to train a paramedic is right around $15,000. So after your city puts that kind of money into them for training, the cost of covering and all that, they up and leave. And that cost is not recouped by the city. Within the last four years, the city has implemented a program that, if they put you through that training, you have to pay some of that money back. To my knowledge, that has not been done yet. Everybody hasn't fallen under that. A reason for, you know, might take...age 55 to leave is the stresses of the job, physical/mental fatigue. We work more hours a year. And there's a recent study, the IAFF "Line of Duty Deaths" statistics show that, by the age of 60, twice as many firefighters die from cancer than cardiac arrest. Some of the most common cancers found in firefighters and their prospective incidence compared to the general population are testicular cancer, 102 percent; multiple myeloma, 52 percent; non-Hodgkin's lymphoma, 51 percent; skin cancer, 39; brain cancer, 32; prostate, 28 percent; colon cancer, 21 percent. And the reason I bring that up is, it'll come down the road. The firefighters cannot leave this job so they have to stay working the job which leads them to--have to work in these conditions--more susceptible to these cancers. The last three firefighter funerals I went to in Fremont for retired guys died of cancer. We have three currently with cancer and we have on guy on the department with cancer. So there is a benefit to getting us out of this job sooner. But it's just...it has to be done. So in my 20 years, I've had a lot of pre-'84 firefighters leave on the 50 percent wages. None of them retired. They all had to receive...or go out and get full-time employment. To me, that's not retirement. If you watch them go through their career and you see the stresses it puts on them and you understand, wow, they're leaving, you know, as a younger firefighter you don't see that. I'm in that position. I'm 49. People ask me, oh, when are you going to go, 20 years on. I don't see an end. You know, I have 6 more years to 55. I don't have an end to leave. I don't see it. So in '84, these firefighters were presented the defined contribution plan. In 1984, a senior firefighter in Fremont was making $18,400. They're going to leave with $9,200 for their retirement on 50 percent. In that time, a lot of those cities were not funding the defined benefit. So it's easy to see how they were--I don't know if persuaded is the right word--why they jumped on the opportunity for the defined contribution, because I think their situation was dire at that time that they didn't have a choice. So they all get employment and a lot of them are still working today. We've had two firefighters leave that are on the defined contribution plan and they are both working. They didn't have substantial amount of money to retire. And right now, we have seven firefighters that are older than 49 and have more than 20 years on the department. I know some of them are thinking, you know, are we going to leave? None of them are looking at leaving. I have some numbers of what's in their accounts and I just...I think it's going to be a big plus to have a different system to where the firefighters can get out of there, preserve their life, have something to do when they're done, and not constantly be having health issues. [LB655]

SENATOR NORDQUIST: All right. Great. Thank you, Dave. Are there questions from the committee? Seeing none... [LB655]

DAVE WORDEKEMPER: I do have some of the numbers on our high...top five guys. The highest guy that's been there 52 years, he has $367,000. He's age 52. We have three of them that are over $300,000. The rest of them are $272,000, $286,000, and I would guess, looking at this...I'm on our pension committee. We have classes for our guys. We tell them to invest. They seek outside help. We maybe have $8 million collectively between all the firefighters. That would be probably a high number. And I'll open up for questions. [LB655]

SENATOR NORDQUIST: All right. Thank you. Thank you. [LB655]

DAVE WORDEKEMPER: Thank you for your time. [LB655]

SENATOR NORDQUIST: Next proponent. Can I see a who of hands, how many more proponents? Is this the last one? [LB655]

DARREN GARREAN: Should just be me. [LB655]

SENATOR NORDQUIST: Okay. Great. Thank you. Welcome. [LB655]

DARREN GARREAN: (Exhibit 2) I respect the committee's time. I'll be very brief. My name is Darren Garrean, D-a-r-r-e-n, last name Garrean, G-a-r-r-e-a-n, president of the Nebraska Professional Fire Fighters. The handout that's coming around now is a breakdown of the first class city firefighters throughout the state that this represents, most of which the Nebraska Professional Fire Fighters represent. There are some in there that we do not represent. What you have is approximately 350 people, firefighters and paramedics, that took an oath to protect lives and property in their communities. In 1984, there was an addressing of a "problem" that then a fix was instituted. And I think everybody realizes that fix is not working. I commend Senator Davis on bringing us a baseline in which we can work to move something forward to address this issue for our firefighters and paramedics. Like I said, I want to keep it brief, so if there's any questions, I'll be happy to answer. [LB655]

SENATOR NORDQUIST: Appreciate that, Darren. Questions from the committee?

Seeing none, thank you so much. [LB655]

DARREN GARREAN: All right. Thank you for your time. [LB655]

SENATOR NORDQUIST: Any other proponents? Seeing none, we'll move to opponent testimony. Welcome. [LB655]

LYNN REX: Yes, thank you. Senator Mello, members of the committee, my name is Lynn Rex, L-y-n-n R-e-x, representing the League of Nebraska Municipalities. And we're here today respectfully opposing this measure. And we do have concerns about it. The concerns we mainly have are just basically that municipalities are concerned about getting back into a situation where they can't control costs. They've been dealing with any number of things. I hate to just be a whiner and a sniveler, but we're dealing with, as we have in the past, total elimination of state aid, total elimination of the Municipal Infrastructure Redevelopment Fund. That doesn't mean that should be placed on the backs of firefighters or police officers or any other employee. But what it does mean is that cities back in 1982/'83 were trying to negotiate with firefighters and police officers and we did because of the serious concerns of what municipalities had faced since 1965 when the Legislature mandated then defined benefit plans, provided not one penny, and we had cities starting in the hole. So they started with unfunded liabilities because...and then, by the way, of course, the extent to which they had unfunded liabilities was based on how old and experienced their officers were at that time. So we had some cities, for example, Senator, that were in a much worse situation than others because of the amount of time that they had with those officers. If they had a relatively young force back in 1965 or whenever these plans were...that's when most of them, obviously, were mandated. This has been a real concern. And one of the things that we faced in 1982/'83 is, what do we do? We met with legislative committees after legislative committees, with senators after senators, trying to figure out, what can we do? Would the state be willing to help us in the same way that the state of Nebraska has helped judges and teachers and other public employees who do great things for the state? And the answer was, no, we don't have the money either. So with that we started negotiating with firefighters because many of them were concerned and with police officers and came up with the plan that we have now. I do want to give credit to my predecessor who is David Chambers. He was the executive director then. And he did his best and I set up the meetings as an assistant, certainly not the key negotiator here but as the assistant. And I was at all those negotiations. And I will tell you that he all but begged them to go with a statewide plan that would be a statewide defined contribution plan for many of the issues that you've brought forward today which is basically lower administration fees, the expertise involved. And I will say with...and I understand their...I understood then, mainly because my dad was a police officer for over 30-some years... [LB655]

SENATOR NORDQUIST: Right. [LB655]

LYNN REX: ...that there was...I think that they felt it was very paternalistic, maternalistic to think that they couldn't be trusted to make their own investments. And they felt very strongly that they wanted to do that. And part of the negotiations was setting up these investment committees. Now, one of the things that I...I'm just listening to some of the testimony today as I have in past years on these types of issues. And I look at basically 16-1037 which outlines the duties of the Retirement Committee. And one of their duties, one of their many duties, is in (2)(a): Beginning December 31, 1998, and each December 31 thereafter, the person, the Chair of the retirement committee shall file with the Public Employees Retirement Board an annual report on each retirement plan. And it talks about how that will be done and all of the things that they're supposed to put into it which is a lot of financial information. And it's kind of hard for us to believe that people really didn't know what was being...what was at stake. I mean, you look at what is required, what has been on file. And the various plans I know that we did...I did it once, I was directed then to go out and find out what the investment results were because there were concerns by the city managers and by the mayors that some of the investment committees maybe weren't making the best choices. And quite frankly, some of the older officers were making higher risk investments because they were pre-'84 officers and they didn't have anything to lose in the sense that they were going to be guaranteed a 50 percent benefit no matter what. If you were hired before 1984, January 1, 1984, you were guaranteed at a minimum 50 percent benefit. So there were some of those issues. So we did hire someone to come in and do that. Towers and Perrin did the report. And we had a couple of cities that found out they were just in...they were getting rock bottom rates of return. And, of course, the investment bankers then were very upset and cities were upset so the firefighters were upset at the league. I personally took some of those calls because they thought it was none of our business to look at that. So here we are. I know that what happened in '82, '83 was the very best effort we could have in order to try to make sure that unfunded liabilities were being addressed. So with that, I'd be happy to answer any questions you have. We are very concerned about, again, having any kind of guaranteed minimum, very concerned about what that means down the road for municipalities. And so in any event, I will just...we have a conference going on as we speak. [LB655]

SENATOR NORDQUIST: Sure, sure. [LB655]

LYNN REX: And folks are here from all across the state. And I will tell you that, in talking to the managers and administrators from various parts of the state, they are extremely concerned. And I met with the mayors group at 6:30 this morning because they always have their 6:30 a.m. meeting. And we were there and we spoke about these types of issues. And they have a concern too. And I think that it's not fair to say that these mayors and others don't care about what is going on because they do. [LB655]

SENATOR NORDQUIST: Yeah. Right. Right. So if there was a way to substantially reduce the liability actuarily, make it very unlikely that there would be a liability, would the league entertain that or is the line absolutely no liability on the cities at all? [LB655]

LYNN REX: Well, we are always willing to sit down and visit about these sorts of things. But again, there is a real concern about commitments that are made and then...gosh, I hate to offend anybody... [LB655]

SENATOR NORDQUIST: Right, right, right. [LB655]

LYNN REX: ...because you weren't involved, none of you were involved when these things happened, but commitments being made and then the delivery not on the back end... [LB655]

SENATOR NORDQUIST: Right. [LB655]

LYNN REX: ...not unlike, quite frankly, jail reimbursement for counties. [LB655]

SENATOR NORDQUIST: Right. [LB655]

LYNN REX: Do this and we'll reimburse you, and then they don't get the reimbursement. The concern is that there will be guarantees by the Legislature that we'll get this and that and this and that and, oh my gosh, and nothing happens. [LB655]

SENATOR NORDQUIST: Right. Right. Thank you. Senator Kolterman, did...you had a question? [LB655]

SENATOR KOLTERMAN: Yeah, just have a question for you in regards to the current status of the plans in the first-class cities. Am I correct in assuming that the firefighters have a simple plan and are police included in that plan as well? [LB655]

LYNN REX: No. Senator, the first class city police officers have their plan. Each city has got their own investment, you know, their own investment committee. The firefighters have their plan. [LB655]

SENATOR KOLTERMAN: And then the rank and file have a third plan? [LB655]

LYNN REX: Rank and file meaning civilian employees? [LB655]

SENATOR KOLTERMAN: Yes, civilian employees. [LB655]

LYNN REX: They have...in all of the...I mean, basically those are defined contribution plans. [LB655]

SENATOR KOLTERMAN: Right. Okay. [LB655]

LYNN REX: And I will assure you that I don't know of...there may be. I guess I should do a study before I make a statement but it is highly unlikely that any of those plans have a higher contribution than what the firefighters are getting. And I do know that firefighters do not...are not eligible for the social security. Charlie Noren, when he was lobbying told us that basically that's because they lobbied Congress to get out of it. And they had the opt out and they lobbied to get out of it. Why, I don't know. But they did. And so that's why, Senator, the contribution for firefighters by the municipal contribution, by the employer, is much higher. [LB655]

SENATOR KOLTERMAN: I understand. Here... [LB655]

LYNN REX: Yes. [LB655]

SENATOR KOLTERMAN: My other question is... [LB655]

LYNN REX: I'm sorry. [LB655]

SENATOR KOLTERMAN: ...do you know, can they...can we opt in to social security? Is that an option anymore? [LB655]

LYNN REX: I don't know. I don't know. I'm sorry, I don't know. Kate Allen is shaking her head, yes. [LB655]

SENATOR NORDQUIST: Yeah. Yeah, the committee has done some research on that and we can get you information on how that process works. [LB655]

SENATOR KOLTERMAN: Okay, thank you. [LB655]

SENATOR NORDQUIST: It's a statewide referendum vote, yeah, by the firefighters. [LB655]

SENATOR KOLTERMAN: Okay. Thank you. [LB655]

SENATOR NORDQUIST: Yeah. Any other questions from the committee? Seeing... [LB655]

LYNN REX: Thank you very much for the opportunity. [LB655]

SENATOR NORDQUIST: Thank you. [LB655]

LYNN REX: Thank you. [LB655]

SENATOR NORDQUIST: Next opponent testimony? Seeing none... [LB655]

LYNN REX: Well, and I will...and I do want to say this... [LB655]

SENATOR NORDQUIST: Yeah. [LB655]

LYNN REX: ...we were...we considered having a lineup of city manager/administrators here for several reasons, one of which is, we have... [LB655]

SENATOR NORDQUIST: Sure. [LB655]

LYNN REX: ...about 30 or 40 of them over at the Cornhusker right now. And I just shared with them that I did not think that was necessary... [LB655]

SENATOR NORDQUIST: Appreciate that. [LB655]

LYNN REX: ...that I could...we thought it was more important for them to entertain their senators for the noonhour... [LB655]

SENATOR NORDQUIST: Right. [LB655]

LYNN REX: ...and more importantly for us just to communicate to you, we're always willing to sit down and talk to you but we are extremely concerned about buying into something that's going to have huge issues on the back end... [LB655]

SENATOR NORDQUIST: Right. [LB655]

LYNN REX: ...because we've been there, done that. [LB655]

SENATOR NORDQUIST: Thank you. Thanks a lot. [LB655]

LYNN REX: Thank you very much. [LB655]

SENATOR NORDQUIST: Thank you. Knowing no additional opponent testimony, we'll take neutral testimony. Welcome. [LB655]

ORRON HILL: (Exhibit 3) Greetings, Chairman Nordquist and Retirement Committee members. My name is Orron Hill, O-r-r-o-n H-i-l-l. I'm legal counsel for the Public Employees Retirement Board and the Nebraska Public Employees Retirement Systems. I'm here to testify to LB655 in the neutral capacity. As you know, this bill creates a new retirement plan and assigns the PERB the responsibility of implementing and managing the plan. Development, implementation, and management of a new plan will require considerable time, manpower, and financial resources. I've provided a list of example tasks that would need to be accomplished and addressed for your information in my written testimony. And the NPERS fiscal note also outlines some of our anticipated costs. Of critical importance is the need for advanced funding in the development and implementation of the new plan. Current plans cannot fund the cost to develop and implement a new plan. LB655's language generated many questions at the committee's...or, excuse me, at the board's meeting yesterday. For the committee's consideration, I offer the following: With the addition of LB655 plans, the firefighters may be eligible to participate in more than one public employees retirement plan. If this is done, there is a question on how implementation of this plan should be reconciled with the other retirement plans offered by the local firefighting entities and NPERS and those that may also be under other bills. It is the intent to require firefighters to participate in multiple plans, allow them to elect which plan to participate in, or require the firefighters to participate in only one plan, etcetera. How many firefighting entities and employees will be included in the plan? We would recommend that a study should be conducted to determine how many entities and employees would be included to assist in determining any potential fiscal impact. Are there any limitations regarding the size of the firefighting entities as it relates to participation in the plan? And who is going to guarantee the crediting rate or the funding status of the plan which has already had a significant amount of testimony on it? Answers to these questions will help ensure that the PERB and NPERS are implementing the legislation in accordance with the Legislature's intent. As always, we're willing to work with all the parties involved to get to the best solution. The PERB formally voted yesterday to testify neutrally to this bill and I would be happy to take any questions that you, the committee, might have. [LB655]

SENATOR NORDQUIST: Thank you, Mr. Hill. Are there questions from the committee? Seeing none, thank you. Any additional neutral testimony? Seeing none, Senator Davis has waived closing. That will conclude the hearing on LB655. And I will turn the chair over to Senator Kolowski. [LB655]

SENATOR KOLOWSKI: Thank you, Mr. Chairman. We'll now on to LB551. Senator Nordquist, the floor is yours. [LB551]

SENATOR NORDQUIST: Thank you, Senator Kolowski and members of the Retirement Systems Committee. I'm state Senator Jeremy Nordquist from District 7 in downtown and south Omaha. LB551 creates the Local Government Employees Retirement Plan which is similar to the County Employees Cash Balance Plan (sic). The plan would be administered by the Public Employees Retirement Board and the Nebraska Investment Council would manage all assets. A number of the policy issues we left unspecified in the bill to begin a dialog, a discussion, about what direction we should go and whether or not the bill...this...a plan like this is even needed, essentially what we just talked about with the firefighters plan. This would be a...could be a similar model with whatever specified contribution rates we wanted to make for local governments, any local political subdivision that is not already a county in the county plan to participate, to enter their employees into a plan similar to the County Employees Retirement Plan. Obviously we would make this voluntary for the political subdivisions and give them an option. The reason we bring this is very similar to the rationale for the previous bill, the concerns of investment fees often eating up a large portion of the asset investment return and just the lack of professional management. It's the reason the state went away from a defined contribution plan to the cash balance plan in the early 2000s, is because that similar challenge with our state work force. So again, this is just a discussion starter and I would appreciate the committee engaging in a dialog with me and our political subdivisions on this bill. Thank you. [LB551]

SENATOR KOLOWSKI: Thank you. Any questions from the committee? Seeing none, do we have proponents here for this particular bill? Would you please come forward? Seeing none, opponents of the bill, please, come forward. Welcome again. [LB551]

LYNN REX: Thank you. Senator, members of the committee, my name is Lynn Rex, L-y-n-n R-e-x, representing the League of Nebraska Municipalities. And first I'd like to thank Senator Nordquist for bringing the issue forward. I think these are very serious issues. Cities or municipalities that are all across the state are facing financial difficulties and so these are serious issues to be considered. I can understand some of the concerns raised about the investment fees and everything else. Boy, do I understand that. So I think that what he's proposing here, it isn't that it's a bad idea. I think the issues come down to, how could something like this be implemented and, from a municipal standpoint, if municipalities were going to participate in something like this, again, what is the endgame? What are the unfunded liabilities and the possibilities of that on the back end because we are still having cities dealing with their unfunded liabilities to this day created in 1965. So it really has some long-term implications. And at our board meeting last night, I was meeting with Mayor Stothert and others--she's on my board; the mayors of Lincoln and Omaha are automatically on our board--and they were talking about the fact that they just got their employees to go to a cash balance plan from a defined benefit because of the unfunded liabilities, at least those prospectively, not the ones that are probably before. But in any event, I would incorporate by reference my testimony from LB655 today and indicate that, again, our concern comes down to the financial side of it. With that, I'd be happy to respond to any questions. [LB551]

SENATOR KOLOWSKI: Any questions? Thank you, ma'am. Any questions for Lynn? Thank you. Thank you very much. [LB551]

LYNN REX: Thank you so very much. [LB551]

SENATOR KOLOWSKI: Any other opponents? Anyone in the neutral category? Welcome. Please. [LB551]

ORRON HILL: (Exhibit 4) Senator Kolowski, Chairman Nordquist, Retirement Committee members, my name is Orron Hill, O-r-r-o-n H-i-l-l. I'm legal counsel for the Public Employees Retirement Board and Nebraska Public Employees Retirement System and I'm here to testify to LB551 in a neutral capacity. Much of my comments will mirror what was testified to in LB655. The PERB is responsible for implementing this plan and there are some concerns about the development, implementation, and management that we would certainly like to have the board consider and the committee to consider during its discussion. I've outlined some of those tasks for you. Of particular note, again we would like to raise the critical importance that advanced funding to develop and implement this plan would be needed as current plans cannot fund the cost to develop and implement the plans. I've also provided a list of questions very similar in nature to those under LB655 and I would draw your attention to those in the course of my written testimony. We would suggest that a study should be done to see how many local government entities' employees will be included in the plan as that may impact the figures we included in our fiscal notes. We also had questions about the size of the local government entities and how they may be limited or expanded to include plans and ensure that if there is overlap between members covered by this bill and other bills or other plans that there is a resolution on those as they will help us get to the right implementation of the Legislature's intent. The PERB did formally vote to testify neutrally on this capacity at its board meeting yesterday and I'll be happy to take any questions. [LB551]

SENATOR KOLOWSKI: Thank you. Any questions? Seeing none, Mr. Hill, thank you very much. [LB551]

ORRON HILL: Thank you. [LB551]

SENATOR KOLOWSKI: Any other neutral? Thank you. And senator waives close and that will close this hearing and we are done for the day. Thank you very much. [LB551]