

# NEBRASKA RETIREMENT SYSTEMS COMMITTEE

LR 230

## First Class City Firefighter Retirement Plans

### Committee Members

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Senator Mike Groene

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Senator Rick Kolowski

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# LR 230 Report

LR 230 was introduced by Senators Davis, Baker, Gloor, Hughes, Kolowski, Kolterman, Mello, Nordquist, Schnoor, Schumacher, Stinner and Watermeier.

The purpose of the study was to examine pensions provided for firefighters from cities of the first class.

## History of First Class City Firefighter Retirement Plans:

Through 1983, first class city firefighters were covered by defined benefit plans administered by each first class city. In 1983, cities came to the Legislature expressing concerns about their ability to meet the continuing funding needs of the defined benefit plans. Legislation was introduced and passed to place all firefighters, beginning in 1984, into defined contribution plans that would also be administered by each first class city.

Firefighters were assured that under the new defined contribution retirement system, they would be able to work until age 55 and retire with retirement benefits “roughly equivalent” to what the firefighters were getting under the previous defined benefit plan which was a benefit equivalent to 50% of salary. Firefighters are eligible to retire at age 55 because of the physical demands of the job.

Firefighters, unlike all other public employees throughout Nebraska (except State Patrol), are not covered by Social Security and thus, do not receive Social Security credit for hours worked as firefighters.

In 2012, concerns were raised to the Committee about firefighters retiring with account balances funding a retirement benefit well below the goal of 50% of salary. This resulted in an interim study, LR 628, in 2012 and the introduction of LB 552 in 2013. LB 655 is similar to the 2013 legislation.

## Summary of Firefighter Testimony at Hearings

According to testimony provided by firefighters at the 2012, 2013 and 2015 hearings, the Nebraska Professional Fire Fighters Association conducted a survey in 2012 covering three large first class cities. The surveys revealed the following findings:

- The average age of their most senior members is 53 years.
- The average years of service is 24.3 years.
- The average value of their retirement accounts on hand is roughly \$367,000.
- The average annual salary which includes not only firefighters but also fire chiefs, is about \$65,723.
- The annuity that can be purchased with money available at retirement will provide them with an annual retirement income of approximately \$16,129.
- An annual annuity of \$16,129 is below the poverty line when monthly health insurance premiums are factored in.

During the hearings it was also pointed out that high investment fees and administrative costs also contribute to low retirement account balances as well as firefighters' lack of investment knowledge and skills.

Firefighters testified that as a result of these low retirement account balances, retirement is not an option upon reaching retirement age of 55. As a result they are left to do dangerous work well past their retirement age, increasing the risk of disabling injury.

The retirement annuity that can be purchased is closer to 25% of salary than the 50% of salary which was estimated when firefighters agreed to move from a defined benefit plan to a defined contribution plan in 1983.

Firefighters also pointed out during testimony that their current defined contribution retirement plan places them in the position to be eligible for public assistance including Medicaid and food stamps, which also results in an economic drain on first class cities and other taxpayers.

Several firefighters observed that a number of firefighters have gained experience and training in first class cities and then left rural towns to take employment in cities like Lincoln and Omaha that offer defined benefit plans. In some instances, firefighters have left Nebraska to seek employment in other states that offer defined benefit plans.

#### Summary of League of Municipalities Testimony at Hearings

Lynn Rex, on behalf of the League of Municipalities, testimony included the following points:

- when the legislature created the defined benefit plans for firefighters (and police) which included a 50% of salary benefit, the state did not provide any funding to assist the cities in fulfilling this benefit obligation
- cities are concerned about taking on additional liability under the proposed cash balance plan
- the state in the past has shifted funding obligations onto political subdivisions and/or cut back on state aid
- when the League explored the option of pooling their investments and having uniform investments, firefighters did not want to give up control over their own investments decisions
- firefighters chose to opt out of social security
- cities are concerned about equity among all their workers, including the police and civilian workers; utility workers for example have a higher incidence of injury

*[See Appendix A for Transcript of 2012 LR 628 Interim Study Hearing]*  
*[See Appendix B for Transcript of LB 552 Hearing in 2013]*  
*[See Appendix C for Transcript of LB 655 Hearing in 2015]*

### 2015 Legislation

In 2015 Senator Al Davis introduced LB 655 which would create a Cash Balance Retirement Plan for first class city firefighters hired on and after an unspecified date. All first class city firefighters hired after 1984 are members of defined contribution plans administered by each first class city.

Under LB 655:

- current firefighters would have a one-time option between unspecified dates to transfer into the Cash Balance Retirement Plan
- the Plan would be structured similar to the County and State Cash Balance Retirement Plans which guarantee a minimum 5% interest rate with possible dividends if the Plan is fully funded
- current 6.5% employee and 13% employer contribution rates would remain the same (firefighters do not participate in Social Security)
- the Cash Balance Plan would be administered by the Public Employees Retirement Board with a representative of first class city firefighters added to the membership of the Board.

The bill was held in Committee and LR 230 was introduced in order to work with interested parties to conduct further research and resolve outstanding issues.

### Interim Research and Activities

The Committee was interested in gathering more information about a number of issues that were raised during the hearing which have an impact on the amount of money accruing in the individual firefighter defined contribution accounts and issues impacting cities, including, but not limited to:

- the average account balance of firefighters
- fees and administrative costs assessed to firefighters
- fees and administrative costs paid by cities, if any
- number of pre-1984 firefighters
- age and number of current firefighters
- number of firefighters who resigned to work in Lincoln or Omaha with DB plans

A survey was created and sent to the following first class cities in order to explore these and other issues. All cities except Alliance completed and returned the survey.

- Alliance
- Beatrice
- Columbus
- Fremont
- Grand Island

- Hastings
- Kearney
- McCook
- Nebraska City
- Norfolk
- North Platte
- Papillion
- South Sioux City
- Scottsbluff
- York

*[See Appendix D for text of survey and Appendix E for a chart of selected survey responses]*

#### Meetings with Cities

Senator Al Davis, Darren Garrean, President of the Nebraska Professional Firefighters, and Committee Counsel Kate Allen met with officials in a number of cities in order to discuss the proposed legislation, present information about cash balance plans, share information about Social Security limitations for firefighters, and to listen to, and answer questions about concerns expressed by city officials. The following cities were visited in September:

- Fremont
- Hastings
- McCook
- North Platte
- Papillion
- Bellevue
- Norfolk

In the meetings with each of the cities, Senator Davis explained that his purpose in meeting with individual cities was to hear each city's concerns, address any misunderstandings, and answer any questions. He also informed city representatives that he believes the state should assume any liability under the cash balance plan since the state would be investing the funds. He clarified that he was speaking only for himself on this issue.

Senator Davis described how the state and county cash balance plans work and handed out a narrative describing the plans as well as a chart covering data on the plan since its inception in 2004 through 2015 which included:

- quarterly interest credit rates
- any dividends granted
- investment returns
- funded status
- actuarially required contributions



*[See Appendix F for Cash Balance Plan Chart and Description of Plan]*

He pointed out that despite a -27% investment loss in 2009, it has not been necessary for the state to make any contributions to the plan in order to address unfunded liabilities. In addition, he shared the following information regarding the average investment returns on the State and County Cash Balance Plans:

Average investment return 2004 –2015	8.80%
Recent 3 year return average	12.63%
Recent 5 year return average	10.23%
Recent 10 year return average	7.43%

Firefighter Concerns

Darren Garrean shared the concerns of firefighters regarding the inadequacy of their retirement accounts which is forcing many firefighters to work past age 55 and risking injury. He discussed the 2012 survey findings regarding the average account balances of firefighters and explained that on average, firefighters have accumulated 25% of their salary as their retirement benefit.

He discussed the fact that firefighters do not pay into social security in their employment as firefighters. He also told city representatives that for those firefighters who accumulate the necessary quarters to be eligible for social security, they are subject to the Windfall Elimination Provision (WEP). He shared information from the Social Security Administration regarding the WEP, which as noted, applies to employees who earn a pension from an employer who didn't withhold Social Security taxes and who qualify for Social Security retirement benefits from work in other jobs for which Social Security taxes were paid.

He also shared another provision which applies to the spouse of a firefighter -- the Government Pension Offset (GPO) provision. This provision applies to firefighters (and other retirees) who also receive a Social Security spousal or widow/widower benefit. The GPO reduces the spousal Social Security benefit by two-thirds of the firefighter pension benefit and may completely eliminate the Social Security benefit.

*[See Appendix G for Social Security Administration Fact Sheets on the Windfall Elimination Provision and Government Pension Offset]*

Death and Disability Benefits

Finally, he stressed that it was the goal of firefighters to not increase costs for the cities. At the same time, he pointed out that maintaining the current death and disability benefits are important to firefighters and he believed there was willingness from firefighters to increase their contribution rates in order to pay for the death and disability benefits.

Currently, if a firefighter dies in the line of duty, his or her beneficiary receives an annuity equal to 50% of the firefighter's salary. If a firefighter becomes temporarily disabled while on duty, the firefighter will continue to receive his or her salary for at least 12 months (with requirements for

examination and certification by a doctor). If a firefighter's disability extends beyond 12 months, then the firefighter receives a retirement benefit equal to 50% of his or her salary. Any Workers Compensation received is deducted from these amounts. If the firefighter's current retirement account is inadequate to cover the cost of the 50% salary benefit, then the city may use funds from the unallocated employer account to pay for the death or disability benefit.

When a firefighter terminates employment before being fully vested, the firefighter is only allowed to keep his or her member contributions. The employer contributions – known as forfeitures – are transferred to the unallocated employer account.

Once a Cash Balance Plan is established and administered by the state, then all forfeitures will remain in the Cash Balance Plan. In order to replace the forfeiture funds that cities will no longer receive, firefighters are willing to increase their contributions by .5%. The .5% would remain with each city and would be available exclusively for use by the city in funding death and disability benefits.

*[Appendix H – Current Death and Disability Benefits under the First Class City Firefighter Retirement Act]*

Questions and Concerns of Cities

In response to information presented to the city representatives, a number of concerns were shared, and questions asked, by city representatives about a number of issues including:

- Creation of a cash benefit plan for firefighters would create inequity among all employee groups and drive up costs and benefits if there is a ripple effect.
- Why should firefighters be treated differently than any other city workers--street workers and utility workers who also work hard and have dangerous jobs?
- If this will be a neutral cost to the city, why isn't it being made available to all municipal employees?
- Why should taxpayers assume the financial risk rather than firefighters?
- Even though the current legislature may be willing to pass a bill that places any liability on the state rather than the cities, there is nothing to prevent future legislatures from shifting that liability back onto the cities. They have seen examples of the legislature doing that.
- Cities have had to issue bonds to pay for police and firefighter defined benefits; they are skeptical about a cash balance plan.
- Cities are concerned about being stuck with a state plan and having no say.

- Since firefighters only contribute 6.5% why don't they invest the 6.2% they would contribute to social security, into a 457 (deferred compensation) plan?
- Some firefighters don't want the state managing and investing their money – they want to have control over those decisions.
- Cities haven't heard from any firefighters who have expressed interest in moving to a cash balance plan.
- Firefighters can retire and get another job in order to get in sufficient social security quarters.
- They know a lot of workers would love to opt out of social security.
- The League has had conference calls with cities about this bill and the League expressed fears that this is a step which will lead to a defined benefit plan.
- We have good relationships with our firefighters under the current system which enables local control – we don't want to do anything that may negatively impact those relationships.

#### Summary of 2015 Survey Results

As noted previously surveys were sent to 15 first class cities; 14 cities completed the surveys. According to the information provided:

- There are 9 firefighters who are “pre-1984” and remain in the defined benefit (DB) plan
- There are 385 firefighters in the defined contribution (DC) plans
- The average age of those remaining in the DB plans is 59.11
- The average age of those remaining in the DC plans is 26.58
- The average account balance of all firefighters is \$165,104
- Two of the cities use forfeiture funds to pay for some or all of the plan costs and fees
- Fees for firefighters vary a great deal
- Reported annual fees range from \$10 to \$28 per member
- Reported administrative and recordkeeping fees include: .25%, .15%, .45%, .20%, .0159%, and \$28
- Reported fund expenses include: .35% to 1.7% average in one plan; 0.55%; 3%; and a range of 0.09% to 1.17% in one plan

In the 2014 Nebraska Public Employees Retirement Systems Newsletter to State and County Employees, the contrast between fees charged by the State of Nebraska and fees charged in the private sector was discussed. The recordkeeping fee for each State and County Cash Balance Plan member is \$1.52 per month.

“Large entities such as the State of Nebraska have access to institutional pricing, which results in very low investment management fees. Due to the state’s negotiating power, current investment fees for defined contribution members range from 0.03% up 0.37%. Investment fees for the cash balance plan totaled 0.28%.

In contrast, investment management fees assessed for private sector mutual funds can often be as high as 1.5% to 2.00% and additional IRA fees such as sales charges, transaction fees, set-up fees, and custodial fees may also apply.”

*[See Appendix I - Comparison of State and First Class City Firefighter Defined Contribution (and State Cash Balance) Administrative, Investment Management, and Recordkeeping Fees and Costs]*

## CONCLUSION

Throughout the process, there have been a number of goals. In addition to providing a higher retirement benefit for firefighters with lower fees, pooling of assets with state investments and use of professional investment managers, it has been important to firefighters to be able to maintain the same death and disability benefits currently provided. At the same time, firefighters have been committed to not increase costs for the cities. In order to not increase costs for cities, firefighters are willing to increase their contribution rate with the increased amount remaining with the cities to replace the loss of the forfeiture funds. Following the meetings with cities and collection of data from surveys, LB 655 was amended to incorporate the above goals. The amendments include the following:

- The contribution rate for cities would remain the same – 13%
- The contribution rate for firefighters would increase from 6.5% to 7.0%
- One-half percent of the firefighters’ contribution would remain with each city in order to replace forfeiture funds that cities currently use to fund death and disability benefits
- Once the cash balance plan is in place, forfeitures will remain in the cash balance plan rather than stay with each city
- Cities will be mandated to participate in the cash balance plan
- Current firefighters will be able to opt into the cash balance plan between September 1, 2017 and November 30, 2017
- The cash balance plan will go into effect January 1, 2018 in order to give the Nebraska Public Employees Retirement System adequate time to make the technology programming changes and prepare educational materials for incoming firefighters
- All firefighters hired after January 1, 2018 will become members of the cash balance plan
- The State assumes liability for any actuarially required contributions

As required by Legislative Rule Section 5 (15), an actuarial study will need to be conducted and distributed to the senators prior to a vote on Final Reading.

# APPENDICES

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# Appendix A

Survey sent to First Class Cities  
On Firefighters

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# 1<sup>st</sup> Class City Firefighter Retirement Survey

1. Has a retirement committee been established to administer the firefighters' pension plan?
2. If so, please identify the names of the retirement committee members, who they represent, and contact information (including phone and email address) for each member.
3. When is the date of the next quarterly or special meeting of the retirement committee?
4. Have any of the administrative functions been designated by the governing body to the retirement committee? If so, please describe.
5. Does the retirement committee participate in contract negotiations with the firefighters?
6. Who is the funding agent that invests retirement system assets? Please provide a contact name and contact information (including phone and email address).
7. Was the funding agent contract placed for bid?
8. Please provide a copy of the contract with the funding agent.
9. Does the retirement committee participate in the selection of the funding agent?
10. Does the retirement committee contract with an investment manager?  
Please provide:
  - a. the name and contact information (phone & email) for this person
  - b. a copy of the contract with the investment manager
11. Please provide a copy of the investment plan established for both the pre- and post-1984 members, including a full description of investment policies and options available to each post-1984 plan participant.
12. How many active pre-1984 members are in the retirement plan and what are their ages?
13. How many post-1984 members participate in the retirement plan and what are their ages?
14. What is the average account balance for the post-1984 participants?
15. Describe and specify the amount of each of the fees/costs assessed to members.
16. Describe & specify the amount of the costs paid by the city and/or assessed to unallocated employer account.
17. How many firefighters have received the following since 2000? Also, please designate the age of each firefighter:

- a. temporary disability
- b. permanent disability
- c. workers compensation

18. How many firefighters have left the department since 2000 to take a job as a firefighter in another city?

19. Of those who have left:

- a. How many left in order to have access to a defined benefit plan?
- b. How many joined fire departments in Lincoln or Omaha?

20. What are the average annual costs to train a firefighter? Of those who left to join the Lincoln or Omaha department, what is the average training cost invested in each departing firefighter?

Please provide the name and contact information (including phone and email address) of the person/s who completed the survey information.

## Appendix B

Chart of Selected Responses of  
Survey sent to First Class Cities  
On Firefighters

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# LB 655 Survey – Selected Responses

## First Class City Firefighter Retirement Plans

CITY	#1 # PRE-1984 actives & ages	#2 # of active POST-1984 members Ages of active POST-1984	#3 Average account balance POST-1984 actives	#4 Funding agent and fees & costs assessed to members under the Plan	#5 Plan fees/costs paid by city or assessed to unallocated funds	#6 # FF left to work with Lincoln or Omaha FF	#7 # temporary, permanently disabled & work comp
<b>Alliance*</b>				<i>*Declined to respond to the survey.</i>			
<b>Beatrice</b>	1 – age 63	24 active members -- Ages 23, 23, 28, 32, 34, 34, 37, 37, 38, 39, 39, 45, 46, 46, 46, 48, 48, 48, 50, 51, 52 [average age = 35.16]	\$182,914	Ameritas 1.01% - 2.26%		None	Temporary 0 Permanent 0 Work Comp 4
<b>Columbus</b>	1 – age 65	24 active members – ages 23, 27, 27, 31, 32, 38, 46, 48, 51, 51, 52, 52, 54, 57 [average age = 42.07]	\$213,336	Ameritas	Documents list "none"	1--Lincoln	Temporary 0 Permanent 0 Work Comp 0
<b>Fremont</b>	0	27 active members – ages 25, 25, 26, 27, 27, 29, 31, 31, 33, 34, 35, 36, 36, 38, 41, 44, 45, 46, 47, 49, 49, 50, 50, 53, 53, 53, 55 [average age = 37.59]	\$180,913	Principal Financial	Wells Fargo \$12,500/year	16	Temporary 1 Permanent 1 Work Comp 7
<b>Grand Island</b>	1 – age 54	79 (includes those no longer with city by still have balance in account – Ages: 2 ages 20-24; 9 ages 25-29; 7 ages 30-34; 16 ages 35-39; 12 ages 40-44; 12 ages 45-49; 14 ages 50-54; 7 ages 55-59	\$167,192 (includes those no longer with city by still have minimal balance in account)	Wells Fargo	None	No data available	Temporary - Permanent - Work Comp -
<b>Hastings</b>	2 – ages 57 & 59	24 active members – ages 23, 24, 28, 28, 29, 29, 34, 34, 34, 35, 35, 35, 37, 38, 40, 42, 45, 45, 45, 46, 48, 58, 58, 63 [average age = 38.87]	\$122,333	Wells Fargo Bank Investment management fees paid indirectly in the form of internal fees within the specific mutual funds; Retiring and terminating participants electing a lump sum distribution are assessed a one- time fee of \$25.	Annual record keeping charge of \$30/participant Balances not subject to member investment direction are charged a market value based investment management fee which is calculated quarterly as follows: 0.30% on first \$500,000 0.20% on next \$250,000 0.10% on next \$250,000 0.00% on next \$2,000,000 0.00% on entire account if value exceeds \$3,000,000	5--Lincoln 4 -- Omaha	Temporary 0 Permanent 2 Work Comp 2



CITY	#1 # PRE-1984 actives & ages	#2 # of active POST-1984 members Ages of active POST-1984	#3 Average account balance POST-1984 actives	#4 Funding agent and fees & costs assessed to members under the Plan	#5 Plan fees/costs paid by city or assessed to unallocated funds	#6 # FF left to work with Lincoln or Omaha FF	#7 # temporary, total disabled & work comp
<b>Kearney</b>	0	13 active members -- ages 29, 32, 33, 38, 39, 43, 43, 44, 44, 49, 52, 55, 67 [average age = 43.69]	\$146,319	Union Bank & Trust (Schedule B attachment)	None	None	Temporary 0 Permanent 0 Work Comp 6
<b>McCook</b>	0	9 active members -- ages 4 age 30-39; 3 age 40-49; 1 age 50-59; & 1 over 60	\$196,389	CUNA/CPI Edward Jones Advisor .35 -- 1.7% average fund cost paid by member		None	Temporary 0 Permanent 0 Work Comp 1
<b>Nebraska City</b>	0	3 active members -- ages 40, 52, 54 [average age = 48.66]	\$272,468	Nationwide		None	Temporary 0 Permanent 0 Work Comp 0
<b>Norfolk</b>	2 -- ages 57 & 58	29 active members-- ages 22, 23, 25, 28, 29, 29, 31, 32, 32, 33, 33, 33, 33, 33, 34, 36, 36, 40, 42, 44, 44, 44, 45, 45, 47, 54, 55, 58 [average age = 37.0]	\$143,712	Ameritas Admin & Recordkeeping fee .25% mutual fund & .15% guaranteed ins. Account;  * Annual base fee \$266 & \$10 per member & deferred benefits fee of \$600*  No forfeitures in 2014, so .0159% deducted for annual & recordkeeping		2 -- Lincoln	Temporary 0 Permanent 0 Work Comp 9
<b>North Platte</b>	2 -- ages 59 & 60	39 active members --ages 24, 24, 25, 29, 29, 29, 29, 30, 30, 31, 31, 31, 32, 32, 33, 33, 34, 34, 35, 35, 37, 37, 37, 39, 39, 39, 39, 39, 40, 42, 43, 43, 45, 46, 47, 51, 56, 57, 59 [average age = 36.33]	\$136,327	ICMA-RC No fees -- fees and costs paid by city	2014 Plan year 1/1 to 12/31 \$21,591.53	7 (locations not listed)	Temporary 0 Permanent 2 Work Comp 104  (since 2008)
<b>Papillion</b>	0	54 active members -- ages: 12 under 30; 23 in their 30's; 15 in their 40's; 6 in their 50's	\$107,535	Wells Fargo ICMA Weighted average Variable Fund Exp. 0.55%+ Annual Recordkeeping charge 0.45% Voya Fixed Account -- 3% on annual basis Fund expense range from 0.09% to 1.17%. Annual recordkeeping charge only applies to monies invested in the variable funds & does not apply to monies in the Voya Fixed Account.	Plan costs are paid by the participant.	6 (Omaha)	Temporary 0 Permanent 0 Work Comp 8





CITY	#1 # PRE-1984 actives & ages	#2 # of active POST-1984 members Ages of active POST-1984	#3 Average account balance POST-1984 actives	#4 Funding agent and fees & costs assessed to members under the Plan	#5 Plan fees/costs paid by city or assessed to unallocated funds	#6 # FF left to work with Lincoln or Omaha FF	#7 # temporary, total disabled & work comp
<b>Scottsbluff</b>	0	15 active members – ages 24, 26, 29, 30, 32, 33, 35, 37, 37, 40, 40, 42, 45, 46, 56 [average age = 36.8]	\$145,000	Wells Fargo No fees/costs	All costs and fees are paid by forfeitures	None	Temporary 0 Permanent 0 Work Comp 0
<b>South Sioux City</b>	0	4 active members – ages 25, 31, 34, 45 [average age = 33.75]	\$21,075	ICMA-RC		Unknown	Temporary 0 Permanent 1 Work Comp 0
<b>York</b>	0	14 active members – ages 25, 41, 41, 43, 50, 50, 51, 53, 54, 54, 57, 57, 58, 59 [average age = 49.5]	\$275,955	Union Bank Administrative annual fee 0.20% of market value of account balance allocated to each member paid pro rata Recordkeeping fee – annual fee of \$28 charged to each member Form 5500, Legal, Plan amendment or restatement and/or consulting fee – charged to each member account – paid pro rata	None – all plan costs are allocated to participant accounts		Temporary -- Permanent -- Work Comp 1

Below is the text of the questions posed on the survey:

1. How many active PRE-1984 members participate in the retirement plan & what are their ages? (*Members are in a defined benefit plan*).
2. How many POST-1984 members participate in the retirement plan & what are their ages? (*Members are in defined contribution plan*).
3. What is the average account balance for the POST-1984 members?
4. Who is the funding agent that invests retirement system assets; describe and specify the amount of each of the fees/costs assessed to members.
5. Describe and specify the amount of the costs paid by the city and/or assessed to the unallocated employer account.
6. How many members have left the department since 2000 to join the fire department in Lincoln or Omaha?
7. Since 2000, how many firefighters have been temporarily disabled, permanently disabled, and/or received workers compensation?

Prepared by: Kate Allen, Retirement Committee Legal Counsel  
October, 2015  
Source: Survey responses from cities



# Appendix C

## State and County Cash Balance Plan Chart

### Description of State and County Cash Balance Plan

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## 2003 – 2015 State and County Cash Balance Plans Credit Rates, Funding Status, Dividends, Investment Returns

Plan Year	Q 1 Interest Credit Rate	Q 2 Interest Credit Rate	Q 3 Interest Credit Rate	Q 4 Interest Credit Rate	Year Average	Funding Status	Dividend for County & State	Investment Return+	ARC <sup>^</sup>
2015	5.00%	5.00%				State 103.9% County 105.4%	State 4.53% County 5.81%	6.8%	none
2014	5.00%	5.00%	5.00%	5.00%	5.00%	State 99.2% County 100.3%	State none County 0.29%	18.1%	none
2013	5.00%	5.00%	5.00%	5.00%	5.00%	State 93.6% County 96.3%	No Dividend	12.99%	none
2012	5.00%	5.00%	5.00%	5.00%	5.00%	State 91.5% County 93.0%	No Dividend	.26%	none
2011	5.00%	5.00%	5.00%	5.00%	5.00%	State 93.6% County 94.5%	No Dividend	12.99%	none
2010	5.00%	5.00%	5.00%	5.00%	5.00%	State 93.9% County 94.7%	No Dividend	21.18%	none
2009	5.00%	5.00%	5.00%	5.00%	5.00%	State 99.0% County 97.8%	No Dividend	-27.4%	none
2008	5.08%	5.00%	5.00%	5.00%	5.02%	State 107.0% County 107.4%	State 5.18% County 5.34%	7.87%	none
2007	6.08%	6.11%	6.45%	5.85%	6.12%	State 104.0% County 103.5%	State 2.73% County 2.73%	15.13%	none
2006	5.98%	6.22%	6.55%	6.32%	6.27%	State 113.1% County 116.2%	State 13.5% County 16.4%	6.38%	none
2005	5.26%	5.59%	5.36%	5.58%	5.45%	State 114.6% County 117.9%	State 2.8% County 2.8%	10.8%	none
2004	5.02%	5.00%	5.61%	5.12%	5.19%	State 109.9% County 112.8%	State 3.088% County 3.088%	20.5%	none
2003	5.00%	5.00%	5.00%	5.15%	5.04%	State 104.3% County 105.9%	(first plan year) No Dividend	-----	none

The Cash Balance Plan went into effect January 1, 2003. The Cash Balance option pays a credit rate, which is the greater of 5% or the applicable federal mid-term rate, as published by the IRS as of the first day of the calendar quarter, plus 1.5%, compounded annually

+	Average investment return 2004 – 2015	8.80%
	Recent 3 year return average	12.63%
	Recent 5 year return average	10.23%
	Recent 10 year return average	7.43%

<sup>^</sup> ARC is the actuarially required contribution

## Description of State and County Cash Balance Plans

The State and County Cash Balance (CB) Plans went into effect January 1, 2003; membership is mandatory for all new hires on and after that date. State and County employees hired prior to 2003 are members of Defined Contribution (DC) Plans and had the option to transfer into the new CB Plan in 2003. Additional opportunities to opt-in were offered in 2007 and again in 2012.

The Cash Balance option pays a credit rate, which is the greater of 5% or the applicable federal mid-term rate as published by the IRS as of the first day of the calendar quarter, plus 1.5%, compounded annually. The credited rate is adjusted quarterly and credited daily.

State employees contribute 4.8% and the state contributes 7.48% for a total of 12.28%; County employees contribute 4.5% and the counties contribute 6.75% for a total of 11.25%.

The CB plan is considered by the IRS to be a hybrid defined benefit plan because of the guaranteed credited rate. Each employee has an individual account which consists of employee and employer contributions, interest credits and dividends. The member account value never goes down.

The pooled assets are managed by professional investment managers under the direction of the Nebraska Investment Council. An annual actuarial valuation is conducted on each CB Plan based on a 25-year amortization period with a 5-year smoothing.

The account accumulates until retirement at which time the member may choose an annuity, lump sum refund or rollover the account balance (or any combination of the three options). An optional 2.5% COLA is available to employee, however, the cost of the COLA is paid by the employee.

The annuity rate is 7.75% and is based on the member's age and account balance. The account is liquidated within the CB trust and transferred to a subset annuity account that pays the benefit. The money stays in the plan and continues to be invested.

The Public Employees Retirement Board (PERB) may grant a dividend if the actuarial contribution rate is at least 90% of the actual contribution rate and the funded ratio is 100%. The dividend is based on the member's account value at the end of the previous calendar year (the CB Plan is based on the calendar year). Once the account is paid out, members are no longer eligible for the dividend.

## Appendix D

Windfall Elimination Provision Fact Sheet  
Government Pension Offset Fact Sheet

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## Your Social Security retirement or disability benefits may be reduced

The Windfall Elimination Provision may affect how we calculate your retirement or disability benefit. If you work for an employer who does not withhold Social Security taxes from your salary, such as a government agency or an employer in another country, any pension you get from that work may reduce your Social Security benefits.

## When your benefits may be affected

This provision may affect you when you earn a pension from an employer who didn't withhold Social Security taxes *and* you qualify for Social Security retirement or disability benefits from work in other jobs for which you did pay taxes.

The Windfall Elimination Provision may apply if:

- You reached 62 after 1985; or
- You became disabled after 1985; and
- You first became eligible for a monthly pension based on work where you did not pay Social Security taxes after 1985, even if you are still working.

This provision also affects Social Security benefits for people who performed federal service under the Civil Service Retirement System (CSRS) after 1956. Your Social Security benefit amounts won't be reduced if you performed federal service under a system such as the Federal Employees' Retirement System in which Social Security taxes were withheld.

## How it works

Social Security benefits are intended to replace only some of a worker's pre-retirement earnings.

We base your Social Security benefit on your average monthly earnings adjusted for average wage growth. We separate your average earnings into three amounts and multiply the amounts using three factors to compute your full Primary Insurance Amount (PIA). For example, for a worker who turns 62 in 2015, the first \$826 of average monthly earnings is multiplied by 90

percent; earnings between \$826 and \$4,980 by 32 percent; and the balance by 15 percent. The sum of the three amounts equals the PIA which is then decreased or increased depending on whether the worker starts benefits before or after full retirement age (FRA) to get the monthly payment amount.

When we apply this formula, the percentage of career average earnings paid to lower-paid workers is greater than higher paid workers. For example, workers age 62 in 2015, with average earnings of \$3,000 per month could receive a benefit at FRA of \$1,439 (48 percent) of their pre-retirement earnings increased by applicable cost of living adjustments (COLAs). For a worker with average earnings of \$8,000 per month, the benefit starting at FRA could be \$2,525 (32 percent) plus COLAs. However, if either of these workers start benefits earlier, their monthly benefit will be reduced.

## Why we use a different formula

Before 1983, people whose primary job wasn't covered by Social Security had their Social Security benefits calculated as if they were long-term, low-wage workers. They had the advantage of receiving a Social Security benefit representing a higher percentage of their earnings, plus a pension from a job for which they didn't pay Social Security taxes. Congress passed the Windfall Elimination Provision to remove that advantage.

Under the provision, we reduce the 90 percent factor in our formula and phase it in for workers who reached age 62 or became disabled between 1986 and 1989. For those who reach 62 or became disabled in 1990 or later, we reduce the 90 percent factor to as little as 40 percent.

## Some exceptions

The Windfall Elimination Provision doesn't apply if:

- You are a federal worker first hired after December 31, 1983;
- You were employed on December 31, 1983, by a nonprofit organization that did not withhold Social Security taxes from your pay at first,

(over)



but then began withholding Social Security taxes from your pay;

- Your only pension is for railroad employment;
- The only work you performed for which you did not pay Social Security taxes was before 1957; or
- You have 30 or more years of substantial earnings under Social Security.

The Windfall Elimination Provision doesn't apply to survivors benefits. We may reduce widows or widowers benefits because of another law. For more information, read *Government Pension Offset* (Publication No. 05-10007). See the first table that lists substantial earnings for each year.

The second table shows the percentage used depending on the number of years of substantial earnings. If you have 21 to 29 years of substantial earnings, we reduce the 90 percent factor to between 45 and 85 percent. To see the maximum amount we could reduce your benefit, visit [www.socialsecurity.gov/retire2/wep-chart.htm](http://www.socialsecurity.gov/retire2/wep-chart.htm).

## A guarantee

The law protects you if you get a low pension. We will not reduce your Social Security benefit more than half of your pension for earnings after 1956 on which you did not pay Social Security taxes.

## Contacting Social Security

Visit [www.socialsecurity.gov](http://www.socialsecurity.gov) anytime to apply for benefits, open a **my Social Security** account, find publications, and get answers to frequently asked questions. Or, call us toll-free at 1-800-772-1213 (for the deaf or hard of hearing, call our TTY number, 1-800-325-0778). We can answer case-specific questions from 7 a.m. to 7 p.m., Monday through Friday. Generally, you'll have a shorter wait time if you call after Tuesday. We treat all calls confidentially. We also want to make sure you receive accurate and courteous service, so a second Social Security representative monitors some telephone calls. We can provide general information by automated phone service 24 hours a day. And, remember, our website, [www.socialsecurity.gov](http://www.socialsecurity.gov), is available to you anytime and anywhere!

Year	Substantial earnings	Year	Substantial earnings
1937-1954	\$900	1991	\$9,900
1955-1958	\$1,050	1992	\$10,350
1959-1965	\$1,200	1993	\$10,725
1966-1967	\$1,650	1994	\$11,250
1968-1971	\$1,950	1995	\$11,325
1972	\$2,250	1996	\$11,625
1973	\$2,700	1997	\$12,150
1974	\$3,300	1998	\$12,675
1975	\$3,525	1999	\$13,425
1976	\$3,825	2000	\$14,175
1977	\$4,125	2001	\$14,925
1978	\$4,425	2002	\$15,750
1979	\$4,725	2003	\$16,125
1980	\$5,100	2004	\$16,275
1981	\$5,550	2005	\$16,725
1982	\$6,075	2006	\$17,475
1983	\$6,675	2007	\$18,150
1984	\$7,050	2008	\$18,975
1985	\$7,425	2009-2011	\$19,800
1986	\$7,875	2012	\$20,475
1987	\$8,175	2013	\$21,075
1988	\$8,400	2014	\$21,750
1989	\$8,925	2015	\$22,050
1990	\$9,525		

Years of substantial earnings	Percentage
30 or more	90 percent
29	85 percent
28	80 percent
27	75 percent
26	70 percent
25	65 percent
24	60 percent
23	55 percent
22	50 percent
21	45 percent
20 or less	40 percent





# Government Pension Offset



## A law that affects spouses and widows or widowers

If you receive a pension from a federal, state, or local government based on work for which you didn't pay Social Security taxes, we may reduce your Social Security spouses or widows or widowers benefits. This fact sheet provides answers to questions you may have about the reduction.

## How much will my Social Security benefits be reduced?

We'll reduce your Social Security benefits by two-thirds of your government pension. In other words, if you get a monthly civil service pension of \$600, two-thirds of that, or \$400, must be deducted from your Social Security benefits. For example, if you're eligible for a \$500 spouses, widows or widowers benefit from Social Security, you'll get \$100 a month from Social Security ( $\$500 - \$400 = \$100$ ).

If you take your government pension annuity in a lump sum, Social Security still will calculate the reduction as if you chose to get monthly benefit payments from your government work.

## Why will my Social Security benefits be reduced?

Benefits we pay to spouses, widows, and widowers are "dependent's" benefits. Set up in the 1930s, these benefits were to compensate spouses who stayed home to raise a family and were financially dependent on the working spouse. It's now common for both spouses to work, each earning their own Social Security retirement benefit. The law requires a person's spouse, widow, or widower benefit to be offset by the dollar amount of their own retirement benefit.

For example, if a woman worked and earned her own \$800 monthly Social Security benefit, but was also due a \$500 wife's benefit on her husband's record, we couldn't pay that wife's benefit because her own benefit offset it. But,

before enactment of the Government Pension Offset, if that same woman was a government employee who didn't pay into Social Security and earned an \$800 government pension, there was no offset. We had to pay her a full wife's benefit and her full government pension.

If this person's government work had been subject to Social Security taxes, we would reduce any spouse, widow, or widower benefit because of their own Social Security benefit. The Government Pension Offset ensures that we calculate the benefits of government employees who don't pay Social Security taxes the same as workers in the private sector who pay Social Security taxes.

## When won't my Social Security benefits be reduced?

Generally, we won't reduce your Social Security benefits as a spouse, widow, or widower if you

- Receive a government pension that's not based on your earnings; or
- Are a federal (including Civil Service Offset), state, or local government employee and your government pension is from a job for which you paid Social Security taxes; and
  - You filed for and were entitled to spouses, widows, or widowers benefits before April 1, 2004; or
  - Your last day of employment (that your pension is based on) is before July 1, 2004; or
  - You paid Social Security taxes on your earnings during the last 60 months of government service. (Under certain conditions, we require fewer than 60 months for people whose last day of employment falls after June 30, 2004, and before March 2, 2009.)

There are other situations for which we won't reduce your Social Security benefits as a spouse, widow, or widower; for example, if you

- Are a federal employee who switched from the Civil Service Retirement System (CSRS) to the Federal Employees' Retirement System (FERS) after December 31, 1987; and

(over)



- You filed for and were entitled to spouses, widows, or widowers benefits before April 1, 2004; or
- Your last day of service (that your pension is based on) is before July 1, 2004; or
- You paid Social Security taxes on your earnings for 60 months or more during the period beginning January 1988 and ending with the first month of entitlement to benefits; or
- Received, or were eligible to receive, a government pension before December 1982 and meet all the requirements for Social Security spouse's benefits in effect in January 1977; or
- Received, or were eligible to receive, a federal, state, or local government pension before July 1, 1983, and were receiving one-half support from your spouse.

*Note: A Civil Service Offset employee is a federal employee, rehired after December 31, 1983, following a break in service of more than 365 days, with five years of prior CSRS coverage.*

### What about Medicare?

Even if you don't get cash benefits from your spouse's work, you can still get Medicare at age 65 on your spouse's record if you aren't eligible for it on your own record.

### Can I still get Social Security benefits from my own work?

The offset applies only to Social Security benefits as a spouse, or widow, or widower. However, we may reduce your own benefits because of another provision. For more information, ask for *Windfall Elimination Provision* (Publication No. 05-10045).

### Contacting Social Security

Visit [www.socialsecurity.gov](http://www.socialsecurity.gov) anytime to apply for benefits, open a **my Social Security** account, find publications, and get answers to frequently asked questions. Or, call us toll-free at 1-800-772-1213 (for the deaf or hard of hearing, call our TTY number, 1-800-325-0778). We can answer case-specific questions from 7 a.m. to 7 p.m., Monday through Friday. Generally, you'll have a shorter wait time if you call after Tuesday. We treat all calls confidentially. We also want to make sure you receive accurate and courteous service, so a second Social Security representative monitors some telephone calls. We can provide general information by automated phone service 24 hours a day. And, remember, our website, [www.socialsecurity.gov](http://www.socialsecurity.gov), is available to you anytime and anywhere!

# Appendix E

2012 Interim Study Hearing  
Transcript of LR 628

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Nebraska Retirement Systems Committee  
December 18, 2012

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[LR628]

The Committee on Nebraska Retirement Systems met at 10:00 a.m. on Tuesday, December 18, 2012, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LR628. Senators present: Jeremy Nordquist, Chairperson; LeRoy Louden, Vice Chairperson; Russ Karpisek; and Heath Mello. Senators absent: Lavon Heidemann; R. Paul Lambert.

SENATOR NORDQUIST: Good morning, everyone. I'm State Senator Jeremy Nordquist from District 7, Chair of the Retirement Systems Committee. I welcome you to our committee today for a hearing on LR628, an interim study to examine the pensions provided for firefighters in cities of the first class. I will introduce our committee staff. To my far right is Laurie Vollertsen, our committee clerk; to my left is Kate Allen, our committee's legal counsel. For those of you that are going to be testifying today, please fill out a testifier's sheet on the back corner and submit it to Laurie. Please state and spell your name when you begin your testimony. Please silence your cell phones so we don't have any distractions. And I will let the members of our committee introduce themselves, starting over here to my right.

SENATOR KARPISEK: Russ Karpisek, District 32 from Wilber, with an E. (Laughter) It was posted as a U out front for the last six years, so I'm just giving Laurie a little hard time.

SENATOR LOUDEN: Is that Karpisek or Wilber with an E?

SENATOR KARPISEK: That would be Karpisek with a K. (Laughter)

SENATOR LOUDEN: Senator LeRoy Louden, District 49.

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SENATOR NORDQUIST: Committee Vice Chair Senator Louden, and...

SENATOR MELLO: Senator Heath Mello, District 5, south Omaha.

SENATOR NORDQUIST: Great. Thank you. Well, we introduced this as a committee resolution and I will just state that I think this is an opportunity for us to have a thoughtful discussion on how we move forward in looking at the adequacy of the benefits that we have for firefighters in our first-class cities, so that is the intent of the hearing today. And with that, we will go ahead with our first testifier. [LR628]

JOHN CORRIGAN: (Exhibit 1) Good morning, Mr. Chairman, members of the committee. My name is John Corrigan. I'm an attorney at the law firm of Dowd Howard and Corrigan, located in Omaha, Nebraska, and I have the privilege of appearing before you today on behalf of the Nebraska Professional Fire Fighters Association, which is an association made up of locals throughout the state of Nebraska represented by the International Association of Fire Fighters. And the Nebraska Professional Fire Fighters Association pretty much represents every paid firefighter in the state of Nebraska. The association has been around, I think, since probably the early '70s, maybe even a little earlier than that, but with the onset of collective bargaining in Nebraska, under the creation of the Industrial Relations Act, the Nebraska Professional Fire Fighters Association has long been a stalwart for protecting not only the right to collectively bargain benefits but protecting the postemployment or deferred compensation benefits for the first-class city and for primary- and metropolitan-class firefighters. The issue before you today and one of the reasons that the association has requested this review is that we have a unique situation in Nebraska with respect to the firefighters. You have your Omaha firefighters operating under a home rule charter and your Lincoln firefighters operating under a home rule charter who are participants in a defined benefit pension system. A defined benefit pension system essentially establishes contribution rates by the employee and the employer to create a fund, and out of that a fund a level



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benefit or percentage of salary, based on years of service, most of the time, is credited to the employee. And when they separate employment, that is the benefit that they've earned. Prior to 1984, we had a defined benefit system in the state of Nebraska for first-class city firefighters as well, going all the way back to 1896. And in 1983 the Legislature passed LB531, and I've provided a copy of the legislative history of that statute. I think it's very important to address sort of the conditions that existed at the time that statute was passed because it goes to the heart of why we're here today. The first-class cities throughout Nebraska had experienced the notion of unfunded liability, meaning that they had made promises, and by virtue of the statute that was in place they had to provide the 50 percent benefit to firefighters. The problem that was created by that situation is that the cities were not funding their retirement benefits consistent with the retirement benefits that were being earned. And so the city themselves had to make up the difference between what had been promised and earned, and what the city had on hand to pay for those benefits with employee contributions. It was a classic system of pay as you go, in the sense that the employee would make contributions and earn interest on those contributions; and then when the employee separated, the employers, the cities would pay those benefits out of the general fund. And in many cases there wasn't a trust fund to pay the benefits. And that led to the unfunded liability problem, and many cities took action to address that unfunded liability by making contributions towards the benefits over time, but they came to the Legislature, and it's my understanding they came to the Legislature several years in a row, finally with the concept that we wanted to shift firefighters from this defined benefit plan under the statute to a defined contribution plan. And, of course, you're dealing with vested rights, you're dealing with constitutionally protected issues of deferred compensation and pensions, which are not subject to unilateral change, generally speaking, and there had to be a deal; and obviously, a deal was struck. Now LB531 was the deal that was struck and essentially what was done is that the employers, the cities, were required to maintain the 50 percent benefit for employees who were employed prior to January 1, 1984. And we have now 28 years of experience under the new system, and I'd like to

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talk to you a little bit about that. But I think it's important to note when LB531 was first introduced, the concept was the employer will pay 7 percent and the employee will pay 7 percent, and that 14 percent contribution with investment earnings over time should be sufficient to pay a benefit. Nobody ever questioned the retirement age of age 55, at which you're eligible to retire under current law at age 55. And that's not uncommon in public safety, both first-class city police officers, and I think the State Patrol has even a younger age of eligibility. But this is dangerous physical work, and both for the safety of the citizens and the safety of the firefighters, it's important that we have the ability to retire at an age which leads us to have a retirement rather a separation of employment that is subject to disabling physical conditions. That wasn't really the dispute, in terms of the age of the eligibility. It was how we were going to fund it. You have to understand, and I'm sure you all do, that firefighters in these cities are not subject to and do not pay Social Security tax. They don't receive credit for Social Security for every hour that they work for the city in the capacity as a firefighter, which in many cases is well in excess of 2,900 hours a year, almost 1,000 hours more a year of work hours than the average 40-hour-a-week or standard 40-hour employee. The deal that got struck then was that 7 percent was obviously insufficient, and in order to take into account the constitutionally protected vested rights of existing employees, everybody who was hired and working prior to January 1, 1984, had the ability to receive the value of their retirement account, which the employer now had an obligation to contribute to and the employee had an obligation to contribute to as a level percentage of their payroll--13 percent for the employer and 7 percent for the employee. And there was obviously an increase. The original bill was offered at 7 percent. There was an increase in the amount of contribution to 13 percent by the employer and a decrease by .5 percent by the employee, based on the original proposal of 6.5. So you've got 19.5 percent of payroll going in to fund this retirement benefit. And if you worked prior to 1984, whatever the value of that account was, the city has to make up the difference to assure that that account buys you an annuity which provides a 50 percent benefit based on your salary at the time of separation. And as I understand it, there was an actuary that had advised

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the committee and the parties that the 19.5 percent should be a sufficient amount of contribution to provide what they termed a "roughly equivalent benefit." And I want to go through a little some of the highlights of the legislative history. Senator Fowler on the floor on May 17, 1983, indicated that the purpose of the benefit is to provide for the first-class city firefighters a retirement benefit roughly equivalent to what they are getting now. Although when we move to this defined contribution system, away from defined benefit, we can't guarantee the final benefit, but actuarial estimates are to be roughly equivalent so that there is a benefit. Senator DeCamp piped in during that same hearing, during the floor debate, and commented that, and this is at...it's marked 5358 at the bottom of the right-hand side of the page, and I'll quote. He said, quote: Just for the record, so you know what we are doing, a defined contribution plan is simply we don't tell you how much you are going to collect when you get ready to retire. We do tell you this. What you put in today, what the city puts in today will be invested, and if it turns out to make a "jillion" dollars, that is what you get. If it turns out to lose, that is what you end up with. But at least you know absolutely where you are. And had they done that on Social Security, instead of promising pie in the sky without a way to get the pie, we may not have had the problems we have today, end quote. Mr. David Chambers, who at that time was representing the League of Municipalities, commented at the committee level that...and I think this is really important, that with respect to the newly hired employees the policy was that we were going to make these contributions, and he said, quote: If we can guarantee the present firefighters that they are going to receive no less benefits and get more benefits, can reasonably assure the newly employed firefighters after the adoption of the bill that they are going to receive virtually the same or more benefits, it seems to us a logical approach. Mr. Chambers also told the committee that, he said, when it came...when they come down for the newly employed ones, after the date of this act, their money is going to accumulate. And I don't know how much money they're going to have at age 55, when this does come around. We're trying to get enough money in so we will not be less than about 50 percent, but we're not targeting. We're not putting a floor in this bill. We're not putting a

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floor on the thing. Here's one place, firefighters, you're going to have to gamble with this. Now 28 years later, what is the result of the gamble? And that's something that we've tried to find out. It's not an easy thing to find out because, although the committee and the statutes have required that certain reporting be done, what you don't know is the value of individual retirement accounts. The survey that we've provided to you is a first-class city retirement survey.

We now, as of this morning, about 25 minutes ago, we have two more cities and probably three more cities that we can add to this. And we've looked at the numbers. It doesn't move the bar. I can't tell you what...I haven't...we have an actuary that's provided us an annuity calculation for this survey and I'm sure I can provide that same calculation once I add the other figures in, but even for these three cities, who are large cities in the context of first-class cities in Nebraska, we're able to develop a composite firefighter, meaning by using the three most senior firefighters, their years of service and their age and the value of their retirement account and their average salary, it can tell us some things about the performance of this legislation. Under this composite, we have a firefighter that's 53 years of age, he's got 20...or she's got 24 years of service, and the retirement account value is \$367,000, with an average salary of \$65,722. Now that average salary, I think, is probably a misnomer because that includes management or fire chiefs, and those are some higher salaries. But we're not...either way I think the end result is if we...the other cities that we add, we think the average age might go up a little bit, the years of service might go up a little bit, probably not more than a year on either one, and the retirement account might go up a little bit. But giving that employee, if he's 53 years old, credit for the investment earnings and additional contributions that would be expected to be received after age 53 until age 55 and retirement eligibility, we can safely estimate that the value of that account would be about \$415,000. And with an annuity, pursuant to the rules established that would provide you an annuity of \$16,000, \$16,129 a year, it's a monthly benefit to live on of \$1,344. Now there's no requirement that the employers in this context allow employees or provide to employees coverage for retiree healthcare. I'm not...I represent a lot of people throughout the state of

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Nebraska in both first-class cities and otherwise. We've suggested that, you know, you might be able to get single coverage for \$500 a month, you might be able to get a family plan or a group plan for you and your spouse for \$1,100 a month. I know in many cities it's more expensive. But even in that case, that employee is not going to have enough money to live on if they want to have insurance. And so the result of this experiment has been that the firefighters are left with retirement not being an option. They might be able to leave their employment and go work somewhere else, and I'm sure that you'll hear that, but that isn't the point. The point is that they were told and this Legislature had every good intention in 1983 to provide a benefit that was roughly equivalent to the 50 percent benefit that existed, and it simply wasn't...that's not what we've seen, it's not how it has shaken out. And I think one has to really ask if we are putting away 19.5 percent of payroll for the firefighter, how is that not achieving the benefit of 50 percent? What we're seeing, based on that survey, is that it's less than half: 24.5 percent of your salary is not a roughly equivalent benefit by any measure. And we have provided to you just some statistics showing what, in 2012, the Social Service income thresholds are. If one was to receive this benefit, based on our composite, and that said person would be required to go out and purchase health insurance, there's no question that they would be in poverty, eligible for other social benefits. And in this day and age, after the 25 or 30 years of firefighting, engaging in public service, that is not consistent with the intent of the legislation nor what should be provided in good faith for honorable service provided to the citizens. So with that, I would invite any questions; and I would ask you also, you know, this information we have to cull from individuals. The committee has certainly within its purview the ability to perform in-depth studies and require further information from the cities themselves, but every time we go to the table we hear the, oh, we can't negotiate a better benefit for you; we'd sure like to but the Legislature created this law and now we can't negotiate. And I don't know whether I accept that or I don't accept that, but I can certainly say that the law that was created is not performing as it was designed and a solution needs to be, in our minds, developed so that we are not pushing people off into poverty after careers in public service. Thank you. [LR628]

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SENATOR NORDQUIST: Thank you, John. Just looking at the account values that you have provided, and I know it's a small sampling of what's out there, it looks like that there is a pretty wide variation and some of that is due to years of service and salary obviously. But it seems like, you know, maybe Grand Island...it looks like their account balance is maybe a little stronger than the other cities. Do you see a problem? One of the problems surrounding this is the independent nature of these that each city kind of manages...or are the accounts managed...the investments are chosen by the firefighter.

Is that right? [LR628]

JOHN CORRIGAN: Generally speaking. Each city has an advisory committee or a pension committee that will develop an investment structure. Within that structure, the firefighters can select what products they want to invest in, be it stock funds or mutual funds or generally...I know Wells Fargo bank is one of the major players in this. They provide those investment products to the employees. And there is very little in the way of responsibility in terms of that the city has to ensure that those investments yield the proper return. It's very similar to the classic 401(k). And if you understand the 401(k) system, when it was created, probably at that time, I think probably we know that the employers were paying for about 90 percent of the retirement benefits in this country in 1980 and 1979, and they had 100 percent of the fiduciary obligation to see that that money was managed for the benefit of the employees. By going to the defined contribution model over time, the employers shifted the burden to pay for retirement on to the employees to the tune of now it's 50/50, and 100 percent of the money management was left with the employees. We would give you a choice of certain asset classes you could buy into or products, if you will, and the individuals were left to manage that money. And I think that that was certainly one of the selling points of this statute back, if you read the legislative history, is, oh, they get to say what their investments will be. And I think that's all well and good but what we have seen and has been noted nationwide is that the skill of professional money managers, coupled with

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the fiduciary obligation and the asset classes that are available to institutional investors yield a higher return on investments. That coupled with the fact that the fees that you pay on those accounts, in this instance individualized fees based on account value as opposed to fees charged to the overall money held in several of the pension systems that are all, you know, at play in the state, not only locally but at the state level, you can see economies of scale. And these firefighters are not enjoying those, and maybe that's one reason and maybe there's bad choices. I'm sure there are. You know, there's certainly people that do a great job of managing their money because that's all they...they enjoy that, they are educated in it, and there's other people that are busy raising kids or working a second job or being firefighters and paramedics, and those are all things that they find an aptitude for, not money management. And so that certainly is one aspect of it that creates disparity. I think there's also, you know, what you see in there is some disparity in wages, probably a product of comparability, with the city of Grand Island traditionally going outside the state for comparability. But even when we add in...I mean there's one account in this, and I'm not going to say who it is, but there was one account in here that is a firefighter who is a pre-1984 firefighter who has a very high account, and in order to ensure that that firefighter gets a 50 percent benefit, the most recent payoff quote, meaning to buy the annuity that's going to pay him a 50 percent benefit, was going to mean that the city had to contribute an additional \$200,000. Now the cities may cry foul and say, well, see, that's why we don't want to do it; we don't want to have to promise a level benefit because we can't afford it. But then I think let's be honest and say that the system designed to give us a roughly equivalent benefit is not functioning that way, and there has to be, in our mind, a solution to that. [LR628]

SENATOR NORDQUIST: Uh-huh. All right. Well, I appreciate you speaking about the issue of professional account management. Two weeks ago I was out at our National Council of State Legislatures' fall meeting and presented about our cash balance plan in Nebraska for our state employees, and we were really the first state that developed the

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hybrid option of a cash balance. And it really came out of...in preparation for that I read over a year 2000 benefit adequacy study that we did as a state, and we kind of came at the cash balance from a different angle. We were doing it to improve the benefits of our state workers, where now most states are coming at it to reduce their liabilities. But really, that benefit adequacy study really highlighted for our state workers at the time the problems and the shortcomings of the individual account management and why we needed to make the shift to a professional managed account, asset management in our cash balance plan. So that certainly is a problem. I think a lot of other people are coming to that realization at this time too. Any questions from the committee? Senator Mello. [LR628]

SENATOR MELLO: Thank you, Senator Nordquist. And thank you for bringing up the cash balance plan issue, because that was going to be my question, John. As the committees after today starts to look at potential solutions, is there anything specifically, maybe besides the local management or maybe the more professional management of the local funds, that maybe yourself or the Professional Fire Fighters Association would suggest that we look at? Is it an issue of maybe incorporating the first-class city firefighters into the cash balance plan, similar to the way the state currently is for our state employees, or looking at any other options? [LR628]

JOHN CORRIGAN: Well, we certainly thought about that and I think as time progresses here between now and the beginning of session we're looking for, you know, any solution and not just a solution that is geared towards the pension or retirement benefit. But if there's other ways to make it easier so that these employees can retire, then, you know, we're all for that. In the sense that the deferred compensation is not just the pension or annuity benefit, but it seems to us that there is great value in giving the firefighters access to the efficiencies of current and existing funds that you can add those contributions to and commingle the funds for investment purposes, certainly not for earnings or for benefits. But as we've seen in other states, the investment



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efficiencies, primarily through, as I understand it, simply just the fee structure and the asset classes that are available are something that we think would alleviate part of this problem. Now is that going to get us to a situation where the individual composite that we've developed, that that individual is now going to have a chance at 50 percent at retirement at age 55? Probably not. But this problem wasn't created in a day and it's not going to get solved in a day. But on the other hand, you know, the overriding focus of the legislation was a roughly equivalent or better benefit, and we're just not there, so. [LR628]

SENATOR NORDQUIST: Any other questions? Senator Karpisek. [LR628]

SENATOR KARPISEK: Thank you, Senator Nordquist. Thank you, John. What did you say, what's the rate now for employer and employee? [LR628]

JOHN CORRIGAN: Thirteen percent for the employer and six-and-a-half percent for employee. [LR628]

SENATOR KARPISEK: Okay. That's what I thought. Is there a mandatory retirement age? [LR628]

JOHN CORRIGAN: Well, technically there probably could be. Many cities don't impose one. There's kind of a difference in state and federal law on that. But there's no mandatory retirement age that I'm aware of. If someone wanted to put one in an ordinance, they could probably enforce it, and depending on, you know, what it was. But age 55 is retirement eligibility. [LR628]

SENATOR KARPISEK: Okay. I'm likening this a lot to the State Patrol because I've dealt with that on this committee so...and I've tried to raise that mandatory retirement age and I was unsuccessful. But probably now that's a good idea because they'd be on

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getting more. And you talked about, okay, they don't pay Social Security. Can you tell me--I know it's federal--why? [LR628]

JOHN CORRIGAN: Well, the primary reason was that they were excluded back in 1935, and then later, when Social Security was created, if you were participating in a public safety or a private...I'm sorry, a public sector pension benefit, they were excluded. And they were allowed...there were certain groups that were allowed to opt in back in the 1980s. I think the police officers are in, but the firefighters are not--police officers in first-class cities. Firefighters throughout the state of Nebraska generally do not participate in Social Security and it's been that way since the creation of the program.  
[LR628]

SENATOR KARPISEK: And I knew there were federal issues but...and insurance while they're employed, is that 100 percent, is it a...? [LR628]

JOHN CORRIGAN: Generally,... [LR628]

SENATOR KARPISEK: I suppose it depends what city. [LR628]

JOHN CORRIGAN: Yeah, generally speaking, that's a matter of collective bargaining. And so some cities may bargain with the employee to say we're not going to give you this wage increase but we'll provide a 15 percent/85 percent split on the premium, with the employer carrying the heavier load. I think, based on my experience, the average is probably around 80/20, 82/18. But I'm not aware of any first-class city that is providing retiree health coverage to firefighters unless...there might be one exception in the city of Fremont with...I think you've got to have like 35 years of service or 30 years of service, something like that, and then only for a short period of time. But the ability to participate in the employer-sponsored coverage after separation of employment would go a long way to alleviating this problem. And I know, you know, people don't...as we sit here and

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talk about, well, they're going to raise the Medicare eligibility age; all that's going to do is result in people staying at work longer. And I can understand that. But in the context of public safety, we've never bought into that concept and there will be certain costs for that. [LR628]

SENATOR KARPISEK: And I appreciate a couple things that you've said of where you'd like to be on this. I mean just saying "we don't think it's working" is hard for us to try to find what is going to work. And I realize, too, you know, there's got to probably be some negotiation here. I just want to say quickly, in 20 years of self-employment, 12 years being the mayor of a small town, a lot of volunteer work which is not dangerous, like volunteer firemen, being a state senator is dangerous (laugh), the Hastings example, age 45, 20 years of service, I was roughly at that in my own business. I had to pay self-employment tax, which is about 30 percent. I had to pay my own health insurance. I didn't get anything, as being a mayor or a senator, for any of that. I had to invest my own money and that's not doing very well either right now. So I hear what you're saying but we have people like me on the other side saying, well, boy, that looks pretty darn good too. And I know you're going to say, well, but it's not what the Legislature intended, and I appreciate that too. I just want to get that out to say there's both sides to this coin. [LR628]

JOHN CORRIGAN: Well, I think that's true. I mean we're not saying that this should be a benefit applied to everybody. But we do recognize that in public safety you send people to do a job which is inherently dangerous. The whole purpose of having the job is to protect the citizens from danger. And there ought to be, and is under the law, some obligation to provide benefits for those employees, particularly because we expect them to retire, and have for generations expected them to retire, earlier than we would expect other people. But what we're experiencing in our locals is the employees are getting trained, they're getting equipped, they're getting the knowledge and ability to do this kind of work, and we're losing them. They're losing them to other cities who will provide

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benefits that are more livable, for lack of a better term. And, you know, there's ways to deal with that. Employers always say, well, we'll fine them; we'll make them sign pre-hire agreements that will punish them if they leave. And if I'm sitting there looking at a 64 percent benefit in the next city I'm going to go to and you guys are going to pay me what works out to be a 24 percent benefit, fine me, you know? [LR628]

SENATOR KARPISEK: And I do definitely respect them and I'm very happy they're there. Those of us in rural Nebraska are used to volunteer firemen who do it for nothing, up at all hours of the night going out too. So I realize it's not the same, but it's kind of the same. And so again, we have the other side of that coin. But thank you, very good. [LR628]

JOHN CORRIGAN: Understood. Thank you. [LR628]

SENATOR NORDQUIST: Thank you, Senator Karpisek. Mr. Vice Chairman. [LR628]

SENATOR LOUDEN: Yes. Well, thank you for your testimony today. I'm not that familiar with these pensions on these larger cities because we don't have any larger cities out there. Anyway, my question is, if you don't pay into Social Security, how are spouses covered? And then how is your insurance covered after you retire? [LR628]

JOHN CORRIGAN: Well, if your spouse has a job then the spouse would, in all likelihood, unless the spouse is a firefighter, in all likelihood, they would be covered by Social Security. [LR628]

SENATOR LOUDEN: Yeah, but I'm not talking about that. I'm talking about like in Social Security the spouse is entitled to half of your benefit. [LR628]

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JOHN CORRIGAN: Okay. Well, essentially what this benefit provides is a joint survivor annuity, which the employee can buy if they want, which will reduce their monthly income but they can buy an annuity which will pay them a benefit during life and then a smaller benefit to their spouse, the surviving spouse, after their death. Or they can get the value of the lump sum annuity paid to them all at once and then that's their nest egg and they have to make it grow to make themselves...to live. Now in terms of health insurance, generally, all these employers that I'm familiar with will provide group health coverage and you can have, you know, single coverage or two-party or family coverage. And as long as you're employed, the spouse can have coverage. But once you're not employed, the spouse and you are on your own. [LR628]

SENATOR LOUDEN: Now what about when they're 65? Because when you get 65, usually you can't buy any health insurance because theoretically you're supposed to be on Medicare. [LR628]

JOHN CORRIGAN: Well, they do pay in...they are eligible for Medicare. They just don't pay Social Security tax. So they... [LR628]

SENATOR LOUDEN: Then they have to pay that fee for the Medicare coverage... [LR628]

JOHN CORRIGAN: Yes. [LR628]

SENATOR LOUDEN: ...at 65, and that's how they get around that part of it. [LR628]

JOHN CORRIGAN: Well, it's just a benefit that they didn't get exempted from and so they pay into it and they receive the benefit of it. [LR628]

SENATOR LOUDEN: Okay. [LR628]

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JOHN CORRIGAN: You know, ideally, if a guy had the 50 percent benefit and could survive on that, he could retire at age 55 and go out and buy health insurance and...or get some coverage through some other employment or through the spouse's employment. But at age 65, if the law stands as it is today, then they would be eligible for Medicare. [LR628]

SENATOR LOUDEN: I see. And then as I was reading some of this material that you had, and I think you sent us all a letter the other day, and there's been some stuff in the papers of lawsuits and that sort of thing, and they talk about the age of the...I think it's in this one here, I think talks about the age of the people that are getting ready to retire, the percentage, and then the younger ones coming in. Is there a problem that you don't have enough younger firefighters coming in to contribute to any of this retirement fund or anything? [LR628]

JOHN CORRIGAN: Well, I think the problem that some of the firefighters in the room will tell you that they have is that in rural communities they're getting people that will come in that are younger and then they're losing them. [LR628]

SENATOR LOUDEN: Hmm. [LR628]

JOHN CORRIGAN: It's not that...I mean there's a lot of people who want to be firefighters and career firefighting is very attractive, but if they can get the skills to do that work as a paramedic and as a firefighter or an emergency medical technician and then go to another entity which will provide them a better deal under their deferred compensation, they're seeing that. And that's...you know, some people stay. Obviously, they're committed to the community, that's their home, and that's really what we want. We want people that are in their communities and generating revenue for the community and doing all the good things that they do. But they were...a deal was made and they were...you know, the promise was, we're going to give you this benefit, and it's

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not working out. It's not what...it's not doing what it was intended to do. And if we highlight that to the new employees, maybe you'll have no problem. But when you tell somebody, oh, we're going to give you...you'll get a retirement benefit. They told me that when I was 24 years old and didn't pay any attention to it; now I pay attention to it. [LR628]

SENATOR LOUDEN: Now if these firefighters, like for...you mentioned these towns here--Grand Island, Hastings, all them--they're paid, they're a city employee, right? [LR628]

JOHN CORRIGAN: Correct. [LR628]

SENATOR LOUDEN: Now what kind of retirement benefits and that sort of thing do these city employees get? Are they just strictly Social Security? [LR628]

JOHN CORRIGAN: Generally speaking, most other civilian city employees are eligible for a defined contribution plan. Most public employers in the state of Nebraska will pay in maybe a three-and-three or a six-and-six plan, but there's not...outside of the civilian pension systems, I'm not aware of a civilian pension system other than those defined contribution plans that the employers, the cities, offer themselves that they develop on their own. [LR628]

SENATOR LOUDEN: Well, like here in the state, they not only have some of their retirement but they also pay in their Social Security and the whole works. I was wondering is there any way that any of that with these firefighters could be adjusted accordingly that they could choose to pay into both plans or something like that? [LR628]

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JOHN CORRIGAN: If the Legislature wanted to change the benefit to make firefighters eligible for Social Security, I imagine that that would meet...it would need to have some buy-in from the actual cities and the firefighters themselves. But I don't know that that solves your problem in the context of your current plan at 19.5 percent of payroll providing a 24.5 percent benefit. [LR628]

SENATOR LOUDEN: Right. Then you're telling me they could still be eligible to retire at age 55 or whatever on their firefighters. But yet, if they were also eligible for Social Security, they could continue with their Social Security and when they become 65 or 67 or whatever it--because that target is moving--would be eligible then to retire on their Social Security also. [LR628]

JOHN CORRIGAN: They could. They could receive Social Security. There are anti...they call them anti-windfall provisions. So if somebody receives a retirement benefit from a retirement system, a railroad retirement or a pension system that was from noncovered Social Security employment, they're going to reduce their Social Security benefit so that you can't...you can double-dip a little bit but you can't get two retirements, Social Security and your pension, at the same time and get 100 percent of your Social Security. It's reduced significantly by law. That's part of the Social Security system. It's called the anti-windfall provisions. I couldn't think of the statutory provision off the top of my head though. [LR628]

SENATOR LOUDEN: Would legislation like that be something that the firefighters would be willing to look into or that they would be interested in? [LR628]

JOHN CORRIGAN: I think at this point they're willing to look at anything that's going to alleviate this problem. And we think that the important part of this conversation is that if anybody tells you that it's not a problem, we're going to have an argument. If anybody says, I've got a solution, then we're going to have a conversation. [LR628]



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SENATOR LOUDEN: Well, yeah. Solutions are a little bit harder to come up with than creating problems, that's for sure. (Laughter) As I was reading some of this, what did I see, something in here like a \$1.1 billion valuation is what the fund is valued at? Is that what I saw? [LR628]

JOHN CORRIGAN: I'm not sure what you're reading from, Senator. [LR628]

SENATOR LOUDEN: Okay. I thought I saw it in some of this paperwork that was handed out. What...and there's supposed to be a hole in there? Is that just the Omaha one that has the \$610 million hole in it or something like that? And so what's your conclusion how to fix this thing? What would be your answer to it? [LR628]

JOHN CORRIGAN: Well, we're going to have that conversation as we approach the session, but with the amount of money that the city is paying now, I don't think that the city or the employee is getting a very good deal and there's probably a way to give a more comparable benefit, even with the existing funds that are...they just need to be redirected. And that's probably what you'll hear from us as we go forward. [LR628]

SENATOR LOUDEN: Okay. Thank you for your testimony. [LR628]

JOHN CORRIGAN: Okay. Thank you. [LR628]

SENATOR NORDQUIST: Thank you. Any other questions? Seeing none, thank you. Next testifier. Welcome, Dave. [LR628]

DAVID ENGLER: Good morning. I'm Dave Engler. I'm the president of the Nebraska Professional Fire Fighters Association. First of all, I appreciate your willingness to listen to our concerns on this issue, and John did an excellent job of looking at the legislative history and the concerns that we've got. Some questions came up that were very good.

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And so my testimony is going to be brief but, you know, our concern right now is there was an agreement, based upon the expectation, that was designed primarily to cure the unfunded liability the first-class cities had. And just to be very clear that...Omaha came up. Omaha and Lincoln are not part of this. They've got their own defined benefit pensions. So we're talking about the first-class cities in Nebraska. The expectation was that the new firefighters would receive the roughly equivalent benefit as the 50 percent, and that expectation has just proved to be unattainable. Now we've had a little bit of difficulty getting the exact numbers, but we've had actuaries look at them because we've had to go to the individuals and get those numbers. And so we haven't had a...I mean, we've got, you know, probably about 300 firefighters that are covered under this plan, roughly, and to get an accurate count is very difficult at this point in time. But the firefighters in the state, the first-class cities, we're not trying to get more, we're not trying to be greedy or anything like that. And when you talk about pensions, that's always kind of a...or...and I don't want to call this a pension because it's a retirement plan. It's not a pension. But when you talk about these things, it really gets the hair up on the back of people's necks and everything with the economy and all that. But what we're really looking for is something that gets the firefighters close to receiving what the plan was actually designed to do, not to make them millionaires, not to...you know, not so they can go buy vacation homes but so they can live. And I think as state senators, you know, your salaries have been discussed and you probably see some similarities between your salaries and what the firefighters are retiring on, based upon John's testimony. We have enough history at this point to show that this isn't working. This is not working as it was intended. And it's important to recognize that we need to find a way to get the benefit or a benefit close to what it was intended to do. There was a good question from Senator Loudon about how come new people aren't coming in. You know, we've got new people moving out to get other jobs, but the real reason that new people aren't coming in on top of that is old people can't go, because they can't retire on the benefit that is being offered, and so they're hanging around. And firefighters, you know, age 55, which is when these people are eligible to retire, age 55 as a

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professional firefighter is really pushing it. And you're not going to get to 60 and you're not going to get to 65, because the number of injuries go up drastically, the number of heart-related illnesses go up drastically, and then you're looking at disability pensions and that sort of thing. So, you know, 55, most retirement plans for firefighters and public safety officials are from 50 to 55. In that, we're on the top end with 55 here. And the purpose isn't so you can just go out and have fun for a couple years. It's because you become a liability at that age. And being a professional firefighter is work and it's labor, and so it's not one of those things where you can sit behind a desk and relax for a couple years. So that's one of the reasons we don't rely on Social Security, because you don't get the benefit until you're too old. And so, like John said, we're open to the conversation of trying to find a solution to the problem. But after the years that we've had since 1984, this has been identified as a problem and we keep hearing from our firefighters that it is a problem. So with that, I'll entertain any questions you've got.

[LR628]

SENATOR NORDQUIST: Thank you, Dave. Questions from the committee? Senator Louden. [LR628]

SENATOR LOUDEN: Yeah. Okay, thank you, Senator Nordquist. As I read some of this stuff that Professional Fire Fighters Association, the AFL-CIO, and they're talking about in here 19.5 percent contribution and, yet, those firefighters only get about a quarter of their salary when they retire. Where's all the money going? I mean why is that? Do you know? Do you have a... [LR628]

DAVID ENGLER: Well, I'm not...I'm certainly not a real expert on this area, but one of the things I can tell you is most of the defined benefit pension plans...and we're not here proposing anything, but I guess I'm trying to give you a little bit of an example. Most of the defined pension plans are funded with that amount of money. And so we're a little bit shocked that the number is a quarter of the person's salary because it should be

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much better. Now I think it was Senator Mello talked about how we've got individuals out...the plans are not combined into one plan so there's costs that go on the employee for the investing and that sort of thing, which reduces that. So their money is...right now, the way that the system is set up, they're not getting the most bang for their buck, which is reducing what their benefit is in the end. [LR628]

SENATOR LOUDEN: Now when these people are...are they paid by the hour or paid by the month or how are they paid? [LR628]

DAVID ENGLER: Typically across the state, firefighters are paid hourly. [LR628]

SENATOR LOUDEN: By the hour? [LR628]

DAVID ENGLER: Yes. [LR628]

SENATOR LOUDEN: How many hours a week do they put in? [LR628]

DAVID ENGLER: Most...it varies, but it's from 53 to 56 hours a week. [LR628]

SENATOR LOUDEN: Okay. And how much an hour do they figure? [LR628]

DAVID ENGLER: That would be dependent on the various cities but I'm going to guess...oh, I couldn't even give you a good guess on what the hourly salary is. I'd say around \$14 maybe. That's just a guess. [LR628]

JOHN CORRIGAN: It depends on the classification too. [LR628]

DAVID ENGLER: Right, yeah, and there's a difference in classification with...you've got a firefighter, a captain, a paramedic. They all make different, according to the state law.

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[LR628]

SENATOR LOUDEN: Do they get paid more per hour than the mayor's secretary gets paid an hour? [LR628]

DAVID ENGLER: That I don't know because I don't know what the... [LR628]

SENATOR LOUDEN: That's what I was wondering: How does their wage compare to other people that are working for that same city? [LR628]

DAVID ENGLER: I don't know. [LR628]

SENATOR LOUDEN: Okay. [LR628]

DAVID ENGLER: The salaries are set according to the Nebraska state law on comparability, so... [LR628]

SENATOR LOUDEN: Salaries are set by Nebraska law or are they set with their...I guess working it out with the city and the Fire Fighters Association? [LR628]

DAVID ENGLER: Well, typically based upon comparability, under the Nebraska statute. [LR628]

SENATOR LOUDEN: Okay. Thank you for your testimony. [LR628]

DAVID ENGLER: Uh-huh. [LR628]

SENATOR NORDQUIST: Senator Mello. [LR628]

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SENATOR MELLO: Thank you, Senator Nordquist, and thank you, Dave. And it's kind of a follow-up question I'll be asking, assuming the League of Municipalities will be coming up testifying as well, which is Senator Nordquist mentioned kind of the concept at the state level in regards to the cash balance plan in comparison to a defined contribution plan. Is that...knowing that it seems or it sounds like, at least, some of the local pension management is kind of an issue, so to speak, in the sense of...you know, I would even argue myself, by no means am I an investment expert, you know, or would I say that I'm even close to still scratching the surface of investing, let alone someone who's obviously, you know, working full-time, essentially going in, I would say, risking their lives day in and day out. That's the last thing probably from their mind is looking at what kind of investments they're trying to make when they're trying to save people's lives. If the local pension issue is part of the issue, is that something that you think the association and the members you represent would be willing to look at in regards to maybe trying to transition first-class cities' firefighters from the local DC plan to maybe--and it's something I asked our legal counsel and maybe something we have to bring up, too, obviously with the police officers as well in first-class cities--of transitioning maybe to a defined...or a cash balance plan similar to at the state level where you're able to pool all that management into one area, where the cities would be able then to guarantee that 5 percent benefit every year, similar to how it is for the state's 5 percent guarantee, so that it provides a little bit? It may not ultimately solve, like I say, the issue that has been raised today in regards to the original concept of the proposal back in the '80s, but is that at least a proposal that for us as members and the committee counsel and we could start to maybe think about a little bit more after today?

[LR628]

DAVID ENGLER: We are definitely open to any and all options that people come up with. You know, like I said, our goal is to try to get us closer to what the plan was designed to do as far as benefit goes. Now how we get there, we're really open to discussion. Because again, you know, we're just trying to create a situation where we

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have a reasonable retirement that doesn't basically put our firefighters eligible for governmental assistance to eat every day, so. [LR628]

SENATOR MELLO: Okay. Thank you. [LR628]

DAVID ENGLER: Uh-huh. [LR628]

SENATOR NORDQUIST: Any other questions from the committee? Seeing none, thank you, Dave. [LR628]

DAVID ENGLER: Okay. Thank you. [LR628]

SENATOR NORDQUIST: Any additional testifiers? [LR628]

SCOTT KUEHL: Thank you. My name is Scott Kuehl. I'm the president of the local in Grand Island, Nebraska, and I appreciate you guys taking some time to listen to me today. I'm also on the pension board for the city of Grand Island and I've seen this storm coming for quite a while. And starting on that job on the pension board about 10 or 12 years ago, I didn't know a whole lot about investing either, I probably still don't, but I've learned a little bit about it. And one of the things that was frustrating for our pension committee is that we would see these investments, this 19 percent that we're talking about today, and it's only getting you 25 to 30 percent after so many years of service. We started asking the questions in the pension committee as what is it costing for us to invest. And, believe it or not, the banks weren't very forthcoming with that information. They'd get a 14-page document to show basis percentage points, and all these things that I really don't know what that means. And in doing some research, I found that it's more understandable for me that we seem to be buying this investment on a retail level as opposed to a wholesale level. And I think that's kind of maybe where you guys are kind of coming from with the state plans, and Dave has kind of said and John said, you

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know, going to get more bang for your buck, because it is what it is. I mean right now I've got two firefighters I can talk about today, one that retired about a year ago. He was a firefighter for his entire career and never progressed up any promotional levels and was roughly making \$50,000 when he retired. And now he's living on about a \$1,300 check he gets from his...just shy of \$300,000 he left with, and has to pay taxes out of that and then he has to find health insurance from that. It's not working. I've seen him out there. He's trying to pick up part-time jobs. He's not unlike any other firefighter where at 25-30 years of service you've got bad knees, bad backs, bad shoulders. There's not a lot of physical jobs you can do out there. He said he's had a hard time getting jobs because he's 55, 56, 57 years old, because he's that old. And so it's been tough on him. I've also got another firefighter who started out as a firefighter, is now currently still employed and a captain and he's 57.5 years old. And he looks at that amount he has daily in his account and he right now cannot afford to retire. His exact words to me were, it's pretty sad when you have to look to potentially get hurt bad enough not to come back to work but still walk, because he would get more of a benefit in that scenario than he has right now. That kind of stuff hits me pretty hard, because I'm 46 years old. I'm fast approaching that. I didn't think about it when I was 28, 27, when I started. I'm thinking about it more and more. We've looked at ways within our retirement committee to try to assist our firefighters so that they wouldn't invest badly or move their money around when they shouldn't be and doing those types of things, and we've just come up against stone walls all the time because state statutes allow this and don't allow that. And we try to negotiate extra money outside of there and 457 plans and other types of things. Well, that becomes a comparability issue, so that goes out the window faster than I can finish the sentence. Because the city of Grand Island is in the precarious position of being the biggest first-class city, we've been able to go outside the city, but we still have to compare within the state of Nebraska, which is not a problem. But it's just a problem that exists that to try to do something outside of comparability goes nowhere. Even if we'd come up here and go to court order, it's going to go nowhere. One of the underlying things that I just can't figure out, in all the



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research I've done being a firefighter in the city of Grand Island for 18 to 20 years and looking at all these issues for when I could retire, I don't understand how the state of Nebraska differentiated between a first-class city firefighter and a Lincoln and Omaha firefighter. I see a house fire the same in Scottsbluff as I do in Omaha, and I do in South Sioux City and Lincoln, and in Beatrice and Grand Island. I mean car accidents are the same, heart attacks are the same. I don't understand how we got there. I feel somewhat like a second-class citizen because I decided to be a firefighter in Grand Island and stay in a small community. It's not that I want the same benefits, because in the bigger cities you get bigger pay. So if your retirement is based upon your pay, and so is your...you know, if your salary is bigger, your retirement is bigger. Well, in Grand Island, ours is smaller than Lincoln and Omaha. So that's one thing I can't quite grasp in this whole thing of how we got there in 1983. I think that needs to be fixed. I think there's ways to do it. We've talked about some of them. I like the idea of a big pool. You know, I know what you do with, you know, teachers and State Patrol and other state employees. I think we're in the right direction, but I'm here to tell you that I've got two or three people that are living it right now and it's not working. And, you know, they were told...it wasn't a guarantee, but when you go to these retirement companies and they come in and give you your analysis of what you might be in 25 years when you retire. Even I've got one that I pulled out not too long ago. They said I'd be a millionaire; I'd have a million dollars in my account when I retire when I was 55. The economy is really going to have to go strong because I haven't made the \$200,000 mark in my account yet and that's 18 years of 20 percent, you know, shy 20 percent of putting money in, so. Someone said something about that Grand Island had a little bit bigger amounts in our accounts per firefighter, and that is true, because in my research with the Wells Fargo people who run our account now, because Grand Island has 63 firefighters plus our administrative staff, it puts up to about 68 people. That amount of money is a very big amount when you add it all together. It's bigger than what Hastings has, Fremont. We get a better deal on our investment strategies and investment costs, so that's a big deal. So if you just expand that out, if we would have all first-class cities, all firefighters, all cops in the

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same program like they do in other states, you would see the benefit soon. I mean I don't know how soon, but the mathematical formula is there for if it costs you less going in, you're going to get more going out. So with that, any questions for me specific to Grand Island, I could sure help answer. [LR628]

SENATOR NORDQUIST: Thank you. Thanks. Any questions from the committee? Seeing none, appreciate your testimony. [LR628]

SCOTT KUEHL: All right. Thank you. [LR628]

SENATOR NORDQUIST: Next testifier. Any additional testifiers on this resolution? Thank you. Welcome, Lynn. [LR628]

LYNN REX: Good morning. Senator Nordquist, members of the committee, my name is Lynn Rex, representing the League of Nebraska Municipalities, and I can provide a little bit of interest for you, perhaps, and background on how this came about. Back in the late '70s and early '80s, we had municipalities, first-class cities across the state that were struggling both on the police and fire side with unfunded liabilities, not unlike what's happening all across the country now. I was just in a conference last week with some of my colleagues, and in Rhode Island I think they have one city in receivership now, two more on the way. The pensions, the defined benefits are part of that, a significant part of that. But back in the late 1970s and early '80s, we had cities that were really challenged with this and, again, they relied on investment advisors as well. I'm not saying that every city did the very best job they could possibly do, but they thought they were doing the best job that they could possibly do. And the Legislature--I want to underscore this--when the Legislature passed the mandates on first-class cities to provide a 50 percent pension benefit for police and fire, the Legislature provided not one dime. So they started out in the hole, some cities more than others, because of course if you had officers that had been there longer that would then be retiring in a few

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years at that time, then you're in a position where they would have no real significant contribution to their own retirement. So this start, we started out in the hole as municipalities. In addition to that, John DeCamp, who worked with us on also LB237 and LB531--LB237 was a bill involving the police officers, LB531 was the bill, as John Corrigan correctly stated, involving firefighters--at that time he also was exploring bankruptcy for municipalities in the state of Nebraska because we had a few cities that were actually considering the possibility of how were they going to deal with this. Hastings, Nebraska, at one point--and I don't remember if it was on the police side or fire side--actually had to go to a vote of the people with a bond issue to pay off unfunded liabilities. We had a city like Fremont, Nebraska, that had an outstanding, frankly, city administrator, not that our other cities don't and did not at that time, but, frankly, Jack Sutton was one of the best financial people in the state. And they were working with one investment banker, thought they were fully funded; changed investment bankers; and because the assumptions changed, which does happen on defined benefit plans, they ended up in the hole by a couple million, on paper. So...but those things matter. So basically, we were looking for a way here, and the firefighters and the police officers were looking for a way, because one thing is very clear with the defined benefit plan--and this is, again, happening nationally as we speak--and that is that a defined benefit plan is a promise, that's all it is, and that can be changed. It's been changed in the private sector. Ask the Enron employees, ask Acola (phonetic) employees, there are other employees that have faced that too. I'm not saying it's a good thing but I'm saying it does happen. On the public sector side, that's happening as well. So this is a very serious time for our economy, and in addition to that, one of the things that was done back in the late 1970s and early 1980s as we negotiated this is that the proposition of having uniform investments, pooling the investments, was an idea that Dave Chambers brought to both groups, and that was absolutely defeated by both the police officers and the firefighters. They wanted the right to invest their own money. And we said, after some negotiation, because it was very important for us to get to a point with a defined contribution plan so cities could eventually try to work their way

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out of this situation, and what I can share with you at that time is that the trade-off at that time was, okay, but you're going to have to have a professional investment manager, you at least have to do that. And I will tell you that the league at one point, every few years, we don't do it anymore, but we were actually going out with cities, contracting for all the first-class cities to say, okay, tell us what your investments are, how is it going. And the reason we don't do it anymore is because the investment bankers and others were extremely upset with us because that information was public, and we had some cities who did, on the police and fire side, who did extremely well, other cities which did not. So basically, that has to do with, I'm guessing, the counsel of their investment advisor to that particular investment committee, and individually then firefighters and police officers, as you and I do as well on a 401(k) or whatever or a 457 plan, get to decide which, out of this set of investments, which ones are you going to select from. The statutes on both the police and fire side require that it be invested pursuant to the Nebraska Investment Council, so it's just not an all-out proposition on what people can invest in. So I can just share with you in terms of the negotiation that both on the police and fire side at that time, and I don't know if there's anyone else in the room that was involved in the negotiations, I was, as the assistant director for the league, then involved in those. But I can assure you that they understood unequivocally what was facing our cities in the state because the Legislature, we had come to the Legislature asking for dollars; the answer was no, no, and no again. And of course, since that time now we've lost all state aid. We've had our Municipal Infrastructure Redevelopment Fund taken away, and we're facing, I'm sure, other things down the road and also increasing costs from state agencies and fee increases from state agencies, whether it's DEQ or name the agency, because as a state, you're trying to balance your budgets too. So in any event...and I will also tell you that, doing the numbers in terms of what we saw back then, that...and, of course, I don't think anyone could predict what the interest rates are going to be, and if I could have done that I wouldn't be sitting here. So basically I think there's no question folks thought that with proper investments that they could reach that kind of a benefit level. I also want to

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underscore that the firefighters...my understanding was, from them, I have not researched this personally, but during those negotiations the reason why we came in originally with the seven-seven proposition was because we were looking at the fact that firefighters were in Social Security, and they said, well, we're not and that's unfair and you need to give the same contribution to us that you do to the police. And so that's why you have the inequity between the police and the fire. And, in fact, the police even get a lower percentage than do the fire, on the fire side. So, for example, whereas a police officer gets a total of 18.7 percent--a 6.5 city contribution, and due to your bill last year it will eventually go to 7 percent, with a 12.5 and a 6.2 percent Social Security paid by the city, you're looking at 18.7 percent total; whereas, as already noted, on the fire side you're looking at 13 percent and then 6.5. But the reason for the 13 percent, which has been a very sore spot with the police officers, is because to make up that difference, if you will, on the Social Security element of it. And I can also share with you that back then we were asked, you know, we'll look into that, and one of the firefighters indicated to us and provided us some documents. I can see if I can go back and find that document. But basically the firefighters, when Congress was going through this, they are the ones that successfully--and, boy, didn't they have vision--opted out of the Social Security plan. That was their choice to opt out of that, is my understanding. But whether it was their choice or not, the fact is they're out of it. And frankly, I'll tell you most employees, if given the chance, would opt out of the Social Security plan. I mean I don't know if any of you would; I certainly would. I don't know of any city administrator in the state that wouldn't opt out of it or any...the police officers would love to be able to opt out of it. And I will also share with you that at one point John DeCamp also brought forward to the Nebraska Legislature to allow public sector employees to opt out of Social Security, and the Legislature simply wouldn't go there either. So there are lots of things that were tried to be done, I think, to make some equities. And I think one of the things, too, that's important, I don't know which one of you asked the question, I think it was you, Senator Loudon, what do other employees get. On a conference call we had yesterday with those cities that have paid firefighters in the state of Nebraska, they all

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have, on a defined contribution plan, 6 percent for their employees, for civilian employees. So it's a 6 percent. And, obviously, the healthcare benefits are the same whether you're a firefighter in Grand Island or you work anywhere else for the city of Grand Island. But cities, as we were talking to you last year about the police side, are concerned about internal equities, the equities from whether you're working as a firefighter or you're working as a utility worker. Utility workers actually have a higher incidence of injury. So we're trying to be cognizant of that as well. And obviously, the overriding thing is, wouldn't it be nice if we could all have better pensions? Wouldn't it be great if cities could provide the kind of pensions they'd like to provide? It's a function of money too. Every time the Legislature mandates something, it's going to be, at the end run, a tax increase in some way, shape, or form when you're looking at this. So make no mistake, it started out as one of the largest unfunded mandates on municipalities in the state of Nebraska and that was putting cities in the hole, in the tank on day one with unfunded pension plans. The Legislature, to your credit, and I realize these were your predecessors, but they didn't do that on the teachers' side, they didn't do that on the judges' retirement, they didn't do that on the State Patrol, they didn't do that with any other group of employees. And so with that, I'd be happy to answer any questions you might have. [LR628]

SENATOR NORDQUIST: Great. Thank you, Lynn. First of all, would there be any way for the league to survey the first-class cities and get information? The information provided to us is we have, you know, nine sampling of account balances here. Would there be any way to get more detailed information? [LR628]

LYNN REX: If you want to tell me what you want. [LR628]

SENATOR NORDQUIST: Okay. Okay. [LR628]

LYNN REX: And, you know,... [LR628]

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SENATOR NORDQUIST: Yeah. [LR628]

LYNN REX: ...we're happy to... [LR628]

SENATOR NORDQUIST: Yeah, okay, maybe we'll have that... [LR628]

LYNN REX: ...ask the cities to provide that for you. [LR628]

SENATOR NORDQUIST: ...that conversation. And then just in general, as we've been talking here... [LR628]

LYNN REX: Let me make this, if I may. [LR628]

SENATOR NORDQUIST: Oh, yeah, go ahead. Yeah, sure. Sorry. Yeah. [LR628]

LYNN REX: I don't mean to interrupt you but just so I can underscore this part of it: to the extent that it's not proprietary. [LR628]

SENATOR NORDQUIST: Sure. Sure. [LR628]

LYNN REX: I mean individual... [LR628]

SENATOR NORDQUIST: Yeah. [LR628]

LYNN REX: ...the amounts of individual officers,... [LR628]

SENATOR NORDQUIST: Yeah. [LR628]

LYNN REX: ...that sort of information. [LR628]

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SENATOR NORDQUIST: Yeah. [LR628]

LYNN REX: But lump sum I would think that they would have no problem with. [LR628]

SENATOR NORDQUIST: Uh-huh. Okay. [LR628]

LYNN REX: But I know...I can't imagine there are many officers that want their information out there. [LR628]

SENATOR NORDQUIST: Yeah, yeah. Sure. [LR628]

LYNN REX: And I think that that's the issue. I mean if they want to release that then that's...they certainly can do that. A city does not release that kind of information on a per-officer basis,... [LR628]

SENATOR NORDQUIST: Sure. Sure. Great. [LR628]

LYNN REX: ...other than their salaries, which is public information and also published in the paper. [LR628]

SENATOR NORDQUIST: Uh-huh. Uh-huh. Yeah, absolutely. So kind of what's sticking out here for me is you're right when you say it's a factor of money, but I think we need to look at if there's any way to more efficiently use the dollars that we are putting in. Nineteen-point-five percent as the total contribution seems like it should be a sufficient amount if managed appropriately. So I guess, as we were talking about the idea of some sort of a cash balance or at least a pooling of resources, and you said in the past the league was interested in that initially. Is that something that the league would entertain again if there was a way to mitigate liability or, you know, have a small long-term liability on that? [LR628]



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LYNN REX: I can certainly take it back to the cities involved in this and I will do so.  
[LR628]

SENATOR NORDQUIST: Okay. [LR628]

LYNN REX: You know, at this point, again, one of the issues that was raised in terms of who can invest which amounts of money,... [LR628]

SENATOR NORDQUIST: Uh-huh. [LR628]

LYNN REX: ...there are some cities that allow the investments on both sides, the part that the city puts in as well as what the employee puts in. There are other cities that do not and that's because there's been a history in some cities that the amounts that are invested on the firefighters' side, in particular, can be invested in something riskier than perhaps a city would normally invest in. [LR628]

SENATOR NORDQUIST: Uh-huh. Sure. Sure. [LR628]

LYNN REX: So those are all issues that come into play here and they're serious issues.  
[LR628]

SENATOR NORDQUIST: Uh-huh. Yeah. Yeah. [LR628]

LYNN REX: But when you look at the level of contribution, I, too, think that's a pretty significant contribution. [LR628]

SENATOR NORDQUIST: Uh-huh. Uh-huh. I just think that we lose...we're losing so much, either due to inadequate investment decisions or high fees on those, that so

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much of the assets get sucked away and not maintained for the participants. So hopefully we can talk about this and see if there is any avenue forward. [LR628]

LYNN REX: Yeah, I'll certainly take it back and... [LR628]

SENATOR NORDQUIST: Yeah. [LR628]

LYNN REX: ...but again, just to underscore this, David Chambers, the director at the time, is the one that proposed that and the city administrators on the negotiating team with us that met with the firefighters and the police officers. And those were done separately, by the way. Those negotiations were done separately, the police first and then the fire. And clearly, at that time certainly, it just made sense to have all of that done. And we even suggested, you know, a type of pool concept... [LR628]

SENATOR NORDQUIST: Uh-huh. [LR628]

LYNN REX: ...where there would be officers...in other words, you take their local investment committee that they've now structured in statute or that has...they didn't structure it but it has been structured and agreed to in statute, and if that was done on a statewide basis... [LR628]

SENATOR NORDQUIST: Yeah. [LR628]

LYNN REX: ...so that basically, yes, the monies were there but they would have representatives, cities would have representatives, because we've got a dog in this fight too. [LR628]

SENATOR NORDQUIST: Sure. [LR628]

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LYNN REX: We're still paying for unfunded liabilities. We still have cities in the unfunded liability category still trying to, you know, get out of that from the defined benefit plans, so. [LR628]

SENATOR NORDQUIST: Sure. Sure. [LR628]

LYNN REX: But I'll certainly take it back to them for their consideration. [LR628]

SENATOR NORDQUIST: Uh-huh. Thank you. Any other questions from the committee? Senator Karpisek. [LR628]

SENATOR KARPISEK: Thank you, Senator Nordquist. You talked about Senator DeCamp trying to opt...or asking if public works wanted to opt out of Social Security? [LR628]

LYNN REX: If...to allow the State Legislature. The Congress, at one point, gave states the option, and there was a deadline on it, of having public employees have the right to opt out of Social Security, and some of them you can do it as either a state or, for example, local governments could do it at that time. And basically, the Legislature was not receptive to allowing that to happen. [LR628]

SENATOR KARPISEK: So is there any way now that the Legislature could opt people in? [LR628]

LYNN REX: Into Social Security? [LR628]

SENATOR KARPISEK: Yeah. [LR628]

LYNN REX: I have no idea. I don't know. My guess is it's a federal issue. I don't know, though. [LR628]

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SENATOR NORDQUIST: There's a... [LR628]

KATE ALLEN: Well, there's a referendum process. We have the statutes in Nebraska statutes. [LR628]

LYNN REX: Oh, okay. Okay. [LR628]

SENATOR NORDQUIST: All right, well,... [LR628]

LYNN REX: I mean obviously that would have an impact on the contribution rates then. [LR628]

SENATOR NORDQUIST: Yeah. [LR628]

SENATOR KARPISEK: Sure. [LR628]

LYNN REX: I mean, if that's going to happen, then we'd want...we would lower it. [LR628]

SENATOR NORDQUIST: Sure. [LR628]

SENATOR KARPISEK: Well, and I think that we'd definitely want to talk to them, and like you said, we'd probably all like to get out. So I'm just asking questions on that, all right? [LR628]

LYNN REX: Yeah. Yeah. [LR628]

SENATOR KARPISEK: Thank you, Senator. [LR628]

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SENATOR NORDQUIST: Great. Thanks, Senator. Senator Louden. [LR628]

SENATOR LOUDEN: Yes. And thank you, Senator Nordquist. Well, thank you for your testimony, Lynn. As I understand this, these are defined benefit retirement funds. Is that... [LR628]

LYNN REX: No. It's a combination of both, Senator. [LR628]

SENATOR LOUDEN: Okay. [LR628]

LYNN REX: The agreement back in 1983, when LB237 and LB531 passed, was essentially this, that an officer would be--is; not would be--is entitled to the greater benefit of what they would have had under the defined benefit plan if they were hired before January 1, 1984. If they were hired as a firefighter or a police officer before January 1, 1984, then they were entitled to the greater benefit of the defined benefit plan or the defined contribution plan. If you were hired after January 1, 1984, Senator, then it's only a defined contribution plan. [LR628]

SENATOR LOUDEN: Okay. But they were supposed to be guaranteed 50 percent of their... [LR628]

LYNN REX: No. [LR628]

SENATOR LOUDEN: Okay. [LR628]

LYNN REX: No, there's no guarantee that that doesn't happen. Actually, there's no guarantee. That's a misnomer. There's no guarantee with a defined benefit plan. Again, that's simply a promise. With a defined contribution plan what officers were guaranteed is that what the city puts in and what they put in is what they would have, and that...and

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then plus their investments and plus interest due to those investments. That's what they were guaranteed as what would go in. Now what comes out on the back end, obviously, is a different situation, but I think that John Corrigan very aptly stated that there was, based on the percentage of 19-some percent, that the actuaries at that time said that you ought to be able to approximate approximately 50 percent of the benefit. [LR628]

SENATOR LOUDEN: Yeah, and it's 24. Well, that leads to my next question. Then as these firefighters contribute to this fund, do they individually have this fund in there that they've individually contributed to, I guess sort of like a 401(k) type deal or something like that? [LR628]

LYNN REX: And the firefighters could probably speak better to this than I can, but I can, from what the city administrators tell me and the city managers, basically you've got...they can do a printout of every firefighter, every police officer, indicating here's what the city contributions have been, here's what the firefighter or police officer investments have been, and then, plus interest, here's what it is. [LR628]

SENATOR LOUDEN: Okay. And now... [LR628]

LYNN REX: And they get that or my assumption is that they're getting that on a regular basis from their investment committees, because they all have investment committees and they should have professional investment advice with that. [LR628]

SENATOR LOUDEN: Now what happens to that money? Say a firefighter works as a firefighter for ten years, and then he decides to go? You know, cattle business is great. Maybe he wants to be a cattle feeder or something, so he goes out of that. What happens to that money that he's put in there then? [LR628]

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LYNN REX: Well, if you're a defined contribution plan and you're fully vested, then you get what the city put in, plus what you put in. [LR628]

SENATOR LOUDEN: You get what the city put in also... [LR628]

LYNN REX: Oh sure,... [LR628]

SENATOR LOUDEN: ...or just what you put in? [LR628]

LYNN REX: ...if you're fully vested, which you would be in ten years. So you get what the city puts in... [LR628]

SENATOR LOUDEN: Well, I was going to say like the teachers' retirement, you just get what you put in; you don't get what the school system put in. [LR628]

LYNN REX: I can't speak to the teacher plan. [LR628]

SENATOR LOUDEN: Okay. [LR628]

LYNN REX: What I can say, though, is that with respect to this plan... [LR628]

SENATOR LOUDEN: They get the whole bundle. [LR628]

LYNN REX: When you're vested. You're vested, and... [LR628]

SENATOR LOUDEN: Okay. [LR628]

LYNN REX: ...you know, if you're only there for two years and you're not vested yet, then it's going to be a different deal. But if you've been there for ten years, you're going

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to be fully vested and you're entitled to what the city has put in during that length of time into your plan, as well as what, obviously, what you've put in,... [LR628]

SENATOR LOUDEN: You can draw that whole... [LR628]

LYNN REX: ...plus interest. Yes. [LR628]

SENATOR LOUDEN: ...draw the whole thing out. [LR628]

LYNN REX: Yes. Yes, sir. [LR628]

SENATOR LOUDEN: Okay. Now if you've been in there for...until you're 55, can you... [LR628]

LYNN REX: And again, in terms of how that is structured, I would have to check to see whether or not you just get it in a lump sum. My guess is you do, but I'll have to check. [LR628]

SENATOR LOUDEN: Okay, because that was my next question. If you're 55, can you take your lump sum out and do what...and go? [LR628]

LYNN REX: Upon retirement and eligible for retirement, lump sum is one option. Another option is the annuity option. [LR628]

SENATOR LOUDEN: Okay, at 55... [LR628]

LYNN REX: But I have to go back and check. [LR628]

SENATOR LOUDEN: Okay. [LR628]



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LYNN REX: I would think they could at ten years. I mean certainly I would think they could take that out. I don't think they have to leave it there, but certainly it's their money. [LR628]

SENATOR LOUDEN: Uh-huh. Okay. And that's what I was wondering. They can actually take that. After a period of years, they can take that lump sum out any time they so decide to quit. [LR628]

LYNN REX: I will check into that and get back to you. [LR628]

SENATOR LOUDEN: Okay. [LR628]

LYNN REX: But it's certainly their money. In other words, that money doesn't go...it isn't that the city can use it to fill potholes. [LR628]

SENATOR LOUDEN: Now just for a what-if situation, if there was legislation out there that would allow them to go in on Social Security, could one of these firemen go in there and take his lump sum out that he's...he's been in there for a period of years, of course; take his lump sum out and then opt to go in on Social Security from then on if there was legislation drafted to allow that? [LR628]

LYNN REX: I don't know. [LR628]

KATE ALLEN: Not if they're still working. [LR628]

LYNN REX: Yeah, I mean I can't...oh, no, not if they're still working. No. You're saying if they're still working, Senator? [LR628]

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SENATOR LOUDEN: Well, I mean if you set it up so that they could opt in to go in either Social Security. If you're worrying about the pension plan or their retirement plan, they could take their lump sum out, and then if it was set up so that the city then would put them in on their Social Security, is what I'm wondering. Would that work? [LR628]

LYNN REX: I would not think so, no. And also... [LR628]

SENATOR LOUDEN: Why wouldn't it work? Because if they quit...if they quit and go do something else, they can take their lump sum out and... [LR628]

LYNN REX: It's portable at that point, that's true. [LR628]

SENATOR LOUDEN: And if they quit and went to work for, you know, like I say, do anything else, feed cattle or whatever, so then if they could actually then, why couldn't they then take their lump sum out as a fireman and still work as a fireman but then go in on Social Security if that was allowed to do that, if the legislation was drafted so they could do that? [LR628]

LYNN REX: I don't know if it's permissible or not. I don't know. I'd have to research it and we can talk to your committee counsel about it. Kate, do you know the answer to the question? [LR628]

KATE ALLEN: Well, that assumes it's...that you're saying that they would only pay into Social Security and they would stop being a local retirement? [LR628]

SENATOR LOUDEN: Yeah. [LR628]

KATE ALLEN: Oh. [LR628]

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LYNN REX: Well,... [LR628]

KATE ALLEN: I don't know. I'd have to think about that. [LR628]

SENATOR LOUDEN: Well, they'd have two... [LR628]

LYNN REX: But I mean the difference...again, I just want to underscore, the difference between the police and the fire side, the reason why firefighters are getting 13 percent and police officers are now getting 6.5 percent, and for years they just got 6 percent, is because of Social Security, to make that differential, to make that the same. So if you're going to put them into Social Security, then that's a different deal. Then we would need to reduce that amount. [LR628]

SENATOR NORDQUIST: Yeah. Great. [LR628]

SENATOR LOUDEN: Okay. Thank you. [LR628]

SENATOR NORDQUIST: Thank you, Senator Louden. Senator Mello. [LR628]

SENATOR MELLO: Thank you, Senator Nordquist. And thank you, Lynn, for your testimony. As always, you provide very good legislative history on a variety of issues we've worked on together. So I'm very appreciative. One thing, though, Senator Nordquist mentioned and I want to make sure that we get it clear in the sense of we know the system right now is broken, essentially, and it is very tough, at least from the research we've been presented, understanding the legislative history, that right now firefighters within the first-class cities essentially are retiring at significantly less than what they were promised when this compromise bill was passed. For us to be able to move forward, I think, as a committee, working hand in hand with the Fire Fighters Association and the cities, this data that Senator Nordquist was mentioning, and we can

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show it to you afterwards in regards to what the Fire Fighters Association gave us, is going to be probably pretty critical as we move forward, since they're only talking about 300 firefighters in these first-class cities. They've provided us a spreadsheet here of age, years of service, the retirement account value, and their salary, and being able to breakdown an average. You gave Senator Nordquist, I kind of felt, like an answer that you'll try to get that. But as long as I mean we get sensitive information all the time, I would say, as senators and legislators in regards to trying to find ways to forge compromises on difficult issues. This, no doubt, is a very difficult issue because it involves local control and it involves collective bargaining, and it involves, obviously, the fiscal health of our cities. [LR628]

LYNN REX: Right, and tax increases. [LR628]

SENATOR MELLO: And tax increases potentially. You don't see a problem with the information that I just laid out to you that that will be difficult from your end, because they were able to get it from a small number of nine members, is what they gave us here. Would it be more advantageous for us to work with the Fire Fighters Association and get this data or to work with the cities to get it? Because I think Senator Nordquist's question was fairly...I mean it sits at the foundation of anything we would look at, is we need to be able to understand what the future holds for the current 300 employed firefighters, in the sense of...and throw in Senator Nordquist's and my hat as appropriators too, something that wasn't mentioned in regards to just looking at this example here is that you have an average, an individual single firefighter who tries to retire at the age of 55 with 26 years of service still qualifies for Medicaid, still qualifies for SNAP. Those obviously has an impact on the state's budget in regards to the potential aspect of public servants and those who spent 30 years in public service retiring, possibly unable to get a job because of their age in regards to the way the economy works right now, qualified for state benefits that ultimately impact the state's budget. So I just want to impress upon you that obviously you've been a willing partner

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in a variety of other issues that affect cities. For us to not be able to get the data we need, though, in the sense of being able to work, I understand the sensitivity in the sense of the individuals not wanting to be identified by name or by Social Security number or things of that nature. But for us to be able, I think, to move forward on anything, getting this data I think ultimately is something that we can't really move forward with looking at any ideas or any compromises... [LR628]

LYNN REX: Right. [LR628]

SENATOR MELLO: ...without getting the hard information that we're going to need. And as our legal counsel emphasized, that looking at just this, we don't have names, we don't have identifiable indicators with any of the data the Fire Fighters Association has given us for today's hearing. So hopefully moving forward that's something that the league can help I think smooth over with first-class cities. Or if we have to, I think, if it's better for us to move to the Fire Fighters Association to get that data, that's...there's no way we can really do anything without that, I should say. [LR628]

LYNN REX: Well, one thing I can assure you is that if you give me a format that you're interested in, we'll get it to the cities that are involved and ask them about how they can provide that, if they feel that they can provide that. And certainly anything that's public information they're going to provide it readily, so. And then...and I don't know if it's...then if it's a function of getting waivers from individual firefighters on releasing information or not. I simply don't know where the level is of what's proprietary and what isn't. [LR628]

SENATOR MELLO: Would that same concern fall under information that would come from the cities or the cities' pension, the cities' pension board, so to speak? I mean if we wanted to see... [LR628]

LYNN REX: Right. [LR628]

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SENATOR MELLO: ...the rate of return over...the bill passed, was it in '83? If we wanted to see a 30-year investment return after the creation of this new DC plan, by year, by firefighter if we wanted to, to see how things were shaping up... [LR628]

LYNN REX: Oh, that could be a little problematic, I think. Maybe not. I don't know. Maybe... [LR628]

SENATOR MELLO: If it's not by...once again, if there's no identifiable...if there's no identifiable data or marker that would say Lynn Rex is firefighter X and Heath Mello is firefighter Y, if we were able just to get that rate of return information, because I think part of the issue is that--and it seems to be fairly clear today--is that there hasn't been a very cohesive or I would say even strategic alliance in regards to ensuring the rate of return that would equate to that 50 percent wage, you know, the 50 percent of the wages that firefighters, in theory, were promised or when the agreement was made between the league and firefighters in the '80s. They're nowhere near that, in the sense of...and Senator Nordquist asked the question first of whether or not it's a management issue, whether or not it's a determination of city governments giving these pensions with the police and fire to a cash balance-like system that the state has, because this committee has heard over the four years I've been a member that we spend \$20 million-plus a year in regards to Wall Street investment firms that are handling this on behalf of the Investment Council. So it's more a matter for us, I guess, to be able to make decisions or even look at potential ideas or policy changes, to be able to know the data that really comes from a local government. And since this committee is not, in theory, it's not dealing with the state retirement system... [LR628]

LYNN REX: Right. [LR628]

SENATOR MELLO: ...so we can't go to the PERB board or the Investment Council to get this data,... [LR628]

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LYNN REX: Right. [LR628]

SENATOR MELLO: ...it's really incumbent upon you and the Fire Fighters Association to be willing to open your books up a little bit and provide this data to us so that we can determine whether or not it was bad management at the local level, whether or not it was the market in a variety of different years in the sense of we just didn't see the rate of return because of the economy, or the investments that were being made. [LR628]

LYNN REX: Uh-huh. [LR628]

SENATOR MELLO: Is that something that...I know you can't make a promise to all of us today in the sense of all of the cities you represent, but is that something at least you can get back to us before the beginning of session... [LR628]

LYNN REX: Sure. [LR628]

SENATOR MELLO: ...so we can obviously determine our... [LR628]

LYNN REX: Sure. I mean we'll have a conference call with them and we'll ask them what they're able to provide and what they're not. Let me tell you that, for example, if you look at the statutes, it talks about the investment committees. And I know that several cities, I mean obviously I'm guessing every city within the last 20-some years has changed investment advisors off and on. So the question is those committees should have...the individual investment committees should have information relative to what those investments have been. And every firefighter and every police officer gets a readout of what theirs is individually, based on what their choices are and what their choices are within the prescribed limits. Because my understanding is that the investment committees actually make the decision of, okay, here are the X number of investments within which you can make certain investments and then you get to self-

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direct which ones you want. So...and that's what the firefighters wanted, that's what the police insisted that's what they wanted, and they definitely did not want to do it on the state level. I hear this morning that maybe they are thinking about something else so I'll take that back to our firefighter cities and discuss it with them. What I will tell you is I will ask them for whatever information you want, and to the extent that they can provide it, I'm sure that they will. When you say what interest rate...you know, year by year, what were the investment returns, that may be a little problematic. I don't know. I don't know who's the holder of that. It's certainly owned by the investment committee. It's owned by the city, per se, but it's the investment committee that actually does the contract with the investment firm, whatever the firm is. And again, the reason why they league quit doing it in short order was because we were just literally hammered by the investment firms because of the differentials that were shown between cities, because some cities were performing really, really well and others were not performing as well, and their officers wanted to know why. And so we encouraged them to meet with each other and discuss it and go from there. [LR628]

SENATOR MELLO: Okay. Thank you, Lynn. [LR628]

LYNN REX: But we'll do everything we can certainly. [LR628]

SENATOR MELLO: Okay. Thank you. [LR628]

LYNN REX: You're welcome. [LR628]

SENATOR NORDQUIST: Thanks. Any other questions from the committee? Seeing none, thank you for your time. [LR628]

LYNN REX: Thank you very much for your time. Thank you. [LR628]



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SENATOR NORDQUIST: Any other testifiers today? Seeing none, that will conclude the hearing of this committee. Thank you all for being here. [LR628]



# Appendix F

2013 Committee Hearing Transcript  
of LB 552

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Price waived closing. That will conclude the hearing on LB594. And I will turn it over to Vice Chair Davis so I can open on the next bill. [LB594]

SENATOR DAVIS: Thank you, Senator Nordquist. Ready when you are. [LB552]

SENATOR NORDQUIST: Thank you. Thank you, Vice Chair Davis, members of the Retirement Committee. I'm State Senator Jeremy Nordquist from District 7 and here to introduce today LB552. This bill was introduced as a result of the 2012 Retirement Committee interim study on first-class city firefighter pensions. We heard testimony at the LR628 interim hearing on the closure of the firefighter defined benefit plan in 1983, and the goals at that time for the retirement...the goals what were set forth for firefighters to have a worthwhile retirement in defined contribution plans. From a review of the legislative history, it was clear that the intent of all parties involved was to create a DC plan that would provide no less benefits than those provided to firefighters in the defined benefit plan which included a pension benefit of about 50 percent of salary. The actual report presented to the committee in 1983 indicated that that goal they thought at the time was achievable. The committee heard testimony, as I said, on LR628 this fall. And now 30 years later, firefighter DC accounts are only providing about 25 percent of salary at the time of retirement. This creates financial hardship for firefighters because they do not participate in Social Security. This bill is being introduced to provide another alternative for first-class city firefighters. LB552 creates a cash balance retirement plan for first-class city firefighters hired on or after an unspecified date. Current firefighters would have a one-time option to transfer their assets into a cash balance retirement plan. And the plan would be structured similarly to what we have currently for county and state employees in their cash balance plan which would guarantee a 5 percent rate of return with possible dividends. If the plan is fully funded, additional dividends would be granted beyond that. 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

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Public Employees Retirement Board and a representative of first-class city firefighters would be added to the membership of the PERB board to ensure that they have a voice. So essentially we're just giving employees an option to opt into what would be the same type of plan that we have for state and county employees right now to give these firefighters in first-class cities a little bit additional support at the time of retirement. I know there's a number of people that will testify after me, speaking more to the testimony we heard this fall, including a national expert, Ron Saathoff, who will be up right after me to talk about what's going on in cities and states around the country when it comes to public safety pensions. But with that, I'd be happy to take any questions.  
[LB552]

SENATOR DAVIS: Thank you, Senator Nordquist. Senator Kolowski. [LB552]

SENATOR KOLOWSKI: Thank you, Mr. Chair. Senator Nordquist, again define for us the group of firefighters and the city, you know, how many would be involved, please? Numbers. [LB552]

SENATOR NORDQUIST: Yeah. Whew, I don't know that I have the numbers in front of me. I think it's just a couple hundred. I think it's between 200 and 300, but we can get that. And it's first-class cities, so anything outside of...smaller than Omaha and Lincoln but greater than 5,000. And I don't remember the number of those communities, but...  
[LB552]

SENATOR KOLOWSKI: Thank you. See the range. [LB552]

SENATOR NORDQUIST: And they would have to have professional firefighters obviously, so. [LB552]

SENATOR KOLOWSKI: Again, 200 to 300? [LB552]

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SENATOR NORDQUIST: Yeah. That's my... [LB552]

SENATOR KOLOWSKI: Thank you. [LB552]

SENATOR NORDQUIST: ...what I think it is, but I'll confirm that. [LB552]

SENATOR KOLOWSKI: Thank you. [LB552]

SENATOR NORDQUIST: Yep. [LB552]

SENATOR DAVIS: And, Senator Nordquist, one of the objectives is to pool the revenue to kind of cut down on the fees that they're paying locally. Is that correct? [LB552]

SENATOR NORDQUIST: That's absolutely the reason we went in this direction. And what we're seeing and it's happening...you know, it's a discussion that's happening nationally with other people's defined contribution 401(k)s that a lot of times the return gets eaten up with fees and the return is smaller and that compounds over time. And when you have a pool, a large pool of invested funds, the fees are smaller, you get professional management. And also there's an issue of longevity when you invest the funds. So if I'm doing it as an individual, a young guy like me, I should be aggressive with my investments right now and phase it and tighten it up, be more conservative towards the end of my work when I'm getting ready to retire. Well, if you don't hit that right when the markets are booming or they're busting at the wrong time, you know, you could be left with not very much, where if you have a long-term horizon where you're pooling it for a long-term good, you're not trying to time that, you know, and meet that timing. So it creates a better return overall for everyone in the plan. [LB552]

SENATOR DAVIS: Can you tell us what the metropolitan...what Omaha and Lincoln, I guess, what their situation is? Are they defined benefit plans or... [LB552]

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SENATOR NORDQUIST: I know Omaha is. I would have to confirm...I assume Lincoln is a defined benefit too, for their firefighters, but I'll confirm that. But Omaha does have a defined benefit plan for firefighters. And first-class city firefighters until '83 were in a defined benefit plan. And at that time, probably because, and I think folks from the League can speak to it, it was a mandate on the cities without the state really providing any help. And I think they...when cities weren't putting enough aside, it ran into problems in the '80s. So that's how that came to be to get rid of the defined benefit plans for first-class cities. [LB552]

SENATOR DAVIS: Thanks. Any other questions? Senator Mello. [LB552]

SENATOR MELLO: Thank you, Senator Davis. And, Senator Nordquist, I think you mentioned this briefly but if you could provide a little bit maybe more background for the record as well as for new members who were not yet a member of this committee over the fall in regards to part of the reason that LB552 is in front of us is because over the number of years we've seen unfortunately kind of a lack of accountability and management from the pension side of the house, so to speak, in municipal governments in regards to not having oversight over what ultimately is being done with some of these defined contribution plans where they've yielded extremely small returns now essentially where firefighters are left to retire and ultimately are eligible for Medicaid and other state services. [LB552]

SENATOR NORDQUIST: That's exactly right. And we saw during the interim study that there was wide variation between, you know, for some reason I think it was Grand Island had pretty good returns it seemed like, and other cities had miserable returns. So it really was the variation that these firefighters are seeing I think is one reason that we need to look at maybe pooling it into a state fund. But another thing, you're right, that came up at that hearing, and I think maybe some folks after me can testify to the impacts of pension dollars. And when we have public servants who don't retire with what they need to maintain their lifestyle, they do fall down the road on other public



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benefits. And, you know, those are General Fund obligations that the state has to meet at that time. So there are certainly people after me that can speak to that. But that was something that was brought out at the interim study. [LB552]

SENATOR MELLO: Thank you. [LB552]

SENATOR DAVIS: Any other questions? Thank you, Senator Nordquist. [LB552]

SENATOR NORDQUIST: Thank you. [LB552]

SENATOR DAVIS: Okay. We'll take proponents of the bill. [LB552]

RON SAATHOFF: Good afternoon, Senator Nordquist and members of the committee. My name is Ron Saathoff. I'm the pension resources director for the International Association of Firefighters, headquartered in Washington, D.C. The senator has outlined a number of points that I'll reiterate and was going to make perhaps in somewhat more detail. From my understanding and research, in 1984, or in 1983 actually, you had a problem. Your fund was underfunded. You were providing a defined benefit that was roughly 50 percent upon a person's eligibility for retirement. And there was a problem with funding at that point in time. It was partially rectified. The biggest problem in looking back at the accounts was that there were lack of contributions going in on a consistent basis. Employers in different regions made decisions about what they would contribute or would not and there was no statutory requirement for a contribution; and so therefore, shortfalls ensued. Earnings...the seventies was not particularly a good decade as far as stockmarket earnings to begin with. Oil embargo and other things, there was hyperinflation. But to make a long story short, the number one failure of the fund was in fact funding itself from the plan sponsors. That was rectified with the 1984 plan. Funding was required: 13 percent for the employer; 6.5 for the employee. The funding was adequate, but the structure that was put in place was not. A 401(k) plan, as the senator has already pointed out, there are several things you have to be concerned

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about. One is the point in time. You're investing for a fixed point in time. I'm investing with a known date of when I want to retire and I want to have my assets available at that point in time. The investment cost. A typical defined benefit pension plan in the United States runs about 40 to 50 basis points in terms of overall costs for investment. That's professional money management. That's international and domestic in all categories of investment pooled together will run you anywhere, like I say, from 40 to 50 basis points, tops. That's actually on the high side. So that's less than a .5 percent. Your typical 401(k) plan will have investment options, and the typical invested portfolio will run anywhere from 100 to 200 basis points; so anywhere from two to four times as much. And there's fees that are on top of that. In addition to that, you've got adverse selection. Unfortunately, individuals just aren't capable of managing their money as effectively as professional investments, you know, using investment-grade product. You have two problems. Number one is you're investing in what we call retail product. It's mutual funds. It's things that anybody else can buy. When you're in a pool fund, it's institutional product. Many of those products require dollars under management for you to even be able to invest. Twenty million, \$50 million may be required before you can even get into a fund like that. So I would refer to that as wholesale product. So you don't have access to the product and you're paying four times the cost for the product. Then you get into your choices. I served on a 401(k) board and I've studied this nationally, and typically individuals simply don't know how to invest their money effectively. If you look at it as a national trend what you'll see is that when markets go up they buy, and when markets go down they sell. Exactly the opposite of what you should be doing. So there is a risk in terms of their choices because they're simply not equipped to make the kind of financial decisions to invest their money properly. And they should be asset allocating it, which you will have in a professionally managed fund where you'll have a mixture of assets to take the ups and downs of the market and give you a level percent of return over time on that portfolio. And in a 401(k) that has to vary based on your age. In other words, the closer you get to retirement you're going to have to be a little more conservative; when you're younger, you can be more aggressive. With a defined benefit plan, you don't have that time horizon and you invest for a long-term horizon

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consistently, so you have a better return at lower risk combined with the fees. 401(k)s also have a leakage problem. And that runs into, number one, is you have the issue of loans if they're available and they're part of your system. And, number two, is hardship distributions. You can get access to your money under a number of different circumstances which you can't in a defined benefit plan. That money is locked up and is only there for your retirement. The age-based asset allocation we talked about and remain in the work force. One of the issues that's happening with your folks now, you only have, as I understand it of the 1984 system, one person who has retired as of today; that's 28 years in, into the system. What you're going to see and you are seeing here is that people will not retire. And the reason people will not retire is they can't afford to. As you heard Senator Nordquist refer to, the one individual that retired, the annuity that he would be eligible for were he to purchase in the open market today would provide him about \$16,000 a year in benefit, which would be about 25 percent of his preretirement income. Financial experts will tell you, you need 75 to 85 percent of preretirement income to maintain your standard of living upon retirement. Obviously that number isn't going to get it. And in the state of Nebraska if you look at your thresholds for both Medicaid, for food stamps, and for Section 8 housing, and you throw in the healthcare costs that the individual has to incur--you don't have paid healthcare for retirees which that's not wholly unusual, but what is unusual, you don't have access to city-sponsored healthcare. So once someone has retired, they're on the open market. They're basically buying healthcare on a one-on-one proposition. They're buying as any individual would, where typically in the United States city-sponsored or municipal-sponsored healthcare remains available to the retiree. Whether paid for by the city of a municipality or paid for by the individual. They have the impact of that group plan and the ability to get into that group plan. Now contrasting that with a DB similar to what's been proposed, at least in part, you have a rolling 30-year time horizon so you don't have to concern yourself with trying to change your asset mix based on where you are in that horizon. The cost, the fees we've already covered, are much, much lower. Professionally managed portfolio. Wholesale versus retail. There is no leakage. You can't take your money out. The only way you can take it out is if you leave employment.

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If you leave employment and you're not eligible, you can take a refund to contributions. Long-term asset allocation, we talked about an incentive. It incentivizes career employees. A 401(k) plan and to an extent the cash balance plan that is being proposed actually provides you a greater benefit at a younger age. So what will happen is more money will leave the fund if those folks leave because they're taking it with them. In a typical defined benefit plan, that doesn't occur. You only take your contributions. You don't get any of the benefit of employer contributions and you get varying degrees of interest that go with it. So there is no encouragement. The benefits are back-loaded. You get your benefits on the back end of the plan after a career when you've reached retirement age. And with a defined benefit plan and to a degree a cash balance plan they're more front-loaded. The benefits occur earlier in the process and actually encourage people. They call it portability. But I don't consider portability a good thing in terms of career employees that you're trying to have in your police and your fire departments. You get more...and now, a little bit I'd like to talk just briefly about your cash balance proposal. I think it's a step in the right direction. It's certainly superior to what you have on the market now. You are going to get some of the benefits that I've described of pooling investments and asset management, asset allocation, and the access to industrial-grade product. It is still going to pay you more benefits earlier. You know, you're going to have the benefit under a cash balance plan once you've vested of taking both your contributions and the employer contributions with you if you should choose to leave. In fact, that's happening now. You have Lincoln and you have Omaha, a sizeable number of their work force, about 20 percent in Omaha--we just looked at this briefly since I got in last night--have come from Class I cities. So people will typically, and this is a trend that exists throughout the United States where you have a 401(k) type or a fixed base retirement system like a 401(k). Typically people will move to a career department that has a defined benefit pension plan, and so they become a training ground. They become some place where you get in, you get trained, you'll serve four or five years. Typically you will serve until you have the vesting so that you can take the money with you when you leave. But once you've reached that vesting age, there's a problem. Alaska put in a defined contribution plan for their entire work force, police,

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fire, and everybody in 2006. It had a five-year vest. It worked fine for the first five years. Once they got to year six, then people that has been hired at the onset of that, started to leave in significant numbers and take jobs in other departments where they had the defined benefit as an option. It is front-loaded, as I mentioned. The other problem with a cash balance or a DC plan like the current 401(k) plan with retired, with firefighters, is we retire earlier. Because of the nature of our jobs and we have early retirement provisions, you don't want firefighters typically working past 55 years old unless they're in administrative positions. The disability rates will go between 40...between actually 35 and 40 they double; between 40 and 45 they almost double again; and they're up about one-and-a-half times between 40 and 50. So you get significant increase in disabilities as firefighters age. And with your current plan, as I pointed out, the current DC plan, nobody is retiring because they simply can't go. They don't have enough money. And not only does that create a problem in terms of potential disabilities, it creates a problem in terms of people coming up at the younger end, you know, at the beginning of the pay scale and working their way through because these people are stopping up at the upper ends and they going to stay longer, and they are. That's exactly what's happening here, and that trend is all over the United States as we have looked at it. The other thing that I would definitely be concerned about with regard to or at least in your deliberations in terms of the cash balance plan, there is a provision for both disability retirement in the event that someone is injured on the job and can no longer continue to do that job, and there is a provision for line of duty death. Unfortunately, the provision is inadequate. It provides only for a refund of the contributions you have at that point without penalty. And so what that means is if you have somebody with five years on the job, they may have \$20,000 or \$30,000 in their account, and if they should pass away as a line of duty death or they should be disabled to the point that they can't work, that is what their heirs are entitled to or they are entitled to as a disability. That's what they get. There is no other provision within the plan for disability. Your defined contribution plan does have a 50 percent disability provision in it. So that aspect of it is actually positive. And lastly, I'd like to touch just on the economic impact. This is pretty straightforward and Senator Nordquist reviewed it. There's been a study done, and I'd be more than happy to make

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it available for all of the committee. The National Institute for Retirement Security, based in Washington, D.C., did a study based on the impacts of defined benefit pensions throughout the United States. And what they were looking at is what happens when we pay a defined benefit pension. What does it do economically for the jurisdictions both by state and nationally? And it's pretty straightforward. If somebody is making a living wage, if they're making a decent retirement, they spend that money or that money goes into the economy. That money is being...they're paying taxes on it, whether it's sales taxes or property taxes or state income taxes. They're buying services and products which is creating jobs and fostering the economy. What is not a well-known fact in terms of a defined contribution plan, for every pension dollar that goes out on a national basis, 17 cents...I'm sorry, 27 cents was paid for by the taxpayer. Out of every dollar, every pension dollar--this is a national average, it varies; it's anywhere from a low of...I've seen a low of around 15 cents to a high of around 35. It depends on the asset mix of the portfolio, the performance of the plan; but on average 27 cents. So that means for every pension dollar that gets paid out, the taxpayer paid 27 cents. Where did the rest of the money come from? Well, it came from the employee contributions and it came from the earnings on all of the contributions over time. So at the end of the day when that pension dollar is paid out, it's literally about a quarter of what was paid out was actually paid by the taxpayer. The rest was investments and other contributions by the employees. And that has a direct impact on the economy. As I said, not only is it this spending, but they did numbers for Nebraska, that the economic impact for Nebraska in terms of jobs created was...their calculation is 7,126 jobs and their calculation was over \$292 million of direct and indirect economic benefit by those pension dollars being paid into the local economy. And we contrast that with our most recent retiree that, by the way, he didn't get 25 percent and he didn't get an annuity at \$16,000 a year. He took a lump sum. And the reason he took a lump sum is he can't live on \$16,000 a year. And unfortunately a lump sum to most of us, certainly to me, \$300,000 is a lot of money. That's about what he had after a 28-year career. It's a lot of money until you start drawing it down at \$30,000 or \$40,000 or \$50,000 a year. And you're going to run out. You don't...you have a longevity risk, a very serious longevity risk with a defined

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contribution plan, and with a cash balance plan for that matter, that you don't have with a DB. So he took that and that's what he decided to go with. But so his economic impact where he's at is he will be...once that \$300,000 has expired, he's going to be a net receiver of taxpayer services in the state of Nebraska because he's going to qualify for benefits that your state provides for people at that income level. As opposed to generating jobs, having an economic impact that not only supports the community but supports the tax base of the government and what have you. So in conclusion, I would just like to encourage you to consider as part of your mix and an option, take a look at a defined benefit plan similar to what you had previously at 50 percent, which was the stated goal of what we were trying to achieve. At 19.5 percent of payroll, you can get there. You can get there very easily. There are several systems, statewide and municipal systems that run at combined contribution rates, employee and employer, that are at or below that level that provide benefits that are better than the 50 percent in large part and include disability benefits and include death benefits and include surviving spouse provisions for the continuation of benefit upon the death of the principal member. That can be done for 19.5 percent. That can be done in a reasonable way to ensure a taxpayer doesn't have future liability. I know that's a concern right now. With the down market of '07-08, everybody's concerned about liability and that the taxpayer has to pick up the tab for those shortfalls. Well, in reality if you look around the country where that exists, it exists largely in those plans that were underfunded. It exists in those plans where there was not a continuing funding source, where there was a guaranteed source of income. Decisions were made. Decisions were made not to fund the plan. And they underfunded the plan or outright took pension holidays, then they had a stockmarket downturn. Yes, there's an issue. But at a conservative benefit level at 50 percent with 19.5 percent of payroll invested through your statewide retirement system, not individually invested by individual cities which is the way your old 1983 plan or prior to 1984, that's the way it was done. So you had small pools of money all invested by the local jurisdictions at very high fees. [LB552]

SENATOR DAVIS: I hate to stop you, sir. We're under a little bit of pressure of time.

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[LB552]

RON SAATHOFF: Oh, I'm happy to...yes, sir. I appreciate the time that you've given me. Like I say, in conclusion, I would just ask that you consider the DB option as well as the cash balance option in terms of your deliberations as the most effective, cost-effective way for both the taxpayers of Nebraska and also to provide meaningful benefits to your firefighters. Thank you very much for your time. I greatly appreciate it.

[LB552]

SENATOR DAVIS: Any questions? Senator Kolowski. [LB552]

SENATOR KOLOWSKI: Mr. Saathoff, thank you for being here today and thank you for your testimony. Would you elaborate on the exclusion of not being involved in the Social Security system and the goods and bads of that particular (inaudible). [LB552]

RON SAATHOFF: Well, it's a huge issue for firefighters. I'd say nationally about 75 percent of firefighters are not participating in Social Security. So what you have here, as I mentioned earlier, your financial experts will tell you, you need 75 to 85 percent of your preretirement income to maintain your standard of living. Defined benefit plans were never considered to be the only plan. 401(k) plans were written into law as a supplement. They were never written into law as a primary retirement vehicle. They were simply a supplement. Your retirement financial planners will all tell you the same thing: it's a three-legged stool. You have a defined benefit pension plan, you have Social Security, and you have personal savings. That's the three elements of what make up a typical retirement to get you to reach that 75 to 85 percent. A typical municipal plan is not going to do that. You know, you're going to have to have these other elements. Without Social Security, your firefighters in Nebraska depend solely and completely upon their retirement benefit that they receive through their municipal government. That's it. They have nothing else. There is no other benefit for them. And I will say, in honesty, you are in the minority in terms of providing for retiree healthcare benefits.



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There are very few jurisdictions that provide none whatsoever. And I'm not aware of another, and I won't say there isn't one because I haven't researched carefully all 50 states, but it is an anomaly to not at least provide the access to group care; meaning that, you know, obviously if you pool it by group you get better rates. A one off rate of 55 or 60 years old is extraordinarily expensive and is just piggybacked onto the fact that the person has a very low starting point to begin with because of the plan design and the returns that they received on that plan at the time. [LB552]

SENATOR KOLOWSKI: Would your recommendation be to be in the Social Security system? [LB552]

RON SAATHOFF: It would not. I think the Social Security system is going to add about 12.2 percent of pay to the system that you have in place now. It is more efficient within a defined benefit placed system that's well designed to take that money and add to the benefits of that system. It's far more efficient. All of your folks are in Medicare. Everybody that was hired after 1986 is in Medicare. You still have some employees that are not Medicare eligible because they were hired before that law went into effect in '86. So unless they have outside qualification by outside employment, they are not qualified for Medicare. So those folks are going to have to rely on their retirement. They're in the old plan. I understand that. They're going to get the 50 percent benefit, but they're going to have to pay medical benefits for the rest of their lives without the benefit of Medicare. [LB552]

SENATOR KOLOWSKI: Thank you. Thank you very much. [LB552]

RON SAATHOFF: Sure. [LB552]

SENATOR DAVIS: Any other questions? Thank you, Mr. Saathoff. [LB552]

RON SAATHOFF: Thank you very much. I appreciate it. [LB552]

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SENATOR DAVIS: Next proponent. And I would ask you to try to keep it brief, if you can. Yeah, can we run the lights? Four minutes. Everybody understands the light system. Green light means go; yellow, caution; stop. [LB552]

SCOTT KUEHL: All right. Thank you, committee and senators. My name is Scott Kuehl. I'm the captain of the city of Grand Island Fire Department. I'm also the union president for the Local 647 in Grand Island. What you heard before, the two testimonies before me were exactly right. What I am going to give you is a little bit of a living scenario of exactly what's going on. I've got people living the scenario that we've all talked about. [LB552]

SENATOR DAVIS: Mr. Kuehl? [LB552]

SCOTT KUEHL: Yes. [LB552]

SENATOR DAVIS: Can you spell your name for us? [LB552]

SCOTT KUEHL: I'm sorry. It's Kuehl, Scott, S-c-o-t-t K-u-e-h-l. [LB552]

SENATOR DAVIS: Thank you. [LB552]

SCOTT KUEHL: All right. One of the people that was talked about before, he was one of the first retirees that started right after 1983-84. Put in his 25, 26, 27 years, whatever it was, something like that. He couldn't be here today; I wanted him to be here today. You know, my retired firefighter couldn't be here today because he's working because he has to work. He's trying to live off of about \$16,000 a year. He did take the annuity version of his money, his a little less than \$300,000, because that would have been less than what he could have got. He was taking the risk to go out and invest, and he is with a local bank and he's trying to invest his money to make as much money as he possibly

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can. As you know, that's a little bit risky but he needed the extra money to live on. He has to go out and buy health insurance. He's trying to buy a health insurance policy. He has told me that he has got a very high deductible plan. It's costing him \$600 to \$700 a month and it's continually going up. So that doesn't leave a whole lot of money left when you have to pay your taxes and you have to pay for health insurance. So he is...he couldn't be here today. Like I said, he's working. One of the things I get a question about a lot of times is, well, you guys can go out and get another job after you retire or you had jobs before you worked with the fire department or maybe you had a part-time job while you were with the fire department; so then you could qualify for that Social Security check and that would supplement your potential pension, retirement, whatever we're calling that today. Well, I did the research on mine. I started with the fire department when I was 27 years old. I worked from '86 or '88 when I started as a teenager out of high school, started paying into the normal Social Security system. And then in 1995 I started with the fire department. And I've got nothing since then putting in there, except for last year I went out and got a part-time job. The reason I did was is that I had some credits beforehand but it wasn't enough to qualify. I still won't have my 40 credit hours of credits for the Social Security system. But if I continue to work my part-time job making that amount of money that I made last year until I'm 67, I can get \$800 a month. That's what it says on the Web site. I have...at that point then I have to do the federal government windfall elimination provision. That's going to take \$400 of that money away because supposedly I had this barrel of money that I got in the pension system that really wasn't there. So what we have here is we have people backed into this corner where we're calling it a pension, we're getting harmed by the federal government like it's a pension, but it's not a pension. I've got just backed into a corner. And this...well, it would also affect my wife if I was to pass away and she was to draw on it, she would even be eligible for less of that Social Security money. She would get my pension money and my lump sum money, but she would be reduced on that. So that's not an argument, a very valid argument, because we don't pay in very much in the beginning. If we do, it's a part-time job in the middle. And then after we retire at 55 or so, you can't work 40 credit hours to get there. [LB552]

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SENATOR DAVIS: Go ahead and finish up. [LB552]

SCOTT KUEHL: Okay. All right. And what I would like to also talk about is, is we've got people in our department that are doing exactly what Ron said, is buying high, selling low. I've got one firefighter who has worked for 26 years. He's 57 years old. He wanted to retire at 55. He has got \$300,000 in his account. We have another firefighter who is 46 years old, one year less on the job. He's got \$400,000 in his account. Because this person is ten years older, he was more worried and more skittish about investing. He bought high, sold low. And any time there's a fluctuation in the market, he gets scared and jumps out of it. Firefighters can do a lot of things; we can't invest. And we need help. This problem needs your help. This building needs to help us out here because we can't do that. We need better people in charge of it. The cost, I just did the cost on our retirement plan versus another state that's around us and has a defined benefit plan, it's five to six times higher in Grand Island to invest my dollar than it is in the other states. It's not working. And I really would like you guys to take a look at this and talk to us, call me, whatever, because we need your help because still for the life of me I can't figure out how we separated the first-class city firefighters from the rest of the firefighters in the state. I mean, that to me seems like some level of discrimination there. It's not a conversation you want to have in my house when I'm talking to my wife about how this is all going to plan out. It's not a very good conversation, so I'll leave it at that. If anybody has any question. [LB552]

SENATOR DAVIS: We'll take some questions. I'm going to ask you one, first of all. If we were to do something like this plan, do you think it would keep more of our firefighters local as opposed to being sort of the training ground that we heard about earlier where people train in Grand Island, move to Lincoln and Omaha because the benefits are better? [LB552]

SCOTT KUEHL: Perfect timing and perfect question. I just got notified a little bit ago that

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we have a 24-year-old firefighter that's been in Grand Island for a couple of years. He's going to put in his paper to resign to go to Lincoln. And the biggest reason was, was benefits and retirement, because this is a topic of conversation at every meeting, at every kitchen table, that everybody wants to know what I'm doing when I come up here, and everybody can see what's happened to the past couple of retirees. And he's talked to his captain about it and that's the major reason, and he's doing it today. And that's not uncommon. We have several that are going other places because of that. And firefighters, the numbers that are in here, I would say that I could probably in my union, the firefighters could put more skin in the game. We could put more money towards this to help this whole process out. I don't think that would be a problem. But we need some sort of a guarantee out there. I don't want somebody to take all the liability. We'd be willing to work with you if we have a chance to negotiate this out. But it definitely would help. We have a revolving door of people leaving for benefit reasons. [LB552]

SENATOR DAVIS: Thank you. Senator Conrad. [LB552]

SENATOR CONRAD: Thank you so much for coming down, Scott. I appreciate your time and I can appreciate how difficult those kitchen table conversations are, and so I thank you for sharing that perspective publicly and on the record. What I wanted to follow up a little bit about because the previous testifier noted the incidence of disability and how that exponentially increases as our firefighters and first responders age. And it got me thinking a little bit about how that increases the risk in terms of public safety and those that you protect and serve. And I didn't know if you had any sort of information about that topic anecdotally or otherwise, but I did just want to put that on the record and give you a chance to respond. [LB552]

SCOTT KUEHL: Yeah. We do and this is not a comfortable thing to say. One of the retirees, wants to be a retiree, told me the other day that he at this point hopes that he gets hurt just bad enough to be able to still walk but so he can be pensioned off to get his guaranteed 50 percent. Because his number is literally in the low 20's right now and

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is the one I talked about before where he's \$100,000 less than somebody who's got ten years less in the job. Yeah, it...he is worried about becoming a liability to the other firefighters in the city of Grand Island versus an asset. And everybody knows as you get older, you're just not who you were when you were in your twenties when you started. I mean, I would have thought when I was 20 I could say that. But now that I'm 46, I know that that's...would have been...I would have not been true in saying that. So, yeah, you are correct. It is a definite conversation. It's a definite decision-making by the employee and when should I go and what's holding me back. [LB552]

SENATOR CONRAD: Yeah. Yeah, because really we have to weigh and balance the different competing public policy issues that are before this body, I think that we have to give graded...we can save a few pennies in one instance but what does that really cost us in terms of life, health, and safety not only for the first responders but also for the citizens that they serve. So thank you very much. [LB552]

SCOTT KUEHL: Thank you. [LB552]

SENATOR DAVIS: Any other questions? Senator Mello. [LB552]

SENATOR MELLO: Thank you, Senator Davis. And Scott, thank you again for your testimony. I was at the interim study that the committee heard later this fall in regards to where this issue was first raised. And just for the record I think it's admirable. Once again I know we'll probably no doubt hear from the municipalities as well, but hearing that the firefighters are more than willing to sit down and negotiate and even the fact of considering putting more into a system to make it a more worthwhile benefit for you and your members is in good faith to say the least. So it's good to hear that you guys are willing, obviously, to look beyond just LB552 and look at any other solution that we may need to do to try to provide a secure retirement for you and your members in Grand Island and other first-class cities. So thank you. [LB552]

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SENATOR DAVIS: And other questions? Thank you. Appreciate your coming down.  
[LB552]

SCOTT KUEHL: Thank you. [LB552]

SENATOR DAVIS: Next proponent. Welcome. [LB552]

JOHN CORRIGAN: Good afternoon, Mr. Chairman, Mr. Vice Chairman and members of the committee. My name is John Corrigan, C-o-r-r-i-g-a-n, and I am an attorney appearing on behalf today of the Nebraska Professional Fire Fighters Association. And I have had the opportunity to represent the firefighters in collective bargaining and in disputes with employers. But a lot of times we run into this position on the part of the employer that we're not going to deal with you on pensions because the statute says what we can do, and we can do no more and we can do no less; we're not going to negotiate retirement. Which drives the discussion to the Legislature: how can we fix the system? And one fact is that...and I don't think this can be disputed, is that this current system is not delivering the promise that the Legislature made, is we want you to get as close as you can to 50 percent. But they passed all of the risk onto the employee and charged them a lot more money in terms of how you were going to fund that and the costs. And you've heard that testimony today. How do we know that that's the case? Just in the city of Grand Island alone, you have pre-'84 people, meaning that they worked pre-'84. They've been making these contributions since '84 and then they have the value of their account. But the city has to give them a 50 percent benefit. And over the last...the last eight people that have left who were pre-'84 people, the average amount of money the city had to come up with to get them to 50 percent was \$180,000 per person. That's on top of the contributions that have been going into that fund for several years. Now LB552 is really intelligent and a good way to look at it from my perspective because you have the economy of putting people into a system that exists now and how would we get there. You have to remember the wage replacement benefit under the state's prior plan was not sufficient. And the Buck and associates study done

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in 2001 or 2002 demonstrated that we were not saving enough money to put people in a position that they would be at even 70 percent of their income when they retired. And so there had to be some way to get there. In this situation, we're not even getting 25 percent or 26 percent. So that's a huge problem. One thing about the proposed bill, we've heard some concerns about it and like I think to reiterate we're willing to talk about it. Because I think as Mr. Saathoff said, if you're putting in 19 percent, you can do a lot better than what you're doing now. In fact, you can do a DB plan and you don't have...then hopefully you won't see...and I can tell you in Lincoln and in Omaha approximately 20 percent of their current rosters are people who came from first-class cities outside those municipalities. But we're willing to talk about other ways to accomplish this, but we have to do something and the time is of the essence from our perspective. This current bill, though, make no mistake about it, it's not costing the cities any more money. It doesn't change the contribution rates. It probably would save them money in the sense that they're not administering the benefit anymore. It doesn't put people into Social Security. It simply has a provision in there that says that the benefits will not be offset by Social Security. And there is, as Mr. Kuehl mentioned, a windfall provision to prevent people who are in non-Social Security employment to get 100 percent of their Social Security. They will reduce it. So the attempt here is obviously we don't want to go on under the system any longer than we have to. We'd like to rectify it. If the feeling is, well, let's add a bunch of other people too; it's not fair because you're going to give the firefighters a better deal than you give everybody else. Well, my argument to that is just because you're holding everybody in the bottom of the barrel doesn't mean that you shouldn't let them up, and if you want to let other people up, too, and there's a way to do it, we're fine with that. We're not opposed to...this isn't just a firefighter problem. It exists in public safety generally throughout the first-class cities and it can be rectified with the money that's going into these plans at present. With that, I would answer any questions you may have and I thank you for your favorable consideration of this issue. [LB552]

SENATOR DAVIS: Thank you, Mr. Corrigan. Can you tell us how many individuals



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would be involved in this? [LB552]

JOHN CORRIGAN: We think best estimate is about 280 professional firefighters throughout the state of Nebraska. That is there's 30 first-class cities; there's probably 15 of them that have paid professional firefighters. And some of those might be, you know, just one guy: a paid fire chief that runs the volunteer department. But we think about 280. [LB552]

SENATOR DAVIS: Thank you. Any other questions? Thank you for coming, Mr. Corrigan. [LB552]

JOHN CORRIGAN: Thank you. You're welcome. [LB552]

SENATOR DAVIS: Next proponent. Any other proponents? Opponents? [LB552]

DAN HOINS: (Exhibit 1) Thank you, Senator Davis, members of the committee. My name is Dan Hoins, city administrator for the city of Papillion. [LB552]

SENATOR DAVIS: Could you spell your name, sir? [LB552]

DAN HOINS: I'm sorry. H-o-i-n-s, first name Dan, city administrator for the city of Papillion. Today I'm representing the United Cities of Sarpy County. The United Cities of Sarpy County have met and discussed this bill and have issued a letter of opposition that's making its way around to you. And I would just like to preface my comments with the disclosure that I'm one of those municipality guys Senator Mello talked about coming up to oppose this. But in full disclosure, I personally have a background in law enforcement; retired from law enforcement not with a defined benefit but a defined contribution plan in the year 2000. And philosophically as we discussed this at United Cities, what we would ask the committee to consider is a more holistic approach to municipal employees because I can't and won't take issue with many of the reasons that

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the firefighters want, need, and probably deserve a better pension. But in my position I will tell you that we have taken for many years one of pension equality in the city of Papillion. And whether you are a police officer who today puts in 18.7 percent versus the 19.5, that's less; and that's even after the .5 point this body granted them a couple of years ago in the Legislature. We've got city public works employees who climb in the middle of a six-foot hole to deliver water during a storm. It's dangerous work across the board in municipal government. And so we would ask you to consider expanding the scope of whatever you do to all municipal employees and giving us that authority. Because one of the testifiers before me was correct, we are limited in what we can do when we go sit at the collective bargaining table that, as you're well aware, the state law says you can do this and no more. And so we don't have the option. And that does really--I sit at that table--that does shut that discussion down. But if the Legislature or this committee decides that, you know, it's something you want to look at to broaden that. I do note the additional costs and I'm not here to debate it. In fact, I mention in my first paragraph that, you know, reading 45 pages of new pension laws is difficult even for those of us that have a lot of resources. And so I'm not sure that we...and it was only this morning that I saw the fiscal note and the statement of intent. So I would add that we'll have discussions in good faith; but the way it's written I believe it says that, you know, it'll be page 40, I think, line 30, I noted in there that Social Security may be in play here. And if that's the case, that's \$174,000 a year to the city of Papillion just for the firefighters; over a half a million if you give everybody 6 percent. And then the issue of Social Security I think it's important to clarify, too, that they're not part of the Social Security system but they are paid an additional percentage to invest it themselves. So the percentage of money actually again is more for firefighters than any other municipal employee. I'd be happy to answer any questions. I see my light is yellow and I'll respect that. [LB552]

SENATOR DAVIS: Thank you, sir. Any questions? Senator Conrad. [LB552]

SENATOR CONRAD: Thank you, Senator Davis. Thank you so much for coming down.

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And the gist of your testimony if I understand it correctly is that it sounds like there's a lot of potentially common ground before us on these issues that there's an acknowledgement that maybe the existing system isn't working appropriately for everyone and a willingness to move forward in good faith. And is that a fair assessment of your position? [LB552]

DAN HOINS: Yes. That's very fair, Senator. [LB552]

SENATOR CONRAD: Okay. Very good. I'm glad to hear that. Thank you. [LB552]

SENATOR DAVIS: Senator Mello. [LB552]

SENATOR MELLO: Thank you, Senator Davis. And Dan, thank you for coming down. I know we work on a lot of issues together and I can respect the United Cities of Sarpy's initial opposition. But I think Senator Conrad just kind of alluded to the point that I was going to ask, is aside from the philosophical issue of exploring, I would say, and kind of a revamping, so to speak, of the public safety pension, the issue at hand is not...there's no real disagreement that the current system with what firefighters or with any public safety officers are paying in, that's not the issue at hand from the Cities is the amount that's being put into the plan. Would that be safe to say? [LB552]

DAN HOINS: That's correct, Senator. [LB552]

SENATOR MELLO: So is it more just...I mean, and you heard I think a previous testifier from the city of Grand Island, and no doubt if we talked with perhaps public safety officers from the city of Papillion, there is an opportunity, even aside, and now I realize that municipal...I was not under the same assumption you were reading LB552 that it was going to put firefighters back into Social Security. So aside from that, which I believe was never really the intent of the legislation, would...I mean, I would hope that the United Cities would be willing to sit down with Chairman Nordquist and other

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members of this committee to try to find a way to deal with what appears to be more of a municipal management problem of the pension issues in the sense of trying to ensure that 19.5 percent is yielding what the Legislature originally proposed back in the early '80s of trying to provide that 50 percent return on investment of what their wages were for public safety officers. [LB552]

DAN HOINS: That's correct, Senator, but...and I will tell you, and I'm going to branch off a little bit and speak as city administrator now because I'm the guy in the room at the negotiating table whether it's police, fire, or public works representing the mayor and city council, I think on a far broader issue what we're talking about here is, is one of risk and the transfer of that risk. And I allude to that in my letter that whether it's LB552 or a defined benefit program that they ask you to consider, you're transferring that risk from the individual employee, too, to the taxpayers at large. And even on the fiscal note I see that, and I would I think I need to put this on the record, too, that the state of Nebraska would make up for any actuarial differences. I read that and I may be reading it wrong again that the state of Nebraska is going to fund the shortfalls for first-class city pension firefighters if this bill passes. And I'm not sure if that is the intent, but that's the way I read the fiscal note, not that...my sense tells me that you're going to want the city of Papillion or Grand Island, whatever, to do that at the end of the day. But I don't read either the bill or that doing it. But for every store that we can talk about in Grand Island though, I think I've read, and I'm sure many of you have, the issues of public safety defined benefit pensions bankrupting municipalities in states across America. And so we've got these two extremes I think, Senator, that we're willing to sit down and meet in the middle, and always you hear us many times talk about local control, to have some ability to do that. But... [LB552]

SENATOR MELLO: Dan, it's safe to say though that the bill though is not a defined benefit plan. I mean, I understand that there's always this allusion to that defined benefit plan retirement system is going to cause massive potential fiscal problems. But the reality is the case balance plan that's laid out in LB552, are you aware of the state ever

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having to make up on the state's cash balance plan for state employees or county employees ever in regards to any risk or shortfall that happens with our employees or county employees? [LB552]

DAN HOINS: No, Senator, I'm not aware and I'm not aware of the plan, for the record. And I only address the defined benefit issue because they asked you to consider that. [LB552]

SENATOR MELLO: Okay. [LB552]

DAN HOINS: I didn't see that when it came in, but they certainly asked you to consider that. But I do, again, in the fiscal note would want clarification that it is the state of Nebraska that's willing to make that actuarial difference up and not the city of Grand Island or Papillion or La Vista, whichever it may be. [LB552]

SENATOR MELLO: Okay. Thank you, Dan. [LB552]

SENATOR DAVIS: Thank you. Any other questions? Thank you, Mr. Hoins. [LB552]

DAN HOINS: Thank you. [LB552]

SENATOR DAVIS: Next opponent. [LB552]

DON WESELY: Mr. Chairman and members of the Retirement Committee, I'm Don Wesely, W-e-s-e-l-y, a registered lobbyist on behalf of the cities of Hastings and Kearney who have asked me to testify in opposition. But I'd just say ditto to that. There is a serious problem. And I was around in '83 when we passed this. I was on the Retirement Committee and became Chair after the end of the session. And it's disappointing to see some of the results. But I think there's just a little concern about how this all fits together and there's a willingness to talk about it, so look forward to

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doing that. [LB552]

SENATOR DAVIS: Senator Conrad. [LB552]

SENATOR CONRAD: Thank you, Don. I appreciate your willingness to sit down and continue what I think is a constructive dialogue that Senator Nordquist has helped to further along with this legislation. But it just kind of piqued my interest, and you may be caught in the crosshairs after the previous testifier. So I appreciate it if you don't have... [LB552]

DON WESELY: That's fine. [LB552]

SENATOR CONRAD: ...the information off the top of your head. But there was also a discussion about the policy considerations related to local control in the existing system versus this proposal, which I can appreciate and respect. And, as you know, those issues and policy considerations carry a lot of weight in this body when we're making decisions. But do your clients kind of share that same consideration about the existing importance of the local control factor? [LB552]

DON WESELY: Yeah. And having gone through negotiations and some of these issues when I was mayor, the consideration is always, you know, if you do this for somebody, who comes in line afterwards? And so that's why having a context of everything is kind of critical, and having guys like Dan and others who are actually there working out this situation, it'll make it work better in the long run, so. [LB552]

SENATOR CONRAD: And I'll pose the question to you for your clients, and maybe the previous testifier can follow up with us off the record. But have your clients taken any steps to improve the current situation with the existing local control factor? [LB552]

DON WESELY: That's a very good point and I don't know the answer to that. [LB552]

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SENATOR CONRAD: Okay. Let's just... [LB552]

DON WESELY: I will say part of the problem is with the municipal aid cuts and the Municipal Equalization Fund and kind of the concerns about where things are, there...I think that's part of the concern, so. [LB552]

SENATOR CONRAD: Okay. Very good. Thank you. [LB552]

DON WESELY: Yep. Thank you. [LB552]

SENATOR DAVIS: Thank you, Don. Appreciate it. Next opponent. Welcome. [LB552]

LYNN REX: Hi. Senator, members of the committee, my name is Lynn Rex, L-y-n-n R-e-x, representing the League of Nebraska Municipalities. And very quickly, I'd just like to share with you the background, as with the police pension system. It started in the '60s when the Legislature mandated an unfunded mandate on first-class cities in the state of Nebraska, did not put any money into it. You did not do that with the judges; you did not do that with the teachers; you did not do that with any other group than the first-class cities. So they started out in the hole with huge unfunded mandates. And to the extent that some cities had older officers, whether they're firefighters or police officers, then they had a much larger unfunded liability than those that had newer or less experienced officers. That being said, what happened over a period of time is that some cities thought they were fully funded. They had investment advisors between the '60s and 1983 that told them they were fully funded. Other cities thought that putting in the state-mandated amount, which the state...even then, the state had said the cities are going to contribute X amount, the officers will put in X amount. They thought that was sufficient. Other cities thought that, well, they would just pay it on the back end because it's a promise; a defined benefit plan is a promise and simply that. In 1982-83, we had cities with such huge unfunded liabilities that we looked at what could we do to

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try to address this. And we sat down and negotiated with police and fire, police first and then fire. In both instances, the police officers and the firefighters wanted local investments. My predecessor, who was David Chambers, executive director of the League then, shared with them that he thought that this should be done not run by the state, but on a statewide pooling basis but not run by the state. In other words, do it together. Do it as one for the reasons that you'll have less administrative costs, it's a better way to do business, and they would have a better outcome. Because again, I was very pleased to hear not just at this hearing but the prior hearing when you're putting in 19.5 or roughly 18 percent of retirement, that's probably more than any of us sitting around the table are getting. And I can assure you that that is sufficient for a 50 percent retirement benefit. However, when you're negotiating you have to make compromises, and the compromise we made was that it was extremely important to the police side and the fire side that they make those investments locally; and they're not just doing them independently, they are required under state statute to have a professional investment advisor. They each hire their own invest...each city, and it's not the city but the retirement group. And it's not controlled by the city. And that's...Senator Mello, when you mentioned the concern of municipal management of these funds, I guess I would redirect that. This is management by the firefighters, it is management by the police officers, and the cities are a part of that, but it's controlling. And so in terms...if I was a firefighter, my local investment committee will say here are the options I have as a firefighter from which to select; and that's the basis on which they can make their determination. In terms of Social Security, during those negotiations it was evident from the firefighters because they shared it with us that they did not want to be part of the Social Security system. I frankly think kudos to them. I don't particularly want to be part of it now either, so. But basically they didn't want to be part of that system. And I know my light is turning here quickly. But that is why you'll note that the firefighters have a greater benefit from the city in terms of their amount than do the police officers, because we made up that difference on the Social Security side with the firefighters side. So we are strongly opposed to going back to a defined benefit plan. You will note from anybody that's looking at this across the country, you are not having folks go to a



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defined benefit. You're having public sector systems look seriously at the kinds of plans that are being proposed in LB552 and/or a defined contribution plans. And that's happening all over the country. So with that, I would strongly recommend that you not go to defined benefit; certainly, we would oppose that. However, in terms of looking at issues like this, we are concerned the bill itself says as I read it that the state does make up the difference if you would go to this kind of a plan. We do have cities that are still concerned about it. And as with the police side, we've heard from some folks that tell us that their folks, they don't believe their local firefighters want to have this done on a statewide basis. And that is at play as well. My light is red, but I'd be happy to respond to any questions that you might have. [LB552]

SENATOR DAVIS: Thank you, Lynn. Any questions? Senator Mello. [LB552]

SENATOR MELLO: Lynn, I'll be quick, and I'll direct some of my concerns with the letter. As I reread the letter from the United Cities of Sarpy County, I can address some of my concerns with some of the language they use. The reality is this though, from what we've heard from the interim study and today with what currently is being done, the state is going to pick up the cost eventually through Medicaid when firefighters are being placed in nursing homes at some point in their life and we're picking up all the medical care coverage. So the question at the end of the day is, how are we going to address what we know is going to be a fiscal issue, whether it's done right now in conjunction, I think, no one is asking for the cities to pay any more into the pension system. We just need to figure out a better way to do it, which I believe with Senator Nordquist's original bill and the intent in discussing this with him, is what LB552 is intended to do. It's not to move us towards a defined benefit plan. But the reality is whatever is currently being done with the first-class cities is not working. I mean, is that safe to say that...I mean, I don't want to put you in the position to speak on behalf of all first-class cities right now without speaking with them. But the reality is, is we've heard...this is the second public hearing we've heard on this issue... [LB552]

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LYNN REX: Yes. [LB552]

SENATOR MELLO: ...and the reality is, is that we're revisiting the same issue we heard before which is what currently is being done just isn't producing the results that was negotiated back in the early '80s. [LB552]

LYNN REX: Right. [LB552]

SENATOR MELLO: And, I mean, one way or another we have to move forward on this in one form or another. Would the League...I mean, is it safe to say the League is willing to look at other ideas that may be within LB552 or other ideas outside of LB552 to try to rectify what we know is a looming fiscal issue whether it's the cities and/or at the state level in regards to picking up future Medicaid costs from retirees? [LB552]

LYNN REX: Well, especially in light of Dan Hoins's testimony, I think it's very clear we're willing to sit down and talk. I think it's also, though, extremely important to underscore the fact that when the League came forward with a negotiated agreement which resulted in passage of LB237, in I believe it was 1983, which took effect in January 1, 1984, as well as LB531 on the firefighter side, that the contribution levels then would have put in the appropriate amount. Now I guess one could look back at that and say maybe the League should not have compromised and said to them, no, we are not going to go ahead and do local investments; we are going to do a statewide pooling and we're trying to minimize the administrative costs. But negotiations involve compromise and that was something that was extremely important to them. That was number one on their list. [LB552]

SENATOR DAVIS: Thank you, Lynn. Senator Conrad. [LB552]

SENATOR CONRAD: Thank you, Lynn. Always appreciate hearing the historical perspective from the League, and of course their interests are well represented by you.

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And so it's always a pleasure to hear from you. But I completely agree with you that compromise is critical when it comes to negotiations. But one place that I don't agree that compromise is appropriate to inject itself into the mix is when it comes to public safety. And I think you were present when you heard my questions to some of the first responders that were here before not only in regards to their potential for injury or health and safety, but also for our citizens that they protect. And I'd like to hear your perspective on that regard because I think that's something again is probably a common-ground issue that neither of us would want to see a compromise when it comes to public safety. [LB552]

LYNN REX: You mean the safety of the officer? [LB552]

SENATOR CONRAD: And the public that they protect. [LB552]

LYNN REX: Absolutely. I think that's extremely important. That also, though, applies as Dan mentioned, the most dangerous job if you look on a municipal side in on the utility side. So, now that being said, believe me, I don't have the courage to run into a fire nor do I have the courage to be on the receiving end of a bullet. So I'm not here to tell you that that is something that I'd be prepared to do. I have great admiration for all these folks, and my dad is a retired police officer, so I fully understand that. [LB552]

SENATOR CONRAD: Great. Very good. Thank you. [LB552]

LYNN REX: But we don't want people put at risk at all. But I just think it's extremely important for the record to understand that the amounts that were put in here are adequate. And so in terms of looking at a different format and a different way of looking at that, we're certainly willing to sit down with the first-class cities and the interested folks and sit down and talk about that. And I think that's what Dan Hoins was saying as well. [LB552]

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SENATOR CONRAD: Great. Thank you. [LB552]

SENATOR DAVIS: Thank you, Lynn. We have about five minutes before we need to wrap it up, and the next proponent or opponent, I should say. [LB552]

LYNN REX: Thank you, Senator. [LB552]

SENATOR DAVIS: Thank you, Lynn. Anyone testifying in the neutral position? And if you could be brief I'd appreciate it. [LB552]

PHYLLIS CHAMBERS: All right. Good afternoon, Senator Davis and committee members. This bill is proposing a new plan for the firefighters. [LB552]

SENATOR DAVIS: Your name? [LB552]

PHYLLIS CHAMBERS: Excuse me? [LB552]

SENATOR DAVIS: Your name? [LB552]

PHYLLIS CHAMBERS: My name is Phyllis Chambers. I was being too brief, excuse me, P-h-y-l-l-i-s C-h-a-m-b-e-r-s, and I'm the director of the Public Employees Retirement Systems. This bill would create a new plan for the firefighters of the first-class cities, and it would be administered by the Public Employees Retirement Board and NPERS. We have not created a new plan for a new employee group since the county employees of 1965. We did create new plans for the defined contribution plan and the cash balance plan option for the state and county. But those were not new plans in the sense that they were assets that were transferred from existing employees. They were reported by existing employers through established relationship with NPERS and Ameritas. So we're talking about a whole new ball game when you're talking about brand-new employees and brand-new employers. Creating a new plan would require substantial

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analysis by NPERS, defining the rules, programming, planning, and implementation. It is a complex process. With NPERS's current workload, we would need at least two years for implementation of a new plan. Our fiscal note estimates it would cost about \$336,000 the first year and \$151,000 the second year. The cost includes three new employees, one new board member. And additional costs would include IT programming, employee and employer education, recordkeeping services, an actuarial study, annual evaluations, legal costs for IRS determination letters, auditing and financial reporting. And since this plan has no connection to any of our plans, the cost would need to be paid for by the state General Funds or the city's. NPERS staff and plan funds could not be used for developing the new plan. Here are some of the issues that we think would need to be addressed: What are the roles and the authorities of the state and the cities related to the plan? Would all the first-class cities participate or would some opt out? Is the plan mandatory or optional? Is it for existing employees or new hires, for full time or for part time? Would effective dates be the same or different for each city? Per the compliance audit, there would need to be a limited time period for members to enroll in the plan. The time period could not be left open for members to join. Would the cash balance rules be the same for firefighters as for the state and county except for contribution rates investing? It's my understanding the retirement contributions would be paid on compensation base only, and not overtime, expense allowances, or other fringe benefits. There would also need to be specific rules for rollovers, what is acceptable, when, and for what purpose. Rollovers would need to be limited to a specific amount of time like an initial period of time when the plan becomes effective. It took NPERS 18 months to create the DROP plan. So this would take far longer to develop, define, and program the plan rules and procedures, hire and train new and existing NPERS staff, prepare financial reporting processes using the new GASB rules, promulgate rules and regulations, develop employer processes, and establish reporting procedures for the cities, Ameritas, and DAS, and develop an employee handbook and employer manuals, conduct employee and employer training at various locations. And finally I would just comment, we currently have an unfunded liability of \$2.4 billion for the three defined benefit plans and the two cash balance plans.

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The unfunded liabilities as of the last actuarial reports are 2.25 for the school...\$2.25 billion for the school, \$79.5 million for the Patrol, \$11.5 million for the judges' plan, \$69.3 million for the state cash balance, and \$19.5 million for the county cash balance plan. Adding another cash balance plan would potentially increase the unfunded liability of the state. And I would be happy to answer any questions. Also, the Retirement Committee is willing to work with...we would be willing to work with the Retirement Committee on assisting them with any information regarding the plan. [LB552]

SENATOR DAVIS: Thank you, Phyllis. Don't you have any good news? [LB552]

PHYLLIS CHAMBERS: Well, I thought that...it's factual, so. [LB552]

SENATOR DAVIS: Any questions? [LB552]

PHYLLIS CHAMBERS: Great. Thank you. [LB552]

SENATOR DAVIS: Any other neutral testimony? Senator Nordquist. [LB552]

SENATOR NORDQUIST: In light of the time, I'm going to waive today. [LB552]

SENATOR DAVIS: We'll close the hearing then. Thank you very much for coming. [LB552]

# Appendix G

2015 Committee Hearing Transcript  
of LB 665

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[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

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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

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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]

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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

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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

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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

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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

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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 sum 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



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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

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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]

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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]

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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?

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[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

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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]

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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, actuarially 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

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in the design of a cash balance plan. That is actuarially 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]



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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]

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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]

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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

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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

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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),

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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

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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 what 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]

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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



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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

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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]

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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,

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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 to find 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]

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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.

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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 actuarially, 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]

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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 firefighter 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]

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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]



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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]

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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-i-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

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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]

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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

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Nebraska Retirement Systems Committee  
February 24, 2015

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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

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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 others bill 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]

## Appendix H

### CHART – Death & Disability Benefits Under 1<sup>st</sup> Class City Firefighters Retirement Act

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# Death & Disability Provisions under First Class City Retirement Act

Statute Occurrence	Timing	Benefit	Form of Benefit	Workers Compensation or Other Provision
<b>16-1029 (1)</b> Death, not in line of duty	Prior to retirement	Entire value to beneficiary – if annuity – amount provided by annuity contract purchased or value paid to beneficiary as of date of first payment  At least 25% of regular pay	Single lump sum, straight life annuity, or any other optional form of benefit specified in retirement system funding medium  Straight life annuity	None
<b>16-1029 (2)</b> Death, while in military still employed by city	After 50 years of age and serving in department for at least 21 years			If actuarial equivalent of benefit exceeds value at time of 1 <sup>st</sup> payment, city shall use funds from unallocated employer account to purchase or provide for benefit  (4) to extent retirement value exceeds amount required to provide pension, the excess shall be paid in manner provided under (1)  Subject to deduction of amounts paid as workers' comp benefits  To extent retirement value exceeds amount required to purchase pension, it is reduced by amounts paid as workers comp benefits' excess paid as provided under 16-1029 (1)
<b>16-1030</b> Death, line of duty	Prior to retirement	50% of regular pay to spouse until remarriage or death, then to minor children during minority	Single lump sum, straight life annuity, or any other optional form of benefit specified in retirement system funding medium	
<b>16-1031</b> Disability, line of duty		(1) Placed on roll of pensioned FF at 50% regular pay for period of disability if unable to perform duties of FF as defined by job description or ordinance  (3) Temporary disability – receive salary during disability up to 12 months unless disability means unable to perform duties as described in (1)		(4) All payments subject to deduction of amounts paid by workers comp.  Total payments in excess of amounts paid as worker comp shall not be less than retirement value at date of disability.  If actuarial equivalent of pension exceeds FF retirement value, the city shall contribute such additional amounts as may be necessary to provide for disability pension  (5) If FF determined to be no longer disabled, FF vested retirement value reduced by any disability payments
<b>16-1032</b> Temporary disability Workers comp				No FF during temporary disability may receive both full salary and worker comp benefits.  Receive all worker comp benefits in full, but amounts paid by city or insurer are considered payments on account of such salary and credited thereon. Remaining balance of salary, if any payable as provided in FF Retirement Act



## Appendix I

Chart – Comparison of State and First Class  
City Firefighter Defined Contribution and  
State Cash Balance Administrative, Investment  
Management, and Recordkeeping Fees and  
Costs

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# Comparison – Current Firefighter Defined Contribution Plan to State and County Cash Balance Administrative & Plan Fees & Costs

CURRENT – MEMBER ADMIN & INVESTMENT FEES	CURRENT – CITIES ADMIN & INVEST FEES	STATE & COUNTY CASH BALANCE – MEMBER ADMIN & INVEST FEES (& PROPOSED IN LB 655)
<p>Investment fees and administrative costs vary by investment plan:</p> <p><b>McCook</b> - .35 – 1.7% average fund cost paid by member</p> <p><b>Norfolk</b> -- Admin &amp; Recordkeeping fee .25% mutual fund &amp; .15% guaranteed ins. Account; Annual base fee \$266 &amp; \$10 per member &amp; deferred benefits fee of \$600. No forfeitures in 2014, so .0159% deducted for annual &amp; recordkeeping</p> <p><b>Papillion</b> -- Weighted average Variable Fund Exp. 0.55%+ Annual Recordkeeping charge 0.45%; Voya Fixed Account – 3% on annual basis; Fund expenses range from 0.09% to 1.17%.</p> <p><b>North Platte</b> -- Fees and costs paid by city</p> <p><b>Scottsbluff</b> -- No fees or costs</p> <p><b>York</b> -- Administrative annual fee 0.20% of market value of account balance allocated to each member paid pro rata; Record keeping fee – annual fee of \$28 charged to each member; Form 5500, Legal, Plan amendment or restatement and/or consulting fee –charged to each member account – paid pro rata</p>	<p>Investment fees and administrative costs paid by cities vary by plan. Some cities use monies from the unallocated employer fund to pay costs and fees. These are forfeitures from members who did not vest before terminating and thus do not receive the employer/city contributions.</p> <p><b>Columbus</b> – None</p> <p><b>Fremont</b> -- \$12,500/year</p> <p><b>Kearney</b> – None</p> <p><b>North Platte</b> -- 2014 Plan Year \$21,591.53</p> <p><b>Papillion</b> -- Plan costs are paid by the participant</p> <p><b>Scottsbluff</b> -- All costs and fees are paid by forfeitures</p> <p><b>York</b> -- None – all plan costs are allocated to participant accounts</p>	<p>Nebraska Investment Council Investment Management fee is 0.28%</p> <p>Record keeping fees is \$1.52 per month per member which is charged to plan</p> <p>“Large entities such as the State of Nebraska have access to institutional pricing, which results in very low investment management fees.</p> <p>Due to the state’s negotiating power, current investment fees for Defined Contribution members range from 0.03% up to 0.37%. Investment fees for the Cash Balance Plan totaled 0.28% as of 9/30/14.</p> <p>In contrast, investment management fees assessed for private sector mutual funds can often be as high as 1.5% to 2.00% and additional IRA fees such as sales charges, transaction fees, set-up fees, custodial fees, may also apply.”<sup>1</sup></p>

<sup>1</sup> April 2014 Nebraska Public Employees Retirement System Newsletter to State and County Members

