



# Nebraska Public Employees Retirement Systems

## Cash Balance Plan

Presented to KPERS Study Commission

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# NPERS Overview

- NPERS administers six retirement plans with 112,000 members and \$9 billion in assets.
  - School – DB – established 1946
  - State Patrol – DB – 1947
  - Judges – DB – 1955
  - State – DC – 1964 and CB – 2003
  - County – DC – 1965 and CB – 2003
  - Deferred Compensation (DCP) – 1976



# 2010 NPERs Funded Status

- Schools – 82%
- Patrol – 85%
- Judges – 100%
- State CB – 94%
- County CB – 93%
- DC plans – 100%
  
- GASB 25 Funded ratio =  $AVA \div AAL$



# Cash Balance Plan

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

# Nebraska Benefit Adequacy Study

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

# Goals of Cash Balance Plan

- Improve retirement benefits for State and County Employees - from DC to CB
- Retention - reward long-term employment.
- Offer self-funded annuity & COLA options
  - over 90% were taking lump sum refunds
- Reduce DC investment & timing risk.
  - 90% of employees in 3 funds, 50% in balance fund
  - Market crisis can affect timing of retirement
  - Reduces investment education for members.
- Reduce costs & fees.
  - DC - \$92/member & CB - \$71/member

# Nebraska CB Features

- Mandatory for new hires. DC members one-time option to transfer in 2003 – 1/3 transferred, another 1/3 transferred again in 2007.
- NPERS Contribution rates:
  - State – 4.8 % EE, 156% ER – 7.48% = 12.28%
  - County – 4.5% EE, 150% ER – 6.75% = 11.25%
- Credited rate based on Federal mid-term rate+1.5 % with 5% minimum guarantee by the State. July 2011 MTR was 2.0%.
- Rate adjusted quarterly. Accounts credited daily.
- Annuity rate is 7.75% - determined by Board.



## Nebraska CB Features (cont')

- 3-year vesting for employer portion.
- Distributions options for termination, retirement ( age 55) or disability – Refund, rollover, annuity, or combination.
- Death – Beneficiaries receive refund or rollover; spouse may also receive annuity; if already receiving a benefit, determined by the annuity option.
- Optional dividend granted by Board.



# CB Dividends

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

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

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

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

\*\* GASB 25 funding status based on previous year .

# Cash Balance Advantages

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

## CB Advantages (cont')

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

# CB Considerations

- Existing or new hires
- Tier or a new plan
- Education—Mailed packets & held seminars
- Determine method for crediting rate.
- Dividend policy
- Annuity Rate with optional COLA
- Enrollment period – deadline in statute
  - Processing time
  - One time selection

# Conclusion

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

