

# Nebraska Public Employees Retirement Systems

## Cash Balance Plan

Presented to Kansas Senate Select KPERS  
Committee

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# NPERS Overview

- NPERS administers six retirement plans with 115,000 members and \$9.6 billion in assets.
  - School – DB – established 1946
  - State Patrol – DB – 1947
  - Judges – DB – 1955
  - State – DC – 1964 and CB – 2003
  - County – DC – 1965 and CB – 2003
  - Deferred Compensation (DCP) – 1976



# 2011 NRPERS Funded Status

- Schools – 80%
- Patrol – 82%
- Judges – 98%
- 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 & member's age, not a formula.



# Nebraska Benefit Adequacy Study

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



# 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. January 2012 MTR was 1.17%.
- Credited Rate adjusted quarterly and credited daily.
- Annuity rate is 7.75% - determined by Board.

# Nebraska CB Features (cont')

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

## How does NPERs CB work?

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



## How does CB work? (cont')

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

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

## **CB Considerations (cont')**

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

# Conclusion

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





## Nebraska Public Employees Retirement (State)

The State Employees' Retirement plan began as a **Defined Contribution** plan in 1964. The **Cash Balance** benefit was added by passage of LB687 on April 18, 2002. As of January 1, 2003, members who begin participation in the State Employees' Retirement Plan (the Plan) participate in the Cash Balance benefit. Active plan participants at that time were given the the option of *keeping* their **Defined Contribution** benefit or *converting* to the **Cash Balance** benefit.

### Participants in either benefit:

- Contribute 4.8% pre-tax to the plan. The State contributes 156% of employees' contributions.
- May retire as early as age 55.
- Are vested after three years.
- May rollover employee and employer contributions at retirement.
- Pay record keeping fees.

### Defined Contribution participants:

- Invest their Employer and Employee contributions in multiple investment fund options.

### Cash Balance participants:

- Receive an "interest credit rate" (rate of return) based on the Federal Mid-term rate plus 1.5%. To view the current Cash Balance rate of return, see below.
- Are guaranteed a minimum annual rate of return of 5%.

### Cash Balance Rates of Return & Dividends

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The interest credit rate is defined in statute as the greater of 5%, or the applicable federal mid-term rate plus 1.5%. If the federal mid-term rate falls below 3.5%, you are guaranteed to receive a 5% return on your account. The interest credit rate is to be determined each calendar quarter (January, April, July and October) based on the federal mid-term rate that is published by the Internal Revenue Service as of the first day of that quarter. The rate is to be compounded annually.

Interest Credit Rates					
Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Year Average
2012	5.00%				
2011	5.00%	5.00%	5.00%	5.00%	5.00%
2010	5.00%	5.00%	5.00%	5.00%	5.00%
2009	5.00%	5.00%	5.00%	5.00%	5.00%
2008	5.08%	5.00%	5.00%	5.00%	5.02%
2007	6.08%	6.11%	6.45%	5.85%	6.12%
2006	5.98%	6.22%	6.55%	6.32%	6.27%
2005	5.26%	5.59%	5.36%	5.58%	5.45%
2004	5.02%	5.00%	5.61%	5.12%	5.19%
2003	5.00%	5.00%	5.00%	5.15%	5.04%

Each year, the Public Employees Retirement Board (PERB) uses the results of the annual actuarial valuation and the actuary's recommendation to determine if a benefit improvement can be made, such as payment of a dividend. They are required to ensure benefit adequacy and must maintain a 10% cushion of the assets. Dividends will not be issued when poor market returns reduce plan assets.

Effective 2007, any dividends granted in the future will conform to the PERB's new policy which states that a dividend plus the annual interest credit (set by statute as the federal mid-term rate plus 1.5%) cannot exceed 8.0% unless a majority of the PERB agrees.

Dividends		
Year Issued	Dividend %	For Time Period
2011	No Dividend	1/1/2010 - 12/31/2010
2010	No Dividend	1/1/2009 - 12/31/2009
2009	No Dividend	1/1/2008 - 12/31/2008
2008	State 5.18% County 5.34%	1/1/2007 - 12/31/2007
2007	2.73%	1/1/2006 - 12/31/2006
2006	State 13.5% County 16.4%	1/1/2005 - 12/31/2005
2005	2.8%	1/1/2004 - 12/31/2004
2004	3.088%	1/1/2003 - 12/31/2003