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GASB STATEMENT NO. 67 REPORT

FOR THE OMAHA SCHOOL EMPLOYEES'

RETIREMENT SYSTEM

PREPARED AS OF AUGUST 31, 2014

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October 2, 2014

Board of Trustees
Omaha School Employees' Retirement System
3215 Cuming
Omaha, NE 68131

Dear Members of the Board:

Presented in this report is information to assist the Omaha School Employees' Retirement System in meeting the financial reporting requirements under the Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. The information is presented for the period ending August 31, 2014. These calculations have been made on a basis that is consistent with our understanding of these accounting standards.

The annual actuarial valuation used as a basis for much of the information presented in this report was performed as of September 1, 2013. The valuation was based upon data, furnished by the Executive Director and the Omaha School Employees' Retirement System staff, concerning active, inactive and retired members along with pertinent financial information. This information was reviewed for completeness and internal consistency, but was not audited. The valuation results depend on the integrity of the data. If any of the information is inaccurate or incomplete, our results may be different and our calculations may need to be revised.

To the best of our knowledge, the information contained in this report is complete and accurate. These calculations were performed by, and under the supervision of, independent consulting actuaries with experience in performing valuations for public retirement systems. In addition, the valuation was prepared in accordance with generally accepted actuarial principles and practices as well as with Actuarial Standards of Practice prescribed by the Actuarial Standards Board.

Our calculation of the liability associated with the benefits described in this report was performed for the purpose of providing reporting and disclosure information that satisfies the requirements of GASB Statement No. 67. The calculation of the system's liability for this report may not be applicable for funding purposes of the plan. A calculation of the system's liability for purposes other than satisfying the requirements of GASB No. 67 may produce significantly different results.

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We, Patrice A. Beckham, FSA and Brent A. Banister, FSA, are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein. We are available to answer any questions on the material contained in this report or to provide explanations or further details as may be appropriate.

Respectfully submitted,

Patrice Beckham

Brent A. Banister

Patrice A. Beckham, FSA, EA, FCA, MAAA
Principal and Consulting Actuary

Brent A. Banister, PhD, FSA, EA, FCA, MAAA
Chief Pension Actuary

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REPORT OF THE ANNUAL GASB STATEMENT NO. 67 REQUIRED INFORMATION FOR THE OMAHA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

PREPARED AS OF AUGUST 31, 2014

SECTION I – INTRODUCTION

The Governmental Accounting Standards Board issued Statement No. 67 (GASB 67), *"Financial Reporting for Pension Plans"*, in June 2012. The effective date is for plan years beginning after June 15, 2013 which is fiscal year end August 31 2014 for the Omaha School Employees' Retirement System. Much of the material provided in this report is based on the data, assumptions and results of the annual actuarial valuation of the System as of September 1, 2013. The results of that valuation were detailed in a report dated December 23, 2013.

GASB 67 replaces GASB 25, and represents a significant departure from the requirements of that older statement. GASB 25 was issued as a "funding friendly" statement that required pension plans to report items consistent with the results of the plan's actuarial valuations, as long as those valuations met certain parameters. GASB 67 basically separates accounting from funding by creating disclosure and reporting requirements that may or may not be consistent with the basis used for funding the System.

A major change in GASB 67 is the requirement to determine the Total Pension Liability (TPL) utilizing the Entry Age Normal actuarial cost method. The Net Pension Liability (NPL) is then set equal to the TPL minus the System's Fiduciary Net Position (FNP) (basically the market value of assets). The benefit provisions recognized in the calculation of the TPL are summarized in Appendix C.

Among the assumptions needed for the liability calculation is a Single Equivalent Interest Rate (SEIR), as described by GASB 67. To determine the SEIR, the FNP must be projected into the future for as long as there are anticipated benefits payable under the plan's provisions applicable to the members and beneficiaries of the System on the Measurement Date. If the FNP is not projected to be depleted at any point in the future, the long term expected rate of return on plan investments expected to be used to finance the benefit payments may be used as the SEIR.

If, however, the FNP is projected to be depleted, the SEIR is determined as the single rate that will generate a present value of benefit payments equal to the sum of the present value determined by discounting all projected benefit payments through the date of depletion by the long term expected rate of return, and the present value determined by discounting those benefits after the date of depletion by a 20-year tax-exempt municipal bond (rating AA/Aa or higher) rate. Our calculations indicate that the FNP is not projected to be depleted, so the bond rate is not used in the determination of the SEIR for either the August 31, 2013 or the August 31, 2014 Total Pension Liability.

The sections that follow provide the results of all the necessary calculations, presented in the order laid out in GASB 67 for note disclosure and Required Supplementary Information (RSI).

SECTION II – FINANCIAL STATEMENT NOTES

The material presented herein will follow the order presented in GASB 67. Paragraph numbers are provided for ease of reference.

Paragraphs 30.a. (1)-(3): This information will be supplied by the System.

Paragraph 30.a. (4): The data required regarding the membership of the System were furnished by the System. The following table summarizes the membership of the System as of September 1, 2013, the valuation used to determine the August 31, 2014 Total Pension Liability.

Membership

	Number
Inactive Members Or Their Beneficiaries Currently Receiving Benefits	3,967
Inactive Members Entitled To But Not Yet Receiving Benefits	813
Active Members	7,372
Total	12,152

Paragraphs 30.a. (5)-(6) and Paragraphs 30.b.-f.: This information will be supplied by the System.

Paragraph 31.a. (1)-(4): This information is provided in the following table. As stated earlier, the NPL is equal to the TPL minus the FNP. That result, as of August 31, 2014, is presented in the following table.

	Fiscal Year Ending August 31	
	2013	2014
Total Pension Liability	$1,660,287,000	$1,724,435,000
Fiduciary Net Position	1,170,347,000	1,294,723,000
Net Pension Liability	$489,940,000	$429,712,000
Ratio of Fiduciary Net Position to Total Pension Liability	70.49%	75.08%

Paragraph 31.b.: This paragraph requires information regarding the actuarial assumptions used to measure the TPL. The complete set of actuarial assumptions utilized in developing the TPL are outlined in Appendix C. The Total Pension Liability was determined based on an actuarial valuation as of September 1, 2013, rolled forward to August 31, 2014 using standard actuarial formulae and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	4.00 to 5.60 percent, including inflation
Investment rate of return	8.00 percent compounded annually, net of investment expense, and including inflation

Mortality	Pre-retirement mortality rates were based on the RP 2000 Combined Mortality Table, female rates set back 1 year and male rates with no set back, projected on a generational basis using Scale AA. Post-retirement mortality rates were based on the same rates as the pre-retirement tables. Post-disability mortality rates were based on the same tables as the post-retirement tables, with ages set forward 10 years.

The actuarial assumptions used in the September 1, 2013 valuation were based on the results of the most recent actuarial experience study, dated December 23, 2013.

Paragraph 31.b.(1)

(a) **Discount rate**. The discount rate used to measure the Total Pension Liability was 8.00 percent.

(b) **Projected cash flows:** The projection of cash flows used to determine the discount rate assumed that plan contributions from members, the School District and the State of Nebraska will be made at the current contribution rates as set out in state statute.

(c) **Long term rate of return:** The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

(d) **Municipal bond rate:** the discount rate determination does not use a municipal bond rate.

(e) **Periods of projected benefit payments:** Projected future benefit payments for all current plan members were projected through 2112.

(f) **Assumed asset allocation**: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Small Cap Equity	12%	7.1%
Global Equity	15%	7.6%
Specialty Funds	15%	11.0%
Alternatives	25%	7.6%
Fixed Income	5%	3.4%
High Yield Investments	16%	5.9%
Real Estate	12%	7.0%
Total	100.0%	

*Arithmetic mean

(g): **Sensitivity analysis**: disclosure of the sensitivity of the Net Pension Liability to changes in the discount rate. The following presents the Net Pension Liability of the System, calculated using the discount rate of 8.00 percent, as well as the System's Net Pension Liability calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net Pension Liability	$638,899,000	$429,712,000	$254,895,000

Paragraph 31.c.: The date of the actuarial valuation upon which the TPL is based is September 1, 2013. To determine the TPL, the liability was rolled forward one year to August 31, 2014 using standard actuarial formulae and the actuarial assumptions used in the valuation.

SECTION III – REQUIRED SUPPLEMENTARY INFORMATION

There are several tables of Required Supplementary Information (RSI) that need to be included in the System's financial statements:

Paragraphs 32.a.-c.: The required tables of schedules are provided in Appendix A.
Paragraph 32.d.: The money-weighted rates of return will be supplied by the System.

Paragraph 34: The following information should be noted regarding the RSI:

Method and assumptions used in calculations of actuarially determined contributions.

The actuarially determined contributions in the *"Schedule of Employer Contributions"* are calculated based on the actuarial contribution rate in the valuation prepared as of the September 1 prior to the fiscal year end times the actual covered payroll for the fiscal year. The following actuarial methods and assumptions were used to determine the actuarially determined employer contribution reported for Fiscal Year End 2014:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	Market related smoothed value
Inflation	3.00 percent
Salary increase	4.00 to 5.60 percent, including inflation
Investment rate of return	8.00 percent compounded annually, net of investment expense, and including inflation

Historical changes in benefit terms and actuarial assumptions are outlined below:

Changes of benefit terms: The following changes to the plan provisions were made by the Nebraska Legislature and reflected in the valuation performed as of September 1 listed below:

2013: The 2013 session of the Nebraska Legislature enacted Legislative Bill 553 (LB 553), which increased the Member's contribution rate from 9.30% of pay to 9.78% of pay. The School District's contribution rate is equal to 101% of the employee contribution rate so the District's contribution rate increased from 9.393% of pay to 9.878% of pay. The State contribution rate also increased permanently from 1.00% (plus $973,301) to 2.00% of payroll, effective July 1, 2014. LB 553 also created a new benefit structure for members hired on or after July 1, 2013 with the same benefit structure as pre-July 1, 2013 hires except annual cost of living adjustments are the lesser of 1.00% or CPI and final average compensation is defined as 1/60 of the total compensation received during the five fiscal years of highest compensation.

2011: The member contribution rate was increased by the 2011 Legislature from 8.30% to 9.30%, effective September 1, 2011. Since the employer contributes 101% of the member contribution rate, the 1.00% increase in the member contribution rate resulted in an increase of 1.01% in the District's contribution rate.

2009: Legislation passed in 2009 increased the employee contribution rate from 7.30% to 8.30% of pay. The School District contributes 101% of the employee rate so the District's contribution increased from 7.373% to 8.383% of pay. The legislation that enacted these changes also provided for a temporary increase in the State's contribution rate from 0.70% to 1.00% of pay for July, 2009 to July, 2014.

2007: Legislation passed in 2007 increased the employee contribution rate from 6.30% to 7.30% of pay and provided for the employer contribution rate of 101% of the employee rate.

Changes in actuarial assumptions:

9/1/2013 valuation:

- The one-year age set forward in mortality rates for active male employees was eliminated.
- Classified members' retirement rates were adjusted.
- Vested Certificated members' assumption to elect a refund of contributions was adjusted at certain ages.
- The assumed interest rate credited on member contribution accounts was lowered from 7.00% to 3.00%.

9/1/2010 valuation:

- The inflation assumption was changed from 3.50% to 3.00%.
- The real rate of return increased from 4.50% to 5.00%.
- The productivity portion of the general wage increase assumption increased from 0.50% to 1.00%.

9/1/2008 valuation:

- Mortality table was changed to the RP-2000 table with age adjustments (+1 male, -1 female) and generational projections of mortality improvements.
- Retirement rates were adjusted to better fit the observed experience.
- The use of a disability assumption was eliminated.
- Termination rates were modified to better fit the observed experience.

- Small adjustments based on actual experience were made to the election of a refund assumption.

9/1/2007 valuation:

- The actuarial value of assets was reset to the actual market value.
- The funding policy was set equal to the normal cost plus amortization of the unfunded actuarial liability over a closed 30 year period, commencing September 1, 2007.

APPENDIX A

REQUIRED
SUPPLEMENTARY INFORMATION

Exhibit A

GASB 67 Paragraph 32.a.
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
($ in Thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Total Pension Liability										
Service Cost	36,090									
Interest	128,868									
Benefit changes	0									
Difference between expected and actual experience	0									
Changes of assumptions	0									
Benefit payments	(96,794)									
Refunds of contributions	(4,016)									
Net change in Total Pension Liability	64,148									
Total Pension Liability - beginning	1,660,287									
Total Pension Liability - ending (a)	1,724,435									
Plan Fiduciary Net Position										
Contributions – employer	31,913									
Contribution - non-employer*	7,888									
Contributions – member	31,597									
Net investment income	154,207									
Benefit payments	(96,794)									
Administrative expense	(1,122)									
Refunds of contributions	(4,016)									
Other	703									
Net change in Plan Fiduciary Net Position	124,376									
Plan Fiduciary Net Position – beginning	1,170,347									
Plan Fiduciary Net Position - ending (b)	1,294,723									
Net Pension Liability - ending (a) - (b)	429,712									

* Includes State contribution for State Service Annuity.

Exhibit A (Continued)

GASB 67 Paragraph 32.b.
SCHEDULE OF THE NET PENSION LIABILITY
($ in Thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Total Pension Liability	1,724,435									
Plan Fiduciary Net Position	1,294,723									
Net Pension Liability	429,712									
Ratio of Plan Fiduciary Net Position to Total Pension Liability	75.08%									
Covered-employee payroll	323,078									
Net Pension Liability as a percentage of covered-employee payroll	133.01%									

Exhibit B

GASB 67 Paragraph 32.c.
SCHEDULE OF EMPLOYER CONTRIBUTIONS
($ in Thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined employer contribution	34,225	35,032	32,958	34,181	30,900	24,103	19,492	28,143	24,312	22,459
Employer statutory	31,913	29,581	28,861	26,336	25,331	22,148	20,108	17,200	15,672	14,578
Employer additional	0	0	4,330	0	0	0	3,171	5,067	8,434	3,100
Non-employer (State)*	6,285	4,042	3,918	3,919	3,851	3,770	2,883	2,714	2,660	2,532
Total actual contributions	38,198	33,623	37,109	30,255	29,182	25,918	26,162	24,981	26,766	20,210
Annual contribution deficiency (excess)	(3,973)	1,409	(4,151)	3,926	1,718	(1,815)	(6,670)	3,162	(2,454)	2,249
Covered-employee payroll	323,078	313,946	307,258	310,229	302,229	287,770	272,720	272,844	248,759	231,709
Actual contributions as a percentage of covered-employee payroll	11.82%	10.71%	12.08%	9.75%	9.66%	9.01%	9.59%	9.16%	10.76%	8.72%

* Excludes State contribution for State Service Annuity.

Note: This schedule relates to both the employer (School District) and non-employer contributing entities (State of Nebraska).

APPENDIX B

SUMMARY OF BENEFIT PROVISIONS VALUED

Contributions

Employee Contributions: Employees contribute 9.78% of compensation, effective September 1, 2013. Such contributions are payable each year while employed. Contributions accumulated with interest are refundable at resignation unless the vested retirement benefit has been elected and at death unless the pre-retirement survivor's benefit has been elected.

State Contribution: The State contributes annually an amount equal to 1.0% of the members' compensation (2.0% effective July 1, 2014) plus a level payment of $973,301 through fiscal year June 30, 2014.

School District Contribution: The School District contributes the greater of (a) one hundred and one percent of the contributions by the employees or (b) such amount as may be necessary to maintain the solvency of the system, as determined annually by the board upon recommendation of the actuary and the trustees.

Interest Credited on Refunds: Contributions made prior to September 1, 1951 and refunded at withdrawal or death are not credited with interest. Contributions after September 1, 1951 are credited with interest at the rate declared annually by the Board of Education upon the recommendation of the Board of Trustees.

Benefits

General: The System provides annuities upon retirement from service or disability and upon death to designated survivors.

The service annuity formula is 2.0% per year of creditable service times the final average compensation.

Final average compensation is defined as 1/36 of the total compensation received during the three fiscal years of highest compensation for members hired before July 1, 2013. For members hired on or after July 1, 2013, final average compensation is defined as 1/60 of the total compensation received during the five fiscal years of highest compensation.

Annuities are paid for life, with 5 years guaranteed. Optional forms of payment are available.

The disability annuity, the pre-retirement survivor annuity and the vested retirement right are summarized in the following sections.

Benefits in pay status are subject to an annual cost of living adjustment of the lesser of 1.5% or CPI for members hired before July 1, 2013. For members hired on or after July 1, 2013, the annual cost of living adjustment is capped at 1.0%. There is an additional COLA if surplus assets exist beginning January 1, 2000. Effective October 3, 2001, a medical cost of living adjustment is payable to retired members. Such amount will commence 10 years after retirement and shall be an amount equal to $10 per month for each year retired (subject to a maximum of $250 per month), prorated for years of service less than 20.

Retirement Annuities: To begin receiving a retirement annuity the employee must have left the employment of the School district, selected a retirement date and

(a) remained employed until his or her 65th birthday and completed at least five years of creditable Omaha service,

or

(b) have 10 years of creditable service (with at least five of those years being creditable Omaha service) and attained age 55.

If an employee begins receiving an annuity after age 62 or when age and service equals or exceeds 85, there is no adjustment for the retirement annuity. If, however, an employee begins receiving an annuity before age 62, such annuity shall be reduced by .25% for each month prior to age 62, provided that if 84 points have been achieved the reduction is limited to 3%, if 83 points, 6%, and 82 points, 9%.

Disability Retirement Annuities: Each employee who becomes totally disabled and who has completed five or more years of creditable Omaha service is entitled to a disability retirement annuity equal to the amount of service annuity earned to date of disability. Alternatively, the employee may defer the disability retirement and accrue service and compensation increases in the interim. The disability retirement annuity is payable each month until disability ceases, if before unreduced retirement, or death.

Pre-Retirement Survivor Annuities: Upon the death of a member who has completed 20 or more years of creditable service and who has not retired, a pre-retirement survivor annuity shall be paid to the member's primary beneficiary. The survivor must be a spouse or one other person whose attained age in the calendar year of the member's death is no more than 10 years less than the attained age of the member in such calendar year. The survivor annuity is the actuarial equivalent of the member's annuity accrued to the date of death, determined on the basis of the member's and beneficiary's attained ages on said date. The survivor annuity is payable in lieu of a refund of the member's accumulated contributions. However, a member may elect out of the survivor annuity and specify that such a refund be paid in lieu of the annuity. An election out of the pre-retirement survivor annuity is entirely independent of the election of a joint and survivor option at retirement. Within 60 days after the member's death, the beneficiary may request a refund of the member's accumulated contributions instead of the annuity; provided, however, that the member may direct the System to pay only an annuity.

If the member (not retired) has less than 20 years of creditable service, or the beneficiary does not meet the requirements stated above, a refund of the member's accumulated contributions shall be paid.

Vested Retirement Right: Each employee who has completed five or more years of creditable Omaha service is eligible upon resignation to elect a deferred vested service annuity, first payable as an unreduced amount at age 65, in lieu of a refund of his accumulated contributions. With ten or more years of total creditable service (including at least five years of creditable Omaha service), the deferred vested service annuity could commence, unreduced, at age 62. If benefits start before age 62 (but not earlier than attained age 55), the benefit shall then be reduced as described above.

APPENDIX C

STATEMENT OF ACTUARIAL ASSUMPTIONS

Actuarial Assumptions

Discount Rate: 8.0% per annum, compounded annually, net of expenses.

Mortality Rates: RP-2000 Combined Mortality Table for males.
RP-2000 Combined Mortality Table for females, set back one year.

Future mortality rates are projected on a generational basis using Scale AA, which reflects the expectation that mortality rates will decline over time.

Disabled retirees use the same assumptions as healthy retirees with ages set forward ten years.

Disability: None assumed.

Termination of Employment: (prior to retirement eligibility) Illustrative rates of termination are as follows:

Certificated:

Percent Terminating (First 5 Years)

Age	Male	Female
20	10.0%	13.0%
25	10.0	13.0
30	10.0	13.0
35	9.8	10.5
40	9.0	9.0
45	9.0	6.0
50	9.0	5.0

Percent Terminating (Over 5 Years)

Age	Male	Female
25	8.0%	9.0%
30	7.0	9.0
35	3.5	6.0
40	2.3	2.5
45	1.0	2.5
50	1.0	1.0

Classified:

Percent Terminating (First 5 Years)		
Age	Male	Female
20	25.0%	30.0%
25	20.0	27.0
30	14.0	20.0
35	5.0	15.0
40	5.0	10.0
45	5.0	9.0
50	4.0	9.0

Percent Terminating (Over 5 Years)		
Age	Male	Female
25	8.0%	18.0%
30	8.0	13.0
35	4.4	6.0
40	2.2	3.8
45	1.4	3.8
50	1.0	3.0

Retirement Rates: Early retirement rates are assumed to occur according to the schedule illustrated below:

Certificated:

Age	Early	84 Points	83 Points	82 Points
55	10%	55%	40%	30%
56	5	55	40	30
57	5	40	40	30
58	5	40	20	10
59	10	40	20	10
60	10	40	40	30
61	20	20	10	30

Classified:

Age	Early
55	3%
56	3
57	3
58	3
59	3
60	3
61	20

Unreduced (age 62 or 85 points) retirement rates are assumed to occur according to the schedule illustrated below:

Certificated:

Age	1st Year Eligible	Ultimate
55	50%	
56	50	30%
57	50	30
58	45	30
59	45	30
60	45	20
61	45	30
62	30	30
63	60	30
64	35	35
65	35	35
66	35	25
67	35	20
68	35	20
69	100	40
70	100	100

Classified:

Age	1st Year Eligible	Ultimate
55	20%	
56	10	15%
57	10	15
58	10	15
59	15	15
60	35	15
61	20	20
62	30	30
63	20	20
64	20	20
65	35	35
66	30	30
67	20	20
68	20	20
69	20	20
70	100	100

Deferred vested members are assumed to retire at first unreduced retirement age.

Salary Scale: Salaries are assumed to increase according to the schedule illustrated below:

	Annual Salary Increase	
Age	Certificated	Classified
20	5.6%	4.7%
25	5.6	4.7
30	5.6	4.7
35	5.6	4.7
40	5.6	4.7
45	5.0	4.7
50	4.6	4.5
55	4.3	4.3
60	4.1	4.1
65	4.0	4.0
70	4.0	4.0

Pre-Retirement Survivor Annuity: It is assumed that females are three years younger than males, and that all members are married.

Refunds to Members: The probability of electing a deferred vested benefit assumed to follow the schedule below:

Age	Certificated	Classified
25	80%	50%
30	80	50
35	80	50
40	80	50
45	80	50
50	80	50

Assumed Interest Rate Credited on Employee Contributions: 3.00% compounded annually.

Inflation (CPI): 3.00% compounded annually.

Total Payroll Growth: 4.00% compounded annually