

The Board of Trustees of the Omaha School Employees' Retirement System held a Regular Meeting on Wednesday, May 3, 2017, at 9:00 a.m. in the Board Hearing Room at the Teacher Administrative Center, 3215 Cuming Street, Omaha, Nebraska.

Pursuant to Section 84-1411 of the Nebraska Statutes, notice of this meeting was given by announcement by the President of the Board at the Board of Trustees' meeting held on April 5, 2017.

Present at roll call: Erikson – Evans - Havlovic – Jones – Purdy – Rea - Ripa – 7.

Staff Present: Cecelia M. Carter, Executive Director, James Ellis, Retirement Benefits Manager, and Kelly Sheard, Department Secretary. Others Present: Jack Peetz, Peetz & Company, Robert Bothe, Esq., McGrath North.

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President Erikson announced that, pursuant to Section 84-1411 of the Nebraska Statutes, the next regular meeting of the Board of Trustees will be a Board Working Retreat held Thursday, June 8, 2017 at 9:00 a.m., at First National Bank, The First National Center, 1601 Dodge Street, Omaha, Nebraska. The agenda will be kept current and available for public inspection in the Retirement Office at the Teacher Administrative Center during regular working hours. He further announced that pursuant to Section 84-1412 of the Nebraska Statutes, the public is hereby informed that a current copy of the Nebraska Open Meetings Act is posted in the Board of Education meeting room on the north wall.

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Mr. Rea moved that the OSERS Board of Trustees go into Closed Session. The motion was seconded by Mr. Ripa and adopted by the following roll call vote: Aye: Erikson – Evans - Havlovic – Jones – Purdy – Rea - Ripa. - 7. President Erikson reminded the public the Board went into Closed Session at 9:05 a.m. for the protection of public interest and for the prevention of needless injury to the reputation of individuals to discuss with Cecelia Carter, Executive Director and James Ellis, and OSERS' Legal Counsel, Robert Bothe, McGrath North matters on the Retirement System.

Present at roll call: Erikson – Evans - Havlovic – Jones – Purdy – Rea – Ripa – 7 present.

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President Erikson reconvened the meeting at 9:42 a.m.

Present at roll call: Erikson – Evans - Havlovic – Jones – Purdy – Rea – Ripa – 7 present.

- Gross Annuitant Pension & Retirement Staff Payroll
  - Ratify May Pension Payments (paid 05.03.2017) = \$9,472,117.45
  - Approve May Staff Payroll (paid 05.05.2017) = ~ \$32,500
- New Retirements

| EMPLOYEE                                                        |          |        | EMP   |           | RET   | YRS       | CHOSEN BENEFIT    |                 |
|-----------------------------------------------------------------|----------|--------|-------|-----------|-------|-----------|-------------------|-----------------|
| NUMBER                                                          | NAME     |        | TYPE  | AGE       | MONTH | of SERV   | OMAHA             | STATE           |
|                                                                 | Steven   | Duncan | CMO   |           | 5     | 28        |                   |                 |
|                                                                 | Cheryl   | Emert  | Trans |           | 5     | 13.3      |                   |                 |
|                                                                 | Patricia | Green  | T     |           | 5     | 7         |                   |                 |
| <b>Addition to Retiree Payroll – Effective Date May 1, 2017</b> |          |        |       |           |       |           | <b>\$3,102.83</b> | <b>\$146.95</b> |
| <b>Average</b>                                                  |          |        |       | <b>65</b> |       | <b>16</b> | <b>\$1,034.28</b> | <b>\$49.98</b>  |
| <b>Median</b>                                                   |          |        |       | <b>65</b> |       | <b>13</b> | <b>\$553.84</b>   | <b>\$45.22</b>  |

- Deaths
  - Approve Termination of Annuitants’ Payments Due to Death

| EMPLOYEE                                              |             |           |     | RET  | DATE OF | BENEFIT            | Survivor     | Survivor       | Survivor's        |
|-------------------------------------------------------|-------------|-----------|-----|------|---------|--------------------|--------------|----------------|-------------------|
| NUMBER                                                | NAME        |           | AGE | YEAR | DEATH   | OMAHA              | Annuity Type | Beneficiary    | Benefit \$        |
|                                                       | Hoffmann    | Marlyne   |     | 1992 | Mar-17  |                    |              |                |                   |
|                                                       | Anson       | Frances   |     | 1993 | Mar-17  |                    |              |                |                   |
|                                                       | Forman      | Joann     |     | 1986 | Mar-17  |                    |              |                |                   |
|                                                       | Hosack      | Alvera    |     | 1983 | Mar-17  |                    |              |                |                   |
|                                                       | Roder       | Shirley   |     | 1998 | Mar-17  |                    |              |                |                   |
|                                                       | Gannon      | Richard   |     | 1985 | Mar-17  |                    |              |                |                   |
|                                                       | Battershell | Lynne     |     | 2008 | Mar-17  |                    |              |                |                   |
| <b>Terminated from Retiree Payroll – May 2017</b>     |             |           |     |      |         | <b>\$10,725.40</b> |              |                |                   |
|                                                       | Reim        | James     |     | 1995 | Mar-17  |                    |              | Anne E. Reim   |                   |
|                                                       | Dixon       | Elenor    |     | 2000 | Mar-17  |                    |              | Fred Dixon     |                   |
|                                                       | Frampton    | Elizabeth |     | 2016 | Mar-17  |                    | J&S 100      | Paul Frampton  |                   |
|                                                       | Johnson     | Sandra    |     | 2011 | Mar-17  |                    | J&S 75       | Curtis Johnson |                   |
|                                                       | Thompson    | Hiawatha  |     | 2015 | Mar-17  |                    | J&S 75       | Arfay Thompson |                   |
| <b>Continued Retirement to Beneficiary – May 2017</b> |             |           |     |      |         | <b>\$9,724.55</b>  |              |                | <b>\$7,243.51</b> |

- Terminated Employees' Refunds

| EMPLOYEE<br>NUMBER | NAME         |              | Payment  |        |
|--------------------|--------------|--------------|----------|--------|
|                    | First        | Last         | Type     | Dollar |
|                    | Elizabeth    | Brittain     | Direct   |        |
|                    | Jorden       | Brooks       | Direct   |        |
|                    | Tiara        | Brown        | Rollover |        |
|                    | Anna         | Burry        | Direct   |        |
|                    | Sophia       | Cano         | Rollover |        |
|                    | Alexander    | Clark        | Direct   |        |
|                    | Lauren       | Dethlefs     | Rollover |        |
|                    | Michael      | Eustace      | Rollover |        |
|                    | Tiffanie-Ann | Fabian       | Direct   |        |
|                    | Justin       | Fruck        | Direct   |        |
|                    | Kimberly     | Garcia       | Direct   |        |
|                    | Jena         | Hansen       | Rollover |        |
|                    | Nathan       | Helzer       | Rollover |        |
|                    | Tara         | Higgins      | Rollover |        |
|                    | Kristopher   | Lydon        | Direct   |        |
|                    | Kimberly     | Mathias      | Rollover |        |
|                    | Whitney      | Mehsling     | Direct   |        |
|                    | Dennis       | Miller       | Direct   |        |
|                    | Amy          | Murray       | Rollover |        |
|                    | Tim          | Murray       | Rollover |        |
|                    | Asia         | Price        | Direct   |        |
|                    | Byron        | Sam          | Direct   |        |
|                    | Nyisha       | Thomas       | Direct   |        |
|                    | Consuelo     | Vallecillo   | Direct   |        |
|                    | Jemesha      | Vana         | Direct   |        |
|                    | Erica        | Vanlaningham | Direct   |        |
|                    | Dwan         | Watts        | Direct   |        |
|                    | Kristin      | Weber        | Direct   |        |
|                    | Teresa       | Wilson       | Rollover |        |
|                    | Janis        | Wohlers      | Direct   |        |
|                    | Patrick      | Wolf         | Direct   |        |

|                                       |  |  |  |                      |
|---------------------------------------|--|--|--|----------------------|
| <b>Terminated EE Refunds May 2017</b> |  |  |  | <b>\$ 361,630.32</b> |
| <b>Average</b>                        |  |  |  | <b>\$11,665.49</b>   |
| <b>Median</b>                         |  |  |  | <b>\$5,706.65</b>    |
| <b>Count</b>                          |  |  |  | <b>31</b>            |

**Bold entry indicates a distribution to a beneficiary due to the death of the active member.**

Accounts / Payables for May 2017

- Investment Managers –
  - Fidelity Investment Asset (4<sup>th</sup>Q '16) \$ 39,579.26**\$39,579.26**
  
- Legal Services –
  - McGrath North – General \$ 4,890.00
  - McGrath North – AGYOF \$ 210.00**\$5,100.00**
  
- Consultant –
  - Wells Fargo (Transition Cost) \$ 20,570.00
  - Cavanaugh Macdonald (12-16 Exp Sty) \$ 25,000.00**\$45,570.00**
  
- Miscellaneous –
  - NCTR (Registration Fee) \$ 1,025.00**\$1,025.00**

Mr. Ripa moved and Mr. Havlovic seconded, the Board ratify the May pension and staff payrolls, approve May new retirements, approve May termination of annuities due to death of the retiree, approve May pension refunds, and approve May accounts payables. The motion was adopted by the following roll call vote: Aye: Erikson – Evans – Havlovic – Jones – Purdy – Rea – Ripa - 7.

President Erikson continued with the next item on the agenda, approving the Minutes. Mr. Havlovic moved and Mr. Rea seconded the April 5, 2017 Meeting Minutes. The motion was adopted by the following roll call vote: Aye: Erikson – Evans – Havlovic – Jones – Purdy – Rea – Ripa - 7.

President Erikson introduced Jack Peetz, Peetz & Company to discuss 2017 legislative matters. He started off by stating there were about 15 days left in the session. LB415 was originally scheduled for May 4 but was moved up to May 3. This bill is on general file and it is the first time this has come up for debate. There were four amendments after the bill was introduced, which is now a consolidated bills.

Mr. Peetz continued the discussion stating he thinks one of the dynamics that OSERS needs to be mindful of is if the unfunded liability of the Omaha School District comes up and if it hits \$712 million, the question is going to be where the District is going to get the money to pay the ARC every year going forward. Mr. Evans stated this will be a shock to all of our employees. The bill to watch out for is LB72 which establishes priority in the event of a municipal and political subdivision bankruptcy.

Mr. Evans questioned LB512 regarding Early Leave Incentive change where it's going to reduce the capacity to go beyond the levy limit and allow us to capture funds outside the \$1.05 cap and as he understands it, if it passes, the District loses that capacity.

Discussion continued at a high level regarding these issues.

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President Erikson introduced Pat Beckham with Cavanaugh Macdonald. She began by saying there are two orders of business at hand. The first is to go back and revisit the recommended changes from the 2012 – 2016 Experience Study. These were recommended changes based upon the new demographic analysis and other economic assumptions that have not been voted on yet. The other matter to discuss is the January 1, 2017 Actuarial Valuation report.

The Experience Study recommendations are as follows

|                           | Current Assumptions | Recommended Assumptions |
|---------------------------|---------------------|-------------------------|
| Price Inflation           | 3.00%               | 2.75%                   |
| Real Rate of Return       | <u>5.00%</u>        | <u>4.75%</u>            |
| Investment Return         | 8.00%               | 7.50%                   |
| Price Inflation           | 3.00%               | 2.75%                   |
| Productivity              | <u>1.00%</u>        | <u>0.50%</u>            |
| General Wage Growth       | 4.00%               | 3.25%                   |
| Payroll Growth            | 4.00%               | 3.25%                   |
| Interest on Contributions | 3.00%               | 2.75%                   |
| Cost of Living            | 1.50%*              | 1.50%                   |

|  |  |  |
|--|--|--|
|  |  |  |
|--|--|--|

\* Assumption is 1.00% for members hired on or after July 1, 2013.

The biggest impact and most costly change is lowering the investment return from 8% to 7.5%.

Ms. Knoche asked if this mirrored the Nebraska School Employees Retirement System and Ms. Beckham replied yes, on investment return and inflation. The demographic assumptions are set to model the behavior patterns of the membership. OSERS demographics looks different than the statewide system because OPS is one employer, not several like the State.

Ms. Beckham continued with highlighting the financial impact to the plan for the various assumption changes. They are depicted as follows:

**Estimate of Financial Impact of Assumption Changes**  
**Based on September 1, 2015 Valuation to the January 1, 2017 Valuation**

Dollars in Thousands

|                                                     | Baseline (Current Assumptions) | Demographic Changes | All Assumption Changes |
|-----------------------------------------------------|--------------------------------|---------------------|------------------------|
| Present Value of Future Benefits                    | \$2,124,400                    | \$2,163,208         | \$2,307,586            |
| Present Value Future Normal Costs                   | <u>325,694</u>                 | <u>327,656</u>      | <u>383,058</u>         |
| Actuarial Accrued Liability (1)-(2)                 | 1,798,706                      | 1,835,552           | 1,924,528              |
| Actuarial Value of Assets                           | <u>1,312,905</u>               | <u>1,312,905</u>    | <u>1,312,905</u>       |
| Unfunded Actuarial Accrued Liability (UAAL) (3)-(4) | 485,801                        | 522,647             | 611,623                |
| Normal Cost Rate                                    | 11.96%                         | 11.78%              | 13.51%                 |
| UAAL Payment                                        | <u>8.80%</u>                   | <u>9.47%</u>        | <u>11.38%</u>          |
| Actuarial Contribution Rate (6) + (7)               | 20.76%                         | 21.25%              | 24.89%                 |

Moving on to the Sixty-Fifth Annual Actuarial Report, Ms. Beckham reminded the Board the primary purposes of performing the valuation report are to certify the School District's actuarial required contributions for the Plan Year. The actuarial required contribution takes into consideration the already contributed employee contribution (9.78%), the employer contribution (9.88% [101% of employee contribution]), and the State contribution (2%).

Ms. Beckham reminded the Board this Valuation report covers a 16-month period rather than a 12-month period and the results should be viewed in that context. There are a lot of changes going on and the change in the statutorily defined valuation date is one of them.

There is currently a new benefit structure for members hired on or after July 1, 2016 (called Tier 3). Over time, as current Tier 1 and Tier 2 members leave covered employment and are replaced by Tier 3 members, the proportion of active members in Tier 3 will increase and reduce the System's cost. As of January 1, 2017, there are 483 OSERS members in Tier 3. Mr. Evans commented membership being up is good because there are more contributors to it. However, if staffing needs to be cut to meet unfunded liability and ARC requirements, that number will go down significantly which actually makes it worse and it's a vicious cycle. Ms. Beckham agreed.

She continued with explaining the asset smoothing. There is an asset "smoothing" method to give the market time for the ups and downs to average out because of the volatility in the market. The Market Value as of September 1, 2015 was \$1,211 million. The asset smoothing method mitigates the volatility of market value returns as shown in the rates of return on the actuarial versus market value of assets. There is currently \$189 million of deferred (unrecognized) investment loss, about 16% of the market value of assets. This would come out over the next 4 years. Without returns above 7.5%, there will be more losses.

The unfunded actuarial accrued liability as of January 1, 2017 is shown below:

|                                      |                      |
|--------------------------------------|----------------------|
| Actuarial Accrued Liability          | \$2,050,581,000      |
| Actuarial Value of Assets            | <u>1,337,983,000</u> |
| Unfunded Actuarial Accrued Liability | \$ 712,598,000       |

Changes to the actuarial assumption and methods were the most significant contributing factor to the change in the System's UAAL since the September 1, 2015 evaluation.

|                                                                |    |     |
|----------------------------------------------------------------|----|-----|
| <b>Unfunded Actuarial Accrued Liability, September 1, 2015</b> | \$ | 486 |
| . Expected change in UAAL                                      |    |     |
| Amortization method                                            | +  | 12  |
| Contributions in excess of actuarial required contribution     | -  | 4   |
| . Investment experience                                        | +  | 63  |
| . Liability experience                                         | +  | 24  |
| . Assumption changes                                           | +  | 138 |
| . Other experience                                             | -  | 6   |
| <b>Unfunded Actuarial Accrued Liability, January 1, 2017</b>   | \$ | 713 |

On the contribution side is the "normal cost" which is how much has to go in to fund the benefits for people who are active. Only active people have a "normal cost". There is the additional payment that is intended to pay off the UAAL which is based on the funding policy used as a "layered" approach. The first piece will continue to be amortized as a level-percent of pay over a closed 30-year period beginning with the September 1, 2013 valuation (27 years remain for the January 1, 2017

valuation). The second piece of the UAAL is amortized as a level-percent of pay over a closed 25-year period beginning on January 1, 2017. All ensuing UAAL bases that result from future actuarial experience (actual versus expected experience) will be amortized as a level-percent of pay over a new 25-year period commencing on the respective valuation date. The actuarial contribution rate is computed based on the funding policy developed by the Board of Trustees and adopted at the May 2013 Board of Trustees meeting. On that basis, the actuarial contribute rate is equal to the normal cost rate plus the amortization payment on the computed based on the January 1, 2017 actuarial valuation. Mr. Evans stated that there is going to be a huge communications issue on the unfunded liability issue. There will be employees and retirees who don't understand pension funding because it is so complex.

When the assumptions changed, it changed both the UAAL and the normal cost rate. If there's not going to be much of an investment return, the ongoing cost to fund the benefit goes up and so does the theoretical amount that should already be put into the System. That's why the change makes so much impact on the contribution rates. There is now a contribution shortfall of 4.63%. If the market value was used instead of actuarial value, there would be an unfunded actuarial accrued liability of \$901,999,000 for market value and \$712,598,000 for actuarial value. Mr. Jones complimented Ms. Beckham and Cavanaugh Macdonald as having an extremely comprehensive and well documented report.

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Mr. Jones made a motion and Mr. Rea seconded to accept the Omaha School Employees' Retirement System's 2012-2016 Experience Study with the recommended assumption changes, submitted April 5, 2017 – as presented: Erikson – Havlovic – Jones – Purdy – Rea – Ripa – 6. Nay: Evans – 1.

Mr. Jones made a motion and Mr. Rea seconded to accept the Omaha School Employees' Retirement System's sixty-fifth Annual Actuarial Report as of January 1, 2017 dated April 27, 2017 – as presented at the May 3, 2017 retirement board meeting: Erikson – Evans – Havlovic – Jones – Purdy – Rea – Ripa – 7.

Mr. Jones made a motion and Mr. Ripa seconded to instruct the Executive Director of OSERS to file the 2012-2016 Experience Study and the Annual Actuarial Report with the Omaha Public Schools Board of Education: Erikson – Evans – Havlovic – Jones – Purdy – Rea – Ripa – 7.

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### Executive Director's Report

Since January 1, 2017 there were two \$50.00 donations into the OSERS' account at the Omaha Public Schools Foundation in April 2017 and so the account has a total value of \$514.00. Ms. Carter reminded the Board this is a non-interest bearing account. This is basically OSERS' courtesy account.

Nebraska Investment Council held a meeting in April and discussed additional commitments to private equity. The next meeting will be June 13, 2017 in LA Vista, NE. The Nebraska State Investment Officer along with the Investment Consultant, AON will be at OSERS' June 8, 2017 Retreat to give the first quarter 2017 performance.

The Request for Proposal is still being worked on and has been reviewed by OSERS' legal counsel and is back in OPS' hands. OPS wants to have their legal counsel look at it one more time because OSERS legal counsel made some changes and it is hoped to get the RFP out early part of next week.

Ms. Carter told Mr. Evans she would have the Cost Flow Analysis ready for him at the June meeting. Mr. Ripa made a motion and Mr. Purdy to accept the Executive Director's Report: Erikson – Evans – Havlovic – Jones – Purdy – Rea – Ripa – 7.

### Board of Trustees' Report

The Retreat was discussed as far as details for parking, where the conference room is, etc. Ms. Carter stated she would be sending a package with all this information to the Trustees.

### New Business

Mr. Purdy announced that he has been working with Mr. Charles Wakefield, Chief Human Resources Officer, regarding the Executive Director's evaluation. Mr. Wakefield and Ms. Carter, and Mr. Meredith Williams at NCTR sent him information regarding this. Mr. Havlovic and Mr. Rea volunteered to help Mr. Purdy.

Meeting adjourned at 12:10 p.m.