McDONNELL: Welcome to the Nebraska Retirement Systems. Good morn-- good afternoon. Welcome. My name is Mike McDonnell. I represent Legislative District 5 in Omaha. I also chair the committee. Committee hearings are an important part of the legislative process and provide an important opportunity for legislators to receive input from Nebraskans. If you plan on testifying today, you will find a blue testifier sheet on the table inside the doors. Fill out the yellow testifier sheet only if you're actually testifying before the committee and please print legibly. Hand the yellow testifier sheet to the page as you come forward to testify. There is also a white sheet on the table if you do not wish to testify, but would like to record your position on a bill. This sheet will be included as an exhibit in the official hearing record. If you are not testifying in person on a bill and would like to submit a position letter for the official record, all committees have a deadline of 12 p.m. Central Standard Time, the last work day before the hearing. Please note that position letters to be included in the official record must be submitted by way of the Legislature's Website at the NebraskaLegislature.gov. A new feature of the Website allows testifiers with disabilities to submit testimony for the record on the site. The Website will be the only method for submission of letters for the record, other than testifying in person. Letters and comments submitted by way of email or hand delivered will no longer be included as part of the hearing record, although they are a viable option for communicating your views with an individual senator. Keep in mind that you may submit a letter for the record on the Website or testify at a hearing, but not both. We will begin each bill hearing today with the introducer's opening statement, followed by the proponents of the bill, then the opponents, and finally by anyone speaking in the neutral capacity. We will finish with closing statements by the introducer if they wish to give one. We ask that your-- you begin your testimony by giving your first and last name and spell them for the record. If you have copies of your testimony, please bring up at least ten copies and give them to the page. If you-- if you are submitting testimony on someone else's behalf, you may submit it for the record, but will not be allowed to read it. We will be using a five-minute light system. When you begin your testimony, the light on the table will turn green. The yellow light is your one-minute warning. And when red light comes on, we ask you to wrap up your final thoughts and stop. As a matter of committee policy, I'd like to remind everyone to the use of a cell phone and other electronic devices is not allowed during public hearings although you may see senators use them to take notes or stay in contact with staff. I would ask everyone to look at their cell phones and make sure they're in the silent mode. Some senators will be using their laptops to pull up documents and follow along with each bill. You may notice committee members coming and going. That has not-- it has nothing to do with how they regard the importance of your bill under consideration. Senators may have bills coming up to introduce in other committees or other meetings to attend to. And that-- and with that, I will have the committee introduce themselves, beginning with Senator Vargas.

VARGAS: Tony Vargas, District 7, downtown/south Omaha.

CLEMENTS: Rob Clements, District 2, Cass and eastern Lancaster.

IBACH: Teresa Ibach, District 44, which is eight counties in southwest Nebraska.

CONRAD: Good afternoon. I'm Daniel Conrad. I represent north Lincoln's "Fightin'" 46th Legislative District.

McDONNELL: Assisting the committee today is Tim Pendrell committee clerk; and Neal Erickson, the committee's legal counsel. The page also, we have one page today, and it's Francine-- Francine Heeren. She's a UNL student. Now. I will go ahead and introduce LB104.

IBACH: Thank you. Thank you, Senator McDonnell. You're on.

McDONNELL: Thank you, Senator Ibach, members of the committee. Good afternoon. My name is Mike McDonnell, M-i-k-e M-c-D-o-n-n-e-l-l. I represent Legislative District 5 in the heart of south Omaha, Senator Conrad, and I am here to open on LB104. This bill and actually both bills being heard today are fairly simple, but involve changes that we need to make to comply with the changes in the federal law. LB104 addresses federal changes made to the required minimum distribution provisions referred to as RMDs to increase the age when the RMDs are required to age 73 this year and to 75 in 2033. The-- the new language is added in each section, referring to the various retirement plans: teachers, judges, State Patrol, county and state plans to bring them into compliance with the federal law. There is no fiscal impact. I'll try to answer any questions.

IBACH: Very good. Are there any questions for the senator? Excellent. Will you close? Yes.

McDONNELL: Yes.

IBACH: OK. Are there any proponents of LB104? Very good. Go ahead.

RANDY GERKE: Good afternoon--

IBACH: State your name and spell it.

RANDY GERKE: --Chairman McDonnell, Vice Chair Ibach, and members of the legislative Retirement Committee. My name is Randy Gerke, that's spelled R-a-n-d-y G-e-r-k-e, and I am the director of the Nebraska Public Employees Retirement System, what I'll refer to as NPERS today. I'm here to testify at the direction of the Nebraska Public Employees Retirement Board, who I'll refer to as the PERB, in support of LB104. Prior to December 2019 and the passage of the first Setting Every Community Up for Retirement Enhancement or the SECURE Act, the federal law required individuals who are no longer working for an employer that sponsored a retirement plan to begin taking distributions at age 70.5. These distributions are commonly known as required minimum distributions or RMDs. The SECURE Act of 2019 increased the RMD age to 72 for individuals born on or after July 1 of 1949. In December 29 of 2022, President Biden signed the Consolidated Appropriations Act of 2023 into law. Division T of this act is titled as the SECURE 2.0 Act of 2022. This amendment in part increases the retirement age to 73 for individuals who attain age 70 after December 31, 2022, and age 73 before January 1 of 2033 and 75 for individuals who attain age 74 before or, I'm sorry, after December 31, 2032. LB104 updates the Nebraska laws governing the retirement plans administered by the PERB and NPERS to be consistent with the SECURE 2.0 Act of 2022 by amending the definition of required beginning date in each plan. The PERB and NPERS asked Senator McDonnell to introduce this bill to help ensure the retirement plans we administer maintain their tax qualified status. I'd like to thank Senator McDonnell for introducing LB104. I'd also like to thank the legal teams of the legislative Retirement Committee and NPERS for their input on the legislation. I'd be happy to try and answer any questions that you may have.

IBACH: Very good. Thank you. Are there any questions? Senator Clements.

CLEMENTS: Thank you, Vice Chair. Director Gerke, thank you. That was my question: Is this a requirement of the federal government changes required minimum distribution rules that we're required to also change?

RANDY GERKE: I'm sorry. I didn't--

CLEMENTS: Are we required to do this because the federal law has changed?

RANDY GERKE: Yes. We would-- we would want to follow what they do.

CLEMENTS: Is maintaining tax qualified status a-- the factor?

RANDY GERKE: It would be. It would be part of that, yes. We want to-- I honestly, as for the IRS, the tax qualified status and we would be in compliance with what the federal government would be for. Now, whether we would lose compliance or not, that I honestly don't know. I'm not a legal folks person, but I-- I believe that we want to do that.

CLEMENTS: This will match other individual-to-individual retirement account distribution changes. Is that right?

RANDY GERKE: Correct.

CLEMENTS: All right. Thank you.

IBACH: Thank you, Senator. Are there other questions from the committee? Seeing none, thank you for your testimony.

RANDY GERKE: Thank you.

IBACH: Are there other proponents of LB104? Are there any opponents to LB104? Seeing none, is there anyone here in the neutral position? Seeing none, would you like to close, Senator?

McDONNELL: Unless there's questions, I will waive.

IBACH: Any questions for the senator? Seeing none, he waives closure. I will-- this one says LB105.

_______________: Yeah. There's none on LB104.

IBACH: OK. We had no testimony submitted. And so that closes the hearing on LB104. OK, now we will open on LB105. Senator McDonnell.

McDONNELL: Thank you, Senator Ibach. My name is Mike McDonnell, M-i-k-e M-c-D-o-n-n-e-l-l. I represent Legislative District 5, south Omaha. LB105, which is, as I mentioned previous-- previously, is to make changes in our retirement plans to accommodate changes in the federal law. This proposal is to accommodate changes made to the federal Uniformed Services Employment and Reemployment Rights Act, referred to as USERRA. The changes add additional items to the-- the definition of military service. These include the additional preparation for military service, rest and recovery, post-military service and active state service. There's no fiscal impact. I'm here to answer any of your questions.

IBACH: Thank you, Senator. Are there questions for the senator? Seeing none, are there any proponents of LB105? Could you state your name and spell it for us for the record?

RANDY GERKE: Certainly. Good afternoon, Chairman McDonnell, Vice Chair Ibach, and members of the retire-- or legislative Retirement Committee. My name is Randy Gerke, that's spelled R-a-n-d-y G-e-r-k-e, and I am the director of the Nebraska Public Employees Retirement System or NPERS. I am here to testify at the direction of the Nebraska Public Employees Retirement Board, the PERB, in support of LB105. In 2017, LB415 amended Nebraska law to require employers covered by an NPERS administered plan to make up both a member and employer retirement contributions missed during federal military service if the member reemployed with their premilitary service employer and-- and filed certain documentation. However, the law was specific-- specifically drafted to exclude state military service commonly called state active duty, because at the time the Uniformed Services Employment and Retirement Rights Act or USERRA did not cover state active duty. Subsequently, the Veterans Health Care and Improvement Act amended USERRA to extend its coverage to National Guard members serving on state active duty when any of the following criteria are met. The period of service is for 14 days or more; the service is in support of national emergency declared by the President under the National Emergencies Act; or the service is in support of a major disaster declared by the President under Section 401 of the Stafford Act. LB105 updates the Nebraska law to require employers to make up both the member and employer contributions for both federal and state military service. This should simplify the process for plan members, employer contacts, and NPERS staff. I would like to thank Senator McDonnell for introducing LB105. I would also like to thank the legal teams of the legislative Retirement Committee and NPERS for the input on the legislation. And I'd be happy to try to answer any questions that you may have.

IBACH: Thank you, Mr. Gerke. Are there questions for Mr. Gerke? So I just have one.

RANDY GERKE: Yep.

IBACH: So this is basically just putting accountability in place, correct? It's just holding accountable the employer.

RANDY GERKE: Correct. Up until now, it wasn't required that if it was an in-state active duty type of call that the employer was-- was required to pay the contributions. They are if it's federal. And so this is-- this is to make it so, for instance, if we had a flood or tornado within the state.

IBACH: OK. Thank you. All right. Seeing no questions, are there any other-- thank you for your testimony. Are there other proponents? Seeing none, are there opponents to LB105? Seeing none, are there anybody here to testify in the neutral? Seeing none, we will ask Senator McDonnell if he'd like to close.

McDONNELL: I'll waive unless there's questions.

IBACH: He's waiving closing. We will, for the record, note that we had one proponent letter submitted, no opponents, and no one, none in the neutral. That will conclude our hearing on LB105. Thank you.

McDONNELL: Thank you, Senator Ibach. We'll start now with the NPERS briefing.

RANDY GERKE: Once again, good afternoon, Chairman, Chairman McDonnell and members of the Legislative Retirement Committee. My name is Randy Gerke. It's spelled R-a-n-d-y G-e-r-k-e and I am the Director of the Nebraska Public Employees Retirement System. I was asked to do a briefing of our agency. I've been with the agency for 20 years so it was difficult for me to decide just what was going to be important and what was not. And I hope that I picked some of the good things that you, you would like to know. I, I am a numbers person. I'm-- I have an accounting background and a finance background and so my background is not legal, but I do like numbers. And so I had a-- I, I, I had a lot of numbers on here and I've got rid of a lot of them because I was afraid folks would gloss over. Let me just get started here. NPERS manages-- excuse me, manages six retirement plans that are administered by the state of Nebraska. And I will go into those in some detail in a bit. NPERS is governed by the, by the Public Employees Retirement Board, or the PERB, which has eight voting members, six of them of the-- six of those members are from member groups such as schools, judges, patrol, state employees and county. And also there are two members of-- from the, from the at-large sect with-- also on the PERB sets Michael Walden-Newman, who you'll hill-- hear next who is an ex-officio nonvoting member. All are appointed by the Governor and confirmed by the Legislature for five-year terms and you, you will be having some of those this year once those are appointed by the Governor. The PERB holds regular public meetings once a month and generally, and generally they are the third Monday of every month. The-- unless of course there's a holiday, which, for instance, February has that and then it's the fourth Monday. Our agency's normal base budget is about $6 million. We do have 4-- $4.2 million extra for this year for Omaha, an Omaha programming project, which I'm going to mention a little bit more about shortly as well. We have 58 FTE or full-time employee positions currently. We have six that are unfilled and probably as you've heard in many-- from many of the agencies, we're having a really hard time filling positions right now. We actually have one that's been empty or, or been vacant since last March. Within the agency, there are six-- several departments. We have accounting, of course. It's-- does, does our finance and budgeting area. We have member services that does office visits and, and handles member questions, our member benefits area, which calculates our benefits. We have an education area that goes out and actually does employer seminars and does webinars to our members to educate them on their retirement plans. We have six retirement plans currently, three defined benefit plans. The benefit-- where the benefit is based on years of service and salary history. We also have two defined contribution plans where the benefit is based on their account balance. Within a defined contribution plan, we have two, sub-- each has two subplans. One is a true defined contribution plan where a member-- where members make investment options that are subject to market movement. This-- these particular plan-- subplans have been closed since 2003 so there's no new members. However, there is folks that are still working that are contributing to that plan. Also within the, the defined contribution plan is a cash balance hybrid type plan. Members do not make investment choices there. There is a guaranteed crediting rate of 5 percent or the-- it, it-- there's-- the crediting rate is based on a federal midterm rate of-- or the federal midterm rate plus 1.5 percent. And if that is over 5 percent, then that's what they get. This particular quarter, interestingly enough, members are getting a crediting rate of 5.77 percent, which is the first time it's ever been over 5 percent since 2008. I'll go into a little bit about each plan now, if I, if I may. The school plan is the first defined benefit plan that I'd like to talk about. Some of these numbers are-- that I'm going to give you are a little dated. They're from our, our annual report. And right now, we are busy compiling our new annual report, which I will come and give to the committee in March or April with, with brand new numbers. But just, just for comparison purposes, I'll give you what

I've got here. The school plan is our largest plan. It has 96-- over 96,000 members, 43,000 are active and contributing to the plan. And then we pay over 26,000 retired members each month. The monthly annuity distributions are $63 million every month going out to school-- retired and school, school employees. The contribution rate for the, the active members is 9.78 percent of salary. The-- and the employer then matches that at 101 percent. Plan funding from-- comes-- for this plan comes from the employee and the employer contributions, investment returns that, that are through the NIC. And this is a dated number but it was $15.6 billion in assets at the end of last year. Also the, the Legislature, the, the government puts in 2 percent of salary. This year, we asked for 40-- $45.8 million from the General Fund money and I-- that is defined in statute. The, the funding ratio for the school plan is 98.42 percent. And I would just mention that according to NASRA, which is the National Association of State Retired Administra-- Administrators [SIC], they do a survey and the, the national average for defined benefit plans is 77 percent. So you can see that 98 percent, these are very-- all of our plans are very well funded. And that's largely, largely thanks to the Nebraska Legislature, their past history, as well as the executive branch in their funding of the plans. The second defined benefit claim that I'd like to mention is that the State Patrol plan is quite a bit smaller. There's 932 members, 403 actives, 490 retired, getting a bit of benefit every month. The annual-- the, the monthly annuity distributions is about 1-- $1.8 million. Contribution rate for the patrol is 16 or 17 percent depending on the tier that they're in and then the employer matches 100 percent of that. Plan funding comes again from the employer and employee contributions. Investment returns, right now, there's $552 million in-- a dated number, but $552 million in assets. And there is an arc that has been associated with the patrol plan so the money come-- is-- comes from the General Fund, $4.1 million. The funded ratio in the patrol plan currently is 90.67 percent so another very well-funded plan. The patrol plan has also tier one and tier two. Tier one has a drop feature available where basically the patrol can retire. However, they continue to work for up to five years, but their retirement goes into a self-directed fund where they can pick the investments and then they-- after five years, then they can take that out and, and they have a-- you know, an additional piece of retirement. That-- the drop plan, though, is closed right now. That, that was closed with the ending of tier one. And so, so there are no-- it, it-- well, there are new people going in, but the new hires are not eligible for that. It is important to know probably for the State Patrol plan that they are not covered by Social Security. They're the only employees or folks members that are covered in our plans that are not, not covered by the, the Social Security plan. I would mention briefly the judges plan is the smallest in membership with 344 members. There is 195 of those are retired. They have monthly annuity distributions of $1.1 million. The employee contribution rate varies depending on the hire date and years of service. There is no employer match in the judges plan. The funding comes from the employee contributions. Investment return, there's about $246 million in that fund and then there's a 5 percent salary match that comes from the General Fund. And in the past, court fees have also aided in funding that plan. The funded ratio is 101 percent so it's our best, it's our best-funded DB plan that we have. The state plan, as I said, has two subplans. I'll talk a little bit about the cash balance plan first. There's 200-- or I'm sorry, 26,000 members. That has been mandatory since 2003. The monthly annuity distributions is about $4.5 million. The employee contribution rate is 4.88 percent and 156 percent employer match. Funding again comes from the employer and employee contributions, investment return-- and investment return and, and those two things have covered the plan funding. There is about $2.2 billion in that fund. The defined contribution plan is a closed plan, has less than 3,000 members and $848 million in assets. The county plan is much the same, only the numbers are just smaller. Numbers of benefits-- or I'm sorry, members, about 11.9 thousand-- 1.2 in the DC-- true DC subplan and the assets are about $754 million in cash balance as well as 265 in DC, about $1 million in annuity distributions. And the county only has 150 percent employer match to-- for contributions there. It is interesting to note that the state and county, the annuity option is not as well taken. Many people take their money out, move it, roll it over, that type of thing. That, that hasn't caught on as well as what maybe folks might think. The last plan I wanted to talk about is the deferred compensation plan briefly. It's voluntary. It has 17 investment options that are self-directed by the member. It's available to state employees and some county employees if the county does not have a deferred compensation plan. There's about $260 million in assets there and about 5,000 total members. One more thing that I just would like to cover is right now, it's a big project at our agency and it's the OSERS plan, which is the plan for Omaha. The OSERS, the OSERS retirement DB plan for their school system has been administered by the Omaha Public Schools. It was-- it's one of the oldest plans in, I believe, in the country and-- but a couple of years ago, through LB147, it was, it was decided that we would-- that that plan would come under administration with NPERS. That is to be in effect September 1 of 2024. And right now, we are working very, very hard to get that going. We've had an RFP out for programming of our computer system. Right now, they're setting up VPNs and servers. The RFP was awarded and, and they're beginning that process to get our computer system up and running. We're also in the process of discovery for all the different processes and the things that the OSERS folks have. The intent was that Omaha-- the Omaha plan is going to be a separate plan. That will be our seventh plan that we administer and-- but we would keep that as much the same as we possibly could that they already have in Omaha. And so the-- it's, it's much the same as the-- our school plan, yet it's different. There's different things there. And so we're in the process of discovering that. They-- Omaha has lost a couple of key folks at their, at their-- that worked with their plan. And so I've got a couple of people that are actually-- they're state employees that are working up in Omaha and learning that plan now. And so with that, I would be happy to answer any questions. I would just point out I did give you an annual report. It is from last year, but I think only two of you may have gotten that already so I thought it might be something new. There's a lot of information in there. I particularly like appendix-- I believe it's A where it talks about the-- I believe it's on page 33, I believe. Yeah. I would just, I would just note it starts on-- actually, it starts on 30 and it's Appendix B. And I like to point out this is a snapshot, our one-month, one-month payments for the retirement plans-- and Omaha is included in this-- of what the economic impact is for each county. And for instance, Dawson County, I believe, is, is Senator Ibach. You know, there's 70-- $775,000 that goes into that county in the month of December into their economy. And of course, Douglas County and Lancaster County are the largest, primarily because of Omaha, the Omaha schools, and, and then Lancaster County would be because of the-- it's largely state employees. But anyway, please, please look through that or give it to your staff. Have them look through it. If you got questions, chances are they're in there, but please give us a call as well. We're, we're always happy to answer any questions that we might have-- or that you might have. And with that, I'd be happy to answer any questions now.

McDONNELL: Thank you. Any questions? Senator Ibach.

IBACH: I just have one comment. And so often in these areas, we say, well, what does other-- what do other states do? So I find page 33 fascinating because if you're looking at dollars plugged into our economy down in Nebraska--

RANDY GERKE: Um-hum.

IBACH: --e clearly have the highest percentage of the total.

RANDY GERKE: I think it's very--

IBACH: Should I be impressed by that?

RANDY GERKE: Yeah, well, I, I-- it's very interesting that 88 percent of all of the, the retirement benefit stays within the state of Nebraska. That--

IBACH: Thank you. That's just an observation, but I, I'm interested in that. Thank you.

McDONNELL: Senator Conrad.

CONRAD: Thank you. Thank you, Chair McDonnell. It's good to see you, Mr. Gerke.

RANDY GERKE: Good to see you.

CONRAD: Good to see our expertise remains with the agency. It's been a minute since I've served on this committee, but I've always appreciated your dedication to ensuring good governance of these really important programs that serve so many of our, our hardworking public employees' needs throughout the, the tenure of their lives. So I'm excited to dig back into things and get up to, to speed. Looking at really two pieces in the annual report that you passed out, I just wanted to open up a dialogue with you to see-- and maybe it will be some similar questions to the finance and investment folks after you. But I see a lot of nuts and bolts in here. I see a lot of really important technical plans and logistics, but, like, I'm looking at the investment returns and I'm looking at the plan status and the solvency as kind of those big-picture things which, you know, when you look at the plan status overall, as you noted, it's looking pretty good. That's, that's-- really looks like it's moving in the right direction and that's really, really good news. And then on the-- you know, the page right before there, I'm looking at the investment returns and the gray-- the significant amount of perhaps volatility that we are all well aware of in regards to our economy and, and the market as a whole. But Randy, if I could ask you, like-- Mr. Gerke, sorry--

RANDY GERKE: No, that's OK.

CONRAD: Didn't mean to get a bit informal there. What keeps you up at night? What are you most worried about as you are kind of looking forward? We've made a lot of progress. We're in a good spot now. What do we need to have on our radar screen kind of big picture as we start to, to work through some of the, the decisions before this committee and the Legislature as a whole? Is that-- do you know what I'm trying to get out there, just to get a sense at?

RANDY GERKE: You know, I think our, our-- what keeps me up at nights, there's-- you know, there's a couple of things that keep me up at night.

CONRAD: Well, related to this matter in particular, but agree, yes, yes, yes, agree.

RANDY GERKE: And I was going to go there, say that, but--

CONRAD: That's a, that's a longer, longer hearing.

RANDY GERKE: But, you know, the OSERS plan and our timeline there--

CONRAD: Yeah.

RANDY GERKE: --has been a lot of work and we will continue to do a lot-- to take a lot of work. It's in statute on when we have to get that done. You know, we are subject to a lot of well, you know, the rules. And there are rules with the state, you know, the procurement rules and those kind of things. It was difficult getting through some of that. There, there were reasons for why we do everything that we do. I, I fully understand. But, you know, we just got to keep that moving. Also, though, security for our system is something that's very foremost on our minds and we worry about that quite a little bit. And we, we try to keep our system up to, up to speed. I know we have asked for some things through appropriations that we feel we need to do to upgrade the system. And we'll be talking about that at another time, but those kind of things are what keeps me up at night.

CONRAD: OK. I appreciate it. Thank you so much.

McDONNELL: Any other questions?

CLEMENTS: Yes.

McDONNELL: Senator Clements.

CLEMENTS: Thank you, Mr. Chairman. Thank you, Director Gerke. You mentioned the state employee contribution is 4.8 percent. Is the county also 4.8 percent--

RANDY GERKE: They are.

CLEMENTS: --for employees? But the employee part is 150 percent.

RANDY GERKE: For county and 156 for state.

CLEMENTS: All right. And are these plans all June 30 fiscal years?

RANDY GERKE: They are not. State and county is the calendar year, December 31.

CLEMENTS: That's what I thought. The others are June 30.

RANDY GERKE: They are.

CLEMENTS: OK. That's all I had. Thank you.

McDONNELL: Any other questions? Director Gerke, thank you for all your work.

RANDY GERKE: Thank you very much.

McDONNELL: Welcome.

MICHAEL WALDEN-NEWMAN: Thanks very much. Mr. Chairman and committee members, my name is Michael Walden-Newman. That's M-i-c-h-a-e-l and last name is W-a-l-d-e-n-N-e-w-m-a-n and I'm the State Investment Officer, which is my statutory title, working title. I'm the director of the Nebraska Investment Council. And as most of you know, the, the Investment Council is a standalone agency set up in the late '60s to consolidate the management of all public funds for the state of Nebraska. And there are a few of us around the country, but not that many. And what I brought today-- oh, a little bit more about me. It's my first time in front of some of you. So I'm in my ninth year as the investment officer. I did this for the state of Wyoming for ten years inside of the state treasurer's office, managing their public funds and trusts, mineral trusts for the most part. Before that, if you all know the Platte Institute, I was the director of the Wyoming equivalent of the Platte Institute for 17 years before joining the treasurer's office. And then just to give you the full story, for eight of the ten years between the time I was 22 and 32, I lived and worked in a small country in West Africa, in the Peace Corps and for the State Department so there's my life. What I brought is just a series of charts to really tell you the story in a basic, straightforward way of what the investment council does and how we do it. I thought that would be the best use of, of your time. And, and as Director Gerke said, I love this. I could talk to you all day about it. And I eat a sack lunch by myself every day and I'm always open for company and I mean that. So on page 1-- the page numbers are in red up in the corner. You, you have a list of the assets. The portfolios we manage run about $35-40 billion depending on the markets. We, we work with-- there are 35 separate investment programs that we oversee. We work with, with over 60 investment firms and there are 150 separate investments within the overall portfolio. And you see the list there. About half of the money is in the various state and county retirement plans. We also oversee the investment of state trusts and the one you're probably most familiar with-- they're large and small. We comingle them for investments. But the one you're most familiar with and the largest trust is the education trust set up at statehood when lands were set aside, had statehood across Nebraska, and the revenue from those lands is used to fund state programs, primarily education. So we manage those funds. We also run what I call the state's checkbook. Our name-- the official name for it is the Operation Investment Pool. And what it is, is a checkbook with-- unlike my personal checkbook, this checkbook has over 800 separate lines in it, which represents all of the funds and subfunds with all-- for all agencies for the state of Nebraska. Our funds are managed externally by investment firms, except for the OIP, which we manage in-house, and I'll explain exactly how those funds are invested here in a bit. The structure of the Investment Council is-- and we're an independent agency, a noncode agency, meaning we're governed-- I'm not part of the Governor's cabinet directly. We are all state employees on, on staff. There are nine of us, but our bosses are the Investment Council Board of Directors and it consists of eight Nebraskans; five of them are appointed by the Governor on five-year staggered terms and they're businesspeople. They're not constituent reps of the various accounts that we oversee. These are business people appointed by the Governor and confirmed by you all. And then we have three statutory ex-officio members, the State Treasurer, the director of the pension system, Randy Gerke, and then also the director or administrator of the Omaha school system. And the reason for that is in-- I came here in December of 2014. And in January of 2015, I was called over to-- by the Chair of the Retirement Committee and asked how I'd feel about taking over the management of the assets of the Omaha school system, which were in trouble. And I said, sure, let's have a look. It took, like important legislation, a couple sessions to get that done and we took over official management of those assets on January 1 of 2017. So it's been six years now that we're overseeing those assets. And as Director Gerke explained, the administration was left with Omaha and we took over managing the assets. And now, as he explained, the administration of the program is, is moving to NPERS as well. So you see the-- our staff. The board, their job-- we have statutory responsibilities, but in a nutshell, this is it. The board sets the policy for the program. They hire me and they hire and/or fire the investment managers. In some shops, you'll see that delegated to staff and that rests with the board. And so we-- they implement a program based on our recommendations, but they make the ultimate decisions on policy and on the managers that manage the funds. On page 2, you see the change in the funds. That's a combination of just general growth in deposits of funds and then also investment returns. And we'll talk a little bit about investment returns here at the end, but you can see that they've grown steadily over time and they're nearly twice at their peak of what they were when I came just eight years ago. The asset allocation or how we divvy up the funds and into what types of investments we invest is the primary driver of investment returns. And you know that personally. You're told that, but it's true, and we know that as well. So we take a lot of time in designing the asset allocation for the various types of funds we manage. The funds are pooled for investment so that we can take advantage of scale. With our investment managers, you get a cheaper rate if you tell them you are going to invest $1 billion with them than if you're going to invest $10 million and that's how we do it. So the plans-- the retirement plans mirror each other in their investment type and asset allocation and this is the picture of it. So we have investments that-- stocks that are U.S.-only stocks, managers we hire for that. Non-U.S. stocks, global stocks-- and a global manager is a manager who can buy both U.S. and non-U.S. It's that simple. Then for the retirement plans that are here in the chart on page 2, their allocation is 30 percent in bonds for that stability and predictability that bonds normally give you. And the 70 percent is equities, both public equity, stocks that you know that trade on exchanges, and private equity or private real estate. We have small allocations to those, unlike our peers who tend to have much larger allocations to private investments. Our money has been kept in public, public investments and on public exchanges. So we take our time in designing the asset allocation and we don't change it all the time. We're not hiring and firing managers willy-nilly. We watch returns. I watch them all the time. We formally watch them on a monthly and report them on a quarterly basis and compile them on annual charts that you'll see. When we make changes to the allocation, we conduct blank-sheet reviews where we literally deconstruct the portfolio and ask ourselves if we were building it today, how would it look? Not how can we tweak what's been in place for 20 years. So we take it all apart and put it together and it takes a year. So to do it by asset class and we take that time on the back end because once we put it in place, we let those portfolios run for five years and longer so that the markets have time to play out over cycles and we're not overreacting. If you look on page 3, you see then the difference between the retirement allocation and the endowment allocation for the trusts. The retirement timeline is infinite. We're investing these portfolios-- let's say teachers. We're investing these portfolios not for the teachers that are retired today or the teachers who are working in the schools today. We're investing the portfolios so that there will be a retirement system like this for the teachers who aren't born yet. So our investment horizon is out there in the far horizon. The endowments are a bit different-- and we need that equity allocation to, to grow the portfolios over time. The endowments are a bit different. They have a 50/50 fixed income and equity allocation because they're so dependent on the yield, the actual cash that's kicked off by the portfolios. And so we have a higher fixed income bond allocation to provide the yield that they need and then the equity component is there for them to be able to have the inflation heads that you get from stocks and alternative investments. So they're 50/50, but again, comingled. And when we present our annual report here in a month or so, you'll see the listing and it's available online. And then you come to the, the OIP, the state's checkbook. The checkbook isn't the place to put investments that you can't handle volatility with because you don't want to write a check on the day the markets are down, right, and have to write the check for $0.80 on the dollar. So we keep that portfolio and it's billions, right? It has grown to $7 billion, 8 billion in recent years. We keep that in cash, 15 percent of it in literal overnight cash. And the rest is what I call extended cash. It's essentially a bond portfolio that can go out up to ten years. We keep it around four-year duration, but it, it gives you more return by going out. And normally that's supposed to be the sleep-well test at night are these bonds. And we've all learned that in this year, bonds and stocks can both go down and not only, they go down at the same time. And who knew? Well, we knew in '08 they did and they did it again this year. So how then do we turn the markets into money? So if you see on page 4, there's a chart that shows you our expected returns and these are long-term returns. Again, ten years and 30 years, but 30 is arguably a bit long even with an infinite time horizon. So you see even on-- but on ten years what our expectation is for the return. And we're talking total return, which is the dividends and interest income, the dividends from stocks, the interest income from the bonds. Bonds pay-- you buy a bond, you own the debt. The person that you bought the debt from pays you twice a year for that debt on your bond. And it-- so that-- you get the yield-- the, the dividend income, the investment income and then the growth in the value of the asset creates your total return. So these are the long-term expected returns for each of the asset classes in our portfolio, portfolio along with the volatility of those returns, in other words, plus or minus what that return could be. And you can do the math yourselves to see what the range is. Over a ten-year period, two-thirds of the time, we expect the returns to come in within that. And what's very nice is that the retirement system;s expected return for the plans, which is now on its way towards 7 percent by the year 2024-- it's been higher like most were back in the day of high interest rates-- their expected return, which factors into the health of the plan, is now in sync with what we think our long-term return is on the portfolios based on our asset allocation. And that is exactly where you want to be, that the portfolio is invested in a way that meets our safety requirements and risk requirements, but in a way that should meet the financial requirements for the investment plan. And again, I just view it as in a simpler sense of how you turn the markets into money, right? But speaking of markets, I wanted to end with just the returns. So we'll start with this path with what we're going through right now, which isn't as wonderful as-- we'll, we'll end on a happy note with how things were back in December of last year and all of us have lived through it. Here are all of the, the returns for the various assets we manage. And these are part of a much larger-- this is one page out of the 250-page quarterly investment performance report that, that we get each quarter compiled by Aon, who is another partner of ours. It's a client investment consulting firm that, that we contract and use for manager vetting and portfolio construction. But you can see the returns over time. I look at three, five and ten-year numbers. Even if the one-year number is terrific, you want to look at over time how you've done. And then the [INAUDIBLE], the benchmark underneath is really important. The so-what test for that benchmark number is how are we doing paying the managers we pay compare-- especially active managers who really do trade portfolios-- compared to the index of the portfolio that you could get? In our portfolios, we buy index funds for all of our U.S. stock exposure and all of our non-U.S. stock exposure and some of our bond exposure. But those we just buy the index, we buy the full market. We put our active management manager money into our global managers who really we're paying to pick stocks, either U.S. or not, depending on where they think they can get the best return based on our policies. So luckily, you see across here that even in bad years, we've beaten our policy benchmarks and that's what you want us to do. And then to end on a happy note, the last page is how things looked last, last December.

And during that year, Senator Clements asked about the plan years. These are December 31 numbers, which are the plan year for the state and county cash balance retirement plan. The other school, judges and highway patrol plan works on a fiscal year of July 1 to June 30. Those numbers that happened did-- not just in December, but in July were the highest, the highest ever because of how markets were. So we rode with our allocation to equities and an overallocation to U.S. equities on purpose. We rode those numbers up for the last ten years with terrific returns. And then, of course, we've ridden them back down. But, Senator, you, you asked about volatility-- I just assumed--

CONRAD: Yeah.

MICHAEL WALDEN-NEWMAN: --you were going to ask me too.

CONRAD: I would.

MICHAEL WALDEN-NEWMAN: Let me tell you. So I've told you a little bit of my background. Well, I was born in a little town in Kansas a couple of hours from here, but my folks moved in the '50s when I was a little boy to Oregon. So we're the cousins who lived far away. And, you know them. You all have those cousins that lived far away and came home. My parents called it home til they died. Every other year they could afford it and we'd come back. But anyway, when you live where I did in Oregon, the hour-- the coast is an hour away. And when I go deep sea fishing-- there's a point to this story. When I'd go deep sea fishing with my dad, he would always say, if you don't want to throw up when the sea gets choppy, you got to keep your eye on the far horizon. You can't watch the wave. And I just-- I've used that in my investment life because it's absolutely true. Same thing; you can't get overexcited about it because if you do, then you'll sell exactly when you shouldn't. So we have every confidence that this year is going to revert to at least the mean at some point and not as far away as perhaps some people are fearful of. And we'll be back on track to meet our long-term expectations. So with that, I'm happy to ask-- answer any, any questions.

McDONNELL: Thank you. Questions?

CONRAD: Yes.

McDONNELL: Senator Conrad.

CONRAD: Thank you, Chair. Thank you, Mr. Walden-Newman. Thank you for anticipating the question as well. And I appreciate the lesson carried forward from your dad and the deep fishy-- deep sea fishing experience. And it was definitely one that I was going to ask about, you know, the, the hard lessons that we all learned during, you know, the last very painful economic downturn and recession to figure out, you know, how we can move forward in a way that's more thoughtful or stable or anticipating. You know, I think in economic terms, it's not if we're going to have another downturn, it's always when, right? So, so trying to make sure we're prepared for that. But I think your, your kind of horizon approach answered my question in that regard. The other thing that I wanted to ask you about just as more of a kind of a global kind of atmospheric kind of policy debate regarding investments that I'm seeing play out in some of our sister states. A little bit less so here. Maybe it's just starting to kind of bubble up a little bit. But, you know, as kind of the, the intersection of policy decisions, whether it's called socially responsible investing or divestment strategies that our own Senator Chambers helped to, to spur many moons ago. But it seems to me that overall, our state has been fairly resistant to those kind of constraints on their ability to manage public employee accounts to ensure the greatest and best returns. Can you just tell me a little bit about what you're hearing and seeing in your world about those issues, which I know are-- you know, they seem like a hot topic today, but I think they're also kind of ongoing as, as part of those policy and kind of investment intersections and, and the work that we do together.

MICHAEL WALDEN-NEWMAN: Mr. Chairman, Senator, Monday afternoon, Monday next--

CONRAD: Yeah.

MICHAEL WALDEN-NEWMAN: --I'm going to be in a new committee for me--

CONRAD: OK

MICHAEL WALDEN-NEWMAN: --the Banking Committee.

CONRAD: Yes.

MICHAEL WALDEN-NEWMAN: And the reason I'm going to be there is because of LB743 that was filed on the last day of bill filing. And I'd been watching because I do need to pay attention to what's going around. And that's part of what makes this job fun because there's always something new. And I'm old enough to remember divesting when--

CONRAD: Right.

MICHAEL WALDEN-NEWMAN: --it was-- divestiture came with South African apartheid.

CONRAD: Yes, yes.

MICHAEL WALDEN-NEWMAN: And so there is a bill, LB743, that was not assigned to my usual oversight committee. It was assigned to the Banking Committee. And I saw it, as I say, the last day of bill filing and was asked to file-- is this too much of a story?

CONRAD: No, this is helpful. Thank you.

VARGAS: No, this is great.

CONRAD: For me, it's helpful. I don't-- I can't say--

VARGAS: Same, same.

MICHAEL WALDEN-NEWMAN: OK. And I was asked to prepare a fiscal note due the next week. And so I went to the sponsoring Senator staff the next day. I hadn't been asked yet to do a fiscal note, but I had a-- you know, you know when it's going to come your way. So I went over and asked if I could talk to the drafter of the legislation to understand and be able to prepare a fiscal note, perhaps based on what other states had done using this legislation. It looked like model legislation to me and then was passed along to another senator who had worked with the, the sponsor on, on the bill. And then ultimately spoke to the State Treasurer who evidently was involved a bit too in this. And, and I found out that the bill was if-- your-- I'm thinking out loud as I sit here because I'd been thinking about what I'm going to say next Monday. But this is a little practice, I'm just going to be honest because--

CONRAD: Well, you, you don't to--

MICHAEL WALDEN-NEWMAN: --you know, the truth-- like I used to tell the kids when they cared what dad said 30, probably 40 years ago, let's just go with the truth and see how far--

CONRAD: OK.

MICHAEL WALDEN-NEWMAN: --we get. Because if nothing else, it's really easy to remember. So here I am and lo and behold, I found out that it is model legislation drafted by a couple of East Coast think tanks on the, on the conservative side. But I'd been looking for it because the Investment Council has been thinking about this since late last spring when the-- it's been around for decades, but late last spring, the CEO of BlackRock decided to write a letter to corporate America letting them know how he thought the world turned and how investors need to keep that in mind. And let me tell you, that letter not only-- it got everybody's attention and turned what had been a, a pretty perennial issue, certainly in the last ten years easily, into one-- I think one of the hottest issues I've seen in my career and I mean that. I've spent 18 years doing investments. I came to it late in life and it's been a wonderful thing. But for 18 years, I was on the other side. I was on the policy side of this. And I knew what ideas from all sides can do when you're a little early on in trying to implement policy. In my Wyoming days, I would tell another story that we all-- you know, a lot of us, our history is based on covered wagons and what our ancestors learned as the safe and-- safest place in that wagon train is in the middle of it. Not way out front, unless you really know the way to California, Oregon, where the Willamette Valley, where I grew up. And you don't want to be lagging behind either. And so we have this bill coming that is not in this committee because it applies to all investments. A lot of the bills are targeted to the pension funds or to the funds managed by state treasurers. And this bill is very broad and so that committee has oversight over the broadest investment policies for the state. And it's under-- I understand why it's there so I'll be visiting with them about this. And as of today, in a neutral capacity because I don't believe state agencies should go in opposing legislation because we, we work for the citizens. And, and so I really do believe this, that their will is expressed through you and, and we're there to do the job. And last time I looked, the taxpayers of this state pay my salary. But that's not going to keep me from presenting some questions about the, the bill and the primary one is the way the bill is drafted now. One interpretation could be of the list of items that are forbidden by investment firms to be invest-- providing to their clients even if they don't apply to Nebraska and our way of managing. Because with BlackRock, they manage a lot of money but it's in these index products that aren't bought and sold. They buy the market. They buy everything that's in the market with however that market looks is that one interpretation could be that we couldn't use those managers if they provide that service that's not the way Nebraska sees the world, but the way Oregon sees the world. And because they're providing that Oregon's way for Oregonians, we can't use them because it violates what Nebraska holds as a value. And that's a problem because I'm struggling not just with the timing and being able to craft a response for you that will allow you to see all of the implications. I just can't do it in the time allowed. But I'm also, at first blush, just on the surface, nervous that that could be an interpretation or won by someone who would choose to sue with that interpretation. And then I'm wondering who am I going to give the money to, to invest? And that, Mr. Chairman and senators, that may be a very simplistic view, but, you know, investing isn't complicated. It's just common sense with its own lingo. That's all it is. And so I tend to look at things like this. I mean, I'm looking like this, but if it doesn't make sense, it's just like anything we're trying to invest in. If I can explain it to my, my day-drinking buddy next door, I probably don't need to be buying it for the state of Nebraska anywhere. And so that's the ESG-- let's call it what it is. So ESG is a feeling and we-- I'm not set enough in my feeling to know how I could implement the feeling, if that makes sense.

CONRAD: No, that's--

MICHAEL WALDEN-NEWMAN: You can see I'm still new to-- I'm still thinking about it. I'm wrestling with it.

CONRAD: I-- yeah, I appreciate your candor and your thoughtfulness and I'm sure the conversation will continue, but, but thank you for that. I really appreciate it.

MICHAEL WALDEN-NEWMAN: Thanks.

McDONNELL: Any other questions? Yes, Senator Clements.

CLEMENTS: Following up on that, has the Nebraska Investment Council adopted an ESG policy?

MICHAEL WALDEN-NEWMAN: We've been looking at it since last-- we meet six times a year. Right after-- so in the-- last spring, this happens. At our July meeting, we called BlackRock out and asked them what they were up to. What is all this? We had a good conversation then just to get my board up on all of this. Because the statutes right now say that there's a statute that says we're not to make any investment if the primary reason is for social or economic development concerns. We think that handles it. Whereas fiduciaries, the statutes say that. We think that had-- and that we're to invest the funds with the primary interests of the beneficiaries, including the taxpayers of the state. Because when it says employer payments, those are taxpayers. That's, that's everybody's neighbor, but not just the people in those plans. So we think we're, we're covered by that. But we have a board meeting on Thursday. So we told BlackRock, good, we'll have you back out. And we're having not only BlackRock, we're having ISS with is-- which is a proxy service provider that's the subject of attorneys general condemnation recently, including ours. They're coming on Thursday and we're having Vanguard as well, who has dropped out of a net zero to come and talk more to us about this. And just really to try to wrap our arms around what is it in Nebraska law that doesn't already-- we think we're focused and it's very clear. Our marching orders are clear.

CLEMENTS: My concern is that our actuaries are projecting 7 percent or more clear into the future and that we need-- I would hope we prioritize the yield rather than a social agenda that might give us a smaller yield. Are-- is the yield going to be the priority?

MICHAEL WALDEN-NEWMAN: Right. I can tell you the total return is the priority. And Director Gerke alluded to this, most retirement programs a country-- across the country rely on investment returns for up to 50 percent of the funding of their program. In Nebraska, it's 30 percent. And the reason for that is because the state has always asked the employees to contribute a healthy amount. The state matches and has always made its payments, not overpromised benefits. So the reliance on investment income for those payments is low compared to our peers. And the law also says that we're to diversify the investments in our care in a way to avoid large losses. So when you talk about volatility, we're not riding this roller coaster. We're trying to set an allocation where the roller coaster looks like this.

CLEMENTS: All right, thank you.

McDONNELL: Any other questions? We appreciate all your--

CONRAD: Thank you.

McDONNELL: Do you have, do you have one more?

CONRAD: Thank you.

McDONNELL: We, we appreciate all your work.

MICHAEL WALDEN-NEWMAN: Thanks for the time.

McDONNELL: We-- it's telling us that you spend a lot of days having your sack lunch at your desk. But I'm going to go buy a ticket to lunch one of these days. Thank you for all your work. Thank you for everyone being here.

MICHAEL WALDEN-NEWMAN: Good to meet some of you new members.

McDONNELL: The committee has ended. Thank you.