BALLARD: Good afternoon, and welcome to the Nebraska Retirement Systems Committee. My name is Beau Ballard. And I represent the 21st District in northwest Lincoln in northern Lancaster County. I serve as chair of this committee. This afternoon, we'll be hearing two bills: LB571 and LB661. We'll be taking them in order listed outside the room or on the table-- on the table near the entrance, you will find green, green testifier sheets. If you're planning to testify today, please fill one out and take one-- take it to the page when you come up. This will keep an accurate record of the hearing. Please note that if you wish to have your position listed on the committee statement for a particular bill, you must testify in the position during the bill's hearing. If you do not wish to testify but would like your-- to record your position on the bill, please fit out-- fill out a yellow sheet near the entrance. Also, I'd like to note the Legislature's policy that all letters for the record must be received via an online comment portal by the committee by 8:00 a.m. the day of the hearing. Any handouts submitted by testifiers will also be included as part as a-- part of the record as exhibits. We would ask if you have any handouts that you would please bring 12 copies and give them to the pages. If you need additional copies, the page can make more. Testimony for each bill will begin with the introducer's opening statement. After the opening statement, we'll-- we will hear from supporters of the bill, then from those in opposition, followed by those speaking in a neutral capacity. The introducer of the bill will then give an opportunity to make closing statements if they wish to do so. We ask that you begin with your testimony by giving us your first and last name, but please also spell that for the record. Because a committee meets over the noon hour and members have hearings starting at 1:30, we'll be using the three-minute light system today. When you begin your testimony, the light on the table will turn green. And the yellow light is your one-minute warning. And when the red light comes off, we'll ask you to fini-- on-- we will ask you to finish up your final thoughts. Please note to put your cell phone on vibrate. And we'll begin-- and I will ask the committee to introduce themselves, starting with Senator Sorrentino.

SORRENTINO: Tony Sorrentino, Legislative District 39: Elkhorn and Waterloo.

TREVOR FITZGERALD: Trevor Fitzgerald, committee legal counsel.

CLEMENTS: Rob Clements, District 2.

JUAREZ: Margo Juarez, District 5: south Omaha.

BALLARD: OK. We'll begin with LB571, Senator John Cavanaugh. Welcome to your Retirement Committee.

J. CAVANAUGH: Good afternoon, Chairman Ballard and members of the Retirement Systems Committee. My name is Senator John Cavanaugh, J-o-h-n C-a-v-a-n-a-u-g-h. And I represent the 9th Legislative District in midtown Omaha. I'm here to introduce LB571, which would require public power districts which operate a defined benefit plan to give a cost-of-living adjustment to the retirees who are not eligible to rev-- receive Social Security benefits. LB571 would provide an annual cost-of-living adjustment equal to the cost-of-living adjustment determined by the Social Security Administration to retirees who are ineligible for Social Security benefits. I brought this bill because retirees in OPPD cannot receive Social Security benefits but do not receive a cost-of-living adjustment on the retirement benefits that they have earned. With the increased cost-of-living and the worries of inflation, this can mean that the retirement earnings they have worked so hard for don't go as far as they should. You'll hear after me about the need for the cost-of-living adjustment, and some of the more technical questions will be better left to the experts. I want to thank the committee for your time. And I'd ask for your support of LB571. And I'm happy to take any questions.

BALLARD: Thank you, Senator Cavanaugh. Are there any questions? Seeing none. We'll take the first proponent to LB571. Good afternoon.

MARK SALERNO: Good afternoon. My name is Mark Salerno. I'm a 37-year employee at Omaha Public Power District. I am also the current President and Business Manager of International Brotherhood of Electrical Workers Local Union 1483, where we represent approximately 300 professional, technical, and clerical employees in Omaha Public Power District. Stated earlier, Omaha Public Power District and its employees do not participate in Social Security. I believe Social Security has been recognized as an effective antipoverty program for seniors in their retirement years. And I believe a key feat-- feature of Social Security is the cost-of-living adjustment provided. A fixed income in the face of inflation can be devastating for retirees throughout their retiree years. Recent economic conditions probably illustrate the effect of inflation on consumers. Just to look at some of the cost-of-living adjustments that have recently given to Social Security recipients: in 2024, it's 2.5%; 2023, 3.2%; 2022, 8.7%; 2021, 5.9%. So you can see that those are pretty significant numbers when it talks about retirees and what they get when they have Social Security. Also, the Internal Revenue Service has recognized cost-of-living adjustments for deferral limits for various defined contribution plans.

For example, in 2021 for 401(k)s and 403(b)s, the amount that you could defer was $19,500, and it incrementally went up throughout the years. In 2022, it went up to $20,500. In 2023, $22,500. '24, $23,000. In '25, it sits at $23,500. So from the four years going from '21 to 2025, there's been a little greater than 20% increase of what they allowed-- the IRS has. Now, it's-- at some point, there was a history of cost-of-living adjustments given to OPPD employees. From 1992 to 2009, those 18 consecutive years, there was cost-of-living adjustments given to employees. Those amounts ranged from 1% to 3.5%. Also during that time, employees' contributions to the retirement plan, as measured as a percentage of wages, have increased incrementally from 4% in 2007 to the current level of 9%. Given the prevalence of cost-of-living adjustments for, for the various retirement plans, including Social Security and deferral limits of defined contribution plans, I believe that it's appropriate that cost-of-living adjustments be applied to the traditional pension defined benefit plan.

BALLARD: OK. Thank you so much.

MARK SALERNO: I'd be happy to answer any--

BALLARD: And we-- before any que-- questions, would you mind spelling your name for the record?

MARK SALERNO: Oh, I'm sorry. Yeah. First name, M-a-r-k. And then S-a-l-e-r-n-o.

BALLARD: OK. Thank you so much. Are there any questions from the committee?

SORRENTINO: Oh. I'm sorry.

BALLARD: Senator--

SORRENTINO: Go ahead. Go ahead.

BALLARD: Senator Conrad.

CONRAD: Thank you, Chair. Thank you. Good to see you, Mark.

MARK SALERNO: Hi.

CONRAD: I was just wondering too if you could provide just some brief context. And I know this is always a tight squeeze over the noon hour for these Retirement hearings, so we can continue the conversation if we need to. But kind of what are you seeing and hearing from your organization and workforce on the front lines just in terms of kind of recruitment and retention, kind of how this plays in to making sure that we have, you know, top talent doing critical infrastructure and, and energy? And I know those are tough but good jobs out there, but how does the retirement piece kind of play in with the overall compensation package? And just kind of where you are with what you're seeing on vacancies or recruitment and retention kind of stuff. I know that's a lot to unpack, but just a-- maybe couple quick points there would be helpful.

MARK SALERNO: Thank you, Senator, for the question. The-- I, I'll tell you, honestly, a lot of people when they start out and they're young, retirement isn't first and foremost on their mind, to be honest with you. They don't. But, but you're going to hear a lot more for people that are nearing retirement that are looking at this because it's, it's just more relevant. So I, I-- and I, I'm not specifically involved in selection, so I can't speak to that directly, but I can tell you the-- most of-- like, my members, you know, it's a lot of the people that are, are looking to retire because then it's, you know, more front and center. When you're-- if you're 22 years old, you know, retirement, just-- you know, it-- what's that? You know? Nobody's ever going to get old, right? Well, so-- some of us-- you hope to get old, though. I, I'm hoping to continue. So-- anyway, I'm sorry if I don't answer your question, but that's, that's how that--

CONRAD: Yeah. I appreciate that. Thanks much. Thanks.

BALLARD: Senator Sorrentino.

SORRENTINO: Thank you, Chairman Ballard. Thank you for your testimony. A couple questions. When your members accepted employment with OPPD, I assume they were aware that they weren't going to receive Social Security benefits. That was-- OK.

MARK SALERNO: Well, I would-- I don't know for sure-- again, I'm not sure people really--

SORRENTINO: They could have, should have, would have [INAUDIBLE]. OK.

MARK SALERNO: Yeah.

SORRENTINO: When, when the IBEW negotiates then with OPPD and NPPD, does it not factor that in, that their members are not going to receive Social Security benefits into those negotiations? So are we duplicating something that's already been negotiated and now asking for a COLA on top of negotiations?

MARK SALERNO: Well, I would say that, for those 18 straight years, that wasn't part of the collective bargaining agreement. We got it. They gave it to us. And I think the expectation was we were going to continue to get it.

SORRENTINO: Right.

MARK SALERNO: So that's just the way it, it turned out. Wrong or right, that's the history.

SORRENTINO: Do you think it went away just because of the, the difficulty of funding the defined benefit plan? Which is a tough plan to fund these days. You know, there's about ten of those in the whole state left. They're all gone. They're very difficult. I administered them for 30 years, and we used to administer 160 of them. When we sold our company, we administered one. They're kind of a dinosaur. They're a great plan. I'd love to have one.

MARK SALERNO: Yes.

SORRENTINO: I see yours is funded at 74.3%, which might sound not so good. It's actually pretty good.

MARK SALERNO: Compared to some of them, it probably is.

SORRENTINO: There's-- a lot of them are 30% and 40% and even less than that. I, I just want to make sure that the request for the COLA isn't something that was already a bargain for exchange and we're doubling up. That's my concern.

MARK SALERNO: Yeah. I, I don't-- like I said, Senator, I, I don't believe that was ever part of a collective bargaining agreement. For those 18 years, it was given to us. And then I think as-- wrong or right, human nature it is, you think it's going to be there and then you find out it's not.

SORRENTINO: All right. Thank you.

BALLARD: Thank you, Senator Sorrentino. Senator Juarez.

JUAREZ: Thank you. So I guess I'm concerned here. Obviously, it's got-- it looks like our, our OPPD rates are going to increase in order to provide this COLA benefit. Is that correct, I'll be-- my bill's going to be higher?

MARK SALERNO: Well, I, I'm not-- I don't know the exact-- probably people behind me are going to speak to that. They, they would be more about that because those-- those costs, how they, how they figure out how to pay for it.

JUAREZ: Yeah. And I'm also concerned here about this de-- decrease to the pension fund. I would assume that everybody should be concerned about that too. But whoever wants to address the questions is fine.

BALLARD: Thank you, Senator Juarez. Any additional questions? Senator Hardin.

HARDIN: As I often say to my kids: right idea, is this the right time? $45 million. Is this the right time for this?

MARK SALERNO: That's your question?

HARDIN: That's my question.

MARK SALERNO: Well, I, I'll tell you. My experience is, if you're for it or against it-- if you're against it, it's never going to be the right time. And-- you know, if-- this isn't compared to this committee, but if you're going to look at civil rights or anything like that, when's the right time? I don't know when it is. It, it, it, it, it, it's the concept-- and I know it's a nebulous concept. It's about fairness and--

HARDIN: I would say though that this is quantified. Civil rights is a little tougher to quantify. It's more of a felt than tilt. This one's more tilt than felt. It's $45 million. And I'm just saying, in the wake of a $400-some million experience that we're looking at, I'm just saying, is this the right time for a $45 million ask for this now? I'm not saying, you know, do our workers work hard and that kind of thing, but that's what I'm asking. It's just a commentary on that. Is this the best time when we're doing belt tightening to ask for a $45 million increase?

MARK SALERNO: Well, Senator-- so these-- I mentioned in my testimony here. You know, the-- they gave one. The last one is 2009. It wasn't in 2010. It wasn't in '11. You, you get the point.

HARDIN: Yeah.

MARK SALERNO: I don't know if there's ever going to be a right time if you're, if you're against it, like I said. So there's-- all those years, from 2010 to present, apparently they don't think it's the right time.

HARDIN: Each time, was it a pretty good sized ask?

MARK SALERNO: No. I'm just saying they never--

HARDIN: Yeah. Because one of my contentions, I guess, has been that we, we need to do a better job of paying our bills in the state. What I mean by that are particularly these things that relate to ongoing costs that we know are going to be there. Should we ask for less more often, is a contention that I, that I wonder. Because sometimes you get the Herculean lifts, and that's where we are then-- to your point, we don't take care of it, we kick the can down the road because of the Herculean lift. And I'm just wondering if there's any wisdom in saying more incremental changes more often. And, and that's my-- that's what I'm wondering out loud.

MARK SALERNO: And I understand that. And, and, and, and-- yeah, increment-- it's easier, you know, to take little bites of the apple. My problem is that we didn't take any bites of this apple. You know? So now you gotta make up for it. So what are you going to do? I can't go back in time.

HARDIN: Hence the Herculean lift. Right.

MARK SALERNO: Well, but-- yeah.

HARDIN: All right. So-- thanks.

MARK SALERNO: Yeah. No problem.

BALLARD: Thank you, Senator Hardin. Any additional questions? Seeing none. Thank you so much for your--

MARK SALERNO: Thank you.

BALLARD: --testimony. Additional proponents? Seeing none. Any opponents? Good afternoon.

JOHN THURBER: Good afternoon. Thank you, Senator Ballard. My name is John Thurber, J-o-h-n T-h-u-r-b-e-r. I'm the Director of the Treasury and Financial Operations Area for Omaha Public Power District, OPPD. I'm testifying in opposition to LB571. First and foremost, our current and former employees are our best asset OPPD has now and into the future. We pride ourselves with treating all of our current and former employees with compassion and trying to keep our rates low for our customer owners. OPPD is opposed to LB571 due to the fact that we would have to raise rates 3% each year-- that's equivalent of $45 million-- to cover the cost-of-living adjustments proposed in this bill. OPPD's retirement plan-- LB571 impacts, is, is a single employer defined benefit plan which provides retirement and death benefits to plan members and their beneficiaries. The repire-- repi-- excuse me. The retirement plan was established and may be amended at the direction of OPPD's board of directors and is administered by the district. The plan was amended in January 1 of 2008 to add a cash balance provision. Under the cash balance provision, members can elect to receive total vested value of their cash balance account at separation of employment from OPPD. Effective January 1, 2013, all new employees are only eligible for the cash balance provision. By this year, approximately 22% of plan participants and about 58% of all active employees are part of the cash balance plan. In addition to the, the defined benefit plan, OPPD also provides two defined contribution-- or, retirement plans for our employees. OPPD's maximum contribution is $4,000 per employee each year. That's in addition to the defined benefit plan. Additionally, OPPD provides retiree medical benefit that's not typically offered by other employees-- by other organizations. OPPD is not intending to offer a COLA to retirees currently, as the focus has been to improve our 74% funded ratio of the plan. Requiring OPPD to have retirement fund COLAs would require a 3% COLA to all traditional plan participants, and this excludes the cash balance participants, and would increase OPPD's annual contribution by approximately $45 million each year. These funds would need to come from customer revenues, which would equate to about a 3% electric rate increase each year. Furthermore, COLAs must be incorporated into the retirement plan liability if they are consided-- considered substantially automatic. Given that this adjustment would be mandated by Nebraska law, OPPD would have to incorporate future COLAs into our existing liability. This would increase our liability by $420 million. That is almost doubling our existing liability, decreasing our funded ratio to 60%. Again, approximately 58% of OPPD's current employees are now covered by a cash balance plan and would not benefit from COLAs. With that, OPPD is opposed to LB571 due to the increase in rates that would be needed for this. I'm happy to answer any questions.

BALLARD: All right. Thank you, Mr. Thurber. Are there any questions? Senator Sorrentino.

SORRENTINO: Thank you for your testimony. Thank you, Chairman Ballard. In order-- if this were to move forward and that causes a further underfunding of the plan, is there any resort other than raising rates to public employees to take care of that, or is that really what we're looking at?

JOHN THURBER: That is the only source of income that we would have for this.

SORRENTINO: Thank you.

BALLARD: Additional quest-- Senator Conrad.

CONRAD: Thank you so much. Thank you for being here.

JOHN THURBER: Yes.

CONRAD: And I really appreciate your strong statement at the outset of your testimony, giving appropriate acknowledgment to the hard work of all the team members at, at OPPD. And I think that's a, a great lens to start with, particularly for public power and a public company to, to have a more thoughtful approach. I was just hoping that you could also maybe help me get up to speed because I know there's been a lot of headlines about this recently in regards to what leadership is paid at public power, which is pretty significant-- I think just shy of $1 million, maybe $800,000 or $900,000 in your instance. But what kind of retirement package is available for the CEO and the leadership team?

JOHN THURBER: Their retirement package is the same as an active employee. So they have the same formula as any other employee would receive.

CONRAD: OK. But then the-- just obviously very different compensation for a lot of different reasons, but.

JOHN THURBER: Right.

CONRAD: Yeah. What's the average compensation for most OPPD employees? I don't know. And if you don't know, we can look it up.

JOHN THURBER: I don't know. I'm sorry.

CONRAD: We can keep the conversation going and just kind of get an understanding. And I understand there's different roles and responsibilities across a professional organization, and that has different pay scales available. But just trying to get a sense of the equity.

JOHN THURBER: Mm-hmm.

CONRAD: Yeah. Thank you.

BALLARD: Thank you, Senator Conrad. Senator Clements.

CLEMENTS: Thank you, Chair. Thank you for being here.

JOHN THURBER: Yes.

CLEMENTS: Are new employees now in Social Security?

JOHN THURBER: They are not.

CLEMENTS: So they're still-- they're in the-- they're in the cash balance plan.

JOHN THURBER: That's correct.

CLEMENTS: And the company's contribution toward that, was that the $5-- $4,000 you mentioned?

JOHN THURBER: No. That is, that is part-- we contributed $68 million as just an annual payment to our ret-- defined benefit retirement plan. Cash balance is considered a defined benefit. So part of that $68 million goes toward funding those cash balance participants.

CLEMENTS: All right. Some of it goes to the defined benefit, some to the cash balance.

JOHN THURBER: Yes.

CLEMENTS: Thank you.

BALLARD: Thank you, Senator Clements. Any additional questions? I have one. So you mentioned medical benefits. What other benefits are in the package for OPPD employees? Is it-- survival spouse gets--

JOHN THURBER: Oh. The smi-- the spouse--

BALLARD: Yes.

JOHN THURBER: --would, would also benefit from medical benefits if they choose to include that as part of the retirement package. They-- you know, we also have, as I mentioned, have the two defined contribution plans. Spouse could take advantage of those when the employee passes away. So in addition to that, we also have the defined benefit plan. So we really-- we have four different retirement plans that are available for employees.

BALLARD: OK. Thank-- any additional question? Senator Sorrentino.

SORRENTINO: Thank you, Senator. In your opinion-- you, you've been around the benefits world a little while, negotiated a little bit. If we were valuing the OPPD plans, with the lowest being 1 and the highest being 10, where do you think they're at?

JOHN THURBER: As far as the value compared to--

SORRENTINO: To their wages, et cetera, or to other employers.

JOHN THURBER: I don't want to say-- give a number. I would say I feel we have a very strong retirement plan package for our employees.

SORRENTINO: Full disclosure: I worked for and own the company that did your benefit for many, many years. Probably the highest value benefit plan that we worked on in 32 years. Thank you.

JOHN THURBER: You bet.

BALLARD: Thank you, Senator Sorrentino. Additional questions? Seeing none. Thank you for your testimony.

JOHN THURBER: Thank you.

BALLARD: Additional opponents to LB571? Seeing none. Any in the neutral capacity? Seeing none. Senator John Cavanaugh.

J. CAVANAUGH: Thank you, committee. And I appreciate the questions. This was an interesting conversation. And like all hearings, I learned some other stuff too, which is why I love hearings so much. Just wanted to touch on a couple of points. And I, I appreciate Mr. Thurber being here. And of course, I appreciate Mr. Salerno coming down and being here. And you can see I actually have my OPPD mug today. Big fan of OPPD. Big fan of the folks who work there at all levels. I represent a district that has a lot of tree canopy, and so we get a lot of potential power outages in my district. And so I'm-- very much appreciate the work of the linemen and, and folks on the ground. But the things I wanted to, to kind of focus you in on is-- Senator Conrad, made a great point about the executive pay and compensation, which, of course, the contribution for the pensions on-- if you would make $1 million is a lot more than if you make, you know, $70,000, right? That-- as Mr. Thurber pointed out, 58% of employees are currently on the defined-- or, the cash balance plan. Those are not folks who would be covered by this bill. And all new employees are going into that, which means that the number of people is going to shrink every year that we're talking about. And then obviously at some point in the future the-- this-- the whole pool will not exist anymore. So I don't thi-- it's not a perpetual ongoing, but it is-- and it's a shrinking group. And Mr. Salerno pointed out that Social Security benefits have had a co-- cost-of-living adjustment basically every year since 2011, with exclusion of 2015. And I would point out that they had one every year going back to 1975 up until 2000-- including 2008. It stopped in 2009, which is the same year that OPPD stopped, which, of course, we all know there was an economic issue in 2009. But Social Security started back up again. So to answer Senator Hardin's question, when's the right time to do this? 2011 was the right time to do it. But we're not-- I, I can't bring a bill to invent the time machine, so I'm here trying to do it now, you know. The best time to do something was yesterday. The second best time is today. And this committee has weighed in on other folks who have defined benefit pension plans before that do not-- el-- are not eligible for Social Security. Firefighters come to mind. So the reason that I got involved in this was I heard that folks have a defined benefit plan with no cost-of-living adjustment. And all this talk about inflation diminishing the buying power, we have folks who are going into retirement and then their amount of money is diminishing. Social Security specifically combats that with the cost-of-living adjustment. So that's why I think this is important. I think it's important for us to do this. As to, I think, Senator Sorrentino's question that-- there is another source besides raising rates. They could address it in collective bargaining as well. If the-- if we pass this, I think that this-- the OPPD could ask for additional contribution, of course, which I think is up to both sides on that. Obviously, I'm open to other changes in the bill to make it work for folks, but I appreciate your time. And I know you got another hearing, so happy to take any questions.

BALLARD: Thank you, Senator Cavanaugh. Are there any final questions? Senator Juarez.

JUAREZ: Thank you. I'm sorry. I just have a point of clarification. So since the pensioned employees can't participate in it any longer because they're under the cash balance plan, if you had a new executive come in, then isn't the new executive person going to be under the cash balance plan and not the pension plan?

J. CAVANAUGH: I would assume they would be under the cash balance plan, yes.

JUAREZ: OK. Thank you. That's what I think too, but I wanted to clarify.

BALLARD: Thank you, Senator. Any final questions? Seeing none.

J. CAVANAUGH: Thanks.

BALLARD: Thank you, Senator Cavanaugh. Written position comments. We had 2 proponents, 0 opponents, 0 in the neutral. And that closes our hearings on LB571 and opens our hearing on LB661. Senator Andersen.

ANDERSEN: Good afternoon, Chairman Ballard and members of the Nebraska Retirement Systems Commi-- or, Systems Committee. I am Senator Bob Andersen, spelled B-o-b A-n-d-e-r-s-e-n. Representing District 49 in the Ne-- in the Legislature. I'm here today to introduce LB661, which directs the Nebraska Investment Council to dive-- divest state pension and retirement plans from Chinese entities that the federal government has deemed to be a risk. Prior to Russia's invasion of Ukraine, there were signs that Russia's aggression could easily turn into armed conflict, including the designation of Russia by the U.S. government as a foreign adversary. State investment officers who continued to invest public funds in Russian entities and assets ultimately lost millions of dollars. We must take a different approach with China to avoid this similar result. The likelihood of military conflict related to China seems to be growing daily. Just this week, Taiwan deployed forces in response to China's conducting live fire drills with 32 aircraft off of Taiwan's coast. Whether the U.S. engages in the future conflict or not, U.S. investing restrictions are likely to follow. Foreign investment in China is already rapidly declining, and prominent pension funds are divesting from, moving away from, or avoiding China-based investments. Those managing state funds have a duty to be prudent-- to make prudent investments and remove risky investments within a reasonable amount of time. LB661 ensures that Nebraska does not repeat the same mistakes made by other states that suffered financial losses from investments in adversarial nations. The bill directs the Nebraska Investment Council to divest our state's pension and retirement plans from high-risk Chinese entities that have explicitly de-- designated by the U.S. government as threats to national security or involved in un-- unethical practices such as forced labor or military industrial activities. Excuse me. This is not a broad economic sanction. It is a targeted and pragmatic financial policy aligned with the federal designations and actions taken by other states. By enacting LB661, we protect Nebraska's retirees in the potential economic fallout of further U.S.-China tensions, prevent our investment dollars from directly supporting hostile activities, and ensure that Nebraska's pension funds are being managed with prudence and foresight. The bill provides a reasonable, structured timeline for divestment, requiring action only when financially prudent, ensuring that Nebraska does not take unnecessary losses in the process. A number of state systems have already taken the steps mandated in LB661, including Florida, Indiana, Kansas, Missouri, Oklahoma, Pennsylvania, Texas, and others. The Nebraska Investment Council has interpreted the bill to require immediate divestment, including the sale of funds at a discount or before bonds reach maturity. However, the bill asks for divestment, quote, as soon as po-- as practicable. The intent is to stop new investments in prohibited entities and to remove investments in these entities when fiscally prudent-- financially prudent, excuse me. I have met with the State Investment Officer numerous times and have asked how many state funds are invested in China entities and which of these restricted entities we have invested in. So far, I have, I have yet to receive a response. I'll be curious to hear which entities included in this list outlined in LB661 the Nebraska Investment Council deems to be prudent and smart investments for Nebraska's retirement plans. I hope the State Investment Officer will be more forthcoming with this committee than she has been with me. LB661 is not just a poligy-- policy decision. It is a commitment to Nebraska's financial security. It ensures that our state pension and retirement plans are managed with sound judgment, free from unnecessary risk, and aligned with national security interests. This is about protecting Nebraska's teachers, State Troopers, and other public servants from the fi-- the potential financial consequences of a changing global landscape. Other states have already recognized this reality and taken proactive measures. We cannot afford to wait for a crisis before acting. The time to make responsible, forward-thinking investment decisions is now. I respectfully urge you all to advance this bill out of the committee so that the entire Legislature might consider it for adoption. Thank you for your time and consideration. And I'm happy to answer any of your questions at this time.

BALLARD: Thank you, Senator Andersen. Are there any questions? Senator Juarez.

JUAREZ: OK. Senator Andersen, I guess-- you know, I'm supportive of having funds to be, you know, divested. I don't know if that's the right word. Diversified.

ANDERSEN: Diversified.

JUAREZ: That's the word I'm looking for. And, you know, I've just heard on the news this week from President Trump that he wants to maintain good relationships with China. So I guess I'm wonder-- I'm wondering, you know, do you not have that perspective that that's what we're going to do in our future? Because I did just hear him state that this week, that he wants to have good relationships with them. And that's why I'm concerned about the goal of this particular bill based on what he said. I mean, regardless of the fact that our own country's under chaos. I mean, he says that he wants to have good relationships with him. So what are your thoughts about that?

ANDERSEN: Interesting question. First, it's not my place to judge or assess how the, the federal executive branch operates or how they, they conduct themselves. What I have seen is that he says he wants to have an open relationship with the, the president of China. That's a diplomatic issue. That is not an investment, a financial one. This is simply saying-- if you think back to the Cold War days, who would have thought that anybody would invest in any Soviet Union company? Nobody. Absolutely nobody would. China has stated with-- through their Belt and Road Initiative and, and readied their proclamations. They want to dominate the world. They want to dominate the U.S. They want to be the sole superpower. So why would we take hard-earned Nebraska dollars and invest them into-- in a country that has sworn that they want to dominate and destroy us? Why would we do that?

JUAREZ: Well, I mean, does that mean that we're not going to have China have an-- make investments in our country then? Are we going to do it both ways?

ANDERSEN: Well, that's up to the federal government.

JUAREZ: Thank you.

ANDERSEN: You're-- me-- and you're just kind of mixing between what we do at the state level and what, what they do at the federal government level, and between international politics and, and investment strategy.

BALLARD: Thank you, Senator. Any additional questions? Seeing-- oh. Senator Conrad.

CONRAD: I had a couple. Thank you, Chair. Thank you, Senator. Do you have a sense-- I can't remember off the top of my head or-- I'm trying to think through if there's an interplay here as well. I mean, I think we're all on the same page regarding the national security concerns and goals in protecting our national interests and doing what we can do on the state level as well. But do you know what level of debt that China holds for the U.S.?

ANDERSEN: I do not. That's, that's outside of my expertise.

CONRAD: I think it's pretty significant. I don't know either, but I, I think it's pretty significant, if that's probably a fair assessment. So-- and Senator Andersen, I know that you are new to the Legislature--

ANDERSEN: I am.

CONRAD: --but one thing that I've always really appreciated about the Legislature's kind of general approach to our investments is, is trying to keep politics out of them whenever possible to really allow our public officials and public boards to work with the best experts to try and get the best return for Nebraska's plans and retirees and taxpayers. And so we have heard bills over the years, you know, for different reasons, from senators saying divest from Israel, divest from Palestine, divest from guns, divest from private prisons, divest from-- pick a thing, anything. Or get involved in socially responsible investing. Or we want to prohibit socially responsible investing. And the, the committee's generally always kind of resisted those calls from both the right and the left to allow the plan managers and the public officials to, to get the best return on investment. Do you see a distinction about why we should move forward on this particular measure now compared to that history where we've really generally taken a different approach?

ANDERSEN: Sure. I, I think first, politics, I agree with you. It doesn't have a place. But I think what we're discussing here is really a policy. It's not politics. It's policy. I think it is established by-- from both sides of the aisle that China is by far the greatest threat to the United States of America. And I think the average person that contributes to these retirement funds would say, I don't want to fund my enemy. Why would I build a-- help build a country that has sworn that they want to destroy us? I don't, I don't know of anybody that would say that they want to do that.

CONRAD: OK.

ANDERSEN: And that's the reason for bringing the bill.

CONRAD: OK. Appreciate that. And-- of course, I mean, the Nebraska Legislature hasn't uniformly said no. I mean, we've taken action on Northern Ireland and apartheid in South Africa through Senator Chambers' leadership back in the day. So I, I'm aware of that context as well. The last question, I just-- I'm, I'm trying to get some more information because I know our committee works with the State Investment Officer a lot and--

ANDERSEN: Sure.

CONRAD: --the other folks that are involved in the Investment Council and the retirement benefits and-- I've always found them very enthusiastic and very transparent to provide information for anything that we're taking a look at. So I don't know if perhaps in your conversations you just haven't-- is it a timing perspective that you haven't had a chance to get information back yet from your request or-- you'd kind of indicated that there was a lack of responsiveness or transparency there. And that just really is surprising to me because every interaction I've had with those officials has been very transparent and very responsive.

ANDERSEN: Yeah. The last conversation I had with the, the Nebraska investment officer was two and a half to three weeks ago in which I requested--

CONRAD: Yeah.

ANDERSEN: --basically a spreadsheet delineating everything, make it more easily digestible and everything else. And I never received the information. And, and that's, that's kind of tied to my comment, is that, you know, I would-- if I asked for the information because of consideration for this bill and you tell me there's nothing to see here, then please be willing to show me the data there is nothing to see here.

CONRAD: Yeah. And I, I know that they're here--

ANDERSEN: And I, and I haven't received anything.

CONRAD: --so they can weigh in on so-- on some of that request too and what's available and that. But I did just want to, you know, understand what was going on there because it just sounds out of step with my experiences with those officials. But thank you.

BALLARD: Thank you, Senator Conrad. Additional questions? Seeing none. [INAUDIBLE] staying for close?

ANDERSEN: Yes, I will.

BALLARD: OK. Thank you, Senator Andersen.

ANDERSEN: Thank you.

BALLARD: Proponents for LB661. Auditor Foley, good afternoon.

MIKE FOLEY: Good afternoon, Chairman Ballard and members of the committee. For the record, my name is Mike Foley, M-i-k-e F-o-l-e-y. I'm the Nebraska Auditor of Public Accounts. I wanted to take a moment today just to put myself on record in support of LB661. The Nebraska Investment Council, NIC, does a fine job of investing well over $43 billion in state funds, consisting primarily of the retirement moneys of the state and public school personnel. Through the work of the NIC, Nebraska funds are invested in many hundreds of reputable companies worldwide. But the State Investment Officer, her team, as well as the citizens of Nebraska need assurance that our investments are not with companies that may have ill intentions against our country. At first glance, one might think that my taking a position on this bill takes me a bit out of my lane in terms of my responsibilities as a state auditor, but I think otherwise. I favor the framework set forth in the language of the bill, as the burden falls on the treasurer, the State Treasurer, to create a list of companies that are off-limits of being a potential investment. Those limitations would be established by you, the Legislature, per this bill or some reasonable revision of the bill. The policy aspects of the bill fall to you, the legislative branch, but the compliance falls to the NIC primarily and then ultimately to my office when we do our audit work. Based on the definition of the policy established by the Legislature, Nebraska Investment Council would then direct our investment manager to comply with your criteria. And the task of my office to audit compliance would be very straightforward. So I like the framework of the bill. The policy questions are yours. That concludes my testimony, Mr. Chairman. Thank you, senators.

BALLARD: Are there any questions from the committee? Senator Hardin.

HARDIN: As you envision it, the treasurer would create a-- perhaps a naughty and nice list. Those--

MIKE FOLEY: Probably just naughty.

HARDIN: What's that?

MIKE FOLEY: Probably just naughty.

HARDIN: Just the naughty list. And so how often do you think would be practical to update that?

MIKE FOLEY: That's a great question. I hadn't thought about that one. I don't know what the bill provides in terms of-- I would think routinely, maybe annually perhaps. I don't know.

HARDIN: Very well. I was just curious about how such things, the Legos, come together.

MIKE FOLEY: Yeah. Good question.

HARDIN: Thank you.

BALLARD: Senator Clements.

CLEMENTS: Thank you, Chair. Thank you, Mr. Foley. Do you have in your audits an idea of what percentage of your $43 billion is invested in China companies?

MIKE FOLEY: I don't know. We, we do a lot of work at that agency every year and they provide us everything we need in terms of the listing of every investment. But I don't know what percentage that might be. I'm sure we're there. I don't know how much.

CLEMENTS: All right. Thank you.

BALLARD: Thank you, Senator Clements. Final questions? Seeing none. Thank you, Auditor.

MIKE FOLEY: Thank you.

BALLARD: Next proponent to LB661. Good afternoon.

MARY VAGGALIS: Good afternoon. My name is Mary Vaggalis, M-a-r-y V-a-g-g-a-l-i-s. And I am here today as a proponent of this bill on behalf of State Shield. State Shield is a nonprofit organization with the goal of providing education and policy recommendations to lawmakers on how to protect their economies and infrastructure from the ongoing multilateral threats from China. A number of measures to protect Nebraskans from undue influence of foreign governments have received bipartisan support in recent years, including limiting foreign ownership of land and protecting Nebraska military, telecommunications, and other infrastructure from surveillance and data collection threats. Passage of LB661 is a vital next step in these efforts. Federal intelligence and law enforcement officials have warned that an aggressive Chinese Communist government is engaged in widespread efforts to undermine the United States, to engage in intellectual property theft and industrial espionage, and to corrupt U.S. institutions. To mitigate these risks, the federal government has created a series of lists that identify entities that constitute a high-risk investment. Not only do investments in these entities empower and fund a government actively seeking to damage the U.S., it also expands China's influence and opportunities to exploit or leverage these investments to achieve its goals. A prudent investor must look at much more than the rate of return to determine if something is a safe investment. Private corporations may no longer be a sound investment if they are showing declining financial import-- performance or increased levels of debt or in an industry experiencing negative trends. The rapidly deteriorating relationships between China and its neighbors should inform a similar evaluation of foreign investments. The circulated letter from 20 state financial officers outlines in more detail the concerning trends related to China. $22 billion of the over $40 billion managed by the Nebraska Investment Council relate specifically to defined benefit pension plans and retirement plans. State-managed pension and retirement funds are a vital tool in recruiting civil servants, and our state employees, teachers, judges, and first responders deserve to have their benefits prudently invested. LB661 is a simple, commonsense measure to restrict investments of Nebraska's pension and retirement funds in high-risk entities. It is important that this committee and the broader Legislature have sufficient oversight of the NIC's activities. As you can see from the circulated letter signed by 17 attorneys general, due diligence by AGs from across the country has called into question the reliability of asset managers. Asset manager misstatements and omissions may result from a conflict of interest from the intense pressure China places on firms seeking access to Chinese investors. It has always been the Legislature's prerogative to set the guardrails for Nebraska Investment Council. The NIC must then craft investment policies within that statutory framework. Nebraskans have trusted each of you to undertake responsible oversight of state-managed retirement funds. I'd ask your support in restricting high-risk investments by advancing LB661. And I'm happy to take any questions you have. Thank you.

BALLARD: Thank you, Ms. Vaggalis. Any, any questions? Senator Conrad.

CONRAD: Thank you. Good to see you, Mary. Thank you for being here. And I know that we heard a measure that Senator Andersen brought to the Education Committee that was also supported by State Shield. And so I'm just kind of trying to get up to speed with the organization. And I-- doing a quick look at the website, and there's not a whole lot of other information available.

MARY VAGGALIS: Sure.

CONRAD: It seems that State Shield's primarily concerned with the bird flu, China, Bill Gates, the World Health Organization, monkeypox, and the Rockefeller Institute. Is that a fair assessment?

MARY VAGGALIS: There are a number of other measures that they undertake at the state legislative level, but they, they're working on a variety of levels, both at the federal and state level, both with policymakers and with executive branch officials on, on a wide variety of isu-- issues, including the ones right before you today, as, as well as Chinese funds coming into our postsecondary education institutions, you know, related to the bill that you heard in the Educational Committee.

CONRAD: OK. Very good. Thanks.

BALLARD: Any additional questions? I do have one. Is-- so is the concern more about-- kind of looking at the fiduciary responsibility. And this may be a question for NIC. Is it that there will be-- similar to, like, a Russia-Ukraine conflict. Is there a concern that there will be a Chinese-Taiwan conflict that will take a great hit on investments? Or is it more the opposite direction of concern that China is-- the-- one of the enemies of the state? So what, what's-- is it-- or is it both?

MARY VAGGALIS: It-- I think the answer is both. And as Senator Conrad aptly pointed out earlier, legislating relating to ESG and other types of more subjective policies has been very challenging at the legislative level. You often, you know, see instances where it's either too subjective to properly implement or you inadvertently maybe capture things that, that you don't wish to. But I, I-- for this initiative, I don't think you have to look any further than the fiduciary obligations. The Nebraska Investment Council, like others, has a duty of care and a prudent investor standard that they must uphold. And, and we can look to the Russian example as an example of, of what is very likely to happen in this instance. And the more runway we can provide for divestment, the better a financial situation the state is going to be relative to these entities. And maybe-- in addition-- to respond to, to Senator Juarez's earlier question along the same vein. Even if the United States does not impose sanctions and financial restrictions-- which they have historically and we think are still likely to be the policy of the federal government-- I think we can expect that Chinese military aggression will result in those similar types of measures being undertaken by other countries. And that is going to dilute the quality of these investments very rapidly. And so if we can divest in those as it becomes financially prudent, you know, as, you know, maybe commercial paper-- which is a short-term investment-- comes due, as bonds mature, as financially prudent opportunities are to divest, we're in a better situation than if we're forced by the federal government to divest these, these funds at a time when they are worth even less than they might be now.

BALLARD: OK. So, so if I understand correctly, State Shield or yourself, it's not advocating for, signed by the governor, 90 days, divestment. There's more-- you're looking for a runway. You could say, by X date, we'd like to see it.

MARY VAGGALIS: The bill language says as soon as practical, which Senator Andersen mes-- mentioned in his opening statement. If this committee feels like there's better language to codify that intent, we'd be more than happy to work with the committee. But our, our goal is to maintain those prudent standards and the duty of care in the divestment process.

BALLARD: OK. Thank you. Any additional questions?

CONRAD: I have one that I-- follow up.

BALLARD: Senator Conrad.

CONRAD: Thank you. This interesting bill. Sorry. But I think you, you've piqued the committee's interest as we're kind of kicking the tires here from all angles and trying to work through it, which is a great part of the hearings. So Mary-- and-- I, I'm, I'm glad that you brought it up and reaffirmed it, because I am thinking about fid-- the general fiduciary duty, which is clear and strong. I'm thinking about the reasonable, prudent invest-- investment-- investor standard that we're all very familiar with in regards to this work. So under those existing obligations and duties, aren't our state investment officers who are making this-- these decisions already looking for volatility, already looking for needless risk in these kinds of geopolitical policy considerations and issues? I mean, I, I, I think it would-- it would be odd to me if they weren't looking really diligently at risks or volatility in our investment, which is kind of-- it sounds like what your client is perhaps interested in, is potential risk or volatility with current investments involving-- in-- involving China. Don't they already take that into account with the existing legal obligations and policies?

MARY VAGGALIS: They are certainly obligated to. And we--

CONRAD: Right.

MARY VAGGALIS: And we have seen others in other states. You know, I think Senator Andersen listed a number of them, including Indiana, Pennsylvania, Florida, Texas, and, and many others who are taking those similar steps. And this real-- bill really is just to codify and push or encourage the Neva-- investment council to do those things in relationship to these entities specifically.

CONRAD: OK. Very good. Thanks. Thanks.

BALLARD: Senator Hardin.

HARDIN: We took a measure with the Legislature in the last year or so to escort BlackRock-- I think State Street and Vanguard as well-- out. You did provide us with a, a wonderful document from the AG from Montana talking largely about those folks but also ESG. Can you comment on our own array of investment opportunities that we are engaged in right now in ESG? Are we playing whac-a-mole with those, or how exactly are we approaching that? Do you know?

MARY VAGGALIS: I, I'm sure the State Investment Officer would be happy to, to expand on her answer. But I-- a number of those entities you mentioned have since sort of backed off of the ESG's policies they have previously adopted. There, there are a wide variety of financial assets available for those looking to invest funds, perhaps now more than ever. But I, I think we are starting to see a shift in policy even from the, the private asset manager perspective due to some of the, the pressures that they've seen at, at the state level but also just, you know, changes in the international policy environment.

HARDIN: Thank you.

BALLARD: Any final questions? Seeing none. Thanks. Thank you.

MARY VAGGALIS: Thank you.

BALLARD: Any additional proponents? Seeing none. Any opponents? Good afternoon.

ELLEN HUNG: Good afternoon. Good afternoon, Senator Ballard and members of the Retirement Systems Committee. My name is Ellen Hung, spelled E-l-l-e-n H-u-n-g. It is the mission of the Nebraska Investment Council to prudently manage the funds entrusted to us by the people of the state of Nebraska. It has successfully done so by hiring investment professionals to ensure the financial security of all state assets. There are already existing executive orders that limit the corrupting influence of-- from the People's Republic of China and its affiliates. These orders prohibit the investing in Chinese military industrial complex companies, Chinese companies that are developing technologies potentially harmful to the United States, Chinese companies in strategic sectors, and People's Republic of China's affiliated entities. The NIC already complies with them as required. The financial impact from divestment is a loss of $575 million in revenue and an increase in-- of $22 million in expenses. These estimates are based on published data and/or experience of consultants and managers. The NIC has consistently been, been successful at hiring top quartile performing managers. These top quartile managers would not accept a mandate with country restrictions, and the NIC would be forced to hire less successful managers, resulting in median performance. The average difference between top quartile and median managers is 2.7%, reducing revenue by $179 million per year. Similarly, we would be prevented from getting to top quartile private market funds. The difference between top quartile and median funds is 11.4%, reducing revenue by $330 million per year. Selling off private market funds with China holdings would result in a one-time loss of $68 million. Ex-China mandates will also increase manager fees by $18 million per year. The transaction costs to Chi-- to transfer a-- to a passive ex-China mandate would be $3.6 million. Out of the total cost, the impact to the General Fund is $139 million for the first year. In addition to the financial impact, the risk to the state portfolios would also increase. In summary, there are already existing safeguards in the form of executive orders that limit the threats from China. The NIC has a proven track record of outperformance. Our total defined benefit plan has had top quartile performance compared to our peers in the one-, three-, five-, and ten-year periods. It is prudent to allow the NIC to continue to conduct the analysis and due diligence needed to manage the state's assets in the most appropriate manner. We currently have 2.5% of assets invested in China. That's slightly below the index. We should let the NIC decide if we should reduce that amount and how we should do so. Staff has been looking-- prior to this bill, staff has been looking at reducing our China exposure, but work-- more work needs to be done to make sure it's done in a methodical approach with nec-- without unnecessary loss to the state. The handout goes into a little more detail about the estimated impact. The second page shows the-- actually, it's the third page-- shows the performance of the various portfolios. And the third page shows our-- the forth page shows our performance compared to our peers.

BALLARD: Thank you so much for your testimony. Are there any questions? Senator Juarez.

JUAREZ: Thank you. So I just finally found where it's saying to-- the time frame about making a divestment from there. It says as soon as practicable. So how, how do you interpret that? How would you interpret that on the speed of your actions you would take should we support this change?

ELLEN HUNG: I read that to be as soon as possible, which would be le-- in a few months. And not-- in, in our speak, that would be a fire sale.

JUAREZ: Yeah. That's what I thought. OK. Thank you.

BALLARD: Senator Sorrentino.

SORRENTINO: Thank you, Chairman Ballard. Thank you for your testimony. I've got some very specific questions, if that's OK. I'll start with the, the fund-- the portfolio as a whole. We sometimes try to measure that with an alpha level, positive or negative. What is the alpha level for the fu-- either the fund as a whole in general or specifically for the Chinese investments? Do you have that information? Or-- not. That's fine. I can get it.

ELLEN HUNG: I, I do not know what the-- so you're asking what the alpha-- the attributable alpha performance is to China investments?

SORRENTINO: I was asking for that and in general, but if you have either one.

ELLEN HUNG: It's-- we don't particularly look at it that way because-- you ha-- you have to remember, when we invest portfolio, there are correlations between certain countries. And sometimes there-- some-- one country does better than the other. So we have to take it over time.

SORRENTINO: OK.

ELLEN HUNG: And in order for us to develop the highest-- to create a portfolio with the highest risk-adjusted return, we have to be able to look at the entire universe. And that's why we, we don't like having divestments of any--

SORRENTINO: Would you say it's positive?

ELLEN HUNG: It's always positive.

SORRENTINO: OK.

ELLEN HUNG: Or there's no reason to invest in it.

SORRENTINO: Right. Could you explain just how selling the China-based holdings-- in your note I think at the bottom-- would require a 10% to 38%, I'll call it discount? For the benefit of the committee as a whole, how-- why, why would that occur? Why is there a 10% to 38% discount?

ELLEN HUNG: When we invest in private markets-- so that would be private equity and private real estate-- the commitment is to invest in a certain amount of time because there's a liquidity premium to private markets. You get higher return for that risk. So when we try to sell it, we would then have to sell it on the open market. There's a huge discount. And based on what we have seen in the market over time, there's usually a 10% discount, for, like, a buyout fund. A 38% discount would be for a venture capital fund. So the riskier asset would take longer to sell, as well as you have to take a bigger discount.

SORRENTINO: So it doesn't necessarily mean it was a bad investment, but the timing of the sale is what's bad.

ELLEN HUNG: Yes.

SORRENTINO: Is that correct?

ELLEN HUNG: Because they-- people know you're trying to sell it. It's kind of like if--

SORRENTINO: OK.

ELLEN HUNG: Eggs right, right now would be one. There's a limited supply of eggs and everyone wants to get it; prices go up. But when there's a huge amount of eggs, then prices go down. Same thing when people know you're trying to sell something, they're going to--

SORRENTINO: Sure.

ELLEN HUNG: --have a higher discount.

SORRENTINO: On your-- for lack of a better word, we'll call it the fiscal note. One time, an annual cost on that document was dated February 25. Could you give us a 50-- I mean, there are some huge numbers on there. I mean, maybe the biggest-- I haven't been around very long, but these are really big numbers. Could you just give us a, you know, a minute or two on why these are so big? And, and secondly-- I know it's not your decision-- can the state afford this? I should say, can the fund afford this, not the state.

ELLEN HUNG: I, I was told-- or, based on what I've read in the news, there's-- the state's trying to look for additional money to have a balanced budget. I think anything with a few zeros behind it, let alone six zeros behind it, would make a big difference is my opinion. Any time we reduce our revenue and increase expenses, we take that seriously. And because-- at the end of the day, someone has to make up for it. Rather, it's the state. And rather if it's the defined benefit for the teachers, then the teachers have to make up for it, the schools have to make up for it. It comes out of the state of Nebraska. That's why we do take our job very seriously when we-- it's just not about numbers for us. Yes, we invest $43 billion for the state, but behind every program there are people-- there are participants behind those. And I myself am a participant in the cash balance plan. We have teachers that are behind the cash balance plan. Our operating investment pool, it's all the cash assets. So there are endow-- and then there are endowment funds that we invest in. All these numbers add up to $43 billion. And all the revenue that we earn is then used by these entities to fund what they need to fund.

SORRENTINO: Of the $43 billion that we have to invest, about what percentage would be affected by Senator Andersen's bill? Is it just a few percentage? Is it half or what--

ELLEN HUNG: It's about half.

SORRENTINO: So we're half-invested in funds that would be related to foreign interests?

ELLEN HUNG: Well, it's-- because investments is not a standalone, right? When you talk about China investments, it's only 2.5% of our portfolio. But when you divest from China, it affects a lot of other portfolios. There are unintentional--

SORRENTINO: These portfolios have other investments in them, not just--

ELLEN HUNG: Yes. It's unintentional consequences. And that's why instead of having a bill that says just divest in China-- I think the more prudent approach is to let the Nebraska Investment Council decide to do this on their own. And we have been looking into it. It has to be more of an investment decision and made by people that do this on a day-to-day basis, by the investment professionals, by peop-- by managers that actually decide does it make sense to invest on China or not, and how to do it. And again, it's not just-- rather, if-- it's not a decision about just buying in China or not buying China stocks. There are other-- there are other consequences. It reduces diversification. You know, our diversification risk would totally increase because we can no longer-- we can no longer have-- buy just bonds. We can-- I'm trying to, trying to figure out how to explain this in, in layman's terms.

SORRENTINO: Well, let me ask you a more general question. Other states are thinking about this. They all have their own investment councils. Is the trend actually in favor of moving to what Senator Andersen is doing and we're at the front of that trend or--

ELLEN HUNG: I know of three states that-- actually, I know of two states that have mandatorily mandated that they divest from China, and that's Texas and Florida. But Florida only did it for state-owned enterprises.

SORRENTINO: For which--

ELLEN HUNG: State-owned enterprises of China. So the mandate is not to fully divest the-- divest from China. It's to divest from state-owned enterprises of China. There are-- other states started looking at-- they recently started looking at-- for passive accounts to not invest in state-owned enterprise. So that is something that we started looking at. We started looking at that last year as well. But it's-- sometimes it's a slow-moving ship because we have to look at all the consequences to make sure that we're not doing something that would be detrimental.

SORRENTINO: Thank you for your answers.

BALLARD: Thank you, Senator Sorrentino. Additional questions? Senator Hardin.

HARDIN: I, I appreciate our discussions. We had a good one this week in my office. And you have an encyclopedic knowledge of investment and how all of that works. One thing-- just doing a little bit of reverse engineering. If we have roughly $43 billion invested in the state of Nebraska and if 2.5% of it is there, that's, that's over-- just over $1 billion, right, something like that that might be involved in, in China or even--

ELLEN HUNG: Sorry. It's about $590 million invested in China because only half of our total assets would be affected by this.

HARDIN: OK.

ELLEN HUNG: We don't include defined contribution because it's not--

HARDIN: OK. Gotcha. Very well. You and I had more of a philosophical discussion earlier this week. I'm going to share a little bit of that.

And we just talked about the efficacy of executive orders in general versus the law in general. And piggybacking on a little bit of what Senator Sorrentino was just saying, what are other states doing? Perhaps we're somewhere near the front. Nebraska's usually used to coming in about 49th on just about any issue. So perhaps we're, we're closer to the front of the curve on this one. But as we look at executive orders, executive orders come and go with that executive. Right? And I think that's part of what we discussed. And-- is there a danger? And I-- you shared some very meaningful things with me and-- don't mean to put words into your mouth, but one of those things is that the way the, the NIC is currently set up is an ability to be more surgical in those particular investments, if I remember correctly. This is perhaps more of a blunt force instrument, this bill. And so-- I can actually see some advantages with each from my perspective, because one of them has to do with how do we-- China's never come along and put a gun to our heads. They've done all kinds of things to steal our IP, and we've agreed to it without a gun to our head. But we have painted ourselves in a corner, and that's undeniable as a country. Here in Nebraska, should we continue to do that with someone who, as Senator Andersen said, does not have our best interests in mind? They're glad to profit from what we provide. And so I-- that was some of the back-and-forth that we had. You made some great points. I give that as background to these folks. But would you mind talking about your perspective from that conversation? Because I found it instructive.

ELLEN HUNG: Well, thank you for that, but I'm not exactly sure what I said, but. But I, I think it is very true that we do take a very methodical approach to how we invest. Right? There's got to be a thesis as to, is it going to make money? Is it good at a, a risk-adjusted return? We always talk about risk-adjusted return. And we're not investing in companies that will do harm to the United States. Right? That's not something that we would intentionally do. Does it happen? Maybe. But I, I think the, the bill's intent is to prevent us from giving money to China so they could develop technology to, to hurt the United States. And I think that's the reason why the bill is proposed, if I can put words into the senator's mouth. But that's not what we're investing in. There are a lot of companies in China that are very similar to companies in the United States. Right? They make cosmetics. They invest in real estate. They invest in insurance. They invest in manufacturing things. They, they don't all-- they're not companies that all manufacture drones that are trying to steal technology or they're not trying to-- they're not developing military weapons. There's a lot more to it. And then in terms of investments-- our fixed income-- for example, our fixed income manager, if they can't invest in China, then they wouldn't be able to take advantage of arbitrage between the different interest rates across countries. We wouldn't be able to long and short certain areas because that, that strategy would be taken away from us. So it's just not this narrow approach of you either invest in China or you can't invest in China. There are all these other unintentional consequences, and it just becomes very frustrating. So I think for us is it's more about being methodical and think every different way we do it, should-- doesn't make sense to back off and not be invested in China.

HARDIN: Are you or your team aware of any negative issues that have happened for Texas or Florida as they have done this?

ELLEN HUNG: They-- the investment people-- I have spoken to them-- they-- in terms of Florida, they are look-- they were just tasked to not invest in state-owned enterprises, which does make sense to me. We are looking into that. So I can't argue against that. Because state-owned enter-- enterprises make up about 30% to 50% of the-- China's GDP. And those are the companies that people are fearful of. Right? They're state owned by-- you know, they're owned by China. And Texas--

HARDIN: Is there possibility of an amendment that would make this more palatable to you? If something like that were to happen-- and I'm not suggesting it, it can or could or should. I'm just tossing it out.

ELLEN HUNG: I think I'll bret-- bet-- our preference is that you have the Nebraska Investment Council. It's an entity that's already set up by statute. We have certain things that we're required to do. We are required to be a fiduciary to the plan. And as-- I am myself-- I'm a fiduciary to all the plans. And we are legal respo-- legally responsible to do the best for the portfolios. And we do this by looking at research. We do it by due diligence. We do everything we can to make sure that the investments are safely managed.

HARDIN: So you're saying that's essentially already happening?

ELLEN HUNG: Yes.

HARDIN: Thank you.

BALLARD: Senator Clements.

CLEMENTS: Thank you, Chair. Thank you, Ms. Hung. Why has Senator Andersen not received a reply from his request?

ELLEN HUNG: So I met with the senator a couple weeks ago. And it's-- his request wasn't as simple as how much are we invested in China, which he already has. Because-- I developed the report for the Committee on Pacific Conflict, and it has the China investments. His was a little more detailed. And I wanted to spend a little more time to ensure I had all the information. And at the same time, I was trying to put the fiscal note together, which is in conjunction with everything all together. And our private-- information from pri-- private markets take a little more time because it's not readily available. So we had to wait.

CLEMENTS: So you're planning to-- are you planning to provide information?

ELLEN HUNG: Absolutely.

CLEMENTS: Thank you.

ELLEN HUNG: So I provided the information for the fiscal note on Monday. Unfortunately, I had a board meeting on Thursday, yesterday, so I had to prepare for that.

CLEMENTS: OK. Thank you. Next question. Currently, our managers comply with the federal restrictions you mentioned. Why won't they comply with state of Nebraska restrictions if we have some?

ELLEN HUNG: They, they would.

CLEMENTS: But you're saying-- I think you're saying we would lose the top quartile managers if we put some restrictions on-- with China.

ELLEN HUNG: Yes. Our existing managers that we-- we have hired what we think are the best managers out there. And if we gave them a restriction, they would say, unfortunately, we can't manage that money, money for you anymore, and we would have to pick another manager. They do not have ex-China mandates.

CLEMENTS: So, so doesn't the investment council have the ability to direct manager investments now as far as state-owned entity investments?

ELLEN HUNG: Yes, but these are outside managers. And they have plenty of people and plenty of other entities that will give them money to manage. They don't need our assets. They will politely declined to manage our money.

CLEMENTS: All right.

BALLARD: Thank you, Senator Clements. Any final questions? I have, I have several, but I'll-- for the sake of time, I'll have one. Back to my conversation with, with Ms. Vaggalis. You do have a fiduciary responsibility to the plans. What, what level of risk do you put on Chinese investment? I know there's formulas, but just, just kind of philosophically, is there-- do you think there's a level of risk to investing in Chinese assets? I mean, I know there's a risk in any foreign assets, but do you see--

ELLEN HUNG: I think--

BALLARD: --is it heightened when you--

ELLEN HUNG: I think taking China out of the eq-- totally out of the equation is riskier than keeping them in-- or, I'm sorry. Did I-- I say that reversed. I think divesting from China the way it's written is riskier than not because we, we can no longer then short China either because that's a position. And it's, it's riskier when you are no longer able to invest in a chunk-- in an, in an area because then you're limiting the investment pool. Any time you do that, it's riskier.

BALLARD: OK. Thank you. Any final questions? Seeing none. Thank you so much for your testimony. Any additional proponents, opponents, or neutral testimony? Seeing none. Senator Andersen. And while Senator Andersen comes back, we received 0 proponents, 0 opponents, and 0 neutral on written position.

ANDERSEN: Thank you, Mr. Chairman. Couple of comments on the conversation we've been having, which has been great. Senator Conrad, you, you made a comment that the investment officers are suppose to be continually looking for and reducing risk, and, and I couldn't agree with you more. And that's my-- probably one of the greater concerns, is that as we travel down the path of potential conflict, divesting yourself from where that conflict is, is probably safer and lowers the risk coefficient than it does to actually stay invested in somewhere that's-- I mean, Ukraine and Russia is a classic example of that. So I couldn't agree with you more. When Ms. Hung said that-- defined as soon as practical, she answered several months. That's the first time that that conversation has happened. We never discussed. I'm open to, you know, some of the bonds saying that when they mature, then fine. Don't take them out early. Don't have the loss. We'll have a migration plan that, as they mature, you don't reinvest; you reinvest somewhere else.

Certainly a conversation we could have and should have had before now. Senator Hardin, you mentioned that this-- LB661 is a, a blunt force application of this. I, I kind of take exception to that because I think it's really more along the lines of a surgical approach. If you look at the whole world, global economy and all the places you could invest, there are far better places that have a more stable economy, have a stable currency than China, and ones that are not-- had not sworn to overthrow the United States. So I think this really is a surgical approach in really looking at the people that want to destroy our country. Let's go invest somewhere else, like in Europe or Japan or South Korea. I think there's a lot of places we could invest that we don't need to be invested in China. My opinion. And I would-- when Ms. Hung made the comments about, you know, a makeup company and all those things, all the companies in China have ties and have sworn that they will support the CCP. And even if they didn't, if you said that's not true, the revenue, the money that they bring in, the taxes they pay to the government still goes to fund all the military ventures whether it's actually a military affiliated or associated company or not. By them selling things and making money, they're still supporting the same military that wants to destroy the United States. And lastly, on this-- let me get my closing. The report on the Pacific conflict, it, it lacked, it lacked details. What was handed out in the handout and the letters that she, she sent out I think last week had far greater definition and information than anything I received personally or that I-- in my opinion, that we received at the, the briefing for the committee for the Pacific conflict. OK. Chairman Ballard, members of the Nebraska Retirement System Committee. First, I want to thank in sincere gratitude to State Auditor Mike Foley for his testimony today. We commend him for his unwavering commitment to transparency, openness, and long-standing-- standing strong for Nebraska taxpayers. His expertise reinforces why LB661 is a necessary step in ensuring responsible management of our state's retirement fund. I also appreciate State Investment Officer Ellen Hung for her testimony and for answering the committee's questions. However, I must express the disappointment that in our several meetings over the last couple weeks that she wasn't as forthcoming with, with me in my discussions that apparently she was with Senator Hardin. LB661 is a proactive and prudent measure that ensures Nebraska does not repeat the costly mistakes made by other states that maintain investments in adversarial nations like Russia only to suffer financial losses. The bill directs the National Investment Council to divest from China entities explicitly designated by the United States government as threats to national security or engaged in unethical practices such as forced labor or military industrial activities. Again, this is not a broader--

broad economic sanction but a targeted and responsible financial policy designed to protect our retirees and the integrity of the Nebraska pension funds. Many other states like Florida, Indiana, Kansas, Missouri, Oklahoma, Pennsylvania, and Texas have already taken similar steps to migrate investment risks associated with China. Nebraska can't aff-- cannot afford to wait until a financial crisis or geopolitical escalation forces our hand. LB661 ensures the investments are aligned with national security interests while preserving financial responsibility by requiring divestment only when financially prudent. And again, I, I-- underscore that. Only when financially prudent and only-- and-- how to do it in a smart way. For these reasons, I respectfully urge you all to advance this bill out of committee for consideration by the entire Legislature. I appreciate your time and attention and will stand by for any questions.

BALLARD: All right. Thank you, Senator Andersen. Are there any final questions? See-- Senator Conrad.

CONRAD: Thank you, Senator Andersen. I always appreciate how you try and address everybody's questions of-- on your-- at your committee hearings when you get back up for close and then provide your additional closing information. I think that's really, really cool. And we might not have time to finish the debate. I know Judiciary or something's getting ready to pop in here. And you probably have committee hearings this afternoon as well. But I'm also just trying to get kind of a general understanding of, OK. This is a specific divestment to China. But we also know the U.S. government lists Cuba, North Korea, Iran, Syria as state sponsors of tir-- of terrorism and related activities. So why China and not the other countries?

ANDERSEN: It really is targeting probably the greatest threat to the United States, and that, that being China. If, if you want to broaden it, we can certainly look at that. Now, that would probably get-- you know, what Sergeant-- Senator Hardin was saying about, you know, taking a blunt instrument approach. But at least starting with China and then looking to see, do we need to divest in, in other countries that want to do our country harm?

CONRAD: Right. OK. And then the, the last would be an-- just-- I want to really think through this more deeply as to whether or not there might be some unintended consequences with writing this into state law, state policy that Director Hung talked a little bit about, that when they're already looking at this under existing legal duties and obligations, they have some flexibility to manage transfers or sales perhaps more discreetly than if we put a clear runway out there that would actually kind of work against us, so to speak, in terms of how we dispose of volatile or risky or troubled assets for any number of reasons. So did you want to respond to that? Because I thought that was kind of an interesting-- kind of an interesting, strategic kind of, kind of question that, that was presented and that probably goes to some of the other questions that we've been asked to engage in from a divestment perspective over the years.

ANDERSEN: Sure. So far to date, the response I've gotten when talking with the NIC about this is they said they wanted to have exemptions, and that-- that was the answer, was exemptions for these, these companies in China. It wasn't, hey, let's come up with a plan that's over, over six months or a year or, or a migration strategy or something like that. It was really pushback saying, no, we need to be exempted from this and here's the reasons why. So.

CONRAD: Very good. Thanks. OK. Thanks.

BALLARD: Thank you, Senator Conrad. Seeing no additional questions. Thank you, Senator Andersen. That closes our hearing on LB661 and our hearings for the day.