NPERS
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ASB Comments
American Academy of Actuaries
1850 M Street NW, Suite 300
Washington, DC

RE: Proposed Revisions to ASOP 4

To the Members of the Actuarial Standards Board:

The Public Employees Retirement Board has directed me to comment on ASOP 4 on their behalf.

The Nebraska Public Employees Retirement Board (Board) and Nebraska Public Employees Retirement Systems (NPERS) are responsible for administering five different retirement plans. The Nebraska State and County plans were originally Defined Contribution (DC) plans that were converted to Cash Balance (CB) as of January 1, 2003. The Nebraska Judges, State Patrol, and School plans are Defined Benefit (DB) plans. The proposed revisions to ASOP 4 could substantially affect our CB and DB plans. Thus, we appreciate the opportunity to comment on the proposed revisions to ASOP 4.

We are opposed to the Investment Risk Defeasement Measure (IRDM) disclosure requirement. We believe the IRDM will confuse and create misconceptions amongst our plan members, policymakers, and taxpayers/public. We are also concerned that entities desiring benefit reductions or plan elimination will abuse the information required by these revisions in order to mislead those unfamiliar with the IRDM's purpose. We strive to mitigate and eliminate confusion about our plans. The IRDM disclosure requirement seem to fly in the face of that goal by forcing retirement systems to publish data that may lead to confusion and unfounded perceptions.

Under the Nebraska Constitution and Nebraska Supreme Court case law, neither the Nebraska Legislature, Board, nor NPERS can reduce future benefits for current plan members. This means there is no value in knowing the current accrued benefits in accordance with the proposed IRDM disclosure requirement.

The Nebraska Legislature created our CB plans as a benefit enhancement (from the original DC plans) following a benefit adequacy study. These plans contain risk-sharing provisions that have significantly added to the value of member benefits. If we funded these plans solely with U.S. Treasuries to eliminate investment risk, our CB plan members' accounts would be subject to slower account growth due to a loss of potential dividends. This is, functionally, a benefit reduction. Further, such a funding strategy would result in reduced monthly annuity payments for members who select this option at retirement. This would also be a benefit reduction. Clearly, trying to eliminate investment risk, and the loss of investment returns over time, is harmful to our plan members. *As statutory fiduciaries of our plan members' accounts, we must oppose such action.*

Currently, the actuarial accrued liability, total member account balances (and annuities to be paid to our retirees), and plan assets are all of similar value. Thus, our CB plans could, theoretically, terminate and fully fund all benefits. By contrast, the IRDM for our CB plans would vastly exceed the value of the CB plan member account balances and assets. This makes the CB plans appear underfunded. Such data could confuse and mislead plan members, policy-makers, and the taxpayers/public.

Due to Nebraska's Open Meetings Act and public records laws, our meetings and information are open to our plan members, policy-makers, and the taxpayers/public (subject to very narrow exceptions). We post years of history on our website, including, but not limited to, our actuarial valuation reports, actuarial experience analysis results, benefit adequacy study, GASB 68 reports, annual investment reports, and annual reports to the Nebraska Legislature. Further, news stories often appear in local periodicals regarding the systems we administer. Thus, we have taken multiple steps to ensure transparency and ensure our plan members, policy-makers, and taxpayers/public are fully aware of our plans' assets and liabilities.

If the IRDM is required, it, too, will be available to the public. If the public does not understand the purpose of the IRDM, they may come to incorrect conclusions about our plans' funded status. These conclusions could lead the public to believe the CB plans are a problem rather than a functioning solution to the benefit adequacy issues identified in the DC plans.

For the traditional DB plans, there is also distortion. While we will endeavor to explain what the numbers mean, we are concerned that some will not understand or will misuse the numbers.

Finally, we will have to pay the actuary to produce these results. This will require additional funds from the taxpayers, reducing member interest credits (and, thus, benefits), and will require us to seek additional spending authority from the Nebraska Legislature.

For the foregoing reasons, we would ask that you not adopt the proposed IRDM requirements.

Please do not hesitate to contact me if you have further questions.

Respectfully,

Randy Gerke
Executive Director
Nebraska Public Employees Retirement Systems

For the Nebraska Public Employees Retirement Board