For Nebraska State and County Employees

Retirement News

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS

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RETIREMENT NEWS

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Do You Have a "Rainy Day" Fund?

"Most financial planners recommend an emergency fund that can cover your expenses for three to six months."

There are three financial goals everyone should strive to achieve. Save for retirement, pay off debt, and create an emergency or "rainy day" fund. Saving for retirement and paying off debt are generally at the top of the agenda, but creating an emergency fund is an equally important component of a solid financial plan.

The game of life will, on occasion, have detours. Sudden and unexpected events such as the loss of a job, essential repairs to a home or car, or costly medical expenses, can create a severe financial hardship. Individuals who are not financially prepared for these situations run the risk of running up credit card debt, and/or raiding their retirement accounts. Both of those are bad options. Credit cards will almost always have high interest rates on recurring balances, and when you raid your retirement account you lose not only those dollars withdrawn, but also the growth you would have experienced from those funds. Two better options for these situations are carrying adequate insurance coverage (home, auto, health) and building an emergency fund.

Once you have decided to create an emergency fund, your first question will be "how much?" The amount you should stash away will vary depending on monthly expenses. Most financial planners recommend an emergency fund that can cover your expenses for three to six months.

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Retirement Board News

Janis Elliott

At the January 23rd meeting, the Nebraska Public Employees Retirement Board (PERB) elected their Chair and Vice-Chair for 2017. By unanimous vote, the PERB selected Janis Elliott as the Chair and Lieutenant Dennis Leonard as Vice-Chair of the board.

Janis Elliott was originally appointed to the PERB in 2009 as a School Plan representative. Janis has served as a Physics teacher at Bellevue Public Schools and is currently the Department Chairperson at Central High School in Omaha. She has served on various educational boards and committees including serving as the President of the Bellevue Education Association and a member of the Executive Board at the Nebraska State Education Association. Janis has received national and state recognition for excellence as an educator. In 2015, Janis traveled as an NEA Foundation Global Educator to Peru after receiving the

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The 105th Legislature, first session, convened on January 4, 2017 for a 90-day session that will end June 2. During this session, the following bills impacting the State and County retirement plans were introduced.

These descriptions reflect the bills as introduced. Provisions may be amended during the legislative session and some bills will not advance out of committee, or be passed by the legislature. Please refer to the Legislation page of the NPERS website for updates and progress as the session continues. Links to the Legislature's website are available for viewing the full content of each bill. The final results of the 2017 session will be reported in the July newsletter.

LB 32 – STATE & COUNTY

Would remove language to provide tax advice in the State and County Plans. Allows Counties to make quarterly, semiannual, or annual payments to individuals receiving a prior service annuity.

LB 169 – ALL PLANS

Would exempt retirement benefits from NE State taxes.

LB 219 – MULTIPLE PLANS

This bill addresses the mortality tables and annuity rate used in the State & County Cash Balance Plans.

Currently, State and County Cash Balance annuity rates are determined using the 1994 Group Annuity Mortality Table. This bill would allow the use of updated mortality factors. This provision would apply to Cash Balance members hired after January 1, 2018; or terminated members rehired on or after January 1, 2018, who have taken a distribution or refund from their account.

The bill also clarifies that the Public Employees Retirement Board may make adjustments to the Cash Balance annuity rate based on a recommendation from the plan actuary after completion of an actuarial experience study, a benefit adequacy study, or a plan valuation.

NOTE: There are additional provisions in this bill that would impact the School, Judges, and State Patrol Plans. Please refer to the Legislation page on the NPERS website for the full content of this bill.

LB 278 – MULTIPLE PLANS

The bill clarifies disability as "…*an inability to engage in any substantially gainful activity by reason of any medically determinable physical or mental impairment which began while the member was a participant in the plan and which was initially diagnosed or which became disabling while the member was an active participant in the plan and can be expected to result in death or be of a long-continued and indefinite duration.*"

The bill also allows the Public Employees Retirement Board (PERB) to waive the requirement for a medical exam for disability retirement if the PERB determines "…*extraordinary circumstances exist which preclude substantial gainful activity by the member. Such circumstances shall include hospice placement or similar confinement for a terminal illness or injury.*"

NOTE: There are additional provisions in this bill that would impact the School Plan. Please refer to the Legislation page on the NPERS website for the full content of this bill.

LB 412 – ALL PLANS

This bill would require the Nebraska State Investment Officer to:

- "Determine the extent to which state funds are invested in companies or funds which derive a substantial portion of their revenue from extraction or combustion of fossil fuels."
- "Review the extent to which state funds are invested in companies or funds which derive a substantial portion of their revenue from clean energy and opportunities for investment in clean energy investment."
- "Report on the volatility and risk associated with identified fossil fuel investments."
- "Begin the process of clean energy investment to the extent it is consistent with prudent investment strategies."
- Provide a status report to the Governor and to the Clerk of the Legislature no later than December 15, 2017.

LB 532 – MULTIPLE PLANS

Would change provisions for military service rendered on or after January 1, 2018. Under the new language, members who are reemployed after qualified military service will be granted vesting and benefit credit for the period of military service. The employer shall be responsible for funding military service benefits including member and employer contributions, and any additional actuarial costs to the plan.

Gives the Public Employees Retirement Board the authority to adopt and promulgate rules and regulations to carry out these provisions including, but not limited to, notification of military service, acceptable methods of payment, determining the compensation upon which the contributions must be made, and the documentation required to substantiate that the individual was reemployed pursuant to USERRA regulations.

Changes would only apply to military service that falls within the definition of military service per the Uniformed Services and Reemployment Rights Act of 1994 (USERRA).

NOTE: There are additional provisions in this bill that would impact the School, Judges, and State Patrol Plans. Please refer to the Legislation page on the NPERS website for the full content of this bill.

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NSEA Teaching Excellence Award. She was recently elected for a two-year term as a trustee on the Executive Committee of the National Council on Teacher Retirement.

Dennis Leonard was appointed to the PERB in 2014 as the Patrol Plan representative. Dennis has worked for the State Patrol for 30 years, serving as a Trooper, SWAT operator, narcotics investigator, criminal investigator, polygraph examiner, and narcotics unit supervisor. Since 2002, he was the Troop C Investigative Lieutenant for a 17-county area of central Nebraska. Dennis retired from the Patrol December 2016.

Dennis Leonard

We are sad to announce Ron Ecklund has decided to resign from the PERB. Mr. Ecklund was appointed to the Board as a Public Member in 2012. We would like to thank Mr. Ecklund for his service and contributions to the PERB, and wish him the best in his future endeavors.

Gov. Ricketts has appointed and the Legislature has approved Jim Schulz to replace Ron Ecklund as a Public Member representative of PERB. Mr. Schulz is a retired insurance and financial services executive who resides in Lincoln. He was the Senior Vice President of Retirement Plans for Ameritas from 2010 to 2013 and President of Midlands Financial Benefits from 1979 to 2010. Mr. Schulz is a University of Nebraska Lincoln graduate with a Bachelor's Degree in Business Administration/Actuarial Science.

Jim Schulz

Mr. Schulz currently serves on the Boards of Madonna Rehabilitation Hospital (past Chair) and First State Bank Nebraska. He is a member of the National Association of Insurance and Financial Advisors (NAIFA), served on the NAIFA Nebraska Board and was President of the local (Lincoln) NAIFA Association. He previously served as Board Member and Chair of Madonna Rehabilitation Hospital Foundation and Continuum EAP.

NPERS would like to welcome Mr. Schulz to the PERB.

Rainy Day Fund

(cont'd from p. 1)

Sit down and review your spending habits/bank statements to calculate what you spend each month on *essential* expenses such as:

$___________ Mortgage or Rent

$___________ Food

$___________ Health Care/Insurance

$___________ Utilities
(Remember: Cable is not an *essential* utility.)

$___________ Transportation

$___________ Debt payments

This should represent the minimum amount you need to make ends meet each month. Now multiply by three, and you have your starting goal.

Keep in mind the three to six-month rule of thumb may not apply to everyone. You may want to save more if:

- You anticipate difficulty in finding employment if you get laid off.
- You anticipate the possibility of large expenses in the future. Common examples would be recurring health issues, an aging automobile, or a home with a 20-year-old furnace, etc.

A smaller emergency fund may be acceptable if:

- You have substantial dollars left after paying your monthly bills.
- You have excellent insurance coverage.
- You have no or very low debt.
- The equity in your home would allow you to apply for a low interest home equity loan or line of credit.

Now you need to decide where to maintain the fund. It may be tempting to use your current checking or savings account, but most individuals will have better luck creating a separate account. A separate account makes it easier to track the balance and harder to access those funds "on a whim." In addition, your emergency fund should be maintained in an account that is "liquid" and safe from market fluctuations. Traditionally the simplest approach is to use a basic savings account. You won't get much in the way of return, but ease of access and stability are your goals for this fund.

There are several options available when searching for a savings account. Be sure to review the interest rates offered. When selecting an account, search for one that is FDIC insured, has low (or no) minimum balance requirements, and no account maintenance fees. Be aware some accounts may offer an *introductory* interest rate that will be reduced after a set period of time.

Here is the hard part. Getting funds into your account. A sizeable portion of the dollars left after paying essential expenses should go into your emergency fund. Start small if necessary. Small infusions into the account are better than nothing at all. It may help if you can view the emergency fund as a bill you need to pay each month. Consider setting up an automatic deposit into the fund from your paycheck or checking/saving account.

Finally, you should ONLY tap into the fund for appropriate expenses! Resist the urge to spend those dollars for items or situations that are not actual emergencies, and be sure to replenish the fund after you take a withdrawal.

DCP Deferral of Unused Leave

At termination/retirement, you may be eligible for a payout of unused sick and vacation leave. It's nice to receive these payments, but they will count as **income** for the year and be subject to state and federal income taxes. If you are eligible for a fairly large payout, these dollars could push a portion of your income into a higher tax bracket, increasing the percentage of income tax due that year.

To help manage this tax liability, you may elect to contribute unused sick and vacation leave payments into the voluntary Deferred Compensation Plan (DCP) offered to State of Nebraska employees. Contributions to DCP are made on a "pre-tax" basis and not counted as income or subject to income taxes.

Distributions from DCP will be subject to State and Federal income taxes, but delaying them to a later date gives you the ability to spread out withdrawals over time, and may keep your annual income in a lower tax bracket. Distributions from DCP can be delayed up to age 70½ at which point the account will be subject to required minimum distributions per the federal tax code.

In order to defer unused leave:

Complete and submit the appropriate DCP Enrollment/Change Form to your payroll or HR representative. We recommend making a copy for your records.

Your payroll or HR representative must sign and forward your form to NPERS.

NPERS must receive your DCP Enrollment/Change Form the calendar month prior to your date of termination!

We recommend consulting with your payroll/HR staff well in advance of your termination date in order to understand the process, and meet this deadline.

Sick or vacation leave deferrals are subject to annual contribution limits. If the exact dollar amount of your unused leave payout is not known at the time you complete the form, you may estimate the amount. For more information on DCP, please refer to the plan handbook on the NPERS website.

DCP 3-Year Catch-Up To Be Discontinued

The voluntary State of Nebraska Deferred Compensation Plan (DCP) allows participants to defer and invest a portion of their compensation on a "pre-tax" basis. At termination or retirement, distributions from the DCP account can be used to supplement the mandatory retirement plan.

The tax code establishes annual limits on the amount that can be contributed to DCP. These limits are reviewed each year and adjusted for inflation. There are two provisions that allow for contributions above the annual limits. The "Age 50" provision applies to individuals who are age 50 or older, and the "Three Year Catch-up" provision applies to individuals nearing retirement age who did not defer the maximum amount allowed in prior years.

At the December 19, 2016, meeting, the Public Employees Retirement Board (PERB) voted to discontinue the Three Year Catch-up provision. The PERB delayed elimination of the Three Year Catch-up in order to provide a final opportunity for *eligible* members to apply throughout 2017. Those individuals *already participating* in the Three Year Catch-up will be allowed to continue participation per plan provisions. As with all applications, forms must be received by NPERS during normal working hours. In 2017, December 30 and 31 fall on a Saturday and Sunday. As a result, *Three Year Catch-up applications must be received in our office no later than 5 pm, December 29.*

Individuals who wish to utilize the Three Year Catch-up this final year are responsible for calculating the additional deferral amounts and submitting documentation supporting these calculations. Due to the complexity of this process, members may need to enlist assistance from a qualified tax professional.

The Age 50 provision will continue to be available for DCP participants. Contribution limits for 2017 are listed in the January Retirement News. For more information on DCP, please refer to the plan handbook on the NPERS website.

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CASH BALANCE

QUARTERLY CASH BALANCE RATE

For the quarter beginning April 1, 2017, the rate of return for Cash Balance participants is 5%.

The current and historical Cash Balance rates of return are available via the "Cash Balance Rates of Return & Dividends" link on our website.