ATTESTATION REPORT
OF THE
NEBRASKA PUBLIC EMPLOYEES
RETIREMENT SYSTEMS
DEFERRED COMPENSATION PLAN

JANUARY 1, 2017, THROUGH DECEMBER 31, 2017

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Issued on August 15, 2018
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Ryan McCarthy – Auditor
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Nebraska Auditor of Public Accounts
State Capitol, Suite 2303
P.O. Box 98917
Lincoln, Nebraska 68509
Phone: 402-471-2111
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The Nebraska Public Employees Retirement Board (Board) implemented the State of Nebraska Deferred Compensation Plan (Plan) in 1976, in accordance with 26 U.S.C. § 457, under the administrative responsibility of the Nebraska Public Employees Retirement Systems (NPERS).

The Plan is a voluntary deferred compensation plan available to all State employees and County employees whose County employers do not offer their own deferred compensation plan. The Plan permits employees to defer a portion of their salary until future years. The deferred compensation is available to employees upon termination, retirement, death, an unforeseeable emergency, upon reaching the age of 70 ½, or if the member meets the “de minimus” status (the member’s account balance is less than $5,000 and no contributions have been made to the Plan in the prior two years).

Participants of the Plan are required to defer a minimum of $25 each month. Additionally, deferrals must not exceed the lesser of 100% of includible compensation or the annual deferral limit established under Internal Revenue Code (IRC) 457. During calendar year 2017, the annual deferral limit was $18,000. Exceptions to the maximum deferral include the Age 50 Catch-Up and Section 457 Three Year Catch-Up elections.

Members at age 50 could elect the Age 50 Catch-Up, which allowed them to defer the Plan ceiling of $18,000, plus an additional $6,000 for calendar year 2017. Members within three years of retirement were allowed to elect the Section 457 Three Year Catch-Up. Under this election, the member was allowed to defer the lesser of twice the current year’s Plan ceiling, $36,000, or the Plan ceiling plus the underutilized limitation from prior year contributions. The underutilized limitation is the sum of the current year’s Plan ceiling and the Plan ceiling for any prior years less any compensation deferred during those prior years. The Age 50 Catch-Up and the Section 457 Three Year Catch-Up elections cannot be utilized at the same time.

Ameritas Life Insurance Company (Ameritas) is a private sector administrator of the Plan, with the exception of the member accounts maintained at MassMutual Retirement Services (MassMutual). MassMutual is also a private sector administrator of the Plan. Originally, the Plan invested through the private sector administrator Hartford, until 1997 when NPERS ended new contributions to Hartford and contracted for services with Ameritas. Members were able to maintain their accounts at Hartford or transfer their balances to Ameritas. No additional contributions were allowed in the Hartford funds. In 2013, MassMutual took over the record-keeping and custodial services of Hartford.

The Nebraska State Treasurer contracts with State Street Bank (SSB) to be the custodian of the Plan’s funds, with the exception of the assets held at MassMutual. The investments at MassMutual had an approximate value of $34 million at December 31, 2017.

The Nebraska Investment Council contracts with several investment managers, who manage each of the funds held at SSB. Each investment manager charges management fees, which are deducted from the returns on the investment funds. Similarly, members with balances in the MassMutual plan have investment options, and the investment managers of those funds also charge management fees, which are deducted from the returns on the investment funds.
NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
DEFERRED COMPENSATION PLAN

KEY OFFICIALS AND AGENCY CONTACT INFORMATION

Public Employees Retirement Board Members

Janis Elliott
Chairperson – School Member
Term Ending January 1, 2019

Open
Public Member

Dennis Leonard
Vice-Chair – State Patrol Member
Term Ending January 1, 2020

Denis Blank
State Member
Term Ending January 1, 2020

J. Russell Derr
Judge Member
Term Ending January 1, 2020

Kelli Ackerman
School Member
Term Ending January 1, 2020

Pamela Lancaster
County Member
Term Ending January 1, 2021

Jim Schulz
Public Member
Term Ending January 1, 2022

Michael W. Walden-Newman
Ex-Officio (State Investment Officer)

Nebraska Public Employees Retirement Systems Executive Management

Randy Gerke
Director

Orron Hill
Deputy Director

Teresa Zulauf
Controller

Nebraska Public Employees Retirement Systems
1526 K Street, Suite 400
P.O. Box 94816
Lincoln, NE 68509
npers.ne.gov
NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
DEFERRED COMPENSATION PLAN

SUMMARY OF COMMENTS

During our examination of the Nebraska Public Employees Retirement Systems (NPERS) – Deferred Compensation Plan, we noted certain deficiencies and other operational matters that are presented here. The following comment is required to be reported in accordance with Government Auditing Standards: Comment #1, “Review of MassMutual,” which is considered to be a significant deficiency.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. **Review of MassMutual:** NPERS utilized MassMutual as a service organization for the recordkeeping and custodial functions for approximately $34 million in plan assets. NPERS lacked appropriate policies and procedures related to funds held at MassMutual.

2. **MassMutual Required Minimum Distributions:** NPERS did not have adequate procedures in place to ensure Federal minimum distribution requirements were met for MassMutual members.

3. **Unallocated Account Procedures:** NPERS utilized an “Unallocated Account” at Ameritas for contributions not allocated to specific members; however, NPERS lacked adequate procedures to monitor and timely resolve transactions posted to this account.

4. **Annuity Contract Compliance:** NPERS did not have procedures in place to ensure member-elected annuities were calculated in accordance with NPERS’ contract.

More detailed information on the above items is provided hereinafter. It should be noted that this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths of the NPERS – Deferred Compensation Plan.

Draft copies of this report were furnished to NPERS to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next examination.
1. **Review of MassMutual**

NPERS utilized MassMutual as the record keeper and custodian for approximately $34 million in plan assets. As such, MassMutual is considered a Service Organization for the Deferred Compensation Plan. We noted NPERS lacked appropriate policies and procedures related to the funds held at, and transactions processed by, MassMutual. Additional details are provided below and in Comment and Recommendation Number 2 (“MassMutual Required Minimum Distributions”).

**Service Organization Control Report**

A Service Organization Control (SOC) report provides an independent assessment of the controls at the service organization providing services to the user entity. The SOC report also provides information on controls the user entity should have to complement the service organization’s controls. The user entity should review the SOC report to ensure the service organization’s controls are operating effectively and the user entity has implemented appropriate complementary controls.

MassMutual SOC reports for the record keeping and custodial functions were completed by an independent auditing firm for the period October 1, 2016, through September 30, 2017. However, NPERS lacked appropriate procedures to obtain and review the SOC reports in a timely fashion. NPERS did not obtain and review the reports until requested by the APA as part of the present examination.

Without obtaining and reviewing the SOC reports, there is an increased risk the service organization could have control weaknesses about which NPERS would be unaware. In addition, a review of the SOC reports is necessary for NPERS to implement controls complementary to those of the service organization.

**Distribution Procedures**

We noted several issues with NPERS’ procedures, or lack thereof, regarding distributions processed by MassMutual. Total distributions processed by MassMutual during 2017 were $3,871,704.

- NPERS did not perform any procedures to ensure distributions processed by MassMutual were proper. NPERS received reports of distributions from MassMutual; however, detailed reviews of these reports to ensure member payments were proper, payment options agreed to member forms, and amounts distributed agreed to member requests, were not performed. Additionally, we noted NPERS lacked procedures to ensure notification when a member made a change to his or her Systematic Withdrawal Option (SWO) amount. Instead, members make this change directly with MassMutual. Without this information, NPERS was not able to verify members were receiving the correct payment amounts.

- MassMutual’s requests for distribution forms were not required to be notarized, and there were no compensating procedures to ensure the individual requesting distribution or changes to his or her distribution was the valid account holder. Without procedures to verify the individuals requesting distributions are proper, there is an increased risk of a member account being paid in error.
1. **Review of MassMutual** (Continued)

- NPERS did not have procedures to identify and follow up on deceased members with accounts held at MassMutual. Due to this, MassMutual could continue to pay member benefits after the member’s death, increasing the risk of a proper beneficiary not receiving the appropriate amount. Furthermore, we specifically noted no death certificate was on file for one deceased member tested, whose beneficiary received death benefits of $43,397.

Without adequate procedures to ensure member distributions are proper and valid, there is an increased risk of payments being made in error. Furthermore, without adequate death verification procedures, there is an increased risk of a deceased member continuing to receive payments, and NPERS making no attempt to recoup amounts paid in error for proper distribution to the member’s beneficiary.

**Investment Manager Fees**

NPERS did not have procedures to ensure fees charged by MassMutual, and the fund managers of the MassMutual investments, were reasonable and proper. Additionally, the SOC reports completed for MassMutual did not address any controls MassMutual may have to ensure fees are correctly assessed against member accounts. Consequently, NPERS was responsible for verifying whether fees charged were reasonable. Without procedures to verify fees, there is an increased risk fees charged to members will not be proper.

A good internal control plan requires an agency to obtain and review in a timely fashion a SOC report for any service organization providing services that are part of the entity’s business process. Furthermore, a good internal control plan also requires that procedures be in place to ensure distributions and fees posted to member accounts are proper.

A similar finding was noted in the previous report.

We recommend NPERS implement appropriate policies and procedures to ensure the following:

- A SOC report is obtained and reviewed in a timely manner for all service organizations utilized by the agency to ensure the service organization’s controls are operating effectively, and NPERS has controls in place to complement those of the service organization.
- Adequate procedures are established to review distribution reports received from MassMutual and to verify payments made are appropriate.
- A notarized signature is required for all distributions, or verification procedures are established to ensure the requested payment is valid.
1. **Review of MassMutual** (Concluded)

   - Death verification procedures are established to ensure deceased members are identified and payments are stopped timely.
   - Adequate procedures are established to ensure fees charged against member accounts are reasonable and proper.

   **NPERS Response:** NPERS has updated procedures to ensure SOC reports will be reviewed in a timely manner. NPERS will implement procedures to review distribution reports and verify MassMutual payments are appropriate. NPERS utilizes the MassMutual distribution form. The MassMutual form does not require a notarized signature. There is no statutory or regulatory requirement to have notarized signatures on our distribution forms. Further, members have repeatedly requested NPERS adopt electronic/online request for distribution options. As NPERS explores this possibility, NPERS must also consider: (a) removing the requirement for notarized signatures, and (b) implementing other safeguards for verifying the identity of the person requesting distribution. Such options include, but are not limited to, implementing the protocols outlined in Neb. Rev. Stat. § 86-611. In the short-term, NPERS has a planned meeting with MassMutual representatives to discuss how we can resolve the issue of having a notarized signature. NPERS will also discuss with MassMutual representatives the issue of fees charged against member accounts and how NPERS can make sure they are reasonable and proper. NPERS will also notify MassMutual as timely as possible any deceased members. Finally, Paragraph 003, Chapter 5, Title 303, Nebraska Administrative Code, outlines alternative methods for proof of death. These may be used to authorize payment of death benefits without a death certificate on file.

2. **MassMutual Required Minimum Distributions**

   We noted NPERS lacked adequate procedures to ensure Federal minimum distribution requirements were met for members at MassMutual. Annually, NPERS receives a report from MassMutual listing members that met minimum distribution requirements for the year and the minimum distribution they were due for the year. We noted the following concerns regarding required minimum distributions (RMD) for MassMutual members:

   - Members listed with an active employment status on the MassMutual RMD report, but noted by NPERS as terminated, were not communicated to MassMutual to ensure RMDs were properly paid in accordance with Federal requirements. The APA reviewed the MassMutual report and noted 18 out of 29 members noted as active had previously terminated employment.

   - If a member was listed on the RMD report, but was not in NPERS’ system, no further follow up was performed to ensure the member’s active status was proper. It is very likely members not in NPERS’ system would no longer be active employees, as all active employees were required to contribute to another retirement plan and would have had an account on NPERS’ system. Therefore, further follow up would be necessary to determine the termination date in order for an RMD to be paid. We noted one member who was designated as active on the MassMutual report but was not in NPERS’ system.
2. **MassMutual Required Minimum Distributions** (Concluded)

- NPERS did not perform procedures to verify the distributions performed by MassMutual were calculated and paid in accordance with Federal requirements.

Due to the lack of procedures noted above, we found that 1 of 15 members tested did not satisfy RMD requirements for 2017. The APA calculated a 2017 RMD of $8,324; however, this member received no distributions during the year.

26 U.S.C § 457(d)(2) sets minimum distribution requirements for Deferred Compensation Plans. However, this section defers back to the requirements of 26 U.S.C § 401(a)(9)(C)(i), which states the required begin date is April 1st of the calendar year following the later of: 1) the calendar year in which the employee attains age 70½; or 2) the calendar year in which the employee retires.

A good internal control plan requires procedures to ensure Federal minimum distribution requirements are properly met and calculated correctly.

Without such procedures, there is an increased risk Federal requirements will not be met, resulting in potential tax consequences for members.

A similar finding was noted in the previous report.

We recommend NPERS establish procedures to ensure adherence to Federal minimum distribution requirements. Furthermore, we recommend NPERS establish procedures for the proper review and follow up on the MassMutual RMD report to ensure members are paid in accordance with Federal requirements.

NPERS Response: NPERS will strengthen procedures as they relate to RMD’s. NPERS Internal Auditor and Benefits Manager will work together to ensure MassMutual RMD’s are paid timely and in accordance with Federal requirements.

3. **Unallocated Account Procedures**

NPERS has set up an “Unallocated Account” at the record keeper, Ameritas, that is used as a holding account for contributions received that cannot be allocated to a specific member. Generally, the Unallocated Account is used when a member makes ineligible contributions or the total payment issued to Ameritas does not agree to the underlying detail regarding the proper account to which the payment should be allocated. Based on NPERS records, the following table summarizes the number of transactions, as well as the dollar amount of transactions, that were going into, and out of, the unallocated account during 2017.
NPERS was unable to explain, or provide supporting documentation for, the purpose of five transactions that posted to the account during 2017. Consequently, the APA discussed these items with Ameritas and determined that two transactions out of the unallocated account, totaling $125, were member related, and one transaction for $50 was for the underpayment of contributions. The remaining two transactions into the allocated account, totaling $125, were member related.

As of December 31, 2017, the balance in the unallocated account was $12,259.

We noted several concerns with NPERS’ procedures regarding the use of the Unallocated Account, as described in additional detail below.

**Over and Underpayments**
For each payroll period, the Nebraska Department of Administrative Services (DAS) is responsible for creating a file from the State’s accounting system that contains the detail of all members’ contributions for the period. This file is then provided to Ameritas in order to post the correct amount of contributions to each member’s account. DAS is also responsible for issuing the payment to Ameritas for contributions withheld from employees’ paychecks. The total per the contribution detail file should agree with the actual payment issued to Ameritas. However, if the actual payment is more than the underlying detail, NPERS instructs Ameritas to post the excess to the unallocated account. Conversely, if the actual payment is less than the underlying detail, NPERS instructs Ameritas to pull the shortage out of the Unallocated Account, provided there is a sufficient balance to do so. NPERS does not perform a detailed review to determine the cause of the over and underpayments.

As shown in the table above, 15 transactions, totaling $78,736, were posted to the Unallocated Account for overpayment of contributions, and 15 transactions, totaling $133,159, were for the underpayment of contributions. Although the responsibility for creating the contribution detail file and issuing payments for the correct amount lies with DAS, NPERS should have appropriate procedures for reviewing the transactions that post to the unallocated account – as well as for taking appropriate steps to resolve the issues and prevent future over and underpayments from occurring. We did observe emails between NPERS and DAS attempting to set up a meeting to discuss the issues that were occurring; however, the over and underpayments continued to occur.
3. **Unallocated Account Procedures** (Concluded)

**Member Related Activity**

Member contributions to the plan may be ineligible for a variety of reasons, such as being made either before NPERS has received an enrollment form or in excess of the maximums established by the IRS. NPERS does not allow ineligible contributions to post to members’ accounts. Instead, they are posted to the unallocated account. Depending on the specific situation, oftentimes the ineligible contributions should be moved back to the member’s account.

NPERS utilized an Access database to identify and track ineligible contributions. Once an ineligible contribution was corrected, a note was added to the database to indicate the ineligible contribution was resolved and no further procedures were necessary. However, we noted these procedures were insufficient to ensure timely follow up and corrections were performed. During testing, we noted three members who had ineligible contributions posted to the unallocated account; however, after corrections were made, the contributions were not properly moved back to the members’ accounts. These three members were either not included in the database or a note was added to the database indicating the ineligible contribution was resolved, when in fact it was not.

The total amount that should have been moved back to the members’ accounts was $613. Additionally, these members would have earned a total of $18 in additional interest had their contributions been moved out of the Unallocated Account in a timely manner.

Sound business practice and a good internal control plan require that procedures be in place to investigate and correct the cause of over and underpayments. Additionally, a good internal control plan requires procedures to track ineligible contributions and ensure appropriate, timely corrective action is taken.

When payments issued do not agree to the underlying supporting data and the cause of such variances are not adequately investigated, there is an increased risk for the loss and/or misuse of funds. Furthermore, when ineligible contributions are not adequately tracked and corrections are not made in a timely manner, there is an increased risk member accounts will not be proper.

We recommend NPERS work with DAS to investigate and correct the cause of the over and underpayment of contributions. Additionally, we recommend procedures be implemented to ensure all activity posted to the Unallocated Account is adequately reviewed, and appropriate corrective action is taken in a timely manner.

**NPERS Response:** NPERS will work with DAS to determine the cause of over and underpayment of contributions. NPERS has updated the spreadsheet used to track the activity of the Unallocated Account. Accounting and the IT staff member assigned to this task will work together with Ameritas to make sure corrections are made properly in the account in a timely manner.
4. **Annuity Contract Compliance**

NPERS has contracts with United of Omaha and MassMutual to provide annuities to members of the Plan upon retirement. Both contracts specified rates used to calculate member annuities. However, NPERS did not have procedures in place to ensure the rates specified were used in the calculation. Furthermore, NPERS did not recalculate or review annuities to ensure the contracted rates were used.

During 2017, 19 Ameritas members with account balances totaling $1,707,450 and 1 MassMutual member with an account balance totaling $151,515 elected annuities.

A good internal control plan and sound business practice require procedures to ensure rates used in annuity calculations, as specified in vendor contracts, are proper.

Without such procedures, there is an increased risk members will not receive the proper annuity payments.

A similar finding was noted in the previous report.

We recommend NPERS ensure annuities processed by United of Omaha and MassMutual are calculated based on the rates specified in the contracts with those entities.

NPERS Response: NPERS will work with United of Omaha and MassMutual to ensure annuities are calculated correctly.
NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
DEFERRED COMPENSATION PLAN

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Public Employees Retirement Board
Lincoln, Nebraska

We have examined the accompanying Schedule of Plan Net Position – Cash Basis and Schedule of Changes in Plan Net Position – Cash Basis of the Nebraska Public Employees Retirement Systems (NPERS) – Deferred Compensation Plan for the period January 1, 2017, through December 31, 2017. NPERS’ management is responsible for the Schedule of Plan Net Position – Cash Basis, and Schedule of Changes in Plan Net Position – Cash Basis based on the accounting system and procedures set forth in Note 1. Our responsibility is to express an opinion on the schedules based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Schedule of Plan Net Position – Cash Basis and Schedule of Changes in Plan Net Position – Cash Basis is based on the accounting system and procedures set forth in Note 1, in all material respects. An examination involves performing procedures to obtain evidence about the Schedule of Plan Net Position – Cash Basis and Schedule of Changes in Plan Net Position – Cash Basis. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the schedules, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the Schedule of Plan Net Position – Cash Basis and Schedule of Changes in Plan Net Position – Cash Basis for the period January 1, 2017, through December 31, 2017, is based on the cash basis of accounting, as set forth in Note 1, in all material respects.
In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Schedule of Plan Net Position – Cash Basis and Schedule of Changes in Plan Net Position – Cash Basis; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement. We are also required to obtain and report the views of management concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the Schedule of Plan Net Position – Cash Basis and Schedule of Changes in Plan Net Position – Cash Basis are presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the Schedule of Plan Net Position – Cash Basis and Schedule of Changes in Plan Net Position – Cash Basis or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed a certain finding that is required to be reported under *Government Auditing Standards*, and that finding, along with the views of management, is described in the Comments Section of the report.

The purpose of this report is to express an opinion on the Schedule of Plan Net Position – Cash Basis and Schedule of Changes in Plan Net Position – Cash Basis, as described in paragraph one above. Accordingly, this report is not suitable for any other purpose. This report is a matter of public record, and its distribution is not limited.

August 9, 2018

Charlie Janssen
Auditor of Public Accounts
Lincoln, Nebraska
NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
DEFERRED COMPENSATION PLAN
SCHEDULE OF PLAN NET POSITION - CASH BASIS
DECEMBER 31, 2017

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<th>ASSETS</th>
<th>DEFERRED COMPENSATION</th>
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<td>Operating Fund</td>
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<td>Cash in State Treasury</td>
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<tr>
<td>Investments</td>
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<td>Investments Held at State Street Bank</td>
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<td>Investments Held at MassMutual</td>
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<tr>
<td>TOTAL ASSETS</td>
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</tbody>
</table>

| LIABILITIES | - |

| NET POSITION RESTRICTED FOR BENEFITS | $ 238,330,346 |

The accompanying notes are an integral part of the financial schedules.
### NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
### DEFERRED COMPENSATION PLAN
### SCHEDULE OF CHANGES IN PLAN NET POSITION - CASH BASIS
### FOR CALENDAR YEAR ENDED DECEMBER 31, 2017

#### ADDITIONS

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<td>Participant Contributions</td>
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<td>Rollover From Other Sources</td>
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<td>Net Appreciation in Fair Value of Investments</td>
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<td>Interest and Dividend Income</td>
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<td>Investment Expense</td>
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<td><strong>Total Additions</strong></td>
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#### DEDUCTIONS

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<td>Distributions to Members</td>
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<tr>
<td>Administrative Expenses</td>
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<tr>
<td><strong>Total Deductions</strong></td>
<td><strong>22,339,867</strong></td>
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**NET INCREASE**

<table>
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<tr>
<th>Amount</th>
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<td>$21,162,580</td>
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**NET POSITION HELD IN TRUST FOR BENEFITS:**

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<tr>
<td>BEGINNING OF YEAR</td>
<td>$217,167,766</td>
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<tr>
<td>END OF YEAR</td>
<td>$238,330,346</td>
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The accompanying notes are an integral part of the financial schedules.
1. **Criteria**

The accounting and financial reporting treatment applied to the Nebraska Public Employees Retirement Systems (NPERS) – Deferred Compensation Plan (Plan) is determined by its measurement focus and basis of accounting. The accounting records of the Plan are maintained and reported on the basis of cash additions and deductions. As such, the measurement focus includes only those assets and net position arising from cash transactions on the Schedule of Plan Net Position – Cash Basis and the Schedule of Changes in Plan Net Position – Cash Basis. Additions are recognized when received, and deductions are recognized when warrants are paid.

The NPERS Plan utilizes an operating cash fund, whose resources are used in the administration of the fund, and a trust fund which accounts for the member investments. The cash fund generates revenues from the basis point fees charged to members of the Plan maintained by Ameritas. The basis point fees are then used to pay for the administrative expenses of the Plan. The administrative expenses are incurred by both Ameritas and NPERS. During the calendar year 2017, Ameritas Plan members were charged 6 basis points. MassMutual also charges member accounts an administrative fee, but that fee is deducted directly from the member account and is not received or paid by NPERS. MassMutual charged 35 basis points per member balance during calendar year 2017. In addition to the administrative fees, the investment fund managers also charge fees for the services they provide. The investment fund manager fees are deducted from investments and are not processed through the operating cash fund utilized by NPERS.

The primary addition classifications used by the NPERS Plan are Contributions and Investment Income. Contributions are made by members from their paychecks or are rolled over from a member’s other retirement account. Investment Income is the appreciation in investments and investment interest and dividends less fees charged by investment managers.

The primary deduction classifications used by NPERS are Distributions to Members and Administrative Expenses. Distributions to Members are payments to members once they have terminated employment with the State or County. The distributions reported include those made by both Ameritas and MassMutual. Administrative Expenses are expenses incurred to administer the Plan and include expenses of NPERS and the Plan’s record keeper, Ameritas. These expenses do not include the fees charged by MassMutual, which are charged directly to member accounts and do not flow through NPERS’ operating cash fund.

2. **Reporting Entity**

NPERS was restructured by the Legislature in 1971 to administer the existing Nebraska retirement systems. Currently, NPERS is responsible for the administration of five retirement plans in addition to the Deferred Compensation Plan. The following are the five retirement plans administered: the School Employees, State Patrol, Judges, State Employees, and County Employees Retirement Plans.
2. **Reporting Entity** (Concluded)

The NPERS Board is comprised of eight members appointed by the Governor, with legislative approval, to five-year terms. Six of the appointed members must be active or retired participants in the retirement system. Those six members include the following: two participants in the School Retirement System, consisting of one administrator and one teacher; one participant in the Nebraska Judges Retirement System; one participant in the Nebraska State Patrol Retirement System; one participant in the Nebraska County Employees Retirement System; and one participant in the State Employees Retirement System.

Two appointed Board members must meet the following requirements: 1) not be an employee of the State of Nebraska or any of its political subdivisions; and 2) have at least 10 years of experience in the management of a public or private organization or have at least 5 years of experience in the field of actuarial analysis or the administration of an employee benefit plan.

The State Investment Officer serves as a nonvoting, ex-officio Board member.

NPERS is a part of the State of Nebraska reporting entity. The five retirement plans and the Deferred Compensation Plan are classified as pension trust fund types in the State of Nebraska Comprehensive Annual Financial Report.

Separate reports have been issued for the School Employees, Judges, and State Patrol Retirement Plans and the State and County Employees Retirement Plans.

The financial schedules reflect only the Deferred Compensation Plan and do not reflect all activity of NPERS.

3. **General Cash**

General cash accounts are under the control of the State Treasurer or other administrative bodies, as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State’s Investment Council, which maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

4. **Investments**

Investments represent the balance of holdings reflected by the NPERS Plan record keepers. Plan members are able to invest in various funds offered by MassMutual or Ameritas. The different funds offered by each private sector administrator are identified in the Supplementary Information on the Exhibit D – Investment Returns.
SUPPLEMENTARY INFORMATION

Our examination was conducted for the purpose of forming an opinion on the Schedule of Plan Net Position – Cash Basis and Schedule of Changes in Plan Net Position – Cash Basis. Supplementary information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the Schedule of Plan Net Position – Cash Basis and Schedule of Changes in Plan Net Position – Cash Basis, and, accordingly, we express no opinion on it.
## PLAN BALANCES

<table>
<thead>
<tr>
<th>Year</th>
<th>Ameritas Balances</th>
<th>MassMutual Balances</th>
<th>Total Plan Balances</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$163,206,220</td>
<td>$39,419,475</td>
<td>$202,625,695</td>
</tr>
<tr>
<td>2014</td>
<td>$175,195,729</td>
<td>$38,135,134</td>
<td>$213,330,863</td>
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<tr>
<td>2015</td>
<td>$171,200,217</td>
<td>$35,337,304</td>
<td>$206,537,521</td>
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<tr>
<td>2016</td>
<td>$183,736,044</td>
<td>$33,414,624</td>
<td>$217,150,668</td>
</tr>
<tr>
<td>2017</td>
<td>$204,214,848</td>
<td>$34,075,636</td>
<td>$238,290,484</td>
</tr>
</tbody>
</table>

### Graph

- **MassMutual Balances:** $39,419,475 to $34,075,636
- **Ameritas Balances:** $163,206,220 to $204,214,848
# NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
## DEFERRED COMPENSATION PLAN
### CONTRIBUTIONS

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ameritas Contributions</td>
<td>$9,679,073</td>
<td>$10,436,402</td>
<td>$10,741,331</td>
<td>$10,393,757</td>
<td>$10,713,179</td>
</tr>
<tr>
<td>MassMutual Contributions *</td>
<td>$-</td>
<td>$232,846</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td><strong>Total Plan Contributions</strong></td>
<td><strong>$9,679,073</strong></td>
<td><strong>$10,669,248</strong></td>
<td><strong>$10,741,331</strong></td>
<td><strong>$10,393,757</strong></td>
<td><strong>$10,713,179</strong></td>
</tr>
</tbody>
</table>

*MassMutual contributions consist of transfers into existing member accounts from other qualified plans, as members were no longer allowed to contribute to MassMutual accounts after 1997.*

![Graph of Contributions](chart.png)

- Ameritas Contributions: $9,679,073, $10,436,402, $10,741,331, $10,393,757, $10,713,179
# NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
## DEFERRED COMPENSATION PLAN
### DISBURSEMENTS

#### DISTRIBUTIONS

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ameritas Distributions</td>
<td>$12,325,217</td>
<td>$12,528,500</td>
<td>$18,558,012</td>
<td>$15,969,429</td>
<td>$18,265,218</td>
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<tr>
<td>Total Plan Distributions</td>
<td>$15,610,781</td>
<td>$16,367,450</td>
<td>$21,676,597</td>
<td>$19,650,460</td>
<td>$22,136,922</td>
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</tbody>
</table>

- Ameritas Distributions
- MassMutual Distributions

<table>
<thead>
<tr>
<th>Year</th>
<th>MassMutual Distributions</th>
<th>Ameritas Distributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$3,285,564</td>
<td>$12,325,217</td>
</tr>
<tr>
<td>2014</td>
<td>$3,838,950</td>
<td>$12,528,500</td>
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<tr>
<td>2015</td>
<td>$3,118,585</td>
<td>$18,558,012</td>
</tr>
<tr>
<td>2016</td>
<td>$3,681,031</td>
<td>$15,969,429</td>
</tr>
<tr>
<td>2017</td>
<td>$3,871,704</td>
<td>$18,265,218</td>
</tr>
</tbody>
</table>
**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS**  
**DEFERRED COMPENSATION PLAN**  
**INVESTMENT RETURNS**

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Investment Returns for Year Ending 12/31/17</th>
<th>Investment Returns for 3 Years Ending 12/31/17</th>
<th>Investment Returns for 5 Years Ending 12/31/17</th>
<th>Investment Returns for 10 Years Ending 12/31/17</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ameritas Funds:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small Company Stock Fund</td>
<td>11.5%</td>
<td>10.0%</td>
<td>14.6%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Large Company Growth Stock Index Fund</td>
<td>30.1%</td>
<td>13.8%</td>
<td>17.3%</td>
<td>10.1%</td>
</tr>
<tr>
<td>Large Company Value Stock Index Fund</td>
<td>13.8%</td>
<td>8.7%</td>
<td>14.1%</td>
<td>7.2%</td>
</tr>
<tr>
<td>S &amp; P Stock Index Fund</td>
<td>21.8%</td>
<td>11.4%</td>
<td>15.8%</td>
<td>8.6%</td>
</tr>
<tr>
<td>International Stock Index Fund</td>
<td>27.5%</td>
<td>8.1%</td>
<td>6.7%</td>
<td>2.1%</td>
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<tr>
<td>Bond Market Index Fund</td>
<td>3.6%</td>
<td>2.2%</td>
<td>2.2%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Stable Value Fund</td>
<td>1.8%</td>
<td>1.7%</td>
<td>1.7%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Money Market Fund</td>
<td>1.0%</td>
<td>0.6%</td>
<td>0.4%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Conservative Premixed Fund</td>
<td>7.9%</td>
<td>4.3%</td>
<td>5.0%</td>
<td>4.8%</td>
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<tr>
<td>Moderate Premixed Fund</td>
<td>12.4%</td>
<td>6.6%</td>
<td>8.2%</td>
<td>6.4%</td>
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<tr>
<td>Aggressive Premixed Fund</td>
<td>16.7%</td>
<td>8.6%</td>
<td>11.1%</td>
<td>7.1%</td>
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<tr>
<td>Investor Select Fund</td>
<td>15.4%</td>
<td>7.3%</td>
<td>9.5%</td>
<td>6.7%</td>
</tr>
<tr>
<td><strong>MassMutual Funds:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>American Century Value</td>
<td>8.1%</td>
<td>7.3%</td>
<td>12.7%</td>
<td>7.4%</td>
</tr>
<tr>
<td>American Funds Growth Fund of America</td>
<td>25.7%</td>
<td>12.5%</td>
<td>15.7%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Hartford Capital Appreciation HLS</td>
<td>21.7%</td>
<td>8.8%</td>
<td>13.8%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Hartford Dividend &amp; Growth HLS</td>
<td>18.0%</td>
<td>10.0%</td>
<td>14.5%</td>
<td>7.8%</td>
</tr>
<tr>
<td>SSgA S&amp;P 500 Flagship</td>
<td>21.0%</td>
<td>10.6%</td>
<td>15.0%</td>
<td>7.8%</td>
</tr>
<tr>
<td>T.Rowe Price Growth Stock</td>
<td>32.9%</td>
<td>13.9%</td>
<td>17.2%</td>
<td>9.4%</td>
</tr>
<tr>
<td>Goldman Sachs Mid-Cap Value</td>
<td>10.3%</td>
<td>3.8%</td>
<td>10.8%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Munder Mid-Cap Core Growth</td>
<td>23.7%</td>
<td>7.9%</td>
<td>12.8%</td>
<td>6.8%</td>
</tr>
<tr>
<td>SSgA S&amp;P MidCap Index</td>
<td>15.4%</td>
<td>10.3%</td>
<td>14.1%</td>
<td>9.2%</td>
</tr>
<tr>
<td>Hartford Small Company HLS</td>
<td>25.9%</td>
<td>5.4%</td>
<td>12.5%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Skyline Special Equities Portfolio</td>
<td>8.0%</td>
<td>6.9%</td>
<td>13.9%</td>
<td>9.8%</td>
</tr>
<tr>
<td>SSgA SC Ind Sec Lend</td>
<td>14.1%</td>
<td>9.4%</td>
<td>13.6%</td>
<td>8.2%</td>
</tr>
<tr>
<td>American Funds EuroPacific Growth</td>
<td>30.3%</td>
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<td>8.5%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Templeton Foreign</td>
<td>16.7%</td>
<td>6.3%</td>
<td>6.2%</td>
<td>1.9%</td>
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<tr>
<td>Hartford International Opportunities HLS</td>
<td>24.8%</td>
<td>8.5%</td>
<td>8.2%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Mutual Discovery</td>
<td>9.2%</td>
<td>5.6%</td>
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<td>5.0%</td>
</tr>
<tr>
<td>Hartford Total Return Bond HLS</td>
<td>4.8%</td>
<td>2.6%</td>
<td>2.3%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Loomis Sayles Bond</td>
<td>6.8%</td>
<td>2.2%</td>
<td>3.2%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Putnum High-Yield Advantage</td>
<td>6.4%</td>
<td>4.9%</td>
<td>4.5%</td>
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<tr>
<td>Hartford Advisers HLS</td>
<td>15.2%</td>
<td>6.7%</td>
<td>9.9%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Oakmark Equity &amp; Income</td>
<td>13.8%</td>
<td>5.9%</td>
<td>9.3%</td>
<td>6.2%</td>
</tr>
<tr>
<td>General Investment Account</td>
<td>4.0%</td>
<td>4.0%</td>
<td>4.0%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>