

**AUDIT REPORT  
OF THE  
NEBRASKA PUBLIC EMPLOYEES RETIREMENT  
SYSTEMS – SCHOOL EMPLOYEES, JUDGES, AND  
STATE PATROL RETIREMENT PLANS  
PENSION TRUST FUNDS OF THE STATE OF NEBRASKA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**Issued on February 19, 2019**

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

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NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**BACKGROUND**

The Nebraska Public Employees Retirement Board (Board) was created in 1971 to administer Nebraska retirement plans for school employees, State employees, judges, and the State Patrol. Administration of the retirement system for Nebraska county employees was assumed by the Board in 1973.

The Board has 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 Retirement System for Nebraska Counties; and
- ◆ One participant in the State Employees Retirement System.

Two appointed members must meet the following requirements:

- ◆ Cannot be an employee of the State of Nebraska or any of its political subdivisions; and
- ◆ Must 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.

Furthermore, the State Investment Officer serves as a nonvoting, ex-officio member.

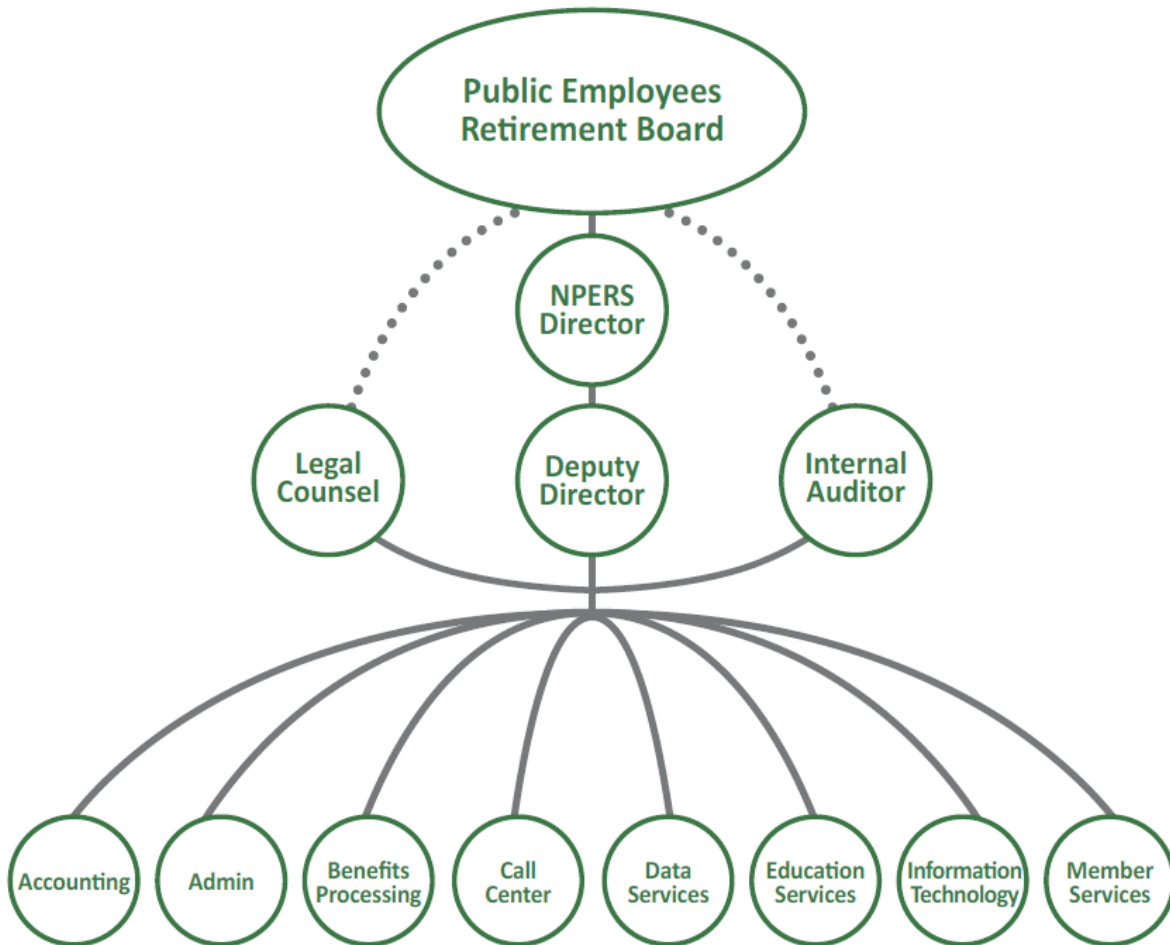
All appointed members must be Nebraska citizens. Members of the Board are paid \$50 per diem and are reimbursed for actual and necessary expenses. The Board hires a director to manage the day-to-day operations. Expenses are to be equitably distributed among the retirement systems. All expenses must be provided from investment income earned by various retirement funds, unless other fund sources to pay expenses are specified by law.

**MISSION STATEMENT**

The Nebraska Public Employees Retirement Systems seeks to administer the retirement systems with exceptional service, integrity, and commitment for the exclusive benefit of our plan members to ensure retirement security for their future.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**ORGANIZATIONAL CHART**



NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**KEY OFFICIALS AND AGENCY CONTACT INFORMATION**

**Public Employees Retirement Board Members**

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

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

Allen Simpson  
Public Member  
Pending Confirmation

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

**Nebraska Public Employees Retirement Systems Executive Management**

Randy Gerke  
Director

Teresa Zulauf  
Controller

Nebraska Public Employees Retirement Systems  
1526 K Street, Suite 400  
P.O. Box 94816  
Lincoln, NE 68509  
[npers.ne.gov](http://npers.ne.gov)



# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

### INDEPENDENT AUDITOR'S REPORT

Nebraska Public Employees Retirement Board  
Lincoln, Nebraska

#### **Report on the Financial Statements**

We have audited the accompanying Statements of Plan Net Position and Statements of Changes in Plan Net Position of the Nebraska Public Employees Retirement Systems (NPERS) – School Employees, Judges, and State Patrol Retirement Plans, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' basic financial statements, as listed in the Table of Contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NPERS' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1, the financial statements of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans are intended to present the financial position and the changes in financial position of only that portion of the State that is attributable to the transactions of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans. They do not purport to, and do not, present fairly the financial position of the State of Nebraska as of June 30, 2018, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in School Districts' Net Pension Liability, Schedule of Changes in the Judges' Net Pension Liability, Schedule of Changes in the State Patrol's Net Pension Liability, Schedule of Employer and Non-Employer Contributions, Schedule of Investment Returns, and Notes to the Required Supplemental Information on pages 33-45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted its Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements, which collectively comprise the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' basic financial statements. The Schedule of Administrative Expenses and Schedule of Investment-Related Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Administrative Expenses and Schedule of Investment-Related Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Administrative Expenses and Schedule of Investment-Related Expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2019, on our consideration of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the NPERS’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NPERS’s internal control over financial reporting and compliance.



Zachary Wells, CPA  
Audit Manager  
Lincoln, Nebraska

February 7, 2019



NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**STATEMENTS OF PLAN NET POSITION**  
JUNE 30, 2018

	School Employees	Judges	State Patrol
<b>ASSETS</b>			
Cash in State Treasury	\$ 8,311,840	\$ 122,960	\$ 191,520
Deposits with Vendors	\$ 9,091	\$ 94	\$ 94
Receivables			
Contributions	64,129,071	1,005,207	4,337,435
Interest & Dividend Income	18,210,084	294,446	644,617
Other Investment Receivables (Note 4)	1,043,693,644	16,868,881	37,001,239
Total Receivables	\$ 1,126,032,799	\$ 18,168,534	\$ 41,983,291
Investments, at Fair Value (Note 4):			
ADR's, GDR's & Trusts	8,627,814	139,449	305,866
Bank Loans	308,961,612	4,993,646	10,953,032
U.S. Treasury Notes and Bonds	289,149,053	4,673,422	10,250,655
Government Agency Securities	19,635,479	317,362	696,100
Corporate Bonds	775,165,951	12,528,755	27,480,494
International Bonds	259,869,760	4,200,190	9,212,672
Equity Securities	1,788,541,613	28,907,617	63,405,787
Private Equity	536,865,003	8,677,174	19,032,461
Options	(169,994)	(2,748)	(6,026)
Mortgages	643,268,315	10,397,087	22,804,977
Private Real Estate	812,145,653	13,126,446	28,791,466
Asset Backed Securities	202,382,193	3,271,038	7,174,674
Municipal Bonds	3,869,907	62,548	137,193
Commingled Funds	6,100,156,850	98,594,852	222,119,527
Short-Term Investments	169,655,239	2,742,103	6,275,532
Total Investments	\$ 11,918,124,448	\$ 192,628,941	\$ 428,634,410
Invested Securities Lending Collateral (Note 4)	\$ 231,319,727	\$ 3,738,746	\$ 8,200,541
Capital Assets (Note 9)			
Equipment	4,787,721	65,589	65,589
Less: Accumulated Depreciation	(4,783,971)	(65,532)	(65,532)
Total Capital Assets, net	\$ 3,750	\$ 57	\$ 57
<b>TOTAL ASSETS</b>	<b>\$ 13,283,801,655</b>	<b>\$ 214,659,332</b>	<b>\$ 479,009,913</b>
<b>LIABILITIES</b>			
Compensated Absences Payable (Note 5)	297,086	4,315	6,849
Accounts Payable and Accrued Liabilities	8,142,614	107,718	213,428
Obligations under Securities Lending (Note 4)	231,319,727	3,738,746	8,200,541
Other Investment Payables (Note 4)	1,407,743,325	22,752,898	49,906,065
<b>TOTAL LIABILITIES</b>	<b>\$ 1,647,502,752</b>	<b>\$ 26,603,677</b>	<b>\$ 58,326,883</b>
<b>NET POSITION RESTRICTED FOR PENSIONS</b>	<b>\$ 11,636,298,903</b>	<b>\$ 188,055,655</b>	<b>\$ 420,683,030</b>

The accompanying notes are an integral part of the financial statements.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**STATEMENTS OF CHANGES IN PLAN NET POSITION**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	School Employees	Judges	State Patrol
<b>ADDITIONS</b>			
<b>Contributions</b>			
Plan Member	191,483,632	1,814,533	4,615,214
Employer:			
Schools	190,657,058	-	-
Court Fees	-	4,112,543	-
State Patrol	-	-	4,615,214
State Appropriations	-	667,613	4,337,435
Non-Employer (Note 2)	40,582,547	-	-
Total Contributions	\$ 422,723,237	\$ 6,594,689	\$ 13,567,863
<b>Investment Income</b>			
Net Appreciation in Fair Value of Investments	806,330,403	13,097,137	28,739,838
Interest & Dividends	164,484,609	2,666,149	6,677,908
Securities Lending Income	4,529,478	73,208	160,575
Total Investment Income	\$ 975,344,490	\$ 15,836,494	\$ 35,578,321
<b>Investment Expense</b>			
Investment Expense	(44,272,625)	(715,792)	(1,595,532)
Securities Lending Expense	(3,108,398)	(50,240)	(110,196)
Net Investment Income	\$ 927,963,467	\$ 15,070,462	\$ 33,872,593
Other Additions	\$ 35,414	\$ 42	\$ 23,184
<b>TOTAL ADDITIONS</b>	<b>\$ 1,350,722,118</b>	<b>\$ 21,665,193</b>	<b>\$ 47,463,640</b>
<b>DEDUCTIONS</b>			
Benefits	571,234,208	10,144,103	19,807,411
Refunds of Contributions	15,236,771	-	4,021,269
Administrative Expense	3,300,321	71,266	89,102
Other Deductions (Note 6)	1,513,422	-	-
TOTAL DEDUCTIONS	\$ 591,284,722	\$ 10,215,369	\$ 23,917,782
<b>NET INCREASE IN PLAN NET POSITION</b>	<b>\$ 759,437,396</b>	<b>\$ 11,449,824</b>	<b>\$ 23,545,858</b>
<b>NET POSITION RESTRICTED FOR PENSIONS</b>			
<b>BEGINNING OF YEAR</b>	<b>\$ 10,876,861,507</b>	<b>\$ 176,605,831</b>	<b>\$ 397,137,172</b>
<b>END OF YEAR</b>	<b>\$ 11,636,298,903</b>	<b>\$ 188,055,655</b>	<b>\$ 420,683,030</b>

The accompanying notes are an integral part of the financial statements.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**

For the Fiscal Year Ended June 30, 2018

**1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The accompanying basic financial statements of the Nebraska Public Employees Retirement Systems (NPERS) – School Employees, Judges, and State Patrol Retirement Plans have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**B. 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 and the Deferred Compensation Plan. The five retirement plans administered are the School Employees, State Patrol, Judges, State Employees, and County Employees Retirement Plans.

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. The six members include: 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 Retirement System for Nebraska Counties; and one participant in the State Employees Retirement System. Two appointed 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 organizations 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 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 State Employees and County Employees Retirement Plans for the calendar year ended December 31, 2017, and the Deferred Compensation Plan for the calendar year ended December 31, 2017.

The financial statements reflect only the School Employees, Judges, and State Patrol Retirement Plans and do not reflect all activity of the Nebraska Public Employees Retirement Systems.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**1. Summary of Significant Accounting Policies** (Continued)

**C. Measurement Focus, Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. Pension funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statements of Plan Net Position.

The School Employees, Judges, and State Patrol Retirement Plans' financial statements were prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded when a liability is incurred. Employee and employer contributions are recognized in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of each Plan.

**D. Cash in State Treasury**

Cash in the State Treasury represents the cash balance of a fund, as reflected in the State's General Ledger, and is under the control of the State Treasurer or other administrative bodies, as determined by law. This classification includes bank accounts and short-term investments. These short-term investments may have original maturities (remaining time to maturity at acquisition) greater than three months; however, cash is available and is considered cash for reporting purposes. Banks pledge collateral, as required by law, to guarantee State funds held in time and demand deposits.

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 these investments is allocated to funds based on their percentage of the investment pool.

**E. Investments**

As reported in the financial statements, investments include long-term investments. Law or legal instruments may restrict these investments. All investments are stated at fair value based on quoted market prices. For investments where no readily ascertainable fair value exists, management has received an estimate of fair value from the investment fund manager based, in part, on real estate appraisals. The State Treasurer is the custodian of all funds; however, investment of funds is the responsibility of the Nebraska Investment Council.

Although the investments of the plans are commingled, each plan's investments may be used only for the payment of benefits to the members of that plan, in accordance with the terms of the plan.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

1. **Summary of Significant Accounting Policies** (Concluded)

**F. Capital Assets**

Capital assets consist of computer software and equipment. All capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist.

Generally, equipment that has a cost in excess of \$5,000 at the date of acquisition and has an expected useful life of more than one year is capitalized. Equipment is depreciated over 3 to 10 years using the straight-line method.

**G. Compensated Absences**

All permanent employees working for NPERS earn sick and vacation leave. Temporary and intermittent employees and Board members are not eligible for paid leave. The liability has been calculated using the vesting method, in which leave amounts, for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

NPERS' employees accrue vested vacation leave at a variable rate based on years of service. Generally, accrued vacation leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 240 days. There is no maximum limit on the accumulation of sick leave days for employees under certain labor contracts. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55, or of a younger age if the employee meets all criteria necessary to retire under the primary retirement plan covering his/her State employment, at which time the State is liable for 25 percent of the employee's accumulated sick leave.

The plans recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

**H. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal year-end and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. **Plan Descriptions and Contribution Information**

Membership of each plan consisted of the following at July 1, 2018, the date of the last actuarial valuation:

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

2. **Plan Descriptions and Contribution Information** (Continued)

	School Employees	Judges	State Patrol
Inactive Plan Members or Beneficiaries			
Currently Receiving Benefits	24,486	190	445
Members in Deferred Retirement Option Plan (DROP)	-	-	33
Inactive Plan Members Entitled to but not yet Receiving Benefits	6,169	4	28
Inactive Nonvested Members	16,940	-	8
Active Plan Members	42,349	147	395
	89,944	341	909

The Nebraska Public Employees Retirement Board (Board) was created in 1971 to administer the Nebraska retirement plans. The School Employees, Judges, and State Patrol plans have been created in accordance with Internal Revenue Code Sections 401(a), 414(h), and 414(k). Participants should refer to Neb. Rev. Stat. §§ 79-901 through 79-977.03 (Reissue 2014, Cum. Supp. 2018) for the School Employees Retirement Act, Neb. Rev. Stat. §§ 24-701 through 24-714 (Reissue 2016, Cum. Supp. 2018) for the Judges Retirement Act, and Neb. Rev. Stat. §§ 81-2014 through 81-2041 (Reissue 2014, Cum. Supp. 2018) for the State Patrol Retirement Act. Benefit and contribution provisions are established by State law and may be amended only by the Nebraska Legislature.

By State law, there is to be an equitable allocation of expenses among the retirement plans administered by the Board, and all expenses must be provided from the investment income earned by the various retirement funds. Following is a summary of the School Employees, Judges, and State Patrol Retirement Plans.

**School Employees Retirement**

**Plan Description.** The School Employees Retirement Plan is a cost-sharing multiple-employer defined benefit pension plan. In 1945, the Legislature enacted the law establishing a retirement plan for school employees of the State. During fiscal year 2018, there were 265 participating school districts. These were the districts that had contributions during the fiscal year. All regular public school employees in Nebraska, other than those who have their own retirement plans (Class V school districts, Nebraska State Colleges, University of Nebraska, Nebraska Community Colleges), are members of the plan.

Normal retirement is at age 65. For an employee who became a member before July 1, 2013, the monthly benefit is equal to the greater of the following: 1) the sum of a savings annuity, which is the actuarial equivalent of the member's accumulated contributions and a service annuity equal to \$3.50 per year of service; or 2) the monthly average of the three 12-month periods of service as a school employee in which such compensation was the greatest, multiplied by total years of creditable service, multiplied by a formula factor of two percent, and an actuarial factor based on age.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

2. **Plan Descriptions and Contribution Information** (Continued)

For an employee who became a member on or after July 1, 2013, the monthly benefit is equal to the greater of the following: 1) the sum of a savings annuity, which is the actuarial equivalent of the member's accumulated contributions and a service annuity equal to \$3.50 per year of service; or 2) the average of the five 12-month periods of service as a school employee in which such compensation was the greatest, multiplied by total years of creditable service, multiplied by a formula factor of two percent, and an actuarial factor based on age.

Benefit calculations vary with early retirement. Employees' benefits are vested after five years of plan participation or when termination occurs at age 65 or later.

For school employees who became members prior to July 1, 2013, the benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment, which is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or two and one-half percent. The current benefit paid to a retired member or beneficiary is adjusted so that the purchasing power of the benefit being paid is not less than 75 percent of the purchasing power of the initial benefit.

For school employees who became members on or after July 1, 2013, the benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment, which is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or one percent. There is no purchasing power floor for employees who fall under this tier.

**Contributions.** The State's contribution is based on an annual actuarial valuation. In addition, the State contributes an amount equal to two percent of the compensation of all members. This contribution is considered a non-employer contribution since school employees are not employees of the State. The employee contribution was equal to 9.78 percent of compensation from July 1, 2017, to June 30, 2018. The school district (employer) contribution is 101 percent of the employee contribution.

**Judges Retirement**

**Plan Description.** The Judges Retirement Plan is a single-employer defined benefit pension plan, which was established by the 1955 Legislature. The membership includes judges and associate judges employed by the State for the Supreme Court, Court of Appeals, District Courts, Workers' Compensation Court, County Courts, and Juvenile Courts.

Retirement is at age 65. For an employee who became a member before July 1, 2015, the monthly benefit is calculated using the average monthly compensation for the three 12-month periods of service as a judge in which compensation was the greatest. For an employee who became a member on or after July 1, 2015, the monthly benefit is calculated using the average

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

2. **Plan Descriptions and Contribution Information** (Continued)

monthly compensation for the five 12-month periods of service as a judge in which compensation was the greatest or, in the event of a judge serving less than five 12-month periods, the average monthly compensation for such judge's period of service. Once compensation is determined, it is multiplied by the total years of service and the formula factor of 3.5 percent, subject to a maximum of 70 percent of the final average salary. The calculation varies with early retirement. Benefits vest when the judge takes office.

The benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment. For an employee who became a member prior to July 1, 2015, the cost-of-living adjustment is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or two and one-half percent. The current benefit paid to a retired member or beneficiary is adjusted so that the purchasing power of the benefit being paid is not less than 75 percent of the purchasing power of the initial benefit.

For an employee who became a member on or after July 1, 2015, the cost-of-living adjustment is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or one percent. Additionally, if the annual actuarial report indicates the plan is fully funded with a sufficient actuarial surplus, the retirement board has the authority to issue a supplemental lump-sum cost-of-living adjustment for that year. The supplemental cost-of-living adjustment cannot exceed one and one-half percent. There is no purchasing power floor for employees who fall under this tier.

**Contributions.** The plan is funded by members' contributions, a portion of the court fees, and the State's contributions. A six-dollar fee for each case is collected from District and County Courts, Juvenile Courts, the Workers' Compensation Court, the Supreme Court, and the Court of Appeals, plus a 10 percent charge on certain fees collected in the County Courts. In addition, in 2015, LB 468 increased the amount of County Court docket fees to be collected for the Judges Retirement Plan from two dollars to four dollars. The State's contribution is based on an annual actuarial valuation. Members, who entered the plan between July 1, 2004, and June 30, 2015, and those active members who elected within 90 days of July 1, 2004, contribute nine percent of their monthly salary until the maximum benefit has been earned. After earning the maximum benefit, members contribute five percent of their monthly salary for the remainder of their active service. All other members contribute seven percent of their monthly salary until the maximum benefit has been earned. After earning the maximum benefit, those members contribute one percent of their monthly salary for the remainder of their active service. Members entering the plan on or after July 1, 2015, contribute 10 percent of their monthly salary.

**State Patrol Retirement**

**Plan Description.** The State Patrol Retirement Plan is a single-employer defined benefit pension plan, which was created in 1947 for officers of the patrol. The plan includes two tiers of benefits, based on when members joined the plan. Tier one members joined the plan prior to July 1, 2016. Tier two members joined the plan on or after July 1, 2016.



NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

2. **Plan Descriptions and Contribution Information** (Concluded)

The benefits are based on a percentage of the final average salary multiplied by years of service, not to exceed 75 percent of the final average salary. To receive maximum benefits, officers are required to have 25 years of service and be at least 50 years old.

For tier one members, normal benefits are calculated using the average monthly salary for the three 12-month periods of service in which compensation was the greatest multiplied by years of service and the formula factor of three percent. The benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment that is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or two and one-half percent. The current benefit paid to a retired member or beneficiary is adjusted so that the purchasing power of the benefit being paid is not less than 60 percent of the purchasing power of the initial benefit.

For tier two members, normal benefits are calculated using the average monthly salary for the five 12-month periods of service in which compensation was the greatest multiplied by years of service and the formula factor of three percent. The benefit paid to a retired member or beneficiary receives an annual cost-of-living adjustment that is increased by the lesser of the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers or one percent. If the plan is fully funded, the Public Employees Retirement Board may elect to issue a supplemental lump-sum cost-of-living payment for that year, not to exceed one and one-half percent. There is no purchasing power floor for tier two members.

Benefit calculations will vary with early retirement. Benefits are fully vested after 10 years of service.

**Contributions.** Tier one members are required to contribute 16 percent of their annual pay. Tier two members are required to contribute 17 percent of their annual pay. The State Patrol's (employer) contribution is 16 percent and 17 percent of the employee's annual pay, respectively. The State's contribution is based on an annual actuarial valuation.

**Deferred Retirement Option Plan (DROP).** Neb. Rev. Stat. § 81-2041 (Cum. Supp. 2018) established the Patrol DROP effective September 1, 2008. The DROP is a voluntary deferred retirement plan that a member can enter between the ages of 50 and 60, with 25 years of service. The DROP is only available to tier one members. Upon choosing to participate in DROP, the member is deemed to have retired; however, the member continues in active employment for up to a five-year period with no retirement contributions withheld from his or her paychecks. When the member enters DROP, the individual's monthly benefit is calculated and paid into an Internal Revenue Code (IRC) § 414(k) Deferred Compensation Plan (DCP), held by the record keeper, Ameritas. After the member retires (60 years of age) or has been in DROP for five years, whichever occurs first, the member then has the option to receive a lump sum payment and/or rollover the funds in the DCP account to another qualified plan. Thereafter, future retirement benefit payments are made directly to the member.

The balance of the DROP at June 30, 2018, was \$6,126,341.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**3. Funded Status and Funding Progress**

The components of the net pension liability for the plans at July 1, 2018, the most recent actuarial valuation date, were as follows:

	(a) Total Pension Liability	(b) Plan Fiduciary Net Position	(a-b) Net Pension Liability	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
School	\$ 13,001,288,461	\$ 11,636,298,903	\$ 1,364,989,558	89.50%
Judges	194,269,172	188,055,655	6,213,517	96.80%
State Patrol	480,092,201	420,683,030	59,409,171	87.63%

The key actuarial assumptions, as of the latest actuarial valuation date, are as follows:

	<u>School Employees</u>	<u>Judges</u>	<u>State Patrol</u>
Valuation date	July 1, 2018	July 1, 2018	July 1, 2018
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent of Payroll, Closed	Level Percent of Payroll, Closed	Level Percent of Payroll, Closed
Single equivalent amortization period	19 Years	22 Years	21 Years
Asset valuation method	5 year smoothed market	5 year smoothed market	5 year smoothed market
<u>Actuarial assumptions:</u>			
Inflation	2.75%	2.75%	2.75%
Investment rate of return, net of investment expense and including inflation	7.5%	7.5%	7.5%
Projected salary increases, including inflation	3.5% - 8.5%	3.5%	3.5% - 9.0%
Cost-of-living adjustments (COLA)	2.25% with a floor benefit equal to 75% purchasing power of original benefit*	2.25% with a floor benefit equal to 75% purchasing power of original benefit**	2.25% with a floor benefit equal to 60% purchasing power of original benefit***

\*1% and no floor benefit for members joining on or after July 1, 2013

\*\*1% and no floor benefit for members joining on or after July 1, 2015

\*\*\*1% and no floor benefit for members joining on or after July 1, 2016

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**3. Funded Status and Funding Progress** (Continued)

The Judges, Patrol and School plans' pre-retirement mortality rates were based on the RP-2014 White Collar Table for Employees (100% of male rates for males, 55% of female rates for female), projected generationally with MP-2015.

The Judges, Patrol, and School plans' post-retirement mortality rates were based on the RP-2014 White Collar Table for Employees, set back two years, scaled (males: under 80, 1.008; over 80, 1.449; females: under 85, 0.924; over 85 1.5855; geometrically blended), projected generationally with a Society of Actuaries projection scale tool using 0.5% ultimate rate in 2035.

The Judges, Patrol, and School plans' disability mortality rates were based on the RP-2014 Disabled Lives Table (static table).

The actuarial assumptions used in the July 1, 2018, valuations for the School Employees, Judges, and Patrol plans are based on the results of the most recent actuarial experience study, which covered the four-year period ending June 30, 2015. The experience study report is dated November 17, 2016.

The long-term expected real rate of return on pension plan investments was based upon the expected long-term investment returns provided by a consultant of the Nebraska Investment Council, who is responsible for investing the pension plan assets. The School Employees, Judges, and State Patrol plans commingle their investments; thus, the target allocations are the same for each of the plans. The return assumptions were developed using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2018, (see the discussion of the pension plans' investment policy) are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return *
Large Cap US Equity	26.1%	5.83%
Small Cap US Equity	2.9%	7.56%
Global Equity	15.0%	6.51%
International Developed Equity	10.8%	6.80%
Emerging Markets	2.7%	10.55%
Core Bonds	20.0%	1.63%
High Yield	3.5%	5.22%
Bank Loans	5.0%	2.78%
International Bonds	1.5%	1.41%
Private Equity	5.0%	9.70%
Real Estate	7.5%	5.18%
Total	100.00%	

\*Arithmetic mean, net of investment expenses

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**3. Funded Status and Funding Progress** (Concluded)

**Discount Rate.** The discount rate used to measure the Total Pension Liability at June 30, 2018, was seven and a half percent. The discount rate is reviewed as part of the actuarial experience study, which was last performed for the period July 1, 2011, through June 30, 2015. The actuarial experience study is reviewed by the NPERS Board, which must vote to change the discount rate.

The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate, and contributions from employers and nonemployers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projected future benefit payments for all current plan members were projected through 2117.

**Sensitivity of the net pension liability to changes in the discount rate.** The following presents the net pension liability of the plans calculated using the discount rate of seven-and-a-half percent, as well as what the plans' net pension liability/(asset) would be if it were calculated using a discount rate that is one percentage point lower (six and a half percent) or one percentage point higher (eight-and-a-half percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability/(Asset):			
School	\$ 3,112,253,733	\$ 1,364,989,558	\$ (78,857,001)
Judges	26,350,768	6,213,517	(11,067,831)
Patrol	125,849,416	59,409,171	5,373,466

**4. Investments**

**Investments.** Listed below is a summary of the investment portfolio that comprises the Investments on the Statements of Plan Net Position. All securities purchased or held must be in the custody of the State or deposited with an agent in the State's name. Neb. Rev. Stat. § 72-1239.01(3) (Reissue 2018) directs the appointed members of the Nebraska Investment Council to do the following:

*[A]ct with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims by diversifying the investments of the assets of the retirement systems . . .*

The pension plans' policy in regard to the allocation of invested assets is established and may be amended by the Nebraska Investment Council. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The following table sets out the Nebraska Investment Council's target investment allocation during the year:

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

Asset Class	Target Allocation
Large Cap US Equity	26.1%
Small Cap US Equity	2.9%
Global Equity	15.0%
International Developed Equity	10.8%
Emerging Markets	2.7%
Core Bonds	20.0%
High Yield	3.5%
Bank Loans	5.0%
International Bonds	1.5%
Private Equity	5.0%
Real Estate	7.5%
Total	100.00%

The table below presents all investments stated at fair value using valuation techniques to measure fair value, followed by a table presenting investments at fair value for financial statement purposes, with debt securities presented with effective duration.

The Plans utilize a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets that the Plans have the ability to access at the measurement date. Instruments categorized in Level 1 consist primarily of a broadly traded range of equity and debt securities.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset.

Fair value is based on actively quoted market prices, if available. In the absence of actively quoted market prices, price information from external sources, including broker quotes and industry publications, is used. If pricing information from external sources is not available or if observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value using discounted cash flows and other income valuation approaches.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

**Plan Investments at June 30, 2018, at Fair Value Measurement Using:**

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Debt Securities				
Bank Loans	\$ 324,908,290	\$ -	\$ 324,908,290	\$ -
US Treasury Notes	304,073,130	-	304,073,130	-
Government Agency Securities	20,648,941	-	20,648,941	-
Corporate Bonds	815,175,200	-	814,403,832	771,368
International Bonds	273,282,622	-	273,282,622	-
Asset Backed Securities	212,827,905	-	211,026,184	1,801,721
Short-Term Investments	178,670,996	5,805,163	172,865,833	-
Commingled Debt	552,315,525	552,315,525	-	-
Mortgages	676,470,379	257,962	676,212,417	-
Municipal Bonds	4,069,648	-	4,069,648	-
	<u>3,362,442,636</u>	<u>558,378,650</u>	<u>2,801,490,897</u>	<u>2,573,089</u>
Other Investments				
ADR's, GDR's & Trusts	9,073,129	9,073,129	-	-
Commingled Funds	5,868,438,440	2,421,638,595	3,446,799,845	-
Equity Securities	1,880,855,017	1,880,845,363	9,654	-
Options	(178,768)	(9,951)	(168,817)	-
	<u>\$ 11,120,630,454</u>	<u>\$ 4,869,925,786</u>	<u>\$ 6,248,131,579</u>	<u>\$ 2,573,089</u>
Investments Measured at the Net Asset Value (NAV):		<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Private Real Estate Funds:				
Core	\$ 548,308,539	\$ -	Quarterly	90 days
Non-Core	200,887,996	127,992,916		
Opportunistic Credit	104,867,030	80,638,092		
Private Equity Funds	564,574,638	420,609,110		
Commingled Funds	117,264	-		
Short-Term Investment Funds	1,878	-		
Total Investments Measured at Net Asset Value	<u>\$ 1,418,757,345</u>	<u>\$ 629,240,118</u>		
Total	\$ 12,539,387,799			
Securities Lending Collateral	<u>243,259,014</u>			
Total Investments at Fair Value	<u>\$ 12,782,646,813</u>			

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**4. Investments** (Continued)

Debt securities and other investments classified in Level 1 are valued using prices quoted in active markets for those securities. Debt securities and other investments classified in Level 2 are valued using the following approaches:

- U.S. Treasury Notes and Bonds, Government Agency Securities, and Short-Term Investments: quoted prices for identical securities in markets that are not active.
- Corporate, International, Municipal Bonds, and Equity Securities: quoted prices for similar securities in active markets.
- Asset Backed Securities, Bank Loans, and Mortgages: matrix pricing, based on accepted modeling and pricing conventions, of the securities' relationship to benchmark quoted prices.
- Commingled Funds: published fair value per share (unit) for each fund.

Debt securities and other investments, including Asset-Backed Securities, Corporate Bonds, and Mortgages, classified in Level 3, are valued using unobservable inputs, such as reviews, recommendations and adjustments made by portfolio management, or the use of internal data to develop unobservable inputs if there is no objective information available without incurring undue cost and effort.

Certain investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) have not been categorized in the fair value hierarchy. The fair value amounts at NAV presented in the above table are intended to permit reconciliation of the fair value hierarchy to the amount presented on the Statements of Plan Net Position. Investments valued using the net asset value per share are considered "alternative investments" and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. The Plans value these investments based on the partnerships' audited financial statements. If June 30 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than June 30. If June 30 valuations are not available, the value is progressed from the most recently available valuation taking into account subsequent calls and distributions.

**Other investments not classified.** The \$243,259,014 in Securities Lending Short-Term Collateral Investment Pool Investments, which are investments loaned to broker-dealers and banks under the securities lending program, were not classified for fair value measurement purposes.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

**School Employees, Judges, and Patrol Retirement Plans Investments  
at June 30, 2018**

	<b>Fair Value</b>	<b>Effective Duration</b>
Debt Securities		
Bank Loans	\$ 324,908,290	0.57
U.S. Treasury Notes and Bonds	304,073,130	8.66
Government Agency Securities	20,648,941	4.49
Corporate Bonds	815,175,200	5.09
International Bonds	273,282,622	6.55
Asset Backed Securities	212,827,905	0.78
Short-Term Investments	178,672,874	-
Commingled Debt	522,315,525	5.70
Mortgages	676,470,379	3.44
Municipal Bonds	4,069,648	6.75
Other Investments		
ADR's, GDR's, and Trusts	9,073,129	
Commingled Funds	5,868,555,704	
Private Equity Securities	564,574,638	
Equity Securities	1,880,855,017	
Options	(178,768)	
Private Real Estate Funds Trust	854,063,565	
Total Investments	12,539,387,799	
Invested Securities Lending Collateral	243,259,014	
Total	\$ 12,782,646,813	

**Interest Rate Risk.** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.



NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**4. Investments** (Continued)

**Credit Risk of Debt Securities.** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State has contracts with investment managers that set minimum average quality ratings for its core fixed income accounts at an A. The maximum exposure to any single investment grade issuer, excluding the U.S. government, its agencies or instrumentalities, or government-sponsored entities, is five percent, and the maximum exposure to a single issuer below investment grade is three percent. NPERS' rated debt investments as of June 30, 2018, were rated by Standard and Poor's and/or an equivalent national rating organization, and the ratings are presented below using the Standard and Poor's rating scale.

**School Employees, Judges, and State Patrol Retirement Plan Investments  
at June 30, 2018**

	Fair Value	Quality Ratings						
		AAA	AA	A	BBB	BB	B	Unrated
Asset Backed Securities	\$ 212,827,905	\$114,602,282	\$12,094,400	\$ 8,260,106	\$12,223,099	\$ 1,249,709	\$ 4,893,416	\$ 59,504,893
Bank Loans	324,908,290	-	-	-	-	-	-	324,908,290
Commingled Debt	552,315,525	-	-	-	-	-	-	552,315,525
Corporate Bonds	815,175,200	8,614,991	30,723,571	185,521,572	429,409,782	92,414,021	24,254,865	44,236,398
Government Agency Securities	20,648,941	-	17,228,087	2,382,194	489,134	-	-	549,526
International Bonds	273,282,622	10,812,152	28,407,976	39,641,634	21,703,028	13,739,997	8,859,145	150,118,690
Mortgages	676,470,379	12,890,417	3,333,647	7,233,366	1,613,830	2,092,290	1,364,955	647,941,874
Municipal Bonds	4,069,648	597,243	1,642,744	1,171,051	658,610	-	-	-
Short-Term Investments	178,672,874	-	-	-	77,810	-	-	178,595,064

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

**Concentration of Credit Risk.** Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The State has contracts with investment managers that limit the maximum amount for an issuer, excluding U.S. Treasury, U.S. Agency, mortgages, and non-U.S. sovereign issuers, to five percent of the total account.

At June 30, 2018, NPERS had no debt security investments, from a single entity, that comprised more than five percent of total investments.

**Foreign Currency Risk.** Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The State does not have a formal policy to limit foreign currency risk. NPERS' exposure to foreign currency risk is presented in the following table.

**School Employees, Judges, and State Patrol Retirement Plans  
Foreign Currency at June 30, 2018**

	Corporate Bonds	Equity Securities	International Bonds	Mortgages	Private Equity	Short-Term Investments
Argentine Peso	\$ 840,144	\$ -	\$ 1,043,814	\$ -	\$ -	\$ 55,272
Australian Dollar	3,013,381	17,419,095	836,192	-	-	422,522
Brazilian Real	-	20,841,043	6,217,094	-	-	(306,310)
Canadian Dollar	-	18,680,544	7,595,359	-	-	7,662,804
Colombian Peso	1,937,065	-	52,993	-	-	-
Czech Koruna	-	-	229,678	-	-	-
Danish Krone	-	10,084,445	1,257,337	-	-	20,890
Euro Currency	47,523,698	277,417,404	48,453,594	-	46,517,682	2,557,648
Hong Kong Dollar	-	40,773,356	-	-	-	416,687
Indonesian Rupiah	-	1,238,133	-	-	-	27,024
Japanese Yen	-	172,720,635	84,254,515	-	-	1,725,317

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**4. Investments** (Continued)

	Corporate Bonds	Equity Securities	International Bonds	Mortgages	Private Equity	Short-Term Investments
Malaysian Ringgit	-	2,286,047	1,078,223	-	-	30,490
Mexican Peso	1,536,997	5,554,307	5,676,826	-	-	2,417
New Israeli Sheqel	-	770,442	616,443	-	-	2,217
New Zealand Dollar	-	4,018,280	16,825,661	-	-	11,220
Norwegian Krone	-	11,869,251	185,762	-	-	47,083
Polish Zloty	-	743,375	755,636	-	-	17
Pound Sterling	7,326,753	101,330,692	28,436,396	1,444,985	-	493,284
Russian Ruble	-	-	206,588	-	-	-
Singapore Dollar	-	-	1,623,793	-	-	-
South African Rand	-	1,256,704	1,830,509	-	-	66,634
South Korean Won	-	6,534,471	4,723,096	-	-	-
Swedish Krona	-	16,436,606	1,566,838	-	-	1,247
Swiss Franc	-	75,120,362	2,010,971	-	-	68,402
Thailand Baht	-	1,516,923	-	-	-	-
Turkish Lira	-	8,236,694	-	-	-	162,293
Yuan Renminbi	-	-	-	-	-	16
Total	<u>\$ 62,178,038</u>	<u>\$ 794,848,809</u>	<u>\$ 215,477,318</u>	<u>\$ 1,444,985</u>	<u>\$46,517,682</u>	<u>\$ 13,467,174</u>

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

**Securities Lending Transactions.** The State participates in securities-lending transactions, where securities are loaned to broker-dealers and banks with a simultaneous agreement to return the collateral for the same securities in the future. The State's primary custodial bank administers the securities-lending program and receives collateral in the form of cash, United States government or government agency obligations, sovereign debt rated A or better, or convertible bonds at least equal in value to the market value of the loaned securities. Securities on loan at year-end consisted of United States government obligations, equity securities, corporate bonds, and non-U.S. fixed income. At year-end, the State had no credit risk exposure to borrowers because the amounts the State owed the borrowers exceeded the amounts the borrowers owed the State. The collateral securities cannot be pledged or sold by the State unless the borrower defaults. There are no restrictions on the amount of securities that can be loaned, and there were no losses from borrower default during the year.

Either the State or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations from 10 to 27 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The custodian indemnifies the State against default by the borrower of securities but does not indemnify against the default by an issuer of a security held in the short-term investment funds where cash collateral is invested.

**Derivative Financial Instruments.** Derivative instruments are financial contracts whose underlying values depend on the values of one or more underlying assets, reference rates, or financial indices. These instruments are used primarily to enhance performance and reduce the volatility of the portfolio, in accordance with the Nebraska Investment Council-approved Derivatives Policy. The State invests in futures contracts, options, and swaps. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. Options represent the right, but not the obligation, to purchase or sell securities at a future date and at a specific price. The State invests in these contracts related to securities of the U.S. government or Government Agency obligations based on reference notes, which are traded on organized exchanges, thereby minimizing the State's credit risk. The net change in futures and options contract values are settled daily in cash with the exchanges. Swaps represent an exchange of streams of payments over time according to specified terms. All changes in fair value of derivatives are reflected in Investment Income, and the fair value of derivatives at June 30, 2018, is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments outstanding at June 30, 2018, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

**Derivative Investments at June 30, 2018**

Derivative	Change in		
	Fair Value	Fair Value	Notional
Credit Default Swaps	\$ (161,518)	\$ 3,148,114	\$ 164,195,737
Fixed Income Futures	(5,987,425)	-	79,508,542
Fixed Income Options	(103,023)	(168,817)	(32,873,235)
Foreign Currency Options	649,742	(315,923)	(32,691,064)
Futures Options	195,824	(9,951)	(53,072)
FX Forwards	(1,580,889)	2,536,477	674,440,530
Fixed Interest Rate Swaps	5,047,581	1,425,703	446,234,273
Index Future Longs	3,304,214	-	-
Rights	5,767	147,344	259,616
Warrants	(85)	-	-

The change in fair value denotes the net realized and unrealized gains and losses recognized during the period. The fair value of the derivative instruments at June 30, 2018, denotes the market value, with the exception of FX Forwards, which denotes the net realized and unrealized gains and losses recognized during the period. Furthermore, the Notional amount for Futures and Options was calculated as contract size times the number of contracts.

The Plans are exposed to credit risk on derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Nebraska Investment Council's policy to require counterparty collateral posting provisions in its non-exchange-traded derivative instruments. These terms require full collateralization of the fair value of derivative instruments in asset positions. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian. The Plans have never failed to access collateral when required.

The aggregate fair value of derivative instruments in asset positions at June 30, 2018, was \$10,671,452. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. There is no collateral held or liabilities included in netting arrangements with those counterparties; therefore, the net exposure to credit risk is \$10,671,452.

Although the Plans execute derivative instruments with various counterparties, there is approximately 93 percent of the net exposure to credit risk, held with nine counterparties. The counterparties are rated BBB+, A or A+.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

The Plans are exposed to interest rate risk on their interest rate swaps. Interest rate swaps are agreements between two counterparties to exchange future cash flows. These are generally fixed versus variable flows, and they can be either received or paid. These swaps are used to adjust interest rate and yield curve exposure and substitute for physical securities. Long swap positions (receive fixed) increase exposure to long-term interest rates; short positions (pay fixed) decrease exposure. Counterparty risk is limited to monthly exchanged or netted cash flows. All of the Plans' interest rate swaps were fixed with a LIBOR (London Interbank Offered Rate) or SIFMA (Securities Industry and Financial Market Association) reference rate.

Foreign currency risk for derivative instruments at June 30, 2018, are as follows:

Currency	Options	Swaps	Forward Contracts
Australian Dollar	\$ (28,766)	\$ -	\$ (95,727)
Brazilian Real	-	(393,536)	895,214
Canadian Dollar	-	138,244	98,155
Danish Krone	-	-	(65,488)
Euro Currency	147,344	1,061,102	531,385
Hungarian Forint	-	-	(8,117)
Indonesian Rupiah	-	-	(26,333)
Japanese Yen	-	(251,236)	611,299
Mexican Peso	-	-	79,790
New Israeli Sheqel	-	-	7,980
New Zealand Dollar	-	-	608,159
Norwegian Krone	-	-	(639)
Polish Zloty	-	-	(8,571)
Pound Sterling	(47,509)	231,995	163,672
Russian Ruble	-	-	(104,362)
Singapore Dollar	-	-	22,758
South African Rand	-	-	157,157
South Korean Won	-	-	(13,849)
Swedish Krona	-	-	(235,224)
Swiss Franc	-	-	(47,687)
Thailand Baht	-	-	(33,095)
Total	\$ 71,069	\$ 786,569	\$ 2,536,477

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Concluded)

**Other Receivables/Other Payables.** Other receivables consisted of receivables for investments sold, receivables for foreign exchanges, tax reclaim receivables, unrealized appreciation/depreciation on income receivables, unrealized appreciation/depreciation on investment receivables, unrealized appreciation/depreciation on foreign exchange receivables, and other receivables as recorded by the custodial bank. Other payables consisted of payables for investments purchased, payables for foreign currency purchased, unrealized appreciation/depreciation on investments payable, unrealized appreciation/depreciation on foreign exchange payables, and other payables recorded by the custodial bank.

Securities are recorded on a trade date basis. On the trade date, the Plans own the asset. However, if the security has not settled, payment has not been received or made. Receivables and payables for investments sold and purchased represent securities in which the asset had been recorded as of June 30, 2018, but the security had not settled.

**Money-Weighted Rate of Return.** For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.63 percent for the School Plan, 8.64 percent for the Judges Plan, and 8.17 percent for the Patrol Plan. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**5. Changes in Compensated Absences Payable**

Changes in compensated absences payable for the year ended June 30, 2018, are summarized as follows:

	School Employees	Judges	State Patrol
Beginning Balance	\$ 286,443	\$ 4,073	\$ 10,104
Increases	36,423	609	-
Decreases	25,780	367	3,255
Ending Balance	\$ 297,086	\$ 4,315	\$ 6,849
Amounts Due Within One Year	\$ 29,709	\$ 432	\$ 685

**6. Payments to Omaha Public Schools**

The School Employee Retirement Plan (School Plan) administers a service annuity to all retired Nebraska school district employees, paid by the State of Nebraska and computed per Neb. Rev. Stat. § 79-933 (Reissue 2014). For the OPS retirees, a calculated service annuity amount is transferred from the School Plan to the Omaha School Employees' Retirement System (Omaha), which then makes the actual service annuity payments to the Omaha retirees.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**6. Payments to Omaha Public Schools** (Concluded)

In accordance with Neb. Rev. Stat. § 79-916 (Cum. Supp. 2018), a separate Service Annuity Fund (Fund) was established for such payments, and an actuarially computed amount was transferred to the Fund from other School Plan assets. The State may transfer additional amounts to the Fund as may be necessary to pay the normal cost and amortize any unfunded actuarial accrued liability. This Fund is to be used only to reimburse Omaha for its retirees' service annuity payments and related administrative expenses. The assets of the fund (\$10,485,816), consisting almost entirely of investments, are included in the Statements of Plan Net Position at June 30, 2018. The service annuity payments of \$1,513,422 to OPS are shown as Other Deductions in the Statements of Changes in Plan Net Position.

**7. Contingencies**

**Risk Management.** NPERS is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. NPERS, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability, employee health care, employee indemnification, and workers' compensation. The State has chosen to purchase insurance for the following:

- A. Motor vehicle liability with vehicular pursuit, which is insured for the first \$1 million of exposure per accident with a self-insured retention of \$300,000 and \$300,000 corridor retention. Motor vehicle liability has excess coverage of \$4 million. Insurance is also purchased, with various limits and deductibles, for physical damage and uninsured and underinsured motorists. State agencies have the option to purchase coverage for physical damage to vehicles. There is a \$500 deductible for this coverage.
- B. Life insurance for eligible employees.
- C. Crime coverage, with a limit of \$31 million for each loss and a \$25,000 self-insured retention per incident subject to specific conditions, limits, and exclusions.
- D. Real and personal property on a blanket basis for losses up to \$401 million, with a self-insured retention of \$200,000 per loss occurrence. Newly acquired properties are covered up to \$10 million for 120 days, and after 120 days, if the property has not been reported, the limit decreases to \$5 million. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self-insurance. State agencies have the option to purchase building contents and inland marine coverage.

Details of the various insurance coverages are available from the Nebraska Department of Administrative Services – Risk Management Division.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft



NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**7. Contingencies** (Concluded)

of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments, as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the NPERS' financial statements. Health care insurance is funded in the Insurance Trust Funds through a combination of employee and State contributions.

**Litigation.** The potential amount of liability involved in litigation pending against the Board, if any, could not be determined at this time. However, it is NPERS' opinion that final settlement of those matters should not have an adverse effect on NPERS' ability to administer current programs. Any judgment against NPERS would have to be processed through the State Claims Board and be approved by the Legislature.

**8. School Employee Contributions**

Member contributions for the School Plan exceeded employer contributions due to purchase of service payments totaling \$2,684,538. Members can purchase service credit for reinstatement of service, out-of-state service, for a leave of absence, or within 12 months of retirement in accordance with Neb. Rev. Stat. § 79-921 (Cum. Supp. 2018), Neb. Rev. Stat. § 79-933.05 (Reissue 2014), Neb. Rev. Stat. § 79-933.06 (Reissue 2014), and Neb. Rev. Stat. § 79-933.08 (Cum. Supp. 2018).

**9. Capital Assets**

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>School Employees:</b>				
Equipment	\$ 4,815,916	\$ -	\$ 28,195	\$ 4,787,721
Less: Accumulated Depreciation	4,810,484	1,682	28,195	4,783,971
Total Capital Assets, Net	<u>\$ 5,432</u>	<u>\$ (1,682)</u>	<u>\$ -</u>	<u>\$ 3,750</u>
<b>Judges:</b>				
Equipment	\$ 65,976	\$ -	\$ 387	\$ 65,589
Less: Accumulated Depreciation	65,896	23	387	65,532
Total Capital Assets, Net	<u>\$ 80</u>	<u>\$ (23)</u>	<u>\$ -</u>	<u>\$ 57</u>
<b>State Patrol:</b>				
Equipment	\$ 65,976	\$ -	\$ 387	\$ 65,589
Less: Accumulated Depreciation	65,896	23	387	65,532
Total Capital Assets, Net	<u>\$ 80</u>	<u>\$ (23)</u>	<u>\$ -</u>	<u>\$ 57</u>

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE FINANCIAL STATEMENTS**

(Concluded)

**10. Subsequent Events**

**State Patrol Additional Contributions.** Neb. Rev. Stat. § 81-2017(3) (Cum. Supp. 2018) describes actuarially required contributions. As of July 1, 2018, the actuarially determined additional contribution requirement for the State Patrol Plan is \$3,983,698.

**School Employees Additional Contributions.** Neb. Rev. Stat. § 79-966.01 (Reissue 2014) describes actuarially required contributions. As of July 1, 2018, the actuarially determined additional contribution requirement for the School Employees Plan is \$0. Furthermore, as of that same date, the additional contribution requirement for the Omaha Public Schools Retirement Plan is \$1,248,297.

**Judges Additional Contributions.** Neb. Rev. Stat. § 24-703(9) (Reissue 2016) describes actuarially required contributions. As of July 1, 2018, the actuarially determined additional contribution requirement for the Judges Employees Plan is \$442,599.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**SCHEDULE OF CHANGES IN THE SCHOOL DISTRICTS' NET PENSION LIABILITY**  
SCHOOL EMPLOYEES RETIREMENT PLAN  
AS OF JUNE 30, 2018  
(Unaudited)

	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>					
Service cost	\$ 261,067,772	\$ 227,893,391	\$ 222,525,387	\$ 214,673,003	\$ 202,803,787
Interest	915,143,958	876,680,145	843,289,424	814,387,820	782,055,188
Benefit term changes	-	-	-	-	-
Differences between expected and actual experience	(53,078,517)	(144,448,222)	(108,321,212)	(174,678,979)	(77,484,140)
Assumption changes	-	853,085,886	-	-	-
Benefit payments, including member refunds	(587,984,401)	(554,369,720)	(528,499,067)	(502,190,816)	(466,161,224)
<b>Net change in Total Pension Liability</b>	<u>535,148,812</u>	<u>1,258,841,480</u>	<u>428,994,532</u>	<u>352,191,028</u>	<u>441,213,611</u>
<b>Total Pension Liability - beginning</b>	12,466,139,649	11,207,298,169	10,778,303,637	10,426,112,609	9,984,898,998
<b>Total Pension Liability - ending (a)</b>	<u>\$ 13,001,288,461</u>	<u>\$ 12,466,139,649</u>	<u>\$ 11,207,298,169</u>	<u>\$ 10,778,303,637</u>	<u>\$ 10,426,112,609</u>
<b>Plan Fiduciary Net Position</b>					
Employer contributions	\$ 190,657,058	\$ 184,903,366	\$ 178,608,695	\$ 173,013,848	\$ 167,710,406
Non-employer contributions					
State Appropriation contributions	39,339,378	38,039,347	36,919,600	35,493,591	34,703,519
Omaha Service Annuity contributions	1,243,169	992,451	997,118	997,858	909,638
Employee contributions	191,483,632	186,176,743	178,613,265	174,797,341	169,200,529
Net investment income	927,963,467	1,325,835,296	149,283,503	355,847,514	1,454,496,772
Benefit payments, including member refunds	(587,984,401)	(554,369,720)	(528,499,067)	(502,190,816)	(466,161,224)
Administrative expenses	(3,300,321)	(3,334,436)	(3,182,464)	(3,153,883)	(2,861,508)
Other changes	35,414	33,650	28,107	28,877	30,561
<b>Net change in Plan Fiduciary Net Position</b>	<u>759,437,396</u>	<u>1,178,276,697</u>	<u>12,768,757</u>	<u>234,834,330</u>	<u>1,358,028,693</u>
<b>Plan Fiduciary Net Position - beginning</b>	10,876,861,507	9,698,584,810	9,685,816,053	9,450,981,723	8,092,953,030
<b>Plan Fiduciary Net Position - ending (b)</b>	<u>\$ 11,636,298,903</u>	<u>\$ 10,876,861,507</u>	<u>\$ 9,698,584,810</u>	<u>\$ 9,685,816,053</u>	<u>\$ 9,450,981,723</u>
<b>Net Pension Liability - ending (a) - (b)</b>	<u>\$ 1,364,989,558</u>	<u>\$ 1,589,278,142</u>	<u>\$ 1,508,713,359</u>	<u>\$ 1,092,487,584</u>	<u>\$ 975,130,886</u>
<b>Plan Fiduciary Net Position as a percentage of the Total Pension Liability</b>	89.50%	87.25%	86.54%	89.86%	90.65%
<b>Covered payroll</b>	\$ 1,930,157,100	\$ 1,871,908,380	\$ 1,808,182,946	\$ 1,751,542,327	\$ 1,697,851,809
<b>Employers' Net Pension Liability as a percentage of covered payroll</b>	70.72%	84.90%	83.44%	62.37%	57.43%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**SCHEDULE OF CHANGES IN THE JUDGES' NET PENSION LIABILITY**  
JUDGES RETIREMENT PLAN  
AS OF JUNE 30, 2018  
(Unaudited)

	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>					
Service cost	\$ 5,589,181	\$ 4,997,654	\$ 4,721,039	\$ 4,759,455	\$ 4,257,200
Interest	13,720,785	13,100,385	12,642,618	12,170,797	11,567,915
Benefit term changes	-	-	-	-	-
Differences between expected and actual experience	(2,398,903)	(1,714,732)	(2,303,032)	(2,613,808)	41,752
Assumption changes	-	12,705,465	-	-	-
Benefit payments, including member refunds	(10,144,103)	(9,690,310)	(9,052,110)	(8,547,892)	(8,121,996)
<b>Net change in Total Pension Liability</b>	<u>6,766,960</u>	<u>19,398,462</u>	<u>6,008,515</u>	<u>5,768,552</u>	<u>7,744,871</u>
<b>Total Pension Liability - beginning</b>	<u>187,502,212</u>	<u>168,103,750</u>	<u>162,095,235</u>	<u>156,326,683</u>	<u>148,581,812</u>
<b>Total Pension Liability - ending (a)</b>	<u>\$ 194,269,172</u>	<u>\$ 187,502,212</u>	<u>\$ 168,103,750</u>	<u>\$ 162,095,235</u>	<u>\$ 156,326,683</u>
<b>Plan Fiduciary Net Position</b>					
Employer contributions					
Court fees	\$ 4,112,543	\$ 3,578,851	\$ 3,458,665	\$ 2,977,205	\$ 3,102,864
State Appropriations	667,613	118,714	-	94,000	803,383
Employee contributions	1,814,533	1,743,103	1,651,432	1,610,529	1,518,801
Net investment income	15,070,504	21,699,250	2,453,560	5,958,799	24,543,298
Benefit payments, including member refunds	(10,144,103)	(9,690,310)	(9,052,110)	(8,547,892)	(8,121,996)
Administrative expenses	(71,266)	(84,626)	(70,707)	(82,746)	(78,263)
Other changes	-	-	-	3	45
<b>Net change in Plan Fiduciary Net Position</b>	<u>11,449,824</u>	<u>17,364,982</u>	<u>(1,559,160)</u>	<u>2,009,898</u>	<u>21,768,132</u>
<b>Plan Fiduciary Net Position - beginning</b>	<u>176,605,831</u>	<u>159,240,849</u>	<u>160,800,009</u>	<u>158,790,111</u>	<u>137,021,979</u>
<b>Plan Fiduciary Net Position - ending (b)</b>	<u>\$ 188,055,655</u>	<u>\$ 176,605,831</u>	<u>\$ 159,240,849</u>	<u>\$ 160,800,009</u>	<u>\$ 158,790,111</u>
<b>Net Pension Liability (Net Asset) - ending (a) - (b)</b>	<u>\$ 6,213,517</u>	<u>\$ 10,896,381</u>	<u>\$ 8,862,901</u>	<u>\$ 1,295,226</u>	<u>\$ (2,463,428)</u>
<b>Plan Fiduciary Net Position as a percentage of the Total Pension Liability</b>	96.80%	94.19%	94.73%	99.20%	101.58%
<b>Covered payroll</b>	\$ 23,125,170	\$ 22,801,593	\$ 22,178,157	\$ 21,586,829	\$ 20,099,647
<b>Employers' Net Pension Liability as a percentage of covered payroll</b>	26.87%	47.79%	39.96%	6.00%	(12.26%)

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**SCHEDULE OF CHANGES IN THE STATE PATROL'S NET PENSION LIABILITY**  
STATE PATROL RETIREMENT PLAN  
AS OF JUNE 30, 2018  
(Unaudited)

	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>					
Service cost	\$ 8,794,874	\$ 7,955,722	\$ 8,152,482	\$ 7,562,642	\$ 8,173,815
Interest	34,076,868	32,887,178	32,113,989	31,349,873	30,164,990
Benefit term changes	-	-	-	-	-
Differences between expected and actual experience	(4,016,896)	(1,508,635)	(8,977,294)	(10,658,914)	(3,787,974)
Assumption changes	-	27,947,994	-	-	-
Benefit payments, including member refunds	(23,828,680)	(24,139,604)	(19,576,376)	(19,458,540)	(20,010,413)
<b>Net change in Total Pension Liability</b>	<u>15,026,166</u>	<u>43,142,655</u>	<u>11,712,801</u>	<u>8,795,061</u>	<u>14,540,418</u>
<b>Total Pension Liability - beginning</b>	465,066,035	421,923,380	410,210,579	401,415,518	386,875,100
<b>Total Pension Liability - ending (a)</b>	<u>\$ 480,092,201</u>	<u>\$ 465,066,035</u>	<u>\$ 421,923,380</u>	<u>\$ 410,210,579</u>	<u>\$ 401,415,518</u>
<b>Plan Fiduciary Net Position</b>					
Employer contributions	\$ 8,952,649	\$ 7,053,110	\$ 7,053,408	\$ 8,646,426	\$ 8,752,627
Employee contributions	4,615,214	4,500,952	4,365,651	4,180,263	4,134,598
Net investment income	33,872,593	48,679,867	5,491,550	13,332,650	54,950,250
Benefit payments, including member refunds	(23,828,680)	(24,139,604)	(19,576,376)	(19,458,540)	(20,010,413)
Administrative expenses	(89,102)	(141,196)	(128,156)	(116,679)	(121,153)
Other changes	23,184	28,557	26,778	21,619	21,199
<b>Net change in Plan Fiduciary Net Position</b>	<u>23,545,858</u>	<u>35,981,686</u>	<u>(2,767,145)</u>	<u>6,605,739</u>	<u>47,727,108</u>
<b>Plan Fiduciary Net Position - beginning</b>	397,137,172	361,155,486	363,922,631	357,316,892	309,589,784
<b>Plan Fiduciary Net Position - ending (b)</b>	<u>\$ 420,683,030</u>	<u>\$ 397,137,172</u>	<u>\$ 361,155,486</u>	<u>\$ 363,922,631</u>	<u>\$ 357,316,892</u>
<b>Net Pension Liability - ending (a) - (b)</b>	<u>\$ 59,409,171</u>	<u>\$ 67,928,863</u>	<u>\$ 60,767,894</u>	<u>\$ 46,287,948</u>	<u>\$ 44,098,626</u>
<b>Plan Fiduciary Net Position as a percentage of the Total Pension Liability</b>	87.63%	85.39%	85.60%	88.72%	89.01%
<b>Covered payroll</b>	\$ 28,697,715	\$ 28,091,906	\$ 27,047,938	\$ 26,294,294	\$ 25,624,081
<b>Employers' Net Pension Liability as a percentage of covered payroll</b>	207.02%	241.81%	224.67%	176.04%	172.10%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**SCHEDULE OF EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS**  
SCHOOL EMPLOYEES RETIREMENT PLAN  
AS OF JUNE 30, 2018  
(Unaudited)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 185,923,377	\$ 129,070,591	\$ 132,846,323	\$ 152,268,397	\$ 174,157,865	\$ 227,859,188	\$ 192,478,407	\$ 177,075,137	\$ 142,658,110	\$ 126,118,323
Actual non-employer contributions										
Actual State Appropriations	39,339,378	38,039,347	36,919,600	35,493,591	34,703,519	16,874,535	22,400,533	21,907,948	21,380,352	20,620,548
Actual Omaha Appropriations**	1,243,169	992,451	997,118	997,858	909,638	969,396	1,030,017	967,145	-	-
Actual employer contributions	190,657,058	184,903,366	178,608,695	173,013,848	167,710,406	161,922,831	145,582,040	135,328,339	128,845,427	110,028,942
Total contributions	\$ 231,239,605	\$ 223,935,164	\$ 216,525,413	\$ 209,505,297	\$ 203,323,563	\$ 179,766,762	\$ 169,012,590	\$ 158,203,432	\$ 150,225,779	\$ 130,649,490
Annual contribution deficiency (excess)	\$ (45,316,228)	\$ (94,864,573)	\$ (83,679,090)	\$ (57,236,900)	\$ (29,165,698)	\$ 48,092,426	\$ 23,465,817	\$ 18,871,705	\$ (7,567,669)	\$ (4,531,167)
Covered payroll	\$ 1,930,157,100	\$ 1,871,908,380	\$ 1,808,182,946	\$ 1,751,542,327	\$ 1,697,851,809	\$ 1,664,793,714	\$ 1,641,692,866	\$ 1,618,218,049	\$ 1,572,992,968	\$ 1,496,422,343
Actual contributions as a percentage of covered payroll	11.98%	11.96%	11.97%	11.96%	11.98%	10.80%	10.30%	9.78%	9.55%	8.73%

Note: Information prior to 2013 was produced by the prior actuary.

\*\* For State service annuity only; included in State Appropriations for years prior to 2011.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**SCHEDULE OF EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS**  
STATE PATROL RETIREMENT PLAN  
LAST 10 YEARS  
AS OF JUNE 30, 2018

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined employer contribution	\$ 8,952,649	\$ 7,053,110	\$ 7,053,408	\$ 8,073,824	\$ 8,752,627	\$ 9,768,585	\$ 7,774,506	\$ 7,563,126	\$ 6,260,122	\$ 5,384,789
Actual employer contributions*	\$ 8,952,649	\$ 7,053,110	\$ 7,053,408	\$ 8,073,824	\$ 8,752,627	\$ 7,515,905	\$ 7,774,506	\$ 5,956,747	\$ 6,260,122	\$ 5,384,789
Annual contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,252,680	\$ -	\$ 1,606,379	\$ -	\$ -
Covered payroll	\$28,697,715	\$28,091,906	\$27,047,938	\$26,294,294	\$ 25,624,081	\$ 26,901,711	\$ 27,390,926	\$ 27,987,900	\$ 27,624,747	\$ 28,386,013
Actual contributions as a percentage of covered payroll	31.20%	25.11%	26.08%	30.71%	34.16%	27.94%	28.38%	21.28%	22.66%	18.97%

Note: Information prior to 2013 was produced by the prior actuary.

\* Includes any additional appropriations by the State beyond the regular, payroll-related contributions. 2015 excludes \$572,602 in military service credits.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**SCHEDULE OF EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS**  
**JUDGES RETIREMENT PLAN**  
AS OF JUNE 30, 2018  
(Unaudited)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined employer contribution	\$ 4,780,156	\$ 3,697,565	\$ 3,458,665	\$ 3,727,054	\$ 3,906,247	\$ 3,180,367	\$ 3,483,614	\$ 3,579,661	\$ 3,615,291	\$ 3,491,335
Actual non-employer contributions										
Court Fees	4,112,543	3,578,851	3,458,665	2,977,205	3,102,864	3,180,367	3,411,370	3,507,417	3,543,047	3,419,091
State Contributions	667,613	118,714	-	94,000	803,383	-	72,244	72,244	72,244	72,244
Actual non-employer contributions	4,780,156	3,697,565	3,485,665	3,071,205	3,906,247	3,180,367	3,483,614	3,579,661	3,615,291	3,491,335
Annual contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ 655,849	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$23,125,170	\$22,801,593	\$ 22,178,157	\$ 21,586,829	\$ 20,099,647	\$ 19,005,478	\$ 18,182,238	\$ 18,773,203	\$ 18,373,339	\$ 17,990,072
Actual contributions as a percentage of covered payroll	20.67%	16.22%	15.59%	14.23%	19.43%	16.73%	19.16%	19.07%	19.68%	19.41%

Note: Actuarially determined employer contributions, actual employer contributions and covered-employee payroll prior to 2013 was produced by the prior actuary.

For years 2014 and prior, covered-employee payroll was estimated based on the valuation.



NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
 SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**SCHEDULE OF INVESTMENT RETURNS**  
 AS OF JUNE 30, 2018  
 (Unaudited)

	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense:					
School Employees Retirement Plan	8.63%	13.83%	1.56%	3.77%	18.14%
Judges Retirement Plan	8.64%	13.82%	1.55%	3.75%	18.14%
State Patrol Retirement Plan	8.17%	13.16%	1.85%	4.05%	17.87%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

For the Last 10 Years

**School Employees Retirement Plan**

The following changes were made by the Nebraska Legislature and reflected in the valuation performed as of July 1:

- 2017: The 2017 Legislature passed Legislative Bill (LB) 415 (2017), which affects the benefit provisions only for members hired on or after July 1, 2017 (with additional changes for those hired on or after July 1, 2018). For members hired on or after July 1, 2017, the Public Employees Retirement Board (PERB) has the authority to set the actuarial assumptions used to determine the benefit amounts payable under optional forms of payment. In addition, LB 415 changed the minimum age required to qualify for retirement under the Rule of 85 from 55 to 60 for members who are hired on or after July 1, 2018.
- 2014: As scheduled, the State contribution rate increased from 1% of covered payroll to 2%.
- 2013: LB 553 (2013) increased the State's payroll-related contribution from 1% to 2% of pay, effective July 1, 2014. LB 553 also made some changes to the benefit structure for members hired on or after July 1, 2013 (Tier 2), including changing the period over which to determine final average salary to the highest 60 months rather than the current highest 36 months of service and changing the maximum cost-of-living adjustment from 2.5% to 1%. LB 553 also removed the scheduled reduction in the employee contribution rate in 2017. In addition, it required the use of the Entry Age Normal, level percent of payroll, method to determine the costs for the Omaha State Service Annuity and changed the amortization of the unfunded actuarial accrued liability to be based on payments determined as a level percent of payroll instead of a level dollar amount.
- 2011: Under LB 382 (2011), the member contribution rate increased from 8.28% to 8.88% on September 1, 2011. Effective September 1, 2012, the member contribution rate was scheduled to increase to 9.78% and then decrease to 7.28% effective September 1, 2017. The employer contribution rate match remained unchanged at 101% of the member contribution rate. The current State of Nebraska contribution rate of 1% remained in effect until July 1, 2017, at which time it was scheduled to decrease to 0.7%.
- 2009: Under LB 187 (2009), from September 1, 2009, to September 1, 2014, the member contribution rate was scheduled to increase from 7.28% to 8.28% and the State match to increase from 0.7% to 1.0% of covered pay. On September 1, 2014, the member contribution rate was scheduled to return to 7.28% and the State match to 0.7%.

The following changes were made in the actuarial assumptions:

July 1, 2017, valuation:

- Price inflation decreased from 3.25% to 2.75%.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
(Continued)

- Long-term investment return decreased from 8.00% to 7.50%.
- Covered payroll growth assumption decreased from 4.00% to 3.50%.
- Salary increase assumption decreased by 0.50% at each age.
- Interest on employee contribution balances decreased from 4.25% to 3.00%.
- Cost-of-living adjustment assumption decreased from 2.50% to 2.25% for members hired before January 1, 2013.
- Mortality assumptions changed to reflect recent mortality experience and future projected improvements.
- Retirement rates changed to better fit the observed experience.
- Termination rates changed to better fit the observed experience.
- Disability rates changed to better fit the observed experience.

July 1, 2012, valuation:

- The interest rate on employee contributions was lowered to 4.25% from 5.50%.
- Salary increases were changed to rates grading down from 9.00% for less than one year of service to 4.00% at 40 years of service. Prior valuation rates graded from 7.46% for less than one year to 4.55% at 40 years of service.
- Retirement rates are based on age and retirement eligibility. One hundred percent retirement age was extended to age 80 from age 70. Unreduced rates were decreased at age 63.
- Pre- and post-retirement healthy mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table projected to 2010 (pre-retirement male rates were 65% of rates, and female rates were 50% of rates) to the 1994 GAM table, with a one year age setback, projected to 2015 (pre-retirement rates are adjusted by 55% for males and 40% for females).
- Disabled mortality was changed to the 1983 Railroad Retirement Board Disabled Annuitants Mortality setback one year from the 1983 Railroad Retirement Board Disabled Annuitants Mortality. The prior assumption was based on the same table with no setback.
- Termination rates are service based and were decreased from the prior valuation based on actual experience.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
(Continued)

- Disability rates were decreased by 50% from the prior valuation.
- Price inflation assumption was lowered to 3.25% from 3.50%.
- Economic productivity assumption was lowered to 0.75% from 1.00%.

**Judges Retirement Plan**

The following changes were made by the Nebraska Legislature and reflected in the valuation performed as of July 1:

- 2017: LB 415 (2017), which was passed by the 2017 Nebraska Legislature, made changes to the benefit structure for judges who become members on or after July 1, 2017, by granting the Public Employees Retirement Board (PERB) the authority to set the actuarial assumptions used to determine the benefit amounts payable under optional forms of payment.
- 2015: LB 468 (2015) made changes to the benefit structure for judges who become members on or after July 1, 2015, including the calculation of final average salary based on the highest five years rather than the highest three years of salary and a cost-of-living-adjustment (COLA) of 1% rather than 2.5%. The bill also provided for a supplemental COLA, to be granted at the Board's discretion, up to an additional 1.5% if the System is more than 100% funded. In addition, the member contribution rate for those hired on or after July 1, 2015, was increased to 10% of pay. LB 468 also increased the amount of court fees directed to fund the Judges Retirement System with the increases phased in over two years. Ultimately, in fiscal year 2018, the additional funding is estimated to be \$1.3 million.
- 2013: LB 553 (2013) changed the amortization of the unfunded actuarial accrued liability from a level dollar payment to a level percent of payroll payment. The court fee designated for the Judges Retirement System was scheduled to decrease from \$6 to \$5 on July 1, 2014. LB 306 (2013) removed the language to decrease the court fees, so the court fee in future years remains at \$6. The passage of LB 414 (2009) increased the member contribution rate by 1%, but this increase was scheduled to be removed July 1, 2014. LB 306 (2013) removed the sunset provision on the increase in the member contribution rate, thereby retaining the higher contribution rates.
- 2009: LB 414 (2009) amended the plan provisions to increase all member contribution rates by 1% and increase the court fees from \$5 to \$6 per case.

The following changes were made in the actuarial assumptions:

July 1, 2017, valuation:

- Price inflation decreased from 3.25% to 2.75%.
- Long-term investment return decreased from 8.00% to 7.50%.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
(Continued)

- General wage growth decreased from 4.00% to 3.50%.
- Salary increase assumption decreased by 0.50% at each age.
- Interest on employee contribution balances decreased from 4.25% to 3.00%.
- Cost-of-living adjustment assumption decreased to 2.25% for Tier 1 members.
- Mortality assumptions changed to reflect recent mortality experience and future projected improvements.
- Retirement rates changed to better fit the observed experience.

July 1, 2012, valuation:

- The interest rate on employee contributions was lowered to 4.25% from 5.50%.
- Salary increases were lowered to 4.00% from 4.50%.
- Retirement rates were decreased for ages under 65 and age 66.
- Pre- and post-retirement healthy mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table projected to 2010 (pre-retirement male rates were 65% of rates, and female rates were 50% of rates) to the 1994 GAM table, with a one-year setback, projected to 2015.
- Deferred vested members were changed to assume they elected the greater of the present value of an annuity at age 63 or a refund of contributions.
- Consumer price inflation was lowered to 3.25% from 3.50%.
- Economic productivity was lowered to 0.75% from 1.00%.

**State Patrol Retirement Plan**

The following changes were made by the Nebraska Legislature and reflected in the valuation performed as of July 1:

- 2017: The 2017 Legislature passed LB 415, which grants the PERB the authority to set the actuarial assumptions used to determine the benefit amounts payable under optional forms of payment for members hired on or after July 1, 2017. Since these changes do not affect any members in the current valuation, the adopted changes have no impact on the valuation results.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

(Continued)

2016: Legislative Bill 467 (LB 467) created a new tier of State Patrol members that are employed on or after July 1, 2016. This new tier includes changes to benefits and contributions, as follows:

- Member and employer contributions are increased from 16% to 17% of pay.
- Compensation no longer includes compensation for unused sick leave, unused vacation leave, unused holiday compensatory time, unused compensatory time, or any other type of unused leave, compensatory time, or similar benefits, converted to cash payments.
- Final average salary moves from the highest three 12-month periods to the highest five 12-month periods. During the five-year period, the member's compensation in any plan year is capped at an eight percent increase from the preceding plan year.
- The automatic COLA is capped at 1.0% instead of 2.5%. However, a 1.5% discretionary COLA may be granted by the PERB in addition to the automatic COLA, if certain criteria are met.
- The DROP program is eliminated.

2013: LB 553 (2013) changed the amortization of the unfunded actuarial accrued liability from a level dollar payment to a level percent of payroll payment. As scheduled in State statute, the employee and employer contribution rate both decreased from 19% of pay to 16%.

2011: Under LB 382 (2011), both the member and employer contribution rates were increased from 16% to 19% on July 1, 2011. Effective July 1, 2013, both the member and employer contribution rates were scheduled to decrease to 16%.

2010: As scheduled, the member and employer contribution rates increased to 16% each.

2009: Under LB 188 (2009), the member contribution rate increased from 13% to 15% on July 1, 2009. The employer contribution rate remained unchanged at 15%. Effective July 1, 2010, both the member and employer contribution rates increased to 16%.

The following changes were made in the actuarial assumptions:

July 1, 2017 valuation:

- Price inflation decreased from 3.25% to 2.75%.
- Long-term investment return decreased from 8.00% to 7.50%.
- Covered payroll growth assumption decreased from 4.00% to 3.50%.
- Salary increase assumption decreased by 0.50% at each age.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

(Concluded)

- Interest on employee contribution balances decreased from 4.25% to 3.00%.
- Cost-of-living adjustment assumption decreased to from 2.50% to 2.25% for members hired before July 1, 2016.
- Mortality assumptions changed to reflect recent mortality experience and future projected improvements.
- Termination rates changed to better fit the observed experience.

July 1, 2012, valuation:

- The interest rate on employee contributions was lowered to 4.25% from 5.50%.
- Salary increases were changed to rates grading down from 9.50% for less than one year of service to 4.00% at 30 years of service. Prior valuation rates graded from 9.00% for less than one year to 4.50% at 25 years of service.
- Retirement rates are based on age and retirement eligibility. The rates were increased for early retirement (reduced benefits available at 50 years of age and 10 years of service) and decreased for normal retirement (unreduced benefits available at 55 years of age and 10 years of service).
- Pre- and post-retirement healthy mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table projected to 2010 (pre-retirement male rates were 65% of rates, and female rates were 50% of rates) to the 1994 GAM table, with a one-year setback, projected to 2015.
- The assumption to value deferred vested members was changed to assume they elect the greater of the present value of an annuity at earliest unreduced eligibility or a refund of contributions.
- Consumer price inflation was lowered from 3.50% to 3.25%.
- Economic productivity was lowered from 1.00% to 0.75%.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**SCHEDULE OF ADMINISTRATIVE EXPENSES**  
FISCAL YEAR ENDED JUNE 30, 2018

	<u>School Employees</u>	<u>Judges</u>	<u>State Patrol</u>	<u>Total</u>
<b>Personnel</b>				
Personal Services	\$ 2,099,998	\$ 30,316	\$ 46,540	\$ 2,176,854
Travel	17,915	169	169	18,253
<b>Professional and Technical Services</b>				
Professional	27,887	329	358	28,574
Actuary	82,288	26,000	31,000	139,288
Computer Support Services	557,509	8,429	8,056	573,994
Accounting and Auditing	165,450	2,131	2,131	169,712
<b>Communications</b>				
Printing	39,727	259	322	40,308
<b>Other Expenses</b>				
Postage	93,874	896	1,352	96,122
Supplies	23,453	303	301	24,057
Hardware and Software	30,382	428	431	31,241
Repairs	56	1	1	58
Rent	118,717	1,631	1,631	121,979
Miscellaneous	43,065	374	(3,190)	40,249
<b>Total Administrative Expenses</b>	<u>\$ 3,300,321</u>	<u>\$ 71,266</u>	<u>\$ 89,102</u>	<u>\$ 3,460,689</u>



NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**SCHEDULE OF INVESTMENT-RELATED EXPENSES**  
FOR THE YEAR ENDED JUNE 30, 2018

	<b>School Employees</b>	<b>Judges</b>	<b>State Patrol</b>	<b>Total</b>
BlackRock Financial Management, Inc.	\$ 412,850	\$ 6,673	\$ 14,636	\$ 434,159
Dimensional Fund Advisors	1,218,478	19,694	43,196	1,281,368
<b>Total Domestic Equity</b>	<b>1,631,328</b>	<b>26,367</b>	<b>57,832</b>	<b>1,715,527</b>
BlackRock Financial Management, Inc.	880,224	14,227	31,205	925,656
Franklin Templeton Investments	1,274,083	20,592	45,168	1,339,843
Loomis Sayles & Company, L.P.	1,688,935	27,298	59,875	1,776,108
Oaktree Capital Management	747,059	12,074	26,484	785,617
Neuberger Berman	539,243	8,716	19,117	567,076
Pacific Investment Management Company, LLC	4,189,466	67,713	148,521	4,405,700
Wellington Management Company, LLP	960,483	15,524	34,050	1,010,057
<b>Total Fixed Income</b>	<b>10,279,493</b>	<b>166,144</b>	<b>364,420</b>	<b>10,810,057</b>
Arrowstreet Capital	3,172,679	51,279	112,475	3,336,433
BlackRock Financial Management, Inc.	243,500	3,950	8,705	256,155
Dodge & Cox	2,115,469	34,192	74,996	2,224,657
MFS Institutional Advisors, Inc.	2,147,085	34,703	76,116	2,257,904
Wellington Management Company, LLP	1,761,142	28,465	62,434	1,852,041
<b>Total Global Equity</b>	<b>9,439,875</b>	<b>152,589</b>	<b>334,726</b>	<b>9,927,190</b>
Baillie Gifford & Company	579,126	9,396	20,702	609,224
BlackRock Financial Management, Inc.	414,513	6,699	14,695	435,907
Gryphon International Investment Corp.	695,788	11,246	24,666	731,700
<b>Total International Equity</b>	<b>1,689,427</b>	<b>27,341</b>	<b>60,063</b>	<b>1,776,831</b>
Almanac Realty Investors, LLC	341,388	5,518	12,103	359,009
Angelo, Gordon & Company, L.P.	122,049	1,973	4,327	128,349
Barings Asset Management	913,685	14,768	32,391	960,844
CBRE Global Investors	66,826	1,080	2,369	70,275
Landmark Partners	969,901	15,676	34,384	1,019,961
PGIM Real Estate	1,972,530	31,881	69,928	2,074,339
Rockpoint Group, L.L.C.	45,311	732	1,606	47,649
Rockwood Capital, LLC	639,031	10,328	22,654	672,013
Torchlight Investors	968,481	15,653	34,334	1,018,468
UBS Realty Investors, LLC	1,503,770	24,305	53,311	1,581,386
<b>Total Real Estate</b>	<b>7,542,972</b>	<b>121,914</b>	<b>267,407</b>	<b>7,932,293</b>

(Continued)

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**SCHEDULE OF INVESTMENT-RELATED EXPENSES**  
FOR THE YEAR ENDED JUNE 30, 2018

	<b>School Employees</b>	<b>Judges</b>	<b>State Patrol</b>	<b>Total</b>
Abbott Capital Management, LLC	189,322	3,060	6,712	199,094
Accel-KKR Management Co, LLC	192,188	3,106	6,813	202,107
Ares Management, LLC	1,246,464	20,146	44,188	1,310,798
Beecken Petty O'Keefe & Company	189,333	3,060	6,712	199,105
Bridgepoint Capital	502,890	8,128	17,828	528,846
CVC Capital Partners	265,626	4,293	9,417	279,336
The Energy & Minerals Group	368,643	5,958	13,069	387,670
Francisco Partners	921,847	14,899	32,680	969,426
Genstar Capital	810,474	13,099	28,732	852,305
Leonard Green & Partners, L.P.	120,624	1,950	4,276	126,850
HarbourVest Partners, LLC	782,704	12,651	27,748	823,103
Lightyear Capital	71,962	1,163	2,551	75,676
Lincolnshire Management, Inc.	115,075	1,860	4,079	121,014
Longroad Capital Partners, L.P.	5,806	94	206	6,106
McCarthy Capital Corporation	986,161	15,939	34,961	1,037,061
Merit Capital Partners	38,567	623	1,367	40,557
New Enterprise Associates	287,922	4,654	10,207	302,783
New Mountain Capital, LLC	1,077,093	17,409	38,184	1,132,686
Pathway Capital Management	481,762	7,787	17,079	506,628
Pine Brook Partners	518,133	8,374	18,368	544,875
Presidio Partners	144,424	2,334	5,120	151,878
Quantum Energy Partners	1,001,655	16,190	35,510	1,053,355
Sun Capital Partners, Inc.	4,861	79	172	5,112
The Jordan Company	379,295	6,130	13,447	398,872
The Rohatyn Group Management, L.P.	66,082	1,068	2,343	69,493
Wayzata Investment Partners, LLC	174,151	2,815	6,174	183,140
Wynnchurch Capital LLC	306,608	4,956	10,870	322,434
<b>Total Private Equity</b>	<b>11,249,672</b>	<b>181,825</b>	<b>398,813</b>	<b>11,830,310</b>
Nebraska Investment Council	936,295	15,246	33,567	985,108
Custody Expense	360,404	5,844	12,871	379,119
Foreign Income Taxes	1,121,477	18,170	39,949	1,179,596
Other Expenses	21,682	352	25,884	47,918
<b>Total Other Investment Expenses</b>	<b>2,439,858</b>	<b>39,612</b>	<b>112,271</b>	<b>2,591,741</b>
<b>Total Investment-Related Expenses</b>	<b>\$ 44,272,625</b>	<b>\$ 715,792</b>	<b>\$ 1,595,532</b>	<b>\$ 46,583,949</b>

(Concluded)



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Nebraska Public Employees Retirement Board  
Lincoln, Nebraska

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' basic financial statements, and have issued our report thereon dated February 7, 2019. The report was modified to emphasize that the financial statements present only the funds of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement

of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, not to provide an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Zachary Wells, CPA  
Audit Manager  
Lincoln, Nebraska

February 7, 2019