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, 2020

Issued on January 29, 2021

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 Employees 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.

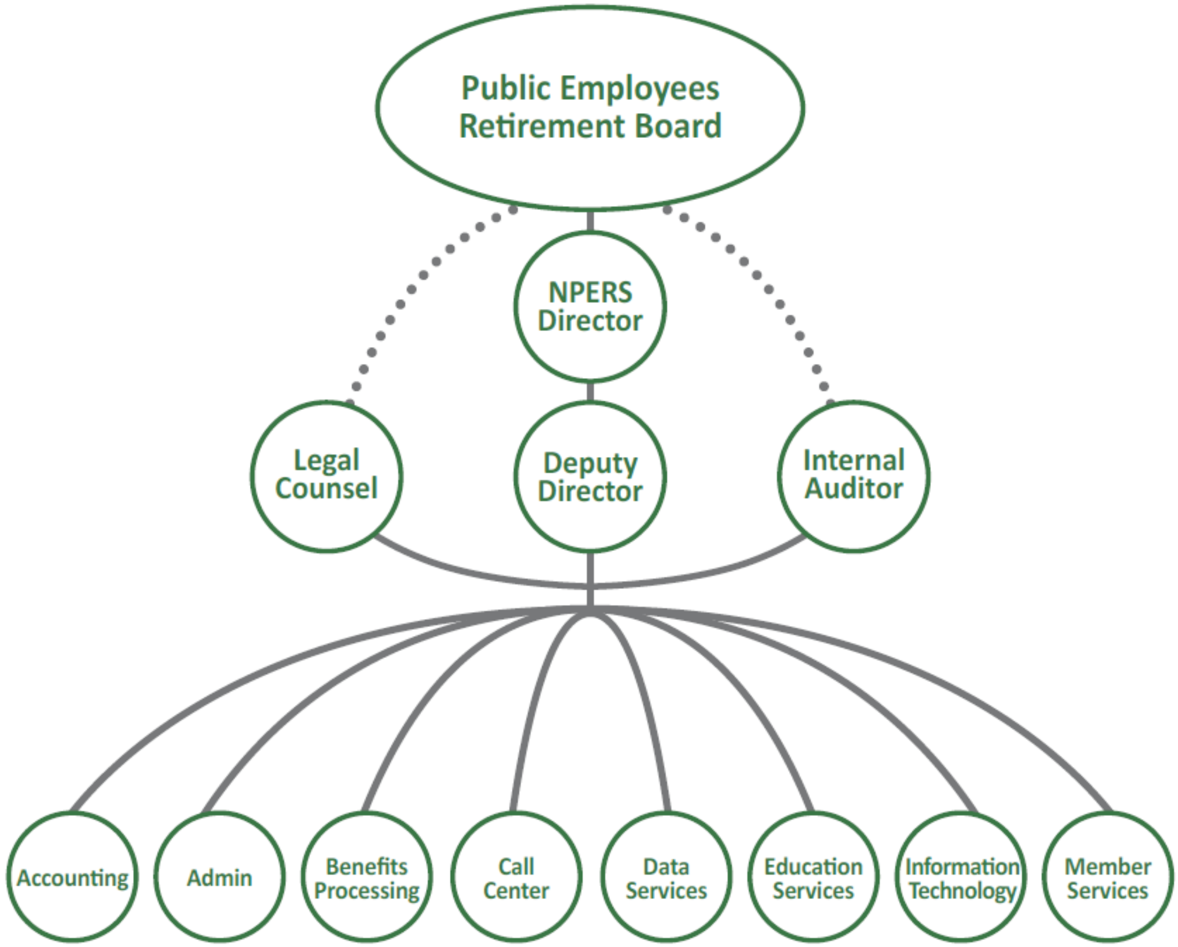
Furthermore, the State Investment Officer serves as a nonvoting, ex-officio member.

All appointed members must be Nebraska citizens. Members of the Board are paid $75 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 recognizes the importance of a successful retirement and is dedicated to providing the highest quality service necessary to assist members in achieving this goal.

ORGANIZATIONAL CHART



KEY OFFICIALS AND AGENCY CONTACT INFORMATION

Public Employees Retirement Board Members

Janis Elliott
Chairperson – School Member
Term Ending January 1, 2024

Kelli Ackerman
Vice Chair – School Member
Term Ending January 1, 2025

Allen Simpson
State Member
Term Ending January 1, 2025

J. Russell Derr
Judge Member
Term Ending January 1, 2021

Mike Jahnke
State Patrol Member
Term Ending January 1, 2023

Pamela Lancaster
County Member
Term Ending January 1, 2021

Jim Schulz
Public Member
Term Ending January 1, 2022

Position Open
Public Member
Term Ending January 1, 2023

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

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
auditors.nebraska.gov

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, 2020, 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 above 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, 2020, 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, 2020, 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 31-42 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, 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. 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 January 28, 2021, 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.

Kris Kucera

January 28, 2021

Kris Kucera, CPA, CFE
Audit Manager
Lincoln, Nebraska

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

STATEMENTS OF PLAN NET POSITION

JUNE 30, 2020

	School Employees	Judges	State Patrol
ASSETS			
Cash in State Treasury	$ 9,558,977	$ 127,428	$ 209,100
Deposits with Vendors	$ 9,091	$ 94	$ 94
Receivables			
Contributions	68,169,549	596,728	4,120,452
Interest & Dividend Income	16,622,705	263,465	579,201
Other Investment Receivables (Note 4)	931,318,637	14,782,401	32,600,756
Total Receivables	$ 1,016,110,891	$ 15,642,594	$ 37,300,409
Investments, at fair value (Note 4)			
Bank Loans	283,091,519	4,493,384	9,909,512
U.S. Treasury Notes and Bonds	277,647,162	4,406,968	9,718,934
U.S. Treasury Bills	4,799,345	76,178	167,999
Government Agency Securities	11,083,232	175,919	387,964
Corporate Bonds	1,093,476,852	17,356,266	38,276,745
International Bonds	297,561,190	4,723,055	10,416,017
Equity Securities	1,625,787,375	25,805,391	56,910,075
Private Equity	655,644,038	10,406,743	22,950,573
Options	(23,796)	(378)	(833)
Mortgages	707,160,745	11,224,444	24,753,895
Opportunistic Credit	34,851,746	553,186	1,219,972
Private Real Estate	770,160,372	12,224,409	26,959,174
Asset Backed Securities	82,091,408	1,303,000	2,873,579
Municipal Bonds	10,670,242	169,364	373,508
Commingled Funds	6,459,546,153	102,529,468	230,131,732
Short Term Investments	160,763,605	2,551,770	5,661,156
Total Investments	$ 12,474,311,188	$ 197,999,167	$ 440,710,002
Invested Securities Lending Collateral (Note 4)	$ 173,788,702	$ 2,758,470	$ 6,083,408
Capital Assets (Note 9)			
Equipment	4,791,804	65,649	65,649
Less: Accumulated Depreciation	(4,785,296)	(65,551)	(65,551)
Total Capital Assets, net	$ 6,508	$ 98	$ 98
TOTAL ASSETS	$ 13,673,785,357	$ 216,527,851	$ 484,303,111
LIABILITIES			
Compensated Absences Payable (Note 5)	296,724	4,256	7,395
Accounts Payable and Accrued Liabilities	8,925,591	116,929	247,544
Obligations under Securities Lending (Note 4)	173,788,702	2,758,470	6,083,408
Other Investment Payables (Note 4)	1,205,037,690	19,127,021	42,181,890
TOTAL LIABILITIES	$ 1,388,048,707	$ 22,006,676	$ 48,520,237
NET POSITIONS - RESTRICTED FOR PENSION BENEFITS	$ 12,285,736,650	$ 194,521,175	$ 435,782,874

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, 2020

	School Employees	Judges	State Patrol
ADDITIONS			
Contributions			
Member	$ 203,866,708	$ 1,962,507	$ 4,970,209
Employer			
Schools	203,022,597	-	-
Court Fees	-	3,548,379	-
State Patrol	-	-	4,970,209
State Appropriations	-	348,794	4,112,870
Non-Employer (Note 2)	43,076,482	-	-
Total Contributions	$ 449,965,787	$ 5,859,680	$ 14,053,288
Investment Income			
Net Appreciation in Fair Value of Investments	132,638,913	2,116,980	4,724,311
Interest & Dividends	196,800,276	3,144,359	7,041,093
Securities Lending Income	4,170,078	66,190	145,973
Total Investment Income	$ 333,609,267	$ 5,327,529	$ 11,911,377
Investment Expense	(45,799,317)	(730,195)	(1,628,269)
Securities Lending Expense	(3,040,140)	(48,255)	(106,419)
Net Investment Income	$ 284,769,810	$ 4,549,079	$ 10,176,689
Other Additions	$ 4,500	-	$ 14,058
Total Additions	$ 734,740,097	$ 10,408,759	$ 24,244,035
DEDUCTIONS			
Benefits	643,699,776	11,477,914	22,357,949
Refunds of Contributions	15,144,084	-	2,595,111
Administrative Expense	3,385,232	82,168	120,098
Other Deductions (Note 6)	1,721,378	-	-
Total Deductions	$ 663,950,470	$ 11,560,082	$ 25,073,158
NET INCREASE/DECREASE IN PLAN NET POSITION	$ 70,789,627	$ (1,151,323)	$ (829,123)
NET POSITION - RESTRICTED FOR PENSIONS:			
BEGINNING OF YEAR	$ 12,214,947,023	$ 195,672,498	$ 436,611,997
END OF YEAR	$ 12,285,736,650	$ 194,521,175	$ 435,782,874

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

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2020

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, 2019, 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.

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.

1. Summary of Significant Accounting Policies (Continued)

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.

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 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.

1. Summary of Significant Accounting Policies (Concluded)

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, 2020, the date of the last actuarial valuation:

	School Employees	Judges	State Patrol
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	26,184	194	473
Members in Deferred Retirement Option Plan (DROP)	-	-	30
Inactive Plan Members Entitled to but not yet Receiving Benefits	6,492	5	28
Inactive Nonvested Members	18,273	-	8
Active Plan Members	43,177	148	392
	94,126	347	931

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, Supp. 2019) 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions and Contribution Information (Continued)

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 2020, 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.

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, 2019, to June 30, 2020. 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.

2. Plan Descriptions and Contribution Information (Continued)

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 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.

2. <u>Plan Descriptions and Contribution Information</u> (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. Upon entering 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, 2020, was $4,052,079.

3. <u>Funded Status and Funding Progress</u>

The components of the net pension liability for the plans at July 1, 2020, the most recent actuarial valuation date, were as follows:

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Funded Status and Funding Progress (Continued)

	(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	$ 13,849,194,050	$ 12,285,736,650	$ 1,563,457,400	88.71%
Judges	206,455,118	194,521,175	11,933,943	94.22%
State Patrol	510,757,085	435,782,874	74,974,211	85.32%

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

	School Employees	Judges	State Patrol
Valuation date	July 1, 2020	July 1, 2020	July 1, 2020
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	16 Years	18 Years	19 Years
Asset valuation method	5 year smoothed market	5 year smoothed market	5 year smoothed market
Actuarial assumptions:			
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

3. Funded Status and Funding Progress (Continued)

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

The actuarial assumptions used in the July 1, 2020, valuations for the School Employees, Judges, and State 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, 2020, (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

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, 2020, 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 non-employers 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 2119.

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	$ 3,468,552,303	$ 1,563,457,400	$ (9,241,879)
Judges	32,994,434	11,933,943	(6,160,989)
Patrol	145,029,611	74,974,211	17,931,829

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) (Supp. 2019) 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:

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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

Plan Investments at June 30, 2020, at Fair Value Measurement Using:

	Fair Value	Level 1	Level 2	Level 3
Debt Securities				
Bank Loans	$ 297,494,415	$ -	$ 297,494,415	$ -
US Treasury Notes and Bonds	291,773,064	-	291,773,064	-
U.S. Treasury Bills	5,043,522	-	5,043,522	-
Government Agency Securities	11,647,115	-	11,647,115	-
Corporate Bonds	1,149,109,863	-	1,149,107,230	2,633
International Bonds	312,700,262	-	312,700,262	-
Asset Backed Securities	86,267,987	-	86,267,987	-
Short-Term Investments	168,976,527	11,907,342	157,069,185	-
Commingled Debt	1,057,346,031	668,442,126	388,903,905	-
Mortgages	743,139,084	-	743,139,084	-
Municipal Bonds	11,213,114	-	11,213,114	-
	4,134,710,984	680,349,468	3,454,358,883	2,633
Other Investments				
Commingled Funds	5,734,743,738	2,414,552,707	3,320,191,031	-
Private Equity	337,689	337,689	-	-
Equity Securities	1,708,502,841	1,707,021,051	1,481,790	-
Options	(25,007)	(1,950)	(23,057)	-
Private Real Estate Funds Trust	435,844	435,844	-	-
Total Investments	$ 11,578,706,089	$ 4,802,694,809	$ 6,776,008,647	$ 2,633
Investments Measured at the Net Asset Value (NAV):		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Real Estate Funds:				
Core	$ 597,629,215	$ -	Quarterly	90 days
Non-Core	211,278,896	122,191,563		
Opportunistic Credit	36,624,904	98,463,627		
Private Equity Funds	688,663,665	429,141,037		
Commingled Funds	117,584	-		
Short-Term Investment Funds	4	-		
Total Investments Measured at Net Asset Value	$ 1,534,314,268	$ 649,796,227		
Total	$ 13,113,020,357			
Securities Lending Collateral	182,630,580			
Total Investments at Fair Value	$ 13,295,650,937			

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. The NAV table also presents the unfunded commitments, redemption frequency (if currently eligible), and the redemption notice period for the Plans' alternative investments. Investments measured by NAV are either short term in nature or intended to be held to maturity. Therefore, they do not bear a significant risk of being sold at amounts different than the NAV.

Other investments not classified. The $182,630,580 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.

4. **Investments** (Continued)

School Employees, Judges, and Patrol Retirement Plans Investments at June 30, 2020

	Fair Value	Effective Duration
Debt Securities		
Bank Loans	$ 297,494,415	
U.S. Treasury Notes and Bonds	291,773,064	11.78
U.S. Treasury Bills	5,043,522	
Government Agency Securities	11,647,115	7.43
Corporate Bonds	1,149,109,863	6.32
International Bonds	312,700,262	7.83
Asset Backed Securities	86,267,987	0.98
Short-Term Investments	168,976,531	0.04
Commingled Debt	1,057,346,031	3.81
Mortgages	743,139,084	1.22
Municipal Bonds	11,213,114	12.30
Other Investments		
Opportunistic Credit	36,624,904	
Commingled Funds	5,734,861,322	
Private Equity Securities	689,001,354	
Equity Securities	1,708,502,841	
Options	(25,007)	
Private Real Estate Funds Trust	809,343,955	
Total Investments	13,113,020,357	
Invested Securities Lending Collateral	182,630,580	
Total	$ 13,295,650,937	

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.

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, 2020, 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, 2020

		Quality Ratings						
	Fair Value	AAA	AA	A	BBB	BB	B	Unrated
Asset Backed Securities	$ 86,267,987	$ 52,029,143	$ 7,844,525	$ 5,393,121	$ 3,949,642	$ 1,749,878	$ 1,118,141	$ 14,183,537
Bank Loans	297,494,415	-	-	-	-	-	-	297,494,415
Commingled Debt	1,057,346,031	-	-	-	-	-	-	1,057,346,031
Corporate Bonds	1,149,109,863	11,906,905	36,643,141	272,805,180	668,673,053	99,416,652	36,027,103	23,637,829
Government Agency Securities	11,647,115	3,777,554	4,046,131	2,501,859	610,985	-	-	710,586
International Bonds	312,700,262	24,120,619	55,494,265	70,036,333	44,790,016	8,020,424	3,883,169	106,355,436
Mortgages	743,139,084	98,141,225	13,599,617	2,216,365	4,443,083	2,790,161	997,615	620,951,018
Municipal Bonds	11,213,114	3,458,644	5,725,245	1,327,237	701,988	-	-	-
Short-Term Investments	168,976,531	-	-	25,588,227	1,307,376	513,695	-	141,567,233

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, 2020, 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, 2020

	Corporate Bonds	Equity Securities	International Bonds	Mortgages	Private Equity	Short-Term Investments
Argentine Peso	$ 192,441	$ -	$ 171,628	$ -	$ -	$ 234,660
Australian Dollar	-	2,367,217	5,648,263	-	-	15,227
Brazilian Real	-	14,237,356	-	-	-	4,957
Canadian Dollar	-	11,526,765	10,625,404	-	-	145,956
Czech Koruna	-	-	208,444	-	-	-
Danish Krone	-	4,885,050	757,603	-	-	40,310
Euro Currency	90,807,323	208,780,167	66,544,721	-	51,757,089	2,170,817
Hong Kong Dollar	-	10,315,709	-	-	-	52,798
Indonesian Rupiah	-	-	790,881	-	-	22,971
Japanese Yen	-	89,678,834	90,525,320	-	-	1,892,488
Malaysian Ringgit	-	-	1,711,821	-	-	29,963
Mexican Peso	-	2,455,823	1,363,628	-	-	97,399
New Israeli Sheqel	-	732,872	635,700	-	-	24,122

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

	Corporate Bonds	Equity Securities	International Bonds	Mortgages	Private Equity	Short-Term Investments
New Zealand Dollar	-	1,976,955	1,482,976	-	-	227,854
Norwegian Krone	-	-	160,073	-	-	3,235
Polish Zloty	-	3,115,855	552,975	-	-	4,458
Pound Sterling	2,582,990	73,397,222	18,645,079	19,110,164	-	1,321,751
Russian Ruble	-	-	974,391	-	-	41,476
Singapore Dollar	-	-	1,429,262	-	-	20,703
Sol	-	-	4,839,358	-	-	-
South African Rand	-	-	-	-	-	733
South Korean Won	-	6,672,368	6,362,095	-	-	58,595
Swedish Krona	-	29,056,671	1,337,779	-	-	22,411
Swiss Franc	-	85,713,411	2,698,873	-	-	61,345
Thailand Baht	-	1,796,049	1,070,077	-	-	3,456
Turkish Lira	-	8,341,886	-	-	-	327,435
Yuan Renminbi	-	35,762,104	19,361,947	-	-	1,278,086
Yuan Renminbi Offshore	-	-	-	-	-	(199,654)
Total	$ 93,582,754	$ 590,812,314	$ 237,898,298	$ 19,110,164	$51,757,089	$ 7,903,552

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 18 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, 2020, is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments outstanding at June 30, 2020, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

Derivative Investments at June 30, 2020

Derivative	Change in Fair Value	Fair Value	Notional
Credit Default Swaps	$ (670,443)	$ (204,337)	$ 20,673,415
Fixed Income Futures	4,260,297	-	153,801,585
Fixed Income Options	59,494	(23,056)	(13,340,204)
Foreign Currency Options	287,396	-	-
Futures Options	262,443	(1,950)	(62,410)
FX Forwards	(1,444,282)	(2,128,329)	643,965,182
Fixed Interest Rate Swaps	(3,592,760)	(2,239,331)	371,620,568
Rights	1,196	-	-

4. Investments (Continued)

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, 2020, 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, 2020, was $1,319,739. 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 $1,319,739.

Although the Plans execute derivative instruments with various counterparties, there is approximately 98 percent of the net exposure to credit risk, held with 10 counterparties. The counterparties are rated BBB+, A, A+ or AA-.

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.

4. Investments (Continued)

Foreign currency risk for derivative instruments at June 30, 2020, are as follows:

Currency	Options	Swaps	Forward Contracts
Australian Dollar	$ -	$ -	$ (31,122)
Brazilian Real	-	-	(562)
Canadian Dollar	-	-	(13,750)
Danish Krone	-	-	2,485
Euro Currency	-	-	(1,534,450)
Hungarian Forint	-	-	(1,435)
Indonesian Rupiah	-	-	8,269
Japanese Yen	-	(1,026,090)	(483,897)
Malaysian Ringgit	-	-	(2,425)
Mexican Peso (New)	-	-	14,590
New Zealand Dollar	-	-	(25,597)
Norwegian Krone	-	-	(48,511)
Polish Zloty	-	-	2,143
Pound Sterling	-	(211,074)	(248,832)
Russian Ruble	-	-	116,895
Singapore Dollar	-	-	(4,790)
Sol	-	-	51,473
South Korean Won	-	-	361
Swedish Krona	-	-	(28,712)
Swiss Franc	-	-	(13,790)
Thailand Baht	-	-	40,064
Yuan Renminbi Offshore	-	-	73,264
Total	$ -	$ (1,237,164)	$ (2,128,329)

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, 2020, but the security had not settled.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Investments (Concluded)

Money-Weighted Rate of Return. For the year ended June 30, 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 2.36 percent for the School Plan, 2.36 percent for the Judges Plan, and 2.24 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, 2020, are summarized as follows:

	School Employees	Judges	State Patrol
Beginning Balance	$ 276,714	$ 4,072	$ 4,086
Increases	47,701	591	3,718
Decreases	27,691	407	409
Ending Balance	$ 296,724	$ 4,256	$ 7,395
Amounts Due Within One Year	$ 32,640	$ 468	$ 813

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.

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, $10,212,337, consisting almost entirely of investments, are included in the Statements of Plan Net Position at June 30, 2020. The service annuity payments of $1,721,378 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:

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. Contingencies (Concluded)

A. Motor vehicle liability, which includes $4,700,000 with a self-insured retention of $300,000 (coverage includes hot pursuit). There is an additional one-time corridor retention of $300,000. 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 $10,975,000 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 $400,700,000, with a self- insured retention of $300,000 per loss occurrence. Newly acquired properties are covered up to $10 million for 120 days, if the property has not been reported. If not reported after 120 days, the property is not covered. 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 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 $2,866,435. 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 (Supp. 2019), 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).

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

9. Capital Assets

Capital asset activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
School Employees:				
Equipment	$ 4,791,804	$ -	$ -	$ 4,791,804
Less: Accumulated Depreciation	4,784,758	538	-	4,785,296
Total Capital Assets, Net	$ 7,046	$ (538)	$ -	$ 6,508
Judges:				
Equipment	$ 65,649	$ -	$ -	$ 65,649
Less: Accumulated Depreciation	65,543	8	-	65,551
Total Capital Assets, Net	$ 106	$ (8)	$ -	$ 98
State Patrol:				
Equipment	$ 65,649	$ -	$ -	$ 65,649
Less: Accumulated Depreciation	65,543	8	-	65,551
Total Capital Assets, Net	$ 106	$ (8)	$ -	$ 98

10. Subsequent Events

State Patrol Additional Contributions. Neb. Rev. Stat. § 81-2017(3) (Cum. Supp. 2018) describes actuarially required contributions. As of July 1, 2020, the actuarially determined additional contribution requirement for the State Patrol Plan is $4,082,024.

School Employees Additional Contributions. Neb. Rev. Stat. § 79-966.01 (Reissue 2014) describes actuarially required contributions. As of July 1, 2020, 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 $1,219,620.

Judges Additional Contributions. Neb. Rev. Stat. § 24-703(9) (Reissue 2016) describes actuarially required contributions. As of July 1, 2020, the actuarially determined additional contribution requirement for the Judges Employees Plan is $1,427,719.

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, 2020

(Unaudited)

	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability							
Service cost	$ 278,496,994	$ 268,216,074	$ 261,067,772	$ 227,893,391	$ 222,525,387	$ 214,673,003	$ 202,803,787
Interest	985,415,602	953,982,025	915,143,958	876,680,145	843,289,424	814,387,820	782,055,188
Benefit term changes	-	-	-	-	-	-	-
Differences between expected and actual experience	(189,863,578)	(161,275,567)	(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	(660,565,238)	(626,500,723)	(587,984,401)	(554,369,720)	(528,499,067)	(502,190,816)	(466,161,224)
Net change in Total Pension Liability	413,483,780	434,421,809	535,148,812	1,258,841,480	428,994,532	352,191,028	441,213,611
Total Pension Liability - beginning	13,435,710,270	13,001,288,461	12,466,139,649	11,207,298,169	10,778,303,637	10,426,112,609	9,984,898,998
Total Pension Liability - ending (a)	$ 13,849,194,050	$ 13,435,710,270	$ 13,001,288,461	$ 12,466,139,649	$ 11,207,298,169	$ 10,778,303,637	$ 10,426,112,609
Plan Fiduciary Net Position							
Employer contributions	$ 203,022,597	$ 196,850,333	$ 190,657,058	$ 184,903,366	$ 178,608,695	$ 173,013,848	$ 167,710,406
Non-employer contributions							
State Appropriation contributions	41,860,351	40,543,609	39,339,378	38,039,347	36,919,600	35,493,591	34,703,519
Omaha Service Annuity contributions	1,216,131	1,248,297	1,243,169	992,451	997,118	997,858	909,638
Employee contributions	203,866,708	197,095,568	191,483,632	186,176,743	178,613,265	174,797,341	169,200,529
Net investment income	284,769,810	772,593,261	927,963,467	1,325,835,296	149,283,503	355,847,514	1,454,496,772
Benefit payments, including member refunds	(660,565,238)	(626,500,723)	(587,984,401)	(554,369,720)	(528,499,067)	(502,190,816)	(466,161,224)
Administrative expenses	(3,385,232)	(3,215,740)	(3,300,321)	(3,334,436)	(3,182,464)	(3,153,883)	(2,861,508)
Other changes	4,500	33,515	35,414	33,650	28,107	28,877	30,561
Net change in Plan Fiduciary Net Position	70,789,627	578,648,120	759,437,396	1,178,276,697	12,768,757	234,834,330	1,358,028,693
Plan Fiduciary Net Position – beginning	12,214,947,023	11,636,298,903	10,876,861,507	9,698,584,810	9,685,816,053	9,450,981,723	8,092,953,030
Plan Fiduciary Net Position - ending (b)	$ 12,285,736,650	$ 12,214,947,023	$ 11,636,298,903	$ 10,876,861,507	$ 9,698,584,810	$ 9,685,816,053	$ 9,450,981,723
Net Pension Liability - ending (a) - (b)	$ 1,563,457,400	$ 1,220,763,247	$ 1,364,989,558	$ 1,589,278,142	$ 1,508,713,359	$ 1,092,487,584	$ 975,130,886
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	88.71%	90.91%	89.50%	87.25%	86.54%	89.86%	90.65%
Covered payroll	$ 2,055,342,252	$ 1,992,856,031	$ 1,930,157,100	$ 1,871,908,380	$ 1,808,182,946	$ 1,751,542,327	$ 1,697,851,809
Employers' Net Pension Liability as a percentage of covered payroll	76.07%	61.26%	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, 2020
(Unaudited)

	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability							
Service cost	$ 5,550,688	$ 5,640,784	$ 5,589,181	$ 4,997,654	$ 4,721,039	$ 4,759,455	$ 4,257,200
Interest	14,471,871	14,199,759	13,720,785	13,100,385	12,642,618	12,170,797	11,567,915
Benefit term changes	-	-	-	-	-	-	-
Differences between expected and actual experience	(205,585)	(5,002,500)	(2,398,903)	(1,714,732)	(2,303,032)	(2,613,808)	41,752
Assumption changes	-	-	-	12,705,465	-	-	-
Benefit payments, including member refunds	(11,477,914)	(10,991,157)	(10,144,103)	(9,690,310)	(9,052,110)	(8,547,892)	(8,121,996)
Net change in Total Pension Liability	8,339,060	3,846,886	6,766,960	19,398,462	6,008,515	5,768,552	7,744,871
Total Pension Liability - beginning	198,116,058	194,269,172	187,502,212	168,103,750	162,095,235	156,326,683	148,581,812
Total Pension Liability - ending (a)	$ 206,455,118	$ 198,116,058	$ 194,269,172	$ 187,502,212	$ 168,103,750	$ 162,095,235	$ 156,326,683
Plan Fiduciary Net Position							
Employer contributions							
Court fees	$ 3,548,379	$ 3,946,292	$ 4,112,543	$ 3,578,851	$ 3,458,665	$ 2,977,205	$ 3,102,864
State Appropriations	348,794	442,599	667,613	118,714	-	94,000	803,383
Employee contributions	1,962,507	1,854,712	1,814,533	1,743,103	1,651,432	1,610,529	1,518,801
Net investment income	4,549,079	12,436,060	15,070,504	21,699,250	2,453,560	5,958,799	24,543,298
Benefit payments, including member refunds	(11,477,914)	(10,991,157)	(10,144,103)	(9,690,310)	(9,052,110)	(8,547,892)	(8,121,996)
Administrative expenses	(82,168)	(71,663)	(71,266)	(84,626)	(70,707)	(82,746)	(78,263)
Other changes	-	-	-	-	-	3	45
Net change in Plan Fiduciary Net Position	(1,151,323)	7,616,843	11,449,824	17,364,982	(1,559,160)	2,009,898	21,768,132
Plan Fiduciary Net Position – beginning	195,672,498	188,055,655	176,605,831	159,240,849	160,800,009	158,790,111	137,021,979
Plan Fiduciary Net Position - ending (b)	$ 194,521,175	$ 195,672,498	$ 188,055,655	$ 176,605,831	$ 159,240,849	$ 160,800,009	$ 158,790,111
Net Pension Liability (Net Asset) - ending (a) - (b)	$ 11,933,943	$ 2,443,560	$ 6,213,517	$ 10,896,381	$ 8,862,901	$ 1,295,226	$ (2,463,428)
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	94.22%	98.77%	96.80%	94.19%	94.73%	99.20%	101.58%
Covered payroll	$ 24,366,968	$ 23,215,585	$ 23,125,170	$ 22,801,593	$ 22,178,157	$ 21,586,829	$ 20,099,647
Employers' Net Pension Liability as a percentage of covered payroll	48.98%	10.53%	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, 2020

(Unaudited)

	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability							
Service cost	$ 8,960,959	$ 9,079,338	$ 8,794,874	$ 7,955,722	$ 8,152,482	$ 7,562,642	$ 8,173,815
Interest	36,397,966	35,165,912	34,076,868	32,887,178	32,113,989	31,349,873	30,164,990
Benefit term changes	-	-	-	-	-	-	-
Differences between expected and actual experience	(6,168,045)	(2,864,410)	(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	(24,953,060)	(24,953,776)	(23,828,680)	(24,139,604)	(19,576,376)	(19,458,540)	(20,010,413)
Net change in Total Pension Liability	14,237,820	16,427,064	15,026,166	43,142,655	11,712,801	8,795,061	14,540,418
Total Pension Liability - beginning	496,519,265	480,092,201	465,066,035	421,923,380	410,210,579	401,415,518	386,875,100
Total Pension Liability - ending (a)	$ 510,757,085	$ 496,519,265	$ 480,092,201	$ 465,066,035	$ 421,923,380	$ 410,210,579	$ 401,415,518
Plan Fiduciary Net Position							
Employer contributions	$ 9,083,079	$ 8,693,805	$ 8,952,649	$ 7,053,110	$ 7,053,408	$ 8,646,426	$ 8,752,627
Employee contributions	4,970,209	4,710,105	4,615,214	4,500,952	4,365,651	4,180,263	4,134,598
Net investment income	10,176,689	27,536,775	33,872,593	48,679,867	5,491,550	13,332,650	54,950,250
Benefit payments, including member refunds	(24,953,060)	(24,953,776)	(23,828,680)	(24,139,604)	(19,576,376)	(19,458,540)	(20,010,413)
Administrative expenses	(120,098)	(75,872)	(89,102)	(141,196)	(128,156)	(116,679)	(121,153)
Other changes	14,058	17,930	23,184	28,557	26,778	21,619	21,199
Net change in Plan Fiduciary Net Position	(829,123)	15,928,967	23,545,858	35,981,686	(2,767,145)	6,605,739	47,727,108
Plan Fiduciary Net Position – beginning	436,611,997	420,683,030	397,137,172	361,155,486	363,922,631	357,316,892	309,589,784
Plan Fiduciary Net Position - ending (b)	$ 435,782,874	$ 436,611,997	$ 420,683,030	$ 397,137,172	$ 361,155,486	$ 363,922,631	$ 357,316,892
Net Pension Liability - ending (a) - (b)	$ 74,974,211	$ 59,907,268	$ 59,409,171	$ 67,928,863	$ 60,767,894	$ 46,287,948	$ 44,098,626
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	85.32%	87.93%	87.63%	85.39%	85.60%	88.72%	89.01%
Covered payroll	$ 30,810,004	$ 29,301,599	$ 28,697,715	$ 28,091,906	$ 27,047,938	$ 26,294,294	$ 25,624,081
Employers' Net Pension Liability as a percentage of covered payroll	243.34%	204.45%	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, 2020

(Unaudited)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially determined contribution	$ 179,551,208	$ 180,295,400	$ 185,923,377	$ 129,070,591	$ 132,846,323	$ 152,268,397	$ 174,157,865	$ 227,859,188	$ 192,478,407	$ 177,075,137
Actual non-employer contributions										
Actual State Appropriations*	41,860,351	40,543,609	39,339,378	38,039,347	36,919,600	35,493,591	34,703,519	16,874,535	22,400,533	21,907,948
Actual Omaha Appropriations**	1,216,131	1,248,297	1,243,169	992,451	997,118	997,858	909,638	969,396	1,030,017	967,145
Actual employer contributions	203,022,597	196,850,333	190,657,058	184,903,366	178,608,695	173,013,848	167,710,406	161,922,831	145,582,040	135,328,339
Total contributions	$ 246,099,079	$ 238,642,239	$ 231,239,605	$ 223,935,164	$ 216,525,413	$ 209,505,297	$ 203,323,563	$ 179,766,762	$ 169,012,590	$ 158,203,432
Annual contribution deficiency (excess)	$ (66,547,871)	$ (58,346,839)	$ (45,316,228)	$ (94,864,573)	$ (83,679,090)	$ (57,236,900)	$ (29,165,698)	$ 48,092,426	$ 23,465,817	$ 18,871,705
Covered payroll	$ 2,055,342,252	$ 1,992,856,031	$ 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
Actual contributions as a percentage of covered payroll	11.97%	11.97%	11.98%	11.96%	11.97%	11.96%	11.98%	10.80%	10.30%	9.78%

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

* Includes scheduled contributions as well as appropriations to make up any contribution shortfall.

** For State service annuity only.

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, 2020

(Unaudited)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially determined employer contribution	$ 3,897,173	$ 4,388,891	$ 4,780,156	$ 3,697,565	$ 3,458,665	$ 3,727,054	$ 3,906,247	$ 3,180,367	$ 3,483,614	$ 3,579,661
Actual non-employer contributions										
Court Fees	3,548,379	3,946,292	4,112,543	3,578,851	3,458,665	2,977,205	3,102,864	3,180,367	3,411,370	3,507,417
State Contributions	348,794	442,599	667,613	118,714	-	94,000	803,383	-	72,244	72,244
Actual non-employer contributions	3,897,173	4,388,891	4,780,156	3,697,565	3,485,665	3,071,205	3,906,247	3,180,367	3,483,614	3,579,661
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ 655,849	$ -	$ -	$ -	$ -
Covered payroll	$ 24,366,968	$23,215,585	$23,125,170	$ 22,801,593	$ 22,178,157	$ 21,586,829	$ 20,099,647	$ 19,005,478	$ 18,182,238	$ 18,773,203
Actual contributions as a percentage of covered payroll	15.99%	18.90%	20.67%	16.22%	15.59%	14.23%	19.43%	16.73%	19.16%	19.07%

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 EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS

STATE PATROL RETIREMENT PLAN

LAST 10 YEARS

AS OF JUNE 30, 2020

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially determined employer contribution	$ 9,083,079	$ 8,693,805	$ 8,952,649	$ 7,053,110	$ 7,053,408	$ 8,073,824	$ 8,752,627	$ 9,768,585	$ 7,774,506	$ 7,563,126
Actual employer contributions*	$ 9,083,079	$ 8,693,805	$ 8,952,649	$ 7,053,110	$ 7,053,408	$ 8,073,824	$ 8,752,627	$ 7,515,905	$ 7,774,506	$ 5,956,747
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,252,680	$ -	$ 1,606,379
Covered payroll	$ 30,810,004	$29,301,599	$28,697,715	$28,091,906	$27,047,938	$ 26,294,294	$ 25,624,081	$ 26,901,711	$ 27,390,926	$ 27,987,900
Actual contributions as a percentage of covered payroll	29.48%	29.67%	31.20%	25.11%	26.08%	30.71%	34.16%	27.94%	28.38%	21.28%

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 INVESTMENT RETURNS

AS OF JUNE 30, 2020

(Unaudited)

	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense:							
School Employees Retirement Plan	2.36%	6.72%	8.63%	13.83%	1.56%	3.77%	18.14%
Judges Retirement Plan	2.36%	6.72%	8.64%	13.82%	1.55%	3.75%	18.14%
State Patrol Retirement Plan	2.24%	6.21%	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.

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%.

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.
- 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.

- 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.

The following changes were made in the actuarial assumptions:

July 1, 2020, valuation:

- Court fees for fiscal year 2021 are assumed to be 85% of actual fiscal year 2020 court fees. This assumption had no impact on the TPL.

July 1, 2017, valuation:

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

- 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 (2017), 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.

2016: LB 467 (2016) 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%.

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

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.
- 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 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, 2020

	School Employees	Judges	State Patrol	Total
Personnel				
Personal Services	$ 2,074,180	$ 29,548	$ 52,743	$ 2,156,471
Travel	10,348	129	202	10,679
Professional and Technical Services				
Professional	37,928	424	802	39,154
Actuary	79,043	36,150	36,160	151,353
Computer Support services	576,054	8,592	15,484	600,130
Accounting and Auditing	240,223	3,294	5,764	249,281
Communications				
Printing	41,359	283	720	42,362
Other Expenses				
Postage	99,516	750	1,188	101,454
Supplies	21,131	201	407	21,739
Hardware & Software	31,828	464	924	33,216
Repairs	202	-	3	205
Rent	122,534	1,815	1,815	126,164
Miscellaneous	50,886	518	3,886	55,290
Total Administrative Expenses	$ 3,385,232	$ 82,168	$ 120,098	$ 3,587,498

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF INVESTMENT-RELATED EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Schools Employees	Judges	Patrol	Total
BlackRock Financial Management, Inc.	$ 415,145	$ 6,598	$ 14,565	$ 436,308
Dimensional Fund Advisors, Inc.	1,005,670	16,017	35,423	1,057,110
Total Domestic Equity	**1,420,815**	**22,615**	**49,988**	**1,493,418**
BlackRock Financial Management, Inc.	944,050	15,023	33,212	992,285
Franklin Templeton Investments	1,314,985	20,941	46,319	1,382,245
Loomis Sayles & Company, L.P.	1,966,499	31,342	69,252	2,067,093
Oaktree Capital Management	194,456	3,102	6,852	204,410
Neuberger Berman Investment Management	620,082	9,862	21,723	651,667
Pacific Investment Management Company, LLC	3,306,505	52,699	116,471	3,475,675
Wellington Management Company, LLP	1,182,302	18,846	41,611	1,242,759
Total Fixed Income	**9,528,879**	**151,815**	**335,440**	**10,016,134**
Arrowstreet Capital LP	3,367,185	53,628	118,610	3,539,423
Dodge & Cox	2,798,817	44,625	98,539	2,941,981
MFS Institutional Advisors, Inc.	2,927,636	46,700	103,177	3,077,513
Wellington Management Company, LLP	1,859,708	29,653	65,476	1,954,837
Total Global Equity	**10,953,346**	**174,606**	**385,802**	**11,513,754**
BlackRock Financial Management, Inc.	799,541	12,729	28,087	840,357
Total International Equity	**799,541**	**12,729**	**28,087**	**840,357**
Almanac Realty Investors, LLC	623,283	9,940	21,950	655,173
Angelo, Gordon & Company, L.P.	66,130	1,054	2,328	69,512
Barings Asset Management	203,248	3,248	7,177	213,673
Clarion Partners	1,166,534	18,594	41,056	1,226,184
Landmark Partners	703,698	11,223	24,784	739,705
PGIM Real Estate (formerly Prudential)	2,132,948	34,010	75,099	2,242,057
Rockpoint Group, L.L.C.	35,674	569	1,257	37,500
Rockwood Capital, LLC	734,211	11,701	25,834	771,746
Torchlight Investors	945,711	15,083	33,309	994,103
UBS Realty Investors, LLC	1,751,591	27,930	61,675	1,841,196
Total Real Estate	**8,363,028**	**133,352**	**294,469**	**8,790,849**
Abbott Capital Management, LLC	153,501	2,448	5,405	161,354
Accel-KKR Management Co, LLC	150,524	2,402	5,305	158,231
Ares Management, LLC	1,057,902	16,871	37,256	1,112,029
Beecken Petty O'Keefe & Company	215,290	3,438	7,596	226,324
Bridgepoint Advisers Limited	1,025,856	16,359	36,124	1,078,339
CVC Capital Partners	123,686	1,973	4,358	130,017
(The) Energy & Minerals Group	286,011	4,563	10,076	300,650
Francisco Partners	996,451	15,883	35,070	1,047,404
Genstar Capital Partners LLC	1,106,183	17,647	38,973	1,162,803
Leonard Green & Partners, L.P.	305,956	4,878	10,771	321,605

(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, 2020

	Schools Employees	Judges	Patrol	Total
HarbourVest Partners, LLC	1,437,862	22,934	50,647	1,511,443
Lightyear Capital LLC	25,872	413	911	27,196
Lincolnshire Management, Inc.	79,932	1,275	2,816	84,023
McCarthy Capital Corporation	959,991	15,309	33,806	1,009,106
Merit Capital Partners	72,449	1,155	2,551	76,155
New Enterprise Associates	707,613	11,282	24,916	743,811
New Mountain Capital, LLC	1,001,906	15,976	35,279	1,053,161
Pathway Capital Management	337,087	5,376	11,873	354,336
Pine Brook Partners	361,437	5,766	12,734	379,937
Presidio Partners (formerly CMEA Capital)	94,941	1,514	3,344	99,799
Quantum Energy Partners	1,129,610	18,015	39,784	1,187,409
Sun Capital Partners, Inc.	13,858	221	487	14,566
(The) Jordan Company	721,251	11,508	25,415	758,174
The Rohatyn Group Management, L.P.	49,322	787	1,738	51,847
Wayzata Investment Partners, LLC	71,825	1,145	2,529	75,499
Wynnchurch Capital	312,206	4,981	11,002	328,189
Total Private Equity	**12,798,522**	**204,119**	**450,766**	**13,453,407**
Nebraska Investment Council	878,842	14,098	30,979	923,919
Custody Expense	339,682	5,426	11,988	357,096
Foreign Income Taxes	689,948	11,008	24,296	725,252
Other Expenses	26,714	427	16,454	43,595
Total Other Investment Expenses	**1,935,186**	**30,959**	**83,717**	**2,049,862**
Total Investment - Fees	**$ 45,799,317**	**$ 730,195**	**$ 1,628,269**	**$ 48,157,781**

(Concluded)

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
auditors.nebraska.gov

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, 2020, 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 January 28, 2021. 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*.

Additional Item

We also noted a certain additional item that we reported to management of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans in the management letter dated January 28, 2021.

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.

Kris Kucera

January 28, 2021

Kris Kucera, CPA, CFE
Audit Manager
Lincoln, Nebraska

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
auditors.nebraska.gov

January 28, 2021

Nebraska Public Employees Retirement Board
Lincoln, Nebraska

Dear Board Members:

In planning and performing our audit of the 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, 2020, 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, we have issued our report thereon dated January 28, 2021. In planning and performing our audit, we considered the NPERS internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NPERS internal control. Accordingly, we do not express an opinion on the effectiveness of NPERS internal control.

In connection with our audit described above, we noted certain internal control or compliance matters related to the activities of the NPERS – School Employees, Judges, and State Patrol Retirement Plans or other operational matters that are presented below for your consideration. The comment and recommendation below, which has been discussed with the appropriate members of the NPERS management, is intended to improve internal control or result in other operating efficiencies.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Incorrect Death Refund Payment

The APA tested five State Patrol Plan refund payments to members and found one that was paid incorrectly.

The deceased member had a qualified domestic relations order (QDRO) processed in 2017. Generally, a QDRO occurs when a member is divorced from his or her spouse and a court orders a portion of the accumulated retirement funds to be paid to the former spouse.

NPERS is responsible for calculating the QDRO amount if it is not specified in the court order, using the dates the member was married to the date specified in the order. In this case, the QDRO period was April 1988 to October 2012. When NPERS performed the QDRO calculation, staff inadvertently entered April 1998 in the calculation worksheet, instead of 1988. Therefore, the NPERS calculation did not account for nearly 10 years of accumulated contributions and interest.

In 2017, the former spouse commenced receiving a monthly benefit, which was unaffected by the calculation error, as an account balance is not utilized in the benefit formula. However, the portion of the member's account balance attributable to the alternate payee should have been $98,628. When the member's account was divided, a total of only $72,485 was transferred to the former spouse's account. This left an excess of over $26,000 in the member's account.

Upon the member's passing in March 2020, the balance of his account – $253,962 – was paid to his beneficiary. The beneficiary should have received only $224,495, a difference of $27,467, which was still attributable to the former spouse's account and includes interest from the original QDRO payout.

NPERS sent a letter to the beneficiary in September 2020, requesting the $27,467 back. The amount was refunded to NPERS in December 2020.

Good internal control requires procedures to ensure all benefit payment calculations are performed accurately. NPERS has a procedure in place that requires a second individual to calculate all benefit payments. The reviewer did not catch the error made in the original calculation.

Without proper review procedures, the risk of incorrect payments increases.

> We recommend NPERS reiterate the importance of the benefit calculation review process to its staff to ensure the calculations are more carefully reviewed prior to payment.

NPERS Response: NPERS has discussed the importance of the benefit calculation review process with our teammates. NPERS will review the language in our review procedures and determine if any updates are warranted.

* * * * *

It should be noted this report is critical in nature, as it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any strong features of the NPERS.

Draft copies of this report were furnished to the NPERS to provide management with an opportunity to review the report and to respond to the comment and recommendation included in this report. The formal response received has been incorporated into this report. A response that indicates corrective action has been taken was not verified at this time, but it will be verified in the next audit.

This report is intended solely for the information and use of the NPERS, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and it is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Kris Kucera

Kris Kucera, CPA, CFE
Audit Manager
Lincoln Nebraska