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State Auditor Finds Omaha School Employees' Retirement System Continuing to Deteriorate

Net Pension Liability Now Exceeds \$1.1 Billion

Little more than a year ago, Nebraska State Auditor Mike Foley released a stinging audit report pointing out the precarious financial position of the Omaha School Employees' Retirement System (OSERS). This year's audit report by Foley's office confirms that, for a variety of reasons, the plan's financial position continues to deteriorate. According to an accompanying management letter, one of those reasons included financial errors in both the processing of retiree payouts and the calculation of member account balances – all of which have not only gone uncorrected but also continued to grow despite the clear guidance that Foley's team provided during prior audits.

Ten years ago, OSERS had a total pension liability of slightly over \$1.7 billion, with funding available to cover more than 75% of that amount. Today, the total pension liability exceeds \$2.6 billion, with only 57.5% of that amount covered, leaving an unfunded pension liability in excess of \$1.1 billion – its highest net pension liability in a decade. In sharp contrast, the ratio for the school employees retirement plan for all other public school districts throughout the State is exceedingly healthy and more than 97% funded.

The management letter catalogs numerous examples of ongoing mishandling of the account balances of current and retired OSERS members, indicating what appears to be a determined unwillingness on the part of management to address problems identified by Foley's office during prior audit work.

For example, errors identified in last year's management letter with member payouts, cost of living adjustments, and over \$1.3 million in excessive service annuity payments to beneficiaries reappear in the current report and remain largely uncorrected – all to the further detriment of OSERS. The report takes aim also at the lack of even the most rudimentary corrective measures, including those recommended more than a year ago during the previous audit.

Noting that the State of Nebraska's Public Employees Retirement Board will assume administration of OSERS as of September 1st of this year, Foley commented, "the proverbial can is about to be kicked down the road as the State prepares to take over administration of this vital retirement program, warts and all. Thousands of Omaha school employees dedicate their labors today on the promise of future benefits."

Nevertheless, as Foley pointed out, State law requires Douglas County School District #0001, also known as Omaha Public Schools, to retain responsibility for the \$1.1 billion pension liability even though OSERS will no longer be administering the plan. “Given the enormity of that continued obligation,” Foley observed, “I am concerned about the District’s capacity to improve its nasty pension liability dilemma without significant change.”

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