

**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, 2017**

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**Issued on February 14, 2018**

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

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

**BACKGROUND**

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

The Board has eight members appointed by the Governor, with legislative approval, to five-year terms. Six of the appointed members must be active or retired participants in the retirement system. Those six members include the following:

- ◆ Two participants in the School Retirement System, consisting of one administrator and one teacher;
- ◆ One participant in the Nebraska Judges Retirement System;
- ◆ One participant in the Nebraska State Patrol Retirement System;
- ◆ One participant in the Retirement System for Nebraska Counties; and
- ◆ One participant in the State Employees Retirement System.

Two appointed members must meet the following requirements:

- ◆ Cannot be an employee of the State of Nebraska or any of its political subdivisions; and
- ◆ Must have at least 10 years of experience in the management of a public or private organization or have at least 5 years of experience in the field of actuarial analysis or the administration of an employee benefit plan.

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

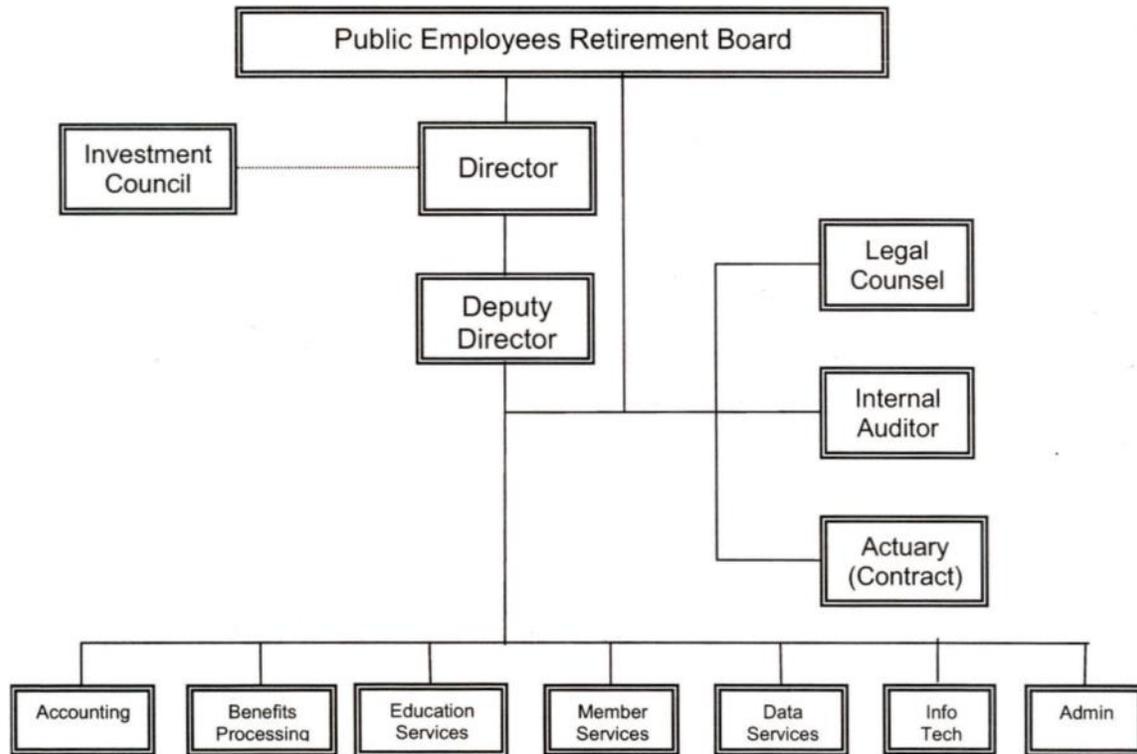
All appointed members must be Nebraska citizens. Members of the Board are paid \$50 per diem and are reimbursed for actual and necessary expenses. The Board hires a director to manage the day-to-day operations. Expenses are to be equitably distributed among the retirement systems. All expenses must be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

**MISSION STATEMENT**

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

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

**ORGANIZATIONAL CHART**



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

**KEY OFFICIALS AND AGENCY CONTACT INFORMATION**

**Public Employees Retirement Board Members**

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

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

Elaine Stuhr  
Public Member  
Term Ending January 1, 2018

Denis Blank  
State Member  
Term Ending January 1, 2020

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

Kelli Ackerman  
School Member  
Term Ending January 1, 2020

Pamela Lancaster  
County Member  
Term Ending January 1, 2021

Jim Schulz  
Public Member  
Term Ending January 1, 2022

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

**Nebraska Public Employees Retirement Systems Executive Management**

Randy Gerke  
Director

Teresa Zulauf  
Controller

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



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

#### INDEPENDENT AUDITOR'S REPORT

Nebraska Public Employees Retirement Board  
Lincoln, Nebraska

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

We have audited the accompanying Statements of Plan Net Position and the related 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, 2017, 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 the NPERS' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in conformity 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, 2017, 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 34-47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

*Supplementary Information*

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2018, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on 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 the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ internal control over financial reporting and compliance.

February 9, 2018



Zachary Wells, CPA  
Audit Manager  
Lincoln, Nebraska

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS**  
**SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS**  
**STATEMENTS OF PLAN NET POSITION**  
**JUNE 30, 2017**

	School Employees	Judges	State Patrol
<b>ASSETS</b>			
Cash in State Treasury	\$ 7,048,609	\$ 160,672	\$ 131,728
Deposits with Vendors	\$ 9,091	\$ 94	\$ 94
Receivables			
Contributions	68,736,605	430,213	2,541,558
Interest & Dividend Income	13,745,249	224,053	492,729
Other Investment Receivables (Note 4)	796,977,400	12,977,531	28,574,922
Total Receivables	\$ 879,459,254	\$ 13,631,797	\$ 31,609,209
Investments, at Fair Value (Note 4):			
ADR's, GDR's & Trusts	3,072,899	50,037	110,168
Bank Loans	231,829,841	3,774,987	8,311,445
U.S. Treasury Notes and Bonds	315,629,589	5,139,535	11,315,790
Government Agency Securities	27,036,692	440,250	969,306
Corporate Bonds	604,345,135	9,840,816	21,666,672
International Bonds	166,046,483	2,703,807	5,953,013
Equity Securities	1,330,558,611	21,666,067	47,702,505
Private Equity	459,555,369	7,483,141	16,475,744
Options	48,555	791	1,741
Mortgages	500,669,408	8,152,739	17,950,045
Private Real Estate	691,384,457	11,258,115	24,787,161
Asset Backed Securities	130,554,456	2,125,875	4,680,572
Municipal Bonds	5,434,569	88,493	194,837
Commingled Funds	6,422,843,120	104,585,962	237,318,892
Short-Term Investments	189,346,285	3,083,217	7,140,950
Total Investments	\$ 11,078,355,469	\$ 180,393,832	\$ 404,578,841
Invested Securities Lending Collateral (Note 4)	\$ 144,503,431	\$ 2,353,013	\$ 5,180,663
Capital Assets (Note 9)			
Equipment	4,815,916	65,976	65,976
Less: Accumulated Depreciation	(4,810,484)	(65,896)	(65,896)
Total Capital Assets, net	\$ 5,432	\$ 80	\$ 80
<b>TOTAL ASSETS</b>	<b>\$ 12,109,381,286</b>	<b>\$ 196,539,488</b>	<b>\$ 441,500,615</b>
<b>LIABILITIES</b>			
Compensated Absences Payable (Note 5)	286,443	4,073	10,104
Accounts Payable and Accrued Liabilities	7,636,568	101,238	696,974
Obligations under Securities Lending (Note 4)	144,503,431	2,353,013	5,180,663
Other Investment Payables (Note 4)	1,073,196,807	17,475,333	38,475,702
Contributions for Omaha Public Schools (Note 6)	6,896,530	-	-
<b>TOTAL LIABILITIES</b>	\$ 1,232,519,779	\$ 19,933,657	\$ 44,363,443
<b>NET POSITION RESTRICTED FOR PENSIONS</b>	<b>\$ 10,876,861,507</b>	<b>\$ 176,605,831</b>	<b>\$ 397,137,172</b>

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**STATEMENTS OF CHANGES IN PLAN NET POSITION**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	School Employees	Judges	State Patrol
<b>ADDITIONS</b>			
<b>Contributions</b>			
Plan Member	\$ 186,176,743	\$ 1,743,103	\$ 4,500,952
Employer:			
Schools	184,903,366	-	-
Court Fees	-	3,578,851	-
State Patrol	-	-	4,511,552
State Appropriations	-	118,714	2,541,558
Non-Employer (Note 2)	45,928,328	-	-
Total Contributions	<u>\$ 417,008,437</u>	<u>\$ 5,440,668</u>	<u>\$ 11,554,062</u>
<b>Investment Income</b>			
Net Appreciation in Fair Value of Investments	1,226,818,675	20,074,397	44,597,281
Interest & Dividends	133,988,701	2,194,596	5,371,933
Securities Lending Income	2,818,228	45,891	101,038
Total Investment Income	<u>\$ 1,363,625,604</u>	<u>\$ 22,314,884</u>	<u>\$ 50,070,252</u>
<b>Investment Expense</b>			
Investment Expense	(36,509,031)	(594,770)	(1,344,449)
Securities Lending Expense	(1,281,277)	(20,864)	(45,936)
Net Investment Income	<u>\$ 1,325,835,296</u>	<u>\$ 21,699,250</u>	<u>\$ 48,679,867</u>
Other Additions	<u>\$ 33,650</u>	<u>\$ -</u>	<u>\$ 28,557</u>
<b>TOTAL ADDITIONS</b>	<u>\$ 1,742,877,383</u>	<u>\$ 27,139,918</u>	<u>\$ 60,262,486</u>
<b>DEDUCTIONS</b>			
Benefits	\$ 539,348,690	\$ 9,690,310	\$ 18,481,633
Refunds of Contributions	13,320,844	-	5,657,971
Administrative Expense	3,334,436	84,626	141,196
Other Deductions (Note 6)	8,596,716	-	-
TOTAL DEDUCTIONS	<u>\$ 564,600,686</u>	<u>\$ 9,774,936</u>	<u>\$ 24,280,800</u>
<b>NET INCREASE IN PLAN NET POSITION</b>	<u>\$ 1,178,276,697</u>	<u>\$ 17,364,982</u>	<u>\$ 35,981,686</u>
<b>NET POSITION RESTRICTED FOR PENSIONS</b>			
BEGINNING OF YEAR	<u>\$ 9,698,584,810</u>	<u>\$ 159,240,849</u>	<u>\$ 361,155,486</u>
END OF YEAR	<u>\$ 10,876,861,507</u>	<u>\$ 176,605,831</u>	<u>\$ 397,137,172</u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the Fiscal Year Ended June 30, 2017

**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, 2016, and the Deferred Compensation Plan for the calendar year ended December 31, 2013.

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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

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

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

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

**D. Cash in State Treasury**

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

All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council, which maintains an operating investment pool for such investments. Interest earned on these investments is allocated to funds based on their percentage of the investment pool.

**E. Investments**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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

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 has an expected useful life of more than one year is capitalized. Equipment is depreciated over 3 to 10 years using the straight-line method.

**G. Compensated Absences**

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

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

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

**H. Use of Estimates**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**2. Plan Descriptions and Contribution Information**

Membership of each plan consisted of the following at July 1, 2017, the date of the last actuarial valuation:

	School Employees	Judges	State Patrol
Inactive Plan Members or Beneficiaries			
Currently Receiving Benefits	23,654	186	436
Members in Deferred Retirement Option Plan (DROP)	-	-	42
Inactive Plan Members Entitled to but not yet Receiving Benefits	6,090	4	25
Inactive Nonvested Members	16,211	-	7
Active Plan Members	41,943	147	391
	87,898	337	901

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. 2016, Supp. 2017) for the School Employees Retirement Act, Neb. Rev. Stat. §§ 24-701 through 24-714 (Reissue 2016, Supp. 2017) for the Judges Retirement Act, and Neb. Rev. Stat. §§ 81-2014 through 81-2041 (Reissue 2014, Cum. Supp. 2016, Supp. 2017) for the State Patrol Retirement Act. Benefit and contribution provisions are established by State law and may be amended only by the Nebraska Legislature.

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

**School Employees Retirement**

**Plan Description.** The School Employees Retirement Plan is a cost-sharing multiple-employer defined benefit pension plan. In 1945, the Legislature enacted the law establishing a retirement plan for school employees of the State. During fiscal year 2017, 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.

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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

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, 2016, to June 30, 2017. The school district (employer) contribution is 101 percent of the employee contribution.

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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

**Judges Retirement**

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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

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.

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.

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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

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. 2016) established the Patrol DROP effective September 1, 2008. The DROP is a voluntary deferred retirement plan that a member can enter between the ages of 50 and 60, with 25 years of service. The DROP is only available to tier one members. Upon choosing to participate in DROP, the member is deemed to have retired; however, the member continues in active employment for up to a five-year period with no retirement contributions withheld from his or her paychecks. When the member enters DROP, the individual's monthly benefit is calculated and paid into an Internal Revenue Code (IRC) § 414(k) Deferred Compensation Plan (DCP), held by the record keeper, Ameritas. After the member retires (60 years of age) or has been in DROP for five years, whichever occurs first, the member then has the option to receive a lump sum payment and/or rollover the funds in the DCP account to another qualified plan. Thereafter, future retirement benefit payments are made directly to the member.

The balance of the DROP at June 30, 2017, was \$7,407,681.

**3. Funded Status and Funding Progress**

The components of the net pension liability for the plans at July 1, 2017, the most recent actuarial valuation date, were as follows:

	(a) Total Pension Liability	(b) Plan Fiduciary Net Position	(a-b) Net Pension Liability	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
School	\$ 12,466,139,649	\$ 10,876,861,507	\$ 1,589,278,142	87.25%
Judges	187,502,212	176,605,831	10,896,381	94.19%
State Patrol	465,066,035	397,137,172	67,928,863	85.39%

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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

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

	<u>School Employees</u>	<u>Judges</u>	<u>State Patrol</u>
Valuation date	July 1, 2017	July 1, 2017	July 1, 2017
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	21 Years	26 Years	22 Years
Asset valuation method	5 year smoothed market	5 year smoothed market	5 year smoothed market
<u>Actuarial assumptions:</u>			
Inflation	2.75%	2.75%	2.75%
Investment rate of return, net of investment expense and including inflation	7.5%	7.5%	7.5%
Projected salary increases, including inflation	3.5% - 8.5%	3.5%	3.5% - 9.0%
Cost-of-living adjustments (COLA)	2.25% with a floor benefit equal to 75% purchasing power of original benefit*	2.25% with a floor benefit equal to 75% purchasing power of original benefit**	2.25% with a floor benefit equal to 60% purchasing power of original benefit***

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

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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

The actuarial assumptions used in the July 1, 2017, valuations for the School Employees, Judges, and Patrol plans are based on the results of the most recent actuarial experience study, which covered the four-year period ending June 30, 2015. The experience study report is dated November 17, 2016.

The long-term expected real rate of return on pension plan investments was based upon the expected long-term investment returns provided by a consultant of the Nebraska Investment Council, who is responsible for investing the pension plan assets. The School Employees, Judges, and State Patrol plans commingle their investments; thus, the target allocations are the same for each of the plans. The return assumptions were developed using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2017, (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

**Discount Rate.** The discount rate used to measure the Total Pension Liability at June 30, 2017, was seven and a half percent. The discount rate used to measure the Total Pension Liability at June 30, 2016, was eight 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.

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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

The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate, and contributions from employers and nonemployers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projected future benefit payments for all current plan members were projected through 2116.

**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	\$ 3,276,833,097	\$ 1,589,278,142	\$ 195,392,602
Judges	30,603,840	10,896,381	(5,997,356)
Patrol	132,678,586	67,928,863	15,307,354

**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) (Cum. Supp. 2016) directs the appointed members of the Nebraska Investment Council to do the following:

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

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

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 primarily consist of a broadly traded range of equity and debt securities.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset.

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

**Plan Investments at June 30, 2017, at Fair Value Measurement Using:**

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Debt Securities</b>				
Bank Loans	\$ 243,916,273	\$ -	\$ 243,916,273	\$ -
US Treasury Notes	332,084,914	-	332,084,914	-
Government Agency Securities	28,446,248	-	28,446,248	-
Corporate Bonds	635,852,623	-	635,054,554	798,069
International Bonds	174,703,303	-	174,703,303	-
Asset Backed Securities	137,360,903	-	135,435,252	1,925,651
Short-Term Investments	199,569,613	7,588,023	191,981,590	-
Commingled Debt	675,006,622	675,006,622	-	-
Mortgages	526,772,192	257,961	526,468,204	46,027
Municipal Bonds	5,717,899	-	5,717,899	-
	<u>2,959,430,590</u>	<u>682,852,606</u>	<u>2,273,808,237</u>	<u>2,769,747</u>
<b>Other Investments</b>				
ADR's, GDR's & Trusts	3,233,104	3,233,104	-	-
Commingled Funds	6,089,620,039	2,143,086,630	3,946,533,409	-
Private Equity	251,638	251,638	-	-
Equity Securities	1,399,927,183	1,399,918,401	8,782	-
Options	51,087	11,515	39,572	-
	<u>\$10,452,513,641</u>	<u>\$ 4,229,353,894</u>	<u>\$ 6,220,390,000</u>	<u>\$ 2,769,747</u>
<b>Investments Measured at the Net Asset Value (NAV):</b>				
		<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<b>Private Real Estate Funds:</b>				
Core	\$ 442,753,580	\$ 48,739,723	Quarterly	90 days
Non-Core	174,009,510	96,728,227		
Opportunistic Credit	110,666,643	68,023,321		
Private Equity Funds	483,262,616	377,116,347		
Commingled Funds	121,313	-		
Short-Term Investment Funds	839	-		
Total Investments Measured at Net Asset Value	<u>\$ 1,210,814,501</u>	<u>\$ 590,607,618</u>		
Total	\$11,663,328,142			
Securities Lending Collateral	<u>152,037,107</u>			
Total Investments at Fair Value	<u>\$11,815,365,249</u>			

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

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

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

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

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

**Other investments not classified.** The \$152,037,107 in Securities Lending Short-Term Collateral Investment Pool Investments, which are investments loaned to broker-dealers and banks under the securities lending program, were not classified for fair value measurement purposes.

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

**School Employees, Judges, and Patrol Retirement Plans Investments  
at June 30, 2017**

	<b>Fair Value</b>	<b>Effective Duration</b>
Debt Securities		
Bank Loans	\$ 243,916,273	-
U.S. Treasury Notes and Bonds	332,084,914	7.57
Government Agency Securities	28,446,248	6.21
Corporate Bonds	635,852,623	5.35
International Bonds	174,703,303	6.45
Asset Backed Securities	137,360,903	0.88
Short-Term Investments	199,570,452	-
Commingled Debt	675,006,622	5.65
Mortgages	526,772,192	3.71
Municipal Bonds	5,717,899	7.80
Other Investments		
ADR's, GDR's, and Trusts	3,233,104	
Commingled Funds	6,089,741,352	
Private Equity Securities	483,514,254	
Equity Securities	1,399,927,183	
Options	51,087	
Private Real Estate Funds Trust	727,429,733	
Total Investments	11,663,328,142	
Invested Securities Lending Collateral	152,037,107	
Total	\$ 11,815,365,249	

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

**Credit Risk of Debt Securities.** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State has contracts with investment managers that set minimum average quality ratings for its core fixed income accounts at an A. The maximum exposure to any single investment grade issuer, excluding the U.S. government, its agencies or instrumentalities, or government-sponsored entities, is five percent, and the maximum exposure to a single issuer below investment grade is three percent. NPERS' rated debt investments as of June 30, 2017, 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, 2017**

	Fair Value	Quality Ratings						
		AAA	AA	A	BBB	BB	B	Unrated
Asset Backed Securities	\$ 137,360,903	\$ 79,953,103	\$ 2,504,624	\$ 11,203,167	\$ 6,279,014	\$ 4,303,993	\$ 12,350,124	\$ 20,766,878
Bank Loans	243,916,273	-	-	-	-	3,796,010	-	240,120,263
Commingled Debt	675,006,622	-	-	-	-	-	-	675,006,622
Corporate Bonds	635,852,623	28,966,666	31,878,103	127,157,810	333,159,817	72,854,095	28,663,051	13,173,081
Government Agency Securities	28,446,248	-	25,098,978	2,523,180	253,067	-	-	571,023
International Bonds	174,703,303	14,782,058	35,851,912	54,318,700	23,201,641	11,000,968	5,039,134	30,508,890
Mortgages	526,772,192	39,558,207	4,272,026	4,305,305	2,354,679	1,643,437	2,956,493	471,682,045
Municipal Bonds	5,717,899	389,212	4,275,402	375,784	466,266	211,235	-	-
Short-Term Investments	199,570,452	-	-	-	-	-	-	199,570,452

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

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

At June 30, 2017, 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 Employee, Judges, and State Patrol Retirement Plans  
Foreign Currency at June 30, 2017**

	ADR's GDR's and Trusts	Asset Backed Securities	Corporate Bonds	Equity Securities	International Bonds	Mortgages	Private Equity	Short-Term Investments
Argentine Peso	\$ -	\$ -	\$ 864,853	\$ -	\$ 486,498	\$ -	\$ -	\$ -
Australian Dollar	473,130	-	-	6,154,404	834,559	-	-	(14,352)
Brazilian Real	-	-	127,491	11,959,266	6,874,126	-	-	6,614
Canadian Dollar	-	-	-	8,347,974	4,209,879	-	-	275,836
Colombian Peso	-	-	1,361,858	-	45,885	-	-	-
Czech Koruna	-	-	-	385,389	227,799	-	-	-
Danish Krone	-	-	10,521,097	12,300,098	1,034,299	-	-	23,647
Euro Currency	-	284,617	15,133,113	281,002,200	41,889,873	-	35,174,003	8,694,341
Hong Kong Dollar	-	-	-	45,199,069	-	-	-	38,273
Indian Rupee	-	-	1,455,038	-	-	-	-	-
Indonesian Rupiah	-	-	-	1,800,528	-	-	-	18,830

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

	ADR's GDR's and Trusts	Asset Backed Securities	Corporate Bonds	Equity Securities	International Bonds	Mortgages	Private Equity	Short-Term Investments
Japanese Yen	-	-	-	185,280,112	59,177,926	-	-	1,209,841
Malaysian Ringgit	-	-	-	-	718,058	-	-	-
Mexican Peso	-	-	1,157,772	5,232,257	11,633,694	-	-	48,509
New Israeli Sheqel	-	-	-	1,724,398	233,299	-	-	12,776
New Zealand Dollar	-	-	-	5,229,166	10,235,498	-	-	12,464
Norwegian Krone	-	-	-	2,873,627	1,581,673	-	-	-
Philippine Peso	-	-	-	999,795	-	-	-	-
Polish Zloty	-	-	-	-	718,104	-	-	18
Pound Sterling	-	-	4,026,493	94,117,538	9,647,788	1,660,678	-	474,107
Singapore Dollar	-	-	-	7,933,148	1,040,344	-	-	-
South African Rand	-	-	-	-	185,143	-	-	87,922
South Korean Won	-	-	-	3,466,398	2,593,786	-	-	-
Swedish Krona	-	-	1,865,544	25,115,127	558,553	-	-	66,389
Swiss Franc	-	-	-	58,980,477	2,027,212	-	-	2,493
Thailand Baht	-	-	-	786,206	-	-	-	-
Turkish Lira	-	-	1,589,284	2,673,089	-	-	-	-
Yuan Renminbi	-	-	-	-	-	-	-	16
Total	<u>\$ 473,130</u>	<u>\$ 284,617</u>	<u>\$ 38,102,543</u>	<u>\$ 761,560,266</u>	<u>\$ 155,953,996</u>	<u>\$ 1,660,678</u>	<u>\$35,174,003</u>	<u>\$ 10,957,724</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

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

Either the State or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations from 8 to 29 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, 2017, is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments outstanding at June 30, 2017, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

**Derivative Investments at June 30, 2017**

Derivative	Change in Fair Value	Fair Value	Notional
Credit Default Swaps	\$ 1,531,282	\$ 2,012,378	\$ 87,829,723
Fixed Income Futures	(8,116,628)	-	83,878,483
Fixed Income Options	317,187	39,572	(19,333,423)
Foreign Currency Options	937,766	(95,612)	(10,777,127)
Futures Options	211,241	11,515	-
FX Forwards	(1,744,846)	(370,589)	403,575,026
Fixed Interest Rate Swaps	17,330,915	291,494	376,884,789
Index Future Longs	(2,915)	-	-
Rights	4,283	14,767	18,496
Warrants	-	81	4,888

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, 2017, 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, 2017, was \$6,275,080. 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 \$6,275,080.

Although the Plans execute derivative instruments with various counterparties, there is approximately 94 percent of the net exposure to credit risk, held with 10 counterparties. The counterparties are rated BBB+, A-, A or A+.

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

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

Foreign currency risk for derivative instruments at June 30, 2017, are as follows:

**Foreign Currency Derivatives  
at June 30, 2017**

Currency	Options	Credit Default Swaps	Fixed Interest Rate Swaps	Forward Contracts
Australian Dollar	\$ -	\$ -	\$ -	\$ 39,720
Brazilian Real	-	-	-	104,910
Canadian Dollar	-	-	(104,525)	159,221
Danish Krone	-	-	-	(167,841)
Euro Currency	14,767	450	-	22,544
Hungarian Forint	-	-	-	3,313
Japanese Yen	-	-	(98,297)	(61,773)
Mexican Peso	-	-	-	(920,881)
New Israeli Sheqel	-	-	-	1,450
New Taiwan Dollar	-	-	-	2,151
New Zealand Dollar	-	-	-	(344,040)
Norwegian Krone	-	-	-	27,789
Polish Zloty	-	-	-	2,747
Pound Sterling	-	-	(140,687)	179,706
Russian Ruble	-	-	-	(2,578)
Singapore Dollar	-	-	-	(1,808)
South African Rand	-	-	-	4,495
South Korean Won	-	-	-	232,402
Swedish Krona	-	-	-	269,927
Swiss Franc	-	-	-	80,732
Thailand Baht	-	-	-	1,265
Turkish Lira	-	-	-	(4,040)
<b>Total</b>	<b>\$ 14,767</b>	<b>\$ 450</b>	<b>\$ (343,509)</b>	<b>\$ (370,589)</b>

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Concluded)

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

Securities are recorded on a trade date basis. On the trade date, the Plans own the asset. However, if the security has not settled, payment has not been received or made. Receivables and payables for investments sold and purchased represent securities in which the asset had been recorded as of June 30, 2017, but the security had not settled.

**Money-Weighted Rate of Return.** For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 13.83 percent for the School Plan, 13.82 percent for the Judges Plan, and 13.16 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, 2017, are summarized as follows:

	School Employees	Judges	State Patrol
Beginning Balance	\$ 277,500	\$ 3,941	\$ 6,346
Increases	33,918	487	4,332
Decreases	24,975	355	574
Ending Balance	\$ 286,443	\$ 4,073	\$ 10,104
Amounts Due Within One Year	\$ 25,780	\$ 367	\$ 909

**6. Payments to Omaha Public Schools**

Neb. Rev. Stat. § 79-916(2) (Cum. Supp. 2016) requires an annual payment, for two percent of members' compensation, to be made to Omaha Public Schools (OPS) as a result of that school system having a separate retirement system. The amount is included on the Statement of Changes in Plan Net Position in State Contributions additions and as Other Deductions for the July 2017 appropriation for the fiscal year ended June 30, 2017. Additionally, on the Statement of Plan Net Position, the amount is included as a Contribution Receivable and a liability for contributions due to OPS, as the appropriation was not received until July 2017.

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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

The School Employee Retirement Plan (School Plan) also 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 § 79-916, 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 (\$9,944,182), consisting almost entirely of investments, are included in the Statement of Plan Net Position at June 30, 2017. The service annuity payments to OPS are shown as Other Deductions in the Statement of Changes in Plan Net Position.

Deductions from the School Plan for the year ended June 30, 2017, were as follows:

	School Employees
Omaha 2% Appropriation	\$ 6,896,530
Omaha Service Annuity Payments	1,700,186
Total Other Deductions	\$ 8,596,716

**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:

- A. Motor vehicle liability with vehicular pursuit, which is insured for the first \$5 million of exposure per accident with a self-insured retention of \$300,000 and \$300,000 corridor retention. Motor vehicle liability is insured for \$1 million with a self-insured retention of \$200,000, and with excess coverage of \$400 million. Insurance is also purchased, with various limits and deductibles, for physical damage and uninsured and underinsured motorists. State agencies have the option to purchase coverage for physical damage to vehicles. There is a \$5,000 deductible for this coverage.

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

7. **Contingencies** (Concluded)

- B. Life insurance for eligible employees.
- C. Crime coverage, with a limit of \$31 million for each loss and a \$25,000 self-insured retention per incident subject to specific conditions, limits, and exclusions.
- D. Real and personal property on a blanket basis for losses up to \$401 million, with a self-insured retention of \$200,000 per loss occurrence. Newly acquired properties are covered up to \$10 million for 120 days and after 120 days, if the property has not been reported, the limit decreases to \$5 million. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self-insurance. State agencies have the option to purchase building contents and inland marine coverage.

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

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft 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 \$2,969,634. 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. 2017), Neb. Rev. Stat. § 79-933.05 (Reissue 2014), Neb. Rev. Stat. § 79-933.06 (Reissue 2014), and Neb. Rev. Stat. § 79-933.08 (Supp. 2017).

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

**NOTES TO THE FINANCIAL STATEMENTS**

(Concluded)

**9. Capital Assets**

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>School Employees:</b>				
Equipment	\$ 4,811,832	\$ 4,084	\$ -	\$ 4,815,916
Less: Accumulated Depreciation	4,809,177	1,307	-	4,810,484
Total Capital Assets, Net	<u>\$ 2,655</u>	<u>\$ 2,777</u>	<u>\$ -</u>	<u>\$ 5,432</u>
<b>Judges:</b>				
Equipment	\$ 65,916	\$ 60	\$ -	\$ 65,976
Less: Accumulated Depreciation	65,878	18	-	65,896
Total Capital Assets, Net	<u>\$ 38</u>	<u>\$ 42</u>	<u>\$ -</u>	<u>\$ 80</u>
<b>State Patrol:</b>				
Equipment	\$ 65,916	\$ 60	\$ -	\$ 65,976
Less: Accumulated Depreciation	65,878	18	-	65,896
Total Capital Assets, Net	<u>\$ 38</u>	<u>\$ 42</u>	<u>\$ -</u>	<u>\$ 80</u>

**10. Subsequent Events**

**State Patrol Additional Contributions.** Neb. Rev. Stat. § 81-2017(3) (Cum. Supp. 2016) defines actuarially required contributions. As of July 1, 2017, the actuarially determined additional contribution requirement for the State Patrol Plan is \$4,337,435.

**School Employee Additional Contributions.** Neb. Rev. Stat. § 79-966.01 (Reissue 2014) defines actuarially required contributions. As of July 1, 2017, 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 \$1,243,169.

**Judges Additional Contributions.** Neb. Rev. Stat. § 24-705 (Reissue 2016) defines actuarially required contributions. As of July 1, 2017, the actuarially determined additional contribution requirement for the Judges Employees Plan is \$667,613.

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, 2017  
(Unaudited)

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

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

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 129,070,591	\$ 132,846,323	\$ 152,268,397	\$ 174,157,865	\$ 227,859,188	\$ 192,478,407	\$ 177,075,137	\$ 142,658,110	\$ 126,118,323	\$ 117,201,909
Actual non-employer contributions										
Actual State Appropriations	38,039,347	36,919,600	35,493,591	34,703,519	16,874,535	22,400,533	21,907,948	21,380,352	20,620,548	15,832,941
Actual Omaha Appropriations**	992,451	997,118	997,858	909,638	969,396	1,030,017	967,145	-	-	-
Actual employer contributions	184,903,366	178,608,695	173,013,848	167,710,406	161,922,831	145,582,040	135,328,339	128,845,427	110,028,942	105,977,554
Total contributions	\$ 223,935,164	\$ 216,525,413	\$ 209,505,297	\$ 203,323,563	\$ 179,766,762	\$ 169,012,590	\$ 158,203,432	\$ 150,225,779	\$ 130,649,490	\$ 121,810,495
Annual contribution deficiency	\$ (94,864,573)	\$ (83,679,090)	\$ (57,236,900)	\$ (29,165,698)	\$ 48,092,426	\$ 23,465,817	\$ 18,871,705	\$ (7,567,669)	\$ (4,531,167)	\$ (4,608,586)
Covered payroll	\$ 1,871,908,380	\$ 1,808,182,946	\$ 1,751,542,327	\$ 1,697,851,809	\$ 1,664,793,714	\$ 1,641,692,866	\$ 1,618,218,049	\$ 1,572,992,968	\$ 1,496,422,343	\$ 1,423,721,456
Actual contributions as a percentage of covered payroll	11.96%	11.97%	11.96%	11.98%	10.80%	10.30%	9.78%	9.55%	8.73%	8.56%

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

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**SCHEDULE OF EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS**  
STATE PATROL RETIREMENT PLAN  
LAST 10 YEARS  
(Unaudited)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined employer contribution	\$ 7,053,110	\$ 7,053,408	\$ 8,073,824	\$ 8,752,627	\$ 9,768,585	\$ 7,774,506	\$ 7,563,126	\$ 6,260,122	\$ 5,384,789	\$ 4,855,700
Actual employer contributions*	<u>\$ 7,053,110</u>	<u>\$ 7,053,408</u>	<u>\$ 8,073,824</u>	<u>\$ 8,752,627</u>	<u>\$ 7,515,905</u>	<u>\$ 7,774,506</u>	<u>\$ 5,956,747</u>	<u>\$ 6,260,122</u>	<u>\$ 5,384,789</u>	<u>\$ 4,855,700</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,252,680</u>	<u>\$ -</u>	<u>\$ 1,606,379</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 28,091,906	\$ 27,047,938	\$ 26,294,294	\$ 25,624,081	\$ 26,901,711	\$ 27,390,926	\$ 27,987,900	\$ 27,624,747	\$ 28,386,013	\$ 27,839,200
Actual contributions as a percentage of covered payroll	25.11%	26.08%	30.71%	34.16%	27.94%	28.38%	21.28%	22.66%	18.97%	17.44%

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

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**SCHEDULE OF EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS**  
**JUDGES RETIREMENT PLAN**  
**LAST 10 YEARS**  
(Unaudited)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined employer contribution	\$ 3,697,565	\$ 3,458,665	\$ 3,727,054	\$ 3,906,247	\$ 3,180,367	\$ 3,483,614	\$ 3,579,661	\$ 3,615,291	\$ 3,491,335	\$ 3,353,208
Actual non-employer contributions										
Court Fees	3,578,851	3,458,665	2,977,205	3,102,864	3,180,367	3,411,370	3,507,417	3,543,047	3,419,091	3,280,964
State Contributions	118,714	-	94,000	803,383	-	72,244	72,244	72,244	72,244	72,244
Actual non-employer contributions	<u>3,697,565</u>	<u>3,485,665</u>	<u>3,071,205</u>	<u>3,906,247</u>	<u>3,180,367</u>	<u>3,483,614</u>	<u>3,579,661</u>	<u>3,615,291</u>	<u>3,491,335</u>	<u>3,353,208</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 655,849</u>	<u>\$ -</u>						
Covered payroll	\$ 22,801,593	\$ 22,178,157	\$ 21,586,829	\$ 20,099,647	\$ 19,005,478	\$ 18,182,238	\$ 18,773,203	\$ 18,373,339	\$ 17,990,072	\$ 17,003,921
Actual contributions as a percentage of covered payroll	16.22%	15.59%	14.23%	19.43%	16.73%	19.16%	19.07%	19.68%	19.41%	19.72%

Note: Actuarially determined employer contributions, actual employer contributions and covered-employee payroll prior to 2013 was produced by the prior actuary.  
For years 2014 and prior, covered-employee payroll was estimated based on the valuation.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
 SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**SCHEDULE OF INVESTMENT RETURNS**  
 AS OF JUNE 30, 2017  
 (Unaudited)

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

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

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

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

For the Last 10 Years

**School Employees Retirement Plan**

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

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

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

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

(Continued)

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 to 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).

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

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

(Continued)

- 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, as listed below:

- 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.

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

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

(Continued)

2009: LB 414 (2009) amended the plan provisions to increase all member contribution rates by 1% and increase the court fees from \$5 to \$6 per case.

2008: LB 1147 (2008) amended the plan provisions to provide a subsidized early retirement benefit. The monthly benefit was reduced by 3% for retirement at age 64, by 6% at age 63, and by 9% at age 62. The monthly benefit was further reduced on an actuarially equivalent basis for retirement before age 62 to as early as age 55.

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

July 1, 2012, valuation:

- The interest rate on employee contributions was lowered to 4.25% from 5.50%.
- Salary increases were lowered to 4.00% from 4.50%.
- Retirement rates were decreased for ages under 65 and age 66.
- Pre- and post-retirement healthy mortality assumptions were changed from the 1994 Group Annuity Mortality (GAM) table projected to 2010 (pre-retirement male rates were 65% of rates, and female rates were 50% of rates) to the 1994 GAM table, with a one-year setback, projected to 2015.

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

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

(Continued)

- 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%.

July 1, 2008, valuation:

- Retirement rates were increased at ages 62 through 64 to account for the possible increase in retirements due to the subsidized early retirement factors.

**State Patrol Retirement Plan**

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

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

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

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

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

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

(Continued)

- 2013: LB 553 (2013) changed the amortization of the unfunded actuarial accrued liability from a level dollar payment to a level percent of payroll payment. As scheduled in State statute, the employee and employer contribution rate both decreased from 19% of pay to 16%.
- 2011: Under LB 382 (2011), both the member and employer contribution rates were increased from 16% to 19% on July 1, 2011. Effective July 1, 2013, both the member and employer contribution rates were scheduled to decrease to 16%.
- 2010: As scheduled, the member and employer contribution rates increased to 16% each.
- 2009: Under LB 188 (2009), the member contribution rate increased from 13% to 15% on July 1, 2009. The employer contribution rate remained unchanged at 15%. Effective July 1, 2010, both the member and employer contribution rates increased to 16%.
- 2008: LB 324 (2008) added a Deferred Retirement Option Plan (DROP) for members who are at least 50 and have 25 years of service. The retirement rates used in the valuation were increased to 100% for members who are eligible for the DROP.

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 to from 2.50% to 2.25% for members hired before July 1, 2016.
- Mortality assumptions changed to reflect recent mortality experience and future projected improvements.
- Termination rates changed to better fit the observed experience.

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

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

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, 2017

	<u>School Employees</u>	<u>Judges</u>	<u>State Patrol</u>	<u>Total</u>
<b>Personnel</b>				
Personal Services	\$ 2,135,327	\$ 30,077	\$ 74,535	\$ 2,239,939
Travel	19,592	196	397	20,185
<b>Professional and Technical Services</b>				
Professional	53,025	363	430	53,818
Actuary	59,431	41,302	46,300	147,033
Computer Support Services	395,353	5,729	6,517	407,599
Accounting and Auditing	157,448	1,910	2,865	162,223
<b>Communications</b>				
Telephone	40,796	579	630	42,005
Printing	39,750	253	604	40,607
<b>Other Expenses</b>				
Postage	94,928	540	1,244	96,712
Supplies	24,235	376	422	25,033
Hardware and Software	39,933	629	628	41,190
Repairs	1,413	20	21	1,454
Rent	117,711	1,644	1,692	121,047
Miscellaneous	155,494	1,008	4,911	161,413
<b>Total Administrative Expenses</b>	<u>\$ 3,334,436</u>	<u>\$ 84,626</u>	<u>\$ 141,196</u>	<u>\$ 3,560,258</u>

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**SCHEDULE OF INVESTMENT-RELATED EXPENSES**  
FOR THE YEAR ENDED JUNE 30, 2017

	School Employees	Judges	State Patrol	Total
BlackRock Financial Management, Inc.	424,757	6,916	15,228	446,901
Dimensional Fund Advisors	1,283,608	20,902	46,019	1,350,529
<b>Total Domestic Equity</b>	<b>1,708,365</b>	<b>27,818</b>	<b>61,247</b>	<b>1,797,430</b>
BlackRock Financial Management, Inc.	792,724	12,908	28,420	834,052
Franklin Templeton Investments	1,003,533	16,341	35,978	1,055,852
Loomis Sayles & Company, L.P.	1,418,458	23,097	50,854	1,492,409
Oaktree Capital Management	1,149,327	18,715	41,205	1,209,247
Neuberger Berman	468,061	7,622	16,781	492,464
Pacific Investment Management Company, LLC	3,153,307	51,347	113,051	3,317,705
Wellington Management Company, LLP	698,480	11,374	25,041	734,895
<b>Total Fixed Income</b>	<b>8,683,890</b>	<b>141,404</b>	<b>311,330</b>	<b>9,136,624</b>
Acadian Asset Management, LLC	44,580	726	1,598	46,904
Arrowstreet Capital	2,043,386	33,273	73,259	2,149,918
BlackRock Financial Management, Inc.	78,527	1,279	2,815	82,621
IronBridge Capital Management, L.P.	1,078,753	17,566	38,675	1,134,994
MFS Institutional Advisors, Inc.	1,302,202	21,204	46,686	1,370,092
Mondrian Investment Partners Ltd.	47,162	768	1,691	49,621
Wellington Management Company, LLP	1,144,189	18,631	41,021	1,203,841
<b>Total Global Equity</b>	<b>5,738,799</b>	<b>93,447</b>	<b>205,745</b>	<b>6,037,991</b>
Baillie Gifford & Company	910,197	14,821	32,632	957,650
BlackRock Financial Management, Inc.	247,031	4,023	8,857	259,911
Gryphon International Investment Corp.	1,280,343	20,848	45,902	1,347,093
<b>Total International Equity</b>	<b>2,437,571</b>	<b>39,692</b>	<b>87,391</b>	<b>2,564,654</b>
Almanac Realty Investors, LLC	456,492	7,433	16,366	480,291
Angelo, Gordon & Company, L.P.	125,557	2,045	4,501	132,103
Barings Asset Management	844,421	13,750	30,274	888,445
Beacon Capital Partners	6,685	109	240	7,034
CBRE Global Investors	93,308	1,519	3,345	98,172
Heitman Real Estate Securities LLC	3,391	55	122	3,568
Landmark Partners	836,957	13,629	30,006	880,592
PGIM Real Estate (formerly Prudential)	1,804,847	29,389	64,706	1,898,942
Rockpoint Group, L.L.C.	46,984	765	1,684	49,433
Rockwood Capital, LLC	404,467	6,586	14,501	425,554
Torchlight Investors	667,977	10,877	23,948	702,802
UBS Realty Investors, LLC	1,488,391	24,236	53,361	1,565,988
<b>Total Real Estate</b>	<b>6,779,477</b>	<b>110,393</b>	<b>243,054</b>	<b>7,132,924</b>

(Continued)

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**SCHEDULE OF INVESTMENT-RELATED EXPENSES**  
FOR THE YEAR ENDED JUNE 30, 2017

	<b>School Employees</b>	<b>Judges</b>	<b>State Patrol</b>	<b>Total</b>
Abbott Capital Management, LLC	200,598	3,266	7,192	211,056
Accel-KKR Management Co, LLC	256,197	4,172	9,185	269,554
Ares Management, LLC	781,621	12,727	28,022	822,370
Beecken Petty O'Keefe & Company	248,159	4,041	8,897	261,097
Bridgepoint Capital	512,827	8,351	18,386	539,564
CVC Capital Partners	274,202	4,465	9,831	288,498
(The) Energy & Minerals Group	337,270	5,492	12,092	354,854
Francisco Partners	374,947	6,105	13,442	394,494
Genstar Capital	209,772	3,416	7,521	220,709
Leonard Green & Partners, L.P.	8,904	145	319	9,368
HarbourVest Partners, LLC	510,950	8,320	18,318	537,588
Lightyear Capital	146,446	2,385	5,250	154,081
Lincolnshire Management, Inc.	87,150	1,419	3,124	91,693
Longroad Capital Partners, L.P.	39,405	642	1,413	41,460
McCarthy Capital Corporation	916,139	14,918	32,845	963,902
Merit Capital Partners	76,328	1,243	2,736	80,307
New Enterprise Associates	264,344	4,304	9,477	278,125
New Mountain Capital, LLC	423,412	6,895	15,180	445,487
Pathway Capital Management	528,556	8,607	18,950	556,113
Pine Brook Partners	426,992	6,953	15,308	449,253
Presidio Partners (formerly CMEA Capital)	139,341	2,269	4,996	146,606
Quantum Energy Partners	516,976	8,418	18,534	543,928
Sun Capital Partners, Inc.	5,047	82	181	5,310
(The) Jordan Company	428,105	6,971	15,348	450,424
The Rohatyn Group Management, L.P.	84,194	1,371	3,019	88,584
Wayzata Investment Partners, LLC	379,559	6,180	13,608	399,347
Wynnchurch Capital LLC	321,924	5,242	11,541	338,707
<b>Total Private Equity</b>	<b>8,499,365</b>	<b>138,399</b>	<b>304,715</b>	<b>8,942,479</b>
Nebraska Investment Council	1,206,114	19,796	43,669	1,269,579
Custody Expense	455,141	7,443	16,360	478,944
Foreign Income Taxes	963,354	15,772	38,846	1,017,972
Other Expenses	36,955	606	32,092	69,653
<b>Total Other Investment Expenses</b>	<b>2,661,564</b>	<b>43,617</b>	<b>130,967</b>	<b>2,836,148</b>
<b>Total Investment-Related Expenses</b>	<b>36,509,031</b>	<b>594,770</b>	<b>1,344,449</b>	<b>38,448,250</b>

(Concluded)



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

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

**INDEPENDENT AUDITOR'S REPORT**

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, 2017, and the related notes to the financial statements, which collectively comprise the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' basic financial statements, and have issued our report thereon dated February 9, 2018. The report was modified to emphasize that the financial statements present only the funds of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

February 9, 2018



Zachary Wells, CPA  
Audit Manager  
Lincoln, Nebraska