

Contribution to retirement plan increases in September

The market decline of the past several years has had a major negative impact on all retirement systems in the country – and the Omaha School Employees' Retirement System (OSERS) has not been immune. Recent changes by the Governmental Accounting Standards Board, GASB, regarding accounting rules that apply to governmental retirement plans have compounded the problem. The four defined benefit retirement plans in Nebraska that are controlled by state law (the State School Employees Retirement System, the State Patrol Retirement System, the Judges Retirement System, and the Omaha School Employees' Retirement System) all have been affected by the market declines, and are all in need of additional funding this year.

To address the funding needs of the school retirement systems, LB 187 was introduced on January 12, 2009, at the request of the Unicameral Retirement Committee. The introduced bill was a "place-holder" bill to increase contributions to the retirement systems, meaning that there were no numbers in the bill, only the concept of a contribution increase was included. Actuarial studies on the retirement plans indicated how much would be needed, and a hearing on the bill was held Feb 10. Several amendments were added after the hearing, and the bill was passed by the Legislature on May 18 and signed into law on May 26. The bill included provisions to increase the contribution from all Nebraska school employees and all Nebraska school districts by 1.0% each, and to increase the contribution from the State by 0.3% (from 0.7% of payroll to 1.0% of payroll) to help solve the funding needs for the retirement systems. The contribution increases applied to all school employees and all school districts in the state – including Omaha.

Negotiations between school districts and local associations across the state were underway as LB 187 was moving through the Unicameral. The Senators knew that having additional contributions to the retirement systems would affect the paychecks of all employees as well as the budgets for all school districts in the state. The intent of LB 187 was to preserve the defined benefit plans for all school employees by providing the needed funding to keep the plans actuarially sound well into the future.

Your defined benefit retirement plan is funded from four sources: (a) employee contributions; (b) school district contributions; (c) State contributions; and (d) earnings from the investments in the retirement system. Since the market decline began in 2000, investment earnings have suffered significantly. In the face of declining earnings, for a retirement system to remain solvent it must raise money from one or more of the other three sources of funding. The Legislature decided to "share the pain" by increasing contributions from all other sources: employees, school districts, and state general revenues.

In a defined benefit retirement system like the one administered by OSERS, the benefit that you receive once you retire is guaranteed and cannot be reduced if the stock market goes down. That means that the on-going contributions must be increased when market earnings decline or the plan will be underfunded. Long-term earnings of the fund make up about 3/4^{ths} of the benefit that you will ultimately receive, while your contributions coupled with those from the school district will fund about 1/4th of the ultimate benefit.

Because of the effect of compound interest, early contributions to a retirement plan help more than contributions made at a later date. The old adage, "a stitch in time saves nine," applies to the timeliness of LB 187. Paying more now to guarantee the ability to draw a defined benefit pension when you retire makes good sense. It is like a personal savings account. The more you save when you are young, the more you can withdraw when you are retired.

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