OEA-retired Position Paper on LB 31

To: To Whom It May Concern:

From: OEA-Retired Board of Directors

Re: Linea Solutions report on Transition of OSERS to NPERS

Date: August 2020

The OEA-Retired Board of Directors has reviewed the Linea Solutions, Inc., report that was authorized by LB 31. The Board has a number of concerns regarding the findings of the report. The Linea report on transitioning the management and governance of OSERS with NPERS is 38 pages long. It contains a number of findings that will require additional input from the OSERS and NPERS actuary as well as concerns about the ability of the computer system that NPERS currently uses to handle the additional work load if the two retirement systems were merged. Some of the high-level concerns of the OEA-Retired Board regarding the report are outlined in this Memo.

It is significant to note that a merger of the management and governance of the two retirement systems does not address or provide solutions to reduce the current OSERS unfunded liability and does not mitigate the additional and ongoing actuarial required contributions from OPS into OSERS. In fact, the report suggests that a merger of the two systems will have a higher administrative cost than leaving OSERS as a stand-alone retirement plan, and that a merger will significantly reduce the member services that OSERS members currently have and have come to expect. In addition, OSERS members will have no say in any governing board for a merged system – OSERS members currently elect the trustees representing the members on the OSERS Board.

Contrary to what is often said regarding a merger of the plans, service credit between the state retirement systems and OSERS would not be transferrable. Any service credits accumulated in the two retirement systems would require that the service be vested in each plan prior to earning a retirement benefit, and the benefit formula for OPS service would be independent of the benefit formula for service under the state plan.

Some detail on the major concerns of any potential merger of the retirement plans management and governance:

1. **Member services**:
   - The report states that if the systems were merged, there would be no office in Omaha to provide member services, and that all members would need to travel to Lincoln or work

through a call-in center to have questions answered and to get assistance on retirement planning. That is a significant reduction in member services for OSERS members.

- Following any merger, both plans would be governed by the Public Employee Retirement Board (PERB), which currently does not have any OSERS representative and whose trustees are entirely appointed by the Governor. OSERS members currently elect their own representative to the OSERS Board of Trustees – the direct election of member representatives on the retirement board would stop.
- OSERS members can currently call the OSERS office directly, and every OSERS retiree has a personal retirement planning session with a retirement specialist who is entirely familiar with OSERS benefits. If a merger were to occur, OSERS members would not be able to call directly to talk to a retirement specialist. Any personal retirement counseling would occur only in Lincoln.

2. **Administrative concerns**:
    - The estimated cost of IT related matters for any merger is $3.8 to $6.1 million.
    - NPERS would need additional spending authority for administration-related matters of $1.7 million over two years.
    - Any merger would take approximately 24 months to complete, followed by a 12-month period to stabilize the IT platforms and mirror the two systems.
    - The costs of making any transition that are summarized in the Linea report do not take into consideration the costs and personnel needed by both OSERS and OPS to complete the transition. Those costs would be additional costs to both entities.
    - There are significant differences in plan design between OSERS and NPERS that present unique challenges for re-programming the computer software as well as administration to account for the unique benefit structure of OSERS.
    - The ongoing costs of administering the OSERS plan under any merger would be charged back to the OSERS trust fund, and would not be absorbed by the state of Nebraska or NPERS.
    - The increased administrative costs will require additional contributions by OPS in the future just to pay for higher administrative costs.

3. **Personnel concerns**:
    - Current OSERS staff would likely not be employed in any merged administrative body under a merged system. Current OSERS staff are considered to be OPS employees under state law, and are members of OSERS. They would be considered to be state employees and moved to the state employee cash balance retirement plan under a merged system with significantly different, and lower, benefits.

- Currently there are four OSERS staff members. Under a merged system, NPERS would need to add four additional employees, plus an additional call-center employee, plus a full-time paralegal, plus one additional IT Application Developer. The costs of these additional employees would be charged back to the OSERS trust fund.
- OSERS has no internal IT staff members, and would rely on OPS IT staff to complete any transition.
- NPERS would need to hire temporary staff for at least two years to accommodate the transition of files, with the additional cost charged to either the OSERS trust fund or to OPS.
- If a merger were to go forward, a complete transition team would need to be created and funded. The Linea report does not give specific details on how this transition team would be selected or how it would function. The report did indicate that the transition team would not rely on either NPERS or OSERS staff, but it did not estimate the cost or allocate that cost to the various parties that might be involved.
- OSERS currently hires its own auditor (the same auditor that OPS uses). Under a merged system, the State Auditor would be employed at approximately double the cost of the current auditor.
- The entire NPERS staff would need to be trained on the unique benefit structure of OSERS – the cost and scope of that training is not addressed in the Linea report.

4. **Project Risks**:
   - The IT system that NPERS uses is 20 years old, and it would need extensive re-programming to accommodate the unique benefit structure of OSERS. It is likely that the system would need to be replaced, but the Linea report does not provide recommendations or cost estimates for doing that.
   - There are significant differences in not only the benefit structure of OSERS vs. NPERS, but also in the data that are maintained about the members that will need to be addressed in any potential merger.
   - Merging the plans does not affect the unfunded liability for OSERS, and it does not mitigate the ongoing Actuarial Required Contributions (ARC) to OSERS by OPS. Those items remain the financial responsibility of OPS.
   - The merger plan outlines technical details that need to be addressed. Contrary to what many say, it does not merge the benefit structure of the plans, nor does it provide for moving seamlessly between the plans should employees choose to leave OPS for a different school district in Nebraska.
   - There will be unique and challenging issues in administration of any merged system, as well as ongoing challenges in programming and maintaining the IT platforms.

- Either the OSERS Board or a special committee of OPS would need to be maintained following any potential merger to deal with issues that arose prior to the final merger date.

There are many matters that are referenced in the Linea report that this memo does not address. OEA-Retired believes that a more detailed transition document should be created and circulated to all parties that may be impacted by a potential merger for review, comment, and revision before any steps are taken to merge the retirement systems.