NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS

SCHOOL RETIREMENT SYSTEM

2001

Forty-ninth Actuarial Report for
State Fiscal Year Ending June 30, 2003
and
System Plan Year Beginning July 1, 2001

November 2001

BUCK CONSULTANTS

TABLE OF CONTENTS

November 30, 2001

Public Employees Retirement Board
Nebraska Public Employees Retirement Systems
Post Office Box 94816
Lincoln, NE 68509

Certification of Actuarial Valuation
School Retirement System

Ladies and Gentlemen:

This report summarizes the results of the actuarial valuation of the School Retirement System as of July 1, 2001, performed by Buck Consultants, Inc.

The actuarial valuation is based on unaudited financial and member data provided to us by the Nebraska Public Employees Retirement Systems and summarized in this report. The benefits considered are those delineated in Nebraska State Statutes, effective as amended July 1, 2001, including plan changes made by LB 711, effective July 1, 2001.

All costs, liabilities and other factors under the plan were determined in accordance with generally accepted actuarial principles and procedures, using actuarial cost methods, which we believe, are reasonable and that follow the Nebraska State Statutes. This report fully and fairly discloses the actuarial position of the plan.

In our opinion, the actuarial assumptions used are reasonable, taking into account the experience of the plan and reasonable expectations, and represent our best estimate of the anticipated experience under the plan. Summaries of the actuarial assumptions used in this actuarial valuation are shown in Exhibit 11.

Based on the results of our actuarial valuation, the School Retirement System is actuarially sound. The contributions paid by members, school employers, and the State defined by statute to fund the Excess Formula Annuity are more than sufficient to meet the actuarially required contribution. Annual funding required from the State defined by statute for Service Annuity benefits is equal to the sum of the annual normal cost and the annual payment necessary to amortize unfunded frozen liabilities over 25 years. For the 2002 - 2003 fiscal year, that amount is $0.

We are available to answer any questions on the material contained in this report, or to provide explanations to further details as may be appropriate.

Respectively submitted,

BUCK CONSULTANTS, INC.

David H. Slishinsky, A.S.A., E.A., M.A.A.A.
Consulting Actuary

William B. Fornia, F.S.A., E.A., M.A.A.A.
Principal and Consulting Actuary

SUMMARY OF ACTUARIAL REPORT FOR CONTRIBUTION REQUIREMENTS AND FUNDED STATUS FOR PLAN YEAR 2001/2002

The main purposes of this report are:

1. To determine the level of State contributions necessary to fund the Service Annuity for the fiscal year ending June 30, 2003, defined under Nebraska State Statutes;
2. To determine the actuarial soundness of the School District and member contributions defined under Nebraska State Statutes to fund the Excess Formula Annuity, and whether additional contributions are required for the fiscal year ending June 30, 2003;
3. To review the current funded status of the System; and
4. To compare actual and expected experience under the plan during the plan year beginning July 1, 2000 and ending June 30, 2001.

The 2001 actuarial valuation is based upon the plan provisions as of July 1, 2001, as described in Exhibit 9. The actuarial methods and assumptions are described in Exhibit 10 and 11.

Highlights from the current valuation:

1. No State contribution is required for the 2002 - 2003 fiscal year to pay the State normal cost and amortize any unfunded liabilities for the Service Annuity. The net present value of the State normal costs and the unfunded frozen actuarial accrued liability is less than $0. The present value of future Service Annuity benefits is less than the Actuarial Value of Assets and State appropriations, resulting in a reserve of $31,010,037 in Service Annuity funding.

2. Under Legislative Bill 711, the formula annuity multiplier was increased to 2%, the maximum cost-of-living increase was raised to 2.5% and the plan now offers survivor death benefits to vested member with less than 20 years of credited service. These changes increased the total present value of the Formula Annuity benefits by $404,491,300.

3. A gain was experienced on the actuarial value of assets during the 2000/2001 plan year. However, there was a loss on market value. The annual rate of return on Market Value was -4.3%. The rate of return on Actuarial Value of 9.7% exceeded the 8% assumed investment return rate by 1.7%, resulting in an increase to the actuarial reserve of $66,835,720.

4. The plan experienced a decremental loss over the period, primarily due to new members added to the system and salary increases greater than expected. The actuarial reserve decreased by $110,133,547 as a result of total liability experience.

5. The funded status of the system as measured by the ratio of the system assets over the Pension Benefit Obligation (PBO) decreased, primarily due to benefit improvements under Legislative Bill 711. The PBO is calculated using the Projected Unit Credit Method, which determines the benefit by using service at the valuation date and projecting salary to assumed termination or retirement. Since the July 1, 2000 actuarial valuation, the funded percentage on Actuarial Value decreased from 112.5% to 107.1%.

EXECUTIVE SUMMARY

Basic Actuarial Valuation Results

The 2001 actuarial valuation results are based upon the plan provisions as of July 1, 2001 as described in Exhibit 9. The key findings of the actuarial valuation are summarized below.

1. Funding of the Excess Formula Annuity

The member contribution rate is equal to the greater of 7.25% of pay and 49.75% of the total actuarially required contribution rate. The School District's funding toward excess formula annuity liabilities is equal to 101% of the employee contribution rate, currently 7.32% of pay. The State contributes .7% of covered pay toward the excess formula annuity benefits, as well as funding required for the service annuity.

The minimum total required contribution rate increased from 9.15% to 11.98% of pay from the 2000/2001 plan year to the 2001/2002 plan year. A history of required contribution rates is shown below. For fiscal years 1994/1995 through 1996/1997, this contribution rate includes the 0.3% COLA contribution made to the School Employees Retirement System Reserve Fund.

History of Required Contribution Rates and Current Year's Contribution Rate

Fiscal Year	Member Rate	School District Rate	Total
2002-2003	5.96%	6.02%	11.98%
2001-2002	4.55	4.60	9.15
2000-2001	5.93	5.99	11.92
1999-2000	2.83	2.86	5.69
1998-1999	4.41	4.45	8.86
1997-1998	6.94	7.00	13.94
1996-1997	7.23	7.30	14.53
1995-1996	7.31	7.38	14.69
1994-1995	7.26	7.33	14.59

Based on the 2001 actuarial valuation, the total required contribution rate is below 14.57%. As a result, the actuarial value of future funding is expected to exceed the funding required to meet the System's liabilities. For the current participant group, the present value of the additional funding is $224,375,462. This amount is referenced as an actuarial reserve on the plan's balance sheet, and will be available to offset actuarial losses or plan changes, or to allow for reduced contribution rates in the future.

2. Required State Deposit to Fund the Service Annuity

The law requires annual State deposits equal to the current normal cost and a level payment to fund the unfunded frozen actuarial accrued liabilities of the system in level payments over 25 years. The level payments are required to amortize each change (base) in the unfunded actuarial accrued liability during the 25 year period following the effective date of increase in benefits, method change, or assumption change that created the base. See page 7.

Exhibit 3 summarizes the required State deposits for amortization of the changes to the unfunded actuarial accrued liability, and the current normal cost for Service Annuities. These amortization payments will fund thirteen changes to the unfunded actuarial accrued liability.

Please note that the State's normal cost, as shown on page 6, is less than $0. This negative normal cost is primarily a result of the better than expected asset performance in recent years. The current actuarial value of assets plus the present value of remaining amortization payments and future State appropriations are currently more than adequate to fund the Service Annuity. This funded status will be affected by future plan experience, benefit improvements (if any), and the addition of new members into the System.

The required State deposit for the Service Annuity remains at $0 for the 2002 - 2003 fiscal year. This is primarily attributable to higher than expected asset returns in the recent past and other experience, which over time has offset benefit improvements. The required State deposit consists of the State normal cost and amortization payments. A history of the required State deposits is shown below:

History of Required State Deposits for Service Annuities

Fiscal Year	Amount
2002-2003	$ 0
2001-2002	0
2000-2001	0
1999-2000	0
1998-1999	0
1997-1998	0
1996-1997	809,350
1995-1996	4,413,418
1994-1995	1,709,842

3. Asset Values

The total assets of the system as of the current and prior valuation date including the Retirement System Reserve Fund (RSRF) at both market value and actuarial value, and the rate of return during the period is as follows:

	July 1, 2000	July 1, 2001	Annual Rate of Return
(a) Market value	$ 4,423,138,686*	$ 4,270,376,860	-4.3%
(b) Actuarial value, an adjusted value intended to reduce the effect of market fluctuations (Exhibit 2)	$ 4,140,568,607	$ 4,579,772,296	9.7%

*After adjustment.

4. Actuarial Liability/(Reserve) of the Excess Formula Annuity

The actuarial liability of the Excess Formula Annuity benefits is the excess of the total benefit obligation (present value of future benefits) over the projected financial resources (sum of (i) the actuarial value of assets and (ii) the present value of future member, employer, and State contributions). If the projected financial resources exceed the total benefit obligation, the system has a Reserve. The actuarial position of the system as of the current and prior valuation dates are as follows:

	July 1, 2000	July 1, 2001
(a) Present value of future benefits	$ 3,572,647,222	$ 4,163,779,970
(b) Net actuarial value of assets (excluding RSRF, PPSF, and Service Annuity funds)*	2,767,064,197	3,067,857,238
(c) Present value of future member contributions	593,034,381	626,870,131
(d) Present value of future employer contributions	598,760,231	632,922,671
(e) Present value of future State contributions	57,258,492	60,525,392
(f) Actuarial Liability/(Reserve) (a) - (b) - (c) - (d) - (e)	$ (443,470,079)	$ (224,375,462)

* During the 2000/2001 plan year, the remaining assets in the School Purchasing Power Stabilization Fund (PPSF) were transferred to the School Annuity Reserve Account as mandated in LB674.

5. Pension Benefit Obligation (PBO)

The Pension Benefit Obligation represents a standardized disclosure measure of the present value of pension benefits payable in the future, which incorporates the effects of projected salary increases, based on service earned at the valuation date. The measure is intended to provide information regarding the Plan's funded status on an ongoing-concern basis, progress made in accumulating sufficient assets to pay benefits when due, and comparability to other plans.

Funded Status	July 1, 2000	July 1, 2001
(a) Pension Benefit Obligation		
i) retirees, disabled members and beneficiaries receiving benefits and deferred vested members not yet receiving benefits	$ 1,390,400,764	$ 1,606,064,525
ii) active members	2,266,521,485	2,643,985,618
iii) total pension benefit obligation	$ 3,656,922,249	$ 4,250,050,143
(b) Net assets available for benefits (actuarial value)	4,115,606,664	4,553,865,903
(c) Unfunded Pension Benefit Obligation/(Reserve)	$ (458,684,415)	$ (303,815,760)
(d) Funded percentage on actuarial value of assets: (b)÷(a)(iii)	112.5%	107.1%

6. School Employees Retirement System Reserve Fund

Effective July 1, 1993, members began contributing .3% of covered pay into this fund, with school districts matching at 101% of this amount. This fund is used to provide periodic ad-hoc COLA increases to retirees. Contributions ceased when sufficient funds were available to provide a one-time 3% COLA benefit. For members ceasing employment prior to April 10, 1996 and receiving benefits as of September 1996, a one-time 3% COLA increase was approved by the Board effective September 1996. The benefits payable from this fund were not included in this actuarial valuation report.

7. School Purchasing Power Stabilization Fund

The School Purchasing Power Stabilization Fund was created by LB 700 in 1996. This fund provided cost-of-living benefit adjustments to members ceasing employment on or after April 10, 1996. The adjustment is equal to .3% per year, beginning six years after retirement, and is funded solely by State contributions. The benefits payable from this fund were not included in the July 1, 1998 valuation. LB 674, passed in 1999 (effective July 1, 2000), provides for an annual cost-of-living increase equal to the CPI-W index, with a maximum of 2% in any one year, a minimum floor benefit equal to 75% of the purchasing power of the original benefit and the elimination of the Schools Purchasing Power Stabilization Fund. The existing assets in the Schools PPSF were transferred to the School Annuity Reserve Account. The State appropriation to the PPSF as defined above, is directed to the School Annuity Reserve Account through the 2010 – 2011 Fiscal Year beginning in year 2000.

8. Benefit Accrual Cost

The cost of benefits accruing over an active member's working career can be expressed as a level percentage of compensation or a level dollar amount. This cost represents the true cost of accruing benefits since it is not adjusted for any overfunding or underfunding which may exist on the valuation date. It is determined using the Entry Age Actuarial Cost Method and is also called the Normal Cost. The level benefit accrual cost determined during the current and prior valuation dates for both the Formula Annuity and the Service Annuity are as follows:

Formula Annuity Benefit	July 1, 2000	July 1, 2001*
(a) Benefit accrual cost amount:	$ 110,573,862	$ 128,257,557
(b) Annual compensation before assumed normal retirement age:	$ 984,773,253	$ 1,049,876,059
(c) Benefit accrual cost rate as a level percentage of compensation (a) ÷ (b):	11.228%	12.216%

Service Annuity Benefit	July 1, 2000	July 1, 2001*
(a) Benefit accrual cost amount:	$ 2,616,473	$ 2,781,958
(b) Number of active members (including Omaha):	40,371	41,374
(c) Benefit accrual cost per active member as a level dollar amount (a) ÷ (b):	$ 64.81	$ 67.24

*Includes benefit improvements under LB711.

9. Forecast of Disbursements

A forecast of the annual benefit disbursements expected over the next thirty years is presented in Exhibit 8. This forecast is based on the same actuarial assumptions with respect to salary increases and decrement rates used to determine the funding requirements of the Excess Formula Annuity and the Service Annuity including the new plan provision implemented by Legislative Bill 711. The forecast should be a useful guide in discussing the cash-flow needs of the system with investment managers and in projecting the future financing needs of the system.

10. Actuarial Methods and Assumptions

The required contributions developed in this report are estimates of the amounts necessary to provide the benefits to plan members assuming the system is funded in a systematic manner. These estimates are based upon the actuarial method defined under State Statutes to allocate the total cost of the plan to various years and actuarial assumptions regarding the return on investments, salary rates, employee termination rates, mortality rates and other risk factors.

The actuarial method used to determine the State contribution necessary to fund the Service Annuity is the Frozen Entry Age Actuarial Cost Method. The actuarial method used to determine the actuarial soundness of employer and member contributions funding the Excess Formula Annuity is the Aggregate Actuarial Cost Method. A description of these methods can be found in Exhibit 10.

The actuarial assumptions represent the expected long-term experience of the system on an explicit basis for each risk area considered. The experience is reviewed periodically. Where necessary, changes are recommended by the actuary and adopted by the Public Employees Retirement Board. Summaries of the actuarial methods and assumptions used in the current valuation are presented in Exhibits 10 and 11, respectively.

11. Changes Since the Last Actuarial Valuation

There have been no changes in the actuarial cost method or assumptions since the last valuation as of July 1, 2000. The following changes in plan provisions have been adopted due to LB 711, effective July 1, 2001:

- an increase in the formula annuity multiplier from 1.9% to 2.0%,
- an increase in the maximum cost-of-living increase from 2.0% to 2.5% (the 75% purchasing power minimum floor still applies), and
- an enhanced death benefit for members who die after meeting the 5-year vesting service requirement but with less than 20 years of service. The surviving spouse has a choice between (1) a lump sum consisting of member's contributions with interest plus 101% of member's contributions with interest and (2) a monthly annuity of the survivor portion of the member's accrued benefit with the 100% Joint and Survivor option applied, payable when the member would have been age 60, or age at death if greater.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL SYSTEM

SYSTEM ASSETS

A. Summary of Assets	Market Value as of June 30, 2000	Market Value as of June 30, 2001
1. Cash and Equivalents	$ 3,625,446	$ 5,767,554
2. Investments	4,382,039,655	4,233,273,034
3. Receivables and Prepaids	40,694,995	34,767,633
4. Accounts Payable	(4,260,845)	(3,431,361)
5. Total Assets Before Adjustment (1+2+3+4)	$ 4,422,099,251	$ 4,270,376,860
6. Adjustment to Market Value	1,039,435	N/A
7. Total Assets after Adjustment (5+6)	$ 4,423,138,686	$ 4,270,376,860
8. Retirement System Reserve Fund	26,659,186	24,156,236
9. Net Assets Considered (7-8)	**$ 4,396,479,500**	**$ 4,246,220,624**

B. Development of Actuarial Value of Assets	Amount
1. Actuarial Value of Assets as of July 1, 2000	$ 4,140,568,607
2. Unrecognized Return as of July 1, 2000	$ 281,530,644
3. Contributions	
(a) Member	$ 76,626,869
(b) Employer	77,062,239
(c) State	7,786,514
(d) State appropriation to the School Annuity Reserve Account and Supplemental Benefit Fund	6,665,144
(e) Total (a + b + c + d)	$ 168,140,766
4. Benefit Payments (including transfers to Omaha)	$ 130,932,390
5. Expected Return at 8% on:	
(a) Item 1	$ 331,245,489
(b) Item 2	22,522,452
(c) Item 3(e)	6,596,244
(d) Item 4	4,708,315
(e) Total (a+b+c-d)	$ 355,655,870
6. Actual Return on Market Value for 2000/2001 Plan Year, net of expenses	$ (188,930,767)*
7. Return to be Spread for 2000/2001 Plan Year [6-5(e)]	$ (544,586,637)

*Includes adjustment to market value at June 30, 2000 of $1,039,435.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL SYSTEM

B. Development of Actuarial Value of Assets		**Amount**
8. Total Market Value of Assets as of July 1, 2001		$ 4,270,376,860
9. Return to be Spread:		

Plan Year	Return to be Spread	Unrecognized Percent	Unrecognized Return
2000/2001	$ (544,586,637)	80%	$ (435,669,310)
1999/2000	11,721,551	60%	7,032,931
1998/1999	116,908,917	40%	46,763,567
1997/1998	362,386,882	20%	72,477,376
		Total	**$ (309,395,436)**

10. Total Actuarial Value of Assets at July 1, 2001 (8-9)		$ 4,579,772,296
11. Actuarial Value of School Retirement System Reserve Fund (RSRF)		
(a) Market value of RSRF	$ 24,156,236	
(b) Ratio of total actuarial value to total market value	107.245155%	
(c) Actuarial value of RSRF: (a) x (b)		25,906,393
12. Net Actuarial Value of Assets at July 1, 2001 [10-11(c)]		**$ 4,553,865,903**

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL SYSTEM

C. Change in Asset Values During 2000/2001	**Actuarial Value**	**Market Value**
1. Total asset value as of July 1, 2000	$ 4,140,568,607	$ 4,423,138,686*
2. Contributions for 2000/2001:		
(a) Member contributions paid during the year	$ 76,626,869	$ 76,626,869
(b) Employer contributions paid during the year	77,062,239	77,062,239
(c) State contributions and appropriations during the year	14,451,658	14,451,658
(d) Contributions for 2000/2001: (a) + (b) + (c)	$ 168,140,766	$ 168,140,766
3. Disbursements for 2000/2001:		
(a) Benefit payments**	$ 130,932,390	$ 130,932,390
(b) Expenses and fees	12,613,569	12,613,569
(c) Disbursements for 2000/2001: (a) + (b)	$ 143,545,959	$ 143,545,959
4. Investment return for 2000/2001:	$ 414,608,882	$ (177,356,633)
5. Total asset value as of July 1, 2001: [1 + 2(d) - 3(c) + 4]	$ 4,579,772,296	$ 4,270,376,860
6. Asset value of RSRF	25,906,393	24,156,236
7. Net asset value as of July 1, 2001: (5) - (6)	$ 4,553,865,903	$ 4,246,220,624
8. Approximate rate of investment return, net of expenses	9.7%	(4.3%)

*After adjustment.

**Includes transfers to Omaha and distributions from RSRF.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL SYSTEM

D. Summary of Reserve Fund Assets	As of June 30, 2001	
	Actuarial Value	**Market Value**
1. Excess Formula Annuity Assets		
(a) Employee Savings Account	$ 1,226,108,187	$ 1,143,276,061
(b) Employer Deposit Account	1,841,749,051	1,717,326,107
(c) Total	$ 3,067,857,238	$ 2,860,602,168
2. Service Annuity Assets		
(a) Service Annuity Account	$ 127,106,811	$ 118,519,863
(b) Annuity Reserve Account	1,418,618,911	1,322,781,348
(c) Expense Fund	(61,637)	(57,473)
(d) Contingent Account	(59,726,957)	(55,691,986)
(e) Retired Teachers Supplementary Fund	71,537	66,704
(f) Total	$ 1,486,008,665	$ 1,385,618,456
3. Retirement System Reserve Fund	$ 25,906,393	$ 24,156,236
4. Total Assets: [1(c) + 2(g) + 3]	$ 4,579,772,296	$ 4,270,376,860

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL SYSTEM

EXCESS FORMULA ANNUITY FUNDING

A. Development of Required Funding Rate	**July 1, 2001**
1. Actuarial present value of benefits	
(a) Active members	$ 3,924,198,196
(b) Inactive members	239,601,774
(c) Total	$ 4,163,799,970
2. Net Actuarial Value of Assets*	3,067,857,238
3. Present value of future State contributions	60,525,392
4. Present value of future employee/employer contributions [1(c) - 2 - 3]	$ 1,035,417,340
5. Present value of future compensation	$ 8,646,484,600
6. Total required funding rate: (4) ÷ (5)	11.98%
7. Required employee funding rate: (6) x .4975	5.96%
8. Required employer funding rate: (7) x 101%	6.02%
B. Summary of Actual Contribution Rate	
1. Employee contribution rate	7.25%
2. Employer contribution rate	7.32%
3. Total employee/employer contribution rate: (1) + (2)	14.57%
C. Additional Required Contribution Rate	
1. Additional employee contribution rate: [A(7) - B(1), not less than 0%]	0.00%
2. Additional employer contribution rate: [A(8) - B(2), not less than 0%]	0.00%
3. Total additional required contribution rate	0.00%

* Excludes Retirement System Reserve Fund and Service Annuity Assets.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL SYSTEM

SERVICE ANNUITY FUNDING

A.	Development of State Normal Cost		July 1, 2001
1.	Actuarial present value of benefits		
	(a) Active members	$	111,356,668
	(b) Inactive members		11,038,876
	(c) Retired members and beneficiaries		1,355,359,649
	(d) Omaha		
	(i) active		15,018,928
	(ii) retired		64,226
	(e) Total	$	1,492,838,347
2.	State Unfunded Frozen Actuarial Accrued Liability		218,192,847
3.	Net Actuarial Value of Assets*		1,486,008,665
4.	Present Value of Future PPSF appropriations		37,839,719
5.	Present Value of Future State Normal Costs: [1(e) - 2 - 3 - 4]	$	(249,202,884)
6.	Average Future Service Annuity Value		5.85365
7.	State Normal Cost: (5) ÷ (6)	$	(42,572,221)

* Excludes Retirement System Reserve Fund and Excess Formula Annuity Assets.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL SYSTEM

B. Schedule of State Amortization Bases	June 30, 2002 Remaining Payments	Date of Last Payment	Outstanding Balance as of June 30, 2001	June 30, 2002 Contribution
1. 1981 change to the unfunded actuarial accrued liability	5	07/01/2005	$ 2,739,792	$ 686,197
2. 1984 change to the unfunded actuarial accrued liability	9	07/01/2009	(4,651,766)	(744,652)
3. 1987 increase in the unfunded actuarial accrued liability due to the service buy-back and assumption changes	12	07/01/2012	18,671,166	2,477,571
4. 1988 change in unfunded actuarial accrued liability due to service buy-back	13	07/01/2013	777,078	98,317
5. 1989 change in the unfunded actuarial accrued liability due to the service buy-back and actuarial assumption changes	14	07/01/2014	(1,525,364)	(185,021)
6. 1990 change in unfunded actuarial accrued liability due to service buy-back	15	07/01/2015	68,310	7,980
7. 1991 change in unfunded actuarial accrued liability due to service buy-back	16	07/01/2016	83,297	9,411
8. 1993 change in unfunded actuarial accrued liability due to actuarial assumption changes	18	07/01/2018	35,212,730	3,757,271
9. 1997 change in unfunded actuarial accrued liability due to actuarial assumption changes	21	07/01/2022	(27,258,664)	(2,721,293)
1. 1998 change in unfunded actuarial accrued liability due to actuarial assumption changes	22	07/01/2023	(52,785,349)	(5,174,656)
11. 1999 change in unfunded actuarial accrued liability due to plan provision changes	23	07/01/2024	212,128,099	20,453,851
12. 2000 change in asset valuation method	24	07/01/2025	(9,501,326)	(902,417)
13. 2001 change in unfunded actuarial accrued liability due to plan provision changes	25	07/01/2026	44,234,844	4,143,866

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL SYSTEM

Total			**$ 218,192,847**	**$ 21,906,425**

C.	**Development of Required State Deposit for 2002/2003**	**Annual Amount**
1.	State Normal Cost	$ (42,572,221)
2.	State Amortization Payment	21,906,425
3.	Total Required State Deposit as of July 1, 2002: [(1) + (2), not less than $0]	$ 0

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL SYSTEM

ACTUARIAL (GAIN)/LOSS

A. Change in Actuarial Liability		
1. Actual Actuarial Liability as of July 1, 2000		
(a) Excess formula annuity		$ 3,572,647,222
(b) Service annuity		1,310,662,456
(c) Total		$ 4,883,309,678
2. Benefit payments during the 2000/2001 plan year*		125,734,602
3. Interest at 8%		386,150,486
4. Expected liability as of July 1, 2001 (1 - 2 + 3)		$ 5,143,725,562
5. Change in Actuarial Liability by Source:		
(a) Retirement	$ (31,415,301)	
(b) Termination	642,931	
(c) Disability	951,938	
(d) Pre-retirement mortality	(1,411,417)	
(e) Post-retirement mortality	6,420,710	
(f) Salary	26,274,529	
(g) New entrants	78,607,100	
(h) Data changes/miscellaneous	28,350,965	
(i) Total		$ 108,421,455
6. Change in Actuarial Assumptions		$ 0
7. Change in Plan Provisions		404,491,300
8. Change in Actuarial Methods		0
9. Actual Actuarial Liability as of July 1, 2001 (4 + 5 + 6 + 7 + 8)		$ 5,656,638,317

* Excludes transfer to Omaha and distributions from RSRF.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL SYSTEM

B.	**Change in Net Actuarial Value of Assets**	**Amount**
1.	Net Actuarial Value of Assets as of July 1, 2000	$ 4,115,606,664
2.	Contributions	
	(a) Member	$ 76,626,869
	(b) Employer	77,062,239
	(c) State*	6,533,376
	(d) State appropriation to the Annuity Reserve Account* and Supplemental Benefit Fund	5,691,843
	(e) Total	$ 165,914,327
3.	Benefit Payments**	$ 125,734,602
4.	Expected Return at 8% on:	
	(a) Item 1	$ 329,248,533
	(b) Item 2(e)	6,508,899
	(c) Item 3	4,514,289
	(d) Total (a) + (b) - (c)	$ 331,243,143
5.	Expected Net Actuarial Value of Assets at June 30, 2001 [1 + 2(e) - 3 + 4(d)]	$ 4,487,029,532
6.	Actual Net Actuarial Value of Assets at June 30, 2001	4,553,865,903
7.	Actuarial (Gain)/Loss on Asset Sources (5 - 6) before change in asset valuation method	$ (66,836,371)

* Excludes transfers to Omaha.
**Benefit payments exclude transfer to Omaha and distributions from RSRF.

C.	**Total Actuarial (Gain)/Loss for the 2000/2001 plan year [A(5)(i) + B(7)]**	**$ 41,585,084**

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL SYSTEM

ACTUARIAL BALANCE SHEET

A.	Financial Resources		July 1, 2001
1.	Net Actuarial Value of Assets		
	(a) Excess formula annuity	$ 3,067,857,238	
	(b) Service annuity	1,486,008,665	
	(c) Total		$ 4,553,865,903
2.	Present Value of Future Excess Formula Annuity Contributions		
	(a) Member	$ 626,870,131	
	(b) Employer	632,922,671	
	(c) State	60,525,392	
	(d) Total		1,320,318,194
3.	Present Value of Future Service Annuity Contributions		
	(a) State normal cost	$ (249,202,884)	
	(b) State payments for unfunded frozen actuarial accrued liability	218,192,847	
	(c) State PPS appropriations to the Annuity Reserve Account	37,839,719	
	(d) Total		6,829,682
4.	Actuarial Reserve for Excess Formula Annuity		(224,375,462)
5.	Total Assets [1(c) + 2(d) + 3(d) + 4]		$ 5,656,638,317

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL SYSTEM

B.	**Benefit Obligations**		**July 1, 2001**
1.	Present Value of Future Excess Formula Annuity Benefits		
	(a) Active members	$ 3,924,198,196	
	(b) Inactive members	239,601,774	
	(c) Total		$ 4,163,799,970
2.	Present Value of Future Service Annuity Benefits		
	(a) Active members	$ 111,356,668	
	(b) Inactive members	11,038,876	
	(c) Retirees and beneficiaries	1,355,359,649	
	(d) Omaha		
	(i) active	15,018,928	
	(ii) retired	64,226	
	(e) Total		1,492,838,347
3.	Total Liabilities [1(c) + 2(e)]		$ 5,656,638,317

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL SYSTEM

ACCOUNTING INFORMATION

A. Pension Benefit Obligation under the Projected Unit Credit Cost Method.

	July 1, 2000	July 1, 2001
Pension Benefit Obligation (PBO):		
Vested PBO		
(a) members currently receiving payments	$ 1,177,372,522	$ 1,355,423,875
(b) other members		
(i) accumulated member contributions	1,055,243,094	1,137,561,776
(ii) employer financed vested	1,279,771,542	1,584,717,814
Total Vested PBO	$ 3,512,387,158	$ 4,077,703,465
Nonvested PBO	144,535,091	172,346,678
Total PBO	$ 3,656,922,249	$ 4,250,050,143
Net Actuarial Value of Assets*	4,115,606,664	4,553,865,903
Unfunded Pension Benefit Obligation (Reserve)	$ (458,684,415)	$ (303,815,760)
Funded Percentage		
(a) on vested PBO	117.2%	111.7%
(b) on total PBO	112.5%	107.1%

* The Actuarial Value of Assets includes the PPSF as of July 1, 2000. Per LB 674, the PPSF assets were transferred to the School Annuity Reserve Account during the 2000/2001 Plan year.

B. Change in Pension Benefit Obligation from July 1, 2000 to July 1, 2001

Pension Benefit Obligation at July 1, 2000	$ 3,656,922,249
Increase/(Decrease) during Period:	
Plan Provision Changes	$ 292,255,686
Assumption Changes	0
Benefits Accumulated	125,539,445
Benefits Paid*	(125,734,602)
Interest Cost	298,082,647
Plan Experience	2,984,718
Total Change	$ 593,127,894
Pension Benefit Obligation at July 1, 2001	$ 4,250,050,143

* Excludes transfer to Omaha and distributions from RSRF.

Exhibit 10 and 11 provide a more detailed summary of the underlying actuarial methods and assumptions used in the calculations of the Pension Benefit Obligation. The benefits valued are those in effect on July 1, 2001 and 2000, respectively, as outlined in Exhibit 9. The determination of the Pension Benefit Obligation has been made in accordance with generally accepted actuarial principles and practices.

C. Schedule of Contributions from Employers and other Contributing Entities - Disclosure Requirements under GASB No. 25

Plan Year Ending	Annual Required Contributions*			Percentage Contributed
	School	State	Total	
June 30, 2001	$ 77,062,239	$ 14,451,658	$ 91,513,897	100%
June 30, 2000	69,945,377	14,102,170	84,047,547	100%
June 30, 1999	69,983,866	27,637,589	97,621,455**	100%
June 30, 1998	65,135,713	13,511,201	78,646,914	100%
June 30, 1997	63,187,899	13,271,330	76,459,229	100%
June 30, 1996	59,799,324	7,128,691	66,928,015	100%

* Includes funding for the Excess Formula Annuity, the Service Annuity and supplemental funds.

** Includes accrued School and State contributions of $2,920,270 and $13,882,513, respectively.

D. Actuarial Assumptions, Method and Additional Information under GASB No. 25

Valuation Date	June 30, 2001
Actuarial Cost Method	Frozen Entry Age
Amortization Method	Level dollar amount, closed
Amortization Period	25 years
Asset Valuation Method	5 year smoothing
Actuarial Assumptions:	
Investment rate of return*	8.0%
Projected salary increases*	4.5% - 8.2%
*Includes inflation at	3.8%
Cost-of-living adjustment	2.5% with a floor benefit equal to 75% purchasing power of original benefit

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL SYSTEM

E. Schedule of Funding Progress under GASB No. 25

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Accrued Liabilities (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a % of Covered Payroll [(b-a)/c]
June 30, 2001	$ 1,486,008,665	$ 1,704,201,512	$ 218,192,847	87.2%	$ 995,348,331	21.9%
June 30, 2000	1,348,542,467	1,526,061,507	177,519,040	88.4	933,339,432	19.0
June 30, 1999	1,129,546,860	1,345,494,742	215,947,882	84.0	893,801,152	24.2
June 30, 1998	892,780,966	865,412,669	(27,368,297)	103.2	882,963,179	(3.1)
June 30, 1997	742,015,212	771,343,623	29,328,411	96.2	853,842,959	3.4
June 30, 1996	656,168,309	715,569,602	59,401,293	91.7	820,092,017	7.2
June 30, 1995	579,448,575	640,162,938	60,714,363	90.5	786,569,231	7.7

The Schedule of Funding Progress includes liabilities and assets for the Service Annuity benefits for active and inactive members, and all benefits for retired members and beneficiaries. The Excess Formula Annuity benefits for active and inactive members are funded using the Aggregate Actuarial Cost Method and are not required to be disclosed under GASB No. 25.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL SYSTEM

SUMMARY OF MEMBER DATA

A. Active Members	July 1, 2000	July 1, 2001
1. Number of Active Members		
(a) Before assumed retirement age	34,507	35,361
(b) Beyond assumed retirement age	211	228
(c) Total	34,718	35,589
2. Annual Considered Compensation*		
(a) Before assumed retirement age	$ 984,773,253	$ 1,049,876,059
(b) Beyond assumed retirement age	2,475,513	2,834,050
(c) Total	$ 987,248,766	$ 1,052,710,109
3. Accumulated Contributions	$ 1,003,917,825	$ 938,051,273
4. Active Member Averages		
(a) Age	44.7	45.0
(b) Service	11.7	11.5
(c) Compensation	28,436	29,580
(d) Accumulated Contributions	$ 28,209	$ 27,019
B. Inactive Members		
1. Number of inactive members	13,918	15,158
2. Accumulated member contributions	$ 120,867,354	$ 133,643,951
3. Inactive member averages		
(a) Age	49.9	50.0
(b) Accumulated member contributions	$ 8,684	$ 8,817
C. Retired Members and Beneficiaries		
1. Number of members		
(a) System retirees	10,371	10,925
(b) Omaha retirees	4	4
2. Annual benefits - regular		
(a) System retirees	$ 95,834,006	$ 108,264,586
(b) Omaha retirees	3,027	3,027
(c) Total	$ 95,837,033	$ 108,267,613
3. Annual benefits-supplemental		
(a) System retirees	$ 6,750,795	$ 9,513,920
(b) Omaha retirees	4,036	4,036
(c) Total	$ 6,754,831	$ 9,517,956

D. Distribution of Retired Members and Beneficiaries as of July 1, 2001

Age Range	Number	Annual Benefit	Average Annual Benefit
59 & Under	586	$ 13,315,773	$ 22,723
60-64	1,612	28,867,391	17,908
65-69	2,368	30,860,437	13,032
70-74	2,238	21,418,935	9,571
75-80	1,585	12,272,588	7,743
80-84	1,154	6,082,661	5,271
85-89	811	3,011,429	3,713
90 & Over	571	1,949,292	3,414
Total	10,925	$ 117,778,506	$ 10,781

E. Member Data Reconciliation

		Inactive Members			
	Active Members	With Deferred Benefits	Terminated with Balance	Retired Members and Beneficiaries	Total
As of July 1, 2000	34,718	4,662	9,256	10,371	59,007
Changes in status					
a) Normal & early retirements	(627)	0	0	637**	10
b) Became payable	0	(135)	0	135	0
c) Deaths	(26)	(21)	(22)	(284)	(353)
d) Nonvested terminations	(1,234)	0	1,234	0	0
e) Vested terminations	(773)	773	0	0	0
f) Contribution refund	(972)	(284)	(706)	(8)	(1,970)
g) Beneficiaries in receipt	0	0	0	98	98
h) Disability retirements	(11)	(6)	0	17	0
i) Return to active service	686	(198)	(426)	0	62**
j) Expired benefits	0	0	0	(58)	(58)
Total changes in status	(2,957)	129	80	537	(2,211)
New entrants					
a) Without prior service	3,826	0	0	0	3,826
b) With prior service	2	10	1,021	17	1,050
Total new members	3,828	10	1,021	17	4,876
Net change	871	139	1,101	554	2,665
As of July 1, 2001	35,589	4,801	10,357	10,925	61,672

* 9 members as of July 1, 2001 retired and returned to active but are still receiving pensions. One of thee provided two retiree records.

** 62 members returned to active from retiree status but continue to receive pensions.

F. Reconciliation Between Data Submitted By NPERS and Valuation Data

	Active Members	Inactive Members	Retired Members, Beneficiaries, and Disabled	Total
Number of Data Records Submitted By NPERS	35,591	14,894	11,008	61,493
Additions				
a) 2000 Balance Only	0	350	0	350
b) 2000 Deferred Vested	0	11	0	11
c) New Alternate Payees	0	4	1	5
d) New Beneficiaries	0	0	7	7
Total Additions	0	365	8	373
Subtractions				
a) Also Listed as Deaths	(2)	(1)	(84)	(87)
b) Also Listed as Retirees	0	(97)	0	(97)
c) Also Listed as Contribution Refunds	0	(3)	(6)	(9)
d) Cancelled Retirement/Refunds	0	0	(1)	(1)
Total Subtractions	(2)	(101)	(91)	(194)
Net change	(2)	264	(83)	179
Number of Members Included in the Valuation As of July 1, 2001	35,589	15,158	10,925	61,672

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL SYSTEM

G. Age and Service Distribution of Active Members as of July 1, 2001

Age Last Birthday		0-4	5-9	10-14	15-19	20-24	25-29	30-34	Over 34	Total
15-19	**Number**	22								22
	Total Salary	$ 165,948								$ 165,948
	Average Salary	$ 7,543	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$,543
20-24	**Number**	859	3							862
	Total Salary	$ 14,884,660	$ 49,904							$ 4,934,564
	Average Salary	$ 17,328	$ 16,635	$ -	$ -	$ -	$ -	$ -	$ -	$ 17,325
25-29	**Number**	2,286	557	1						2,844
	Total Salary	$ 55,894,030	$ 17,935,622	$ 10,410						$ 73,840,062
	Average Salary	$ 24,451	$ 32,200	$ 10,410	$ -	$ -	$ -	$ -	$ -	$ 25,963
30-34	**Number**	1,858	1,431	470						3,759
	Total Salary	$ 32,199,433	$ 47,303,501	$ 17,677,215						$ 97,180,149
	Average Salary	$ 17,330	$ 33,056	$ 37,611	$ -	$ -	$ -	$ -	$ -	$ 25,853
35-39	**Number**	1,592	779	1,091	462	2				3,926
	Total Salary	$ 24,863,648	$ 22,578,360	$ 41,167,743	$ 18,741,227	$ 52,429				$ 07,403,407
	Average Salary	$ 15,618	$ 28,984	$ 37,734	$ 40,565	$ 26,215	$ -	$ -	$ -	$ 27,357
40-44	**Number**	2,115	975	792	999	738				5,619
	Total Salary	$ 32,643,272	$ 24,496,106	$ 26,267,949	$ 40,165,192	$ 31,799,601				$ 55,372,120
	Average Salary	$ 15,434	$ 25,124	$ 33,167	$ 40,205	$ 43,089	$ -	$ -	$ -	$ 27,651
45-49	**Number**	1,341	1,030	1,011	685	1,170	828	3		6,068
	Total Salary	$ 21,298,662	$ 24,412,052	$ 30,230,285	$ 25,043,609	$ 51,268,516	$ 38,803,938	$ 182,654		$ 91,239,716
	Average Salary	$ 15,883	$ 23,701	$ 29,901	$ 36,560	$ 43,819	$ 46,865	$ 60,885	$ -	$ 31,516
50-54	**Number**	895	840	980	854	823	1,262	773		6,427
	Total Salary	$ 15,316,112	$ 20,511,979	$ 31,062,686	$ 30,966,234	$ 34,054,389	$ 61,099,932	$ 37,926,335		$ 30,937,667
	Average Salary	$ 17,113	$ 24,419	$ 31,697	$ 36,260	$ 41,378	$ 48,415	$ 49,064	$ -	$ 35,932
55-59	**Number**	511	398	559	531	572	414	490	210	3,685
	Total Salary	$ 8,802,622	$ 8,876,102	$ 14,920,326	$ 17,130,161	$ 20,409,419	$ 18,984,138	$ 25,469,077	$ 10,379,953	$ 24,971,798
	Average Salary	$ 17,226	$ 22,302	$ 26,691	$ 32,260	$ 35,681	$ 45,855	$ 51,978	$ 49,428	$ 33,914
60-64	**Number**	312	176	233	259	279	126	76	139	1,600
	Total Salary	$ 4,290,150	$ 3,291,164	$ 5,495,949	$ 7,359,111	$ 8,460,088	$ 5,175,540	$ 3,519,227	$ 7,178,981	$ 44,770,210
	Average Salary	$ 13,750	$ 18,700	$ 23,588	$ 28,414	$ 30,323	$ 41,076	$ 46,306	$ 51,647	$ 27,981
65-69	**Number**	314	135	118	87	66	21	11	25	777
	Total Salary	$ 3,131,435	$ 1,600,767	$ 1,975,867	$ 1,918,256	$ 1,171,944	$ 608,516	$ 439,462	$ 1,048,221	$ 11,894,468
	Average Salary	$ 9,973	$ 11,858	$ 16,745	$ 22,049	$ 17,757	$ 28,977	$ 39,951	$ 41,929	$ 15,308
TOTAL	**Number**	12,105	6,324	5,255	3,877	3,650	2,651	1,353	374	35,589
	Total Salary	$213,489,972	$171,055,557	$168,808,430	$141,323,790	$147,216,386	$124,672,064	$ 67,536,755	$ 18,607,155	$1,052,710,109
	Average Salary	$ 17,637	$ 27,049	$ 32,123	$ 36,452	$ 40,333	$ 47,028	$ 49,916	$ 49,752	$ 29,580

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL SYSTEM

FORECAST OF EXPECTED DISBURSEMENTS

Plan Year Ending June 30	Active Employees	Retired and Disabled Members and Beneficiaries	Total
2002	$ 12,051,443	$ 120,453,391	$ 132,504,834
2003	28,246,963	121,749,995	149,996,958
2004	46,334,946	122,964,842	169,299,788
2005	67,473,317	123,836,243	191,309,560
2006	91,263,724	124,721,928	215,985,652
2007	117,730,540	125,260,994	242,991,534
2008	146,171,073	125,710,125	271,881,198
2009	176,559,020	125,600,793	302,159,813
2010	208,967,993	125,358,118	334,326,111
2011	242,912,532	124,818,325	367,730,857
2012	$ 278,162,397	$ 124,063,548	$ 402,225,945
2013	314,533,836	122,323,229	436,857,065
2014	352,004,259	120,072,551	472,076,810
2015	389,592,080	117,432,473	507,024,553
2016	426,613,692	114,668,511	541,282,203
2017	463,270,602	111,925,531	575,196,133
2018	499,591,217	109,166,782	608,757,999
2019	537,024,023	106,041,763	643,065,786
2020	573,712,689	102,601,233	676,313,922
2021	609,535,317	98,772,280	708,307,597
2022	$ 645,430,873	$ 94,731,466	$ 740,162,339
2023	680,794,971	90,332,591	771,127,562
2024	715,022,230	85,817,658	800,839,888
2025	747,542,817	80,995,138	828,537,955
2026	778,660,367	75,922,493	854,582,860
2027	809,053,136	70,641,505	879,694,641
2028	838,327,974	65,358,732	903,686,706
2029	867,169,614	59,989,755	927,159,369
2030	894,675,899	54,599,296	949,275,195
2031	921,060,502	49,317,595	970,378,097

Note: These amounts exclude distributions for vested inactive members eligible to receive future benefit payments. Benefit amounts for these members have not yet been determined.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS SCHOOL SYSTEM

SUMMARY OF PLAN PROVISIONS

Member

Any person employed by a public school 15 or more hours per week and age 21 by August 15 preceding the school year shall be a member of the system. Employees at the date of establishment could have elected not to participate, and those covered under another system do not participate.

Participation Date

Date of becoming a member.

Definitions

Final average earnings

The average of the highest three fiscal years after July 1, 1968 of pensionable pay during the period ending on the earlier of the participant's termination date or retirement date. For employees who become a member on or after July 1, 1996, earnings will be capped at the maximum earnings defined in Code 401(a)(17).

Fiscal year

Twelve month period ending June 30.

Member contributions

Beginning with 1996-97 fiscal year, members contribute at a rate equal to 49.75% of the greater of (i) the overall rate necessary to fund the liability attributable to benefits in excess of the service annuities, or (ii) 7.25% of pensionable pay. The School Districts contribute at a rate equal to 101% of the members' rate. Such contributions are credited with interest in accordance with State Statutes.

Monthly pension benefit

The greater of (1) or (2).

(1) Amount: A monthly benefit equal to the sum of:

(a) A savings annuity which is the actuarial equivalent of the member's accumulated contributions, and

(b) A service annuity equal to $3.50 per year of service.

(2) Amount: Members employed by a class I, II, III, IV, or VI School District may receive a formula annuity. The formula annuity is a monthly amount equal to the product of 2.00% of final average earnings times total years of service for those members who are employed on or after July 1, 2001.

To receive this benefit, retirement must occur after meeting the Rule of 85 requirements (minimum age 55) or attaining age 65 with five years of service.

An automatic annual cost-of-living adjustment (COLA) equal to the CPI-W index, with a maximum increase of 2.5% in any one year is provided for current and future retirees. Also provided is a minimum floor benefit equal to 75% of the purchasing power of the original benefit.

Normal Retirement Date (NRD)	First of month coinciding with or next following the attainment of age 65 with five years of pension service.
Service	Length of service includes all service as a school employee for which contributions have been made. This service only includes years for which the member was employed on at least a half-time basis, and includes declared emergency service in the armed forces, provided certain conditions are met. Special provisions allow credit for service prior to 1945 and for up to ten years of service in another State upon payment of required member contributions and earnings.
Pensionable pay	Gross earnings subject to contributions.

Eligibility for Benefits

Deferred vested	Termination for reasons other than death or disability retirement after completing five years of service.
Disability retirement	Retirement by reason of disability.
Early retirement	Retirement before NRD and on or after both attaining age 60 and completing five years of service, or attaining 35 years of service regardless of age, or attaining age 55 and age plus service equals at least 85 (Rule of 85).

Normal retirement	Retire on NRD.
Postponed retirement	Retire after NRD.
Pre-retirement spouse benefit	Death prior to retirement.

Monthly Benefits Paid Upon the Following Events

Normal retirement	Monthly pension benefit determined as of NRD.
Early retirement	Monthly pension benefit determined as of early retirement date, reduced by 3% for each year that commencement of payment precedes age 65 (member must be age 60 with five years of service). Unreduced benefits are available to members who have attained age 55 and whose age plus service is greater than or equal to 85. Benefits payable upon retirement prior to age 60 (based on the 35 year service rule) are actuarially reduced from age 65.
Postponed retirement	Monthly pension benefit determined as of actual retirement date.
Termination with deferred vested benefit	Monthly pension benefit determined as of termination date, reduced by 3% for each month that commencement of payment precedes the earlier of the Rule of 90 or age 65 (Early Commencement requires attainment of age 60).
Disability retirement	Monthly pension benefit determined as of disability retirement date.
Death with pre-retirement benefits	Survivor portion of 100% Joint and Survivor Annuity paid to spouse assuming retirement by member at death if the member is age 65 or has 20 years of service at death. If the member has met the 5-year vesting service requirement, has less than 20 years of service and is under age 65, the spouse may choose between the following two options: (1) a lump sum equal to the member's contributions with interest plus 101% of the member's contributions with interest, and (2) an annuity which equals the survivor portion of the 100% Joint and Survivor value of the member's accrued benefit, payable when the member would have been age 60, or age at death if greater, reduced for commencement before age 65 and the 100% joint and survivor form of payment.

Forms of payment	Pre-retirement death benefits are payable only as described above. Monthly pension benefits are paid under the form of payment elected by the retiree at retirement. Payment forms include: life annuity, five year certain and life annuity, 100% joint and survivor annuity (spouse only), 10-year certain and life annuity, 15-year certain and life annuity, or a modified cash refund annuity.

Funding Arrangement

There are five funds established in the State Treasury, which receive monies and pay the expenses and benefits of the retirement system, as follows:

1. School Retirement Fund which is divided into five accounts:

   A) School Employees Savings Account - receives the required member contributions and pays any contribution withdrawals. Upon retirement, a member's account is transferred to the Annuity Reserve Account. Upon forfeiture, a member's account is transferred to the Contingent Account.

   B) School Employers Deposit Account - receives contributions from the State and applicable employers to fund all formula annuities over the prospective future salaries of eligible members. Upon retirement, the value of a member's formula annuity is transferred to the Annuity Reserve Account.

   C) Service Annuity Account - receives annual deposits from the State to fund service annuities currently being earned and to amortize the unfunded actuarial accrued liability for service annuities by January 1, 1994. Upon retirement, the value of a member's service annuity is transferred to the Annuity Reserve Account.

   D) Annuity Reserve Account - receives transfers of the value of all annuities upon commencement, and pays all annuity benefits.

   E) Contingent Account - receives all interest, dividends, and miscellaneous income, pays all regular interest allocated to the other accounts or funds, and meets any deficiencies occurring in the other accounts or funds.

2. Expense Fund - pays all expenses connected with the operation and administration of the system, and receives annual contributions to cover anticipated expenses.

3. Retired Teachers Supplementary Benefits Fund - pays certain supplemental benefits.

4. School Employees Retirement System Reserve Fund (RSRF) - pays a 3% cost-of-living adjustment to members who ceased employment prior to April 10, 1996 and began receiving benefits as of September 1996. The benefit was funded with .3% of pay matching contributions from employees and School Districts. This fund also pays for refund of employee contributions to future terminated members who request a refund. Effective September 1, 1996, contributions from members and School Districts going to this Reserve Fund will go to the School Employees Savings Account and School Employees Deposit Account.

State Appropriation

LB700, passed in 1996, established a separate fund to provide for cost-of-living benefit adjustments to members ceasing employment on or after April 10, 1996. The COLA increases are 0.3% per year, beginning six years after retirement. This benefit is funded by State contributions. Beginning with the 1996-97 fiscal year, the funding shall be 81.7873% of $6,895,000 or $5,639,235 annually, for each year through the 2010-11 fiscal year.

LB 674, passed in 1999 (effective July 1, 2000), provided for:

- an increase in the formula annuity multiplier from 1.8% to 1.9%,
- an annual cost-of-living increase equal to the CPI-W index, with a maximum of 2% in any one year,
- a minimum floor benefit equal to 75% of the purchasing power of the original benefit and
- the elimination of the School Purchasing Power Stabilization Fund.

The existing assets in the School PPSF were transferred to the School Annuity Reserve Account. The State appropriation to the PPSF as defined above, will be directed to the School Annuity Reserve Account through the 2010 – 2011 Fiscal Year beginning in year 2000.

Benefits Reflected in Valuation

All benefits were valued, excluding the 3% cost-of-living adjustment funded by the RSRF and including future cost-of-living increases as provided for by LB 674.

Plan Provisions Effective after July 1, 2001

No future changes in plan provisions were recognized in determining the GASB 25 funded status and in determining the actuarial soundness of statutory contribution levels.

Changes in Plan Provisions since Prior Year

The following plan provisions have been taken into consideration for the July 1, 2001 valuation. LB 711, effective July 1, 2001, provides for:

- an increase in the formula annuity multiplier from 1.9% to 2.0%,
- an increase in the maximum cost-of-living increase from 2.0% to 2.5% (the 75% purchasing power minimum floor still applies), and
- an enhanced death benefit for members who die after meeting the 5-year vesting service requirement but with less than 20 years of service. The surviving spouse has a choice

between (1) a lump sum consisting of member's contributions with interest plus 101% of member's contributions with interest and (2) a monthly annuity of the survivor portion of the member's accrued benefit with the 100% Joint and Survivor option applied, payable when the member would have been age 60, or age at death if greater.

SUMMARY OF ACTUARIAL METHODS AND PROCEDURES AS OF JULY 1, 2000

A. ACTUARIAL METHODS

1. **Calculation of Normal Cost and Actuarial Liability:** The method used to determine the normal cost and frozen actuarial accrued liability for funding the Service Annuity is the Frozen Entry Age Actuarial Cost Method described below. The method used to determine the normal cost and actuarial liability for funding the Excess Formula Annuity was the Aggregate Actuarial Cost Method described on page 27.

Sometimes called "funding method," a cost method is a particular technique used by actuaries for establishing the amount and incidence of the annual actuarial cost of pension plan benefits or normal cost, and the related unfunded actuarial accrued liability. Ordinarily the actuarially required annual contribution to the plan is the sum of (1) the normal cost and (2) an amortization payment on the unfunded actuarial accrued liability, if any.

Frozen Entry Age Actuarial Cost Method - Service Annuity Funding

Under the Frozen Entry Age Actuarial Cost Method, the excess of the Actuarial Present Value of Future Benefits for all members on the valuation date, over the sum of (1) the Actuarial Value of Assets, (2) the Unfunded Frozen Actuarial Accrued Liability and (3) the present value of future State appropriations, is allocated as a level dollar amount over the expected future service of the membership group between the valuation date and assumed termination or retirement, and is called the Normal Cost. This allocation is performed in the aggregate, not as a sum of individual calculations.

The initial unfunded actuarial accrued liability is determined under the Entry Age Actuarial Cost Method, frozen as of the valuation date, and is referred to as the Unfunded Frozen Actuarial Accrued Liability. Future changes in the actuarial accrued liability due to changes in plan benefits, actuarial assumptions, or methods adjust the Unfunded Frozen Actuarial Accrued Liability. The amount of change or base established as of the valuation date is amortized over a 25 year period. The Unfunded Frozen Actuarial Accrued Liability remaining at each subsequent valuation date is determined after the addition of interest and the deduction of amortization payments.

Under this method, experience gains or losses, i.e., decreases or increases in accrued liabilities attributable to deviations in experience from the actuarial assumptions, adjust future normal costs.

Aggregate Actuarial Cost Method - Excess Formula Annuity Funding

Under the Aggregate Actuarial Cost Method, the Normal Cost is computed as the level percentage of compensation which, if paid from the valuation date until each member's assumed termination or retirement, will, together with assets of the plan and future State contributions (.7% of compensation) accumulate with interest at the rate assumed in the valuation to a Fund sufficient to pay all benefits under the plan.

The present value of future normal costs is equal to the (i) actuarial present value of future benefits, less (ii) the actuarial value of assets, less (iii) the present value of future State contributions. This amount is divided by the actuarial present value of future member compensation to determine the total Normal Cost rate. The employee rate is 49.75% of the total rate with employers paying 101% of the employee rate pursuant to Section 79-1522.01 of the Nebraska State Statutes.

Under this method, experience gains or losses, i.e. decreases or increases in accrued liabilities attributable to deviations in experience from the actuarial assumptions, adjust future normal costs.

2. **Calculation of the Actuarial Value of Assets:** The actuarial value of assets is based on a five-year smoothing method and is determined by spreading the effect of each year's investment return in excess of or below the expected return. The Market Value of assets at the valuation date is reduced by the sum of the following:

   (i) 80% of the return to be spread during the first year preceding the valuation date.

   (ii) 60% of the return to be spread during the second year preceding the valuation date.

   (iii) 40% of the return to be spread during the third year preceding the valuation date.

   (iv) 20% of the return to be spread during the fourth year preceding the valuation date.

   The return to be spread is the difference between (1) the actual investment return on Market Value and (2) the expected return on Actuarial Value. The Actuarial Value is determined using the total assets of the System, and is then allocated on a pro-rata basis to each reserve fund and account using Market Value. Effective July 1, 2000, the expected return on Actuarial Value includes interest on the previous year's unrecognized return.

3. **Calculation of Pension Benefit Obligation:** The method used to determine the Pension Benefit Obligation was the Projected Unit Credit Actuarial Cost Method without service proration. Under this method, the benefit is based on salary projected to assumed termination or retirement and service as of the valuation date.

B. VALUATION PROCEDURES

No actuarial liability is included for participants who terminated without being vested prior to the valuation date, except those due a refund of contributions.

The compensation amounts used in the projection of benefits and liabilities for active members were prior plan year compensations increased one year with the salary scale.

In computing accrued benefits, average compensation was determined by applying the salary scale assumption to most recent compensation to construct any missing salary history.

Projected benefits were limited by the dollar limitation required by the Internal Revenue Code Section 415 as it applies to governmental plans and compensation limited by Section 401(a)(17).

There were approximately 1,100 active participants with missing dates of birth and gender codes. They were assumed to be age 33 (the average entry age for the group as a whole) and gender codes were randomly assigned in the ratio 75% female/25% male.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL SYSTEM

SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JULY 1, 2001

ECONOMIC ASSUMPTIONS

1. Investment Return — 8% per annum, compounded annually, net of expenses.

2. Inflation — 3.8% per annum, compounded annually.

3. Salary Increases — Rates vary by age. Sample ages are as follows:

Age	Rate
25	8.20%
30	7.40%
35	6.70%
40	6.20%
45	5.70%
50	5.20%
55	4.85%
60	4.60%
65+	4.50%

4. Interest on Employee Contributions — 6% per annum, compounded annually.

DEMOGRAPHIC ASSUMPTIONS

1. Mortality
   a. Healthy lives - active and retired members and beneficiaries — 1994 Group Annuity Mortality Table, without setback.

   b. Disabled lives — 1971 Group Annuity Mortality Table, without setback.

c. Mortality rates under the mortality tables are shown below at sample ages:

	Mortality Rate			
	Healthy Members		Disabled Members	
Sample Age	Males	Females	Males	Females
30	.08%	.04%	.08%	.05%
40	.11	.07	.16	.09
50	.26	.14	.53	.22
60	.80	.44	1.31	.55
70	2.37	1.37	3.61	1.65
80	6.20	3.94	8.74	5.61

d. Life expectancies under the mortality tables are shown below at sample ages:

	Life Expectancy (Years)			
	Healthy Members		Disabled Members	
Sample Age	Males	Females	Males	Females
30	49.7	54.3	45.6	51.0
40	40.1	44.5	36.0	41.3
50	30.7	34.9	26.9	31.8
60	21.8	25.6	18.8	23.5
70	14.3	17.3	11.9	15.3
80	8.4	10.3	7.0	8.9

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL SYSTEM

2. Retirement:

Rates vary by age and eligibility for unreduced benefits. Rates are as follows:

Year Eligible	Select Rates While Eligible for Unreduced Benefits*
1st	25%
2nd	35%
3rd	30%
4th - 7th	25%

*Available under Rule of 85 with minimum age 55.

Ultimate Rates and Eligible for Reduced Benefits		
Age	**Male**	**Female**
60	5%	8%
61	10%	8%
62	25%	20%
63	25%	15%
64	25%	15%
65	40%	30%
66	30%	25%
67	30%	25%
68	30%	25%
69	30%	25%
70	100%	100%

3. Termination:

Rates vary by age and service. Select rates are applied by service and ultimate rates are applied by age. Sample rates are as follows:

Select Rates by Service:	
Years of Service	**Rate**
1	25%
2	20%
3	13%

Ultimate Rates by Age		
	Rate	
Age	**Male**	**Female**
25	11.4%	11.9%
30	6.2%	8.2%
35	4.1%	6.1%
40	3.3%	4.7%
45	2.7%	4.2%
50	2.6%	3.9%
55	3.2%	4.5%
60	9.6%	9.0%

4. Disability:

Rates vary by age. Sample rates are as follows:

Age	Rate
25	.00%
30	.00%
35	.12%
40	.12%
45	.24%
50	.35%
55	.53%
60	.71%

OTHER ASSUMPTIONS

1. Form of Payment:	Service annuity - Life annuity Formula annuity - Five year certain and life annuity.
2. Marital Status	
a. Percent married	85% married
b. Spouse's age	Females assumed to be three years younger than males.
3. Administrative Expense	Investment return is assumed to be net of expenses.
4. Commencement age for deferred vested benefit	Age 62.
5. Cost of Living Adjustment	2.5% per annum, compounded annually, and 3.8% per annum, compounded annually, after reaching 75% purchasing power floor benefit.

Note: None of the actuarial assumptions have been changed since the last actuarial valuation was performed as of July 1, 2000.