



North Carolina
Total Retirement Plans



Dale R. Folwell, CPA
STATE TREASURER OF NORTH CAROLINA
DALE R. FOLWELL, CPA

MINUTES

BOARD OF TRUSTEES OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM

The regular quarterly meeting of the Board of Trustees was called to order at 9:00 a.m., January 25, 2024, by the Chair, State Treasurer Dale R. Folwell, CPA. The meeting was held in the Dogwood Conference Room of the Longleaf Building at 3200 Atlantic Avenue, Raleigh, NC 27604. The Chair thanked the members of the Board for their service. The Chair indicated there would be a public comment period for organizations and individuals to address the Board later in the agenda.

The Chair dedicated the meeting of the State and Local Boards to the family, friends, and greater law enforcement community of deceased Sergeant Philip Dale Nix of the City of Greensboro Police Department, who was murdered while protecting the personnel and property of a private business on December 30, 2023. Mayor Nancy Vaughan of the City of Greensboro, a Local Board member, stated that Sergeant Nix was a beloved member of the community, and an extraordinary human being who advocated for victims of child abuse, elder abuse, and domestic violence. Mayor Vaughan stated that it was a difficult time for the City of Greensboro but that the support of all those present was appreciated.

Members Present in Person or via Telephone

Treasurer Dale R. Folwell, Janet Blount (by telephone, designee for Catherine Truitt), Lentz Brewer (via telephone), John Ebbighausen, Vernon Gammon, Barbara Gibson, Pat Hurley, Margaret Reader, and Jeffrey Winstead.

Members Absent

Oliver Holley and Joshua Smith.

Guests in Attendance in Person or via Telephone

Mary Scruggs with the North Carolina Department of Justice; Michael Ribble and Elizabeth Wiley with Buck, a Gallagher Company; Linda Gunter with the North Carolina State Retired School Personnel, Blake Thomas with the North Carolina Office of State Human Resources, Steven Anthony with the Southern States Police Benevolent Association, Erin Wynia with the North Carolina League of Municipalities, Chris Nida with the North Carolina League of Municipalities (via telephone), David Vanderweide with the staff of the North Carolina General Assembly (via telephone); and Tim O'Connell with the North Carolina Retired Governmental Employees' Association.

Department of State Treasurer Staff Present in Person or Via Telephone

Cindy Aiken (via telephone), Tonya Bass, Ted Brinn, Thomas Causey, Reid Chisholm (via telephone), Robin Deaver, Christy Farrelly, Deb Forry (via telephone), Ben Garner, Patti Hall (via telephone), Elizabeth Hawley,

Beth Horner (via telephone), Patrick Kinlaw, Frank Lester, Thomasina Lockley, Richard Lopez, Taylor Matyi (via telephone), Timothy Melton, Christopher Morris, Lisa Norris, April Parker (via telephone), Laura Rowe (via telephone), Michael Wagner, Sam Watts, and Dan Way (via telephone).

Ethics Awareness and Identification of Conflicts or Potential Conflicts of Interest

The Chair asked, pursuant to the ethics rules, about conflicts of interest of board members. No conflicts of interest were identified by the board members.

Approval of the State Minutes from the October 26, 2023 Board Meeting

Vernon Gammon moved the Board to approve the minutes of the October 26, 2023, Board meeting, Pat Hurley seconded the motion, and the minutes were approved by a unanimous vote of 9-0.

Operations, Member Services, and Compliance Update

The Chair recognized Rick Lopez, Director of Operations for an update on the Division's operations. Mr. Lopez began by acknowledging that his team does a lot of work with few staff but the team remains focused on the quality of the work and recognizing and treating individual requests as if it were someone in our own family. Mr. Lopez moved on to discuss the Retirement Processing Section noting a total staff of 29 analysts and QC's. Mr. Lopez stated that in 2023 the team processed nearly 16,000 retirements compared to 17,058 retirements in 2022. Mr. Lopez moved on to note that in January of 2023 RSD had over 2,300 retirement requests compared to 2,500 requests made in January of 2024. Mr. Lopez briefly discussed that January 2024 marked the beginning of the legislative change where a retiree's first payment is made via direct deposit. Mr. Lopez discussed the staffing and responsibilities of the survivors' benefit section. Mr. Lopez noted that RSD receives an average of 200-300 disability applications a month. Mr. Lopez discussed the payroll processing section noting in December of 2023 RSD paid out over \$613 million in retirement benefits.

The Chair recognized Tonya Bass for a presentation on the metrics for Member Services. Ms. Bass began by discussing the Educational Retirement Group (ERG) noting that during 4th Quarter 2023 the team conducted over 131 counseling session, assisted over 458 visitors at the front desk, and from fiscal year to date conducted over 58 webinars with over 6,000 attendees. Ms. Bass further noted that in 4th Quarter 2023 the ERG team responded to over 19,000 emails with a reduction in turnaround times of 16%. Ms. Bass moved on to discuss the call center noting that during 4th Quarter 2023 the average speed of answer was reduced from 8 minutes and 36 seconds to 2 minutes and 57 seconds and staff saw a 38% decrease in call volume while maintaining a 3.2% abandonment rate.

The Chair recognized Director of Policy, Planning & Compliance, Patrick Kinlaw. Mr. Kinlaw encouraged the Boards to review the presentation slide providing a standard update on Contribution-Based Benefit Cap liabilities. By way of other updates, Mr. Kinlaw began by recognizing staff member Thomasina Lockley for 37 years of service to the Retirement Systems, noting that she is moving on to work with the State Health Plan Division of the Department. Mr. Kinlaw then informed the Boards that all seven of RSD's eligible pension plans received the Public Pension Coordinating Council's Standards Award, which recognizes systems that demonstrate a high level of plan design, funding practices, member communications, and other administrative practices. Mr. Kinlaw described three items in the appendix to the meeting materials: the State of North Carolina's 2023 Annual Comprehensive Financial Report, a memorandum regarding the 2024 reemployment earnings limitation for retirees working in non-membership positions for a system employer, and the report that Gabriel Roeder Smith & Company, or GRS, prepared for the Office of the State Auditor providing an actuarial review of relevant 2023 accounting disclosures.

Mr. Kinlaw stated that later in the meeting, the Board's consulting actuaries from Buck would be presenting updated projections of funding requirements for the State and Local systems based on the Investment Management Division's best estimate for the full year 2023 rate of investment return, which was +10.2%. Mr. Kinlaw reminded the Boards that the most recent official measurements of the unfunded actuarial accrued liabilities were approximately \$11 billion for the State System and \$4 billion for the Local System. Mr. Kinlaw observed that the full year 2023 rate of investment return of +10.2% did not reach the level that Buck, in their most recent actuarial valuation reports, stated would have been necessary to say there were actuarial investment gains as of December 31, 2023.

Mayor Nancy Vaughan of the Local Board stated her appreciation for this information about investment performance. Mayor Vaughan then moved to direct RSD staff to prepare a "regular written report to accompany the verbal report on investment performance since it is integral to the discussions of the Board related to the ECRSP and COLAs." Jeffrey Morse of the Local Board seconded the motion, and the motion passed the Local Board by a vote of 8 to 3. Following the Local Board's vote on this motion, the Chair directed RSD staff to prepare a similar report for the State System.

Mr. Kinlaw then provided information related to recent discussions with the City of Raleigh regarding how the City calculates creditable service derived from unused sick leave under an "additional sick leave" policy. Mr. Kinlaw also described a memorandum that RSD staff sent to all local government employers to provide a reminder of the statutory requirements for this type of calculation. Mr. Kinlaw stated that RSD relies on individual employers to do these calculations based on their own duly adopted policies, and it is important that they do the calculation correctly, because there are about 900 local governments in the Local System but only one set of governing laws, and one contribution expectation that applies to all employers. Mr. Kinlaw thanked fellow RSD staff members who spoke up about this topic even when it was not easy. Mr. Kinlaw expressed RSD staff's gratitude to the City of Raleigh staff and leadership for coming forward and discussing a resolution to their specific situation. Mr. Kinlaw closed by providing an update on the administrative situation regarding the provision of the 2023 State budget law that no longer allows new employees of the University of North Carolina Health Care System and certain parts of East Carolina University to join TSERS.

Update on the Investment Advisory Committee (IAC) Meetings

The Chair recognized Lentz Brewer to provide an update on the IAC meetings. Mr. Brewer stated that the Investment Advisory Committee (IAC) last met on November 15, 2023, to discuss the performance through the quarter ending September 30, 2023. Mr. Brewer stated as of September 30, 2023, the total assets of the Retirement Systems were \$111 billion which was a decrease of roughly \$3 billion from the prior quarter end. Mr. Brewer noted that as of calendar year-end 2023 the market value of the Retirement Systems was about \$118 billion. Mr. Brewer noted that the quarter ending December 31, 2023, had strong performance with investments earning close to 6.8%, derived from strong returns from both equities and fixed income. Mr. Brewer stated for calendar year 2023 the plan returned approximately 10.2%. Mr. Brewer noted the plan is down 50 basis points so far for calendar year 2024.

Actuarially Determined Employer Contribution (ADEC) Projections

The Chair recognized Michael Ribble and Elizabeth Wiley from Buck Global LLC for a presentation on the ADEC projections. Ms. Wiley presented charts demonstrating the effect of the actual investment return during the calendar year 2023, which was estimated to be 10.2%. Ms. Wiley stated that if all assumptions are met in

2024 and beyond, the actuarially determined employer contribution rates would increase through fiscal year ending 2029, before stabilizing or declining, and the funded ratio would reach 100% by the end of 2036.

Presentations on the 2024 Alternatives for the General Assembly

The Chair recognized Patrick Kinlaw to present the recommendations to the General Assembly for the contribution rates and contribution amounts to fund the Retirement Systems effective July 1, 2024. Mr. Kinlaw began by noting that the recent State budget law (S. L. 2023-134) covers the biennium for the fiscal years ending in 2024 and 2025. Mr. Kinlaw stated that the contribution rates and amounts set by S.L. 2023-134 for the fiscal year ending in 2025 are sufficient according to the most recent annual actuarial valuations. Mr. Kinlaw noted that based on Buck's most recent actuarial reports, the investment performance during 2023 was not sufficient to establish actuarial investment gains to support the cost of a benefit improvement or one-time supplement. Mr. Kinlaw stated that staff does not believe any changes are necessary to ensure sufficient funding during the second year of the biennium for TSERS, the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), or the Disability Income Plan of North Carolina (DIPNC). Mr. Kinlaw moved on to discuss two substantive issues for the Board to consider, beyond what was already enacted through S.L. 2023-134. The first question was whether to recommend a benefit improvement under the North Carolina National Guard Pension Fund (NCNGPF) given that there is currently no unfunded liability for the plan. Mr. Kinlaw stated the second question to consider was whether to amend the funding policy for the NCNGPF to request a contribution of more than \$0 in the upcoming fiscal year. Mr. Kinlaw stated that staff recommends the Board recommend a benefit improvement from between \$108 to \$116 and that the Board amend the funding policy to recommend the State contribution be at least equal to the normal cost.

John Ebbighausen made a motion to approve the staff recommendations for the retirement systems under the oversight of the State Board, including the recommendations on page 11 of the "State Alternatives" document pertaining to the NCNGPF. These recommendations were that G.S. 127A-40(a) be amended to change \$105 to \$108, \$10.50 to \$10.80, and \$210 to \$216; and in Section IV of the NCNGPF State Contribution Rate Stabilization Policy, in the sentence stating, "If the Funded Percentage is greater than or equal to 100%, the Policy Contribution Without Benefit Increase recommended by the Board for an upcoming fiscal year will be equal to the Underlying ADEC," to strike the words "the underlying ADEC" and replace them with the words "the Normal Cost used to calculate the Underlying ADEC, including any provisions included in the Normal Cost for anticipated new entrants and administrative expenses, and including any increase to the Normal Cost from a benefit improvement after the publication of the actuary's report." Jeffrey Winstead seconded the motion and the motion passed by unanimous vote of 9-0.

Public Comments

The Chair recognized Tim O'Connell with the North Carolina Retirement Governmental Employees' Association for comments on the legislation related to UNC Health and certain parts of East Carolina University, and on the level of retirement benefits.

The Chair recognized Erin Wynia from the North Carolina League of Municipalities for comments on the sustainability of employer contribution rates in the Local System.

The Chair recognized Steve Anthony, a retired State Law Enforcement Officer, working for the Southern States Police Benevolent Association, for comments on creditable service derived from sick leave in the Local System. Mr. Anthony also thanked the Chair for his public recognition of the sacrifice of Sergeant Nix.

The Chair recognized Blake Thomas, General Counsel for the North Carolina Office of State Human Resources, for comments on a financial educational training program operated by a State vendor.

The Chair recognized Linda Gunter, with the North Carolina State Retired School Personnel, for comments on the legislation related to UNC Health and certain parts of East Carolina University.

Board of Trustees Comments

The Chair thanked the organizations and individuals who attended the meeting, including those who provided public comment.

Adjournment

There being no further business before the Board, Vernon Gammon moved to adjourn the meeting. John Ebbighausen seconded the motion and the motion passed by unanimous vote of 9-0. The meeting was adjourned in honor of Sergeant Philip Dale Nix at 11:57 a.m.