



DRAFT 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 9:30 a.m., July 26, 2018, 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 acknowledged the new members of the Board to be sworn in and indicated there would be a public comment period for organizations and individuals to address the Board later in the agenda.

Members Present

The board members present were: Treasurer Dale R. Folwell, CPA, Lentz Brewer, John Ebbighausen, Vernon Gammon, Dirk German, Barbara Gibson, Linda Gunter, Oliver Holley, Claire Miller (on behalf of Superintendent Mark Johnson), Margaret Reader and Jeffrey Winstead.

Member Absent

The board member absent was Greg Patterson.

Guest Present

The guest attending was Michael Reid with CEM Benchmarking.

Department of State Treasurer Staff Present

The staff members present were: Steve Toole, Thomas Causey, Joan Fontes, Jaclyn Goldsmith, Sam Hayes, Timeka Holden, Patrick Kinlaw, Fran Lawrence, Tawnya Lowe, Karah Manning, Maja Moseley, Lisa Norris, Vicki Roberts, Laura Rowe, David Starling, Edgar Starnes, Christina Strickland and Sam Watts.

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.

The Chair presented to the Board the Statement of Economic Interest (SEIs) evaluations of Board members pursuant to the Ethics Act of N.C.G.S. §163A-159(c). He stated that a copy of each member's most recent SEI evaluation issued by the State Board of Elections and Ethics was included in the materials for recording in the meeting minutes consistent with the

requirements of the State Government Ethics Act. He encouraged members to review the evaluations to remind them of the identified actual or potential conflicts of interest.

Introduction and Swearing-in of New Members of the Board of Trustees of the Teachers' and State Employees' Retirement System

The Chair introduced Mr. Cecil Vernon Gammon as a new member on the Board. Mr. Gammon was appointed by Governor Cooper to the Teachers' and State Employees' Retirement System Board of Trustees and the Local Governmental Employees' Retirement System Board of Trustees. Mr. Gammon serves on the Board as a member of the General Public with an appointment date of February 9, 2018, and his term on the Board expires March 31, 2021. Mr. Gammon was sworn in on March 2, 2018.

The Chair introduced Mr. David L. (Dirk) German as a new member on the Board. Mr. German was appointed by Governor Cooper to the Teachers' and State Employees' Retirement System Board of Trustees and serves on the Board as a law enforcement officer employed by the state with an appointment date of February 7, 2018, and a term expiration on March 31, 2021. Mr. German was sworn in February 21, 2018.

Approval of State Minutes from the April 26, 2018 Meeting

It was moved by John Ebbighausen, seconded by Oliver Holley and carried unanimously that the state minutes from the April 26, 2018, meeting be approved.

Retirement Systems Division Operations, Member Services and Compliance Update

The Chair recognized Thomas Causey, Deputy Director of Operations, for an update on the Retirement Systems' operations. Mr. Causey reported that retirements remain flat since February; however, turnaround times for processing retirement applications has risen to 25 days due to loss of long-term staff during the first quarter of calendar year 2018. He reported that the retirements-paid-on-time goal is currently 99.8 percent for retirement applications received 60 days prior to the retirement date, and the overall-paid-on-time goal is currently at 80 percent for all retirement applications regardless of date received. Mr. Causey reported that the Benefit Processing team is meeting their goal for death notification and close out of workflow by averaging closing of death workflow in approximately 16.4 days after notification, exceeding the goal of 27 days. Mr. Causey provided an update on disability applications, stating that processing of disability applications and paying claims in 16.9 days is exceeding the goal of 35 days for disability applications paid. He stated that RSD recently recruited a temporary nurse consultant to assist with review of supporting medical documentation.

Mr. Causey stated that refund requests are currently processed within 10.5 days, and the team paid about 23,000 refunds in the past year compared to about 19,000 refunds in the year prior. He gave an update on payroll processing, stating that the Payroll team is now processing more than 314,000 payees with over \$507 million paid monthly. Lastly, Mr. Causey reported on ORBIT Self-Service activity and stated that the team is on track to implement retirement online self-service capabilities later this year. Additionally, the team is developing the process for online submission of member contribution documents for the Firefighters' and Rescue Squad Workers' Pension Fund.

There was a discussion about retired teachers returning to work and the importance of effective communication to members regarding return-to-work laws. There was a discussion about the tools available to the department for verification of address.

The Chair recognized Vicki Roberts, Deputy Director of Member Services, for a presentation on the metrics for Member Services. Ms. Roberts gave a report on correspondence, stating that the counselors within the Education Retirement Group (ERG) responded to over 29,000 letters and emails with an average response time of 2.6 days over the past year. She updated that ERG counselors held conferences and webinars that reached out to 13,136 individuals this year to date, and counselors also assisted over 5,600 people with their retirement inquiries during scheduled and unscheduled one-on-one counseling sessions. Ms. Roberts gave a report on the Call Center service metrics, stating that the Call Center handled over 273,000 calls for the year and averaged an 80.4 percent service level, exceeding the goal of 65 percent and achieving the best service level results since the team started reporting and tracking it 10 years ago.

The Chair recognized Patrick Kinlaw, Director of Policy, Planning and Compliance, to give a report on compliance and overpayments. Mr. Kinlaw reported on the Contribution-Based Benefit Cap (CBBC) liabilities, noting that 173 retirements required additional employer contribution based on the CBBC as of July 5, 2018. The total CBBC liability invoices are \$15.4 million and range individually in cost from \$2,606.06 to \$590,694.32. He reported that 138 employers have paid in full, with three employers on an installment payment plan and that the total CBBC liabilities collected exceed \$11.1 million. There was a discussion about the monthly reporting from the department to impacted employers.

Mr. Kinlaw presented on the overpayments being collected by RSD, stating that \$12.3 million have been collected over the past 13 months.

Presentation on Member Statements

The Chair recognized Steve Toole, Executive Director, to present on the new Total Benefits Statement and the enhanced *myNC* Retirement Statement. Mr. Toole reported that the goal of the new Total Benefits Statement is to ensure members understand the overall value of their employment with their state or local employer by showing the cost of the benefits that are paid by the employee's participating employer along with their annual compensation. This information can be found on each employee's ORBIT Self-Service account. Mr. Toole presented on the enhanced *myNC* Retirement Statement, formally the "Annual Benefit Statement". He stated that the enhanced statement is a customized snapshot that outlines the individual member's progress towards achieving retirement security, as well as showing the overall value of their employment. He stated that to date, there have been over 67,000 member statements accessed.

Presentation on the Defined Benefit Administration Benchmarking Analysis Report, as Prepared by CEM Benchmarking

The Chair recognized Michael Reid, Vice President of CEM Benchmarking, to give a presentation on the benchmarking results for the Defined Benefit Administration relative to its peers. Mr. Reid presented that the North Carolina Retirement Systems were the fourth largest in the peer group, and the administration cost was \$23 per active member and annuitant, \$70

below the peer group average of \$93 and among the lowest in CEM's global universe. He reported that the primary reasons the costs were lower were: lower costs per full-time employee (FTE); higher transactions (productivity) per FTE; and, lower IT and major project costs as a whole. He reported that North Carolina's costs in 2017 were consistent with similar studies analyzing costs in 2013 and 2015. Mr. Reid reported to the Board on the service score, which is based on member transactions and member communication from the member perspective. He reported that the NC Defined Benefit Administration scored a 70, which was below the peer median of 80. The reasons for the score were focused on the longer wait times in the Call Center and limiting one-on-one counseling sessions offered to members nearing retirement. Similar to the cost score, the service score has remained steady since 2013.

There was Board discussion about the costs to administer the North Carolina Retirement Systems and how the simplicity of the plans has contributed to overall cost effectiveness and success.

Update on the 2018 Short Session of the North Carolina General Assembly

The Chair recognized Edgar Starnes, Senior Policy Advisor, and Sam Watts, Policy Development Analyst, to give a review and update on the 2018 Short Session of the North Carolina General Assembly. Mr. Watts presented that the North Carolina General Assembly acted on 15 bills affecting the Retirement Systems or State Health Plan that were considered this session. Eight of those were enacted into law, granting 89 percent of the department's requests. Mr. Watts reported that the North Carolina General Assembly fully funded all retirement systems per the Boards' recommendations, and created the Solvency Fund to accumulate funds to address unfunded pension and health liabilities. Changes to retirement appropriations consumed 24 percent of the state's net increase in spending this year. He reported on the benefit policy changes, including that retirees in the state pension systems will receive a one percent one-time pension supplement payment by October 2018; law enforcement officers will be provided with a 25-year reduced benefit retirement payment option; and, the public safety line of duty death benefit is doubled to \$100,000 and is expanded to include more workers.

Mr. Starnes provided further explanation of House Bill 651 (Session Law 2018-30), which establishes the "Unfunded Liability Solvency Reserve" as a reserve within the General Fund that will be used to accumulate funds during the fiscal year to be used to reduce the state's unfunded pension and retiree medical benefit liabilities during the next fiscal year.

Legislative Enactment Implementation Arrangement (LEIA)

The Chair recognized Patrick Kinlaw, Director of Policy, Planning and Compliance, to provide an update on the LEIA implementation and statement of activity. Mr. Kinlaw stated that the LEIA is to provide timely administrative implementation of any legislative provision regarding the retirement of, or payment of retirement benefits to, public officers or public employees that has a cost savings as measured by actuarial note, and that the Board of Trustees may direct up to one-hundredth of a percent (0.01%) out of the required employer contribution rate to fund the LEIA. He noted that per Session Law 2017-129, the Department of State Treasurer shall report to the Board of Trustees, the Joint Legislative Commission on Government Operations and the Fiscal Research Division on the amounts and sources of funds collected by year and the

amounts expended, the projects for which those funds were expended and the current status of projects under the criteria set forth in N.C.G.S. §135-7(h).

Mr. Kinlaw reported that as June 30, 2018, the Department of State Treasurer has not identified any legislation (including legislation enacted during the 2018 Short Session) that has resulted in implementation projects eligible for LEIA expenditures under the criteria set forth in N.C.G.S. §135-7(h).

It was moved by Lentz Brewer, seconded by Linda Gunter and carried unanimously that the LEIA report for TSERS be approved.

Update on the Investment Advisory Committee Meetings

The Chair recognized Board member Lentz Brewer to provide an update on the Investment Advisory Committee (IAC) Meetings. Mr. Brewer presented on the outcomes of the May 17, 2018, IAC meeting. He reported that Assets under Management for the North Carolina Retirement Systems was \$97.9 billion as of March 31, 2018, down approximately \$400 million from year end. He reported on the asset allocations, stating that Growth equity is underweight by 3.76 percent and Rate and Equity is overweight by 3.35 percent. Mr. Brewer stated that the NC Retirement Systems had a positive return over the first quarter, exceeding its benchmark. He remarked that the plan continues to perform well versus its implementation benchmark over multiple time periods, including both shorter term and longer term timeframes. Lastly, Mr. Brewer stated that the department's Investment Management Division continues to deliver on its mission of maximizing returns with less risk than its peers and to be exceptional stewards of the retirees' funds.

Update on the Transition of Actuarial Services to Cavanaugh Macdonald Consulting

The Chair recognized Patrick Kinlaw, Director of Policy, Planning and Compliance, for a presentation on the transition of the actuarial services to Cavanaugh Macdonald Consulting (CMC). Mr. Kinlaw reported that good progress continues to be made in transitioning actuarial services to CMC. He stated that the actuary is replicating the valuation results of all retirement, disability and death benefit programs. He discussed the variance inherent in transition where differences in process, programming or interpretation may arise in the replication to some degree of variance and will always occur when transitioning systems of TSERS' or LGERS' size and complexity. CMC expects variance to be well within the acceptable tolerance levels and continues to work to minimize the variances. Mr. Kinlaw reported that when determining the employer contribution rates, generally any transition variance would be viewed as an "experience gain or loss" whose effect is amortized. He stated that even a seemingly small variance can translate to a meaningful change in the contribution rate as a percentage of pay. He reviewed a hypothetical experience of the variance inherent in transition showing the impact to the Actuarially Determined Employer Contribution (ADEC) to the Employer Contribution Rate Stabilization Policy (ECRSP). Lastly, Mr. Kinlaw reported that CMC continues to finalize the transition, supported by RSD and the prior actuary, and CMC will report to the Boards at the October meeting regarding final variances from the transition as part of the year-end 2017 valuation results that will be presented at that meeting.

Public Comment Period

The Chair asked if there were any public comments prior to adjournment of the meeting. It was stated that there were no public comments.

Adjournment

There being no further business before the Board, Vernon Gammon moved to adjourn, which was seconded by Dirk German and the meeting adjourned at 11:36 a.m.

Chair

Secretary