

**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 20, 2017, by the Chair, 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.

Members Present

The Board members present were: Treasurer Dale R. Folwell, Lentz Brewer, Van Dowdy, Barbara Gibson, Greg Grantham, Michael Mebane (by phone), , Greg Patterson, Margaret Reader, Joshua Smith, Jeffrey Winstead.

Members Absent

The absent board members were: Claire Miller (on behalf of Superintendent Mark Johnson).

Guests Present

The guests attending were: Robert Curran, from the Attorney General's Office; Michael Ribble from Conduent Consultants (by phone); Michael McCann from Prudential Retirement Services (by phone); and Lacy Presnell and Pam Deardorff from the North Carolina Retired School Personnel Association.

Department of State Treasurer Staff Present

The staff members present were: Steve Toole, Donna Boyette, Thomas Causey, Cindy Esparragoza, Sam Hayes, Matthew Krimm, Fran Lawrence, Karah Manning, 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.

Introduction and Swearing In of Board Members

Jeffrey Winstead, Joshua Smith and Margaret Reader were sworn in as new members of the Board.

Approval of Resolution of Appreciation for the Service of John Aneralla, Veronica Wright, Jack Brooks and Terry McCann

It was moved by Greg Grantham, seconded by Lentz Brewer and carried unanimously that the resolution of appreciation for the outstanding service of John Aneralla, Veronica Wright, Jack Brooks and Terry McCann be approved.

Approval of the Minutes from the April 20, 2017 Board Meeting

It was moved by Greg Patterson, seconded Van Dowdy and carried unanimously that the minutes from the Board meeting held on April 20, 2017, be approved.

Retirement Systems Division Operations

The Chair recognized Thomas Causey, Deputy Director of Operations, and Vicki Roberts, Deputy Director of Member Services, for an update on Retirement System operations. Mr. Causey reported on the retirement processing metrics, stating that 100 percent of retirement applications are paid-on time if received in 60 days. Retirement processing turnaround time is 17 days for the month of May, a historical low.

Mr. Causey detailed the benefit processing metrics stating that disability applications turnaround times are meeting goals during the time of year when Statement of Income forms for about 11,000 members are processed within the same team. Death notifications have increased for the months of March and April; however, the team is exceeding their goal turnaround time. Mr. Causey stated that the refund requests have exceeded their turnaround time goal during a time of less requests. He expects this number to rise as the school year ends and expects an increase in the turnaround time.

Mr. Causey reported on payroll processing stating that the team has seen an increase in both the dollar amounts processed and the amount of members receiving checks. In the month of May, payroll processing processed \$485 million with 304,000 members receiving checks. The dollar amount is expected to grow in July when the COLA increase for TSERS, Consolidated Judicial Retirement System and Legislative Retirement Systems takes effect. There will also be an addition of 4,000 new retirees in July.

Mr. Causey concluded his operations remarks with operational project updates. He stated that there is increased use of ORBIT Self-Service by our members. The team continues to work on the Fire and Rescue redesign to allow those members and employers access to self-service. In addition, the team is working on the Retirement Online Project to allow members to apply for retirement online. Workflow was successfully updated in May with rules that are more consistent and allow more manager control to free up IT resources. The update occurred with no impact to processes.

Ms. Roberts reported that the influx of documents from tax season has tapered off with the March peak adding 10,000 pages to image. Despite the increase, the team processed incoming documents in less than a day.

Ms. Roberts continued her report with the Educational Retirement Group (ERG). ERG's correspondence has decreased from March to May with 7,200 letters sent to members. The team sent responses in under 10 days with the exception of the March peak period. With the decreased volume of correspondence, the counsellors assisted with approximately 1,000 calls. The counselors held 160 retirement readiness meetings through May and increased their daily meeting times through June, thus increasing the number of meetings to 179. Lastly, the counselors held 460 one-on-one scheduled counseling session, and attended to over 1,000 unscheduled visitors from March through May.

Ms. Roberts completed her remarks with call center metric updates. For the months of March through May, call center call volume has been reduced by over 10,000 calls. The goal service level was exceeded with 84% of calls being answered in 60 seconds or less. With the decrease in volume, the team has been able to concentrate on training, hiring, and customer service. There has been a concerted effort to get members' information faster by posting the Interactive Voice Response map online, posting instructional videos online, posting payroll information to Facebook, and adding the ability to report a death online.

The Board discussed the timing of the metrics since data for operations and member services is only listed through May. The Board requested monthly reports to act on information in a more timely fashion. The Board also discussed the timing of the 4,000 new retirees. Staff responded that the trend has been pushing more retirements into July instead January, but the total number has remained consistent. Staff agreed to provide monthly results to the Board.

Mr. Causey presented the policy, planning and compliance metrics. He stated that the team has collected over \$9.5 million in the past 13 months. The team is working on automating the process of sending letters to affected employers. He continued to report that the Contribution-Based Benefit Cap (CBBC) liabilities are currently being reviewed and invoiced. Over \$7 million has been collected with a total of \$10.6 million assessed. Several employers have begun recurring payments.

#### Update on Legislation that affects the Retirement Systems Division

The Chair recognized Edgar Starnes, Senior Policy Advisory and Legislative Liaison, and Sam Watts, Policy Director for the Retirement Systems Division, to provide an update on current legislation affecting the Retirement Systems Division. Mr. Starnes updated the board on the budget provisions, which included the following:

- 1 fulltime IT person for ORBIT upgrades
- \$431,000 during '17-'18 fiscal year for ORBIT system enhancements
- \$475,000 during '18-'19 fiscal year for ORBIT system enhancements
- Three vacant positions assigned to ABLE were eliminated.
- Esophageal Cancer will be covered as a line of duty death benefit for Firefighters
- 1% COLA for TSERS, Judicial and Legislative Systems
- Addition of Probation & Parole Officers to definition of Law Enforcement Officers for benefit purposes
- Study compensation and benefits of State Employees (Treasurer chairs this committee)

Mr. Starnes gave an update on ratified legislation that would affect the Retirement Systems Division. He presented:

- House Bill 115, "Retirement Technical Corrections Act", which would make technical and conforming changes to the laws governing the Teacher's and State Employees Retirement System (TSERS), the Local Government Employees' Retirement System (LGERS).
- House Bill 176, "Pensions Integrity Act", which would make changes to assist in preventing and detecting fraud, waste, and abuse and ensure fiscal integrity of the Teachers' and State Employees' Retirement System (TSERS), the Retiree Health Benefit, and the Local Governmental Employees' Retirement System (LGERS).
- House Bill 183, "Retirement Administrative Changes Act", which would make clarifying and administrative changes to the teachers' and state employees' retirement system and the local government employees' retirement system laws and related statutes.
- House Bill 256, "Appointments Bill", which appointed the following board members:

- Speaker Appointment : Michael Greg Patterson (TSERS)
- President Pro Tempore Appointment: W. Lentz Brewer (TSERS)
- Senate Resolution 685, “Confirmation of Governor’s Appointments”, which confirmed the following board members: Margaret Reader (TSERS) , Joshua Smith (TSERS), Jeffery Winstead (TSERS)

Mr. Starnes gave an update on pending legislation will be pursued in the August 2017 special session. He presented:

- House Bill 651, “State Pension/Retirement Health Benefit Fund Solvency”, which would create the Unfunded Liability Solvency Reserve as a reserve in the General Fund. This bill passed the House and is awaiting Senate action.
- Senate Bill 582, “Agency Technical Corrections”, which adds “representative payee” to the list of persons eligible to open an ABLE account. This bill was sent to a conference committee.

Mr. Starnes turned the presentation over to Mr. Watts. Mr. Watts presented the Report on 2017 Legislative Actions Affecting the Retirement Systems Division. The legislative pensions committee heard 26 bills, and 11 bills with retirement provisions passed the legislature with 95 percent of the retirement systems requests being granted within those bills. All of the retirement systems were fully funded, and all state system retirees have been granted a one percent COLA. The board discussed the provision related to cancellation of redundant health benefits for incarcerated retirees. This provision may not apply to those serving misdemeanor sentences in county jails, even though those costs are expended to the state. Staff was unclear if the provision covered these members, but they will report a response to the Board. The Board discussed the termination of retiree health medical benefits for those hired after January 1, 2021. These employees will not have an option to purchase retiree medical coverage via the state under the current legislation.

#### Closed Session- Anti Pension Spiking Litigation Update

The Chair recognized Mr. Bob Curran, Special Deputy Attorney General with the Department of Justice for a consultation with the Board regarding litigation involving the Johnston, Wilkes, Union and Cabarrus Boards of Education. Greg Patterson moved to close the meeting pursuant to N.C.G.S. 143-318.11(a)(3) to consult with legal counsel , Jeffrey Winstead seconded the motion and it carried unanimously. . At the conclusion of the discussion, Greg Patterson moved to open the meeting, Joshua Smith seconded the motion and it carried unanimously.

#### Update on the NC Retirement Systems Contract for Actuarial Services

The Chair recognized Steve Toole to provide an update on the actuarial services contract with the NC Retirement Systems. Mr. Toole stated that the current contract with Conduent (Buck Consultants) will expire on December 31, 2017 and the Department will be submitting a request for proposal (RFP) this week. Mr. Toole reviewed the RFP process and requested volunteers from the Boards of Trustees to participate on the review panel during finalist presentations. He updated that the Department will likely seek the Boards’ approval of a vendor at the October 26, 2017 TSERS/LGERS board meeting, however, the timing may require a special meeting. Jeffrey Winstead volunteered to participate in the RFP process on behalf of TSERS and Mayor Mark Stohlman on behalf of LGERS.

#### Board Policies Related to the IRS Letters of Determination

The Chair recognized Christina Strickland, General Counsel for the Retirement Systems, to present proposed board policies related to the IRS letters of determination and voluntary correction program filings for TSERS, LGERS, CJRS and LRS. The Department submitted TSERS, LGERS, CJRS and LRS plan documentation for IRS review in 2016. The IRS reviewed the plans to determine compliance with IRS regulations to in order to maintain the plans' tax-qualified status. Ms. Strickland explained that TSERS, LGERS, CJRS and LRS received favorable letters of determination, but the Board needs to adopt the proposed policies with IRS-required language that were agreed to in the compliance statements. The board discussed the 7.25% interest rate listed in policy 2016-2, and requested that it be changed to 7.20% for all four plans. The Chair moved for a vote on the following policies:

System	Policy Number	Policy
Teachers' and State Employees' Retirement System of North Carolina	2017-1	Forfeitures- Code Section 401(a)(8)
Teachers' and State Employees' Retirement System of North Carolina	2017-2	Actuarial Assumptions- Code Section 401(a)(25)
Teachers' and State Employees' Retirement System of North Carolina	2017-3	Pension Protection Act of 2006- Additional Items
Teachers' and State Employees' Retirement System of North Carolina	2017-4	Heroes Earning Assistance and relief Tax Act of 2008
Teachers' and State Employees' Retirement System of North Carolina	2017-5	Purchase of service Credit/ Repayments – Code Sections 415(k) and 415(n)
Teachers' and State Employees' Retirement System of North Carolina	2017-6	Maximum Contribution/ Benefit Limits- Code Section 415
Teachers' and State Employees' Retirement System of North Carolina	2017-7	Required Minimum Distributions – Code Section 401(a)(9)
Teachers' and State Employees' Retirement System of North Carolina	2017-8	USERRA- Code Section 414(u)
Teachers' and State Employees' Retirement System of North Carolina	2017-9	Eligible Rollover Distributions- Code Section 401(a)(31)
Teachers' and State Employees' Retirement System of North Carolina	2017-10	Vesting- Pre-ERISA Code Sections 401(a)(4) and 401(a)(7)
Teachers' and State Employees' Retirement System of North Carolina	2017-11	Trust Requirement- Code Section 401(a)(1)
Teachers' and State Employees' Retirement System of North Carolina	2017-12	Exclusive Benefit and Reversions – Code Section 401(a)(2)
Teachers' and State Employees' Retirement System of North Carolina	2017-13	Maximum Compensation- Code Section 401(a)(17)
Consolidated Judicial Retirement System	2017-1	Forfeitures- Code Section 401(a)(8)
Consolidated Judicial Retirement System	2017-2	Actuarial Assumptions- Code Section 401(a)(25)

Consolidated Judicial Retirement System	2017-3	Pension Protection Act of 2006- Additional Items
Consolidated Judicial Retirement System	2017-4	Heroes Earning Assistance and relief Tax Act of 2008
Consolidated Judicial Retirement System	2017-5	Purchase of service Credit/ Repayments – Code Sections 415(k) and 415(n)
Consolidated Judicial Retirement System	2017-6	Maximum Contribution/ Benefit Limits- Code Section 415
Consolidated Judicial Retirement System	2017-7	Required Minimum Distributions – Code Section 401(a)(9)
Consolidated Judicial Retirement System	2017-8	USERRA- Code Section 414(u)
Consolidated Judicial Retirement System	2017-9	Eligible Rollover Distributions- Code Section 401(a)(31)
Consolidated Judicial Retirement System	2017-10	Vesting- Pre-ERISA Code Sections 401(a)(4) and 401(a)(7)
Consolidated Judicial Retirement System	2017-11	Trust Requirement- Code Section 401(a)(1)
Consolidated Judicial Retirement System	2017-12	Exclusive Benefit and Reversions – Code Section 401(a)(2)
Consolidated Judicial Retirement System	2017-13	Maximum Compensation- Code Section 401(a)(17)
Legislative Retirement System	2017-1	Forfeitures- Code Section 401(a)(8)
Legislative Retirement System	2017-2	Actuarial Assumptions- Code Section 401(a)(25)
Legislative Retirement System	2017-3	Pension Protection Act of 2006- Additional Items
Legislative Retirement System	2017-4	Heroes Earning Assistance and relief Tax Act of 2008
Legislative Retirement System	2017-5	Purchase of service Credit/ Repayments – Code Sections 415(k) and 415(n)
Legislative Retirement System	2017-6	Maximum Contribution/ Benefit Limits- Code Section 415
Legislative Retirement System	2017-7	Required Minimum Distributions – Code Section 401(a)(9)
Legislative Retirement System	2017-8	USERRA- Code Section 414(u)
Legislative Retirement System	2017-9	Eligible Rollover Distributions- Code Section 401(a)(31)
Legislative Retirement System	2017-10	Vesting- Pre-ERISA Code Sections 401(a)(4) and 401(a)(7)
Legislative Retirement System	2017-11	Trust Requirement- Code Section 401(a)(1)

Legislative Retirement System	2017-12	Exclusive Benefit and Reversions – Code Section 401(a)(2)
Legislative Retirement System	2017-13	Maximum Compensation- Code Section 401(a)(17)

Greg Grantham moved to adopt the policies for the TSERS, CJRS and LRS with the modification of the interest from 7.25% to 7.20% in policy 2017-2, Van Dowdy seconded, and the vote carried unanimously.

#### Contributory Death Benefit (CDB) Assumption Change

The Chair recognized Mr. Sam Watts, Policy Director for the Retirement Systems Division, to present the proposed assumption change to the Contributory Death Benefit (CDB). He described that the current funding policy assumption for CDB assumes that zero percent of active employees will elect CDB upon retirement, which places the funding policy assumption outside of Governmental Accounting Standards Board (GASB) requirements. To adhere to GASB requirements, staff recommended changing the funding policy to reflect CDB election on retirement by 50 percent of active members and 65 percent of disabled members. The Chair moved to a vote, Lentz Brewer motioned, Greg Patterson seconded, and the vote carried unanimously.

#### Public Comment

There were no public comments for the State Board. The Treasurer asked the new board members to take this opportunity to introduce themselves and their respective positions on the Board.

#### Board and Staff Comment

The Chair recognized Mr. Steve Toole, Executive Director of the Retirement Systems, to discuss the format of meeting materials. Mr. Toole informally requested feedback and comments regarding paperless transmittal of board meeting materials. The board discussed and gave favorable feedback to begin instituting the new process. Mr. Toole made announcements regarding required board member documents.

#### State System Adjournment

There being no further business before the Board, the Chair moved to adjourn, Van Dowdy motioned, Greg Patterson seconded, and the meeting was adjourned unanimously at 11:48 a.m.

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CHAIR

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SECRETARY