



**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 9:01 a.m., October 26, 2023, 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.

#### **Members Present in Person or via Telephone**

Treasurer Dale R. Folwell, Lentz Brewer (via telephone), John Ebbighausen, Barbara Gibson, Oliver Holley (via telephone), Pat Hurley, Margaret Reader, and Jeffrey Winstead.

#### **Members Absent**

Vernon Gammon, Joshua Smith, and Catherine Truitt.

#### **Guests in Attendance in Person or via Telephone**

David Vanderweide with the staff of the North Carolina General Assembly; Suzanne Beasley and Janet Bunch with the State Employees Association of North Carolina; and Tim O'Connell with the North Carolina Retirement Governmental Employees' Association.

#### **Department of State Treasurer Staff Present in Person or Via Telephone**

Tonya Bass, Thomas Causey, Christy Farrelly (via telephone), Patrick Kinlaw, Frank Lester (via telephone), Richard Lopez, Timothy Melton, Lisa Norris, Anne Roof, and Sam Watts (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 July 27, 2023 Board Meeting**

John Ebbighausen moved the Board to approve the minutes of the July 27, 2023 Board meeting, Margaret Reader seconded the motion, and the minutes were approved by a unanimous vote of 8-0.

#### **Adoption of Resolution of Appreciation for the Services of Mr. David "Dirk" German**

It was moved by John Ebbighausen that the resolution of appreciation for the services of Dirk German be approved. Jeffrey Winstead seconded the motion, and the motion passed with a unanimous vote of 8-0.

## **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 noting that the one-time supplement that was approved for retirees was paid to most retirees in their October paycheck and that anyone who retired effective October 1<sup>st</sup> will receive a second supplemental check paid out by Thursday, November 2<sup>nd</sup>. Mr. Lopez closed by discussing turnaround times noting that all sections are meeting or exceeding the goals.

The Chair recognized Tonya Bass for a presentation on the metrics for Member Services. Ms. Bass began by discussing call volumes noting from September of 2022 to September of 2023 the team has been able to reduce their speed of answer by 55% from 4.5 minutes to just over 2 minutes. Ms. Bass moved on to note that Member Services is also meeting or exceeding their metric goals. Ms. Bass closed by discussing quality control noting that supervisors and team leads, including herself, meet to review recorded calls and offer feedback to employees to ensure quality of calls with members is being met.

The Chair recognized Director of Policy, Planning & Compliance, Patrick Kinlaw. Mr. Kinlaw began by discussing the Contribution-Based Benefit Cap (CBBC) liabilities, noting that the materials provided contain the standard report provided at each meeting. Mr. Kinlaw moved on to discuss the actuarial reports to provide a brief orientation of Buck Consultants' Annual Actuarial Reports, noting that compared to previous years there have been some updates to the formatting to reduce duplication, an addition of an "Actuarial and Processing Glossary" document to eliminate repetition across reports, and removal of the financial reporting information under GASB. At the request of the Chair, Mr. Kinlaw moved on to discuss two unanimous decisions in the Retirement Systems favor by the Court of Appeals in recent months in relation to the rulemaking processes that the Board followed in setting the CBBC Cap. Mr. Kinlaw returned to discussing the Actuarial Reports but first thanked Buck for the work and improvements they have done since taking over the consulting contract. Mr. Kinlaw stated that the reports that will be presented by Buck today are based on measurements of the Retirement System as of December 31, 2022 noting that the reports show a decline in the funded percentage of the State and Local Systems that was recognized during calendar year 2022 due to investment returns coming in at -10.4% in comparison to the Boards assumption of 6.5%. Mr. Kinlaw further noted Buck found that there were no investment gains as of December 31, 2022 that are available to support Retiree COLAs or one-time supplements for the fiscal year ending 2025. Mr. Kinlaw stated the second finding for cause in decline of the funding percentage was that compensation of current government employees increased more than the actuaries expected from calendar year 2021 to calendar 2022 which increased the projected pension payments. Mr. Kinlaw moved on to discuss administrative rules noting that the Board will later hear a proposal to adopt the text for new administrative rules and that the administrative rules regarding new employers wanting to join the local system who are not taxing authorities was approved by the Rules Review Commission and is now effective. Mr. Kinlaw moved on to discuss the withdrawal of Invest Collegiate Charter of Davidson (IC Transform) from the State system effective July 1, 2023 due to their charter not being renewed following the last school year noting that they have been notified of their withdrawal liability of about \$1.5 million which has not been paid.

Mr. Kinlaw closed by providing an update on legislative activity impacting the Retirement Systems during 2023 noting the "2023 Legislative Memo" included in the materials for the meeting which is a summary that staff prepares every year detailing the legislation that staff believes effects the Retirement Systems in some way. Mr. Kinlaw highlighted two budget items, noting full funding for the retirement systems was provided as well as a one-time supplement for State retirees paid fully by the budget. Mr. Kinlaw moved on to focus on a large concern of staff involving the employees of UNC Health Care and certain parts of East Carolina University. Mr. Kinlaw

stated that it is a very consequential change that was a part of the State budget law noting that right now all employees of the UNC System Institutions have two retirement plans (TSERS or the UNC Optional Retirement Program (ORP)) that they can participate in, but they must choose during their hiring process which system to be in. Mr. Kinlaw noted that both TSERS and the ORP require the employee to contribute the exact same contribution out of each paycheck (6% of compensation) but that the key difference is that the ORP is a Defined Contribution Plan which does not provide a guaranteed lifetime income after retirement. Mr. Kinlaw stated a review of UNC Health Care employees hired in 2021 who were still employed as of December 2022 found that most of the people hired in that year chose TSERS, with a noticeable preference for TSERS for lower compensated individuals. Whereas 58% of employees earning over \$100,000 per year chose TSERS, 91% of employees earning less than \$40,000 per year chose TSERS. Mr. Kinlaw stated the new legislation requires new employees of UNC Health Care and certain parts of ECU on or after January 1, 2024 to participate in the ORP and these employees therefore would no longer get a choice between TSERS and the ORP. Mr. Kinlaw further noted that in the meantime UNC Health Care and ECU have been given the flexibility to create their own retirement plan as an alternative to the ORP. Mr. Kinlaw noted that if that plan is created, new employees will have a choice between the ORP and the new retirement plan, but they will not be able to join TSERS. Mr. Kinlaw stated that anyone transferring from a TSERS employer to UNC Health Care or certain parts of ECU will not be able to join TSERS and continue earning benefits under TSERS. Mr. Kinlaw noted that for current employees of UNC Health Care and certain parts of ECU, the new legislation provides that they can continue earning benefits under TSERS but if the new plan is created those employees will receive a one-time opportunity to leave TSERS and join the new plan. Mr. Kinlaw moved on to discuss the Division's concerns on the effect this change will have on the retirement systems stating that from the actuarial perspective UNC Health's share of the unfunded liability at the last measurement was \$589 million not including the retiree health care obligations. Mr. Kinlaw also noted staff concerns related to federal tax law compliance issues that could arise and cause further issues to the entire retirement system. Mr. Kinlaw further stated that something that impacts the tax qualification of TSERS could also impact the qualification of LGERS. Mr. Kinlaw closed by noting a letter written by Thomas Causey (Director of the Retirement Systems) to the CEO of UNC Health and the Chancellor of ECU outlining the Division's concerns in more detail.

### **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 August 23, 2023. Mr. Brewer provided a brief overview noting at the end of second quarter 2023 investments within the retirement systems were valued at roughly \$115 billion compared to \$111 billion at the end of quarter two of 2022, a return of roughly 5.25%. Mr. Brewer stated compared to the benchmarks established by our peers the one-year period performance 5.28% lagged behind our implementation and policy benchmarks at 6.5% and 7.08% respectfully. Mr. Brewer noted the three-year comparison closed that gap with a performance of 5.17% versus an implementation benchmark of 5.85% and a long-term benchmark of 4.67%.

### **Actuarial Overview**

The Chair recognized Michael Ribble and Elizabeth Wiley from Buck for an actuarial overview.

### **Presentation by the Consulting Actuary on the Principal Results of the Actuarial Valuation for the Teachers' and State Employees' Retirement System**

The Chair recognized Michael Ribble and Elizabeth Wiley of Buck to provide the principal results of the actuarial valuation for the Teachers' and State Employees' Retirement System as of December 31, 2022.

**Presentation by the Consulting Actuary on the Principal Results of the Actuarial Valuation for the Consolidated Judicial Retirement System**

The Chair recognized Michael Ribble and Elizabeth Wiley of Buck to provide the principal results of the actuarial valuation for the Consolidated Judicial Retirement System as of December 31, 2022.

**Presentation by the Consulting Actuary on the Principal Results of the Actuarial Valuation for the Legislative Retirement System**

The Chair recognized Michael Ribble and Elizabeth Wiley of Buck to provide the principal results of the actuarial valuation for the Legislative Retirement System as of December 31, 2022.

**Presentation by the Consulting Actuary on the Principal Results of the Actuarial Valuation for the Disability Income Plan of North Carolina**

The Chair recognized Michael Ribble and Elizabeth Wiley of Buck to provide the principal results of the actuarial valuation for the Disability Income Plan of North Carolina as of December 31, 2022.

**Presentation by the Consulting Actuary on the Principal Results of the Actuarial Valuation for the North Carolina National Guard Pension Fund**

The Chair recognized Michael Ribble and Elizabeth Wiley of Buck to provide the principal results of the actuarial valuation for the North Carolina National Guard Pension Fund as of December 31, 2022.

**Vote to Accept the Actuarial Valuation Principal Result Reports**

Oliver Holley moved the Board to accept the actuarial valuation reports presented by Buck. Jeffrey Winstead seconded the motion, and the reports were accepted by a unanimous vote of 8-0.

**Presentation by the Consulting Actuary on the Principal Results of the Actuarial Valuation for the Death Benefit Plans**

The Chair recognized Michael Ribble and Elizabeth Wiley of Buck to provide the principal results of the actuarial valuation for the Death Benefit Plans as of December 31, 2022.

**Vote to Accept the Actuarial Valuation Principal Result Report for the Death Benefit Plans**

Pat Hurley moved the Board to accept the actuarial valuation report presented by Buck Global. Oliver Holley seconded the motion, and the reports were accepted by a unanimous vote of 8-0.

**Presentation of the Proposed Administrative Rules Regarding Session Law 2023-105 (House Bill 201)**

The Chair recognized Timothy Melton for a presentation on the proposed administrative rules regarding Session Law 2023-105 (House Bill 201). Mr. Melton began by stating that in July of 2023 the General Assembly enacted Session Law 2023-105 effective January 1, 2024. Mr. Melton noted it directs the TSERS Board to adopt rules to implement the provisions in Parts II, III, and IV, which concern the Disability Income Plan of North Carolina but staff recommends both TSERS and LGERS Board to adopt the provisions of Part VIII, which concerns overpayments. Mr. Melton provided an overview of the proposed rules for recommendation by the board.

Margaret Reader made a motion to approve the proposed administrative rules. Pat Hurley seconded the motion, and the motion passed by a unanimous vote of 8-0.

**Contribution-Based Benefit Cap Average Final Compensation Threshold Determination**

The Chair recognized Patrick Kinlaw for a presentation on the Contribution-Based Benefit Cap (CBBC). Mr. Kinlaw provided a brief background on the CBBC noting it can apply to retiring members only if their four-year average final compensation is greater than or equal to a certain amount, the “threshold.” Mr. Kinlaw noted that the Consumer Price Index (CPI) increase from June 2022 to June 2023 was 3.0% and therefore the threshold should increase by 3.0% to \$130,764.73 to be applicable for retirements effective in 2024.

### **Public Comments**

The Chair recognized Tim O’Connell from NCRGEA for comments on the legislation related to UNC Health and certain parts of ECU.

The Chair recognized Suzanne Beasley from SEANC for comments on the legislation related to UNC Health and certain parts of ECU.

### **Board of Trustees Comments**

Mr. Holley applauded the North Carolina educators and thanked the Board members and staff for their hard work.

Ms. Hurley thanked the staff for their work and expressed her disappointment in the legislation related to UNC Health Care and ECU.

The Chair asked to adjourn the meeting in honor of Dr. Linda Combs.

### **Adjournment**

There being no further business before the Board, Oliver Holley moved to adjourn the meeting. Jeffrey Winstead seconded the motion and the motion passed by unanimous vote of 8-0. The meeting was adjourned at 12:14 p.m.