



**North Carolina**  
Total Retirement Plans



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

## **DRAFT MINUTES**

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

The regularly quarterly meeting of the Board of Trustees was called to order at 9:01 a.m., July 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.

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

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

#### **Members Absent**

Vernon Gammon.

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

David Vanderwhite with the North Carolina Legislature; Mary Scruggs and Natalia Isenburg with the North Carolina Department of Justice; Christopher Doll with CEM Benchmarking (via telephone); Mike Ribble and Elizabeth Wiley with Gallagher; and Blair Paul.

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

Tonya Bass, Thomas Causey, Elizabeth Hawley, Patrick Kinlaw, Richard Lopez, Timothy Melton, and Lisa Norris.

#### **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 April 25, 2024 Board Meeting**

Lentz Brewer moved the Board to approve the minutes of the April 25, 2024 Board meeting, Pat Hurley seconded the motion, and the minutes were approved by a unanimous vote of 8-0. Joshua Smith and Jeffrey Winstead were not present for the vote.

## **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 discussing the retirement processing section noting the section is comprised of 1 manager, 17 analysts, 12 QC's, 1 retiree and 2 vacant positions. Mr. Lopez discussed that the retirement processing section saw a 25% increase in retirements from June of 2024 compared to June of 2023 noting RSD received just over 1400 retirement request for June with a turnaround time of 37 days. Mr. Lopez discussed that the two highest months for retirement are always January and July noting the average for January is around normally around 2100 and July's average falls anywhere between 3500 to 4000. Mr. Lopez moved on to discuss the benefits processing noting benefits processing is comprised of the survivor benefits section, disability benefits section, and refunds section. Mr. Lopez stated there is currently one manager responsible for all three sections, but that RSD will be adding another manager for the survivor benefits section and has brought in additional working supervisors in each of the sections. Mr. Lopez noted the survivor benefits section is comprised of 2 supervisors, 8 analysts, 6 QC's, and 2 temporary employees. Mr. Lopez moved on to discuss death notifications noting the team receives at least 800 notifications a month. Mr. Lopez discussed recent legislation noting that RSD is now allowed to make determinations on short term disability and are currently recruiting a short-term disability specialist. Mr. Lopez moved on to discuss refunds noting that volume has been extremely high with an average of 1,300–1,500 requests per month. Mr. Lopez moved on to discuss payroll processing RSD pays 360-370,000 people upwards of over \$629 million a month. Mr. Lopez closed by praising the imaging team noting that during COVID they were here daily making sure other teams had what they needed to process member requests.

The Chair recognized Tonya Bass for a presentation on the metrics for Member Services. Ms. Bass began by giving a brief overview of member services and what they do, noting it is comprised of the Educational Retirement Group and the Counseling Center. Ms. Bass discussed the Education Retirement Group noting from April to June they have conducted 167 counseling sessions and assisted 164 visitors at the front desk. Ms. Bass discussed webinars hosted noting for fiscal year to date they have conducted 125 webinars with over 11,000 attendees. Ms. Bass moved on to discuss email volume noting that in March RSD received over 82,000 emails but from April to June saw a 20% decrease and then leveled out to the average volume of 6,000 emails a month. Ms. Bass moved on to discuss the counseling center noting the average speed of answer was just under 3 minutes and 30 seconds with a reduction of 50% from April to June. Ms. Bass closed by discussing call volume noting the call center received over 26,600 calls in February, saw a slight decrease to 26,200 calls by the end of April, and were down to just over 18,000 calls by end of June.

The Chair recognized Director of Policy, Planning & Compliance, Patrick Kinlaw. Mr. Kinlaw began by discussing the contribution-based benefit cap noting during the ten and a half years since the pension spiking law became in effect RSD has invoiced a total of \$87.2 million and recovered \$80.7 million of that. Mr. Kinlaw briefly discussed the pension spiking litigation efforts as well as Session Law 2023-48. Mr. Kinlaw moved on to provide an update on whether any decisions have been made about whether an overpayment was entirely due to administrative error noting that during the second quarter RSD determined one overpayment fit the description. Mr. Kinlaw discussed administrative rules noting that four rules previously approved by the Board were approved by the Rules Review Commission towards the end of June. Mr. Kinlaw closed by discussing the appendixes and noting that Gallagher (previously Buck) were present to present the first ever actuarial stress testing report for the Teachers and State Employees' Retirement System.

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

The Chair recognized Christopher Doll with CEM Benchmarking for a presentation on the Defined Benefit Administration Benchmarking Analysis Report noting the results are for the period of January 1, 2022 through June 30, 2023. Mr. Doll began by providing a brief background of what CEM Benchmarking does noting they provide reporting on cost and performance to participating pension plans as well as provide peer-to-peer data-driven insights. Mr. Doll moved on to discuss the key takeaways of the report noting RSD's costs were \$30 per active member which was \$79 below the peer average, RSD's costs increased by 4.3% per annum over seven years while peers saw increases of 2.2%, RSD's service score was 80 slightly below the peer median of 81, and that RSD's service score has increased over the last seven years from 72 to 80.

### **Legislative Update**

The Chair recognized Taylor Matyi to provide an update on the 2024 Legislative Session. Mr. Matyi began by stating there have been five bills passed into law that impact the Retirement Systems noting that 3 of those 5 bills originated from RSD. Mr. Matyi noted the requested bills included technical corrections to make the statutes cleaner, the remainder of the service purchase rewrite project, administrative changes, and changes to the Fire and Rescue Squad Pension fund benefits and contribution. Mr. Matyi closed by noting that staff is working to put together the legislative memo that comes out in the fall of every year with hopes to present it at the October Board meeting.

### **Application of Aspire Trade High School for Full Participation in the State System**

The Acting Chair recognized Patrick Kinlaw to present the application of Aspire Trade High School (ATHS). Mr. Kinlaw noted ATHS was granted provisional entry into TSERS effective September 1, 2023 and has applied for continued participation in TSERS effective September 1, 2024. Mr. Kinlaw stated that statutes say there are four things that the Board has to find in order to approve ATHS for continued participation noting that 3 of those items are satisfied but the fourth one is that the Board has to determine they are financially sound in review of an independent audit report or equivalent types of materials. Mr. Kinlaw noted that with this being the first year ATHS has been open, they have not been able to provide an independent audit report yet, but they have indicated they are working with their auditor to get one. Mr. Kinlaw stated that statute does address this situation and allows the Board to accept the school's application contingent on later receiving a financially sound independent audit report and that is what staff recommends.

Tony Brown made a motion to accept the application of Aspire Trade High School contingent upon later receiving a financially sound independent audit report. Pat Hurley seconded the motion and the motion passed with a unanimous vote of 9-0.

### **Report on the Amounts and Sources of Funds Collected by Year and Amounts Expended, the Projects for Which Funds Were Expended, and Current Status of the Legislative Enactment Implementation Arrangements (LEIAs) Pursuant to N.C.G.S. §135-7(h)(5) and N.C.G.S. §128-29(g)(5)**

The Acting Chair recognized Patrick Kinlaw. Mr. Kinlaw provided a brief background on the requirements and background history of the required report. Mr. Kinlaw noted that as of June 30<sup>th</sup> the division has not identified any legislation that has resulted in implementation projects that are eligible for LEIA expenditures. Mr. Kinlaw further stated the amounts collected through June 30<sup>th</sup> have been zero and the amounts expended have been zero. Mr. Kinlaw noted that upon acceptance of the reports, staff will communicate the report to the legislature.

Pat Hurley made a motion to accept the report. Lentz Brewer seconded the motion, and the motion passed by unanimous vote of 8-0. Jeffrey Winstead and John Ebbighausen were not present for the vote.

### **LEIA Request to Fund the Replacement of the Integrated Imaging and Document Management System**

The Acting Chair recognized Patrick Kinlaw. Mr. Kinlaw stated that the legislative change that was recently enacted says that the LEIA can be used not just for cost saving legislation but also if the boards determine that there is an administrative or IT need that the LEIA funding should be used for to prevent interruption to the normal operation of the Retirement Systems. Mr. Kinlaw discussed that staff has discovered the need for the implementation of a new image and document management system (IDMS) noting that staff learned last October that the system currently being using will no longer be supported by the vendor after the end of 2024. Mr. Kinlaw noted that the IMDS is essential to RSD because it captures, digitalizes, and archives images and documents that are created within RSD or that come in through the mail, fax, or other means and ensures that every document goes through the people and steps necessary to process it. Mr. Kinlaw noted the department has been conducting a procurement process for a new IMDS that is still underway, but that staff expects the implementation costs for the new system will not exceed \$1 million. Mr. Kinlaw stated that staffs request is that the Board identifies this implementation project as an administrator IT purpose eligible for LEIA funding.

Barbara Gibson made a motion to accept staff's request. Pat Hurley seconded the motion, and the motion passed by unanimous vote of 8-0. Jeffrey Winstead and John Ebbighausen were not present for the vote.

### **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 May 29, 2024. Mr. Brewer stated it was reported that the total assets under management came to \$183.6 billion with retirement assets compromising \$121.7 billion of that number. Mr. Brewer noted that as of May 14<sup>th</sup> the Retirement Systems asset allocation remained largely unchanged from year end 2023 with a growth portfolio remaining underweight of 52.73%, rates in liquidity remained overweight at 35.5%, inflation sensitive assets remained underweight at 9.67%, and the multi-strategy portfolio was overweight at just over 2%. Mr. Brewer moved on to discuss portfolio returns noting the System achieved annualize return for the first quarter 2024 of 2.64%, one year returns of 8.99%, three-year return of just over 3%, a five-year return of 6%, and an annualized return of 5.82%.

### **Determination Regarding Supplemental Insurance Rebates under N.C.G.S. §143C-4-10(c)(3)c**

The Chair recognized Thomas Causey to discuss the supplemental voluntary insurance rebates. Mr. Causey stated that pursuant to G.S. 143C-4-10(c) if the Board determines that rebates received by the Department of State Treasurer from the supplemental voluntary insurance benefits are not needed to pay for future administrative costs of those benefits then the Board may direct the funds to be transferred into the Unfunded Liability Solvency Reserve. Mr. Causey noted that the Retirement Systems will receive a performance reward from United Health Care in the amount of \$293,725.22 for the dental and vision plans. Mr. Causey stated that staff recommends the Board makes the determination that funds expected to be received are not needed to pay future administrative costs and therefore the rebates should be transferred into the Unfunded Liability Solvency Reserve.

Pat Hurley made a motion to determine the expected funds are not needed to pay future administrative costs and to transfer the rebates into the Unfunded Liability Solvency Reserve. Barbara Gibson seconded the motion and the motion passed with a unanimous vote of 7-0. Margaret Reader, Jeffrey Winstead, and John Ebbighausen were not present for the vote.

**Stress Testing Results**

The Chair recognized Michael Ribble and Elizabeth Wiley from Gallagher to present the results of a stress testing and sensitivity analysis report required by N.C.G.S. §165-6(n1). Mr. Ribble began by providing an overview of the report and how the data was analyzed for the report. Mr. Ribble noted the key takeaways are that TSERS has a relatively short amortization period of 12 years, if continuing to adopt a funding policy tied to the underlying ADEC TSERS will be able to achieve full funding over the next 20 years and the employer contribution rate will drop to the 6% minimum employer contribution rate, the General Assembly has a history of annually appropriating the actuarially determined employer contributions for TSERS, and that the stress testing scenarios demonstrate how critical such full appropriations are for the sustainability of TSERS. Ms. Wiley closed by presenting the stress testing results, and both the stochastic and sensitivity analysis.

**Public Comments**

The Chair recognized Blair Paul. Mr. Paul provide background on his time working for the State and made a recommendation to extend the Bailey vesture as a simple fix to inflationary pressures.

**Board of Trustees Comments**

There were no Board comments.

**Adjournment Pending Conclusion of the Executive Session**

John Ebbighausen made a motion to move into an executive closed session to approve the minutes of the April 25, 2024 Executive Session and to adjourn the July 25, 2024 meeting pending the conclusion of the executive session. Oliver Holley seconded the motion, and the motion passed by a unanimous vote of 10-0. The meeting was adjourned at 12:28 p.m.