



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 regularly quarterly meeting of the Board of Trustees was called to order at 9:05 a.m., July 29, 2021, by the Acting Chair, Thomas Causey, Executive Director of the Retirement Systems Division. 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 (via telephone), Lentz Brewer (via telephone), John Ebbighausen, Vernon Gammon (via telephone), Dirk German, Linda Gunter (via telephone), Greg Patterson (via telephone), Joshua Smith (via telephone), Catherine Truitt (via telephone), and Jeffrey Winstead.

Members Absent

Barbara Gibson, Margaret Reader, and Oliver Holley.

Guests in Attendance via Telephone

Katherine Murphy with the North Carolina Department of Justice.

Department of State Treasurer Staff Present in Person or Via Telephone

The staff members present were: Thomas Causey, Chris Farr (via telephone), Christy Farrelly (via telephone), Joan Fontes (via telephone), Ben Garner (via telephone), Bill Golden (via telephone), Jeff Hancock, Patti Hall (via telephone), Elizabeth Hawley (via telephone), Brian Jackson, Patrick Kinlaw, Fran Lawrence (via telephone), Richard Lopez (via telephone), Timothy Melton, Lisa Norris, Vicki Roberts (via telephone), Laura Rowe (via telephone), and Dan Way (via telephone).

Ethics Awareness and Identification of Conflicts or Potential Conflicts of Interest

The Acting 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 29, 2021 Board Meeting

John Ebbighausen moved the Board to approve the minutes of the April 29, 2021 Board meeting. Jeffrey Winstead seconded the motion, and the minutes were approved by a unanimous vote of 10-0.

Operations, Member Services, and Compliance Update

The Acting Chair recognized Rick Lopez, Director of Operations for an update on the Division's operations. Mr. Lopez began by discussing retirement requests, noting that in June 2021 the division received 1,298 retirement requests with a 21.1-day turnaround time which was within the target goal of 30 days. Mr. Lopez further noted from June 2020 through June 2021 the team processed 17,065 retirements. Mr. Lopez discussed death notifications, noting that in June 2021 the team received 870 death notifications with a 29.4-day turnaround time, within the target goal of 45 days. Mr. Lopez further noted from June 2020 through June 2021 the team processed over 13,000 death notifications. Mr. Lopez discussed disability application processing, noting that in June 2021 the team processed 281 applications with a 17.4-day turnaround time, within the target goal of 45 days. And, from June 2020 through June 2021 the team processed over 3,268 applications. Mr. Lopez discussed refund requests noting that in June 2021 the team processed 1,293 refund requests with a 10.3-day turnaround time, within the target goal of 20 days. And, from June 2020 through June 2021 the team processed 14,050 refund requests. Mr. Lopez discussed monthly payroll processing noting that in June 2021 the division paid 339,365 payees with a total payment amount of \$559,580,101 which continues to increase each month. Mr. Lopez mentioned that from June 2020 through June 2021 ORBIT Self Service usage had over 1.4 million retirement estimates, 313,966 beneficiary updates, over 9,500 retiree address changes, and 52,612 direct deposit changes. Mr. Lopez shared details of the Refunds Online project, which is anticipated go live in the first quarter of 2022.

The Chair recognized Vicki Roberts, Director of Member Services, for a metrics presentation. Ms. Roberts began by providing an overview of the Member Services teams and their roles. Ms. Roberts discussed the Educational Retirement Group, noting they received about 14,500 letters for the quarter with a 4-day average turnaround time. And, from July 2020 through June 2021 the team has held 223 total educational meetings with around 10,474 total attendees. Ms. Roberts stated the team is currently offering six presentations a week and an employer training class once a month. And, 820 one-on-one counseling sessions were held for the quarter. Ms. Roberts shared that the Member Services team received over 13,000 e-mails for the quarter with a 1-day average turnaround time. Ms. Roberts noted the call center received over 67,000 calls with for the quarter with an average speed of answer just below 7 minutes and a 17% abandonment rate.

The Acting Chair recognized Patrick Kinlaw, Director of Policy, Planning & Compliance. Mr. Kinlaw discussed overpayments, noting that just over \$9.3 million has been collected in the past 12 months with approximately \$37.5 million in identified overpayments yet to be collected. Mr. Kinlaw shared that 403 CBBC liability invoices have been sent since 2015, exceeding \$38.9 million and more than \$31.2 million has been collected. Further, Mr. Kinlaw briefly discussed that Cavanaugh Macdonald Consulting (CMC) has been working on actuarial reports that will be presented to the Board on October 28 and these reports will be the fourth year of reports from CMC. He noted that the Department had the option to extend the actuarial services contract for up to one additional year and that staff was evaluating the Department's options with regard to engagement of the consulting actuary. Mr. Kinlaw noted that four documents had been attached to the meeting materials as appendices, namely, the funding policies that the Boards had approved for various Retirement Systems at their April 29, 2021 meeting, with "draft" marks removed for the record. Mr. Kinlaw concluded by providing brief updates regarding charter schools withdrawing from TSERS, noting that KIPP Gaston has begun payment of their withdrawal liability and the Board's counsel has perfected the lien on the school's property by filing notice of the lien and providing the notice to the school. Bridges Academy announced in June that it was closing effective June 30, and staff has notified the school of their withdrawal liability and payment deadline. And, Casa Esperanza Montessori Charter School notified the division of their intent to withdraw from TSERS as of October 1, 2021, and they have been notified of their withdrawal liability and deadline.

Legislative Update

The Acting Chair recognized Patrick Kinlaw to provide an update on the legislative session. Mr. Kinlaw discussed the budget process, noting the Division's top priority legislatively is to secure funding of the Retirement Systems according to actuarially determined amounts and the Boards' funding policies. Mr. Kinlaw discussed that the Local system's employer contribution rates are established by the Board and that they have already been adjusted for the new fiscal year in accordance with the funding policy. Mr. Kinlaw shared that other systems' employer contribution rates are set by the budget and that staff hope that the State budget will reflect adequate funding for the new biennium. Mr. Kinlaw noted that until the budget has passed current employer rates remain the same as the previous fiscal year, which could create an operational challenge for the State system if a budget is enacted well into the new fiscal year, because the recommended contribution rate for the new fiscal year is higher than the contribution rate for the last fiscal year. This may result in the Division issuing retroactive contribution payment invoices, or in State budget authorities adjusting the employer contribution rate so that employing units are charged more than the rate stated in the budget law. The Division has been communicating with employing units so that they are aware of these possibilities. Mr. Kinlaw noted ten laws that have ties to the retirement system, but only four of those substantially impact the administration of the Retirement Systems: Session Law 2021-57 (House Bill 160), a bill that standardizes and modernizes service purchases in the State, Local, and Judicial systems; Session Law 2021-59 (House Bill 278), a bill that provides that ABC Boards not participating in the Local system as of June 30, 2021 will not be permitted to do so; Session Law 2021-72 (Senate Bill 668), a bill that clarifies the calculation of CBBC liabilities, creates a new option for payment of CBBC liabilities, and makes other CBBC-related changes; and Session Law 2021-75 (House Bill 168), a bill that includes a number of retirement administrative provisions, including local government prefunding of CBBC liabilities as well as the application of employer withdrawal processes in the State and Local systems.

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 to provide background on the requirements and history of the required report. Mr. Kinlaw noted that as of June 30, the Division has not identified any legislation that has resulted in implementation of projects that are eligible for LEIA expenditures. Mr. Kinlaw further stated the amounts collected through June 30 have been zero and the amounts expended have been zero. Mr. Kinlaw stated that upon acceptance of the reports, staff will communicate the report to the legislature.

John Ebbighausen moved to accept the report, Linda Gunter seconded, and the motion was approved by unanimous vote of 7-0. Dirk German, Greg Patterson, and Joshua Smith.

Disability Programs Appointment of Medical Board Member

The Acting Chair, Thomas Causey, began by providing background on the Medical Board and their role within the Retirement Systems. Mr. Causey shared that Dr. Fleming resigned from his position on the Board and Dr. William Lee was highly recommended by the Medical Board. Mr. Causey stated Dr. Lee's resume was included in the board materials, noting that Dr. Lee has extensive experience and staff is recommending that the Board appoint Dr. Lee to the Medical Board.

John Ebbighausen moved to appoint Dr. Lee to the Medical Board, Linda Gunter seconded, and the motion was approved by unanimous vote of 9-0. Joshua Smith did not vote.

Update on the Investment Advisory Committee (IAC) Meetings

The Acting Chair recognized Greg Patterson who provided an update on the Investment Advisory Committee (IAC) meeting held on May 26. This meeting opened with a performance update from Co-Chief Investment Officers Jeff Smith and Chris Morris. Mr. Patterson noted the total assets in the Retirement Systems as of the end of the first calendar quarter of 2021 were just over \$116 billion. Public equities continued to perform very well during the quarter, but losses were experienced in the fixed income market related to interest rate changes. Mr. Patterson noted no major changes in the Systems' asset allocations. Mr. Patterson stated the one-year return through March 31, 2021 was 21.04%, the three-year return was just over 8.5%, and the five-year return was 8.89%. Mr. Patterson reminded the Board that in a strong market, the Retirement Systems tend to lag peer returns due to our conservative investment portfolio; but the Retirement Systems tend to outperform peers in volatile times. Mr. Patterson noted a review was provided of the Systems' top twenty investment managers and that a little over 52% of the systems' assets are managed internally. Mr. Patterson shared that Jonathan Gray, President and Chief Operating Officer of Blackstone, joined the meeting and gave an overview of macroeconomics and Blackstone's perspective. Mr. Patterson stated the meeting was concluded with a review of the systems' real estate assets.

Application of Alamance Community School for Full Participation

The Acting Chair recognized Patrick Kinlaw who shared that Alamance Community School opened its doors for the 2020-2021 academic school year and joined TSERS as an employer under a provisional status, effective August 1, 2020. Mr. Kinlaw noted the provisional period is one-year and the school has applied for continued participation on a permanent basis. Mr. Kinlaw reviewed this employer's contributions and all contributions were paid monthly and on time. Mr. Kinlaw stated the Board can approve the application if four criteria are met and can also make its decision contingent on receiving a financially sound audit report for the school's previous year. Mr. Kinlaw stated that three of the four criteria have been met, noting that the audit report for the school's first year of operation is not yet available. However, the school has provided functionally equivalent financial records which statute allows the Board to use to accept the application on a contingent basis. After reviewing information about the school's financial status based on unaudited financial statements, Mr. Kinlaw stated that staff recommends Alamance Community School's application for permanent participation be approved contingent upon receiving a financially sound independent audit report for the last fiscal year.

The Treasurer moved to approve the application of Alamance Community School contingent upon receiving and approval of a financially sound independent audit report, John Ebbighausen seconded, and the motion was approved by the following vote: Yes: 7; No: 1 (Jeffrey Winstead). Greg Patterson, and Joshua Smith did not vote.

Public Comments

No public comments were made.

Board of Trustees Comments

The Treasurer and Superintendent Truitt each provided comments regarding the economic situation in North Carolina. The Treasurer thanked the Board members for their participation in the meeting and asked to adjourn the meeting in honor of a long-time employee of the Department of Public Instruction, Ben Matthews, who passed away this week.

Adjournment

There being no further business before the Board, Linda Gunter moved to adjourn the meeting, John Ebbighausen seconded, and the motion passed by unanimous vote of 7-0. Dirk German, Greg Patterson, and Joshua Smith did not vote. The meeting was adjourned at 11:01 a.m.