



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., October 27, 2022, 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, Vernon Gammon, Dirk German (via telephone), Barbara Gibson (via telephone), Linda Gunter, Oliver Holley (via telephone), Greg Patterson, Margaret Reader (via telephone), Joshua Smith (via telephone), and Jeffrey Winstead.

Members Absent

Catherine Truitt.

Guests in Attendance in Person or via Telephone

Cliff Johnson and Jamie Robinson with the State Employees Association of North Carolina; Representative Pat Hurley with the North Carolina General Assembly; Tonya Manning, Michael Ribble, and Elizabeth Wiley of Buck Global, LLC.

Department of State Treasurer Staff Present in Person or Via Telephone

Tonya Bass, Thomas Causey, Christy Farrelly, Joan Fontes (via telephone), Ben Garner (via telephone), Bill Golden (via telephone), Jeff Hancock (via telephone), Elizabeth Hawley, Patrick Kinlaw, Richard Lopez, Taylor Matyi, Timothy Melton, Christopher Morris (via telephone), Lisa Norris, Debra Thomas (via telephone), 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.

Approval of the State Minutes from the July 28, 2022 Board Meeting

Jeffrey Winstead asked for the July 28, 2022 minutes be altered to reflect more detail of the public comment made by Benny Brigman. Linda Gunter moved the board to alter the minutes of the July 28, 2022 Board meeting to reflect more detail of the public comment made by Benny Brigman and to approve the minutes of the July 28,

2022 Board meeting, Jeffrey Winstead seconded the motion, and the minutes were approved by a unanimous vote of 12-0.

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 discussing the Division's operations noting the team processed 3,993 retirements in July of 2022 with an average turnaround time of 39.5 days. Mr. Lopez discussed death notifications, noting more than 1,300 death notifications in August 2022. Mr. Lopez stated that this influx was due to the hiring of three retirees who were able to utilize reports to identify deaths. Mr. Lopez discussed disability application processing, noting that the team is working on a new method to better track the metrics for disability applications. Mr. Lopez discussed refund requests, noting that the team processed 1,023 refund requests in September 2022 with an average turnaround time of 8.9 days. Mr. Lopez also discussed monthly payroll processing, stating that in October 2022 the Division paid over 354,000 payees with a total payment amount of nearly \$837 million, noting a 4% (2% for LGERS) one-time supplement was included in October's payments. Mr. Lopez mentioned that ORBIT self-service usage had almost 1.5 million retirement estimates, nearly 300,000 annual statement reviews, 11,781 address changes, over 60,000 direct deposit changes, and nearly 91,000 tax withholding changes over the last 12 months.

The Chair recognized Tonya Bass for a presentation on the metrics for Member Services. Ms. Bass began by discussing the implementation of a new phone system which went live on September 21st. Ms. Bass provided a brief update on staff vacancies and positions that have been filled. Ms. Bass moved on to discuss the metrics for Member Services referring to the chart showing the number of pieces of correspondence or letters received noting that staff has been able to bring down response times largely due to filling vacant positions. Ms. Bass noted that Member Services received more than 17,000 pieces of mail in the last 90 days. Ms. Bass referenced the Meetings and Webinar slide noting that since July 2022 over 1,200 members and 104 employers attended. Ms. Bass further discussed visitors and counseling sessions noting that the retirement office was reopened to the public in April, but the division is still working on an appointment basis offering 10 appointments per day. Ms. Bass stated that over the last three months there has been 443 appointments and 520 visitors in the office. Ms. Bass touched on emails and calls received noting that email turnaround has improved due to filling vacant positions and that the team is still working to bring phone answer times down. Ms. Bass noted that in the past 90 days staff have responded to over 16,000 emails and that the average speed of answer is the lowest in almost two years.

The Chair recognized Director of Policy, Planning & Compliance, Patrick Kinlaw. Mr. Kinlaw remarked that Buck Global, LLC would be presenting their actuarial valuation results for the Retirement Systems later in the meeting, having completed the process of transitioning the actuarial valuations from the prior actuary. He noted that the valuations to be presented later in the meeting would reflect conditions as of December 31, 2021, and therefore would not reflect the challenging capital market conditions of 2022, which through September 30, 2022 included an estimated investment return of negative 13.7%. Mr. Kinlaw then discussed Contribution-Based Benefit Cap liabilities, noting that 568 retirements since 2015 have resulted in required employer contributions totaling more than \$56.9 million, and of that amount, more than \$45.1 million has been collected. Mr. Kinlaw briefly mentioned the 2022 Legislative Memo and the revised Board Meeting Minutes for the April board meeting attached as an appendix item to the meeting agenda.

The Chair recognized Sam Watts, Legislative Liaison for the Department, who presented the Boards of Trustees with the Public Pensions Coordinating Council (PPCC) Standards Awards for Funding and Administration for the Teachers' and State Employees' Retirement System, the Registers of Deeds' Pension Fund, the Local

Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Legislative Retirement System, the Consolidated Judicial Retirement System, and the North Carolina National Guard Pension Fund.

Update on the Investment Advisory Committee (IAC) Meetings

The Chair recognized Greg Patterson to provide an update on the IAC meetings. Mr. Patterson began by reminding everyone that the materials presented to the IAC can be found on nctreasurer.com under the Investment Management Division page. Mr. Patterson stated the last IAC meeting occurred on August 24, 2022, where the meeting began with an update on the economic environment. Mr. Patterson stated the portfolio for the Retirement System as of June 30, 2022 was at \$111 billion but that the portfolio at the close of business on October 26, 2022 was at \$106 billion, with roughly \$60 billion managed internally by Investment Management Division staff. Mr. Patterson noted the 12-month return through June 30th was -6.73%, the 3-year return was 4.86%, the 5-year return was 5.69%, and the 10-year return was at 6.69%. Mr. Patterson noted that the IAC had discussed the Private Equity asset class, reviewed 19 fund managers, and then discussed the Public Equity portfolio.

Presentation of Decennial Rules Readoption Summary and Final Text of Rules for Readoption

The Chair recognized Timothy Melton, Assistant General Counsel for the Retirement Systems Division, for a presentation on the Decennial Rules Readoption Summary and the Final Text of the Rules for Readoption. Mr. Melton began by providing a brief background of the Decennial Rules Review project pursuant to N.C. Gen. Stat. § 150B-21.3A. Mr. Melton noted that the Rules and Impact Analysis were presented to the Board at the April 2022 board meeting where the Boards voted to approve the proposed rule text and the impact analysis. Mr. Melton stated that since that meeting the proposal was published in the North Carolina Register on June 1, 2022 which began a 15-day public hearing request and a 60-day public comment period, noting that no hearing request or comments were received. Mr. Melton stated the next step in the process is for the Board to approve and officially adopt the final rules text and impact analysis then staff will submit the final rule text to the Rules Review Commission for review at an upcoming meeting.

Greg Patterson made a motion to approve and adopt the final rule text and Regulatory and Fiscal Impact Analysis, and authorize staff to take all necessary steps required to complete the Decennial Rules Review process in accordance with N.C. Gen. Stat. § 150B-21.3A. John Ebbighausen seconded the motion and the motion passed with a unanimous vote of 12-0.

Actuarial Overview

The Chair recognized Tonya Manning, Michael Ribble, and Elizabeth Wiley with Buck Global 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 Tonya Manning, Michael Ribble, and Elizabeth Wiley of Buck Global to provide the principal results of the actuarial valuation for the Teachers' and State Employees' Retirement System as of December 31, 2021.

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

The Chair recognized Tonya Manning, Michael Ribble, and Elizabeth Wiley of Buck Global to provide the principal results of the actuarial valuation for the Consolidated Judicial Retirement System as of December 31, 2021.

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

The Chair recognized Tonya Manning, Michael Ribble, and Elizabeth Wiley of Buck Global to provide the principal results of the actuarial valuation for the Legislative Retirement System as of December 31, 2021.

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

The Chair recognized Tonya Manning, Michael Ribble, and Elizabeth Wiley of Buck Global to provide the principal results of the actuarial valuation for the Disability Income Plan of North Carolina as of December 31, 2021.

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

The Chair recognized Tonya Manning, Michael Ribble, and Elizabeth Wiley of Buck Global to provide the principal results of the actuarial valuation for the North Carolina National Guard Pension Fund as of December 31, 2021.

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

The Chair recognized Tonya Manning, Michael Ribble, and Elizabeth Wiley of Buck Global to provide the principal results of the actuarial valuation for the Death Benefit Plans as of December 31, 2021.

Vote to Accept the Actuarial Valuation Principal Result Reports

Vernon Gammon moved the Board to accept the actuarial valuation reports presented by Buck Global. Linda Gunter seconded the motion, and the reports were accepted by a unanimous vote of 11-0. Joshua Smith was not present for the vote.

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 stated if someone’s average final compensation is below the threshold, the CBBC does not apply to them. Mr. Kinlaw discussed that the threshold was set by law at \$100,000 in 2015 and has increased each January for inflation noting that originally the increase was based on December-to-December increases in the Consumer Price Index (CPI) but in accordance with a 2018 law, the calculation changed in 2019 to be based on the June-to-June increase in the Consumer Price Index. Mr. Kinlaw stated for retirements effective in 2022, the threshold is \$116,366.68. Further, Mr. Kinlaw discussed the CPI increase from June 2021 to June 2022 was 9.1% and therefore the threshold should increase by 9.1% to \$126,956.05 to be applicable for retirements effective in 2023.

Public Comments

The Chair recognized Cliff Johnson from the State Employees Association of North Carolina (SEANC) for a public comment. Mr. Johnson thanked the Treasurer, staff, and Board for the strides they have made in securing

and making the Retirement Systems as stable as they are today. Mr. Johnson stated that retirees have not had a true COLA from the Retirement System since 2007 and asked that the Board consider any steps that could be taken to recommend a true cost of living increase. Mr. Johnson stated that a one-time bonus is nice but can be spent with just one medical bill.

The Chair recognized Jamie Robinson from SEANC for a public comment. Mr. Robinson noted that Mr. Johnson alluded to everything he was wanting to speak on, but he would like to thank the Treasurer's office and the Board for everything they do. Mr. Robinson noted that after hearing all the reports during the meeting, there are a lot of moving parts and pieces but that he must ask because retirees do need a true COLA.

Board of Trustees Comments

Oliver Holley thanked the educators and staff of the school systems and asked the Board to keep Elizabeth City-Pasquotank Public Schools and their students in your thoughts and prayers due to student losses and injuries.

Margaret Reader thanked everyone for their time and energy that they commit to the Board and thanked staff for making the effort for member to keep their beneficiary designations up to date. Ms. Reader further noted that she appreciated her bonus in her pension this month but that she would love to see it every month even though according to the presentations today it does not look promising.

Barbara Gibson noted she is always impressed with the presentations that are brought to the meetings noting appreciation to staff. Ms. Gibson stated that times have been tough for state employees, and she thinks they understand that money is not going to come flowing in from taxpayer dollars, but she hopes that after the great year the systems had that everyone will think long and hard to recommend some sort of COLA to the Legislature. Ms. Gibson noted it is a good time to reflect on all the good work state employees do and it would be great to take care of them when they retire.

Greg Patterson stated that it being his last board meeting he wanted to say it has been a true honor serving on the Board. Mr. Patterson noted that his biggest takeaway over the last 7 years is that remarkable things happen in this building.

Linda Gunter stated their educators have been really excited about their increase. Ms. Gunter further noted that next year they will be coming back and talking about a COLA and thanked Buck Global for their presentation and breakdown on costs.

Jeffrey Winstead and John Ebbighausen thanked staff for their hard work.

Vernon Gammon asked for prayers for the family of Officer Gabriel Torres, who was killed in Raleigh last week. Mr. Gammon also stated that the Governor spoke very highly of the Board in a recent interaction with him.

The Chair called for the meeting to be adjourned in memory of Officer Gabriel Torres of the Raleigh Police Department and Stan Elrod of the Winston-Salem/Forsyth County Schools. The Chair thanked the staff for all they do and encouraged everyone to donate blood.

Adjournment

There being no further business before the Board, Vernon Gammon moved to adjourn the meeting. John Ebbighausen seconded the motion and the motion passed by unanimous vote of 10-0. Joshua Smith and Lentz

Brewer were not present for the vote. The meeting was adjourned at 12:40 p.m. in memory of Officer Gabriel Torres and Stan Elrod.