



Minutes

BOARD OF TRUSTEES

OF THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

The regular quarterly meeting of the Board of Trustees was called to order at 9:30 a.m., April 25, 2019, 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

Treasurer Dale R. Folwell, Cleveland "Clee" Atkinson, Jr., Lentz Brewer, Allen Buansi, David Dear, Vernon Gammon, Kevin Gordon (via telephone), Claire Miller on behalf of Mark Johnson, Greg Patterson, Sally Sandy (via telephone), and Ashley Wooten (via telephone).

Members Absent

The board members absent were Brenda Howerton and Aaron Meredith.

Guests Present (via Telephone)

Bill Medlin with The Professional Educators of North Carolina, Mike McCann from Prudential, and Larry Langer and Wendy Ludbrook from Cavanaugh Macdonald Consulting.

Department of State Treasurer Staff Present

Steve Toole, Thomas Causey, Joan Fontes, Timeka Holden, Patrick Kinlaw, Fran Lawrence, Frank Lester, Vicki Roberts, Anne Roof, Christina Strickland and Lorraine Whitman.

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 Local Minutes from the January 31, 2019 Board Meeting

It was moved by Allen Buansi, seconded by David Dear, and carried unanimously by the Board that the minutes from the Board meeting held on January 31, 2019, be approved.



Retirement Systems Division Operations

The Chair recognized Thomas Causey, Deputy Director of Operations, Vicki Roberts, Deputy Director of Member Services and Patrick Kinlaw, Director of Policy, Planning & Compliance for an update on the Division's operations. Mr. Causey reviewed the key takeaways from the operations report, noting that the upcoming months will be the start of the Retirement Systems Division's busiest retirement time of the year. Mr. Causey spoke about the metrics report for Operations, stating that retirement processing is at a 99.6% pay out rate as of the end of March, and the benefit processing for disability applications was at about 15 day processing period. Mr. Causey also stated that refund request numbers were at 1,117 at the end of March, with an average of 12 day rate to process the requests along with an average monthly payroll processing of \$559 million.

The Chair recognized Deputy Director of Member Services, Vicki Roberts, for a presentation on the metrics for Member Services. Ms. Roberts stated that one-on-one counseling is available in the same month, and that the on-line retirement education registration that is offered helps reach more people. Ms. Roberts reported on metrics around member correspondence noting that the response time was at 3.5 days, exceeding the established goal. She stated that there were 165 total retirement education meetings and webinars for the 2018/2019 fiscal year, with an attendee count of 10,258. Next, Ms. Roberts reported on the metrics of the Call Center. She noted that as of the end of March, Member Services' busiest call volume time of the year, that about 76 percent of calls were answered in one minute or less.

The Chair recognized the Director of Policy, Planning and Compliance, Patrick Kinlaw. Mr. Kinlaw informed the Board of steps that staff has taken to notify LGERS employers about the amendment to the LGERS Employer Contribution Rate Stabilization Policy (or ECRSP), which the Board adopted at its January 2019 meeting. These steps have included notification in two monthly newsletters to employers, a handout distributed by Department staff at certain meetings, and staff participation in a webinar hosted by the N.C. League of Municipalities, where nearly 200 participants learned more about the change and had the opportunity to ask questions. Most notably, RSD's Operations team made it a priority to send out the individualized contribution rate letters to each employer, sending those letters on March 19, more than a month ahead of the usual schedule.

Mr. Kinlaw reported that one of the Compliance section's responsibilities is to administer invoices when retirement benefits exceed the Contribution-Based Benefit Cap (CBBC). This results from what is commonly known as the "anti-pension spiking" law. Since 2015, the Retirement Systems have issued invoices related to 223 retirements, averaging around 50 per year. During that time, the Retirement Systems have invoiced more than \$21 million and collected more than \$15 million.



Mr. Kinlaw also reported on the history of collection of overpayments that are owed to the Retirement Systems Division. The actual collections from January through March of 2019 were \$2.37 million. For the first nine months of the fiscal year, compared to nine months' worth of the annual goal, which would be \$7.5 million, the total overpayment collections were \$7.6 million. The total outstanding number of identified overpayments increased significantly during the quarter, from about \$32.0 million to about \$37.8 million, primarily because of the identification of several large overpayments.

Mr. Kinlaw also reported on the Compliance team's role in reviewing situations that may have resulted in underpaying or overpaying a member or their designated beneficiary. For example, as the Boards have been informed in prior meetings, in 2018 RSD identified 41 individuals who had received significant overpayments from TSERS or LGERS under Option 4 (the "Social Security leveling" form of payment). The main reason for the overpayment was that their benefit was supposed to be reduced after they turned 62 but it was not. The total amount that was overpaid to these individuals exceeded \$6 million. The retirees' benefits were adjusted in August 2018 to be equal to the correct prospective monthly benefits. RSD contacted the retirees prior to this adjustment to explain why their benefit was being reduced. In early 2019, the calculations of overpayments were finalized, and members were informed by letter and by phone about the plan for recovering the overpayment. North Carolina law dictates that agencies cannot forgive an overpayment of State funds and have a duty to recover the overpayment by all lawful means available. Members may appeal the Retirement Systems' actions in writing, and once exhausting appeals within the Department they may choose to appeal to the Office of Administrative Hearings.

Investment Advisory Committee (IAC) Update

The Chair recognized Greg Patterson for an update from the most recent IAC meeting on February 20, 2019. Mr. Patterson reported that the fourth calendar quarter of 2018 had been a difficult investment environment, with some improvement seen by February 2019. Mr. Patterson also stated that the North Carolina Retirement Systems are managed more conservatively than other plans, which tends to reduce the magnitude of both favorable and unfavorable outcomes, compared to what others might experience. Staff has been building out passive funds that are managed in-house, and 48 percent of the funds are in-house. The IAC meeting in February included a presentation by a consultant from Strategas on federal policy and investments, as well as a staff presentation on the Retirement Systems' real estate investments. 63 percent of the Retirement Systems' real estate allocation is to core real estate, focused on income, and 37 percent is to non-core real estate, focused on growth.

Overview of Retirement Systems Division's Legislative Agenda for 2018 Short Session of the North Carolina General Assembly



The Chair reported that the Department continues to advocate for a 4 percent increase to the appropriations toward State Health Plan premiums. The Chair also stated that there is a need for reforms to the disability income plan.

Presentation of the Restated Actuarial Valuation Report as of December 31, 2017 for LGERS

The Chair recognized Patrick Kinlaw, Director of Policy, Planning, and Compliance, for a discussion of Cavanaugh Macdonald's restated actuarial valuation report for LGERS as of December 31, 2017. Mr. Kinlaw stated that at the October 2018 meeting, the Board accepted an actuarial valuation report prepared by the consulting actuary, Cavanaugh Macdonald Consulting. Shortly before the January 2019 Board meeting, RSD staff identified items in Cavanaugh Macdonald's report needing restatement. Cavanaugh Macdonald prepared a restated report in late January. Mr. Kinlaw explained that the restated report is being presented to the Board for acceptance, now that staff has had the opportunity to review it.

Mr. Kinlaw reported that the restatement does not affect the primary conclusions of the valuation report, as to the funded percentage of LGERS as of December 31, 2017, the actuarially determined employer contribution rate for the fiscal year ending in 2020, or similar items related to the current actuarial valuation. The restatement affects the multi-year projections of funded percentages and funding requirements for years into the future, which are included in the report. Additionally, Mr. Kinlaw reminded the Board that when the revision to the funding policy (ECRSP) was discussed at the January Board meeting, it was already known that Cavanaugh Macdonald would be issuing a restated report, and the ECRSP discussion already incorporated all the revised information about the multi-year projections. In early February, after RSD staff had reviewed the restated report, it was posted to the Retirement Systems' website for viewing.

It was moved by Allen Buansi, seconded and carried unanimously by the Board to accept the restated LGERS actuarial valuation report as of December 31, 2017.

Setting of Employer Contribution Rates Effective July 1, 2019, for the Firefighters' and Rescue Squad Workers' Advisory Pension Fund

The Chair recognized Steve Toole, Executive Director of the Retirement Systems Division (RSD), for a presentation of the funding alternatives for the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF). Mr. Toole began by stating that under the State Contribution Rate Stabilization Policy (SCRSP), the Board would recommend an appropriation equal to the greater of (1) the prior year's appropriation plus \$350,000, or (2) the actuarially determined contribution. For the fiscal year ending in 2020, item (1) is equal to the appropriation for the fiscal year ending in 2019 (\$18,302,208) plus \$350,000, or \$18,652,208. For fiscal year ending 2020, item (2) is \$14,323,684 according to the most recent FRSWPF actuarial valuation report. This item (2) is the



actuarially determined contribution amount that would fund the system using the Board's assumptions adopted on January 21, 2016, as amended for changes since then to the expected rate of investment return. It uses plan population and asset information as of December 31, 2017. The SCRSP results in a recommended state contribution of \$18,652,208 for the fiscal year ending in 2020 which is the greater of items (1) or (2).

Mr. Toole reported that under the SCRSP, a benefit increase may be considered when the FRSWPF has undistributed investment gains, which means that the deferred gains exceed its deferred losses. Additionally, under the SCRSP, a benefit increase would require an increase in the member contribution rate to achieve a balance of cost sharing closer to 50/50 between members and the state. Members currently contribute \$10 per month over the course of 20 years (a total of \$2,400). As documented in the consulting actuary's valuation report, a benefit increase would require that the member contribution be increased to \$15 per month.

It was moved by the Board, and carried unanimously to recommend a State appropriation of \$18,652,208 to the Firefighters' and Rescue Squad Workers' Pension Fund, with an accompanying recommendation that the benefit and contribution rates be unchanged.

Board of Trustees Comments

The Chair asked the Board if there were any comments prior to adjournment of the meeting. The Board had no additional comments.

Local System Adjournment

There being no further business, the Board moved to adjourn, and the meeting was unanimously adjourned at 11:11 a.m.

CHAIR

SECRETARY