



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 9:31 a.m., April 23, 2020, by the Acting Chair, Thomas Causey, Executive Director of the Retirement Systems Division. The meeting was held remotely via GoToWebinar.

The Acting Chair thanked the members of the Board for their service. The Acting Chair indicated there would be a public comment period for organizations and individuals to address the Board later in the agenda.

Members Present via GoToWebinar

Treasurer Dale R. Folwell, John Ebbighausen, Vernon Gammon, Dirk German, Barbara Gibson, Linda Gunter, Oliver Holley, Kathryn Johnston (designee for Mark Johnson), Greg Patterson, Margaret Reader, and Jeffrey Winstead.

Members Present via GoTo Webinar But Unable to Participate Due to Technical Difficulties

Lentz Brewer and Joshua Smith.

Members Absent

None.

Guests Attending via GoToWebinar

Jonathan Craven and Larry Langer of Cavanaugh Macdonald Consulting LLC, Katherine Murphy from the North Carolina Attorney General's Office, and Michael McCann from Prudential.

Department of State Treasurer Staff Present via GoToWebinar

The staff members present were: Thomas Causey, Christy Farrelly, Joan Fontes, Elizabeth Hawley, Bryan Jackson, Patrick Kinlaw, Fran Lawrence, Richard Lopez, Christopher Morris, Lisa Norris, Vicki Roberts, Laura Rowe, Christina Strickland, and Sam Watts.

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 Local Minutes from the January 29, 2020 Board Meeting

It was moved by John Ebbighausen, seconded by Margaret Reader, and carried unanimously by the Board that the minutes from the Board meeting held on January 29, 2020 be approved.

Retirement System Division Administration Update

The Acting Chair recognized Rick Lopez, Director of Operations, Vicki Roberts, Director of Member Services and Patrick Kinlaw, Director of Policy, Planning & Compliance for an update on the Division's operations.

The Acting Chair recognized Director of Operations, Rick Lopez. Mr. Lopez began by thanking the Department of State Treasurer staff and help desk team for assisting with transition of the staff to remote working. He noted that everyone is working remotely, except mail room employees, and the imaging team. Mr. Lopez stated there were 1,011 retirement applications received in March with an average turnaround time of 26.5 days, and 100% of those who were retiring 60 days in advance were paid on time. Mr. Lopez reported that 769 death notifications were received in March with a turnaround time of 24 days, and disability applications were processed averaging a 26.8 day turnaround. Mr. Lopez further stated that March monthly payroll was \$331,118,000, and 36% of those applying for retirement are utilizing online applications. He noted that the online application utilization rated was 22-23% prior to March. Mr. Lopez stated that online beneficiary updates increased after the most recent online update, noting the update provided a more user friendly experience, and that the online reporting for Fire & Rescue was anticipated to go live in May with a gradual role out.

The Acting Chair recognized Director of Member Services, Vicki Roberts, for an update on Member Services. Ms. Roberts stated that 14,000 correspondences were processed for the quarter, with 6,600 of those being processed in March. Ms. Roberts further noted that the call center reduced staff numbers due to COVID on March 16th, and converted all calls to e-mails effective March 21st, but that all correspondence was being processed within 7 days. Ms. Roberts provided an update that the Educational Retirement Group has held 167 meetings this year, reaching over 8,000 individuals. Ms. Roberts stated that the education strategy for 2020 includes less travel and relies more on technology, including live webinars every Wednesday in addition to the four scheduled webinars per month. She also noted that these recorded sessions will be available online, so that members can access them 24 hours a day, 7 days a week. Ms. Roberts stated there have been over 800 scheduled appointments and 900 drop-ins during the quarter, even though the office closed to visitors on March 17th. They contacted every appointment to offer virtual appointments, and 72 virtual appointments occurred in March. Over 40 of those converted from face-to-face appointments to virtual appointments for the future. Regarding e-mails, Ms. Roberts stated that in preparation for COVID, the call center employees were trained to assist with answering e-mails and Member Services has processed over 14,000 e-mails for the quarter with over 12,000 responses in less than three days. Ms. Roberts reported that when the call center transitioned to e-mail only, they went from receiving 100 e-mails to 600 e-mails in a day. They have answered 3,200 e-mails since March 23rd, have received 8,400 e-mails so far for April, and it is currently taking 4-5 days to respond. Ms. Roberts stated that for the call center the average speed of answer was less than three minutes and that out of 70,600 calls only 8% hung up before the call could be answered. Lastly, Ms. Roberts noted the measures that have been put in place to assist during COVID. She stated that they have been working with the communications staff to update the website with as much information as possible, including videos regarding the top questions received in Member Services. They also worked with DIT to install software on the counselors' computers for them to be able to make and receive recorded calls from their computers while teleworking. Ms. Roberts reported that they also created an emergency voicemail box to assist members who did not have access to email. The voicemail messages are transcribed to email, so the messages can be sent to retirement counselors for research and responses to members.

The Acting Chair recognized Director of Policy, Planning & Compliance, Patrick Kinlaw. Mr. Kinlaw stated that collections for the past 12 months were over \$10 million, and that uncollected overpayments as of the end of March were approximately \$38 million. Mr. Kinlaw reported that since 2015, invoices for CBBC liabilities have been issued with respect to 303 retirements from the State (TSERS) and Local (LGERS) systems, at an average of 58 invoices a year. Mr. Kinlaw stated that more than \$30 million have been invoiced and more than \$24 million have been received. Mr. Kinlaw noted that reports from an actuarial audit conducted for the Office of the State Auditor were included in the appendix to the materials for today's meeting. He reminded the Board that the consulting actuary, Cavanaugh Macdonald Consulting, has begun its five-year experience review scheduled for 2020. He provided a brief update on the release of the second exposure draft of Actuarial Standard of Practice (ASOP) No. 4 from the Actuarial Standards Board. Mr. Kinlaw provided an update on the exit of Pioneer Springs Charter School from TSERS. He stated that the school exited effective December 1, 2019 and paid its withdrawal liability in full February 2020. He explained that the employees are entitled to benefits earned prior to December 2019, but that they cannot collect retirement benefits or refunds of contributions until their employment with the school ends. Lastly, Mr. Kinlaw provided information regarding the Retirement Systems' calendar year 2019 investment returns and their relevance to cost-of-living adjustments (COLAs).

Retirement System Division Litigation Update

The Acting Chair recognized Katherine Murphy with the North Carolina Department of Justice to provide an update on litigation related to the contribution-based benefit cap. Ms. Murphy stated that the recent North Carolina Supreme Court decision held that the adoption of the cap factor is subject to the rulemaking provisions of the North Carolina Administrative Procedure Act (APA). She explained that the Supreme Court's reasoning was that the anti-pension-spiking legislation did not explicitly exempt the cap factor from the APA, and for an implicit exemption from the APA to be recognized, it must be abundantly clear that the General Assembly intended such a result. She stated that the Court concluded that it was not clear that the General Assembly intended to implicitly exempt the Board of Trustees from complying with the rulemaking provisions of the APA when establishing a cap factor.

Overview of the Retirement Systems Division's Legislative Agenda for 2020 Short Session of the North Carolina General Assembly

The Acting Chair recognized Sam Watts to provide an update on the RSD Legislative Agenda. Mr. Watts noted that the North Carolina General Assembly plans to come back in the next week, but most committee meetings will be held virtually. Mr. Watts described two retirement provisions being discussed that were not introduced in the 2019 long session. The first provision seeks authority for the Retirement Director to give interim approval regarding disability cases subject to final review by the disability board. The second provision would enact an exemption from certain requirements that generally apply to retirees returning to work, if they are returning in jobs related to the pandemic. A third provision would allow for the ability to manage premium payment deadlines for State Health Plan. Mr. Watts also provided an update on regulations proposed by the federal Office of Management and Budget under 2 CFR Part 200.431, related to federal reimbursement of pension-related expenses for positions funded by federal grants or contracts, and a comment letter submitted by the Department on the proposed regulatory changes.

Update on the Investment Advisory Committee (IAC) Meetings

The Acting Chair recognized Christopher Morris to provide an update on the IAC meetings. Mr. Morris reviewed the last IAC meeting that was held on February 19, 2020. He noted that at that meeting, the IAC reviewed the calendar year 2019 performance for the retirement system, with an absolute return of 14.88% that more than doubled the Board's long-term assumption of 7% per year. Mr. Morris further stated the IAC also received a

federal policy update from Strategas, and reviewed the inflation-sensitive portfolio, which accounts for 6% of the portfolio. Mr. Morris stated that since the IAC meeting, there has been a capital market shock due to the unprecedented COVID situation, a labor market collapse, and a likely decline in Gross Domestic Product. However, the Retirement Systems were well-positioned heading into this situation, with 40% of the portfolio invested in fixed income or the short-term investment fund and only about 30% invested in public equity. As a result, 2020 calendar year-to-date return has been approximately -4%, while broader equity market performance has been in the range of -13% to -20%. Further, Mr. Morris noted the fiscal year to date has a positive return and that dislocations in the market have created investment opportunities.

Recommendation for “Date Set by Board of Trustees” under N.C.G.S. §135-8(f)(3) for Employer Contributions Satisfying Contribution-Based Benefit Cap Liabilities

The Acting Chair recognized Patrick Kinlaw to discuss the recommendation for the “Date Set by Board of Trustees”. Mr. Kinlaw stated that when employers owe contributions to TSERS or LGERS, the Board is required to set a date that the contributions must be paid. If the required contribution is not paid within 90 days of that date, the Board is required to request an interception of State appropriations to satisfy the delinquency. Mr. Kinlaw noted that currently the due date for contribution-based benefit cap liabilities is one year after the employee’s effective retirement date, but staff is recommending that both the TSERS and LGERS Boards extend the due date under their policies to be the later of one year after the effective retirement date, or six months from the date of the invoice. This would address the rare situation where a contribution-based benefit cap liability arises only after a recalculation of a retiree’s benefit that occurs several months after the individual’s retirement.

It was moved by Greg Patterson, seconded by Dirk German. Dale Folwell, Barbara Gibson, Jeffrey Winstead, Johns Ebbighausen, Linda Gunter, Margaret Reader, Kathryn Johnston, and Oliver Hardy voted in support of the motion and a vote by Vernon Gammon, Joshua Smith, and Lentz Brewer was not recorded possibly due to technical difficulties. The motion carried.

Actuarially Determined Employer Contribution (ADEC) Projections

The Acting Chair recognized Jonathan Craven with Cavanaugh Macdonald Consulting LLC. Mr. Craven provided an overview of ADEC projections for various scenarios, including the sensitivity of the TSERS and LGERS funded percentages and employer contribution rates if the rate of investment return for calendar year 2020 turns out to be at various levels in the range of -14% to +14%.

Public Comment Period

The Acting Chair recognized Richard Rogers, on behalf of the North Carolina Retired Government Employees’ Association. Mr. Rogers thanked the staff of the retirement system for doing a good job during the COVID-19 crisis. Mr. Rogers stated staff has done a great job online and the association appreciates their efforts and support.

Motion to Move to Closed Session

Oliver Holley made a motion to move to the closed session, which was seconded by Linda Gunter, and the meeting was unanimously closed at 12:26 p.m.

Closed Session Pursuant to N.C.G.S. § 143-318.11(a)(3)

Katherine Murphy advised the TSERS Board members on pending litigation matters.

Motion to Reopen State Board Meeting

After concluding the closed session, Greg Patterson moved to reopen the State Board Meeting, which was seconded by Linda Gunter, and the meeting was unanimously reopened at 12:50 p.m.

Board of Trustees Comments

Oliver Holley thanked the staff for everything they have done during this time to ensure business continued to run as normal as possible. He further thanked teachers and administrative professionals for their work during this time.

Adjournment

There being no further business before the Board, Margaret Reader moved to adjourn, which was seconded by Linda Gunter, and the meeting was unanimously adjourned at 12:53 p.m.