



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 regular quarterly meeting of the Board of Trustees was called to order at 9:00 a.m., July 28, 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, John Ebbighausen, Barbara Gibson (via telephone), Linda Gunter, Oliver Holley (via telephone), Greg Patterson (via telephone), Margaret Reader (via telephone), Joshua Smith, Catherine Truitt (via telephone) and Jeffrey Winstead.

Members Absent

Vernon Gammon and Dirk German.

Guests in Attendance in Person or via Telephone

Representative Allen McNeill and Representative Pat Hurley from the North Carolina General Assembly, Benny Brigman from the State Employees' Association of North Carolina, and Michael Reid from CEM Benchmarking.

Department of State Treasurer Staff Present in Person or Via Telephone

The staff members present were: Ted Brinn, Thomas Causey, Elizabeth Hawley (via telephone), Patrick Kinlaw, Richard Lopez, Taylor Matyi, Timothy Melton, Lisa Norris, Laura Rowe, 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 April 28, 2022 Board Meeting

Barbara Gibson moved the Board to adjust the minutes of the April 28, 2022 Board meeting to reflect additional details from her comments regarding retiree COLAs and to approve the minutes of the April 28, 2022 Board meeting subject to that adjustment. Margaret Reader and Linda Gunter requested that Barbara Gibson's motion incorporate adjustments to reflect additional details from their own comments on the same subject. Oliver Holley seconded the motion, and the minutes subject to these adjustments were approved by a unanimous vote of 10-0. Joshua Smith was not present for the vote.

Resolution of Appreciation and Presentation of the North Carolina State Treasurer’s “Order of the Keeper of the Public Purse Award” to Representative Allen McNeill

The Chair presented Representative Allen McNeill with the “Order of the Keeper of the Public Purse Award”. The chair expressed his deep appreciation and gratitude to Representative McNeill for his leadership and public service.

Jeffrey Winstead made a motion to approve the Resolution, Catherine Truitt seconded the motion, and the motion was approved by a unanimous vote of 9-0. Lentz Brewer and Joshua Smith were not present for the vote.

Presentation on the Defined Benefit Administration Benchmarking Analysis Report

The Chair recognized Michael Reid of CEM Benchmarking for a presentation on the Defined Benefit Administration Benchmarking Analysis Report. Mr. Reid discussed cost analysis noting a total pension administration cost of \$27 per active number which was \$74 below the peer average and the second lowest in CEM’s global universe. Mr. Reid noted an increase of 2.4% in the Retirement Systems’ total pension administration cost per active member from 2015 to 2021. Mr. Reid further discussed the Retirement Systems’ service analysis noting a total service score of 71, below the peer median of 77 and decreasing by 1 point between 2015 and 2021. Mr. Reid stated that the addition of new online tools and improvements had a positive impact on the service score but negative changes in key metrics for the call center and 1-on-1 counseling offset the positive additions.

Operations, Member Services, and Compliance Update

The Chair recognized Rick Lopez, Director of Operations for an update on the Division’s operations. Mr. Lopez noted that the team processed 1,326 retirements in June of 2022 with an average turnaround time of 40.6 days. Mr. Lopez discussed death notifications, noting 934 death notifications in June 2022 with an average turnaround time of 54.8 days. Mr. Lopez discussed disability application processing, noting that the team processed 281 applications in June 2022 with a 17.4-day turnaround time. Mr. Lopez discussed refund requests, noting that over the last 12 months the team processed an average of 1,200 refund requests a month well under the 20-day turnaround goal. Mr. Lopez also discussed monthly payroll processing, stating that in June 2022 the Divisions paid over 350,000 payees with a total payment amount of over \$580,000,000. Mr. Lopez mentioned that ORBIT Self Service usage had over 1.5 million retirement estimates, 12,000 address changes, 58,000 direct deposit changes, 90,000 tax withholding changes, and 328,000 beneficiary changes over the last 12 months. Mr. Lopez finished by noting the Division successfully launched the Refunds Online application and have already had almost 1,800 people use the application.

The Chair recognized Thomas Causey for a presentation on the metrics for Member Services. Mr. Causey began by noting Interim Director of Member Services, Tonya Bass, was out this week on a pre-planned vacation but that she has now been the Interim Director of Member Services for more than 3 months. Mr. Causey provided a brief update on staff vacancies and positions that have been filled. Mr. Causey moved on to discuss the metrics for Member Services, referring to the chart showing the number of pieces of correspondence or letters received, and noting that staff has been able to bring down response times largely due to filling vacant positions. Mr. Causey referenced the Meetings and Webinar slide noting over the past fiscal year over 10,000 members and 1,000 employers attended. Mr. Causey 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. Mr. Causey

touched on emails and calls received noting that emails turnaround has improved due to filling vacant positions and that the team is still working to bring phone answer times down.

The Chair recognized Director of Policy, Planning & Compliance, Patrick Kinlaw. Mr. Kinlaw began by discussing Contribution-Based Benefit Cap liabilities, noting that 529 retirements since 2015 have resulted in required employer contributions totaling more than \$51.8 million, and of that amount, around \$42 million has been collected. Mr. Kinlaw then updated the Boards on the transition of actuarial services to the new provider, Buck, stating that the transition is continuing smoothly, and that Buck is expected to present the actuarial valuations as of December 31, 2021 at the Boards' meeting in October. Mr. Kinlaw noted that because those reports will be based on funded position as of December 31, 2021, they will not include results about the challenging investment conditions that have existed so far during 2022. He noted that whatever the 2022 investment returns are, they need to be understood against the benchmark of the Boards' long-term assumed return of positive 6.5% per year.

Mr. Kinlaw concluded with a description of legislative provisions enacted by the General Assembly during 2022 that are significant to the Retirement Systems. These included the 2022 State budget adjustment law, Session Law 2022-74, which provided a one-time supplement to State retirees payable in October 2022 equal to 4% of their annual pensions, and also provided for a one-time mechanism to set aside employer contributions to the State employee death benefit fund to pay line-of-duty death benefits during the fiscal year ending 2023 if necessary; the Retirement Administration Changes law, Session Law 2022-14, which had several provisions including an update to the process for employing units who become "inactive"; Session Law 2022-70, which extended for one year the moratorium on school boards filing litigation related to pension spiking assessments, extended the time period for the working group on recommendations, and required employers seeking to join LGERS who are not taxing authorities to obtain a surety describing how they would cover a withdrawal liability; Session Law 2022-53, which allows charter schools to participate in the Ancillary Governmental Participant Investment Program; the Retirement Technical Corrections Law, Session Law 2022-16; and the Budget Technical Corrections law enacted in March, Session Law 2022-6, which includes provisions related to line-of-duty death benefits.

Legislative Update

The Chair recognized Sam Watts to provide an update on the legislative session. Mr. Watts discussed the recent legislative changes from Mr. Kinlaw's presentation, as well as other legislation affecting the Department of State Treasurer. Mr. Watts reminded the Board that it is the Division's main priority to fully fund the Retirement System.

Update on the Investment Advisory Committee (IAC) Meetings

The Chair recognized Greg Patterson to provide an update on the IAC meetings. Mr. Patterson stated the last IAC meeting occurred on May 25, 2022, where the meeting included a performance update, a review of the investment policy statement, a review of the public policy outlook, a review of the real estate asset class, and a discussion on the IAC Code of Ethics.

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 received a performance reward on July 8, 2022 from United Health Care in the amount of \$583,757.93 for the dental and vision plans. Mr. Causey stated that staff

recommends the Board makes the determination that fund 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.

Linda Gunter 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. Jeffrey Winstead seconded the motion and the motion passed with a unanimous vote of 8-0. Barbara Gibson, Oliver Holley, and Joshua Smith were not present for the vote.

Transfer of Funds from the Code Section 501(c)(9) Trust to the Code Section 115 Trust and Termination of the Code Section 501(c)(9) Trust

The Chair recognized Timothy Melton, Assistant General Counsel for the Retirement Systems Division. Mr. Melton discussed the General Assembly’s enabling legislation effective July 1, 1979, which authorized the Board to establish a trust fund qualified under Section 501(c)(9) of the Internal Revenue Code, and the relevant Agreement executed by the Board on October 25, 1979. Mr. Melton noted that the North Carolina Teachers’ and State Employees’ Benefit Trust was subsequently established on January 1, 1980 and funded to provide death benefits for: (1) retired members of the Legislative Retirement System, the Local Governmental Employees’ Retirement System (LGERS), the Teachers’ and State Employees’ Retirement System (TSERS), and the Consolidated Judicial Retirement System; (2) active members of the LGERS and TSERS; and (3) active and retired State and Local Governmental Law Enforcement Officers.

Mr. Melton further discussed legislation enacted in 2017 that similarly created a master trust under N.C.G.S. § 135-7(g) to provide an irrevocable source of funding for the previously mentioned death benefits. This master trust is also named the “North Carolina Teachers’ and State Employees’ Benefit Trust”. Mr. Melton stated that this statutory master trust (1) simplified the structure of the trust vehicle, (2) provided greater transparency, and (3) protected the trust fund assets from misuse. Mr. Melton concluded by explaining the actions needed to effectuate the transfer of funds from the trust established on January 1, 1980 to the master trust created under N.C.G.S. § 135-7(g) concurrently with the termination of the trust established on January 1, 1980.

John Ebbighausen made a motion to approve the resolution to transfer of funds to the master trust created under N.C.G.S. § 135-7(g) and adopt the termination instrument to dissolve the trust established on January 1, 1980. Linda Gunter seconded the motion and the motion passed with a unanimous vote of 8-0. Barbara Gibson, Oliver Holley, and Joshua Smith were not present for the vote.

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, 2022, 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, 2022 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.

John Ebbighausen moved to accept the report, Jeffrey Winstead seconded the motion, and the motion was approved by unanimous vote of 8-0. Barbara Gibson, Oliver Holley, and Joshua Smith did not vote.

Public Comments

The Chair recognized Benny Brigman, Retiree Council Chair from the State Employees Association of North Carolina, for a public comment regarding retiree cost of living adjustments.

Board of Trustees Comments

Linda Gunter thanked the Division's staff for being proactive in changing circumstances. She stated that in representing retired educators, she does not feel that the three permanent 1% cost-of-living increases granted by the General Assembly in the past decade have been sufficient. She stated that although one-time supplemental payments are appreciated, retired teachers in some other states receive automatic permanent cost-of-living increases each year.

Jeffrey Winstead expressed his appreciation for the information presented by CEM Benchmarking and stated his agreement with the sentiments that Mr. Brigman expressed during the public comment period.

John Ebbighausen thanked the Division's staff for their continued efforts. The Chair stated that the purpose of the work of the Boards and staff is to preserve, strengthen, and sustain the Retirement Systems. The Chair requested that the meeting be closed in honor of the distinguished public service of Representative Allen McNeill and Representative Pat Hurley.

Adjournment

There being no further business before the Board, Linda Gunter moved to adjourn the meeting. Jeffrey Winstead seconded the motion and the motion passed by unanimous vote of 7-0. Catherine Truitt did not vote. The meeting was adjourned at 12:30 p.m.