



**North Carolina**  
Total Retirement Plans



*Dale R. Folwell, CPA*  
STATE TREASURER OF NORTH CAROLINA  
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## **MINUTES**

### **BOARD OF TRUSTEES OF THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM**

The regularly quarterly meeting of the Board of Trustees was called to order at 9:30 a.m., January 29, 2020, 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 Atkinson, Allen Buansi, David Dear, Vernon Gammon, Kathryn Johnston (designee for Mark Johnson), Greg Patterson, and Sally Sandy.

#### **Members Attending via Telephone**

Aaron Meredith and Ashley Wooten.

#### **Members Absent**

Lentz Brewer, Kevin Gordon, and Brenda Howerton.

#### **Guests Attending**

Jonathan Craven and Larry Langer of Cavanaugh Macdonald Consulting LLC, Anne DarConte of Hill Staffer LLC representing the North Carolina Retired School Personnel, Matt Herman from Prudential, Katherine Murphy from the North Carolina Attorney General's Office, Richard Rogers from The North Carolina Retired Governmental Employees' Association, and David Vanderweide from the staff of the North Carolina General Assembly.

#### **Guests in Attendance via Telephone**

Bill Medlin from The Professional Educators of North Carolina.

#### **Department of State Treasurer Staff Present**

The staff members present were: Thomas Causey, Chris Farr, Christy Farrelly, Ben Garner, Elizabeth Hawley, Patrick Kinlaw, Fran Lawrence, Frank Lester, Rick Lopez, Lisa Norris, Vicki Roberts, Christina Strickland, Sam Watts, and Dan Way.

#### **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. Greg Patterson identified a potential conflict of interest stating that the Annual Report on Supplemental Retiree Insurance agenda

item raises a potential conflict of interest because his firm offers supplemental insurance and holds current contracts with the State of North Carolina. Christina Strickland, General Counsel for the Retirement Systems, stated that there does not appear to be a conflict of interest in this situation because the Board would only be accepting a report on current supplemental insurance offerings and participation rates. Therefore, Mr. Patterson would not need to recuse himself. There were no further conflicts of interest identified by the Board members.

### **Approval of the Local Minutes from the October 31, 2019 Board Meeting**

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

### **Retirement System Division Administration Update**

The 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 Chair recognized Director of Operations, Rick Lopez. Mr. Lopez reviewed the key takeaways from the operations report, noting that in December the Retirement Systems processed over 800 retirement requests with an average of a 22 day turnaround from when the request was received until the member's option election forms were mailed. Mr. Lopez reported that the Retirement Systems received 800 death notifications in December, noting that the team is now fully staffed and trying to focus on improving turnaround times to ensure payment quickly. Mr. Lopez additionally reported on disability applications and reexaminations, as well as refund processing and payroll processing as it relates to the upcoming tax season. Mr. Lopez reported that the self-service online application for retirement is at 20% participation with no advertising efforts. Further, Mr. Lopez discussed enhancements made to the online service. The Chair emphasized that it is very important for members to designate beneficiaries for the various purposes relevant to the Retirement Systems, and to keep those designations updated.

The Chair recognized Director of Member Services, Vicki Roberts, for a presentation on the metrics for Member Services. Ms. Roberts reported on member correspondence. She noted that RSD continues to answer correspondence within the established turnaround time, meeting or exceeding its goals. Ms. Roberts specifically noted that during the last quarter the Educational Retirement Group responded to over 6,600 letters in an average of 3.8 days. Ms. Roberts reported on the Educational Retirement Group Meetings and Webinars as well as the number of office visitors and counseling sessions, noting that from July 2019 through December 2019, 127 education meetings were held and during the last quarter, around 1,400 counseling sessions occurred. Ms. Roberts reported on the call center service level, noting that the call center goal is to answer 65% of calls within 60 seconds or less. She further noted that during the past quarter the call center answered over 61,000 calls within an average of 72% answered within 60 seconds or less. Ms. Roberts discussed efforts made towards creating two- to three-minute videos that will be posted online where staff answer frequently asked questions. Ms. Roberts reported that four videos have been posted so far. Ms. Roberts further described improvements being made to travel strategy for the educational groups as well as hosting monthly live webinars. In response to a question from a Board member, Ms. Roberts reported that there are 32 counselors working in the call center, compared to an ideal staff size of 40, and that efforts are underway to reach capacity through recruiting and training. The Chair expressed appreciation for the employees in the call center and how effective they are in helping Retirement Systems members through major life events.

The Chair recognized Director of Policy, Planning & Compliance, Patrick Kinlaw. Mr. Kinlaw reported on contribution-based benefit cap (CBBC) liabilities. He noted that since 2015 the Retirement Systems have issued invoices related to 289 separate retirements. Mr. Kinlaw noted that the cumulative amount invoiced has exceeded

\$28.5 million and that over \$22.9 million has been collected. Mr. Kinlaw reported on the overpayments amount collected, noting that in the past twelve months, the actual collections were over \$10.4 million. Further, the total outstanding amount of identified overpayments was approximately \$38.6 million. Mr. Kinlaw discussed the legal opinion from the Retirement Systems' outside tax counsel, Groom Law Group, confirming that in order for a member of the Retirement Systems to retire and begin receiving a pension, the member must not have a "pre-arrangement" to return to employment with any employer in that Retirement System in any capacity. Mr. Kinlaw discussed that in response to some reporting about a situation last fall, there was confusion among members and employers regarding returning to work. In November 2019 the Retirement Systems notified participating employers of the legal opinion from Groom and posted the legal opinion to the Retirement Systems website. Mr. Kinlaw stated that staff has encouraged all employers to share the legal opinion with their Human Resources teams to ensure their employment policies agree with federal and state law, and to ensure their advice to members does not lead to unintended consequences. In response to a question from a Board member, Mr. Kinlaw noted that regarding the previously described re-employment situation, it had been publicly reported that the member had decided to delay retirement until there is no arrangement to return. In response to a question from a Board member regarding what an employer may discuss with a retiring employee about coming back to work after retirement, Mr. Kinlaw stated that there can be no pre-arrangement between the employer and employee that the employee will return in any capacity.

The Chair remarked that RSD is exceptionally busy during January, working on recurring annual activities, and that he appreciates the effective work that staff completes. The Chair stated that CBBC liabilities, if they were not assessed as required by law, would otherwise have been covered by other employers and taxpayers supporting the Retirement Systems. The Chair added, with regard to overpayment collections, that RSD is just as dedicated to resolving underpayment situations when those are discovered.

### **Annual Report on Supplemental Retiree Insurance**

The Chair recognized Thomas Causey for a report on supplemental retiree insurance. Mr. Causey noted that the Retirement Systems are required to give this report about insurance offerings and participation rates. Mr. Causey stated that the Retirement Systems partner with Pierce Insurance Agency who serve as the exclusive broker and administrator for the program. Currently, the products available to retirees are dental and vision through UnitedHealthcare and identity theft through LifeLock. Mr. Causey noted that both contracts, as well as the contract with Pierce Insurance Agency, expire December 31, 2020. Mr. Causey discussed 2020 Open Enrollment noting the numbers of new applications received and the total number of participants for coverage under the various benefits. He stated that 5,254 new dental applications were received, 5,304 new vision applications were received, and 1,703 new LifeLock applications were received. For the calendar year 2019 the Retirement Systems received 9,772 new dental applications, 9,216 new vision applications, and 2,429 new LifeLock applications. Further, Mr. Causey noted that as of December 31, 2019 the current total participants for both retirees and dependents are 119,886 dental, 100,200 vision, and 19,496 LifeLock. Mr. Causey further discussed the 2020 premiums for each product as well as the efforts that will be made with contract negotiations.

It was moved by Allen Buansi to accept the report, seconded by Cleveland Atkinson and carried unanimously.

### **Update on the Investment Advisory Committee (IAC) Meetings**

The Chair recognized Greg Patterson for an update on the IAC meetings. Mr. Patterson reported on the last IAC meeting, which was held on November 20, 2019, giving an update on the cost efficiencies initiative, noting that total savings since 2017 have reached \$226 million and are on track to reach \$334 million by December. Mr. Patterson gave brief updates on the economic environment, the portfolio, and private property assets. Mr.

Patterson noted that the 20 most prevalent investment managers in the portfolio handle 85% of the Retirement Systems assets. Mr. Patterson discussed that the IAC also discussed the benchmarking done by CEM Benchmarking. Mr. Patterson noted that although the 5-year return was less than that of some other public funds, the North Carolina Retirement Systems' assets are invested more conservatively, mainly because other public funds may feel a need to invest aggressively. Mr. Patterson further noted that \$100 million has been added to the portfolio just from staff efforts, which speaks to the cost efficiency of the Retirement Systems' management.

### **Review and Update on the 2019 Session of the North Carolina General Assembly**

The Chair recognized Sam Watts to give an update on the 2019 Session of the North Carolina General Assembly. Mr. Watts reported that the Department of State Treasurer has continued to receive good feedback from the General Assembly that they intend to fully fund the Retirement Systems. Mr. Watts also discussed that the Debt Affordability Advisory Committee had expressed support for dedicating recurring State budget funds to the Unfunded Liability Solvency Reserve. The Chair noted that the increasing cost of funding LGERS is particularly challenging for local governments in small communities.

### **Increase in the Amount of Reemployment Earnings Before Suspension of Retirement Allowance**

The Chair recognized Thomas Causey. Mr. Causey stated that statute lays out how much a retiree can earn once returning to a working position before the retiree loses their pension. As of 2019, a retiree could earn 50% of the compensation they received in the year before their retirement or a minimum of \$33,560, whichever is greater. Mr. Causey reported that according to the statutory language requiring an inflationary adjustment, the minimum dollar amount should be increased from \$33,560 to \$34,340 effective January 2020.

It was moved by Cleveland Atkinson to accept the report, seconded by Allen Buansi and carried unanimously.

### **Presentations on the 2020 Alternatives for the Local Governmental Employees' Retirement System Board**

The Chair recognized Patrick Kinlaw to present the recommendations to the General Assembly for the appropriate contribution rates or contribution amounts to fund the Retirement Systems effective July 1, 2020. Mr. Kinlaw noted that the recommendations are based on the findings of the actuarial valuation reports from Cavanaugh Macdonald Consulting as of December 31, 2018, that the Board accepted at its October 2019 meeting, as well as the funding policies that the Board has adopted.

Mr. Kinlaw presented the recommendation for the Local Governmental Employees' Retirement System, noting that in this case the Board is setting the employer contribution rate under its statutory authority, rather than making a recommendation to the General Assembly. Mr. Kinlaw stated that the employer contribution rate called for under the Board's funding policy (Employer Contribution Rate Stabilization Policy, or "ECRSP"), effective July 1, 2020, is 10.90% of pay for Law Enforcement officers, and 10.15% of pay for all other employees. Mr. Kinlaw noted that this is less than the actuarially determined employer contribution (ADEC) and that the ECRSP is a six year-policy where July 1, 2020 will mark the beginning of the fifth year. Further, Mr. Kinlaw noted that contributions made by local employers exceeded the ADECs for the first four years of the policy and are expected to fall short for the last two years, but the expectation is that they will be neutral to favorable when compared to ADECs for the whole six-year period. Mr. Kinlaw stated that local governments will see a year-over-year contribution increase totaling about \$80 million.

Mr. Kinlaw presented the recommendation for the Firefighters' and Rescue Squad Workers' Pension Fund noting that the ADEC amount was approximately \$14.8 million. The funding policy that the Board adopted in 2017 (State Contribution Rate Stabilization Policy, or "SCRSP") calls for the Board to recommend a contribution that

is at least equal to the ADEC but also at least \$350,000 greater than the current year's appropriation. Mr. Kinlaw noted that the current year's appropriation was \$18,652,208 and therefore the Board's recommendation would be that amount plus \$350,000, or \$19,002,208, which would exceed the ADEC by over \$4 million. Mr. Kinlaw stated that the additional \$4 million would ultimately be expected to improve the funding level of the plan by about two percentage points once it is contributed to the fund. Further, Mr. Kinlaw noted that the currently enacted appropriation for the second year of the biennium already includes the \$19,002,208 that the Board would be recommending.

Mr. Kinlaw presented the recommendation for the Registers of Deeds' Supplemental Pension Fund noting that staff does not believe it is necessary for the Board to make a recommendation to change either the contribution rates or the benefit structures.

Mr. Kinlaw presented the recommendations for the Death Benefit Plans where the Local Board has oversight, noting that staff does not believe it is necessary for the Board to make a recommendation to change either the contribution rates or the benefit structures.

### **Actuarially Determined Employer Contribution (ADEC) Projections for Local System**

The Chair recognized Larry Langer and Jonathan Craven from Cavanaugh Macdonald Consulting. Mr. Langer briefly discussed updates on projections that were given in October. Mr. Langer noted that the preliminary estimated rate of investment return for calendar year 2019 was 14.5%, which was 7.5% higher than expected. Mr. Craven reported that after the calendar year 2018 investment return of -1.5%, the Retirement Systems have now seen how both a -1.5% return and a 14.5% return can affect the funded levels and projections. Mr. Craven noted that in the current projection, the employer contribution rate was estimated to climb to be 12.98% of pay for law enforcement officers and 11.25% of pay for all other employees for the fiscal year ending in 2022, before gradually declining if the investment returns meet the assumption of 7% per year beginning in 2020 and there are no further assumption changes or other gains or losses. Further, under the current projection, Mr. Langer noted that the projected funded ratio is 100% by December 31, 2029.

### **Court Cost Offset for Law Enforcement Officers**

The Chair recognized Thomas Causey to report on the Court Cost Offset for Law Enforcement Officers. Mr. Causey noted that pursuant to state statutes the Department of State Treasurer is required to use certain funds derived from court costs to offset LGERS employer contribution rates paid in relation to law enforcement officers. Mr. Causey stated that the offset was last adjusted in January 2014 to 0.14% of compensation and has remained at that level through fiscal year ending June 30, 2020. Mr. Causey noted that as the Executive Director of the Retirement Systems Division, he has set the court cost offset of the LGERS employer contribution rate to be 0.20% of retirement-eligible compensation for law enforcement officers for the fiscal year beginning July 1, 2020.

### **Public Comment Period**

The Chair recognized Richard Rogers, on behalf of the North Carolina Retired Government Employees' Association.

### **Setting of Employer Contribution Rates Effective July 1, 2020, and Recommendations to the North Carolina General Assembly**

After hearing public comments, the Board made the following decisions and recommendations to the North Carolina General Assembly:

It was moved by Cleveland Atkinson, seconded by Sally Sandy and carried unanimously to increase the employer contribution rate for General Employees to 10.15 percent of payroll for non-Law Enforcement Officers and 10.90 percent for Law Enforcement officers for fiscal year ending 2021. The increase to the employer contribution is estimated to cost employers an additional \$80 million.

It was moved by Allen Buansi, seconded by Cleveland Atkinson and carried unanimously to recommend to the North Carolina General Assembly to increase the current appropriation to \$19,002,208 for the Firefighters' and Rescue Squad Workers' Pension Fund.

### **Board of Trustees Comments**

The Chair asked the Board if there were any comments prior to adjournment of the meeting. Sally Sandy and David Dear both thanked the staff and Board members for their hard work. Cleveland Atkinson stated he supports the efforts toward operational enhancements for the Firefighters' and Rescue Squad Workers' Pension Fund, noting that volunteer firefighters provide stability in our neighborhoods and communities and without them he could not do his job. Vernon Gammon reported the good news that Officer Charles Ainsworth, of the City of Raleigh, returned to work earlier in the month after being attacked in the line of duty last year. Kathryn Johnston thanked the staff for their professionalism. The Chair thanked the Board for their continuous work, and thanked staff for the way they handle difficult and escalated situations. The Chair requested that the meeting be closed in honor of Officer Charles Ainsworth who returned to work last week.

### **Adjournment**

There being no further business before the Board, Vernon Gammon moved to adjourn, which was seconded by the Chair, and the meeting was unanimously adjourned at 11:34 a.m.