



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., July 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, Clee Atkinson, Allen Buansi, David Dear, Vernon Gammon, Kathryn Johnston (designee for Mark Johnson) and Greg Patterson.

Members Attending via Telephone

Lentz Brewer, Kevin Gordon, Brenda Howerton, Aaron Meredith and Sally Sandy.

Others in Attendance via Telephone

Larry Langer and Wendy Ludbrook from Cavanaugh Macdonald Consulting.

Members Absent

Ashley Wooten.

Department of State Treasurer Staff Present

The staff members present were: Thomas Causey, Joan Fontes, Elizabeth Hawley, Timeka Holden, Patrick Kinlaw, Fran Lawrence, Frank Lester, Vicki Roberts, Anne Roof, Christina Strickland, Sam Watts 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.

Adoption of Resolution of Appreciation for the services of Claire Miller recognizing her outstanding service as a member of the Board of Trustees for the Local Government Employees' Retirement System and the Board of Trustees of the Teachers' and State Employees' Retirement System

It was moved by Sheriff Atkinson, seconded by Allen Buansi, and carried unanimously that the resolution of appreciation for the services of Claire Miller be approved.

Approval of the Local Minutes from the April 25, 2019 Board Meeting

It was moved by Allen Buansi seconded by Sheriff Atkinson, and carried unanimously by the Board that the minutes from the Board meeting held on April 25, 2019, be approved.



Operations, Member Services and Compliance Update

The Chair recognized Thomas Causey, Interim Director of the Retirement Systems Division, Vicki Roberts, 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 turnaround time has improved, and the team has processed over 3,600 retirement applications in the month of July. The current rate for processing and paying retirements within 60 days is 99.7%. Mr. Causey stated that the number of disability cases received has increased, and we are also working to replace the nurse that was reviewing information and requesting backup documentation regarding these applications.

Mr. Causey also reported on the monthly payroll processing. There are over 323,000 payees, with over \$524 million in payments in June, and it continues to grow. Mr. Causey stated that RSD continues to encourage the use of the online system and more members are using the online system. The online system has also enhanced the beneficiary designation and other self-service capabilities.

The Chair recognized Director of Member Services, Vicki Roberts, for a presentation on the metrics for Member Services. Ms. Roberts reported on member correspondence, noting this has been a busier than normal time of year for RSD. She reported that so far, Member Services has received a great deal more requests than last year at this time and has still been able to answer the correspondence within the established turn-around-time, actually exceeding the goal. Ms. Roberts gave a report on the increase of scheduled and unscheduled educational counseling sessions, with the number of visitors and counseling sessions increasing to almost 700 last month. Ms. Roberts also pointed out that the Education Retirement Counselors have already far surpassed the annual goal for counseling sessions. Ms. Roberts reported that during the quarter (April-June) the call center counselors saw an increase of over 6500 more calls received this year than last, for the same time period. The most popular topics raised by callers were retirement and tax related. The service level goal of answering at least 65% of the calls within 60 second or less was met for the year.

The Chair recognized the Director of Policy, Planning and Compliance, Patrick Kinlaw. Mr. Kinlaw stated that employer contribution rates in the Local System, as a percentage of employee compensation, are increasing effective with July service, compared to what they were in June. This is in accordance with the Board's amendment adopted in January of this year to the Local System's funding policy. The new rates are 8.95 percent of compensation for all employees other than law enforcement, and 9.70 percent for law enforcement officers.

Mr. Kinlaw then reported that one of the Compliance section's responsibilities is to administer invoices when retirement benefits exceed the Contribution-Based Benefit Cap (CBBC). This requirement is based on what is commonly known as the "anti-pension spiking" law. Since 2015, the Retirement Systems have issued 244 invoices, averaging a little more than 50 per year. During that time, the Retirement Systems have invoiced over \$23 million and collected over \$19 million.

Mr. Kinlaw discussed the 13-month history of the collections to recoup overpayments. Overpayments are amounts that are paid out by the Retirement Systems where it is later determined that the money must be repaid to the systems. Collections for the fiscal year were just over \$10.4 million. As of the end of June, the total outstanding number of identified overpayments was approximately \$38.5 million.

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

The Chair recognized Sam Watts, Legislative Liaison, for a review and update on the 2019 session of the North Carolina General Assembly. Mr. Watts began the discussion by stating that the 2019 budget has not been passed yet. Mr. Watts commented that this budget impasse could go on for quite some time. This is a key year for the budget because there will be a change in State-appropriated contribution rates.



Mr. Watts also discussed the additional funding to continue to move the retirement processes online, which will also help enhance existing online identity verification capabilities.

Mr. Watts reported that there have been some changes to the medical board process which require additional documentation. Additionally, a bill has been introduced related to the felony forfeiture laws. Mr. Watts also mentioned a high-need retired teachers bill. One proposal in this bill is that certain teachers could still earn pay while receiving their retirement.

Report on the amounts and sources of funds collected by year and amounts expended, projects for which funds were expended, and current status of the Legislative Enactment Implementation Arrangements (LEIAs)

The Chair recognized Patrick Kinlaw, Director of Policy, Planning & Compliance for an update on the amounts and sources of funds collected by year and amounts expended, projects for which funds were expended, and current status of the Legislative Enactment Implementation Arrangements (LEIAs).

The Department of State Treasurer must report to the Boards of Trustees, the Joint Legislative Commission on Government Operations, and the Fiscal Research Division on the amounts and sources of funds collected by year and the amounts expended, the projects for which those funds were expended, and the current status of projects. The report must be submitted on or before August 1 of each year and must be posted on the public website. As of June 30, 2019, the Department of State Treasurer has not identified any legislation resulting in implementation projects eligible for LEIA expenditures under the criteria set forth in the statutes.

It was moved by Vernon Gammon, seconded by David Dear and carried unanimously by the Board to accept the report, which focused on the amounts and sources of funds collected by year and amounts expended, the projects for which fund were expended, and current status of the LEIAs.

Investment Advisory Committee (IAC) Update

The Chair recognized Greg Patterson for an update on the IAC meetings. Mr. Patterson began his discussion by commenting that after a very difficult fourth quarter last year, the first quarter of 2019 did very well. Mr. Patterson reported that the portfolio is up about \$6 billion, and by looking at how the portfolio did over different periods of time certain components of the return may be attributed to asset allocation and manager performance. Mr. Patterson next commented on a review of the money managers and mentioned that at the May meeting, private equity was 6% of the portfolio and that private equity has outperformed the public markets over the last 10 years. The Chair commented that North Carolina has committed over \$1 billion last year to our strategy, where in the years 2009-2010 we had to sell some of our investments at a discount. However, we would rather buy at a discount during challenging market conditions.

Affirmation of “date set by the Board of Trustees” consistent with the Board’s policy pursuant to N.C.G.S. §128-30(g)(3) for a particular contribution, and contingent authorization of notification to State Treasurer and Office of State Budget Management

The Chair recognized Patrick Kinlaw, Director of Policy, Planning and Compliance, for a presentation on the “date set by the Board of Trustees” consistent with the Board’s policy pursuant to N.C.G.S. §128-30(g)(3) for a contribution, and contingent authorization of notification to the State Treasurer and Office of State Budget Management. Mr. Kinlaw stated that Johnston County incurred a liability for an additional contribution of \$108,363.29 to LGERS when an employee retired effective December 1, 2017, because the retirement allowance exceeded the contribution-based benefit cap (CBBC). On November 15, 2017, LGERS sent Johnston County a letter notifying it of the liability. Letters were also sent January 9, 2018, October 19, 2018, April 5, 2019 and June 19, 2019 by LGERS to notify Johnston County that the liability remained due. LGERS has not yet received



payment. Mr. Kinlaw also reported that pursuant to N.C.G.S. §128-30(g)(3), in the event an employer fails to submit payment of the required CBBC contributions to the Retirement System within 90 days after the date set by the Board of Trustees (Board), the Board is required to notify the State Treasurer and the Office of State Budget Management (OSBM) as to the default of the employer. According to Part (1) of the Board's policy adopted at its January 31, 2019 meeting, the Board established the "date set by the Board of Trustees" to intercept delinquent CBBC contributions to be the later of May 1, 2019, or twelve months after the member's effective date of retirement. Pursuant to this policy, for a CBBC contribution arising from a retirement effective December 1, 2017, the date set by the Board is May 1, 2019. Therefore, based on this policy, the Board would notify the State Treasurer and OSBM if the employer fails to submit payment within 90 days of May 1, 2019. Accordingly, the Board must provide the required notice if the employer has not made payment by July 30, 2019. In its June 19, 2019 letter to Johnston County, LGERS informed the county of the payment deadline of July 30, 2019. Upon notification from the Board, OSBM is required to withhold State appropriations to the employer and forward such amounts to the Retirement Systems Division (RSD) as a means of collecting the delinquent contributions. Additionally, in a letter dated June 25, 2019, Johnston County informed RSD that they objected to the assessment of the liability and declined to pay the assessed amount. As described in the letter, the objections relate to the fact that the liability was first assessed on November 15, 2017, before the Board's administrative rule related to the "cap factor" became effective on May 1, 2018. The county maintains that the assessment was invalid, and that use of the cap factor represents an impermissible retroactive application of an administrative rule.

Mr. Kinlaw next reported that RSD issued a Final Agency Decision letter to Johnston County dated July 11, 2019, stating that the assessment is required by the laws governing LGERS and will not be withdrawn. The statutes which enacted the cap factor state that it must be applied to all retirements that occurred on or after January 1, 2015. (N.C.G.S. §128-27(a3), 128-30(g)(2)(b).) Johnston County may petition the Office of Administrative Hearings for a contested case hearing to appeal the Final Agency Decision or may seek an injunction to prevent RSD or OSBM from acting to withhold State appropriations.

A board member asked who sent the June 25, 2019 letter from Johnston County. Mr. Kinlaw replied that it came from the county manager and our recent correspondence has been with both the county manager and the chair of the county commissioners. Another board member commented that it adds staff time and cost when employers do not pay these invoices because RSD staff then must follow up with notices and an intercept process.

It was moved by Greg Patterson, seconded by David Dear and carried unanimously by the Board to affirm the "date set by the Board of Trustees" as May 1, 2019 consistent with the Board's policy pursuant to N.C.G.S. §128-30(g)(3) for this delinquent contribution, and to provide contingent authorization of notification to the State Treasurer and Office of State Budget Management.

Report from the Advisory Panel of the Firefighters' and Rescue Squad Workers' Pension Fund on the status and needs of the plan

The Chair recognized Thomas Causey, Interim Director of the Retirement Systems Division, to report on the Advisory Panel of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) on the status and needs of the plan. Mr. Causey stated that each year an annual actuarial valuation is performed to monitor and adjust the plan's progress towards its funding goals. The primary purpose of the valuation is to measure the pension benefit and other financial obligations promised to current and former firefighters and rescue workers who are members of the FRSWPF for the purposes of determining an appropriate contribution strategy that achieves the three most important goals of any pension funding policy: funding adequacy, intergenerational equity, and contribution stability.

Mr. Causey reported that the funding goal of FRSWPF is to accumulate 100% of the present value of actuarial accrued liabilities, and to reduce any unfunded liabilities in accordance with the amortization policy adopted by



the LGERS Board. Contribution rates are set according to the State Contribution Rate Stabilization Policy (SCRSP) adopted by the Board on January 26, 2017. Under the SCRSP, recommended state contributions must be the greater of (1) the prior year's appropriation plus \$350,000, and (2) the actuarially determined contribution. The LGERS Board has recommended an appropriation of \$18,652,208 for FYE 2020 in accordance with the SCRSP (equal to the FYE 2019 appropriation plus \$350,000). This would exceed the actuarially contribution of \$14,323,684.

It was moved by Allen Buansi, seconded by Sheriff Atkinson and carried unanimously by the Board to accept the report from the Advisory Panel of the Firefighters' and Rescue Squad Workers' Pension Fund on the status and needs of that retirement plan.

Public Comment Period

There were no public comments made.

Local System Adjournment

There being no further business before the Board, Vernon Gammon moved to adjourn, which was seconded by Greg Patterson, and the meeting was unanimously adjourned at 11:17 a.m.

CHAIR

SECRETARY