



North Carolina
Total Retirement Plans



Dale R. Folwell, CPA
STATE TREASURER OF NORTH CAROLINA
DALE R. FOLWELL, CPA

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 9:30 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, 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 Attending via Telephone

Joshua Smith.

Members Absent

Lentz Brewer.

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 State Minutes from the October 31, 2019 Board Meeting

It was moved by Jeffrey Winstead, seconded by Oliver Holley, 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 are consistent 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. In response to Board member questions about N.C. Session Laws 2019-110 (Senate Bill 399) and 2019-212 (Senate Bill 621), Mr. Kinlaw reported that RSD was aware of no more than two employees that employers had sought to report so far as "high-need retired teachers." Christina Strickland, General Counsel for the Retirement Systems, reported that RSD's outside tax counsel was working on applying to the Internal Revenue Service for a private letter ruling regarding the enacted provisions.

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 Oliver Holley to accept the report, seconded by Jeffrey Winstead 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 stated 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.

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 Greg Patterson to accept the report, seconded by Margaret Reader and carried unanimously.

Actuarially Determined Employer Contribution (ADEC) Projections for State 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 15.45% of pay 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.

Presentations on the 2020 Alternatives for the General Assembly

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 Teachers' and State Employees' Retirement System, noting that the contribution rate called for under the Board's funding policy effective July 1, 2020 is 14.78% which is equal to the actuarially determined employer contribution (ADEC) in this case and greater than the current year's contribution rate of 12.97%. The Board's funding policy essentially says that the recommended contribution rate should be the greater of the ADEC (14.78% of pay) or the current rate plus a step increase of 0.35% (13.32% of pay). Mr. Kinlaw stated that since the ADEC of 14.78% is greater than 13.32% it would be recommended that 14.78% would be the contribution rate at current benefit levels to be effective July 1, 2020. Mr. Kinlaw stated that the year-over-year contribution rate increase corresponds to an increase in General Fund appropriations of \$199.9 million, and Highway Fund costs of \$6.2 million, to fund benefits at current levels. Further, Mr. Kinlaw noted that the currently enacted appropriation for the second year of the State Budget biennium already anticipated and budgeted for an increase of \$153.5 million from the General Fund and \$4.8 million from the Highway Fund; therefore the amounts that the Board's funding policy would recommend, which are not yet enacted, are \$46.4 million from the General Fund and \$1.4 million from the Highway Fund.

Mr. Kinlaw presented the recommendation for the Consolidated Judicial Retirement System, noting that the ADEC was 36.44% of pay, which is greater than the current year's contribution rate of 33.60%. Mr. Kinlaw stated that the year-over-year contribution rate increase corresponds to an increase in General Fund appropriations of \$2.1 million to fund benefits at current levels. Further, Mr. Kinlaw noted that the currently enacted appropriation for the second year of the biennium already anticipated and budgeted for an increase of about \$1.8 million from the General Fund; therefore the amount that the Board would be recommending, which is not yet enacted, is \$0.3 million from the General Fund.

Mr. Kinlaw presented the recommendation for the Legislative Retirement System, noting that the ADEC was 27.30% of pay, which is greater than the current year's contribution rate of 26.46%. Mr. Kinlaw stated that the year-over-year contribution rate increase corresponds to an increase in General Fund appropriations of about \$30,000 to fund benefits at current levels. Further, Mr. Kinlaw noted that the currently enacted appropriation for the second year of the biennium already anticipated and budgeted for an increase of about \$90,000 from the General Fund; therefore the General Assembly could reduce the appropriation by about \$60,000 for the second year of the biennium and still satisfy the ADEC.

Mr. Kinlaw presented the recommendation for the Disability Income Plan of North Carolina, noting that the ADEC was 0.09% of pay, which is less than the current year's contribution rate of 0.10%. Mr. Kinlaw stated that the year-over-year contribution rate decrease corresponds to a decrease in General Fund appropriations of about \$1.2 million to fund benefits at current levels. Further, Mr. Kinlaw noted that the currently enacted appropriation for the second year of the biennium is unchanged from the first year of the biennium; therefore the General Assembly could reduce the appropriation by about \$1.2 million for the second year of the biennium and still satisfy the ADEC.

Mr. Kinlaw presented the recommendation for the North Carolina National Guard Pension Fund, noting that the ADEC amount was approximately \$7.8 million. Mr. Kinlaw stated that while this fund has shown improvement, it continues to have the lowest funded percentage of any of the Retirement Systems standing at 78% funded. Further, the funding policy the Board adopted last April calls for the Board to recommend a contribution that is at least \$2 million greater than the ADEC, but it also calls for the recommendation to be at least equal to the current year's appropriation. Mr. Kinlaw noted that the current year's appropriation was \$11,031,715 and therefore, that would be the Board's recommendation under its policy. Mr. Kinlaw stated that this contribution

would be greater than the ADEC by over \$3 million, an amount that would be expected to improve the funding level of the plan by about 1.5 percentage points after it is contributed to the fund. Further, the currently enacted appropriation for the second year of the biennium already includes the \$11,031,715 amount that the Board would be recommending.

Mr. Kinlaw presented the recommendations for the Death Benefit Plans where the State 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.

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 fiscal recommendations to the North Carolina General Assembly:

It was moved by John Ebbighausen, seconded by Linda Gunter and carried unanimously to recommend to the North Carolina General Assembly to increase the employer contribution rate to 14.78% for the Teachers' and State Employees' Retirement System. The additional appropriation needed from the General Fund would be \$46.4 million and from the Highway Fund it would be \$1.4 million.

It was moved by Greg Patterson, seconded by John Ebbighausen and carried unanimously to recommend to the North Carolina General Assembly to increase the employer contribution rate to 27.30% for the Legislative Retirement System. The General Assembly could reduce the appropriation by about \$60,000.

It was moved by Greg Patterson, seconded by Jeffrey Winstead and carried unanimously to recommend to the North Carolina General Assembly to increase the employer contribution rate to 36.44% for the Consolidated Judicial Retirement System. The additional appropriation needed from the General Fund would be \$0.3 million.

It was moved by John Ebbighausen, seconded by Dirk German and carried unanimously to recommend to the North Carolina General Assembly an employer contribution rate of at least 0.09% for the Disability Income Plan of North Carolina. The General Assembly could reduce the appropriation by about \$1.2 million.

It was moved by John Ebbighausen, seconded by Oliver Holley and carried unanimously to recommend to the North Carolina General Assembly to maintain the current appropriation of \$11,031,715 for the North Carolina National Guard Pension Fund.

Board of Trustees Comments

The Chair asked the Board if there were any comments prior to adjournment of the meeting. Oliver Holley thanked everyone for the work they do to support children through education. Mr. Holley further thanked the Board members and the Sheriff's departments across the State for the work they do. Margaret Reader commented on the positive comments she has received and heard from active members nearing retirement regarding the use of the online retirement system as well as the helpfulness of the educational efforts made by staff. Linda Gunter commented to the fact that she is thankful and glad of the efforts made to keep the pension system funded as fully

as possible. John Ebbighausen stated he was thankful for a good year of investment and thanked individuals for the work they have done towards improving the North Carolina National Guard Pension Fund. 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.

Adjournment

There being no further business before the Board, Jeffrey Winstead moved to adjourn, which was seconded by John Ebbighausen, and the meeting was unanimously adjourned at 11:34 a.m.