



## **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 9:30 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, John Ebbighausen, Judith Estevez (designee for Barbara Gibson), Vernon Gammon, Dirk German, Oliver Holley, Kathryn Johnston (designee for Mark Johnson), Greg Patterson, Margaret Reader and Jeffrey Winstead.

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

Lentz Brewer, Linda Gunter and Joshua Smith.

#### **Others in Attendance via Telephone**

Larry Langer and Wendy Ludbrook from Cavanaugh Macdonald Consulting.

#### **Members Absent**

There were no board members absent.

#### **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 Oliver Holley, seconded by Margaret Reader, and carried unanimously that the resolution of appreciation for the services of Claire Miller be approved.

#### **Approval of the Minutes from the April 25, 2019 Board Meeting**

It was moved by Greg Patterson, seconded by Oliver Holley, 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 processing of 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 the 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 retirement 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 seconds 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 also stated that employer contributions to the State System will ultimately be set by the State budget. Since there is not a State budget for the current fiscal year, the statutory continuing resolution provides that employer contributions will remain at the same rate as June 30, 2019, which for example was 12.29 percent of compensation for TSERS. The employer contribution rate that the Board has recommended to the General Assembly for the current fiscal year is 12.97 percent, based on the current benefits provided by TSERS. The statutory continuing resolution provides that once a State budget is enacted, the Director of the Budget will adjust the contribution rate in the State Budget Act for the remainder of the fiscal year to compensate for any under-collection that may have occurred between the start of the fiscal year and the enactment of the budget.

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 next 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 with a mention 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 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 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 Greg Patterson, seconded by Jeffrey Winstead 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.

### **Board of Trustees Comments**

The Chair asked the Board if there were any comments prior to adjournment of the meeting. The Board had no additional comments.



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

### **State System Adjournment**

There being no further business before the Board, Margaret Reader moved to adjourn, which was seconded by Dirk German, and the meeting was unanimously adjourned at 11:17 a.m.

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CHAIR

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SECRETARY

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