



**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 9:00 a.m., January 26, 2023, 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 (via telephone), John Ebbighausen, Vernon Gammon (via telephone), Dirk German, Linda Gunter, Oliver Holley, Pat Hurley, Margaret Reader, Blake Thomas (designee for Barbara Gibson), and Jeffrey Winstead.

#### **Members Absent**

Joshua Smith and Catherine Truitt.

#### **Guests in Attendance in Person or via Telephone**

Flint Benson, Rex Foster, and Tony Smith with SEANC; Sarah Collins and Jordan Cansler with the North Carolina League of Municipalities; Michael Ribble and Elizabeth Wiley of Buck Global, LLC; Tom McCollum and Tim O'Connell (via telephone) with the North Carolina Retired Governmental Employees' Association; Karen Slade and Colleen Lanier with the North Carolina Retired School Personnel; and Derrick Clouston with Pinehurst Fire Department.

#### **Department of State Treasurer Staff Present in Person or Via Telephone**

Tonya Bass, Ted Brinn, Thomas Causey, Christy Farrelly, Elizabeth Hawley, Patrick Kinlaw, Richard Lopez, Taylor Matyi, Timothy Melton, Christopher Morris, Lisa Norris, Debra Thomas, 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.

#### **Appointment of Pat Hurley as a new member to the Board of Trustees of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System**

The Chair introduced Pat Hurley as a new member on the Board. Ms. Hurley was appointed by Speaker of the House Tim Moore to the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System Boards of Trustees. Ms. Hurley serves on the Boards with an appointment date of January 15, 2023, and a term expiration date of June 30, 2023.

#### **Approval of the State Minutes from the October 27, 2022, Board Meeting**

John Ebbighausen moved the Board to approve the minutes of the October 27, 2022, Board meeting, Oliver Holley seconded the motion, and the minutes were approved by a unanimous vote of 11-0.

#### **Adoption of Resolution of Appreciation for the Services of Mr. Greg Patterson**

It was moved by Jeffrey Winstead that the resolution of appreciation for the services of Greg Patterson be approved. Linda Gunter seconded the motion, and the motion passed with a unanimous vote of 10-0. Lentz Brewer was not present for the vote.

#### **Legislative Update**

The Chair recognized Sam Watts to provide an update on the 2023 Legislative Session. Mr. Watts began by reiterating that the main legislative goal is always to fully fund the Boards' recommendations. Mr. Watts discussed retirement system policy initiatives noting the systems will be putting forward a technical corrections bill, an administrative changes bill, part three of the service purchase rewrite, and a judicial retirement parity bill. Mr. Watts also informed the Board of the Treasurer's broader goals noting retirement system funding, full funding for the State health plan, a medical debt de-weaponization bill, and improvement in transparency laws in both health care and government.

#### **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 the team processed 2,700 retirements in January of 2023. Mr. Lopez discussed death notifications, noting the average number of death notifications was 900-1,000 per month in 2022. Mr. Lopez discussed disability application processing with turnaround times hovering right around 60 days. Mr. Lopez also discussed monthly payroll processing, stating that in December 2022 the Division paid over 354,000 payees with a total payment amount of nearly \$593,000,000.

The Chair recognized Tonya Bass for a presentation on the metrics for Member Services. Ms. Bass began by sharing the number of pieces of correspondence or letters received, recognizing that staff has been able to bring the response turnaround time down to an average of four days. Ms. Bass noted that Member Services answered more than 16,000 pieces of correspondence from October to December of 2022. Ms. Bass revealed the turnaround time for emails has been reduced to 1-2 days. Ms. Bass highlighted meetings and webinar participation, sharing that over 3,000 members and 298 employers in attendance since July 2022. Ms. Bass further discussed visitors and counseling sessions noting over the last three months there have been approximately 203 appointments and 468 visitors in the office.

The Chair recognized Director of Policy, Planning & Compliance, Patrick Kinlaw. Mr. Kinlaw began by discussing the retirement systems 2022 investment experience noting the estimated investment return for the full calendar year of 2022 was -10.4%. When compared to the expected return of 6.5%, this indicates a market value loss of around 17% relative to the expectation. Mr. Kinlaw moved on to discuss the Contribution-Based Benefit Cap liabilities, noting that 607 retirements since 2015 have resulted in required employer contributions totaling more than \$62 million, and of that amount, more than \$50 million has been collected. Mr. Kinlaw discussed the SECURE 2.0 Act of 2022 enacted by the federal government in December of 2022, especially noting a prospective change in the required minimum distribution age from 72 to 73, and a provision that creates more flexibility for retirement plan sponsors in situations of inadvertent overpayments. Mr. Kinlaw briefly mentioned the four items included in the appendix of the agenda, the acquisition of Buck Global by Gallagher, and the Retirement Systems' outreach to employing units related to return-to-work scenarios.

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

The Chair recognized Lentz Brewer to provide an update on the IAC meetings. Mr. Brewer stated the IAC met most recently on November 9, 2022. Mr. Brewer stated the meeting consisted of a performance update, cost-effectiveness review, an IAC charter update, and a review of both the fixed income asset class and the opportunistic fixed income asset class.

Blake Thomas offered a written resolution asking for specific written information to be provided to trustees in future meetings. Board members expressed concern that they had not been presented with the resolution in advance of the meeting, and that Board members on the phone could not read the resolution. The Chair offered to discuss the topic at the next Board meeting, and Mr. Thomas withdrew the resolution.

#### **Actuarially Determined Employer Contribution (ADEC) Projections**

The Chair recognized Michael Ribble and Elizabeth Wiley. Ms. Wiley presented charts demonstrating the effect of the assumption and method changes resulting from the experience study (including 6.5% assumed return per year in the future) and the actual return during the calendar year 2022, which was estimated to be -10.4%. Mr. Ribble stated that if all assumptions are met in 2023 and beyond, the actuarially determined employer contribution rates would peak at more than 19% of compensation for the fiscal year ending 2029, before declining in the following years, and the funded ratio would be approximately 100% by the end of 2036.

#### **Presentations on the 2023 Alternatives for the General Assembly**

The Chair recognized Patrick Kinlaw to present the recommendations to the General Assembly for the contribution rates or contribution amounts to fund the Retirement Systems effective July 1, 2023. Mr. Kinlaw began by noting the information in the meeting materials built upon the information just shared by Buck Consultants. Mr. Kinlaw stated there were three substantive questions for the Board to consider, but that the third question would be addressed in a later agenda item, leaving two for this agenda item. Mr. Kinlaw stated the first question is whether to recommend to the General Assembly a one-time or permanent increase to retiree benefits under TSERS, the Judicial System, and the Legislative System along with the additional funding to provide the increases. Mr. Kinlaw presented the alternative recommendations to the Board related

to TSERS, the Judicial System, and the Legislative System providing examples of the funding and costs needed for the alternatives.

Mr. Kinlaw moved on to discuss the National Guard Pension Fund noting the fund has no unfunded liability and instead had a surplus of \$23 million on an actuarial value basis and \$32.5 million on a market value basis at the end of 2021. Mr. Kinlaw stated that under the Board's funding policy, the Board could choose to reduce the requested appropriation to \$0 or alternately the Board could recommend a benefit improvement and the full funding of that increase. Mr. Kinlaw further stated that a third alternative, proposed by a board member in discussion with staff, would be to recommend that the General Assembly maintain the funding of \$11,031,715 per year during the fiscal year biennium using a portion of the funding to fully fund a monthly benefit increase from \$105 to \$111 after 20 years and from \$210 to \$222 after 30 years.

Mr. Patterson addressed the National Guard Pension Fund recommendation options noting he believed the third option, continuing to fund the Pension Fund while providing a \$6 monthly benefit increase, made sense.

Mr. Ebbighausen moved that the Board recommend that the General Assembly maintain the \$11,031,715 per year funding amount during both years of the fiscal biennium, and recommend that the General Assembly increase the benefit level to \$111 after 20 years and \$222 after 30 years. Blake Thomas seconded the motion and the motion passed with a unanimous vote of 11-0.

The Chair moved the discussion focus to the recommendations for the Disability Income Plan of North Carolina. Pat Hurley made a motion to recommend that the General Assembly increase the employer contribution rate by 0.01% of compensation, increasing cost by \$1.3 million to the General Fund and \$0.4 million to the Highway fund. John Ebbighausen seconded the motion and the motion passed with a unanimous vote of 11-0.

Linda Gunter made a motion to recommend that the General Assembly provide a 2% COLA and a 2% supplement for all TSERS monthly payees for fiscal year ending 2024. After discussion, Margaret Reader moved for the motion to be amended to recommend that the General Assembly provide a 1% COLA for all TSERS monthly payees for fiscal year ending 2024, and no one-time supplement. After further discussion, Linda Gunter moved for the motion to be amended to recommend that the General Assembly provide a 2% one-time supplement for fiscal year ending 2024, and a 2% one-time supplement for fiscal year ending 2025, paid fully by the General Assembly for TSERS, the Legislative Retirement System, and the Consolidated Judicial Retirement System, with a preference that the full cost of the one-time supplement in each year be funded via direct appropriation rather than an increase in employer contribution rates. Dirk German seconded the motion and the motion passed with a unanimous vote of 11-0.

#### **Retirees' Contributory Death Benefit Plan Study**

The Chair recognized Patrick Kinlaw and Mike Ribble. Mr. Kinlaw provided a brief background of the retiree Contributory Death Benefit Plan noting that the plan was designed to be funded solely by retiree premiums and investment returns. Mr. Kinlaw stated that for several consecutive years, the consulting actuaries have reported that the plan has a projected shortfall. Mr. Kinlaw said the projected shortfall on all future benefits present value is \$178 million as of the end of 2021. Mr.



Kinlaw further stated that during last January's Board meeting, the Board directed DST staff to engage with the consulting actuaries on a study of alternative solutions to address the projected funding shortfall. Mr. Kinlaw noted that staff and Buck Consulting have discussed a variety of alternatives and prepared four alternatives for the Board. Mr. Kinlaw moved on to discuss the alternative solutions. He noted that the study shows that alternative one, which would involve adding the State Employees' Benefit Trust in G.S. 135-7(g) to the list of funds that could be invested in the Retirement Systems pool, would have the most meaningful impact on the actuarial measurement with less impact on the retirees and their families. The Board did not vote on this item and decided that the discussion be revisited at the next Board meeting.

**Public Comments**

The Chair recognized Karen Slade, a retiree from Alamance County School System. Ms. Slade discussed her personal experience of what her retirement pay would be as a retired classified employee (uncertified school personnel) noting that it would not be enough to live off combined with her Social Security. Ms. Slade advocated for higher pay to classified employees noting they should not have to be worrying about retiring and having enough funds to live.

The Chair recognized Tom McCollum with the North Carolina Retired Governmental Employees' Association. Mr. McCollum read a prepared statement on behalf of Tim O'Connell regarding retiree COLAs and improving retiree financial stability.

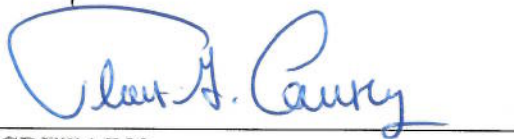
**Board of Trustees Comments**

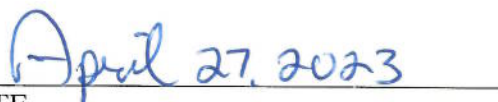
The Chair thanked everyone for their attendance and requested that the meeting be adjourned in memory of Cravon Slade.

**Adjournment**

There being no further business before the Board, Linda Gunter moved to adjourn the meeting. Margaret Reader seconded the motion and the motion passed by unanimous vote of 9-0. Lentz Brewer and Oliver Holley were not present for the vote. The meeting was adjourned at 2:34 p.m.

  
CHAIR

  
SECRETARY

  
DATE

TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM  
BOARD OF TRUSTEES

January 26, 2023 Meeting

AGENDA ITEM

2a. Ethics Awareness and Identification of Conflicts or Potential Conflicts of Interest

2b. Statement of Economic Interest evaluations of members pursuant to the Ethics Act § 138A-15(c)

The following packet contains Statement of Economic Interest (SEI) evaluation letters issued by the State Ethics Commission. These are being provided for Board members' review and recording in the meeting minutes pursuant to the requirements of the State Government Ethics Act. Members are encouraged to review the evaluations to inform and remind them of the identified actual or potential conflicts of interest.

The SEI Evaluations for the following members are being provided for review:

- Patricia Hurley



## STATE ETHICS COMMISSION

POST OFFICE BOX 27685

RALEIGH, NC 27611

PHONE: 919-814-3600

### Via Email

January 5, 2023

The Honorable Tim Moore  
Speaker of the House of Representatives  
16 West Jones Street, Room 2304  
Raleigh, North Carolina 27601-1096

**Re: Evaluation of Statement of Economic Interest Filed by The Honorable Patricia Hurley  
Teachers' and State Employees' Retirement System Board of Trustees**

Dear Speaker Moore:

Our office has received Ms. Patricia Hurley's 2023 Statement of Economic Interest as an appointee to the Teachers' and State Employees' Retirement System Board of Trustees (the "Board"). We have reviewed it for actual and potential conflicts of interest pursuant to Chapter 138A of the North Carolina General Statutes ("N.C.G.S."), also known as the State Government Ethics Act (the "Act").

Compliance with the Act and avoidance of conflicts of interest in the performance of public duties are the responsibilities of every covered person, regardless of this letter's contents. This letter, meanwhile, is not meant to impugn the integrity of the covered person in any way. This letter is required by N.C.G.S. § 138A-28(a) and is designed to educate the covered person as to potential issues that could merit particular attention. Advice on compliance with the Act is available to certain public servants and legislative employees under N.C.G.S. § 138A-13.

**We did not find an actual conflict of interest but found the potential for a conflict of interest. The potential conflict identified does not prohibit service on this entity.**

The Teachers' and State Employees' Retirement System Board of Trustees is responsible for administration of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, and the Legislative Retirement System. The Board serves as trustee and the State Treasurer is custodian of and makes decisions concerning investment of System funds.

The Act establishes ethical standards for certain public servants and prohibits public servants from: (1) using their positions for their financial benefit or for the benefit of their extended family or business, N.C.G.S. § 138A-31; and (2) participating in official actions from which they or certain associated persons might receive a reasonably foreseeable financial benefit, N.C.G.S. § 138A-36(a). The Act also requires public servants to take appropriate steps to remove themselves from proceedings in which their impartiality might reasonably be questioned due to a familial, personal, or financial relationship with a participant in those proceedings. N.C.G.S. § 138A-36(c).

Ms. Hurley is a beneficiary of the State Retirement System. As such, she has the potential for a conflict of interest and should exercise appropriate caution in the performance of her public duties should issues involving her retirement benefits come before the Board for official action.

In addition to the conflict standards noted above, the Act prohibits public servants from accepting gifts from (1) a lobbyist or lobbyist principal, (2) a person or entity that is seeking to do business with the public servant's agency, is regulated or controlled by that agency, or has financial interests that might be affected by their official actions, or (3) anyone in return for being influenced in the discharge of their official responsibilities. N.C.G.S. § 138A-32. Exceptions to the gifts restrictions are set out in N.C.G.S. § 138A-32(e).

When this letter cites an actual or potential conflict of interest under N.C.G.S. § 138A-24(e), the conflict must be recorded in the minutes of the applicable board and brought to the membership's attention by the board's chair as often as necessary to remind all members of the conflict and to help ensure compliance with the Act. N.C.G.S. § 138A-15(c).

Finally, the Act mandates that all public servants attend an ethics and lobbying education presentation. N.C.G.S. § 138A-14. Please review the attached document for additional information concerning this requirement.

Please contact our office if you have any questions concerning our evaluation or the ethical standards governing public servants under the Act.

Sincerely,



Mary Roerden, SEI Unit  
State Ethics Commission

cc: The Honorable Patricia Hurley  
Laura Rowe, Ethics Liaison

Attachment: Ethics Education Guide