



**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 9:01 a.m., July 27, 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, Teresa Everett (designee for Catherine Truitt, via telephone), Dirk German, Barbara Gibson, Oliver Holley, Pat Hurley, Joshua Smith (via telephone), and Jeffrey Winstead (via telephone).

#### **Members Absent**

Margaret Reader and Vernon Gammon.

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

Blake Thomas with the North Carolina Office of State Human Resources; David Vanderweide with the staff of the North Carolina General Assembly; Jordan Cansler with the North Carolina League of Municipalities; Mary Scruggs with the North Carolina Department of Justice; Chris Hailey, Suzanne Beasley, and Janet Bunch with the State Employees Association of North Carolina; and Tim O'Connell with the North Carolina Retired Governmental Employees' Association.

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

Daniel Baker, Tonya Bass, Thomas Causey, Ben Garner, Elizabeth Hawley, Patrick Kinlaw, Richard Lopez, Timothy Melton, Lisa Norris, 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.

### **Approval of the State Minutes from the April 27, 2023 Board Meeting**

Oliver Holley moved the Board to approve the minutes of the April 27, 2023 Board meeting, Dirk German seconded the motion, and the minutes were approved by a unanimous vote of 10-0.

### **Operations, Member Services, and Compliance Update**

The Chair recognized Rick Lopez, Director of Operations, for an update on the Division's operations. Mr. Lopez began by noting over 3,700 retirement requests were received for July. Mr. Lopez discussed death notifications noting new additions to the team and a decline of death notifications have helped with turnaround times. Mr. Lopez discussed disability application processing noting staff have been cross trained to help assist in areas of need which has helped lower turnaround times in the disability section. Mr. Lopez discussed refund requests noting RSD has recognized there is a high volume of requests and a survivor's benefits staff member has been identified to assist. Mr. Lopez further discussed an effort by staff to send letters to individuals who have not had at least five years of service and have not worked in positions eligible for Retirement Systems benefits in some time, explaining options for the money left in the system. Mr. Lopez also discussed monthly payroll processing, stating that in June 2023 the Division paid over 360,000 payees with a total payment amount of almost \$602,000,000. Mr. Lopez closed by discussing Orbit Self Service noting staff has started the effort to offer online beneficiary changes for retirees and online disability statement of income submissions.

Barbara Gibson asked about overpayment news reports and if they have sparked any kind of operational or process changes. Mr. Lopez stated that the Retirement Systems are always involved in process changes and that part of his job is to work with staff to constantly analyze and improve operational processes. Further discussion occurred related to overpayment recoupment process and beneficiary designations. During the discussion, Barbara Gibson asked about the Retirement Systems' processes for collecting repayments of overpayments where the law might allow for a range. Patrick Kinlaw, Director of Policy, Planning, and Compliance, recognized to respond, stated that under a law that had just been enacted two days ago, in cases where the overpayment was entirely due to administrative error on the part of the Division, the Retirement System will be deemed to satisfy its obligation to pursue recovery if the Division takes certain actions including the offsetting of future regular monthly benefits by between 8.5 percent and 25 percent of the benefit payment after other required deductions. Mr. Kinlaw stated that in a situation entirely caused by administrative error, the goal of the Division will be to allow the lowest deduction, i.e. 8.5 percent, in all cases except where the person repaying the benefit requests something different. Mr. Kinlaw noted that it is likely staff will be bringing a proposed administrative rule to the Boards to help define this process under the new legislation.

The Chair recognized Tonya Bass, Director of Member Services, for a presentation on the metrics for Member Services. Ms. Bass began by stating that from April to

June 2023 staff responded to over 24,000 pieces of correspondence with an average turnaround time of 11 days. Ms. Bass referenced the Meetings and Webinar slide noting that since July 2022 staff has conducted over 186 webinars with around 11,000 attendees. Ms. Bass further discussed visitors and counseling sessions noting from April to June 2023 staff has conducted over 105 appointments and attended to over 686 visitors in the office. Ms. Bass stated that the Division received over 20,000 emails from April to June 2023. Ms. Bass moved on to discuss the call center noting an average speed of answer of 3 minutes and 36 seconds for April 2023. Ms. Bass stated that since January over 274,000 calls have gone through the integrated voice system and 35% of the members calling were able to receive assistance without having to speak to a counselor. She further noted that over 20,000 members have been assisted through the call back assist option, which has helped reduce call abandonment by 85%. Ms. Bass closed by discussing the addition of the NICE system for e-mails, the online chat through Orbit, and work being done to allow members to schedule appointments through Orbit self-service.

The Chair recognized Patrick Kinlaw, Director of Policy, Planning, and Compliance. Mr. Kinlaw began by discussing the Contribution-Based Benefit Cap liabilities, noting that 685 retirements since 2015 have resulted in required employer contributions totaling more than \$74.1 million, and of that amount, more than \$62.1 million has been collected. Mr. Kinlaw moved on to discuss an update on employer contribution rates, noting that the Local Board set employer contribution rates in January 2023, to be effective in July 2023 for the Local System, equal to 12.85% of compensation for general employees and 14.10% of compensation for law enforcement officers. Mr. Kinlaw noted that for the State system, we are operating under the continued resolution provision of the State Budget Act, such that effective July 2023, the employer contribution rate collected from State employers is the non-recurring portion of the rate from the previous fiscal year. This rate effective July 2023 totals 22.94% of compensation toward retirement, retiree health, disability, and death benefits. Mr. Kinlaw noted that when a law is enacted providing for the employer contribution rate for the current fiscal year, staff will adjust State employer contribution rates prospectively or retroactively as required. Mr. Kinlaw moved on to discuss 11 local government units who were deemed inactive and will exit the Local System as of October 1, 2023, noting none of the units will have a withdrawal liability. Mr. Kinlaw further discussed the withdrawal of Invest Collegiate Davidson Charter School, a.k.a. "IC Transform," from the State System effective July 1, 2023, and noted they will have a withdrawal liability. Mr. Kinlaw closed by discussing enacted legislation noting Senate Bill 729 (Session Law 2023-48), "CBBC Working Group Changes"; House Bill 203 (Session Law 2023-89), "DST Technical Corrections"; and House Bill 201 (Session Law 2023-105), "Retirement Administrative Changes Act."S

### **Legislative Update**

The Chair recognized Sam Watts to provide an update on the 2023 Legislative Session. Mr. Watts stated that the budget is the largest outstanding piece of work legislatively remaining this year for the General Assembly noting that he has every

reason to believe that they will fully fund the Retirement Systems. Mr. Watts further noted he believes there will be some consideration for a COLA or pension bonus for State retirees that will be fully and correctly funded. Mr. Watts discussed the three newly enacted laws previously mentioned by Mr. Kinlaw during the operations update as well as two other new laws requested by the Department, one related to unclaimed property and the other related to budgeting of Departmental expenses. Mr. Watts spoke briefly on the CBBC working group legislation noting that the group was able to get to common ground because the heart of that compromise is a recognition that pension spiking law was impacting school systems that followed a mandated pay scale set by the General Assembly. Mr. Watts closed by discussing the Retirement Administrative Changes Act, noting that the overpayment provision required a balance between the interests of the person who received the overpayment, the nature of any administrative error, and the use of taxpayer funds, and further noting that different State agencies have encountered similar challenges.

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

The Chair recognized Lentz Brewer to provide an update on the IAC meetings. Mr. Brewer stated that the Investment Advisory Committee (IAC) last met on May 31, 2023. Mr. Brewer provided a brief overview noting at the end of first quarter 2023 investments within the retirement systems were valued at \$113.2 billion compared to \$111 billion at the end of June 2022. Mr. Brewer stated that the current valuation of the Retirement Systems' assets is approximately \$116 billion. Mr. Brewer noted that the calendar year to date return is approximately 6.9%, the return for the month of July 2023 was 1.1%, and the rate of return for the fiscal year ending June 2023 was approximately 5.8%. Mr. Brewer shared asset allocation weightings that the IAC reviewed in its meeting. Mr. Brewer stated that the Retirement Systems' investment returns have continued to outperform peers with a similar risk tolerance, and asset allocations with relatively favorable returns over the past twelve months included cash positions and inflation-sensitive investments. Mr. Brewer noted that at its meeting, the IAC received a specific update on the Retirement Systems' investments in real estate. Mr. Brewer closed by stating it is an interesting time in our economy and noted the Federal Reserve increased interest rates just the day before.

#### **Determination Regarding Supplemental Insurance Rebates under N.C.G.S. §143C-4-10(c)(3)c**

The Chair recognized Thomas Causey to discuss the supplemental voluntary insurance rebates. Mr. Causey stated that pursuant to G.S. 143C-4-10(c) if the Board determines that rebates received by the Department of State Treasurer from the supplemental voluntary insurance benefits are not needed to pay for future administrative costs of those benefits then the Board may direct the funds to be transferred into the Unfunded Liability Solvency Reserve. Mr. Causey noted that the Retirement Systems will receive a performance reward from United Health Care in the amount of \$565,310.99 for the dental and vision plans. Mr. Causey stated that staff recommends the Board makes the determination that funds expected to be

received are not needed to pay future administrative costs and therefore the rebates should be transferred into the Unfunded Liability Solvency Reserve.

Pat Hurley made a motion to determine the expected funds are not needed to pay future administrative costs and to transfer the rebates into the Unfunded Liability Solvency Reserve. Dirk German seconded the motion and the motion passed with a unanimous vote of 8-0. Barbara Gibson and John Ebbighausen were not present for the vote.

**Report on the Amounts and Sources of Funds Collected by Year and Amounts Expended, the Projects for Which Funds Were Expended, and Current Status of the Legislative Enactment Implementation Arrangements (LEIAs) Pursuant to N.C.G.S. §135-7(h)(5)**

The Chair recognized Patrick Kinlaw. Mr. Kinlaw provided a brief background on the requirements and background history of the required report. Mr. Kinlaw noted that as of June 30, 2023, the Division has not identified any legislation that has resulted in implementation projects that are eligible for LEIA expenditures. Mr. Kinlaw further stated the amounts collected through June 30, 2023 have been zero and the amounts expended have been zero. Mr. Kinlaw noted that upon acceptance of the reports, staff will communicate the report to the legislature.

Pat Hurley moved to accept the report, Oliver Holley seconded the motion, and the motion was approved by unanimous vote of 10-0.

**Public Comments**

There were no public comments.

**Board of Trustees Comments**

Oliver Holley thanked the educators and school employees, and encouraged everyone to pay attention to the school buses on the road as the school year begins.

**Vote to Move into Executive Session**

John Ebbighausen made a motion to move into an executive closed session, Oliver Holley seconded the motion, and the motion passed by a unanimous vote of 10-0. The executive session was held to prevent the disclosure of information that is privileged or confidential, and to consult with legal counsel in order to preserve the attorney-client privilege between the attorney and the public body.

**Vote to Move out of Executive Session and Return to Open Session**


John Ebbighausen made a motion to move out of executive closed session and into open session, Pat Hurley seconded the motion, and the motion passed by a unanimous vote of 10-0.

**Adjournment**

There being no further business before the Board, Dirk German moved to adjourn the meeting. Barbara Gibson seconded the motion and the motion passed by unanimous vote of 10-0. The meeting was adjourned at 12:28 p.m.

  
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CHAIR

  
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SECRETARY

  
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