



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 regularly quarterly meeting of the Board of Trustees was called to order at 9:30 a.m., July 30, 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. Upon the Chair leaving the meeting at 12:00 p.m., Thomas Causey assumed the role of the Acting Chair.

Members Present

Treasurer Dale R. Folwell, Lentz Brewer (via telephone), John Ebbighausen, Dirk German, Linda Gunter (via telephone), Oliver Holley (via telephone), Kathryn Johnston on behalf of Mark Johnson (via telephone), Lars Nance on behalf of Barbara Gibson (via telephone), Greg Patterson (via telephone), Margaret Reader (via telephone), Joshua Smith (via telephone), and Jeffrey Winstead (via telephone).

Members Absent

Vernon Gammon.

Guests in Attendance via Telephone

Larry Langer, Jonathan Craven, and Wendy Ludbrook from Cavanaugh Macdonald Consulting; and Mike McCann from Prudential.

Department of State Treasurer Staff Present On-Site and via Telephone

Thomas Causey, Elizabeth Hawley, Patrick Kinlaw, Richard Lopez, Lisa Norris, Vicki Roberts, Christina Strickland, 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 23, 2020 Board Meeting

It was moved by John Ebbighausen, seconded by Dirk German and Oliver Holley, and carried unanimously by the Board that the minutes from the Board meeting held on April 23, 2020 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, and Compliance, for an update on the Division's operations.

The Chair recognized Director of Operations, Rick Lopez to provide an update on Operations. Mr. Lopez began by noting the team processed 1,086 retirements in June, a 10% increase from the previous June, and stated that this year the team has processed 3,106 retirements. Mr. Lopez noted that 28% of June and July retirements have been initiated online, with a total 5,055 online retirements since November 2018. Mr. Lopez reviewed the 60-day paid on time rate, noting that the rate was 100% for June and July, and sustained a level of at least 99.5% for the year. He reported that death notifications increased sharply in June, but there is not sufficient data to indicate how much of the increase related to COVID-19. Mr. Lopez noted that there were 233 new disability applications for June, and there were 1,320 refund requests in June with an average processing turnaround time of 5.3 days. Mr. Lopez reported that monthly payroll includes 332,000 payees totaling \$543 million per month. Lastly, Mr. Lopez discussed upgrades and utilization to Orbit self-service, reporting that the team is proud of the increased use and enhancements.

The Chair recognized Director of Member Services, Vicki Roberts, for a presentation on the metrics for Member Services. Ms. Roberts stated that the Educational Retirement Group, received 34,000 letters for the quarter, with a four-day average turnaround time. Ms. Roberts reported that the call center, which closed March 23, reopened as of May 22. Ms. Roberts noted that this year, the team has held 204 total meetings reaching 9,736 people, and now provides eight webinars a month. Scheduled counseling sessions are being held virtually or via telephone. Ms. Roberts further reported that more than 32,000 e-mails have been received and 33,000 responses have been sent out with an average 2.56-day turnaround time. Ms. Roberts stated that the call center's average speed of answer and call abandonment rates have been favorable to the goals during the limited time since the Call Center reopened. Lastly, Ms. Roberts noted that the team continues to make enhancements to the voice response system, updates to the website with more educational videos, and has changed caller ID to display NC State Treasurer when making calls to retirees.

The Chair recognized Director of Policy, Planning and Compliance, Patrick Kinlaw. Mr. Kinlaw started by thanking Vicki Roberts and Rick Lopez and their teams for their hard work and creative solutions in responding to the pandemic environment. Mr. Kinlaw discussed overpayments collected, noting that just over \$10 million has been collected in the past 12 months and the total outstanding amount of identified overpayments was approximately \$39 million as of June 30. Mr. Kinlaw reported that contribution-based benefit cap (CBBC) invoices have been issued for 320 separate retirements since 2015, totaling more than \$30 million, and of that amount, more than \$24 million has been collected. Mr. Kinlaw informed the Board that the Actuarial Standards Board has adopted updates to Actuarial Standards of Practice Nos. 27 and 35 to be effective August 1, 2021. Lastly, Mr. Kinlaw updated the Board that the Board received notice from Grandfather Academy, a charter school in Avery County participating in TSERS, that the school's Board of Trustees decided to cease operations. Mr. Kinlaw stated that RSD has sent the school an invoice for the withdrawal liability, which is to be paid within 90 days of their complete withdrawal date in order to finalize the statutory TSERS withdrawal process.

Presentation on the Defined Benefit Administration Benchmarking Analysis Report

The Chair recognized Michael Reid, Vice President of CEM Benchmarking. Mr. Reid began by discussing the key takeaways, noting that the cost to administer the plans is \$23 per active member and is \$75 below

the average of \$98, putting the Retirement Systems' cost among the lowest in CEM's database. Mr. Reid reported that the Retirement Systems' service score was slightly below the peer median, but that CEM found several positive examples of member service. Mr. Reid provided an in-depth view of the costs compared to other states' plans, noting that the North Carolina Retirement Systems are the second-lowest cost in CEM's database covering many other public retirement systems in North America. Mr. Reid further noted that the costs for administrative items are also below the average cost and he provided an overview of what causes costs to be lower. Mr. Reid discussed the overall service score, noting that the focus should be on the individual areas rather than the score as a whole, because there may be good reasons not to adopt changes in any particular area. He reported that the quality of call center service is in line with what peers are providing, with the exception that North Carolina does not provide benefit estimates over the phone.

Review and Update on the 2020 Session of the North Carolina General Assembly

The Chair recognized Sam Watts to provide an update on the RSD Legislative Agenda. Mr. Watts noted a few highlights from the memo provided, stating that the three basic areas of legislative changes related to funding policies, benefit policies, and administrative policies. Mr. Watts stated that the Retirement Systems and the State Health Plan make up almost a quarter of the state budget, and all major retirement plans were fully funded. He noted that the General Assembly has instituted a requirement for economic stress-testing of TSERS in the future. Mr. Watts discussed benefit policy changes, noting the age for Required Minimum Distributions from TSERS and LGERS was changed from 70.5 to 72, the line of duty death benefit was doubled to \$200,000 if a public safety worker is "murdered in the line of duty," and there were temporary exemptions from certain limitations on retirees continuing to receive benefits after returning to work, in the cases of "high-need retired teachers" and COVID-related rehires. Mr. Watts noted the General Assembly clarified an exemption from administrative rule-making for actuarial assumptions, further validating the Boards' ability to administer actuarial functions without oversight from the Rules Commission. Mr. Watts reported on revisions to felony forfeiture statutes, budget expansions, and a new authorization for RSD to require employing agencies to pay all or part of overpayments incurred by retirees returning to work if the overpayment was caused by an employer reporting failure.

Update on Progress of Actuarial Experience Review

The Chair recognized Larry Langer and Jonathan Craven of Cavanaugh Macdonald Consulting. Mr. Langer provided an update on the progress of the Actuarial Experience Review noting that the recommendations resulting from the study are expected to be presented in October. Mr. Langer stated that North Carolina has among the strongest funding policies in the country for its public retirement systems. Mr. Langer discussed the actuarial valuation process and what can be expected to be discussed in October. Mr. Craven provided an overview of inflation assumptions and how those impact other actuarial assumptions. Mr. Langer and Mr. Craven provided hypothetical projections of the effects on the employer contribution rates and funded percentages, if the assumed rate of inflation is lowered from 3.00% and 2.50% and related economic assumptions are reduced by 0.50% per year as a result, including a reduction in the assumed rate of investment return from 7.00% to 6.50% per year.

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) and N.C.G.S. §128-29(g)(5)

The Chair recognized Patrick Kinlaw to review the 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) and N.C.G.S. §128-29(g)(5). Mr. Kinlaw noted this report must be made annually and given to the Commission. Mr. Kinlaw noted that Session Law 2017-129 established provisions for the funding and use of the LEIAs for implementation of administrative projects required by legislative provisions that result in cost savings to retirement benefits as measured by legislative actuarial note. Mr. Kinlaw noted that no such projects have been identified to date, and the amounts so far collected and expended are at \$0. However, Mr. Kinlaw reported that some provisions of recently enacted Session Law 2020-29 may result in eligible projects during the fiscal year ending 2021 or later years.

John Ebbighausen made a motion to accept the report. Dirk German seconded, and the motion passed unanimously.

Update on the Investment Advisory Committee (IAC) Meetings

The Chair recognized Greg Patterson to provide an update on the IAC meetings. Mr. Patterson noted the Advisory Committee met on May 20. He reported that the financial markets were very volatile in the first calendar quarter of 2020, which continued into the second quarter. Mr. Patterson further noted the Treasurer's office was able to buy assets opportunistically at a discount due to the plan having well-funded cash reserves. Mr. Patterson stated that the report to the IAC indicated that the Retirement Systems' returns for the one-year, five-year, and ten-year historical periods have exceeded the funds' benchmarks but that they have not exceeded the Boards' return assumption of 7% per year. Further, Mr. Patterson noted that during the year ending March 31, 2020, the Retirement Systems were in the top 12% of returns in their peer group, and in the lowest 5% in a key riskiness measure. Mr. Patterson stated the first quarter saw a 20% drop in equity which has since rebounded, noting that year-to-date returns have been positive.

Legislative Fund Update

The Acting Chair, Thomas Causey, updated the Board on the Legislative Retirement Fund. He reported that the last member receiving benefits from the Fund has died. The Fund has a remaining balance of approximately \$1,300. Mr. Causey stated that staff recommends moving the remaining funds into the Legislative Retirement System. Sam Watts stated that the Legislative Retirement Fund closed to new members in 1973.

John Ebbighausen made a motion to move the remaining balance in the Legislative Retirement Fund to the Legislative Retirement System. Linda Gunter seconded, and the motion passed unanimously.

Public Comment Period

There were no comments from the public.


Board of Trustees Comments

Oliver Holley praised the public school system workers and educators and thanked the Board for all their work to support State employees.

Adjournment

There being no further business before the Board, Dirk German moved to adjourn, which was seconded by Oliver Holley, and the meeting was unanimously adjourned at 12:13 p.m.


CHAIR


SECRETARY

10/29/2020
DATE

TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM BOARD OF TRUSTEES

July 30, 2020 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)

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

The new and updated SEI Evaluations included are for:

Linda Gunter
John Ebbighausen
Lentz Brewer



STATE ETHICS COMMISSION

POST OFFICE BOX 27685

RALEIGH, NC 27611

PHONE: 919-814-3600

Via Email

June 5, 2020

The Honorable Roy A. Cooper III
Governor of North Carolina
20301 Mail Service Center
Raleigh, North Carolina 27699-0301

**Re: Evaluation of Statement of Economic Interest Filed by Colonel John H. Ebbighausen
Board of Trustees of the Teachers' and State Employees' Retirement System**

Dear Governor Cooper:

Our office has received **Colonel John H. Ebbighausen's** 2020 Statement of Economic Interest as a member of the **Board of Trustees of the Teachers' and State Employees' Retirement System (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 Board of Trustees of the Teachers' and State Employees' Retirement System 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).

Mr. Ebbighausen fills the role of a member who is affiliated with the National Guard. He is the Chief of Programs for the North Carolina Department of Public Safety's Office of Recovery and Resiliency. Because he is a state employee who would benefit from the State's retirement system, he has the potential for a conflict of interest. Accordingly, Mr. Ebbighausen should exercise appropriate caution in the performance of his public duties should issues involving his retirement benefits come before the Board for official action.

In addition to the conflicts 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: Colonel John H. Ebbighausen
Scarlett Hargis, Office of the General Counsel
Gregory S. McLeod, Deputy General Counsel
Laura Rowe, Ethics Liaison

Attachment: Ethics Education Guide



STATE ETHICS COMMISSION

POST OFFICE BOX 27685
RALEIGH, NC 27611
PHONE: 919-814-3600

Via Email

June 5, 2020

The Honorable Roy A. Cooper III
Governor of North Carolina
20301 Mail Service Center
Raleigh, North Carolina 27699-0301

**Re: Evaluation of Statement of Economic Interest Filed by Ms. Linda H. Gunter
Board of Trustees of the Teachers' and State Employees' Retirement System**

Dear Governor Cooper:

Our office has received **Ms. Linda H. Gunter's** 2020 Statement of Economic Interest as a member of the **Board of Trustees of the Teachers' and State Employees' Retirement System (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 Board of Trustees of the Teachers' and State Employees' Retirement System 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. Gunter fills the role of a retired teacher serving on the Board. She is a beneficiary of the Retirement System and owns a financial interest in Bank of America, whose business could intersect with the Board. In addition, Ms. Gunter is the vice president of North Carolina Retired School Personnel, a division of the North Carolina Education Association (NCAE). Therefore, Ms. Gunter has the potential for a conflict of interest and should exercise appropriate caution in the performance of her public duties should issues involving these entities or her retirement benefits come before the Board for official action.

In addition to the conflicts 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).

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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: Linda H. Gunter
Scarlett Hargis, Office of the General Counsel
Gregory S. McLeod, Deputy General Counsel
Laura Rowe, Ethics Liaison

Attachment: Ethics Education Guide



STATE ETHICS COMMISSION

POST OFFICE BOX 27685

RALEIGH, NC 27611

PHONE: 919-814-3600

Via Email

June 2, 2020

The Honorable Phil Berger
President Pro Tempore of the Senate
16 West Jones Street, Room 2008
Raleigh, North Carolina 27601

**Re: Evaluation of Statement of Economic Interest Filed by Mr. W. Lentz Brewer
Member of the Board of Trustees of the Teachers' and State Employees' Retirement System**

Dear Senator Berger:

Our office has received **Mr. W. Lentz Brewer's** 2020 Statement of Economic Interest as a member of the **Board of Trustees of the Teachers' and State Employees' Retirement System (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.

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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).

Mr. Brewer fills the role of a member who has experience in practical banking. He is a commercial banker employed by South State Bank. Because the Board is the general administrator for the Retirement System and South State Bank could seek to conduct business with the Board and the North Carolina Department of State Treasurer, he has the potential for a conflict of interest. Therefore, Mr. Brewer should exercise appropriate caution in the performance of his public duties should issues involving South State Bank or any entity in which he owns a financial interest come before the Board for official action.

In addition to the conflicts 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).

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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: W. Lentz Brewer
Laura Rowe, Ethics Liaison

Attachment: Ethics Education Guide