



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., April 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, Lentz Brewer, John Ebbighausen, Vernon Gammon, Dirk German, Barbara Gibson, Linda Gunter, Oliver Holley (via telephone), Claire Miller on behalf of Mark Johnson, Greg Patterson, Joshua Smith (via telephone), Jeffrey Winstead

Members Absent

The board member absent was Margaret Reader.

Guests Present (via Telephone)

Bill Medlin with The Professional Educators of North Carolina, Mike McCann from Prudential, and Larry Langer and Wendy Ludbrook from Cavanaugh Macdonald Consulting.

Department of State Treasurer Staff Present

Steve Toole, Thomas Causey, Joan Fontes, Timeka Holden, Patrick Kinlaw, Fran Lawrence, Frank Lester, Vicki Roberts, Anne Roof, Christina Strickland 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.

Approval of the Minutes from the January 31, 2019 Board Meeting

It was moved by Vernon Gammon, seconded by John Ebbighausen, and carried unanimously by the Board that the minutes from the Board meeting held on January 31, 2019, be approved.

Retirement Systems Division Operations

The Chair recognized Thomas Causey, Deputy Director of Operations, Vicki Roberts, Deputy 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 upcoming months will be the start of the Retirement Systems



Division's busiest retirement time of the year. Mr. Causey spoke about the metrics report for Operations, stating that retirement processing is at a 99.6% pay out rate as of the end of March, and the benefit processing for disability applications was at about a 15 day processing period. Mr. Causey also stated that refund request numbers were at 1,117 at the end of March, with an average of a 12-day rate to process the requests along with an average monthly payroll processing of \$559 million.

The Chair recognized Deputy Director of Member Services, Vicki Roberts, for a presentation on the metrics for Member Services. Ms. Roberts stated that one-on-one counseling is available in the same month, and that the on-line retirement education registration that is offered helps reach more people. Ms. Roberts reported on metrics around member correspondence noting that the response time was at 3.5 days, exceeding the established goal. She stated that there were 165 total retirement education meetings and webinars for the 2018/2019 fiscal year, with an attendee count of 10,258. Next, Ms. Roberts reported on the metrics of the Call Center. She noted that as of the end of March, Member Services' busiest call volume time of the year, that about 76 percent of calls were answered in one minute or less.

The Chair recognized the Director of Policy, Planning and Compliance, Patrick Kinlaw. Mr. Kinlaw reported that one of the Compliance section's responsibilities is to administer invoices when retirement benefits exceed the Contribution-Based Benefit Cap (CBBC). This results from what is commonly known as the "anti-pension spiking" law. Since 2015, the Retirement Systems have issued invoices related to 223 retirements, averaging around 50 per year. During that time, the Retirement Systems have invoiced more than \$21 million and collected more than \$15 million.

Mr. Kinlaw also reported on the history of collection of overpayments that are owed to the Retirement Systems Division. The actual collections from January through March of 2019 were \$2.37 million. For the first nine months of the fiscal year, compared to nine months' worth of the annual goal, which would be \$7.5 million, the total overpayment collections were \$7.6 million. The total outstanding number of identified overpayments increased significantly during the quarter, from about \$32.0 million to about \$37.8 million, primarily because of the identification of several large overpayments.

Mr. Kinlaw also reported on the Compliance team's role in reviewing situations that may have resulted in underpaying or overpaying a member or their designated beneficiary. For example, as the Boards have been informed in prior meetings, in 2018 RSD identified 41 individuals who had received significant overpayments from TSERS or LGERS under Option 4 (the "Social Security leveling" form of payment). The main reason for the overpayment was that their benefit was supposed to be reduced after they turned 62 but it was not. The total amount that was overpaid to these individuals exceeded \$6 million. The retirees' benefits were adjusted in August 2018 to be equal to the correct prospective monthly benefits. RSD contacted the retirees prior to this adjustment to explain why their benefit was being reduced. In early 2019, the calculations of overpayments were finalized, and members were informed by letter and by phone about the plan for recovering the overpayment. North Carolina law dictates that agencies cannot forgive an



overpayment of State funds and have a duty to recover the overpayment by all lawful means available. Members may appeal the Retirement Systems' actions in writing, and once exhausting appeals within the Department they may choose to appeal to the Office of Administrative Hearings.

Investment Advisory Committee (IAC) Update

The Chair recognized Greg Patterson for an update from the most recent IAC meeting on February 20, 2019. Mr. Patterson reported that the fourth calendar quarter of 2018 had been a difficult investment environment, with some improvement seen by February 2019. Mr. Patterson also stated that the North Carolina Retirement Systems are managed more conservatively than other plans, which tends to reduce the magnitude of both favorable and unfavorable outcomes, compared to what others might experience. Staff has been building out passive funds that are managed in-house, and 48 percent of the funds are in-house. The IAC meeting in February included a presentation by a consultant from Strategas on federal policy and investments, as well as a staff presentation on the Retirement Systems' real estate investments. 63 percent of the Retirement Systems' real estate allocation is to core real estate, focused on income, and 37 percent is to non-core real estate, focused on growth.

Overview of Retirement Systems Division's Legislative Agenda for 2018 Short Session of the North Carolina General Assembly

The Chair reported that the Department continues to advocate for a 4 percent increase to the appropriations toward State Health Plan premiums. The Chair also stated that there is a need for reforms to the disability income plan.

State Contribution Rate Stabilization Policy (SCRSP) Alternatives for the National Guard Pension Fund

The Chair recognized Patrick Kinlaw, Director of Policy, Planning and Compliance, for a presentation on State Contribution Rate Stabilization Policy (SCRSP) Alternatives for the National Guard Pension Fund. Mr. Kinlaw began the presentation with some background information mentioning that according to the most recent actuarial valuation report, the North Carolina National Guard Pension Fund is 70.7 percent funded, which is the lowest of any of the North Carolina Retirement Systems. That is more than 15 percentage points lower than the next-lowest of our funds. At its January 2019 meeting, the Board voted to recommend an appropriation for the upcoming fiscal year equal to \$11,031,715, which is \$2 million greater than the actuarially determined contribution. The Board also voted to direct staff to develop a proposed SCRSP, which should include a multi-year contribution pattern and conditions under which the Board will recommend benefit improvements to the General Assembly in the future. That is the policy being presented today.

Under the proposed SCRSP, through June 2022, the Board's recommended appropriation for the upcoming fiscal year will be equal to the greater of two amounts. The first amount will be equal to the amount that the Board recommended during the previous year. For example, for the January 2020 meeting, in considering a recommended appropriation for the fiscal year ending June 2021,



the first amount would be \$11,031,715, which the Board has recommended for the fiscal year ending June 2020. The second amount will be what the actuaries calculate as the minimum recommended contribution for the fiscal year ending in 2021, plus \$2 million. The Board will base its recommendation on the greater of the two amounts.

Mr. Kinlaw also reported that Section 4 of the proposed SCRSP provides guidance to the Board each year as it decides whether to recommend an increase to the benefit formula. The benefit is \$105 per month for members with 20 years of creditable military service, plus \$10.50 per month for each additional year of service, with a limit of \$210 per month, which a member would reach at 30 years of service. Other sections of the proposed SCRSP provide guidance on any recommended cost-of-living adjustments for retirees (or COLAs) and states that if the General Assembly enacts a benefit improvement or a COLA, the Board will recommend that the cost of the improvement or COLA be paid for over one year, i.e., amortized in one year rather than over multiple years.

Mr. Kinlaw concluded his presentation by describing Section 6, which makes the policy effective through June 30, 2022, noting that is the same expected timing for reconsidering the contribution stabilization policies for TSERS, LGERS, and the Firefighters' and Rescue Squad Workers' Pension Fund. The Board could vote to extend the SCRSP for any period of time.


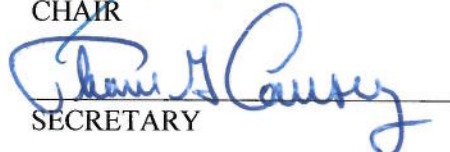
It was moved by and carried unanimously by the Board to approve the proposed SCRSP, as presented, for the North Carolina National Guard Pension Fund.

Board of Trustees Comments

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

State System 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 11:11 a.m.


CHAIR

SECRETARY