

MINUTES
BOARD OF TRUSTEES
OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
April 16, 2015

The regular quarterly meeting of the Board of Trustees was called to order at 9:31 a.m., April 16, 2015, by the Acting Chair, Melissa Waller, Chief of Staff of the Department. The meeting was held in the Dawson Conference Room of the Albemarle Building at 325 North Salisbury Street, in Raleigh.

Members Present

The board members present were: Melissa Waller on behalf of Treasurer Janet Cowell, John Aneralla, Lentz Brewer (by telephone), Jack Brooks, Van Dowdy, William Grey, Alberta Hall, Michael Jacobs (by telephone), Michael Mebane, and LouAnn Phillips on behalf of Superintendent June Atkinson.

Members Absent

Board member absent was: Greg Grantham.

Guests Present

The guests attending were: Robert Curran, with the Attorney General's Office; and, Larry Langer and Michael Ribble, with Buck Consultants.

Department of State Treasurer Staff Present

The staff members present were: Steve Toole, Mary Buonfiglio, Thomas Causey, Jaclyn Goldsmith, Fran Lawrence, Vicki Roberts, Marquita Robertson, Marni Schribman, Edgar Starnes, Anthony Solari, Christina Strickland, Blake Thomas and Sam Watts.

Conflicts of Interest

The Acting Chair asked, pursuant to the ethics rules, about conflicts of interest of board members. There were no ethics conflicts identified by the board members.

Adoption of Appreciation for the Service of Loris Colclough

It was moved by Michael Mebane, seconded by LouAnn Phillips, and carried unanimously by the Board to adopt the Resolution for the service of Loris Colclough for his

tenure on the Boards of Trustees for the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System.

Approval of the Minutes

It was moved by John Aneralla, seconded by Michael Mebane, and carried that the minutes of the board meeting held on January 15, 2015, be approved.

Retirement Systems Division (RSD) Operations Update

The Acting Chair recognized the Retirement Director, Steve Toole, for an update about operations. Mr. Toole reported that the call center service level is at 15 percent, meaning that 15 percent of incoming calls are answered in 30 seconds or less. Mr. Toole explained that due to budgetary constraints, the Division has reduced the temporary staffing level of the call center and he explained that other sections within RSD have been assisting with incoming calls in the call center. He stated that incoming calls have dropped from prior year and the current abandonment rate is at 29 percent, compared to 58 percent last year. Mr. Toole updated that visitors have decreased slightly from last year and turn-around times for responding to emails are 3.7 days. Mr. Toole updated that retirement processing is meeting its goal of 98 percent of applications received within 60 days prior to retirement are paid on time, and he presented the July and January spikes in scale on retirements requested, service purchases calculated and estimates received. Mr. Toole reviewed the statistics for disability applications, death notifications and refund requests. He reviewed that there are 282,692 current payees and that retirement systems runs a payroll of nearly \$450,000,000 every month, and the average amount paid to the beneficiary is \$1,581.00.

Mr. Toole gave an update about the participation rates for the Supplemental Retirement Plans, stating that: participant activity in the NC 401(k) plan has remained at 27 percent; average contribution remains at \$160.00 per month; and, 92.29 percent of new members are utilizing asset allocation (exceeding the goal of 89.50 percent). Mr. Toole updated the board on the NC 403(b) program, reporting that 38 school systems have adopted the program as of December 31, 2014. Mr. Toole stated that Prudential is working with some participating employers to match employee contributions. Mr. Aneralla inquired on the average amount employers match. Mr. Michael McCann with Prudential Retirement answered that employers average about a two percent match.

Mr. Toole gave an update on the progress of combining the Supplemental Retiree Insurance products with the NC Flex program and stated that the recent Request for Proposals (RFP) have been put on hold due to complications to adequately combine both products as-is within the RFPs. Mr. Toole gave a presentation on the 2014 Year-End Review of the Supplemental Insurance Products. He stated that vision plan membership has increased 55 percent and dental plan membership has increased 39 percent from 2009 to 2014. He stated that

participation in the group accident insurance plan has increased 33.8 percent from 2013 to 2014. Mr. Toole reviewed the life insurance portion, currently offered by FidelityLife and Combined Insurance, with a participation increase of 16.8 percent in the past year, and reported that death claims paid since inception is at \$6.9 million. Mr. Toole reviewed the call center statistics for Pierce Insurance, and stated that calls were up from the prior year, averaging 207 calls a day, with 71 percent of calls for customer service with an average wait time of 17 seconds.

Budgetary Allocation of Certain Administrative Costs from the Retirement System to the Investment Portfolios

The Acting Chair recognized Blake Thomas, Deputy General Counsel for the Department of State Treasurer, for a presentation on the budgetary allocation of administrative costs between the administration of the retirement systems and the administration of the investment programs. Mr. Thomas presented that under state law, the Department of State Treasurer can deduct both costs of administration of investment programs and the cost of administration of retirement systems, as both statutes use similar language to authorize deduction of administrative costs, in order to pay certain administrative expenses currently incurred by the Retirement System Division. Mr. Thomas explained that certain actuary costs may be shared or owned directly by the retirement systems and the investment programs. Mr. Thomas described a memorandum he drafted and the four categories of expenses that would be covered by the new allocation: 1) retainer for valuation and accounting; 2) costs of compliance with new GASB standards; 3) actuarial analyses on specific projects; and 4) costs of RSD tax counsel or consultants. Mr. Mebane inquired if this allocation would provide a change in the work being performed by the actuary. Mr. Thomas answered that this shouldn't bring about a change from the current level of work from the actuary and this allocation would give RSD an opportunity to expand in budgeting for additional projects.

2015 Retirement Systems Division Legislative Update

The Acting Chair recognized Tony Solari, Director of Governmental Relations, for a presentation on the current legislation of the 2015 Long Session of the North Carolina General Assembly. Mr. Solari gave updates on the following legislation:

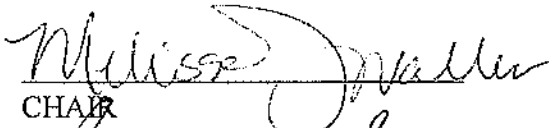
- Retirement Technical Corrections Act of 2015 (HB 274) and Retirement Administrative Changes Act of 2015 (HB 277): Bills were heard in the House and have been crossed over to Senate Committee on Pensions and Retirement and Aging
- Retirement Systems COLA (HB 759): The Treasurer has been very active on supporting COLAs for retirees and has met with appropriation chairs and committees. The Department of State Treasurer has been notified that the support for COLAs has been taken under advisement. Mr. Solari stated that the departmental legislative staff had also been dedicated in supporting a COLA this session.

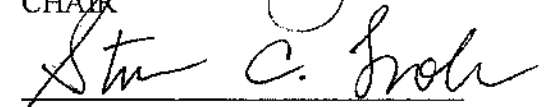
- Budget (HB 97): Retirement System's budget request was presented at the General Oversight Committee, asking for funds to update ORBiT, perform a salary market study, to modernize the call center, and funds to complete the data audit for the Firefighters' and Rescue Squad Workers' Pension Fund.
- Agency Participation Procedures Act of 2015 (HB 276): Mr. Solari presented legislation that would change participation procedures for charter schools that enter and leave the retirement system. Mr. Solari noted that as charter schools do not operate similar to other agency participants, charter schools may exit the retirement system with their liability unfulfilled. This legislation would remove the current 30-day window for the charter school to apply to the Teachers' and State Employees' Retirement System and instead allow charter schools a one-year window to become a participating employer and be granted a provisional entry into the retirement system for a one year period. If employee and employer contributions are not received by the date set by the Board of Trustees, and after 90 days' notice, the Board of Trustees may revoke the charter school's provisional entry into the retirement system. After the provisional period of one year, the charter school would undergo an actuarial and financial review to determine the amount of the withdrawal liability that would be required to cease participation after five and ten years and would require the board of directors of an entering charter school to adopt a written resolution acknowledging acceptance of the terms and conditions of membership, including the exit procedures. Ms. Cashion stated her concern on whether the board members of the charter schools would incur liability and the implications of a board changing members since signing the liability commitment.
- Local System COLA (HB 616): Mr. Solari presented that the legislation would provide a 1.0 percent COLA to retirees of the Local system, which is higher than the maximum allowed COLA of .625 percent that was recommended by Board of Trustees in the January 15, 2015, meeting.
- Rollovers into Qualifying Bailey Plans (SB 18): Mr. Solari presented legislation would affect members covered by the Bailey case who have rolled over non-tax-exempt funds into their tax-exempt retirement plan. Mr. Solari stated that the legislature is looking to make the legislation with an effective date for taxable years beginning on or after January 1, 2016. If the legislation would require a retroactive adjustment to these accounts in order to implement for tax period 2016, Retirement Systems has serious concerns on the resources to investigate these transactions and could cost the Retirement System \$5 million to administer the coding into ORBIT and would span the project to 3 years to execute. Sheriff Smith presented a motion for a resolution to be drafted and sent to the legislature on behalf of the Board of Trustees that states the Boards' concerns on the potential legislation and the resource challenges and cost from the Retirement Systems Division to retroactively administer this legislation. Mr. Brooks seconded the motion with a revision to include costs and time impacts, which was accepted by Sheriff Smith, and it was unanimously carried by the Boards. Mr. Toole recommended that staff draft the resolution and schedule a meeting by telephone to review the resolution and for the Boards to vote on approval prior to sending to the legislature.

- Probation/Parole Officers Retirement (HB 555): Mr. Solari presented that this legislation would define a probation/parole officer for retirement benefit purposes and changes the definition of law-enforcement officer to include probation/parole officers with respect to service rendered on or after July 1, 2015.

State System Adjournment

There being no further business, Lou Ann Phillips moved to adjourn the meeting, which was seconded by John Aneralla, and carried. The meeting adjourned at 11:05 a.m.


CHAIR


SECRETARY

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