

MINUTES
BOARD OF TRUSTEES
OF THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM
January 17, 2013

The regular quarterly meeting of the Board of Trustees was called to order at 9:30 a.m., January 17, 2013, by the Chair, Janet Cowell. The meeting was held in the Dawson Conference Room at the State Treasurer's offices in Raleigh.

Before commencement of agenda items, the Chair, as State Treasurer introduced Kevin SigRist, the new Chief Investment Officer in the Department of State Treasurer. She also expressed thanks to Bryan Lewis for his role as Interim Chief Investment Officer and for the work he has done assisting Mr. SigRist in this transition. The State Treasurer introduced William (Bill) McGee as a new staff member who will be working with the Department's Director of Governmental Affairs, Anthony Solari, during this session of the General Assembly.

The Chair requested that the Board, staff and guests take a moment of silence in memory of Donald Tarkenton. Mr. Tarkenton was a member of the State and Local System's Boards of Trustees from January, 2009 to July, 2011.

Members Present

The Board Members present were: Janet Cowell, Jerry Ayscue, Chipp Bailey, Sam Barefoot, Kay Cashion, Loris Colclough, Dennis Ducker, Harold Keen, LouAnn Phillips on behalf of Superintendent June Atkinson, Sally Sandy, Grady Smith and Paschal Swann.

Members Absent

The Board Members absent were: Mike Bradley and Randy Byrd.

Department of State Treasurer Staff Present

The staff members present were: Steve Toole, Mary Buonfiglio, Joan Fontes, Jaclyn Goldsmith, Fran Lawrence, Bryan Lewis, William McGee, Lisa Page, Dani O'Quinn, Meredith Rouse-Davis, Joyce Rutledge, Anthony Solari and Sam Watts.

Guests Present

The guests attending were: Robert Curran, Susannah Holloway and Alexander Peters, with the Attorney General's Office; and Larry Langer, Kai Petersen and Mike Ribble with Buck Consultants. William R. Tate, Petitioner, and Seth R. Cohen, Attorney for Petitioner, were also in attendance.

Conflicts of Interest

The Chair asked, pursuant to the ethics rules, about conflicts of interest of Board Members. There were no ethics conflicts identified by the Board Members. Sally Sandy noted that her City had a relationship with Burke County, but that relationship had no bearing on the application of Burke County Tourism Development Authority to the Local System.

Approval of the Minutes

It was noted in the review of the Board meeting minutes that Harold Keen's first name was misspelled and on page three of the minutes in the first paragraph, the word 'State' needed to be changed to 'Local'. With these corrections, it was moved by Loris Colclough, seconded by Sally Sandy and carried unanimously that the minutes of the Board meeting held on October 18, 2012, be approved.

Increase in the Amount of Reemployment Earnings Before Suspension of Retirement Allowance

The Chair recognized Steve Toole for a presentation concerning the annual statutory increase in the compensation that may be earned by a reemployed beneficiary who is receiving either an early retirement benefit or a service retirement benefit, before suspension of a retirement allowance under G.S. §128-24(5)c. Following the presentation, it was moved by Pat Swann, seconded by Sam Barefoot and carried that the amounts which may be earned before suspension shall be increased effective January 1, 2013, by the increase in the Consumer Price Index (CPI) as published by the United States Department of Labor. The increase in the CPI, for the period from January 1, 2011 to December 31, 2012, was 1.7 percent. Therefore, the maximum amount a reemployed retiree can earn without affecting his/her monthly retirement allowance is increased by the greater of 1.7 percent of the 50 percent compensation amounts or an adjusted amount of \$30,680.00, both effective January 1, 2013.

Overview of Retirement System's Legislative Agenda for 2013

The Chair recognized Anthony Solari to make a presentation on the Retirement System's legislative agenda. Mr. Solari stated there will be a Technical Corrections bill submitted to the General Assembly and that bill will further align the Systems with State and federal laws. Mr. Ducker cautioned, with respect to the proposed expansion of the definition of "membership service," against unintended consequences. Sam Watts presented two provisions from the Administrative Changes bill to the Board: one provision would allow participants in the State's new 403(b) program to make a one-time election at retirement or following retirement to transfer any portion of his or her eligible accumulated contributions in the NC 403(b) plan to the Local Governmental Employees' Retirement System or the Teachers' and State Employees' Retirement System, as applicable; another provision would create a Preservation of the Benefits Plan for the purpose of providing benefits to a retiree or other beneficiary whose benefits would otherwise be limited by section 415 of the Internal Revenue Code. Discussion ensued with respect to the Administrative Changes bill. Both the Chair and Mr. Solari indicated that many comments were being received regarding the preservation of the defined benefit plan.

Mr. Solari also announced that work was currently being done on a bill that would involve Board Governance changes and said that he would report further once a final bill had been developed.

Death Benefit Plans and Disability Income Plan of North Carolina Funding Status & Investment Allocation

The Chair recognized Larry Langer and Michael Ribble from Buck Consultants for a presentation on asset allocation for the Death Benefit Plans (DBP) and the Disability Income Plan of North Carolina (DIPNC). At the October 18, 2012, Board of Trustees meeting, questions had been raised by the Board relating to both the short-term investment allocations for the two funds and their overfunding. Mr. Langer explained that the practice of investing the DBP fund in only fixed income securities is due to concerns for liquidity and asset preservation in the short timeframe of expected benefit payments. Similar to DIPNC, death benefits are essentially being funded on a pay-as-you-go basis. The cost each year is expected to cover only that year's benefit payments. A plan can become overfunded due to actual numbers being less than the actuarial predictions and to actual investment return exceeding the interest assumption.

2012 North Carolina Comprehensive Annual Financial Report

The Chair recognized Fran Lawrence, Chief Financial Officer for the Department of State Treasurer, to give a presentation on the recently completed Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2012, as it relates to retirement plans. Ms. Lawrence summarized the detail provided in Note 12 on the various retirement plans, and Note 14 on other postemployment benefits. She also shared information from Note 15 on the Death Benefit Plans and DIPNC. In connection with the Required Supplementary Information Schedules of Funding Progress for all the defined benefit pension trust funds, Ms. Lawrence reviewed ways in which the impending Governmental Accounting Standards Board (GASB) changes will affect the funding reports for these funds in future CAFRs, as reporting moves from actuarial to market values.

Approval of New Local Employer

Mr. Toole presented Burke County Tourism Development Authority as an employer applying to participate in the Local Governmental Employees' Retirement System. It was moved by Jerry Ayscue, seconded by Sam Barefoot and carried to approve Burke County Tourism Development Authority for participation as an employer in the Local Governmental Employees' Retirement System, with an effective date of April 1, 2013.

Consideration of Benefit Increases and Adoption of Employer Contribution Rates

The Chair recognized Steve Toole for a presentation on the Board's adoption of employer contribution rates effective July 1, 2013, and possible benefit enhancements for recommendation to the 2013 Session of the General Assembly. The Board discussed the legal impediment to the Board's ability to grant Cost of Living Adjustments (COLA's) without sufficient investment gains contemplated by statute. Mr. Toole stated that the latest Actuarial Valuation report indicates a new Annual Required Contribution (ARC) of 7.07 percent of payroll for general employees; and, an increase of 7.55 percent for law enforcement officers. Mr. Toole presented three policy options to the Board; to adopt the new ARC; to recommend that the General Assembly enact a one percent COLA with a corresponding increase of 0.21 percent in the new ARC; to recommend that the General Assembly enact a one-tenths percent increase in the defined benefit formula accrual rate with a corresponding increase of 0.31 percent in the new ARC. Mr. Toole stated that the staff did

not recommend an increase in the formula accrual rate at this time primarily because the Local System's rate is higher than the State System's rate.

Public Comment and Board Decision

The Chair recognized the following organizations' representatives for presentations for the Board to consider in adoption of employer contribution rates and in making recommendations to the upcoming 2013 Session of the General Assembly:

Ed Regan, North Carolina Retired Governmental Employees' Association

Robert Dixon, Charlotte Mecklenburg City and County Retiree Association

Richard O'Brien, Professional Firefighters and Paramedics of North Carolina

Paul Meyer, North Carolina League of Municipalities

Rebecca Troutman, North Carolina Association of County Commissioners

After public comment and a discussion, it was moved by Loris Colclough, seconded by Kay Cashion and carried that the Board increase the employer contribution rates in order to meet the ARC for pension expenses in the Local Governmental Employees' Retirement System, effective July 1, 2013. Meeting the ARC means: an increase in the employer contribution rate for general employees from 6.74 percent of payroll to 7.07 percent of payroll; and, increase in the employer contribution rate for law enforcement officers from 6.77 percent of payroll, net of a court cost offset of 0.45 percent to 7.28 percent of payroll, net of a court cost offset of 0.27 percent. Death Benefit Plan rates will vary as recorded in the Local System's Actuarial Valuation accepted by the Board on October 18, 2012.

Director's Report

The Chair recognized Steve Toole for his Director's Report. Mr. Toole gave an update on operations within the Division. Mr. Toole also discussed the Fraud, Waste, and Abuse Review that is currently being done by Buck Consultants, with recommendations due to the Division in the next coming weeks. The results of the review will be available to be discussed at the next Board meeting.

Notification of the Postponement of the Contested Case of Phillip L. Watson, Petitioner v. North Carolina Department of State Treasurer, Retirement Systems Division, Respondent

The Chair announced that the official record in the "Phillip L. Watson, Petitioner, v. North Carolina Department of State Treasurer, Retirement Systems Division, Respondent" was not received by the Department in sufficient time for presentation at the January 17, 2013, meeting; therefore, a hearing of the case would need to be postponed to the next regularly scheduled Board of Trustees meeting. It was moved by Grady Smith, seconded by Sally Sandy and carried to postpone the contested case hearing until the next scheduled Board meeting.

Consideration of Contested Case of William R. Tate, Petitioner v. North Carolina Department of State Treasurer, Retirement Systems Division, Respondent

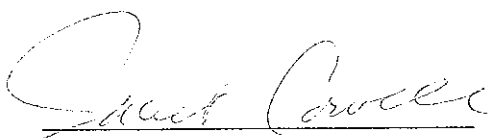
The Board heard oral arguments from Seth R. Cohen, Attorney representing Petitioner William R. Tate, and Susannah Holloway of the North Carolina Department of Justice, representing the Respondent. At the close of oral arguments, it was moved by Loris Colclough, seconded by Lou Ann Phillips and carried that the Board go into executive session to deliberate on the Contested Case. Alexander Peters acted as legal advisor to the Board.

At the close of executive session, it was moved by Pascal Swann, seconded by Sally Sandy and carried that the Board return to open session.

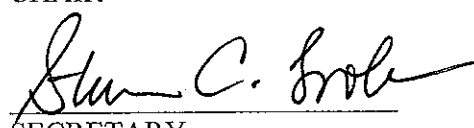
The Chair then announced in open session that the Board had decided to uphold the Administrative Law Judge's Decision in the aforementioned Contested Case.

Adjournment

There being no further business, Dennis Ducker moved for adjournment of the meeting, which was seconded by Chipp Bailey and carried. The meeting adjourned at 1:15 p.m.



CHAIR



SECRETARY