

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

A Board Orientation meeting was held on October 16, 2013. It was called to order at 1:00 p.m. by the Director, Steve Toole. The members present were: John Aneralla, Lentz Brewer and LouAnn Phillips on behalf of June Atkinson. Members of staff present were: Steve Toole, Sam Watts, Jaclyn Goldsmith, Christina Strickland, Joan Fontes, and Bryan Lewis.

The Board Orientation covered an overview of the North Carolina Retirement Systems, North Carolina State Ethics, Open Meeting Laws, Roles and Responsibilities of a Trustee, Contested Cases, Public Policy, Investments, and an Actuarial Overview. The following guests and staff who gave presentations were: Steve Toole, Retirement Director; Bob Curran, Attorney General's Office; David Levine and Alison Tumilty, Groom Law Firm; Sam Watts, Policy Development Analyst; Bryan Lewis, Investments Management Division; and, Larry Langer and Michael Ribble, with Buck Consultants.

The regular quarterly meeting of the Board of Trustees was called to order at 9:30 a.m., October 17, 2013, by the Chair, State Treasurer Janet Cowell. At 12:00 p.m., Melissa Waller, Chief of Staff, stepped in as Acting Chair until adjournment of the meeting. The meeting was held in the Dawson Conference Room at the State Treasurer's offices in Raleigh.

Members Present

Board members present were: Janet Cowell, John Aneralla, Jerry Ayscue, Chipp Bailey, Mike Bradley, Lentz Brewer, Kay Cashion, Loris Colclough (via telephone), Kevin Gordon, LouAnn Phillips on behalf of Superintendent June Atkinson, Sally Sandy, and Grady Smith.

Members Absent

The Board member absent was: Randy Byrd.

Guests Present

The guests attending were: Robert Curran and Susannah Holloway, with the Attorney General's Office; Larry Langer and Mike Ribble, with Buck Consultants; Vivian Pierce, with Pierce Insurance; Mary Harrison, with Buck Consultants; and David Levine, with Groom Law Firm.

Department of State Treasurer Staff Present

The staff members present were: Steve Toole, Thomas Causey, Joan Fontes, Chris Frazier, Jaclyn Goldsmith, Schorr Johnson, Fran Lawrence, Bryan Lewis, Lisa Page, Meredith Rouse-Davis, Kevin SigRist, Tony Solari, Christina Strickland, Blake Thomas, and Sam Watts.

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.

Swearing in of Members

The Chair administered oaths of office for: John Aneralla, Chipp Bailey, Lentz Brewer, Kay Cashion, Kevin Gordon and LouAnn Phillips.

Resolutions

It was moved by Michael Mebane, seconded by LouAnn Phillips, and carried unanimously to adopt Resolutions for the services of Sam Barefoot and Harold Keen for their tenure on the Board of Trustees for the Teachers' and State Employees' Retirement System and the Board of Trustees for the Local Governmental Employees' Retirement System.

Approval of the Minutes

It was moved by Mike Bradley, seconded by Grady Smith, and carried that the minutes of the Board meeting held on July 18, 2013, be approved.

Separate Insurance Benefit Trust

The Chair recognized Sam Watts, Policy Development Analyst, to discuss recent legislation that amends N.C.G.S. §143-166.60 by diverting funds from the Separate Insurance Benefit Trust to reimburse employer paid State Health Plan premiums made on behalf of state law enforcement officers and to reimburse employer paid contribution rates for the State Health Plan based on the reported compensation of state law enforcement officers for fiscal years ending June 30, 2014 and June 30, 2015. The Chair recognized Larry Langer, from Buck Consultants, to give a presentation on the estimation of the impact that these payments could have on the Separate Insurance Benefit Trust. Mr. Langer reported that the estimates presented were performed on the basis of two asset return scenarios (based on a 5.75 percent return and a 0 percent return), membership data, methods, and assumptions set forth in the December 31, 2012 actuarial valuation and that these estimates were determined by Buck Consultant's interpretation of the legislation. Based on the analysis of the estimates and data with a 5.75 percent return assumption, Buck Consultants found that if the funds were diverted for the complete two fiscal years, it is estimated that by fiscal year ending 2015, the surplus of the plan could decrease to a surplus of \$9.4M compared to a surplus of \$72.7M if no funds were diverted for payments. Alternatively, Mr. Langer presented an analysis with a 0 percent return by fiscal year end 2015 and if the funds were diverted for two complete years, the plan could be at a deficit of \$1.2M compared to surplus of \$57.6M if no funds were diverted.

The Chair recognized Blake Thomas, Assistant General Counsel at the Department, and David Levine, from Groom Law Firm, to provide a legal analysis of the issue to the Board. Mr. Thomas explained that the initial transfer is required by state law, but that future transfers may

violate the constitution. Based on Buck's projections, if the General Assembly takes the same action in the next fiscal biennium, the fund could be depleted in 2016. If the fund is depleted and therefore cannot provide benefits, then the fund would not be able to fulfill its contracts with its beneficiaries and there could be a violation of the contracts clause in the constitution.

A motion was made by Mike Bradley, seconded by Jerry Ayscue, and unanimously carried that Department staff draft a letter to the General Assembly on behalf of the Board explaining the potential conflicts of this legislation and the Board's position.

Presentation on the Local Governmental Employees' Retirement Systems Actuarial Valuation, prepared as of December 31, 2012, by Buck Consultants

The Acting Chair recognized Larry Langer and Mike Ribble, with Buck Consultants, for a presentation on the Local Governmental Employees' Retirement System actuarial valuation. Mr. Langer presented that the results of this valuation differed from last year's valuation due to the market value return of 11.8 percent compared to the 7.25 percent assumed return and a payroll increase of 0.3 percent compared to the 3 percent assumed increase. These deviations resulted in a lower Annual Required Contribution (ARC) rate of 6.94 percent for general employees and firefighters and 7.42 percent for law enforcement officers for fiscal year end 2014. Overall, the ARC decreased 0.13 percent of payroll.

It was moved by Sally Sandy, seconded by Grady Smith, and carried unanimously that the Local Governmental Employees' Retirement System actuarial valuation report be accepted.

Presentation on the Register of Deeds' Supplemental Pension Fund, prepared as of December 31, 2012, by Buck Consultants

Mr. Langer and Mr. Ribble gave a presentation on the Register of Deeds' Supplemental Pension Fund Actuarial Valuation. Mr. Langer presented that the actual contributions that support the Fund are equal to 1.5 percent of the monthly receipts collected from each County Commission to the Department of State Treasurer. The Funded ratio is 191.3 percent as of the December 31, 2012 valuation, a slight decrease from the 2011 valuation reporting a 192.1 percent funded ratio.

It was moved by Chipp Bailey, seconded by Kay Cashion and carried unanimously that the Register of Deeds' Supplemental Pension Fund actuarial valuation report be accepted.

Qualified Excess Benefits Arrangement

The Acting Chair recognized Steve Toole to give a presentation on the Qualified Excess Benefits Arrangement (QEBA). Mr. Toole explained that Session Law 2013-405 provides an accounting mechanism, "QEBA", that would provide the funding that affects 36 retirees whose benefits exceed the federal limit on payments to retirees in the Local System. The purpose of the QEBA is to provide the part of a retiree's retirement benefit that would otherwise have been payable by LGERS if the amount did not exceed the limits set forth in section 415(b) of the

Internal Revenue Code. Mr. Toole noted that approval from the Board would not change the current contribution rate for employers in the local system.

It was moved by Mike Bradley, seconded by Grady Smith, and carried that the Board approve the current employer contribution rate for the Local System including one-hundredths percent (0.01%) for the Qualified Excess Benefits Arrangement.

Approval of New Local Employer

Mr. Toole presented the Town of Archer Lodge as an employer applying to participate in the Local Governmental Employees' Retirement System. It was moved by Sally Sandy, seconded by Chipp Bailey, and carried by the Board to approve the Town of Archer Lodge for participation as an employer in the Local Governmental Employees' Retirement System, with an effective date of October 1, 2013.

After discussion, the Board took a one hour break for lunch. When the Board reconvened, Melissa Waller stepped in as Acting Chair for the remainder of the meeting.

Death Benefit Plans Actuarial Valuation, Prepared as of December 31, 2012, by Buck Consultants

Mr. Langer and Mr. Ribble presented the findings on the Death Benefit Plans actuarial valuation. Mr. Langer presented that the Death Benefit Plans for the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System plans have a surplus. The Local Governmental Employees' Retirement System Contribution rate is varied by the contribution holidays granted by the Board of Trustees starting July 1, 2012, for the various employers (depending on contribution history), which is intended to offset the surplus. The Retirees' Contributory Death Benefit reported a deficit of \$12.5M. The plan provisions and/or contribution rates for the Retirees' Contributory Death Benefit may need to be modified to reverse the projected shortfall.

It was moved by John Aneralla, seconded by Michael Jacobs, and carried unanimously that the Death Benefit Plans actuarial valuation report be accepted.

Presentation by Buck Consultants on the Review and Evaluation of Fraud, Waste, and Abuse

The Acting Chair recognized Mary Harrison, with Buck Consultants, to give a presentation on the research findings in the Report conducted by Buck Consultants on Fraud, Waste, and Abuse. The Board of Trustees received the final written report. Ms. Harrison presented to the Board that overall there were no significant risks of fraud or abuse, but there were opportunities to minimize waste. Ms. Harrison explained that although pension spiking is not widespread, there are potential risks of pension spiking that can be addressed. These risks are due to the reliance on reporting through an "honor system" process; the practice (due to staff's time limitations) of only researching cases when the pensionable earning increases exceed 250 percent; inconsistent sick leave policies among agencies; and, inconsistent definitions of compensation across the systems. Ms. Harrison then addressed recommendations for resolving

pension spiking issues, which include implementing new review processes, changes in legislation, and changes to employer oversight. Ms. Harrison presented on the staffing review portion of the report that found a lack in formal succession planning, too much use of long-term contract labor and a need for realignment of certain accounting section responsibilities. Based on the findings, Buck recommended establishing a formal compliance team that would be responsible for oversight, research, and education to manage compliance by both employers and plan participants, to lessen the reliance on "honor system" reporting, and to redefine the roles and responsibilities for the Retirement Systems Division and the Financial Operations Division. Ms. Harrison commented that this review found that staff was very committed to the work. As a result of this strong work ethic and due to lack of staffing, employees often take on duties beyond their current position descriptions to address needs as they arise, so many roles are not clearly defined.

Discussion on the Firefighters' and Rescue Squad Workers' Pension Fund Advisory Panel (7-person advisory panel)

Mr. Toole briefly presented the role of the new legislatively-created Advisory Panel. A discussion was held regarding the selection process for the Advisory Panel members. It was determined that Mr. Toole will present recommendations from staff and the Fire and Rescue Associations for consideration in the January Board meeting.

Firefighters' and Rescue Squad Workers' Pension Fund Actuarial Valuation, Prepared as of June 30, 2012, by Buck Consultants

Mr. Langer and Mr. Ribble briefly presented the findings on the Firefighters' and Rescue Squad Workers' Pension Fund. The Board had approved the actuarial valuation results at the July 18, 2013, Board of Trustees meeting. However, for procedural clarity, the Board was asked to revote on the agenda item.

It was moved by Sally Sandy, seconded by Grady Smith and carried unanimously that the Firefighters' and Rescue Squad Workers' Pension Fund actuarial valuation report be accepted.

Director's Report

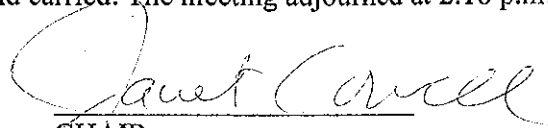
Mr. Toole presented the Director's quarterly update. With respect to Operations, he stated that the visitors to the Retirement Systems and incoming calls have increased, and that there has been a steady increase of incoming emails by 15 percent. However, Retirement estimates and service purchases have slightly decreased from 2012. Disability applications have decreased by 13 percent, and refund requests have increased by 22 percent. Mr. Toole stated that the average monthly amount paid to beneficiaries is \$1,561, which is a 0.5 percent increase from 2012. Mr. Toole concluded by stating that the increase of members using self-service tools has lightened some work in Retirement Processing related to retirement estimates, beneficiary changes, and service purchases.

Mr. Toole updated the Board on his recent trip to the National Council of Teacher Retirement and some of the discussions at that conference. Lastly, Mr. Toole provided

information to the Board on the Supplemental Insurance offerings through Pierce Insurance and the connection the Board may have on Supplemental Insurance in the future.

Adjournment

There being no further business, Sally Sandy moved for adjournment of the meeting, which was seconded by Grady Smith and carried. The meeting adjourned at 2:18 p.m.



CHAIR



SECRETARY