NORTH CAROLINA
DEPARTMENT OF STATE TREASURER

JANET COWELL
TREASURER

March 26, 2015

TO: Fran Lawrence, Chief Financial Officer / Deputy Treasurer

FM: Kevin SigRist, Chief Investment Officer Kevin SigRist
Steve Toole, North Carolina Retirement Systems Director

In response to the Deputy General Counsel's opinion dated March 9, 2015 titled "Budgetary Allocation of Administrative Costs"; this memorandum reclassifies certain vendor costs previously classified as costs of administration of <u>retirement systems</u> as costs of administration of <u>investment programs</u>. These reclassifications are effective for the entire 2014-15 fiscal year and for future fiscal years.

<u>Allocation of Expenses Analysis</u>
These expenses fall into four categories:

1) Retainer for valuation and accounting
2) Costs of compliance with new GASB standards
3) Actuarial analyses on specific projects
4) Costs of Retirement Systems tax counsel or consultants

Each category represents financial and audit services with a logical nexus to both the administration of retirement systems as well as to the administration, operation, and management of the investment programs administered by the Investment Management Division ("IMD") of the Department of State Treasurer ("DST").

<u>1. Retainer for valuation and accounting</u>

Because the annual actuarial valuation is necessary and essential for a substantial proportion of investment program functions, including determining an appropriate asset allocation, overall investment strategy, risk management, future cash demands, and cash flow projections, an allocation of **75%** of vendor costs associated with actuarial valuation retainer fees are reclassified as costs of administration of investment programs. Costs should be handled in the same manner for the upcoming experience review, to be accomplished every five years, involving review of valuation assumptions.

<u>2. Costs of compliance with new GASB requirements</u>

Financial reporting and benchmarking services provide necessary information to accurately calculate levels of assets, liabilities, and investment performance. These services help to ensure compliance with standards required by the Governmental Accounting Standards Board (GASB) that affect the manner of determining and reporting the retirement systems' funded status, which directly influences investment strategy. Because some GASB requirements do not materially affect the administration of investment programs, an allocation of **50%** of vendor costs associated with financial reporting and benchmarking may reasonably be reclassified as costs of investment program administration.

3. Actuarial analyses on specific projects

Fees for services associated with forecasting the impact of potential legislation, policy changes, and other projections commonly have implications for the administration of investment programs. Although some services may be primarily relevant to the administration of the retirement systems, policy changes often have a significant impact on investment strategy, future cash flow, and future cash demands. As such, these costs should be evaluated on a **case by case basis** to determine whether a vendor charge associated with policy forecasting fees may be reclassified as a cost of administration of investment programs or may be shared on an agreed percentage basis. Applying case by case analysis to the particular invoices discussed in the memorandum:

a. Evaluating long-term effects on retirement trust funds of cost of living adjustments and other benefit enhancements – **100%** of costs may reasonably be reclassified as costs of investment program administration

b. Evaluating effects of a stable employer contribution rate for the Retirement Systems that would be re-evaluated only periodically – **50%** of costs may reasonably be reclassified as costs of investment program administration

c. Forecasting likely employer contribution rates over time in a variety of different investment market scenarios – **100%** of costs may reasonably be reclassified as costs of investment program administration

d. Evaluating the effects of a new state law which stated a new use for the Separate Insurance Benefits Plan, greatly affecting that program's funded status – **100%** of costs may reasonably be reclassified as costs of investment program administration

f. Evaluating changes in actuarial valuation assumptions for the Fire & Rescue Workers' Pension Fund to better value liabilities of members that have lapses in their service – **100%** of study costs may reasonably be reclassified as costs of investment program administration

4. Costs of Retirement Systems tax counsel or consultants

IRS letters of determination support certain representations made for the Department's investment subscription documents and the tax status of the retirement systems potentially affects the Department's investment operations (i.e., preventing taxes that otherwise would reduce net investment returns). Therefore, certain tax counsel or consultant fees may be reclassified as costs of administration of investment programs. These costs should be evaluated on a **case by case basis** to determine whether a vendor charge associated with tax counsel or consultant may be reclassified as a cost of administration of investment programs or may be shared on an agreed percentage basis.

Planning Projections and Applying Allocations to Invoices

On a quarterly basis, the Retirement Systems Division will provide to the Chief Financial Officer and the Chief Investment Officer an updated rolling 12 month forward projection of the dollar value of relevant invoices, organized by the four categories described above, and the projected allocation of expenses to funding sources based on this memo and the Deputy General Counsel's March 9, 2015 Memo. Any contract or related invoice projected to exceed $100,000 will be separately identified.

The Retirement Policy Director will review each invoice received regarding services outlined herein and determine the appropriate funding sources based on this memo and the Deputy General Counsel's March 9, 2015 Memo. Retirement personnel will complete the Invoice Approval Form and obtain appropriate signatures for all sources of funds for the corresponding invoice. If the invoice is being paid from the investment programs, the Chief Investment Officer or designee will be responsible for determining the allocation of cost to the appropriate investment program or asset classes within an investment program. Invoice, Invoice Approval Form and any additional documentation will be sent to the Financial Operations Division ("FOD"). FOD will review the documentation and process the invoice for payment consistent with Accounts Payable Policy and Procedure (FOD-POL-5400-ALL).

cc: Janet Cowell, State Treasurer of North Carolina
Melissa Waller, Chief of Staff
Jay Chaudhuri, General Counsel
Blake Thomas, Deputy General Counsel

MEMORANDUM

To:	Janet Cowell, State Treasurer of North Carolina
	Fran Lawrence, Chief Financial Officer, N.C. Department of State Treasurer
Cc:	Melissa Waller, Chief of Staff, N.C. Department of State Treasurer
	Kevin SigRist, Chief Investment Officer, N.C. Department of State Treasurer
	Steve Toole, Director, North Carolina Retirement Systems
	Jay Chaudhuri, General Counsel, N.C. Department of State Treasurer
From:	Blake Thomas, Deputy General Counsel, N.C. Department of State Treasurer BWT
Date:	March 9, 2015
Re:	Budgetary Allocation of Administrative Costs

I. Question Presented and Brief Answer

The question is whether certain vendor costs are eligible, under state law, to be charged directly from the State Treasurer's investment programs.

I conclude that these costs qualify both as a "cost of administration ... of investment programs" under N.C.G.S. § 147-69.3(f) and as "expenses of administering" a retirement system under N.C.G.S. § 135-2 and similar statutes.[1] Therefore, these costs can be charged either directly to the appropriate investment program under § 147-69.3 or charged from the amounts held in trust under § 135-2 and similar statutes.

II. Facts

Background. The North Carolina Department of State Treasurer (the "Department") administers certain governmental retirement and post-employment benefit plans (the "Benefit Plans"), including the North Carolina Retirement Systems (the "Retirement Systems")[2] and other plans created by State law. The Department's functions concerning the Benefit Plans break down into three categories: (1) providing benefits to members, handled primarily by the Retirement Systems Division ("RSD"); (2) investment and cash management, handled primarily by the Investment Management Division ("IMD"); and (3) accounting for internal purposes and for government financial reports, a function handled primarily by the Financial Operations Division ("FOD") with the assistance of IMD, RSD, and other State agencies.

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[1] *See* footnote 6 for a list of these statutes.

[2] A list of the Retirement Systems is found at N.C.G.S. § 147-69.2(b)(8).

Particular costs at issue. This memorandum discusses a group of charges from Department vendors, primarily the Retirement Systems' actuary, Buck Consultants ("Buck"), that in the past have been classified as expenses of administering retirement systems.[3] These costs have been paid from the Benefit Plans' expense accounts, informally referred to as the "RSD operating budget."

The vendor services discussed in this memo pertain not only to retirement system administration, but also investment or cash management. Therefore, Department leadership wishes to evaluate whether the expenses may be classified as costs of administering investment programs (under G.S. § 147-69.3) rather than costs of administering retirement systems (under G.S. § 135-2 and similar statutes).

The costs discussed in this memo fall into four types:

1. Retainer for valuation and accounting. A monthly Buck retainer fee comingles costs for valuation and accounting. In addition, from time to time additional valuation or accounting project work may be billed on an hourly basis. Buck's valuation evaluates the Retirement Systems' assets and projected liabilities. As part of this process, Buck uses statistical models to project future investment performance and future cash demands for benefits. The retainer fee also covers Buck's work supporting normal accounting for governmental financial reports. The accounting reports prepared with Buck's assistance provide the estimated value, projected liabilities, and funded status for each covered Benefit Plan.[4]

2. Costs of compliance with new GASB requirements. The Department has also engaged with Buck for assistance in implementing new Governmental Accounting Standards Board requirements. These new requirements alter the way in which the Retirement Systems' value should be reported in governmental financial reports. The GASB compliance costs are billed on an hourly basis.

3. Actuarial analyses on specific projects. Under the Department's contract, Buck provides work, billed at an hourly rate, for fiscal analysis of special projects concerning one or more of the Benefit Plans. Department staff have identified the following specific Buck projects as potentially being costs of administering investment programs:

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[3] This memorandum only discusses Buck costs that the Department is considering reclassifying as costs of administering investment programs, not all Buck costs. The Department expects to continue classifying certain Buck assignments (such its work on the Qualified Expense Benefit Fund) as costs of administering retirement systems. Buck's asset liability study work will continue to be billed as a cost of administering investment programs.

[4] In future years, Buck's valuation assignment will also include an experience review, to be accomplished every five years, involving review of all assumptions used to establish valuations of the system.

a. Evaluating long-term effects on retirement trust funds of cost of living adjustments and other benefit enhancements

b. Evaluating effects of a stable employer contribution rate for the Retirement Systems that would be re-evaluated only periodically

c. Forecasting likely employer contribution rates over time in a variety of different investment market scenarios

d. Working with CEM Benchmarking to evaluate the total cost of the Retirement Systems

e. Evaluating the effects of a new state law which stated a new use for the Separate Insurance Benefits Plan, greatly affecting that program's funded status

f. Evaluating changes in actuarial valuation assumptions for the Fire & Rescue Workers' Pension Fund to better value liabilities of members that have lapses in their service.[5]

4. Costs of Retirement Systems tax counsel or consultants. The Department employs Buck and its outside tax counsel, the Groom Law Firm, for work concerning IRS letters of determination and matters of compliance with the Internal Revenue Code. In the future, the Department may incur additional costs to support internal counsel in the Benefit Plans' application for new letters of determination. The Department may also hire a consultant to assist in preparing the letter of determination application, which is highly technical. The non-taxable status of the Benefit Plans helps support non-taxable status for the Benefit Plans' investments.

III. Analysis

A. Under State Law, the Department of State Treasurer Can Deduct Both Costs of Administration of Investment Programs and Costs of Administration of Retirement Systems.

The statutes governing operation of the Benefit Plans and the statutes governing investment of the Benefit Plan's funds use similar language to authorize deduction of administrative costs. The statute governing expenses for all the State Treasurer's investment programs reads, "The cost of administration, management, and operation of investment programs

[5] For the Firefighters' and Rescue Workers' Pension Fund, the Department has also had Buck perform a data audit correcting errors in member records. These costs are not being potentially reclassified and are not within the scope of this memo.

established pursuant to this section shall be apportioned equitably among the programs in such manner as may be prescribed by the State Treasurer, such costs to be paid from each program…." G.S. § 135-69.3(f) (emphasis added). The law for the Teachers and State Employees' Retirement System also authorizes deduction of "necessary expenses of administering this Retirement System." G.S. § 135-2 (emphasis added). The other benefit Plans' statutes similarly refer to deducting administrative expenses.[6]

B. Reclassifying Costs Will Not Change the Source from Which Those Costs Are Paid.

Ultimately, administrative costs paid from the RSD budget and costs paid directly from the investment programs are funded from the same source, the appropriate Benefit Plans.

Costs of administering investment programs. Administrative costs paid from the investment programs are, to the extent possible, charged "directly to the income or assets of the specific investment program or pooled investment vehicle." G.S. § 147-69.3(f).[7]

Costs of administering retirement systems. The Department has created a unified expense account for the Retirement Systems to ease administration.[8] The Department's certified budget on the Integrated Budget Information System (IBIS) states the amount paid from this account, noting they are paid directly from "receipts" – the pension fund.[9]

Result of reclassification. If the charges described in section II of this memo were classified as a cost of administration of investment programs under G.S. § 147-69.3(f), rather than as a cost of administration of a retirement system under G.S. § 135-2 and similar statutes,

[6] G.S. 135-2 covers the Teachers and State Employees' Retirement System. For the other Retirement Systems, the statutes are as follows. Consolidated Judicial Retirement System: G.S. § 135-54 ("necessary expenses of administering this Retirement System"). Firefighters' and Rescue Workers' Pension Fund: G.S. § 58-86-10 ("administrative expenses"). Local Governmental Employees' Retirement System: G.S. § 128-30(f) ("expenses of the administration of the Retirement System shall be paid"). Legislative Retirement System: G.S. § 120-4.9 ("necessary expenses of administering this Retirement System"). Retiree Health Benefit Fund: G.S. § 135-7(f) ("reasonable expenses to administer the Fund"). The statute for the North Carolina National Guard Pension Fund is silent as to deduction of expenses. *See* G.S. § 127A-40.

[7] If costs cannot be traced directly to a specific investment program, they are to be "covered by an appropriation to the State Treasurer" in the appropriations act and "deposited with the State Treasurer as a General Fund nontax revenue." G.S. § 147-69.3(f).

[8] Three of the Retirement Systems' statutes expressly mention an expense fund. The Teachers and State Employees' Retirement System's statute refers to an "expense fund" in passing, *see* G.S. § 135-7(b), but does not state how the expense fund should operate. The Local Governmental Employees' Retirement System's statute sets up a separate expense fund created under a "budget estimate" adopted by that system's board of trustees. *See* G.S. § 128-30(f)(1). The Firefighters' and Rescue Workers' Pension Fund has an appropriation made out of the general fund for administrative expenses, *see* G.S. §§ 58-86-10 and 58-86-20, and this appropriation is ultimately drawn from the pension fund.

[9] State of North Carolina Office of State Budget and Management, 2014-2015 Certified Budget (BD-307), Volume 2, available at http://www.osbm.state.nc.us/files/pdf_files/Certified_2014-15_GenGov.pdf , at p. 267.

exactly the same amount would be paid from exactly the same source. The only difference would be that the costs would not pass through the Benefit Plans' expense accounts. The Retirement Systems' expense funds are limited in size and lack flexibility to cover costs of special projects. Reclassification will allow additional budgetary flexibility to deal with unexpected circumstances.

C. The Costs at Issue Are Within the Scope of the Statute that Authorizes Paying Costs of Administering the Investment Programs, G.S. § 147-69.3(f).

Each expense discussed in Section II of this memorandum can reasonably be called a "cost of administration, management, and operation of investment programs," the test stated in G.S. § 147-69.3(f). The underlying Buck services value and project both investment performance and cash flows out of the Benefit Plans. This work serves as the basis for the target investment rate of return adopted by the Retirement Systems' boards of trustees. The work of tax counsel and tax consultants supports tax-exempt status for both investment earnings and benefits paid to members. Section V of this memorandum analyzes each expense in more detail.

Moreover, the text immediately following G.S. § 147-69.3(f) makes clear that these types of costs were specifically contemplated by the drafters as costs of investment programs. The next subsection of § 147-69.3 reads:

> The State Treasurer is authorized to retain the services of independent appraisers, <u>auditors</u>, <u>actuaries</u>, <u>attorneys</u>, investment counseling firms, statisticians, custodians, or other persons or firms possessing specialized skills or knowledge necessary for the proper administration of investment programs created pursuant to this section.

G.S. § 147-69.3(g) (emphasis added). Each type of cost discussed in this memorandum is an expense of actuaries, auditors, or attorneys.

D. The Costs May Be Classified Either as Costs of Administering Investment Programs or Costs of Administering Retirement Systems.

The North Carolina Supreme Court's rules of statutory construction suggest that a cost may be <u>both</u> a cost of administering <u>investment programs</u> under G.S. § 147-69.3(f) and a cost of administering <u>retirement systems</u> under G.S. § 135-2 and parallel statutes. The Court begins with the "plain meaning" of a legal provision; the Court will not search for a different meaning "where the meaning is clear from the words used." *State v. Webb*, 358 N.C. 92, 97, 591 S.E.2d 505, 510 (2004) (interpreting the word "cost" in the Constitution to include items labeled as "fees"). An item like an actuarial valuation, which is required for both investment functions and providing retirement benefits, is within the plain meaning of <u>both</u> the phrase "cost of administration … of investment programs" <u>and</u> the phrase "necessary expenses of administering this Retirement System." G.S. §§ 147-69.3(f), 135-2. Further, G.S. § 147-69.3 must be read *in* *pari materia*,[10] including both subsections (f) and (g), and subsection (g) states that costs of "actuaries" may be "necessary for the proper administration of investment programs."[11]

Nor is this a situation where one statute is of general applicability, but the other deals more directly and specifically with the situation.[12] Here, both statutes are equally specific, but some types of costs fit within both categories. The two statutes do not conflict, and under either statute expenses will be paid from the same source. The same set of facts may cause two separate statutes to apply; that does not mean that one statute is invalidated. *See Burgess v. Burgess*, 205 N.C. App. 325, 332 n. 4, 698 S.E.2d 666, 671 n. 4 (2010) (plaintiff could exercise her rights in either her capacity as defendant's wife or in her capacity as a shareholder in defendant's company); *Williams v. Alexander Cty. Bd. of Educ.*, 128 N.C. App. 599, 603-04, 495 S.E.2d 406, 408-09 (1998) (holding that two statutes dealing with the same subject matter should be read *in pari materia*, and plaintiff's situation was within the scope of both).

E. Paying These Costs from the Investment Programs is Not Inconsistent with the Budget or Budget Act.

The State Budget Act requires that "appropriations are expended in strict accordance with the budget enacted by the General Assembly." G.S. § 143C-6-1(a). I am not aware of any statement in any budget item that specifically identifies the expenses discussed in this memo as costs of administering retirement systems or that specifically instructs these expenses to be paid from a RSD budget code. On the certified budget found on IBIS, line items exist for "legal services" and "finan/audit services," but these line items are not associated with specific types of work or with specific vendors.[13]

IV. Factors for Analyzing Specific Costs

The analysis above suggests that the following four-part test should be used to determine whether an expense should be classified as a cost of administering investment programs, a cost of administering retirement systems, or both.

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[10] *See, e.g., Williams v. Williams*, 299 N.C. 174, 181, 261 S.E.2d 849, 854-55 (1980) (holding that seven sections of the General Statutes following one an
other must be read *in pari materia*, rather than interpreting one subsection on its own).

[11] Similarly, Chapter 135 must be read *in pari materia*, and Chapter 135 includes references to holding "cash and securities and other property." G.S. § 135-2. There is no bright line between the statutes governing investments and the statutes governing retirement program operations; the two topics, and the two sets of statutes, intersect.

[12] For cases discussing this situation, *see, e.g., Trustees of Rowan Tech. College v. J. Hyatt Hammond Assoc., Inc.*, 313 N.C. 230, 238, 328 S.E.2d 274, 279 (1985) (finding in a case against an architect that a statute of repose applicable to building design took precedence over a statute of repose generally applicable to professionals).

[13] 2014-2015 Certified Budget, *supra* note 9, at p. 288.

1. Is there a logical nexus to the investment programs? If the cost helps administer, manage, or operate an investment program, it is likely to qualify for deduction from the portfolios under G.S. § 147-69.3(f). Illustrative examples of these costs are provided in G.S. § 147-69.3(g): "independent appraisers, auditors, actuaries, attorneys, investment counseling firms, statisticians, custodians, or other persons possessing specialized skills or knowledge."

2. Is there a logical nexus to providing Retirement System benefits? Chapter 135 of the General Statutes gives context to G.S. § 135-2 and explains what functions are part of the "necessary expenses of administering this Retirement System." Chapter 135 covers obtaining employer and employee contributions,[14] determining which members are eligible for benefits,[15] and how benefits will be provided to those members.[16] Under these provisions, it appears that an expense qualifies for payment as a cost of administering the Retirement Systems if it has a nexus to determining contributions, determining who is eligible for benefits, or providing those benefits.[17]

3. Is the expense solely for the purpose of investing funds or overseeing investments? Certain expenses have a logical nexus only to investment, not providing benefits. For example, the management fees charged by an investment manager or the fixed fee of an investment consultant would appear appropriate only for classification as a cost of administering investments under § 147-69.3(f).

4. Does the underlying work materially affect only providing benefits or taking in contributions, not investment decision-making? An expense would have little or no logical nexus to the Department's investment programs if it dealt solely with processing benefits or determining contributions under existing state law. These expenses neither affect the investment programs' input or materially alter the investment programs' output. For example, the RSD call center would be expected to have no significant impact on the Department's investment operations.

V. Application to Particular Expenses at Issue

1. Retainer for valuation and accounting. The valuation and accounting work performed under the Buck retainer has a clear logical nexus with the Department's investment work. First, in each cycle the final valuation is provided to investment staff, and it serves as an essential piece of background material when determining the Benefit Plans' investment strategy. To determine how to invest, one must determine the value of the fund one is

[14] *See, e.g.,* G.S. § 135-8.
[15] *See, e.g.,* G.S. § 135-3.
[16] *See, e.g.,* G.S. § 135-5.
[17] This paragraph cites statutes for the Teachers' and State Employees' Retirement System. The other Retirement Systems' statutes use different language, but cover the same functions.

investing. Second, the valuation work served as a necessary pre-requisite and as the foundation for the Department's recent asset liability study project, which analyzed several types of investment strategies and asset allocations from the standpoint of future projected investment gains and future expected contributions in order to minimize risk and minimize future employer and employee contribution demands.[18] Third, the valuations are provided to each Retirement System's governing board or committee so that the board or committee can set the target rate of investment return. Fourth, the accounting work is used for monetary reports that can be described both as "for the retirement systems" and "for the investment program" – the funds of the Retirement Systems are the investment programs' funds.

2. Costs of compliance with new GASB requirements. The new GASB reporting requirements change the manner in which each Retirement System's funded status should be reported, and the funded status percentage affects investment strategy. The reports ultimately incorporate data about contributions, benefits, and investment value. The GASB costs can be described as both "costs of administration … of investment programs" and as "expenses of administering [a] Retirement System." G.S. §§147-69.3(f), 135-2. Although some new GASB requirements do not relate to investments, many materially affect both retirement operations and investments. The GASB costs could be appropriately split between the two categories.

3. Actuarial analyses on specific projects. In general, the one-off Buck actuarial projects concern restructuring investment funds' inflows or outflows, funded status (which affects investment strategy), actuarial assumptions (which affect funded status), or total cost (including investment cost). Each project can reasonably be classified as a cost of administering investment programs. Reviewing the one-off actuarial projects individually:

- Cost of living adjustments and benefit enhancements take money out of the Benefit Plans and out of the investment program. Forecasting and projecting fund outflows has a logical nexus to the investment programs.

- Altered employer contribution rates would change monetary inflows to the Retirement Systems, affecting the Retirement Systems' corpus for years to come. The ultimate goal of the Retirement Systems investment programs is to provide sufficient funds to be able to meet benefits. Changing employer contributions can change how investments need to be structured to be able to provide those benefits.

[18] The asset liability study project was classified at the outset as a cost of administering the investment programs and was paid from the investment programs under G.S. § 147-69.3(f).

- The total cost benchmarking project included investment costs as one of the factors for evaluation by the State Treasurer and Retirement Systems' Board of Trustees. This benchmarking project can be reasonably called both administration of the investment programs and administration of the retirement system.

- The Separate Insurance Benefits Plan work evaluated effects of a new State law that added a new use for that plan's assets and greatly reduced that Benefit Plan's funded status. There was a logical nexus to investment functions for the work, since the new State law created a reasonable chance that the fund would need to be held entirely in cash due to liquidity concerns.

- The Fire & Rescue Workers' Pension Fund work evaluated actuarial assumptions for the Plan in light of changing circumstances for the fund. The actuarial assumptions will affect funded status, which may affect investment decision-making. This cost can be identified as either a cost of administering the retirement system or a cost of administering the related investment program.

4. Costs of Retirement Systems tax counsel. The non-taxable status of the Benefit Plans directly affects the Department's investment operations, saving the Benefit Plans from taxes that otherwise would cut into the Benefit Plans' investment returns.

VI. Implementation

This memorandum does not require that any of the expenses discussed herein be reclassified as costs of administering investment programs. Instead, my opinion is that under state law, the expenses may be classified either as costs of administering investment programs or as costs of administering retirement systems. The final decision on reclassification should be made by the Department of State Treasurer through the Chief Financial Officer or agency head, consulting with the heads of the affected divisions.

Finally, I suggest the following:

- A separate memorandum should identify the percentage of the costs discussed in this memo that will be paid as costs of administration of investment programs rather than being paid as costs of administration of retirement systems.

- Once the Department has determined its process for these matters, the Department should as a best practice follow that process each year and apply it to the entire current fiscal year.

- The reclassification of costs charged to any Retirement System's expense fund should be reported to that Retirement System's Board of Trustees.

- The Local Governmental Employees' Retirement System, which is called upon to adopt a "budget estimate" for its expense fund under G.S. § 128-30(f)(1), should have an opportunity to revise that estimate.

- Any budget expansion requests for the Retirement Systems' expense funds should be amended to deduct the amounts reclassified as costs of administration of investment programs.