

MINUTES
BOARD OF TRUSTEES
OF THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

The regular quarterly meeting of the Board of Trustees was called to order at 9:31 a.m., October 27, 2016, by the Chair, Treasurer, Janet Cowell. The meeting was held in the Dogwood Conference Room of the Longleaf Building at 3200 Atlantic Avenue, Raleigh, NC 27604. The Chair notified attendees that there would be a public comment period for organizations and individuals to address the Board. The Chair gave an update on Board vacancies and pending appointments.

Members Present

The Board members present were: Treasurer Janet Cowell, John Aneralla, Mike Bradley, Lentz Brewer, Jim Burgin, Greg Patterson, Lou Ann Phillips for Dr. June Atkinson, Sally Sandy, Carson Smith, and Mark Stohlman.

Members Absent

The Board members absent were: Randy Byrd, Kevin Gordon, and Ashley Wooten.

Guests Present

The guests attending were: Michael Ribble, Larry Langer, and Lisa Townley from Buck Consultants, Robert Curran and Susannah Holloway, representing the NC Attorney General's Office and Michael Crowell from Tharrington Smith, LLP.

Department of State Treasurer Staff Present

The staff members present were: Steve Toole, Nick Byrne, Thomas Causey, Joan Fontes, Jaclyn Goldsmith, Schorr Johnson, Sherry McLamb, Vicki Roberts, Kevin SigRist, Anthony Solari, Edgar Starnes, Christina Strickland and Sam Watts.

Conflicts of Interest

The Chair asked, pursuant to the ethics rules, about conflicts of interest of Board Members. There were no conflicts of interest.

Approval of the Minutes from the July 21, 2016 Board Meeting

It was moved by Jim Burgin, seconded by Carson Smith and carried unanimously that the minutes from the Board meeting held on July 21, 2016 be approved.

Retirement Systems Division Operations

The Chair recognized Thomas Causey, Deputy Director of Operations, and Vicki Roberts, Deputy Director of Member Services, for an update on Retirement Systems Division (RSD) operations. Mr. Causey gave a report on the metrics for operations and Ms. Roberts gave an update on the metrics for Member Services.

The Chair recognized Nick Byrne who reported on overpayments due to the Retirement Systems Division. Mr. Byrne stated that RSD recovered \$707,025 in August and a total of \$8,490,258 in the past 13 months. Mr. Byrne said there was an increased goal to collect \$8 million for FYE 2017, a \$1 million increase over last fiscal year. Mr. Byrne also stated that additional funds due to the System were collected

as a result of increased efforts to collect employer penalties for late reporting. Mr. Byrne stated that the majority of overpayments due were collected through repayment by deductions from disability recipient and retiree checks.

Update on the Investment Advisory Committee (IAC) Meetings

The Chair recognized John Aneralla and Michael Mebane to give an update on the Investment Advisory Committee (IAC) Meetings. Mr. Aneralla stated that he and Mr. Mebane are the two members on the Board (appointed by the Treasurer) who serve on the IAC. He mentioned the benchmarking report presented previously and commented about the low cost achieved in administering the Retirement Systems. He stated that the portfolio is more conservative than the average, but it out performs some more aggressive plans. He also reported on the Department's project designed to assess the fundamental arguments for and against environmental, social and governance considerations in the investment process.

Secondary Employment

Blake Thomas, Interim General Counsel, provided an update on concerns raised by Board members regarding secondary employment of the State Treasurer and Board members. Mr. Thomas stated that there was a detailed discussion regarding this matter during the September IAC Meeting. A consensus formed in the IAC against a one-size-fits-all approach. The IAC recommended that the State Treasurer agree and the Retirement Boards resolve that before a Treasurer may join any private sector boards in the future, the Treasurer must have a detailed consultation with the IAC and the LGERS and TSERS Boards of Trustees. Under the recommended resolution, the detailed consultation would be required to take place in open session before the State Treasurer obtains any formal opinion from the State Ethics Commission. Mr. Thomas stated that the Board could either consider the policy at this meeting or wait until January 2017. Mr. Mebane moved to adopt the following resolution consistent with IAC's recommendation, Mr. Patterson seconded, and the Board voted unanimously in favor of the resolution. That resolution read:

"The Boards resolve to institute the following supplemental ethics policy under N.C.G.S. 138A-41(a) and 147-69.11(a) (5):

"Before a State Treasurer may join any private sector boards in the future, the Treasurer shall have a detailed consultation with the Retirement Boards and the Investment Advisory Committee. That consultation shall take place in open session before the State Treasurer obtains a formal opinion from the Ethics Commission."

Intercept Authority Policy Implementation

Mr. Byrne presented to the Board for adoption a policy establishing a timeframe in which the Retirement Systems Division may intercept funds owed to the System where an employer fails to timely submit required contributions and payments. Enforcement of the policy will also include multiple notifications provided to a potentially impacted employer, as well as compliance with the statutory requirement to notify the State Treasurer of its intent to collect the delinquent contributions or payments. Where interception is required, the Retirement Systems Division will also notify the Office of State Budget and Management about the employer's default, and instruct the Office of State Budget and Management or, in cases involving a public school system, the Department of Public Instruction, to intercept the State appropriations due from the participating employer.

The RSD staff's recommendation, to be effective January 1, 2017, was that the Board establish the "date set by the Board of Trustees" to intercept delinquent contribution-based benefit cap (CBBC) contributions to be 12 months after the member's effective date of retirement. For the interception of other delinquent contributions or payments, the RSD staff's recommendation, to be effective January 1, 2017, was that the Board establish the "date set by the Board of Trustees" to be 90 days after final notice that other contributions or payments are due to the Retirement Systems Division.

After discussion by the Board, Mr. Aneralla made a motion and Mr. Grantham seconded, and it was voted unanimously by the Board that, effective January 1, 2017, the date set by the Board for the interception of delinquent CBBC contributions is 12 months after the member's effective date of retirement and the date set for the interception of other delinquent contributions or payments is 90 days after final notice that other contributions or payments are due to the Retirement Systems Division. Lou Ann Phillips commented that the State Board of Education plans to discuss the policy and any approval required by its Board at its December meeting.

Principal Results of Actuarial Valuations, as of December 31, 2015, for the Death Benefit Plan

Michael Ribble and Larry Langer of Buck Consultants presented the principal results of actuarial valuations for the Death Benefit Plan. Mr. Ribble reported that the current assets and contribution rates of the Retirees' Contributory Death Benefit Plan are not adequate to address the \$74.8 million gap between the assets and liabilities. It has been recommended that plan provisions or contribution rates should be changed to address this shortfall. At its April 21, 2016 meeting, the Board approved two such changes: (1) an increase to premiums for members who retire March 1, 2017 or later; and (2) a decrease in the interest paid on return of contributions to 1.20%, applicable to retirees whose death occurs prior to 24 months of coverage. The changes will help mitigate future growth of the deficit.

Mr. Ribble also reported on the decreasing surplus of the Separate Insurance Benefits Plan for Law Enforcement Officers. The surplus was reduced by Session Law 2013-360, which allows the use of funds from the Separate Insurance Benefits Plan for state and local law enforcement officers to be used for other purposes for fiscal year ending June 30, 2014, and fiscal year ending June 30, 2015. The Board discussed concerns related to the use of the funds for purposes other than those stated in the statute and the concerns that this practice could lead to a deficit in the plan that would prevent it from being able to make benefit payments to beneficiaries.

A motion was made by John Aneralla, and seconded by Van Dowdy, to send a letter, when appropriate, to the Legislature reiterating the Board's position that the Separate Insurance Benefits Plan funds should not be used for other purposes, as occurred in 2014 and 2015.

It was moved by Van Dowdy, seconded by Greg Grantham, and carried unanimously that the actuarial valuation report for the Death Benefit Plan be accepted.

Principal Results of Actuarial Valuations, as of December 31, 2015, for the Local Governmental Employees' Retirement System (LGERS)

Michael Ribble and Larry Langer of Buck Consultants presented on the principal results of actuarial valuations for LGERS.

The key results of the December 31, 2015 valuation as compared to the December 31, 2014 valuation were: (1) market value returns of 0.34% compared to 7.25% assumed; (2) increase in covered

payroll of 3.9% compared to approximately 3% expected; (3) 0.105% cost-of-living adjustment at July 1, 2016; (4) changes in actuarial assumptions and methods in accordance with the latest experience study prepared as of December 31, 2014 and adopted by the Board of Trustees on January 21, 2016; and (5) the Employer Contribution Rate Stabilization Policy adopted by the Board of Trustees on January 21, 2016. When compared to the December 31, 2014 baseline projections, the aforementioned resulted in: (1) a lower funded ratio as of December 31, 2015 (97.1% in the valuation compared to 99.8% in the baseline projection); (2) a higher actuarially determined employer contribution rate for fiscal year ending June 30, 2018 (6.25% in the valuation compared to 6.20% in the baseline projection for general employees (including firefighters) and 7.84% in the valuation compared to 6.68% in the baseline projection for law enforcement officers); and (3) higher projected benefit amounts being accrued by active members.

It was moved by Greg Patterson, seconded by Jim Burgin, and carried unanimously that the actuarial valuation report for the Local Governmental Employees' Retirement System be accepted.

Principal Results of Actuarial Valuations, as of December 31, 2015, for the Register of Deeds

Michael Ribble and Larry Langer of Buck Consultants presented the principal results of actuarial valuations for the Register of Deeds.

It was moved by Greg Patterson, seconded by Mike Bradley, and carried unanimously that the actuarial valuation report for the Register of Deeds be accepted.

Principal Results of Actuarial Valuations, as of December 31, 2015, for the Firefighters' and Rescue Squad Workers' Pension Fund

Michael Ribble and Larry Langer of Buck Consultants presented the principal results of the actuarial valuation report for the Firefighters' and Rescue Squad Workers' Pension Fund.

It was moved by Greg Patterson, seconded by Sally Sandy, and carried unanimously that the actuarial valuation report for the Firefighters' and rescue Squad Workers' Pension Fund be accepted.

State Contribution Rate Stabilization Policy for Firefighters' and Rescue Squad Workers' Pension Fund

Michael Ribble and Larry Langer of Buck Consultants presented the State Contribution Rate Stabilization Policy for Firefighters' and Rescue Squad Workers' Pension Fund.

The Board will consider adoption of the policy at its January 26, 2017 meeting.

Applications of Qualified Political Subdivisions of the State to Become Participating Employers with the Systems

The Chair recognized Steve Toole, Director. He presented applications for two units that applied to join the Retirement System: The Town of New London and Village of Misenheimer.

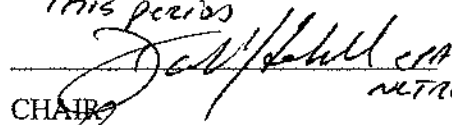
It was moved by Greg Patterson, seconded by Mike Bradley and carried unanimously that both units' applications to become participating employers with the Local Governmental Employees' Retirement System be approved.

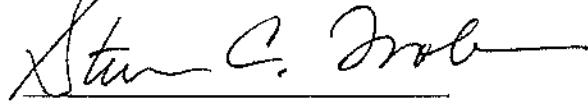
Public Comment

There were no public comments.

Local System Adjournment

There being no further business before the Board, the meeting was adjourned at 1:47 p.m.,
without objection.

*I WAS NOT THE CHAIR DURING
THIS PERIOD*

CHAIRMAN


SECRETARY

