

MINUTES
BOARD OF TRUSTEES
OF THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM
April 17, 2014

The regular quarterly meeting of the Board of Trustees was called to order at 9:30 a.m., April 17, 2014, by the Chair, State Treasurer Janet Cowell. The meeting was held in the Natural Science Museum, 111 West Jones Street, in Raleigh.

Members Present

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

Members Absent

No Board members were absent.

Guests Present

The guests attending were: Robert Curran and Susannah Holloway, 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, Joan Fontes, Jaclyn Goldsmith, Andrew Holton, Lisa Page, Vicki Roberts, Meredith Rouse-Davis, Kevin SigRist, 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 ethics conflicts identified by the Board members.

Approval of the Minutes

It was moved by Sally Sandy, seconded by Chipp Bailey, and carried that the minutes of the Board meeting held on January 16, 2014, be approved.

2014 Retirement Systems Division Legislative Updates

The Chair recognized Sam Watts, Policy Development Analyst with the Retirement Systems Division, for a presentation on the legislative agenda for 2014. Mr. Watts presented that the Department will be proposing the "Pension Spiking Prevention Act of 2014" this Short

Session of the General Assembly. This bill will include a contribution-based benefit cap that will be established for employees hired on or after January 1, 2015. Mr. Watts explained the final compensation amount would be subject to negotiations with associations, legislators and their staff. Mike Bradley raised concern if the contribution-based benefit cap would hinder employees that receive a raise or promotion later in their career. Mr. Watts explained that this type of legislation is to prevent the few incidences where spiking an employee's salary during the last few years of employment is so extreme, that the calculated average final compensation far exceeds their contributions into the system during their career. Mr. Watts stated that the department will also be pursuing the restoration of the vesting period back to five years from ten for members hired after August 1, 2011 in the Teachers' and State Employees' Retirement System and the Consolidated Judicial Retirement System. Mr. Watts explained that the legislation passed in 2011 to change the vesting period from five to ten years is only a cost savings of \$1 -2 million dollars annually (which is less than was predicted) and it has a negative impact on the state's ability to recruit and retain qualified staff. In addition, the department will be pursuing a return of contributions with accumulated interest at the statutory rate of four percent for state and local government employees who leave employment within five years.

Mr. Watts presented the draft "Retirement Administration Changes Act of 2014" that will clarify interpretations of current laws and increase efficiency of administration of the systems. Mr. Watts stated this bill would allow participants to name beneficiaries for the Contributory Death Benefit (CDB). He described that currently the surviving spouse of a deceased retired member; or, the deceased retired member's legal representative if not survived by a spouse, is paid the death benefit. This change would align the CDB with all other death benefits by allowing participants to name their beneficiary, and the benefit would be paid to the surviving spouse or legal representative only if no beneficiary was named. This bill would also reduce administrative burden by: preventing a member's ex-spouse from passing a marital share of the member's benefit through the ex-spouse's will; clarifying governance of Supplemental Insurance Products by publishing an annual report on contracts and usage by retired members; and, providing individual immunity from civil liability for monetary damage, except covered by insurance, for State and Local Retirement Boards.

After Mr. Watts' presentation, Mr. Ayscue presented a motion for the Board to rescind its action made in January recommending the General Assembly increase the Local Governmental Employees' Retirement System employer contribution rate to fund the Actuarial Required Contribution (ARC) and a one percent Cost of Living Adjustment (COLA). Mr. Bailey commented that retirees appreciated the COLA that was recommended by the Board in the January meeting and he still supports January's motion. Ms. Sandy agreed with the motion to rescind as employer colleagues are not supportive. Ms. Cashion stated that there are a lot of financial variables at a county level and supports the motion to rescind. Mr. Bradley shared his support of the one percent COLA, stating it has been over ten years since local retirees have received an increase.

At conclusion of the Board's discussion, it was moved by Jerry Ayscue, seconded by Sally Sandy, and approved by the Board by a 7:6 majority vote to rescind the Board's decision in January, which recommended the General Assembly increase the Local Governmental Employees' Retirement System employer contribution rate to fund the ARC and a one percent

Cost of Living Adjustment. Voting in favor of the motion to rescind January's decision was: Jerry Ayscue, Kay Cashion, Grady Smith, John Aneralla, Loris Colclough, Sally Sandy and Lou Ann Phillips. Voting against the motion to rescind was: Chipp Bailey, Mike Bradley, Lentz Brewer, Randy Byrd, Kevin Gordon, and Janet Cowell.

Mr. Ayscue then made a motion that the Board leave the employer contribution rate flat in order to meet the ARC for pension expenses in the Local Governmental Employees' Retirement System. It was seconded by Kay Cashion and approved unanimously by the Board.

Federal Issues Affecting Retirement

Mr. Watts gave a presentation on the recent federal issues that may impact governmental retirement plans. He presented to the Board the "Public Employee Pension Transparency Act" (PEPTA); the "Secure Annuities for Employee (SAFE) Act"; the "Universal, Secure, and Adaptable (USA) Retirement Funds Act"; and, "my Retirement Account" (MyRA).

Director's Report

Mr. Toole presented the Director's quarterly update. With respect to Operations, he stated that the number of visitors, incoming call volume, and email correspondence have all increased from prior year. The call volume increase is requiring the hiring of temporary staff to assist with handling the additional calls received. Retirement estimates and service purchases have decreased, but usage of self-service purchases and estimates have increased. Mr. Toole updated the Board that the average monthly benefit is \$1,563.07, and that new overpayment invoices have increased by 22.3 percent from last year. Lastly, Mr. Toole presented that self-service retirement estimates, transfer estimates, and direct deposit are progressively increasing.

Mr. Toole reviewed the Retirement Systems Division's Mission and Vision Statement and updated the results of the top level metrics for the division. He updated the Board on the benchmarking study being conducted by CEM Benchmarking, as requested by the Board, and will report the results in the July Board meeting.

Mr. Toole gave an update on the Public Records Database Project that, once finished, will be provided to media and other agencies and will contain all information that is public record. By initiating this project, the department will increase transparency, efficiency and consistency when responding to public records requests. Mr. Toole also updated the Board that the funding policy memorandum is being developed and will be available at the July board meeting. We will continue to fund the System based on actuarial data and will incorporate the Governmental Accounting Standards Board (GASB) changes. Lastly, Mr. Toole updated that the first payment for the Separate Insurance Benefit Trust is due June 30.

The Chair introduced Andrew Holton, Deputy Chief of Staff and liaison to the Commission, for a presentation on the work in progress by the Investment Fiduciary Governance Commission. Mr. Holton presented that the Commission was established by the State Treasurer to evaluate the current governance structure and to explore other investment management governance practices used in public and private sectors. The Department retained Hewitt

EnnisKnupp to facilitate the Commission's meetings and to provide research and guidance. Mr. Holton gave details on the membership of the Commission, stating the Commission is chaired by Michael Kennedy, Senior Client Partner of Korn/Ferry International and Chair of the Federal Retirement Thrift Investment Board. The Commission has been reviewing the current sole investment trustee and investment advisory committee model versus an investment board of trustees, and to consider possible improvements to external oversight and reporting. Mr. Holton presented that there is an eighty percent consensus from the Commission members to recommend a shift from the current sole trustee governance model to a board of trustees' model. The Commission has also discussed the accompanying measures with respect to staffing and reporting from the Investment Management Division to be increased in order to suitably support a board's ability to execute their fiduciary responsibilities. Mr. Holton noted that the report will preserve the majority and minority discussions on the recommendations. As the majority leans towards a board governance model that can evolve with the increasingly complex future of investments and eliminate the accountability of a sole fiduciary, the minority view the current sole fiduciary model as a tradition that has served our needs effectively and has produced solid outcomes to date by one fiduciary who is constitutionally elected and held to the highest accountability. The Treasurer did not sit in the meetings, but she was requested to present to the Commission at a meeting to share the pros and cons on the current governance structure. The Commission will be delivering a final report within the next few weeks.

Presentation on the Report prepared by the North Carolina General Assembly's Program Evaluation Division (PED) on the Firefighters' and Rescue Squad Workers' Pension Fund

The Chair recognized Steve Toole to present the final report and the Department's response to the findings by the PED on the Firefighters' and Rescue Squad Workers' Pension Fund. Mr. Toole reminded the Board of PED's purpose, mission and who they primarily support. He outlined the process for the review:

- Fire & Rescue Fund selected by the Joint Legislative Program Evaluation Oversight Committee (JLPEOC) for review
- Retirement was interviewed in depth and provided supporting data
- PED prepared an initial draft for RSD's review
- RSD responded to the initial draft
- PED issued the final report
- RSD formally responded to the final report

PED's summary documented that the Pension Fund is adequately funded, but the State's annual required contribution now exceeds the amount of property insurance premium tax proceeds going to the General Fund. Secondly, PED indicated that Legislative inquiries, starting 2012, revealed problems with the Department of State Treasurer's administration of the Pension Fund. Finally, PED noted that because the Department of State Treasurer is taking steps to address these issues, the Program Evaluation Division recommends that the General Assembly require the department to report annually on its progress to the House State Personnel Committee and the Senate Pensions & Retirement and Aging Committee.

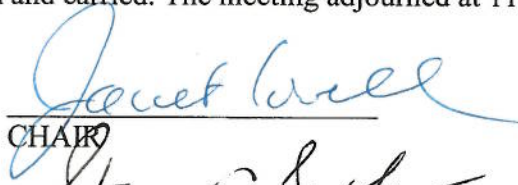
There were areas of alignment and areas of disagreement with PED staff relative to their final report. Mr. Toole shared his appreciation of PED's professionalism and their consideration that the department has been taking active steps to address the issues.

Retirement is pursuing legislation in 2014, which will provide relief for Fire & Rescue in-service distributions and has embarked on a multi-year redesign of ORBiT for administrative ease and effective oversight.

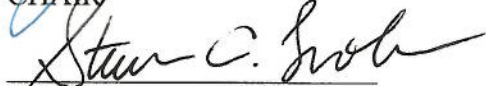
Kevin Gordon presented a legislative bill that was passed in 1987 that separated the retirement eligibility requirements between volunteer and paid firefighters and rescue squad workers. Mr. Gordon stated that this change in legislation created the alterations fire departments are experiencing with termination dates and volunteer status given the specific retirement eligibility requirements for paid firefighters and rescue squad workers.

Adjournment

There being no further business, Chipp Bailey moved for adjournment of the meeting, which was seconded by Grady Smith and carried. The meeting adjourned at 11:13 a.m.



CHAIR



SECRETARY

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