

MINUTES
BOARD OF TRUSTEES
OF THE TEACHERS' AND STATE 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

The Board members present were: Janet Cowell, John Aneralla (via telephone), Lentz Brewer, Loris Colclough, Van Dowdy, Greg Grantham, William Grey, Alberta Hall, Michael Jacobs, Michael Mebane, and LouAnn Phillips on behalf of Superintendent June Atkinson.

Members Absent

Member absent was: Jack Brooks.

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 Michael Mebane, seconded by Michael Jacobs, 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.

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

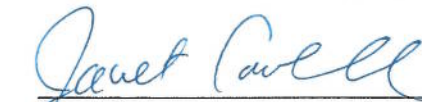
benchmarking study being conducted by CEM Benchmarking, as requested by the Board, and will report out the results in the July Board meeting.

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.

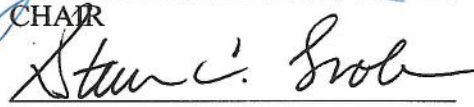
The Chair introduced Andrew Holton, Deputy Chief of Staff and liaison to the Commission, for a presentation on the work in progress by the Investment Fiduciary Governance Commission. Mr. Holton presented that the Commission was established by the State Treasurer to evaluate the current governance structure 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.

Adjournment

There being no further business, Michael Jacobs moved for adjournment of the meeting, which was seconded by Lentz Brewer and carried. The meeting adjourned at 10:50 a.m.



CHAIR



SECRETARY

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