

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 9:30 a.m., January 26, 2017, by the Chair, Treasurer Dale R. Folwell. 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.

Members Present

The Board members present were: Treasurer Dale R. Folwell, Lentz Brewer, Jim Burgin, David Dear, Kevin Gordon, LouAnn Phillips (on behalf of Superintendent Mark Johnson), Aaron Meredith, Sally Sandy, Carson Smith, Mark Stohlman, and Ashley Wooten.

Members Absent

Board members absent were: John Aneralla and Greg Patterson.

Guests Present

The guests attending were: Robert Curran, with the Attorney General's office; and, Michael Ribble, Larry Langer, Linda VanDeventer, Lisa Townley, and Susan Rosenbleeth (by phone) from Conduent Inc. (Buck Consultants).

Department of State Treasurer Staff Present

The staff members present were: Steve Toole, Cindy Aiken, Nick Byrne, Thomas Causey, Chris Farr, Jaclyn Goldsmith, Schorr Johnson, Michael Jackson, Fran Lawrence, Frank Lester, Laura Rowe, Kevin SigRist, Christina Strickland, Blake Thomas, Sam Watts, and Paula Woodhouse.

Introduction and Swearing In of Board Members

The Chair introduced David Dear and Aaron Meredith to the Local Governmental Employees' Retirement System Board of Trustees. Mr. Dear fills a position on the board of a retired, Fair Labor Standards Act non-exempt, local governmental employee. Mr. Meredith fills a position on the board of an active, Fair Labor Standards Act non-exempt, local governmental employee. Mr. Dear and Mr. Meredith were sworn in as new members of the Board. The Chair also gave an update on Board vacancies and pending appointments.

Ethics Awareness and Identification of Conflicts or Potential Conflicts of Interest

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

Approval of the Minutes from the October 26, 2016 Board Meeting

It was moved by Kevin Gordon, seconded by Jim Burgin and carried unanimously that the minutes from the Board meeting held on October 26, 2016 be approved.

Approval of Resolution of Appreciation for the Service of State Treasurer, Janet Cowell

It was moved by Michael Mebane, seconded by Lentz Brewer and carried unanimously that the resolution of appreciation for the service of State Treasurer, Janet Cowell, be approved.

Approval of Resolution of Appreciation for the Services of R. Michael Bradley and James "Randy" Byrd

It was moved by Jim Burgin, seconded by Sally Sandy, and carried unanimously that the resolutions of appreciation for the services of R. Michael Bradley and James "Randy" Byrd be approved.

Retirement Systems Division Operations

The Chair recognized Thomas Causey, Deputy Director of Operations, and Michael Jackson, Chief of Member Services, for an update on benefit administration operations. Mr. Causey gave a report on operations metrics, indicating December 2016 was a good month in that Operations exceeded expectations from a metrics perspective.

Mr. Causey reported on the ORBIT Self-Service implementation, which will enhance the online experience for members accessing their retirement accounts. He stated that the staff will be working on enhancements for the Firefighters' and Rescue Squad Workers' Pension Fund in 2017. Mr. Mebane and Mr. Toole engaged in a dialogue regarding the overall security of Retirement data and servers.

The Chair recognized Michael Jackson, Chief of Member Services, for a presentation on the metrics for Member Services. Mr. Jackson reported on metrics for imaging, email correspondence, and meetings and webinars conducted by the Retirement Counselors. He reported that the team is working on implementing virtual retirement counseling sessions and completed a successful test pilot in November. He reported that the call center was meeting the goal of 65 percent of incoming calls to be received within 30 seconds during the fall and winter last year. He commented that call volume increases substantially during tax periods, so they are anticipating a busy quarter.

The Chair recognized Nick Byrne, Deputy Director of Policy, Planning, and Compliance, to give an update on the Contribution-based Benefit Cap (CBBC) liabilities. Mr. Byrne reported that a total of 79 retirees have exceeded the CBBC since its inception, with a total cost of liabilities invoiced of \$7.6 million.

There was discussion around the early notification of employers of potential liabilities due to pensions exceeding the benefit cap. Mr. Byrnes stated that a monthly watch list is available to employers. The Treasurer offered his support for the law and stated that the intent is to change the behavior that creates additional pension liabilities.

Update on the Investment Advisory Committee (IAC) Meetings

The Chair recognized Michael Mebane to provide an update on the Investment Advisory Committee (IAC) Meetings. Mr. Mebane stated that one of the main topics raised in the most recent meeting was supplemental employment. Mr. Mebane stated that the IAC recommends that any Treasurer or CIO who is seeking supplemental employment should consult with the IAC and the Board prior to accepting supplemental employment. This recommendation was developed after several months of consideration and is designed to address potential conflicts of interest and to recognize the sole fiduciary status of the NC State Treasurer. The Chair stated that he is in favor of having standards in place that preserve the rights of future decision-makers and stakeholders. Mr. Mebane also reported that there is a major effort to identify all fees and investment-related costs, how they factor into the valuation and how

they compare with our peers. He noted that the returns perform very well compared with our peer groups. IAC is establishing its own equity management team along with a program that will give IMD the capacity to internally manage the portfolio. The program should be rolled out in the next 12 months and is designed to reduce overall investment management fees.

Increase in the Amount of Reemployment Earnings Before Suspension of Retirement Allowance

The Chair recognized Steve Toole, Retirement Systems Division Executive Director, for a presentation on the annual statutory increase in the compensation that may be earned by a re-employed beneficiary who is receiving either an early retirement benefit or a service retirement benefit, before suspension of a retirement allowance under G.S. §135-3(8)(c). Mr. Toole announced that the Consumer Price Index (CPI) was released on January 18, 2017 and recorded an increase of 2.1 percent for the period of January 1, 2016 through December 31, 2016.

It was moved by Van Dowdy, seconded by Lou Ann Phillips and carried unanimously that the amounts which may be earned before suspension shall be increased effective January 1, 2017, equal to the increase in the CPI of 2.1 percent, as published by the U.S. Department of Labor. Therefore, the maximum amount a re-employed retiree can earn without affecting his/her monthly retirement allowance is increased by the greater of 2.1 percent of the 50 percent compensation amounts or an adjusted amount of \$32,260, both effective January 1, 2017.

Overview of Retirement Systems Division's Legislative Agenda for 2017 Session of the North Carolina General Assembly

The Chair recognized Sam Watts, Policy Director, to provide an overview of RSD's legislative agenda for the 2017 session of the North Carolina General Assembly. Mr. Watts updated the Board that the Department submitted a budget request for two IT development positions that will assist with further expansion of ORBIT.

Mr. Watts presented the Department's agenda for the legislative session. He stated that there will likely be a Pension Integrity Act, which will strengthen existing structures to further prevent fraud, waste and abuse.

Mr. Watts discussed the Administrative Changes Act, regarding the ability to reinvest cost savings from the ORBIT system to implement other priorities.

Presentation from Conduent (Buck Consultants) on the Boards' Assessment

The Chair recognized Linda VanDeventer of Conduent to present a report on the Boards of Trustees' Assessment. Paper copies were provided at the meeting due to sensitivity of the report. Mr. Toole commented that the assessment was requested by Treasurer Cowell, prior to leaving office and the Board survey was conducted in the fall of 2016.

Ms. VanDeventer commented that the report was at a high level and that the Board is cohesive and working well together. There were write-in remarks about how it has improved over the years. She mentioned that while this Board is currently receiving and utilizing paper materials, the overall trend is moving to electronic and paperless formats.

Consult with the Boards of Trustees, Pursuant to N.C.G.S. §143-318.11(a)(6) and (c)

It was moved by Michael Mebane, seconded by Lou Ann Phillips and carried unanimously that the meeting be closed pursuant to G.S. §143-318.11(a)(6) & (c).

Linda VanDeventer of Conduent presented a report to the Boards on the Executive Director Assessment that was conducted fall of 2016. After the discussion, it was moved by Greg Grantham, seconded by Terry McCann and carried unanimously that the meeting be reopened.

Actuarially Determined Employer Contribution (ADEC) Projections for Local System

The Chair recognized Larry Langer and Michael Ribble, from Conduent, to present on the actuarially-determined employer contribution (ADEC) projections for the Local System.

Mr. Langer presented the employer contribution rate for the system. The baseline projection was based on the December 31, 2015 valuation results that were presented to the Board during the October 26, 2017 meeting and reflected an interest rate of 7.25 percent investment return on market value of assets for all years. Mr. Langer reviewed the Employer Contribution Rate Stabilization Policy (ECRSP) which sets the recommended employer contributions for general employees and firefighters at 7.25 percent of payroll for fiscal year 2017 with 0.25 percent increases each year. He reported that under the current policy adopted by the Board in January 21, 2016, if the underlying ADEC for a given year is 50 percent higher than the scheduled employer contribution rate or that fiscal year, the scheduled employer contribution rate for the current and future fiscal years increases 0.50 percent. Additionally, if the ADEC for a given year is 50 percent lower than the employer contribution rate for that fiscal year, the scheduled employer contribution will decrease by 0.50 percent for the current and future fiscal years.

Mr. Langer also presented an investment return of 6.0 percent to mirror the estimated returns being lower by 1.25 percent than expected. He mentioned that under both scenarios, the ECRSP rate is not triggered and both rates are expected to maintain the 0.25 percent increase.

Lastly, Mr. Langer presented the funded ratio for the system under both projection scenarios. He commented that because estimated returns were lower than expected, the unfunded accrued liability will be higher and will result in lower funded ratio.

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

Mr. Toole presented the state contribution rate stabilization policy (SCRSP) for the Firefighters' and Rescue Squad Workers' Pension Fund, which is statutorily required by March 2017. Mr. Toole commented that due to low interest rates and the volatility of investment returns, the policy is designed to develop an annual appropriation amount to recommend to the General Assembly for the next five years or until the next experience study to increase the recurring funding requirements. He stated that the policy will be deemed by the Board to be the annual actuarial determined employer contribution for the funding purposes for the Firefighters' and Rescue Squad Workers' Pension Fund. Mr. Toole stated that under this policy, the Board will recommend to the General Assembly the higher of the underlying ADEC or \$350,000 greater than the current year's appropriation, which will result in full funding of the annual ADEC for the Firefighters' and Rescue Squad Workers' Pension Fund each year. Additionally, this policy will provide a mechanism for the Board to make recommendations to the General Assembly to improve

the benefit structure of the plan and to protect the value of the benefit from the impact of inflation. Staff recommended approval of the stabilization policy.

It was moved by Kevin Gordon, seconded by David Dear and carried unanimously that the state contribution rate stabilization policy for the Firefighters' and Rescue Squad Workers' Pension Fund be adopted.

Presentations on the 2018 Fiscal Year Alternatives for the Local Governmental Employees' Retirement System Board

Mr. Toole presented the 2018 fiscal year options for the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, and the Register of Deeds' Supplemental Pension Fund.

Mr. Toole reported that the recent valuation report for the Local Governmental Employees' Retirement System shows that the new ADEC of 6.25 percent for general employees (including firefighters) and the 7.84 percent for law enforcement officers is lower than the current employer contribution rate of 7.25 percent for general employees and 8.00 percent for law enforcement officers. Mr. Toole commented that because of the employer contribution rate stabilization policy adopted on January 21, 2016, the contributions for general employees were set at 7.25 percent for fiscal year 2017 and will increase each fiscal year by 0.25% per year, with a few adjustments listed under the policy.

Mr. Toole reported that the recent valuation report for the Firefighters' and Rescue Squad Workers' Pension Fund shows a new ADEC of \$14,287,301 which is lower than the current appropriation for fiscal year ending 2017 of \$17,602,208. Therefore, the allocated state budget could decrease by \$3,314,907 to fund the new ADEC. He commented that although the ADEC is lower, the SCRSP would instead recommend state contributions be the greater of the prior year's appropriation plus \$350,000 and the ADEC. Under the SCRSP, the recommended state contribution would be \$17,952,208.

Mr. Toole reported that the estimated Annual Required Contribution (ARC) of \$0 is less than the 1.5 percent of monthly receipts collected pursuant to Article 1 of Chapter 161 of the NC General Statutes for the Register of Deeds' Supplemental Pension Fund. He reported that the fund is over funded with a funded ratio of 155.9% based on the assumptions adopted by the Board in April of 2016. Therefore, the monthly benefit amount could be increased. Mr. Toole noted that increasing the maximum monthly benefit from \$1,500 to \$1,550 for future and current members in receipt would produce an ARC above \$0.

Lastly, Mr. Toole noted that the decision for the Death Benefit Plan is being deferred to April 2017.

Court Cost Offset for Law Enforcement Officers

The Chair recognized Mr. Toole for a presentation on the Court Cost Offset for Law Enforcement Officers. Mr. Toole referred to NC General Statute §143-166.50(d) that states that the Department of State Treasurer is required to use certain funds derived from court costs to offset employer contribution rates paid for law enforcement officers participating in the local system. He reported that based on receipts since 2008, the Director of the Retirement Systems has set the Court Cost Offset on the LGERS employer contribution rate at 0.14 percent of law enforcement payroll for the fiscal year beginning July 1, 2017. Mr. Toole discussed the calculation for the new employer contribution rate. He stated that the

current year's contribution rate under the ECRSP is 8.25 percent with the .25 percent increase due to the ECRSP. The court cost offset would decrease by 0.14 percent, but the death benefit increase of 0.14 percent set the net payable contribution to 8.25 percent.

Application of Qualified Political Subdivision of the State to Become Participating Employer with the System

Mr. Toole presented the application of Brunswick County Airport Commission, d.b.a. Cape Fear Regional Jetport to the Board to become a participating employer with the System. He reported that the unit has 4 eligible employees, and upon evaluation has been determined to be financially capable of meeting the obligations of participation.

It was moved by Jim Burgin, seconded by Carson Smith and carried unanimously that the application of Brunswick County Airport Commission to become a participating employer with the System be approved, effective April 1, 2017.

Public Comment

The Chair recognized Sarah Collins on behalf of the NC League of Municipalities. The League's executive committee supported the ECRSP design in 2016 and still supports that policy today. The League supports the recommendation to raise the employer contribution rate to 7.50 percent.

Setting of 2017 Employer Contribution Rates and making recommendations to the North Carolina General Assembly

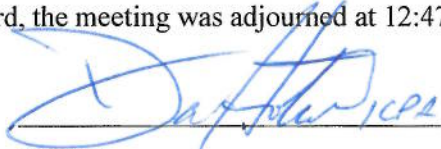
It was moved by Carson Smith, seconded by David Dear, and carried unanimously to set the employer contribution rate for the Local Governmental Employees' Retirement System at 7.50 percent of payroll for general employees and 8.25 percent of payroll for law enforcement officers, to recommend the state contribution of \$17,952,208 for the Firefighters' and Rescue Squad Workers' Pension Fund, and to not change the current benefit structure of the Register of Deeds' Supplemental Pension Fund.

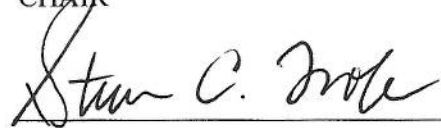
Closing Comments

The Chair asked if there were any closing comments from board members. Hearing none, the Treasurer commented on the importance of funding the retiree health benefit plan and reducing investment related management fees by \$100 million. He stated that if these objectives are not achieved, the other areas, such as education and transportation, will be impacted long term.

Local System Adjournment

There being no further business before the Board, the meeting was adjourned at 12:47 p.m., without objection.


CHAIR


SECRETARY