



North Carolina
Total Retirement Plans



Dale R. Folwell, CPA
STATE TREASURER OF NORTH CAROLINA
DALE R. FOLWELL, CPA

MINUTES

BOARD OF TRUSTEES OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM

The regularly quarterly meeting of the Board of Trustees was called to order at 9:30 a.m., October 29, 2020, by the Chair, State Treasurer Dale R. Folwell, CPA. The meeting was held in the Dogwood Conference Room of the Longleaf Building at 3200 Atlantic Avenue, Raleigh, NC 27604. The Chair thanked the members of the Board for their service. The Chair indicated there would be a public comment period for organizations and individuals to address the Board later in the agenda. The Chair stated that he would be absent for some portions of the meeting in order to attend to time-sensitive business, and that Tom Causey would assume the role of Acting Chair during the periods of his absence. Upon the Chair leaving the meeting at 9:35 a.m., Thomas Causey assumed the role of the Acting Chair. The Chair returned to the meeting and resumed his role at 10:39 a.m. Upon the Chair leaving the meeting at 11:59 a.m., Tom Causey resumed the role of Acting Chair. The Chair returned to the meeting and resumed his role at 12:19 p.m. Upon the Chair leaving the meeting at 12:30 p.m., Tom Causey resumed the role of the Acting Chair. Due to a power outage in the building, the meeting paused at 12:45 p.m. and resumed with a roll call at 12:49 p.m. The Chair returned to the meeting and resumed his role at 1:04 p.m.

Members Present

Treasurer Dale R. Folwell, Lentz Brewer (via telephone), John Ebbighausen, Vernon Gammon, Dirk German (via telephone), Barbara Gibson (via telephone), Linda Gunter, Oliver Holley (via telephone), Kathryn Johnston on behalf of Mark Johnson (via telephone), Greg Patterson (via telephone), Margaret Reader (via telephone), Joshua Smith (via telephone), and Jeffrey Winstead (via telephone).

Members Absent

None.

Guests in Attendance via Telephone

Jonathan Craven, Larry Langer, and Wendy Ludbrook of Cavanaugh Macdonald Consulting LLC (CMC), and Katherine Murphy from the North Carolina Attorney General's Office.

Department of State Treasurer Staff Present On-Site and via Telephone

Thomas Causey, Patti Hall, Elizabeth Hawley, Patrick Kinlaw, Richard Lopez, Vicki Roberts, Christina Strickland and Sam Watts.

Ethics Awareness and Identification of Conflicts or Potential Conflicts of Interest

The Acting Chair asked, pursuant to the ethics rules, about conflicts of interest of board members. No conflicts of interest were identified by the board members.

Approval of the State Minutes from the July 30, 2020 Board Meeting

It was moved by John Ebbighausen, seconded by Oliver Holley, and carried unanimously by the Board that the minutes from the Board meeting held on July 30, 2020 be approved.

Retirement System Division Administration Update

The Chair recognized Rick Lopez, Director of Operations, Vicki Roberts, Director of Member Services and Patrick Kinlaw, Director of Policy, Planning & Compliance for an update on the Division's operations.

The Chair recognized Director of Operations, Rick Lopez to provide an update on Operations. Mr. Lopez stated that the team processed 1,119 retirements in September, with an average turnaround time of 24 days. For the 60-day paid on time rate, he stated that September had a 99.8 percent paid on time rate. Mr. Lopez moved on to discuss death notifications, noting 1,136 death notifications in September with an average turnaround time of 21.3 days. Mr. Lopez reported that there were 216 new disability applications for September with an 18-day average processing turnaround, and 1,100 refund requests in September with a 6.4-day average processing turnaround. Mr. Lopez reported on monthly payroll, stating that there were 335,000 payees totaling \$55 million in payroll. Lastly, Mr. Lopez discussed Orbit Self Service usage, noting 1.5 million hits on the site and 4,848 online retirements to date.

The Chair recognized Director of Member Services, Vicki Roberts, for a presentation on the metrics for Member Services. Ms. Roberts updated the board on the Educational Retirement Group, noting they received over 16,000 letters for the quarter with a 4.3-day average response turnaround time. Ms. Roberts reported on educational meetings, noting that this year the team has held 35 total meetings reaching 1,800 people. These educational outreach efforts included eight webinars a month and a pre-recorded presentation available online 24/7. Ms. Roberts discussed scheduled one-on-one counseling sessions, noting that there have been over 500 appointments. She stated that in October the staff increased the number of available appointments from 50 to 75 per week. Ms. Roberts reported that over 15,000 e-mails were received this quarter, with responses sent within 2 business days on average. Lastly, Ms. Roberts stated that over 59,000 calls were received in the call center this quarter, with an average speed of answer of 2 minutes and 23 seconds and a call abandonment rate of 5.2%.

The Chair recognized Director of Policy, Planning & Compliance, Patrick Kinlaw. Mr. Kinlaw discussed overpayments collected, noting that just over \$9.4 million has been collected in the past 12 months and there are approximately \$39 million in outstanding overpayments not yet collected. Mr. Kinlaw discussed contribution-based benefit cap liabilities, noting that 339 retirements since 2015 have resulted in required employer contributions totaling more than \$32 million, and of that amount, more than \$26 million has been collected. Mr. Kinlaw noted that Grandfather Academy, a charter school in Banner Elk, closed its doors after the 2019-2020 school year and paid their withdrawal liability in August, completing their process of withdrawing from the Teachers' and State Employees' Retirement System (TSERS) effective July 1, 2020. Mr. Kinlaw informed the Board that KIPP Charlotte Charter School withdrew from TSERS effective October 1, 2020, after notifying TSERS at the end of July and paying the withdrawal liability in September. Mr. Kinlaw provided a brief overview of the information to be discussed later in the meeting by CMC.

Update on the Investment Advisory Committee (IAC) Meetings

The Chair recognized Greg Patterson to provide an update on the IAC meetings. Mr. Patterson reported that the IAC met on August 19, 2020. Mr. Patterson stated that the meeting began with a report from the Co-Chief Investment Officers on the Treasurer's cost efficiencies initiative, noting a savings of over \$311 million in fees since 2017 and a projection of \$350 million in fee savings by the end of 2020. Mr. Patterson reported that total

assets under management (including the Supplemental Retirement Plans, cash management, and other funds managed by the Investment Management Division) were greater than \$141 billion as of June 30, 2020. The Retirement Systems' return was 6.4% for the quarter ending June 30, 2020. The return for the year ending June 30, 2020, was 4.4%, exceeding the implementation benchmark of 3.6% by 0.8%. Mr. Patterson reminded the Board that the portfolio is intentionally very conservative, which helped during the volatility earlier this year. Mr. Patterson stated that there were presentations and updates on private equity and public equity investments, and that the public equity review showed a 21% return during the quarter ending June 30, 2020.

Background Actuarial Information

The Chair recognized Larry Langer, Jonathan Craven, and Wendy Ludbrook of CMC. Mr. Langer provided a brief overview and background information on the data and the actuarial methods to be presented.

Teachers' and State Employees' Retirement System Actuarial Valuation Principal Results

The Chair recognized Larry Langer and Jonathan Craven of CMC, who presented the principal results of the actuarial valuation for the Teachers' and State Employees' Retirement System (TSERS) as of December 31, 2019. Mr. Langer and Mr. Craven noted that the funded ratio of TSERS remained level, at 86.4%, from December 31, 2018, to December 31, 2019. They noted that for the fiscal year ending 2022, based on currently approved benefit levels, the contribution rate under the Employer Contribution Rate Stabilization Policy (ECRSP) will be equal to the actuarially determined contribution rate of 15.74% of compensation.

Consolidated Judicial Retirement System Retirement System Actuarial Valuation Principal Results

The Chair recognized Larry Langer and Jonathan Craven of CMC, who presented the principal results of the actuarial valuation for the Consolidated Judicial Retirement System Retirement System (CJRS) as of December 31, 2019. Mr. Langer and Mr. Craven noted that the funded ratio of CJRS remained level, at 85.7%, from December 31, 2018, to December 31, 2019. They noted that for the fiscal year ending 2022, based on currently approved benefit levels, the actuarially determined contribution rate will be 38.70% of compensation.

Legislative Retirement System Actuarial Valuation Principal Results

The Chair recognized Larry Langer and Jonathan Craven of CMC, who presented the principal results of the actuarial valuation for the Legislative Retirement System (LRS) as of December 31, 2019. Mr. Langer and Mr. Craven noted that the funded ratio of LRS improved slightly, from 92.0% as of December 31, 2018, to 92.6% as of December 31, 2019. They noted that for the fiscal year ending 2022, based on currently approved benefit levels, the actuarially determined contribution rate will be 27.15% of compensation.

Disability Income Plan of North Carolina Actuarial Valuation Principal Results

The Chair recognized Larry Langer and Jonathan Craven of CMC, who presented the principal results of the actuarial valuation for the Disability Income Plan of North Carolina (DIPNC) as of December 31, 2019. Mr. Langer and Mr. Craven noted that for the fiscal year ending 2022, based on currently approved benefit levels, the actuarially determined contribution rate will be 0.09% of compensation.

North Carolina National Guard Pension Fund Actuarial Valuation Principal Results

The Chair recognized Larry Langer and Jonathan Craven of CMC, who presented the principal results of the actuarial valuation for the North Carolina National Guard Pension Fund (NCNGPF) as of December 31, 2019. Mr. Langer and Mr. Craven noted that the funded ratio of NCNGPF improved, from 78.0% as of December 31, 2018, to 88.1% as of December 31, 2019, primarily because of data clean-up and procedure changes. For the fiscal year ending 2022, based on currently approved benefit levels, the contribution under the State Contribution

Rate Stabilization Policy (SCRSP) of \$11,031,715 will exceed the actuarially determined contribution of \$6,382,278.

Death Benefit Plans Actuarial Valuation Principal Results

The Chair recognized Larry Langer and Jonathan Craven of CMC, who presented the principal results of the actuarial valuation for the Death Benefit Plans as of December 31, 2019. Mr. Langer and Mr. Craven noted that for the Retirees' Contributory Death Benefit Plan (CDBP), there is a \$27.2 million gap between assets and liabilities as of December 31, 2019. The current assets of the CDBP are not adequate. The plan provisions and/or contribution rates should be changed to reverse this projected shortfall. Based on payout projections prepared for reporting under governmental accounting standards, assets of the fund will be exhausted by 2079. Mr. Langer and Mr. Craven noted that the amount of the deficit may change significantly as a result of the experience study.

Vote to Accept the Actuarial Valuation Principal Results Reports

It was moved by John Ebbighausen and seconded by Greg Patterson to accept the Actuarial Valuation Principal Results reports presented by CMC with regard to TSERS, CJRS, LRS, DIPNC, NCNGPF, and the Death Benefit Plans. Dale Folwell, Barbara Gibson, Dirk German, Jeffrey Winstead, Kathryn Johnston, Lentz Brewer, Linda Gunter, Margaret Reader, Oliver Holley, and Vernon Gammon voted in support of the motion.

Experience Study

The Chair recognized Larry Langer and Jonathan Craven of CMC to provide the results of the Experience Study for the Teachers' and State Employees' Retirement System based on the five-year period from January 1, 2015 through December 31, 2019. Mr. Langer and Mr. Craven explained the consulting actuary's process. They stated that the purpose of the study is to review the prior five-year period and consider any updates to recommendations regarding actuarial assumptions or funding methods. The consulting actuaries presented several assumption and method recommendations indicated by current conditions, anticipated future experience, and valuation process improvements. They stated that these recommendations included a significant update to the assumed rate of future investment return, reducing it from the current assumption of 7.0% per year to 6.5% per year. They explained that the effect on employer contribution rates would be recognized gradually over a five-year period through a process of direct rate smoothing. The Chair reminded the Board that it would consider adopting CMC's recommendations at a future Board meeting.

Adoption of Cap Factor for Contribution-Based Benefit Cap Calculations for Effective Retirement Dates on or After January 1, 2021, as recommended by the Consulting Actuary

The Chair recognized Wendy Ludbrook of CMC to recommend adoption of the cap factor for contribution-based benefit cap calculations. Ms. Ludbrook stated that the current cap factor was last adopted in October 2015 and set at 4.5, with an expectation that approximately 0.42% of TSERS retirements per year would be subject to capping. Ms. Ludbrook explained the process of determining a cap factor recommendation: CMC used data as of December 31, 2019 for members who would be eligible for retirement in 2020, projected using the newly recommended retirement assumption how many members would be expected to retire during 2020, and then estimated the proportion of those retirees who might be subject to capping based on each possible cap factor. Ms. Ludbrook stated that CMC recommends a cap factor of between 3.9 and 5.0. She explained that a cap factor of 3.9 would be expected to subject 0.71% of TSERS retirements to being capped, and a cap factor of 5.0 would be expected to subject 0.11% of TSERS retirements to being capped. Ms. Ludbrook stated that the current cap factor, 4.5, is the midpoint of the recommended range.

The Chair recognized Patrick Kinlaw to present staff comments. Mr. Kinlaw began by reminding the Board that statutes require the Board to set a single cap factor at a level that would apply to no more than 0.75% of expected retirements. Mr. Kinlaw reiterated that CMC recommended that the cap factor be set in the range of 3.9 to 5.0 and that they have determined the midpoint is 4.5, which is the current cap factor. Mr. Kinlaw discussed that it is staff's perspective to look toward the midpoint of the identified range, noting that the high end of the range runs the risk of affecting so few retirements that the Board would not be administering the policy that the statute established, and that the low end of the range runs the risk of affecting too many retirements. Mr. Kinlaw stated that based on CMC's analysis, staff's suggestion would be to leave the cap factor unchanged at the current value of 4.5.

It was moved by Linda Gunter and seconded by Jeffrey Winstead to adopt the recommendation setting the cap factor at 4.5 percent. Dale Folwell, Dirk German, Greg Patterson, John Ebbighausen, Kathryn Johnston, Lentz Brewer, Margaret Reader, Oliver Holley, and Vernon Gammon voted in support of the motion. Barbara Gibson abstained from the vote.

Contribution-Based Benefit Cap Average Final Compensation Threshold Determination

The Chair recognized Patrick Kinlaw for a presentation on the average final compensation (AFC) threshold to be used in contribution-based benefit cap administration for 2021. Mr. Kinlaw provided a brief background, noting that capping can apply to retirements only if the four-year AFC is greater than or equal to a certain amount, the "threshold," in addition to other conditions that must apply. Mr. Kinlaw stated that if a retiree's AFC is below the threshold, capping cannot apply. Mr. Kinlaw explained that the threshold was set by law at \$100,000 in 2015 and has increased each calendar year for inflation as provided by statute. Mr. Kinlaw stated that for retirements effective in 2020, the threshold is \$109,746.34. Mr. Kinlaw reported that since the relevant Consumer Price Index measure increased by 0.6% from June 2019 to June 2020, the threshold should increase by 0.6% to \$110,404.82 for all retirements effective in 2021. Lastly, Mr. Kinlaw stated that the board's vote would be to authorize staff to begin incorporating this threshold into administration and communicating it to employers.

It was moved by John Ebbighausen and seconded by Dirk German to authorize administration of an increase in the AFC threshold to \$110,404.82, for retirements effective in 2021. Dale Folwell, Greg Patterson, Jeffrey Winstead, Kathryn Johnston, Lentz Brewer, Linda Gunter, Margaret Reader, Oliver Holley, and Vernon Gammon voted in support of the motion.

Public Comment Period

There were no comments from the public.

Board of Trustees Comments

Several board members expressed their appreciation to the Retirement Systems Division staff and CMC for their time and effort in preparing the reports for today's meeting. The Chair requested that the meeting be closed in memory of Ryan Hendrix, Henderson County sheriff's deputy.

Adjournment

There being no further business before the Board, John Ebbighausen moved to adjourn, which was seconded by Linda Gunter, and the meeting was unanimously adjourned at 1:47 p.m.