



North Carolina
Total Retirement Plans



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

DRAFT 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 9:00 a.m., October 28, 2021, 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 further stated that we will close today's meeting in honor of Officer Ryan Hayworth, of the Knightdale Police Department, who was killed in the line of duty, and in honor of Hoke County Sheriff Hubert Peterkin.

Members Present in Person or Via Telephone

Treasurer Dale R. Folwell, Lentz Brewer (via telephone), John Ebbighausen (via telephone), Vernon Gammon, Dirk German, Barbara Gibson (via telephone), Linda Gunter (via telephone), Oliver Holley, Margaret Reader (via telephone), Joshua Smith, Catherine Truitt (via telephone), and Jeffrey Winstead.

Members Absent

Greg Patterson.

Guests in Attendance

Larry Langer and Wendy Ludbrook of Cavanaugh Macdonald Consulting LLC; Katherine Murphy from the North Carolina Attorney General's Office (via telephone).

Department of State Treasurer Staff Present in Person or Via Telephone

The staff members present: Thomas Causey, Christy Farrelly, Ben Garner, Patti Hall, Patrick Kinlaw, Richard Lopez, Timothy Melton, Lisa Norris, Vicki Roberts, Anne Roof, and Sam Watts.

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. No conflicts of interest were identified by the Board members.

Approval of the State Minutes from the July 29, 2021 Board Meeting

Oliver Holley moved the board to approve the minutes of the July 29, 2021 Board meeting. John Ebbighausen seconded the motion, and the minutes were approved by a unanimous vote of 12-0.

Legislative Update

The Chair recognized Sam Watts, Policy Director, to provide an update on the legislative session. Mr. Watts discussed the State budget process and noted that the General Assembly is close to passing this year's budget. The Department is watching this issue closely because, since it is more than 90 days into the new fiscal year, changes in employer contribution rates or retroactive compensation changes will be difficult to administer. Mr. Watts stated that the budget bill appears to have sufficient funding for the Retirement Systems. Mr. Watts reported that 19 policy-related bills were enacted affecting the Department, and a number of those dealt with retirement issues.

Mr. Watts also shared that there are efforts within the General Assembly to include provisions in the State budget that would severely limit the State Treasurer's ability to use funds for critical administrative and investment expenses on behalf of the Retirement Systems. Mr. Watts requested that the Board members sign a Resolution to the General Assembly to oppose these efforts.

Oliver Holley moved the Board to approve the Resolution to be presented to the General Assembly. Jeffrey Winstead seconded the motion, and the Resolution was approved by a unanimous vote of 11-0. Barbara Gibson abstained.

Operations, Member Services, and Compliance Update

The Chair recognized Rick Lopez, Director of Operations, for an update on the Division's operations. Mr. Lopez began by noting the team processed 1,142 retirements in September with an average turnaround time of 14.8 days. Mr. Lopez discussed death notifications, noting 1,176 death notifications in September with an average turnaround time of 28.2 days. Mr. Lopez discussed disability application processing, noting that the team processed 298 applications in September 2021 with a 24.3-day turnaround time. Mr. Lopez discussed refund requests, noting that the team processed 1,469 refund requests in September 2021 with a 6.4-day turnaround time. Mr. Lopez also discussed monthly payroll processing, noting that in September 2021 the Divisions paid 343,874 payees with a total payment amount of \$568,196,829. Mr. Lopez discussed the ongoing effort to sign up Fire and Rescue Departments for online reporting. Mr. Lopez mentioned that over the last year ORBIT Self Service usage had completed almost 1.5 million retirement estimates for members. Mr. Lopez also shared that Operations is working to complete a "Refunds Online" project which will allow exiting members to request refunds online.

The Chair recognized Vicki Roberts, Director of Member Services, for a metrics presentation. Ms. Roberts began by noting that Member Services has processed more than 15,000 pieces of mail in the third quarter with an average turnaround time of less than 6 days. Member Services has assisted over 2,700 people through 98 webinars and counselors have held 851 retirement counseling sessions, responded to over 14,000 emails with a turnaround average of 2 days, and answered almost 68,000 calls. Ms. Roberts also stated of the primary goal to assist members efficiently, and the average wait time to answer a call was 9 minutes, with 24% of the calls ending up abandoned, mainly impacted by a staffing crisis. Ms. Roberts reported that October is National Retirement Security Month, and Member Services has partnered with the Social Security Administration and Prudential to host events that educate our members about retirement readiness. Ms. Roberts discussed the Division's social media campaign, noting that more than 6,500 members were reached through social media engagement in October 2021, a 51% increase, with a 78% increase in follow-up discussions and post-engagement meetings.

The Chair recognized Patrick Kinlaw, Director of Policy, Planning & Compliance. Mr. Kinlaw discussed overpayments, noting that \$8.5 million has been collected in the past 12 months and there is approximately \$38.5 million in outstanding overpayments not yet collected. Mr. Kinlaw discussed Contribution-Based Benefit Cap

liabilities, noting that 426 retirements since 2015 have resulted in required employer contributions totaling more than \$41 million, and of that amount, more than \$33 million has been collected. Mr. Kinlaw also stated that the Department has continued to evaluate its alternatives for 2022 and beyond regarding the engagement of the consulting actuary, with the procurement process ongoing. Mr. Kinlaw also provided a staff response to certain questions shared by the Board in advance of the meeting about the actuarial valuation process and results.

Update on the Investment Advisory Committee (IAC) Meetings

The Chair recognized Lentz Brewer to provide an update on the IAC meetings. Mr. Brewer noted the Advisory Committee met on August 25 and reviewed recent favorable market performance. Mr. Brewer reported that the portfolio had a fifth consecutive quarter of positive returns in the second calendar quarter of 2021, with the Retirement Systems' assets under management rising to \$171 billion as of June 30, 2021. There were no major changes to the allocation in the second quarter. The portfolio is currently underweight to growth, overweight to rates and liquidity, and neutral in multi-strategy. The one-year return is the second highest fiscal-year return since 1997. Mr. Brewer concluded by stating that our Fund continues to do more with our resources at a lesser expense than our peers.

Background Actuarial Information

The Chair recognized Larry Langer and Wendy Ludbrook of Cavanaugh Macdonald Consulting (CMC). Mr. Langer provided a brief overview and background information of the data to be presented.

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

The Chair recognized Larry Langer and Wendy Ludbrook of Cavanaugh Macdonald Consulting (CMC) to provide the principal results of the actuarial valuation for the Teachers' and State Employees' Retirement System as of December 31, 2020.

Consolidated Judicial Retirement System Retirement System Actuarial Valuation Principal Results

The Chair recognized Larry Langer and Wendy Ludbrook of Cavanaugh Macdonald Consulting (CMC) to provide the principal results of the actuarial valuation for the Consolidated Judicial Retirement System Retirement System as of December 31, 2020.

Legislative Retirement System Actuarial Valuation Principal Results

The Chair recognized Larry Langer and Wendy Ludbrook of Cavanaugh Macdonald Consulting (CMC) to provide the principal results of the actuarial valuation for the Legislative Retirement System as of December 31, 2020.

Disability Income Plan of North Carolina Actuarial Valuation Principal Results

The Chair recognized Larry Langer and Wendy Ludbrook of Cavanaugh Macdonald Consulting (CMC) to provide the principal results of the actuarial valuation for the Disability Income Plan of North Carolina as of December 31, 2020.

North Carolina National Guard Pension Fund Actuarial Valuation Principal Results

The Chair recognized Larry Langer and Wendy Ludbrook of Cavanaugh Macdonald Consulting (CMC) to provide the principal results of the actuarial valuation for the North Carolina National Guard Pension Fund as of December 31, 2020.

Vote to Accept the Actuarial Valuation Principal Result Reports

Catherine Truitt moved the Board to accept the Actuarial Valuation Principal Result reports presented by Larry Langer and Wendy Ludbrook. Jeffrey Winstead seconded the motion, and the reports were accepted by a unanimous vote of 12-0.

Litigation Update

The Chair introduced Kathy Murphy, Special Deputy Attorney General, to provide a litigation update. Ms. Murphy provided a brief overview of the Contribution-Based Benefit Cap legal provisions, which are also sometimes referenced as the anti-pension spiking provisions.

Death Benefit Plans Actuarial Valuation Principal Results

The Chair recognized Larry Langer and Wendy Ludbrook of Cavanaugh Macdonald Consulting (CMC) to provide the principal results of the actuarial valuation for the Death Benefit Plans of North Carolina as of December 31, 2020.

Jeffrey Winstead moved the Board to accept the Actuarial Valuation results for the Death Benefit Plans presented by Larry Langer and Wendy Ludbrook. Margaret Reader seconded the motion, and the results were accepted by a unanimous vote of 12-0.

Contribution-Based Benefit Cap Average Final Compensation Threshold Determination

The Chair recognized Patrick Kinlaw for a presentation on the Contribution-Based Benefit Cap (CBBC). Mr. Kinlaw provided a brief background on the CBBC noting it can apply to retiring members only if their four-year average final compensation is greater than or equal to a certain amount, the “threshold.” Mr. Kinlaw stated if someone’s average final compensation is below the threshold, the CBBC cannot apply to them. Mr. Kinlaw discussed that the threshold was set by law at \$100,000 in 2015 and has increased each January for inflation noting that originally the increase was based on December-to-December increases in the Consumer Price Index (CPI) but in accordance with a 2018 law, the calculation changed in 2019 to be based on the June-to-June increase in the Consumer Price Index. Mr. Kinlaw stated for retirements effective in 2021, the threshold is \$110,404.82. Further, Mr. Kinlaw discussed the CPI increase from June 2020 to June 2021 was 5.4% and therefore the threshold should increase by 5.4% to \$116,366.68 to be applicable for retirements effective in 2022. Lastly, Mr. Kinlaw noted that the Board’s vote today would be to authorize staff to begin incorporating this threshold into administration and communicating it to employers.

John Ebbighausen moved the Board to accept the recommendation to authorize staff to communicate the CBBC threshold of \$116,366.68 for retirements effective in 2022. Linda Gunter seconded the motion, and the recommendation was accepted by a unanimous vote of 11-0. Joshua Smith did not vote.

Public Comment Period

The Chair recognized Suzanne Beasley of the State Employees’ Association of North Carolina, and Richard Rogers of the N.C. Retired Governmental Employees’ Association.

Board of Trustees Comments

The Treasurer congratulated Margaret Reader on her retirement since the last Board meeting. Linda Gunter thanked staff and Cavanaugh MacDonald staff for their time and effort in preparing the meeting and reports.

The Treasurer noted that today's meeting will close in honor of Sheriff Hubert Peterkin and Officer Ryan Hayworth.

Adjournment

There being no further business before the Board, Oliver Holley moved the Board to adjourn. Margaret Reader seconded the motion, and was accepted by a unanimous vote of 11-0. Joshua Smith did not vote. The meeting was adjourned at 12:47 p.m.