



MINUTES

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

The regularly quarterly meeting of the Teachers' and State Employees' Retirement System (TSERS) Board of Trustees was called to order at 9:00 a.m., January 27, 2022, 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.

Members Present in Person or via Telephone

Treasurer Dale R. Folwell, Lentz Brewer (via telephone), John Ebbighausen, Vernon Gammon, Dirk German, Linda Gunter, Oliver Holley, Greg Patterson, Blake Thomas (designee for Barbara Gibson), and Catherine Truitt (via telephone).

Members Absent

Margaret Reader, Joshua Smith, and Jeffrey Winstead.

Guests in Attendance in Person or via Telephone

Flint Benson from the State Employees Association of North Carolina, Sarah Collins from the North Carolina League of Municipalities, Jonathan Craven and Wendy Ludbrook from Cavanaugh Macdonald Consulting, Katherine Murphy from the North Carolina Department of Justice (via telephone), and Ken Noland from the North Carolina City and County Management Association.

Department of State Treasurer Staff Present in Person or Via Telephone

Ted Brinn, Thomas Causey, Christy Farrelly (via telephone), Elizabeth Hawley, Patrick Kinlaw, Richard Lopez, Timothy Melton, Lisa Norris, Vicki Roberts, Laura Rowe (via telephone), 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 October 28, 2021, Board Meeting

Greg Patterson moved the Board to approve the minutes of the October 28, 2021, Board meeting, John Ebbighausen seconded the motion, and the minutes were approved by a unanimous vote of 7-0. Catherine Truitt, Lentz Brewer and Vernon Gammon did not vote.

Operations, Member Services, and Compliance Update

The Chair recognized Rick Lopez, Director of Operations. Mr. Lopez began by discussing the 1,025 retirements processed in December 2021 with an average turnaround time of 23.1 days and noted 910 death notifications in the same period with an average turnaround time of 41.7 days. Mr. Lopez noted that the team processed 230 disability applications in December 2021 with a 32.7-day turnaround time. Mr. Lopez discussed the 1,149 refund requests in December 2021, processed with a 20-day turnaround time. Mr. Lopez shared that in December 2021 the Division paid 343,646 payees with a total payment amount of over \$670,000,000, noting that these payments included a one-time supplement payment. 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 1,540,971 million retirement estimates and 331,646 beneficiary updates for members.

The Chair recognized Vicki Roberts, Director of Member Services. Ms. Roberts began by noting that Member Services received more than 15,500 pieces of mail last quarter with an average turnaround time of 7 days. Ms. Roberts shared that Member Services assisted over 5,200 people through 179 webinars since July 2021 and, in the last quarter of the year, counselors have held 691 retirement counseling sessions, responded to over 15,000 emails with a turnaround average of 3.2 days, and answered over 65,000 calls. Ms. Roberts also stated Member Services' primary goal is to assist members efficiently, but the average wait time to answer a call was about 15 minutes, with 34% of the calls ending up abandoned, mainly due to the staffing crisis.

The Chair recognized Patrick Kinlaw, Director of Policy, Planning & Compliance. Mr. Kinlaw began by discussing Contribution-Based Benefit Cap liabilities, noting that 454 retirements since 2015 have resulted in required employer contributions totaling more than \$43.1 million, and of that amount, around \$35 million has been collected. Mr. Kinlaw discussed staff's progress in the required review of the Retirement Systems' decennial rules noting that staff plans to bring the recommendations to the Board in April. Mr. Kinlaw discussed a report from the reporting firm Gabriel Roeder Smith (GRS), engaged by the Office of the State Auditor, to conduct a review of actuarial assumptions, methods, and processes used by Cavanaugh Macdonald when working with the Retirement Systems. Mr. Kinlaw noted that the review found work was performed in accordance with actuarial standards of practice and that the assumptions and methods used in the evaluation were reasonable. Mr. Kinlaw discussed a memo provided to the board regarding the reemployment earnings limit increase for 2022.

Legislative Update

The Chair recognized Sam Watts to provide an update on the legislative session. Mr. Watts briefly discussed the Report on 2021 State Legislative Actions memo provided to the Board noting the 19 enacted bills that affect the Retirement Systems or State Health Plan.

Investment Advisory Committee (IAC) Meetings Update

The Chair recognized Lentz Brewer to provide an update on the IAC meetings. Mr. Brewer stated the last IAC meeting occurred on November 17th, 2021, where Jeff Smith and Christopher Morris presented a performance update on behalf of the Division. Mr. Brewer noted that the IAC was informed by Mr. Morris that the total assets under management at the end of the third quarter rose \$1.4 billion to a total of just over \$172 billion and there were no major changes regarding asset

allocations from the second to third quarter. Mr. Brewer further noted the IAC was informed that at the end of the third quarter the total portfolio was up roughly 0.5%. With equity markets slightly negative and fixed income flat, the returns on alternative investments were strong in the third quarter. Mr. Brewer stated the IAC was shown a comparison between our Retirement System and peers noting the portfolio outperforming significantly with a low percentile of risk when compared to peers. Mr. Brewer stated Jeff Smith elaborated on the asset class performance, new investments, asset allocation history, the top twenty investment managers, and the fixed income portfolio.

Actuarially Determined Employer Contribution (ADEC) Projections.

The Chair recognized Larry Langer and Wendy Ludbrook from Cavanaugh Macdonald Consulting to present ADEC projections for TSERS. Mr. Langer presented charts demonstrating the effect of the assumption and method changes resulting from the experience study (including 6.5% assumed return per year in the future) and the actual return during the calendar year 2021, which was estimated to be 9.6%. Ms. Ludbrook stated that if all assumptions are met in 2022 and beyond, the actuarially determined employer contribution rates would stabilize or decline in the coming years, and the funded ratio would reach 100% by the end of 2024.

Presentations on the 2022 Alternatives for the General Assembly

The Chair recognized Patrick Kinlaw to present the recommendations to the General Assembly for the contribution rates or contribution amounts to fund the Retirement Systems effective July 1, 2022. Mr. Kinlaw noted the State Budget was enacted after October and therefore the State Budget for the second year of the biennium already incorporates costs that were in the latest actuarial valuation report. Mr. Kinlaw noted the State Budget provides for a one-time supplement for State, Judicial, and Legislature retirees equal to 3% of their annual benefits during the second year of the budget biennium, and it provides funding to pay for those supplements. Mr. Kinlaw noted the employer contribution rates set by the State Budget law for the second year of the biennium are 17.07% of pay for TSERS, 39.29% for the Judicial system, 24.27% for the Legislative system, and 0.10% for the Disability Income Plan. Mr. Kinlaw stated the contributions are sufficient to cover the benefits already promised plus the one-time supplements and that there is not a need to tweak these recommendations.

Mr. Kinlaw stated there are two places where staff believes there are substantive issues for the Board to consider. For the first, regarding the North Carolina National Guard Pension Fund (NCNGPF), the Board could recommend that the General Assembly provide a one-time supplement of \$55 per retiree, equivalent to 3% of the average annual benefit, and provide an additional State appropriation of \$348,857 to pay for the supplement. Mr. Kinlaw stated that this was staff's recommendation based on the terms of the Board's State Contribution Rate Stabilization Policy for the fund. For the second substantive issue, regarding the Retirees' Contributory Death Benefit Plan, staff recommended that the Board direct staff to engage with the consulting actuary to study and make recommendations regarding the projected funding shortfall.

Greg Patterson made a motion (1) to recommend that the General Assembly maintain the funding and benefit levels enacted in S.L. 2021-180; (2) to recommend that the General Assembly provide a one-time supplement from NCNGPF equal to \$55 per retiree in October 2022 and an additional State appropriation of \$348,857 to pay for this supplement; and (3) to direct Staff to engage with

the consulting actuary to study alternatives for addressing the projected shortfall in the Retirees' Contributory Death Benefit Plan. Dirk German seconded the motion, and the motion was approved by a unanimous vote of 10-0.

Public Comments

The Chair recognized Sarah Collins with the North Carolina League of Municipalities, and Ken Noland of the North Carolina City and County Management Association's Retirement Committee. Sam Watts, recognized by the Chair, read aloud a written comment submitted by Bryan Setser, Interim Executive Director of the North Carolina Retired Governmental Employees' Association.

Disability Programs Approval of New Medical Board Member

The Chair recognized Thomas Causey who began by providing background on the Medical Board and their role within the Retirement Systems. Mr. Causey shared that Dr. Robert Gaddy resigned from his position on the Board and Dr. David Rockwell was highly recommended by the Medical Board. Mr. Causey stated Dr. Rockwell's resume was included in the board materials, noting that Dr. Rockwell has extensive experience and staff is recommending that the Board appoint Dr. Rockwell to the Medical Board.

Vernon Gammon made a motion to approve the appointment of Dr. Rockwell to the Medical Board, Blake Thomas seconded the motion, and the minutes were approved by a unanimous vote of 10-0.

Public Comments

No further public comments were made.

Board of Trustees Comments

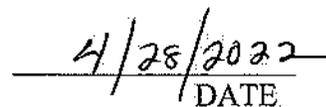
Linda Gunter expressed her appreciation to the Staff of the Treasurer's Office for getting their work done timely despite the challenges they are facing. The Treasurer noted that today's meeting will close in honor of Dr. Michael Elam, President of Halifax Community College; Charlotte-Mecklenburg Police Officer Mia Goodwin; and Master Trooper John Horton.

Adjournment

There being no further business before the Board, Oliver Holley moved to adjourn the meeting. Linda Gunter seconded the motion and the motion passed by unanimous vote of 10-0. The meeting was adjourned at 11:57 p.m.


CHAIR


SECRETARY


DATE

TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM BOARD OF TRUSTEES

January 27, 2022 Meeting

AGENDA ITEM

2a. Ethics Awareness and Identification of Conflicts or Potential Conflicts of Interest

2b. Statement of Economic Interest evaluations of members pursuant to the Ethics Act § 138A-15(c)

The following packet contains new and updated Statement of Economic Interest (SEI) evaluations issued by the State Ethics Commission. These are being provided for Board members' review and recording in the meeting minutes pursuant to the requirements of the State Government Ethics Act. Members are encouraged to review the evaluations to inform and remind them of the identified actual or potential conflicts of interest.

The SEI Evaluations for the following members are being provided for review:

- Wilbur T. "Ted" Brinn (Designee of State Treasurer Dale Folwell)
- Blake Thomas (Designee of Director of NC Office of State Human Resources Barbara Gibson)



STATE ETHICS COMMISSION

POST OFFICE BOX 27685

RALEIGH, NC 27611

PHONE: 919-814-3600

Via Email

October 1, 2021

The Honorable Dale R. Folwell
North Carolina Department of State Treasurer
3200 Atlantic Avenue
Raleigh, North Carolina 27604

**Re: Evaluation of Statement of Economic Interest Filed by Mr. Wilbur T. Brinn Jr.
Teachers' and State Employees' Retirement System Board of Trustees**

Dear Treasurer Folwell:

Our office has received **Mr. Wilbur T. Brinn Jr.**'s 2021 Statement of Economic Interest as an appointee to the **Teachers' and State Employees' Retirement System Board of Trustees (the "Board")**. We have reviewed it for actual and potential conflicts of interest pursuant to Chapter 138A of the North Carolina General Statutes ("N.C.G.S."), also known as the State Government Ethics Act (the "Act").

Compliance with the Act and avoidance of conflicts of interest in the performance of public duties are the responsibilities of every covered person, regardless of this letter's contents. This letter, meanwhile, is not meant to impugn the integrity of the covered person in any way. This letter is required by N.C.G.S. § 138A-28(a) and is designed to educate the covered person as to potential issues that could merit particular attention. Advice on compliance with the Act is available to certain public servants and legislative employees under N.C.G.S. § 138A-13.

We did not find an actual conflict of interest but found the potential for a conflict of interest. The potential conflict identified does not prohibit service on this entity.

The Teachers' and State Employees' Retirement System Board of Trustees ("Board") is responsible for administration of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, and the Legislative Retirement System. The Board serves as trustee and the State Treasurer is custodian of and makes decisions concerning investment of System funds.

The Act establishes ethical standards for certain public servants and prohibits public servants from: (1) using their positions for their financial benefit or for the benefit of their extended family or business, N.C.G.S. § 138A-31; and (2) participating in official actions from which they or certain associated persons might receive a reasonably foreseeable financial benefit, N.C.G.S. § 138A-36(a). The Act also requires public servants to take appropriate steps to remove themselves from proceedings in which their impartiality might reasonably be questioned due to a familial, personal, or financial relationship with a participant in those proceedings. N.C.G.S. § 138A-36(c).

Mr. Brinn will serve as you designee on the Board. Because he is a state employee who benefits from the State Employees' Retirement System, he has the potential for a conflict of interest. Therefore, Mr. Brinn should exercise appropriate caution in the performance of his public duties, should issues involving his retirement benefits come before the Board for official action.

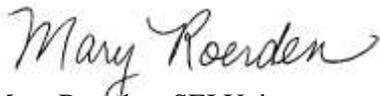
In addition to the conflicts standards noted above, the Act prohibits public servants from accepting gifts from (1) a lobbyist or lobbyist principal, (2) a person or entity that is seeking to do business with the public servant's agency, is regulated or controlled by that agency, or has financial interests that might be affected by their official actions, or (3) anyone in return for being influenced in the discharge of their official responsibilities. N.C.G.S. § 138A-32. Exceptions to the gifts restrictions are set out in N.C.G.S. § 138A-32(e).

When this letter cites an actual or potential conflict of interest under N.C.G.S. § 138A-24(e), the conflict must be recorded in the minutes of the applicable board and brought to the membership's attention by the board's chair as often as necessary to remind all members of the conflict and to help ensure compliance with the Act. N.C.G.S. § 138A-15(c).

Finally, the Act mandates that all public servants attend an ethics and lobbying education presentation. N.C.G.S. § 138A-14. Please review the attached document for additional information concerning this requirement.

Please contact our office if you have any questions concerning our evaluation or the ethical standards governing public servants under the Act.

Sincerely,



Mary Roerden, SEI Unit
State Ethics Commission

cc: Wilbur T. Brinn Jr.
Laura Rowe, Ethics Liaison

Attachment: Ethics Education Guide



STATE ETHICS COMMISSION

POST OFFICE BOX 27685

RALEIGH, NC 27611

PHONE: 919-814-3600

Via Email

January 4, 2022

Ms. Barbara Gibson, Director
North Carolina Office of State Human Resources
116 West Jones Street
Raleigh, North Carolina 27603

**Re: Evaluation of Statement of Economic Interest Filed by Mr. Blake Thomas
Teachers' and State Employees' Retirement System Board of Trustees**

Dear Director Gibson:

Our office has received **Mr. Blake Thomas'** 2022 Statement of Economic Interest as an appointee to the **Teachers' and State Employees' Retirement System Board of Trustees (the "Board")**. We have reviewed it for actual and potential conflicts of interest pursuant to Chapter 138A of the North Carolina General Statutes ("N.C.G.S."), also known as the State Government Ethics Act (the "Act").

Compliance with the Act and avoidance of conflicts of interest in the performance of public duties are the responsibilities of every covered person, regardless of this letter's contents. This letter, meanwhile, is not meant to impugn the integrity of the covered person in any way. This letter is required by N.C.G.S. § 138A-28(a) and is designed to educate the covered person as to potential issues that could merit particular attention. Advice on compliance with the Act is available to certain public servants and legislative employees under N.C.G.S. § 138A-13.

We did not find an actual conflict of interest but found the potential for a conflict of interest. The potential conflict identified does not prohibit service on this entity.

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Mr. Thomas will serve as your designee on the Board. As a State employee, Mr. Thomas could benefit from the State's retirement system. Therefore, he has the potential for a conflict of interest and should exercise appropriate caution in the performance of his public duties, should issues involving his retirement benefits come before the Board for official action.

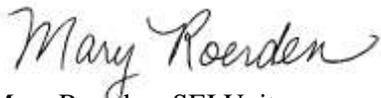
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Sincerely,



Mary Roerden, SEI Unit
State Ethics Commission

cc: Blake Thomas
Laura Rowe, Ethics Liaison

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