

MINUTES
BOARD OF TRUSTEES
OF THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM
October 22, 2015

The regular quarterly meeting of the Board of Trustees was called to order at 9:35 a.m., October 22, 2015, by the Chair, State Treasurer, Janet Cowell. The meeting was held in the Dogwood Conference Room of the Longleaf Building at: 3200 Atlantic Avenue, Raleigh, 27604. The Chair initiated the meeting with an update on the completed transition from the Albemarle building to the Longleaf building. She notified the attendees that there will be a public comment period at the end of the meeting for any organizations and individuals that would like to address the Boards. The Chair gave an update on board vacancies and pending appointments.

Members Present

The board members present were: Treasurer Janet Cowell, John Aneralla, Mike Bradley, Lentz Brewer, Randy Byrd, Kevin Gordon, Sally Sandy, Carson Smith, Grady Smith, and Lou Ann Phillips on behalf of Superintendent June Atkinson.

Members Absent

Board member absent was: Kay Cashion.

Guests Present

The guests attending were: Robert Curran and Susannah Holloway, with the Attorney General's Office; and, Larry Langer, Kai Petersen and Michael Ribble, with Buck Consultants.

Department of State Treasurer Staff Present

The staff members present were: Steve Toole, Bryan Allard, Mary Buonfiglio, Thomas Causey, Jaclyn Goldsmith, Fran Lawrence, Schorr Johnson, Vicki Roberts, Marni Schribman, Kevin SigRist, Anthony Solari, Edgar Starnes, 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 from the July 16, 2015 Meeting

It was moved by Mike Bradley, seconded by Randy Byrd, and carried that the minutes of the board meeting held on July 16, 2015, be approved.

Update on RSD Operations and Member Services

The Chair recognized Thomas Causey, Deputy Director of Operations, and Vicki Roberts, Deputy Director of Member Services, for an update on benefit administration operations. Mr. Causey gave a report on the metrics for retirement processing, service purchases, estimates requested, disability applications, death notification processing, refund requests, and payroll. Mr. Causey stated that all operational metrics were reaching their current processing goals, with the exception of disability applications and death notifications, due to a supervisor transition in that area. Ms. Roberts gave a report on the Member Services metrics, stating that imaging was exceeding its goal of one day turn around and that email correspondence has reached 12 day turn around, below the goal of four days. She reported that the Educational Retirement Group has conducted 8 webinars, 29 employee meetings, and 5 employer meetings in the past year. Lastly, Ms. Roberts reported that the Call Center receives approximately 24,500 calls each month, with the average response time of 5:33 in August, 2015. She stated the Call Center service level is at 12.2 percent, below the goal of 70 percent of calls answered within 30 seconds or less. However, the Division is in the process of hiring and training temporary staff to assist with calls.

Summary of Retirement Systems-related legislation during the 2015 Long Session of the North Carolina General Assembly

The Chair recognized Tony Solari, Director of Governmental Relations, for an update on the 2015 Long Session of the General Assembly. Mr. Solari gave a report on the 2015 Appropriations Action (Session Law 2015-241), stating that the Annual Required Contribution was funded for all the retirement systems, the Division received \$850,000 for the ORBIT upgrade and \$350,000 to complete the Firefighters' and Rescue Squad Workers' Pension Fund data audit. The legislation also extended the sunset for the Qualified Excess Benefit Arrangement from January 1, 2015 to August 1, 2016.

Mr. Solari stated that all Agency-sponsored legislation was enacted this session. He reported on the following laws:

Retirement Technical Corrections Act of 2015 (Session Law 201-67) made technical changes to the statutes to better administer the plans.

Fire, Rescue, and Safety Worker System Changes (Session Law 2015-88) changed roster certification procedures. The law also amends the statute to allow

a lump-sum payment of the \$50,000 line-of-duty death benefit in all cases, regardless of whether or not a beneficiary is named. Previously, the beneficiaries of FRSWPF members' line-of-duty death benefits were paid in a series of four smaller, annual installments; lump-sum payments were allowed only when no beneficiary had been named and the benefit was paid to the deceased member's estate.

Agency Participation Procedures Act of 2015 (Session Law 2015-168) made significant changes to the procedures for new or existing employers and charter schools that elect to join or withdraw from the Teachers' and State Employees' Retirement System (TSERS) or the Local Governmental Employees' Retirement System (LGERS). The new policy removes the 30-day requirement for all charter schools to elect to participate in TSERS and instead allows charter schools to participate in the Retirement System on a provisional basis during their first year of operation. After their first year of operation, charter schools provisionally participating in TSERS must then be approved by the Board of Trustees based on the results of an actuarial and financial review in order to continue participating in the system. The law also requires payment of a withdrawal liability for any agency exiting the system for any reason. The Act becomes effective January 1, 2016.

Retirement Administrative Changes Act of 2015 (Session Law 2015-164) explicitly allows volunteer service during the separation of service period to encourage retirees to volunteer for state agencies after retiring. The legislation also amends retirement statutes to require employers to attest to the accuracy of their monthly data submissions to the Retirement System, and it clarifies procedures for required minimum distributions consistent with Internal Revenue Code provisions.

Achieving a Better Life Experience Act (Session law 2015-67) authorized the establishment of the Achieving a Better Life Experience (ABLE) Program Trust, which will be administered by the Department of State Treasurer (DST). The program's purpose is to facilitate and encourage the accumulation of savings in individual accounts that eligible individuals with disabilities may use for certain qualified expenses in order to enhance economic independence and improve quality of life.

Mr. Solari thanked the Boards of Trustees, association partners, and the Fiscal Research Division for their partnership this past session.

Entry and exit procedures for charter schools and other employers

The Chair recognized Sam Watts, Policy Director, for a presentation on the entry and exit procedures for charter schools according to Session Law 2015-168. Mr. Watts reviewed the new procedures and explained the rationale for the change to the charter school participation procedure. He answered questions from the Board members before turning the presentation over to Steve Toole to discuss the withdrawal liability calculation. Mr. Toole reviewed the calculation in terms of a complete withdrawal to be determined by the excess of the actuarial present value of the vested accrued benefits of the System's members over the market value of its assets, based on the plan provisions and actuarial assumptions used in the last actuarial valuation, except the interest rate assumption shall be reduced by an amount determined by the consulting actuary to reflect the increased investment, mortality, and other actuarial risk for the exiting agency's participants, which is then multiplied by the ratio of total present value of accrued benefits for all active members of the withdrawing employer to the total present value of accrued benefits of all active members in the system. Mr. Toole presented three options for the Board to consider in choosing an interest rate assumption for withdrawal liability: 1) 30-year Treasury rate; 2) 20-year Municipal Bond index rate; and 3) Moody's AAA Corporate Bond Index rate. It was recommended by the consulting actuary to select the 30-year Treasury rate because the rate is risk-free, publicly available, and consistent with the long-term nature of the accrued benefits owed to the exiting agency's participants. It was moved by Mike Bradley, seconded by Randy Byrd, and carried unanimously by the Local Board to select the 30-year Treasury rate for the interest rate assumption for the withdrawal liability charged to employers exiting the systems.

Presentation by the Chief Investment Officer on the North Carolina Retirement Systems asset allocation policy

The Chair recognized Kevin SigRist for a presentation on the North Carolina Retirement Systems (NCRS) Asset Allocation Overview. Mr. SigRist reviewed the asset allocation background and investment objectives. He discussed the Asset Liability Study and the investment policy. Mr. SigRist presented the peer comparisons on the asset allocation prior to the 2014 IPS changes and presented the peer comparisons after the 2014 Investment Policy Statement (IPS) change, showing a reduction in the allocation of fixed income and an adjustment of the allocation of private equity to more closely mirror the peer average. Mr. SigRist discussed the investment return assumption and presented 10-, 20-, and 30-year projections. There was discussion by the Boards on whether the 7.25 percent investment return assumption was appropriate based on intermediate- and long-term goals. The Chair suggested that the Board reconvene on a later date to further discuss the investment return assumption prior to the January Board meeting due to the timeframe and remaining agenda items.

Presentations by the consulting actuary, Buck Consultants, on the results of the experience investigations and recommending revised tables for adoption by the Board of Trustees, prepared as of December 31, 2014:

The Chair notified the Board that the experience reviews for the Register of Deeds' Supplemental Pension Fund and the Death Benefit Plan will be presented at the January 2016 meeting. The Chair recognized Larry Langer, Michael Ribble, and Kai Petersen for a presentation on the experience reviews for the Local systems. Mr. Langer presented the current actuarial assumptions used for the systems and discussed the experience review process of comparing the actual results with the assumptions. Mr. Langer reviewed the mortality tables and presented that Buck Consultants found that the RP-2014 tables aligned more closely with the North Carolina Retirement Systems' actual experience. Mr. Langer presented funding methodology recommendations that would reset actuarial value to market value as of December 31, 2014; change to a five-year smoothing method; update to entry age normal for LGERS and, update to a 12-year, level dollar closed amortization for LGERS.

Results from the Local Governmental Employees' Retirement System (LGERS) investigation of demographic and economic experience five-year period from January 1, 2010 through December 31, 2014

Mr. Langer presented the key takeaways from the experience review for the Local Governmental Employees' Retirement System. He reported that the review found that:

- fewer deaths realized would create a significant increase in costs,
- fewer retirements realized would create a slight decrease in costs,
- fewer disability retirements realized would create a slight decrease in costs,
- fewer terminations from active employment realized would create a slight decrease in costs,
- lower merit pay increases realized would create a significant decrease in costs,
- actuarial cost method was inconsistent with other retirement systems and would increase costs, recommendation to move to entry age cost method
- asset valuation method was not transparent or predictable and would create a slight decrease in costs, recommending a 5-year smoothing valuation method

Buck Consultants stated that the mortality assumption was the source of the largest increase in costs and that increase in costs was driven more by the increase in mortality improvements suggested by national studies. The merit increase assumption was the source of the largest decrease in costs as salaries continued to fall short of the long-term assumptions. Given the results of the experience review, Mr. Langer stated that the current investment return assumption of 7.25 percent remains reasonable.

Results from the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) investigation of demographic and economic experience five-year period from January 1, 2010 through December 31, 2014

Mr. Langer presented the key takeaways from the experience review for the Firefighters' and Rescue Squad Workers' Pension Fund. He reported that the review found that:

- fewer deaths realized would create a significant impact to increase in costs,
- fewer disability retirements realized would create a slight decrease in costs,
- asset valuation method was not transparent or predictable and would create a slight decrease in costs; recommendation to move to a 5-year smoothing valuation method

Buck Consultants stated that the mortality assumption was the source of the largest increase in costs and that increase in costs was driven more by the increase in mortality improvements indicated by national studies. Given the results of the experience review, Mr. Langer stated that the current investment return assumption of 7.25 percent remains reasonable.

After the presentations for the experience reviews for the State systems by Mr. Langer and Mr. Ribble, Board members engaged in a lengthy discussion on the proposed assumptions that focused primarily on whether the proposed investment return assumption was adequate given projected investment returns. The Chair indicated that she would call a special meeting in December to allow the Board to discuss the interest rate assumption further. During the discussion, State Board member Michael Jacobs asked that the actuaries provide information on the impact of using the RP-2015 mortality improvement tables instead of the RP-2014 tables that were used for the report. Following the discussion, it was moved by Randy Byrd, seconded by Sandy Sally, and carried unanimously by the Board to accept the report from the actuaries on the experience reviews and recommended revised assumption tables for the Local Governmental Employees' Retirement System and the Firefighters' and Rescue Squad Workers' Pension Fund. The Chair clarified that the Board vote to adopt the assumptions is planned for January.

Adoption of factor(s) to be used for anti-pension spiking contribution-based benefit cap

The Chair recognized Steve Toole for a presentation on the anti-pension spiking contribution-based benefit cap. Mr. Toole presented that the Boards of Trustees shall review the factors every five years, based upon the five-year experience study, as required by G.S. 135-6(n). He reported that in October of 2014, the State system Board adopted a factor of 5.1 for LGERS and 15 members were capped from January 1 – August 31, 2015, estimating an annualized percent of members capped at .23 percent (below the .75 percent threshold). Mr. Toole presented four factors for the Boards to consider that would limit additional pension spikers and would fall below the threshold of 0.75 percent of retirements being capped in any given year. It was moved by Mike Bradley, seconded by Grady Smith, and carried by the Local Board unanimously to adopt a contribution-based benefit factor of 4.7 that would expect to cap .36 percent of members in any given year.

Presentation by the consulting actuary, Buck Consultants, on the principal results of actuarial valuations, as of December 31, 2014 for the Local Governmental Employees' Retirement System

The Chair recognized Mr. Langer and Mr. Ribble, from Buck Consultants, for a presentation on the findings in the Local Governmental Employees' Retirement System actuarial valuation. Mr. Langer presented the key takeaways from the valuation, stating that: market returns of 6.19 percent were lower than the assumed 7.25 percent return; an increase in payroll of 1.7 percent was lower than the assumed 3.0 percent increase; a 0.625 percent cost-of-living-adjustment was approved by the Board effective July 1, 2015; and that there were no changes in the actuarial assumptions or funding methodology from the prior year's valuations. These deviations resulted in higher employer base contribution rates for fiscal year ending June 30, 2017: 6.39 percent in the valuation compared to 6.21 percent in the baseline projection for general employees and firefighters; and, 6.87 percent in the valuation compared to 6.69 percent in the baseline projection for law enforcement officers. Mr. Langer reported that the funded ratio as of December 31, 2014 for the Local Governmental Employees' Retirement System is 99.8 percent.

It was moved by Carson Smith, seconded by Sally Sandy, and carried unanimously by the Board that the Local Governmental Employees' Retirement System actuarial valuation be accepted.

Presentation by the consulting actuary, Buck Consultants, on the principal results of actuarial valuations, as of December 31, 2014 for the Register of Deeds' Supplemental Pension Fund

Mr. Langer and Mr. Ribble presented the findings in the Register of Deeds' Supplemental Pension Fund actuarial valuation. Mr. Langer reported that the funded ratio increased to 202.5 percent funded compared to 192.8 percent funded in the December 31, 2013 valuation. Mr. Langer noted that the contributions to support the Fund are equal to 1.5 percent of the monthly receipts collected pursuant to Article 1 of Chapter 161 of the General Statutes and the contributions for calendar year 2014 were estimated at \$781,000.00.

It was moved by Mike Bradley, seconded by Grady Smith, and carried by the Board that the Register of Deeds' Supplemental Pension Fund actuarial valuation be accepted.

Presentation by the consulting actuary, Buck Consultants, on the principal results of actuarial valuations, as of December 31, 2014 for the Firefighters' and Rescue Squad Workers' Pension Fund

Mr. Langer and Mr. Ribble presented the findings in the Firefighters' and Rescue Squad Workers' Pension Fund actuarial valuation. Mr. Langer presented the key takeaways from the valuation, stating that: market value returns of 6.24 percent were lower than the 7.25 assumed rate of return; no significant legislation was signed into law; and that actuarial assumptions intended to estimate the impact of a full audit of the census data for lapsed members, including the development of a select and ultimate lapse assumption based on the full audit were being

finalized. These deviations resulted in a higher funded ratio of 90.9 percent compared to 88.3 percent in the December 31, 2013 valuation and a lower employer contribution of \$12,830,706 for fiscal year ending June 30, 2017 compared to \$13,240,552 for fiscal year ending June 30, 2016.

It was moved by Sally Sandy, seconded by Carson Smith, and carried by the Board that the Firefighters' and Rescue Squad Workers' Pension Fund actuarial valuation be accepted.

Presentation by the consulting actuary, Buck Consultants, on the principal results of actuarial valuations, as of December 31, 2014 for the Death Benefit Plans

Mr. Langer and Mr. Ribble presented the findings in the Death Benefit Plan actuarial valuation. Mr. Langer reported that the Death Benefit plans for the LGERS has surplus of \$60.3 million and a current set contribution rate that varies by employer.

Mr. Langer gave an update on the Separate Insurance Benefits Plan, stating that in June 2015, \$16.5 million was transferred out of the Separate Insurance Benefit Plan, which was the last transfer as mandated in Session Law 2013-360. Mr. Langer suggested that if transfer amounts continue beyond fiscal year June 30, 2015, additional analysis will need to be performed to analyze potential for depleting the fund.


It was moved by John Aneralla, seconded by Mike Bradley, and carried by the Board that the Death Benefits Plan actuarial valuation be accepted.

Public Comment

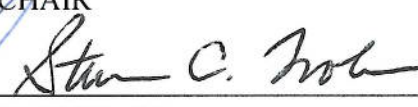
The Chair opened the meeting for public comment. There was no public comment by any attendees.

Local System Adjournment

There being no further business, Mike Bradley moved to adjourn the meeting, which was carried by the Board. The meeting adjourned at 2:40 p.m.



CHAIR



SECRETARY