

MINUTES
BOARD OF TRUSTEES
OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
December 7, 2015

The special-called meeting of the Board of Trustees was called to order at 11:00 a.m., December 7, 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.

Members Present

The Board members present were: Treasurer Janet Cowell, John Aneralla (by telephone), Lentz Brewer (by telephone), Jack Brooks (by telephone), William Grey, Alberta Hall, Michael Jacobs, Michael Mebane, and LouAnn Phillips on behalf of Superintendent June Atkinson.

Members Absent

Board members absent was: Van Dowdy and Greg Grantham.

Guests Present

The guests attending were: Robert Curran and Susannah Holloway, with the Attorney General's Office; Larry Langer and Michael Ribble, with Buck Consultants (Mr. Ribble attended by phone); and, David Vanderweide, with the Fiscal Research Division of the North Carolina General Assembly.

Department of State Treasurer Staff Present

The staff members present were: Steve Toole, Mary Buonfiglio, Thomas Causey, Jaclyn Goldsmith, Fran Lawrence, Kevin SigRist, Anthony Solari, 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.

Key considerations for setting of the assumptions

The Chair recognized Steve Toole, Retirement Director, for a presentation on the proposed assumptions as set in the experience reviews, as of December 31, 2014. Mr. Toole distributed a one page summary of the proposed assumptions and reviewed the mortality, merit pay, amortization method, and investment return assumptions with the Boards.

Discussion of Section 30.29 of the 2015 Senate Budget

The Chair recognized David Vanderweide, with the Fiscal Research Division at the North Carolina General Assembly, for a presentation on the 2015 Senate Budget. Mr. Vanderweide stated that his presentation was based on his own view as a staff member of the Fiscal Research Division and that the presentation is not a representation in official capacity on behalf of any member of the North Carolina General Assembly. Mr. Vanderweide explained the context of the 2015 Senate Budget and Section 30.29 of the Budget which was in the bill when it was introduced but was not included in the signed legislation. Section 30.29 would have required the Board to use a 7.20 percent return assumption for Fiscal Year ending 2015-16 for setting the employer contribution only. The provision would have also required the Board to lower the assumption by an additional 0.05 percent in each subsequent year, increasing the Annual Required Contribution by 0.45 percent each time. Mr. Vanderweide reviewed the North Carolina funding and asset return assumption history. Lastly, he presented the General Fund appropriation to pensions and presented recent reserve appropriations from Fiscal Year ending 2011 to 2015, stating the impact of funding policy alternatives.

Further discussion on the recommendation from the consulting actuary on the experience review recommendations for the North Carolina Retirement System

The Chair recognized Larry Langer and Michael Ribble for a presentation on the projections based on proposed Experience Study assumptions. Mr. Langer presented the experience study assumptions and the key considerations for the Board in determining the ramifications of lowering or maintaining the current expected investment return assumption of 7.25 percent. Mr. Langer reviewed the projected employer required contribution rates based on the recent experience study projection. He stated that the proposed experience study changes result in an initial increase in contributions. However, after a 12-year amortization is complete, contributions are actually lower under the proposed experience study changes. Mr. Langer presented scenarios to the Board that showed a projected 6.0 percent assumed rate of return until year 2024 and then a 7.25 percent thereafter. Mr. Langer noted that this projection should not be considered an actual opinion recommended by Buck and it is only for the purposes of illustration for each year that actual asset returns are assumed to be less than 7.25 percent, an additional layer of actuarial loss is amortized over years, therefore increasing contribution rate requirements relative to the baseline projections. Lastly, Mr. Langer summarized the potential ramifications for lowering the expected investment return assumption, stating immediate significant additional funding required, likelihood of future actuarial gains increases resulting in greater potential to grant ad hoc cost-of-living-increases, and increases of optional forms of payment. He also summarized the potential ramifications of maintaining the current expected investment return rate assumption of 7.25, stating that actual investment returns below 7.25 percent will result in higher contributions in the near term and there will be no change in the cost of optional forms of payment attributable to a change in the expected investment return assumption. There was a long

and thoughtful discussion by the members of the Board on whether lowering the 7.25 percent investment return assumption would be prudent.

Administrative notifications

Mr. Toole gave a report on administrative items within the Retirement System Division. He reported on the 1-year extension of contract for actuarial services with Buck Consultants for January 1, 2016 through December 31, 2016. He also reported that Pierce Insurance experienced a data security breach potentially affecting 81 retirees/dependents of Supplemental Retiree Insurance products. He announced that Pierce Insurance, the current vendor for the Supplemental Retiree products, has provided notice to the potentially impacted individuals and is offering fraud protection to all potentially affected members.

State System Adjournment

There being no further business, Carson Smith moved to adjourn the meeting, which was seconded by Alberta Hall and carried by the Board. The meeting adjourned at 12:31 p.m.



CHAIR



SECRETARY