

MINUTES
BOARD OF TRUSTEES
OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
July 16, 2015

The regular quarterly meeting of the Board of Trustees was called to order at 9:34 a.m., July 16, 2015, by the Chair, State Treasurer, Janet Cowell. The meeting was held in the Dogwood Conference Room of the Longleaf Building, 3200 Atlantic Avenue, Raleigh, 27604. The Chair initiated the meeting with an update on the current transition from the Albemarle building to the Longleaf building. She also gave an update on personnel in the Department, stating that Andrew Holton has accepted the new General Counsel position (previously held by Jay Chaudhuri). The Chair gave an update on board vacancies and pending appointments.

Members Present

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

Members Absent

Board members absent were: Van Dowdy, Greg Grantham, and Michael Mebane.

Guests Present

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

Department of State Treasurer Staff Present

The staff members present were: Steve Toole, Donna Boyette, Mary Buonfiglio, Thomas Causey, Jaclyn Goldsmith, Fran Lawrence, Schorr Johnson, Vicki Roberts, Marni Schribman, Kevin SigRist, Rosita Sabrosso-Rennick, 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.

Approval of the Minutes from the April 16, 2015 Meeting

It was moved by John Aneralla, seconded by LouAnn Phillips, and carried that the minutes of the Board meeting held on April 16, 2015, be approved.

Approval of the Minutes from the April 28, 2015 Meeting

It was moved by John Aneralla, seconded by LouAnn Phillips, and carried that the minutes of the Board meeting held on April 28, 2015, be approved.

Retirement Systems Division (RSD) Operations Update

The Chair recognized Thomas Causey, Deputy Director of Operations, and Vicki Roberts, Deputy Director of Member Services, for an update about Operations. Mr. Causey reported that with respect to payroll processing, the monthly benefit average is \$1,580.00 and that the Retirement Systems Division pays \$450 million each month. He stated that the compliance team has collected \$7.9 million in overpayments in the past year. He reviewed the past year's death notifications by month and mentioned the work being done with North Carolina Government Data Analytics Center (GDAC) on data matching in member records. He provided a review of the metrics for service purchase calculations and online estimates requested. Mr. Causey stated that the Retirement Processing Section has met its goal of 98 percent by reaching 99.6 percent of retirement applications paid on time with a 60-day receipt date. Ms. Roberts then provided a report on the Member Services metrics. Ms. Roberts reported that the Educational Retirement Group is averaging 13 employer and employee meetings a month, and they conducted 32 webinars since January, 2015. Regarding correspondence metrics, Ms. Roberts stated that current correspondence is at a 5.4 day turnaround. Ms. Roberts stated that the Educational Retirement Group has been assisting with calls in the Call Center during times of high call volume, which has affected the correspondence turn around times. Ms. Roberts gave an update on metrics in the Records Section, stating that the group in May imaged 37,171 documents averaging .8 days per document, which exceeds the goal of a one day turn around. Lastly, Ms. Roberts gave an update on the Call Center operations. She stated that the Call Center is currently experiencing a three percent abandonment rate (which meets the goal of less than five percent abandonment rate), and that the average speed of answer is 1:09 seconds (meeting the goal of under 1:30 seconds). She updated that the service level in the Call Center is at 65.1 percent, meaning that 70 percent of the calls are answered in 30 seconds or less.

2015 Retirement Systems Division Legislative Update

The Chair recognized Tony Solari, Director of Governmental Relations, for a presentation on the relevant legislation introduced during the 2015 Long Session of the North Carolina General Assembly. Mr. Solari gave an update on the current budget provisions under consideration, stating that both the Senate and House bills fully fund the Actuarial Required

Contributions (ARC) of the systems. He updated that the House budget bill includes a two percent Cost of Living Adjustment (COLA) for retirees and a legislative increase, while the Senate bill does not provide funding for a COLA. He stated that the House bill includes funding for the ORBIT upgrade, but with no additional positions; while the Senate bill includes funding for the ORBIT upgrade, with funds for the additional positions. Lastly, he reported that the House bill includes \$350,000, and the Senate bill includes \$559,000, for the data audit of the Firefighters' and Rescue Squad Workers' Pension Fund. The audit would provide data for the actuaries to establish a lapse assumption for members in the Fund.

Mr. Solari gave update on House Bill 566, "Achieving a Better Life Experience Program Trust" (ABLE Act), which serves as a savings program for families with individuals with a disability. Mr. Solari stated that DST would administer the plan if the legislation is enacted and that the program would require a separate board of trustees and additional staffing.

Mr. Solari updated the board that House Bill 274, "Retirement Technical Corrections Act of 2015" and House Bill 276, "Agency Participation Procedures Act of 2015," have both been heard in the Senate and these bills would complete the RSD agenda this session, if passed.

Mr. Solari gave an update on Senate Bill 713, "Governor's Budget," that would eliminate retiree health benefits for future state employees. Mr. Solari gave a presentation on the total compensation and value-based benefits for North Carolina teachers and state employees.

Representatives George Cleveland and Rayne Brown

Representatives Cleveland and Brown were unable to attend the Boards of Trustees meeting due to a last minute change in their calendars.

Retirement Systems Rebranding Update

The Chair recognized Marni Schribman, Retirement System's Communications and Content Manager, for a presentation on the rebranding of the Retirement Systems. Ms. Schribman stated that members view their interactions with the North Carolina Retirement Systems positively and trust the current retirement systems logo. However, since members will most likely require additional savings beyond their in the pension plan benefits and social security benefits to be retirement ready, the rebranding of the logo will incorporate all facets of retirement planning. Ms. Schribman stated that the North Carolina Total Retirement Plans will offer oversight and protection of the traditional, well-managed and highly trusted North Carolina Retirement System with the benefits of access to additional low-fee products, great customer service and on-the-go mobile access for members and benefit recipients. She stated that the goals for the new branding are to: create one compelling voice, leverage the trust members have in the pension, and unify all pension systems and defined contribution plans. The Division will be informing and educating members about the total retirement solutions offered by their public

employer and informing and educating employers about the total retirement solutions offered by the state and how they can use them to recruit and retain talented employees. Lastly, Ms. Schribman presented the timeline for the launch of the new branding, stating that the Department is currently in the planning phase and has started a soft launch that incorporates the new color schemes into outward-facing RSD materials. She reported that the full launch should be completed in October, 2015.

Introduction to the Experience Review to be presented at the October Board Meeting

The Chair recognized Larry Langer and Michael Ribble, from Buck Consultants, for a presentation on the introduction to the experience review that will be presented at the October 22, 2015 Board meeting. Mr. Langer presented that the annual actuarial valuations use a set of assumptions that should be carefully reviewed and updated periodically, such as long-term market return of assets, salary growth, inflation, mortality tables, age eligibility, and any anticipated changes in the covered population. The latest assumptions were adopted for use with the December 31, 2009 actuarial valuation, based on the experience study prepared as of December 31, 2009 and adopted by the Boards of Trustees on October 21, 2010. The next experience study will be prepared as of December 31, 2014 and presented to the Boards of Trustees on October 22, 2015. Mr. Langer presented that the Department of State Treasurer's policy of reviewing assumptions every five years continues to be industry best practice. In the October meeting, Buck Consultants will review all demographic and economic assumptions and compare those to actual experience for the previous five years. From a demographic perspective, Buck Consultants will review such assumptions as the number of retirements, terminations, disabilities and deaths. The experience review will also compare the economic assumptions, such as actual versus expected salary increases and the investment return assumption. Mr. Langer stated that the current investment return assumption of 7.25 percent, which is used for most of the North Carolina Retirement Systems, will be reviewed based on the expectation of future market returns of our portfolio asset allocation. Mr. Aneralla asked how an externally decided change in the discount rate would affect the plans. Mr. Langer advised that there is concern in changing the investment rate without a review of historical market returns and the current investment policy; and, the investment return should not be based on other state investment returns and should be based on the actual plans. Mr. Jacobs inquired about how asset allocation plays a part in the return rate. Mr. SigRist, Chief Investment Officer for the Department, answered that the asset allocation stabilizes the rate and avoids excessive volatility.

Letter from Board Related to Senate Budget Provision on Interest Rate Assumption

The Chair recognized Sam Watts, Policy Director, for a presentation on the proposed letter to the Senate Budget Chairs on the interest rate assumption for funding purposes. Mr. Watts stated that the Senate budget has a provision that would lower the assumption by 0.05 percent each year in perpetuity. Mr. Watts explained the concerns raised by this provision, stating that actuarial assumptions should not be mandated in statute, actuarial assumptions

should be adjusted as a result of a data-driven review, actuarial assumptions should be consistent with one another, and the provision would require the Boards to treat some of the state's retirement systems differently. Mr. Aneralla asked about the likelihood of passage in the Senate and whether they seem to be receptive to input on this issue. Mr. Watts replied that the Senate is open to hearing from the Boards on their proposal. Mr. Grey inquired about the thoughts and perspective of members of the House on this issue. Mr. Solari replied that the House is working on tax reform and have not met with the Senate. Sheriff Smith inquired about whether the experience review determines the interest rate assumption and the impact of the proposed Senate provision on this decision. Mr. Watts replied that the Boards of Trustees would need to recommend a lower rate change to the statute if the experience review reflected the need for a lower assumption rate. Mr. Watts stated that the letter is scheduled to be delivered on July 20, 2015, if the Boards agree with the content. It was moved by John Aneralla, seconded by Michael Jacobs, and unanimously approved by the Board to approve the letter and to distribute to the appropriate parties.

General Assembly's Allocation of Funds from the Separate Insurance Benefits Plan

The Chair recognized Mr. Watts for a presentation about the transfer of funds from the Separate Insurance Benefit Plan as directed by Session Law 2013-360. Mr. Watts explained that the second transfer of funds was made June 30, 2015, and it was determined that the diversion of funds would not negatively affect the ability of the Plan to meet its obligations. Mr. Watts reported that the legislation was not extended beyond the initial two-year mandate, thereby eliminating the concern about the long-term viability of the Plan at this point.

Approval of Post-Disability Benefit Increase for Disability Recipients Contingent on Granted Salary Increase for Most Active Employees

The Chair recognized Steve Toole for a presentation on the fiscal year 2016 post-disability benefit increase for disability recipients. He stated that the 2015 state budget may grant a salary increase for all active employees, effective July 1, 2015, and that the pool of active employees include the recipients of state short and long-term disability recipients. In order to implement the increase provided in the state budget and to ensure compliance with N.C. General Statute 135-108, the Retirement Systems Division is recommending that the Board authorize the Division to pay the benefit increase to state disability recipients equal to the percentage increase afforded to most active state employees in the state budget. It was moved by Jack Brooks, seconded by Lentz Brewer and approved by the Board that the Retirement Systems Division shall increase the compensation upon which state disability benefits are based by an equivalent percentage to the salary increase for most active employees effective, July 1, 2015.

State System Adjournment

There being no further business, Mike Bradley moved to adjourn the meeting, which was and carried by the Board. The meeting adjourned at 11:42 a.m.

CHAIR

SECRETARY