



MINUTES

BOARD OF TRUSTEES

OF THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

The regular quarterly meeting of the Board of Trustees was called to order at 9:30 a.m., October 26, 2017, 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 informed that there would be a public comment period for organizations and individuals to address the Board.

Members Present

The Board members present were: Treasurer Dale R. Folwell, John Aneralla, Lentz Brewer, David Dear, Kevin Gordon, Brenda Howerton, Aaron Meredith, Claire Miller (on behalf of Superintendent Mark Johnson), Greg Patterson, Sally Sandy, Carson Smith, Mark Stohlman and Ashley Wooten.

Members Absent

No members were absent.

Guests Present

The guests attending were: Jody Newsome from the Attorney General's Office and Michael Ribble and David Driscoll from Conduent Consultants.

Department of State Treasurer Staff Present

The staff members present were: Steve Toole, Thomas Causey, Chris Farr, Joan Fontes, Jaclyn Goldsmith, Sam Hayes, Matthew Krimm, Fran Lawrence, Karah Manning, Lisa Norris, Vicki Roberts, Laura Rowe, David Starling, Edgar Starnes, Christina Strickland 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 Minutes from the July 20, 2017 Board Meeting

It was moved by Kevin Gordon, seconded by Mark Stohlman and carried unanimously that the minutes from the Board meeting held on July 20, 2017, be approved.

Retirement Systems Division Operations

The Chair recognized Thomas Causey, Deputy Director of Operations, and Vicki Roberts, Deputy Director of Member Services, for an update on Retirement Systems Division operations. Mr. Causey gave a report on the metrics for operations and Ms. Roberts gave an update on the metrics for Member Services.

Mr. Causey gave a report on overpayments, stating that \$10.9 million has been collected over the past 13 months. He commented that the department has been working with the Department

of Revenue to intercept the state tax refunds and lottery winnings of members with outstanding overpayments. Mr. Causey also reported that 120 retirements have required an additional employer contribution pursuant to the Contribution-Based Benefit Cap as of October 4, 2017. The department has sent invoices totaling \$11.1 million, and 94 employers have paid in full.

Investment Advisory Committee (IAC) Update

The Chair recognized Greg Patterson for an update on the IAC meetings. Mr. Patterson stated to the Board that annual cost-efficiencies for the North Carolina Retirement Systems investment program have increased from \$50 million to \$62 million. He stated that the market value of funds has reached \$94 billion for the North Carolina Retirement Systems. Mr. Patterson shared the current focus of the IAC, Investment Management Division and the Department of State Treasurer is asset allocation of the portfolio. Mr. Patterson reviewed the portfolios and stated that, due to historical manually tracking, this is the first year that the 20-year portfolio investment return is available. He stated that the North Carolina Retirement Systems earned 6.7 percent as of June 30, 2017, over a 20-year annualized period. He compared the returns to the long-term policy benchmark that earned 6.1 percent and the implemented benchmark (consisting of 18 benchmarked peers with assets of \$20 billion and over). Mr. Patterson stated that the North Carolina Retirement Systems portfolio return was below the assumed rate of return of 7.2 percent for years three, 10 and 15; however, the portfolio achieved higher rates of return than assumed during years one and five. Mr. Patterson stated that the risk ranking for the North Carolina Retirement Systems was lower compared to other public funds over \$20 billion. Lastly, Mr. Patterson also stated that total Department of State Treasurer assets under management is at \$123.2 billion as of June 30, 2017.

Presentation on the Decennial Rules Pursuant to N.C.G.S. §150B-21.3A

The Chair recognized Christina Strickland, General Counsel for the Retirement Systems Division, for a presentation on the Decennial Rules Review. Ms. Strickland explained that N.C.G.S. §150B-21.3A established a process and schedule for agencies to decennially review their active rules codified in the North Carolina Administrative Code (NCAC) with oversight by the Rules Review Commission (RRC). She stated the requirement in the Administrative Procedure Act for agencies to review their rules to determine whether each rule is unnecessary, necessary with substantive public interest or necessary without substantive public interest. When a rule is classified as unnecessary, the Codifier of Rules will remove the rule from the NCAC without any further action by the agency. Ms. Strickland detailed the process for reviewing existing rules as described in N.C.G.S. §150B-21.3A(1)-(3), and presented the proposed initial rule classification determinations for the existing rules. Lastly, Ms. Strickland informed the Boards that Session Law 2015-164 (Retirement Administrative Changes Act of 2015) amended the Administrative Procedure Act by adding N.C.G.S. §150B-21.3A(e)(1) which creates an exception for rules deemed by the Boards of Trustees of the Retirement Systems to protect inchoate or accrued rights of retirement system members. The provision states that these rules will not expire.

It was motioned by John Aneralla, seconded by David Dear, and carried unanimously by the Board to make the determinations classifying each rule in the Decennial Rules Review Initial Report and to authorize the Department of State Treasurer staff to take all additional necessary steps required to complete the Decennial Rules Review process, in accordance with N.C.G.S. §150B-21.3A, as well as, to make the determination that the rules in the Retirement Inchoate Rules Report protect inchoate or accrued rights of the retirement members in accordance with N.C.G.S. §150B-21.3A(e1).

Presentation by the Consulting Actuary on the Principal Results of Actuarial Valuations, as of December 31, 2016, by Conduent for the Death Benefit Plans

Mr. Driscoll and Mr. Ribble presented the findings of the Death Benefit Plans actuarial valuation. The actuaries reported that the Death Benefit Plan for LGERS has a surplus of \$65 million. Mr. Ribble reported that the current assets and contribution rates of the Retirees' Contributory Death Benefit Plan are not adequate to address the \$47.4 million gap between assets and liabilities. Conduent reviewed the Boards' decision in April 2016 to increase the premiums for members who retire March 1, 2017, or later, which will lessen future growth of the deficit for future retirees. Additionally, they reviewed the Board's decision to decrease the interest paid on return of contributions to 1.2 percent, which would be applicable to retirees whose death occurs prior to 24 months of coverage. The actuaries reported that according to GASB 74 payout projections, the assets of the Retirees' Contributory Death Benefit Plan are projected to be exhausted by 2070.

It was moved by Kevin Gordon, seconded by David Dear, and carried unanimously by the Board that the actuarial valuation for Death Benefit Plans, as of December 31, 2016, be approved.

Public Comment Period

The Chair recognized the following organizations' representatives for presentations on retirement benefit proposals for the Board to consider:

- Margaret Foreman, representative from N.C. Association of Educators, gave a presentation on the need for a legislative appointment of the active and retired teacher positions on the Board and requests the Board's consideration in the support of filling any vacant positions that are appointed to represent North Carolina teachers.
- Richard Rogers, representative from N.C. Retired Government Employees' Association, gave a presentation on the cost-of-living needs of local government retirees and requested that the Board thoughtfully consider a LGERS Cost-of-Living Adjustment during the coming fiscal year.

Presentation by the Consulting Actuary on the Principal Results of Actuarial Valuations, as of December 31, 2016, by Conduent for LGERS

Mr. Driscoll and Mr. Ribble presented the findings of the LGERS actuarial valuation. The actuaries presented that the number of active members increased by 1.3 percent from the previous valuation, and that retired members and survivors of deceased members increased by 4.5 percent from the previous valuation. They reported that payroll increased by 3.2 percent, which exceeded the anticipated 3.0 percent increase. The increase in active members and payroll result in more benefits accruing, but more contributions supporting the system. The actuaries reported that the market value investment return as of the valuation was 6.22 percent, an increase from the 0.34 percent that was reported in the December 31, 2015 valuation. Mr. Driscoll and Mr. Ribble reviewed that there were no benefit provision changes since the prior year's valuation. They reviewed the actuarial assumptions, funding methodology and amortization schedule. The actuaries reported on the actuarial value of assets, stating that lower than expected returns in 2015 and 2016 resulted in an actuarial value of asset return of 5.34 percent and a recognized asset loss of \$447 million during 2016.

Mr. Driscoll and Mr. Ribble reported that the funded ratio for LGERS on an actuarial basis decreased from 97.1 percent at the December 31, 2015, valuation to 95.2 percent at the December 31, 2016, valuation. The actuaries reviewed the Employer Contribution Rate Stabilization Policy (ECRSP) that was adopted by the Board on January 21, 2016. The valuation resulted in an actuarially determined employer contribution (ADEC) of 7.40 percent for general employees and an 8.99 percent contribution for law enforcement officers for fiscal year ending June 30, 2019, on a preliminary basis. The provisions of the ECRSP would increase the

contribution rates to 7.75 percent of payroll for general employees and 8.50 percent of payroll for law enforcement officers for fiscal year ending June 30, 2019. The actuaries explained that the change of the ADEC for LGERS is based on the asset losses that occurred from 2015 and 2016.

Based on actuarial losses recognized in the December 31, 2016, valuation, no COLA could be funded by actuarial gains during the 2018 year. Additionally, the valuation presentation included information that detailed fiscal circumstances needed in order to produce the required investment gains to warrant a COLA. Based on the methods and assumptions used for the projections, Conduent estimates that a potential COLA effective July 1, 2019, may be funded by actuarial investment gains following the December 31, 2017, valuation in the following circumstances:

- If calendar year 2017 market value returns exceed 16.7 percent, the plan is estimated to have an actuarial investment gain for 2017 and a COLA that would take effect on July 1, 2019, could be considered
- If calendar year 2017 market value returns exceed 19.9 percent, the plan is estimated to have an actuarial investment gain for 2017 and such gain may be enough to consider providing a 1 percent COLA that would take effect on July 1, 2019

Mr. Driscoll and Mr. Ribble discussed the funded ratio alternatively based on the 30-year treasury rate that is to be required in the actuarial valuation as required by Session Law 2016-108. They reported that based on the current 30-year treasury rate of 3.06 percent, the funded ratio would be 54.2 percent.

Lastly, Mr. Driscoll and Mr. Ribble gave a presentation on the baseline projections based on December 31, 2016, valuation results and required investment return of 7.20 percent. They alternatively demonstrated projections under a zero percent and 14.4 percent return for all years.

It was moved by Sally Sandy, seconded by Brenda Howerton, and carried unanimously by the Board that the actuarial valuation for LGERS as of December 31, 2016, be accepted.

Presentation by the Consulting Actuary on the Principal Results of Actuarial Valuations, as of December 31, 2016, by Conduent for the Register of Deed's Supplemental Pension Fund

Mr. Driscoll and Mr. Ribble presented the findings of the Register of Deed's Supplemental Pension Fund actuarial valuation. The actuaries reported that the funded ratio based on the actuarial value of assets was at 154.5 percent as a result of the December 31, 2016, valuation (a decrease from 155.9 percent reported in the December 31, 2015, valuation). They reported that the ADEC remains at \$0.

It was moved by Carson Smith, seconded by David Dear, and carried unanimously by the Board that the actuarial valuation for Register of Deed's Supplemental Pension Fund as of December 31, 2016, be accepted.

Presentation by the Consulting Actuary on the Principal Results of Actuarial Valuations, as of December 31, 2016, by Conduent for the Firefighters' and Rescue Squad Workers' Pension Fund

Mr. Driscoll and Mr. Ribble presented the findings of the Firefighters' and Rescue Squad Workers' Pension Fund actuarial valuation. The actuaries reported that the fund received a market value return of 6.24 percent (compared to the 0.35 percent return reported in the December 31, 2015 valuation). They reported that the valuation resulted in a lower funded ratio of 89.0 percent at the December 31, 2016, valuation, compared to 89.2 percent at the December 31, 2015, valuation. The valuation results in a preliminary ADEC of \$14,544,083 for fiscal year ending June 30, 2019. Mr. Ribble reviewed the state contribution rate stabilization policy (SCRSP) that was adopted by the Board on January 26, 2017. The provisions of the SCRSP would increase the minimum contribution rate to \$18,302,208 for fiscal year ending June 30, 2019.

It was moved by Kevin Gordon, seconded by Mark Stohlman, and carried unanimously by the Board that the actuarial valuation for Firefighters' and Rescue Squad Workers' Pension Fund as of December 31, 2016, be accepted.

Applications of Qualified Political Subdivisions of the State to Become Participating Employers with the Systems

The Chair recognized Steve Toole, Executive Director, to present the application of units applying to join the Retirement Systems. Mr. Toole reported on Town of Troutman ABC Board, stating that the entity's assets and deferred outflows exceeded its liabilities and there were no findings that the entity had any significant statutory violations, budget issues or internal control findings. He reported that there was one eligible employee and the net contribution rate upon entrance will be 7.50 percent.

Mr. Toole also stated that staff has deferred the application of Valdese ABC Board to a future meeting to allow for additional review of their financial statements.

It was moved by Greg Patterson, seconded by Ashley Wooten, and carried unanimously by the Board to approve the Town of Troutman ABC Board to become a participating employer with the Local Governmental Employees Retirement System as of January 1, 2018.

Local System Adjournment

There being no further business before the Board, John Aneralla moved to adjourn, which was seconded by Kevin Gordon, and the meeting was adjourned unanimously at 1:28 p.m.

Chair

Secretary