North Carolina Retirement Systems

MEMORANDUM

TO: Teachers' and State Employees' Retirement System Board of Trustees (TSERS Board)
Local Governmental Employees' Retirement System Board of Trustees (LGERS Board)

FROM: Patrick Kinlaw, Director of Policy, Planning, and Compliance

DATE: July 31, 2025

RE: Legislative Enactment Implementation Arrangement (LEIA) – Eligible Purposes

The TSERS Board or LGERS Board may direct employer contributions toward the LEIA for administrative or information technology uses when necessary to prevent an interruption to the normal operation of the Retirement Systems. G.S. 128-29(g); G.S. 135-7(h).

RSD staff recommends that the Boards determine that the following are administrative or information technology purposes eligible for LEIA funding because they are necessary to prevent an interruption to the normal operation of the Retirement Systems:

(1) Improved user credentialing service
(2) Transition of data to cloud-based storage

Both of the purposes are described more completely below.

(1) Improved user credentialing service

RSD regularly encounters bad actors attempting to defraud RSD or its members. A common fraudulent tactic is impersonating a member of the Retirement Systems to gain access to their account information or initiate a transaction. For example, the bad actor may try to change the bank account where a retiree receives monthly payments, or may request a full refund of an account for someone who is not retired.

It is an important part of RSD's member service model, and a basic expectation of our members, that members can access information and take certain actions online. However, as RSD continues to offer those services, we must protect our members to the degree possible from the financial implications of identity theft or fraud.

RSD currently employs several methods and safeguards to this end. However, RSD leadership has several concerns about the current approaches:

- They rely on aging technology and, in many cases, outdated approaches to account security.
- With the rise of artificial intelligence tools, the current approaches will lose effectiveness.
- To combat those problems, RSD has had to adjust the way the current approaches are used, with a view to maximizing security. When used in this way, the current approaches have a tendency to generate an unacceptably large number of "false positives," where the actual member cannot successfully verify their identity. This leads to delayed service and dissatisfied members.

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As a result of the above state of affairs, RSD believes it is necessary to move to newer technologies, at a financial cost, to secure our members' accounts. Once funding is secured, RSD would contract with a service provider to maintain a digital identification for members who have logged into RSD's self-service platform. The provider will also ensure identity verification on the initial login, multifactor authentication on subsequent logins, and around-the-clock help desk support for members experiencing login or authentication difficulties. RSD expects that the provider will adhere to Authenticator Assurance Level 2 (AAL2) and Identity Assurance Level 2 (IAL2) standards defined by the National Institute of Standards and Technology (NIST).

RSD expects that the implementation costs, potentially subject to LEIA allocations, will be no greater than $1.6 million. After implementation, RSD would need a different funding source for recurring costs.

(2) Transition to cloud-based data storage

RSD needs to continue transition all ORBiT resources to cloud based computing. The software used to manage the onsite resources has tech support and maintenance only by virtue of special agreement between the software developer and the Departmenty of State Treasurer. That agreement can be terminated by the software developer with a six month notice, which is anticipated to happen within 2-3 years. RSD cannot wait for the 6-month notice to occur in order to commence the taransion because the transition will take longer than a year.

RSD expects that the implementation costs, potentially subject to LEIA allocations, will be no greater than $1.3 million.

Collection and Use of Funds

If the above projects are identified as eligible LEIA expenditures, RSD will implement the deposit of 0.01% out of the employer contribution rates into the LEIA funds as needed during the fiscal year to support the expenditures. Any TSERS LEIA funds not spent on the approved purpose will be transferred to TSERS (and the same for LGERS). Amounts directed to the LEIAs and spent from the LEIAs during the fiscal year ending July 30, 2026 will be reported to the Boards in July 2026.