



## **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., January 25, 2018, 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 reviewed recent press releases with the Board and introduced Patrick Kinlaw, the Retirement System's Director of Policy, Planning and Compliance. The Chair indicated there would be a public comment period for organizations and individuals to address the Board later in the agenda.

#### **Members Present**

The Board members present were: Treasurer Dale R. Folwell, Lentz Brewer, Brenda Howerton (by telephone), Aaron Meredith, Greg Patterson, Sally Sandy, Carson Smith, Mark Stohlman and Ashley Wooten.

#### **Members Absent**

The board members absent were David Dear, John Aneralla, Kevin Gordon and Claire Miller (on behalf of Superintendent Mark Johnson).

#### **Guests Present**

The guests attending were: Joseph Newsome with the Attorney General's Office; and Michael Ribble and David Driscoll with Conduent.

#### **Department of State Treasurer Staff Present**

The staff members present were: Steve Toole, Thomas Causey, Joan Fontes, Jaclyn Goldsmith, Sam Hayes, Timeka Holden, Patrick Kinlaw, Fran Lawrence, Karah Manning, Mallori Morris-Bloom, Lisa Norris, Vicki Roberts, 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 October 26, 2017 Board Meeting**

It was moved by Mark Stohlman, seconded by Ashley Wooten, and carried unanimously by the Board that the minutes from the Board meeting held on October 26, 2017, be approved.

#### **Approval of the Minutes from the December 4, 2017 Special Board Meeting**

It was moved by Sally Sandy, seconded by Mark Stohlman, and carried unanimously by the Board that the minutes from the Board meeting held on December 4, 2017, be approved.

concluded his remarks by updating the board on the results of the CEM Investment Benchmark Study.

#### **Legislative Enactment Implementation Arrangement (LEIA)**

The Chair introduced Steve Toole, Executive Director of the Retirement Systems Division (RSD), to speak on the "Legislative Enactment Implementation Arrangement" (LEIA) that was enacted by Session Law 2017-129. Mr. Toole outlined the purpose of LEIA is to provide for timely administrative implementation of legislative provisions regarding the retirement of or payment of retirement benefits to, public officers or public employees. In the event the General Assembly creates or modifies any provision for the retirement of, or payment of retirement benefits to, public officers or public employees that has a cost savings as measured by actuarial note, the Boards of Trustees may direct up to one one-hundredth of a percent (0.01%) out of the required employer contribution rate to fund the LEIA.

Mr. Toole explained that two LEIA accounts were set up on October 1, 2017. One is under the management of the TSERS Board, and the second under the LGERS board. The boards have full discretionary authority to interpret, construe and implement the LEIA and to adopt any rules and regulations necessary or desirable to implement the provisions of LEIA. Annually on or before August 1, DST must report to the TSERS and LGERS Boards, the Joint Legislative commission on Government Operations and the Fiscal Research Division on the amounts and sources of funds collected by year and the amounts expended, the projects for which those funds were expended and the current status of the projects. This report must be submitted on or before August 1 of each year. Each Board of Trustees must also post this report on its public website.

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

The Chair recognized Christina Strickland, General Counsel for the Retirement Systems, for a presentation on the decennial rules final report. Ms. Strickland presented that as a result of the initial determination of rule classifications that were approved by the Board on October 26, 2017, the department initiated the open comment period for the time period of November 3, 2017 to January 2, 2018. Ms. Strickland reported that there were no public comments received. Ms. Strickland reminded the Board that each rule that is determined to be necessary with substantive public interest will remain in the North Carolina Administrative Code (NCAC) and rules determined to be unnecessary will be removed from the NCAC.

Ms. Strickland reported that once the final determination of the rule classifications have been approved, staff will submit the report and the classifications to the Rules Review Commission (RRC) for review and consultation with the Joint Legislative Administrative Procedures Oversight Committee for finalization. The RRC's review of the final report on retirement rules is currently scheduled for August 2018.

Carson Smith made a motion to approve the final determination of the rule classifications, which was seconded by Sally Sandy and carried unanimously by the Board.

#### **Increase in the Amount of Reemployment Earnings before Suspension of Retirement Allowance**

Mr. Toole gave a presentation on the annual statutory increase in the compensation that may be earned by a re-employed beneficiary who is receiving either an early retirement benefit or a service retirement benefit, before suspension of a retirement allowance under G.S. §135-3(8)(c). Mr. Toole reported that the increase in the relevant measure of the Consumer Price Index (CPI) was 2.1 percent between December 2016 and December 2017.

Mr. Toole presented the 2019 fiscal year options for the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, and the Register of Deeds' Supplemental Pension Fund.

Mr. Toole presented the fiscal policy options for the Local Governmental Employees' Retirement System. He reviewed the Employer Contribution Rate Stabilization Policy (ECRSP) that was adopted by the Board of Trustees on January 21, 2016. He stated that, based on the policy, contributions for general employees were set at 7.25 percent of payroll for the fiscal year ending in 2017 and will increase each fiscal year by 0.25 percent of payroll. Additionally, the ADEC will be increased by an additional 0.25 percent if the ADEC rate is 50 percent greater than the scheduled employer rate for that fiscal year, and will decrease by an additional 0.25 percent if the ADEC rate is 50 percent less than the scheduled employer rate. He stated that benefit increases granted by the North Carolina General Assembly will increase employer contribution rates and as a policy for the LGERS Board, cost of any Board-adopted COLA will not increase employer contribution rates.

Mr. Toole reported that the ADEC rate based on the December 31, 2016 valuation for the Local Governmental Employees' Retirement System 7.40 percent for general employees (including firefighters) for fiscal year ending 2019, which is less than the recommended fiscal year ending 2019 contribution rate of 7.75 percent under the ECRSP, and is less than the fiscal year 2018 employer contribution rate of 7.50 percent for general employees. Since the ADEC rate is within 50 percent of the scheduled employer rate, an additional change to the rate for the purposes of the ECRSP is not required.

Mr. Toole reported that the ADEC rate based on the December 31, 2016 valuation for law enforcement officers is 8.99 percent, which is greater than the recommended fiscal year ending 2019 contribution rate of 8.50 percent under the ECRSP, and also is greater than the fiscal year ending 2018 employer contribution rate of 8.25 percent. Since the ADEC rate is within 50 percent of the scheduled employer rate, an additional change to the rate for the purposes of the ECRSP is not required.

Mr. Toole shared that a calendar year 2017 investment return of 19.9 percent was needed on the portfolio to offset previous investment losses that were being carried forward from previous years and produce investment gains sufficient for the Board to grant a 1 percent cost-of-living-adjustment (COLA) on retiree benefits. The projected return of positive 13.25% for calendar year 2017, while strong, is not sufficient to offset the investment losses from previous years, and therefore, no cost-of-living-adjustment (COLA) could be funded by actuarial gains.

Mr. Toole recommended that the Board increase to the employer contribution rate for general employees (including firefighters) from 7.50 percent to 7.75 percent and increase the employer contribution rate for law enforcement officers from 8.25 percent to 8.50 percent in accordance with the ECRSP. The additional cost to employers for fiscal year ending 2019 would be \$15.6 million.

Mr. Toole presented the fiscal policy options for the Firefighters' and Rescue Squad Workers' Pension Fund. He reviewed the State Contribution Rate Stabilization Policy (SCRSP) that was adopted on January 26, 2017, stating that the SCRSP stipulates that the recommended state contributions for the Fire and Rescue plan are greater of the prior year's appropriation and an additional \$350,000 and greater than the actuarially determined contribution. For fiscal year ending 2019, the prior appropriation for fiscal year 2018 is \$17,952,208 including the \$350,000. Mr. Toole reported that the ADEC in December 31, 2016

Rose Williams, on behalf of the North Carolina League of Municipalities, shared the League's appreciation of the Employer Contribution Rate Stabilization Policy.

**Recommendations to the North Carolina General Assembly and Setting Actuarially Determined Employer Contribution (ADEC) Rates for Fiscal Year Ending 2019**

It was moved by Carson Smith, seconded by Sally Sandy, and carried unanimously to increase the employer contribution rate for general employees (including firefighters) for the Local Governmental Employees' Retirement System to 7.75 percent of payroll and increase the employer contribution rate for law enforcement officers to 8.50 percent of payroll for fiscal year ending 2019. The increase to the employer contribution will cost employers an additional \$15.6 million.

It was moved by Lentz Brewer, seconded by Ashley Wooten, and carried unanimously to recommend that the North Carolina General Assembly increase the state contribution to \$18,302,208 for the Firefighters' and Rescue Squad Workers' Pension Fund. The additional appropriation needed from the General Fund would be \$350,000.

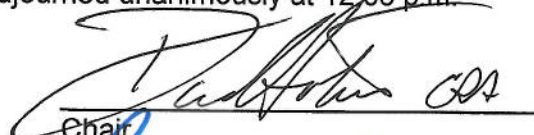
There were no changes to the current benefit structure for the Register of Deeds' Supplemental Pension Fund.

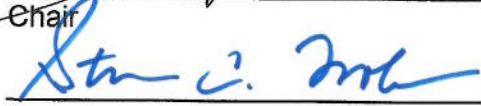
**Board of Trustees Comments**

Prior to entering into Closed Session, the Chair asked the Board if there were any comments prior to adjournment of the meeting. The Board had no comments.

**Local System Adjournment**

There being no further business before the Board, Carson Smith moved to adjourn, which was seconded by Sally Sandy, and the meeting was adjourned unanimously at 12:06 p.m.

  
Chair

  
Secretary