

MINUTES
BOARD OF TRUSTEES
OF THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM
January 15, 2015

The regular quarterly meeting of the Board of Trustees was called to order at 9:31 a.m., January 15, 2015, by the Chair, State Treasurer Janet Cowell. The meeting was held in the N.C. Museum of Natural Sciences' Nature Research Center Conference Facility, 111 West Jones Street in Raleigh.

Members Present

Board members present were: Janet Cowell, John Aneralla, Jerry Ayscue, Mike Bradley, Lentz Brewer, Randy Byrd, Kay Cashion, Loris Colclough, Kevin Gordon, Sally Sandy, Carson Smith and Grady Smith.

Members Absent

Member absent was: LouAnn Phillips, on behalf of Superintendent June Atkinson.

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, Mary Buonfiglio, Thomas Causey, Shannon Conley, Joan Fontes, Jaclyn Goldsmith, Erica Hinton, Fran Lawrence, Lisa Page, Rosita Sabrosso-Rennick, Kevin SigRist, Vicki Roberts, Edgar Starnes, 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

It was moved by Sally Sandy, seconded by Jerry Ayscue, and carried that the minutes of the board meeting held on October 23, 2014, be approved, with one amendment for clarification that Ms. Sandy attended the October 23 meeting by telephone.

Overview of Retirement Systems Division's (RSD's) Legislative Agenda for the 2015 Long Session of the North Carolina General Assembly

The Chair recognized Anthony Solari, Director of Governmental Relations, for a presentation about the North Carolina Retirement System's legislative agenda for the 2015 Long Session of the North Carolina General Assembly. Mr. Solari introduced Edgar Starnes, who will be assisting the Department with legislation. Mr. Solari presented that the department is not looking to make major changes to the Retirement System this Session. He stated that the Retirement Systems Division will be pursuing full funding of all the retirement systems; and, if approved by the Board(s), to recommend a cost of living adjustment (COLA). Mr. Solari stated the Retirement Systems Division is seeking funding to upgrade the current ORBIT system for self-service features, which would allow members to apply for retirement online. Mr. Solari emphasized that allowing members to apply online would be cost-effective to the administration of the retirement systems. Mr. Solari stated that Retirement Systems Division will also seek funds for salary equity and to modernize the call center. Mr. Solari also stated that the department is interested in providing charter schools with an option to exit the retirement system if the charter school pays for its liabilities to the system full.

Mr. Solari stated that the Retirement Technical Corrections bill and Retirement Administrative Changes bill will be also expected to be introduced this session. The Administrative Changes bill may include flexibility for retirees to volunteer during the separation of service period, auto-enrollment with auto-escalation into the Supplemental Retirement Plans, and authority for community college employees to elect the NC 403(b) plan (currently the 403(b) is only available to K-12 teachers and staff).

Lastly, Mr. Solari stated that there is not a real consensus in the legislature to shift from the current investment sole-governance model to a board governance model.

After the presentation, Mr. Aneralla asked if charter schools were mandated to participate in the North Carolina Retirement System. Mr. Watts answered that charter schools have an entry process similar to local government and must elect to participate within 30 days after the charter is signed.

RSD Operations Update

The Chair recognized the Retirement Director, Steve Toole, for an update on operations. Mr. Toole reported that the call center service level is at 82 percent, meaning 82 percent of incoming calls are answered in 20 seconds or less. He also indicated that the service level goal of 80 percent will likely be lowered to 70 percent of calls answered in 30 seconds or less, given current resources. He stated that call volume has not changed from the prior year and the abandonment rate has lowered from 27 percent last year to two percent this year. Due to budget concerns, Mr. Toole indicated the need to cut temporary personnel, which is expected to

negatively affect the call center statistics. Mr. Toole stated that visitors and correspondence rates have not changed, but the correspondence turn-around-time has decreased significantly from 12 days to 4.5 days as staff has been allocated to assist with incoming email correspondence. He gave a report on retirement processing and stated that 100 percent of retirements have been paid within 60 days, an increase from 97 percent from last year. He stated that retirement requests, service purchases and estimates have not changed from last year.

Mr. Toole gave an update on the participation rates for the Supplemental Retirement Plans, stating that: participant activity in the 401(k) plan has remained at 27 percent; average contribution remains at \$160.00 per month; and, 92.43 percent of new members are utilizing asset allocation (exceeding the goal of 89.50 percent). He stated that the retirement readiness rate for 2014 was 67.56 percent (which exceeds the goal of 60 percent) of all active employees to be on track to replace 80 percent of their employment earnings at retirement. The division is setting a goal that 90 percent of active employees should be retirement ready by year 2020. Mr. Toole updated the board on the NC 403(b) program, stating that as of December 31, 2014, 38 school systems have adopted the program.

Retiree Supplemental Insurance Products Update

Mr. Toole gave a quick update on the progress of combining the Supplemental Retiree Insurance products with the NC Flex program. He stated that the Retirement Systems Division has been working closely with NC Flex to review services and the Request for Proposals (RFP) for combined products should be posted in the next few weeks.

2014 Comprehensive Annual Financial Report (CAFR)

The Chair recognized Fran Lawrence, the Department of State Treasurer's Chief Financial Officer, for a presentation about the department's recently published CAFR. Ms. Lawrence stated that all agencies and units of the state provide data annually to the Office of State Controller (OSC) and an annual financial audit of the state is completed each year by the NC Office of State Auditor (OSA). The agencies are required to submit data for all fund types that are legally controlled by the state. For the Department of State Treasurer, the pension plans are reported as fiduciary funds in the CAFR financial statements and also in the footnotes. Ms. Lawrence emphasized that it is the department's role to maintain accurate accounting records and internal controls over all financial information. Ms. Lawrence presented the CAFR reports on the 12 pension plans administered by the Department of State Treasurer and she described how the data relates to the new GASB 27 and 67 disclosures.

Audit Activity on the Retirement Systems

The Chair recognized Mr. Toole and Ms. Lawrence for a joint presentation about the audit activity in the retirement systems. Ms. Lawrence reviewed the following audits:

2014:

- Statewide CAFR Audit – Office of State Auditor (OSA)
- Department of State Treasurer (DST) CAFR Audit – OSA
- Financial Statement Audit – Participant Data – OSA
- GASB 68 Tables Audit – OSA
- Actuarial Review of Accounting Disclosures – OSA/Cavanaugh McDonald
- Audit of Retirement Processes based on Internal Audit Risk Assessment – DST Internal Audit
- Controls over Financial Reporting – OSC, Enhancing Accountability in Government through Leadership and Education (EAGLE)
- Employer Financial Statement Audit – Employer Auditors
- Procedures on Census Data – Employer Auditors

2015 – 2016:

- Actuarial Experience Review – Buck Consultants (Consulting Actuary to the Boards of Trustees)
- Pension Investments Financial Statements – OSA (to be determined by bid process)
- Actuarial Audit of Assumptions used in Experience Review (to be determined by bid process)
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Ms. Lawrence and Mr. Toole presented that there were no findings in the recent audits and stated only minor recommendations were pertaining to those audits.

Increase in Reemployment Earnings before Suspension of Retirement Allowance

The Chair recognized Mr. Toole for a presentation concerning the annual statutory increase in the compensation that may be earned by a re-employed member who is receiving either an early retirement or a service retirement benefit, before suspension of his/her retirement allowance under G.S. §135-3(8)c. Following the presentation, it was moved by John Aneralla, seconded by Michael Mebane, and carried that the amounts which may be earned before suspension shall be equal effective January 1, 2015, to the increase in the Consumer Price Index (CPI) as published by the U.S. Department of Labor. The CPI was published on January 16, 2015, (after the board meeting) and recorded an increase of 0.8 percent from December 1, 2014 to December 31, 2014. Therefore, effective January 1, 2015, the maximum amount a re-employed retiree can earn without affecting his/her monthly retirement allowance is increased by the greater of 0.8 percent of the 50 percent compensation amounts, or an adjusted amount of \$31,380.

Annual Required Contribution (ARC) Projections for Local System

The Chair recognized Larry Langer and Michael Ribble, from Buck Consultants, for a presentation on the Local Governmental Employees' Retirement System employer-required contribution rate projections. Mr. Langer presented a baseline deterministic projection based on

the December 31, 2013, valuation results and on the 7.25 percent interest rate of return with no cost-of-living-adjustments (COLAs) and assumed future pay increases based on long-term valuation. He also presented an alternate projection with the same deterministic projections, but with a 6.15 percent interest rate of return.

Analysis of Stabilization of Employer Contribution Rates

Mr. Langer and Mr. Ribble presented an update on the funding policy discussion for the Local Governmental Employee's Retirement System. Mr. Langer presented the timing and transition for a stable contribution rate funding policy. Mr. Langer stated that Buck Consultants will be performing the Five-Year Experience Review during 2015 and the review will serve as the basis for the assumptions to be used in the December 31, 2015 – December 31, 2019 Actuarial Valuations. These valuations are the basis for the employer contribution rates for fiscal years ending June 30, 2018, through June 30, 2022. Because the changes in assumption from the experience review could materially impact the employer contribution rate, Buck Consultants recommends that the Stable Contribution Policy Rate not be set until after the results of the experience review has been implemented. The first Stable Contribution Policy Rate would be effective fiscal year ending June 30, 2018.

Mr. Langer discussed the transition from July 1, 2015 to June 30, 2017. He provided the results of the December 31, 2013 Actuarial Valuation presented at the October 22, 2014 board meeting. He stated that the preliminary employer contribution rate for fiscal year ending June 30, 2016 is 6.52 percent, a reduction from the 7.07 percent rate currently in effect, and based on the actuaries' projections at the October board meeting. If all assumptions are met,— including a 7.25 percent rate of return from January 1, 2014, forward,— the actuaries project that the employer rate will decrease by about one percent over the next several years. Based on the estimated 2014 returns, the actuaries now project a decrease of about 0.75 percent over the next several years. Mr. Langer stated that the projected decrease provides for some cushion when establishing the stable contribution rate. He also stated a rate in the range of 6.52 percent to 7.07 percent after implementation of COLAs would be reasonable for fiscal year ending June 30, 2017. Lastly, Mr. Langer presented that maintaining a higher rate now will lower the likelihood of an increase in contributions when the Stable Contribution Rate Policy is set for fiscal year ending June 30, 2018.

2015 Fiscal Year Alternatives for the Local System and Budget Recommendations for Firefighters' and Rescue Squad Workers' Pension Fund and the Register of Deeds' Supplemental Pension Fund

The Chair recognized Steve Toole for a presentation about the 2015 fiscal year alternatives for the board to consider for the Local Governmental Employees' Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund and the Register of Deeds' Supplemental Pension Fund.

2015-2016 Employer Contribution Rate Options to the General Assembly for the Local Governmental Employees' Retirement System

Mr. Toole presented that the Annual Required Contribution (ARC) of 6.52 percent is lower than the current employer contribution rate of 7.07 percent. Therefore, the Board of Trustees can decrease the employer contribution rate by 0.55 percent of payroll, or \$30.9 million to meet the new ARC for fiscal year ending 2016. Mr. Toole presented four policy options to the board: 1) to not change the current employer contribution rate of 7.07 percent; 2) to decrease the employer contribution rate from 7.07 to 6.52 percent to meet the ARC; 3) to decrease the employer contribution rate to 6.67 percent to fund the ARC and grant a .625 percent COLA; or, 4) to decrease the employer contribution rate by 0.22 percent to meet the ARC and grant a 0.01 percent accrual rate increase with an equivalent increase for all beneficiaries (including a COLA for retirees).

2015-2016 Employer Contribution Rate Options to the General Assembly for the Firefighters' and Rescue Squad Workers' Pension Fund

Mr. Toole presented that the Annual Required Contribution of \$13,240,552 is less than the appropriation for fiscal year 2015 of \$13,900,000 for the Firefighters' and Rescue Squad Workers' Pension Fund. Therefore, the allocated state budget could decrease by \$659,448 to meet the new ARC for fiscal year ending 2016. Mr. Toole presented three policy options to the board: 1) to recommend no change to the current employer contribution of \$13,900,00 and direct that \$659,448 savings to be used by the Retirement System Division to fund the audit of the census data for lapsed members and to pay for contractor costs for improvements to the administration of the Firefighters' and Rescue Squad Workers' Pension Fund; 2) to recommend to decrease the employer contribution to \$13,240,552 to meet the new ARC; or, 3) to recommend an increase to the employer contribution rate to fund the ARC and grant a \$10 increase to the monthly benefit.

2015-2016 Employer Contribution Rate Options to the General Assembly on the Register of Deeds' Supplemental Pension Fund

Mr. Toole presented that the ARC of \$0 is less than the 1.5 percent of monthly receipts collected pursuant to Article 1 of Chapter 161 of the General Statutes. Mr. Toole stated that the fund is overfunded with a funded ratio of 192.8 percent. Therefore, the monthly benefit can be increased. Mr. Toole explained that in the October 23, 2013 board meeting, Buck Consultants reported an ARC for fiscal year ending 2015 of \$0 based on the December 31, 2012 actuarial valuation. In October 2014, Buck Consultants reported an ARC for fiscal year ending 2106 of \$0 based on the December 31, 2013 actuarial valuation. The ARC being less than \$0, based on a 30-year amortization of the unfunded accrued liability, is not allowed under GASB 25/27. Therefore the accrued liability contribution was set such that the total employer ARC equals \$0. Mr. Toole presented two policy options to the board: 1) to recommend no change to the current benefit

structure; or, 2) to recommend an increase in the maximum monthly benefit from \$1,500 to \$1,550 for future and current members in receipt of benefits.

Court Cost Offset for Law Enforcement Officers

The Chair recognized Mr. Toole for a presentation about the Court Cost offset for Local Law Enforcement Officers. Mr. Toole stated that the December 31, 2013 actuarial valuation for the Local Governmental Employees' Retirement System indicates that the normal contribution component of the ARC is 7.00 percent of payroll for law enforcement officers. This represents a reduction of 0.55 percent from the current year contribution rate. The court cost offset for the 2016 fiscal year is -0.14 percent and the death benefit rate for law enforcement officers, which is a mandatory benefit, is 0.14 percent. Therefore, the minimum net payable employer rate for law enforcement officers is 7.00 percent. Any COLA or rate adjustment greater than the minimum rate decided by the Board of Trustees for general employees should be similarly reflected in the law enforcement rate.

Approval of New Local Employer

Mr. Toole presented Lexington Housing Authority as an employer applying for participation into the Local Governmental Employees' Retirement System. Mr. Toole stated that employer was reviewed by State and Local Government Finance, as well as the actuary, and it was determined that there were no concerns with approval of the Housing Authority's participation in LGERS. It was moved by Loris Colclough, seconded by Kay Cashion, and carried unanimously by the board to approve Lexington Housing Authority for participation as an employer in the Local Governmental Employees' Retirement System with an effective date of April 1, 2015.

Public Comment Employer Contribution Rate Options

The Chair recognized the following associations and organizations for public comment to the board:

Ardis Watkins, State Employees' Association of North Carolina

Pam Deardorff, North Carolina Retired School Personnel

Richard Rogers, Retired Governmental Employees' Association

Jerry Pinkard, Retired Governmental Employees' Association - Mecklenburg County

Mark Jewel, North Carolina Association of Educators

Rose Williams, North Carolina League of Municipalities

Lacey Presnell, North Carolina Retired School Personnel

2015-2016 Employer Contribution Rate Recommendations to the General Assembly for the Systems overseen by the Local Board of Trustees

The Chair recognized Mr. Toole to lead the Board of Trustees through setting of 2015 Employer Contribution Rates and making recommendations to the North Carolina General Assembly.

2015-2016 Employer Contribution Rate Recommendation to the General Assembly for the Local Governmental Employees' Retirement System

It was moved by Jerry Ayscue, seconded by Sally Sandy, and carried unanimously by the board to recommend to decrease the employer contribution rate to 6.67 percent to fund the ARC and grant a .625 percent COLA. Given the investment gains in 2013, this is the maximum amount of COLA that the board is authorized to grant under the statute.

2015-2016 Employer Contribution Rate Recommendation to the General Assembly for the Firefighters' and Rescue Squad Workers' Pension Fund

It was moved by Kevin Gordon, seconded by Randy Byrd, and carried unanimously by the board to recommend that the legislature leave the employer contribution at \$13,900,000 and direct that \$659,448 be used by the Retirement Systems Division to fund the audit of the census data for lapsed members, and to pay for contractor costs for improvements to the administration of this pension fund in order to follow through on the recommendations by the General Assembly's Program Evaluation Division's on administration of the Firefighters' and Rescue Squad Workers' Pension Fund.

2015-2016 Employer Contribution Rate Recommendation to the General Assembly for the Register of Deeds' Supplemental Pension Fund

It was moved by Loris Colclough, seconded by Lentz Brewer, and unanimously carried by the board to recommend that the legislature increase the maximum monthly benefit from \$1500 to \$1,550 for future and current members in receipt of benefits.

Adjournment

There being no further business, Kay Cashion moved to adjourn the meeting, which was seconded by John Aneralla, and carried. The meeting adjourned at 12:20 p.m.

CHAIR

SECRETARY