

MINUTES
BOARD OF TRUSTEES
OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM

The regular quarterly meeting of the Board of Trustees was called to order at 9:30 a.m., April 20, 2017, by the Chair, Treasurer Dale R. Folwell. The meeting was held in the Dogwood Conference Room of the Longleaf Building at 3200 Atlantic Avenue, Raleigh, NC 27604.

Members Present

The Board members present were: Treasurer Dale R. Folwell, John Aneralla, Lentz Brewer (by phone), Jack Brooks, Barbara Gibson, Greg Grantham, Terry McCann, Michael Mebane (by phone), Claire Miller (on behalf of Superintendent Mark Johnson), Greg Patterson, Veronica Wright (by phone), and Van Dowdy.

Members Absent

No Board members were absent.

Guests Present

The guests attending were: Robert Curran, with the Attorney General's office; and, Michael Ribble, Larry Langer (by phone), from Conduent HR Consulting, LLC.

Department of State Treasurer Staff Present

The staff members present were: Steve Toole, Cindy Aiken, Thomas Causey, Mary Laurie Cece, Cindy Esparragoza, Chris Farr, Jaclyn Goldsmith, Sam Hayes, Frank Lester, Lisa Norris, Kevin SigRist, Vicki Roberts, Edgar Starnes, Christina Strickland, Sam Watts, Shannon Wharry, and Paula Woodhouse.

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. None were identified by the Board members.

Approval of the Minutes from the January 26, 2017 Board Meeting

It was moved by John Aneralla, seconded by Greg Grantham and carried unanimously that the minutes from the Board meeting held on January 26, 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 System operations. Mr. Causey reported on the retirement processing metrics, stating that 100 percent of retirement applications are paid-on-time if received in 60 days. Mr. Causey reported that Statement of Income (SOI) forms have been sent to disability benefit recipients with a due date of April 3, 2017. There were 500 forms that have not been returned to the Department which can result in members' monthly benefit, and health coverage, being suspended. Mr. Causey reported that retiree monthly payroll is projected to reach \$500,000,000 per month by December of 2017.

Mr. Causey gave a report on the launch of Self-Service enhancement that occurred on January 28, 2017 and reported on the outcome of the launch. He also stated that three additional projects are in process. He reported on the update to the division's workflow application, which will be implemented in May 2017. He commented that this project involves moving 24 million documents to the workflow system. Mr. Causey also reported that additional projects in the pipeline are to implement the retirement application on-line feature to self-service, as well as the redesign of the Firefighters' and Rescue Squad Workers' Pension Fund ORBIT capabilities.

At the conclusion of Mr. Causey's report on operations, Ms. Roberts reported on the Member Services metrics. Ms. Roberts reported that the Imaging section has kept up with increase of the first quarter, exceeding the goal scanning documents received within one day. Ms. Roberts gave an update on correspondences, stating that staff response to member inquiries was increased from 10 days to 14 days from January and February, due to increased correspondences and call center volume. Lastly, Ms. Roberts reported on metrics for the Call Center, stating that calls increased from 24,480 in January to 34,362 in February, which decreased the service level to 21 percent of calls answered in 60 seconds.

Mr. Causey gave a report on overpayments and the contribution-based benefit cap. He reported to the Board that the Compliance Team has collected \$9,102,061 of overpayments owed to the Retirement System over the past 13 months. He also updated on the contribution-based benefit cap liabilities, reporting that 92 retirees impacted the benefit cap and a total of \$8.6 million has been invoiced to recover the contribution liability as of April 5, 2017.

At the end of the presentation, Mr. Causey reported the findings on contributions made from County Commissioners of Cherokee County that were not eligible to participate in the Retirement System. The Board questioned staff on how the finding was discovered and controls in place to correct. Mr. Causey stated that it was found within the Employer Reporting Team, the Compliance Team is auditing 50 employers, and the Retirement Systems Division will be reclaiming the benefits from the retired members and returning contributions for active members.

Update on Legislation that affects the Retirement Systems Division

The Chair recognized Edgar Starnes, Senior Policy Advisory and Legislative Liaison, and Sam Watts, Policy Director for the Retirement Systems Division, to provide an update on current legislation affecting the Retirement Systems Division. Mr. Starnes updated the board on the three agency bills:

- House Bill 115 – Retirement Technical Corrections
- House Bill 176 – Pensions Integrity Act
- House Bill 183 – Retirement Administrative Changes Act

Mr. Starnes gave an update on current bills that would affect the Retirement Systems Division. He presented:

- House Bill 9, "Allow Election Day Service – Retirement LEOs", which would allow retired local law enforcement officers to work on election-day without disrupting their status.
- House Bill 76, "Increase Fire & Rescue Pension Benefit", which would increase the monthly pension to firefighters' and rescue squad workers' to \$175.00 per month.
- House Bill 284, "28-year LEO Retirement Option", which would allow law enforcement officers to retire after achieving 25 years of creditable service, to allow for separation buyouts, and

transfers under the special retirement allowance to be paid in whole or in part with employer contributions.

- House Bill 355, "Firefighters' Death Benefits/Cancers", which amends the list of cancers covered as occupation diseases for firefighters' death benefits.
- House Bill 428, "Probation/Parole Officers Retirement", which would enhance the benefits of probation and parole officers under the Teachers' and State Employees' Retirement System, by granting them the benefits given to law enforcement officers.
- House Bill 651, "State Pension/Ret. Health Ben. Fund Solvency", which would create the unfunded liability solvency reserve for the purpose of reducing the unfunded liabilities of the Teachers' and State Employees' Retirement System and the Health Benefit Fund.
- House Bill 665, "Sheriff's Supp. Pension Fund Changes", which would provide adequate funding for the existing benefits of the Sheriff's Supplemental Pension Fund.
- Senate Bill 314, "Give Retirees 2% COLA/Funds", which would provide a 2 percent cost-of-living adjustment for retirees of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, and the Legislative Retirement System.
- Senate Bill 389, "Open Enrollment/Contributory Death Benefit", which would provide an open enrollment period in the contributory death benefit for retired members of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System, and the Local Governmental Employees' Retirement System.
- Senate Bill 467, "North Carolina Pension Reform" which would change the retirement benefit and health plan eligibility for new hires. New hires hired after July 1, 2018 would participate in the NC 401(k) and 457 (b) rather than the state and local pension plans and would eliminate retiree medical coverage.

At the closing of Mr. Starnes' presentation, Mr. Watts commented on the agency bills. He commented that the Pensions Integrity Act would require financial officers of administrative units to notify the governing body of the employer in which the administrative unit is located that the report was received and the number of employees listed in that administrative unit. Additionally, the bill would prohibit the normal contribution and the accrued liability contribution from being less than the employee contribution required.

Mr. Watts reported that Retirement Administration Changes Act would allow the Boards of Trustees the ability to be more aggressive with funding policies, establishes the "Legislative Enactment Implementation Arrangement" to be placed under the Boards of Trustees, clarifies the Boards of Trustees adoption of actuarial factors, and clarifies consistency of creditable sick leave reported to the Retirement System.

There was discussion by the Boards on the impact if the defined benefit plan would be eliminated to new hires; and consequentially, the long-term governing position of the Boards.

Update on the Investment Advisory Committee (IAC) Meetings

The Chair recognized John Aneralla to provide an update on the Investment Advisory Committee (IAC) Meetings. Mr. Aneralla stated that performance fees and balancing incentives versus increase in performance fees were topics raised in the recent IAC meeting. Mr. Aneralla discussed the Treasurer's and Committee's goal to futuristically reduce contact points. He stated that as part of the initiative to obtain \$100 million of cost-efficiencies for the NCRS investment program, six public equity managers

were terminated for which the annual fees for the fiscal year 2015-16 were \$17 million combined. He discussed the report conducted by AON Hewitt who was retained to show the appropriate fee structures according to industry medians. Mr. Aneralla commented on the continued need for diversification as inflation sensitive assets have underperformed to inflation over the past few years. Lastly, Mr. Aneralla reported that the IAC updated its Charter to clarify the objectives, practices and policies of the Committee.

Update on the NC Retirement Systems Contract for Actuarial Services

The Chair recognized Steve Toole to provide an update on the actuarial services contract with the NC Retirement Systems. Mr. Toole stated that the current contract with Conduent (Buck Consultants) will expire on December 31, 2017 and the Department will be submitting a request for proposal (RFP) this summer. Mr. Toole stated to the Boards that he will be requesting volunteers from the Boards of Trustees to participate on the review panel during finalist presentations. He updated that the Department will likely seek the Boards' approval of a vendor in the fall of 2017.

Presentation on the Investment Return Assumption

Mr. Toole gave a presentation on the Investment Return Assumption for the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System, the National Guard Pension Fund, the Local Governmental Employees' Retirement System, and the Firefighters' and Rescue Squad Workers' Pension Fund. He commented that in October of 2015, Conduent presented the Experience Reviews for the North Carolina Retirement System and presented the current assumption of 7.25 with an alternative 7.00 percent. During the October meeting, it was decided by the Boards to leave the investment return assumption at 7.25 percent and develop a funding policy intended in the short-term to overfund the systems in light of current market conditions.

Mr. Toole presented the staff's recommendation to lower the investment return assumption to 7.20 percent for all systems as of the December 31, 2016 actuarial valuation. Mr. Toole stated that Conduent agreed that the 7.20 percent return was reasonable. Mr. Toole stated that the change in the return assumption will create an approximate \$71 million increase in appropriation for the 2018-19 fiscal year for the Teachers' and State Employees' Retirement System. He stated that the change in the return assumption would not impact the Local Governmental Employees' Retirement System's underlying actuarial determined employer contribution (ADEC). In addition, due to the Employer Contribution Rate Stabilization Policy (ECRSP), the current increase of 0.25 percent each year would remain unaffected by the decrease of the discount rate for LGERS.

There was discussion by the Boards on the long-term funded ratio. It was moved by Greg Patterson, seconded by Jack Brooks, and unanimously carried by the Board to decrease the investment return assumption of 7.25 percent to 7.20 percent as of the December 31, 2016 actuarial valuations.

Presentation on the 2018 Fiscal Year Alternatives for the Death Benefit Plans

The Chair recognized Mr. Toole to give a presentation on the 2018 fiscal year options for the Death Benefit Plans. Mr. Toole reported that the Death Benefit Plan for the Teachers' and State Employees' Retirement System shows that the Plan has liabilities of \$178,710,964 as of December 31, 2015 actuarial valuation. The Plan has present assets of \$37,849,655. Prospective contributions by the State based on a 0.16 percent contribution rate will have a value at \$221,835,438, which creates a surplus

of \$80,974,129. Mr. Toole stated that staff recommends no change to the current contribution or benefit structure.

Mr. Toole gave a report on the assets and liabilities of the Death Benefit Plan for the Separate Insurance Benefits Plan for Law Enforcement Officers. He reported that the actuarial valuation as of December 31, 2015 shows the plan has liabilities of \$33,144,045 and present assets of \$52,545,589. He stated that because the current assets can support the benefits, the contributions to the Plan could continue to be suspended or benefits could be improved. Mr. Toole stated that staff recommends no change to the current benefit structure.

Mr. Toole gave a report on the assets and liabilities of the Retirees' Contributory Death Benefit Plan. Mr. Toole reported that the actuarial valuation as of December 31, 2015 shows that the plan has liabilities of \$561,335,695 and present assets of \$235,651,909, with prospective contributions with a value of \$250,879,368, leaving the plan an unfunded amount of \$74,804,418. He stated that the plan contribution rates for new retirees and the interest rate for return contributions were changed in April of 2016 to partially address the projected shortfall. He reported that staff is reviewing additional policy options that would require intervention from the General Assembly, which will be presented at a future meeting.


It was moved by John Aneralla, seconded by Greg Grantham, and unanimously carried by the Board to not make any changes to the current benefit structure for the Death Benefits Plan for the Teachers' and State Employees' Retirement System, the Separate Insurance Benefits Plan for Law Enforcement Officers, and the Retirees' Contributory Death Benefit Plan.

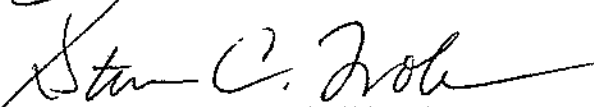
Public Comment

There were no public comments for the State Board. The Treasurer asked the Board to take this opportunity to introduce themselves and their respective positions on the Board.

State System Adjournment

There being no further business before the Board, the meeting was adjourned at 11:17 a.m., without objection.


CHAIR


SECRETARY

RESOLUTION

WHEREAS, John Aneralla served as a member of the Board of Trustees of the North Carolina Local Governmental Employees' Retirement System from July 26, 2013, until March 31, 2017; and

WHEREAS, Mr. Aneralla was dedicated to advancing the retirement program for local governmental employees; and

WHEREAS, Mr. Aneralla made invaluable contributions to the work of the Board through his service; and

WHEREAS, Mr. Aneralla's service proved to be of the highest value in the adoption of many improvements through the years to the Local Governmental Employees' Retirement System; and

WHEREAS, Mr. Aneralla rendered outstanding leadership in preserving and promoting the Retirement System and advocated for maximum benefits consistent with sound funding for the State of North Carolina; and

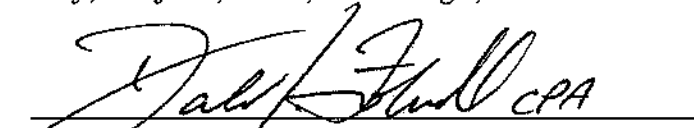
WHEREAS, the Board of Trustees of the Local Governmental Employees' Retirement System is composed of distinguished citizens serving as Trustees.

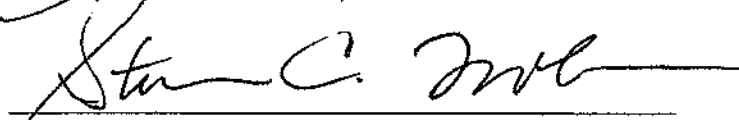
NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF TRUSTEES OF THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM THAT:

Section 1. The Board of Trustees hereby expresses its deep appreciation and gratitude to Mr. Aneralla for his leadership and public service in securing the advancement of the Retirement System.

Section 2. The Chair and Secretary of the Board of Trustees are hereby directed to prepare and deliver a certified copy of this Resolution to Mr. Aneralla.

Section 3. This Resolution shall be spread upon the Minutes of the Board of Trustees for the meeting held on Thursday, July 20, 2017, in Raleigh, North Carolina.


Chair, Dale R. Folwell, CPA


Secretary, Steve Toole

RESOLUTION

WHEREAS, Jack Brooks served as a member of the Board of Trustees of the North Carolina Teachers' and State Employees' Retirement System from July 26, 2013 until June 30, 2017; and

WHEREAS, Mr. Brooks was dedicated to advancing the retirement program for teachers and state governmental employees; and

WHEREAS, Mr. Brooks made invaluable contributions to the work of the Board through his service; and

WHEREAS, Mr. Brooks's service proved to be of the highest value in the adoption of many improvements through the years to the Teachers' and State Employees' Retirement System; and

WHEREAS, Mr. Brooks rendered outstanding leadership in preserving and promoting the Retirement System and advocated for maximum benefits consistent with sound funding for the State of North Carolina; and

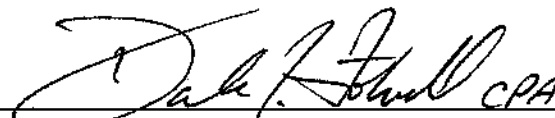
WHEREAS, the Board of Trustees of the Teachers' and State Employees' Retirement System is composed of distinguished citizens serving as Trustees.

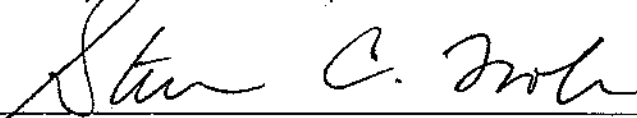
NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF TRUSTEES OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM THAT:

Section 1. The Board of Trustees hereby expresses its deep appreciation and gratitude to Mr. Brooks for his leadership and public service in securing the advancement of the Retirement System.

Section 2. The Chair and Secretary of the Board of Trustees are hereby directed to prepare and deliver a certified copy of this Resolution to Mr. Brooks.

Section 3. This Resolution shall be spread upon the Minutes of the Board of Trustees for the meeting held on Thursday, July 20, 2017, in Raleigh, North Carolina.


Chair, Dale R. Folwell, CPA


Secretary, Steve Toole

RESOLUTION

WHEREAS, Veronica Wright served as a member of the Board of Trustees of the North Carolina Teachers' and State Employees' Retirement System from July 6, 2016 until March 31, 2017; and

WHEREAS, Ms. Wright was dedicated to advancing the retirement program for teachers and state governmental employees; and

WHEREAS, Ms. Wright made invaluable contributions to the work of the Board through her service; and

WHEREAS, Ms. Wright's service proved to be of the highest value in the adoption of many improvements through the years to the Teachers' and State Employees' Retirement System; and

WHEREAS, Ms. Wright rendered outstanding leadership in preserving and promoting the Retirement System and advocated for maximum benefits consistent with sound funding for the State of North Carolina; and

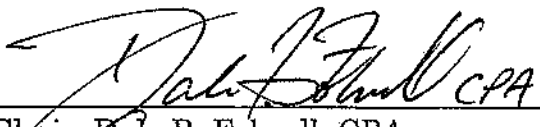
WHEREAS, the Board of Trustees of the Teachers' and State Employees' Retirement System is composed of distinguished citizens serving as Trustees.

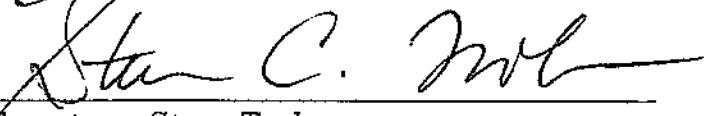
NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF TRUSTEES OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM THAT:

Section 1. The Board of Trustees hereby expresses its deep appreciation and gratitude to Ms. Wright for her leadership and public service in securing the advancement of the Retirement System.

Section 2. The Chair and Secretary of the Board of Trustees are hereby directed to prepare and deliver a certified copy of this Resolution to Ms. Wright.

Section 3. This Resolution shall be spread upon the Minutes of the Board of Trustees for the meeting held on Thursday, July 20, 2017, in Raleigh, North Carolina.


Chair, Dale R. Folwell, CPA


Secretary, Steve Toole

RESOLUTION

WHEREAS, Terry McCann served as a member of the Board of Trustees of the North Carolina Teachers' and State Employees' Retirement System from July 6, 2016 until May 31, 2017; and

WHEREAS, Mr. McCann was dedicated to advancing the retirement program for teachers and state governmental employees; and

WHEREAS, Mr. McCann made invaluable contributions to the work of the Board through his service; and

WHEREAS, Mr. McCann's service proved to be of the highest value in the adoption of many improvements through the years to the Teachers' and State Employees' Retirement System; and

WHEREAS, Mr. McCann rendered outstanding leadership in preserving and promoting the Retirement System and advocated for maximum benefits consistent with sound funding for the State of North Carolina; and

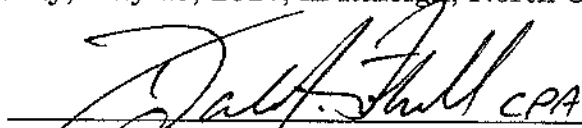
WHEREAS, the Board of Trustees of the Teachers' and State Employees' Retirement System is composed of distinguished citizens serving as Trustees.

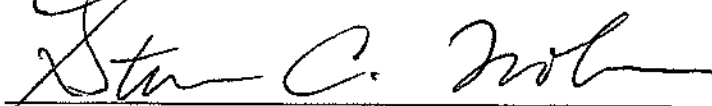
NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF TRUSTEES OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM THAT:

Section 1. The Board of Trustees hereby expresses its deep appreciation and gratitude to Mr. McCann for his leadership and public service in securing the advancement of the Retirement System.

Section 2. The Chair and Secretary of the Board of Trustees are hereby directed to prepare and deliver a certified copy of this Resolution to Mr. McCann.

Section 3. This Resolution shall be spread upon the Minutes of the Board of Trustees for the meeting held on Thursday, July 20, 2017, in Raleigh, North Carolina.


Chair, Dale R. Folwell, CPA


Secretary, Steve Toole