

MINUTES
BOARD OF TRUSTEES
OF THE TEACHERS' AND STATE 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 North Carolina Museum of Natural Sciences' Nature Research Center Conference Facility at 111 West Jones Street, in Raleigh.

Members Present

The board members present were: Janet Cowell, John Aneralla, Lentz Brewer, Jack Brooks, Loris Colclough, Greg Grantham, William Grey, Michael Jacobs and Michael Mebane.

Members Absent

Board members absent were: Van Dowdy, Alberta Hall, and 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 Loris Colclough, seconded by John Aneralla, and carried that the minutes of the board meeting held on October 23, 2014, be approved.

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.

Mr. Solari stated that the Retirement Technical Corrections bill and Retirement Administrative Changes bill are 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 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 about 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 abandonment rate has lowered from 27 percent last year to 2 percent this year. Due to budget concerns, Mr. Toole indicated the need to cut temporary personnel, which is expected to negatively affect 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 about 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 about 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 that only minor recommendations were made 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 reemployed 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 United States 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 reemployed 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.

Teachers' and State Employees' Retirement System Actuarial Required Contribution (ARC) Projections

The Chair recognized Larry Langer and Michael Ribble, from Buck Consultants, for a presentation about the ARC projections for the Teachers' and State Employees' Retirement System. Mr. Langer stated that the projections were deterministic and based on one scenario in the future. Mr. Langer presented that a baseline projection is based on the December 31, 2013,

valuation results, assuming an investment rate of return of 7.25 percent for all years, no cost-of-living-adjustments (COLAs), and future pay increases based on long-term valuation. Mr. Langer also provided an alternative projection based on the same assumption as the baseline, except an investment rate of return of 6.15 percent for calendar year 2014. Mr. Langer stated that estimated returns were 1.1 percent lower than expected and as a result, Buck Consultants is projecting that the unfunded accrued liability will be higher resulting in higher employer contributions.

2015 Fiscal Year Alternatives for the General Assembly for the State, Judicial and Legislative Systems and Budget Recommendations for the National Guard

The Chair recognized Steve Toole for a presentation about the 2015 fiscal year alternatives for the State Board to consider for the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System and the North Carolina National Guard.

2015 – 2016 Employer Contribution Rate Options for the Teachers' and State Employees' Retirement System

Mr. Toole presented that the new Annual Required Contribution (ARC) of 8.69 percent is less than the state budget of 9.15 percent for fiscal year ending 2015. Therefore, the state budget allocated from the Appropriation can decrease by \$45.5 million to meet the new ARC for fiscal year 2016. Mr. Toole presented four policy options to the board: 1) to recommend no change to the current appropriation of 9.15 percent; 2) to recommend the legislature decrease the current appropriation to 8.69 percent; 3) to recommend a decrease to the current appropriation to 9.08 percent, fund the ARC and provide a one percent COLA; or, 4) to recommend a decrease to the current appropriation to 9.11 percent to fund the ARC, increase the multiplier for active employees from 1.82 to 1.83 percent, and fund a corresponding 0.55 percent increase to all beneficiaries (including a COLA for retirees).

2015 – 2016 Employer Contribution Rate Options for the Consolidated Judicial Retirement System

Mr. Toole presented that the new ARC of 26.37 is less than the state budget of 27.21 percent for fiscal year ending 2015. Therefore, the state budget allocated from the Appropriation can decrease by \$588,000 to meet the new ARC for fiscal year 2016. Mr. Toole presented three policy options to the board: 1) to recommend no change to the current appropriation; 2) to recommend the legislature decrease the appropriation to 26.37 percent; or, 3) to recommend the legislature decrease the appropriation to 27.01 percent and recommend a one percent COLA.

2015 – 2016 Employer Contribution Rate Options for the Legislative Retirement System

Mr. Toole presented that the new ARC of 1.80 percent is greater than the state budget of 0.00 percent for fiscal year 2015. Therefore, the state budget allocated from the Appropriation will need to increase by \$65,160 to meet the new ARC for fiscal year ending 2016. Mr. Toole presented two policy options to the board: 1) to recommend the legislature increase the

appropriation to 1.80 percent; or, 2) to recommend the legislature increase the appropriation to 2.60 percent to cover the ARC and a provide a one percent COLA.

2015 – 2016 Employer Contribution Rate Options for the North Carolina National Guard

Mr. Toole presented that the new Employer Contribution of \$5,872,935 for fiscal year ending 2016 is less than the state budget of \$6,039,274 for fiscal year ending 2015. Therefore the state budget allocated from the Appropriation could decrease \$166,339 to meet the new ARC. Mr. Toole presented two policy options to the board: 1) to recommend no change to current appropriation of \$6,039,274; or, 2) to recommend a decrease to the current appropriation to \$5,872,935.

Public Comment

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 Recommendation to the General Assembly for the Teachers' and State Employees' Retirement System

It was moved by Greg Grantham and seconded by Jack Brooks to recommend a decrease to the current appropriation of 9.15 percent to 9.11 percent to fund the ARC, increase the multiplier for active employees from 1.82 percent to 1.83 percent, and a corresponding 0.55 percent increase to all beneficiaries. The motion failed 5:4.

Yeas: Jack Brooks, Greg Grantham, William Grey, Janet Cowell

Nays: Lentz Brewer, Loris Colclough, John Aneralla, Michael Mebane, Michael Jacobs

It was moved by Loris Colclough to recommend a decrease to the current appropriation of 9.15 percent to 9.08 percent to fund the ARC and provide a one percent COLA. The motion failed with no second.

It was moved by John Aneralla, and seconded by Michael Mebane, to recommend a decrease to the current appropriation from 9.15 percent to 8.69 percent to fund the ARC. The motion failed 5:4.

Yeas: John Aneralla, Lentz Brewer, Michael Mebane, Michael Jacobs

Nays: Loris Colclough, William Grey, Janet Cowell, Greg Grantham, Jack Brooks

Mr. Colclough restated the motion to recommend a decrease to the current appropriation of 9.15 percent to 9.08 percent fund the ARC and provide a one percent COLA, a savings from the appropriation of \$6.9 million in year one. The motion was seconded by Greg Grantham and carried by the board 5:4.

Yeas: Loris Colclough, Greg Grantham, Jack Brooks, William Grey, Janet Cowell

Nays: John Aneralla, Michael Mebane, Lentz Brewer, Michael Jacobs

2015 – 2016 Employer Contribution Rate Recommendation to the General Assembly for the Consolidated Judicial Retirement System

It was moved by John Aneralla, seconded by Michael Jacobs, and carried that the board recommend a decrease to the current appropriation of 27.21 percent to 26.37 percent to meet the ARC. The appropriation savings would be \$588,000.

2015 – 2016 Employer Contribution Rate Recommendation to the General Assembly for the Legislative Retirement System

It was moved by John Aneralla, seconded by Michael Mebane, and carried by the board to recommend that the legislature increase the current appropriation of 0.0 percent to 1.80 percent. The additional appropriation would be \$65,160 in year one.

2015 – 2016 Employer Contribution Rate Recommendation to the General Assembly for the North Carolina National Guard

It was moved by Michael Jacobs, seconded by Loris Colclough, and carried unanimously by the board to recommend that the legislature leave the appropriation at \$6,039,274, since the funded ratio of this plan of 73.8 percent is significantly less than the other retirement systems.

State System 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