

MINUTES
BOARD OF TRUSTEES
OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
April 18, 2013

The regular quarterly meeting of the Board of Trustees was called to order at 9:31 a.m., April 18, 2013, by the Chair, Janet Cowell. The meeting was held in the Dawson Conference Room at the State Treasurer's offices in Raleigh.

Members Present

The Board members present were: Janet Cowell, Pearla Alston, Sam Barefoot, Loris Colclough, Dennis Ducker, Joyce Elliott, Shirley Harris, Harold Keen, Harold Martin, Lou Ann Phillips on behalf of Superintendent June Atkinson, and Pascal Swann.

Members Absent

The Board members absent were: Mark Foster, Sterling Primus and Randy Sales.

Department of State Treasurer Staff Present

The staff members present were: Steve Toole, Joan Fontes, Jaclyn Goldsmith, William (Bill) McGee, Lisa Page, Dani O'Quinn, Meredith Rouse-Davis, Joyce Rutledge, Kevin SigRist, Anthony Solari and Sam Watts.

Guests Present

The guests attending were: Robert Curran, Susannah Holloway and Alexander Peters, with the Attorney General's Office; and Larry Langer and Mike Ribble, with Buck Consultants. David McDonald, Attorney for Petitioner, was on the telephone for the James A. Layton Contested Case hearing.

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 Dennis Ducker, seconded by LouAnn Phillips and carried unanimously that the minutes of the Board meeting held on January 17, 2013, be approved.

It was moved by Harold Keen, seconded by Lou Ann Phillips and carried unanimously that the minutes of the Special meeting of the Board on February 5, 2013, be approved.

2013 Legislative Updates

The Chair recognized Anthony Solari to give an update on the Regular Session of the 2013-2014 biennium of the North Carolina General Assembly. Mr. Solari updated the Board on the Agency bills, including:

- Retirement Governance Changes Act of 2013
- Retirement Administrative Changes Act of 2013
- Retirement Technical Corrections

These three bills, discussed at a previous board meeting, have been put in final form; and we have sponsors for them. Staff has spent a couple of weeks talking with members and legislative staff on the specifics.

Additionally, Mr. Solari updated the Board on:

- Fire & Rescue Retirement Revisions of 2013 – this bill is a wholesale rewrite of the statutes governing the Firemen's and Rescue Squad Workers' Pension Fund. This was necessitated by the fact that the existing statutory provisions were a patchwork of old, outdated and basically unworkable provisions that made administration of the program very difficult. Staff has worked diligently with fire and rescue squad workers and their associations, legislative members and legislative staff to craft legislation that will allow us to better administer this plan. Such a result is supported by the fire and rescue squad workers themselves and their associations.
- Retirement Fiscal Integrity Act of 2013 – this bill provides authority to investigate pension spiking and specifies a method to identify and rectify instances of pension spiking. If passed, it would implement a contribution based benefit cap, change the vesting period for the State pension plan back to five years from its current 10-year period, and establish an optional Defined Contribution Plan for State System employees.

The Board discussed the merits of the optional defined contribution plan. There were board members for and against the proposal. Some board members appreciated that the Department was driving the legislation and thought that the proposal could be more attractive to today's younger work force. One board member saw the proposal as the beginning of the end of the State and Local defined benefit Retirement Systems. All board members saw the need for strong DB/DC education in order to be successful.

New Governmental Accounting Standards Board (GASB) Funding Policy Discussion

The Chair recognized Sam Watts, Policy Development Analyst for the Retirement Systems Division, to give an update on the new accounting standards as set by GASB. Mr. Watts explained that the accounting standards will require a new funding policy by the Board as a result of the changes being implemented by GASB. Mr. Watts asked for Board volunteers to participate in a committee that would report their recommendation to the Teachers' and State Employees' Retirement System Board of Trustees at a future quarterly meeting. Joan Fontes,

Financial Operation's Deputy Director, discussed the implementation of the new processes and work already completed with the Retirement System's Division and the Local Governmental Commission.

Federal Issues Affecting Retirement

The Chair recognized Mr. Watts to give a presentation on current federal issues that may affect Retirement. The Public Employee Pension Transparency Act (PEPTA) was reintroduced this year that, if enacted, will require additional disclosure to the Federal government regarding pension funding. Mr. Watts discussed a new rating system that was developed by Moody's Investor Services that will be a new basis of comparison on the impact of pension funds on bond ratings. Under Moody's new system, for example, the State System would be funded at an estimated 60.8 percent rather than current 94.0 percent funded rate.

Director's Report

Mr. Toole presented the Director's quarterly update. Mr. Toole stated that in the Operations area: calls were down compared to the previous year; retirement estimates increased since last year; and that, new retirement applications are processed and paid on time 98 percent of the time. The Director reported that the current Fraud, Waste and Abuse review being conducted by Buck Consultants is in process. A report of findings will be given at the July 2013 Board meeting.

Public Comment

During public comment, the Chair recognized the following representatives and organization(s) who addressed the Board:

Mitch Leonard, State Employees' Association of North Carolina

Contested Case of James A. Layton, Petitioner v. North Carolina Department of State Treasurer, Retirement Systems Division, Respondent

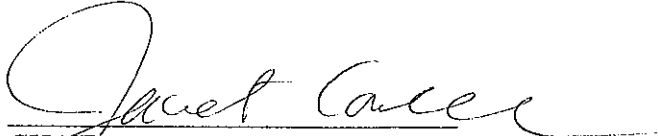
The Board heard oral arguments from David McDonald, Attorney representing Petitioner James A. Layton, and Susannah Holloway of the North Carolina Department of Justice, representing the Respondent. At the close of oral arguments, it was moved by Loris Colclough, seconded by Sam Barefoot, and carried that the Board go into executive session to deliberate on the Contested Case. Alexander Peters acted as legal advisor to the Board during executive session.

At the close of executive session, it was moved by Grady Smith, seconded by Sally Sandy and carried that the Board return to open session.

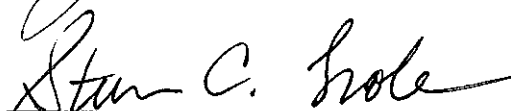
The Chair then announced in open session that the Board had decided to uphold the Administrative Law Judge's Decision in the aforementioned Contested Case.

Adjournment

There being no further business, Chipp Bailey moved for adjournment of the meeting, which was seconded by Kay Cashion and carried. The meeting adjourned at 12:15 p.m.



CHAIR



SECRETARY