

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 9:31a.m., April 21, 2016, by the Chair, State Treasurer, Janet Cowell. The meeting was held in the Dogwood Conference Room of the Longleaf Building at 3200 Atlantic Avenue, Raleigh, NC 27604. The Chair notified attendees that there would be public comment period for organizations and individuals to address the Board. The Chair gave an update on Board vacancies and pending appointments.

Members Present

The Board members present were: Treasurer Janet Cowell, John Aneralla (via telephone), Lentz Brewer, Jack Brooks, Van Dowdy, Greg Grantham, William Grey and Michael Mebane.

Members Absent

Board members absent were: Greg Patterson and Lou Ann Phillips.

Guests Present

The guests attending were: Robert Curran, from the Attorney General's Office; and, Michael Ribble and Marshall Tett, from Buck Consultants.

Department of State Treasurer Staff Present

The staff members present were: Steve Toole, Nick Byrne, Thomas Causey, Joan Fontes, Jaclyn Goldsmith, Schorr Johnson, Vicki Roberts, Anthony Solari, Edgar Starnes, 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 Resolution of Appreciation for the Service of Michael Jacobs

It was moved by Michael Mebane, seconded by Greg Grantham and carried unanimously that the resolution of appreciation for the service of Michael Jacobs be approved.

Approval of Resolution of Appreciation for the Service of Alberta Hall

It was moved by Michael Mebane, seconded by Greg Grantham and carried unanimously that the resolution of appreciation for the service of Alberta Hall be approved.

Approval of the Minutes from the January 21, 2016 State Meeting

It was moved by Van Dowdy, seconded by Greg Grantham and carried unanimously that the minutes from the Board meeting held on January 21, 2016, 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 Systems Division (RSD) operations. Mr. Causey gave a report on the metrics for operations. He stated that the Retirement Processing section is currently processing 97.2 percent of retirements received within 60 days, just under the 98 percent goal. Mr. Causey also stated that the Retirement Processing section is meeting its goal of processing retirement applications under 60 days. Mr. Causey reported that the Benefits Processing section is meeting its goal for processing disability applications. Mr. Causey stated that an important issue for this team is the collection of Statement of Income forms. He reported that 165 members have not turned in the form, which is now causing those members' benefits to be suspended. He also stated that the Benefits Processing section is currently meeting its goal of processing death benefits under the goal of 40 days, and refund requests are being processed in 30 days, meeting the goal of 35 days. Mr. Causey reported that there are currently 292,522 payees in the system with the average monthly benefit of \$1,589. He stated that monthly payroll paid by the Retirement Systems Division is \$464,829,060.

Mr. Causey reported on overpayments. He updated the Board that RSD has recovered \$8,778,905 in the last 13 months. He also stated that retirement benefits of 34 retirees exceeded the contribution based benefit cap as of March 28, 2016, triggering an additional employer contribution to cover the additional liabilities. He reported that 20 agencies have paid their additional employer contributions in full. He stated that the total amount of the additional employer contributions exceeds \$3.5 million to date. Mr. Toole notified the Board that a petition for a contested case was filed by Johnston County Public Schools with the Office of Administrative Hearings challenging the pension spiking law.

Ms. Roberts gave an update on the metrics for Member Services. She presented that for this fiscal year so far (July to February) the Imaging Group processed over 354,000 documents in less than half of a day. They are far exceeding their goal of a one day turnaround for imaging incoming correspondence. She stated that the Education Retirement Group (ERG) continues to educate employees and employers on retirement readiness around the state. Benefit counselors in ERG travel around the state to educate on retirement readiness, meet with visitors to counsel on retirement matters and they handle all correspondence and e-mails that come into the RSD. For this fiscal year (July - Feb) they have held 106 meetings with a total of 6,730 attendees, so they are on track to meet their goal of 170 meetings for the year. They have also had over 3,200 counseling sessions and office visits since July (consisting of 693 scheduled retirement counseling sessions and 2586 walk-in office visits). This fiscal year (Jul-Feb) ERG has received over 16,000 correspondences and they were responded to within an average of 12 days. The goal is set at a 4 day turnaround time for e-mail and correspondence combined. Since the beginning of November, some Call Center staff members have been assisting by working extra hours during the week and on some Saturdays and as of this week the e-mail turnaround time is 3 days.

From July through February, the Call Center has taken over 202,000 calls with an average of 25,363 calls per month. From February of 2015 to February of 2016, the Call Center answered 23 percent of calls within 30 seconds. The Call Center is facing staffing challenges and must rely on temporary employees to meet its needs, so they have been very busy interviewing, hiring and training. Including the class that started on February 29, there have been a total of six training classes since July. As of April 5, there are now 13 temporary employees and 19 regular employees answering calls in the Call Center. She reported that the service level for the previous week was 38%, after adding to the staff. She stated that they are confident that the levels will continue to climb in the coming weeks. She also stated that they continue to focus on ways to reduce wait times and to provide an exceptional customer service experience for all members. She also gave an update on their request for 100% call recording in the Call Center. The request was approved and RSD is now waiting for the vendor to provide dates for the implementation launch. She also reported that a new Learning & Development Manager and a new Quality Control staff member have been hired and trained, both of whom will continue to improve the training process for employees and the quality of the work within RSD. Greg Grantham complimented the team on the hard work. Additionally, John Aneralla stated that he received positive feedback about the retirement seminars in Huntersville and thanked Vicki Roberts and the Educational Retirement Group.

Supplemental Retiree Insurance Products

The Chair recognized Steve Toole and Lonnie Pierce of Pierce Insurance to update the Board on the supplemental retiree insurance products and the results from the 2016 open enrollment period. Steve Toole explained that supplemental insurance products are offered to retirees and beneficiaries, and are available via payroll deduction or direct billing. There are four products: dental insurance, vision insurance, accident insurance, and life insurance; as well as two new offerings for critical illness and identity theft products. Steve Toole further explained the RSD contracts with Pierce Insurance to administer the supplemental insurance products. He stated that the administrative costs are paid by supplemental insurance premiums and clarified that no public funds are used to fund the administration of these products. The overall goal is to drive down costs to make supplemental insurance products more affordable for members. Mr. Toole introduced Lonnie Pierce who provided an overview of Pierce Insurance's background as a family owned company that specializes in supplemental benefits for government employees and retirees. He highlighted some new features that Pierce Insurance offers to clients and noted that their company currently insures over 400,000 individuals. He stated that for dental, vision, and accident insurance 52% of retirees enroll via telephone; 24% enroll online; and 24% enroll via paper enrollment forms. For life insurance, 100 percent of the enrollments are telephonic. In 2015, the call center received over 49,000 calls. As of 2015, there were over 148,000 retirees enrolled in the supplemental insurance plans, which represents growth of 50.2 percent since 2011. Michael Mebane inquired about the number of employees in the company. Lonnie Pierce stated the staff consists of 28 individuals located in Farmville, NC and stated that Pierce is the largest provider of benefits in NC to government employees. Janet Cowell stated that Pierce Insurance was selected through a competitive bid process in 2011, and complimented Pierce Insurance on their service.

2016 Retirement Systems Division Legislative Update

The Chair recognized Tony Solari, Director of Governmental Affairs, and Sam Watts, Policy Development Analyst, to give updates on the Retirement System Division's legislative agenda for the

upcoming Short Session of the North Carolina General Assembly, as well as to provide a high-level update on several federal legislative and regulatory matters pertaining to the NC Retirement Systems. Tony Solari presented an overview of the budget requests for RSD, which included funding for: information technology (IT) enhancements for RSD's online platform and additional positions; RSD operating costs; Contributory Death Benefit open enrollment; implementation of the Achieving a Better Life Experience (ABLE) program; Supplemental Retirement Plan 403(b) operations; and a study of retirement compensation of state and local employees.

Sam Watts highlighted key provisions of the three retirement-related bills: (1) Administrative Changes; (2) Technical Corrections; and (3) Sick Leave Reporting. Section 3 of the Administrative Changes bill sets a minimum retirement age of 50 for members of the state, local and judicial retirements if the member was first hired after on or after January 1, 2017. Section 5 of the bill extends the length of time allowable for payment plans from 12 months to up to 15 months for agencies to pay the additional employer contributions owed to the Retirement System when a member's retirement benefit exceeds the anti-pension spiking contribution-based benefit cap. The purpose of this change is to allow agencies more time to correct records and to provide payment plans that may cross a fiscal year. Section 9 of the bill clarifies governance statutes of the Retirement Systems by providing that the State Treasurer is the ex-officio chair of TSERS and LGERS, and provides that the Director of the RSD is selected by the Treasurer. Section 11 of the bill provides an incentive to reduce the costs of providing benefits by allowing a portion of the immediate savings to be used toward implementation of the cost-saving measure. Section 14 requires organizations allowed to make monthly deductions from monthly retirement benefits to provide proof of a retiree's authorization upon request of the Department of State Treasurer. The Technical Corrections bill provisions clarify interpretations of current law, conform state law with federal law and increase efficiency of administration of the Retirement Systems. The Sick Leave Reporting bill requires that creditable service for unused sick leave be reported to RSD in accordance with a standardized definition of hours per day and days in a week applicable for Retirement System purposes only. Mr. Watts also provided a summary of the 2016 federal legislative and regulatory developments.

Adoption of Proposed Assumptions for the Death Benefits Plans Based on Experience Review

Steve Toole introduced Mike Ribble of Buck Consultants for a presentation on the adoption of proposed assumptions for the Death Benefit Plans. Mr. Ribble stated that on January 21, 2016, Buck Consultants presented the "Investigation of Demographic and Economic Experience Five-Year Period from January 1, 2010-December 31, 2014" for the Death Benefit Plans of North Carolina. The Experience Review resulted in proposed changes to the demographic assumptions, economic assumptions and the funding methods. The mortality assumption was the source of the largest decrease in costs. He stated that the current investment return assumption of 5.75% is no longer reasonable under current market conditions, which resulted in a proposal to change the investment return assumption to 3.75%. The net impact was a decrease in the surplus for the Death Benefit Plan, a decrease in the surplus for the Separate Insurance Benefits Plan for Law Enforcement Officers, and an increase in the unfunded status for the Retirees' Contributory Death Benefit Plan.

It was moved by Greg Grantham, seconded by Van Dowdy and carried unanimously by the Board to adopt the assumptions for the Death Benefit Plan.

It was moved by Sally Sandy, seconded by Van Dowdy and carried unanimously by the Board to adopt the assumptions for the Separate Insurance Benefits Plan for Law Enforcement Officers.

It was moved by Greg Grantham, seconded by Van Dowdy and carried unanimously by the Board to adopt the assumptions for the Retirees' Contributory Death Benefit Plan.

2016 Fiscal Year Alternatives for the Death Benefit Plans

Steve Toole presented the 2016 fiscal alternatives for the Death Benefit Plans. The actuarial valuation of the Death Benefit Plan for members of TSERS as of December 31, 2014 shows that the Plan has liabilities of \$213,446,992. Against these liabilities, the Plan has present assets of \$35,268,316. Prospective contributions by the State based on a 0.16% contribution rate have a value of \$203,280,493. The present and prospective assets, which amount to \$238,548,809, exceed the liabilities of \$213,446,992 (a surplus of \$25,101,817). However, subsequent to the valuation report, an experience study has been performed. Based on the proposed assumptions from the experience study, the liabilities decrease to \$181,103,814, while the prospective assets increase to \$218,318,121 (increasing the surplus to \$72,482,623). It was moved by Jack Brooks, seconded by Michael Mebane and carried unanimously by the Board to recommend to the General Assembly that no change be made to current benefit structure.

The actuarial valuation of the Separate Insurance Benefits Plan for Law Enforcement Officers as of December 31, 2014 shows that the Plan has liabilities of \$24,108,840. Against these liabilities, the Plan has present assets of \$69,169,247 (a surplus of \$45,060,407). However, subsequent to the valuation report, an experience study has been performed. Based on the proposed assumptions from the experience study, the liabilities increase to \$32,336,851 (decreasing the surplus to \$36,832,396). Since the current assets are more than adequate to support the benefits, the contributions to the Plan could continue to be suspended or benefits could be improved. It was moved by Jim Burgin, seconded by Lentz Brewer and carried unanimously by the TSERS and LGERS Boards to recommend to the General Assembly that no change be made to the current benefit structure.

The actuarial valuation of the Contributory Death Benefit as of December 31, 2014 shows that the Plan has liabilities of \$455,848,041. Against these liabilities, the Plan has present assets of \$235,350,296. Prospective contributions have a value of \$189,773,434. The total present and prospective assets amount to \$425,123,730, which are less than the liabilities of \$455,848,041 (an unfunded amount of \$30,724,311). However, subsequent to the valuation report, an experience study has been performed. Based on the proposed assumptions from the experience study, the liabilities increase to \$536,695,107, while the prospective assets increase to \$242,209,442 (increasing the unfunded amount to \$59,135,369). The current assets and contribution rates of the Retirees' Contributory Death Benefit Plan are not adequate to address the \$59 million gap between assets and liabilities. The Plan provision and/or contribution rates should be changed to reverse this projected shortfall. It was moved by John Aneralla, seconded by William Grey and carried unanimously by the Board to increase the premiums for members who retire on March 1, 2017 or later, and decrease the interest paid on return of contributions to 1.20%. The increased premium amounts are noted in the letter from Buck Consultants dated April 13, 2016, and will help mitigate future growth of the deficit due to future retirees.

Adoption of Proposed Assumptions for the Disability Income Plan of North Carolina Based on Experience Review

Steve Toole introduced Mike Ribble of Buck Consultants for a presentation on the adoption of proposed assumptions for the Disability Income Plan of North Carolina. Mr. Ribble stated that on January 21, 2016, Buck Consultants presented the “Investigation of Demographic and Economic Experience Five-Year Period from January 1, 2010-December 31, 2014” for the Disability Income Plan of North Carolina. The Experience Review resulted in proposed changes to the demographic assumptions, economic assumptions and the funding methods. The assumption for the rate of disability from active employment was the source of the largest decrease in costs. Better access to healthcare, workplace safety and accommodation for modified work and more rigor in disability determinations/approvals are among the reasons for the decrease in rates. The assumption for termination of disability status (due to death or recovery) was the source of the second largest decrease in costs. He stated that the current investment return assumption of 5.75% is no longer reasonable under current market conditions, which resulted in a proposal to change the investment return assumption to 3.75%. Overall, the net impact on liabilities was a decrease. It was moved by Jack Brooks, seconded by Van Dowdy and carried unanimously by the Board to adopt the assumptions.

2016 Fiscal Year Alternatives for the Disability Income Plan of North Carolina

Steve Toole presented the 2016 fiscal alternatives for the Disability Income Plan of North Carolina. Based on the assumptions adopted in 2010, the most recent valuation report shows that the new Annual Required Contribution (ARC) is 0.38% for fiscal year ending 2017. However, subsequent to the valuation report, an experience study has been performed. Based on the proposed assumptions from the experience study, the ARC for fiscal year ending 2018 is estimated to decrease to 0.15%. It was moved by Lentz Brewer, seconded by Greg Grantham and the motion carried that the Board recommend to the General Assembly that no change be made to the current benefit structure.

Public Comment

There were no public comments.

State System Adjournment

There being no further business before the Board, the meeting was adjourned at 11:43 a.m. without objection.

CHAIR

SECRETARY