



**North Carolina**  
Total Retirement Plans



*Dale R. Folwell, CPA*  
STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA

## 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., October 31, 2019, by the Chair, State Treasurer Dale R. Folwell, CPA. The meeting was held in the Dogwood Conference Room of the Longleaf Building at 3200 Atlantic Avenue, Raleigh, NC 27604. The Chair thanked the members of the Board for their service. The Chair indicated there would be a public comment period for organizations and individuals to address the Board later in the agenda.

#### **Members Present**

Treasurer Dale R. Folwell, John Ebbighausen, Dirk German, Linda Gunter, Oliver Holley, Kathryn Johnston (designee for Mark Johnson), Greg Patterson, Margaret Reader, and Jeffrey Winstead.

#### **Members Attending via Telephone**

Barbara Gibson and Joshua Smith.

#### **Members Absent**

Lentz Brewer and Vernon Gammon.

#### **Guests Attending**

Jonathan Craven and Larry Langer of Cavanaugh Macdonald Consulting LLC, and David Draine and Michael Lowenthal of The Pew Charitable Trusts.

#### **Department of State Treasurer Staff Present**

Thomas Causey, Joan Fontes, Ben Garner, Elizabeth Hawley, Timeka Holden, Patrick Kinlaw, Fran Lawrence, Frank Lester, Meryl Murtagh, Linda Nelson, Vicki Roberts, Anne Roof, Christina Strickland, Sam Watts, and Lorraine Whitman.

#### **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. No conflicts of interest were identified by the Board members.

#### **Approval of the TSERS Minutes from the July 25, 2019 Board Meeting**

It was moved by Dirk German, seconded by Oliver Holley, and carried unanimously by the Board that the TSERS minutes from the Board meeting held on July 25, 2019 be approved.

### **Background Actuarial Information**

The Chair recognized Larry Langer and Jonathan Craven of Cavanaugh Macdonald Consulting (CMC). Mr. Langer and Mr. Craven thanked the staff for their assistance in providing information necessary for their work. They noted that TSERS and the Local Governmental Employees' Retirement System (LGERS) are the two largest retirement plans making up 99% of RSD liabilities. Mr. Langer and Mr. Craven discussed the actuarial valuation process as well as a brief summary of the results of the valuations of the Retirement Systems as of December 31, 2018.

### **TSERS Stress Test Analysis**

The Chair recognized David Draine and Michael Lowenthal of The Pew Charitable Trusts to provide the results of a stress test on the funding of TSERS. Mr. Draine and Mr. Lowenthal stated that, although the stress test analysis was based on TSERS, many of the concepts and findings would pertain to the other North Carolina Retirement Systems. Mr. Draine and Mr. Lowenthal provided background information on The Pew Charitable Trusts, Pew's goals, what stress testing is, and the benefits of stress testing. Mr. Draine and Mr. Lowenthal reported that as of 2017, North Carolina's pension funding ratio was 90.7%, sixth-highest in the nation. Further, North Carolina's ratio of net amortization to payroll was 1.8%, and the ratio of operating cash flow to assets was -3.1%. Mr. Draine and Mr. Lowenthal reported that even in downside scenarios the current funding policy sustains progression to full funding. However, if the current funding policy is not followed, a severe recession scenario would cause the funding level of TSERS to deteriorate. They stated that regular stress testing, as proposed in Senate Bill 488, would enable policymakers and plan administrators to remain informed about the risks facing the Retirement System and to evaluate any future changes. The Chair agreed that regular stress testing is important to the careful management of risks, given the knowledge that retiree headcounts and benefit payments will continue to increase. The Chair noted that the Board could implement its own regular stress testing without legislation requiring it; however, to encourage funding discipline, it would be better for the testing to be prescribed in statute.

### **Teachers' and State Employees' Retirement System Actuarial Valuation Principal Results**

The Chair recognized Larry Langer and Jonathan Craven of Cavanaugh Macdonald Consulting (CMC) to provide the principal results of the actuarial valuation for the Teachers' and State Employees' Retirement System as of December 31, 2018. A Board member noted that retirees' benefits in recent years have not increased at the same pace as consumer price inflation. The Chair observed that earlier retirements, retroactive benefit improvements enacted in the past, and longer life expectancies have increased the value of retirement benefits beyond what was funded during retirees' working years. Mr. Langer and Mr. Craven noted that the state has continued to follow its strong funding policy for TSERS, including the Employer Contribution Rate Stabilization Policy. The Chair credited decades of work on the part of the North Carolina General Assembly and the Board for the state's ability to develop and follow a strong funding policy.

It was moved by Greg Patterson to accept the report, seconded by Linda Gunter and carried unanimously.

### **Consolidated Judicial Retirement System Actuarial Valuation Principal Results**

The Chair recognized Larry Langer and Jonathan Craven of Cavanaugh Macdonald Consulting (CMC) to provide the principal results of the actuarial valuation for the Consolidated Judicial Retirement System as of December 31, 2018.

It was moved by Jeffrey Winstead to accept the report, seconded by Greg Patterson and carried unanimously.

### **Legislative Retirement System Actuarial Valuation Principal Results**

The Chair recognized Larry Langer and Jonathan Craven of Cavanaugh Macdonald Consulting (CMC) to provide the principal results of the actuarial valuation for the Legislative Retirement System as of December 31, 2018.

It was moved by John Ebbighausen to accept the report, seconded by Oliver Holley and carried unanimously.

### **Disability Income Plan of North Carolina Actuarial Valuation Principal Results**

The Chair recognized Larry Langer and Jonathan Craven of Cavanaugh Macdonald Consulting (CMC) to provide the principal results of the actuarial valuation for the Disability Income Plan of North Carolina as of December 31, 2018.

It was moved by Greg Patterson to accept the report, seconded by Margaret Reader and carried unanimously.

### **North Carolina National Guard Pension Fund Actuarial Valuation Principal Results**

The Chair recognized Larry Langer and Jonathan Craven of Cavanaugh Macdonald Consulting (CMC) to provide the principal results of the actuarial valuation for the North Carolina National Guard Pension Fund as of December 31, 2018.

It was moved by John Ebbighausen to accept the report, seconded by Oliver Holley and carried unanimously.

### **Death Benefit Plans Actuarial Valuation Principal Results**

The Chair recognized Larry Langer and Jonathan Craven of Cavanaugh Macdonald Consulting (CMC) to provide the principal results of the actuarial valuation for the Death Benefit Plans as of December 31, 2018. Mr. Langer and Mr. Craven stated that according to their projections, the Retirees' Contributory Death Benefit fund will remain solvent until 2073. They stated that cash flow depletion is not an imminent problem, but there is still cause for concern over the long term due to the funding deficit.

It was moved by Dirk German to accept the report, seconded by Linda Gunter and carried unanimously.

### **Operations, Member Services and Compliance Updates**

The Chair recognized, for an update on the Division's operations, Rick Lopez, Director of Operations; Vicki Roberts, Director of Member Services; and Patrick Kinlaw, Director of Policy, Planning, and Compliance.

The Chair recognized Director of Operations, Rick Lopez. Mr. Lopez reviewed the key takeaways from the operations report, noting that the turnaround has continued to exceed the turnaround goal. The current rate for processing and paying retirements within 60 days is 100.0%. Mr. Lopez reported on benefit processing for death notifications, benefit processing for disability applications, and benefit processing for refund requests. Further, Mr. Lopez reported on the monthly payroll processing. There are over 327,000 payees, with over \$534 million in payments in September. Mr. Lopez also reported on the use of the online system, noting use of the online system continues to grow.

The Chair recognized Director of Member Services, Vicki Roberts, for a presentation on the metrics for Member Services. Ms. Roberts reported on member correspondence. She noted that RSD continues to answer correspondence within the established turn-around-time, as well as exceeding the goal. Ms. Roberts reported on the Educational Retirement Group Meetings and Webinars, as well as the number of office visitors and counseling

sessions. Ms. Roberts reported on the call center service level. She noted that RSD continues to exceed its goal of calls answered within sixty seconds, and that in September RSD received 20,544 call center calls, and that the average speed of answer was thirty-four seconds.

The Chair recognized Director of Policy, Planning, and Compliance, Patrick Kinlaw. Mr. Kinlaw reported on Contribution-Based Benefit Cap (CBBC) Liabilities. He noted that as of October 3, 2019, 266 retirements have required an additional employer contribution since January 1, 2015, with total CBBC liabilities invoiced exceeding \$26 million. Of those invoices, 225 have been paid in full and the total amounts collected exceed \$20 million. Mr. Kinlaw also reported on the collection of overpayments. In the past twelve months, the actual collections were over \$10.5 million. As of September 30, 2019, the total outstanding amount of identified overpayments was approximately \$38.8 million.

Mr. Kinlaw also stated that on September 30, 2019, Pioneer Springs Community Charter School in Charlotte informed the Retirement Systems Division of their intent to end their participation in TSERS, effective December 1, 2019. The Division informed Pioneer Springs Community Charter School of the withdrawal liability payment necessary to complete their exit from TSERS, which is approximately \$1.3 million, due as a lump sum payment within 90 days of December 1, 2019.

#### **Contribution-Based Benefit Cap Average Final Compensation Threshold Determination**

The Chair recognized Patrick Kinlaw, Director of Policy, Planning, and Compliance. Mr. Kinlaw reported to the Board an increase of 1.6% in the threshold under N.C.G.S. § 135-5(a3) and reported on the administration and communication of the increase in the average final compensation threshold for CBBC invoices to \$109,746.34 for retirements effective in 2020.

It was moved by Greg Patterson to accept the report, seconded by Jeffrey Winstead and carried unanimously.

#### **Update of the Investment Advisory Committee (IAC) Meetings**

The Chair recognized Greg Patterson for an update on the IAC meetings. Mr. Patterson began his discussion by reporting on the last IAC meeting which was held on August 21, 2019. When we compare the total net portfolio return versus benchmarks as of June 30, 2019, the one-year return was 6.6%, versus a benchmark of 6.1%; the five-year return was 5.5%, versus a benchmark of 4.8%; and the ten-year return was 8.4%, versus a benchmark of 7.8%. For the year ending June 30, 2019, the “selection effect” was a positive 0.78% return, indicating that the selected fund managers delivered a strong performance relative to the expected performance of each asset class, and the effect of asset allocation timing during the year was negative 0.31%. Mr. Patterson stated that the total additional return over the benchmark, an additional return of positive 0.47% above benchmark for the year, is considerable when applied to \$100 billion. Mr. Patterson acknowledged the commitment and dedication of the staff of the Investment Management Division of the Department of State Treasurer.

#### **Public Comment Period**

There were no public comments made.

#### **Board of Trustees Comments**

The Chair asked the Board if there were any comments prior to adjournment of the meeting. Jeffrey Winstead asked the Chair to comment on media reports about a local government’s announcement that an individual would retire and subsequently return to work. The Chair stated that while he cannot discuss an individual situation, longstanding IRS regulations and conforming state law require that an employee must have a true separation from

employment to be considered retired. John Ebbighausen acknowledged the efforts of the North Carolina National Guard in ensuring that the census information they report to RSD is as accurate as possible, and congratulated RSD staff on improved administration of the disability programs. Oliver Holley thanked educators working to return to school in areas affected by Hurricane Dorian. Kathryn Johnston reminded those present that the State Board of Education is taking donations for schools affected by Hurricane Dorian. The Chair thanked the Pew Charitable Trusts for the analysis and presentation that they prepared for today's meeting at no cost. The Chair requested that the meeting be closed in memory of the late United States Senator Kay Hagan.

### **Adjournment**

There being no further business before the Board, John Ebbighausen moved to adjourn, which was seconded by Margaret Reader, and the meeting was unanimously adjourned at 1:37 p.m.