

NHRS Board of Trustees  
March 20, 2018

**Note:** These minutes from the March 20, 2018 Public Session were approved and executed at the April 10, 2018 Regular Meeting of the Board of Trustees.

**Board of Trustees  
March 20, 2018**

**Public Minutes**

**New Hampshire Retirement System  
54 Regional Drive  
Concord, New Hampshire**

*Trustees:* Dick Gustafson, Ph.D., *Chair*; Tonya Angwin; Bill Dwyer; Bill Hart; Maureen Kelliher; Germano Martins, Michael Milligan and Scott Myers. Absent Tim Lesko; Stephen Marro; David McCrillis; Don Roy; and George Walker.

*Staff:* George Lagos, *Executive Director*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Larry Johansen, *Director of Investments*; Heather Fritzky, *Director of Finance*; Nancy Miller, *Director of Member Services*; Carolyn Madden, *Controller*; Mark Cavanaugh, Esq., *Associate Counsel and Compliance Officer*; Carolyn Johnson, Esq., *Hearings Examiner*; Nancy Cone, *Internal Auditor*; Marty Karlon, *Public Information Officer*; Nina Calkins, *Process Improvement Manager*; Rosamond Cain, *Human Resources Manager* and Margaret Astles, *Executive Assistant*.

Chair Gustafson called the March 20, 2018, Regular Meeting of the NHRS Board of Trustees to order at 10:00 a.m., having established a quorum. The March 13, 2018 Board of Trustees meeting was postponed due to inclement weather. Chair Gustafson called for a motion to accept the February 13, 2018 meeting minutes. On a motion by Trustee Dwyer, seconded by Trustee Martins, the Board voted to approve the public minutes and non-public minutes as presented. Trustee Angwin abstained. Chair Gustafson noted that the public hearing on Ret. 309.01 would be held following the presentation by David Kausch of GRS.

Trustee Dwyer presented the Board with an update to the morning's Audit Committee meeting. The Committee reviewed the internal audit of the administration of Pension Gold (PG) Direct Deposit and Demographic changes. Following discussion, staff indicated that they will work with LRS to implement a customization to allow improved control of specific demographic changes, with a cost of approximately \$5,000.00. Staff will also obtain a cost estimate for a second enhancement to PG to enable the system to automatically generate confirmation letters to both the old and new address, whenever a mailing address change is made for a member or retiree. The cost estimate will be provided to the Audit Committee at its April meeting.

Trustee Dwyer then reported that the Audit Committee reviewed the year to date status of the FY 2018 Audit Plan with 8 issues outstanding and 6 that were closed in February 2018, leaving 2 remaining issues from 2016 that will be resolved in the next few months.

Trustee Dwyer noted that the transition to the new external financial auditor, Plante Moran, is underway and contact has been made with KPMG with a meeting between the parties expected early next month.

Lastly, the Committee received a thorough update on the Pension Administration System Evaluation (PASE) and proposal including all of the logistical and pricing elements. The Audit

Committee voted to recommend to the full Board that it approve staff's recommendation to move forward with upgrading from PensionGold Version 2 to PensionGold Version 3, subject to the recommendation of the Governance Committee and successful contract negotiation. Chair Gustafson noted that a Board vote is expected in April, and asked the Trustees to review the materials provided in advance of the meeting.

Benefits Committee: no report due to the fact there was no meeting since the last Board meeting.

Governance Committee: no report due to the fact there was no meeting since the last Board meeting.

Trustee Kelliher reported that the IIC met on February 23, 2018 with a presentation from Abel/Noser, who gave a favorable analysis on the system's equity trading costs for CY 2017. She noted that the Committee and staff have and always will be committed to keep trading and all costs at a very low level. Following a presentation by Industry Ventures, private equity manager in the secondary venture capital market, the IIC unanimously agreed to commit \$25 million dollars to Industry Ventures Partnership Holdings V, subject to contract and legal review. The IIC also discussed the system's legacy investment in Arden Institutional Series N and unanimously agreed to accept a secondary bid on the Arden Investment, allowing for a full exit at this time. NEPC provided an educational overview of the system's private debt and private equity investments as well as an overview of the revised quarterly investment summary report.

Trustee Kelliher noted that the markets have been extremely volatile during the last six weeks, and she expected it to remain so as the market is unsure and because trade wars are traditionally detrimental to the market. Consumer space, such as retail sales, housing starts and building permits have softened in the first quarter. The market hates uncertainty the most and is concerned about the new Fed Chair who will be addressing the press after the Federal Open Market Committee (FOMC) meeting, and whether or not the "dot plot" will be revised or an interest rate increase forecast from 3 or 4 hikes will occur.

Director of Investments Larry Johansen reported that all asset classes remain very close to target allocations. January's performance was very strong. Marketable assets were up 3.6% and going into March we are up slightly positive for the calendar year. Regarding the NEPC Quarterly Expense Comparisons, NHRS investment expenses continue to be less than average with NHRS at 0.31% basis points, NEPC PF Universe at 0.44% and NCPERS Universe at 0.40%. NHRS administrative expenses are better than average at 0.11%, NEPC PF Universe at 0.12% and NCPERS Universe at 0.19%. This coming Friday's IIC meeting will have a presentation by one of NHRS's private debt managers for Fund III. NHRS also has 3 managers coming to the meeting as part of the two-year contract renewal process, the LSV Domestic Large Cap Value fund, LSV Non-US Developed Markets fund and Neuberger Berman Emerging Markets Equity fund.

Chair Gustafson noted for those in attendance that the Legislative Committee's next meeting is scheduled for March 27, 2018. Public Information Officer Marty Karlon reported that all retirement system bills have been acted on by the House or Senate with 10 NHRS-related bills still alive and crossing over to the other body. There are a number of significant bills that would represent major policy changes, with the first being HB 561- the Working after Retirement bill that passed the Senate in late January with the House still needing to act on it. The House can concur with the bill, passing it on to the Governor; non-concur, which would kill the bill; or request a Committee of Conference to reconcile the differences in the House and Senate versions of the bill. The House ED&A Committee may also be asked make a recommendation for HB 561.

HB 1603 – regarding vacancies on IIC, passed the House and is headed for the Senate. Chair Gustafson noted that the Decennial Commission recommended that the IIC remain as currently

composed and HB 1603 represents a bill that goes against the Decennial Commission's recent recommendations.

Trustee Kelliher noted that former NH Senator and IIC Chair Harold Janeway will be addressing the IIC at the March 23, 2018 meeting. Given Mr. Janeway's pivotal role since the inception of the Committee, the IIC has asked him to address the newest members on the genesis and legacy of the Committee. Additionally, Mr. Janeway will be sharing his concerns about the proposed alteration of the present composition of IIC. The meeting will be an open public meeting with Trustees invited to attend, and in particular, she encouraged new Trustees to attend.

Public Information Officer Karlon addressed HB 1756 – a bill to provide a one-time allowance of \$500 to those members who have been retired 5 years as of July 1, 2019, and receive an annual benefit of less than \$30,000. The House Finance Committee recommended that the bill be killed, but the recommendation was overturned on the House floor and the bill passed. It will now be reviewed by the Senate Finance Committee.

Several Decennial Commission bills have advanced in the House. The layered amortization bill (HB1823) for future actuarial gains or losses that the Board endorsed in February 2018, passed the House and is up for a hearing with Senate ED&A on March 21, 2018. Public Information Officer Karlon, Executive Director Lagos and Director of Investments Johansen will attend. HB 1805 – creating a study committee for level dollar amortization and increasing trustee terms from 2 to 3 years - has passed the House but no Senate hearings have been scheduled to date.

HB 1757 would modify the Group I pension benefit formula for members eligible to retire before age 65 and grant a new post-retirement payment to future Group I retirees. The bill has been tabled by the House.

Trustee Hart reported that at its last meeting, the PPCC set draft objectives for FY2019 which are the result of a compilation of recommendations submitted by Trustees in connection with the Executive Director's recent performance evaluation. Chair Gustafson added that the final step for himself and Trustee Hart for the Executive Director's evaluation process had been completed as they had met with the Executive Director to go over all of the feedback provided and communicated the objectives which were included in the March 13, 2018 Board book. It was noted that compensation matters were not addressed at this stage in the process.

David Kausch of GRS made a presentation on the actuarial assumptions for the Payroll Growth Factor. For the benefit of the new trustees, Mr. Kausch noted that when GRS looks at NHRS as a whole, there are numerous actuarial assumptions that have to be made. GRS looks at every member, how long they are expected to work, how their pay will grow, whether they are expected to terminate their employment or become disabled, when will they retire and start to receive benefits and how long they will live while receiving benefits. Mr. Kausch explained that all actuarial assumptions are reviewed with regular 5-year experience studies. He noted that if changes to any assumptions are made between the experience studies, there should be a very strong rationale to do so.

Payroll growth encompasses total payroll for each classification, employees, teachers, police officers and firefighters. As each group is examined, attention is paid to total payroll, assuming that the active headcount will generally remain constant and that payroll will grow with general wage inflation. Recent data collected shows that experience for employers, police officers and firefighters is in line with their current payroll growth assumption of 3.25%. Teacher data reflects a reduction in headcount since 2007 and payroll growth continues to trail the current assumption of 3.00%, which is set at 0.25% less than the other classifications. Short term implications that could occur if the teacher headcount falls below what is expected would be that

employer contributions would likely increase. Should the teacher headcount stabilize or grow teacher employer contribution rates would stabilize or decrease under the current assumptions. The teacher headcount decrease prompted two actuarially reasonable alternatives: to continue with the current payroll growth assumption adjustment of -0.25% or to further increase the assumption adjustment from -0.25% to -0.50% .

Chair Gustafson noted that this issue will be discussed again at the April meeting. He reiterated that even though in some cases we have missed our assumptions, NHRS did receive credit during the Decennial Commission proceedings for our conservative approach to setting assumptions. He remained concerned about the teacher decline and wondered if charter schools, home schooling, private schools and online high schools might further exacerbate the situation.

Responding to a trustee question regarding whether rates should all be set at the same time, Executive Director Lagos replied that the issue under consideration was the payroll growth factor assumption itself and not a rate decision per se. Before GRS produces the FY 2017 valuation which will include the projected rates, the assumptions must first be finalized.

Executive Director Lagos noted that if the Trustees have any questions or thoughts relative to the payroll growth factor, to please let him know before the April meeting so that they can be passed along to GRS for review and response.

Chair Gustafson reported that staff has submitted a proposed administrative rule revision regarding Gainful Occupation reporting, Ret. 309.01. The JLCAR process provides for opportunity for the Board to have the rule revision language reviewed and to receive public input.

At 11:00 a.m. Chair Gustafson declared the public hearing on Ret. 309.01 open and noted that the hearing would be kept open for five minutes should anyone wish to speak to it. The record would remain open until 12:00 noon today for the submission of any material to NHRS regarding Ret. 309.01 by writing, emailing or facsimile. At 11:10 a.m. Chair Gustafson declared the public hearing closed on Ret. 309.01.

Chief Legal Counsel Crutchfield reported that Associate Counsel and Compliance Officer Mark Cavanaugh is the NHRS liaison to the Office of Legislative Services (OLS), which has commented on the proposed revisions. Attorney Cavanaugh will be meeting with OLS staff on March 21<sup>st</sup>. After that, the proposed revisions to Ret. 309.01 will move to JLCAR.

Executive Director Lagos reported on the FY 2019 Strategic Plan, noting that this is an annual process required by the Governance Manual. He reviewed the steps the Board will take using the Strategic Plan as the basis for the Executive Team to develop action plans for each operating area within the retirement system and to develop the trust fund budget. Executive Director Lagos reviewed his February 28, 2018 Strategic Plan memo to the Board, his February 22, 2018 memo to the Executive Team and Direct Reports on the objectives identified by the Board in connection with the ED evaluation process, the Preserve, Achieve and Avoid exhibit and lastly, he explained the draft for FY 2019 NHRS Three Year Strategic Plan-Priorities for July 2018 – June 2021. The Board is expected to vote on this in April.

Executive Director Lagos reported that staff scored 97.70% on key performance measures for the month. He encouraged the Board to read the PGMV3 binder in anticipation of the decisions to be made at the April meeting. He asked the Board to pay special attention to the last page in Tab 9 which identifies the financial implications or overall cost of the project over 10 years, with some assumptions built in.

Chief Legal Counsel Tim Crutchfield gave his Legal report. In regard to the Ret. 309.01 revisions, Attorney Cavanaugh has been in conversation with the attorneys at the OLS. One of the more important comments made by OLS is in regards to a proposed provision to afford the Board some discretion when requesting yearly gainful occupation reports, as there are some disability recipients who haven't worked in years because of the nature of their injuries. OLS has indicated that it believes that the statute requires mandatory reporting. This matter will come back to the Board for approval in April as well as the Ret. 300 and 400 Interim rules that JLCAR approved last week.

Lastly, Chief Legal Counsel Crutchfield noted that there will be an early April meeting with DAS regarding the member enrollment process. Each agency and department within the State administers their own enrollment process, resulting in a lack of uniformity. NHRS is working with DAS on solutions to address this issue.

Finance Director Heather Fritzky began by reporting on the net position at the end of January 2018 and on the operating statement, highlighting that for the first time, the net position held for benefits at January 31, 2018 reached \$9,019.4 billion, a \$1.226.8 billion increase from January 31, 2017. She noted that in the Budget vs Actual report, the Independent Medical Examiners/Consultants line continues to track over budget for re-examinations. She noted that this budget was built two years ago and since then, re-examinations have been implemented and are impacting the budget. Despite the IME variance, she reported that NHRS is still well under budget overall for the fiscal year.

In regard to #5 of the Finance Action Plan, Finance Director Fritzky noted that her team has made a concerted effort to convert as many employers as possible to ACH/electronic payments. She will be meeting with Citizens Bank again to discuss the possibility of a secure website module which would enable employers to enter their ABA and bank account numbers and payment amount. The module would create a file that NHRS could send to our bank which would then debit the employers' bank accounts. There is no cost to the employers and it would be cost effective to small employers.

Finance Director Fritzky reported that a new schedule was added to the Finance report which summarizes employer penalty statistics. NHRS issued an employer alert in spring 2017 indicating that the retirement system would be changing the process on how the reporting and payment penalties are assessed in compliance with the law. The change was made effective 8/15/17 but penalties were not assessed until 11/15/17 to allow employers time to adjust their processing schedules. Reporting files must now be submitted and posted by the 15<sup>th</sup> of the month, resulting in significant improvement to the reporting process.

Marked progress has been realized in that more employers are beginning to pay their contributions by ACH. She noted that there will be a proposed administrative rule change, to recommend to the Governance Committee that the contribution payment due date be extended ten days because currently both the reporting and payment dates are on the 15<sup>th</sup> of the month, which makes it very difficult for the employers to get their files exception free and posted, and to make sure their payment is correct, and to submit their payment on time.

Executive Director Lagos, reporting for the IT Director, stated that we have a proposal and a plan in place for the telephone system redundancy. We have four proposals received for the VM Ware infrastructure project and we expect to have a recommendation for the Board in April to move forward.

Director of Member Services Nancy Miller reported that recruiting continues in order to fill two vacancies in Member Accounts. She also noted that in preparation for the July application filing

period Member Services has opened additional appointment times for members and the benefit setup team is running multiple months of payroll setup to expedite processing.

Director of Member Services Nancy Miller also reported that Member Services will begin to use the redesigned Employer Termination Forms in March to determine if they prove more effective in obtaining necessary employer data for finalizing retirees' pension amounts. If so, these newly adjusted forms will assist in processing the final benefit calculations for the heavy volume of 2018 applicants.

Regarding the Consent Agenda, Chair Gustafson suggested that Disability Reconsideration-M.O. be referred to the Benefits Committee.

On a motion by Trustee Milligan, seconded by Trustee Hart, the Board voted to unanimously approve the Consent Agenda, except for Item 12 - Disability Reconsideration – M.O.

A Trustee Travel request was received for Trustee McCrillis to attend the NCPERS Fiduciary Program in NYC on May 12 – 13, 2018. On a motion by Trustee Martins, seconded by Trustee Hart, the Board unanimously approved the travel request.

Executive Director Lagos noted that the Board of Trustee Action Items for February 2018 have either been completed or are in process.

Speaking to Board Checklist Items, Executive Director Lagos reported that within the PGV3 binder, the Board will find excerpts from Board policy having to do with Board and Committee authority, as well as the Procurement policy, so that the Board will be prepared for the April vote on the proposed PGV3 conversion.

Executive Director Lagos reported that he and P.I.O. Director Marty Karlon met with the Merrimack School Board last evening as a part of the employer outreach program. The potential implications of the decline in teacher population on the payroll growth factor was discussed.

Lastly, he reported that the 54 Regional Drive building is slated for a real estate closing on March 28, 2018 and NHRS will have a new landlord.

On a motion by Trustee Dwyer, seconded by Trustee Hart, the Board voted unanimously to adjourn.

Respectfully submitted,

Margaret M. Astles  
Executive Assistant