

NHRS Board of Trustees  
Minutes – September 11, 2018

**Note:** These minutes from the September 11, 2018 Public Session were approved and executed at the October 9, 2018 Regular Meeting of the Board of Trustees.

**Board of Trustees  
September 11, 2018  
Public Minutes**

**New Hampshire Retirement System  
54 Regional Drive  
Concord, New Hampshire 03301**

*Trustees:* Dick Gustafson, Ph.D., *Chair*; Bill Dwyer, Melvin Friese, Sue Hannan, Bill Hart, Maureen Kelliher, Tim Lesko, Bob Maloney, Mike Milligan, Scott Myers, Don Roy, and George Walker.

*Staff:* George Lagos, *Executive Director*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Larry Johansen, *Director of Investments*; Nancy Miller, *Director of Member Services*; Heather Fritsky, *Director of Finance*; Frank Clough, *IT Director*; Mark Cavanaugh, Esq., *Associate Counsel and Compliance Officer*; Diana Crichton, Esq., *Hearings Examiner*; Marty Karlon, *Public Information Officer*; Nancy Cone, *Internal Auditor*; Nina Calkins, *Process Improvement Manager*; Rosamond Cain, *Human Resources Manager*; Cecile Merrill, *Project Manager*; Dianne LeBlanc, *Member Services Administrative Assistant*; and Margaret Astles, *Executive Assistant*.

Chair Gustafson called the September 11, 2018 regular meeting of the NHRS Board of Trustees to order at 10:00 a.m. He commenced the meeting by welcoming new Board of Trustees member Sue Hannan, and new IIC member Dan LaPlante. Christopher Coates, the Administrator for Cheshire County, was recently appointed as a Trustee and will be joining the Board at its October meeting.

Having established a quorum, Chair Gustafson called for a motion to accept the August 14, 2018 meeting minutes. On a motion by Trustee Roy, seconded by Trustee Dwyer, the Board approved the minutes, as amended, to reflect consideration of comments received from Mr. Richard Welch, who testified at the August Board meeting during a public hearing on the Ret. 300 and 400 Administrative Rules. Abstained: Trustees Hannan and Milligan.

Trustee Dwyer presented the Audit Committee meeting update, giving a recap of that morning's meeting. He noted that the Committee received an update from Internal Auditor Nancy Cone, regarding the GASB 67-68, and 74-75 audits. Ms. Cone also provided an update on action items relating to the data security plan, "DRAPP." Trustee Dwyer stated that staff completed approximately 36% of the listed items. The Audit Tracking Report reflects a resolution of the audit issues, ending the month with one item related to QDROs left to be resolved. Staff expects to add one new item in October that is in relation to the reconciliation to employer reporting.

The Audit Committee reviewed its Charter and found that no revisions were necessary. The Committee voted to amend its Audit Policy, with action expected by the Trustees in October. The Committee voted to recommend that the Board take action at today's

meeting on the proposed revision of the Actuarial Funding Policy and the GASB 75 audit, which was recently completed by KPMG.

On a motion by Trustee Dwyer, seconded by Trustee Myers, the Board voted unanimously to approve the proposed revisions to the Actuarial Funding Policy, as presented.

Director of Finance Heather Fritzky informed the Board that the GASB 75 report for the allocation of other post-employment benefits (OPEB) to participating employers was completed. She explained that KPMG issued the report with an unmodified opinion last week. GASB 75 is the new accounting standard for OPEB, which allocates a proportionate share of NHRS's OPEB liability to each of the participating employers and parallels GASB 68, which applies to pensions. Employers with a fiscal year end of June 30 or later will need to use the GASB 75 information for their financial reporting. This is the last audit with KPMG and the next GASB 68 and 75 audits have been contracted with Plante Moran.

On a motion by Trustee Dwyer, seconded by Trustee Lesko, the Board voted unanimously to accept the GASB 75 report, as presented.

Lastly, Trustee Dwyer reported that the Audit Committee received an update from Cecile Merrill, Project Manager, and Director Lagos, regarding ongoing activity related to the PGV3 project.

Trustee Roy reported on the Governance Committee meeting of August 14, 2018, noting that the Committee conducted a review of its Charter and the Board's Fraud Policy, and determined that no revisions were necessary to either document. Lastly, he reported that Director Lagos introduced the topic of providing Trustees electronic Board materials instead of hard-copy binders, following with discussion relating to the protection of confidential and private information and the ability to print Board material. Staff was requested to conduct further research and report to the Committee.

On a motion by Trustee Roy, seconded by Trustee Hannan, the Board unanimously voted to approve the 2019 Board Meeting Calendar, as presented.

Trustee Maureen Kelliher, reporting for the Independent Investment Committee (IIC), stated that the IIC did not meet in August and the next scheduled meeting is Friday, September 21, 2018. She informed the Board that markets have improved over the last couple of months, due to the economy. In August, unemployment numbers were unusually low at 3.9%, and the underemployment rate was 7.4%, a 14-year low. The weekly jobless claims were at a 50-year low and small business confidence was at a 50-year high. Consumer confidence remains historically high, with retail sales stronger than at any time since 2008, the Great Financial Crisis. Due to affordability issues, the housing market is soft. Emerging markets remain under pressure because the US dollar continues to climb, because of rising interest rates. She commented that the revised second quarter GDP was 4.2% and we are expecting the GDP to be between 3.5% to 4.0 % in the third quarter, noting that the US is doing remarkably well.

Director of Investments Larry Johansen reported that following the IIC's July 2018 vote to terminate Aberdeen-Standard, the assets have moved to Neuberger-Berman

and Wellington.

Mr. Johansen noted that the second half of the rebalancing from active domestic equity management to passive domestic equity is underway.

Mr. Johansen then reported that NHRS received the first 60% of assets last Friday from GAM, which has gone into liquidation. NHRS is scheduled to receive a second disbursement this month. He expects a return of all assets by the end of the calendar year, and noted that the IIC will continue to monitor the situation closely. He then noted that a search had been initiated to replace GAM. The Staff met with NEPC in August to narrow the list of approved, global fixed income managers to five, who will be interviewed later this week. The IIC will interview two finalists at its October meeting. Mr. Johansen continued to report that all other asset classes are close to target and the plan continues to benefit from these very favorable markets.

Trustee Dwyer asked if the cash proceeds from the liquidation of GAM would sit for long before reinvestment. Mr. Johansen replied that NHRS is using some of the cash from the liquidation for benefit payments and capital calls and did not anticipate that the cash would sit for very long.

Trustee Roy asked about Standard Life's underperformance. Mr. Johansen replied that Standard Life is a global multi-asset investment company that will hold value when markets take a downturn. He noted that Standard Life's performance is doing what the IIC expected in a good market.

Chair Gustafson reported on the Legislative Committee for the last time, as Trustee Myers will be taking over as Chairman at the Legislative Committee meeting after today's Board meeting. Chair Gustafson began by asking Public Information Officer Marty Karlon to give an update on the Legislature's study committee, which was formed to look at the advantages and disadvantages of moving from a level percentage of payroll to a level dollar amortization plan. Mr. Karlon reported that the committee had an organizational meeting several weeks ago and he was asked to return with answers to several questions, including what the employer rate impact would be on a switch from level percent to level dollar to bring down the unfunded liability.

Trustee Robert Maloney joined the meeting at 10:20 am.

Trustee Hart reported on the PPCC meeting held on August 27, 2018, noting that the Staff gave an update on PGV3 staffing and recruiting issues. The Committee then reviewed its Charter, and made proposed revisions that will likely be recommended to the Board for approval at its October meeting. Lastly, the Committee reviewed personnel matters in non-public session.

Chair Gustafson requested a motion for temporary adjournment for the purpose of discussing Benefits Committee matters.

On a motion by Trustee Walker, seconded by Trustee Milligan, the Board unanimously voted to temporarily adjourn the meeting for the purpose of consulting with legal counsel under RSA 91-A:2. I (b).

On a motion by Trustee Walker, seconded by Trustee Lesko, the Board voted unanimously to reconvene the Board meeting.

On a motion by Trustee Myers, seconded by Trustee Dwyer, the Board voted unanimously to grant a reconsideration hearing before the full Board in the Scaglione matter, in which both parties may make oral presentations limited to 15 minutes each, on a date to be mutually determined between the petitioner and counsel representing NHRS staff.

Chair Gustafson noted that he would like to discuss the *GRS FY 2017 Valuation Report*, in conjunction with the setting of the *FY 2020-21 Employer Rates*. He stated that each year, GRS values the System's funds that are held in trust for the pension plan. During odd years, we use that valuation to set rates every two years.

He commented that plan experience for FY 2017 was favorable, as compared to the prior fiscal year, the actuarial return on invested assets was 9.1%, exceeding the 7.25% assumption, and that the pension funded ratio improved from 60.0% to 61.8%.

On a motion by Trustee Roy, seconded by Trustee Lesko, the Board unanimously voted to accept the *GRS Fiscal Year 2017 Valuation Report*, as presented.

Trustee Maloney directed a question to Mr. Johansen, asking if the assumption of 7.25% will be a dependable number moving forward. Mr. Johansen replied that every five years all of the assumptions are reviewed, including the assumed rate of return. If there were circumstances that warrant the Board to consider a change off-cycle, the assumption could be changed, as in the recent case concerning the payroll growth factor for the teachers group.

Chair Gustafson noted that the GRS valuation included proposed rates, and reminded Trustees that the Board was required to set employer contribution rates, based on sound actuarial valuation and practice. He noted that the FY 2020-21 employer rates have gone down slightly for all groups, except teachers from the FY 2018-19 rates. This has occurred due to the fact that teacher payroll has slowed and continues to lag expectations.

On a motion by Trustee Hart, seconded by Trustee Myers, the Board unanimously voted to approve and certify the Employer Contribution Rates for Fiscal Years 2020 and 2021, based on the June 2017 actuarial valuation.

Director Lagos gave his Executive report, noting that Key Performance Measures (KPM) have been revised based on a review, findings, and recommendations by the Internal Auditor. KPMs scored 97.7% this month, above the 95.0% benchmark. Director Lagos reported that he had approved a Microsoft upgrade contract for less than \$10,000 and was reporting it to the Board per the Board's Procurement Policy.

Project Manager Cecile Merrill, gave the Board an update on PGV3. Ms. Merrill reported that work has begun on job descriptions, recruiting positions; and on finalizing the LRS contract. She noted that the PGV3 budget was included in the statutory budget, which will be voted on later this morning for approval. Staff is looking at current processes and workflows to see if documentation is up to date, and, if so, they will be sent to LRS so its Version 3 Team can get a head start on understanding all of NHRS' different processes. Regarding change management, the NHRS PGV3 team is working on getting its first communication out to staff, updating them and to let them know the project kickoff will be in January. Ms. Merrill reported

that, with regard to data conversion items, 18 of 35 items have been addressed.

Chief Legal Counsel Tim Crutchfield began his report by noting that under Nancy Cone's oversight, the Employer Audit Team successfully completed 31 GASB audits. These are very important to allow our External Auditor, Plante Moran, to move forward with its external audit process in a timely manner.

Financial Director Heather Fritzky reported on the final version of the *Statutory Administrative budget*, noting that the only change to the budget since the August preliminary budget is that NHRS received the final benefits numbers from the State for health and dental insurance, as well as retiree health insurance, and the employee assistance costs. Ms. Fritzky explained that the final *Statutory Budget by Major Category* for FY 2020 represents a 39% increase over the current budget that is due largely to the PGV3 project, but that initial spike will flatten to a smaller decrease of 2% in FY 2021. She noted that health insurance costs were adjusted from a 10% increase to a 7% increase. Ms. Fritzky noted that following the Board's approval, the budget would be sent to the State's budget system for input, by the September 17, 2018 deadline.

On a motion by Trustee Kelliher, seconded by Trustee Milligan, the Board unanimously voted to approve the NHRS Statutory Administrative Budget for Fiscal Years 2020 and 2021, as presented.

IT Director Frank Clough began his report by discussing work on establishing telephone system redundancy. In the event that NHRS' current telephone system goes down, a second phone system has been installed in the COLO location in Massachusetts. In order for the two telephone systems to work together, NHRS would need the assistance of Consolidated Communications to implement a cutover to SIP, which was scheduled for September 13, 2018. Mr. Clough reported that the System's email software upgrade would be completed soon. Lastly, Mr. Clough reported that Security Awareness Training for all staff continues, with an annual security training video required for all staff to view, and quarterly testing would be implemented to ensure staff understands the material. If an employee fails, additional training would be required. Further on-site training is slated to be provided in the fall to NHRS staff.

Trustee Roy asked for further detail on IT's *Report on Security Vulnerabilities*. Mr. Clough replied that NHRS utilizes a third party, IT services company, Systems Engineering, that scans all of NHRS' significant service from the outside to identify all of the vulnerabilities on its servers on a monthly basis. The current vulnerabilities that are being reported are low-to-medium risk and are being monitored carefully.

Director of Member Services Nancy Miller reported that Member Accounts is currently working on annual member statements, which will be made available shortly. Regarding PGV3, Member Benefits is working on data cleansing in conjunction with Project Manager Merrill. Ms. Miller reported that Member Services is also making changes to ongoing processes to avoid further creation of data issues. She reported that staff is continuing to work on finalizing annuity payments for the large number of July 2018 retirees.

Chair Gustafson declared the Public Hearing open for the proposed amendments to the Ret 200 Administrative Rules. The Chair recognized Mr. Richard Welch who asked to comment on the rules. Chair Gustafson noted that Mr. Welch had provided

written testimony that was previously received and was included in the Trustee Board books for reference. He indicated that Mr. Welch would be afforded up to 10 minutes for his testimony.

Mr. Welch began by expressing his ongoing concerns about transparency at NHRS. He commented on discrepancies in posted times and information contained within the NHRS and JLCAR public notices.

He proceeded to review the proposed changes to the Ret 200 rules, expressing the view that the elimination of references to RSA 541-A would result in the elimination of protections to members. Mr. Welch distributed additional new material for the Board to review and provided additional testimony. After nearly 20 minutes and several requests from the Board Chair, Mr. Welch completed his presentation. The Chair thanked Mr. Welch for his testimony.

The Chair then temporarily adjourned the Public Hearing, noting that additional written documentation would be accepted until noon.

On a motion by Trustee Milligan, seconded by Trustee Hannan, the Board voted to approve the Consent Agenda, as presented, with Trustee Hart recusing himself from S.H. and D.P., and Trustee Hannan recusing herself from J.T.

Director Lagos reported that outside counsel would present a Trustee education session on fiduciary and governance matters at the October meeting.

Chair Gustafson asked if anyone else wished to make a comment on the Ret 200 rule-making process. With no further public testimony, the Chair closed the hearing, but noted that the record would be open for receipt of written or emailed communications until noon, on September 11, 2018.

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

Respectfully submitted,

Margaret M. Astles  
Executive Assistant