

NHRS Board of Trustees
September 12, 2017

Note: These minutes from the September 12, 2017, Regular Meeting have been approved by the Board of Trustees at their regular meeting on October 10, 2017.

**Board of Trustees
September 12, 2017**

Public Minutes

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

Trustees: Chair Dick Gustafson, Ph.D.; David McCrillis; Tonya Angwin; John Beardmore; Bill Dwyer; Bill Hart; Maureen Kelleher; Stephen Marro; Germano Martins; Don Roy; and, George Walker. Julia Griffin, *absent*.

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

Chair Gustafson called the September 12, 2017, regular meeting of the NHRS Board of Trustees to order at 10:01 a.m., having established a quorum.

Chair Gustafson called for a motion to vote on the August 8, 2017 public and non-public minutes. On a motion by Trustee Roy, seconded by Trustee Angwin, the Board unanimously voted to approval all minutes as presented.

Trustee Beardmore reported that the Audit Committee, having met that morning, reviewed the Committee's Charter and made no changes. Also, a vote was taken to initiate an RFP process for external audit services beginning in November. Lastly, he noted that *Executive Director* Lagos gave the Committee an update on the ongoing pension administration project and the recent data security incident.

Trustee Walker reported on the Benefits Committee meeting of August 30th, 2017 which began with *Associate Counsel* Cavanaugh's Gainful Occupation Report and a proposed rule update. He also discussed recommendations from the Internal Auditor to enhance the annual Gainful Occupation process.

At its meeting, the Benefits Committee reviewed the Sistare Gainful Occupation matter and voted unanimously to recommend to the full Board that it accept the factual findings of the Hearings Examiner's recommendation but contrary to the determination of the Hearings Examiner, find on the legal issue that the retiree's 2016

bonus should be considered “annual compensation as currently earnable” and therefore included for the purposes of determining the Gainful Occupation offset.

On a motion by Trustee Walker, seconded by Trustee McCrillis, the Board voted unanimously to accept the recommendation of the Benefits Committee on the Sistare matter and to accept the factual findings of the Hearings Examiner’s recommendation but find on the legal matter that the 2016 bonus at issue should be considered “annual compensation currently earnable” and therefore included for the purposes of determining gainful offset.

Trustee Walker further noted that the Palm repayment issue was also discussed and it was determined to pay the benefit owed plus statutory interest. Lastly, he reported that the Charter was reviewed and the Committee found no changes to be made.

Chair Gustafson commended the Benefits Committee for the work they do and noted its great importance to the Board of Trustees.

Trustee Roy presented the Governance Committee Report noting that they did not meet in August but will be meeting following the conclusion of today’s Board meeting. He presented the Action Item for the acceptance of the 2018 Board Meeting Calendar.

On a motion by Trustee Marro, seconded by Trustee Kelleher, the Board unanimously voted to adopt the 2018 Board Meeting Calendar.

Trustee Kelleher began by wishing well those affected by the recent hurricanes. Her IIC report began with the fact that despite these natural disasters, the economy remains very strong, picking up in the second quarter. For the first time in a long time there are significant improvements to both consumption and productivity and in global economies as well. The market is doing well and the system’s portfolio continues to perform exceptionally well despite the negative global and geo-political occurrences.

Mr. Johansen noted that there was no August IIC meeting and the next meeting will be on September 29th, 2017. Two General Partners are coming for presentations on their next fund raising and a fixed income manager is coming in for a two year contract review. All asset classes are very close to their targets and are well within range. In looking at performance, the June 30, 2017 Total Fund was up 12.7 % on a preliminary basis. The June 30th net asset values for real estate, private equity and private debt should be updated shortly, and the expectation is that the total fund return should be in the range of 13%.

Chair Gustafson presented the Legislative Committee report on recent activity of the Decennial Commission and noted that they are off to a good start. The Commission met on August 31st and September 6th and Decennial Commission Chair David Hess has asked that they meet regularly on Thursdays from now on. Chair Gustafson outlined the proceedings of the first meeting as being largely organizational. Staff made an NHRS 101 presentation to the Commission at the first meeting to provide basic background information. At the second meeting, COLAs were discussed as well as the 10% benefit reduction to Group I members at age 65. Contribution rates were also discussed and former Trustee and Senator Janeway, the long-time IIC Chair,

presented a historical review of the IIC and answered questions from the Commission members.

Executive Director Lagos advised the Board of recent discussions with the Decennial Commission Chair with respect to expenses associated with a GRS presentation scheduled for Thursday, September 14th. He reviewed the Board action taken at the January of 2017 meeting, proposing a 50/50 split with the Commission for certain actuarial expenses. He noted that the Commission was not prepared to participate in funding GRS' costs, but indicated that staff believed it was very important that David Kausch of GRS present in person at the informational session to address important questions regarding actuarial issues and assumptions which have already been raised.

Following discussion, on a motion by Trustee Marro, seconded by Trustee Hart, the Board voted to unanimously approve a limited waiver of the Board's January 10, 2017 action regarding a 50/50 split of actuarial expenses up to a total of \$100,000 for work generated by the Decennial Commission and thereby authorize GRS to participate in person at the September 14, 2017 Decennial Commission meeting with NHRS paying the entire cost of such in-person participation.

Trustee Hart, sitting in for Trustee Griffin, presented a report on behalf of the Personnel, Performance & Compensation Committee (PPCC) which met on August 30, 2017. He began by reporting that the PPCC reviewed its Charter and found no changes to be made at this time. Also, a bargaining agreement allowing staff to buy back unused annual leave time has resulted in staff selling back over 300 hours. The NHRS Culture Navigation Process identified 22 different topics, which have been reviewed and addressed. Trustee Hart reported and welcomed two new NHRS hires, Carolyn Madden, the new Controller, and Margaret Astles, the new Executive Assistant. Lastly, no action was taken in non-public session on compensation matters.

Chair Gustafson reported on the Real Estate Committee's task of reviewing the possible purchase of the office building that NHRS currently occupies. The property has been on the market but the owner wishes to bundle the sale with two other buildings which NHRS is not interested in. There is no compelling reason to recommend the purchase of this property to the Board at this time due to the fact that under the current lease, NHRS has the right of first refusal should another buyer come along.

Before introducing David Kausch and Heidi Barry of GRS, *Executive Director Lagos* began by saying that as a result of the 2015 Experience Study, several assumptions were adopted, including a reduction of the assumed rate of return and the payroll growth factor. Mr. Lagos noted that NHRS staff and GRS have been discussing implications of the great recession of 2008-2009, particularly the continued slow growth in the economy and job creation. Because of the implications this had with respect to actuarial assumptions and employer contribution rates, GRS has been invited to do a Trustee education presentation on this complex subject.

David Kausch and Heidi Barry presented a report to the Board entitled *NHRS Payroll Growth Factor* which explained the fundamental components of the payroll growth

assumption, historical payroll growth for the various member groups and the impact payroll growth has on the unfunded liability and employer contribution rates. Mr. Kausch commented that preliminary data indicated payroll growth was improving for all member groups with the exception of teachers.

Executive Director Lagos commented that staff anticipated that the Decennial Commission would be exploring all assumptions as well as the amortization of the unfunded liability, which prompted the education sessions by GRS with respect to risk metrics, layered amortization and payroll growth.

Executive Director Lagos presented the Executive Operating Report noting that NHRS had a good month in that Key Performance Measures (KPMs) scored 97.67% with 95.00% being the target rate. He provided an update on the pension administration system evaluation project and an anticipated demonstration of LRS PG Version 3 later this fall.

Lastly, *Executive Director* Lagos provided an update on the data security incident, and reported that staff is presently evaluating a proposal from the McLane firm and Charles River to conduct an organization-wide risk assessment.

Chief Legal Counsel Tim Crutchfield, presented the Legal Operating Report informing the Board that the last of the GASB employer audits have concluded. The Audit team is focusing on school administrative units and districts and continues to meet their KPMs. The administrative appeals process continues on the normal course. In regard to the Decennial Commission, together with Mark Cavanaugh, presentations will be made on legislation related litigation and working after retirement. A high level litigation summary was prepared on four recent NH Supreme Court cases for the Decennial Commission.

Director of Finance, Heather Fritzky, reported on Finance starting with Cash Flow, noting that contributions are slightly higher than last year due to the rate increase. She then presented the *Budget vs Actual – Accrual Basis FY17 Report* showing that *Management Fees* are still under budget, as well as the *Total Administrative Expense*. The *Budget to Actual* for July 2017 is also under budget. As per the Action Plan, meetings have been held with PIO and Member Services to start building a resource page for employers and an explanation of the exception clearing process is under development as well.

Director of Information Technology Frank Clough, began by presenting the Board with the *NHRS Helpdesk Totals by Month* which shows a slight back log due to time demands arising from the recent data security incident. He commented on the status of pending system upgrades to VMware, the telephone system and security cameras.

Director of Member Services Nancy Miller, reported on retirement statistics and the efforts to conclude the finalization of July retirement pension payments. She explained that her team is focusing on “My Account” new account creation which is undergoing reconfiguration with additional security measures. Beyond that, her staff is working on the automation of the Insurance Authorization process. Responding to a question from Chairman Gustafson regarding “My Account”, Ms. Miller replied that

existing members will not have to start from scratch with “My Account” but both new and existing users will have to go through “ReCAPTCHA”, another layer of security.

Chair Gustafson addressed the Consent Agenda. On a motion by Trustee Marro, seconded by Trustee Dwyer, the Board voted unanimously to approve the September 12, 2017 Consent Agenda as presented.

Executive Director George Lagos, addressed the August Action Items noting they are in order.

Executive Director Lagos, spoke to the “Board Checkpoint Discussion”. He will be holding an employer outreach session with the NH Municipal Manager’s Association on Friday, September 15th and on Friday, September 22nd he will be meeting with the NH Association of Counties. Starting in October and November there are meetings scheduled with schools and SAUs.

Chair Gustafson noted that the next Board of Trustees meeting date will be October 10th, 2017. On a motion by Trustee Walker, seconded by Trustee Roy, the Board voted unanimously to adjourn at 12:21 pm.

Respectfully submitted,

Margaret M. Astles
Executive Assistant