

Note: These minutes from the January 14, 2014, regular meeting were approved and executed at the February 11, 2014 regular Meeting of the Board of Trustees.

**Regular Meeting
Board of Trustees
January 14, 2014**

The Public Minutes

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

Trustees: Dick Gustafson, Ph.D., *Chair*; John Beardmore; Dean Crombie; David McCrillis; Germano Martins; Cathy Provencher; Don Roy; Guy Scaife; Hershel Sosnoff; George Walker; and Jack Wozmak. Karen McDonough, *absent*.

Staff: George Lagos, *Executive Director*; Jack Dianis, *Director of Finance*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Larry Johansen, *Director of Investments*; Nancy Miller, *Director of Member Services*; Denise Call, *Director of Employer & Retiree Services*; Frank Clough, *Director of IT*; John Browne, *Internal Auditor*; Heather Fritzky, *Controller*; Nina Calkins, *Process Improvement Manager*; Carolyn Johnson, Esq., *Hearings Examiner*; Mark Cavanaugh, Esq., *Regulatory Compliance Officer*; Rosamond Cain, *Human Resources Manager*; and Shannan Hudgins, *Administrative Coordinator*.

Chair Gustafson called the Regular Meeting of the NHRS Board of Trustees to order at 9:04 a.m. On a motion by Trustee Roy, seconded by Trustee Walker, the public minutes of the December 10, 2013, Regular meeting of the Board of Trustees were unanimously approved.

Chair Gustafson then called for Committee reports as outlined in the agenda. Trustee Provencher presented the Audit report, beginning with the morning's Committee meeting.

Trustee Provencher stated that the Committee was working with Staff and Gabriel Roeder Smith & Company (GRS) on the Actuarial Funding Policy, reiterating that it was best practice and recommended by the Government Finance Officers Association (GFOA) given the separation of funding from financial reporting in the new statements 67 and 68 of the Government Accounting Standards Board (GASB). She anticipated Audit Committee approval of the document at its February meeting, followed by submission of

the policy to the Board of Trustees at the February meeting for approval at the March meeting. She concluded her update with a review of the Audit Tracker, reporting that over the last three years, 68 issues had been opened and 80 issues had been closed. She was pleased with statistical results that indicated Staff and John Browne, the Internal Auditor, were working to identify areas and procedures for improvement, and she stated that internal audits were on track. Trustee Provencher offered a brief update on the new GASB requirements that all employers will reflect an allocation of the Unfunded Actuarial Accrued Liability (UAAL) on their financial statements. GRS will start the project by producing *pro forma* calculations and disclosures based on June 30, 2013 data within the next six to eight weeks.

Trustee Walker reported that the Benefits Committee met on January 3rd. Topics discussed included school district employers using third party hiring agencies, specifically the Allenstown School District's interim principal hired through such an agency. The Committee had reviewed the survey sent to all SAUs in an effort to identify the utilization of such hiring practices throughout the state. The Committee also reported that the full retirement application package would be available to members on the NHRS website by the end of January and that work continued on developing an e-filing mechanism for potential retirees. Trustee Walker discussed potential outsourcing of disability application reviews and would present a motion on an RFP for the Board's consideration. He noted that the authority for final disability determination would remain with the Board. Staff had reviewed the Medical Subsidy Action Plan with the Committee, as well as the draft Memorandum of Understanding with the State Department of Administrative Services regarding the payment process.

The Committee also considered revisions to Ret. Rule 309 regarding disability reviews, and Trustee Walker explained that the current rule was restrictive in a manner that rendered its application unlikely in any disability review. He also reported on a Department of Corrections reclassification request that Atty. Crutchfield had identified as nearly identical to one submitted to NHRS in 2009 that resulted in a NH Supreme Court decision upholding the NHRS interpretation of the reclassification statute in 2011. In his report on the Committee's recoupment discussion, he noted that the Legislature had demonstrated increased interest in the System's recoupment procedures. The recent Carrier decision from the Supreme Court provided confirmation of NHRS' application of its recoupment policies and the appropriate legal pursuit of overpayment. In closing, Trustee Walker stated the Committee had reviewed a recommendation to legally manage Required Minimum Distributions (RMDs) for beneficiaries and recipients that Staff had been unsuccessful in locating, sometimes over many years. Although funds would be categorized as administratively forfeited to comply with IRS guidelines, within NHRS the funds

would reside in a dormant account, readily accessed upon request. A lengthy discussion ensued.

On a motion by Trustee Sosnoff, seconded by Trustee Roy, the Board voted to accept the recommendation of the Benefits Committee that the full Board authorize staff to develop and issue an RFP to investigate possible vendors, services, and costs involved with third-party disability management entities, as follows:

Ayes: Trustees Gustafson, Beardmore, Crombie, McCrillis, Provencher, Roy, Scaife, Sosnoff, Walker and Wozmak.

Nays: Trustee Martins.

On a motion by Trustee Beardmore, seconded by Trustee Roy, the Board discussed the recommendation of the Benefits Committee that the Full Board approve the proposed revisions to rule Ret. 309 and authorize staff to begin the JLCAR rulemaking process.

On a motion by Trustee Martins, seconded by Trustee Roy, the Board unanimously voted to table the motion.

On a motion by Trustee Walker, seconded by Trustee Scaife, the Board discussed the recommendation of the Benefits Committee that the full Board adopt the Mandatory Distribution Policy.

On a motion by Trustee Martins, seconded by Trustee Crombie, the Board voted to table the motion as follows:

Ayes: Trustees Crombie, Martins, Provencher, Roy, Sosnoff, and Walker.

Nays: Trustees Beardmore, McCrillis, Scaife, and Wozmak.

Trustee Roy discussed the Phase 2 revisions to the Governance Manual, noting that the Governance Committee had unanimously approved them at its December 10, 2013 meeting. On a motion by Trustee Roy, seconded by Trustee McCrillis, the Board unanimously approved the Phase 2 revisions to the Governance Manual.

Trustee Sosnoff began his investment remarks by stating that funds held in trust as of November 30, 2013, were \$6.942 billion, which represented an increase of 1.4 % from October 31st. All asset classes were up for the fiscal year-to-date. He discussed the December 20th IIC meeting at which the Committee had reviewed NHRS' long-term funding needs and discussed domestic equity allocations. The Committee had renewed the Abel/Noser

contract, the company which prepares trading costs analyses. He noted that the January meeting would feature macro-economic presentations from three managers and encouraged his fellow trustees to attend. Mr. Johansen, Director of Investments, responded to several questions regarding the NHRS asset allocation and also encouraged trustees to attend the January IIC meeting.

On a motion by Trustee Walker, seconded by Trustee Beardmore, the Board voted unanimously to temporarily adjourn the meeting to discuss collective bargaining strategy or negotiations under RSA 91-A:2, I(a).

On a motion by Trustee McCrillis, seconded by Trustee Martins, the Board voted unanimously to reconvene the Board meeting.

On a motion by Trustee Martins, seconded by Trustee Roy, the Board voted to adopt the tentative Collective Bargaining Agreement between the SEA and the NHRS as presented, as follows:

Ayes: Trustees Gustafson, Beardmore, Crombie, McCrillis, Martins, Provencher, Roy, Sosnoff, Walker and Wozmak.

Nays: Trustee Scaife.

Trustee Crombie presented a brief PPCC report, beginning with the recent PELRB decision and requested commentary from Executive Director George Lagos. Mr. Lagos stated his view that the merits of NHRS' case had not been fully considered. Trustee Crombie advised the Board of the intention to file for PELRB reconsideration of its decision pertaining to supervisory staff. Trustee Crombie then discussed the annual evaluation of the Executive Director, noting that each Trustee had a sealed package containing the evaluation instrument, as well as a postage-paid envelope for its return. He asked that all evaluations be mailed to NHRS by Friday, January 24, 2014. He would gather and tally the results, and a formal discussion with Mr. Lagos would take place at the February Board meeting.

Trustee Sosnoff discussed the Legislative report and described the NHRS bills before the Legislature. Trustee Sosnoff highlighted four bills; recovery of overpayments; reclassification of Department of Correction personnel; alternative retirement plans; and the indexing of NH retirement to Social Security. In his Legislative review, Mr. Dianis noted that Marty Karlon was at the Legislature that morning because two NHRS bills were being reviewed. A brief discussion followed.

Chair Gustafson called for a seven-minute break. Trustee Provencher excused herself from the meeting.

Chair Gustafson reconvened the meeting at 10:30 a.m. and welcomed David Kausch, Consulting Actuary from GRS, to discuss the June 20, 2013 Valuation Report. Following an introduction, Mr. Kausch first focused his remarks on the process of smoothing asset values to mitigate the volatility of investment returns. He then reviewed the rate of payroll growth and the normal cost of funding retirement benefits. Referencing page 79 of the Valuation, Mr. Kausch recommended the Board proceed based upon the current assumptions as presented. He also discussed the amortization schedule for funding the UAAL.

Mr. Lagos offered his Executive report, noting that the KPM report was invaluable in identifying service issues. He stated he would present Phase II of the PIP at the February meeting. Additionally, he discussed the *ad hoc* Real Estate Committee which had been formed to facilitate appropriate building needs and possibilities for NHRS. An RFP for real estate services would be launched and he anticipated a substantial report for the Board at the February meeting.

Atty. Crutchfield opened his legal report by noting that five of the six cases that the NHRS was involved in were now in the NH Supreme Court. Referencing his reports in the Board material, he noted there were no material updates. He then discussed the Board's annual fiduciary insurance policy renewal action.

On a motion by Trustee Roy, seconded by Trustee Sosnoff, the Board unanimously voted to renew its annual fiduciary insurance coverage for \$20 million with Chubb Insurance as the primary insurer as presented.

On a motion by Trustee Roy, seconded by Trustee Beardmore, the Board voted to enter into non-public session under RSA 91-A:3, II(e) to discuss current legal actions on the HB2 Contributions case, on a roll call vote, as follows:

Ayes: Trustees Gustafson, Beardmore, Crombie, McCrillis, McDonough, Martins, Roy, Scaife, Sosnoff, and Walker.

Nays: None.

Staff members Call, Clough, Browne, Fritzky, Cain, Calkins, Miller, and Dianis left the meeting with all public attendees.

Trustee Beardmore excused himself from the meeting at approximately 11:37 am.

On a motion by Trustee Scaife, seconded by Trustee Roy, the Board unanimously voted to conclude the non-public session. Upon resumption of the public session, staff and public attendees returned.

Mr. Lagos noted that the Board had received a letter from the Retirement Security Coalition which raised several issues with respect to the pending Supreme Court appeal on the HB 2 contribution case. Mr. Lagos confirmed that the correspondence had been reviewed by counsel and that the Board was properly acting in accordance with its fiduciary duty. Mr. Lagos was directed to develop a response on behalf of the Board.

Mr. Dianis presented the Finance Report, stating that the GFOA review was an eight-month process that reviewed the System's CAFR which explained why awards were received a year in arrears. He noted that it was an important distinction to earn for the System. Following a brief discussion of the Key Performance Indicators, he noted that the trust assets had increased \$1BN over the last year.

Mr. Clough focused his IT report on PensionGold updates. One had been built to support HB 342 regarding part time employee reporting. A second had been built to automate the annual recalculation of insurance rates in Employer Services.

Ms. Miller briefly noted her work in the PensionGold database in the event of a judicial determination impacting member contribution rates. She was also investigating the full cost of migrating annual member statements to MyAccount.

Ms. Call provided more detail on the implementation of retiree insurance rate changes, noting that three weeks of full staff time would be reduced to two days with the newly developed capability to download premium changes from HealthTrust. She also noted continuing difficulties with reconciliation the State of New Hampshire payroll reports arising from their transition to a new payroll system.

Chair Gustafson called for a motion on the Consent Agenda and any items that required discussion. On a motion by Trustee Wozmak, seconded by Trustee Sosnoff, the Consent Agenda was unanimously approved *without* the Matter of M.M.

On a motion by Trustee Scaife, seconded by Trustee Roy, the Board voted to approve the recommendation of the Hearings Examiner's in the Disability Application of M.M., as follows:

Ayes: Trustees Gustafson, Crombie, McCrillis, Wozmak, Sosnoff, Scaife, Roy, and Walker.

Nays: Trustee Martins.

NHRS Board of Trustees
January 14, 2014

On a motion by Trustee Martins, seconded by Trustee Roy, the Board voted unanimously to approve the travel request for Trustee Crombie presented in the Board materials.

Following a brief, general discussion, on a motion by Trustee Martins, seconded by Trustee Walker, the meeting adjourned at approximately 12:04 p.m.

Respectfully submitted,
Shannan Hudgins