

**Note:** These minutes from the October 8, 2013, regular meeting were approved and executed at the November 12, 2013 regular Meeting of the Board of Trustees.

**Regular Meeting  
Board of Trustees  
October 8, 2013**

**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; Karen McDonough; Germano Martins; Don Roy; Guy Scaife; Hershel Sosnoff; George Walker. Cathy Provencher and Jack Wozmak, *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*; Marty Karlon, *Public Information Officer*; and Shannan Hudgins, *Administrative Coordinator*.

*Guest:* Andrew Schulman, Esq.

Chair Gustafson called the Regular Meeting of the NHRS Board of Trustees to order at 9:03 a.m. On a motion by Trustee Sosnoff, seconded by Trustee Scaife, the public and non-public minutes from the September 10, 2013, Annual Meeting were unanimously approved.

On a motion by Trustee Walker, 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 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, Cavanaugh, Cain, Calkins, and Karlon left the meeting with all public attendees.

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

Atty. Schulman excused himself from the Board meeting.

Chair Gustafson began the Standing Committee reports by stating that no Audit Committee had been held that morning, there were no issues to report, and that all audit tasks were on track for completion.

He then requested the Benefits Committee report, and Trustee Walker presented an update of that morning's meeting, beginning with the annual Gainful Occupation Report included in the Board materials. Following a brief discussion of the statute requirements for Group II disability annuitants, the Committee sought clarity on the number of non-responders and the penalty process.

On a motion by Trustee Roy, seconded by Trustee McDonough, the Board unanimously accepted the 2013 Gainful Occupation Compliance Report.

The Committee also discussed the Affordable Care Act and its impact on medical subsidy recipients, reviewed the disability determination process and potential revisions to Ret. 309 concerning disability re-examinations, and discussed the use of a third-party hiring agency by participating employers to retain NHRS retirees without restoration to active service. Additionally, the Committee heard a report on potential electronic access for retirement applications, electronic filing, and the delivery of annual member statements via My Account. In closing, Trustee Walker stated that the Committee had unanimously approved its revised Charter.

Trustee Roy presented the Governance Committee report, beginning with Phase II revisions of the Governance Manual, noting that anticipated revisions would focus on content and clarifying alterations. He reported that the IRS had accepted the Voluntary Correction Program (VCP) submission for mandatory distributions. He closed with comments about the Legal RFPs, noting that interviews for investment counsel were scheduled immediately following the adjournment of the Board meeting. The final Legal RFP for local litigation counsel would be submitted soon and he advised that the Committee anticipated a substantial pool of respondents.

Trustee Sosnoff began the Investment Committee report by stating that funds held in trust as of August 31, 2013 were \$6.4 billion, down 2% from July, but

up approximately \$60 million for the fiscal year-to-date. He noted that plan expenses for calendar year 2012 were favorable at 48 basis points, as measured against an average of 73 basis points. Asset allocations were on target in all classes except Domestic Equity, which was 14% over the allocation for future funding of alternative investments. He explained that the over allocation was for the right reasons and beneficial to NHRS. In his macro-economic commentary, Trustee Sosnoff reported that the continued US economic recovery was buoyed by a continued fall in the unemployment rate, now at 7.3%; a steady rise in the GDP; a return to 2007 levels of industrial production and capacity utilization; and growth of 1.5% as reflected by the consumer price index.

In his review of the September IIC meeting, Trustee Sosnoff stated that the Committee had reviewed and revised its charter. The Committee had also committed \$20M to each of the following: Industry Ventures Secondary Fund VII and Partnership Holdings Fund III.

Trustee Crombie, new Chair of the PPCC, stated that the Committee had not met in September. He anticipated receiving a PELRB decision soon, and he stated that mediation on the CBA was scheduled for Thursday, October 10.

Trustee Sosnoff reported that the Legislative Committee had met on October 7<sup>th</sup> to hear a presentation from Senator Stiles and former Senator Preston regarding proposed legislation for an affinity credit card program to benefit the pension system's unfunded liability ("UAAL"). He stated that the Committee's initial reaction had not been favorable, noting implementation and administration difficulties and potential issues with both the exclusive benefit rule and the tax-exempt status of NHRS. Mr. Karlon stated staff's meeting with the Retirement Coalition meeting on October 7<sup>th</sup> had been productive, and included representatives from fire fighters, teachers, the NH State Police, and employers. Mr. Lagos stated that the objective of the proposed legislation was to promote legislative clarity, and he further noted that two LRS had been reserved to address recoupments.

Mr. Lagos opened his operating report remarks by highlighting the 96.25% achievement in Key Performance Measures, which was the first monthly score above 95%. He reported that PIP and continued flowcharting of workflows across the organization had yielded process improvements. Mr. Lagos briefly discussed the medical subsidy review, noting a comprehensive memorandum would be presented at the November Board meeting.

Atty. Crutchfield commented that litigation matters had been reviewed previously that morning and then presented a brief legal update focused on the positive VCP response letter NHRS had received from the IRS regarding RMD's.

The IRS accepted the correction plan and Atty. Crutchfield noted that all items had been satisfactorily completed and no further action was necessary.

In his Finance Report, Mr. Dianis focused on the unaudited Comprehensive Annual Financial Report (CAFR), stating that the closing process had been completed and as of June 30, 2013, total assets were \$6.725 billion, and net assets totaled \$6.428 billion. He confirmed that the unaudited report would be completed by the October 31<sup>st</sup> deadline and Trustees would see the draft CAFR in the November board materials. The KPMG auditors had completed their on-site work, but would return in mid-November to review the CAFR. He stated that the AICPA audit task force guide to implementing the new GASB standards, GASB 67 & 68, had not yet been finalized, but would be issued once reporting structures and authorizations between Plan and employer auditors had been finalized.

Mr. Dianis next discussed the Statement of Assets & Changes in Net Assets Available for Benefits, specifically noting that the covered payroll through August 2013 appeared stable. However, the \$9.1 million increase in contributions was attributable to the rate increase for employers as member contributions had not changed. Most of the Budget-to-Actual variances through August were caused by timing issues. He offered a brief review of the FY 2013 Final Budget-to-Actual Statement, noting the favorable variance of \$882,054 in external investment expense. Mr. Johansen provided additional background and noted the several factors which contributed to the savings. A negative variance of \$351,892 was attributable to variable custodian fees which had not been accounted for in the budget. In explaining the administrative budget that flowed through the state and the positive \$1,545,328 variance, Mr. Dianis stated that actual benefit rates had been lower than budgeted, and the designated IT funds had not been spent. Mr. Lagos noted that legal fees were driven by legislation and litigation, but focused management had reduced costs.

Mr. Clough presented his first IT update, focusing on the co-location site in Dallas, Texas, and the procedures in place for disaster recovery. He was beginning his review of the imaging project and noted that the website upgrade was currently on hold. The current Blackberry business email infrastructure was under review and he was exploring updated and more efficient alternatives. He was continuing his work on development of a revised Employer Reporting Module for PensionGold.

Ms. Miller gave a brief update on the RMD process, noting that receipt of the VCP letter had been appreciated by her staff. She also discussed coordination efforts with PIO and IT to develop online retirement forms.

Ms. Call focused her report on the Employer Focus Group meeting planned for Wednesday, October 9<sup>th</sup>, for the purpose of reviewing HB 342 data reporting requirements for employers of NHRS retirees. Her team was also developing webinars for training. She also noted that a concerted effort to move all payroll recipients to direct deposit was being made through the initial retirement application process and by communication with retirees currently receiving checks.

Following a five-minute break, Director of Investments Larry Johansen presented an in-depth explanation of the Independent Investment Committee's structure and statutory role in relation to the NHRS Board of Trustees and its fiduciary responsibility for funds held in trust for members and retirees of the system. He discussed the various investment strategies in general terms, and then he provided a detailed explanation of how the Investment Committee balances investment risk with available opportunities, consistent with the Board-approved Investment Policy, while maintaining sufficient liquidity to meet the beneficiary monthly payroll. He closed with a review of the private equity investment process and a real estate update that delineated the system's shift from individual property ownership to a more diversified open-end fund investment strategy.

On a motion by Trustee Scaife, seconded by Trustee McCrillis, the Board unanimously accepted the Consent Agenda as presented.

On a motion by Trustee Martins, seconded by Trustee Walker, the meeting was adjourned at approximately 11:38 a.m.

*Respectfully submitted,*  
*Shannan Hudgins*