

**Note:** These minutes from the October 14, 2014, regular meeting were approved and executed at the November 12, 2014, regular Meeting of the Board of Trustees.

**Board of Trustees  
October 14, 2014**

**The Public Minutes**

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

*Trustees:* Dick Gustafson, Ph.D., *Chair*; Tonya Angwin; John Beardmore; Dean Crombie; Bill Dwyer; Maureen Kelliher; Germano Martins; David McCrillis; Don Roy; Hershel Sosnoff; and George Walker. 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 and Retiree Services*; Frank Clough, *Director of IT*; Marty Karlon, *Public Information Officer*; John Browne, *Internal Auditor*; Heather Fritzky, *Controller*; Nina Calkins, *Process Improvement Manager*; Carolyn Johnson, Esq., *Hearings Examiner*; Mark Cavanaugh, Esq., *Associate Counsel and Compliance Officer*; Rosamond Cain, *Human Resources Manager*; Christine Basha, *Public Information Specialist*; and Shannan Hudgins, *Administrative Coordinator*.

*Guest, telephonically:* Keith Brainard, *Research Director, NASRA*.

Chair Gustafson called the meeting to order 9:02 a.m. On a motion by Trustee Walker, seconded by Trustee Roy, the Board of Trustees unanimously approved the public minutes, as amended, and non-public minutes of the September 3, 2014 Board of Trustees Meeting. Three amendments corrected scrivener's errors.

Newly appointed Trustee Tonya Angwin joined the Board meeting at approximately 9:12 a.m.

Trustee Beardmore opened his Audit Committee report with an update of the morning's meeting, noting that two auditors from KPMG had presented a status report. The anticipated December completion date of the audit was on target, and he also stated that the required GASB employer audits were on schedule and would be completed by the deadline. Trustee Beardmore next discussed the draft Service Purchase Policy that had been approved at the September 30 joint Audit-Governance meeting. Following its approval, Staff had continued to review the policy against three benchmarks: the appropriate interest rate; the impact of the interest rate on the cost of the service purchase; and, the cost of performing the service purchase calculations. Trustee Beardmore reported that the Audit Committee had voted to rescind its 9/30/14 approval and had reviewed and approved an updated version of the policy. Executive Director George Lagos stated that although fifteen pending requests for

service purchase calculations would be delayed by further review of the policy, the revisions would be beneficial to those NHRS members seeking service purchases. Larry Johansen, *Director of Investments*, presented an example calculation for Trustees that outlined three funding scenarios for a member at age 40 and a member at age 55. Trustee Beardmore stated that the policy would also be reviewed by the Governance Committee and would come before the Board at its November 12<sup>th</sup> meeting. He closed by stating there were no outstanding matters on the Audit Tracker.

Trustee Walker announced that the Benefits Committee would meet following the full Board meeting. He then requested the annual Gainful Occupation report from staff. Atty. Mark Cavanaugh presented a brief outline of the gainful occupation process and explained the published report which had been submitted to the Board.

On a motion by Trustee Dwyer, seconded by Trustee Kelliher, the Board voted unanimously to accept the 2014 Gainful Occupation Compliance Report.

Trustee Roy stated that the Governance Committee would convene before the November Board meeting. He then asked for a review of Ret. 103, and Atty. Crutchfield provided both a brief background for the proposed rule change and details of the rule-making process through the Joint Legislative Committee on Administrative Rules (JLCAR).

On a motion by Trustee Martins, seconded by Trustee McCrillis, the Board voted unanimously to approve the Initial Proposal on revisions to Ret. 103, thereby allowing staff to proceed with the rulemaking process.

Trustee Sosnoff presented the Investment report, stating that as of August 31, 2014, funds held in trust totaled \$7.408 billion, representing a 2.5% increase from July. In his macroeconomic report, Trustee Sosnoff stated that the Fed would cease the quantitative easing program – bond buying – at the end of October, which he considered a sign that the US economy had reached a sustainable growth trend. He was clear to note that it was the end of the Fed's systematic stimulus program, not the beginning of market tightening. He added that US unemployment figures had dropped to 5.9%, which was within 1% of the accepted full employment figure. World market volatility continued as the IMF lowered its world economic growth forecast by .1%, political unrest in the Middle East continued unabated, and the Ebola health crisis in Africa unfolded. Scotland's failed bid for independence from the UK was seen as a positive economic outcome, and he noted that secession might have further complicated EU economic growth, the stability of the Euro, and EU unity.

Trustee Sosnoff reported that at its September 19<sup>th</sup> meeting, the IIC had renewed ICAP and LSV for two years, with approximately \$400 million allocated to each manager. Mr. Johansen discussed the revised Comparative Performance and Fee Analysis Report. He briefly discussed asset allocation, explaining that IIC guidelines prescribed no one manager should have more than 10% of the NHRS total portfolio. However, in the interest of promoting further diversification, the IIC had lowered its parameters to 5%. The next IIC meeting would be held Friday, October 24<sup>th</sup>, at 9:00 a.m.

PPCC Chair Crombie stated that his update would be confined to a non-public session.

On a motion by Trustee Crombie, seconded by Trustee Walker, the Board of Trustees voted to enter into non-public session under RSA 91-A:3, II(c) to discuss a personnel matter on a roll call vote, as follows:

*Ayes:* Trustees Gustafson, Angwin, Beardmore, Crombie, Dwyer, Kelliher, McCrillis, Martins, Roy, Sosnoff and Walker.

*Nays:* None.

On a motion by Trustee Walker, seconded by Trustee Dwyer, the Board unanimously voted to conclude the non-public session at which no action had been taken.

Trustee Sosnoff stated that while there was nothing material to report at this time it was anticipated that legislative updates would be substantive following the November 4<sup>th</sup> election.

Chair Gustafson reported on the Real Estate Committee progress with lease negotiations on the property at 16 Foundry Street in Concord. Phyllis Stibler had been retained for space planning for the 22,000 square foot office space situated on the second and third floors. Legal issues under consideration included the tax-exempt status of NHRS and any savings that could be realized if an option to purchase the space could be exercised. He closed by reporting that total billing for services from Mr. Norton was under \$9,000 thus far, and the system was receiving good value for the services requested.

Following a five minute break, Keith Brainard, Research Director at the National Association of State Retirement Administrators (NASRA) and a well-known national expert on public pension plans, provided an educational presentation to the Trustees via telephone with his PowerPoint slides projected for the session. Mr. Brainard opened with a detailed comparison of private and public sector retirement benefits in the United States. He reported that the US has over four thousand public retirement systems. He discussed defined benefit plans and the emerging development of defined contribution, cash balance and hybrid plans across the nation. Included in his presentation were detailed explanations of changes in the actuarial value of assets and liabilities, and he provided specific examples of well-funded plans as well as pension plans in significant financial distress. His comprehensive view of public pensions in America was informative and provided the Board with a broad view of pension history, trends, and future developments.

Following the presentation, Chair Gustafson requested staff reports. Mr. Lagos opened the Operating Reports portion of the Agenda, noting that KPM statistics had improved over September. The PIP II process was underway with the Insurance Administration process, which included medical subsidy. He briefly discussed the project undertaken by managers with Marty Karlon to improve and standardize all outgoing communication, noting that a sample letter format could be found at the back of Tab 10. Mr. Lagos then discussed employer penalties and abatements, explaining that penalties associated with data entry errors and part time retiree reporting errors had been enacted with the passage of recent legislation. He requested the Board extend abatement authority to the Executive Director with respect to

assessment/abatement as set forth under the newly enacted statutory provisions and consistent with authority which had been previously granted by the Board.

On a motion by Trustee Kelliher, seconded by Trustee Beardmore, the Board of Trustees unanimously voted to designate the Executive Director to act on the Board's behalf regarding abatement requests related to penalties which may be imposed in connection with employer reporting under HB 1494.

In his Legal Update, Atty. Crutchfield, *Chief Legal Counsel*, reported that the NH Supreme Court had recently dismissed the writ for certiorari by Raymond Porelle, and that the NH Superior Court had dismissed a filing by Robert Beadle in which he challenged the NHRS in its adherence to an IRS tax levy of his pension benefit. Atty. Crutchfield then requested the Board enter non-public session.

On a motion by Trustee Walker, seconded by Trustee Dwyer, the Board of Trustees 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, Angwin, Beardmore, Crombie, Dwyer, Kelliher, McCrillis, Martins, Roy, Sosnoff and Walker.

*Nays:* None.

On a motion by Trustee Martins, seconded by Trustee Kelliher, the Board unanimously voted to conclude the non-public session at which no action had been taken.

*Director of Finance* Jack Dianis began his report by announcing that budget hearings before the Governor would begin after the November 4<sup>th</sup> statewide election. He then presented the net position of assets at \$7.408 billion at August 31 as compared to \$6.480 billion one year earlier. Mr. Johansen explained an upward variance in investment legal expense which was attributable to unanticipated changes which had been made with investment managers and the continued deployment of capital to alternative investments. He confirmed that the budgeted legal expense had been based on FY 14 expenditures, and that the FY 15 expenditures could increase two-fold. Mr. Lagos assured Chair Gustafson that budget-balancing measures would be undertaken to offset the unanticipated expense increase. Mr. Dianis closed his report highlighting the property tax credit adjustment that the landlord had passed on to NHRS from the landlord's challenge to Concord's recent property valuation reassessment.

Frank Clough, *Director of IT*, reported the Systems Engineering evaluations were going well, that a new SPAM filtering system would be installed before the end of October, and that he anticipated a December completion date for PG Secure. He also informed the Board that the landlord had decided to delay planned landscaping and parking lot renovations until 2015, but would replace the concrete slab at the front door before the onset of winter weather.

*Director of Member & Retiree Services*, Nancy Miller, opened her update by reporting that Member Statements would be distributed by October 31<sup>st</sup>. She stated that

significant progress had been made with the development of online forms, noting member-type specific forms would be prepopulated and accessible by members and retirees through MyAccount.

Denise Call, *Director of Employer Services*, reported that all employers had submitted their reports in a timely manner, there were no outstanding issues, and that State reporting was now current. She added that the LEAN process with the State was scheduled to begin in November and that NHRS representatives would be participating jointly in that initiative. Ms. Call closed with an update to the automated rate change capability for employer insurance rates, stating that it was being made available to all employers.

On a motion by Trustee Martins, seconded by Trustee Walker, the Board of Trustees unanimously voted to approve the Consent Agenda with the exception of Disability Application Recommendation 2, M.F.

On a motion by Trustee Beardmore, seconded by Trustee Sosnoff, the Board of Trustees voted to enter into non-public session under RSA 91-A:3, II(c) to discuss a disability application on a roll call vote, as follows:

*Ayes:* Trustees Gustafson, Angwin, Beardmore, Crombie, Dwyer, Kelliher, McCrillis, Martins, Roy, Sosnoff and Walker.

*Nays:* None.

On a motion by Trustee Kelliher, seconded by Trustee Dwyer, the Board unanimously voted to conclude the non-public session at which no action had been taken.

On a motion by Trustee Beardmore, seconded by Trustee Roy, the Board voted to approve the recommendation of the Hearings Examiner in the matter of M.F., as follows:

*Ayes:* Trustees Gustafson, Angwin, Beardmore, Crombie, Kelliher, McCrillis, Roy, Sosnoff, and Walker.

*Nays:* Trustee Martins.

*Abstention:* Trustee Dwyer.

On a motion by Trustee McCrillis, seconded by Trustee Roy, the Board of Trustees unanimously approved the travel request of Trustee Crombie.

Trustee Angwin excused herself from the meeting at approximately 12:00 p.m.

Chair Gustafson invited discussion about any items in his Checkpoint Discussion. In response to a question by Trustee Crombie, Mr. Lagos advised the Board that a revised Surry Village Charter School withdrawal filing was forthcoming, which would then be submitted to GRS, the System's consulting actuary, for review. Mr. Johansen noted that any proposal would be very costly for an employer seeking to withdraw from NHRS membership.

NHRS Board of Trustees  
October 14, 2014

On a motion by Trustee Beardmore, seconded by Trustee Martins, the meeting adjourned at approximately 12:10 p.m.

*Respectfully submitted,*  
*Shannan Hudgins*