

NHRS Board of Trustees
November 14, 2017

Note: These minutes from the November 14, 2017 Public Session were approved and executed at the December 12, 2017 Regular Meeting of the Board of Trustees.

**Board of Trustees
November 14, 2017**

Public Minutes

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

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

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

Chair Gustafson called the November 14, 2017, regular meeting of the NHRS Board of Trustees to order at 10:30 am, having established a quorum.

Chair Gustafson called for a motion to approve the October 10, 2017 Public and Non-Public minutes. On a motion by Trustee Marro, seconded by Trustee Roy, the Board approved the minutes as amended with Trustee Dwyer abstaining.

Chair Gustafson called on Trustee Dwyer, as the newly appointed Audit Committee Chair following Trustee Beardmore's resignation, to report on the morning's meeting.

Trustee Dwyer indicated that the unaudited CAFR had been submitted to KPMG and that at this point there do not seem to be any areas of concern. KPMG is to present the final CAFR to the Audit Committee Meeting on December 12, 2017. He further advised that an RFP will be issued by the end of the month for a new five-year contract for audit services beginning with the FY18 audit. The audit tracker showed that no new audits have been added nor have any been completed. Trustee Dwyer noted that audit items #138 and #139 relate in part to proposed changes to administrative rules that are being undertaken and that the expected completion date of those two items will extend well into 2018 due to the JLCAR process.

Trustee Dwyer updated the Board noting that the total costs arising from the recent data security incident was approximately \$24,000 and that there were no costs from LRS for the subsequent security enhancements made to My Account. Director Lagos

updated the Board on a productive data risk assessment session held the day before and indicated that a report with recommendations is anticipated by the end of the year. Lastly, Trustee Dwyer spoke about the ongoing Pension Administration System Evaluation process and advised that LRS spent three days on site last week to provide an in-depth demonstration of the latest version Pension Gold.

Trustee Walker updated the Board on the Benefits Committee meeting of November 7, 2017. He reported that the proposed Gainful Occupation (GO) rule revisions were discussed and the Committee recommended to the Board that it support the proposed revisions. The Committee entered into non-public session to discuss disability matters. In public session, the Committee voted unanimously to recommend to the Board that an “in-office examination” be done by an IME for all disability applications, if an IME cannot recommend granting the disability retirement based on medical records that were reviewed. Chair Gustafson noted that in the context of the motion, the intent was for the IME to see the disability applicant in person.

On a motion by Trustee Martins, seconded by Trustee Walker, the Board voted unanimously that an in-office examination will be done by an IME for all disability applications if the IME cannot recommend granting disability retirement based on the medical records reviewed.

Trustee Walker also informed the Board that the Committee recommended that a disability retiree should be re-examined and that the supporting materials for that recommendation will be provided to the Board for next month’s meeting.

Attorney Cavanaugh provided a brief summary of the proposed revisions to the GO rules and Chair Gustafson noted that the Board will take the proposed revisions under advisement with Board action expected at next month’s meeting.

Trustee Don Roy reported on the Governance Committee noting that the Committee did not meet this month but will be meeting in December for the annual review of the Governance Manual.

Trustee Kelleher spoke to the October 20, 2017 meeting of the Independent Investment Committee. The IIC approved the renewal of a two-year contract with Income Research and Management to manage a government credit fixed income portfolio and a short duration liquidity portfolio. After an overview by NEPC, representatives from Blackrock provided a presentation regarding their co-investment capabilities and the Committee approved an extension of a \$150 million commitment to Blackrock’s co-investment program.

The second draft of the 2017 Comprehensive Annual Investment Report (CAIR) was also discussed. Trustee Kelleher noted that we continue to have very strong markets; however, the proposed Tax Reform bill in D.C. is creating some volatility. It is widely believed that the Federal Reserve will increase interest rates in December 2017 and it looks like rate increases will continue with Chairman Powell coming in next year. The GDP continues to look positive with an annualized rate just over 3% in the 3rd quarter of the calendar year accompanied by positive Global growth as well.

Larry Johansen, Director of Investments, reported that all asset classes are very close to target and performance continues to be strong. Mr. Johansen noted that the IIC is expected to approve the CAIR at its meeting on November 17, 2017. Also, at the upcoming meeting, Riverstone Credit will make a presentation. The IIC made a \$50 million commitment to the first Riverstone Credit fund and will be considering a \$50 million commitment to Riverstone Credit II. In addition, NEPC will make a presentation on the NHRS public market assets. In December, NEPC will present the annual review of the private equity-private debt portfolio and The Townsend Group will present a semi-annual review of the real estate portfolio.

Marty Karlon, Public Information Officer, commented on HB 631, establishing a cash balance pension plan for retirees who began service with the state on or after July 1, 2017, which has been recommended to be retained in committee for another year and therefore, would not be acted on by the Legislature in the upcoming session.

Chair Gustafson remarked that the Decennial Commission is looking to issue its report by the deadline of December 1st. Items under review include the cost of not reducing the pensions at age 65 for Group I employees and the cost of a permanent COLA of 1.5% annually on the first \$30,000 of a retiree's pension. The Commission has voted unanimously to recommend changing the terms of NHRS Trustees to a three-year term rather than a two-year term. Chair Gustafson noted that the Boston College Center for Retirement Research issued its draft report to the Commission last week and comments were prepared and sent back to BC. The final BC report will be presented to the Decennial Commission later this month.

Director Lagos added that the Decennial Commission is also looking into "working after retirement" issues, and is considering a proposal imposing a penalty on retirees who work more than the permitted number of hours, which would impact the state portion of their pension. Other proposals which may be considered include a required separation from service and an employer contribution towards the UAAL.

Trustee Griffin reported that there is nothing to report at the moment regarding the PPCC.

Before introducing David Kausch and Heidi Barry from GRS, Director Lagos noted that Mr. Kausch submitted responses to Boston College for its report and commented that he has also asked Mr. Kausch to speak briefly to the status of the teachers' payroll growth assumption.

Mr. Kausch and Ms. Barry made a presentation on layered amortization, which has also been discussed by the Decennial Commission. They reviewed the background, current NHRS policy, and a hypothetical NHRS layered amortization scenario. They explained that NHRS has a formal, written funding policy for establishing employer contribution rates and that many elements of the funding policy come directly from the NH statutes. Per statute, the unfunded actuarial accrued liability (UAAL) for pensions is currently amortized over a 30-year period beginning July 1, 2009. There are 22 years remaining as of the fiscal year ending June 30, 2018.

In summary, Mr. Kausch and Ms. Barry explained that since June 30, 2007, the UAAL has increased primarily as a result of investment losses attributable to the Great Financial Crisis and assumption changes resulting from the last two experience studies. The UAAL decreased primarily as a result of investment gains since the Great Recession, lower payroll than expected and benefit changes. One feature of a layered amortization approach is the ability to separately track the sources of the UAAL over time. Mr. Kausch noted that the hypothetical scenario categorized the layers into gains and losses, assumption changes and benefit changes.

In answer to Trustee questions, Mr. Kausch noted that many retirement plans are using or considering layered amortization. He explained that before the GASB Standards change, the 30-year amortization period was commonly used. The potential for employer contribution rate volatility would be reduced with layered amortization. Mr. Kausch stated that one of the most significant assumptions for the level of percent of payroll amortization is the assumption that the plan will stay open and that the headcount will remain constant. If the plan were closed to new hires, active population and payroll will decline. For a closed plan, when there are no active members and only retirees, a plan may have to change the investment policy and asset allocation because as a retiree-only system a plan is not collecting normal cost contributions while still paying out benefits, so cash flow and liquidity needs change dramatically. When a plan closes, GRS recommends changing from a level percent amortization to a level dollar amortization because the payroll is diminishing to zero. Mr. Kausch noted that switching to level dollar amortization with the amortization period ending June 30, 2039 would result in an immediate increase to employer contributions.

Mr. Kausch then addressed teachers' payroll growth assumption noting that GRS has reviewed preliminary data for 2017 which indicates that every member classification, except teachers, had payroll growth above expectations of 3.25%. For teachers, the payroll growth was .75%, lower than the 3.0% assumption. Staff and GRS will research this further.

Mr. Kausch explained that he found the Boston College draft report to be generally favorable. Boston College made two recommendations. One recommendation is that NHRS switch to a level dollar amortization, and the second recommendation is to use a select and ultimate assumed rate of return. NHRS currently assumes a 7.25% return each year. Mr. Kausch noted that he is not entirely in favor of going to a select and ultimate assumed rate of return but prefers using a level assumed rate of return.

Director Lagos gave his Executive Report noting that NHRS fell short this month in Key Performance Measures with issues in the Finance area due to staffing. He stated that his weekly calls to members continue and are going well. Employer Outreach is also progressing well with his ninth visit scheduled with the Bow School Board. Coming up next week, he has the NH School Board Association and the NHMA Conference scheduled.

Tim Crutchfield, Chief Legal Counsel, advised the Board that the fiduciary insurance renewal process has begun with a Board vote anticipated in January.

Heather Fritzky, Finance Director, reported that the books are now closed for FY17 allowing us to move into FY18. The September 30, 2017 net position is over \$8.5 billion dollars, an increase of \$913 million. She noted that on the Statement of Changes in Net position, total contributions have increased due to the employer contribution rate increase from FY17 to FY18. The member contributions are up slightly as well. The Budget v Actual Statement reflects Marketable Investment expenses are still slightly under budget due to two managers that did not submit their invoices until October. Independent Medical Examiner/Consultant expenses continue to track a bit above budget due to there being more psychiatric disability applications which are much more expensive than traditional medical exams. Total administrative expenses remain under budget.

Frank Clough, Director of Information and Technology, reported that currently we are working with Charles River Associates as well as Attorney Cam Shilling of McLane Middleton on a data risk assessment. Mr. Clough noted that an on-site security awareness training for staff with a former Secret Service employee, Michael Levin, had recently been completed. Mr. Levin made staff aware of the importance of security not just at work, but also at home. Mr. Clough has been working on telephone system redundancy enabling use of the NHRS phone system remotely if something happens to the office.

Nancy Miller, Director of Member Services, gave her report noting that the benefits area was focused on finalizing the high volume of July preliminary benefits. She also noted that all the webinar trainings for employers have been completed with regard to the automated insurance module on the DRS and that staff is utilizing a recorded training along with detailed employer instructions to assist all employers.

On a motion by Trustee Dwyer, seconded by Trustee Martins, the Board voted unanimously to approve the Consent Agenda as presented, except for items #2 and #4.

On a motion by Trustee McCrillis, seconded by Trustee Roy, the Board voted unanimously to enter into non-public session under RSA 91-A3, II(c), on a roll call vote.

Ayes: Chair Gustafson, Trustees Griffin, Dwyer, McCrillis, Hart, Marro, Martins, Roy, Kelleher and Walker.

Nays: None

On a motion by Trustee Roy, seconded by Trustee Walker, the Board unanimously voted to conclude non-public session. No votes were taken in non-public session.

On a motion by Trustee Martins, seconded by Trustee Marro, the Board unanimously voted to approve the Consent Agenda items #2 and #4.

Under Board Discussion, Director Lagos mentioned that he has been in preliminary discussions with a space planning firm NHRS has used in the past to review the current office space configuration since we are potentially looking at spending the next 17 years in the current location. Mr. Lagos anticipates coming before the Board next month with a sole source contract for the space planning work.

Trustee Roy asked Director Lagos about the State's request for NHRS to assume a Social Security Administration function at the request of NH DHHS and what budgetary impact that may have. Mr. Lagos replied more research needed to be done and that a meeting was being scheduled with representatives from DHHS.

On a motion by Trustee Roy, seconded by Trustee Hart, the Board voted unanimously to adjourn at 12:30 pm.

Respectfully submitted,

Margaret M. Astles