

NHRS Board of Trustees
December 12, 2017

Note: These minutes from the December 12, 2017 Public Session were approved and executed at the January 9, 2018 Regular Meeting of the Board of Trustees.

**Board of Trustees
December 12, 2017
Public Minutes**

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

Trustees: Dick Gustafson, Ph.D., *Chair*; Tonya Angwin; Bill Hart; Maureen Kelliher; Stephen Marro; Germano Martins; David McCrillis; Michael Milligan; Don Roy; and George Walker.
Telephonically present: Bill Dwyer; Julia Griffin.

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

Chair Gustafson called the December 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 accept the November 14, 2017 meeting minutes. On a motion by Trustee Kelliher, seconded by Trustee Hart, the Board voted to approve the public and non-public minutes as presented. Trustees Angwin and Milligan abstained.

Chair Gustafson welcomed new Trustee Michael Milligan to the Board and reviewed his background, noting that he retired as Chief of Police in Merrimack after 32 years of service. Currently Trustee Milligan is serving as the State Deputy Liquor Commissioner. He is also a member of the Governor's Commission on Drugs and Alcohol, the Highway Safety Commission and several other professional committees.

Trustee Dwyer gave a brief update on the Audit Committee, reporting that KPMG was at the morning meeting and presented the Committee with an overview of the 2017 audit. KPMG noted there are no risks or outstanding matters or deficiencies that were identified. Trustee Dwyer was pleased to report that improved communication throughout the audit process facilitated the completion of the audit on the agreed-upon timetable. KPMG indicated that they were issuing an "unmodified" or "clean" audit opinion for FY 2017. Following the presentation the Committee held a brief non-public session meeting with the auditors. After returning to public session, the Committee voted unanimously to recommend to the full Board the approval of the 2017 Audit and CAFR subject to the receipt of the unmodified opinion forthwith.

Regarding the Comprehensive Annual Financial Report (CAFR) for FY 2017, Finance Director Heather Fritzky began by paying homage through a memorial page dedicated to Hersh Sosnoff, who was a valuable member of the NHRS Board of Trustees from 2011 to 2017. Ms. Fritzky then gave a review of the changes in the CAFR as a result of GASB 74. She highlighted the areas that have been consolidated with focus on the changes to the OPEB presentation. With the adoption

of GASB statement 74, the Pension and OPEB presentation is more cohesive throughout the CAFR.

On a motion by Trustee Dwyer, seconded by Trustee McCrillis, the Board voted unanimously to accept the recommendation of the Audit Committee to approve and accept the Comprehensive Annual Financial Report for Fiscal Year 2017.

Trustee Dwyer noted that the Audit Tracker report did not change except for an update to the targeted completion dates for Audit Observations 138 and 139. In regard to the ongoing security incident risk assessment, Executive Director Lagos is expecting a draft report from Attorney Shilling by year end. Also expected is a pricing proposal from LRS for an upgrade to Version 3 of the PensionGold pension administration application.

Trustee Walker reported that the Benefits Committee did not meet this month but he anticipates a meeting in January.

Chair Gustafson addressed the memo from Associate Counsel Cavanaugh regarding proposed amendments to Ret 309.01 regarding the Gainful Occupation provisions under RSA 100-A:6, III(b).

On a motion by Trustee Walker, seconded by Trustee Hart, the Board voted unanimously to accept the recommendation of the Benefits Committee that the Board approve the proposed revisions to rule Ret. 309.01, as presented and authorize staff to begin the JLCAR rulemaking process.

On a motion by Trustee Martins, seconded by Trustee Roy, the Board voted unanimously to enter into non-public session under RSA 91-A:3, II(c) to discuss a matter which could adversely impact the reputation of someone other than a member of the Board, by roll call vote.

Ayes: Trustees Gustafson, Angwin, Dwyer, Griffin, Hart, Kelliher, Marro, Martins, McCrillis, Milligan, Roy, and Walker. Nays: None

On a motion by Trustee McCrillis, seconded by Trustee Roy, the Board voted unanimously to conclude the non-public session.

On a motion by Trustee Hart seconded by Trustee Walker, the Board voted unanimously to accept the recommendation of the Benefits Committee to direct staff to pursue a disability re-examination in the matter of J.K., as presented.

Trustee Roy reported that the Governance Committee did not meet last month but will be meeting directly after the Board meeting. He explained that NHRS fiduciary insurance coverage expires on January 15, 2018 and the renewal of coverage through Board action at the January meeting is anticipated. He informed the Board that staff has received a quote from the current provider, Hudson Insurance, for the same premium of \$123,000 per year on coverage of \$20 million with a \$100,000 deductible. This figure is locked in for at least one year, but Chief Legal Counsel Crutchfield is trying to negotiate a two year policy and is also seeking additional quotes from other carriers.

Trustee Kelliher reported that the Investment Committee (IIC) met in November and approved the 2018 IIC meeting schedule. The IIC discussed and approved the Comprehensive Annual Investment Report (CAIR) for FY 2017. The IIC heard a presentation from Riverstone Holdings, a private debt manager with an energy focus. She explained that the IIC had previously committed funds to Riverstone and that it unanimously agreed to commit another \$50 million to Riverstone

Credit Partners II, LP subject to contract and legal review. Also, the IIC reviewed the structure of the public markets portfolio with its consultant, NEPC. Capital market returns are better than expected with domestic markets at 20%-plus returns and international markets at 25-30% returns, calendar year-to-date. In looking at debt markets, fixed income securities, domestics are running 3-4% and emerging markets over 30%. Not anticipated was the decline of long term interest rates and inflation. She reported accelerated growth in the US with 2nd and 3rd quarter GDP growth at 3% plus annualized. All in all the year appears to be finishing strongly.

Director of Investments, Larry Johansen reported the NHRS had over \$8.5 billion in assets in November with markets continuing with positive returns. The System's absolute and relative performance is still very strong for the one year ending September 30, 2017 at 13.2% versus the benchmark of 12.0%. The comparative performance for investment fees is favorable in both absolute and relative terms, aided by the increase in assets. NHRS investment expense measures 0.31% and our administrative expense measures 0.11%, both ratios being very positive from a cost control perspective. IIC will meet on Friday, December 15, 2017 and will work with NEPC on a thorough review of the total private debt/equity portfolio. The public debt/public equity performances are extremely strong for the 5 years ending June 30, 2017. Friday's IIC meeting will also engage in the 6-month review of the real estate program. He closed by noting that the January 2018 meeting will discuss macro issues with three firms coming to speak about their assessment of what the new Federal Reserve Chair will mean to capital markets, liquidity and interest rates.

On a motion by Trustee Kelliher, seconded by Trustee McCrillis, the Board voted unanimously to approve and accept the Comprehensive Annual Investment Report for Fiscal Year 2017 as prepared and approved by the Independent Investment Committee.

Chair Gustafson asked to take Trustee Griffin's Personnel, Performance and Compensation (PPCC) report out of order. Trustee Griffin reported that PPCC met on Friday, December 8, 2017 with all members participating telephonically. The meeting minutes of August 30, 2017 were approved. The PPCC reviewed the process for the Executive Director's performance evaluation, which will remain the same as in past years. The PPCC voted to enter into non-public session to discuss personnel matters presented by Human Resources Director Rosamond Cain.

The Legislative Committee report followed. Public Information Officer Marty Karlon reported that the Committee met on Monday, December 8, 2017 and reviewed the 2017 bills retained in Committee. Eight bills were held over from Spring 2017 with six of them recommended to be killed when they come back to the House and Senate. One bill, the cash balance bill, will be retained in Committee. Mr. Karlon highlighted HB 561, the working after retirement bill, which passed the House and was retained in the Senate. At its last meeting, Senate ED&A Committee Chair, Senator Carson, introduced an amendment that replaced the entire text passed by the House with language developed from recommendations by the Decennial Commission. The proposed language would change the current weekly 32 hours or less work limit to an annual limit of 1,040 hours. The penalty proposed for exceeding the limitation is forfeiture of the State portion of a retiree's pension for the 12 month period beginning the following year. The bill also requires a 60-day separation of service between a member's effective date of retirement and returning to work part-time for a participating employer. This bill will go back to the Senate floor for action in January 2018. Mr. Karlon noted that NHRS membership will be updated on HB 561 during the legislative process.

Regarding the 2018 LSRs, Mr. Karlon reported on two that have been added recently, the Decennial Commission's recommendation for the creation of layered amortization for future liabilities and for the creation of a study committee on level dollar amortization.

On a motion by Trustee Hart, seconded by Trustee Roy, the Board entertained a motion to accept the recommendation of the Legislative Committee that the Board endorse the concept of layered amortization for future actuarial gains and losses on a biennial basis for a period no longer than 20 years.

Trustee Martins, although initially supportive of the recommendation when it was addressed at the Legislative Committee, has since reconsidered and is not sure he would now support layered amortization since the issue of a COLA has not been resolved. He also felt that this was a policy matter for the purview of the Legislature and questioned whether the Board should attempt to influence the Legislature by voting to support the recommendation as proposed.

Chair Gustafson suggested that the Board look at the issue of layered amortization separately from a COLA. He went on to say that the Decennial Commission has spent a lot of time discussing a COLA. He outlined the options discussed and explained their focus was on bringing the UAAL down instead of increasing it.

Chair Gustafson noted that many plans are now utilizing layered amortization to reduce volatility in the later years of the amortization schedule. Executive Director Lagos spoke only to the issue of layered amortization, adding that the concept had been presented to the Board by GRS at two sessions this year and has been discussed in detail. Also, GRS has indicated its support for this approach to the Board and the Decennial Commission. He noted that staff considers this measure as an administrative mechanism for managing the unfunded liability and potential future volatility of the employer contribution rate. He felt that it is almost inevitable that there will be legislative action on how the end years will be dealt with from a rate impact standpoint as 2039 approaches. Layered amortization will better track and segregate the impact of the various two year cycles with regard to the unfunded liability. Lastly, Executive Director Lagos noted that in regard to Maine's situation, its Executive Director reported to the Decennial Commission that its plan has been using this approach for a number of years. Mr. Karlon noted that very recently, layered amortization was added as a 2018 LSR.

The Trustees and staff engaged in discussion regarding factors relative to the adoption of layered amortization such as economic ups and downs, the impact on volatility of employer contribution rates, and the advantage that layered amortization provides by creating a mechanism post 2039 to amortize future gains or losses. Chair Gustafson sensed that the Board needed more time to contemplate the layered amortization concept and suggested the topic be re-referred to the Legislative Committee.

On a motion by Trustee Martins, seconded by Trustee Angwin, the Board voted unanimously to table the discussion on the endorsement of the concept of layered amortization.

Lastly, Chair Gustafson reported on the final actions of the Decennial Commission which completed its work on December 7, 2017. The Decennial Commission's report and executive summary are expected to be completed by December 15, 2017.

Mr. Karlon briefly reviewed the State of New Hampshire's Interim Report of the Decennial Retirement Commission issued December 1, 2017 which outlined the twelve recommendations that were adopted by the Commission and five that were proposed but failed.

Executive Director Lagos encouraged the Trustees to review the Boston College Report to the Decennial Commission. Two recommendations were made in the report; one is the use of select and ultimate methodology in determining the assumed rate of return, which received no response from the Commission, and the other is the use of level dollar versus level percent of payroll amortization, which resulted in a motion to recommend that the Legislature study the concept.

Trustee McCrillis thanked Chair Gustafson for all of the time and effort that he gave to the Decennial Commission. He then asked how long after the Decennial Report comes out before there is legislative action. Mr. Karlon replied that the deadline in the House to file bills has passed; however, they had extended the deadline for Decennial Commission-related legislation to December 10, 2017. Chair Gustafson then gave a brief background on the Decennial Commission's workings and how they met their goals. Executive Director Lagos noted that Chair Gustafson spent many hours on Decennial Commission issues not only during the meetings but at night and on the weekends as well. He thanked Chair Gustafson and noted he has gone beyond the call of duty.

Executive Director Lagos provided a brief operations update, noting that the 95% objective for key performance measures was met this month and that the approved 2018 Action Plans are contained within the Board Book. He then outlined a proposal for a sole-source contract for space planning, noting that NHRS has an expected 17-year term at its current location. He noted that he had just learned that there is a purchase and sales agreement on the building currently. If the Board approves the space planning proposal, any such planning would not start for at least 90 days to see if the building changes hands. Executive Director Lagos noted that NHRS has a right of first refusal on the sale of the building and he expects to see something from the real estate broker fairly soon in that regard.

On a motion by Trustee Marro, seconded by Trustee Roy, the Board unanimously voted to accept the recommendation of the Executive Director that the Board approve the procurement of the space planning proposal subject to contract and legal review as presented.

Chief Legal Counsel Tim Crutchfield gave a brief legal report, alerting the Board that he would be emailing the annual request to complete the Statement of Financial Interests form under RSA 15-A, which must be submitted to the Secretary of State's Office by January 19, 2018.

Finance Director Heather Fritzky reported that an RFP was issued on November 30, 2017 for external audit services. The 2017 CAFR audit is complete and the GASB 68 audit is underway and scheduled for completion in January. The net position as of October 31, 2017 was \$8,588 billion which is \$1,073 billion over last year. The budget-to-actual figure remains under budget for total investment expenses. IME expense continues to track slightly ahead of budget due to the number of disability reviews requiring psychiatric evaluations, which cost considerably more than physical evaluations. Total administrative expenses are still tracking under budget leaving NHRS in good financial shape.

Ms. Fritzky reviewed her Action Plan, noting that the GASB 75 audit will be coming the summer of 2018. The new employer reporting and payment penalty process is in place and running smoothly with many employers now utilizing the ACH payment process.

Executive Director Lagos presented a report for IT Director Frank Clough beginning with the internal vulnerability assessment, noting that it seems to be shaping up well with our external IT consultants very impressed with NHRS' IT infrastructure. Regarding the telephone system failure last week, an Intel chip failed and although Cisco knew about the weakness, this information was not communicated to NHRS in advance. The facts and circumstances of this situation are under review. Because of this, NHRS will be revisiting the bid process regarding the VM Ware infrastructure project. Executive Director Lagos reported that a new person has been hired in IT to fill an existing position and that a new position for the processing of IT Help desk tickets will be posted shortly.

Director of Member Services Nancy Miller, reported that the focus in Member Services has been working with the Dept. of Administrative Services with regard to the administration of state retiree insurance program premium changes which will be effective in January. As a result of the data security incident earlier this year, Member Services developed and implemented an automated address change verification process for retirees and active members.

On a motion by Trustee Martins, seconded by Trustee Griffin, the Board voted to approve the Consent Agenda as presented. Trustee Milligan abstained from Consent Agenda Item #6, M.M.

Executive Director Lagos reported all is on track regarding the November action items. He thanked Ms. Fritzky, Mr. Johansen and both their staffs as well as Ms. Cone for their efforts throughout the annual audit process, noting that to have an unmodified opinion for an organization the size of NHRS and its investment portfolio speaks well of those who have these responsibilities.

Chair Gustafson expressed his gratitude to the Board and Committee members for their time and effort during this past year in service to our members and beneficiaries.

On a motion by Trustee Walker, seconded by Trustee Roy, the Board unanimously voted to adjourn.

Respectfully submitted,

Margaret M. Astles
Executive Assistant