

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

**Regular Meeting
Board of Trustees
February 11, 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; Guy Scaife; Hershel Sosnoff; and George Walker. Karen McDonough, Don Roy, 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*; 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., *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 9:05 a.m. On a motion by Trustee Scaife, seconded by Trustee Walker, the Board unanimously voted to approve the January 14, 2014 public minutes as amended and the non-public minutes.

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. She opened with the Committee's review of the Draft Actuarial Funding Policy and the amendments incorporated by Staff following the January Audit Committee meeting. Trustee Provencher noted that two sentences had been added to page four of the Policy, and she anticipated bringing the document before the Board for approval at the March 11, 2014 Board meeting. She stated that the Audit Tracker would only include open audit items in future. John Browne had presented a report on the next open audit item, was inactive and vested-deferred members, and she noted that Mr.

Browne had described management of those accounts as labor-intensive and therefore under review for development of an automated process in PensionGold. Following his current audit of the hearings process, he would then move to an internal audit of investment operations. She closed referencing Mr. Dianis' work with a pilot group of NHRS employers to develop and test financial statements in line with the new GASB rules in advance of the required implementation date. The next Audit Committee meeting would be held on March 11, 2014, immediately before the full Board meeting.

Trustee Walker presented the Benefits Committee report, beginning with a summary of the Committee's meeting held on February 6, 2014. Staff continued to pursue the Granite State Principals Association and had a tentative meeting scheduled with representatives of the firm to discuss the status of the Allentown interim principal. The Committee had also discussed staff work on the recoupment process and medical subsidy issues. Trustee Walker then presented two items tabled at the January Board of Trustees meeting, revisions to Ret. 309 and the Mandatory Distribution Policy. On a motion by Trustee Walker, seconded by Trustee Martins, the Ret. 309 Rule Revision was tabled by unanimous vote of the Board.

Trustee Beardmore moved that the Board accept the recommendation of the Benefits Committee that it adopt the Mandatory Distribution Policy. Trustee McCrillis seconded the motion. The ensuing discussion centered on a single sentence relieving staff of beneficiary notification in perpetuity following a multi-year prescribed protocol of notification requirements. Trustee Martins moved to amend the motion by removing the identified sentence, and his motion to amend was seconded by Trustee Crombie. Trustee Provencher explained that as a trust, any unclaimed assets in the NHRS corpus were not transferred to the State as abandoned property. Trustee Martins proposed an amendment to his amended motion stating that all unclaimed assets in the NHRS trust be posted on its website. His motion was seconded by Trustee Crombie. Following a discussion of the System's administrative structure and capabilities, Trustee Scaife called the question.

The amendment to Trustee Beardmore's motion to adopt the Mandatory Distribution Policy as recommended by the Benefits Committee failed to pass, as follows:

Ayes: Trustee Martins.

Nays: Trustees Gustafson, Crombie, McCrillis, Sosnoff, Beardmore, Scaife, Walker, and Provencher.

Chair Gustafson called a vote on the standing motion, which passed as follows:

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

Nays: Trustee Martins.

Executive Director Lagos noted that staff was in the process of redesigning the NHRS web site and that he expected that developing an on line capability for members or beneficiaries to determine if they have unclaimed assets would be incorporated into the FY 15 action plans.

Noting that Trustee Roy, Chair of the Governance Committee was not in attendance, the Chair stated that the Committee had not met following the January Board meeting. However, the Committee would convene immediately following the adjournment of the Board meeting to discuss the delegation of authority of the Hearings Examiner.

Trustee Sosnoff presented the Investment Committee report, stating that funds held in trust as of December 31, 2013, totaled \$7.023B, up 9% for the first six months of FY '14, noting that this was the first time that assets had exceeded the \$7 billion threshold. He commented that the U.S. economy appeared to have 'turned a corner', with overall growth trending upward. He stated that emerging market economies were slowing, notably Argentina, as well as Brazil and India. He reported that the IIC had heard three substantive macro-economic presentations at its January 24th meeting. The Committee had terminated one manager and voted to move \$115 million to Neuberger Berman. Mr. Johansen provided investment return details, stating that the 18.3% return for the calendar year placed NHRS in the top quintile of its peers, and the three-year return of 10.6% placed the System in the top decile. He also referred Trustees to the Proxy Voting Summary provided in their materials.

Trustee Crombie presented the PPCC update, beginning with the PELRB appeal that had been filed at the end of January. He confirmed that the CBA had been signed by all parties. He also reported that responsibility for Employer Audit oversight had been shifted to Atty. Mark Cavanaugh. Trustee Crombie then requested that the Executive Director evaluation and its requisite non-public meeting be held in abeyance until all Committee reports had been presented.

Chair Gustafson moved to the Legislative Committee update, and Trustee Sosnoff offered brief comments on a few House Bills before requesting a more detailed report from Marty Karlon. In his review of legislative hearings and updates, Mr. Karlon provided the Board with succinct status details of each bill that had been discussed in hearings before the House or the Senate chambers of the NH Legislature. Mr. Lagos then discussed the Concord Monitor article provided to Trustees that morning regarding a Senate bill sponsored by the

New Hampshire Retirement Security Coalition which proposed to increase defined benefits for firefighters and police officers hired after January 1, 2012, and provided for a new defined contribution plan for Group I members that would increase employer costs by 4% for new employees. Following a discussion of the legislative process concerning LSRs and resultant bills, Trustee Martins requested that interested Trustees be provided all material Staff submits to the Legislative Budget Office (LBO) at the time it is submitted. In closing, Mr. Karlon stated that a Committee meeting would be scheduled before the March Board meeting.

Chair Gustafson apprised the Board of the Real Estate RFP and the Committee's decision to extend the request through February 28th. Mr. Lagos reported that although a number of brokerage firms had expressed interest, they were unable to meet the original deadline. He believed the additional time would generate additional responses for evaluation by the Committee.

On a motion by Trustee Walker, seconded by Trustee Crombie, the Board voted by roll call to enter into non-public session under RSA 91-A:3, II(c) to discuss matters which, if discussed in public, could affect adversely the reputation of a person, other than a member of the public body itself, as follows:

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

Nays: None.

Executive Director Lagos and staff members Call, Clough, Crutchfield, Johansen, Browne, Fritzky, Cain, Calkins, Miller, Hudgins, Johnson, Cavanaugh, Karlon, and Dianis left the meeting with all public attendees.

At approximately 10:35 a.m., Trustee Crombie invited Atty. Crutchfield to join the non-public session.

On a motion by Trustee Beardmore, seconded by Trustee Scaife, the Board unanimously voted to return to public session. All Staff and public attendees returned to the Board meeting.

Chair Gustafson briefly discussed the focus of the non-public session, stating that the Board had been in non-public session to discuss the annual performance review of the Executive Director, which the Board performed every year as part of good governance. He reported that the Board was very pleased with the performance of the Executive Director. He and Trustee Crombie, Chair of the PPCC, would meet with Mr. Lagos to relay the particulars of the review. He closed by stating it had been a good discussion and the Board was pleased with where they were.

Following a ten-minute break, Mr. Lagos led the Trustees through the annual Preserve/Achieve/Avoid presentation. Referencing the charts from his presentations of 2012 and 2013, Mr. Lagos asked the Board for goals and targets for the coming year which would be used to structure action plans for the next fiscal year. Following a lively discussion, Mr. Lagos stated the updated P/A/A/would be included in the March meeting materials.

Chair Gustafson then moved to the operating reports, and Mr. Lagos discussed the KPM report. He stated that four of the five negative responses were a result of the State of New Hampshire's salary reporting difficulties that extended back to March of 2013 when a new payroll system was instituted. A meeting had been scheduled to develop resolution to the issues with reporting of contribution data. He noted that Phase II of PIP had begun in Retiree Services and that Insurance Services would begin its time study in the next week. HB342 reporting had begun and the extensive education and outreach effort had proved to be very beneficial to employers. He closed with a description of the revised division reports, stating that the new format shifted the focus of the reports from narrative to statistical reporting. He encouraged questions or comments.

Atty. Crutchfield opened his report by stating that a summary litigation report was included in the Board book and the full litigation report was available to Trustees upon request. He stated that the plaintiffs in the HB2 Contributions case had been granted a filing extension date of February 21, 2014. Atty. Crutchfield then stated that the RFP for New Hampshire counsel was under internal review for action at the April Board meeting. In response to Trustee Martins' request, a report detailing the total cost of litigation for fiscal years 2011, 2012, and 2013 would be provided to all Trustees.

Mr. Dianis offered a Finance update and discussed the details presented in his report, noting that the big-picture details were imbedded in the Statement of Net Position and the Budget-to-Actual pages under the Finance Tab. He reported that GASB implementation efforts had gained momentum, and that he anticipated substantial benefit flowing from the efforts of the pilot group of NH employers.

In presenting the Draft June 30, 2013 Actuarial Valuation Report for Board acceptance, Mr. Dianis emphasized that the vote on the proposal did not constitute an action to set employer rates. He stated the acceptance of the report was requested by the System's auditors. On a motion by Trustee Sosnoff, seconded by Trustee Walker, the Board unanimously accepted the Draft June 30, 2013 Actuarial Valuation Report as final.

IT Director Frank Clough discussed progress in key areas of his department. He noted that several PensionGold updates and builds were in process for Member Services, including MyAccount. He noted that an update of the website would be undertaken and that a working group was meeting regularly to identify priorities.

Ms. Miller, Director of Member Services, briefly discussed automated access to retirement applications, noting that MyAccount would be the portal for members to use in filing for retirement electronically. She stated that MyAccount currently housed past member statements and Staff were seeking to deliver annual statements through the member-accessed portal. A discussion of the capabilities and limitations of the PG system followed.

Director of Employer and Retiree Services Denise Call provided details on implementation of HB 342, stating that employers would be reporting retiree employment figures in one week's time, and preliminary results were positive. She reported that the electronic transfer of insurance data from Health Trust had proved successful and a similar implementation was being initiated for the next seven-largest employers and third-party administrators. She further reported that Retiree Services had adjusted the benefits of fifteen retirees who had not complied with Gainful Occupation requirements and eleven who had reported excess earnings.

On a motion by Trustee Sosnoff, seconded by Trustee Crombie, the Consent Agenda was unanimously approved *without* #3, Disability Application for R.D.

On a motion by Trustee Scaife, seconded by Trustee Provencher, the Hearings Examiner's Recommendation on the Disability Application for R.D. was approved as follows:

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

Nays: Trustee Martins.

Following a brief, general discussion, on a motion by Trustee Martins, seconded by Trustee McCrillis, the meeting adjourned at 11:42 a.m.

Respectfully submitted,
Shannan Hudgins