

**Note:** These minutes from the July 14, 2015, regular meeting were approved and executed at the August 11, 2015, regular Meeting of the Board of Trustees.

**Board of Trustees  
July 14, 2015**

**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; Julia Griffin; Germano Martins; David McCrillis; Don Roy; Hershel Sosnoff; and George Walker. Maureen Kelliher, *absent*.

*Staff:* George Lagos, *Executive Director*; Jack Dianis, *Director of Finance*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Larry Johansen, *Director of Investments*; Denise Call, *Director of Employer Services*; Nancy Miller, *Director of Member 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., *Associate Counsel and Compliance Officer*; Marty Karlon, *Public Information Officer* Rosamond Cain, *Human Resources Manager*; Shannan Hudgins, *Administrative Coordinator*.

*Guest:* David Kausch, GRS.

Chair Gustafson called the July meeting of the NHRS Board of Trustees to order at 9:02 a.m. On a motion by Trustee McCrillis, seconded by Trustee Crombie, the Board of Trustees unanimously voted to approve the public minutes of the June 9, 2015 Regular Board Meeting, as amended.

Audit Committee Chair Beardmore reported that at its early morning meeting the Committee had reviewed the Audit Tracker and approved the FY 16 Audit Plan as presented by *Internal Auditor* John Browne. He stated that GASB reports from KPMG and GRS had been presented by *Director of Finance* Jack Dianis and *Consulting Actuary* David Kausch. He closed his remarks by stating that the Committee unanimously recommended that the Board accept the reports when formally presented in the Board meeting, and he noted that Staff had done a commendable job in building communications and messaging around these significant accounting changes.

Trustee Walker reported the results of the Benefits Committee held Thursday, July 2, 2015, stating that in addition to a careful review of the D. Leslie recommendation forwarded to the Committee by the Board at its June meeting, members had considered revisions to the Recoupment and Hardship policies. Following a discussion of repayment terms and conditions, including length of repayment time and interest

accrual and potential rates, the Committee unanimously voted to recommend that full Board accept the revisions. He noted that the changes would allow NHRS to charge interest on repayment plans at the NHRS assumed rate of return, currently set at 7.75%. The recommendation would be presented for action to the full Board at its August meeting. Trustee Walker noted that the Committee had also revisited the issue of disability re-examinations and determined that such re-examinations would be conducted if a Board-approved recommendation included a re-exam recommendation from the IME or in cases where there was evidence of fraud. He stated that there were currently eight disability retirees who met the criteria and would be scheduled for re-examination.

On a motion by Trustee Walker, seconded by Trustee Dwyer, the Board unanimously voted to accept the recommendation of the Benefits Committee to approve the Hearings Examiner's recommendation in the matter of D. Leslie.

Trustee Roy reported that the Governance Committee had reviewed Staff's recommendation to purchase cyber insurance coverage as presented in the Board materials. Trustee McCrillis provided an in-depth analysis of the need for cyber insurance and the policy terms, limits and pricing. Following a detailed discussion, on a motion by Trustee Roy, seconded by Trustee McCrillis, the Board unanimously voted to accept the recommendation of the Governance Committee that the Board approve the purchase of cyber insurance coverage offered through Beazley Breach Response with a policy limit of \$2 million, a \$50,000.00 deductible, and an annual premium of \$33,708.00.

Trustee Sosnoff delivered the Investment report, stating that funds held in trust as of May 31, 2015 were \$7.551 billion, up \$24 million or one-third of one percent, for the month. He explained that the economic drag was attributable to non-US equities and fixed-income investments, but that NHRS continued to meet its long-term actuarial targets. In his regular macro-economic update, Trustee Sosnoff stated the much-expected Greek default on its economic recovery package had occurred on June 30, 2015, and although the small country's gross domestic product (GDP) of \$175 billion was economically marginal in the world market, the negative effect on the Greek citizenry should not be dismissed. He noted that Mr. Tsakalotos, the new Finance Minister, would face significant challenges for many years. Mr. Sosnoff then reviewed the volatility of Chinese markets and described it as a classic IPO-induced bubble in which a market surges in response to a large number of IPOs, investment bank sponsors take profits, the market then responds to increased selling and collapses. *Director of Investments* Larry Johansen stated that NHRS trust fund exposure to China was minimal.

In his Investment Committee update, Trustee Sosnoff reported that the IIC had received a detailed and positive real estate report from Townsend and had also renewed contracts for three emerging market managers: Aberdeen, GMO and Wellington. He noted that representatives from Brandywine and Loomis Sayles had given very good presentations to the IIC. Mr. Johansen provided additional details on the extensive Townsend real estate report, noting that the program had hit its allocation target of 10% of plan assets when unfunded commitments were included and was doing extremely well, outperforming the benchmark over one, three, five and ten years and outperforming 95% of its peers over ten years. A total of \$75 million in

new capital is expected to be deployed Fiscal Year 2016, and Mr. Johansen stated that the two remaining singularly owned properties had been sold. NHRS had owned sixteen properties in 2010 when Mr. Johansen arrived at NHRS, and he was happy to report that the IIC goal to move out of direct property ownership had been realized.

Trustee Crombie provided a brief update of the PPCC and its meeting on June 26<sup>th</sup>, which had focused on management salary adjustments following the NH Supreme Court ruling on the PELRB decision. He closed by stating that *Human Resources Manager* Rosamond Cain would present a comprehensive report on fiscal year 2015 to the Committee at its next meeting.

Trustee Sosnoff reported that the Legislative arena was very quiet and requested additional commentary from Marty Karlon, *Public Information Officer*. Mr. Karlon stated that the Pension Committee formed by the Legislature had held its last meeting until after Labor Day in June, noting that although its members had conducted much fact-finding and research, no bills had been reviewed. The deadline to report out retained bills from the previous legislative session was November 12, 2015. *Executive Director* Lagos stated that the Pension Committee's recent activity had shifted from defined contribution plans to cash balance plans, and that the Committee had held conference calls with two executive directors from pension systems utilizing cash balance plans.

David T. Kausch, *Consulting Actuary*, and *Director of Finance*, Jack Dianis, presented an in-depth discussion of the two GASB reports issued by GRS and KPMG to the Trustees. Mr. Kausch explained the pertinent figures in the Executive Summary and provided definitions of the accounting standard applied and the requirements of GASB 68 financial statements. The report provided detailed information for every NHRS employer that included an entity's proportionate share of the Net Pension Liability to be included in its year-end financial statement. Mr. Kausch explained that an employer's proportionate share would change every year as influenced by the employer's proportionate share of employer contributions and new retirees and new employees, noting that the impact of staff changes on an employer's balance sheet would be related to the overall size of the employer. By way of example, a single employee change for a small entity would be significant to its GASB 68 reporting, but a single employee change would not be so dramatic for a large employer. He added that the first year's reporting would be the simplest and that reporting would become more complex as years of such detailed accounting unfolded. A discussion of employer assistance resources and guidance developed by Staff followed.

On a motion by Trustee Beardmore, seconded by Trustee McCrillis, the Board unanimously voted to accept both the GRS and KPMG GASB 68 reports.

Following the presentation and GASB vote, Chair Gustafson called a ten-minute recess. The meeting reconvened at 10:37 a.m.

*Executive Director* George Lagos began his update with the 95% achievement on the KPM report. He noted that PIP had been delayed because of resource limitations and that completion deadlines might be adjusted accordingly. Mr. Lagos reported that his telephone survey calls continued to be positive and that retirees and members consistently reported deep appreciation for the personal interactions they had with

Staff. Trustee Dwyer queried the consistent ‘no’ to Member Services’ KPM #2 relating to finalization of pensions, inquiring whether the criteria might benefit from review. Both *Director of Member Services* Nancy Miller and Mr. Lagos expressed the underlying purpose of the measure, emphasizing the importance of receiving timely final payroll information from employers and the System’s focus on the prompt calculation and communication of pension benefits to new retirees. Ms. Miller stated that new retirees were always in receipt of a preliminary benefit as of their retirement date even in those circumstances in which there was a delay in employer-submitted final wage and earning calculations.

Tim Crutchfield, *Chief Legal Counsel*, provided an update to the only remaining law suit resulting from the 2011 HB 2 legislation that sought to alter benefits for NHRS members. Following the June 22<sup>nd</sup> approval of the structuring conference order filed May 22<sup>nd</sup>, Atty. Crutchfield reported that the State’s motion to join the municipal employers had been filed on May 29<sup>th</sup> and, as expected, a response had been filed by the Petitioners on June 30<sup>th</sup>. He then addressed administrative matters, beginning with GASB 68 audits of 32 employers, and noted that 27 had been completed and that the remaining five would be completed by the end of August. Automated letters for Gainful Occupation reporting had been sent out at the beginning of June following the successful programming of the PensionGold platform to reduce Staff time. He also noted that administrative and disability appeals were operating smoothly and pending matters were up-to-date.

Jack Dianis, *Director of Finance*, presented his Finance report, noting that the net position of the Trust was \$7.551 billion as of May 31, 2015, as compared to \$7.221 billion as of May 31, 2014. He reported that the NHRS Statutory Administrative Budget was still in the Legislative process as a result of the Governor’s veto and the continuing resolution. Mr. Dianis also noted he had confirmed that the State had begun paying the increased employer contribution rate as of July 1, 2015.

*Director of Information Technology* Frank Clough reported that employee security training had begun with very positive results. He then focused his remarks on the telephone system RFP that had unfolded over the past six months. The process had required the assistance of a consultant whose efforts had helped to produce a business-appropriate, expandable telephone system agreement with Systems Engineering at a cost significantly less than originally anticipated. A detailed discussion followed.

On a motion by Trustee Martins, seconded by Trustee Roy, the Board unanimously voted to accept the recommendation of the IT Working Group that the Board authorize Staff to enter into an agreement with Systems Engineering to install a Cisco telecommunications system subject to negotiation of acceptable terms and conditions.

Nancy Miller, *Director of Member Services*, reported that Staff continued to process the 680 new July retirement applications filed. She noted that Member Statements would be sent electronically through MyAccount, with significant notification efforts managed through the Public Information Office. Ms. Miller also reported that the process for issuing income verification statements for retirees was being automated, resulting in a significant savings of Staff time for what has been an extensively manual process.

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*Director of Employer Services* Denise Call stated that the number of insurance processing changes in the month of July was lower than in previous years, and she anticipated an early closure to the annual procedure. Her team would then begin fiscal year-end closing processes. In closing, Ms. Call reported that the State's audit of insured dependents through Secova had identified fifteen ineligible dependents whose removal from employer insurance rolls required medical subsidy changes. There were potentially several hundred insurance changes anticipated as a result of the failure of insurance recipients to respond to the audit, but Ms. Call believed the numbers would diminish as the August 31<sup>st</sup> deadline drew near.

On a motion by Trustee Martins, seconded by Trustee Dwyer, the Board of Trustees unanimously voted to approve the Consent Agenda as presented.

On a motion by Trustee Crombie, seconded by Trustee Sosnoff, the meeting was adjourned at approximately 11:22 a.m.

*Respectfully submitted,*  
*Shannan Hudgins*