

Note: These minutes from the April 9, 2019 Public Session were approved and executed at the May 14, 2019 Board of Trustee meeting.

**Board of Trustees
April 9, 2019
Public Minutes**

**New Hampshire Retirement System
54 Regional Drive
Concord, New Hampshire 03301**

Trustees: Maureen Kelliher, Acting Chair; Christopher Coates, Bill Dwyer, Melvin Friese, Bill Hart, Tim Lesko, Bob Maloney, Michael Milligan, Scott Myers, Don Roy, and George Walker.
Absent: Trustees Richard Gustafson and Sue Hannan.

Staff: George Lagos, *Executive Director*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Gerard Murphy, *Director of Finance*; Frank Clough, *IT Director*; David Crepeault, *Information Systems Security Officer*; Mark Cavanaugh, Esq., *Associate Counsel & Compliance Officer*; Diana Crichton, Esq., *Hearings Examiner*; Marty Karlon, *Public Information Officer*; Nancy Cone, *Internal Auditor*; Nina Calkins, *Process Improvement Manager*; Rosamond Cain, *Human Resources Manager*; and Margaret Astles, *Executive Assistant*.

Acting Chair Kelliher called the April 9, 2019 regular meeting of the NHRS Board of Trustees to order at 10:00 a.m. Having established a quorum, Acting Chair Kelliher called for a motion to approve the March 12, 2019 public Board of Trustees meeting minutes.

On a motion by Trustee Maloney, seconded by Trustee Roy, the Board voted unanimously to approve the minutes, as presented.

Trustee Dwyer presented the Audit Committee update, recapping that morning's meeting. He began by noting that the Audit Tracker is still carrying two items, one related to QDRO and the other involving the Employer Contribution Reconciliation Process. Trustee Dwyer noted that the Data Systems User Rights Access Audit would appear either in the May or in the June Audit Tracker.

He updated the Board on the Data Security Remediation, noting that, as of March 31, the System had completed 70% of the recommendations. He commented that all but one of the enhancement recommendations provided by Plante Moran have been addressed. He reported that Finance Director Gerard Murphy updated the Committee on the pending Actuarial Audit being conducted by Segal, which is on schedule. It is anticipated that there will be a presentation at the June Board meeting.

Trustee Roy reported that the Governance Committee did not meet in March, but will be meeting directly after the Board meeting today.

IIC Chair Kelliher reported that the IIC met on March 22. After the approval of the February meeting minutes, Director of Investments Larry Johansen reviewed the Work Plan, and updated the IIC on the liquidation status of GAM. It is expected the System will receive a full return of its investment within a reasonable timeframe.

The IIC unanimously voted to extend the investment management agreement through January 31, 2021, with non-US small-cap equity manager SBH, and to extend the System's Contract with fixed income manager Manulife through February 28, 2021. The Committee also heard a presentation from global equity manager Walter Scott in conjunction with that firm's upcoming two-year contract renewal.

Trustee Kelliher reported that NEPC gave a presentation on asset allocation, referring to previous presentations on capital market assumptions and the asset liability and liquidity studies. The IIC determined that the current asset-class benchmarks are appropriate for the System's portfolio and concluded that manager-specific benchmarks within the portfolio should be revised to be measured relative to their style-specific benchmarks, commencing July 1, 2019.

The IIC unanimously agreed to revise the alternative investment and fixed income guidelines effective July 1, 2019, to eliminate the 2.5% short-duration target allocation and increase the core-bond target allocation by 2.5%. Additionally, the IIC agreed to eliminate the 5% opportunistic target allocation and reallocate those funds to the Private-Equity target allocation. This, in turn, brought the alternative-investment target allocation to 66.7% Private Equity and 33.3% Private Debt.

Trustee Kelliher then reported on the global economy, which continues to slow. The US economy is doing well, but the manufacturing sector continues to soften. The Consumer and Unemployment indices remain positive, however, with the next presidential election cycle looming, growth may be impacted depending on the decisions made in Washington, DC. She noted that the IIC is pleased with the performance of the System's portfolio at this time.

Trustee Myers reported on the morning's Legislative Committee meeting and updated the Board on several crossover bills, beginning with HB 110, associated with actuarial cost reimbursement to NHRS. This bill was passed by the House and scheduled for a Senate ED&A public hearing on April 10.

HB 497, requiring the state to pay 15% of employer contributions for teachers, police and firefighters employed by political subdivisions beginning in FY 2020, was voted on by the House Finance Committee to retain the bill in Committee.

HB 616, granting a 1.5% COLA on the first \$50,000 of the pension benefit to retirees who retired on or before July 1, 2014, was passed by the House and will move on to the Senate. Trustee Myers noted that the NH Municipal Association is not opposed to the COLA, but is opposed to the bill's proposed source of funding through increased employer contribution rates.

HB 675, which the Board is in support of, modifies the cost calculation for the purchase of NHRS service credit for active service in the Armed Forces, prior to NHRS membership and in cases of employer oversight. The House passed this bill, and the Senate ED&A voted it as OTP.

Next, Trustee Hart, reported as Acting Chair for the Benefits Committee on behalf of Trustee Walker, who was not able to attend the April 2 Benefits Committee meeting. Trustee Hart reported on the staff's presentation of the IME Standards of Review, which will serve as a guide to IMEs who perform independent medical and psychological exams for NHRS.

He informed the Board that the Committee considered proposed amendments to the Medical Review of Disability Retirees Policy, noting that the amendments are intended to bring the Policy in conformity with changes in administrative practice, and recent amendments to the administrative rules regarding re-examinations. The Benefits Committee unanimously voted to recommend the proposed revised Policy to the full Board for its consideration at a future meeting.

The Salary Continuance Review Process was discussed and it was decided to provide messaging in the Employer and Member newsletters, outlining the changes in the law, which does not allow salary continuances to continue after the date upon which an employee is terminated from employment. The communication reminded employers and members to contact NHRS if they know of a salary continuance situation at the time of a termination. PIO completed an inventory of other documentation that references the continuance process so that other notifications can be included.

Trustee Hart noted that Executive Director Lagos briefed the Committee on a matter involving failure of the City of Manchester to provide reporting on 22 retired Manchester Police Officers employed by the City, as a result of an incorrect interpretation of the reporting requirement. The Committee agreed with the staff's recommendation to waive any penalties as the monthly reporting provision in question has been repealed and replaced by an annual-reporting requirement.

Trustee Hart then reported on staff discussions with the Division of Fire Standards and Training (DFST) regarding Group II membership eligibility for approximately 10 DFST staff, and that NHRS staff was working with DFST counsel to address several questions with respect to work histories.

He also commented on an ongoing review of how medical subsidy payments are applied on behalf of a limited number of state retirees who are required to contribute 10% out-of-pocket toward the cost of the health premium. There is an apparent ambiguity between two statutory provisions and there are ongoing discussions between the staff and representatives of Administrative Services as to how to proceed.

Trustee Hart noted that the Benefits Committee entered into non-public session to review two disability re-exams, an ongoing appeal, and a survivor benefit. When back in public session, the Committee acted upon one of the re-exams with a unanimous recommendation for the Board's consideration next month.

Trustee Hart then reported on the Personnel, Performance, and Compensation Committee (PPCC) meeting held on March 26. Human Resources Manager Rosamond Cain provided a PGM3 staffing update, indicating that all staff positions have been filled except for one IT position. The decision was made to leave that position vacant at this time. The Committee went into non-public session to discuss succession planning and considered the matter to be an agenda item, either for the May or June Board meeting. After adjourning the regular session of the PPCC meeting, the Committee discussed a negotiating strategy with respect to the CBA. The next PPCC meeting is anticipated to be held on Wednesday, April 17.

Attorney Diana Crichton, Hearings Examiner, and Attorney Mark Cavanaugh, Associate Counsel and Compliance Officer, gave a presentation on Disability Retirement, outlining all aspects of the process including: Legal Standards, the Application Process, Requests for

Reconsiderations, Application Outcomes, Statistics, Benefits, Gainful Occupation and Re-Examinations.

At the conclusion of the presentation, Executive Director Lagos commented that of the 68 disability re-examinations required, 34 were completed and all were still found to be disabled. There was discussion about the expense of the re-examinations, as well as the statutory framework that governs the re-examination process, and the possible repercussions if a disability recipient is found to be no longer disabled.

Executive Director Lagos remarked that Director of Member Services Nancy Miller and Project Manager Cecile Merrill would not be attending the Board meeting because they are involved in PGV3 system requirements meetings with LRS, who is on site today. He then presented his Executive Report, noting that staff scored 96.59% on the Key Performance Measures (KPM) this month and acknowledged that the KPM Rolling 12-Month Average is very close to achieving the target of 95.00%.

He then presented the proposed FY 2020 Strategic Plan, noting that the priorities included objectives that Trustees had submitted as a part of the recently concluded performance evaluation of the Executive Director. He went on to explain that following adoption of the Strategic Plan, each operating area would develop action plans to accomplish those priorities and other objectives.

On a motion by Trustee Hart, seconded by Trustee Milligan, the Board unanimously voted to accept the FY 2020 Three Year Strategic Plan, as presented.

Executive Director Lagos reported that Cecile Merrill has included her PGV3 Project Status Report for April 1, 2019 in the Board's meeting materials, and noted that he and Ms. Merrill meet once a week for status updates. He reported that the PGV3 Team is currently in the third round of the PGV3 requirements meetings, which analyzes each business process step-by-step.

Lastly, Executive Director Lagos reported on the flood, which occurred in the building over the weekend. He indicated that remediation efforts by ServPro are going well and the System will be back to normal within the week.

Chief Legal Counsel Tim Crutchfield gave the Legal Report, beginning with an update regarding Employer Audits, noting that one of three employer auditors is leaving, and that Human Resources is working to identify suitable candidates for the position.

He reported on a recent meeting held with representatives from the Administrative Office of the Courts (AOC) to discuss the enrollment of judicial clerks in both the Superior and Supreme Courts. It was a productive discussion and NHRS and the AOC came to the mutual agreement that, going forward, when the clerkship positions are filled, they will be considered mandatory membership positions.

He then gave the Board an update regarding paperless Board meetings. Last week, there were additional presentations by Convene and Diligent, with four Board members in attendance. He noted that the Governance Committee would discuss the project at its meeting today, following the Board meeting, and he invited any Board member to join.

Finance Director Gerard Murphy began by noting that a draft report of the Actuarial Audit by Segal is expected in the next month or so. The House Finance Committee passed the FY

2020 and 2021 Statutory Administrative Budget, and the full House will vote on it this week. As Trustee Myers reported, Mr. Murphy confirmed that House Finance included a \$50,000 general fund annual appropriation in the NHRS budget as a means of funding HB 110, which is currently in the Senate and requires that certain costs, related to proposed legislation, be reimbursed with general funds. If the budget does pass in the full House, it will move on to the Senate, and NHRS staff will be before the Senate Finance Committee on April 22 to present the NHRS budget.

Finance recently completed a review of the Employer Reconciliation Process, and developed several action plans in an effort to make the reporting process easier for participating employers.

Mr. Murphy turned the Board's attention to the Finance Monthly Reporting Package, noting that the net position at the end of February is still below where NHRS was at the beginning of the year, but noted NHRS had recovered most of the losses year-to-date, and are ahead of where the plan was at this point last fiscal year. Concerning Budget vs. Actuals, the variances are largely unchanged from last month. Mr. Murphy noted that a review and evaluation of the Employer Penalty Process is underway.

Director of IT Frank Clough presented his report beginning with security vulnerabilities, noting that the numbers for March and April reflect a downward trend. Mr. Clough reported that our recently hired security officer, David Crepeault, has been working on remediating vulnerabilities and security audits. He reported that IT has just begun the Security Audit with Nessus, which is the overall audit process. Lastly, Mr. Clough reported that IT is ready to test the email redundancy located at the COLO facility in Massachusetts.

Executive Director Lagos reported for Director of Member Services Nancy Miller. He began by noting that July retirement applications are in line with expectations, consistent with prior years. Member Services staff has been very busy, attending multiple PGV3 requirements meetings this week. They have been further challenged with the recent vacancy left by the resignation of a Member Services Manager.

Lastly, he noted that Member Services, with the assistance of Cecile Merrill in IT, handles the administrative processing and support for the Judicial Retirement Plan (JRP). Executive Director Lagos reported that a legislative proposal to change the benefit structure of the JRP had been removed from HB 2, which meant that in the short term, NHRS would not have the additional administrative challenge of changing its administrative processes to accommodate the proposed legislation.

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

On a motion by Trustee Walker, seconded by Trustee Roy, the Board voted to approve the travel request for Trustee Hart, as presented in the Board materials. Abstention: Trustee Hart.

With regard to the Action Items from the March 12, 2019 meeting, Executive Director Lagos noted that all Action Items either have been completed or are in process, as expected.

Acting Chair Kelliher reported that, regarding Board Checkpoint Discussions, a presentation is likely on the NHRS Customer Satisfaction Program and Metrics at the May

meeting. In addition, she expected that Chair Gustafson would lead a discussion based on the Board self-evaluation feedback received following the March meeting.

Executive Director Lagos noted that there are still three outstanding Trustee responses to the self-evaluations, and he asked that the responses be returned as soon as possible. He also mentioned that the Actuarial Audit by Segal would likely be presented at the June meeting.

With no further business to discuss, on a motion by Trustee Roy, seconded by Trustee Walker, the Board adjourned the meeting.

Respectfully submitted,

Margaret M. Astles
Executive Assistant