

Note: These minutes from the October 8, 2019 Public Session were approved and executed at the November 12, 2019 regular Board of Trustees meeting.

**Board of Trustees
October 8, 2019
Public Minutes**

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

Present: Trustees Richard Gustafson, Chairman; Bill Dwyer, Melvin Friese, Sue Hannan, Bill Hart, Maureen Kelliher, Tim Lesko, Bob Maloney, Scott Myers, Don Roy, and George Walker. *Absent:* Trustees Benjamin Jean and Christopher Coates.

Staff: George Lagos, *Executive Director*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Larry Johansen, *Director of Investments*; Gerard Murphy, *Director of Finance*; Mark Cavanaugh, Esq., *Associate Counsel & Compliance Officer*; Diana Crichton, Esq., *Hearings Examiner*; Frank Clough, *Director of Information Technology*; Nancy Cone, *Internal Auditor*; Nancy Miller, *Director of Member Services*; Marty Karlon, *Public Information Officer*; Nina Calkins, *Process Improvement Manager*; Rosamond Cain, *Human Resources Manager*; Cecile Merrill, *Project Manager*; and Margaret Astles, *Executive Assistant*.

Chair Gustafson called the October 8, 2019 regular meeting of the NHRS Board of Trustees to order at 10:00 a.m. Having established a quorum, Chair Gustafson called for a motion on the September 10, 2019 meeting minutes. On a motion by Trustee Myers, seconded by Trustee Roy, the Board voted to approve the public minutes of the September 10, 2019 meeting, as amended. Trustee Hannan abstained.

Trustee Dwyer presented a report on the Audit Committee meeting immediately prior to the Board meeting. He reviewed the Audit Issues Tracker as of October 1, 2019, noting that there are five outstanding issues. Trustee Dwyer updated the Board on the Data Security Remediation process, noting that the high and medium priority items are 82% complete, and 74% complete on the low-priority items. He noted that Plante Moran would be onsite for the next three weeks, as part of the FY 2019 CAFR audit, and expects that the Audit Committee will be able to approve the audit by year-end and present it to the full Board.

Mr. Dwyer then reviewed the recommendation regarding the NHRS Actuarial Funding Policy made by Segal Consulting, following its actuarial audit of GRS. On a motion by Trustee Dwyer, seconded by Trustee Roy, the Board unanimously voted to accept the recommendations of the Audit and Governance committees to approve the proposed revisions to the Actuarial Funding Policy, as presented.

Lastly, Trustee Dwyer reported that the Audit Committee voted to approve the Annual Code of Ethics Report Card, noting that a 99% response was achieved from all managers and service providers, current and former Trustees and IIC members, and current and former employees. He noted that no conflicts of interest were self-reported. On a motion by Trustee Maloney, seconded by Trustee Hannan, the Board voted unanimously to accept the

recommendation of the Audit Committee to approve the annual ethics survey scorecard, as presented.

Trustee Roy presented the Governance Committee report from the July 29, 2019 meeting, stating that the Committee conducted its annual Charter review and concluded that no substantive changes should be made. Next, the Committee heard and accepted the recommendation from the *Director of Finance* Gerard Murphy, regarding the proposed Actuarial Funding Policy revision that the Board acted on at today's meeting. Mr. Murphy also addressed the Committee on the proposed RFP for commercial banking services, and the Committee unanimously voted to recommend to the full Board that it approve the RFP, as scheduled at a later point in today's Board meeting.

Attorney Mark Cavanaugh, *Associate Counsel and Compliance Officer*, addressed the Board on the annual OFAC (Office of Foreign Asset Control) compliance review, noting that OFAC is a branch of the Federal Treasury Department that administers the prohibition of certain financial transactions of sanctioned countries and individuals. He noted that NHRS has a compliance policy in place that requires that our vendors are OFAC compliant. In addition, NHRS staff certified that it was not aware of any violations, and that it administered the policy in accordance with its terms. Lastly, Mr. Cavanaugh noted that there have been no violations in the past five years, since NHRS began the annual OFAC process.

Lastly, Trustee Roy deferred to *Executive Director* George Lagos to report on paperless board meetings. Mr. Lagos explained that this Friday, *Director of IT* Frank Clough would be giving a second internal demonstration on the proposed electronic Board binder. Following the demonstration, the plan is to initiate a pilot program with some of the Trustees.

Trustee Kelliher presented the Investment update, recapping the September 20, 2019 Independent Investment Committee (IIC) meeting. She noted that the IIC heard a presentation from fixed income manager IR&M in conjunction with the two-year contract renewal process. Then, the System's investment consultant, NEPC, presented a review of the NHRS Public Markets portfolio. The IIC agreed to forego a meeting in October, but will reconvene at the November 22, 2019 meeting.

Larry Johansen, *Director of Investments*, reported that the books for June 30 were closed last week. BNY Mellon is working to finalize its books as of June 30. Once that is complete, NEPC will finalize the June 30 performance and NHRS expects to have those numbers early next week. The private equity and real estate programs continue to grow and are doing well. Mr. Johansen noted that he expects that the preliminary performance indicated at 5.1% will end up being approximately 5.7% and the 3- and 5-year numbers should be in the top 30% of NHRS's peer pension systems. The rebalancing of the fixed income portfolio is proceeding as planned, with the second \$90 million from Loomis Sayles being received last month and then moved to IR&M. The \$90 million from Brandywine is expected to move in December. The draft Comprehensive Annual Investment report is well underway, and will be sent out to the IIC late next week for review and comment.

Trustee Myers reported on the morning's Legislative Committee meeting, noting there are ten Legislative Service Requests (LSRs) that are specific to NHRS, thus far. The titles of the LSRs are posted online, but the language of each is not available. Mr. Lagos explained that some of the LSRs are beginning to come in from the Legislative Budget Assistant Office, but the text of each is confidential and does not become public information until an LSR is actually introduced and assigned a bill number.

Trustee Walker reported that the Benefits Committee did not meet this month, but a meeting will be held before the November Board meeting. He asked Attorney Cavanaugh to provide the annual Gainful Occupation (GO) Compliance Report, noting that the report summarizes the employment activities of disability recipients, based on responses received to date. Mr. Cavanaugh noted that the number of non-compliant people has increased compared to last year, but follow-up letters will be going out on October 15, which would likely result in the reduction of that number. In addition, the average annual offset is down because of the three people with the highest incomes have not reported yet. As part of the annual GO Report, staff recommended that the Board approve the following actions.

1. Per the GO provisions in RSA 100-A:6, III(b), offset the State annuity and related Cost-of-Living Allowance of those disability recipients who earned more than the difference between the retirement allowance payable and the “current comparable compensation.” Recommended offsets, due to excess 2018 earnings, are scheduled to begin with benefits paid on January 30, 2020.
2. Withhold the State annuity and related Cost-of-Living Allowance of those disability recipients who have not provided all pertinent documents, as required by NHRS Administrative Rule Ret. 309.01, and to take whatever administrative actions are appropriate when the requested documentation is received. The withholding for failing to comply with reporting requirements are scheduled to begin with benefits paid on December 31, 2019, and to continue until all requested documentation has been submitted and processed.

On a motion by Trustee Walker, seconded by Trustee Dwyer, the Board voted unanimously to approve the Calendar Year 2018 Gainful Occupation Compliance Report, as presented.

Trustee Hart reported on the PPCC meeting held on October 4, 2019, noting that the review of the succession plan resulted in no material changes. The Committee reviewed the earlier engagement of a training coach to assist newly hired managers, noting that it is proceeding well, and progress is being monitored on an ongoing basis. He then noted that following the meeting, there was a discussion about the pending CBA negotiations.

On a motion by Trustee Hart, seconded by Trustee Lesko, the Board voted unanimously to temporarily adjourn the meeting for the purpose of discussing collective bargaining strategy or negotiations, under RSA 91-A:2, I(a).

On a motion by Trustee Hart, seconded by Trustee Maloney, the Board voted unanimously to reconvene the Board meeting.

George Lagos, *Executive Director* and Marty Karlon, *Public Information Officer*, presented to the Board “NHRS: Past, Present & Future,” a chronology of significant developments impacting the pension system over the past fifty years and an update on recent developments. The presentation was well received and it was suggested that it be posted to the website.

Executive Director Lagos gave a brief operations update, noting that the Key Performance Measures were 98.8% this month, exceeding the 95% standard for the eleventh consecutive month. Over 66,000 member statements were generated in September, in accordance with the usual schedule. Several NHRS representatives attended the LRS conference in September, and the PGV3 project continues to progress on schedule. Responses to the

Investment Legal Services RFP were reviewed and staff will be making a recommendation at the Governance Committee meeting, following the conclusion of today's Board meeting.

Mr. Lagos then turned the Board's attention to the NHRS website update, a sole-source contract proposal to improve the System's ADA compliance on the site, and to upgrade member, retiree, and employer home pages to better promote and display the new content that NHRS has developed since the site was created. On a motion by Trustee Roy, seconded by Trustee Hannan, the Board voted unanimously to accept the recommendation of the Executive Director that the Board approve the website upgrade, subject to contract and legal review, as presented.

Cecile Merrill, *Project Manager*, reported that the PGV3 project is 7% complete. Two design documents have not been signed off due to out-of-scope requirements that were added. PGV3 received its final data conversion report for Deliverable 1, with 31 issues listed. Staff has been asked by LRS to address the list by December 31, 2019. Ms. Merrill reported that the PGV3 team is still working on correspondences for Deliverable 1, and the internal employer-working group has a draft communication action plan in place. User acceptance testing starts the first week in November through mid-December 2019. LRS will be on site the first week in November to address further out-of-scope requirements. Mr. Lagos added that we are on schedule with the PGV3 project and all is progressing well.

Tim Crutchfield, *Chief Legal Counsel*, reported that Legal is currently working on issues related to retirees returning to work. With the start of 2020, Attorney Cavanaugh will be receiving newly required employer reports for working retirees. The grandfathered retirees returning to work have an annual limit of 1,664 hours and retirees who retired on or after January 1, 2019 have an annual limit of 1,352 hours. Employers must report the total number of hours worked by their retirees by February 15, 2020. Mr. Crutchfield explained that Legal often reviews settlement agreements as well, in collaboration with Member Services. Lastly, Mr. Crutchfield noted that, a joint employer education session with PIO and Finance would be held on October 23, 2019, for school district and SAU employers.

Gerard Murphy, *Director of Finance*, reviewed the ending balances of the cash flow report and budget vs. actual figures. He noted that Plante Moran will be onsite for the next three weeks and he hopes to have the books closed by the end of this week or early next. He noted that Finance is on track to have a draft year-end Comprehensive Annual Financial Report by the end of October, with the final report to the Board, for the December Board meeting. Mr. Murphy noted that GRS has all of the data extracts needed to conduct its actuarial analysis, as well. He stated that he and staff recently attended a Tyler Technology user group meeting, noting that Tyler, a third-party-payroll provider is used by many of NHRS' employers. At that meeting, NHRS staff provided an online demonstration of the System's new, online payment website, which was well received. The online payment program is being piloted this month by a small group of participating employers. He noted that NHRS has already successfully received payments utilizing the online payment site.

Mr. Murphy then turned the Board's attention to the FY 2019 Call Fire Report, which is an annual report on the financial activity regarding a benefit program previously provided under 100-A for call and volunteer firefighters who were disabled or killed in the line of duty. This benefit program was repealed in 2014; however, there are still two beneficiaries collecting benefits.

Mr. Murphy then reported on the RFP for commercial banking services, online payment services and annuity payroll processing. He noted that NHRS is currently serviced by

Citizens Bank. The decision to issue an RFP is in accordance with best practices in order to ensure the best combination of value and service. On a motion by Trustee Hart, seconded by Trustee Roy, the Board voted unanimously to accept the recommendation of the Governance Committee to approve the issuance of an RFP for commercial banking services.

Frank Clough, *Director of IT*, reported on vulnerability and pen-testing work with Rhino Networks that is scheduled for the first week in November. This includes a series of processes and procedures to scan our network, PCs, and printers, looking for vulnerabilities, misconfigurations or any red flags. Issues identified will be remediated, and Rhino will then return to validate that the changes were made.

This summer a dual-authentication pilot project utilizing finger print readers proved unsuccessful and staff is now looking at alternative approaches. Lastly, Mr. Clough reported that for a number of years, NHRS has worked with Systems Engineering to utilize a COLO space, where all of our back-up hardware and software is housed. We have since made the decision to contract directly with Tierpoint, the owner of the COLO facility, resulting in considerable cost savings. The physical transition will take place this month.

Nancy Miller, *Director of Member Services*, reported that Members Services is now fully staffed, and the focus is on training all of the new staff and those staff that have transferred to other areas. She noted that Member Services is continuing to move the July retirees through to their final benefits, soliciting and reviewing the employer termination forms, and re-auditing each retiree's file to assure the inclusion of all wages, settlements and payouts.

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

Concerning the Action Items from the September 10, 2019 Board meeting, Mr. Lagos noted that the target date has been moved back for the pilot project for paperless Board meetings. In addition, he noted that the NHRS is still waiting for the anticipated Dept. of Corrections (DOC) list of proposed reclassifications from Group I positions to Group II.

Under Board Checkpoint Discussion, Chair Gustafson advised that he had appointed Trustee Benjamin Jean to the Legislative and PPCC Committees.

Mr. Lagos reported that a conference call would be held concerning GRS' schedule for completion of the FY 2019 actuarial valuation. Once the draft valuation is finalized and accepted by the Board, it will be the basis for setting employer contribution rates in the fall of 2020. Mr. Johansen added that the upcoming valuation is also the first where the 20 year layered-amortization approach will be implemented. He further noted that the valuation would be impacted by the funding required in connection with the recent legislative COLA grant and actuarial gains or losses.

With no further business to discuss, on a motion by Trustee Walker, seconded by Trustee Hart, the Board voted unanimously to adjourn the meeting.

Respectfully submitted,

Margaret M. Astles
Executive Assistant