

Note: These minutes from the May 14, 2013, regular meeting were approved and executed at the June 11, 2013, regular Meeting of the Board of Trustees.

**Regular Meeting
Board of Trustees
May 14, 2013**

The Public Minutes

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

Trustees: Cathy Provencher, *Acting Chair*; John Beardmore; Dean Crombie; Dick Gustafson, Ph.D.; David McCrillis; Karen McDonough; Hershel Sosnoff; Don Roy; Guy Scaife; George Walker; Jack Wozmak. Lisa Shapiro, Ph.D., *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 Services*; John Browne, *Internal Auditor*; Heather Fritzky, *Controller*; Carolyn Johnson, Esq., *Hearings Examiner*; Mark Cavanaugh, Esq., *Regulatory Compliance Officer/Staff Attorney*; Rosamond Cain, *Human Resources Manager*; Nina Calkins, *PPM Manager*; Marty Karlon, *Public Information Officer*; and Shannan Hudgins, *Administrative Coordinator*.

Cathy Provencher called the regular meeting of the NHRS Board of Trustees to order at 9:03 a.m. and requested a motion to approve the public and non-public minutes from the April 9, 2103, regular meeting. On a motion by Trustee McDonough, seconded by Trustee Scaife, the minutes were approved unanimously.

As Audit Committee Chair, Trustee Provencher reported on the morning's meeting with a focus on the KPMG audit plan for FY 2013. She noted that a group of NHRS employers would be meeting on Friday, May 17th, to discuss and review GASB changes and create a working plan for implementing the new standards. She closed by reporting that KPMG partners were "extremely pleased" with the system's response to the 2012 Management Letter finding relative to alternative investment due diligence.

Trustee Provencher next requested a report from the Benefits Committee, and Trustee Walker, serving as interim chair, discussed the Committee's meeting

on Friday, May 10, 2013. After his overview of the meeting and topics reviewed and discussed, Trustee Provencher asked for a motion on the H. Colter matter that had been referred to the Committee at the April 9, 2013, Board meeting. A discussion followed covering several issues which included severance pay, earnable compensation, lump sum payments, contracted services, retirement contributions, and payment of federal taxes. On a motion by Trustee Sosnoff, seconded by Trustee Beardmore, the Board unanimously voted to approve the Hearings Examiner's recommendation in the matter of H. Colter.

Trustee Walker then gave a summation of the request to change the implementation date of the actuarial option factors as discussed by the Benefits Committee. Staff's request to delay the option factors implementation took into consideration the financial impact on members and staff work load in processing the large number of teacher retirements for the July payroll. On a motion by Trustee Gustafson, seconded by Trustee McDonough, the Board unanimously voted to authorize Staff to implement the actuarial options factors effective August 1, 2013.

Trustee Roy provided an update on the Governance Committee and the presentations received by Groom Law Group and Morgan, Lewis, & Bockius, in response to the legal request-for-proposals (RFP) and stated the Committee was prepared to recommend its choice for Board approval. He also discussed the Governance Manual and the Committee's discussion of potential review and changes. In reference to an IRS determination letter, Atty. Crutchfield stated that with the five-year cycle closing this year, NHRS would prepare a new determination letter request in the latter half of 2013.

Following the discussion, upon motion by Trustee Scaife, seconded by Trustee Walker, the Board voted unanimously to authorize staff to enter into an agreement with Groom Law Group pursuant to the Legal RFP for Fiduciary Counsel and Tax, Benefits and Legislative Counsel.

Trustee Sosnoff provided the Investment report, stating that funds held in trust as of March 31, 2013, were \$6.387 billion, which represented a gain of \$120 million, up 2% from February 2013 and 13.6% for the FYTD. He also provided a general review of current domestic and worldwide economic conditions. In his IIC report, Trustee Sosnoff focused on the custodial RFP process and requested Larry Johansen, Director of Investments, to provide more detail. Mr. Johansen stated that the site visits with the NHRS Finance and Investment Team members had been both informative and successful. He would provide a complete report at the IIC meeting Friday, May 24, 2013, emphasizing that the selection of a custodian was an important decision and warranted a full review by the IIC. He also encouraged Trustees to attend the May Investment Committee meeting for the presentations by the custodian candidates and the Committee's discussion of those candidates.

(At approximately 9:31 a.m., Trustee Beardmore excused himself from the Board meeting.)

Trustee Provencher next asked for the Legislative Committee update, and Trustee Sosnoff referred to the draft letter behind Tab 6 to be sent to the New Hampshire Congressional Delegation regarding the Public Employee Pension Transparency Act (PEPTA). With three suggested changes recommended by the Legislative Committee, on a motion by Trustee Gustafson, seconded by Trustee McCrillis, the Board unanimously voted to authorize Mr. Lagos to send the letter on behalf of the NHRS to the New Hampshire Congressional delegation in Washington, D.C., expressing opposition to the proposed federal bill, introduced as HR 1628 by the House and S 779 by the Senate.

Trustee Sosnoff asked that Marty Karlon, Public Information Officer, update the Board on NH legislation. Mr. Karlon stated that three NH House bills had crossed over to the Senate, which had taken action as follows: HB 124, the Gainful Occupation bill, labeled Ought-to-Pass (OTP); HB 342, Employer-reporting of part-time hours worked and wages paid, labeled OTP; and, HB 364, part-time reporting requirements, labeled Inexpedient-to-Legislate (ITL).

Trustee Gustafson presented the PPCC report, beginning with a brief update of the Collective Bargaining Agreement process. He stated that the negotiations were within the parameters established by the Board and that the next bargaining session was scheduled for Wednesday, May 22, 2013. He announced that the Public Employees Labor Relations Board (PELRB) hearing was scheduled for June 5, 2013. Trustee Gustafson described the Process Improvement Project (PIP) as a significant project that would simplify and streamline agency-wide processes, resulting in a more efficient and effective organization. He discussed the Committee's review of a proposed Employee Handbook that was authorized by statute but had never been created. He stated that it was a necessary and important document for the system, and once put into final form by Staff, it would be shared with the Board. On a motion by Trustee Gustafson, seconded by Trustee Roy, the Board unanimously voted to authorize Staff to develop, document and implement an employee handbook for the purpose of establishing personnel policies in accordance with the authority granted to the Board under RSA 100-A:14, V.

Trustee Provencher moved to the Operational Reports section of the Agenda, and George Lagos, Executive Director, presented his monthly update. He first addressed his Three-Year Business Plan, stating that after its initial introduction at the April Board Meeting for review and consideration, he was now presenting it for approval. He noted the rolling nature of the Plan, with last year's approved plan behind the current one provided in the Board materials. He then noted that each Executive Manager's approved action plan

could be found behind his or her division tab. He briefly described the integrated management practice, noting that each individual plan directly supported the Business Plan. On a motion by Trustee Gustafson, seconded by Trustee McDonough, the Board unanimously accepted the FY 2014 Business Plan.

Mr. Lagos then discussed the Key Performance Measures report, stating that it was a useful management tool. Although the target was 95%, he was pleased that the 92.13% success ratio achieved for April was the first time the report achieved a success rate of at least 90%. He noted that the five-year investment returns included in the report continued to lower the overall scoring, but time and positive investment performance would improve the percentage. He answered a question about required minimum distributions (RMDs), stating that the IRS compliance issue had been identified and steps taken to address the requirement both retroactively and prospectively. Mr. Lagos stated that once the system had received confirmation from the IRS, the item would be removed from the list.

Mr. Lagos concluded his remarks by discussing the PIP and its implications for the entire system. PIP offered Staff the opportunity to examine resource demands across the agency and evaluate and establish effective work methods. He announced that Staff was stepping back from the Imaging initiative to reevaluate the project. Flowcharting would be completed in Member Services and then move to Finance and Administration, completing Phase I of the project.

Chief Legal Counsel Tim Crutchfield opened his remarks by introducing Mark Cavanaugh, Esq., the new Regulatory Compliance Officer/Staff Attorney who had joined staff in April. Noting the confidential nature of his report, Atty. Crutchfield requested a non-public session.

On a motion by Trustee Scaife, seconded by Trustee Walker, the Board entered into non-public session under RSA 91-A:3, II(e) to discuss current legal actions by a roll call vote, as follows:

Ayes: Trustees Gustafson, McCrillis, McDonough, Provencher, Roy, Scaife, Sosnoff, Walker and Wozmak.

Nays: None.

(Trustee Beardmore returned at approximately 10:28 a.m.)

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

Immediately upon re-entering public session, on a motion by Trustee Gustafson, seconded by Trustee Sosnoff, the Board unanimously voted to seal the non-public minutes under RSA 91-A:3, III, as divulgence of the information could render the proposed action ineffective.

Following a five-minute break, Trustee Provencher requested staff reports, beginning with IT. Mr. Lagos offered a summary of the IT report, beginning by stating that the consulting relationship with Paul Zahensky was working well and that he had been committing over 25 hours per week to NHRS. Mr. Lagos had assumed responsibility for the disaster recovery plan, given its importance and the September target date on the Audit Tracker. He reported that HB2 litigation preparation was ongoing, evaluating system exposure if certain parts of the legislation were reversed. The Imaging Project was under careful review.

Nancy Miller, Director of Member Services, offered details to support the retirement numbers in her report. Her staff members were actively processing July retirement applications, as well as managing increased member appointments, structuring initial plans for member statements, and continuing to support RMD processing.

Denise Call, Director of Employer Services, reported that there was a new project to review medical subsidies and progress was being made. Employer education sessions were well attended and well received. She also noted that Retiree Services had received approximately 50 percent of the Gainful Occupation Questionnaires and that Staff were processing the data.

Jack Dianis, Director of Finance, began with the statutory budget, noting that it was with the Senate Finance Committee. The RFP for actuarial services was in progress and he would keep the Board apprised of the process. In addressing the new GASB reporting requirements, Mr. Dianis stated that he was working in partnership with finance personnel across the State and would be hosting an information session on Friday, May 17, 2013.

(Trustee Dean Crombie arrived at approximately 11:10 a.m.)

Mr. Lagos began the presentation of the preliminary Trust Fund Budget with a detailed explanation of the four contingent parts of the NHRS total budget and their interaction. Following his remarks, Mr. Dianis then explained the budget pages presented to the Board and identified annual budgeted items, as well as items that were budgeted on a biannual basis through the State. He asked that Trustees review the detail in preparation for the June Board meeting.

Mr. Johansen entertained questions about the Custodial RFP, particularly the fee structure, and how the FY 2013 budget for investment fees had been calculated. He emphasized that all investment managers were evaluated net of

fees, and explained that when NHRS fees were divided by assets, the results were consistent over time in the range of 32 to 33 basis points. In response to a question on NHRS administrative expenses, Mr. Dianis stated that non-investment expenses were calculated at .35% of the employer contribution rate.

Trustee Provencher moved to the Consent Agenda. On a motion by Trustee Sosnoff, seconded by Trustee McCrillis, the Board approved the Consent Agenda with the exception of Item #8. Trustee Walker respectfully abstained from Item #12.

On a motion by Trustee Wozmak, seconded by Trustee Walker, the Board entered into non-public session under RSA 91-A:3, II(c) to discuss a disability application, as follows:

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

Nays: None.

(Carolyn Johnson, *Hearings Examiner*; Nancy Miller, *Director of Member Services*; and Denise Call, *Director of Employer Services*, were present.)

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

On a motion by Trustee Gustafson, seconded by Trustee Wozmak, The Board unanimously voted to approve the Hearing's Examiner's recommendation in the matter of Item #8 of the Consent Agenda.

On a motion by Trustee Roy, seconded by Trustee Sosnoff, the Board unanimously approved the travel requests for Trustees Scaife and Crombie as presented in the Board materials.

On a motion by Trustee McDonough, seconded by Trustee Walker, the meeting was adjourned at approximately 11:53 a.m.

Respectfully submitted,
Shannan Hudgins