

NHRS Board of Trustees  
February 8, 2011

**Note:** These minutes from the February 08, 2011, regular meeting were approved and executed at the March 8, 2011 regular meeting of the Board of Trustees.

**Regular Meeting  
Board of Trustees  
February 8, 2011**

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

*Trustees:* Lisa Shapiro, Ph.D., *Chair, presiding*, Dean Crombie, Justin Cutting, Sam Giarrusso, Rep. Ken Hawkins, Keith Hickey, Germano Martins, Brian Morrissey, Cathy Provencher, Jill Rockey, Mike Macri.  
*Absent:* Danny O'Brien, Sen. Jeb Bradley.

*Staff:* Kim France, *Interim Executive Director*; Larry Johansen, *Director of Investments*; Jack Dianis, *Director of Finance*; Nancy Miller, *Director of Member Services*; Tim Crutchfield, Esq., *Chief Legal Counsel*; John Browne, *Internal Auditor*; Heather Fritzky, *Accounting & Finance Reporting Supervisor*; Carolyn Johnson, Esq., *Hearings Examiner*; Bill Spead, *Regulatory Compliance Officer*; Kristie Kathan, *Human Resources Coordinator*; Marty Karlon, *Public Information Officer*; Chris Stoddard, *Retiree Services Team Lead*; Cecile Merrill, *Project Manager*; and Shannan Hudgins, *Administrative Coordinator*.

Dr. Lisa Shapiro, Chair of the Board, called the meeting to order at 10:03 a.m., stating she would entertain a motion to approve the January 11, 2011, public and non-public Board minutes. On a motion by Mr. Morrissey, seconded by Mr. Hickey, the January minutes were approved with amendments to Rep. Hawkins' title, Mr. Cutting's dissenting vote for the Chubb Insurance Company \$20 million fiduciary insurance policy, and Mr. Hickey's assenting vote. The motion passed unanimously.

The Chair stated she would entertain a motion to approve the Consent Agenda, asking if there were points for discussion. Trustee Martins moved to approve with the removal of Disability Application Reconsideration M.M., and the three Administrative Recommendations (V. Gregoski, A. Hoffman, and J. LaChance), from the Consent Agenda. Seconded by Mr. Morrissey, the motion carried by unanimous vote.

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On a motion to enter into non-public session under RSA 91-A:3, II(c) to discuss a disability application made by Trustee Morrissey, seconded by Trustee Rockey, a roll call vote was taken, as follows:

*Ayes:* Dr. Shapiro, Mr. Crombie, Mr. Cutting, Mr. Giarrusso, Rep. Hawkins, Mr. Hickey, Mr. Macri, Mr. Martins, Mr. Morrissey, Ms. Provencher, Ms. Rockey.

*Nays:* none.

On a motion by Mr. Cutting, seconded by Mr. Morrissey, the Board of Trustees concluded the non-public session.

Carolyn Johnson, Esq., *Hearings Examiner* addressed Trustee Provencher's questions regarding the Administrative Recommendation for A. Hoffman and recoupment of funds, as well as the NHRS processes for capturing accurate Medicare-eligibility information from retirees. Nancy Miller, *Director of Member Services*, provided the Board with a detailed description of the review and assessment of all returned medical subsidy questionnaires sent annually by NHRS. Noting that random auditing of questionnaires had been standard practice, Ms. Miller emphasized that the revised audit protocol was a critical key to early identification of System overpayments. Trustee Martins suggested that the Retirement System Staff consider requiring retirees to prove Medicare registration as part of their retirement process, much like the NH State Department of Health and Human Services, adding that the requirement might close potential gaps for overpayment.

Moved by Mr. Morrissey and seconded by Mr. Hickey, the Board unanimously voted to table the appeal of A. Hoffman and referred the recoupment of medical subsidy overpayments to the Benefits Committee for review and a recommendation. Additionally, Dr. Shapiro requested follow-up documentation for Board review on the approximately twenty-three retirees whose returned questionnaires indicated overpayment of medical subsidy amounts.

Moved by Rep. Hawkins, seconded by Mr. Giarrusso, the Board unanimously approved the Hearings Examiner's recommendation that the Board suspend Rule 308.03(e) and grant the requests to "Purchase Service Credit Due to Employer Enrollment Oversight" for both V. Gregoski and J. LaChance. Attorney Crutchfield explained that although the governing statute did not have a time limit on service purchases, the NHRS rule contained a 90-day-limit, and in practice, the Rule superseded the statute for NHRS Staff. Following discussion of NHRS Rule 308.03(e), Dr. Shapiro stated she would entertain a motion to refer

the matter to the Governance Committee for review and revision. Moved by Rep. Hawkins and seconded by Mr. Giarrusso, the motion passed unanimously.

In a motion by Mr. Morrissey, seconded by Mr. Hickey, the Board unanimously approved the Disability Application Reconsideration for M.M.

The Chair asked the Interim Executive Director, Kim France, for an update. Ms. France discussed her first month as Interim Director, describing the role-sharing of the Executive Team and the disbursement of the tasks she had as Director of Administration. With her background in HR, Ms. Miller was assuming all Human Resource matters, labor relations and Collective Bargaining negotiations, and had taken Ms. France's position on the Labor Management Committee. Facilities oversight and review of contracts had been delegated to Jack Dianis, Director of Finance, and Atty. Crutchfield, with a view to costs savings and organized management. Ms. France had asked Mr. Dianis and Larry Johansen, Director of Investments, to work with GRS, combining their expertise in finance and actuarial matters for the benefit of NHRS.

In addressing IT issues, Ms. France confirmed that changes and upgrades in infrastructure were underway through the support and management of Systems Engineering, the IT firm initially discussed with the Board in the fall of 2010. Systems Engineering had been contracted to replace the firewall by providing labor and materials for a Cisco product, with the potential to Systems Engineering in a support contract. In response to audit findings and the NHRS IT Staff recommendations, the purchase of commercial software would be part of the overall project framework planning with Systems Engineering to create a healthy, sustainable IT structure to the Retirement System. Ms. France noted that she would bring more comprehensive information about an IT plan to the Board in March.

Of concern to her, both in time and funds, was the cost management of the facility, including lease terms, heating issues, and overall care of the building. She expected to report the Executive Team's recommendations over the next few months.

Ms. France discussed the education and outreach efforts launched by the Legislative Team specifically tailored to the 2011 Legislative Session. Beginning at the Legislature, the team - Mr. Johansen, Mr. Dianis, Atty. Crutchfield, Mr. Karlon, and Ms. France - presented NHRS Orientation 101 as a factual guide to the Retirement System for the benefit of legislators. The session offerings had been expanded and scheduled at

the NHRS office, as well as one slated in the Lebanon region at the end of the month. Feedback had been positive and encouraging, and attendance included policy makers, as well as members, employers, and the general public interested in the System.

Dr. Shapiro thanked Ms. France for her report, asking that the Staff continue to produce a Frequently Asked Questions section on the NHRS website. The section would ideally be updated often with facts and details readily available to the public.

The Chair then asked Mr. Dianis for the Finance Report. He opened his remarks by referencing the statements behind Tab 4, noting that he had made a few cosmetic changes and added extra detail, such as cross-references for added clarity. He stated that by the March Board meeting he would present a changed format to the statements that would flow naturally from income statement to the balance sheet and that would reveal the different pieces of the budget, with investment-related expenses separated out from professional services, and the administration portion laid out. A summary of legal fees laid out in his report provided specific details of fees paid and revealed that services received in FY '10 had been allocated on a cash basis as FY '11. In response to Trustee Cutting's question, Mr. Dianis stated that the Dashboard had been pulled from February's finance report because it contained duplicate information. However, information would be combined with the revised financials, as appropriate. He would revise the one-page condensed finance report for the March meeting.

Dr. Shapiro asked for the formation of an *ad hoc* finance committee to meet with Mr. Dianis prior to the next Board meeting. The committee, chaired by Trustee Danny O'Brien, would assist Mr. Dianis in formulating a report structure that would best reflect the Board's requests for financial information.

In preparation for the NEPC presentation on 2011 Actions and Assumptions, the Chair asked Mr. Johansen, Director of Investments, to introduce the representatives and their agenda. He introduced Eric Knutzen, CIO, and Kevin Leonard, Consultant, and Chris Lavelle, Partner, stating that their presentation would be focused on NEPC's capital market assumptions, both for the year just past, as well as the coming year. The key components of the actuarial assumptions that would ultimately be adopted for the June 30, 2011 valuation included economic assumptions, with interest assumption being the most critical, capital market assumptions over a five-to-seven investment horizon, a review of the 30-year actuarial horizon for the Board-adopted asset allocation targets, rate of return, and standard deviation.

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Mr. Lavelle, Mr. Knudsen and Mr. Leonard spoke to declining interest rates over thirty years, potential gains and losses in the bond market, and the volatility in world financial markets that influenced the data behind their analyses and assumptions. Noting the difficult financial experience of the past eighteen months, Mr. Leonard stated that lower returns over the next 5-7 years should be expected, and that an 8.5% return was an unrealistic target over that time horizon.

Following the forty-five minute presentation, members of the Board asked questions focused on the 2011 expected rate of return and implications for the Retirement System.

Dr. Shapiro stated she would entertain a motion to temporarily adjourn the meeting to consult with legal counsel under RSA 91-A:2, I(b). Moved by Rep. Hawkins, seconded by Ms. Provencher, the motion passed unanimously and the meeting was adjourned at 11:55 a.m. Following consultation with counsel, on a motion by Rep. Hawkins, seconded by Mr. Macri, the Board voted to reconvene the regular Board meeting.

Following lunch, Dr. Shapiro asked Ken Alberts and David Kausch from the actuarial firm Gabriel, Roeder Smith & Company, to present their Draft Experience Study of the NHRS and preparation for the Annual Valuation. The presentation included explanations of the data used, the methods of calculation and the projected results. Dr. Shapiro stated that GRS would return to present an updated Experience Study at the March Board meeting and address the assumed rate of return in anticipation of the Board's setting rates for the actuarial valuation as of June 30, 2011.

Following the presentation, the Chair asked for an update from the Governance Committee regarding the Indemnification Policy revisions considered, which Atty. Crutchfield provided. The Committee had approved the policy with changes vetted by fiduciary counsel, the Groom Law Group, and asked that the Board vote its approval. Moved by Mr. Hickey, seconded by Ms. Rockey, the motion to approve the Indemnification Policy as recommended by the Governance Committee passed unanimously.

Cathy Provencher, as Chair of the Audit Committee, addressed the KPMG management letter as provided behind Tab 8. The issues were IT related and Ms. Provencher confirmed that plans were in place to address the issues. Dr. Shapiro asked whether the identified issues would be incorporated into the Audit Tracker, and Ms. Provencher stated that an updated document would be included in the March Board materials with revised target dates and all issues documented in the Management Letter.

Dr. Shapiro asked for Trustee Keith Hickey's report from the PPCC. Regarding a search for an Executive Director, Mr. Hickey reported that Nancy Williams, from EnnisKnupp, had suggested the Board delay any recruitment efforts until after the Legislative Session. He reported that with the make-up of the Board an issue with the Legislature, potential candidates could be reticent to apply, and the Committee concurred with her opinion. He also addressed the Collective Bargaining process and the Board's agreed-upon negotiating points. Regarding a Chief Technology Officer, Mr. Hickey asked Ms. France to speak to the Board. She asked for additional time to work with the Hay Group in evaluating the System's IT management needs.

The Chair requested a Legislative Committee Update from Committee Chair Giarrusso. He spoke to the Committee's review of pending legislation, which had been provided to each Board member in a binder, organized by bill number. Mr. Giarrusso asked that the Board vote on the Committee's recommendation to oppose HB 537 through testimony before the Legislature because its intent conflicted with the Internal Revenue Code. Dr. Shapiro stated she would entertain a motion that the Board oppose HB 537, which proposes reducing current retirees' annuities, because compliance with the bill would conflict with the System's duty to comply with the Internal Revenue Code. Moved by Mr. Giarrusso, seconded by Rep. Hawkins, the motion passed unanimously. Dr. Shapiro addressed the on-going work of Staff evaluation and preparation of fiscal notes for any proposed legislation involving the NHRS, noting that additional material would be sent electronically to Board members for their information and review.

She then asked for the Investment report from Mr. Johansen. He began his remarks by addressing the securities lending program, stating that: on January 6<sup>th</sup>, Northern Trust approved all client requests to completely exit the securities lending program; on January 13<sup>th</sup>, Northern Trust decreased the lending cap for the NHRS to zero and began the process of an orderly recall of all outstanding loans; on January 26<sup>th</sup>, Northern Trust informed the NHRS that all loans had been recalled and the NHRS had completely exited the securities lending program. He assured the Board that a historical earnings analysis of the securities lending program, from inception to the end of January 2011, would be prepared and distributed to the Board and Investment Committee.

Mr. Johansen continued his report by remarking that the equity markets had started calendar year 2011 positively, noting that the S&P 500 had closed February 7, 2011, at 1319.05, up approximately 4.9% for the calendar year. He stated that federal employment figures released

February 4, 2011, continued concerns regarding the fragile economic recovery, and that employers had increased payrolls by only 36,000 in January. Noting that approximately 200,000 new jobs each month were needed for a sustained recovery, the unemployment rate had declined further than expected in January to 9.0% from 9.4% in December. The decrease in the unemployment rate suggested underlying strength in the job market, despite very slow growth in job creation. He asserted that while the information was somewhat conflicting, it did reinforce other indicators of an economy that is slowly gaining momentum.

He referenced the Investment materials behind Tab 11 that included the summary of the January IIC meeting, the Overview for the February IIC on February 18, and investment performance documents. In a brief overview of the portfolio performance for the periods ending December 31, 2010, he stated that for the three months ending December 31<sup>st</sup>, total marketable investments, which were more than 93% of investments, returned 6.9%, out performed the blended benchmark by 30 basis points. Fiscal year to date, total marketable investments returned 17.4%, out performing the blended benchmark by 40 basis points. For the one year ending December 31<sup>st</sup>, total marketable investments returned 13.2% out performing the blended benchmark by 10 basis points. For the 3 years ending December 31<sup>st</sup>, total marketable investments out performed the blended benchmark by 50 basis points.

Dr. Shapiro moved to the Legal and Compliance update, requesting a summary update from Atty. Crutchfield. He opened his remarks by stating that through the efforts of Ms. Miller, the NHRS had received the final outstanding provider Ethics Survey response bringing the compliance response to 100%, with no reportable events. He discussed the Administrative Rules Timeline memo included in the Board materials, suggesting that by allowing up to nine (9) months for the completion of the rulemaking process would provide for a timely adherence to the VCP Statement. He also noted that oral argument in the \$65 state retiree deduction suit was scheduled for Wednesday, February 16, 2011, at the Supreme Court.

Following the report, Dr. Shapiro moved to the Checkpoint section of the Agenda. She announced that Kate McGovern had been nominated to the Board and the Chair expected her to be confirmed in time to sit as a Trustee at the March Board meeting. The Chair also appointed Mr. Macri to the Legislative Committee and asked that Board members review their committee memberships and contact her with any desired changes.

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On a motion by Mr. Crombie, seconded by Mr. Martins, the Board adjourned at 2:20 p.m.

*Respectfully submitted,*  
*Shannan Hudgins*