

**Note:** These minutes from the February 12, 2013, regular meeting were approved and executed at the March 12, 2013, regular Meeting of the Board of Trustees.

**Regular Meeting  
Board of Trustees  
February 12, 2013**

**The Public Minutes**

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

*Trustees:* Dick Gustafson, Ph.D., *presiding*; John Beardmore; Dean Crombie; David McCrillis; Kate McGovern, Ph.D.; Hershel Sosnoff; Karen McDonough; Don Roy; Guy Scaife; George Walker; Jack Wozmak; and Cathy Provencher, *ex officio*. Lisa Shapiro, Ph.D., *absent*.

*Staff:* George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; Jack Dianis, *Director of Finance*; Tim Crutchfield, Esq., *Chief Legal Counsel*; Nancy Miller, *Director of Member Services*; Paul Zahensky, *Director of IT*; John Browne, *Internal Auditor*; Heather Fritzky, *Controller*; Carolyn Johnson, Esq., *Hearings Examiner*; Rosamond Cain, *HR Manager*; Nina Calkins, *PPM Manager*; and Shannan Hudgins, *Administrative Coordinator*.

*Guests:* David T. Kausch, *Chief Actuary*, Gabriel Roeder Smith & Company.

Acting Chair Gustafson called the regular meeting of the NHRS Board of Trustees to order at 9:02 a.m. and requested a motion to approve the public minutes from the January 8, 2013, regular meeting. On a motion by Trustee Provencher, seconded by Trustee Wozmak, the minutes were approved unanimously.

Trustee Provencher opened her report as Chair of the Audit Committee with a description of the issues added to the Tracker from the payroll audit. Noting that the Committee had not met that morning, she stated that the monthly tally revealed two closed issues and three new issues, totaling eleven outstanding audit issues. Trustee Scaife requested clarification on item #3, the Business Continuity Plan, and Paul Zahensky discussed the delays in creating and implementing a plan. Trustee Provencher spoke to the lack of management continuity or a senior level IT resource over the past several years

and stated that the plan presented was both appropriate and timely and would provide security for the System.

Trustee McGovern offered a Benefits Committee report in which she began with the two cases referred to the Committee at the December Board meeting. Stating that the Committee unanimously recommended Board approval, on a motion by Trustee McGovern, seconded by Trustee McCrillis, the Board unanimously voted to approve the Hearings Examiner's recommendation in the matter of R.C. On a motion by Trustee McGovern, seconded by Trustee Sosnoff, the Board unanimously voted to approve the Hearings Examiner's recommendation in the matter of G. Malisos.

Trustee McGovern continued her report of the Benefits Committee's January meeting. The Committee discussed the recoupment policy and its parameters, noting that the policy was working very well. New procedures would assist in identifying errors early and the improved process supported staff efforts. Trustee McGovern discussed NHRS policy for medical re-examinations for disability recipients and its narrow threshold, and she advised of the Committee's investigation into developing an amendment of the current Administrative Rules. She also reviewed the call firefighters program allowed in 100-A and the Committee's concern regarding the program's funding level and the potential cost to the trust fund. The Committee had requested historical detail from staff and would revisit the issue at a later meeting. Trustee McGovern closed with a description of the appeals log that was in place and its utility in tracking appeals likely to be presented to the Board.

Trustee Roy presented the Governance Committee review of revisions to the Notice and Defense sections of the Indemnification Policy and the Committee's recommendation to adopt those changes to the Board. He noted that the suggested changes would require a Trustee to notify the NHRS of any legal proceeding in which he/she was named in an official Trustee capacity and also allowed for selection of independent counsel in conflict situations. On a motion by Trustee Roy, seconded by Trustee McCrillis, the Board unanimously voted to approve the proposed revisions to the Indemnification Policy.

Trustee Sosnoff opened his remarks on behalf of the Independent Investment Committee (IIC) by announcing that System assets totaled \$6.085 billion as of December 31, 2012, up \$300 million, or approximately 5% fiscal-year-to-date. He was pleased with the gain, stating that it was based on good fundamentals of a growing national economy as reflected in an improved overall housing market. Trustee Sosnoff continued with a summary of the January IIC meeting and its focused education session. He reported that the presentations were informative and thought-provoking and had benefited both IIC members and the Trustees in attendance. A general discussion followed, which included ISS proxy voting details, as well as a review of the securities litigation reports found

behind Tab 19. A suggestion was made that the report be revised to include a running total of revenue received in connection with these suits.

As Chair of the Legislative Committee, Trustee Sosnoff opened by remarking that the 2013 session was much quieter than 2012. HB341 and its problematic funding provision were discussed. Mr. Lagos stated that he and Marty Karlon, *Public Information Officer*, would be at the Legislature that afternoon to attend a working session on the bill and to answer questions and offer any additional, relevant information. Trustee Sosnoff noted that March 1, 2013, was the date by which NHRS would know what bills were being considered. A discussion of HB 620 proposing to allocate unfunded liability between employees and employers followed, as well as SB 132 regarding the 32-hour retiree limit sponsored by Senator Bradley.

Trustee Gustafson discussed the meeting of the Personnel, Performance, and Compensation Committee (PPCC) held on January 31, 2013, which had reviewed broad issues in the Collective Bargaining Unit negotiations. The Process Improvement Plan (PIP) had begun well, and Trustee Gustafson noted that many potential changes in the System processes would produce both short- and long-term solutions to create more effective System operations. George Lagos, *Executive Director*, identified Employer Services as the area for the most focused review, with a parallel review of the imaging system an integral part of the plan. He anticipated that the initial phase of the project would be a six-month long effort.

Trustee Gustafson moved to the Executive Director's evaluation and stated that the discussion would be held in 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(c) to discuss the evaluation of the Executive Director by a roll call vote, as follows:

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

*Nays:* None.

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

On a motion by Trustee McDonough, seconded by Trustee Walker, the Board unanimously voted to approve the PPCC's performance evaluation of the Executive Director and to authorize the PPCC to review the evaluation with the Executive Director.

Trustee Crombie excused himself from the Board meeting at approximately 10:15 a.m.

Chair Gustafson then introduced David T. Kausch, *Chief Actuary*, Gabriel Roeder Smith & Company, who opened his Actuarial Education Session with an overview of the four topics he planned to discuss. He began with a discussion of the actuarial process and its function relative to the System's funding status, rate-setting, and plan provisions. In the Sensitivity Analysis portion of his presentation, Mr. Kausch explained assumptions and risk factors in the development of a valuation, noting that investment risk was the biggest risk factor to any plan, followed by payroll, retirement, mortality, and termination and disability risks. He provided a brief GASB update that emphasized the accounting focus of the GASB rules and that should not be confused with funding strategies. He concluded with a Cash Balance Plan presentation, identifying the similarities and differences between defined benefit, defined contribution, and cash benefit plan provisions.

Acting Chair Gustafson excused himself from the meeting at approximately 10:55 a.m.

Following the education session, Trustee Provencher assumed the role of Acting Chair. Executive Director Lagos offered his operating report and focused his remarks on the short term action plans provided in the Board materials. He noted that the Voluntary Compliance Program (VCP) laundry list review would be completed in the first quarter of the 2013 calendar year and stated that recoupment actions were slated for review and resolution within a thirty-to-ninety-day timeframe. Mr. Lagos stated that the Key Performance Measures (KPMs) served as a useful management tool to monitor performance and would be reviewed in three-to-six months to ensure that the appropriate categories and operations were being measured. He reported briefly on the Process Improvement Plan ("PIP") which would be focused on the review of work flows and potential business improvements over the next 18 months. Mr. Lagos discussed the Briefing Books that had been prepared for each Trustee as a desk reference with important information for each operational area of the System. He requested feedback and suggestions for making the books accessible and informative.

*Chief Legal Counsel* Tim Crutchfield presented a brief update to his prepared legal case memorandum, announcing that the NHRS had filed suit in Merrimack Superior Court on January 19, 2013, to reclaim \$40k in benefits erroneously deposited to the bank account of a retiree after she died in 2005. The retiree's son had joint ownership of the bank account with his mother and allegedly had not reported her death in a timely fashion but had used the decedent's pension payments. Despite repeated indications from the son that he would repay the NHRS, and after a lengthy period of non-response, the

System sought legal redress. Atty. Crutchfield reported that the defendant's appearance was due March 5, 2013.

Jack Dianis, *Director of Finance*, presented the financial reports for the Board's review, noting that all budget variances had been noted and could be found on the Budget-vs.-Actual statement. Trustee Sosnoff expressed concern that the cash-flow statement did not account for investment income, and a discussion of the purpose of the exhibit ensued. It was agreed that a second version of the exhibit would be prepared for the next meeting, including investment income.

*Director of IT*, Paul Zahensky, opened his report with the final details necessary to complete PensionGold Application modifications to accommodate HB2 legislation from FY 2012. He then referenced his server-upgrade memorandum found at the end of Tab 12 that addressed server software compliance issues and inherent risks to the NHRS computer system. Of particular note was his reporting of 75-100 daily attempts to hack into NHRS which proved a constant assault on the System's current protocols and safeguards which were in critical need of upgrading. Mr. Lagos stated that the plan had been fully vetted by the Executive Team and made special note that the planned MS SQL upgrade did not prohibit any future pension application upgrades or changes. Although a formal Board vote was not needed, Board consensus fully supported Mr. Zahensky's planned system upgrades.

Nancy Miller, *Director of Member Services*, reported her teams had experienced a normal operating month, although both member refunds and member appointment numbers were higher than those of January 2012. Ms. Miller stated that the Judicial Retirement Plan (JRP) audit was scheduled for May 25, 2013, and that the auditors would be onsite for only a few days. In closing, she stated that a few faulty measures from her departments had been identified in the KPM chart and would be revisited for both relevance and accuracy in the next few months.

Mr. Lagos offered a brief Employer/Retiree Services report in Denise Call's absence. He stated that the primary focus was the employer reporting and reconciliation process and that steps were being taken to reinstitute the employer penalty protocols in the near term.

Acting Chair Provencher moved to the Consent Agenda and accepted a motion from Trustee Sosnoff to approve the Consent Agenda with the exception of Item #3, which was referred to the Benefits Committee upon the request of Trustee McGovern. Seconded by Trustee Roy, the motion passed unanimously. Trustee Walker asked an informational question regarding Item #12 and whether the member was a Group I or Group II participant. *Hearings Examiner* Carolyn Johnson verified that the member's paperwork had been processed appropriately at NHRS as a Group I retirement.

NHRS Board of Trustees  
February 12, 2013

On a motion by Trustee Walker, seconded by Trustee McCrillis, the meeting was adjourned at approximately 12:17 p.m.

*Respectfully submitted,*  
*Shannan Hudgins*